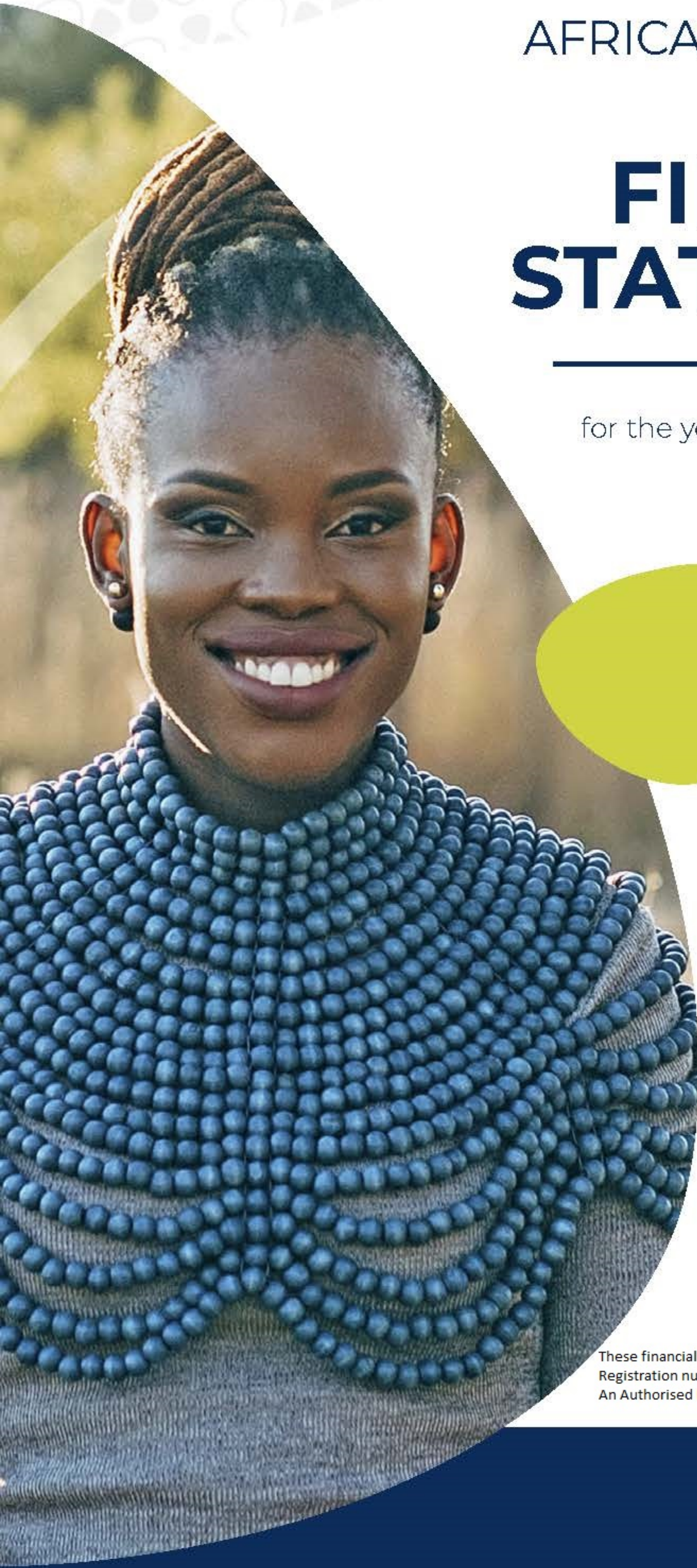

AFRICAN BANK LIMITED

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2021

These financial statements were prepared under the supervision of G Raubenheimer CA (SA)
Registration number: 2014/176899/06. NCR Registration number NCRCP7638.
An Authorised Financial Services and Registered Credit Provider

African Bank
We are you

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

Index

Index

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The annual financial statements represent the financial position and financial results of African Bank Limited. African Bank Limited ("the Bank and/or "the Company") does not have any other subsidiaries or associated companies and the annual financial statements are not presented on a consolidated basis. For more information, refer to the basis of preparation of the annual financial statements, as set out in note 1.1.2 to these financial statements.

The Directors are responsible for the preparation and fair presentation of the Company annual financial statements, comprising the statement of financial position as at 30 September 2021, the statement of total comprehensive income, the statement of changes in equity and statement of cash flows for the year-end, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa No. 71 of 2008 ("the Companies Act") and the JSE Debt Listings Requirements.

The Directors' responsibilities include:

- designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances; and
- maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the Bank's annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements found on pages 21 to 116 were approved by the Board of Directors on 29 November 2021 and are signed on its behalf by:

DocuSigned by:
Kennedy Bungane
83B24F68B6154E8...

K Bungane
Director

DocuSigned by:
Gustav Raubenheimer
124E3114598642F...

G Raubenheimer
Director

Midrand
29 November 2021

A signed copy of the annual financial statements is available for inspection at the registered office as specified in Annexure D to these financial statements.

CERTIFICATE BY THE GROUP COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act, I certify that, in respect of the year ended 30 September 2021, the Bank has lodged with the Commissioner of the Companies and Intellectual Property Commission, all returns and notices prescribed by the Companies Act and that all such returns and notices are true, correct and up to date.

DocuSigned by:
Maliga Chetty
0B8658ED19DD42A...

Maliga Chetty
Group Company Secretary

Midrand
29 November 2021

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
For the year ended 30 September 2021

AUDIT AND COMPLIANCE COMMITTEE REPORT

PURPOSE OF THE AUDIT AND COMPLIANCE COMMITTEE

The Audit and Compliance Committee ("the Committee" or "the AuditCom") is constituted in terms of Section 94(7) of the Companies Act No. 71 of 2008 ("the Companies Act"), as amended, and in accordance with Section 64 of the Banks Act No. 94 of 1990 ("the Banks Act"). The main purpose of the Committee is to assist the Board in discharging its duties relating to the safeguarding of assets, accounting systems and practices, the integrity of internal financial control processes and the preparation of accurate financial reporting and financial statements in compliance with all legal requirements, accounting standards and the JSE Debt Listings Requirements.

MEMBERSHIP AND ATTENDANCE

The AuditCom consists of four members who are all independent Non-Executive directors. The Committee meets at least four times annually with additional meetings scheduled as and when required or at the request of the Board or Committee members or as often as deemed necessary to achieve its objectives as set out in its terms of reference.

Following the appointment of Ms Maureen Manyama to the Boards of African Bank Holdings Limited and African Bank Limited, with effect from 23 March 2021, Ms Maureen Manyama became a member of the AuditCom, effective, 1 June 2021. Ms Happy Ralinala resigned, with effect from 31 May 2021, as a member of the AuditCom. Following the appointment of Ms Nonzukiso Siyotula to the Boards of African Bank Holdings Limited and African Bank Limited, with effect from 13 August 2021, Ms Nonzukiso Siyotula became a member of the AuditCom, effective, 7 September 2021.

The names of the members and attendance at meetings are reflected below:

Name	4-Nov 2020*	11-Nov 2020	19-Nov 2020*	9-Dec 2020*	15-Jan 2021*	21-Jan 2021*	11-Feb 2021	6-May 2021	18-May 2021*	16-Jul 2021*	12-Aug 2021
Members											
Robert Hutchinson-Keip (Chairman)	√	√	√	√	√	√	√	√	√	√	√
Sydney Mhlarhi	√	√	√	√	√	√	√	√	√	√	√
Happy Ralinala	√	√	√	√	√	√	√	√	√	-	-
Spyridon (Spiro) Georgopoulos	√	√	√	√	√	√	√	√	√	√	√
Maureen Manyama	-	-	-	-	-	-	-	-	-	√	√
Nonzukiso Siyotula	-	-	-	-	-	-	-	-	-	-	-
Total attendance	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4

*Special meetings held
√ Attended
X Not attended
- Not applicable

AUDIT AND COMPLIANCE COMMITTEE REPORT

The Internal and External Auditors attended and reported at all the meetings of the AuditCom, as required. The Group Chief Executive Officer, Group Chief Financial Officer, Group Chief Risk Officer, Group Chief Internal Auditor and Group Chief Compliance Officer attend all meetings by invitation. The Chairman of the Board, Mr T Dloti, has a standing invitation to all AuditCom meetings.

FUNCTIONS OF THE AUDIT AND COMPLIANCE COMMITTEE

Given the previous corporate governance failures and scandals within the South African business environment, the AuditCom continuously and critically assesses the adequacy of its terms of reference and the responsibilities included therein, with specific reference and consideration to the lessons that could be learnt from these events.

The AuditCom has approved the AuditCom terms of reference and has discharged the functions in terms thereof as set out below.

In respect of the External Auditors and the external audit:

- evaluated and recommended, for shareholder approval at the February 2021 AGM, the appointment of PricewaterhouseCoopers Inc. ("PwC") as External Auditors for the financial year ended 30 September 2021, in accordance with all applicable legal requirements;
- evaluated and recommended, for shareholder approval, through the outcome of a tender process, the appointment of KPMG Inc. as External Auditors for the financial year ended 30 September 2022, in accordance with all applicable legal requirements;
- approved the External Auditors’ terms of engagement, the audit plan and budgeted audit fees payable;
- reviewed the audit process and evaluated the effectiveness of the external audit;
- obtained assurance from the External Auditors that their independence was not impaired;
- considered the nature and extent of all non-audit services provided by the External Auditors;
- approved proposed contracts with the External Auditors for the provision of non-audit services; and
- confirmed that no reportable irregularities were identified and reported by the External Auditors in terms of the Auditing Profession Act 26 of 2005.

In respect of the financial statements:

- examined and reviewed the annual financial statements prior to submission and approval by the Board;
- reviewed reports on the adequacy of the provisions for performing and non-performing loans and impairment of other assets;
- ensured that the annual financial statements fairly presented the financial position of the Bank as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis upon which the Bank was determined to be a going concern;
- ensured that the annual financial statements comply with IFRS in all material respects;
- considered accounting treatments, significant unusual transactions and accounting judgements;
- considered the appropriateness of the accounting policies adopted and changes thereto;
- reviewed and discussed the External Auditors' audit report;
- noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal controls, content of the annual financial statements and related matters;
- considered the impact of Covid-19 on provisions, revenue recognition, the going concern assessment, financial and non-financial assets and current and future Bank operations; and
- reviewed and considered the approach adopted in defining audit materiality.

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
For the year ended 30 September 2021

AUDIT AND COMPLIANCE COMMITTEE REPORT

In respect of internal control and Internal Audit:

- reviewed and approved the internal audit charter and annual audit plan;
- evaluated the independence, effectiveness and performance of the Internal Audit Department and compliance with its charter;
- appointed a new Group Chief Internal Auditor in the 2021 financial year;
- considered reports of the Internal and External Auditors on the Company's systems of internal control, including internal financial controls and the maintenance of effective internal control systems;
- reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to such findings;
- noted that there were no significant differences of opinion between the internal audit function and management;
- assessed the adequacy of the performance of the internal audit function and the adequacy of the available internal audit resources and implemented changes under a restructuring programme to ensure adequate performance of the function;
- reviewed the representations from Internal Audit and Combined Assurance Forum with no information indicating a material breakdown in internal controls, including internal financial controls, resulting in any material loss to the Bank for the year under review;
- met with the Chief Internal Auditor, the Chief Compliance Officer, management and the External Auditors, over the course of the year; and
- considered the routine independent quality assurance review of audit execution, the results of which confirmed that internal audit had generally conformed with the International Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

In respect of legal, regulatory and compliance requirements:

- reviewed, with management, matters identified that could have a material impact on the Bank;
- monitored compliance with the Companies Act, the Banks Act and all other applicable legislation including governance codes;
- reviewed reports from internal audit, External Auditors and compliance detailing the extent of legal matters;
- noted that no complaints were received from the Bank's Sustainability, Ethics and Transformation Committee concerning accounting matters, internal audit, internal financial controls, contents of financial statements, potential violations of the law and questionable accounting or auditing matters;
- reviewed and approved the compliance mandate and annual compliance plan;
- reviewed any significant legal and tax matters that could have had a material impact on the financial statements;
- reviewed and recommended that the integrated report to be adopted by the Board;
- reviewed Risk Data Aggregation and Risk Reporting (RDARR) principles via an external independent review; and
- satisfied itself that the Bank has met the requirements emanating from the principles contained in the King IV Report on Corporate Governance ("King IV") and are satisfied with the disclosures contained in the Bank's Environmental, Sustainability and Governance Report, which appears on the Company's website (www.africanbank.co.za/ https://www.africanbank.co.za/en/home/corporate-info-governance-report/).

In respect of risk management and IT:

- considered and reviewed reports from management on risk management, including fraud and IT risks as they pertained to financial reporting and the going concern assessment.

In respect of the coordination of assurance activities:

- reviewed the plans and work outputs of the External and Internal Auditors as well as compliance, and concluded that these were adequate to address all significant financial risks facing the business;
- considered the expertise, resources and experience of the finance function and the members of senior management responsible for this function and concluded that these are appropriate; and
- considered the appropriateness of the experience and expertise of the Chief Financial Officer (and who serves as an Executive Director) and concluded that these are appropriate.

AUDIT AND COMPLIANCE COMMITTEE REPORT

KEY FOCUS AREAS FOR THE AUDIT COMMITTEE

During the year under review, the AuditCom focused on the following key areas:

- ongoing Covid-19 impact on the Bank's reported results and operations;
- ongoing review of the impairment calculations;
- regulatory and Prudential Authority matters;
- long-term and short-term liquidity of the Bank;
- finance department efficiency and optimisation;
- consistent review of financial performance;
- considered and approved the appointment of the new External Auditor;
- transactional banking risk and control issues; and
- Income Tax and VAT matters.

INDEPENDENCE OF EXTERNAL AUDITORS

The AuditCom has satisfied itself that the auditors are independent of the Company in accordance with section 94(8) of the Companies Act, which includes consideration of the auditors' previous appointments, the extent of non-audit work undertaken and compliance with criteria relating to the independence or conflict of interest as prescribed by the Independent Regulatory Board for Auditors.

The non-audit work was in relation to a due diligence assurance review for a potential acquisition of the Bank, assistance on income tax voluntary disclosure programmes and Board training on regulatory matters. These non-audit services did not render any strategic, executive and/or managerial advice and input to the Bank. The total fees paid to the auditors in this regard amounted to R6 470 850 (2020: R171 000).

Requisite assurance was sought from and provided by the External Auditors that the internal governance processes within the audit firm support and demonstrate its claim of independence.

The AuditCom has assessed and satisfied itself of Mr. Constantinos Natsas's experience and knowledge in terms of section 22(15)(h) of the JSE Debt Listings Requirements.

STATEMENT ON INTERNAL FINANCIAL CONTROLS, ACCOUNTING PRACTICES AND COMPANY ANNUAL FINANCIAL STATEMENTS

Based on the work of the Bank's assurance providers, nothing has come to the attention of the Committee that indicates that the Company's system of internal financial controls and accounting practices, in all material respects, do not provide a basis for reliable annual financial statements.

The Committee is satisfied that the Company annual financial statements are in compliance, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards, and it has recommended the Company financial statements for approval by the Board.

This report was approved by the AuditCom and signed on its behalf by the Chairman of the Committee, Mr. Robert Hutchinson-Keip, on 29 November 2021.

DocuSigned by:
Robert Hutchinson-Keip
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Robert Hutchinson-Keip
Chairman of the Audit and Compliance Committee
29 November 2021

DIRECTORS' REPORT

The Directors present their report to the shareholders, together with the audited annual financial statements of the Bank for the financial year ended 30 September 2021.

NATURE OF THE BUSINESS

African Bank Limited is registered as a bank under the Banks Act, as amended, which operates within the Republic of South Africa. Its business operations is primarily focused in the retail consumer segment, providing customers with transactional banking products, investment deposits and unsecured lending, whilst concurrently serving as an agent to provide consummate credit and life insurance cover to customers of the Bank.

African Bank Limited does not have any other subsidiaries or associated companies and the Bank annual financial statements are not presented on a consolidated basis. For more information, refer to the basis of preparation as set out in note 1.1.2 to the Bank's annual financial statements.

SHARE CAPITAL

The authorised share capital of the Bank is 2 000 000 000 ordinary par value shares of R0.01 each (2020: 2 000 000 000 shares, ordinary par value shares of R0.01 each).

During the current year, 1 share at a par value of R0.01 was issued, with a share premium of R1,485 billion. No shares were issued during the previous financial year. At 30 September 2021, the issued ordinary share capital totalled 500 000 001 (2020: 500 000 000) shares at a par value of R0.01 each representing R5 million (2020: R5 million). The Bank has 1 499 999 999 unissued ordinary shares (2020: 1 500 000 000).

HOLDING COMPANY

The Bank's holding company is African Bank Holdings Limited, which holds 100% of the Bank's issued ordinary par value shares.

FINANCIAL RESULTS

The financial results for the year ended 30 September 2021 are set out on pages 21 to 116 of these annual financial statements. The reported net profit after tax is R2 million for the 2021 financial year (2020: net loss after tax of R560 million).

BORROWING POWERS

In terms of the Memorandum of Incorporation, the Bank has unlimited borrowing powers.

The total borrowings of the Bank at 30 September 2021 were R16.9 billion (2020: R16.9 billion). Full details of the borrowings are shown in notes 12, 13 and 14 to the annual financial statements.

EVENTS AFTER THE REPORTING DATE

The Directors are not aware of material events occurring between the reporting date and the date of authorisation of the Bank's annual financial statements as defined in IAS 10: 'Events after the reporting period'.

GOING CONCERN

The Directors have satisfied themselves that the Bank is in a sound financial position and that sufficient cash reserves and borrowing facilities are accessible in order to enable the Bank to meet its foreseeable cash requirements.

A core function of a bank is to facilitate financial liquidity by matching the requirements of its customers for funding with the funding provided by equity and debt investors. Invariably the maturity of the funding required and that of the funding provided is not equally matched, which gives rise to the required facilitation function performed by a bank. The consequent mismatch is inherent to the business of a bank and the resultant liquidity risk to which the bank is exposed. The mitigating policies and controls applied by the Bank, are disclosed in note 30 to these financial statements.

The Board took liquidity risk into account in its assessment that the Bank is a going concern. In the Board's opinion there is no material uncertainty regarding the Bank's ability to meet its obligations and to pay its debts as they become due in the ordinary course of business.

DIRECTORS' REPORT

The Board had to apply its judgement on the impact that the ongoing Covid-19 pandemic may have on the going concern assessment of the Bank. Through its subcommittees, the Board assessed the Bank's budgets and cash flow forecasts in considering the Bank's going concern assumption with respect to the existing and expected future economic conditions in response to the potential next wave of the Covid-19 pandemic. This included the impact, such as cash flows, will have on the Bank's liquidity and funding position, interest rate risk in the Banking book, asset/liability mismatch, foreign exchange exposure risk, regulatory and economic capital and market risks, as well as other related risks.

The Board considered the social unrest that occurred in KwaZulu-Natal and parts of Gauteng during July 2021 in its assessment of the going concern of the Bank. The impact to operations was only limited to selected regions within these provinces and did not result in significant disruption to the Bank's operations. The Bank does not foresee this event as having a long-term impact on the Bank's future operations and going concern status.

Despite the material changes in the markets in which the Bank operates, the Board is satisfied that the Bank has the necessary resources to continue operations.

On this basis, the Directors consider that the Bank has adequate resources to continue operating for the foreseeable future and, therefore, deem it appropriate to apply the going concern basis in preparing the Bank's annual financial statements for this reporting period.

MAJOR CAPITAL EXPENDITURES

During the current period, the Bank made additions to its capital assets of R76 million (2020: R103 million), with R30 million being property plant and equipment (2020: R57 million) and R46 million for intangible assets (2020: R46 million). The amounts for the current year excludes additions to leases in terms of IFRS 16 Leases.

REGULATORY APPROVAL

As at the date of this Directors' report, the Directors are not aware of any pending regulatory approval that impacts the financial position and performance as detailed in the annual financial statements as at 30 September 2021.

REVIEW OF PERFORMANCE OF BOARD, COMMITTEES AND DIRECTORS

Board processes provide for the "Review of the Performance of the Board, its Committees and Assessment of Performance of Directors". This serves to confirm that the Board, through utilising an external service provider, undertook an annual assessment of the performance of the Board, its Committees and individual Directors, including a peer assessment and self-assessment on all directors. This process was concluded during August 2021 and reported to the Directors and Affairs Committee and Board in order to take note of the recommended actions. To formalise this process, the Board will be adopting a formal evaluations policy in the near future.

CHANGES IN DIRECTORS AND BOARD COMMITTEES

The following changes in Directors have taken place during the 2021 financial year end up to 29 November 2021:

Appointments

M Manyama was appointed as an independent Non-Executive Director on 23 March 2021. The appointment was made was to fill a vacancy as well as add to the skill set on the Board.

K Bungane was appointed as an Executive Director on 14 April 2021. The appointment was made to fill a vacancy as well as add to the skill set on the Board.

L Dlamini was appointed as an independent Non-Executive Director on 30 July 2021. The appointment was made to fill a vacancy as well as add to the skill set on the Board.

N Siyotula was appointed as an independent Non-Executive Director on 13 August 2021. The appointment was made to fill a vacancy as well as add to the skill set on the Board.

Resignations

M Field resigned from the Board with effect from 31 July 2021 due to an increase in workload associated with his personal business interests.

B Maluleke resigned from the Board with effect from 25 January 2021 to pursue other career opportunities.

DIRECTORS' REPORT

The following changes in Board committees have taken place during the 2021 financial year end up to 29 November 2021:

Appointments

G Raubenheimer was appointed as a member of the Sustainability, Ethics and Transformation Committee on 26 February 2021. The appointment was made to fill a vacancy.

K Bungane was appointed as a member of the Sustainability, Ethics and Transformation Committee on 01 June 2021. The appointment was made to fill a vacancy.

M Manyama was appointed as a member of the Remuneration Committee on 01 June 2021. The appointment was made to fill a vacancy.

M Manyama was appointed as a member of the Audit and Compliance Committee on 01 June 2021. The appointment was made to fill a vacancy.

L Dlamini was appointed as a member of the Remuneration Committee on 07 September 2021. The appointment was made to fill a vacancy.

L Dlamini was appointed as a member of the Sustainability, Ethics and Transformation Committee on 07 September 2021. The appointment was made to fill a vacancy.

N Siyotula was appointed as a member of the Audit and Compliance Committee on 07 September 2021. The appointment was made to fill a vacancy.

Resignations

H Ralinala resigned as a member of the Audit and Compliance Committee on 31 May 2021 due to a new member joining the Committee. Membership has been filled by a new appointment.

G Raubenheimer resigned as a member of the Sustainability, Ethics and Transformation Committee on 31 May 2021 due to a new member joining the Committee. Membership has been filled by a new appointment.

M Field resigned as a member of the Remuneration Committee, the Board and its committees on 31 July 2021.

B Maluleke resigned as a member of the Sustainability, Ethics and Transformation Committee and resigned from the Board and its committees on 25 January 2021.

African Bank Limited Board of Directors

Independent Non-Executive Directors

T Dloti (Chairperson)
S Mhlarhi
P Temple
H Ralinala
R Hutchinson-Keip
S Georgopoulos
M Manyama
L Dlamini
N Siyotula

Executive Directors

K Bungane
G Raubenheimer

Details regarding the experience and qualifications of directors can be found on the African Bank website (https://www.africanbank.co.za/en/home/about-us-our-company/), or the Annual Integrated Report.

DIVIDENDS TO ORDINARY SHAREHOLDERS

No dividends were declared or paid by the Board of Directors during the current or previous financial year.

COMPANY SECRETARY AND REGISTERED OFFICE

Maliga Chetty is the Company Secretary of the Bank and the Group. Her business and postal address is disclosed in Annexure D to these financial statements.

REMUNERATION AND EMPLOYEE INCENTIVE PARTICIPATION SCHEMES

Details in respect of Directors' remuneration and the Bank's incentive scheme are disclosed in the long-term incentive note and the remuneration note (refer to note 36 and 40).

DIRECTORS' REPORT

DIRECTORS' INTEREST IN SHARES

The Directors have no direct or indirect interest in the issued share capital of the Bank.

APPOINTMENT OF DEBT OFFICER

Pursuant to paragraphs 6.39(a) and 7.3(g) of the JSE Limited Debt Listings Requirements ("the Requirements"), the Bank has appointed Mr. Gustav Raubenheimer as the Debt Officer with effect from 1 November 2020. The Board has considered and is satisfied with the competence, qualifications and experience of the Debt Officer.

AUDITORS

PwC had expressed its willingness to continue as auditors for the financial year ended 30 September 2021. The resolutions proposing their reappointment were submitted and passed at the annual general meeting held on 26 February 2021. Mr. Constantinos Natsas from PwC is the audit partner of the Bank.

The Audit and Compliance Committee has assessed and satisfied itself of Mr. Natsas's experience and knowledge in terms of section 22 of the Requirements.

At the annual general meeting held on 12 August 2021, a resolution proposing KPMG Inc. as auditors was passed for the financial year ending 30 September 2022. The appointment is subject to no-objection being received from the Prudential Authority.

SPECIAL RESOLUTIONS BY AFRICAN BANK LIMITED

There were no special resolutions passed during the current financial year.

INTEREST OF DIRECTORS AND OFFICERS IN TRANSACTIONS

The Directors confirm that no material contracts were entered into in that Directors and Officers of the Bank had an interest and that significantly affected the business of the Bank. The Directors had no interest in any third party or company responsible for managing any of the business activities of the Bank.

Independent auditor's report

To the Shareholder of African Bank Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Bank Limited (the Company) as at 30 September 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

African Bank Limited's financial statements set out on pages 21 to 116 comprise:

- the statement of financial position as at 30 September 2021;
- the statement of total comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	*R80 million*
How we determined it	*The quantitative materiality threshold commonly applied when total assets is used as the benchmark is 1%. As the Company's profit is relatively low when compared to total assets, we applied a threshold of 0.5% to determine a materiality that is reflective of the operations of the Company as a whole. Despite agreeing with our basis for determining materiality, the Audit Committee requested that an overall materiality of R80 million be applied, to satisfy the Audit Committee's audit reporting needs.*
Rationale for the materiality benchmark applied	*We chose total assets as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users and is an accepted benchmark.* *This is only the sixth year that the Company is operating, and it is therefore in a growth phase, where profits before taxation remain low and volatile. Given the relative immaturity of the Company and the volatility shown in profit before taxation, the users of the financial statements will continue to focus on the value of the advances book and the ability to recover the outstanding balances. Advances comprise a substantial portion of the Company's total assets.*

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Credit impairment charge of the originated book advances *The Company's main business is to provide unsecured retail loans and credit cards, and as a result credit risk has a significant impact on the Company's business.* *As at 30 September 2021, the gross balance of the originated book advances, included within the net advances financial statement item, was R24.5 billion and the related impairment provision recognised was R8.7 billion (Refer to note 2 to the financial statements in this regard).* *The credit impairment charge on the originated book advances is a matter of most significance to our current year audit due to the following:* ● *the degree of judgement and estimation applied by management in determining the credit impairment charge; and* ● *the magnitude of the credit impairment charge recognised.* *In calculating the expected credit losses (ECL), the key areas of significant management judgement and estimation include:* ● *Determining whether evidence exists that there has been a significant increase in credit risk ("SICR") since initial recognition of the financial instrument, by considering deterioration in reporting date Probabilities of Default (PDs) when compared to PDs estimated at the point of origination. This assessment includes consideration of the relative change in the remaining*	*We evaluated the Company's credit impairment charge methodology and models by independently reperforming the models in accordance with the requirements of International Financial Reporting Standard (IFRS) 9 - Financial Instruments and management's credit policy.* *We obtained an understanding and assessed the operating effectiveness of the relevant controls (using a combination of techniques such as enquiry, inspection, observation and reperformance) relating to the origination and approval of credit facilities, the subsequent monitoring and remediation of exposures and the evaluation of credit risk ratings.* *On a sample basis, we compared input data into the impairment models to source systems for critical input data fields and noted no material differences.* *In assessing management's calculation of the ECL:* ● *We recalculated ECL by applying management's SICR criteria that compares the change in origination PDs to reporting date PDs. We noted no material differences.* ● *We tested the performance of SICR thresholds applied and the resultant transfer rate of non-arrears accounts into stage 2. This included benchmarking of the volume of up-to-date accounts transferred to stage 2 to historic volumes of accounts that missed payments.* ● *We recalculated the PD's used in management's impairment models,*

Key audit matter	***How our audit addressed the key audit matter***
lifetime PDs and accounts where one or more instalments have been missed or received after the contractual date of repayment. SICR is also deemed to have occurred where the account enters into debt counselling, when instalments have been missed or received after the contractual date of payment, or when any account linked to the customer meets one of the above criteria or is written off. ● *Determining and weighting of cash flow recovery assumptions used in the Loss Given Default ("LGD"), to ensure that these recoveries are representative of current economic conditions. This determination also takes into account any impacts as a result of the Covid 19 pandemic.* ● *Determination of the write-off point. Management considers it to be the point at which there is no reasonable expectation of further recovery. The modelling impact of applying the write-off criteria at a portfolio level is that no post write-off recoveries are included in the determination of the LGD. Any amounts recovered post write-off are recorded as bad debts recovered and set off against the impairment charge. This is further assessed by management by ensuring that the expected present value of post write-off recoveries is immaterial for accounts written-off in a financial year. This point is estimated based on an account status and consecutive missed payments.* ● *Determining and weighting of the assumptions used in the forward-looking economic model. Three forward-looking scenarios are probability weighted by management to determine the ECL (15% upturn, 30% downturn and a 55% base/benign scenario).*	*taking into account the Company's trends and recent experience adjusting for our judgemental assessment of the impact of these industry trends and experience. The PDs used took into account recent Company trends and experience.* ● *We recalculated the recoveries used in management's LGD calculations and assessed any potential deterioration in these cash flows as a result of the current economic conditions in assessing the LGD assumption. We adjusted for our judgemental assessment of the impact of these industry trends and experience. The LGDs used took into account recent Company trends and experience.* ● *Through recalculation, we tested the application of the Company's write-off calculation against the Company's IFRS 9 write-off criteria which included the exclusion of post write-off recoveries from the LGD model and noted no material differences.* ● *We have also assessed the appropriateness of management write-off criteria by comparing the amount of historical post write-off recoveries based on the write-off criteria and noted no further matters for consideration.* ● *We considered the assumptions used in the forward-looking economic model, specifically around the forward-looking scenarios used, the weighting applied by management in the forward looking economic model, the macro-economic variables considered, as well as the macro-economic outlook. We compared these to our own economic outlook and independent market data, as well as to recent actual experience and found these assumptions to be comparable.* ● *We used our actuarial and economic expertise to assess the performance and sensitivity of the forward-looking models in order to evaluate whether the chosen macro-economic factors and*

Key audit matter	***How our audit addressed the key audit matter***
These scenarios are then linked to PDs to derive a forward-looking ECL. ● *Event-driven management impairment overlays are impairments that are recognised to cater for specific events/risks which are not included in the impairment models, such as impacts of the regulatory and legislative changes being the Debicheck and Credit Amendment Bill.* ● *Given the social unrest events in July 2021, management have included an event-driven management impairment overlay to account for the downstream impact of the potential decrease in the growth of Gross Domestic Product (GDP) which is expected to result in an increased impairment charge.* ● *Management have also raised an event driven impairment overlay to account for the increased risk of retrenchments due to current economic conditions.* *Refer to the critical accounting judgements and key sources of estimation uncertainty in note 1.17, note 2 Net advances and note 18 Credit impairment charge and the Credit risk section under note 28 to the financial statements.*	*model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results.* ● *We assessed the Debicheck, Credit Amendment Bill, Social Unrest and Retrenchment overlays provided by management based on our understanding of the industry, events that had occurred at balance sheet date, emerging risks and regulatory and legislative changes. We reperformed the overlay calculations performed by management. We also compared the overlays to our independent assessment of our best estimates and noted no material differences.*
Accounting for the purchased credit impaired asset post acquisition *On 4 April 2016, the Company acquired the unsecured lending business from Residual Debt Services Limited.* *As at 30 September 2021, the balance of the purchased credit impaired asset ("acquired book"), included within the net advances financial statement item, was R 918 million.* *The acquired book was recognised at fair value of the estimated future cash flow receipts at*	We assessed management's documented approach, principles and assumptions relating to the acquired book to assess alignment with IFRS 9 principles. *In assessing the accounting for acquired book we performed the following procedures:* ● *We independently reperformed management's model calculations to assess whether the cash flow projections were correctly calculated in accordance with the documented*

Key audit matter	*How our audit addressed the key audit matter*
acquisition date, discounted at the credit adjusted effective interest rate. *These loans and advances are accounted for on a portfolio basis as a single asset which has been classified as a purchased credit impaired purchased asset.* *Subsequent to the acquisition, management considered whether adjustments are required to the amortised cost due to changes in the expected net cash recoveries. Where the revised expected cash flow estimates based on actual or anticipated cash flows and recoveries are lower/higher than expected, changes are recognised in the credit impairment charge line item in the statement of comprehensive income.* *The accounting for the acquired book is considered to be a matter of most significance to our current year audit of the financial statements due to the significant judgements and estimates that management has applied in determining the future cash receipts and adjustments applied to the purchased credit impaired asset.* *Refer to note 1.5.7 to the financial statements for the disclosure and accounting treatment of the acquired book, and to the significant estimates and judgement note 1.17 and note 28 to the financial statements.*	*methodology and noted no material differences.* • *We used our credit expertise to perform model back-testing, through the comparison of the projected cash flows on the last valuation date to actual cash flows for the period, in order to assess the accuracy of forecasted cash flows used in management's assessments. We noted no material differences in this regard.* • *We compared the expected acquired book amortised cost as at 30 September 2021 to the actual acquired book amortised cost as at this date, to evaluate the change in ECL that was required to be recorded as part of the favourable change in ECL adjustment. We noted no material differences.* • *We recalculated the favourable change in ECL adjustment which was recognised in the credit impairment charge for disclosure purposes and noted no material differences.*

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "African Bank Limited Annual Financial Statements for the year ended 30 September 2021", which includes the Directors' Report, the Audit and Compliance Committee Report and the Certificate by the Company Secretary as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of African Bank Limited for 6 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: C Natsas
Registered Auditor
Johannesburg, South Africa
29 November 2021

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

STATEMENT OF FINANCIAL POSITION

Rmillion	Notes	2021	2020 Restated
Assets			
Cash and cash equivalents	4	3,234	2,029
Financial investments	5	2,081	2,032
Regulatory deposits and sovereign debt securities	6	3,387	1,725
Derivatives	11	42	-
Net advances	2	16,462	17,636
Accounts receivable and other assets	9	182	200
Property and equipment and right of use asset	8	602	752
Intangible assets	10	138	115
Deferred tax assets	7	1,134	1,133
Total assets		**27,262**	**25,622**
Liabilities and equity			
Liabilities			
Current tax	7	83	83
Creditors and other liabilities	15	974	751
Short-term funding[1]	13	7,777	5,642
Bonds and other long-term funding[1]	12	9,139	9,708
Subordinated bonds	14	-	1,523
Derivatives	11	-	113
Total liabilities		**17,973**	**17,820**
Equity			
Ordinary share capital	16	5	5
Ordinary share premium	16	11,480	9,995
Accumulated loss		(2,196)	(2,198)
Total equity		**9,289**	**7,802**
Total equity and liabilities		**27,262**	**25,622**

[1] Prior period comparative restated, refer to restatement note 39.1.

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

STATEMENT OF TOTAL COMPREHENSIVE INCOME

Rmillion	Notes	2021	2020 Restated
Interest income on advances	17	4,958	6,121
Credit impairment charge	18	(1,341)	(3,408)
Interest on advances after impairment		**3,617**	**2,713**
Other interest income	17	228	189
Interest expense and similar charges	19	(1,329)	(1,595)
Income from core income funds	5	64	24
Foreign exchange gain/(loss) recognised on translation		154	(105)
Fair value gains/(losses) from derivatives assets and liabilities		(157)	29
Net interest income		**2,577**	**1,255**
Non-interest income[1]	20	618	652
Operating costs[1]	21	(3,062)	(2,634)
Indirect taxation: VAT		(132)	(19)
Profit/(Loss) before taxation		**1**	**(746)**
Taxation		1	186
(Loss)/profit for the year		**2**	**(560)**
Attributable to:			
Owner of African Bank Limited		**2**	**(560)**
Total comprehensive profit for the year		**2**	**(560)**

The Bank had no other comprehensive income for the period under review.

[1] *Prior period comparative restated, refer to restatement note 39.2.*

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
For the year ended 30 September 2021

STATEMENT OF CHANGES IN EQUITY

Rmillion	Ordinary share capital	Ordinary share premium	Accumulated loss	Total
Balance at 30 September 2019	**5**	**9,995**	**(1,638)**	**8,362**
Total comprehensive (loss) for the year	-	-	(560)	(560)
Balance at 30 September 2020	5	9,995	(2,198)	7,802
Total comprehensive profit for the year	-	-	2	2
Issue of equity	-	1,485	-	1,485
Balance at 30 September 2021	**5**	**11,480**	**(2,196)**	**9,289**

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

STATEMENT OF CASH FLOWS

Rmillion	Notes	2021	2020 Restated
Cash flows from operating activities			
Cash generated from operations	23	(2,446)	(2,576)
Interest from cash and financial investments		169	119
Recoveries on advances previously written off		819	688
Income earned from non-lending activities[1]		461	477
Interest paid to funders	24	(968)	(1,178)
Cash paid to suppliers	24	(1,520)	(1,159)
Cash paid to employees and agents	24	(1,407)	(1,523)
Net movement in gross advances[1]		4,167	4,875
Net inflow/(outflow) in regulatory deposits and sovereign debt securities		(1,636)	77
Net increase in customer deposits		3,469	3,038
Transactional banking deposits raised		544	333
Indirect taxation received		72	107
Net cash inflow/(outflow) from operating activities		**4,170**	**5,854**
Cash flows from investing activities			
Acquisition of property and equipment		(30)	(57)
Acquisition of intangible assets		(46)	(46)
Proceeds from disposal of property and equipment		1	-
Net investments disposed/(made) during the period		3	(1,937)
Placements of financial investments	5	(1,000)	(2,551)
Withdrawals of financial investments	5	1,003	614
Net cash (outflow)/inflow from investing activities		**(72)**	**(2,040)**
Cash flows from financing activities			
Net long-term tenure funding raised/(redeemed)[2]	26	(3,955)	(6,579)
Long-term funding raised		984	973
Long-term funding redeemed		(3,454)	(7,552)
Subordinated funding redeemed		(1,485)	-
Net short-term tenure funding raised/(redeemed)[2]	26	(133)	25
Short-term funding raised		423	1,303
Short-term funding redeemed		(556)	(1,278)
Principal payment of IFRS 16 lease liabilities		(122)	(81)
Share issue		1,485	-
Redemption of derivative instruments		(129)	178
Net cash outflow from financing activities		**(2,854)**	**(6,457)**
Increase/(decrease) in cash and cash equivalents		1,244	(2,643)
Cash and cash equivalents at the beginning of the year		2,030	5,038
Effect of exchange rate changes on cash and cash equivalents		(39)	(365)
Cash and cash equivalents at the end of the year		**3,235**	**2,030**

[1] Advances disbursed to customers and cash received from customers are disclosed as a net movement in gross advances. The prior year comparatives have been restated, refer to note 39.

[2] The net funding raised / (redeemed) is based on the tenure of the debt. At the inception of the debt, the tenure of the debt is defined by its original term until final and full repayment, and is defined as long-term if this term exceeds 12 months and short-term if the term is less than 12 months. Long-term debt with a tenure of more than 12 months is reclassified to short-term when the remaining term until repayment is less than 12 months.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. General information

African Bank Limited ("ABL" and/or "the Bank") is a public company incorporated in the Republic of South Africa, is registered as a bank under the Banks Act No 94 of 1990 ("the Banks Act") operating within the Republic of South Africa.

The Bank commenced business on 4 April 2016, after the final execution of the restructuring transaction of the entity formerly known as African Bank Limited (in curatorship). That entity has formally changed its name to "Residual Debt Services Limited" and remains under curatorship. The details of the restructuring transaction can be found in the Offer Information Memorandum published on 4 February 2016 as well as in the relevant SENS announcements available on www.africanbank.co.za.

The Bank's main business is providing unsecured personal loans to primarily formally employed South African residents, whilst concurrently serving as an agent to provide consummate credit and life insurance cover to customers of the Bank. The Bank also takes deposits from retail customers and has launched a transactional banking offering.

The Bank is a 100% owned subsidiary of African Bank Holdings Limited ("ABHL"). ABHL is an unlisted registered bank-controlling company under the Banks Act. The shares in ABHL are privately held by the South African Reserve Bank (50.00%), the Government Employees Pension Fund (25.00%), FirstRand Bank Limited (6.55%), The Standard Bank of South Africa Limited (5.95%), ABSA Trading and Investment Solutions Proprietary Limited (4.95%), Nedbank Limited (4.10%), Investec Bank Limited (2.45%), and Capitec Bank Limited (1.00%). The percentages in brackets indicate percentage holding.

The registered office and principal place of business of the Bank is disclosed in Annexure D.

1.1 Accounting policies

1.1.1 Statement of compliance

The Bank's annual financial statements are prepared in accordance with, and comply with, the International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB"), interpretations issued by the IFRS Interpretations Committee of the IASB, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Debt Listing Requirements and the requirements of the South African Companies Act.

1.1.2 Basis of preparation

The Bank's financial statements have been prepared in accordance with the going concern principle and use a historical cost basis, except where specifically indicated otherwise in the accounting policies.

1.1.3 Application of the going concern principle

The Board (and its sub-committees) have assessed the Bank's budgets and cash flow forecasts in considering the Bank's going concern assumption with respect to the existing and expected future economic impact of the ongoing Covid-19 pandemic as well as the impact of socio-political unrest. This included the impact the projected cash flows will have on the Bank's liquidity risk, funding risk, interest rate risk, regulatory and economic capital and market risks, as well as other related risks; all of which have remained within the risk parameters as per the Bank's risk appetite framework.

The assessment entailed the consideration of the adequacy of the Bank's capital and liquidity to meet its operations and strategies during the pandemic and in the foreseeable future. This was done by analysing the impact of the macroeconomic outlook on the Bank's forecast growth in earnings and balance sheet management to determine the impact to the Bank's financial outlook and operations. Expected outcomes or scenarios were established and tested for sensitivity. The assessment undertaken by the Bank noted above, funding raised from the retail and wholesale markets as well as the shareholder-backed funding (refer to note 3) demonstrate positive future outlook for the Bank. The going concern assumption basis continues to apply.

1.2 Adoption of new standards and interpretations effective for the current and future financial periods

The new and revised standards, amendments to standards and interpretations are disclosed in Annexure A to these annual financial statements.

1.3 Significant accounting policies

The significant accounting policies set out in this document have been applied in the preparation and presentation of the Bank's annual financial statements of the Bank in dealing with items that are considered material by the Bank during the current and prior reporting period.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

General information continued...

1.4 Cash and cash equivalents

Cash and cash equivalents comprises of short-term deposits as well as call and current accounts held with financial institutions. Cash and cash equivalents are measured at cost, which approximates fair value due to the short-term nature of these instruments. Cash and cash equivalents are classified as financial assets measured at amortised cost.

1.5 Financial instruments

The Bank recognises financial assets and liabilities when it becomes a party to the contractual provisions of the instrument on the trade date.

The Bank has classified its financial assets into the following categories:
- financial assets at amortised cost; and
- financial assets at fair value through profit or loss.

Financial liabilities are classified into the following categories:
- financial liabilities at amortised cost; and
- financial liabilities at fair value through profit or loss.

The classification of financial assets is based on both the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets held in terms of South African Reserve Bank requirements, as well as any excess liquid assets held over and above the minimum requirements are disclosed as regulatory deposits and sovereign debt securities.

No financial instruments are classified at fair value through other comprehensive income.

1.5.1 Initial measurement

All financial instruments are measured at fair value plus transaction costs at initial recognition, except those carried at fair value through profit or loss where transaction costs are recognised immediately through profit or loss.

1.5.2 Subsequent measurement

Subsequent to initial measurement, depending on the classification, financial instruments are measured at either amortised cost or fair value through profit or loss.

1.5.3 Financial assets and financial liabilities at fair value through profit or loss

A financial asset is measured at fair value through profit or loss when it does not meet the requirements to be measured at amortised cost. This category includes instruments that are held for trading, the Bank's business model is not solely for the purpose of collecting principal and interest and/or are subsequently held for sale, as well as instruments that are used to eliminate accounting mismatch. Currently only derivatives and core income funds (included in the financial investments line) are classified as financial assets measured at fair value through profit or loss.

1.5.4 Financial liabilities at amortised cost

All financial liabilities, other than those described above which are classified at fair value through profit or loss, are measured at amortised cost.

1.5.5 Financial assets at amortised cost

A financial asset is measured at amortised cost if both of the following conditions hold true:
- the financial asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank currently measures the advances, the regulatory deposits, the sovereign debt securities, accounts receivable and financial investments at amortised cost and cash and cash equivalents at amortised cost.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

General information continued...

Net advances

Advances or gross advances arise when the Bank provides money or services directly to a debtor with no intention to trade the receivable. Advances originated by the Bank are in the form of personal unsecured loans and are either paid back in fixed equal instalments or, in the case of credit cards, are revolving credit facilities. Net advances are considered to be gross advances net of the impairment provision.

The cash flows on advances are solely payments of principal and interest. Interest charged to customers compensates the Bank for the time value of money, credit risk and administrative costs (including a profit margin). Net advances are classified as measured at amortised cost using the effective interest rate method, less any impairment losses through the use of an allowance account whereby the amount of the losses are recognised in profit or loss. Fees that are considered to be integral to the effective interest rate are capitalised to the value of the loan and amortised to profit or loss over the expected life of the loan, using the effective interest rate method.

Regulatory deposits and sovereign debt securities

Contained within regulatory deposits and sovereign debt securities are treasury bills and government bonds. These financial assets are classified as measured at amortised cost upon initial recognition. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity and to collect principal and interest. If the Bank were to change its business model for managing these financial assets i.e. a significant change in the Bank's operations demonstrable to external parties and this change resulted in the financial assets no longer meeting the requirements for measurement at amortised cost, the Bank is required to reclassify the entire category to fair value through profit or loss, or fair value through other comprehensive income. Accordingly, the investments would be measured at fair value through profit or loss, or fair value through other comprehensive income.

Financial investments

Included in the financial investments are certain foreign debt investment securities that have high-quality liquid characteristics of varying maturity dates. These assets are primarily held to collect cash flows over the life of the asset, the cash flow of which is solely from payments of principal and interest.

1.5.6 Effective interest method

The effective interest method is the method that is used in the calculation of the amortised cost of a financial asset or financial liability and in the allocation and recognition of the interest revenue or interest expense in profit or loss over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees that form an integral part of the effective interest rate) through the expected life of the financial asset/liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

1.5.7 Impairment of financial instruments

For financial assets classified and measured at amortised cost, the Bank measures and recognises an Expected Credit Loss at each reporting date as the impairment of an asset or group of assets, which includes assessing whether there has been a significant increase in credit risk since initial recognition and considers forward-looking information. This assessment extends to the potential of further drawdown on credit cards (undrawn commitments).

In recognising the impairment allowance on the loans and advances, the Bank accounts for expected credit losses, and changes in the expected credit losses. The amount of the expected credit losses is updated at each reporting period to reflect the changes in the loans and advances credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

The impairment allowances represent management's best estimate of expected credit losses in the loan portfolios at the reporting date. When calculating impairment allowances on advances, the Bank exercises judgement in making assumptions and estimations on both individually and collectively assessed advances.

In determining the impairment allowance, the timing and amount of the expected cash flows, as well as forward-looking macroeconomic information, are the most significant judgements applied by the Bank. The assumptions underlying these judgements are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly to monitor and manage differences between expected credit loss estimates and the actual loss experience.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

General information continued...

For purposes of measuring the expected credit loss for the advances, the Bank's loans and advances are separated into the originated book and the acquired book. The acquired book is classified as a purchased credit-impaired asset.

Where financial assets are considered to have low credit risk, the Bank has applied the low credit risk exemption.

Originated book

This portfolio comprises loans and advances originated since the inception of the Bank on 4 April 2016. The Bank applies a conventional approach to the originated book and measures the loss allowance on advances at initial recognition at an amount equal to the expected credit losses over the subsequent 12 month period.

For advances for which credit risk has increased significantly since initial recognition, the loss allowance is measured in accordance with the classification of the underlying account at an amount equal to the lifetime expected credit losses. The loss allowance on the undrawn commitments is measured in accordance with the classification of the underlying account at an amount equal to the expected credit losses over either the subsequent 12 month period or the remaining lifetime.

Loans and advances are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. Evidence that a financial asset or group of assets is credit-impaired includes observable data that comes to the attention of the Bank of the asset about the following loss events:
- a breach of contract, such as a default or delinquency in the payment of interest or principal;
- indication that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be associated with the individual financial assets in the Bank; and
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Refer to note 28.7, which sets out the parameters considered in determining the grouping of advances for purposes of impairment.

The amount of the loss is measured as the difference between the financial asset's carrying amount and the cash flows that the Bank expects to receive, discounted at the original effective interest rate (or at the credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The reduction in the carrying amount of the financial asset due to the impairment calculated is applied through the use of an allowance account and the amount of the loss is recognised in the credit impairment charge line of the statement of comprehensive income.

Where an impairment loss subsequently reverses, the net carrying amount of the advance is increased to the revised estimate of the cash flows that the Bank expects to receive by adjusting the impairment provision held. This is, however, limited to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the advance in prior years. A reversal of an impairment loss is immediately recognised in profit or loss.

Currently, all loans and advances are assessed for impairment on a collective basis due to the large number of individually insignificant balances within the portfolio.

The Bank estimates the cash flows it expects to receive on a collective basis using portfolio statistics derived from past performance of similar financial assets, taking into account any changes to collection procedures and projected future market conditions.

For the portfolio (collective) assessment of impairment, financial assets are grouped on the basis of similar credit risks characteristics, which indicate the borrower's ability to pay in accordance with the contractually agreed terms.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

General information continued...

For the purposes of a collective impairment assessment, the impairment provisioning is divided into the following categories:

Stage 1:

At initial recognition, the advance is classified as stage 1 and a 12-month expected credit loss is recognised. If the advance has not experienced a significant increase in credit risk, since initial recognition, it is classified as stage 1. The credit loss recognised is a credit loss related to default events expected to occur within the next 12 months.

Stage 2:

If the advance has experienced a significant increase in credit risk ("SICR") since initial recognition but the advance is not credit-impaired, it is classified as stage 2, and a lifetime expected credit loss is recognised.

Stage 3:

If the advance has become credit-impaired since initial recognition or was purchased as credit-impaired, it is classified as stage 3, with an expected credit loss measured and recognised on a lifetime basis.

Acquired book

The acquired book is a purchased credit-impaired book, and referred to, in terms of IFRS 9, as a purchased or originated credit-impaired financial asset. This portfolio comprises loans and advances acquired from the entity formerly known as African Bank Limited (in curatorship) and that had subsequently changed its name to “Residual Debt Services Limited” ("RDS").

These loans and advances are accounted for on a portfolio basis as a single asset and have been classified as a credit-impaired purchased asset.

As per the above accounting policy, the acquired book was recorded upon initial recognition at the fair value of the estimated future cash receipts, discounted at the credit-adjusted effective interest rate. This interest rate is determined based on the amortised cost and not the gross carrying amount of the acquired book and incorporates the impact of expected credit losses in the estimated future cash flows.

Where estimates of cash receipts are revised based on actual or anticipated cash collections, the carrying amount of the acquired book is adjusted by recalculating the present value of the revised estimated future cash flows using the credit-adjusted effective interest rate initially applied in determining the fair value at acquisition.

To the extent that the revised estimated future cash receipts are less than anticipated upon initial recognition, the carrying amount of the acquired book is reduced through the use of an allowance account and the amount of the impairment is recognised in the credit impairment charge line of the statement of comprehensive income.

Where an impairment loss subsequently reverses, the net carrying amount of the acquired book is increased to the revised estimate of the cash receipts that the Bank expects to receive by adjusting the impairment provision held. This is, however, limited to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is immediately recognised in profit or loss.

To the extent that the revised estimated future cash receipts are more or less than anticipated upon initial recognition, such favourable or unfavourable changes are recognised as a direct adjustment to the carrying amount of the assets and a corresponding gain or loss is recognised as an impairment gain or loss.

1.5.8 Written off portfolio

A write-off directly reduces the gross carrying amount, constituting a de-recognition event of the loans and advances when the Bank has no reasonable expectation of recovery of the financial asset in its entirety. Refer to note 28 for more information on the Bank’s assessment of reasonable expectation of recovery.

Any cash received after an advance has been written off is treated as a recovery and recognised in the credit impairment charge line in profit or loss.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

General information continued...

1.5.9 De-recognition of financial instruments

Financial instruments are derecognised when:

- the contractual rights or obligations expire or are extinguished, discharged or cancelled, for example an outright sale or settlement;
- they are transferred and the derecognition criteria of IFRS 9 are met; or
- the contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met.

1.5.10 Modification

If the Bank renegotiates or modifies the terms of the advance to customers, the Bank considers whether this is a substantial modification to the original terms or whether the modification is merely an attempt to recover the original contractual amounts outstanding as part of a distressed modification and hence the terms are not substantially different to the original terms.

If the changes are not substantially different to the existing terms it would be considered a non-substantial modification and does not result in derecognition. A modification of a financial asset is substantial, and will thus result in derecognition of the original financial asset, where the modified contractual terms are priced to reflect current conditions on the date of modification and are not merely an attempt to recover outstanding amounts. Where the modification does not result in an accounting derecognition the original asset continues to be recognised.

Instances where the terms of an advance will be considered to be substantially different from the original terms, and therefore, render a derecognition of the original advance, are for loans that consolidated existing African Bank loans, also referred to as settlement readvances ("SRAs").

For SRAs, the Bank derecognises the original advance and recognises a new advance by using the disbursed cash of the new advance to effectively settle the old advance. A new effective interest rate will be recalculated for the SRAs. The date of disbursement of the SRAs is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk is present.

The Bank considers instances where the new terms of the advance are not substantially different to the original terms as:

- advances that have been rescheduled (where there is an amendment to the original terms of the advance, formally agreed with the customer, who is in arrears and has been engaged successfully through the collections channels); and
- advances that are undergoing debt-counselling, administration orders or court orders.

In instances where the new terms of the advance are not substantially different to the original terms, the Bank recalculates the gross carrying amount of the advance as the present value of the modified estimated cash flows, discounted at the loan's original effective interest rate. The existing asset is not derecognised and the difference between the recalculated gross carrying amount and the gross carrying amount before the modification is recognised as a modification gain or loss included in the credit impairment charge line item in profit or loss. Refer to notes 2 and 18 for the disclosures of the modification gain or loss.

1.5.11 Derivative financial instruments

The Bank uses derivative financial instruments only for the purpose of economically hedging its exposures to known market risks that will affect the current or future profit or loss of the Bank, and as a policy will not enter into derivatives for speculative reasons.

All derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative, subject to offsetting principles.

All derivatives are classified as and measured at fair value through profit or loss.

1.5.12 Hedge accounting

Currently, the Bank does not apply hedge accounting per IFRS 9 or IAS 39, but does apply economic hedging principles.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

General information continued...

1.6 Intangible assets

1.6.1 Software

Software consists of purchased software. Software acquired is capitalised initially at its acquisition cost or fair value (if acquired through business combination).

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date that it is available for use. The estimated useful life of software is between three and five years. Amortisation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

1.6.2 De-recognition of intangible assets

An intangible asset is de-recognised on disposal or when no future economic benefits are expected from its use. Upon de-recognition, a gain or loss is recognised in profit or loss and is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

1.7 Property, plant and equipment

Owner-occupied property, buildings, leasehold improvements, furniture, information technology equipment, office equipment and motor vehicles are stated at cost less accumulated depreciation and impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced.

Depreciation is charged to profit or loss on a straight-line basis and is calculated to reduce the original costs to the expected residual values over the estimated useful lives. Any adjustments to useful lives that may be necessary are accounted for prospectively, with useful life changing from the time of estimation.

Useful lives have been determined to be as follows:

Information technology equipment	Between 3 and 5 years
Office furniture and equipment	Between 6 and 8 years
Motor vehicles	4 years
Leasehold improvements	Over the shorter of the lease term or its useful life
Buildings (owner-occupied)	Useful life (limited to 50 years)
Land is not depreciated	

All gains or losses arising on the disposal or scrapping of property and equipment are recognised in profit or loss in the period of disposal or scrapping. Repairs and maintenance are charged to profit or loss when the expenditure is incurred.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

1.8 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Non-financial assets (property and equipment, intangible assets and right of use assets) are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

General information continued...

1.9 Leases

Rental agreements typically include fixed periods of not more than five years, over which the premises are leased. The lease agreements are individually negotiated and contain largely standardised terms and conditions. All other leases (such as laptops, office equipment etc) are considered to be of a low value and/or short-term in nature. The Bank assesses whether a contract is or contains a lease at inception of a contract.

Qualifying leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is made available for use by the Bank.

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- leases of low value assets; and
- leases with a term (duration) of twelve months or less.

1.9.1 ***Extension and termination options***

Extension options (or periods after termination options), if applicable, are only included in the lease term if the lease is reasonably certain to be extended (or not terminated) and the Bank has an explicit right to renew and extend the term of the lease.

1.9.2 ***Leases: statement of financial position***

The Bank initially measures the lease liability at the present value of the remaining contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate implicit in the lease. The rate implicit in the lease is not readily determinable, therefore, the Bank's incremental borrowing rate on commencement of the lease is used. The Bank's funding rate and management judgement (based on market expectations and contractual lease terms), is the basis upon which the incremental borrowing rate is calculated. The carrying value of the lease liability also includes any penalties payable for terminating the lease, should the term of the lease be estimated on the basis of the termination option being exercised.

The Bank initially measures the right of use assets at cost, being the amount of the lease liability, reduced for any lease incentives received, and adjusted for previously recognised prepaid or accrued lease payments relating to that lease. The cost is increased with initial direct costs incurred and the amount of any provision recognised where the Bank is contractually required to dismantle, remove or restore the leased asset.

Subsequently, the Bank applies the cost model to the measurement of the right-of-use assets and applies the non-financial assets impairment policy.

De-recognition

The Bank de-recognises the right-of-use asset and lease liability when the Bank or lessor terminates or cancels a lease.

1.9.3 ***Leases: income statement***

A lease finance cost, determined with reference to the discount rate used in valuing the remaining contractual payments due to the lessor over the lease term being the Bank's incremental borrowing rate, is recognised within interest expense over the lease period.

Subsequent to the initial measurement, the right-of-use assets are depreciated on a straight-line basis over the shorter of the remaining term of the lease or over the remaining economic life of the asset. This depreciation is recognised as part of operating expenses.

De-recognition

The Bank de-recognises the right-of-use asset and lease liability when the Bank or lessor terminates or cancels a lease.

Leases of a low value or of a short-term nature are accounted for on a straight-line basis over the lease term

Leases of a short-term and low value nature are expensed through the income statement. Accruals are recognised for lease premiums that have not yet been paid. These low value or short-term leases are generally leases with contractual value of less than R200 000 or a lease term less than 12 months.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

General information continued...

Payments made for these leases, net of any incentives received from the lessor, are recognised in operating expenses on a straight-line basis over the term of the lease. When the leases are terminated before the lease term has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating expenses in the period in which termination takes place.

1.9.4 *Reassessment and modification of leases*

If the Bank reassesses the terms of a lease contract by reassessing the probability of exercising an extension or termination option, or modifies the terms of a lease without increasing the term of the lease, or where the increased scope is not commensurate with the stand-alone price, it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted at the applicable rate at the date of reassessment or modification.

For reassessed lease terms, an equivalent adjustment is made to the carrying amount of the right-of-use asset, with the revised carrying amount being depreciated over the revised lease term. If the carrying amount of the right-of-use asset is reduced to zero, however, any further reduction in the measurement of the lease liability is recognised in profit or loss.

For lease modifications that increase the term of the lease, an equivalent adjustment is made to the carrying amount of the right-of-use asset, with the revised carrying amount being depreciated over the revised lease term. For lease modifications that decrease the term of the lease, the carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease, with any resulting difference being recognised in profit or loss as a gain or loss relating to the partial or full termination of the lease.

If the Bank modifies the terms of a lease resulting in an increase in term and the consideration for the lease increases by an amount commensurate with a stand-alone price for the increase in term, the Bank accounts for these modifications as a separate new lease contract. This accounting treatment applies to short-term leases for which the Bank would have elected the short-term lease exemption and the lease term is subsequently modified.

1.10 Equity

Equity is the residual interest in the assets of the Bank after deducting all liabilities of the Bank.

All transactions relating to the acquisition, sale or issue of shares in the Bank, together with their associated costs, are accounted for in equity.

1.10.1 Share capital and share premium

Shares issued by the Bank are recorded at the value of the proceeds received less the external costs directly attributable to the issue of the shares. In line with the requirements of the Banks Act, only par value shares are issued by the Bank.

1.11 Revenue

Revenue comprises income from interest income and non-interest income.

1.11.1 Interest income

Interest income includes interest on financial instruments measured at amortised cost. The Bank calculates interest revenue using the effective interest method. In applying the effective interest method per IFRS 9, the Bank considers the origination fees and service fees as an integral part of the effective interest rate of the exposure for personalised loans.

Origination fees are primarily based on the cost of granting the loan to the individual and are accounted for over the expected life of the loan using the original effective interest rate method.

Monthly service fees are charged to the customers on a monthly basis and are considered to be an integral part of the effective interest rate of the loan or advance. These fees are charged to compensate the Bank for the continuous administration and assessment of the loan or advance and are recognised over the loan or advances expected life. The fee forms part of the decision to grant the loan prior to the loan being generated, including, for example, the assessment of affordability of the loan by the customer as well as the anticipated margin in relation to the anticipated credit risk. Beyond the original contractual term of the loan, the fee is recognised in profit or loss as it is charged to the customer on a monthly basis.

Interest income on financial assets that are not credit-impaired is recognised by applying the original effective interest rate to the gross carrying amount of such assets.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

General information continued...

When financial assets are identified as credit-impaired, whether purchased or originated, interest income is calculated by applying the credit-adjusted effective interest rate and the original effective interest rate respectively to the net carrying value (being the gross carrying value after deducting the impairment provision for expected credit losses).

Should the impairment status of financial assets of the originated book change from credit-impaired to not credit-impaired, interest income is again recognised by applying the original effective interest rate to the gross carrying amount of such assets from the date at which the impairment status changed. With respect to the orignated book, no retrospective adjustment is made for the period during which the financial assets were deemed to be credit-impaired.

1.11.2 Non-interest income

Non-interest income consists of commission charged, collection fees, as well as any other sundry income such as transaction fees and credit card fees. The Bank additionally earns a binder fee and an outsourcing fee for providing underwriting services to the cell captive. Fees that form an integral part of the effective interest rate are excluded from non-interest income. The non-interest income is recognised as the performance obligation of the related service performed at a point in time or over time.

Non-interest income type	Recognition of the income
Commission income, outsourcing and binder fees	At the point in time when the premium is collected by the Bank or new business is generated by the Bank
Collection fees	At a point in time when collections are made by the Bank on behalf of the customer
Transactional fees and credit card fees	Over the time within which the performance obligation is fulfilled by the Bank and at a point in time, when transactions are made by the customer
Early withdrawal fees (included in other income)	At a point in time when the withdrawal takes place.
Commission or on value-added services	At a point in time when the service is provided and commission is earned.

1.12 Taxation

1.12.1 Indirect taxation

Indirect taxation in the form of non-claimable value-added tax (“VAT”) on expenses is disclosed as indirect taxation in profit or loss and not as part of the taxation charge. The non-claimable VAT on the cost of acquisition of fixed assets is amortised over the useful lives of the fixed assets and is included in depreciation in profit or loss. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statement of financial position.

1.12.2 Direct taxation

Direct taxation in profit or loss consists of South African jurisdiction corporate income tax, inclusive of capital gains tax and is made up of current taxation and deferred taxation.

1.12.3 Current taxation

Current taxation is the expected taxation payable based on the taxable income, inclusive of capital gains tax for the year, using taxation rates enacted or substantially enacted at the statement of financial position date, and any adjustment to taxation payable in respect of previous years. Taxable income is determined by adjusting the profit before taxation for items that are non-taxable or disallowed in terms of tax legislation.

Current tax is charged or credited to profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the tax is also dealt with in equity. The net amount of tax recoverable from or payable to the taxation authority is included as part of the receivables or payables in the statement of financial position.

1.12.4 Deferred taxation

Deferred taxation is provided on temporary differences using the balance sheet liability method. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting and their tax base that result in a timing difference in recognition.

Deferred tax is recognised for all temporary differences. Deferred tax is provided for on the fair value adjustments of assets based on the expected manner of recovery, i.e. sale or use. This manner of recovery affects the rate used to determine the deferred tax liability or asset. The net deferred tax asset or liability is included as part of the receivables or payables in the statement of financial position.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

General information continued...

1.12.5 Offsetting

Deferred income tax assets, deferred income tax liabilities, current tax assets and current tax liabilities are offset, if a legally enforceable right exists to offset, and if they relate to the same taxable entity and the same taxation authority.

1.12.6 Judgement and uncertainty

Judgement is required in determining the provision for income taxes due to the complexity of legislation governing the environment in which the Bank operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Uncertain tax positions are provided for, in accordance with the criteria defined within IAS 12 Income Taxes and IFRIC 23.

Judgement is also required in the treatment of penalties and interest imposed in terms of any tax legislation. IAS 12 does not consider the treatment for penalties and interest, and tax is explained as being based on taxable profits. In terms of Section 223 of the Tax Administration Act ("TAA"), the term 'tax' is defined as: "for the purposes of administration under this Act, includes a tax, duty, levy, royalty, fee, contribution, penalty, interest and any other moneys imposed under a tax Act". This definition for tax encompasses penalties and interest whereas IAS 12 explains that income taxes are based on taxable profits. As at year end, the Bank has accordingly applied the definition per TAA in its definition of tax.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The most significant management assumption is the forecasts that are used to support the probability assessment that sufficient taxable profits will be generated by the Bank in order to utilise the deferred tax assets. As at the year end, the Bank is of the view that there is no material uncertainty in relation to the recoverability of the deferred tax asset.

1.13 Foreign currency transactions and balances

At each statement of financial position date, foreign currency monetary items are translated using the closing rate. Foreign exchange gains and losses arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the reporting period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

1.14 Employee benefits

1.14.1 Post-employment benefits

Defined contribution plans have been established for eligible employees of the Bank, with the assets held in separate trustee-administered funds. The Bank pays contributions on a contractual basis as determined in terms of the rules of each benefit fund. The Bank has no further legal or constructive obligations to pay any further contributions or benefits once the fixed contributions have been paid to the funds.

Contributions in respect of defined contribution plans are recognised as an expense in profit or loss as they are incurred.

1.14.2 Short-term benefits

Short-term benefits consist of salaries, compensated absences (such as paid annual and sick leave), bonuses and medical aid contributions.

Short-term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave, if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.14.3 Long-term benefits

Long-term benefits consist of long-term incentive scheme bonuses. All re-measurements are accounted for in profit or loss.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

General information continued...

1.15 Current and non-current assets and liabilities

Current assets and liabilities are what is expected to be recovered or settled no more than 12 months after the reporting period and non-current assets and liabilities are those that are expected to be recovered or settled more than twelve months after the reporting period.

1.16 Segment reporting

An operating segment is defined as a component of the Bank whose operating results are regularly reviewed by the Chief Operating Decision Maker in allocating resources, assessing its performance and for which discrete financial information is available.

The Chief Operating Decision Maker has been identified as the Group Chief Executive Officer of the Bank, who is responsible for assessing the performance and allocation of resources of the Bank.

Due to the nature of its operations, the Bank has a single operating segment within South Africa, which is consistent with the internal reporting provided to the Bank Chief Executive Officer. The business is widely distributed with no reliance on any major customer and no customer account represents more than 10% of revenue.

1.17 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies, management is required to make judgements, estimates and assumptions that relate to impairment provisions for loans and advances that are not readily apparent from other sources. The estimates and associated assumptions are continually evaluated and management applies their knowledge of current events and actions that may be undertaken in the future but actual results may ultimately differ from estimates.

The principal considerations applied by management in making judgements, estimates and assumptions relate to expected credit loss (ECL) provisions for loans and advances as well as to fair value estimates. Refer to note 28.6.

The critical judgements that management have made in the process of applying the Bank's accounting policies and key estimation uncertainties are disclosed as part of the relevant accounting policies.

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. Net advances

Rmillion	2021	2020
Gross advances	**25,372**	**26,383**
Originated book[1]	24,454	25,097
Acquired book[2]	918	1,286
Deferred fees	(250)	(101)
Gross advances after deferred origination and administration fees	**25,122**	**26,282**
Balance of impairment provision at the end of the year	**8,660**	**8,646**
Balance of impairment provision at the beginning of the year	8,646	6,988
Impairment provisions raised	2,166	4,008
Impairment provisions raised on interest from stage 3 advances	972	785
Impairment provision released upon write-offs of underlying exposure	(3,124)	(3,135)
Net advances	**16,462**	**17,636**
Undrawn irrevocable credit card commitments	645	667
Maximum exposure to credit risk	**17,107**	**18,303**

[1] This balance includes advances amounting to R781 million (2020: R676 million) that were modified. Refer below.

Modification of advances measured at amortised cost

	30/09/2021		30/09/2020	
Rmillion	Amortised cost before modification	Net modification (gain)/loss	Amortised cost before modification	Net modification (gain)/loss
Debt-counselling				
Originated book	805	605	673	435
Acquired book	33	(7)	74	(6)

[2] *On acquisition, the acquired book's credit risk was included in measuring the fair value on acquisition as the book was considered to be a purchased or originated credit-impaired financial asset at initial recognition. The acquired book is thus, under IFRS 9, classified as purchased credit-impaired. The net carrying value is, therefore, included in the gross advances of the Bank, which is the net of the gross amount of the acquired balances, on a pre-acquisition basis, less the ECL anticipated upon initial recognition and the favourable adjustments from the revision of cash flows since acquisition.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Net advances continued...

Reconciliation of ECL and gross advances of originated and acquired advances as at 30 September 2021

The below ECL movements depict the differential movements when exposures transfer to or from the different stages

Rmillion	ECL					Gross advances					
	Stage 1	Stage 2		Stage 3	Total	Stage 1	Stage 2		Stage 3	Total originated book	Acquired book
		SICR	Arrears				SICR	Arrears			
Opening balance 1 October 2020	432	872	1,572	5,770	8,646	8,444	4,359	3,733	8,460	24,996	1,286
Changes due to movements in arrears profile of advances	**134**	**(266)**	**112**	**2,626**	**2,606**	**(362)**	**(2,053)**	**(431)**	**2,739**	**(107)**	**(195)**
Transfer from stage 1	-	117	301	394	812	-	590	716	593	1,899	-
Transfer from stage 2: SICR	70	-	262	477	809	1,379	-	624	718	2,721	-
Transfer from stage 2: arrears	10	20	-	1,006	1,036	202	103	-	1,515	1,820	-
Transfer from stage 3	1	4	31	-	36	13	22	74	-	109	-
Transfer to stage 1	-	(275)	(85)	(8)	(368)	-	(1,379)	(202)	(13)	(1,594)	-
Transfer to stage 2: SICR	(30)	-	(43)	(15)	(88)	(590)	-	(103)	(22)	(715)	-
Transfer to stage 2: arrears	(37)	(124)	-	(49)	(210)	(716)	(624)	-	(74)	(1,414)	-
Transfer to stage 3	(30)	(143)	(636)	-	(809)	(593)	(718)	(1,515)	-	(2,826)	-
Transfer to write off/ balance growth up to write-off	150	135	282	821	1,388	(57)	(47)	(25)	22	(107)	(195)
Changes due to changes in balances of advances	**(89)**	**202**	**(460)**	**(2,057)**	**(2,404)**	**447**	**1,290**	**(435)**	**(1,987)**	**(685)**	**(173)**
Change due to movement in balances of existing advances	(49)	(54)	(113)	153	(63)	(1,029)	(295)	(297)	264	(1,357)	(117)
Modifications that did not give rise to de-recognition	-	-	-	-	-	-	(2)	(12)	(91)	(105)	-
New advances [1]	202	565	205	167	1,139	3,168	2,364	542	256	6,330	-
Change due to de-recognition (other than write-off)	(78)	(117)	(84)	(77)	(356)	(1,528)	(585)	(200)	(116)	(2,429)	(56)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Net advances continued...

Change due to write-off [2]	(164)	(192)	(468)	(2,300)	(3,124)	(164)	(192)	(468)	(2,300)	(3,124)	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Net advances continued...

Rmillion	ECL					Gross advances					
	Stage 1	Stage 2		Stage 3	Total	Stage 1	Stage 2		Stage 3	Total originated book	Acquired book
		SICR	Arrears				SICR	Arrears			
Changes due to change in model assumptions	**67**	**50**	**(141)**	**(164)**	**(188)**	**-**	**-**	**-**	**-**	**-**	**-**
Changes due to changes in model assumptions	67	50	(141)	(164)	(188)	-	-	-	-	-	
Closing balance 30 September 2021	**544**	**858**	**1,083**	**6,175**	**8,660**	**8,529**	**3,596**	**2,867**	**9,212**	**24,204**	**918**

[1] The ECL recognised on new advances originating during the reporting period (which are not included in opening balances) are raised based on the advances' ECL stage as at the end of the reporting period and are included within 'ECL on new advances'.

[2] The decrease in the advances as a result of the write-off is equal to the decrease in ECL, as advances are 100% provided for before being written off. The contractual amount outstanding on advances that were written off during the current reporting period that are still subject to enforcement activities is R3,124 million (refer to credit impairment charges, note 18).

Factors impacting and contributing to significant changes in the ECL during the current period:

In the 30 September 2020 financial statements, the negative impact of Covid-19 and retrenchments resulting from Covid-19 on the ECL was substantially included via the event driven management impairment overlays with limited data input and historic information to reliably calculate the ECL impact on available model data. Subsequently, the ECL models were recalibrated with recent observed behaviour between April 2020 and September 2020 which increased the model calculated ECL, whilst reducing the event driven management impairment overlays related to Covid-19.

Other notable impacts on the ECL included revisions to the assumptions around the severity of the impact of both DebiCheck and the Credit Amendment Bill. Included for 2021 is an event driven management impairment overlay for retrenchments and recent social unrest that has taken place in parts of KwaZulu Natal and Gauteng. Refer to note 28.8.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Net advances continued...

Reconciliation of ECL and gross advances of originated advances as at 30 September 2020

The below ECL movements depict the differential movements when exposures transfer to or from the different stages

Rmillion	ECL					Gross advances					
	Stage 1	Stage 2		Stage 3	Total	Stage 1	Stage 2		Stage 3	Total originated book	Acquired book
		SICR	Arrears				SICR	Arrears			
Opening balance 1 October 2019	584	1,124	1,326	3,954	6,988	9,778	5,618	3,332	6,013	24,741	2,096
Changes due to movements in arrears profile of advances	**221**	**(215)**	**548**	**3,040**	**3,594**	**(1,229)**	**(2,506)**	**537**	**3,682**	**484**	**(195)**
Transfer from stage 1	-	218	468	632	1,318	-	1,097	1,200	992	3,289	-
Transfer from stage 2: SICR	103	-	361	690	1,154	1,760	-	925	1,083	3,768	-
Transfer from stage 2: arrears	10	16	-	953	979	163	81	-	1,496	1,740	-
Transfer from stage 3	-	3	20	-	23	8	16	52	-	76	-
Transfer to stage 1	-	(349)	(64)	(5)	(418)	-	(1,760)	(163)	(8)	(1,931)	-
Transfer to stage 2: SICR	(64)	-	(32)	(10)	(106)	(1,097)	-	(81)	(16)	(1,194)	-
Transfer to stage 2: arrears	(71)	(184)	-	(33)	(288)	(1,200)	(925)	-	(52)	(2,177)	-
Transfer to stage 3	(58)	(215)	(584)	-	(857)	(992)	(1,083)	(1,496)	-	(3,571)	-
Transfer to write-off/ balance growth up to write off	301	296	379	813	1,789	129	68	100	187	484	(195)
Changes due to changes in balances of advances	**(323)**	**(38)**	**(391)**	**(1,401)**	**(2,153)**	**(105)**	**1,247**	**(136)**	**(1,235)**	**(229)**	**(615)**
Change due to movement in balances of existing advances	(54)	(46)	(84)	292	108	(869)	(204)	(189)	575	(687)	(409)
Modifications that did not give rise to de-recognition	-	-	-	-	-	-	(3)	(5)	(208)	(216)	-
New advances [1]	138	506	357	327	1,328	2,714	2,540	850	492	6,596	-
Change due to de-recognition (other than write-off)	(96)	(146)	(82)	(130)	(454)	(1,639)	(734)	(210)	(204)	(2,787)	(206)

Net advances continued...

Change due to write-off [2]	(311)	(352)	(582)	(1,890)	(3,135)	(311)	(352)	(582)	(1,890)	(3,135)	-

Rmillion	ECL					Gross advances					
	Stage 1	Stage 2		Stage 3	Total	Stage 1	Stage 2		Stage 3	Total originated book	Acquired book
		SICR	Arrears				SICR	Arrears			
Changes due to change in model assumptions	**(50)**	**1**	**89**	**177**	**217**	**-**	**-**	**-**	**-**	**-**	**-**
Changes due to changes in model assumptions	(50)	1	89	177	217	-	-	-	-	-	
Closing balance 30 September 2020	**432**	**872**	**1,572**	**5,770**	**8,646**	**8,444**	**4,359**	**3,733**	**8,460**	**24,996**	**1,286**

[1] *The ECL recognised on new advances originating during the reporting period (which are not included in opening balances) are raised based on the advances' ECL stage as at the end of the reporting period and are included within 'ECL on new advances'.*

[2] *The decrease in the advances as a result of the write-off is equal to the decrease in ECL as advances are 100% provided for before being written off. The contractual amount outstanding on advances that were written off during the current reporting period that are still subject to enforcement activities is R3,135 million (refer to credit impairment charges, note 18).*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. Contingent assets and liabilities

3.1 Contingent assets

RDS indemnity

In terms of the restructuring transaction, RDS has provided a guarantee in favour of the Bank in respect of the advances book transferred to the value of R3 billion until April 2024. To support RDS, the SARB has provided an indemnity guarantee in respect of the guarantee provided by RDS to the Bank. As at year-end, RDS had built up the cash reserves equal to the indemnity of R3 billion. The indemnity guarantee provided by the SARB is in place for eight years, having commenced on 4 April 2016 and expiring on 4 April 2024.

3.2 Contingent liabilities

Unutilised card facilities

The total unsecured unutilised credit facilities granted to the Bank's credit card holders as at 30 September 2021 was R645 million (2020: R667 million), the repricing profile of which is expected to be not more than one month.

Unutilised overdraft facilities

The total unsecured unutilised overdraft facilities granted to the Bank's overdraft holders as at 30 September 2021 was R1 million, the repricing profile of which is expected not to be more than one month.

Shareholder-backed funding

In order to facilitate the Bank's successful re-entry into the domestic wholesale funding market, the Bank has entered into shareholder support and assistance arrangements with the shareholders (the "Support Arrangements"). In terms of the Support Arrangements, the shareholders have undertaken to provide certain support facilities to the Bank over a period of three years and four months, commencing 1 December 2020 and concluding on 31 March 2024 (the "Support Period"), in proportion to their shareholdings, up to a maximum cumulative amount of R8 billion over the Support Period. As at year end, the Bank has not utilised this facility.

4. Cash and cash equivalents

Rmillion	2021	2020
Call deposits	**3,189**	**1,969**
Rand [1]	2,611	1,875
Foreign denominated [1]	578	94
Current accounts [2]	**46**	**61**
Gross cash and cash equivalents	**3,235**	**2,030**
Non-cash adjustment: ECL [3]	(1)	(1)
Net cash and cash equivalents	**3,234**	**2,029**
Maximum exposure to credit risk	**3,234**	**2,029**

See note 28.13 for credit risk ratings of counterparties.

The Bank uses foreign currency denominated deposits to mitigate against risks arising from changes in foreign currency exchange rates where the Bank's debt is denominated in a currency other than the functional currency. Refer to note 29.3 for foreign exchange risk management. Refer to note 13 and 14 for debt denominated in a currency other than the functional currency.

[1] Rand call deposits are held with SA banks and can be withdrawn on demand. Rand-denominated call deposits bear interest at rates varying from 2.45% to 3.50% NACM (2020: from 3.05% to 4.76%). Foreign-denominated call deposits consist of foreign currency that the Bank uses to mitigate against the changes in cash flows arising from changes in foreign currency rates, where the debt is denominated in a currency other than the functional currency.

[2] Current accounts are floating interest rate assets with interest rates generally linked to prime.

[3] ECL is raised on credit risk arising from the counterparties with whom the deposits are held. All deposits are classified as stage 1. There were no movements between stages for these deposits during the reporting period.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. Financial investments

Rmillion	2021	2020
Investment in core income funds[1]	2,081	1,017
Investments held at amortised cost[2]	-	1,015
Total	2,081	2,032

[1] *Investment in core income funds are unitised and are held with SA banks. These investments are held at fair value.*

[2] *Investments held at amortised cost are foreign investments that are unlisted and bear interest at an average interest rate of 1.78% (2020: 1.72%). The total amount is deemed to be the maximum exposure to credit risk as the ECL is deemed insignificant. Refer to note 28.13.*

Reconciliation of financial investments

Rmillion	2021	2020
Investments in core income funds		
Opening balance	1,017	-
Placement	1,000	1,405
Withdrawal	-	(412)
Income from investments	64	24
Closing balance	2,081	1,017
Investments held at amortised cost		
Opening balance	1,015	-
Placement	-	1,146
Withdrawal	(1,003)	(202)
Foreign currency exchange gain/(loss)	-	60
(Income received)/Accrued income	(12)	11
Closing balance	-	1,015

6. Regulatory deposits and sovereign debt securities

Rmillion	2021	2020
Listed	3,005	1,344
Treasury bills	-	805
Bonds	3,005	539
Unlisted		
Deposits with the South African Reserve Bank[1]	382	381
Gross regulatory deposits and sovereign debt securities	3,387	1,725
Adjustment: ECL[2]	-	-
Net regulatory deposits and sovereign debt securities	3,387	1,725
Maximum exposure to credit risk	3,387	1,725

See note 28.13 for credit risk ratings of counterparties.

Regulatory deposits and sovereign debt securities with a carrying value of R1 146 million (September 2020: R1 140 million) are held by the South African Reserve Bank in terms of the Banks Act and regulations thereto, and are not available for day-to-day operations.

[1] *The Bank is required to deposit a minimum balance with the South African Reserve Bank. These deposits bear no interest and are not available for use in the Bank's day-to-day operations.*

[2] *ECL is raised on credit risk arising from the counterparties with whom the deposits and sovereign debt are held. All deposits and sovereign debt are classified as stage 1. There were no movements between stages for these deposits during the reporting period.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

7. Current and deferred tax

Rmillion	2021	2020
Current tax asset/(liability)[1]	(83)	(83)
Deferred tax asset	1,134	1,133
Total	**1,051**	**1,050**

The current tax liability is as result of restatements applied in the 2018 and 2019 financial statements that resulted in adjustment in Bank's current tax positions. During the current year, the Bank has made an election to apply for relief in terms of the Voluntary Disclosure Programme ("VDP"), in terms of sections 225 to 227 of the Tax Administration Act No. 28 of 2011 ("TAA"), for the 2018 and 2019 years of assessment ("VDP Period"). Should the application be successful, no understatement penalty will be imposed, and criminal prosecution will not be pursued. As at year end, the Bank has received correspondence that its VDP application has been accepted contingent on the Bank providing additional information for the restatement in the 2018 and 2019 financial periods. A provision has been raised for the outstanding taxes (including interest payable) of R 83 million.

7.1 Deferred tax asset

Rmillion	Opening balance	Deferred tax impact of items recognised in profit or loss	Closing balance
2021			
Temporary differences			
Deferred origination and administration fees on advances	-	3	3
Provisions	59	90	149
Provision for credit losses	938	(15)	923
Prepayments	(4)	(7)	(11)
Tax impact from the buy-back of liabilities	(1)	(1)	(2)
Estimated tax loss	141	(69)	72
Total[1]	**1,133**	**1**	**1,134**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Current and deferred tax continued...

Rmillion	Opening balance	Deferred tax impact of items recognised in profit or loss	Closing balance
2020			
Temporary differences			
IFRS 9 transition adjustment	324	-	324
Deferred origination and administration fees on advances	-	-	-
Provisions	116	(57)	59
Provision for expected credit losses	512	102	614
Prepayments	(12)	8	(4)
Tax impact from the buy-back of liabilities	7	(8)	(1)
Estimated tax loss	-	141	141
Total[1]	**947**	**186**	**1,133**

[1] *The estimated current tax loss R72 million (2020: R141 million) included in the deferred tax asset is largely due to the operational losses in prior years. The recoverability of the deferred tax asset is assessed by the Bank on a regular basis. The deferred tax asset recognised by the Bank will be recovered through allowable tax deductions against taxable income in future financial periods. In applying judgement in recognising deferred tax assets and the recoverability thereof, management has critically assessed all available information, including future business profit projections and the past achievement thereof. This was done by considering taxable profits forecasted over a seven-year period using the approved Board budget.*

The net deferred tax asset of R1 134 million (30 September 2020: R1 133 million) relates mainly to provisions, credit impairment provisions and tax losses brought forward from the prior year. Management expects the tax loss to be utilised within the next two years.

8. Property, equipment and right of use assets

	2021			2020		
Rmillion	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Furniture and fittings	34	(17)	17	36	(15)	21
Information technology equipment	301	(179)	122	298	(148)	150
Motor vehicles	7	(2)	5	3	(2)	1
Leasehold improvements	56	(42)	14	62	(37)	25
Land and buildings (owner-occupied)	301	(32)	269	301	(26)	275
Right of use assets	299	(124)	175	417	(137)	280
Total	**998**	**(396)**	**602**	**1,117**	**(365)**	**752**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Property, equipment and right of use assets continued...

8.1 Reconciliation of the carrying amounts of property and equipment 2021

Rmillion	Carrying value at beginning of year	Additions	Depreciation	Disposals / write-offs	Carrying value at end of year
Furniture and fittings	21	1	(4)	(1)	17
Information technology equipment	150	24	(48)	(4)	122
Motor vehicles	1	5	(1)	-	5
Leasehold improvements	25	-	(11)	-	14
Land and buildings (owner-occupied)	275	-	(6)	-	269
Total	**472**	**30**	**(70)**	**(5)**	**427**

Reconciliation of the carrying amounts of property and equipment 2020

Rmillion	Carrying value at beginning of year	Additions	Depreciation	Disposals / write-offs	Carrying value at end of year
Furniture and fittings	27	7	(6)	(7)	21
Information technology equipment	168	50	(55)	(13)	150
Motor vehicles	2	-	(1)	-	1
Leasehold improvements	31	-	(6)	-	25
Land and buildings (owner-occupied)	280	-	(5)	-	275
Total	**508**	**57**	**(73)**	**(20)**	**472**

8.1.1 Change in estimate

During the 2021 financial year, the Bank reassessed the useful lives of all Property, Plant and Equipment items noted above. For information technology equipment and furniture and fittings, the reassessment of the useful lives more accurately reflects the period over which expected future benefits of use can be realised. The net effect of the changes was a decrease of R16 million in the depreciation expense in the current financial year, which will be included in the depreciation charge in future financial periods. This change will be applied prospectively.

8.2 Reconciliation of the carrying amounts of right of use asset

Rmillion	2021	2020
Carrying value at beginning of year	280	-
Additions	77	417
Depreciation	(133)	(137)
Terminations and modifications[1]	(49)	-
Carrying value at end of year	**175**	**280**

[1] The lease modifications due to the social unrest in South Africa primarily in KwaZulu-Natal and Gauteng was R1 million. The unrest resulted in the destruction to leased property which resulted in the Bank not trading from some of these leased properties. Rent concessions were received from landlords where branches were not able to trade due to damage to property and safety concerns. The remaining balance was due to a reassessment and termination of lease contracts.

9. Accounts receivable and other assets

Rmillion	2021	2020
Financial assets		
Sundry receivables[1]	94	98
Management fees	40	52
Insurance commissions	39	14
Other	15	32
Non-financial assets		
Prepayments[2]	88	102
Total	**182**	**200**
Maximum exposure to credit risk[3]	**94**	**98**

[1] Due to the short-term nature of the receivables, the carrying amount approximates its fair value. Sundry receivables are neither past due nor impaired. The ECL of the total amount is negligible as the majority of the exposure is within 30 days and/or carries no credit risk.

[2] Information technology licenses and services, prepaid rentals, as well as other prepayments make up the prepayment balance at the reporting date.

[3] The maximum exposure to credit risk for the 2020 financial year has been restated from R200 million to R98 million to more accurately reflect the total credit risk of only financial assets.

10. Intangible assets

	2021			2020		
Rmillion	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Software	223	(85)	138	192	(77)	115

Reconciliation of the carrying amounts of intangible assets 2021

Rmillion	Carrying value at beginning of year	Additions	Amortisation	Disposals / write-offs	Carrying value at end of year
Software	115	46	(22)	(1)	138

Reconciliation of the carrying amounts of intangible assets 2020

Rmillion	Carrying value at beginning of year	Additions	Amortisation	Disposals / write-offs	Carrying value at end of year
Software	81	46	(12)	-	115

10.1 Change in estimate

During the 2021 financial year, the Bank reassessed the useful lives of intangible assets. The reassessment of the useful lives reflects more accurately the period over which expected future benefits of use can be realised. The net effect of the changes was a decrease of R14 million in the amortisation expense in the current financial year, which will be included in the amortisation charge in future financial periods. This change will be applied prospectively.

11. Derivatives

Rmil	Assets over the counter		Liabilities over the counter	
	Notional	Carrying amount at fair value	Notional[1]	Carrying amount at fair value
2021				
Currency derivatives				
Swaps	-	-	-	-
Inflation linked derivatives				
Swaps	667	42	-	-
Total	**667**	**42**	**-**	**-**
2020				
Currency derivatives				
Swaps	-	-	2,094	(100)
Inflation linked derivatives				
Swaps	-	-	667	(13)
Total	**-**	**-**	**2,761**	**(113)**

[1] *The notional amount is the sum of the absolute value for both derivative assets and liabilities. The amount cannot be used to assess the risk associated with the positions held and should be used only as a means of assessing participation in derivative contracts.*

The Bank uses currency swaps to economically hedge against the changes in cash flows arising from changes in foreign currency rates where the debt is denominated in a currency other than the functional currency.

The Bank uses inflation linked swaps to economically hedge against the changes in the fair value of inflation linked bonds, arising from changes in interest rates. The change of which impacts the cash outflow from the payment of interest.

For accounting purposes, the derivatives have not been formally designated as hedging instruments as defined by IFRS 9 and, therefore, all derivatives were classified as and measured at fair value through profit or loss as per IFRS 9.

For more information on the management of market risk, refer to note 29.

Derivatives settled on a net basis and gross basis

The tables below analyse the Bank's derivative assets and liabilities, which will be settled on a net basis into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date.

Some of the Bank's derivatives are subject to collateral requirements (see note 32), such as margin calls. Cash flows from those derivatives could occur earlier than the contractual maturity. Contractual maturities are assessed to be essential for an understanding of the timing of cash flows of all derivatives.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Derivatives continued...

Derivatives settled on a net basis	6 - 12 months	1 - 5 years	Total
2021			
Financial assets			
Inflation linked swaps	**-**	**42**	**42**
2020			
Financial liabilities			
Inflation linked swaps	**-**	**(13)**	**(13)**

Derivatives settled on a gross basis	< 6 months	6 - 12 months	1 - 5 years	Total
2020				
Financial liabilities				
Inflation linked swaps				
Inflow	815	1,239	-	2,054
Outflow	(877)	(1,277)	-	(2,154)
Total	**(62)**	**(38)**	**-**	**(100)**

12. Bonds and other long-term funding

Rmillion	2021	2020 Restated
Unsecured bonds (listed on JSE, refer to note 12.1)	2,364	4,192
Unsecured bonds (listed on foreign stock exchanges, refer to note 12.2)	-	638
Unsecured long-term loans (refer to note 12.3)	649	1,070
Retail long-term funding (refer to note 12.4)[1]	6,126	3,808
Total	**9,139**	**9,708**

All long-term funding represents funding with a maturity of more than 12 months after year end.

[1] *The 2020 amounts have been restated. Refer to note 39.*

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Bonds and other long-term funding continued...

12.1 Unsecured bonds listed on JSE

Rmillion	Face value	Interest accrued [1]	Unamortised discount[2]	Reclassified to short-term funding	Net liability 2021	Net liability 2020 [3]
Fixed rate bonds:						
With interest rate of 10.93%	235	6	(1)	-	240	240
JIBAR linked bonds:						
Ranging from JIBAR + 270bpts to JIBAR + 400 bpts	1,802	8	(1)	(395)	1,414	947
Inflation linked bonds:						
Ranging from 3.2% to 5.75%	3,106	37	(4)	(2,429)	710	3,005
Total	**5,143**	**51**	**(6)**	**(2,824)**	**2,364**	**4,192**

The bonds' maturities range from earliest redemption on 13 October 2021 (which have been reclassified to short-term as they will be settled in the next 12 months) to latest redemption on 24 July 2026.

[1] Interest accrued represents interest due to the funders, as at the reporting date, based on the individual bond's legal terms and conditions.

[2] Unamortised discount represents the fair value adjustment at initial recognition of the funding liability.

[3] Net liability for 2020 includes accrued interest of R48 million and an unamortised discount of R44 million

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Bonds and other long-term funding continued...

12.2 Unsecured bonds listed on foreign stock exchanges

Rmillion	Face value	Interest accrued[1]	Foreign currency translation[2]	Unamortised premium / (discount)[3]	Reclassified into short-term funding	Net liability 2021	Net liability 2020 [4]
CHF denominated bond:							
5%	577	12	(26)	1	(564)	-	638
Total	**577**	**12**	**(26)**	**1**	**(564)**	**-**	**638**

The bond matures on 22 April 2022.

[1] Interest accrued represents interest due to the funders, as at the reporting date, based on the individual bond's legal terms and conditions.

[2] Foreign currency translation represents the increase or decrease in the carrying value of liability due to the change in the foreign currency exchange rates.

[3] Unamortised premium/(discount) represents the fair value adjustment at initial recognition of the funding liability.

[4] Net liability for 2020 includes accrued interest of R89 million and an unamortised premium of R8 million.

Bonds and other long-term funding continued...

12.3 Unsecured long-term loans

Rmillion	Face value	Interest accrued[1]	Unamortised premium / (discount)[2]	Net liability 2021	Net liability 2020 [3]
Promissory notes	-	-	-	-	776
Fixed deposits	608	41	-	649	294
Total	**608**	**41**	**-**	**649**	**1,070**

Promissory notes interest rates (NACA) varying from 3m Jibar + 2.20% to 3m Jibar + 4% (2020: 3m Jibar +1.85% to 3m Jibar +5%). These notes mature on 26 July 2022 and a value of R51 million was reclassified to short term funding (refer to note 13).

Fixed deposits interest rates (NACA) varying from 4.24% to 10.83% (2020: 7.75% to 10.83%). These deposits have various maturities, ranging from 5 October 2022 to 21 August 2026.

[1] Interest accrued represents interest due to the funders, as at the reporting date, based on the individual bond's legal terms and conditions.

[2] Unamortised premium/(discount) represents the fair value adjustment at initial recognition of the funding liability.

[3] Net liability for 2020 includes accrued interest of R25 million and an unamortised premium of R1 million.

12.4 Retail long-term funding

Rmillion	Face value	Interest accrued	Net liability 2021	Net liability 2020 Restated[4]
Maturing in 12 to 24 months [1]	500	2	502	523
Maturing in 25 to 36 months [2]	166	-	166	-
Maturing in 37 to 60 months [3]	5,446	12	5,458	3,285
Total	**6,112**	**14**	**6,126**	**3,808**

Retail funding consists of fixed deposits that have zero, quarterly and semi-annual coupon payment instruments.

[1] Retail long-term funding for this maturity profile bear interest ranging from 5.61% to 6.51% NACM, (2020: 6.32% to 7.02% NACM). The 2020 amounts have been restated, refer to note 39.

[2] Retail long-term funding for this maturity profile bear interest ranging from 5.61% to 6.93% NACM.

[3] Retail long-term funding for this maturity profile bear interest ranging from 6.93% to 8.8% NACM (2020: 7.02% to 9.58% NACM).

[4] Net liability for 2020 includes accrued interest of R14 million.

13. Short-term funding

Rmillion	2021	2020 Restated
Wholesale funding	**3,540**	**3,460**
Call deposits[1]	38	-
Negotiable certificates of deposits[2]	5	51
Fixed deposits[3]	59	777
Promissory notes[4]	51	28
Listed bonds[5]	3,387	2,604
Retail funding	**4,237**	**2,182**
Retail short-term funding[6]	4,189	2,150
Other short-term funding	48	32
Total	**7,777**	**5,642**

Short-term funding represents funding with a maturity of less than 12 months after year end.

[1] Call deposits have interest rates linked to SAFEX

[2] Negotiable certificates of deposit interest rates varying from 3m JIBAR + 0.2% to 3m JIBAR + 1.85% (2020: 3m JIBAR + 1.25% to 3m JIBAR + 3.6%)

[3] Fixed deposits interest rates (NACA) varying from 1.51% to 10.75% (2020: 1.51% to 10.75%)

[4] Promissory notes interest rates (NACA) varying from 3m JIBAR + 2.25% to 3m JIBAR + 5% (2020: 3m JIBAR +1.85% to 3m JIBAR +4%)

[5] Listed bonds to the total value of R3 387 million (2020: R2 604 million) repayable within 12 months were reclassified from long-term funding to short-term funding based on the remaining contractual term.

[6] Retail short-term funding consists of transactional deposits with an interest rates ranging from 2.75% to 4% and retail investment deposits with interest rates varying from 3.93% to 5.85% (2020: transactional deposits 4.25% to 5.25% and retail deposits 5.13% to 6.32%). The 2020 amounts have been restated, refer to note 39.

14. Subordinated bonds

Rmillion	Face value	Interest accrued	Unamortised premium / (discount)	Net liability 2021	Net liability 2020[1]
Subordinated bonds	-	-	-	-	1,523

ABKS1 subordinated bonds with an original face value of R1 485 million, issued on 4 April 2016, redeemable on 4 April 2026, were optionally redeemed on 30 April 2021. Interest was calculated and payable quarterly at a floating coupon rate of 3 months JIBAR plus 725 basis points.

[1] Net liability for 2020 includes accrued interest of R39 million and an unamortised discount of R1 million.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

15. Creditors and other liabilities

Rmillion	2021	2020
Financial liabilities		
Advances with credit balances	12	15
Cash payable to Residual Debt Services Limited (in curatorship)	9	1
Sundry payables and accruals[1]	140	163
Amounts payable to Guardrisk	106	90
Lease liability (refer note 15.1)	186	280
Non-financial liabilities		
Accruals related to payroll[3]	292	113
VAT provision[2]	148	-
Leave pay accrual	81	89
Total	**974**	**751**

[1] Sundry payables and accruals consist largely of trade payables.

[2] The Bank's previous VAT apportionment rate ruling expired and, in the current year, SARS issued the Bank with a new ruling applicable from 01 October 2019 to 30 September 2023. This will affect the measurement of the indirect tax expense as well as the VAT recoverable or payable to the South African Revenue Service (SARS). The Bank, having reviewed the new ruling, find its intended application unfavourable to the Bank. Post year end, the Bank has formally objected to the ruling and has entered a dispute resolution process with SARS. The Bank awaits the outcome of this process before pursuing any further actions for resolution. In consideration of the ruling received from SARS, the Bank has raised a provision.

[3] Included in 'Accruals related to payroll' is a provision for the long-term incentive scheme amounting to R70 million (2020: R83 million). Refer to note 36 for additional disclosure. This amount also includes a short term incentive of R165 million, retention awards of R28 million and other payroll liabilities (such as PAYE, medical aid) of R29 million (2020: R30 million).

Financial liabilities are to be settled in 12 months, unless otherwise disclosed.

15.1 Reconciliation of lease liability

Rmillion	2021	2020
Opening balance	280	771
Additions	77	12
Terminations and modifications[1]	(49)	(416)
Interest expense	15	71
Payments	(137)	(158)
Balance at end of period	186	280
Current (12 months or less)	122	126
Non-current (more than 12 months)	64	154

[1] Refer to note 8.2 for further detail on lease terminations and modifications.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

16. Share capital

	Number of shares 2021	Number of shares 2020	Rmillion 2021	Rmillion 2020
Authorised				
Ordinary shares of R0.01 each	2 000 000 000	2 000 000 000	-	-
Issued				
Ordinary shares at par value of R0.01 each	500 000 001	500 000 000	5	5
Ordinary share premium			11,480	9,995
Total			**11,485**	**10,000**

The Bank issued 1 share to the value of R1 485 million which was fully paid up in the current financial period (2020: no shares were repurchased or issued).

The Bank has 1 499 999 999 (2020: 1 500 000 000) unissued ordinary shares.

17. Interest income

17.1 Interest income on advances

Rmillion	2021	2020
Interest on advances	4,597	5,506
Loan origination fees	30	218
Service fee	331	397
Total	**4,958**	**6,121**

[1] *Included in the interest on advances, in the current period, is a catch-up adjustment to interest on advances since the actual experience over the past year and future expected balance repayment differ from the prior year estimates. This adjustment is in line with the requirements of IFRS 9 where management, in applying its judgement based on recent available information, can revise assumptions and estimates based on latest available information. Over the past financial year loan pre-payment and early settlements were less than expected. The future level of pre-payments and early settlements are also expected to be lower based on the client behaviour that emerged over the past year. Both these elements led to a reduction in gross advances through an increase in the deferred fee liability, reducing the interest income on advances by R108 million.*

17.2 Other interest income

Rmillion	2021	2020
Interest received on cash and cash equivalents	56	131
Sundry interest income[1]	172	58
Total	**228**	**189**

[1] *Sundry interest income consists of interest on regulatory deposits and sovereign debt securities.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

18. Credit impairment charge

Rmillion	2021	2020
Originated book		
Net movement in impairment provisions[1]	(958)	873
Gross advances written off[2]	3,124	3,135
Modification that does not give rise to de-recognition[3]	105	216
Net impairment charge	**2,271**	**4,224**
Post write-off recoveries[3]	(286)	(199)
Sub-total: originated book	**1,985**	**4,025**
Acquired book		
Post write-off recoveries[3]	(458)	(442)
(Favourable)/unfavourable changes in ECL	(186)	(175)
Sub-total: acquired book	**(644)**	**(617)**
Total	**1,341**	**3,408**

[1] *Net movement in impairment provisions represents the net movement in impairment provisions from the beginning of the financial year to the end (refer to the ECL reconciliation under note 2).*

[2] *Advances with this gross carrying value were written off during the financial year, resulting in a release of an equal amount of impairment provisions held being included in the above net movement in impairment provisions (refer to the ECL reconciliation under note 2).*

[3] *Post write-off recoveries are recognised less the directly attributable costs of collection of R44 million (2020: R23 million) for the originated book and R30 million (2020: R33 million) for the acquired book.*

19. Interest expense and similar charges

Rmillion	2021	2020
Wholesale funding	**640**	**1,168**
Subordinated debt	94	197
Unsecured listed bonds	454	665
Call deposits	1	2
Fixed deposits	65	208
Negotiable certificates of deposit	17	5
Interest on promissory notes	9	91
Retail and other	**689**	**427**
IFRS 16 finance cost	15	71
Retail funding	651	344
Other interest	23	12
Total	**1,329**	**1,595**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

20. Non-interest income

Rmillion	2021	2020 Restated
Credit card fees	157	175
Binder and outsourcing arrangements fees[1]	139	149
Collection fees[2]	237	295
Transactional fees	53	21
Commission on value-added services[3]	2	1
Other income[4]	30	11
Total	**618**	**652**

[1] *These fees are earned through the intermediary agreement held with Guardrisk for the premiums collected and new business generated by the Bank.*

[2] *Fees relates to fees charged to Residual Debt Services Limited (under curatorship) (RDS) of R237 million (2020: R295 million). Fees charged are determined on an arm's length basis and managed independently under supervision of the curator of that company. The fees charged to RDS are expected to decline as the book that is being collected upon runs down.*

[3] *The Bank earns non-interest income for value added services it provides to customers. In the prior year the Bank recognised this arrangement as if it acted as principal rather than as agent. Therefore in the prior year, the non-interest income and operating expenses line items were grossed up by R30 million to reflect sales made and the cost of these sales. In the current year the Bank has reduced the non-interest income and operating expenses line items by R30 million and now only shows the net commission income earned (R2 million) from this arrangement in non-interest value-added services. Refer to note 39.*

[4] *Other income compromise largely of early withdrawals fees on investments.*

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

21. Operating costs

Rmillion	2021	2020 Restated
Advertising and marketing costs	220	203
Amortisation of intangible assets (refer to note 10)	22	12
Audit fees	31	18
Bank charges and strike costs[1]	148	136
Card transaction costs	129	83
Collection costs[2]	22	30
Depreciation on property and equipment (refer to note 8)	203	210
Direct selling and commissions	37	46
Information technology costs	173	158
Travel cost	6	12
Rental and maintenance costs	138	71
Costs related to property rentals[2]	104	26
Other rental and maintenance costs	34	45
Printing, stationery and courier costs	16	22
Professional fees	170	178
Staff costs	1,578	1,288
Basic remuneration	1,185	1,139
Employee benefits expense/(release)	219	(27)
Contribution to provident fund	127	137
Commission paid to sales agents	1	4
Executive Directors' and Prescribed Officers' remuneration (refer to note 40)	46	35
Non-Executive Directors' fees (refer to note 40)	7	6
Telephone, fax and other communication costs	101	86
Other expenses[3]	55	55
Write-off of property, plant and equipment	6	20
Total	**3,062**	**2,634**

[1] *Included in the Bank charges and strike costs line are costs paid for the platform on which advances are disbursed and collected.*

[2] *Included in the costs related to property rentals is the value of the short-term and low value leases of R30 million (2020: R6 million).*

[3] *Restated, refer to note 39.*

22. Indirect and direct taxation

Rmillion	2021	2020
Indirect charge per the statement of total comprehensive income	132	19
Direct charge per the statement of total comprehensive income: SA normal taxation	(1)	(186)
Total taxation charge	**131**	**(167)**

22.1 Direct taxation

Rmillion	2021	2020
Current taxation	**-**	**-**
Current year	-	-
Prior year	-	-
Deferred taxation	**(1)**	**(186)**
Current year	13	(186)
Prior year	(14)	-
Direct taxation charge per the statement of total comprehensive income	**(1)**	**(186)**

Indirect and direct taxation continued...

22.2 Direct tax rate reconciliation

%	2021	2020
Effective rate of taxation[1]	**(44.4)**	**24.9**
Non-deductible expenses	**(1,074.4)**	**1.9**
Donations	(258.8)	0.4
Fines and penalties	(8.9)	-
Learnerships	143.5	(0.1)
Tax impact on property and equipment	(105.3)	0.2
Expected credit losses for financial assets	(5.4)	
Tax impact on buy-back of liabilities	(839.5)	1.4
Prior year under/(over) provision	1,146.8	-
Other	-	1.2
Standard rate of South African taxation	**28.0**	**28.0**

[1] *This amount has been calculated using unrounded financial results.*

23. Cash generated by operations

Rmillion	2021	2020 Restated
Profit/(loss) before tax	1	(746)
Adjusted for non-cash flow items:	**2,217**	**5,365**
Indirect taxation: VAT (refer to note 22)	132	19
Increase in impairment of advances	2,985	4,018
Amortisation of intangible assets (refer to note 10)	22	12
Depreciation of property and equipment (refer to note 8)	203	210
Write-off of PPE and intangible assets	6	20
Foreign exchange differences (excluding cash balances)	(74)	105
Loss on the bond buy-backs	-	3
Fair value movements on derivative instruments	10	(29)
Fair value adjustments on assets	-	(14)
Profit on disposal of PPE	(1)	-
Movement in other interest income accrual	(77)	(105)
Movement in interest expense accrual	117	344
Non-cash adjustments to interest on advances	(1,087)	845
Other adjustments on funding instruments	(35)	(84)
IFRS 16 finance cost	15	77
Lease modification	1	(56)
Adjusted for movement in working capital:	**307**	**(66)**
Movement in accruals	158	6
Movement in deferred fees and other accruals related to advances	149	(72)
Income received from lending activities[1]	(4,971)	(7,129)
Income earned from lending activities and other adjustments	(4,814)	(6,954)
Fees earned from lending acitivities	(157)	(175)
Total	**(2,446)**	**(2,576)**

[1] *Income earned from lending activities, previously named "cash received from lending activities", is included as part of the net movement in gross advances. The prior year comparatives have been restated. Refer to note 39.*

24. Cash paid to suppliers, funders, employees and agents

Rmillion	2021	2020
Interest paid (adjusted for non-cash items)	953	1,178
IFRS 16 finance cost	15	77
Remuneration and incentives paid to employees and Directors	1,407	1,523
Other operating expenses paid	1,520	1,082
Total	**3,895**	**3,860**

25. Direct taxation paid/received

Rmillion	2021	2020
Movement in current tax asset	-	-
Direct taxation charged to statement of total comprehensive income (refer to note 22)	(1)	(186)
Deferred tax portion of amount charged to statement of total comprehensive income	1	186
Total	**0**	**-**

26. Reconciliation of long-term and short-term funding

Rmillion	Long-term duration debt	Short-term duration debt	Subordinated debt	Total
2021				
Balance at the beginning of the year	**5,900**	**3,460**	**1,523**	**10,883**
Long-term tenure funding	**(2,883)**	**239**	**(1,523)**	**(4,167)**
Funding raised	984	-	-	984
Funding redeemed	(329)	(3,125)	(1,485)	(4,939)
Net movement in accruals and unamortised fair value adjustments	430	28	94	552
Reclassified to short-term	(3,336)	3,336	-	-
Interest paid	(422)	-	(132)	(554)
Foreign exchange movement	(210)	-	-	(210)
Short-term tenure funding	**-**	**(159)**	**-**	**(159)**
Funding raised	-	423	-	423
Funding redeemed	-	(556)	-	(556)
Interest paid	-	(26)	-	(26)
Total	**3,017**	**3,540**	**-**	**6,557**

	Long-term duration debt	Short-term duration debt	Subordinated debt	Total
2020				
Balance at the beginning of the year	**9,170**	**6,052**	**1,533**	**16,755**
Long-term tenure funding	**(3,270)**	**(2,598)**	**(10)**	**(5,878)**
Funding raised	973	-	-	973
Funding redeemed	(1,944)	(5,608)	-	(7,552)
Net movement in accruals and unamortised fair value adjustments	917	60	197	1,174
Reclassified to short-term	(2,950)	2,950	-	-
Interest paid	(796)	-	(207)	(1,003)
Foreign exchange movement	530	-	-	530
Short-term tenure funding	**-**	**6**	**-**	**6**
Funding raised	-	1,303	-	1,303
Funding redeemed	-	(1,278)	-	(1,278)
Interest paid	-	(19)	-	(19)
Other movements	-	-	-	-
Total	**5,900**	**3,460**	**1,523**	**10,883**

Long-term tenure debt with a repayment date within 12 months from the reporting date is classified as short term.
The tenure of the debt is defined by the term until final and full repayment of the debt at inception thereof, and is defined as long term if this term exceeds 12 months. Long-term debt with a tenure of more than 12 months is reclassified as short term when the duration of the term until repayment is less than 12 months.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

27. Risk management

The nature of the Bank's business activities exposes it to a number of financial risks. The objective of risk management is to balance the risk versus reward relationship with specific controls to mitigate such risks.

The Risk and Capital Management Committee ("RCMC") is constituted as a committee of the Board and is answerable to the Board and reports directly to the Board. The prime objective and mandate of the RCMC and its subcommittees are to assist the Board in discharging responsibilities in terms of the management of risk and capital across the Bank.

The RCMC is responsible for the execution of the relevant business performance and risk management frameworks, regulatory risk management frameworks, internal capital adequacy assessment process ("ICAAP") and treasury and funding risks including asset liability mismatch, interest rate risk and foreign currency risk.

The RCMC is also responsible for the evaluation of the adequacy and efficiency of all material risk models in use in all of the businesses within the Bank. The RCMC is, furthermore, responsible for the approval of all risk and capital-related frameworks within the Bank.

The RCMC has delegated specific responsibilities relating to credit risk to the Model Risk Committee ("MRC") and market risk management to the Asset and Liability Committee ("ALCO"). The RCMC approved the terms of reference of each, and any changes thereto of these subcommittees during the current financial year.

The MRC is responsible for managing the risk and profitability strategies of the Bank. The role includes setting of credit policy, pricing strategies, affordability policy and risk control. The MRC monitors these risks and reports on a quarterly basis to the RCMC. The MRC is supported by the Credit Management Structure and is chaired by a Non-Executive Director. (Refer to note 28).

The role of the ALCO is to manage the Bank's liquidity and funding position, interest rate risk in the banking book, asset/liability mismatch, foreign exchange exposure risk, regulatory and economic capital and market risks, as well as other related risks ("ALCO Risks") in such a way as to maximise shareholder return within the risk parameters as defined by the Bank's risk appetite framework set by the RCMC. (Refer to note 30).

The ALCO also has a further strategic function to recommend the strategy and appetite related to the ALCO Risks within the Bank's overall risk appetite to the RCMC.

The RCMC mandates the MRC and the ALCO to monitor and manage the balance sheet within the context of the identified risks. These are defined as:

- credit risk (note 28)
- market risk
  - o interest rate risk (note 29.1)
  - o foreign exchange risk (note 29.3)
- liquidity and funding risk (note 30)
- regulatory (and legal) risks in the ALCO context (note 33)

27.1 Risk management in response to Covid-19, social unrest

While the Bank's risk management structures, objectives and mandates are those described above in response to the impact of the Covid-19 pandemic as well as social unrest, the frequency of reporting by the governance structures described above increased in an effort to closely monitor the credit, market, and liquidity risks as well as regulatory (legal) risks (in the ALCO context) to which the Bank is exposed to.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

28. Credit risk

Credit risk is the risk of loss arising out of the failure of counterparties to meet their financial and contractual obligations when due. The Bank's primary focus is the underwriting of unsecured loans and accordingly, credit risk features as the dominant financial risk within the Bank.

28.1 Credit risk management

One of the principal objectives and mandate of the MRC is to approve all material credit-related models including impairments, credit scoring, profitability and affordability, as well as all collection scorecards, the advanced Internal Rating Based ("IRB") model for Economic Capital, the ICAAP models and any other models designated as material models that are utilised in the Bank. The MRC oversees the recommendations for the changes identified as necessary to the credit and other risk policies in terms of its oversight process.

The MRC meets on a monthly basis and reports to the RCMC on a quarterly basis.

The duties and responsibilities of the MRC include:

- the establishment of an inventory of the material models in use in the Bank and the management thereof,
  - the validation of models as it deems necessary;
  - the review of the models at least annually;
  - ensuring that an appropriate governance process is in place to ensure that the necessary documentation/information is in place to facilitate the effective validation of the models; and
  - being responsible for action to mitigate risk(s) identified by any individual model.

The Bank's exposure to credit risk can be divided into two categories, which are considered to be its classes:

- financial assets other than advances (refer to note 28.13); and
- advances.

28.2 Nature and composition of the advances portfolio

The Bank's main business is to provide unsecured retail loans and credit cards to primarily formally employed individuals. The Bank primarily relies on collecting loan instalments directly from the customer's bank account via an electronic debit order or alternatively, accepts electronic funds transfer and cash deposits from customers. Customers are assessed in full every time they apply for credit to determine if their credit profile remains acceptable in terms of the credit policies of the Bank. All of the Bank's business is conducted in the Republic of South Africa. The demographic credit characteristics of the customer base exposes the Bank to systemic credit risk.

The Bank mitigates this risk by applying the Bank's application scorecard, a set of business rules, affordability assessments and verification of items on a sample basis as a fraud mitigation tool. The Bank's credit risk assessment process adheres to the requirements set out by the National Credit Act ("NCA") and the Financial Sector Conduct Authority.

The nature of the loan book is such that it is made up of smaller sized loans across a spectrum of economic sectors and provinces. Loans granted range from a minimum of R1 000 to a maximum of R250 000 at origination and repayment periods range from a minimum of 7 months to maximum of 72 months. For credit cards, the revolving credit facility ranges from R4 000 to R120 000 for new credit cards and the limit increases up to a maximum of R150 000 for existing card holders. The minimum contractual repayment is calculated using the outstanding balance of the facility and the percentages used ranges from 4.0% to 5.5%. These repayment percentages are depending on the credit limit of the customer. By its nature, the sum of the carrying amount at year end for unsecured loans, credit cards and any unutilised credit facilities represents the Bank's maximum exposure to credit risk for advances. The Bank has insurance cover against credit events arising from death, permanent or temporary disability and retrenchment of customers through a cell captive arrangement held indirectly by the Bank's holding company.

Credit risk continued...

28.3 Credit risk assessment

The assessment of customer affordability is done in two parts, the first ensuring compliance with the NCA affordability guidelines, and, second, the Bank employs its own credit risk model affordability calculation based on a repayment to income ratio model. The Bank calculates the customer's NCA affordability as being an amount equal to the net income less financial obligations less monthly living expenses. The lower of the NCA affordability assessment and the internal credit risk affordability calculation is used to determine the maximum instalment the customer can be offered, limited to the product maximum limits.

The Bank calculates credit scores for applicants and further groups these scores into risk groups, which have similar risk expectations. The credit scoring engine is configured with the credit policy parameters and is systematically embedded, preventing human intervention which could result in a breach of policy.

The verification and inputs into the credit scoring system include:

- physical identification of the customer via their South African identification document, proof of address and fingerprint biometrics is used to validate the customer against their details held at the Department of Home Affairs;
- the customer's 3 months income, monthly living expenses, declaration of financial obligations, wage frequency, employer and bank details;
- electronic credit bureau data; and
- the customer's historical performance on existing and previous loans.

To mitigate against fraud, compliance and credit risk, the customer's completed application could flow to the vetting queues. A queue is a process where an application is systematically flagged for further vetting between when a customer applies for a loan and the final approval or decline of an offer to the customer. It is a precautionary step taken to identify underlying risk by flagging certain triggers known to indicate potential risk. An application is flagged to go into a queue when one or more of these triggers are detected in the application detail of the customer. The Bank evaluates more than 100 possible triggers that could flag an application to go into a queue for vetting.

In other cases, the queue is utilised for checking the completeness and accuracy of the documentation received, and information captured.

28.4 Credit monitoring

The Bank utilises various reporting and monitoring tools to engage in and control credit risk within the credit life-cycle. These include the following:

- real-time monitoring on application volumes, approval rates and processing quality;
- vintage collection reports to establish the initial recovery process efficiency;
- credit aging reports to identify, manage and control loan and credit card delinquency and ECL provisioning; and
- active payment, collection and integrity trend analysis to control and manage underlying risks and movement within the day to day operational procedures.

Credit risk continued...

28.5 Collections and recovery

Core to the collections function is the monitoring of the payment patterns of customers and to encourage customers to pay their accounts timeously and pay their arrears in the shortest timeframe possible. The Bank uses various debit order strike platforms, and each allows the Bank different striking capabilities and options. The Bank utilises the regulated non-authenticated early debit order system ("NAEDOS") and the DebiCheck platform to collect instalments from customers. Mandates are obtained from customers in their loan contracts and deductions are made from their primary bank accounts.

Where the debit order collection is unsuccessful, arrears follow up is performed initially through call centres within the Bank. The Bank operates two types of payment arrangements to promote collection of repayments due, namely, informal structures and formal restructures.

Informal structures are where customers request a lower debit order amount referred to as a 'promise to pay'. Formal restructures relate to debt-counselling, administration orders and court orders. Informal structures are not considered to be modifications; while the formal restructures are considered to be non-substantial modifications as defined within the accounting policy.

The transfer policy prescribes when an account will be moved into the legal collections division. Once an account has been transferred into legal collections, the account will be allocated to a department either in in-house or to outsourced collection agencies based on current internal business rules.

The Bank offers its customers that are in good standing voluntary customer support payment deferrals (referred to and known as Choose Your Break ("CYB")). Refer to note 28.7.2.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

28.6 Impairments

The same model methodology is applied against both the loan and the credit card portfolios to determine the level of credit impairment required.

For details on the impairment policies and the application thereof within the accounting standards under IFRS, refer to section 1.5.7 and the information below.

Impairment policies and application

For portfolio (collective) assessment of impairment, financial assets are grouped on the basis of similar credit characteristics, which indicate the customer's ability to pay in accordance with the contractually agreed terms.

The Bank uses the Contractual Delinquency ("CD") classifications for the purpose of identifying the type of impairment to be calculated and for the grouping of assets into stages under IFRS 9, in conjunction with other SICR requirements.

Contractual Delinquency is defined as the total amount receivable to date less cash received, divided by the original contractual instalment. The result is then rounded up to the closest integer number (i.e. CD 0.1 would be categorised as CD1). The process of rounding up results in a conservative CD measure and is a notable driver in the distribution of the advances between the various provision stage distributions.

The number and sequence of recent payments ("Recency") is also applied in estimating the expected credit loss ("ECL") and the point of write-off.

The table below indicates the CD definitions and how classification into groups was determined and how CD is utilised to classify assets into the IFRS 9 stages.

Contractual delinquency	Explanation of categorisation	Time buckets	IFRS 9 Stage
CD 0	Performing advances that are not past due and are within the contractual term.	<=30 days	Stage 1 (no SICR)
CD 0 SICR	Performing advances that are not past due and are within the contractual term, but for which SICR has been identified.	<=30 days	Stage 2 (SICR)
CD 1 – 3	Advances where between one and three instalments have been missed, or where instalments have been received after their contractual date of repayment.	31 – 90 days	Stage 2 (arrears)
>=CD 4	Advances where more than three instalments have been missed but that have not met write-off requirements.	>=91 days	Stage 3
>CD 4 recency 8	More than three instalments have been missed and no payments have been received over the past eight months.		Written off

The advances within the Bank comprise a large number of small and homogenous assets. Statistical techniques are used to calculate impairment allowances collectively, based on historical default and recovery rates per category of CD. These statistical analyses use as primary inputs the extent to which accounts in the portfolio are in arrears and historical loss experience on the eventual losses encountered from similar delinquent portfolios. The statistical analyses are extended by including forward-looking macroeconomic factors.

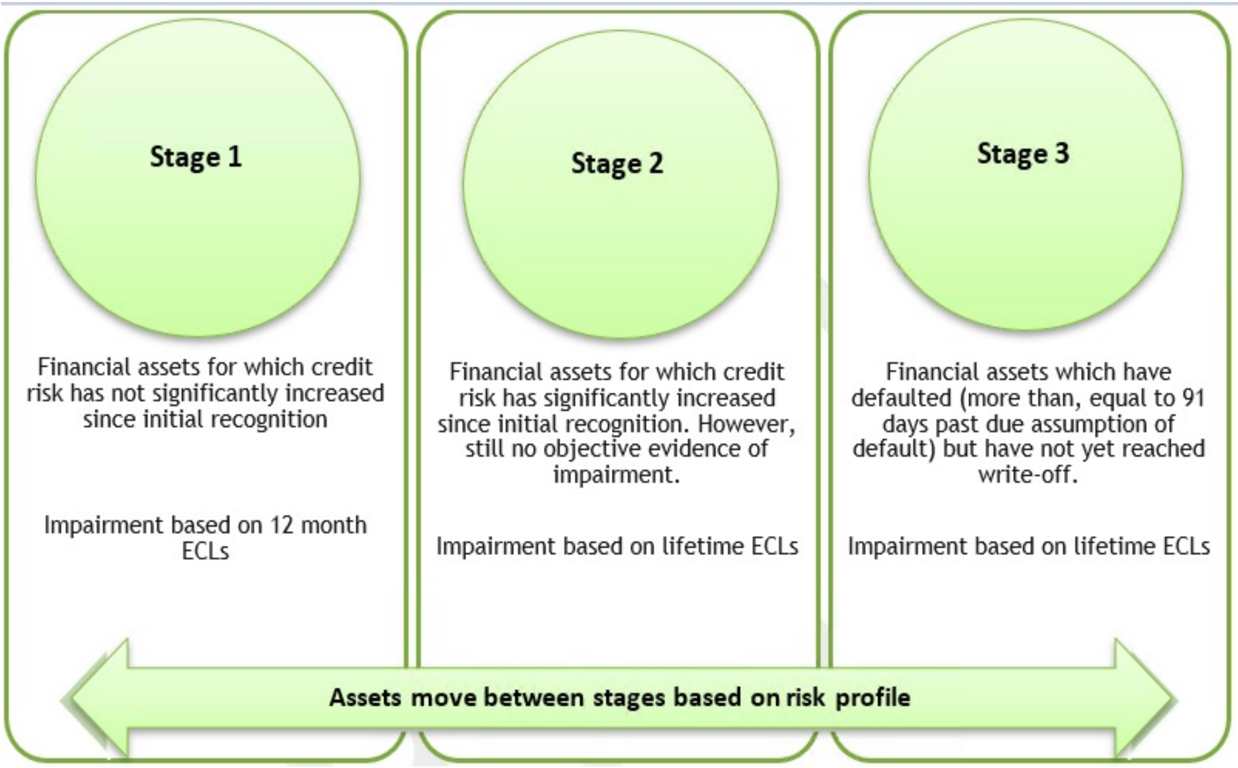
NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

28.7 Expected credit loss

28.7.1 Expected credit loss measurement

Below is a graphical representation indicating the respective stages for ECL measurement, the requirements for a financial asset to be included in the respective stages and the calculation of ECL in each stage. The acquired book is considered to be credit-impaired at initial recognition and classified in stage 3, with an ECL measured on a lifetime basis.



In measuring ECL, the following inputs are used by the Bank:

- probability of default ("PD");
- exposure at default ("EAD"); and
- loss given default ("LGD").

The PD represents the likelihood of default over a given time horizon, either over the next 12 months after the reporting period, or over the remaining life of an advance. PDs are estimated by considering the contractual term of the advance, and the estimated repayment rates. The estimation is made based on current conditions, and adjusted to take into account estimates of future conditions that will impact the PD.

The PD calculation is based on a statistical model with the aim to predict the future repayment performance of customers based on their arrears status, model segment and behavioural and bureau profile. The prediction of future repayments is based on having observed the customer's behaviour in transitioning from a repayment status in a given month to a repayment status in the following month ("roll rates") over the last 12 months.

The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments, and expected drawdowns on committed facilities.

Credit risk continued...

The EAD is calculated by applying an amortisation structure to each advance. The structure includes the expected monthly repayment, as well as the projected monthly cumulative repayment status probabilities and the cash flows associated with every repayment status.

The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan or card exposure, which are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Bank uses EAD models that reflect the characteristics of the portfolios.

LGD is an estimate of the loss expected to arise on default. LGD models for unsecured assets consider time of recovery and recovery rates. The calculation is on a discounted cash flow basis. The LGD is expressed as a percentage, being the loss expected to arise on default as a fraction of the exposure at the time of default.

In the process of determining the lifetime ECL for advances in stage 2 and 3, the PD, EAD and LGD models are combined and losses are extrapolated to the point where incremental increases of the modelled lifetime no longer increase the total ECL calculated.

Credit risk continued...

28.7.2 Significant increase in credit risk ("SICR")

The Bank assesses financial instruments measured at amortised cost and subject to impairment requirements at each reporting date to determine whether evidence exists that there has been a significant increase in credit risk (SICR) since initial recognition of the financial instrument.

At each reporting date ("monthly"), all loans and advances exposures are assessed to determine whether there has been a significant increase in credit risk, in which case an impairment provision equal to the lifetime expected loss is recognised. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Bank measures the impairment provision at an amount equal to the 12 month ECL.

The Bank offers customers that are in good standing, voluntary customer support payment deferrals (referred to and known as Choose Your Break ("CYB")). The offering of CYB to customers does not in itself result in a significant increase in credit risk, and, therefore, will not trigger an automatic migration from stage 1 to stage 2 in the credit impairment models i.e a move from a 12 month ECL to a lifetime ECL.

The SICR model also identifies accounts that should move back to stage 1 after having been predicted as stage 2 accounts at the point at which their risk profile improves and they no longer satisfy the criteria for stage 2.

An account will have had a significant increase in credit risk if:

- the current point in time Probability of Default ("PD") is significantly greater than the expected point in time PD as determined at origination. This means that at each reporting date, an account's remaining lifetime PD will be compared to the expected remaining lifetime PD at origination. If the current PD is significantly higher, then the account will be moved to stage 2 and the total remaining lifetime ECL will be used for impairment provisioning purposes. the relative change in the remaining lifetime PD is computed at each reporting date. This value is then compared to the relative change cut-off value determined by the SICR model, which identifies accounts that have had a significant increase in credit risk. The cut-off for allowable relative change in PD is calibrated so that the proportion of accounts that naturally move out of stage 1 within a 12 month period from that point of observation is flagged as SICR. Each loan and credit card account is placed in an origination segment based on similar risk characteristics. A relative PD change cut-off value is then determined for each segment. At each reporting date, if the calculated relative change in PD is greater than the associated segment cut-off, then the account is moved to stage 2. The cut-offs are determined by making use of the average relative change in PD of accounts that moved into stage 2 while they were in stage 1 over any 12-month window period and are then aggregated to a segment level.
- the account enters into debt-counselling or high risk collection environment even if their PD indicates no significant deterioration in risk.
- any instalments have been missed or received after the contractual date of repayment.
- any other product linked to the account is flagged as SICR, or has a contractual CD > 0, or has been written off.

The Bank has set certain behaviour and advance granting score thresholds that are used to identify a significant increase in credit risk. These thresholds are dependent on the credit risk expectation at the point of origination, time on book, and an updated view of credit risk, which includes forward-looking information.

The purpose of the behaviour score in the ECL model is to provide a measure of an existing customer's propensity to default on a loan within 12 months. The behaviour score is calculated on an individual account level, taking into consideration the credit exposure and repayment behaviour of the customer at other credit providers. The behaviour score is updated for all advances at each reporting period.

The SICR thresholds and indicators are reviewed at least on a bi-annual basis to ensure that the models are able to identify SICR throughout the lifetime of the loan.

Further to the above, the rebuttable presumption that SICR occurs when payments are more than 30 days past due is also applied.

Refer to note 28.9.3 for the impact on ECL of SICR sensitivity.

Credit risk continued...

28.7.3 Forward-looking information

IFRS 9 requires that forward-looking economic information be included in the determination of SICR and ECL. This forward-looking economic information is included in calculating the origination PD and all subsequent period PDs. The impact of historic macroeconomic conditions on the observed default rates per customer income group and product was used to calibrate and model effects on the PD. The modelled relationships are used to incorporate the forward-looking information into the current risk expectations. This results in the forward-looking information impacting both the SICR evaluation applied in determining the stage allocation and the actual ECL calculation. The most influential macroeconomic factors include the inflationary pressure on food, fuel and the cost of public transport.

The forward-looking information is based on the Bank's economic expectations and industry expectations, as well as expert management judgement, over a planning horizon of at least three years. Economic scenarios utilised by the Bank are provided by an independent specialist on a quarterly basis or more frequently if the current economic environment has experienced notable changes.

These scenarios are considered and approved by the Model Risk Committee, the Audit and Compliance Committee and, ultimately, ratified by the Board.

The Bank utilises three forward-looking economic scenarios in the IFRS 9 model:
- a base/benign scenario;
- an upturn scenario indicating improved economic conditions; and
- a downturn scenario indicating a worsening economic environment.

These scenarios include predictions for both the economic variables that statistically show an impact on the advances portfolio at present and additional economic variables that may have an impact going forward.

These scenarios are probability-weighted based on the likelihood of each coming to fruition and these probability weightings are also provided by the independent specialist and ratified by the Board. The ECL is ultimately a result of the weighted average of the ECL from each scenario as weighted by each scenario's probability of occurrence.

Management has assigned a probability of 55% to the base/benign scenario, 30% to the downturn scenario and 15% to the upturn scenario for the 12-month forecast.

Refer to note 28.9.3 for the impact on ECL for forward-looking information based on the above described scenarios and ascribed probability weightings.

Credit risk continued...

28.7.4 Credit risk disclosures

IFRS 7 Financial Instruments: Disclosures requires an entity to provide disclosures of summarised quantitative and qualitative data about an entity's exposure to risks based on the information provided internally to key management personnel of the Bank.

As required by IFRS 9, and detailed in the Bank's accounting policy set out in note 1.5.1, the Bank measures all financial instruments at fair value plus transaction costs at initial recognition, except those carried at fair value through profit or loss where transaction costs are recognised immediately through profit or loss. Subsequent to initial measurement, depending on the classification, financial instruments are measured at either amortised cost or fair value through profit or loss.

At initial recognition, the acquired book's fair value was calculated by including the anticipated ECL's and the asset was recognised net of the anticipated ECLs as a single, credit-impaired portfolio. Subsequently, the carrying value of this single portfolio is amortised over the period during which the cash receipts arising from the portfolio are expected to be recovered.

Where estimates of cash receipts are revised based on actual or anticipated cash collections, the carrying amount of the advances is adjusted by recalculating the present value of estimated future cash flows using the original effective credit adjusted interest rate applied in determining the fair value at acquisition. Any such adjustment to the carrying value of the gross advances is recognised as an impairment gain or loss. (The specific accounting treatment applied to the acquired book is detailed in note 1.5.7).

For comparative purposes, however, in addition to the above IFRS compliant treatment, management also considers and discloses a non-IFRS view of the gross advances and ECL of the acquired book, before application of the above acquisition-related adjustments.

In order to provide sufficient information about the way the credit risk is managed by the Bank, the information in this section is presented on two bases:

- a non-IFRS basis that discloses the gross advances and impairment before the acquisition-related adjustments linked to the acquired portfolio (refer to note 28.10); as well as
- the IFRS compliant information (refer to note 28.9).

28.7.5 Point of default

The Bank has aligned the determination of default with its existing internal credit risk management definitions and approaches. This is defined as the point at which an account has a CD greater than three, which is greater than 90 days past due.

An account is considered to be in default when there is objective evidence of impairment.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- a breach of contract, such as a default or delinquency in the payment of interest or principal; or
- an indication that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified within the individual financial assets in the Bank.

An account is considered to no longer be in default when it is not in arrears and is at a point of being able to be classified as CD3 or less.

Credit risk continued...

28.7.6 Write-off

A write-off directly reduces the gross carrying amount of the loans and advances when the Bank has no reasonable expectation of recovery of the financial asset either in its entirety or a portion thereof and constitutes a de-recognition event.

The Bank's assessment of reasonable expectation of recovery is either at a single account level or at a collective portfolio level post the write-off point. The point of write-off is set where advances are in arrears more than three instalments due and no payment has been received in the preceding eight months. In the current period, post write-off recoveries were higher than the expected average that would have been observed prior to Covid-19. Management performed an assessment and has satisfied itself that the more recent short-term recovery levels, resulting from the easing of lock-down restrictions, have re-aligned to those previously observed, and this reversion indicates that the point of write-off remains appropriate.

The modelling impact of applying the write-off criteria at a portfolio level is that no post write-off recoveries are included in the determination of the LGD. Any amounts recovered post write-off are recorded as bad debts recovered and set off against the impairment charge.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

28.8 Judgements

28.8.1 Event-driven management credit estimates

Certain events/risks arise from time to time that may not be incorporated into the statistical forward looking model. In such instances, the additional inclusions into the ECL are reviewed and approved by the MRC.

Covid-19

In the current financial reporting period, South Africa experienced its second and third waves of Covid-19. Both waves resulted in lockdowns that were less severe than the original lockdown with the economic impact limited/restricted. The Bank has maintained a conservative stance from an expected credit loss perspective by proactively forecasting future Covid-19 waves and their respective impacts. The Bank's observable data has shown an increase in death and retrenchment claims as well as a reduction in cash collected during the period in comparison with the pre-Covid period. Utilising historical data from waves one and two and applying judgement to estimate the data experience in the future, the Bank has modelled the potential impacts on cash collected, death and retrenchment claims.

The Bank has utilised these forecasts together with the latest research on the timing of future waves as well as vaccinations to quantify potential losses emanating from lower collections due to lower cash collected and increased retrenchments. The reduction in cash flows has been modelled out through our fair value and LGD models to determine expected credit losses. The outcome of these exercises has resulted in management holding an overlay on the expected credit loss models. This overlay is based on the proportion of retrenched clients that are not expected to re-enter the job market. Whilst they are unemployed, Guardrisk covers their instalments for a period of 12 months. Upon the end of that period, the exposures relating to unemployed clients are expected to result in write-offs. These write-offs are in addition to what is expected in the LGD calculations.

An overlay of R173 million (2020: R117 million) is held at year end, which includes a new R146 million overlay that was raised by the Bank in the current year to cover the risk of additional retrenchments as a result of Covid-19. The prior year Covid-19 overlay (R117 million) have been adjusted accordingly, to reflect available observable data included in the underlying models, as the impact of Covid-19 on collections and write-offs has been unravelled, reducing the need for the out-of-model overlays which has resulted in a release of the Covid-19 overlay by R90 million in the current year. The Covid-19 overlay remaining as at 30 September 2021 was R27 million.

DebiCheck/CAB

Consistent with the prior year, included in the determination of ECL is the expected impact of two regulatory and legislative changes; namely the Credit Amendment Bill and DebiCheck (Authenticated Collections) from October 2021. The Credit Amendment Act No. 7 of 2019 has been enacted but the required regulations setting out the application has not been published. These changes are expected to have an impact on the collection of cash flows on loans and advances. The estimated timing and nature of the impact will be reassessed as pertinent information on the proposed legislative and regulatory changes becomes available.

DebiCheck is expected to go live on 31 October 2021. Management have estimated the population of accounts that will not re authenticate which could result in a loss to the Bank and raised an impairment for this amounting to R278 million (30 Sep 2020: R328 million). Management judgement applied in deriving the DebiCheck post model adjustment includes the assumption as to when the implementation of DebiCheck is expected to have an impact on the Bank's collections.

The Credit Amendment Act will allow a customer who earns less than R7 500 per month and has total debt outstanding of R50 000 to apply for debt relief through the administration channels not yet fully clarified by the bill. This will impact the Bank's collection of cash flows from customers who meet these criteria. The expected implementation date for the Credit Amendment Act is currently uncertain. The Bank's ECL for this event is R72 million (30 Sep 2020: R164 million). Management judgement applied in deriving the Credit Amendment Act post model adjustment includes the assumption around the expected take-up by the Bank's customers, the qualifying population, the potential interest loss on take-up and the implementation date.

Credit risk continued...

Social unrest
During July 2021, South Africa experienced social unrest primarily in KwaZulu-Natal and Gauteng. Whilst collections are predominantly electronic in nature, the Bank reviewed immediate collections' impacts to assess any potential deterioration. Whilst no significant deterioration was observed, management viewed the downstream effects on GDP, and the subsequent ability of customers to pay, as a potential risk. To quantify the potential impact, the GDP impact estimated by the International Monetary Fund ("IMF") was used within our PD models (Source: Hadzi-Vaskov, Pienknagura and Ricci (2021)). This additional stress in PD was applied to the Gauteng and KwaZulu-Natal books to quantify the impact on the expected credit loss. Management holds this as an overlay of R36 million for potential losses that may occur over the next 6 to 12 months as a direct result of the social unrest.

28.8.2 Modelling assumptions

In considering the various impacts of Covid-19 on the underlying models, management have opted to calibrate through a 12-month cycle. From a modelling perspective, management has reverted to models based on 'data performance' with all stresses being applied as overlays outside the model. Management is of the view that by calibrating over the last 12 months, the hard lockdown months are excluded, which are believed unlikely to reoccur in the future whilst the current performance through Covid-19 waves two and three provides adequate conservancy to the expected credit loss calculation and future expected cash collections.

Management has sense-checked the overlays by utilising a 100% downturn scenario in the forward-looking macroeconomic scenario. The resultant increase in expected credit loss was in line with the overlays held for social unrest. This gave management further comfort that, based on a 100% downturn scenario, the expected credit loss, together with overlays, would be sufficient.

28.9 Credit quality of advances per IFRS requirements

On acquisition, the acquired book's credit risk was included in measuring the fair value on acquisition, as the book was considered to be credit-impaired at initial recognition. The acquired book is thus, under IFRS 9, classified as purchased or originated credit-impaired. The net carrying value of the acquired book, as included in the gross advances of the Bank, is the sum of the gross amount of the acquired advances, less the estimated ECL at initial recognition, plus the subsequent favourable adjustments from the revision of cash flows since acquisition. (Information using the gross advances and impairment before the acquisition-related adjustments linked with the acquired portfolio is presented in note 28.10)

28.9.1 Arrears analysis

Rmillion	2021	2020 Restated
Stage 1[1]	8,664	8,492
Stage 2[1]	6,578	8,148
Stage 3[1]	10,130	9,743
Originated book	9,212	8,457
Acquired book	918	1,286
Total credit exposure	**25,372**	26,383
Total ECL	**(8,660)**	**(8,646)**
Stage 1	(544)	(433)
Stage 2	(1,941)	(2,446)
Stage 3	(6,175)	(5,767)
Deferred fees	**(250)**	**(101)**
Net advances	**16,462**	**17,636**

[1] *The prior year stage 1 and stage 2 advances including Stage 3 advances (amounting to R77 million) relating to the acquired book were restated. The Stage 1 and Stage 2 prior year advances have been reduced by the following amounts (Stage 1: 2020: R40 million, Stage 2 2020: R37 million) and the Stage 3 advances have been increased by R77 million. These amounts relate to the acquired book and were incorrectly included in those stages instead of stage 3. The correction as well as the enhanced disclosure of presenting the value of the acquired book in a separate line, ensures that there is consistency in the application and understanding of the treatment of the acquired book as a credit-impaired financial asset. The total credit exposure, however, remains unchanged.*

Credit risk continued...

28.9.2 Impairment as % of gross advances

Rmillion	2021	2020 Restated
Stage 1[1]	6.3%	5.1%
Stage 2[1]	29.5%	30.0%
Stage 3[1]	61.0%	59.2%
Total impairment as a % of total gross advances	**34.1%**	**32.8%**

Reconciliation of ECL (note 2)

Balance at the beginning of the year	8,646	6,988
Impairment provisions raised on interest from stage 3 advances	972	785
Net movement in impairment provisions (note 18)	(958)	873
Impairment provision raised	2,166	4,008
Impairment provision released in respect of bad debt write-offs	(3,124)	(3,135)
Balance at the end of the year	**8,660**	**8,646**

[1] *The 2020 percentages have been restated as a result of the restatement in note 28.9.1 above.*

28.9.3 Credit risk sensitivity

The tables below illustrate the impact on ECL from changes in SICR and forward-looking information.

The impact on the full stage 2 ECL if the behavioural or initiation scores threshold is stressed by 5%.

Impact on ECL of SICR sensitivity 2021	Up decrease	Base	Down increase
Shifting of SICR threshold upwards by 5% (Rmillion)	(261)	-	315
% change on total SICR ECL (%)	(13.4%)	-	16.2 %
2020			
Shifting of SICR threshold upwards by 5% (Rmillion)	(55)	-	728
% change on total SICR ECL (%)	(2.2 %)	0.0 %	29.9 %

By shifting the SICR threshold up, fewer advances will be expected to move into stage 2 and, thus, a decrease in ECL is expected. The opposite will hold true if the SICR threshold is shifted down.

The impact on ECL of forward-looking information based on the probability-weighted impact of all 3 scenarios.

The Bank derived three macroeconomic scenarios and their predicted impacts on the South African economy as well as a weighted average combination of the three scenarios. In determining the Bank's probability weighted scenario used in the ECL measurement, the Bank took into account the following:

- The real economy (total output, employment, certain sectors etc.) has been negatively impacted by the Covid-19 pandemic leading to higher downward risks associated with South Africa's expected future performance.
- The Bank took into account the uncertainty in the vaccine roll-out and other waves of the virus and their related impacts in its scenarios.

Impact on ECL of forward-looking information sensitivity 2021	Rmillion	% change in ECL
100% downturn scenario	25	0.24%
100% base/benign scenario	(9)	(0.09%)
100% upturn scenario	(33)	(0.33%)
2020		
100% downturn scenario	36	0.31%
100% base/benign scenario	19	0.16%
100% upturn scenario	(135)	(1.15%)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

28.10 Credit quality of advances based on the pre-acquisition gross value of advances

These disclosures are based on the pre-acquisition gross value of advances and related expected credit loss provisions. These disclosures do not comply with the current IFRS requirements, which required the purchased or originated credit-impaired book to be disclosed at the fair value on acquisition date and, thereafter, at amortised cost. This disclosure has been included for informational purposes only.

28.10.1 Advances analysis

Rmillion	2021	2020
Gross advances	**26,725**	**28,328**
Acquired book	2,271	3,231
Originated book	24,454	25,097
Deferred fees	(250)	(101)
Gross advances after deferred origination and administration fees	**26,475**	**28,227**
Balance of impairment provisions at the end of the year	**10,013**	**10,591**
Balance of impairment provisions at the beginning of the year	10,591	9,715
Impairment provisions raised	1,951	3,604
Impairment provisions held on interest from stage 3 advances	936	785
Impairment provision released upon write-off of underlying exposure	(3,465)	(3,513)
Net advances	**16,462**	**17,636**
Conditionally irrevocable credit card commitments	645	667
Maximum exposure to credit risk	**17,107**	**18,303**

28.10.2 Arrears analysis

Rmillion	2021	2020
Stage 1	8,676	8,532
Stage 2	6,591	8,187
Stage 3	11,458	11,609
Total credit exposure	**26,725**	**28,328**
Total ECL	**(10,013)**	**(10,591)**
Stage 1	(545)	(433)
Stage 2	(1,945)	(2 449)
Stage 3	(7,523)	(7,709)
Deferred fees	**(250)**	**(101)**
Net advances	**16,462**	**17,636**
Impairment as % of gross advances		
Stage 1	6.3%	5.1%
Stage 2	29.5%	29.9%
Stage 3	65.7%	66.4%
Total impairment as a % of total gross advances	**37.5%**	**37.4%**

Credit risk continued...

28.11 Credit concentration risk of advances

Credit concentration risk is the risk of loss to the Bank arising from an excessive concentration of exposure to a single counterparty, industry, market, product, region or maturity. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions.

Although the Bank is exposed only to unsecured loans and credit cards, the Bank's credit risk portfolio is well-diversified across industries and provinces and the Bank actively monitors exposure to each industry.

The following tables break down the Bank's credit exposure at carrying amount as categorised by loan size for loans and credit cards and original term of repayment of the loan advanced.

Loans

Average loan value (at inception) R'000	Number of loans	% of total number loans	Carrying value Rmillion	% of total carrying value
2021				
<5	32,618	5.6%	48	0.3%
5 - 10	132,346	22.7%	359	2.6%
10 - 20	121,978	21.0%	865	6.3%
20 - 50	109,393	18.8%	1,680	12.2%
50 - 100	96,972	16.7%	3,175	23.1%
100 - 200	74,149	12.7%	5,371	39.0%
> 200	14,698	2.5%	2,276	16.5%
Total	**582,154**	**100%**	**13,774**	**100%**
2020				
<5	39,244	6.2%	51	0.3%
5 - 10	159,165	25.0%	422	2.9%
10 - 20	112,458	17.7%	778	5.3%
20 - 50	127,430	20.0%	1,984	13.4%
50 - 100	110,513	17.3%	3,740	25.3%
100 - 200	77,869	12.2%	5,992	40.6%
> 200	10,303	1.6%	1,804	12.2%
Total	**636,982**	**100%**	**14,772**	**100%**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

28.12 Credit cards

Average credit card value (at inception) R'000	Number of credit cards	% of total number of credit cards	Carrying value Rmillion	% of total carrying value
2021				
<5	206,698	26.6%	46	1.7%
5 - 10	276,103	35.6%	274	10.2%
10 - 20	177,573	22.9%	604	22.5%
20 - 50	99,441	12.8%	1,076	40.0%
50 - 100	14,507	1.9%	536	19.9%
> 100	1,878	0.2%	152	5.7%
Total	**776,200**	**100 %**	**2,688**	**100%**
2020				
<5	210,517	26.9%	61	2.1%
5 - 10	276,311	35.3%	302	10.5%
10 - 20	179,474	23.0%	698	24.4%
20 - 50	100,728	12.9%	1,201	41.9%
50 - 100	13,717	1.8%	527	18.4%
> 100	937	0.1%	75	2.6%
Total	**781,684**	**100%**	**2,864**	**100%**

28.13 Financial assets other than advances

Financial assets other than advances are made up of cash and cash equivalents, financial investments, regulatory deposits and sovereign debt securities, derivative assets and trade receivables. All financial assets other than advances, excluding trade receivables, are placed with counterparties who have a formal local currency credit rating of no less than investment grade.

Financial assets such as cash and cash equivalents, financial investments, sovereign debt securities and derivative assets are considered to have low credit risk at the end of the reporting period for purposes of determining whether there has been a significant increase in credit risk (SICR) since initial recognition for purposes of calculating expected credit losses in terms of IFRS 9. The counterparties have been assessed to have a strong capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and/or business conditions in the longer term may, but will not necessarily, reduce the ability of the counterparties to fulfil their contractual cash flow obligations. These financial assets are, therefore, considered to be stage 1.

The Bank maintains cash and cash equivalents and short-term investments with various financial institutions and, in this regard, it is the Bank's policy to limit its exposure to any one financial institution.

For investment in the regulatory deposits and sovereign debt securities, the Bank uses Fitch Ratings' South African National Rating scale as the basis to determine whether there has been a significant increase in credit risk (SICR). An investment will be considered to have SICR (i.e. a transfer from stage 1 to stage 2) if there has been a downgrade of two notches or more by the rating agency since inception of the investment. A move back to stage 1 would only be considered once the rating is similar/the same as at the rating at inception.

Cash deposits are placed only with counterparties that have an approved credit limit, which credit limits are reviewed annually by the ALCO and recommended for approval by the RCMC. The Bank uses International Swaps and Derivatives Association ("ISDA") documentation for the purposes of netting derivatives. These master agreements and associated credit support annexes ("CSA") set out accepted valuation and default covenants, which are evaluated and applied daily, including daily margin calls based on the approved CSA thresholds. CSAs are used as a credit risk mitigation mechanism for the Bank's derivative asset positions. See note 32 for further details. Trade receivables are not rated and are evaluated on an entity by entity basis. The Bank limits the tenure and size of trade receivables to ensure that it does not pose a material risk to the Bank. For further information, refer to note 9.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

At the reporting date, the international long-term credit rating using Moody's rating was as follows for cash and cash equivalents, regulatory deposits and sovereign debt securities as well as derivative assets:

Assets Rmillion	Notes	Total carrying amount	Largest exposure to a single counter-party	Aaa to A3	Baa1 to Baa3	Below Baa3	Not rated
2021							
Cash and cash equivalents							
Cash deposits - ZAR	4	2,657	1,390	-	-	2,657	-
Cash deposits - foreign-denominated	4	578	578	-	-	578	-
Financial investments							
Investment in core income funds	5	2,081	896	-	-	2,081	-
Fixed deposits - foreign-denominated	5	-	-	-	-	-	-
Regulatory deposits and sovereign debt securities							
Treasury bills	6	-	-	-	-	-	-
Bonds	6	3,005	3,005	-	-	3,005	-
Deposits with SARB	6	382	382	-	-	382	-
Derivatives							
Derivative assets	11	42	42	-	-	42	-
Total		**8,745**	**6,293**	**-**	**-**	**8,745**	**-**

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

Assets Rmillion	Notes	Total carrying amount	Largest exposure to a single counter-party	Aaa to A3	Baa1 to Baa3	Below Baa3	Not rated
2020							
Cash and cash equivalents							
Cash deposits - ZAR	4	1,936	1,384	-	-	1,936	-
Cash deposits - foreign-denominated	4	94	88	-	-	94	-
Financial investments							
Investment in core income funds	5	1,017	558			1,017	
Fixed deposits - foreign-denominated	5	1,015	988			1,015	
Regulatory deposits and sovereign debt securities							
Treasury bills and debentures	6	805	805	-	-	805	-
Bonds	6	539	539	-	-	539	-
Deposits with SARB	6	381	381	-	-	381	-
Derivatives							
Derivative assets	11	-	-	-	-	-	-
Total		**5,787**	**4,743**	**-**	**-**	**5,787**	**-**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

29. Market risk

Market risk is the risk that changes in the market prices, such as interest rates, and foreign exchange rates will affect the fair value and future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Bank has a low market risk appetite. Foreign exchange risk appetite is zero, but with the current position, the Bank has a small unmatched exposure over the term of the foreign-denominated debt and, therefore, the risk appetite is limited. Foreign exchange risk is actively managed.

29.1 Interest rate risk management

Interest rate risk for the purposes of IFRS is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Bank has interest rate risk arising from several of its financial assets and liabilities. Assets giving rise to interest rate risk include cash and cash equivalents, financial investments, regulatory deposits and sovereign debt securities, as well as credit card advances, which earn interest at a variable rate. However, the Bank's most significant financial asset is its fixed rate advances portfolio which is not exposed to interest rate risk, therefore the Bank's exposure to interest rate risk from financial assets is not considered to be significant. Liabilities giving rise to interest rate risk include both short and long-term variable rate funding.

It is not always feasible to raise fixed rate funding and, therefore, the Bank has a mix of fixed and variable rate funding instruments. Variable rate assets, as well as short and long-term funding instruments, expose the Bank to interest rate risk as defined within IFRS. The Bank also makes use of derivative instruments, primarily floating to fixed interest rate swaps, in order to reduce cash flow risk arising from changes in interest rates.

The Bank considers its overall balance sheet portfolio in managing its net interest rate risk exposure.

The ALCO view interest rate risk measurement and management in the banking book to comprise the following:

- re-pricing risk (mismatch risk), being the timing difference in the maturity (for fixed) and re-pricing (for floating rate) of the Bank's assets and liabilities; and
- yield curve risk, which includes the changes in the shape and slope of the yield curve.

The ALCO is mandated to monitor and manage these risks in adherence to the Bank's risk appetite and meets on a monthly basis to analyse the impact of interest rate risk on the Bank reporting directly to the RCMC on a quarterly basis. The techniques used to measure and control interest rate risk by the ALCO includes re-pricing profiles, sensitivity and stress-testing.

29.2 Re-pricing profile

The table below summarises the re-pricing exposure to interest rate risk through grouping assets and liabilities into re-pricing categories, determined to be the earlier of the contractual re-pricing or maturity date, using the carrying amount of such assets and liabilities at reporting date.

In the context of re-pricing profiles, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate re-pricing date and the maturity date. Instruments that have no explicit contractual re-pricing or maturity dates are placed in time buckets based on the most likely re-pricing behaviour.

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Market risk continued...

29.2.1 Re- pricing profile 2021

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-interest sensitive	Non-financial instruments	Total
2021								
Assets								
Cash and cash equivalents	3,231	-	-	-	-	3	-	3,234
Regulatory deposits and sovereign debt securities	553	-	-	-	2,411	423	-	3,387
Derivative assets	-	-	-	-	-	42	-	42
Net advances	3,068	657	2,522	2,908	7,113	194	-	16,462
Accounts receivable and other assets	-	-	-	-	-	94	88	182
Financial investments	2,011	-	-	-	-	70	-	2,081
Property and equipment	-	-	-	-	-	-	602	602
Intangible assets	-	-	-	-	-	-	138	138
Deferred tax asset	-	-	-	-	-	-	1,134	1,134
Total assets	**8,863**	**657**	**2,522**	**2,908**	**9,524**	**826**	**1,962**	**27,262**
Liabilities and equity								
Short-term funding	4,411	1,166	2,092	-	-	108	-	7,777
Derivative liabilities	-	-	-	-	-	-	-	-
Creditors and accruals	13	-	-	-	-	440	521	974
Current tax	-	-	-	-	-	83	-	83
Bonds and other long-term funding	757	1,623	-	852	5,840	67	-	9,139
Subordinated bonds	-	-	-	-	-	-	-	-
Ordinary shareholder’s equity	-	-	-	-	-	-	9,289	9,289
Total liabilities and equity	**5,181**	**2,789**	**2,092**	**852**	**5,840**	**698**	**9,810**	**27,262**
On balance sheet interest sensitivity	**3,682**	**(2,132)**	**430**	**2,056**	**3,684**	**-**	**-**	**-**

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Market risk continued...

29.2.2 Re- pricing profile 2020

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-interest sensitive	Non-financial instruments	Total
2020 Restated								
Assets								
Cash and cash equivalents	2,024	-	-	-	-	5	-	2,029
Regulatory deposits and sovereign debt securities	538	28	776	-	-	383	-	1,725
Derivative assets	-	-	-	-	-	-	-	-
Net advances	3,175	666	2,527	2,899	7,943	426	-	17,636
Accounts receivable and other assets	-	-	-	-	-	98	102	200
Financial investments	2,015	-	-	-	-	17	-	2,032
Property and equipment	-	-	-	-	-	-	752	752
Intangible assets	-	-	-	-	-	-	115	115
Deferred tax asset	-	-	-	-	-	-	1,133	1,133
Total assets	**7,752**	**694**	**3,303**	**2,899**	**7,943**	**929**	**2,102**	**25,622**
Liabilities and equity								
Short-term funding[1]	2,739	933	1,844	-	-	126	-	5,642
Derivative liabilities	-	-	-	-	-	113	-	113
Creditors and accruals[2]	15	-	-	-	-	534	202	751
Current tax	-	-	-	-	-	83	-	83
Bonds and other long-term funding[1]	3,083	1,624	193	1,069	3,638	101	-	9,708
Subordinated bonds	1,484	-	-	-	-	39	-	1,523
Ordinary shareholder’s equity	-	-	-	-	-	-	7,802	7,802
Total liabilities and equity	**7,321**	**2,557**	**2,037**	**1,069**	**3,638**	**996**	**8,004**	**25,622**
On balance sheet interest sensitivity	**431**	**(1,863)**	**1,266**	**1,830**	**4,305**	**-**	**-**	**-**

1 *The 2020 amounts have been restated.*

2 *The prior year amounts have been reclassified from the financial instruments category to non financial liabilities.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Market risk continued...

29.2.3 Interest rate sensitivity analyses

An interest rate sensitivity analysis for the Bank setting out the potential effect of changes in the market interest rate on earnings for floating rate instruments is presented in the table below.

Sensitivity and stress-testing consist of a combination of stress scenarios and historical stress movements.

The sensitivity analyses have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the statement of financial position date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the statement of financial position date was outstanding for the whole year. A 200 basis point movement for ZAR exposures and a 50 basis point movement for CHF and USD exposures are used when reporting interest rate risk internally and this represents management's assessment of the reasonably possible change in interest rates.

The sensitivity analysis below is based on an increase in rates. Given the linear structure of the Bank's portfolio, an increase in interest rates as described above would result in a corresponding net increase of R99 million (2020: increase of R54 million) in net income (before tax).

Rmillion	Carrying value at end of year	Amount exposed to market risk	Index to which interest rate is linked	Statement of profit or loss impact (pre-tax) increase/ (decrease)
2021				
Financial assets				
Credit card advances	2,688	3,600	REPO	104
Cash and cash equivalents	3,234	3,231	REPO	55
Financial investment	2,081	2,012	REPO	40
Regulatory deposits and sovereign debt securities	3,387	553	CPI	11
Derivatives	42	667	CPI/JIBAR	3
Total assets	**11,432**	**10,063**		**213**
Financial liabilities				
Derivatives	-	-	CPI/JIBAR	-
Subordinated bonds	-	-	JIBAR	-
Bonds and other long-term funding	9,139	2,383	CPI/JIBAR	(41)
Short-term funding	7,777	3,787	JIBAR	(73)
Total liabilities	**16,916**	**6,170**		**(114)**
Net effect on the statement of total comprehensive income				**99**
2020 Restated				
Financial assets				
Credit card advances	2,864	3,866	REPO	113
Cash and cash equivalents	2,029	2,016	JIBAR	37
Financial Investment	2,032	1,012	REPO	20
Regulatory deposits and sovereign debt securities	1,725	537	CPI	10
Derivatives	-	-	CPI/JIBAR	-
Total assets	**8,650**	**7,431**		**180**
Financial liabilities				
Derivatives	113	667	JIBAR	2
Subordinated bonds	1,523	1,485	JIBAR	(29)
Bonds and other long-term funding[1]	9,708	4,722	CPI/JIBAR	(87)
Short-term funding[1]	5,642	573	JIBAR	(12)
Total liabilities	**16,986**	**7,447**		**(126)**
Net effect on the statement of total comprehensive income				**54**

[1] *The 2020 amounts have been restated.*

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Market risk continued...

29.3 Foreign exchange risk management

Foreign exchange risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Foreign exchange risk in the Bank arises as a result of holding foreign currency denominated borrowings and foreign currency in cash and other assets, the profile of which does not necessarily match the liability profile that these assets are hedging.

The Bank's primary risk objective is to protect the net earnings against the impact of adverse exchange rate movements. ALCO is mandated to manage this risk by application of appropriate foreign currency derivatives or other appropriate strategies to ensure adherence to the Bank's risk appetite.

29.3.1 Financial instruments denominated in foreign currency

Details of financial instruments denominated in foreign currency are presented below.

Rmillion	Foreign currency USD/CHF 2021	ZAR carrying amount 2021	Foreign currency USD/CHF 2020	ZAR carrying amount 2020
Financial liabilities				
Foreign-denominated bonds (USD)	-	-	(109)	(1,828)
Foreign-denominated bonds (CHF)	(35)	(563)	(69)	(1,254)
Total liabilities		**(563)**		**(3,082)**
Financial assets				
Short-term deposits and cash (USD)	-	2	-	6
Short-term deposits and cash (CHF)	36	576	5	88
Interbank deposits (USD)	-	-	61	1,015
Government bonds (USD)	-	-	-	-
Foreign currency swaps (USD)	-	-	49	815
Foreign currency swaps (CHF)	-	-	68	1,236
Total assets		**578**		**3,160**
Net open position - USD	**-**	**2**	**1**	**8**
Net open position - CHF	**1**	**13**	**4**	**70**

Currently, the Bank uses foreign currency denominated bonds and foreign currency cash to manage and economically hedge its foreign exchange risk. The Bank's strategy going forward is to eliminate this mismatch through a variety of strategies including amongst others, entering into derivative transactions to which hedge accounting may be applied. In addition, the Bank holds CHF and USD in cash, fixed deposits and government bonds to offset a certain portion of the foreign exchange risk exposure. This is actively managed.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Market risk continued...

29.3.2 Sensitivity analysis based on 10% increase in exchange rates

A 10% sensitivity adjustment was applied and the analysis was prepared assuming the amount at the statement of financial position date was outstanding for the whole year.

The sensitivity analysis below is based on an increase in rates. Given the linear structure of the Bank's portfolio, an increase in interest rates, as described above, would result in a corresponding net increase of R2 million (2020: increase of R10 million) in net income (before tax).

Sensitivity analysis

Rmillion	Carrying value at end of year	Amount exposed to market risk	Currency	Profit or loss impact (pre-tax)
2021				
Financial assets				
Short-term deposits and cash (USD)	2	2	USD	-
Short-term deposits and cash (CHF)	576	576	CHF	58
Interbank deposits (USD)	-	-	USD	-
Cross-currency swaps (USD)	-	-	USD	-
Cross-currency swaps (CHF)	-	-	CHF	-
Total	**578**	**578**		**58**
Financial liabilities				
Foreign-denominated bonds (USD)	-	-	USD	-
Foreign-denominated bonds (CHF)	(563)	(564)	CHF	(56)
Total	**(563)**	**(564)**		**(56)**
Net effect on the statement of total comprehensive income				**2**
2020				
Financial assets				
Short-term deposits and cash (USD)	6	6	USD	1
Short-term deposits and cash (CHF)	88	88	CHF	9
Interbank deposits (USD)	1,015	1,015	USD	102
Cross-currency swaps (USD)	815	815	USD	82
Cross-currency swaps (CHF)	1,236	1,231	CHF	124
Total	**3,160**	**3,155**		**318**
Financial liabilities				
Foreign-denominated bonds (USD)	(1,828)	(1,828)	USD	(183)
Foreign-denominated bonds (CHF)	(1,254)	(1,255)	CHF	(125)
Total	**(3,082)**	**(3,083)**		**(308)**
Net effect on the statement of total comprehensive income				**10**

The spot exchange rates used to convert the carrying value (outstanding capital, capitalised interest and unamortised discount) of the foreign currency liabilities were R15.05/USD (2020: 16.70/USD) and R16.11/CHF (2020: 18.17/CHF).

29.4 Other price risk management

The Bank has a low market risk appetite. For this reason, the Bank does not typically trade in any marketable securities or hold any sovereign debt marketable securities (see note 6) to maturity and is, therefore, not exposed to price risk associated with these marketable securities.

30. Liquidity risk

Liquidity risk is defined as the risk that the Bank is unable to meet its payment obligations as they fall due. These payment obligations could result from depositor withdrawals, lower than expected receipts from customers, higher than expected pay-outs to customers, higher than expected operational, tax or dividend flows, or the inability to roll over maturing debt. Another form of liquidity risk is that in a stressed liquidity event, the Bank would be unable to sell assets without incurring an unacceptable loss in order to generate cash required to meet payment obligations.

ALCO is specifically mandated by RCMC to ensure appropriate liquid asset and cash reserves in relation to short-term funding and stress events are available. ALCO monitors and controls adherence to the risk appetite and regulatory requirements using internal liquidity risk appetite metrics, the liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR") as monitoring indicators.

The following tables analyse the Bank's financial assets and liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The total ties back to the statement of financial position.

The matching and controlled mismatching of the maturities and interest rates of financial assets and liabilities are fundamental to the management of risk within the Bank. The maturity mismatches arises from differences in the repricing and maturity characteristics of the assets and liabilities of the Bank.

An unmatched position potentially enhances profitability, but can also increase the risk of loss. The maturities of financial assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates.

In order to address the refinancing requirements in the subsequent periods, management had successfully engaged shareholders of African Bank Holdings Limited and finalised a shareholder-backed liquidity support arrangement in the previous reporting period, which was expected to provide material liquidity support over the next few years. The Bank has been successful in growing a significant retail funding portfolio that now represents the biggest source of funding and the Bank has successfully managed two bond issuances during the current reporting period without the need to access the shareholder liquidity support arrangement.

To ensure that the Bank is able to meet its obligations and to pay its debts as they become due, the Bank, furthermore, implemented a number of initiatives, including the establishment of a significant retail funding portfolio and improving the visibility of the Bank in the wholesale markets.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Liquidity risk continued...

30.1 Maturities profile of discounted assets and liabilities

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-financial assets / liabilities	Total
2021							
Assets							
Cash and cash equivalents	3,234	-	-	-	-	-	3,234
Regulatory deposits and sovereign debt securities	382	19	576	-	2,410	-	3,387
Derivative assets	-	-	-	-	42	-	42
Net advances[1]	1,002	1,084	4,442	2,858	7,076	-	16,462
Accounts receivable and other assets	94	-	-	-	-	88	182
Financial investments	2,081	-	-	-	-	-	2,081
Property and equipment	-	-	-	-	-	602	602
Intangible assets	-	-	-	-	-	138	138
Deferred tax asset	-	-	-	-	-	1,134	1,134
Total assets	**6,793**	**1,103**	**5,018**	**2,858**	**9,528**	**1,962**	**27,262**
Liabilities and equity							
Short-term funding	4,748	481	2,548	-	-	-	7,777
Derivative liabilities	-	-	-	-	-	-	-
Creditors and accruals	255	47	88	51	12	521	974
Current tax	-	83	-	-	-	-	83
Bonds and other long-term funding	17	7	10	878	8,227	-	9,139
Subordinated bonds	-	-	-	-	-	-	-
Ordinary shareholder's equity	-	-	-	-	-	9,289	9,289
Total liabilities and equity	**5,020**	**618**	**2,646**	**929**	**8,239**	**9,810**	**27,262**
Net liquidity gap	**1,773**	**485**	**2,372**	**1,929**	**1,289**	**-**	**-**

[1] Included in these amounts are advances which have become immediately payable due to breach of the terms of the agreement.

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Liquidity risk continued...

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-financial assets / liabilities	Total
2020 Restated							
Assets							
Cash and cash equivalents	2,029	-	-	-	-	-	2,029
Regulatory deposits and sovereign debt securities	381	28	779	537	-	-	1,725
Derivative assets	-	-	-	-	-	-	-
Net advances	1,099	1,135	4,630	2,903	7,869	-	17,636
Accounts receivable and other assets	98	-	-	-	-	102	200
Financial investments	2,032	-	-	-	-	-	2,032
Property and equipment	-	-	-	-	-	752	752
Intangible assets	-	-	-	-	-	115	115
Deferred tax asset	-	-	-	-	-	1,133	1,133
Total assets	**5,639**	**1,163**	**5,409**	**3,440**	**7,869**	**2,102**	**25,622**
Liabilities and equity							
Short-term funding[1]	3,069	556	2,017	-	-	-	5,642
Derivative liabilities	63	-	37	-	13	-	113
Creditors and accruals[2]	264	36	96	98	55	202	751
Current tax	-	-	83	-	-	-	83
Bonds and other long-term funding[1]	62	25	214	3,804	5,603	-	9,708
Subordinated bonds	39	-	-	-	1,484	-	1,523
Ordinary shareholder's equity	-	-	-	-	-	7,802	7,802
Total liabilities and equity	**3,497**	**617**	**2,447**	**3,902**	**7,155**	**8,004**	**25,622**
Net liquidity gap	**2,142**	**546**	**2,962**	**(462)**	**714**	**-**	**-**

[1] The 2020 amounts have been restated.

[2] The prior year amounts have been reclassified from the financial instruments category to non financial liabilities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Liquidity risk continued...

30.2 Maturity profile of undiscounted liabilities

The following table represents the Bank's undiscounted cash flows of liabilities per remaining maturity and includes all cash flows related to the principal amounts as well as future payments. The analysis is based on the earliest date upon which the Bank can be required to pay and is not necessarily the date at which the Bank is expected to pay. The analysis of cash flows will not necessarily agree with the balances on the statement of financial position and, therefore, an analysis of carrying values has been provided.

Liabilities maturities (undiscounted)

Rmillion	Carrying amount	Up to 1 month	Greater than 1 month up to 6 months	Greater than 6 months up to 12 months	Greater than 1 year up to 2 years	Greater than 2 years up to 5 years	Greater than 5 years	Total
2021								
Financial liabilities								
Short-term funding	7,777	4,468	1,541	1,989	-	-	-	7,998
Creditors and accruals	974	255	47	88	51	12	521	974
Current tax	83	-	83	- -	-	-	-	83
Derivative instruments	-	-	-	-	-	-	-	-
Promissory notes and NCDs - Long-term	271	1	9	10	35	269	-	324
Fixed deposits and other long-term funding	6,504	28	132	167	1,292	7,302	-	8,921
Bonds listed	2,364	-	86	89	188	2,605	-	2,968
Subordinated bonds	-	-	-	-	-	-	-	-
Total	**17,973**	**4,752**	**1,898**	**2,343**	**1,566**	**10,188**	**521**	**21,268**

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Liquidity risk continued...

Rmillion	Carrying amount	Up to 1 month	Greater than 1 month up to 6 months	Greater than 6 months up to 12 months	Greater than 1 year up to 2 years	Greater than 2 years up to 5 years	Greater than 5 years	Total
2020 Restated								
Financial liabilities								
Short-term funding[1]	5,642	2,867	1,465	1,712	-	-	-	6,044
Derivative instruments	113	64	77	9	20	(30)	-	140
Creditors and accruals	751	264	35	- 96	98	56	202	751
Current tax	83	-	83	-	-	-	-	83
Promissory notes and NCDs	776	2	31	33	108	803	-	977
Fixed deposits and other long-term funding[1]	4,102	16	82	106	717	4,605	25	5,551
Bonds listed	4,830	38	69	140	3,576	1,754	-	5,577
Subordinated bonds	1,523	41	43	85	151	582	1,658	2,560
Total	**17,820**	**3,292**	**1,885**	**2,181**	**4,670**	**7,770**	**1,885**	**21,683**

[1] *The 2020 amounts have been restated.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31. Assets and liabilities measured at fair value or for which fair values are disclosed

31.1 Valuation models

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS requires an entity to classify fair values measured and/or disclosed according to a hierarchy that reflects the significance of observable market inputs.

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

The Bank measures fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1 fair value measurements are those derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted market prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other factors used in estimating discounting rates, foreign currency exchange rates, bond and equity prices, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Recurring fair values

The Bank currently measures and presents financial investments, derivative assets and derivative liabilities at fair value, whilst all other financial instruments are measured and presented at amortised cost. The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only market data and require little management judgement and estimation.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives such as swaps. Availability of observable market prices and model inputs reduce the need for management judgement and estimation and also reduce the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair value estimates obtained from models reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty, where appropriate.

Fair value for disclosure

In determining the fair value for disclosure purposes of instruments measured and presented at amortised cost, the Bank uses its own valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include advances and certain funding loans for which there is no active market.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and selection of an appropriate discount rate. Fair value estimates obtained from models include adjustments to take account of the credit risk of the Bank and the counterparty, where appropriate.

Assets and liabilities measured at fair value or for which fair values are disclosed continued...

General

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recently observed transactions and experiences. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair values, and management judgement is required to select the most appropriate point in the range.

Level 3 fair value disclosure – advances

The fair value of the advances book was derived using a discounted cash flow technique. The Bank modelled the expected future cash flows by extrapolating the most recent observed cash flows on the advances book.

Amortised cost and fair value are both based upon present value of future cash flow techniques, however, the following significant differences exist between the amortised cost (ECL) and fair value methodologies:

- fair value includes all expected cash flows, whereas impairments under IFRS 9 only consider ECL for the subsequent 12-month period for advances classified as stage 1;
- the impairment cash flows are not reduced by the expected cost of collection unless it is directly attributable; and
- the discount rate used for purposes of estimating the fair value of advances is based on current market circumstances, whereas the discount rate used for ECL is based on the original effective interest rate, which is also adjusted for credit risk in the case of the acquired book, being classified as credit-impaired at acquisition.

Amortised cost requires the future cash flows to be discounted at the advance's original effective interest rate, whereas the fair value methodology discounts the expected cash flows at a required rate of return.

31.2 Valuation framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes formalised policies and the approval and review process.

When third party information is used to measure fair value, the following procedures are performed in order to ensure that valuations meet the requirements of IFRS:

- Verifying that the third party is approved for use in pricing the relevant type of financial instrument; and
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions.

31.3 Covid-19 impact to fair value measurement

The RCMC and its subcommittees have assessed the valuation techniques for fair value measurement of financial instruments in response to the market volatility that has resulted from Covid-19 on the fair value measurements of financial instruments.

When assessing the fair value measurement of financial instruments in the current reporting period, changes in valuation inputs were considered in terms of the impact they have on classification in the fair value hierarchy, and any transfers within the fair value hierarchy.

Assets and liabilities measured at fair value or for which fair values are disclosed continued...

31.4 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

Rmillion	Level 1	Level 2	Level 3	Total
2021				
Financial assets				
Recurring fair value measurement				
Financial investments	-	2,081	-	2,081
Derivative instruments	-	**42**	-	42
Total	-	**2,123**	-	**2,123**
Financial liabilities				
Recurring fair value measurement				
Derivative instruments	-	-	-	-
Total	-	-	-	-
2020				
Financial assets				
Recurring fair value measurement				
Financial investments	-	1,017	-	1,017
Derivative instruments	-	-	-	-
Total	-	**1,017**	-	**1,017**
Financial liabilities				
Recurring fair value measurement				
Derivative instruments	-	113	-	113
Total	-	**113**	-	**113**

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Assets and liabilities measured at fair value or for which fair values are disclosed continued...

31.5 Valuation techniques, significant observable inputs and sensitivity of level 2 financial instruments measured at fair value

The table below indicates the valuation techniques and main assumptions used in the determination of the fair value at which the derivative instruments and core income funds are measured, with fair value derived from observable inputs (level 2):

Rmillion	Valuation basis / techniques	Main assumptions	Variance in fair value measurement	Effect on profit / (loss) (after tax)
2021 (unaudited)				
Assets				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	-
Inflation-linked interest rate swaps	Discounted cash flow	Discount and risk-free rates	100 bps	(2)
Investments measured at fair value	Discounted cash flows	Discount rate Expected cash flows	1% reduction in expected cash flows	21
Liabilities				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	-
Interest rate swaps	Discounted cash flow	Discount and risk-free rates	100 bps	-
2020 (unaudited)				
Assets				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	-
Inflation-linked interest rate swaps	Discounted cash flow	Discount and risk-free rates	100 bps	-
Investments measured at fair value	Discounted cash flows	Discount rate Expected cash flows	1% reduction in expected cash flows	10
Liabilities				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	205
Interest rate swaps	Discounted cash flow	Discount and risk-free rates	100 bps	(21)

Assets and liabilities measured at fair value or for which fair values are disclosed continued...

31.6 Assets and liabilities for which fair value is disclosed

Rmillion	Level 1	Level 2	Level 3	Total	Carrying value
2021					
Financial assets					
Government bonds	2,987	-	-	2,987	3,005
Treasury bills and debentures[1]	-	-	-	-	-
Deposits with South African Reserve Bank[2]	-	382	-	382	382
Net advances	-	-	18,054	18,054	16,462
Financial investments	-	-	-	-	-
Total	**2,987**	**382**	**18,054**	**21,423**	**19,849**
Financial liabilities					
Short-term funding	-	3,507	4,237	7,744	7,777
Unsecured bonds (listed on JSE)[1]	-	2,363	-	2,363	2,364
Unsecured bonds (listed on foreign stock exchange)[1]	-	-	-	-	-
Unsecured long-term loans	-	625	6,126	6,751	6,775
Subordinated bonds[1]	-	-	-	-	-
Total	**-**	**6,495**	**10,363**	**16,858**	**16,916**
2020 Restated					
Financial assets					
Government bonds	541	-	-	541	540
Treasury bills and debentures[1]	-	808	-	808	805
Deposits with South African Reserve Bank[2]	-	381	-	381	381
Net advances	-	-	19,155	19,155	17,636
Financial investments	-	-	1,015	1,015	1,015
Total	**541**	**1,189**	**20,170**	**21,900**	**20,377**
Financial liabilities					
Short-term funding[3]	-	3,469	2,182	5,651	5,642
Unsecured bonds (listed on JSE)[1]	-	4,041	-	4,041	4,192
Unsecured bonds (listed on foreign stock exchange)[1]	-	3,090	-	3,090	638
Unsecured long-term loans[3]	-	1,004	3,808	4,812	4,878
Subordinated bonds[1]	-	1,473	-	1,473	1,523
Total	**-**	**13,077**	**5,990**	**19,067**	**16,873**

The fair values of the following items are not disclosed as these assets and liabilities closely approximate their carrying amount due to their short-term or on-demand repayment terms:

- cash and cash equivalents;
- accounts receivables and other assets; and
- creditors and accruals

[1] *The fair value of listed bonds reflects the current listed price at year end, but is categorised level 2 due to the lack of market liquidity for the listed bonds.*

[2] *The carrying amounts for these items approximates their fair value.*

[3] *The 2020 amounts have been restated.*

32. Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements

Certain master netting arrangements entered into by the Bank may not meet the criteria for offsetting in the statement of financial position because:

- these agreements create a right of set-off enforceable only following an event of default, insolvency or bankruptcy; and
- the Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Accordingly, the following table sets out the impact of offset, as well as financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they have been offset in accordance with IFRS. It should be noted that the information below is not intended to represent the Bank's actual credit exposure, nor will it reconcile with that presented in the statement of financial position.

Rmillion	Gross amount of recognised financial assets[1]	Gross amounts of recognised financial liabilities offset in the statement of financial position[2]	Net amount of financial assets presented in the statement of financial position	Amounts not offset in the statement of financial position but subject to master netting arrangements[3]	Gross amount of collateral subject to netting arrangements[4]	Net amount
2021						
Assets						
Derivative financial instruments	42	-	42	-	(38)	4
2020						
Liabilities						
Derivative financial instruments	(113)	-	(113)	-	54	(59)

[1] Gross amounts are disclosed for recognised assets and liabilities that are subject to a master netting arrangement or a similar agreement, irrespective of whether the offsetting criteria is met.

[2] The amounts that qualify for offset in accordance with the criteria per IFRS.

[3] The amounts that do not qualify for offset in accordance with the criteria per IFRS.

[4] Cash collateral not offset in the statement of financial position subject to a master netting arrangement or similar agreement.

The amounts that are subject to netting arrangements generally arise in terms of ISDA Master Agreements and Credit Support Annexures between African Bank and various counterparties.

33. Capital management

Capital adequacy risk is the risk that the Bank will not have sufficient capital reserves to meet materially adverse market conditions beyond that which have already been assumed within the impairment provisions and reserves.

External regulatory capital management

Regulatory capital adequacy is measured by expressing available qualifying capital as a percentage of risk-weighted assets. The Banks Act and supporting regulations, read together with specific requirements for the Bank, specify the minimum capital required to be held in relation to risk-weighted assets. Ancillary regulatory requirements include the Basel III leverage ratio, which is included in the scope of regulatory capital adequacy.

Available qualifying capital includes ordinary share capital, equity reserves and qualifying debt instruments less mandatory deductions. The Bank's strategic focus is to maintain an optimal mix of available financial resources, while continuing to generate sufficient capital to support the growth of the Bank's operations within the parameters of the risk appetite set by the RCMC.

Refer to the table in the unaudited Annexure B for the Bank's capital adequacy requirements and position as at 30 September 2021.

Internal capital management

Internal capital adequacy is defined as the Bank's internal measurement of risk and related available financial resources. Available financial resources include ordinary share capital, equity reserves and qualifying additional tier 1 debt instruments less any deduction for the shortfall between provisions and expected loss.

The Bank's strategic focus is to maintain an optimal mix of available financial resources for regulatory and internal capital adequacy, while continuing to generate sufficient capital to support the growth of the Bank's operations within the parameters of the risk appetite set by the RCMC.

ALCO is mandated to monitor and manage capital, which includes:

- meeting minimum Basel III regulatory requirements and any additional capital requirements as specified by the South African Reserve Bank ("SARB");
- ensuring adequate capital buffers, above the aforementioned criteria, to ensure sustainability in both a systemic and idiosyncratic stress event as set out by the Bank's risk appetite;
- testing the Bank's strategy against risk appetite and required capital levels; and
- ensuring compliance with other prudential regulatory requirements in respect of non-banking entities within the Bank, most notably the capital requirements of these non-banking entities.

RCMC is mandated to review and sign-off the Bank's annual internal capital adequacy assessment process ("ICAAP") prior to submission to the Board and the SARB.

Capital management in response to Covid-19

The Prudential Authority (PA), through Directive 2/2020, provided the Bank with a capital relief by reducing the Pillar 2A add-on from 1% to 0%, effective 1 April 2020. This resulted in the South African minimum capital requirement reducing from 11.5% to 10.5%. The PA has, during the current financial year, issued a proposed directive communicating their intention to withdraw the relief granted with, effect from 1 January 2022.

34. Analysis of classification of financial assets and liabilities

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies describe how the class of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

Rmillion	Notes	Amortised cost	Financial instruments at fair value through profit or loss	Non-financial instruments	Total	Current	Non-current
2021							
Cash and cash equivalents	4	3,234	-	-	3,234	3,234	-
Financial investments	5	-	2,081	-	2,081	2,081	-
Regulatory deposits and sovereign debt securities	6	3,387	-	-	3,387	977	2,410
Net advances	2	16,462	-	-	16,462	6,528	9,934
Deferred tax asset	7	-	-	1,134	1,134	-	1,134
Property and equipment and right of use asset	8	-	-	602	602	-	602
Accounts receivable and other assets	9	94	-	88	182	94	88
Intangible assets	10	-	-	138	138	-	138
Derivatives	11	-	42	-	42	-	42
Total assets		**23,177**	**2,123**	**1,962**	**27,262**	**12,914**	**14,348**

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Analysis of classification of financial assets and liabilities continued...

Rmillion	Notes	Amortised cost	Financial instruments at fair value through profit or loss	Non-financial instruments	Total	Current	Non-current
2020							
Cash and cash equivalents	4	2,029	-	-	2,029	2,029	-
Regulatory deposits and sovereign debt securities	6	1,725	-	-	1,725	1,188	537
Net advances	2	17,636	-	-	17,636	6,864	10,772
Deferred tax asset	7	-	-	1,133	1,133	-	1,133
Property and equipment	8	-	-	752	752	-	752
Accounts receivable and other assets	9	98	-	102	200	98	102
Intangible assets	10	-	-	115	115	-	115
Derivatives		-	-	-	-	-	-
Financial investments	5	1,015	1,017	-	2,032	2,032	-
Total assets		**22,503**	**1,017**	**2,102**	**25,622**	**12,211**	**13,411**

Rmillion	2021	2020 Restated
Statement of total comprehensive income effect of financial instruments by category		
Interest income recognised - amortised cost	**5,186**	**6,310**
Interest income recognised - financial assets at fair value[1]	**64**	**24**
Total	**5,250**	6,334
Included above is interest income earned on impaired assets (advances)	**924**	**925**

[1] In the prior year, interest income recognised for financial assets at fair value was omitted. This has been added and included in the note above.

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Analysis of classification of financial assets and liabilities continued...

Rmillion	Notes	Amortised cost	Fair value	Non-financial liabilities	Total	Current	Non-current
2021							
Short-term funding	13	7,777	-	-	7,777	7,777	-
Derivatives	11	-	-	-	-	-	-
Creditors and accruals	15	453	-	521	974	390	584
Current tax liability	7	-	-	83	83	83	-
Bonds and other long-term funding	12	9,139	-	-	9,139	34	9,105
Subordinated bonds	14	-	-	-	-	-	-
Total liabilities		**17,369**	**-**	**604**	**17,973**	**8,284**	**9,689**
2020 Restated							
Short-term funding[1]	13	5,642	-	-	5,642	5642	-
Derivatives	11	-	113	-	113	100	13
Creditors and accruals	15	662	-	89	751	396	355
Current tax liability	7	-	-	83	83	83	-
Bonds and other long-term funding[1]	12	9,708	-	-	9,708	301	9,407
Subordinated bonds	14	1,523	-	-	1,523	39	1,484
Total liabilities		**17,535**	**113**	**172**	**17,820**	**6,561**	**11,259**

[1] *The 2020 amounts have been restated.*

Rmillion	2021	2020
Statement of total comprehensive income effect of financial instruments by category		
Interest expense recognised for financial liabilities at amortised cost	**1,329**	**1,595**
Interest expense recognised for financial liabilities at fair value	**157**	**76**
Total	**1,486**	**1,671**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

35. Retirement and post-retirement benefits

The Bank contributes to a provident fund, which is governed by the Pension Funds Act, 1956, and is a defined contribution plan. This fund is managed by employer and employee-elected trustees. Separate administrators are contracted to run the fund on a day-to-day basis. An independent consultant has also been appointed to the fund to provide professional advice to the trustees. The scheme is funded by Bank contributions, which are charged to the statement of profit or loss as they are incurred.

The defined contribution scheme is exempt from regular actuarial valuations as no actuarial shortfall is anticipated. It is compulsory for all permanent staff to belong to the Bank provident fund. The contributions made during the year amounted to R127 million (2020: R137 million).

36. Long-term incentive scheme

In the 2017 financial period the Bank introduced a long-term incentive scheme to its employees. The long-term incentive scheme is subject to individual and the holding company of the Bank's performance conditions at payout. Awards are settled or vested in three amounts over a period of 36 months in total, but in 12-month period allocations (12, 24 and 36 months) from the effective date of the award. Amounts that are vested over the 36 months period are settled at the end of the 36-month.

Values are based on the consolidated profit before tax of the consolidated company for the financial period immediately preceding the due date of each payable amount, as well as the change in the valuation of the Bank's holding company. Should the consolidated profit before tax decrease in the financial period immediately preceding the date upon which the amount is due, the payment will be reduced by 2% of every 1% decrease in the PBT. Employees are given a choice to roll their annual incentive amount over to the following year.

In the 2019 financial period, the Bank introduced a long-term incentive scheme that will vest and be paid out after a three-year period. Full payout will be based on a compounded annual growth rate (CAR) of at least 10% over the three years in net profit before tax and foreign exchange losses and an increase in the Bank valuation of at least 10%. All payouts are subject to the Remuneration Committee ("the RemCom") approval.

Rmillion	2021	2020
Opening balance	83	118
Long-term incentive liability recognised during the current financial period	(4)	(20)
Long-term incentive liability settled during the current financial period (relates to prior years' deferrals)	(9)	(15)
Closing balance	**70**	**83**

37. Related party information

Members of the Bank's Executive Committee are considered to be key management personnel of the Bank.

37.1 Balances with related parties

R'000	2021	2020
Advances		
Key management personnel[1]	192	202
Deposits		
Key management personnel[2]	2,036	1,619

[1] The amounts advanced to key management personnel are at arms length and consist of credit cards and other loans.

[2] The amounts deposited by key management personnel are held in transactional accounts and retail savings accounts and are at market-related rates, terms and conditions.

Related party information continued...

37.2 Transactions with related parties are disclosed below

R'000	2021	2020
Interest income		
Key management personnel	12	94
Interest paid		
Entities that have control over the Group and its subsidiaries	-	135,000
Key management personnel	49	16
Facility commitment fee - Shareholder backed facility	16,000	-

In the current reporting period, no contracts were entered into in which Directors or key management personnel had an interest and which significantly affected the business of the Bank.

The Directors had no interest in any third-party or company responsible for managing any of the business activities of the Bank.

38. Events after the reporting date

There were no matters or circumstances arising since the end of the financial period, not otherwise dealt with in the annual financial statements, which significantly affected the financial position at 30 September 2021 or the results of its operations or cash flows for the year then ended.

39. Restatements

39.1 Retail investments incorrectly classified as other long-term funding

In the prior year, retail investments with a 24 month maturity term were incorrectly classified as other long-term funding even though customers can withdraw the investment on demand which therefore classify as short-term in nature. R122 million has been reclassified from other long-term funding to short-term funding in the prior year statement of financial position. This had no impact on the net assets.

Balance Sheet (extract)	30 September 2020 (Rmillion)	Increase/ (Decrease) (Rmillion)	30 September 2020 (Restated) (Rmillion)
Short-term funding	5,520	122	5,642
Bonds and other long-term funding	9,830	(122)	9,708
Total Liabilities	**15,350**	**-**	**15,350**

39.2 Correction of grossing up of non-interest income and operating costs

The Bank earns non-interest income for value added services it provides to customers. In the prior year the Bank recognised this arrangement as if it acted as principal rather than as agent. Therefore in the prior year, the non-interest income and operating expenses line items were grossed up by R30 million to reflect sales made and the cost of these sales. In the current year the Bank has reduced the non-interest income and operating expenses line items by R30 million and now only shows the net commission income earned (R2 million) from this arrangement in non-interest value-added services.

Statement of Comprehensive Income (extract)	30 September 2020 (Rmillion)	Increase/ (Decrease) (Rmillion)	30 September 2020 (Restated) (Rmillion)
Non-interest income	682	(30)	652
Operating costs	(2,664)	30	(2,634)
Impact on Statement of Total Comprehensive Income	**(1,982)**	**-**	**(1,982)**

Restatements continued...

39.3 Statement of Cash Flow

The Bank has previously presented the net movements in gross advances with additional information separately disclosing cash received from customers amounting to R9 042 million and advances disbursed to customers of R11 296 million as separate line items on the face of the cash flow statement. Management also disclosed the interest received from customers in the cash received from lending activities line item amounting to R7 606 million as a separate line item on the face of the cash flow statement.

In the current year management are presenting the net movement in gross advances as a single line item only amounting to R4 875 million. Management is of the view that net presentation of this amount reflects information that is used for decision-making by investors and stakeholders and is aligned to industry practice.

The prior year cash generated from operations note has also been restated to include the interest amount received from customers of R7 606 million in the cash received from lending activities line item to be consistent with the restated disclosures on the face of the cash flow statement. This has no impact on the net cash flow from operating activities.

In the prior year the cash received from lending activities included other non-interest income of R477 million from activities other than lending. In the current year the line item has been adjusted to cash received from income earning activities to correctly reference all income activities in this line item.

The following line items are impacted on the face of the cash flow statement:

Statement of Cash Flows (extract)	30 September 2020 (Rmillion)	Increase/ (Decrease) (Rmillion)	30 September 2020 (Restated) (Rmillion)
Cash received from lending activities[1]	7,606	(477)	7,129
Fees earned from non-lending activities	-	477	477
Cash generated from operations[1]	4,553	(7,129)	(2,576)
Net increase in gross advances	(2,254)	7,129	4,875

[1] Cash received from lending activities of R7,606 million includes R6,894 million relating to interest income on gross advances and R712 million from other non-interest income.

40. Directors' and Prescribed Officers' remuneration

40.1.1 Basic remuneration, benefits and incentives paid to Executive Directors

All amounts in R	Date appointed	Date resigned	2021						2020				
			Salary	Retirement, medical contributions and other	Total cost to company package	Deferred incentive[1]	Settlement Award	Total	Salary	Retirement, medical contributions and other	Total cost to company package	Short-term incentive[2]	Total
B Maluleke	03/07/2017	25/01/2021	2,726,848	731,775	3,458,623	260,087	3,895,497	7,614,207	4,674,596	531,400	5,205,996	1,953,604	7,159,600
G Raubenheimer	03/07/2015	-	4,221,236	621,038	4,842,274	1,319,344	-	6,161,618	4,245,236	536,692	4,781,928	2,078,396	6,860,324
K Bungane	03/04/2021	-	3,187,500	572,100	3,759,600	-	-	3,759,600	-	-	-	-	-
B Riley	24/06/2015	31/03/2018	-	-	-	2,012,500	-	2,012,500	-	-	-	-	-
Total			**10,135,584**	**1,924,913**	**12,060,497**	**3,591,931**	**3,895,497**	**19,547,925**	**8,919,832**	**1,068,092**	**9,987,924**	**4,032,000**	**14,019,924**

40.1.2 Basic remuneration, benefits and incentives paid to Prescribed Officers

All amounts in R	Date appointed	Date resigned	2021					2020				
			Salary	Retirement, medical contributions and other	Total cost to company package	Deferred incentive[1]	Total	Salary	Retirement, medical contributions and other	Total cost to company package	Short-term incentive[2]	Total
P Futter	01/09/2018	31/08/2021	3,305,610	810,271	4,115,881	-	4,115,881	3,606,120	412,680	4,018,800	1,644,352	5,663,152
U Mtya	07/09/2021	-	206,843	29,556	236,399	-	236,399	-	-	-	-	-
V Millican	04/04/2016	-	3,438,817	496,144	3,934,961	976,188	4,911,149	3,438,817	400,091	3,838,908	1,672,151	5,511,059
L Miyambu	04/04/2016	-	3,118,255	754,190	3,872,445	1,078,684	4,951,129	3,406,255	383,473	3,789,728	1,682,042	5,471,770
S Ngundze	01/08/2021	-	595,000	108,000	703,000	-	703,000	-	-	-	-	-
G Roussos	04/04/2016		3,819,107	560,443	4,379,550	1,244,637	5,624,187	3,930,304	448,700	4,379,004	1,884,156	6,263,160
K Setshogoe	01/11/2018	29/02/2020			-		-	1,560,002	519,282	2,079,284	1,040,001	3,119,285
S Kumalo	01/08/2021		427,336	78,412	505,748	-	505,748	-	-	-	-	-
P Swanepoel	04/04/2016		3,406,371	477,051	3,883,422	1,063,121	4,946,543	3,406,371	476,505	3,882,876	1,522,663	5,405,539
CJ Moganwa	10/02/2020	21/07/2020						1,797,075	579,406	2,376,481	-	2,376,481
Total			**18,317,339**	**3,314,067**	**21,631,406**	**4,362,630**	**25,994,036**	**21,144,944**	**3,220,137**	**24,365,081**	**9,445,365**	**33,810,446**

No bonuses were accrued or awarded during the 2020 financial period, following the issuance of the guidance note G4 of 2020 (G4/2020) by the Prudential Authority.

[1] These amounts represent payments to Executive Directors and Prescribed Officers paid during the 2021 financial year, for the deferral of the past service awards.
[2] These amounts represent payments to Executive Directors and Prescribed Officers paid during the 2020 financial year, for the deferral of the past service awards.

Directors' and Prescribed Officers' remuneration continued...

40.2 Retention awards

40.2.1 Executive Directors' retention awards

All amounts in R	Retention award to be paid in January 2022	Retention award to be paid in January 2023
B Maluleke	-	-
G Raubenheimer	1,669,475	1,669,475
K Bungane	-	-
Total	**1,669,475**	**1,669,475**

40.2.2 Prescribed Officers' retention awards

All amounts in R	Retention award to be paid in January 2022	Retention award to be paid in January 2023
P Futter	-	-
U Mtya	-	-
V Millican	1,910,454	1,910,454
L Miyambu	1,324,655	1,324,655
CJ Moganwa	-	-
G Roussos	1,528,451	1,528,451
K Setshogoe	-	-
P Swanepoel	1,354,806	1,354,806
Total	**6,118,366**	**6,118,366**

Directors' and Prescribed Officers' remuneration continued...

40.3 Long-term deferred incentives

40.3.1 Executive Directors' long-term deferred incentives

All amounts in R	2017				2018			
	Vesting in 2018[1]	Vesting in 2019[1]	Vesting in 2020[1]	Paid during the current financial year	Vesting 2019[1]	Vesting in 2020[1]	Vesting in 2021[1]	Value payable in 2022
B Maluleke	130,044	130,044	-	260,087	223,944	-	-	223,944
G Raubenheimer	659,672	659,672	-	1,319,344	719,390	-	-	719,390
K Bungane	-	-	-	-	-	-	-	-
B Riley	1,006,250	1,006,250	-	2,012,500	-	-	-	-
Total	**1,795,966**	**1,795,966**	**-**	**3,591,931**	**943,334**	**-**	**-**	**943,334**

All amounts in R	2019			
	Vesting in 2020[2]	Vesting in 2021[2]	Vesting in 2022[2]	Value payable In 2023[2]
B Maluleke	-	-	-	-
G Raubenheimer	-	-	542,362	-
K Bungane	-	-	-	-
Total	**-**	**-**	**542,362**	**-**

[1] Amounts shown are disclosed as the vesting amount. In the prior year, amounts disclosed were the nominal amount.

[2] The vesting amounts are indicative of the amounts expected to be paid and have been adjusted from the prior year in line with vesting conditions. The value payable in the 2023 financial year is to be determined.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Directors' and Prescribed Officers' remuneration continued...

40.3.2 Prescribed Officers' Long-Term Deferred Incentives

All amounts in R	2017				2018			
	Vesting in 2018[1]	Vesting in 2019[1]	Vesting in 2020[1]	Paid during the current financial year	Vesting 2019[1]	Vesting in 2020[1]	Vesting in 2021[1]	Value payable in 2022
P Futter	-	-	-	-		-	-	-
V Millican	488,094	488,094	-	976,188	537,527	-	-	537,527
L Miyambu	539,342	539,342	-	1,078,684	588,169	-	-	588,169
G Roussos	622,319	622,319	-	1,244,637	578,554	-	-	578,554
P Swanepoel	531,561	531,561	-	1,063,121	564,902	-	-	564,902
Total	**2,181,316**	**2,181,316**	**-**	**4,362,630**	**2,269,152**	**-**	**-**	**2,269,152**

All amounts in R	2019			
	Vesting in 2020[2]	Vesting in 2021[2]	Vesting in 2022[2]	Value payable In 2023[2]
P Futter	-	-	-	-
V Millican	-	-	557,333	-
L Miyambu	-	-	518,754	-
G Roussos	-	-	594,075	-
P Swanepoel	-	-	484,867	-
U Mtya	-	-	-	-
K Setshogoe	-	-	-	-
CJ Moganwa	-	-	-	-
Total	**-**	**-**	**2,155,029**	**-**

[1] *Amounts shown are disclosed as the vesting amount. In the prior year, amounts disclosed were the nominal amount.*

[2] *The vesting amounts are indicative of the amounts expected to be paid and have been adjusted from the prior year in line with vesting conditions. The value payable in the 2023 financial year is to be determined.*

40.4 Long-term incentives

40.4.1 Executive Directors' Long-Term Incentive Awards

All amounts in R	2018		2019		2021			
	Nominal award	To vest in 2021 and payable in the 2022 financial year	Nominal award	To vest in 2022	Nominal award	To vest in 2024	To vest in 2025	To vest in 2026
B Maluleke	13,500,000	3,591,621	-	-	-	-	-	-
G Raubenheimer	12,301,596	3,272,790	3,200,000	-	-	-	-	-
K Bungane	-	-	-	-	26,250,000	8,750,000	8,750,000	8,750,000
Total	**25,801,596**	**6,864,411**	**3,200,000**	**-**	**26,250,000**	**8,750,000**	**8,750,000**	**8,750,000**

Directors' and Prescribed Officers' remuneration continued...

40.4.2 Prescribed Officers' Long-Term Incentives Awards

	2018		2019		2021			
All amounts in R	Nominal award	To vest in 2021 and payable in the 2022 financial year	Nominal award	To vest in 2022	Nominal award	To vest in 2024	To vest in 2025	To vest in 2026
V Millican	9,272,160	2,466,821	4,000,000	-	-	-	-	-
L Miyambu	10,057,716	675,815	-	-	-	-	-	-
G Roussos	7,736,712	2,058,321	-	-	-	-	-	-
P Swanepoel	6,608,400	1,758,138	-	-	-	-	-	-
S Ngundze	-	-	-	-	700,000	233,333	233,333	233,333
S Kumalo	-	-	-	-	502,748	167,583	167,583	167,583
Total	**33,674,988**	**6,959,095**	**4,000,000**	**-**	**1,202,748**	**400,916**	**400,916**	**400,916**

Directors' and Prescribed Officers' remuneration continued...

40.5 Short-term incentives

40.5.1 Executive Directors' Short-Term Incentive Awards

All amounts in R	2021				
	Nominal award	To vest in 2021 and payable in the 2022 financial year	To vest in 2022	To vest in 2023	To vest in 2024
K Bungane	5,500,000	2,750,000	916,667	916,667	916,667
G Raubenheimer	6,000,000	3,000,000	1,000,000	1,000,000	1,000,000
Total	**11,500,000**	**5,750,000**	**1,916,667**	**1,916,667**	**1,916,667**

40.5.2 Prescribed Officers' Short-Term Incentive Awards

All amounts in R	2021				
	Nominal award	To vest in 2021 and payable in the 2022 financial year	To vest in 2022	To vest in 2023	To vest in 2024
V Millican	5,500,000	2,750,000	916,667	916,667	916,667
L Miyambu	3,659,832	1,829,916	609,972	609,972	609,972
G Roussos	4,750,000	2,375,000	791,667	791,667	791,667
P Swanepoel	4,250,000	2,125,000	708,333	708,333	708,333
S Ngundze	676,900	338,450	112,817	112,817	112,817
S Kumalo	486,157	243,079	81,026	81,026	81,026
U Mtya	273,757	136,879	45,626	45,626	45,626
Total	**19,596,646**	**9,798,324**	**3,266,108**	**3,266,108**	**3,266,108**

Directors' and Prescribed Officers' remuneration continued...

40.6 Non-Executive Directors' remuneration

All amounts in R	Date appointed	Date resigned	2021			2020		
			Paid by the Bank	Paid by other entities within The Group	Total	Paid by the Bank	Paid by other entities within The Group	Total
T Dloti (Chairman)	07/03/2019	-	1,698,058	424,515	2,122,573	1,309,724	327,431	1,637,155
M Flanagan	16/09/2019	30/09/2020	-	-	-	548,666	130,209	678,875
M Field	11/03/2020	31/07/2021	337,074	84,268	421,342	292,906	73,227	366,133
S Georgopoulos	18/08/2020	-	830,512	207,628	1,038,140	53,988	13,497	67,485
MM Manyama	23/03/2021	-	231,974	57,993	289,967	-	-	-
N Siyotula	13/08/2021	-	51,877	12,969	64,846	-	-	-
PJ Temple	29/04/2016	-	984,106	274,328	1,258,434	787,925	219,262	1,007,187
M Harris	29/08/2018	21/02/2020	-	-	-	200,566	50,142	250,708
R Hutchinson-Keip	11/03/2020	-	1,030,678	272,792	1,303,470	390,373	97,593	487,966
SL Mc Cloghrie	28/07/2015	22/11/2019	-	-	-	94,149	23,537	117,686
SK Mhlarhi	06/07/2016	-	914,186	228,546	1,142,732	647,208	161,922	809,130
H Ralinala	23/05/2018	-	962,901	240,725	1,203,626	845,165	211,291	1,056,456
L Dlamini	30/07/2021	-	53,428	13,357	66,785	-	-	-
B Riley	25/05/2018	30/06/2020	-	-	-	233,739	58,435	292,174
L Stephens	02/07/2015	05/05/2020	-	-	-	475,518	135,631	611,149
FJC Truter	07/08/2015	30/11/2019	-	-	-	150,323	37,581	187,904
Total			**7,094,794**	**1,817,121**	**8,911,915**	**6,030,250**	**1,539,758**	**7,570,008**

The Non-Executive Directors are paid fees based on a fixed retainer for their responsibilities and duties as Board members as well as additional fees for participation in the various subcommittees of the Board. They do not participate in any of the Group's incentive schemes and neither do they receive any other benefits from the Bank.

ANNEXURE A: ADOPTION OF NEW STANDARDS AND INTERPRETATION

1. New and revised IFRSs with an effect on the annual financial statements

There are no amendments to standards and interpretations that have a material impact on the Bank for the year ended 30 September 2021.

2. New and revised IFRSs in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but with a future effective date.

IFRS reference	Title and details	Impact assessment	Effective date
IFRS 17	*IFRS 17- insurance contract* The IASB issued IFRS 17, which states a new approach of accounting for insurers. IFRS 17 has a general model that requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. The standard also provides a simplification in the form of the premium allocation approach. This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. Effectively, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.	IFRS 17 is not applicable to the Bank.	This standard is effective for the Bank from 1 January 2023, subject to due process.

ANNEXURE A: ADOPTION OF NEW STANDARDS AND INTERPRETATION

IFRS reference	Title and Details	Impact assessment	Effective date
IAS 37 (amendment)	*IAS 37 - onerous contracts - costs of fulfilling a contract (amendment)* The amendment specifies which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a 'direct related cost approach', which includes costs that relate directly to a contract and an allocation of costs directly related to contract activities. General and administrative costs are excluded unless they are explicitly chargeable to the counterparty to the contract.	The amendment is not expected to have a material impact on the annual financial statements of the Bank.	The amendments are effective 1 January 2022.
IAS 16 (amendment)	*IAS 16 - property, plant and equipment on proceeds before intended use* The amendment prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.	The amendment is not expected to have a material impact on the annual financial statements of the Bank.	The amendment is effective 1 January 2022.
IFRS 3 (amendment)	*IFRS 3 - Reference to the Conceptual Framework* The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments are intended to update a reference to the Conceptual Framework without significantly changing requirements of IFRS 3. The amendments will promote consistency in financial reporting and avoid potential confusion from having more than one version of the Conceptual Framework in use.	The amendments are not expected to have a material impact on the annual financial statements of the Bank.	The amendments are effective 1 January 2022.

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
for the year ended 30 September 2021

ANNEXURE A: ADOPTION OF NEW STANDARDS AND INTERPRETATION

IFRS reference	Title and details	Impact assessment	Effective date
IAS 1	*IAS 1 - disclosure of accounting policies - amendments to IAS 1 and IFRS practice Statement 2*		
(amendment)	The IASB issued amendments to IAS 1 and an update to IFRS Practice Statement 2 Making Materiality Judgements to help preparers provide useful accounting policy disclosures. The key amendments to IAS 1 include: requiring companies to disclose their material accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.	The amendments are not expected to have a material impact on the annual financial statements of the Bank.	The amendments are effective 1 January 2023.
IAS 8	*IAS 8 - definition of accounting estimates*		
(amendment)	The amendments to IAS 8 introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.	The amendments are not expected to have a material impact on the annual financial statements of the Bank.	The amendments are effective 1 January 2023.

ANNEXURE A: ADOPTION OF NEW STANDARDS AND INTERPRETATION

IFRS reference	Title and Details	Impact assessment	Effective date
Annual improvements 2018 - 2020 (amendment)	*Improvements to IFRS* *IFRS 9 - financial Instruments. Fees in the '10 percent' test for de-recognition of financial liabilities* The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. *Lease incentives* The amendment removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.	The amendments are not expected to have a material impact on the annual financial statements of the	The amendments are effective 1 January 2022.

ANNEXURE B: CAPITAL ADEQUACY

Capital adequacy requirements:

Rmillion		2021	2020
On-balance sheet assets		27,262	25,623
Off-balance sheet items		645	667
Total risk exposure		27,908	26,290
Total risk-weighted exposure		**21,444**	**23,492**
Primary (Tier I)			-
Share capital		11,485	10,000
Primary reserves (less statutory deductions)		(2,553)	(2,678)
Total		**8,932**	**7,322**
Secondary (Tier II)			-
Subordinated debt instruments		-	1,485
General allowance for credit impairments		179	220
Total		179	1,705
Total qualifying capital and unimpaired reserve funds		**9,111**	**9,027**
Total capital to risk-weighted assets		%	%
Primary		41.65	31.17
Secondary		0.83	7.26
Total	**-**	**42.48**	**38.43**

ANNEXURE C: ACRONYMS AND ABBREVIATIONS

The following acronyms and abbreviations have been used in these financial statements.

ABHL	African Bank Holdings Limited
ABL	African Bank Limited
AIG	African Insurance Group Limited
ALCO	Asset and Liability Committee
CAR	Capital Adequacy Ratio
CHF	Swiss Franc
CFO	Group Chief Financial Officer
Companies Act of South Africa	Companies Act of South Africa, Act No 71 of 2008
Covid-19	Coronavirus
CPI	Consumer Price Index
DMTN	Domestic medium-term note programme
EMTN	Euro medium-term note programme
FSB	Financial Services Board
Group	The Group of companies including African Bank Holdings Limited, African Bank Limited and African Insurance Group Limited
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
ICAAP	Internal Capital Adequacy and Assessment Process
IFRIC	IFRS Interpretations Committee of IASB
IFRS	International Financial Reporting Standards
IT	Information Technology
JIBAR	Three months Johannesburg interbank agreed rate
JSE	Johannesburg stock exchange
LTIP	Long-term incentive plan
MMIJV	MMI Joint Venture
MRC	Model Risk Committee
NACA	Nominal annual compounded annually
NACM	Nominal annual compounded monthly
NACQ	Nominal annual compounded quarterly
NACS	Nominal annual compounded semi-annually
NCA	National Credit Act, Act No 34 of 2005
Rm / Rmillion	Millions of rand
RSA	Republic of South Africa
PSI	Portfolio Specific Impairment
SAFEX	South Africa Future Exchange
SI	Specific Impairment
SICR	Significant increase in credit risk
R000	Thousands of rand
RCMC	Risk and Capital Management Committee
RDS	Residual Debt Services Limited (under curatorship)
Tier I	Primary capital
Tier II	Secondary capital
USD	United States Dollar
VAT	Value Added Tax
ZAR	South African Rand

ANNEXURE D: CORPORATE INFORMATION

Group Company Secretary
Maliga Chetty

African Bank Limited
Incorporated in the Republic of South Africa
Registered Bank
Registration number 2014/176899/06
NCR Registration number: NCRCP7638
African Bank Limited is an Authorised Financial Services and Registered Credit Provider
Holding company: African Bank Holdings Limited

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