# African Bank Limited
# Condensed Interim Financial Statements
## 31 March 2019

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

# CONTENTS

# STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The directors are responsible for the preparation and fair presentation of the condensed interim financial statements, comprising the statement of financial position at 31 March 2019, the statement of total comprehensive income, the statement of changes in equity and statement of cash flows for the six months then ended, the notes to the condensed 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.

The directors' responsibility includes:

- 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 company'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.

## APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements found on pages 3 to 33 were approved by the board of directors on 23 May 2019 and are signed on its behalf by:

**B Maluleke**
Director

**G Raubenheimer**
Director

Midrand

A signed copy of the interim financial statements is available for inspection at the registered office.

## STATEMENT OF FINANCIAL POSITION
at 31 March 2019

| Rmillion | Notes | As at 31 March 2019 (unaudited) applying IFRS 9 | As at 31 March 2018 (unaudited) applying IAS 39 | As at 1 October 2018 (unaudited) applying IFRS 9 | As at 30 September 2018 (audited) applying IAS 39 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 2 | **4 459** | 6 024 | 7 220 | 7 221 |
| Regulatory deposits and sovereign debt securities | 3 | **2 715** | 3 754 | 2 129 | 2 130 |
| Derivatives | | **52** | 42 | 47 | 47 |
| Net advances | 4 | **19 182** | 18 969 | 18 317 | 19 178 |
| Accounts receivable and other assets | | **192** | 251 | 212 | 212 |
| Non-current assets held for sale | 6 | **72** | - | - | - |
| Loans to affiliated companies | | **-** | 10 | 51 | 51 |
| Investments | | **-** | 31 | 15 | 15 |
| Property and equipment | | **555** | 468 | 597 | 597 |
| Intangible assets | | **71** | 85 | 72 | 72 |
| Current tax | | **4** | - | - | - |
| Deferred tax | | **938** | 571 | 973 | 756 |
| **Total assets** | | **28 240** | 30 205 | 29 633 | 30 279 |
| **Liabilities and equity** | | | | | |
| Short-term funding | | **7 945** | 6 023 | 6 016 | 6 016 |
| Derivatives | | **6** | 114 | - | - |
| Creditors and other liabilities | | **482** | 539 | 648 | 648 |
| Current tax | | **-** | 134 | - | 24 |
| Bonds and other long-term funding | | **10 047** | 13 310 | 13 279 | 13 279 |
| Subordinated bonds | | **1 531** | 1 529 | 1 530 | 1 530 |
| **Total liabilities** | | **20 011** | 21 649 | 21 473 | 21 497 |
| Ordinary share capital | | **5** | 5 | 5 | 5 |
| Ordinary share premium | | **9 995** | 9 995 | 9 995 | 9 995 |
| Reserves and accumulated losses | | **(1 771)** | (1 444) | (1 840) | (1 218) |
| **Total equity (capital and reserves)** | | **8 229** | 8 556 | 8 160 | 8 782 |
| **Total liabilities and equity** | | **28 240** | 30 205 | 29 633 | 30 279 |

## STATEMENT OF TOTAL COMPREHENSIVE INCOME
for the six months ended 31 March 2019

| Rmillion | Notes | % change | For the six months ended 31 March 2019 (unaudited) *applying IFRS 9* | For the six months ended 31 March 2018 (unaudited) *applying IAS 39* | For the year ended 30 September 2018 (audited) *applying IAS 39* |
|---|---|---|---|---|---|
| Interest income on advances | 7 | (16.4%) | **2 825** | 3 380 | 7 168 |
| Credit impairment charge | 8 | (43.4%) | **(970)** | (1 713) | (3 608) |
| **Interest on advances after impairment** | | 11.3% | **1 855** | 1 667 | 3 560 |
| Other interest income | 7 | (62.6%) | **102** | 273 | 479 |
| Fair value (losses) / gains from derivative assets and liabilities | 9 | (115.1%) | **(28)** | 186 | 56 |
| Foreign exchange gains / (losses) recognised on translation | 9 | (104.1%) | **14** | (340) | 81 |
| Interest expense and similar charges | 9 | (13.8%) | **(868)** | (1 007) | (2 203) |
| **Net interest income after impairment** | | 38.0% | **1 075** | 779 | 1 973 |
| Non-interest income | 10 | (35.9%) | **428** | 668 | 1 198 |
| Operating costs | | 9.8% | **(1 394)** | (1 270) | (2 615) |
| Gains/(losses) on bond buy back | | (116.7%) | **1** | (6) | (6) |
| Indirect taxation: VAT | | (77.1)% | **(11)** | (48) | (65) |
| **Operating profit** | | (19.5%) | **99** | 123 | 485 |
| Share of loss of joint venture accounted for using the equity method | | >100% | **1** | - | (16) |
| **Operating profit before taxation** | | (18.7%) | **100** | 123 | 469 |
| Taxation | | (32.6%) | **(31)** | (46) | (166) |
| **Profit for the period** | | (10.4%) | **69** | 77 | 303 |
| **Attributable to:** **-Owner of African Bank Limited** | | (10.4%) | **69** | 77 | 303 |
| **Total comprehensive profit for the period** | | (10.4%) | **69** | 77 | 303 |

*The Bank had no other comprehensive income for the periods under review*

## STATEMENT OF CHANGES IN EQUITY
for the six months ended 31 March 2019

| Rmillion | Ordinary share capital | Ordinary share premium | Accumulated loss | Total |
|---|---|---|---|---|
| **Balance at 30 September 2017 (audited)** | **5** | **9 995** | **(1 521)** | **8 479** |
| Total comprehensive profit for the period | - | - | 77 | 77 |
| **Balance at 31 March 2018 (unaudited)** | **5** | **9 995** | **(1 444)** | **8 556** |
| Total comprehensive profit for the period | - | - | 226 | 226 |
| **Balance at 30 September 2018 (audited)** | **5** | **9 995** | **(1 218)** | **8 782** |
| Restated upon adoption of IFRS 9 | - | - | (622) | (622) |
| **Balance as at 1 October 2018 restated** | **5** | **9 995** | **(1 840)** | **8 160** |
| Total comprehensive profit for the period | - | - | 69 | 69 |
| **Balance at 31 March 2019 (unaudited)** | **5** | **9 995** | **(1 771)** | **8 229** |

# STATEMENT OF CASH FLOWS
## for the six months ended 31 March 2019

| Rmillion | For the six months ended 31 March2019 (unaudited) applying IFRS 9 * | For the six months ended 31 March 2018 (unaudited) applying IAS 39 | For the year ended 30 September 2018 (audited) applying IAS 39 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | **1 911** | 2 198 | 5 291 |
| Cash received from lending activities and cash reserves | **3 437** | 4 231 | 8 762 |
| Recoveries on advances previously written off | **384** | 40 | 115 |
| Cash paid to clients, funders, employees and agents | **(1 910)** | (2 073) | (3 586) |
| Increase in gross advances | **(2 700)** | (2 019) | (4 122) |
| (Increase) / Decrease in regulatory deposits and sovereign debt securities | **(518)** | 923 | 2 627 |
| Increase in customer deposits | **344** | 314 | 751 |
| Increase in transactional banking deposits | **5** | - | - |
| Direct taxation paid | **-** | (45) | (461) |
| Indirect taxation paid | **(11)** | (48) | (65) |
| **Net cash (outflow) / inflow from operating activities** | **(969)** | 1 323 | 4 021 |
| **Cash flows from investing activities** | | | |
| Acquisition of property and equipment (to maintain operations) | **(16)** | (34) | (150) |
| Acquisition of intangible assets (to maintain operations) | **(15)** | (22) | (53) |
| Loans (advanced to) / repayment from affiliated companies | **(14)** | 13 | (28) |
| Investments made during the period | **11** | (31) | (31) |
| **Net cash outflow from investing activities** | **(34)** | (74) | (262) |
| **Cash flows from financing activities** | | | |
| Net long term funding redeemed | **(2 768)** | (937) | (489) |
| Net short-term funding raised / (redeemed) | **952** | (756) | (2 785) |
| Net cash flow from derivative instruments | **16** | - | - |
| **Net cash outflow from funding activities** | **(1 800)** | (1 693) | (3 274) |
| **Decrease in cash and cash equivalents** | **(2 803)** | (444) | 485 |
| Cash and cash equivalents at the beginning of the period | **7 221** | 6 862 | 6 862 |
| Effect of exchange rate changes on cash and cash equivalents | **41** | (394) | (126) |
| **Cash and cash equivalents at the end of the year** | **4 459** | 6 024 | 7 221 |

** The adoption of IFRS 9 does not have an impact on the cash flows presented in the statement of cash flows.*

# NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
for the six months ended 31 March 2019

## 1. General information

African Bank Limited is a public company incorporated in the Republic of South Africa. 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, Act 94 of 1990. The shares in ABHL are privately held by the South African Reserve Bank, the Government Employees Pension Fund, ABSA Trading and Investment Solutions Proprietary Limited, Nedbank Limited, FirstRand Bank Limited, Investec Bank Limited, The Standard Bank of South Africa Limited and Capitec Bank Limited. The Bank's main business is providing unsecured personal loans.

The Bank commenced business on the 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" which 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 SENS announcements available on www.africanbank.co.za.

The registered office and principal place of business of the Bank is disclosed on page 33 of these financial statements.

## 2. Basis of preparation

The condensed interim financial information has been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, IAS 34 Interim Financial Reporting, the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee (APC) and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa (Act 71 of 2008).

The condensed interim financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business. The Bank is using the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS.

## 3. Accounting policies

These condensed interim financial statements should be read in conjunction with the 2018 annual financial statements, which were prepared in accordance with IFRS. The accounting policies are consistent with those reported in the previous year, except for the adoption of certain IFRS that became applicable in the current year.

*IFRS 9 - Financial Instruments* ("IFRS 9") and *IFRS 15 - Revenue from Contracts with Customers* ("IFRS 15") became effective for reporting dates on or after 1 January 2018; which falls within the current reporting year for the Bank. IFRS 9, which replaces *IAS 39 Financial Instruments: Recognition and Measurement* ("IAS 39"), had the most significant impact on the Bank, as IFRS 9 introduced a principle-based approach for classifying financial assets based on the entity's business model and changed the way impairments are calculated on financial assets measured and recognised at amortised cost from the incurred loss model to the expected credit loss model.

IFRS 15, which contains a single model that is applied when accounting for contracts with customers, replaced revenue recognition guidance previously included in *IAS 18 - Revenue* ("IAS 18") and *IFRIC 13 Customer Loyalty Programmes* ("IFRIC 13"). The adoption of IFRS 15 had no impact on the Bank's results.

The adoption of IFRS 9 impacted the Bank's results on the date of initial adoption, being 1 October 2018. The Bank prepared an IFRS 9 Transitional Report, on which a reasonable assurance audit report was provided by the external auditors. The IFRS 9 Transitional Report is available on the African Bank website. A summary of the changes to the accounting policies relating to IFRS 9 can be found on page 30 of these financial statements.

No other new or amended IFRS and interpretations become effective for the six months ended 31 March 2018; which impacted the Bank's financial statements or the accounting policies.

The Bank reports a single segment – unsecured lending within the South African economic environment. The business is widely distributed with no reliance on any major customers.

## 4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Bank's accounting policies management are required to make judgments, estimates and assumptions about the future conditions of income, expenses and the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the information that is available and other factors that are considered to be relevant. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates, judgments and assumptions.

In preparing these condensed interim financial statements, the significant judgments made by the management in applying the Bank's accounting policies and key sources of estimation uncertainty were largely the same as those that applied to the annual financial statements for the year ended 30 September 2018; except for the changes that were inherent in the adoption of the new applicable standards, namely IFRS 9. The details of which are discussed in the IFRS 9 Transitional Report, issued in conjunction with these financial statements.

## 2. Cash and cash equivalents

| Rmillion | 31 March 2019 (unaudited) *applying IFRS 9* | 31 March 2018 (unaudited) *applying IAS 39* | 1 October 2018 (unaudited) *applying IFRS 9* | 30 September 2018 (audited) *applying IAS 39* |
|---|---|---|---|---|
| Call deposits | **4 098** | 1 743 | 3 571 | 3 571 |
| Rand | **756** | 1 524 | 900 | 900 |
| Foreign denominated | **3 342** | 219 | 2 671 | 2 671 |
| Short notice deposits | **-** | 562 | 325 | 325 |
| Rand | **-** | 502 | 253 | 253 |
| Foreign denominated | **-** | 60 | 72 | 72 |
| Other notice deposits | **328** | 3 685 | 3 287 | 3 288 |
| Rand | **-** | 1 200 | 404 | 404 |
| Foreign denominated | **328** | 2 485 | 2 883 | 2 884 |
| Current accounts | **33** | 34 | 37 | 37 |
| | **4 459** | 6 024 | 7 220 | 7 221 |

## 3. Regulatory deposits and sovereign debt securities

| Rmillion | 31 March 2019 (unaudited) *applying IFRS 9* | 31 March 2018 (unaudited) *applying IAS 39* | 1 October 2018 (unaudited) *applying IFRS 9* | September 2018 (audited) *applying IAS 39* |
|---|---|---|---|---|
| Listed | **2 334** | 3 359 | 1 774 | 1 775 |
| Treasury bills and debentures | **282** | 1 988 | 244 | 244 |
| Bonds | **2 052** | 1 371 | 1 530 | 1 531 |
| Unlisted | | | | |
| Deposits with South African Reserve Bank | **381** | 395 | 355 | 355 |
| | **2 715** | 3 754 | 2 129 | 2 130 |

*Regulatory deposits and sovereign debt securities with a carrying value of R1 184 million (2018: R1 110 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.*

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

## 4. Net advances

| Rmillion | 31 March 2019 (unaudited) *applying IFRS 9* | 31 March 2018 (unaudited) *applying IAS 39* | 1 October 2018 (unaudited) *applying IFRS 9* | 30 September 2018 (audited) *applying IAS 39* |
|---|---|---|---|---|
| Gross advances | **25 944** | 21 983 | 23 240 | 23 240 |
| Deferred origination and administration fees | **(71)** | (62) | (68) | (68) |
| **Gross advances after deferred origination and administration fees** | **25 873** | 21 921 | 23 172 | 23 172 |
| Loan | **21 416** | 17 440 | 18 931 | 18 931 |
| Credit card | **4 457** | 4 481 | 4 241 | 4 241 |
| **Balance of impairment provisions at the end of the period** | **6 691** | 2 952 | 4 855 | 3994 |
| Balance of impairment provisions at the beginning of the period | **4 855** | 2 040 | 3 994 | 2 040 |
| Impairment provisions raised | **2 363** | 1 789 | 861 | 3 833 |
| Bad debt (write-offs) | **(527)** | (877) | - | (1 879) |
| **Net advances** | **19 182** | 18 969 | 18 317 | 19 178 |
| **Exposure to credit risk** | | | | |
| Conditionally revocable retail loan commitments | **703** | 713 | 715 | 715 |
| **Maximum exposure to credit risk** | **19 885** | 19 682 | 19 032 | 19 893 |

The net book value of the acquired book as at 31 March 2019 was R2.6 billion (30 September 2018: R3.7 billion).
The fair value of the advances as at 31 March 2019 was R20.2 billion (30 September 2018: R19.1 billion).

## 5. Credit quality of advances

### 5.1 Credit quality of advances per IFRS requirements

#### 5.1.1 Arrears analysis

| | 31 March 2019 (unaudited) | | | 31 March 2018 (unaudited) | | | 1 October 2018 (unaudited) | | | 30 September 2018 (audited) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *applying IFRS 9* | | | *applying IAS 39* | | | *applying IFRS 9* | | | *applying IAS 39* | | |
| Rmillion | Loan | Credit card | Total | Loan | Credit card | Total | Loan | Credit card | Total | Loan | Credit card | Total |
| **Financial assets that are neither past due nor specifically impaired** | | | | | | | | | | | | |
| Stage 1 / (CD 0) | **8 148** | **1 381** | **9 529** | 11 565 | 2 634 | 14 199 | 7 046 | 1 579 | 8 625 | 12 229 | 2 433 | 14 662 |
| **Past due and specifically impaired** | | | | | | | | | | | | |
| Stage 2 / (CD 1 to CD 3) | **7 568** | **1 872** | **9 440** | 2 105 | 1 038 | 3 143 | 7 466 | 1 844 | 9 310 | 2 283 | 990 | 3 273 |
| Stage 3 / (CD 4 and higher) | **5 771** | **1 204** | **6 975** | 3 832 | 809 | 4 641 | 4 488 | 817 | 5 305 | 4 488 | 817 | 5 305 |
| **Total credit exposure** | **21 487** | **4 457** | **25 944** | 17 502 | 4 481 | 21 983 | 19 000 | 4 240 | 23 240 | 19 000 | 4 240 | 23 240 |
| **Total impairments** | | | | | | | | | | | | |
| Stage 1 / (Incurred but not reported (IBNR)) | **(579)** | **(87)** | **(666)** | (552) | (112) | (664) | (420) | (58) | (478) | (543) | (93) | (636) |
| Stage 2 / (Portfolio specific impairment) | **(2 029)** | **(404)** | **(2 433)** | (808) | (295) | (1 103) | (1 898) | (375) | (2 273) | (973) | (297) | (1 270) |
| Stage 3 / (Specific impairment) | **(2 919)** | **(673)** | **(3 592)** | (922) | (263) | (1 185) | (1 771) | (333) | (2 104) | (1 733) | (355) | (2 088) |
| Deferred administration fees | **(71)** | **-** | **(71)** | (62) | - | (62) | (68) | - | (68) | (68) | - | (68) |
| **Net advances** | **15 889** | **3 293** | **19 182** | 15 158 | 3 811 | 18 969 | 14 843 | 3 474 | 18 317 | 15 683 | 3 495 | 19 178 |
| **Impairment as % of gross advances** | | | | | | | | | | | | |
| Stage 1 / (Incurred but not reported (IBNR)) | **7.11%** | **6.30%** | **6.99%** | 4.77% | 4.25% | 4.68% | 5.96% | 3.67% | 5.54% | 4.44% | 3.82% | 4.34% |
| Stage 2 / (Portfolio specific impairment) | **26.81%** | **21.58%** | **25.77%** | 38.38% | 28.42% | 35.09% | 25.42% | 20.34% | 24.41% | 42.62% | 30.0% | 38.8% |
| Stage 3 / (Specific impairment) | **50.58%** | **55.90%** | **51.50%** | 24.06% | 32.51% | 25.53% | 39.46% | 40.76% | 39.66% | 38.61% | 43.45% | 39.36% |
| **Total impairment as a % of total gross advances** | **25.72%** | **26.12%** | **25.79%** | 13.04% | 14.95% | 13.43% | 21.52% | 18.07% | 20.89% | 17.10% | 17.57% | 17.19% |
| **Reconciliation of allowance account** | | | | | | | | | | | | |
| Balance at the beginning of the period | **4 089** | **766** | **4 855** | 1 432 | 608 | 2 040 | 3 249 | 745 | 3 994 | 1 432 | 608 | 2 040 |
| Impairment raised | **1 895** | **468** | **2 363** | 1 608 | 181 | 1 789 | 840 | 21 | 861 | 3 331 | 502 | 3 833 |
| Bad debt write-offs | **(457)** | **(70)** | **(527)** | (758) | (119) | (877) | - | - | - | (1 514) | (365) | (1 879) |
| **Balance at the end of the period** | **5 527** | **1 164** | **6 691** | 2 282 | 670 | 2 952 | 4 089 | 766 | 4 855 | 3 249 | 745 | 3 994 |

### 5.2 Credit quality disclosures based on the pre- acquisition gross value of advances *

### 5.2.1 Advances analysis

| Rmillion | 31 March 2019 (unaudited) *applying IFRS 9* | 31 March 2018 (unaudited) *applying IAS 39* | 1 October 2018 (unaudited) *applying IFRS 9* | 30 September 2018 (audited) *applying IAS 39* |
|---|---|---|---|---|
| Gross advances | **29 349** | 26 922 | 27 488 | 27 524 |
| Deferred origination and administration fees | **(53)** | (29) | (46) | (46) |
| **Gross advances after deferred origination and administration fees** | **29 296** | 26 893 | 27 442 | 27 478 |
| Loan | **24 715** | 21 815 | 22 778 | 22 781 |
| Credit card | **4 581** | 5 078 | 4 664 | 4 697 |
| **Balance of the impairment provisions at the end of the year** | **10 114** | 7 924 | 9 125 | 8 300 |
| Balance of impairment provisions at the beginning of the year | **9 125** | 7 756 | 7 756 | 7 756 |
| Impairment provisions raised | **1 712** | 2 065 | 4 906 | 4 081 |
| Bad debt (write-offs) | **(723)** | (1 897) | (3 537) | (3 537) |
| **Net advances** | **19 182** | 18 969 | 18 317 | 19 178 |
| **Exposure to credit risk** | | | | |
| Conditionally revocable retail loan commitments | **703** | 713 | 715 | 715 |
| **Maximum exposure to credit risk** | **19 885** | 19 682 | 19 032 | 19 893 |

The recoveries on the total written off book amounted to R384 million (R374 million for the comparative period).
The fair value of the advances as at 31 March 2019 was R20.2 billion (30 September 2018: R19.1 billion).

** These disclosures are based on the pre- acquisition gross value of advances and as such do not comply with the application guidance contained in IAS 39 and subsequently transferred to IFRS 9 applicable to the Acquired Book*
*The impairment provisions applied in these disclosures are based on the Expected Credit Loss basis and the Incurred Loss basis contained respectively in IFRS 9 and IAS 39, as would have been applied to the Acquired Book, had it been originated at the contractual gross credit exposure.*

**5.2.2 Arrears analysis**

| Rmillion | 31 March 2019 (unaudited) | | | 31 March 2018 (unaudited) | | | As at 1 October 2018 (unaudited) | | | 30 September 2018 (audited) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | ECL impairment | | | Incurred loss impairment | | | ECL impairment | | | Incurred loss impairment | | |
| | Loan | Credit card | Total | Loan | Credit card | Total | Loan | Credit card | Total | Loan | Credit card | Total |
| **Financial assets that are neither past due nor specifically impaired** | | | | | | | | | | | | |
| Stage 1 / (CD 0) | **8 156** | **1 382** | **9 538** | 11 680 | 2 648 | 14 328 | 6 742 | 1 547 | 8 289 | 12 245 | 2 436 | 14 681 |
| **Past due and specifically impaired** | | | | | | | | | | | | |
| Stage 2 / (CD 1 to CD 3) | **7 613** | **1 873** | **9 486** | 2 309 | 1 097 | 3 406 | 7 877 | 1 901 | 9 778 | 2 375 | 1 012 | 3 387 |
| Stage 3 / (CD 4 and higher) | **8 999** | **1 326** | **10 325** | 7 855 | 1 333 | 9 188 | 8 208 | 1 249 | 9 457 | 8 207 | 1 249 | 9 456 |
| **Subtotal** | **24 768** | **4 581** | **29 349** | 21 844 | 5 078 | 26 922 | 22 827 | 4 697 | 27 524 | 22 827 | 4 697 | 27 524 |
| IFRS 9 Acquired Book gross exposure adjustment * | | | | | | | (4) | (32) | (36) | | | |
| **Total credit exposure** | **24 768** | **4 581** | **29 349** | 21 844 | 5 078 | 26 922 | 22 823 | 4 665 | 27 488 | 22 827 | 4 697 | 27 524 |
| **Total impairments** | | | | | | | | | | | | |
| Stage 1 / (Incurred but not reported (IBNR)) | **(588)** | **(88)** | **(676)** | (673) | (126) | (799) | (437) | (59) | (496) | (563) | (96) | (659) |
| Stage 2 / (Portfolio specific impairment) | **(2 074)** | **(405)** | **(2 479)** | (1 015) | (354) | (1 369) | (2 014) | (396) | (2 410) | (1 065) | (320) | (1 385) |
| Stage 3 / (Specific impairment) | **(6 164)** | **(795)** | **(6 959)** | (4 969) | (787) | (5 756) | (5 483) | (736) | (6 219) | (5 470) | (786) | (6 256) |
| Deferred administration fees | **(53)** | **-** | **(53)** | (29) | - | (29) | (46) | - | (46) | (46) | - | (46) |
| **Net advances** | **15 889** | **3 293** | **19 182** | 15 158 | 3 811 | 18 969 | 14 843 | 3 474 | 18 317 | 15 683 | 3 495 | 19 178 |
| **Impairment as % of gross advances** | | | | | | | | | | | | |
| Stage 1 / (Incurred but not reported (IBNR)) | **7.21%** | **6.37%** | **7.09%** | 5.76% | 4.76% | 5.58% | 6.48% | 3.81% | 5.98% | 4.60% | 3.94% | 4.49% |
| Stage 2 / (Portfolio specific impairment) | **27.24%** | **21.62%** | **26.13%** | 43.96% | 32.27% | 40.19% | 25.57% | 20.83% | 24.65% | 44.84% | 31.62% | 40.89% |
| Stage 3 / (Specific impairment) | **68.50%** | **59.95%** | **67.40%** | 63.26% | 59.04% | 62.65% | 66.80% | 58.93% | 65.76% | 66.65% | 62.93% | 66.16% |
| **Total impairment as a % of total gross advances** | **35.63%** | **28.12%** | **34.46%** | 30.48% | 24.95% | 29.43% | 34.76% | 25.53% | 33.20% | 31.09% | 25.59% | 30.16% |

** The adoption of IFRS 9 does not have an impact on the net carrying value of the Acquired Book, which represents the present value of expected future cash flows, discounted at the original effective interest rate applied at acquisition of the portfolio. The increase in impairment provisions held due to the changes in the ECL methodologies is offset by an equal and opposite adjustment to the gross carrying value, to balance the net carrying value to the net present value of future cash flows, which cash flows are not impacted by a change in the impairment methodology. For a more detailed explanation of the impact of IFRS 9 refer to Annexure A of these financial statements.*

### 5.2.3 Reconciliation of movement in gross carrying value and loss allowance of advances

| | As at 31 March 2019 (unaudited) | | | Movement for the six months ended 31 March 2018 (unaudited) | | | As at 1 October 2018 (unaudited) | | |
|---|---|---|---|---|---|---|---|---|---|
| | ECL impairment | | | ECL impairment | | | ECL impairment | | |
| Rmillion | Loan | Credit card | Total | Loan | Credit card | Total | Loan | Credit card | Total |
| **Financial assets that are neither past due nor specifically impaired** | | | | | | | | | |
| Stage 1 / (CD 0) | **8 156** | **1 382** | **9 538** | 1 097 | (199) | 898 | 7 059 | 1 581 | 8 640 |
| **Past due and specifically impaired** | | | | | | | | | |
| Stage 2 / (CD 1 to CD 3) | **7 613** | **1 873** | **9 486** | 33 | 7 | 40 | 7 580 | 1 866 | 9 446 |
| Stage 3 / (CD 4 and higher) | **8 999** | **1 326** | **10 325** | 815 | 108 | 923 | 8 184 | 1 218 | 9 402 |
| **Total credit exposure** | **24 768** | **4 581** | **29 349** | 1 945 | (84) | 1 861 | 22 823 | 4 665 | 27 488 |
| **Total impairments** | | | | | | | | | |
| Stage 1 / (Incurred but not reported (IBNR)) | **(588)** | **(88)** | **(676)** | (151) | (29) | (180) | (437) | (59) | (496) |
| Stage 2 / (Portfolio specific impairment) | **(2 074)** | **(405)** | **(2 479)** | (60) | (9) | (69) | (2 014) | (396) | (2 410) |
| Stage 3 / (Specific impairment) | **(6 164)** | **(795)** | **(6 959)** | (681) | (59) | (740) | (5 483) | (736) | (6 219) |
| **Total Impairments** | **(8 826)** | **(1 288)** | **(10 114)** | (892) | (92) | (989) | (7 934) | (1 191) | (9 125) |
| Deferred administration fees | **(53)** | **-** | **(53)** | (7) | - | (7) | (46) | - | (46) |
| **Net advances** | **15 889** | **3 293** | **19 182** | 1046 | (181) | 865 | 14 843 | 3 474 | 18 317 |

## 6. Non-current assets held for sale

### MMI partnership arrangements

There were three business arrangements in place between African Bank Limited and the MMI Group prior to the decisions and initiatives to unwind the agreements:

- An equity investment and loans granted to MMI Lending (Proprietary) Limited ("MMI Lending");
- An investment in a sinking fund policy issued by the MMI Group as well as an insurance distribution agreement between African Bank Limited and MMI Group Limited; and
- A BIN sponsorship agreement between African Bank Limited and MMI Multiply (Proprietary) Limited.

The equity investment in MMI Lending was classified as an investment in a joint venture. In terms of IFRS11 "Joint Arrangements", the investment in the joint venture was measured using the equity method. This investment has since been reclassified as a non-current asset held for sale, under IFRS 5 and measured at the lower of its carrying amount and fair value less cost to sell.

The disposal will be concluded within the next six months and the manner will be determined in accordance with the joint venture agreement. The share of the loss of the joint venture for the six months ended 31 March 2019 is accounted for using the equity method.

As at 31 March 2019, the investment in non-current assets held for sale comprised of the following assets:

| Assets | 31 March 2019 (unaudited) | 30 September 2018 (audited) |
|---|---|---|
| Equity investment in MMI Lending | **6** | 15 |
| Loan granted to MMI Lending | **66** | 51 |
| | **72** | 66 |

The Bank holds no liabilities in respect of the MMI partnership arrangements as at 31 March 2019 and 30 September 2018, respectively.

The investment in the sinking fund policy was classified as a financial instrument in terms of IAS 39 and transitioned to IFRS 9 upon adoption with immaterial impact. The investment in the sinking fund policy was sold to the MMI Group during the six months ended 31 March 2019 and has been de-recognised accordingly, with the gain of R1.4 million on disposal recognised in the statement of comprehensive income under non-interest income.

The BIN sponsorship agreement is an executory contract; which is in unwinding in the normal course of business.

## 7. Interest income

### 7.1. Interest income on advances

| Rmillion | 31 March 2019 (unaudited) | 31 March 2018 (unaudited) |
|---|---|---|
| Interest on advances | **2 529** | 3 166 |
| Loan origination fees | **113** | 81 |
| Service fee | **183** | 133 |
| **Total** | **2 825** | 3 380 |

### 7.2. Other interest income

| Rmillion | 31 March 2019 (unaudited) | 31 March 2018 (unaudited) |
|---|---|---|
| Interest received on cash reserves | **99** | 271 |
| Sundry interest income | **3** | 2 |
| **Total** | **102** | 273 |

## 8. Credit impairment charge

| Rmillion | 31 March 2019 (unaudited) | 31 March 2018 (unaudited) |
|---|---|---|
| *Originated Book* | | |
| Movement in impairment provision | **1 836** | 912 |
| Amounts written off | **527** | 877 |
| Post Write Off Recoveries | **(83)** | (40) |
| Adjustment related to revenue on advances classified as stage 3 | **(250)** | (36) |
| **Sub-total: Originated Book** | **2 030** | 1 713 |
| | | |
| *Acquired Book* | | |
| Movement in impairment provision | **(847)** | (743) |
| Amounts written off | **196** | 1 020 |
| Post Write Off Recoveries | **(301)** | (334) |
| Adjustment related to revenue on advances classified as stage 3 | **(108)** | - |
| Favourable changes in expected credit losses in gross interest * | **-** | 57 |
| **Sub-total: Acquired Book** | **(1 060)** | - |
| | | |
| **Total** | **970** | 1 713 |

* *Under IFRS 9, the Bank accounts for favourable changes in expected credit losses on purchased credit impaired financial assets, such as the Acquired Book, as an impairment gain in profit or loss.*
*Where such favourable changes exceed the loss allowance estimated at initial recognition, these changes are recognised as a direct adjustment to the gross carrying amount of the assets and a corresponding gain is recognised as revenue.*
*For detail of the accounting policies applied under the adoption of IFRS 9, refer to Annexure A of these financial statements.*

*Under IAS 39 all favourable changes in credit losses on purchased credit impaired financial assets were recognised as revenue.*

## 9. Interest expense and similar charges

| Rmillion | 31 March 2019 (unaudited) | 31 March 2018 (unaudited) |
|---|---|---|
| Subordinated debt | **107** | 107 |
| Unsecured listed bonds | **493** | 532 |
| Call deposits | **2** | 12 |
| Fixed deposits | **33** | 147 |
| Negotiable certificates of deposit | **-** | 14 |
| Interest on short-term facilities | **113** | 171 |
| Other interest | **120** | 24 |
| **Subtotal** | **868** | 1 007 |
| Fair value losses / (gains) from derivative assets and liabilities | **28** | (186) |
| Foreign exchange (gains) / losses recognised on translation | **(14)** | 340 |
| **Total** | **882** | 1 161 |

In accordance with the Bank's policy the total funding costs are included in the interest expense and similar charges.

## 10. Non-interest income

| Rmillion | 31 March 2019 (unaudited) | 31 March 2018 (unaudited) |
|---|---|---|
| Credit card fees | **118** | 146 |
| Binder and outsourcing arrangements fees | **79** | 215 |
| Collection fees | **226** | 304 |
| Other income | **5** | 3 |
| **Total** | **428** | 668 |

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

### 11.1. 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.

*Recurring fair values*

The Bank currently measures and presents derivative assets and derivative liabilities as well as the investment in a sinking fund policy at fair value, 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. 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.

Investment in a sinking fund policy is measured using level 3 unobservable inputs including expected demographic experience, expected business mix, expected policy termination rates.

*Fair value for disclosure*

For instruments measured and presented at amortised cost, in determining the fair value for disclosure purposes, 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 instruments 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 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.

*General*
Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent 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.

There were no transfers between the fair value levels during the period under review.

*Level 3 fair value disclosure – Advances*
The fair value of the advances book has been derived using a discounted cash flow technique. The Bank has 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 impairment (amortised cost) and fair value methodologies:

- Fair value includes all expected cash flows, whereas impairments under IAS 39 are limited to incurred loss events;
- The impairment cash flows are not reduced by the net insurance premiums the Bank expects to pay across to insurance providers;
- The impairment cash flows are not reduced by expected cost of collection.
- Amortised cost requires the future cash flows to be discounted at the advance's effective interest rate whereas the fair value methodology discounts the expected cash flows at a required rate of return.

### 11.2. 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;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions.

**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 |
|---|---|---|---|---|
| As at 31 March 2019 (IFRS 9) | | | | |
| **Financial assets** | | | | |
| *Recurring fair value measurement* | | | | |
| Derivative instruments | **-** | **52** | **-** | **52** |
| **Total** | **-** | **52** | **-** | **52** |
| **Financial liabilities** | | | | |
| *Recurring fair value measurement* | | | | |
| Derivative instruments | **-** | **6** | **-** | **6** |
| **Total** | **-** | **6** | **-** | **6** |
| As at September 2018 (IAS 39) | | | | |
| **Financial assets** | | | | |
| *Recurring fair value measurement* | | | | |
| Derivative instruments | - | 47 | - | 47 |
| **Total** | - | 47 | - | 47 |
| **Financial liabilities** | | | | |
| *Recurring fair value measurement* | | | | |
| Derivative instruments | - | - | - | - |
| **Total** | - | - | - | - |

### 11.3. Valuation techniques, significant observable inputs and sensitivity of level 2 and 3 financial instruments measured at fair value

The table below indicates the valuation techniques and main assumptions used in the determination of the fair value of the level 2 and 3 assets and liabilities for which fair value is measured:

| Rmillion | Valuation basis / techniques | Main assumptions* | Variance in fair value measurement | Effect on profit / (loss) (after tax) |
|---|---|---|---|---|
| **March 2019** | | | | |
| **Assets** | | | | |
| Cross-currency interest rate swaps | Discounted cash flow<br>Forward rate | Discount rates<br>Forward rate | 10% in spot rate | **-** |
| Interest rate swaps | Discounted cash flow | Discount and risk free rates | 100 bps | **(1)** |
| Investments measured at fair value | Discounted cash flows | Expected cash flows | 1% reduction in expected cash flows | |
| **Liabilities** | | | | |
| Cross-currency interest rate swaps | Discounted cash flow<br>Forward rate | Discount rates<br>Forward rate | 10% in spot rate | **42** |
| Interest rate swaps | Discounted cash flow | Discount and risk free rates | 100 bps | **-** |
| **September 2018** | | | | |
| **Assets** | | | | |
| Cross-currency interest rate swaps | Discounted cash flow<br>Forward rate | Discount rates<br>Forward rate | 10% in spot rate | - |
| Interest rate swaps | Discounted cash flow | Discount and risk free rates | 100 bps | - |
| **Liabilities** | | | | |
| Cross-currency interest rate swaps | Discounted cash flow<br>Forward rate | Discount rates<br>Forward rate | 10% in spot rate | - |
| Interest rate swaps | Discounted cash flow | Discount and risk free rates | 100 bps | - |

### 11.4. Assets and liabilities for which fair value is disclosed*

| Rmillion | Level 1 | Level 2 | Level 3 | Total | Carrying value |
|---|---|---|---|---|---|
| **March 2019** | | | | | |
| **Financial assets** | | | | | |
| Government bonds | - | 2 030 | - | 2 030 | 2 052 |
| Treasury bills and debentures | - | 290 | - | 290 | 282 |
| Deposits with South African Reserve Bank | - | 381 | - | 381 | 381 |
| Net advances | - | - | 20 243 | 20 243 | 19 182 |
| **Total** | | 2 701 | 20 243 | 22 944 | 21 897 |
| | | | | | |
| **Financial liabilities** | | | | | |
| Short term funding | - | 7 538 | - | 7 538 | 8 521 |
| Unsecured bonds (listed on JSE) | - | 4 138 | - | 4 138 | 3 972 |
| Unsecured bonds (listed on foreign stock exchange) | - | 3 559 | - | 3 559 | 3 444 |
| Unsecured long- term loans | - | 1 171 | - | 1 171 | 1 116 |
| Subordinated bonds, debentures and loans | - | 1 494 | - | 1 494 | 1 531 |
| **Total** | - | 17 900 | - | 17 900 | 18 584 |
| **September 2018** | | | | | |
| **Financial assets** | | | | | |
| Government bonds | - | 1 510 | - | 1 510 | 1 531 |
| Treasury bills and debentures | - | 244 | - | 244 | 244 |
| Deposits with South African Reserve Bank | - | 355 | - | 355 | 355 |
| Net advances | - | - | 19 097 | 19 097 | 19 178 |
| Loans to affiliated companies | - | - | 51 | 51 | 51 |
| Investments | - | - | 15 | 15 | 15 |
| **Total** | - | 2 109 | 19 163 | 21 272 | 21 374 |
| | | | | | |
| **Financial liabilities** | | | | | |
| Short term funding | - | 5 870 | - | 5 870 | 6 016 |
| Unsecured bonds (listed on JSE) | - | 5 604 | - | 5 604 | 5 697 |
| Unsecured bonds (listed on foreign stock exchange) | - | 5 170 | - | 5 170 | 5 208 |
| Unsecured long- term loans | - | 2 480 | - | 2 480 | 2 374 |
| Subordinated bonds | - | 1 535 | - | 1 535 | 1 530 |
| **Total** | - | 20 659 | - | 20 659 | 20 825 |

**The following items' fair value is 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.*
*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.*

## 12. Analysis 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.

### 12.1. Analysis of financial assets

| Rmillion | Notes | Amortised cost | Financial instruments at fair value through profit and loss | Non-financial instruments | Total | Current | Non-current |
|---|---|---|---|---|---|---|---|
| **31 March 2019** | | | | | | | |
| Cash and cash equivalents | 2 | 4 459 | - | - | 4 459 | 4 459 | - |
| Regulatory deposits and sovereign debt securities | 3 | 2 715 | - | - | 2 715 | 381 | 2 334 |
| Derivatives | | - | 52 | - | 52 | 52 | - |
| Net advances | 4 | 19 182 | - | - | 19 182 | 7 692 | 11 490 |
| Accounts receivable and other assets | | 74 | - | 118 | 192 | 192 | - |
| Non-current asset held for sale | | - | - | 72 | 72 | - | 72 |
| Current tax | | - | - | 4 | 4 | 4 | - |
| Loans to affiliated companies | | - | - | - | - | - | - |
| Investments | | - | - | - | - | - | - |
| Property and equipment | | - | - | 555 | 555 | - | 555 |
| Intangible assets | | - | - | 71 | 71 | - | 71 |
| Deferred tax asset | | - | - | 938 | 938 | - | 938 |
| **Total assets** | | 26 430 | 52 | 1 758 | 28 240 | 12 780 | 15 460 |

### 12.1 Analysis of financial assets (continued)

| Rmillion | Notes | Loans and receivables | Held-to-maturity financial instruments | Financial instruments at fair value through profit and loss | Non-financial instruments | Total carrying value | Current | Non-current |
|---|---|---|---|---|---|---|---|---|
| **30 September 2018** | | | | | | | | |
| Cash and cash equivalents | 2 | 7 221 | - | - | - | 7 221 | 7 221 | - |
| Regulatory deposits and sovereign debt securities | 3 | 355 | 1 775 | - | - | 2 130 | 1 633 | 497 |
| Derivatives | | - | - | 47 | - | 47 | 47 | - |
| Net advances | 4 | 19 178 | - | - | - | 19 178 | 7 692 | 11 486 |
| Accounts receivable and other assets | | 104 | - | - | 108 | 212 | 212 | - |
| Current tax | | - | - | - | - | - | - | - |
| Loans to affiliated companies | | 51 | - | - | - | 51 | - | 51 |
| Investments | | - | 15 | - | - | 15 | - | 15 |
| Property and equipment | | - | - | - | 597 | 597 | - | 597 |
| Intangible assets | | - | - | - | 72 | 72 | - | 72 |
| Deferred tax asset | | - | - | - | 756 | 756 | - | 756 |
| **Total assets** | | 26 909 | 1 790 | 47 | 1 533 | 30 279 | 16 805 | 13 474 |

### 12.2. Analysis of financial liabilities

| Rmillion | Notes | Amortised cost | Financial instruments at fair value through profit and loss | Non-financial liabilities | Total | Current | Non-current |
|---|---|---|---|---|---|---|---|
| **31 March 2019** | | | | | | | |
| Short-term funding | | **7 945** | **-** | **-** | **7 945** | **7 945** | **-** |
| Derivatives | | **-** | **6** | **-** | **6** | **6** | **-** |
| Creditors and accruals | | **414** | **-** | **68** | **482** | **482** | **-** |
| Bonds and other long-term funding | | **10 047** | **-** | **-** | **10 047** | **-** | **10 047** |
| Subordinated bonds | | **1 531** | **-** | **-** | **1 531** | **-** | **1 531** |
| **Total liabilities** | | **19 937** | **6** | **68** | **20 011** | **8 433** | **11 578** |
| **28 September 2018** | | | | | | | |
| Short-term funding | | 6 016 | - | - | 6 016 | 6 016 | - |
| Derivatives | | - | - | - | - | - | - |
| Creditors and accruals | | 580 | - | 68 | 648 | 648 | - |
| Current tax liability | | - | - | 24 | 24 | 24 | - |
| Bonds and other long-term funding | | 13 279 | - | - | 13 279 | 206 | 13 073 |
| Subordinated bonds | | 1 530 | - | - | 1 530 | 51 | 1 479 |
| **Total liabilities** | | 21 405 | - | 92 | 21 497 | 6 945 | 14 552 |

## 13. Related party information

The Bank's holding company is African Bank Holdings Limited. The Bank entered into an arm's length revolving loan facility agreement with its holding company, which was settled and cancelled as at 30 September 2018.

The Bank received R977 million from its holding company and R425 million from African Insurance Group Limited, an affiliated company as short term funding during the period under review. The transactions are entered into on an arm's length basis.
Interest accrued on this short term funding totalled R31 million and R3 million respectively for the six months ended 31 March 2019 (2018: nil).

## 14. Events after the reporting date

There were no material matters or circumstances arising since the end of the financial period, which significantly affect the financial position at 31 March 2019 or the results of its operations or cash flows for the period then ended.

# ANNEXURE A: SUMMARISED IMPACT OF THE ADOPTION OF IFRS 9 AND IFRS 15

**Impact of adopting revised accounting standards at 1 October 2018**

The Bank adopted IFRS 9 and IFRS 15 during the current period. The Bank, as permitted by these standards, elected not to restate any comparative information. Accordingly, the impact of adopting the revised requirements has been applied retrospectively with an adjustment to the Bank's 1 October 2018 opening retained earnings. Reported information in the prior interim period and the financial year to 30 September 2018 were unaffected by the application of IFRS 9 and IFRS 15.

| Key requirements | Explanation of the requirement | Impact on African Bank |
|---|---|---|
| **IFRS 15** | | |
| | IFRS 15 contains a single model that is applied when accounting for contracts with customers. It replaces substantially all the current revenue recognition guidance under IAS 18. The model specifies that revenue is recognised as and when performance obligations to a contract are fulfilled thus a transfer of control of goods or services are to a customer, and that revenue is recognised at the amount that an entity expects to receive. Depending on the criteria, revenue is recognised at a point in time or over time. | IFRS 15 requires that contracts with customers for goods and services are split into their separate performance obligations, that the revenue be allocated to each performance obligation and be recognised at a point in time or over time depending on the specific criteria for revenue recognition.<br>The application of the revised requirements had no material impact on the Bank's results. |
| **IFRS 9** | | |
| Classification and measurement | IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and its contractual cash flow characteristics.<br>These contractual cash flow characteristics are evaluated to determine whether the cash flows from the underlying financial instruments comprise solely payments in respect of the underlying principal amount and the corresponding interest accrued on the principal amount outstanding. | There is no impact on the classification or measurement of the following financial assets under IFRS 9:<br>• Advances to customers, measured at amortised cost;<br>• Accounts receivable, measured at amortised cost;<br>• Cash and cash equivalents, measured at amortised cost; and<br>• Derivatives, measured at fair value through profit and loss.<br><br>Regulatory deposits and sovereign debt securities were classified as held to maturity under IAS 39. These securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the positive intent and ability to hold to maturity thus meeting the requirement of a business model to collect contractual cash flows until maturity. These securities have therefore been classified at amortised cost under IFRS 9. Despite the change in classification, regulatory deposits and sovereign debt securities are still being measured at amortised cost under IFRS 9, as so measured under IAS 39. |

| Key requirements | Explanation of the requirement | Impact on African Bank |
|---|---|---|
| Expected credit loss ("ECL") impairment | IFRS 9's ECL impairment model requirements represents the most material IFRS 9 impact for the bank. The IASB developed the IFRS 9 ECL impairment model with the objective of transitioning from an incurred loss approach to an expected credit loss model, which requires entities to recognise impairment losses in advance of an exposure having objective evidence of impairment. The expected credit losses recognised as an impairment of financial assets at the initial recognition of the financial assets represent the credit losses expected during the 12 months subsequent to the reporting date.<br>Such expected credit losses include losses in respect of future exposures expected to be recognised, such as the utilisation of undrawn credit card facilities.<br><br>IFRS 9 calls for the identification of a Significant Increase in Credit Risk ("SICR") since initial recognition of a financial asset. SICR was introduced into IFRS9 as a result of IAS39 not accounting for increased credit risk displayed by exposures, beyond actual historic missed payments, and as a result falling short when providing for impairment of these exposures.<br><br>In determining whether there has been a SICR and in determining the ECL calculation, IFRS 9 requires the consideration of forward-looking information. The determination of a significant increase in credit risk is required to include consideration of all reasonable and supportable information that is available without undue cost or effort.<br><br>Under IFRS 9 the write off point of an asset is set as the point at which there is no reasonable expectation of future recovery. | The revised impairment requirements increased impairments by R 861 million, due to earlier recognition of ECL, incorporating forward looking information, the inclusion of future exposures and the extension of the write-off point.<br><br>The adoption of IFRS 9 does not have an impact on the net carrying value of the Acquired Book, which represents the present value of expected future cash flows, discounted at the original effective interest rate applied at acquisition of the portfolio. The increase in impairment provisions held due to the changes in the ECL methodologies is offset by an equal and opposite adjustment to the gross carrying value, to balance the net carrying value to the net present value of future cash flows, which cash flows are not impacted by a change in the impairment methodology.<br><br>The Bank has historically applied a very conservative write off policy at an individual exposure level, where advances were written off in full if in arrears with 4 or more instalments due and no payment had been received in the preceding 5 months. The point of write off has consequently been set where advances are in arrears with 4 or more instalments due and no payment had been received in the preceding 8 months. Advances meeting the revised criteria are written off in full. |
| Hedge Accounting | IFRS 9 more closely aligns hedge accounting with the entity's risk management policies and permits the use of internally produced risk management information as a basis for hedge accounting, thereby widening the range of items that can be hedge accounted. IFRS 9 also permits an entity to continue applying the hedge accounting under IAS 39 should it elect to do so. | The Bank does not apply hedge accounting, because economic hedging methodologies are employed to mitigate risk from exposures. Consequently there is no impact on hedge accounting for the Bank from the adoption of IFRS 9. The Bank recognised financial assets and liabilities when it becomes a party to the terms of a contract, which is the trade date or the settlement date. |

**Transition impact on IFRS 9 financial position as at 1 October 2018**

| Rmillion | 30 September 2018 applying IAS 39 | ECL impact | 1 October 2018 applying IFRS 9 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 7 221 | (1) | 7 220 |
| Regulatory deposits and sovereign debt securities | 2 130 | (1) | 2 129 |
| Derivatives | 47 | - | 47 |
| Net advances | 19 178 | (861) | 18 317 |
| Accounts receivable and other assets | 212 | - | 212 |
| Loans to affiliated companies | 51 | - | 51 |
| Investments | 15 | - | 15 |
| Property and equipment | 597 | - | 597 |
| Intangible assets | 72 | - | 72 |
| Deferred tax | 756 | 217 | 973 |
| **Total assets** | 30 279 | (646) | 29 633 |
| **Liabilities and equity** | | | |
| Current tax | 24 | (24) | - |
| Creditors and other liabilities | 648 | - | 648 |
| Short-term funding | 6 016 | - | 6 016 |
| Bonds and other long-term funding | 13 279 | - | 13 279 |
| Subordinated bonds | 1 530 | - | 1 530 |
| **Total liabilities** | 21 497 | (24) | 21 473 |
| Ordinary share capital | 5 | - | 5 |
| Ordinary share premium | 9 995 | - | 9 995 |
| Accumulated losses | (1 218) | (622) | (1 840) |
| **Total equity** | 8 782 | (622) | 8 160 |
| **Total liabilities and equity** | 30 279 | (646) | 29 633 |

**Reconciliation of IFRS statement of changes in equity as at 1 October 2018**

| Rmillion | 30 September 2018 applying IAS 39 | ECL impact | 1 October 2018 applying IFRS 9 |
|---|---|---|---|
| Ordinary share capital | 5 | - | 5 |
| Ordinary share premium | 9 995 | - | 9 995 |
| Accumulated loss | (1 218) | (622) | (1 840) |
| **Total equity** | **8 782** | **(622)** | **8 160** |

**Summary accounting policies**

The following is an extract of the changes made to the accounting policies as a result of the implementation of IFRS 9

**Financial instruments**

The Bank applies IFRS 9 for the recognition, classification and measurement and de-recognition of financial assets and financial liabilities, the impairment of financial assets and hedge accounting as defined in IFRS 9. The Bank recognises financial assets and liabilities when it becomes a party to the contractual provisions of the instrument on the trade date or the settlement 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 fair value through profit or loss; and
- financial liabilities at amortised cost.

The classification of financial assets is on the basis of 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.

**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.

**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.

**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 classified as held for trading, whose business model is not solely for the purpose of collecting principal and interest and/or are subsequently held for sale, and those used to eliminate accounting mismatch. Currently only derivatives are included in this category.

**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 assets 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 and the sovereign debt securities, as well as accounts receivable, other assets and cash and cash equivalents at amortised cost.

*Regulatory deposits and sovereign debt securities*

Contained within regulatory deposits and sovereign debt securities are treasury bills, treasury debentures and government bonds. Management has elected to classify these financial assets at amortised cost upon initial recognition. In making this judgment, 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 results 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.

*Advances*
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.

Advances are classified as and are 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. Origination fees and monthly service fees that are integral to the effective interest rate are capitalised to the value of the loan and amortised to profit or loss over the contractual life of the loan using the effective interest rate method.

**Financial liabilities at amortised cost**

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

**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.
The Bank calculates interest revenue using the effective interest method. In applying the effective interest method, the Bank considers the origination fees and monthly fees as an integral part of the effective interest rate of the exposure.

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

When exposures are identified as credit impaired, interest income is calculated by applying the effective interest rate to the net carrying value, being the gross carrying value after deducting the impairment provision for expected credit losses.

The Bank accordingly ceases to recognise, in profit or loss, the portion of the contractual interest charged on credit impaired assets, thus equating to the result of the net carrying value of the credit impaired exposure being multiplied by the applicable effective interest rate. For financial assets which are credit impaired, whether purchased or originated, the interest income is calculated by applying the effective interest rate to the net carrying value of the asset.

Inflation linked bonds are treated similar to a floating rate instrument, as the varying interest amounts are a contractual term of the instrument. The changes in the inflation index results in changes to the instrument's effective yield.

**Impairment of financial instruments**

For financial assets classified and measured at amortised cost, the Bank assesses at each reporting date whether there is objective evidence that an asset or group of assets is impaired. 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 this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between expected credit loss estimates and actual loss experience.

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 Purchased Book, which is classified as a credit impaired originated asset.

<u>Originated Book</u>

The Bank measures the loss allowance on advances for which credit risk has increased significantly since initial recognition at an amount equal to the lifetime expected credit losses. If, at the reporting date, the credit risk on the loans and advances has not increased significantly since initial recognition, the Bank measures the loss allowance at an amount equal to the expected credit losses over the subsequent 12 month period. The loss allowance on the undrawn commitments is at an amount equal to the expected credit losses over a 12 month period.

Purchased Book

The Bank measures the loss allowance as the cumulative changes in lifetime expected credit losses since initial recognition.

The 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 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;
- 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 with the individual financial assets in the Group;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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 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 carrying amount of the advance is increased to the revised estimate of the cash flows that the Bank expects to receive, but 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.

The Bank accounts for favourable changes in expected credit losses on purchased credit impaired financial assets, such as the Acquired Book, as an impairment gain in profit or loss. Where such favourable changes exceed the loss allowance estimated at initial recognition, these changes are recognised as a direct adjustment to the gross carrying amount of the assets and a corresponding gain is recognised as revenue.

Currently, all advances are assessed for impairment on a collective basis due to the large number of 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 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.

For the purposes of collective impairment assessment, the impairment provisioning is divided into 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 ("SICR") 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 life time expected credit loss is recognised.

*Stage 3:*

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

**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 either in its entirety or a portion thereof.

**De-recognition of financial instruments**

*Financial assets*

The Bank derecognises a financial asset (or group of financial assets) or a part of a financial asset (or part of a group of financial assets) when the contractual rights to the cash flows arising from the financial asset have expired or the Bank transfers the financial asset and the transfer qualifies for de-recognition.

*Financial liabilities*

The Bank derecognises a financial liability when the obligation specified in the contract is discharged, cancelled or expired.

## CORPORATE INFORMATION

**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

**Registered office**
59 16th Road
Midrand, 1685
South Africa

Private Bag X170
Halfway House
Midrand, 1685
South Africa
Tel: +27 11 256 9000

**Website**
www.africanbank.co.za