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African Bank Holdings Limited
Unaudited Consolidated Condensed Interim Financial Statements
31 March 2018

These financial statements were prepared under the supervision of G Raubenheimer CA (SA)

Registration number: 2014/176855/06.

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STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The directors are responsible for the preparation and fair presentation of the consolidated condensed interim financial statements, comprising the consolidated statement of financial position at 31 March 2018, the consolidated statement of total comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, the notes to the consolidated 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 group'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 CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

The consolidated condensed interim financial statements found on pages 4 to 21 were approved by the board of directors on 23 May 2018 and are signed on its behalf by:

B Maluleke	**G Raubenheimer**
Director	Director

Midrand

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 March 2018

Rmillion	Notes	as at 31 March 2018 (unaudited)	as at 30 September 2017 (audited)
Assets			
Cash and cash equivalents	2	6 131	6 866
Regulatory deposits and sovereign debt securities	3	3 754	4 722
Derivatives		42	748
Net advances	4	18 969	18 743
Accounts receivable and other assets		249	218
Loans to joint venture		10	-
Investments		31	-
Investment in insurance contracts	11	596	650
Property and equipment		468	494
Intangible assets		85	75
Current tax		-	49
Deferred tax		571	389
Total assets		**30 906**	**32 954**
Liabilities and equity			
Short-term funding		5 723	4 305
Derivatives		114	5
Creditors and other liabilities		539	621
Current tax		134	-
Bonds and other long-term funding		13 310	17 385
Subordinated bonds		1 529	1 530
Total liabilities		**21 349**	**23 846**
Ordinary share capital		5	**5**
Ordinary share premium		9 995	9 995
Reserves and accumulated losses		(443)	(892)
Total equity (capital and reserves)		**9 557**	**9 108**
Total liabilities and equity		**30 906**	**32 954**

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME
for the six months ended 31 March 2018

Rmillion	Notes	For the six months ended 31 March 2018 (unaudited)	For the six months ended 31 March 2017 (unaudited)
Interest income on advances	6	3 380	2 610
Credit impairment charge	8	(1 713)	(1 058)
Interest on advances after impairment		**1 667**	**1 552**
Other interest income	6	274	439
Interest expense and similar charges	9	(1 168)	(1 466)
Net interest income after impairment		**773**	**525**
Non-interest income	7	668	785
Remeasurement of insurance contracts		(54)	280
Dividends received		425	-
Operating costs		(1 270)	(1 217)
Gain on bond buy back		-	11
Indirect taxation: VAT		(48)	(39)
Operating profit before taxation		**494**	**345**
Taxation		(46)	(30)
Profit for the period		**448**	**315**
Attributable to: **-Owners of African Bank Holdings Limited**			
Total comprehensive profit for the period		**448**	**315**

The Group had no other comprehensive income for the periods under review

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
at 31 March 2018

Rmillion	Ordinary share capital	Ordinary share premium	Accumulated loss	Total
Balance at 30 September 2016 (audited)	5	9 995	(1 678)	8 322
Total comprehensive profit for the period	-	-	315	315
Balance at 31 March 2017 (unaudited)	**5**	**9 995**	**(1 363)**	**8 637**
Total comprehensive profit for the period	-	-	472	472
Balance at 30 September 2017 (audited)	**5**	**9 995**	**(891)**	**9 109**
Total comprehensive profit for the period	-	-	448	**448**
Balance at 31 March 2018 (unaudited)	**5**	**9 995**	**(443)**	**9 557**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 31 March 2018

Rmillion	For the six months ended 31 March 2018 (unaudited)	For the six months ended 31 March 2017 (unaudited)
Cash flows from operating activities		
Cash generated from operations	2 199	1 713
Cash received from lending activities and cash reserves	4 232	3 824
Recoveries on advances previously written off	40	247
Cash paid to clients, funders, employees and agents	(2 073)	(2 358)
Increase in gross advances	(2 019)	(865)
Decrease/(Increase) in regulatory deposits and sovereign debt securities	923	(1 676)
Increase in customer deposits	314	62
Direct taxation paid	(45)	(189)
Indirect taxation paid	(48)	(39)
Net cash flow from operating activities	**1 324**	**(994)**
Cash inflow from investing activities		
Acquisition of property and equipment (to maintain operations)	(34)	(23)
Acquisition of intangible assets (to maintain operations)	(22)	(10)
Dividends received	425	-
Loans advanced to joint venture	(10)	-
Investments made during the period	(31)	-
Net cash flow from investing activities	**328**	**(33)**
Cash flows from financing activities		
Long term funding raised	15	-
Long term funding redeemed	(952)	(664)
Net short-term funding redeemed	(1 056)	(1 211)
Net cash flow from funding activities	**(1 993)**	**(1 875)**
Decrease in cash and cash equivalents	**(341)**	**(2 902)**
Cash and cash equivalents at the beginning of the period	6 866	12 864
Effect of exchange rate changes on cash and cash equivalents	(394)	(12)
Cash and cash equivalents at the end of the period	**6 131**	**9 950**

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
for the six months ended 31 March 2018

1. General information

African Bank Limited ("ABHL" or "the company) is a public company incorporated in the Republic of South Africa. 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 (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 Investments Solutions (Proprietary) Limited (4.95%), Nedbank Limited (4.10%), Investec Bank Limited (2.45%) and Capitec Bank Limited (1.00%). (Percentage indicates per cent holding)

The company's 100% held subsidiary, African Bank Limited, on 4 April 2016 entered into 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 (in 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 company also holds 100% of the issued share capital of African Insurance Group Limited. Its main business is holding an investment in a cell captive structure provided by Guardrisk Insurance Company Limited ("Guardrisk"). ABHL and its subsidiaries constitute the African Bank Holdings group of companies ("the Group"). The Group's main business is providing unsecured personal loans.

The registered office and principal place of business of the Group is disclosed in inside back cover of these financial statements.

2. Basis of preparation

The consolidated 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 consolidated 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 Group 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 consolidated condensed interim financial statements should be read in conjunction with the 2017 annual financial statements, which were prepared in accordance with IFRS. The accounting policies are consistent with those reported in the previous year. The adopted standards and interpretations did not have any significant effect on the Group's financial results or disclosures and had no impact on the Group's accounting policies.

The Group 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 Group's accounting policies management are required to make judgments, estimates and assumptions about 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 historical experience 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 consolidated condensed interim financial statements, the significant judgments made by the management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the annual financial statements for the year ended 30 September 2017.

2. Cash and cash equivalents

Rmillion	31 March 2018 (unaudited)	30 September 2017 (audited)
Call deposits	1 850	862
Rand	1 631	618
Foreign denominated	219	244
Short term notice deposits	562	273
Rand	502	204
Foreign denominated	60	69
Other notice deposits	3 685	5 695
Rand	1 200	2 757
Foreign denominated	2 485	2 938
Current accounts	34	36
	6 131	**6 866**

3. Regulatory deposits and sovereign debt securities

Rmillion	31 March 2018 (unaudited)	30 September 2017 (audited)
Listed	3 359	4 312
Treasury bills and debentures	1 988	2 810
Bonds	1 371	1 502
Unlisted		
Deposits with South African Reserve Bank	395	410
	3 754	**4 722**

Regulatory deposits and sovereign debt securities with a carrying value of R1 140 million (2017: R1 436 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 Group 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 2018 (unaudited)	30 September 2017 (audited)
Gross advances	21 983	20 857
Deferred administration fees	(62)	(74)
Gross advances after deferred administration fees	**21 921**	**20 783**
Loan	17 440	16 135
Credit card	4 481	4 648
Balance of impairment provisions at the end of the year	**2 952**	**2 040**
Balance of impairment provisions at the beginning of the year	2 040	362
Impairment provisions raised	1 789	2 535
Bad debt (write-offs)	(877)	(857)
Net advances	**18 969**	**18 743**

The net book value of the acquired book as at 31 March 2018 was R5 billion (30 September 2017: R7 billion).

Exposure to credit risk		
Net advances	18 969	18 743
Conditionally revocable retail loan commitments	713	750
Maximum exposure to credit risk	**19 682**	**19 493**

5. Credit quality of advances

5.1 Credit quality of advances per IAS 39 requirements

5.1.1 Arrears analysis

Rmillion	Loan March 2018	Credit card March 2018	Total March 2018	Loan September 2017	Credit card September 2017	Total September 2017
Financial assets that are neither past due nor specifically impaired						
CD 0:	11 565	2 634	14 199	11 569	2 268	13 837
Past due and specifically impaired						
CD 1 to CD 3	2 105	1 038	3 143	1 535	1 594	3 129
CD 4 and higher	3 832	809	4 641	3 105	786	3 891
Total credit exposure	**17 502**	**4 481**	**21 983**	**16 209**	**4 648**	**20 857**

Rmillion	Loan March 2018	Credit card March 2018	Total March 2018	Loan September 2017	Credit card September 2017	Total September 2017
Total impairments						
Incurred but not reported (IBNR)	(552)	(112)	(664)	(366)	(61)	(427)
Portfolio specific impairment	(808)	(295)	(1 103)	(535)	(326)	(861)
Specific impairment	(922)	(263)	(1 184)	(536)	(216)	(752)
Deferred administration fees	(62)	-	(62)	(74)	-	(74)
Net advances	**15 158**	**3 811**	**18 979**	**14 698**	**4 045**	**18 743**
Impairment as % of gross advances						
CD 0	4.77%	4.25%	4.68%	3.16%	2.69%	3.08%
CD 1- 3	38.38%	28.42%	35.09%	34.87%	20.46%	27.53%
CD 4 and higher	24.06%	32.51%	25.53%	17.27%	27.46%	19.33%
Total impairment as a % of total gross advances	**13.04%**	**14.95%**	**13.43%**	**8.87%**	**12.97%**	**9.78%**
Reconciliation of allowance account						
Balance at the beginning of the year	1 432	608	2 040	321	41	362
Impairment raised	1 608	181	1 789	1 780	755	2 535
Bad debt (write-offs)/recovery	(758)	(119)	(877)	(669)	(188)	(857)
Balance at the end of the year	**2 282**	**670**	**2 952**	**1 432**	**608**	**2 040**

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

5.2.1 Advances analysis

Rmillion	31 March 2018 (unaudited)	30 September 2017 (audited)
	Disclosures based on the pre- acquisition gross value of advances	
Gross advances	26 922	26 513
Deferred administration fees	(29)	(14)
Gross advances after deferred administration fees	**26 893**	**26 499**
Loan	21 815	21 011
Credit card	5 078	5 488
Balance of the impairment provisions at the end of the year	**7 924**	**7 756**
Balance of impairment provisions at the beginning of the year	7 756	7 488
Impairment provisions raised	2 065	5 145
Bad debt (write-offs)	(1 897)	(4 877)
Net advances	**18 969**	**18 743**

Rmillion	31 March 2018 (unaudited)	30 September 2017 (audited)
Exposure to credit risk		
Net advances	18 969	18 743
Conditionally revocable retail loan commitments	713	750
Maximum exposure to credit risk	**19 682**	**19 493**

The recoveries on the total written off book amounted to R374 million for the reporting period (R247 million for the comparative period).

5.2.2 Arrears analysis

Rmillion	Loan March 2018	Credit card March 2018	Total March 2018	Loan September 2017	Credit card September 2017	Total September 2017
Financial assets that are neither past due nor specifically impaired						
CD 0:	11 680	2 648	14 328	11 743	2 289	14 032
Past due and specifically impaired						
CD 1 to CD 3	2 309	1 097	3 406	1 788	1 769	3 557
CD 4 and higher	7 855	1 333	9 188	7 494	1 430	8 924
Total credit exposure	**21 844**	**5 078**	**26 922**	**21 025**	**5 488**	**26 513**
Total impairments						
Incurred but not reported (IBNR)	(673)	(126)	(799)	(559)	(82)	(641)
Portfolio specific impairment	(1 015)	(354)	(1 369)	(792)	(501)	(1 293)
Specific impairment	(4 969)	(787)	(5 756)	(4 962)	(860)	(5 822)
Deferred administration fees	(29)	-	(29)	(14)	-	(14)
Net advances	**15 158**	**3 811**	**18 969**	**14 698**	**4 045**	**18 743**
Impairment as % of gross advances						
CD 0	5.76%	4.76%	5.58%	4.76%	3.58%	4.57%
CD 1- 3	43.96%	32.27%	40.19%	44.30%	28.31%	36.35%
CD 4 and higher	63.26%	59.04%	62.65%	66.21%	60.12%	65.24%
Total impairment as a % of total gross advances	**30.48%**	**24.96%**	**29.44%**	**30.03%**	**26.29%**	**29.25%**

6. Interest income

6.1. Interest income on advances

Rmillion	For the six months ended 31 March 2018 (unaudited)	For the six months ended 31 March 2017 (unaudited)
Interest on advances	3 166	2 436
Loan origination fees	81	48
Service fee	133	126
Total	**3 380**	**2 610**

6.2. Other interest income

Rmillion	For the six months ended 31 March 2018 (unaudited)	For the six months ended 31 March 2017 (unaudited)
Interest received on cash reserves	272	439
Sundry interest income	2	-
Total	**274**	**439**

7. Non-interest income

Rmillion	For the six months ended 31 March 2018 (unaudited)	For the six months ended 31 March 2017 (unaudited)
Credit card fees	146	190
Binder and outsourcing arrangements fees	215	215
Collection fees	304	378
Other income	3	2
Total	**668**	**785**

8. Credit impairment charge

Rmillion	For the six months ended 31 March 2018 (unaudited)	For the six months ended 31 March 2017 (unaudited)
Increase in impairment provisions	1 789	1 095
Adjustment related to income on impaired advances	(36)	(36)
Recoveries on advances previously written off	(40)	(1)
Total	**1 713**	**1 058**

9. Interest expense and similar charges

Rmillion	For the six months ended 31 March 2018 (unaudited)	For the six months ended 31 March 2017 (unaudited)
Subordinated debt	107	109
Unsecured listed bonds	532	667
Call deposits	12	51
Fixed deposits	147	183
Negotiable certificates of deposit	14	14
Interest on short-term facilities	171	225
Fair value and foreign exchange gains and losses from financial assets and liabilities	161	209
Other interest	24	8
Total	**1 168**	**1 466**

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

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

10.1. 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 Group determines fair values using other valuation techniques.

The Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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.

10.2. Valuation framework

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

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 and the level within 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
March 2018				
Financial assets				
Recurring fair value measurement				
Derivative instruments	-	42	-	42
Investments measured at fair value	-	-	10	10
Total	**-**	**42**	**10**	**52**
Financial liabilities				
Recurring fair value measurement				
Derivative instruments	-	114	-	**114**
Total	**-**	**114**	**-**	**114**
September 2017				
Financial assets				
Recurring fair value measurement				
Derivative instruments	-	748	-	748
Total	**-**	**748**	**-**	**748**
Financial liabilities				
Recurring fair value measurement				
Derivative instruments	-	5	-	5
Total	**-**	**5**	**-**	**5**

10.3. 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 2018				
Assets				
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	**(1)**
Investments measured at fair value	Discounted cash flows	Expected cash flows	1% reduction in expected cash flows	-

Rmillion	Valuation basis / techniques	Main assumptions*	Variance in fair value measurement	Effect on profit / (loss) (after tax)
March 2018				
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	**209**
September 2017				
Assets				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	236
Interest rate swaps	Discounted cash flow	Discount and risk free rates	100 bps	(12)
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	3

10.4. Assets and liabilities for which fair value is disclosed

Rmillion	Level 1	Level 2	Level 3	Total	Carrying value
March 2018					
Financial assets					
Government bonds	-	1 352	-	1 352	1 371
Treasury bills and debentures	-	1 988	-	1 988	1 988
Deposits with South African Reserve Bank	-	395	-	395	395
Net advances	-	-	19 538	19 538	18 969
Loans to joint venture	-	-	10	10	10
Total	**-**	**3 735**	**19 548**	**23 283**	**22 733**
Financial liabilities					
Short term funding	-	5 330	346	5 676	5 723
Unsecured bonds (listed on JSE)	-	6 144	-	6 144	6 178
Unsecured bonds (listed on foreign stock exchange)	-	4 407	-	4 407	4 434
Unsecured long- term loans	-	2 337	419	2 756	2 698
Subordinated bonds, debentures and loans	-	1 534	-	1 534	1 529
Total	**-**	**19 752**	**765**	**20 517**	**20 562**

Rmillion	Level 1	Level 2	Level 3	Total	Carrying value
September 2017					
Financial assets					
Government bonds	-	1 498	-	1 498	1 502
Treasury bills and debentures	-	2 810	-	2 810	2 810
Deposits with South African Reserve Bank	-	410	-	410	410
Net advances	-	-	18 968	18 968	18 743
Total	**-**	**4 718**	**18 986**	**23 686**	**23 465**
Financial liabilities					
Short term funding	-	4 108	211	4 319	4 305
Unsecured bonds (listed on JSE)	-	6 824	-	6 824	6 908
Unsecured bonds (listed on foreign stock exchange)	-	5 636	-	5 636	5 612
Unsecured long- term loans	-	343	-	343	339
Unlisted bonds	-	4 314	241	4 555	4 526
Subordinated bonds, debentures and loans	-	1 520	-	1 520	1 530
Total	**-**	**4 718**	**18 993**	**23 711**	**23 488**

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;*
- *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.

11. Investment in insurance contracts

Rmillion	31 March 2018 (unaudited)	30 September 2017 (audited)
African Insurance Group Limited Cell No. 00124		
Initial investment	281	281
Re-measurement of investment in insurance contracts	315	369
Carrying value as at reporting date	**596**	**650**
Re-measurement of investment in insurance contracts		
Opening balance	**369**	**33**
Net premiums earned	**(54)**	**336**
Premium earned	945	1 909
Claims costs	(287)	(621)
Investment income	47	81
Fees and commission paid	(220)	(415)
Actuarial movements	61	(9)
Taxation	(174)	(306)
Distributions paid to cell shareholders	(425)	(303)
Closing balance	**315**	**369**

The Group has entered into a cell captive arrangement whereby the Group as cell shareholder is able to sell insurance products under its own brand. Guardrisk is the principal to the insurance contact, although the business is underwritten on behalf of the Group as cell shareholder. Under this arrangement Guardrisk undertakes the professional insurance and financial management of the cell, including functions related to underwriting, reinsurance, management of claims, actuarial and statistical analyses and investment and accounting services.

Insurance risk

Insurance risk is the possibility that the insured event occurs and that benefit payments and expenses exceed the carrying amount of the insurance liabilities. In such event, the Group would be contractually required to provide additional capital to maintain the solvency of the investment in the cell captive arrangement.

Insured events are random and the actual number and amount of claims and benefits will vary from year to year. Statistically, the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. Similarly, diversification of the portfolio with respect to risk factors reduces insurance risk. Guardrisk is responsible for evaluating all retention of risks in terms of statistical and underwriting disciplines, under the mandate set for the cell arrangement.

Factors specifically applicable to the Group that aggravate insurance risk include those arising from a lack of risk diversification in terms of type and amount of risk, geographical area and specific industries covered. The Group sells not only credit and life insurance products, but also funeral policies which introduces diversification into the portfolio.

The Group manages these risks through its agreement with Guardrisk. The main risks to which the group is exposed include:

- Mortality, and morbidity risks (the risk that actual experience in respect of the rates of mortality and morbidity may be higher than that assumed in pricing and valuation varies, depending on the terms of different products);
- Contract persistency risk (the risk that policyholders may cease or reduce their contributions or withdraw their benefits and terminate their contracts prior to the contractual maturity date of a contract);
- Expense risk (there is a risk that the Group may experience a loss due to actual expenses being higher than that assumed when pricing and valuing policies); and
- Business volume risk (the risk that the Group may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration).

These risks are mitigated through the cell captive arrangement with Guardrisk, which is experienced in the professional insurance and financial management of insurance contracts, and has a proven track record that the Group has determined can be relied upon.

In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality and morbidity, termination rates, expenses and investment performance. The investment in insurance assets is more sensitive to the rates of mortality and termination applied in the valuation of the underlying insurance liabilities. The assumptions are informed by Guardrisk's broad and extensive industry level insight and experience and are assessed annually.

The uncertainty of these rates may result in actual experience being different from that assumed and hence actual cash flows being different from those projected. In the extreme, actual claims and benefits may exceed the liabilities. The risk is mitigated to an extent through the extensive use of reinsurance and the addition of compulsory and discretionary margins.

Discretionary margins are applied where the prescribed compulsory margins are deemed insufficient in a particular case in relation to prevailing uncertainty, specifically where there is evidence of moderate to extreme variation in experience or a lack of performance history does not present sufficient claims data to accurately determine the insurance liabilities. The risks arising from the sensitivity of these assumptions are mitigated further through the governance and oversight applied by the board of directors of the African Insurance Group Limited, as well as the board of African Bank Holdings Limited.

12. Related party information

There were no material transactions other than remuneration for the directors and key management personnel.

Members of the Group's executive committee are considered to be key management personnel of the Group.

13. Events after the reporting date

There were no material matters or circumstances arising since the reporting period end which significantly affects the financial position as at 31 March 2018 or the results of its operations or cash flows for the period then ended.

14. MMI partnership arrangements

Currently there are three business arrangements in place between African Bank Limited and MMI Group:

- An equity investment and loans granted to MMI Lending (Proprietary) Limited;
- An investment in the sinking fund policy issued by MMI Group as well as 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 (Proprietary) Limited is classified as an investment in a joint venture. In terms of IFRS11 "Joint Arrangements", the investment in the joint venture is measured using the equity method.

The investment in the sinking fund policy is classified as a financial instrument in terms of IAS 39 "Financial instruments: Recognition and Measurement".

The BIN sponsorship agreement is an executory contract.

CORPORATE INFORMATION

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Bruce Unser

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