African Bank
INVESTMENTS LIMITED

Responsible credit with
passion, courage and empathy

Integrated Report

for the year ended 30 September 2012

Scope and boundary of this report

For more information, please contact
Marilyn Budow at +27 11 256 9743, or greenabil@africanbank.co.za
regarding sustainability related queries, and
Lydia du Plessis at +27 11 564 6991 or
Chiquita Schram at +27 11 253 9523 or
investor.relations@africanbank.co.za for investor queries.

How to get the most from our integrated report:

This icon signifies that related information is available elsewhere in the report.

This icon signifies that related information is available online at: www.abil.co.za.

This icon signifies information used in relation to the GRI index.

Our integrated report is published annually and presents an overview of ABIL's activities, practices and progress for the 12-month period. The 2012 integrated report provides financial and non-financial information for the period from October 2011 through September 2012. The most recent previous report was the 2011 integrated report, published in December 2011 and available on ABIL's website.

The 2012 integrated report covers relevant aspects of all the South African operations of the ABIL group, which includes the businesses of African Bank, the EHL group of brands and the insurance activities of Stangen and Relyant Insurance Company. The foreign operations in the EHL group are not material in the context of the ABIL group and these operations have been excluded from the scope of this report. There has been no change in the scope and boundary of this report, relative to previous reports.

There have been no significant changes in the size, structure or ownership during the current reporting period other than through organic growth of operations. The number of stores and branches opened and closed was at a level similar to previous years. The Retail unit opened five large regional distribution centres in the past 12 months, which was the culmination of a three-year project to develop a centralised logistics and distribution infrastructure. There has been no material restatement of information provided in earlier reports. Where historical data has been adjusted in this report, the relevant numbers have been annotated and a brief explanation included at the bottom of the tables.

The Banking unit (African Bank or the Bank) consists of African Bank (including Ellerines Financial Services) as well as Stangen, African Bank's insurance arm. The activities of these businesses are closely related and, as a result, the outcome of their business activities is measured as one entity.

The Retail unit (or EHL) consists of furniture retail, financial services of foreign stores and the product insurance activities of Relyant Insurance Company.

The information in this report has been selected to cater for the interests of stakeholders who require a broad overview of the present and future direction and prospects of the

ABIL group – shareholders, funders, regulators, prospective employees, suppliers and community members, amongst others. Stakeholders with more indepth needs, such as employees, rating agencies and customers, are invited to contact ABIL directly or visit our websites for further information.

The integrated report forms part of, and should be read in conjunction with a suite of reports available online on our website at www.abil.co.za. Other reports available are:

- Corporate governance report;
- Risk report;
- Sustainable development;
- Remuneration report; and
- Annual financial statements.

For ease of use and referencing, all these reports have also been incorporated into an expanded integrated report, available online or in downloadable form.

Frameworks and assurance

The reporting principles that have been applied in this report were guided by IFRS, the King Report on Corporate Governance for South Africa 2009 (King III) requirements, the Global Reporting Initiative's sustainability reporting guidelines and the Framework for Integrated Reporting and the Integrated Report Discussion Paper. It also conforms to the statutory and reporting requirements of the South African Companies Act, 71 of 2008, and the JSE Limited Listings Requirements.

The ABIL board and its subcommittees have reviewed the report and have satisfied themselves of the materiality, accuracy and balance of disclosures in this report. In addition, internal audit services were utilised to verify the accuracy of statistics within the sustainable development section and external assurance was sought for aspects of our reporting from a variety of sources. These include:

- **Independent auditors, Deloitte & Touche**, for our annual financial statements and related financial information;
- **National Empowerment Rating Agency (NERA)** for our Broad-based Black Economic Empowerment scorecard verification;
- **Integrated Reporting and Assurance Services (IRAS)** for alignment with AccountAbility's AA1000AS guidelines; and
- **Enlightened Energy** for the verification of our Carbon Disclosure report.

Approval of the integrated report

The board acknowledges its responsibility to ensure the integrity of this report. The directors confirm that they have collectively assessed the content of the integrated report and believe it addresses the material issues and is a fair representation of the integrated performance of the group. The board has therefore approved the 2012 integrated report for publication.

On behalf of the board

Mutle Mogase
Chairman

Leon Kirkinis
Chief executive officer

African Bank
INVESTMENTS LIMITED

Contents

Two subsidiaries of ABIL, African Bank Limited and Ellerine Furnishers (Proprietary) Limited, are authorised financial services and registered credit providers.

ABIL in perspective >

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Group profile

ABIL's purpose is to impact positively on people's lives through the provision of credit led, risk based financial services. We assist our customers to affordably meet their needs, achieve their dreams and manage the unanticipated financial events that occur through life.

Our aim is to be

the ***dominant*** *provider of* ***risk based financial services*** *to the* ***South African market***

Dominance

Dominance is defined as the largest advance base, customer base and distribution presence in our target market

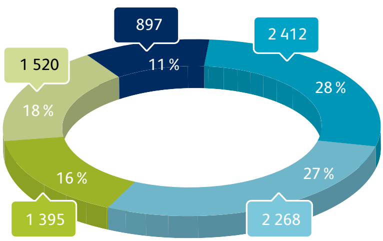
Risk based

Services include credit, credit led insurance and credit led products to bridge cash flow mismatches

Mass market

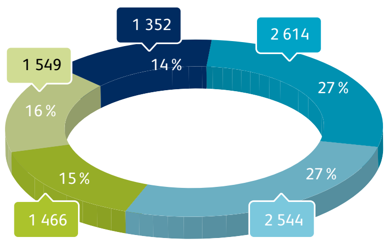
Target market defined as LSM 2 – 8, formally employed and self employed individuals

R8,5 billion of value added ABIL in 2011 (R million)



- To employees as salaries and sales commission
- To suppliers of various services
- To government as taxation
- To shareholders as dividends
- Retained for growth

R9,5 billion of value added ABIL in 2012 (R million)



- To employees as salaries and sales commission
- To suppliers of various services
- To government as taxation
- To shareholders as dividends
- Retained for growth

African Bank
INVESTMENTS LIMITED

Operating structure

ABIL is a publicly owned holding company listed on the JSE with wholly owned subsidiaries within the South African unsecured credit and furniture and appliances retailing environment. The group operates through two primary businesses, African Bank and EHL as well as insurance subsidiaries Stangen, Relyant Insurance and Relyant Life.

Key highlights

R53 billion
advances book

2,6 million
credit customers

5 182
employees

637
outlets

R4,8 billion
of furniture sales

9 248
employees

1 041
retail stores

African Bank

African Bank offers competitively priced loans and credit card products to a predominantly formally employed and banked market. Stangen provides credit life policies to customers who utilise the loan and credit card products offered by African Bank, as well as funeral insurance products.

ehl
ellerine holdings limited

EHL is a furniture and appliances retailer which provides affordable products and offers credit facilities through African Bank for the purchase of its goods. It operates in the formally employed banked market, the informally employed market as well as higher lifestyle markets than those traditionally targeted by African Bank. Relyant offers voluntary product insurance on merchandise purchased from the EHL group.

ELLERINES | BEARES | FurnitureCity
Geen & Richards | Wetherlys | Dial-a-Bed

African Bank and Stangen operate in South Africa exclusively, whilst the EHL group also has operations in Swaziland, Zambia, Namibia, Botswana and Lesotho.

The Banker
Bank of the Year 2012
SOUTH AFRICA

African Bank was awarded South African Bank of the year for 2012 by *The Banker* magazine

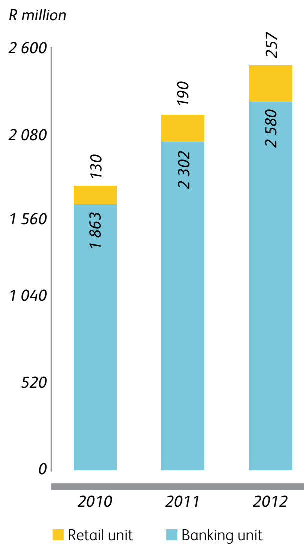
2012 in perspective

- 20 % return on equity
- 53 % increase in economic profit to R755 million
- 18 % growth in headline earnings to R2,8 billion
- 18 % growth in HEPS to 342,5 cents
- 33 % growth in advances
- 5 % growth in ordinary DPS to 195 cents

Highlights

- African Bank credit card is the fastest growing credit card in South Africa
- Credit disbursements through the EHL network up 40 % to R7,4 billion
- Innovative products attract new customers
- Delinquent customer rehabilitation gaining momentum
- Direct and mobile channels growing strongly
- New customer interface led to vastly improved customer convenience
- Value proposition to staff substantially enhanced through a range of additional benefits
- Biannual employee surveys demonstrate strong commitment
- African Bank became the first bank in Africa to issue a Swiss bond
- Green building at EHL won an Innovative Excellence Award
- Four regional retail distribution centres successfully rolled out in 2012
- Improvement in B-BBEE scores for African Bank and EHL
- Strong improvements in ABIL's carbon disclosure
- Inclusion in the JSE Socially Responsible Investment (SRI) index for the eighth year
- ABIL was named South African Bank of the year for 2012 by *The Banker* magazine
- African Bank won a Credit Ombudsman Award for the sixth consecutive year

Headline earnings contribution



Challenges

- Subdued economic environment
- Competition intensifies
- Risk emergence in small segments of the target market
- Balancing growth, shareholder returns and capital requirements
- Containing cost growth
- Growing merchandise sales in a challenging economic environment
- Risk return profile of Ellerines Financial Services not yet satisfactory
- Growing the customer base
- Reputation of unsecured lending

African Bank became the first bank in Africa to have a Swiss bond listing

Our values

These are the basic beliefs and convictions that govern our behaviour and the manner in which we relate to and interact with others, including our customers.

We pledge to live by these values

empathy

This means understanding our customers and responding to them with sensitivity and compassion. Doing all that we can to meet the needs of all good faith customers.

To do so we first and foremost need to deal with our own people with openness, empathy and understanding in order to better support them in the fulfilment of their needs and their roles.

passion

This means being wholly committed to what we do and expending ourselves fully in pursuit of our vision.

team orientation

This means recognising that we can only succeed if the team succeeds and therefore to always work for the good of the team. It means that no individual is bigger than the team and the team is the unit of analysis.

humility

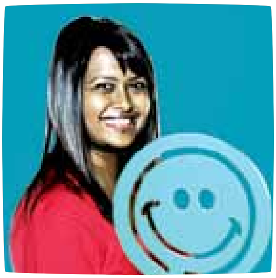
Being humble about achievements, respectful of competitors and worthy of followership. It means we do not promote ourselves nor use "I" to talk about our success or achievements.

courage

We must be prepared to do extraordinary things with conviction and a big heart and be willing to make difficult decisions and express our views as and when required. As a pioneering organisation, we will grow our business into new areas and open markets where none existed before.

stewardship

We acknowledge that we have been entrusted by shareholders with key assets for which we will have to give account and that we should pass them on to the next generation in a better state than we received them. Individuals should take accountability for outcomes ("I" am accountable).



2003 – ABIL achieves investment grade credit rating

Our history

1993 › › 2002

‘93
Formation of Theta Securities

‘94
Formation of an investment trust with Hollard Holdings

‘95
Transmuted listing of Baobab Solid Growth Limited

‘97
Baobab acquires controlling interest in Altfin, King and Unity. Name changed to Theta Group Limited

‘98
Acquisition of African Bank Limited

The Boland book acquired for R1,7 billion

‘99
Theta Group Limited name changed to African Bank Investments Limited

Acquisition of Stangen

‘01
ABIL offers its first retail debit order product

Government payroll deductions closed to all credit providers

‘02
Demise of Unifer and Saambou. ABIL acquires the R2,8 billion Saambou personal loans book

2011 – African Bank lists USD300 million maiden bond on the London Stock Exchange

2003 — 2012

'03

ABIL achieves investment grade credit rating

'05

Eyomhlaba, ABIL's first R600 million Black equity ownership programme, announced

African Bank launches its price/volume elasticity strategy, with the introduction of its first set of price reductions

'06

African Bank launches its first credit card

'08

ABIL acquires the EHL group for R9,1 billion

ABIL launches its second BEE programme, Hlumisa

'10

Ellerines financial services integrated into African Bank

Credit card portfolio reaches R3 billion

'11

African Bank lists USD300 million maiden bond on the London Stock Exchange

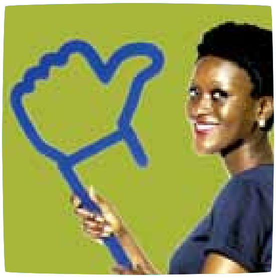
African Bank kiosks and carve-outs rolled out in EHL stores

'12

Advances grow by 83 % in two years to R53 billion

One of the founding members, Gordon Schachat, retires

African Bank issues its first Swiss bond



We will grow the business into new areas and open markets where none existed before

Strategic framework

ABIL's vision is to positively impact on people's lives through the provision of credit led risk based financial services.

Our material issues

M1. *Leading the positioning of unsecured lending in the context of the broader industry*

M2. *Structuring our business for the long term*

M3. *Growing our people*

M4. *Delivering value to our customers*

M5. *Maintaining a solid funding and capital foundation*

M6. *Delivering value through sustainable and responsible processes*

M7. *Maintaining good corporate citizenship*

Refer page 36.

Strategic imperatives

S1. *Maintain superior human capital*

S2. *Offer a superior customer value proposition*

S3. *Low cost operational excellence*

S4. *Efficient pervasive distribution*

S5. *Efficient and innovative funding*

S6. *Superior credit underwriting*

S7. *Efficient and superior collections*

S8. *Expanding our accountability horizons*

Refer page 38.

High level risks

R1. *Economic environment*

R2. *Competitive landscape*

R3. *Perception of unsecured lending*

R4. *Ability to recruit and retain appropriate skills (our people)*

R5. *Growing ABIL's customer base*

R6. *Scalability of the business*

R7. *Credit risk*

R8. *Capital, liquidity and funding risk*

R9. *Managing costs*

R10. *Ability to price for risk*

R11. *Payment system changes*

R12. *Information technology (IT) risk*

R13. *Regulation*

R14. *Impact on society*

Refer page 114.

African Bank Investments Limited
Financial statistics

for the year ended 30 September 2012

		% change	Audited 2012	Audited 2011
Key shareholder statistics				
Headline earnings	R million	18	**2 754**	2 339
Headline earnings per share	cents	18	**342,5**	291,0
Number of ordinary shares in issue (net of treasury shares)	million		**804,2**	803,7
Weighted number of ordinary shares in issue	million		**804,0**	803,7
Number of preference shares in issue	million	69	**13,5**	8,0
Average ordinary shareholders' equity	R million	8	**13 785**	12 722
Average tangible ordinary shareholders' equity	R million	18	**7 591**	6 453
Segmental contribution to headline earnings				
Banking unit	R million	12	**2 580**	2 302
Retail unit	R million	35	**257**	190
Net asset value per ordinary share	cents	8	**1 779**	1 648
Tangible net asset value per ordinary share	cents	16	**1 013**	873
Economic returns				
ABIL				
Return on equity	%		**20,0**	18,4
Return on tangible equity	%		**36,3**	36,2
Return on assets	%		**4,5**	4,8
Return on tangible assets	%		**5,3**	5,9
Gearing	times		**4,5**	3,5
Economic profit	R million	53	**755**	494
Banking unit				
Return on equity	%		**22,9**	22,9
Return on tangible equity	%		**35,4**	38,2
Return on assets	%		**4,7**	5,5
Retail unit				
Return on equity	%		**9,4**	6,9
Return on tangible equity	%		**47,7**	38,2
Return on sales	%		**5,4**	4,0
Dividends per ordinary share		5	**195**	185
Interim paid	cents	–	**85**	85
Final declared	cents	10	**110**	100
Dividend cover	times	10	**1,8**	1,6
Payout ratio	%		**56,9**	63,6
Dividends per preference share	cents	8	**668**	620
Interim paid	cents	10	**341**	310
Final declared	cents	5	**327**	310

African Bank Investments Limited
Financial statistics *continued*

for the year ended 30 September 2012

		% change	Audited 2012	Audited 2011
ABIL capital adequacy				
Risk weighted assets	R million		**42 042**	32 255
Total qualifying capital (including unappropriated profits)	%		**29,4**	30,9
Core Equity Tier 1	%		**17,0**	16,5
Tier 1	%		**21,4**	23,2
Tier 2	%		**8,0**	7,7
African Bank capital adequacy				
Risk weighted assets	R million		**40 550**	30 312
Total qualifying capital (including unappropriated profits)	%		**29,0**	30,4
Core Equity Tier 1	%		**18,6**	19,9
Tier 1	%		**20,3**	21,7
Tier 2	%		**8,7**	8,7
Operational statistics				
Banking unit				
Total advances	R million	33	**52 984**	39 912
Total income yield on average advances	%		**34,1**	35,4
Credit loss expense to average advances	%		**10,8**	10,1
Claims paid to average advances	%		**1,9**	1,8
Operating cost to average advances	%		**6,2**	6,9
Financing costs to average advances	%		**7,4**	7,3
Funding cost	%		**9,2**	9,4
Retail unit				
Merchandise sales	R million	2	**4 792**	4 710
Merchandise cash sales	R million	6	**1 788**	1 682
Merchandise credit sales	R million	(1)	**3 004**	3 028
Non-furniture credit sales	R million	>100	**3 561**	1 729
Credit merchandise sales % of total sales	%		**62,7**	64,3
Comparable merchandise sales growth*	%		**4,7**	7,2
Gross operating costs to sales	%		**65,4**	65,7
Gross profit margin	%		**44,5**	44,2
Operating margin	%		**7,2**	5,5
Stock turn*	times		**3,2**	3,1
Number of stores		(2)	**1 041**	1 059
South Africa		(2)	**964**	981
Foreign		(1)	**77**	78
Retail trading area	m^2	(4)	**673 460**	702 799
Merchandise sales/store*	R000	4	**4 605**	4 446
Merchandise sales/m^2*	Rand	5	**6 972**	6 662
Merchandise sales/employee*	R000	13	**518**	457

* *12 months rolling average.*

African Bank Investments Limited
Financial statistics *continued*

for the year ended 30 September 2012

		Audited 2012	Audited 2011
Customers			
Number of customers	000	**2 620**	2 569
Number of new customers	000	**573**	612
Offer rate	%	**71**	74
Distribution points			
– African Bank		**637**	643
– EHL		**1 041**	1 059
Employees			
Full time employees		**14 430**	15 281
African Bank		**5 182**	4 978
EHL		**9 248**	10 303
Net full time employment creation		**(851)**	(646)
Employee turnover – voluntary			
African Bank	%	**13,0**	13,2
EHL	%	**24,9**	20,4
Employee turnover – involuntary			
African Bank	%	**5,4**	5,1
EHL	%	**42,8***	13,5
Total payroll and benefits	R million		2,4
Minimum wage			
African Bank	Rand	**6 000**	5 500
EHL	Rand	**3 000**	3 000
% unionised employees			
African Bank	%	**52,0**	52,0
EHL	%	**34,0**	35,0
Training expenditure	R million	**33,0**	19,0
African Bank	R million	**21,0**	9,7
EHL	R million	**12,0**	9,3
Society			
Corporate social investment expenditure	R million	**9,9**	8,5
Environmental			
Carbon footprint	Metric tons	**73 450**	98 783

* *Refer to page 149 for detail.*

Our stakeholders

Our philosophy

ABIL subscribes to an integrated sustainable stakeholder model that promotes healthy and enlightened dialogue between the group and its community, because it recognises that all companies operate in a context where social, economic, environmental, legal and regulatory factors can directly or indirectly impact on how business is conducted. It is therefore important that we develop and maintain relationships with a range of stakeholders to inform the business, manage expectations and reputational risks and to continuously improve the alignment between the group and its key stakeholders. The stakeholder groups below have been identified on the basis of the extent to which they are affected by the operations and decisions of the group (stakeholder dependence), as well as their ability to influence the performance or strategic direction of the group (stakeholder influence).

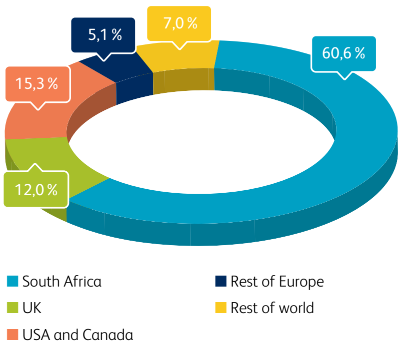
ABIL stakeholder	*What we stand for*
Our people	We promise a safe and challenging work environment, above average remuneration and benefits, ample opportunity to develop and grow and a community of like minded people who want to make a difference.
Our customers	We promise affordable, responsible and hassle free credit to our customers. We will develop products to meet customers' every credit need. We will empower customers to make good credit calls and work with them if they find themselves in financial difficulty. We will listen! Where we offer retail products, we will provide affordable, quality products that satisfy our customers' lifestyle aspirations at the most affordable credit pricing.
Our capital providers	We undertake to continue to build the group into a sustainable, high return credit provider of scale, who uses capital efficiently and conducts business responsibly. We will provide balanced and transparent disclosure and keep investors informed about the affairs and the prospects of the company.
Our suppliers	We undertake to show good faith in our dealings, settle our obligations promptly, maintain solid relations with our suppliers, and provide a reliable channel to markets.
Our regulators	We commit to conducting our businesses practices in a way that is fully compliant with the laws and regulations that apply to us. We pledge cooperation and active participation in forums that will make our industry a more sustainable one.
Our communities	We pledge to be a socially responsible and humane corporate citizen, that ploughs back in our communities and that will continue to make progress to minimise the negative impact we have on the environment we operate in.

Shareholders' profile

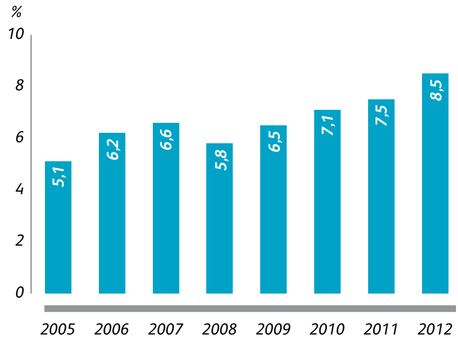
Top fund managers holding/managing ABIL shares

Manager	*Holding*	*%*
Government Employees Pension Fund (PIC)	**98 269 677**	12,2
JP Morgan Asset Management	**71 327 638**	8,9
ABIL B-BBEE programmes	**67 609 273**	8,5
STANLIB Asset Management	**50 790 500**	6,3
Investec Asset Management	**34 644 778**	4,3

Shareholder by geography



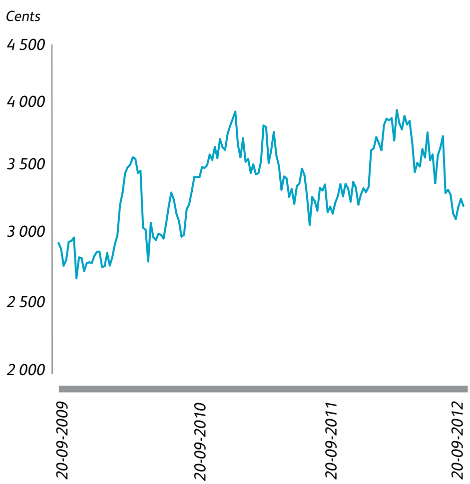
Empowerment shareholding



Shareholder spread	*Shares*	*%*
1 – 999	**3 264 826**	0,4
1 000 – 9 999	**25 341 364**	3,2
10 000 – 99 999	**34 890 199**	4,3
100 000 – more	**740 678 811**	92,1

Shareholder split	*Shares*	*%*
Non-public	**30 684 055**	3,8
Directors	**29 623 449**	3,7
Development trust	**1 060 606**	0,1
Public	**773 491 145**	96,2

ABIL share price movements



10-year statistics and financial definitions

		2012	2011	2010	2009	2008
Key shareholder ratios						
Profit for the year	R million	**2 803**	2 371	1 942	1 855	1 560
Basic earnings attributable to ordinary shareholders	R million	**2 742**	2 339	1 906	1 803	1 511
Basic earnings per share	cents	**341,0**	291,0	237,2	224,3	210,5
Headline earnings	R million	**2 754**	2 339	1 890	1 810	1 519
Headline earnings per share	cents	**342,5**	291,0	235,2	225,2	211,6
Number of ordinary shares in issue (net of treasury shares)	million	**804,2**	803,7	803,7	803,7	803,7
Weighted average number of ordinary shares in issue	million	**804,0**	803,7	803,7	803,7	717,9
Fully diluted number of ordinary shares in issue	million	**804,0**	803,8	803,8	803,8	718
Number of preference shares in issue	million	**13,5**	8	5	5	5
Economic profit/(loss)	R million	**755**	494	78	(95)	323
Net asset value per ordinary share	cents	**1 779**	1 648	1 542	1 515	1 484
Return on assets	%	**4,5**	4,8	5,1	5,7	8,1
Return on equity	%	**20,0**	18,4	15,6	15,2	19,5
Dividends per share						
Total ordinary dividends	cents	**195**	185	185	185	210
Special dividends paid	cents	**–**	–	–	–	–
Total ordinary and special dividends	cents	**195**	185	185	185	210
Dividend cover	times	**1,8**	1,6	1,3	1,2	1,2
Payout ratio	%	**56,9**	63,6	78,7	82,2	99,2
Total preference share dividends	cents	**668**	620	691	842	1 076

2007	2006	2005	2004	2003	
1 375	1 176	943	756	660	Profit attributable to ordinary and preference shareholders
1 334	1 140	935	756	660	Profit for the period – preference dividends paid in the period
268,4	229,5	198,7	160,3	136,2	Profit attributable to ordinary shareholders/ weighted number of ordinary shares in issue
1 334	1 109	948	762,0	680	Basic earnings attributable to ordinary shareholders – goodwill impairments – capital profits or losses of non-recurring nature
268,4	223,3	201,5	161,6	140,4	Headline earnings/weighted average number of ordinary shares in issue
497,2	496,9	495,1	472,3	474,2	Number of ordinary shares issued – shares held by the group classified as treasury shares
497,1	496,7	470,6	471,6	484,4	Ordinary shares in issue + (new ordinary shares issued – ordinary shares cancelled – treasury shares) x (number of days in issue/365)
497,4	497,2	472,4	489,4	n/a	Weighted number of ordinary shares in issue + dilution from outstanding options
5	5	n/a	n/a	n/a	Number of preference shares issued/ordinary dividends per share for the period
1 004	808	602	397	n/a	Headline earnings – (estimated cost of equity % x average ordinary shareholders' equity)
499,2	444,1	428,6	559,1	588,1	Ordinary shareholders' equity/number of ordinary shares in issue (net of treasury shares)
13,5	14,2	13	11,6	10,6	Headline earnings/average total assets
60,6	55,3	39,7	31,3	25,9	Headline earnings/average shareholders' equity
225	200	122	92	56	Total ordinary dividends declared relating to the financial year
–	–	100	53	100	Excess capital returned to shareholders in the form of special dividends declared relating to the financial year
225	200	222	145	156	Total ordinary and special dividends declared relating to the financial year
1,2	1,1	1,6	1,7	2,4	Headlines earnings per share (adjusted for BEE charge)/ordinary dividends per share for the period
83,8	89,6	110,2	89,7	111,1	Total ordinary and special dividends per share/headline earnings per share
890	753	530	n/a	n/a	Total preference share dividends per share declared relating to the financial year

10-year statistics and financial definitions *continued*

		2012	2011	2010	2009	2008
Performance ratios (per RoE model)*						
Total income yield on average advances	%	**34,1**	35,4	38,3	41,7	46,1
Bad debt expense to average advances	%	**10,8**	10,1	9,9	10,6	10,54
Cost to income	%	**18,2**	19,4	23,0	22,7	23,2
Cost to average advances	%	**6,2**	6,9	8,8	9,6	10,70
Assets and credit quality ratios						
Gross advances	R million	**52 897**	40 002	29 334	25 178	20 938
Total non-performing loans (NPLs)	R million	**15 221**	11 035	9 103	8 250	6 239
Total impairment provisions	R million	**9 137**	6 688	5 608	5 661	4 376
NPLs to gross advances	%	**28,8**	27,6	31,0	32,8	29,8
Total impairment provisions to gross advances	%	**17,3**	16,7	19,1	22,5	20,9
NPL coverage	%	**60,0**	60,6	61,6	68,6	70,1
Bad debt write offs to average gross advances	%	**6,4**	7,7	10,4	7,6	6,40
Capital ratios (Basel II capital)						
ABIL group capital adequacy	%	**29,4**	30,9	32,2	37,9	31
African Bank capital adequacy	%	**29**	30,4	28,9	30,1	25,5
Cost of funds						
Average cost of funds	%	**8,9**	9,5	10,5	11,7	10,99

* *2011 and 2012 – excludes foreign financial services.*

2007	2006	2005	2004	2003	
50,07	54,75	55,83	50,35	43,80	(Interest income + gross assurance income + non-interest income)/average gross advances
8,9	8,5	7,9	7,7	6,7	Charge for credit losses/average gross advances
23,6	26,8	27,5	30,0	35,5	Operating expenses/(interest income + gross assurance income + non-interest income)
11,8	14,7	15,4	15,1	15,5	Operating expenses/average gross advances
10 890	7 727	6 454	6 129	6 314	Total outstanding advances at the end of the period excluding the partially written off book
3 004	2 213	1 642	2 246	2 625	Outstanding balance of loans that have more than three cumulative instalments in arrears excluding partially written off book
1 892	1 435	1 117	1 657	1 961	Balance of all impairment provisions (including insurance reserves) raised against advances
27,6	28,6	25,4	36,6	41,6	Non-performing loans/gross advances
17,4	18,6	17,3	27,0	31,1	Total impairment provisions/gross advances
63,0	64,8	68,0	73,8	74,7	Total impairment provisions/NPLs
5,9	6,4	19,7	13,5	13,1	Net bad debts written off/average gross advances
32,8	35,5	36,2	40,4	44,5	Group qualifying capital/group assets at risk
28,4	31,9	32,9	34,7	40,8	(Tier 1 capital + Tier 2 capital)/risk weighted assets as per Banks Act requirements
9,7	9,9	12,2	12,7	14,5	Interest expense/average interest bearing liabilities

ABIL board of directors

Mutle Constantine Mogase *(48)*

Position: Independent non-executive chairman
Qualifications: BCom (UCT), Executive Development Programme and Graduate Diploma in Corporate Governance
Appointed to the board: 12 March 2007

Directorships: Non-executive chairman of African Bank Investments Limited and African Bank Limited. Non-executive director of Kwikspace Modular Building (Proprietary) Limited, Global Pact Trading 125 (Proprietary) Limited, Business Venture Investments (Proprietary) Limited, Air Liquide Advisory Board, ECI Africa Consulting (Proprietary) Limited and JP Morgan Advisory Board. Executive chairman of Vantage Capital Group and executive director of Vantage Capital Investments (Proprietary) Limited.

Mutle has been an independent non-executive director of African Bank Investments Limited and African Bank Limited since 2007 and currently serves as the non-executive chairman of African Bank Investments Limited and African Bank Limited. In addition, he is currently the executive chairman of Vantage Capital Group. He was chairman of the Micro-Finance Regulatory Council (MFRC) and it was during his tenure that the NCA was developed.

Nicholas (Nic) Adams *(53)*

Position: Independent non-executive director
Qualifications: BCom (Hons), CTA (UCT), ACMA
Appointed to the board: 1 February 2008

Directorships: Non-executive director of African Bank Investments Limited, African Bank Limited, MKP Holdings (Proprietary) Limited, Garden of Development Company (Proprietary) Limited, Swanvest (Proprietary) Limited, Findlay's Properties No 5 (Proprietary) Limited and Uplands College (Proprietary) Limited. Executive director of TukTuk Investments (Proprietary) Limited and Walter H Adams (Kimberley) Limited.

Nic is a chartered accountant by training who spent six years at Deloitte as a partner in the consulting division. He is currently a private equity investor investing own funds in a variety of unlisted investments, mostly venture or development capital in the IT, training and tourism/wildlife industries.

Robert John (Johnny) Symmonds *(53)*

Position: Independent non-executive director
Qualifications: BCom (Hons) (UCT), CA(SA), Strategic Banking Programme (IMD-Lausanne), Executive Development Programme (GIMT)
Appointed to the board: 21 May 2009

Directorships: Non-executive director of African Bank Investments Limited, African Bank Limited, the ABIL group insurance companies, Lombard Insurance Group of Companies (Subsidiary Investments), Shareholders of LomHold (Proprietary) Limited and PtyProps211 (Proprietary) Limited. Executive director of Lombard Insurance Company Limited and its group companies and Lombard Consolidated (Proprietary) Limited.

Johnny is currently the managing director of Lombard Insurance Company Limited and is responsible for the overall implementation of strategies developed in conjunction with the board. As the previous chief executive officer of Mercantile Lisbon Bank Holdings he was primarily responsible for the overall implementation of strategies developed in conjunction with the board, the operational management, risk management, resourcing, human resources, reporting to the market, relationships with regulators and managing the bank through a difficult time within the small banking sector and some significant challenges for that bank itself.

Samuel (Sam) Sithole *(39)*

Zimbabwean

Position: Independent non-executive director
Qualifications: BAcc (Hons) (University of Zimbabwe), CA(Z), CA(SA), ACA (ICAEW), Advanced Diploma in Banking (University of Johannesburg) and Programme for Leadership Development (Harvard Business School)
Appointed to the board: 21 May 2009

Directorships: Non-executive director of African Bank Investments Limited and African Bank Limited. Executive director of Brait South Africa Limited and its related subsidiary companies; Valucorp 154 CC and Proline Trading 102 (Proprietary) Limited.

Sam is currently the group financial director of Brait South Africa Limited. He is a former audit partner of Deloitte, with whom he spent a total of 12 years at their Harare, London (UK) and Johannesburg offices.

ABIL board of directors

Nomalizo Beryl (Ntombi) Langa-Royds *(50)*

Position: Independent non-executive director
Qualifications: BA (Law), LLB (University of Lesotho)
Appointed to the board: 15 March 2011

Directorships: Non-executive director of African Bank Investments Limited, African Bank Limited, Pretoria Portland Cement Limited, Respiratory Care Africa Limited, and Mpact Limited. Executive director of Greenleaf Centre for Servant Leadership (SA) and Faranani Investments (Proprietary) Limited. Executive member of Nthake Consultants CC.

Ntombi has 25 years' experience in the human resources environment. She started a wholly owned Black female corporation in 1999, Nthake Consultants CC, specialising in human resource management and allied services. She has also worked as group human resources director at Independent Newspapers Limited, as chief executive human resources for the SABC and group human resources director for Nampak Limited. Currently Ntombi also serves on the audit committee of the Presidency and Department of Performance, Monitoring and Evaluation (DPME).

Jacobus Dorotheus Maria Gerardus (Jack) Koolen *(52)*

Dutch citizen with residence in South Africa since 1983

Position: Independent non-executive director
Qualifications: BCom (Hogere Economische School Groningen, Netherlands), MBA (University of Witwatersrand)
Appointed to the board: 15 March 2011

Directorships: Non-executive director of African Bank Investments Limited, African Bank Limited and Ellerine Holdings Limited. Executive director of Reflact Advisory Services (Proprietary) Limited.

Jack has been an independent advisor since September 2008, closely associated with the Monitor Group in the Middle East, and regularly advises the South African government on a variety of issues.

He has advised the Presidency (Monitoring and Evaluation), and the Gauteng province on economic growth challenges, as well as working with several private sector customers (mining, healthcare, retail, banking, as well as the chairman of Eskom) in South Africa, in addition to serving customers based in Switzerland, the UK and Saudi Arabia.

He has held non-executive board positions in the private sector (Edcon: 2001 – 2007) and in NGOs (City Year since inception until 2008; CIDA University Advisory Board from inception until 2007), and was a member of the SA Health Ministerial Advisory Committee on Financial Reform (2009).

In addition, he has lectured part time at the Gordon Institute of Business Studies since 2001, in the areas of strategy, competitiveness and choice, integrating insights from competitive strategy, logic systems and behavioural economics.

Mojankunyane Florence (Mojanku) Gumbi *(54)*

Position: Independent non-executive director
Qualifications: BProc, LLB, Certificate in Trial Advocacy (University of Texas in Austin, USA)
Appointed to the board: 1 March 2011

Directorships: Non-executive director of African Bank Investments Limited and African Bank Limited. Executive director of Mojanku Gumbi Advisory Services (Proprietary) Limited.

Advocate Gumbi has dedicated most of her legal career to public interest law. From 2009 to date she has been an advocate and a consultant. From 1994 to 2008 she was a special advisor to former Deputy President and former President Thabo Mbeki. In this role, Advocate Gumbi was one of the lead negotiators for South Africa in the World Trade Organisation negotiations. She has also served as former President Mbeki's personal representative on the G8 and in the Progressive Governance group and participated in the activities of the World Economic Forum, both in the southern Africa region and in Davos. She continues to be an active participant in this forum. In addition, she has advised former President Mbeki on domestic policy matters working to ensure a global presence for South African companies and assisted many South African companies in their expansion globally.

Leonidas (Leon) Kirkinis *(53)*

Position: Chief executive officer of ABIL
Qualifications: BCom, BAcc
Appointed to the board: 1 July 1997

Directorships: Executive director of African Bank Investments Limited, African Bank Limited and executive chairman of Ellerine Holdings Limited.

Leon, currently chief executive officer of ABIL and managing director of African Bank Limited, founded African Bank Investments Limited (previously Theta Group Limited) in partnership with Gordon Schachat. He guided the company through the various mergers, acquisitions and the operational establishment of the present day African Bank Investments Limited.

Antonio (Toni) Fourie *(52)*

Position: Executive director
Qualifications: BCom
Appointed to the board: 21 October 2003

Directorships: Executive director of African Bank Investments Limited, African Bank Limited and chief executive officer of Ellerine Holdings Limited.

Toni, who is currently the chief executive officer of Ellerine Holdings Limited, has extensive experience in retail operations. He has also been instrumental in repositioning African Bank's distribution footprint, branding and customer service propositions.

ABIL board of directors

Nithiananthan (Nithia) Nalliah *(53)*

Position: Executive director
Qualifications: BCompt (Hons) (Unisa), Post Graduate Diploma in Tax Law (RAU), ACMA, CA(SA)
Appointed to the board: 5 May 2009

Directorships: Executive director of African Bank Investments Limited, African Bank Limited, The Standard General Insurance Company Limited and other ABIL group companies, Stazione Properties (Proprietary) Limited, Highly Commended Investments 801 (Proprietary) Limited and Magnolia Ridge Properties 272 (Proprietary) Limited. Non-executive director of Eyomhlaba Investment Holdings Limited and Hlumisa Investment Holdings Limited.

Nithia is currently the group financial director of ABIL. He joined ABIL in March 2006 and was appointed the chief financial officer in October 2006.

Thamsanqa Mthunzi (Tami) Sokutu *(49)*

Position: Executive director
Qualifications: BSc (Hons), MSc
Appointed to the board: 19 May 2003

Directorships: Executive director of African Bank Investments Limited, African Bank and Ellerine Holdings Limited. Non-executive director of Eyomhlaba Investment Holdings Limited. Non-executive director and chairman of South African National Biodiversity Institute and chairman of Masake (Proprietary) Limited.

Tami is the executive director responsible for the ABIL group risk function covering both the African Bank and Ellerine Holdings Limited businesses. Before taking over responsibility for ABIL group risk, he was managing director of African Bank's retail business.

Business overview >

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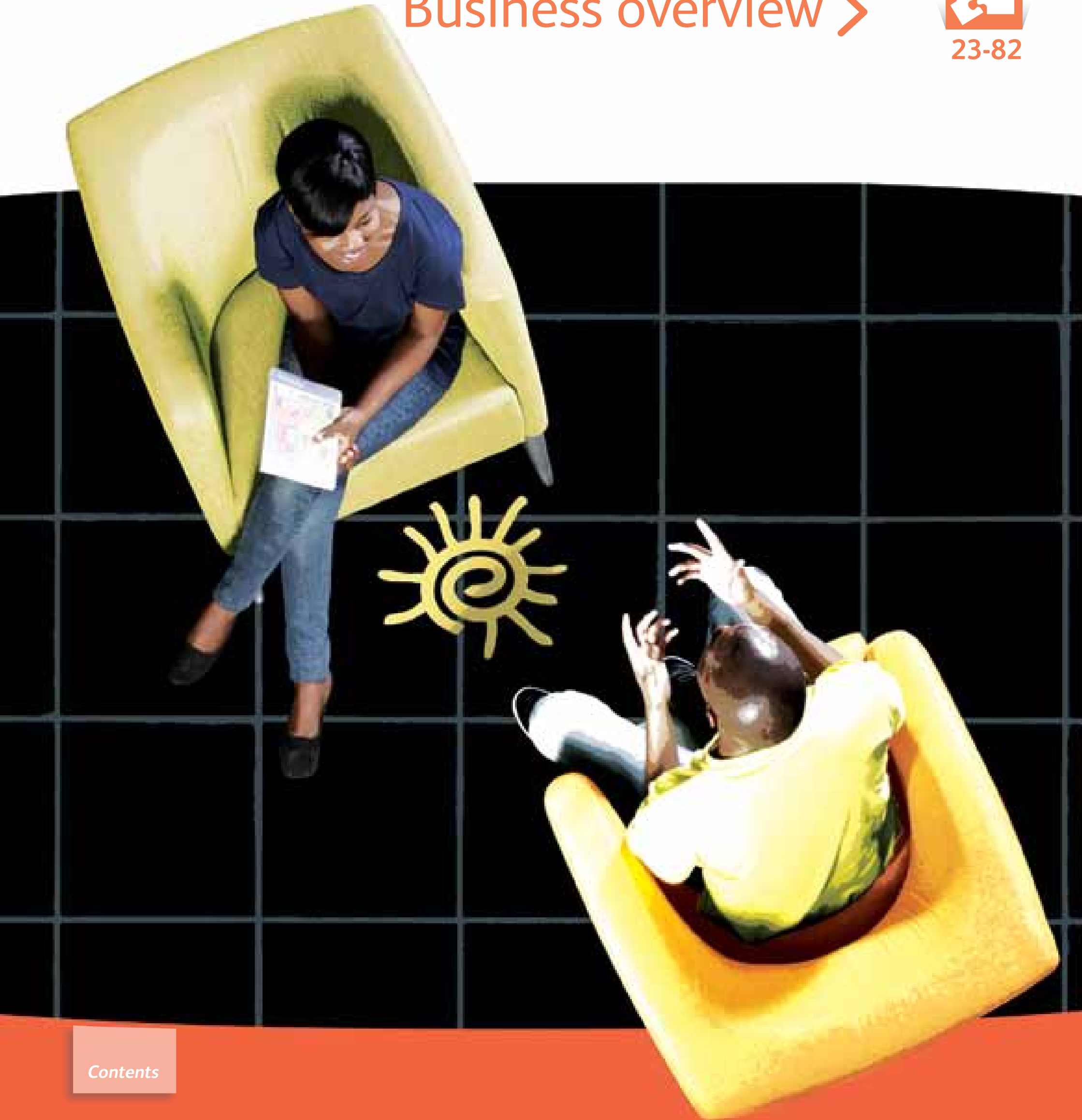


Contents

Letter to stakeholders

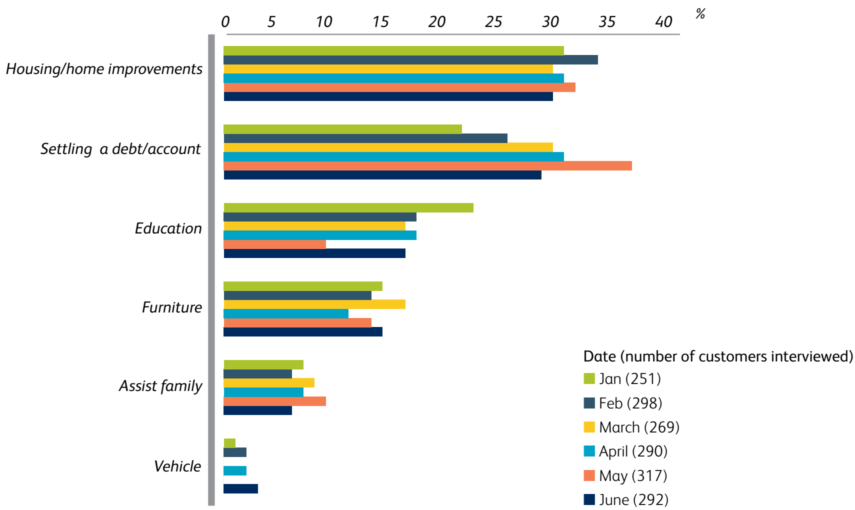
Introduction

ABIL creates value to stakeholders and society by giving our people first the focus and then the freedom to pursue our vision with vigour and passion. We assist our customers to achieve their dreams and aspirations and manage day-to-day unanticipated financial events by providing credit solutions that suit their needs. Saying "yes" more often is a goal we pursue with enthusiasm and determination.

As always, there is an important interplay between providing financial freedom and securing financial sustainability. The latter is achieved through an appropriate, risk based assessment of the customer's financial profile and affordable instalments over a term that acknowledges both the customer's previous credit behaviour and the potential uses of funds.

Our research shows our customers have consistently utilised more than 50% of their borrowings for housing, home improvements and education. More recently the loan use for settling debt has been increasing, which is consistent with the group's offering of consolidation loans from this year. This steady trend of people who are using our credit to improve their daily lives and grow their families' futures, is what reinforces to us that our vision is worth pursuing.

Loan usage (2012)



Source: E-view Marketing Research

Incwadi eya kubabam-biqhaza

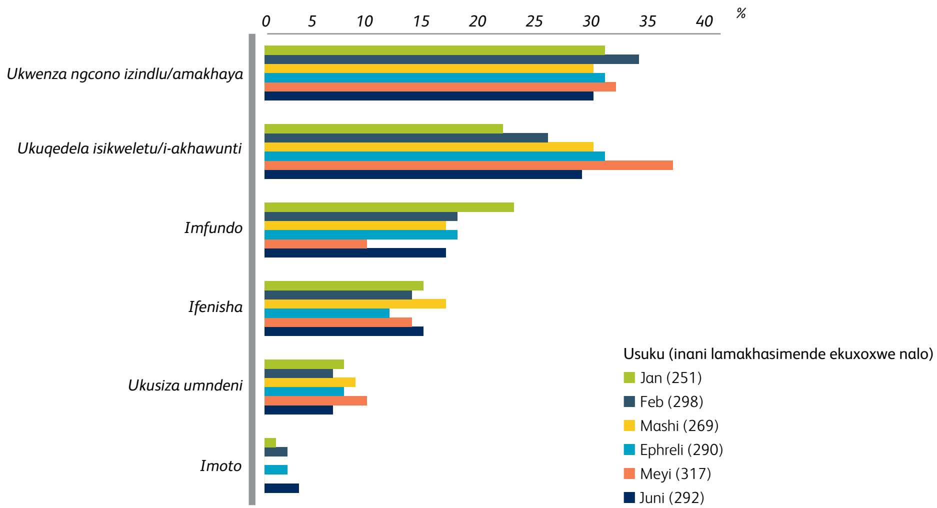
Isingeniso

I-ABIL yenza ukubaluleka kubabambiqhaza kanye nomphakathi ngokunikeza abantu bethu ukugxila kanye nenkululeko yokulandela umbono wethu ngomdlandla nentshisekelo. Sisiza amakhasimende ethu ukuthi afeze amaphupho kanye nezifiso zawo futhi abhekele izigameko zezimali zemihla ngemihla ezingacatshangwanga ngokuhlinzeka izixazululo zesikweletu ezifanele izidingo zawo. Ukuthi “yebo” kaningi kakhulu, yinhloso esiyilandelayo ngogqozi nangokuzimisela.

Njenganjalo, kunobudlelwano obubalulekile phakathi kokuhlinzeka ngenkululeko yezimali kanye nokuvikela ukuqhubeka kwezezimali. Okokugcina kutholakala ngokusebenzisa ukuhlola okufanele, okuncike engozini kwephrofayili yezimali zekhasimende kanye nezitolimende ezikhokhelekayo ekuhambeni kwesikhathi ukubheka kokubili ukuziphatha kwezikweletu kwesikhathi esedlule kwekhasimende kanye nokusetshenziswa kwezimali okunokwenzeka.

Ucwaningo lwethu lukhombisa ukuthi amakhasimende ethu ngokuqhubekayo asebenzise ngaphezu kwama-50% ezimali azebolekile ezindlini, ekulungiseni imizi kanye nemfundo. Okusandukwenzeka kakhulu ukusetshenziswa kwemalimboleko yokuqedela isikweletu bekwanda, okuhambisana nokunikezelwa kweqembu kokuhlanganiswa kwezimalimboleko kusukela kulo nyaka. Lo mkhuba osimamayo wabantu abasebenzisa isikweletu sethu ukwenza ngcono izimpilo zabo zemihla yonke kanye nokukhulisa ikusasa lemindeni yabo, yilokhu okugcizelelayo kithi ukuthi umbono wethu ufanele ukulandelwa.

Ukusetshenziswa Kwemalimboleko (2012)



Source: E-view Marketing Research

Material issues

Our material issues were reviewed and refined this year, through a process of dialogue amongst senior executives and the board. The purpose of the review was to provide a more simplified and focused view of economic, social, environmental and governance considerations in our various business operations. While the key dimensions and impacts on the business and its stakeholders have essentially remained the same, the grouping of different aspects has changed from 2011 to 2012. The table below indicates the material issues and the changes from 2011:

2012	*2011*
M1. Leading the positioning of unsecured lending	M1. Staying true to our business model
M2. Structuring our business for the long term	M2. Growing our people
M3. Growing our people	M3. Positively impacting customers' lives through the provision of credit
M4. Delivering value to our customers	M4. Maintaining a solid foundation in terms of funding and capital
M5. Maintaining a solid funding and capital foundation	M5. Contributing to the sustainable growth and transformation of our country
M6. Delivering value through sustainable and responsible processes	M6. Delivering value through sustainable and responsible processes
M7. Maintaining good corporate citizenship	M7. Environmental awareness and responsibilities

Related information can be found in the material issues tables on pages 36 to 37.

We understand that the very existence of our business is dependent on our ability to continue to deliver value not only to our customers, but to all stakeholders, and that sustainable growth can only be achieved through paying greater attention to the world in which we operate. We continue to strive to deliver this value in a meaningful and responsible way.

Economic environment

The group experienced moderate economic conditions during 2012, with real salary increases and relatively stable employment numbers, balanced with low GDP growth and labour unrest more recently. Lacklustre growth in secured credit has been compensated for by significant growth in unsecured credit.

The retail sector experienced a further deterioration in the durable good categories, continued deflation and a lack of consumer confidence.

The group is currently addressing the potential fallout from the recent mining and other labour strikes, both from a financial and customer centred perspective. The mining book is a relatively small part of the total book, representing approximately R2,8 billion or about 5% of advances. Whilst there has been some adverse impact on collections relating to the mines affected by the strikes, the overall mining portfolio has not been impacted in a significant way. The level of monitoring of the portfolio has increased, and in line with our existing policies the group will assist affected customers to the extent possible.

Izindaba zempahla

Izindaba zethu zempahla zabukezwa futhi zapholishwa kulo nyaka, ngokusebenzisa uhlelo lwenkulumo mpendulwano phakathi kwezikhulu eziphethe kanye nebhodi. Inhloso yokubukeza kwakuwukuhlinzeka ngokubhekela okulula kakhulu nokubheka okugxilile kwezomnotho, inhlolo yomphakathi, imvelo kanye nokubusa emisebenzini ehlukene yebhizinisi. Nakuba izingxenye ezibalulekile kanye nemithelela ebhizinisini nakubabambiqhaza bayo kuhlale kunjalo kakhulu, ukuqoqela ndawonye izinto ezahlukene kuguqukile ukusuka ngo-2011 ukuya ku-2012. Ithebuli elingezansi likhombisa izindaba zempahla kanye nezinguquko ukusuka ngo-2011:

2012	*2011*
M1. Ukuhola ukuhlelwa kokubolekisa okungavikelekile	M1. Ukuhlala ngeqiniso esibonelweni sethu sebhizinisi
M2. Ukuhlelela ibhizinisi lethu isikhathi eside	M2. Ukukhulisa abantu bethu
M3. Ukukhulisa abantu bethu	M3. Ukuba nomthelele omuhle ezimpilweni zamakhasimende ngokuhlinzekwa kwesikweletu
M4. Ukuletha ukubaluleka kumakhasimende ethu	M4. Ukugcina isisekelo esiqinile ngokunikeza izimali kanye nemali yokwenza umsebenzi
M5. Ukugcina ukunikeza izimali okuqinile kanye nesisekelo semali yokwenza umsebenzi	M5. Ukufaka isandla ekuqhubekeni kokukhula kanye nasoguqukweni lwesizwe sethu
M6. Ukuletha ukubaluleka ngokusebenzisa izinhlelo eziqhubekayo nezithembekile	M6. Ukuletha ukubaluleka ngokusebenzisa izinhlelo eziqhubekayo nezithembekile
M7. Ubuzwe benhlangano obuhle	M7. Ukwazi ngemvelo nokubhekana nemisebenzi

Ulwazi oluhambelanayo lungatholakala ezindabeni zempahla emakhasini 36 ukuya ku-37.

Siyaqonda ukuthi ukuba khona kwebhizinisi lethu kuncike ekukwazini kwethu ukuqhubeka nokuletha ukubaluleka hhayi nje kuphela kumakhasimende ethu, kodwa kubo bonke ababambiqhaza, nokuthi ukukhula okuqhubekayo kungafezwa kuphela ngukunaka kakhulu umhlaba esisebenza kuwo. Siyaqhubeka nokuphokophela ukuletha lokhu kubaluleka ngendlela ebalulekile nethembekile.

Isimo sezomnotho

Iqembu libe nezimo zomnotho eziphakathi nendawo ngesikhathi sika-2012, nokukhuphuka kwemiholo yangempela okuphezulu kakhulu kanye nezinombolo zomsebenzi ezisimeme kahle ezibhalansiswe nokukhula kwe-GDP okuphansi kanye neziyaluyalu kwezemisebenzi ezisandukwenzeka nje. Ukukhula okungahlabi mxhwele esikweletwini esivikelekile kunxeshezelwe ukukhula okukhulu esikweletwini esingavikelekile.

Ingxenye yezokuthengisa ibe nokunye ukwehla kwesimo ezigabeni zezimpahla ezihlala isikhathi eside, ukuqhubeka kokwehla kwamandla emali kanye nokungabi bikho kokuzethemba kwamakhasimende.

Iqembu okwamanje libhekene nomphumela onokwenzeka obangwa yiziteleka zezimayini kanye nezeminye imisebenzi ezisandukwenzeka, ngakho kokubili ukucabanga ngezezimali kanye nokugxile kumakhasimende. Ibhuku lezezimayini ingxenye encane yebhuku selilonke, elimelele amabhiliyoni cishe angu-R2,8 noma ama-5% ezimali ezifike ngaphambi kwesikhathi. Nakuba bekunomthelela omubi ekuqoqweni okuphathelene nezimayini ezithintwe yiziteleka, iphothifoliyo yezimayini jikelele ayibanga nomthelela ngendlela enkulu. Izinga lokuqapha iphothifoliyo likhulile, nangokuhambisana nezinqubomgomo zethu ezivele zikhona iqembu lizosiza amakhasimende athintekile ebangeni elinokwenzeka.

Competitive landscape

The sharp increase in unsecured lending in South Africa in the last two years has attracted attention and commentary from regulators, media and investors. Concerns have been expressed that the increase in unsecured lending could lead to a credit bubble with resultant negative consequences to consumers and the economy as a whole.

Research conducted by the NCR, SARB and the Banking Association indicated that the increase in unsecured lending has been off a low base and was still a small proportion of the credit industry's overall lending book. The institutions concluded in general terms that there is no cause for concern about a credit bubble at this stage. Credit affordability has been positively impacted by lower inflation and higher wage increases and salary increases. There has also been a structural shift in the supply of unsecured credit to higher income groups (>R15 000 per month).

ABIL's view is that it is unlikely that an overall unsecured lending credit bubble is forming, yet further strong growth in unsecured lending is of concern. The group has been closely monitoring our customer base and the market as a whole and dynamically adjusting our underwriting to take cognisance of changes in the market.

The group is comfortable that risk remains well controlled, from the perspective of the economic environment, recent legislative and regulatory developments, as well as credit quality. It is pleasing to note that the combination of regulatory scrutiny and heightened awareness by key players in the market has begun to curb excess supply of credit and that a slowdown of credit extension is evident in the most recent bureau information. ABIL's own underwriting interventions during the year have been successful in achieving the group's targeted risk adjusted returns and in further limiting its exposure to emerging risk in the market.

Regulation

The overall strength of the banking sector in South Africa remains at the highest level as demonstrated in the recent 2012/2013 Global Competitiveness Report by the World Economic Forum. This report has ranked South Africa first for regulation of the securities exchange, first for the strength of auditing and reporting standards, and second only to Canada for the soundness of banks. South Africa is also well placed to implement the Basel III standards, which will further strengthen the resilience of the banking sector.

We continue to work actively and constructively with the key regulatory stakeholders including National Treasury, the South African Reserve Bank, the National Credit Regulator and the Financial Services Board, to ensure that legislation is well developed and implemented, meeting both the global requirements as a member of the G20 and the national requirements as a developing nation, while servicing the needs of our customers and investors. ABIL is proud to be a leading and active member of this elite group and is committed to ensuring that its own governance, disclosure and business practices are of the highest standard to add our weight to our industry and country's strive towards excellence.

The active regulatory and supervisory oversight that has safeguarded the South African economy and consumers through many of the recent financial crises experienced internationally, as well as the willingness of the banking industry to support sustainable practices, have again manifested strongly during the year. This came in the form of the intense focus on the unsecured credit market as a result of the rapid growth, and the proactive engagement between regulators and market participants to find solutions to highlighted issues, which culminated in an agreement between National Treasury and the banks to further improve responsible lending practices and prevent households from becoming over indebted. ABIL welcomes the debates aimed at strengthening the sustainability of the credit industry and supports initiatives to protect the consumer while enabling responsible access to credit.

Debt collection practices

The industry has been actively involved in formulating and implementing the voluntary debt mediation service (VDMS). This entailed a process that had been agreed to by all participants in the credit industry with an agreed set of rules that would assist customers in rehabilitating themselves. African Bank has been at the forefront of this process and will continue to support and promote this, or any similar initiative that will contribute towards the rehabilitation of delinquent customers.

The VDMS pilot was launched in July 2012 and the take up of this solution by consumers referred by credit providers was high. Certain issues that required clarification were raised by the NCR and the VDMS process was put on hold until further notice. African Bank, both individually as well as through the Banking Association, have engaged with the NCR to continue with the rollout of the VDMS or any alternative solutions or improvements to debt counselling that will alleviate the plight of financially distressed customers.

Umhlaba oncintisanayo

Ukukhula okukhulu ekubolekiseni okungavikelekile eNingizimu Afrika eminyakeni emibili eyedlule kwadonsa ukunaka kanye nokuphawula okubangwa abalawuli, abezindaba kanye nabatshali zimali. Kuvezwe ukukhathazeka kokuthi ukukhula ekubolekeni okungavikelekile kungaholela ekubhamukeni kwesikweletu okuholela emiphumeleni emibi kumakhasimende kanye nomnotho wonke.

Ucwaningo oluqhutshwe yi-NCR, i-SARB kanye ne-Banking Association lukhombise ukuthi ukukhula ekubolekeni okungavikelekile bekuphansi futhi kwakuseyingxenye encane yebhuku lokwebolekisa jikelele lemboni yezikweletu. Izikhungo zaphetha ngemithetho ejwayelekile yokuthi ayikho imbangela yokukhathazeka ngokubhamuka kwezikweletu kulesi sigaba. Ukukwazi ukukhokha izikweletu kube nomthelela omuhle ngokwehla okuphansi kokwehla kwamandla emali kanye nokukhula kwamaholo okuphezulu kanye nokukhuphuka kwemiholo. Kube nokuguquka kwesakhiwo ekunikezelweni kwesikweletu okungavikelekile emaqenjini emali engenayo ephezulu (>R15 000 ngenyanga).

Umbono we-ABIL ukuthi ngeke kwenzeke ukuthi ibhamuza lesikweletu sokwebolekisa esingavikelekile jikelele lenzeka, kanti ukukhula okuqinile okuqhubekayo kuyakhathaza. Iqembu liqaphe kakhulu isizinda samakhasimende ethu kanye nemakethe yonke futhi lalungisa ngoguquko ukweseka kokusayina kwethu ekuvumeni izinguquko emakethe.

Iqembu liphatheke kahle ukuthi ingozi ihlala ilawulwe kahle, ngomqondo wesimo somnotho, ukuthuthukiswa komthetho nokulawula okusandukwenzeka, kanjalo neqophelo lesikweletu. Kuyathokozisa ukwazi ukuthi ukuhlanganiswa kokuhlaziya kokulawula kanye nokuqwashisa okuphakanyisiwe ngababambi qhaza ababalulekile emakethe sekuqalile ukuvimbela ukunikezelwa ngokweqile kwesikweletu kanye nokuthi ukuhamba kancane kokwelulwa kwesikweletu kuyacaca olwazini lwakamuva kakhulu lwebhiyuro. Ukungenelela kokweseka kwe-ABIL uqobo onyakeni kube yimpumelelo ekuzuzeni izimbuyiselo ezilungisiwe zengozi ehlosiwe yeqembu kanye nokuqhubeka nokubeka umkhawulo wokubekeka kwayo obala engozini efufusayo emakethe.

Isimiso somthetho

Amandla jikelele engxenye yebhange eNingizimu Afrika asahleli ezingeni eliphezulu kakhulu kunamanye njengoba kukhonjisiwe eMbikweni Wokuncintisana Kwamazwe Omhlaba ka-2012/2013 wakamuva nje owenziwe yi-World Economic Forum. Lo mbiko ubeke iNingizimu Afrika ezingeni lokuqala lokulawula ukushintshiselana kokuvikeleka, okokuqala kwamandla amazinga okucwaninga amabhuku kanye nawokubika, bese okwesibili eKhanada kuphela ngokuthembeka kwamabhange. INingizimu Afrika nayo isendaweni ekahle yokusebenzisa amazinga eZinga lesi-III, okuzoqhubeka nokuqinisa ukuguquguquka kwengxenye yebhange.

Siyaqhubeka nokusebenza ngokukhuthala nangokwakha okuhle nababambiqhaza abalawulayo ababalulekile kubandakanya i-National Treasury, i-South African Reserve Bank, i-National Credit Regulator kanye ne-Financial Services Board, ukuqinisekisa ukuthi umthetho wenziwe kahle futhi waqaliswa ukusetshenziswa uhlangabezana nazo zombili izidingo zamazwe omhlaba njengelungu le-G20 kanye nezidingo zikazwelonke, njengesizwe esithuthukayo, ngesikhathi kuseviswa izidingo zamakhasimende ethu kanye nabatshali zimali. I-ABIL iyaziqhenya ngokuba yilungu eliholayo nelikhuthele laleli qembu eliphezulu kakhulu futhi lizinikele ukuqinisekisa ukuthi imisebenzi yalo yokubusa, ukudalula kanye neyebhizinisi okwezinga eliphezulu kunawo wonke ukuze sengeze isisindo sethu embonini yethu kanye nokuphokophela kwezwe ekwenzeni ngokuncomekayo kakhulu.

Ukwengamela kokulawula okusebenzayo nokokusuphavayiza kuwuqaphe ngokuphephile umnotho waseNingizimu Afrika kanye namakhasimende ezingxakini eziningi zakamuva zezimali ezibe khona emazweni omhlaba, kanjalo nokufuna kwemboni yokubhanga ukweseka imisebenzi eqhubekayo, kuphinde kwavela ngokuqinile onyakeni. Lokhu kweza ngesimo sokugxila okuqinile emakethe yezikweletu ezingavikelekile ngenxa yokukhula okusheshayo, kanye nokubandakanyeka kokuzisukela phakathi kwabalawuli kanye nabahlanganyeli bemakethe ukuthola izixazululo ezintweni ezigqanyisiwe, okuvele esivumelwaneni phakathi kwe-National Treasury kanye namabhange ukuqhubeka nokwenza ngcono imisebenzi yokuboleka ethembekile kanye nokuvimbela amakhaya ekutheni akwelete ngokweqile. I-ABIL yamukela izinkulumo-mpendulwano okuhloswe ngazo ukuqinisa ukuqhubeka kwemboni yezikweletu nokweseka imizamo yokuvikela umthengi ngesikhathi kwenziwa ukufinyelela okwethembekile esikweletwini.

Imisebenzi yokuqoqa isikweletu

Imboni beyibandakanyeke ngokukhuthala ekwakheni nasekuqaliseni ukusebenza komsebenzi wokulawula ezikweletwini ngokuzithandela (voluntary debt mediation service (VDMS). Lokhu kufaka uhlelo okuvunyelwene ngalo yibo bonke abahlanganyeli embonini yezikweletu nesethi yemithetho evunyiwe ezosiza amakhasimende ekutheni azibuyisele esimeni esilungile. I-African Bank beyiphambili kulolu hlelo futhi izoqhubeka nokweseka kanye nokukukhuthaza lokhu, noma nanoma yimuphi umzamo ofanayo ozofaka isandla ekubuyiseleni amakhasimende aphumile endleleni esimeni esilungile.

Uhlolo lokulinga lwe-VDMS lwethulwa ngoJulayi 2012 kanti ukwamukelwa kwalesi sixazululo ngabathengi okushiwo ngabanikezeli bezikweletu sasiphezulu. Izindaba ezithize ezidinga incazelo zaphakanyiswa yi-NCR kanye nohlelo lwe-VDMS lwamiswa kuze kubuye kushiwo futhi. I-African Bank, kokubili ngakunye kanjalo nange-Banking Association, ibandakanye i-NCR ukuthi iqhubeke nokusebenzisa i-VDMS noma ezinye izixazululo ezahlukile noma ukwenziwa ngcono kokwalulekwa ngokwengqondo kwesikweletu okuzosusa ingxaki yamakhasimende akhathazwa ngezezimali.

I-ABIL igudluze ukugxila kwemisebenzi yayo yokuqoqa izikweletu ekuqoqeni komthetho eminyakeni embalwa eyedlule, ngenxa yezinguquko eswini layo kanjalo nasezinhlelweni zenkantolo ezephuzayo kanye nezingasebenzi ngempumelelo ngezinye izikhathi. Iqembu

ABIL has shifted the focus of its collections operations away from legal collections over the last few years, as a result of changes in its strategy as well as delayed and sometimes ineffective court processes. The group has allocated increasing resources to more effective and customer centric collections methodologies and the outstanding number of emolument attachment orders has thus declined steadily over the past few years. We seek to work with customers to achieve mutually desirable outcomes. Restoring the financial wellbeing of our customers is always our first priority.

A small proportion of collections continues to use external debt collectors and attorneys, who collect on ABIL's behalf and are governed by strict service level agreements. African Bank regularly monitors the collectors and intervenes if agreed codes of conduct and fees charged are not adhered to.

Strategic progress

ABIL made steady progress during 2012 on its key strategic initiatives which included transforming our culture, improving the group's customer value proposition, customer growth and rehabilitation, optimising the value from the EHL acquisition and focus on business optimisation. This progress supported the achievement of the financial objectives set for 2012, with the group growing the advances book by 33% to R53 billion, substantially exceeding the advances growth target of 25% and meeting the return on equity target of 20%. The group grew merchandise sales by 1,7%, which fell short of the growth target of more than 5%.

ABIL has managed to successfully steer through continued economic volatility in 2012 and remains confident of its ability to entrench its position as the market leader in a larger, more competitive and fast changing unsecured credit market.

Sustainable long term financial performance

ABIL reported a return on equity to 20,0% for the year to 30 September 2012 and generated a return on average tangible equity of 36,3%. The group increased economic profit by 53% to R755 million and headline earnings and headline earnings per share by 18% to R2 754 million and 342,5 cents respectively. Total ordinary dividends for the year of 195 cents per share were declared.

The group's operating results were achieved by engaged employees being focused on effective execution of business initiatives. The continued positive response from customers to the group's credit and retail product offerings, strong efficiency gains and growing margins at EHL, as well as the increased African Bank footprint through the EHL distribution network contributed to further growth in profitability and assets.

The Banking unit grew headline earnings by 12% to R2 580 million and produced a return on equity of 22,9% a return on average tangible equity of 35,4%. The Bank benefited from robust sales and advances growth particularly in the first quarter, a slower reduction in yield than in recent years and stable asset quality, while cost growth and an elevated bad debt charge negatively affected profitability.

Headline earnings in the Retail unit increased by 35% to R257 million through strong operating leverage, despite difficult economic conditions and modest sales growth. The Retail unit generated a return on sales of 5,4%, a return on equity of 9,4% and a return on tangible equity of 47,7%.

Socio-economic development

The ABIL group has contributed to the socio-economic development of South Africa by being focused on staying relevant to its customer base and its people and remaining cognisant of and balancing the needs of its other stakeholders. Maintaining a sustainable organisation, built on sound business principles and living its values, affords us the opportunity to pay attractive dividends to our shareholders, support a large number of households through employment, CSI initiatives and training opportunities and provide a strong tax base to government. Our preferential procurement and supplier initiatives support and grow small business, again providing employment opportunities and socio-economic development in its surrounding communities.

The ABIL group added R9,5 billion of value for its stakeholders in 2012, an increase of 12% from 2011.

Social impact – being there for customers in good and bad times

At the core of ABIL's belief system is the notion that the majority of customers who get into financial difficulty are "bad luck" customers and not "bad faith" customers. Sometimes unforeseen circumstances may cause customers to not be able to repay all their debt, and these customers deserve a second chance to prove themselves.

It follows then that a very essential part of our commitment to our customers is that we will be there for them in good as well as in bad times. Key to being there in bad times, is to have a system in place that will warn of impending financial distress prior to default and that will assist in rehabilitating customers who have experienced financial distress. African Bank has implemented a range of initiatives during the past year to identify customers in financial distress and assess their likelihood of rehabilitation. For these customers, it provides dedicated assistance through special credit products labele izidingongqangi ezikhulayo ezindleleni zokuqoqa ezisebenza ngempumelelo kakhulu kanye nalezo ezigxile kumakhasimende kanye nenombolo enkulu yemiyalelo yenkokhelo efakiwe seyehlile ngokusimeme eminyakeni embalwa eyedlule. Sifuna ukusebenza namakhasimende ukuzuza imiphumela efiswayo ngokubambisana. Ukubuyisela esimeni ukuphila kahle kwezezimali kwamakhasimende ethu njalo kuyinto yokuqala ephezulu ohlwini lwethu.

Ingxenye encane yokuqoqwa iyaqhubeka ukusebenzisa abaqoqi bezikweletu bangaphandle kanye nabameli, abaqoqa egameni le-ABIL futhi balawulwa izivumelwano zezinga eliqinile. I-African Bank njalo iqapha abaqoqi futhi ingenelele uma izindlela zokuziphatha ezivunyiwe kanye nezimali ezibizwayo kungabanjelelwa kukho.

Inqubekela phambili yesu

I-ABIL yenze inqubekela phambili esimeme ngesikhathi sika-2012 emizameni yayo yesu ebalulekile ebandakanye ukuguqula isiko layo, ukwenza ngcono uhlelo lokubaluleka kwamakhasimende eqembu, ukukhula kwamakhasimende nokubuyiselwa esimeni esilungile, ukukhulisa izinga ekutholeni kwe-EHL nokugxila ekukhuliseni ibhizinisi. Le nqubekela phambili yeseke impumelelo yezinjongo zezezimali ezibekelwe u-2012, neqembu likhulisa incwadi yokwenziwa ngaphambi kwesikhathi ngo-33% ukufika ku-R53 bhiliyoni, ukweqa kakhulu ukukhula kokwenziwa ngaphambi kwesikhathi okuhlosiwe kuka-25% kanye nokuhlangabezana nembuyiselo empahleni ehlosiwe ka-20%. Iqembu likhulise ukuthengiswa kwempahla ngo-1,7% okwashoda kokuhlosiwe okukhulayo ngaphezu kuka-5%.

I-ABIL ikwazile ukuguqula ngempumelelo ekuzamazameni kwezomnotho okuqhubekayo ngo-2012 nokuhlala izethemba ngamandla ayo okuqinisa indawo yayo njengomholi wemakethe emakethe encintisana kakhulu neshintsha ngokushesha yezikweletu ezingavikelekile.

Ukusebenza kwezezimali kwesikhathi eside okuqhubekayo

I-ABIL ibike imbuyiselo empahleni ukufika ku-20,0% yonyaka ukufika kumhla ka-30 Septhemba 2012 kanye nokwenza imbuyiselo empahleni ephathekayo eyi-avareji ka-36,3%. Iqembu likhulise inzuzo yezomnotho ngo-53% ukufika kuzigidi eziwu-R755 kanye nezimali ezingenile ezibalulekile kanye nezimali ezingenile ngesheya ngo-18% ukufika kuzigidi ezingu-R2 754 kanye namasenti angu-342,5 eceleni. Kwamenyezelwa izinhlukaniselwano ezejwayelekile sezizonke zonyaka ezingama-195 senti ngesheya ngalinye.

Imiphumela yokusebenza kweqembu yazuzwa ngabasebenzi ababandakanyiwe ngokugxila ekwenziweni komsebenzi ngempumelelo yemizamo yebhizinisi. Impendulo enhle eqhubekayo evela kumakhasimende eya ezikweletwini zeqembu naseminikelweni yomkhiqizo wokuthengisa, ukuzuza kokusebenza kahle okuqinile kanye namamajini akhulayo e-EHL, kanjalo nemilobo ye-African Bank ekhulayo ngokusebenzisa umphambo wokuhambisa we-EHL kwafaka isandla ekukhuleni okuqhubekayo enzuzweni nasezimpahleni.

Iyunithi yokubhanga yandisa izinzuzo ezibalulekile ngo-12% ezigidini ezingu-R2 580 futhiyakhiqiza imbuyekezo enanini lempahla ka-22,9% imbuyekezo enanini lempahla ephathekayo eliyi-avareji ka-35,4%. Ibhange lasizakala ekuthengiseni okunamandla futhi laqhubela phambili ukukhula ikakhulukazi kukwata yokuqala, kwatholakala ukuncishiswa okuhamba kancane kunaseminyakeni esandukudlula kanye neqophelo lezimpahla elisimeme, ngesikhathi kukhula izindleko kanye nenhlawulo yesikweletu esibi esikhushuliwe esibe nomthelela omubi enzuzweni.

Izinzuzo ezibalulekile kuyunithi yoKuthengisa zakhula ngo-35% ukuya ezigidini ezingama-R257 ngokusebenzisa amandla okwenza umsebenzi wenzeka ngokusebenza okuqinile, nangale kwezimo zomnotho ezinzima kanye nokukhula kokuthengisa okukahle. Iyunithi eThengisayo yenze imbuyiselo ka-5,4%, imbuyiselo enanini lempahla ka-9,4% kanye nembuyiselo enanini lempahla ephathekayo eyi-avareji ka-47,7%.

Ukuthuthukiswa kwenhlalo yomphakathi nezomnotho

Iqembu le-ABIL lifake isandla ekuthuthukisweni kwenhlalo yomphakathi nakwezomnotho waseNingizimu Afrika ngokugxila ekuhlaleni ubalulekile esizindeni samakhasimende ayo nabantu bayo kanye nokuhlala yazi futhi ibhalansisa izidingo zabanye ababambiqhaza bayo. Ukunakekela inhlangano eqhubekayo, eyakhelwe emigomeni yebhizinisi ephelele nephila ngamagugu ayo, isinika ithuba lokukhokha izinhlukaniselwano ezihehayo kubanini masheya bethu, ukweseka inombolo enkulu yamakhaya ngomsebenzi, imizamo ye-CSI namathuba okuqeqeshwa nokuhlinzeka isizinda sentela esiqinile kuhulumeni. Imizamo yokuthenga kwethu impahla okuthandwayo kanye neyabanikezeli bethu bempahla yeseka futhi ikhulise ibhizinisi elincane, futhi ngokuhlinzeka ngamathuba omsebenzi kanye nokuthuthukisa inhlalo yomphakathi nomnotho emiphakathini eyizungezile.

Iqembu le-ABIL lenza amabhiliyoni ayi-R9,5 omcebo kubabambiqhaza bayo ngonyaka ka-2012, ukukhula kuka-12% ukusuka ngo-2011.

Umthelela emphakathini – Ukuba khona ngezikhathi ezinhle nezimbi kumakhasimende akho

Esisekelweni sohlelo lwenkolo ye-ABIL umqondo wokuthi iningi lamakhasimende angena ebunzimeni bezimali amakhasimende "anenhlanhla embi" hhayi amakhasimende "anenkolo embi". Ngezinye izikhathi izimo ezingacatshangwanga zingabanga amakhasimende ukuthi angakwazi ukukhokha abuyisele zonke izikweletu zawo, kanti la makhasimende adinga ithuba lesibili lokuzibonakalisa ngokwabo.

Kulandela ukuthi ingxenye ebaluleke kakhulu yokuzinikela kwethu emakhasimendeni ethu ukuthi sizoba khona ezikhathini ezinhle nasezikhathini ezimbi. Okubalulekile ngokuba khona ezikhathini ezimbi ukuba nohlelo olusebenzayo oluzoxwayisa ngobuhlungu bezezimali obulindile ngaphambi kokwenza iphutha kanti lokho kuzosiza ukubuyisela esimeni esilungile amakhasimende abe nobuhlungu bezezimali. I-African Bank isebenzise imizamo ehlukene ngonyaka odlule ukukhomba amakhasimende asezingxakini zezimali kanye nokuhlola ukuthi kungenzeka designed to alleviate affordability pressure and it provides mechanisms for customers that are currently excluded from the credit market to settle their arrears and clear their negative Credit Bureau records. It also promotes customer education regarding financial affairs and responsible borrowing.

The use of the group's insurance licences is key to the rehabilitation of defaulting customers and a powerful value adding tool. The group has a strong focus on further broadening the coverage of insured events and has applied to the Financial Services Board to move a short term insurance license in EHL to ABIL, to give effect to some of its initiatives in this regard.

Transformation

African Bank and EHL have been scored under the Department of Trade and Industry's (dti) Codes of Good Practice's (the Codes) Generic scorecard for the second time this year and the group is pleased that it has made progress in improving the scores, although much work remains to be done. African Bank improved its score from a Level 6 to a Level 4 contributor and EHL from a Level 6 to a Level 5. There will be a strong focus on improving these levels further in 2013. The Financial Services Sector code (FSC) has been approved and gazetted recently. African Bank's transformation (B-BBEE) contribution will in future also be measured under this code.

ABIL implemented two Black Economic Empowerment programmes, Eyomhlaba (launched in 2005) and Hlumisa (launched in 2008). The empowerment programmes target a broad base of Black shareholders. During this financial year the two empowerment companies acquired an additional 7,5 million ABIL shares, bringing its effective shareholding to 8,5% at 30 September 2012. In addition, the two companies paid R10 million to shareholders as ordinary dividends during the year.

ABIL believes that small businesses play a vital role in creating jobs and wealth in the economy. It is for this reason that the Bank supports small and empowerment companies through its procurement and B-BBEE policy and systems, that focus on Black owned and Black women owned Emerging Micro-Enterprises (EME) and Qualifying Small Enterprises (QSE). ABIL regards these initiatives as key business imperatives.

For more information on our transformation and CSI initiatives, refer to our sustainable development section on page 134 to 177.

Our Corporate Social Investment website at http: www.africanbank.investoreports.com/about-abil-group/sustainability/ also contains further information on our transformation and CSI initiatives.

Corporate Social Investment (CSI) has a vital role to play in South Africa in bringing about meaningful transformation to the benefit of all that live in it. The social needs facing our country are substantial and it is a moral duty for government and business to make a difference in the lives of many. ABIL has contributed to a number of projects to uplift needy communities in Gauteng, Eastern Cape, Western Cape, KwaZulu-Natal and Limpopo. ABIL continues to seek out opportunities to enhance the lives of South African citizens and communities.

Directorate

Gordon Schachat, executive deputy chairman of ABIL, African Bank and Ellerine Holdings Limited retired from these boards with effect from 30 September 2012. It is the end of an era – Gordon was a co-founder of ABIL and has been involved in its development since 1994. He has made an immense contribution to the growth and success of the group and was deeply involved in the many acquisitions that were yini abuyiselwe esimeni esilungile. Kula makhasimende, ihlinzeka ngosizo olubhekene nabo ngokusebenzisa imikhiqizo yesikweletu eyisipesheli eyenzelwe ukususa ingcindezi yokukwazi ukukhokha futhi ihlinzeka ngezindlela kumakhasimende ezikhishiwe njengamanje emakethe yezikweletu ukuqeda izikweletu zawo bese besula amarekhodi abo amabi ku-Crediti Bureau. Futhi kukhuthaza imfundo yekhasimende maqondana nezindaba zezimali kanye nokweboleka ngokusebenzisa ingqondo.

Ukusetshenziswa kwamalayisense omshuwalenseweqembu nakho kubalulekile ekubuyiseleni esimeni esilungile amakhasimende enza iphutha kanye nethuluzi elinamandla elengeza ukubaluleka. Iqembu linokugxila okuqinile ngokuqhubeka nokwandisa ukukhavwa kwezehlakalo ezifakwe kumshuwalense futhi lifakile isicelo ku- Financial Services Board sokususa ilayisense yomshuwalense wesikhathi esifushane ku-EHL ukuya ku-ABIL, ukwenza ukuthi eminye imizamo yayo isebenze maqondana nalokhu.

Uguquko

I-African Bank ne-EHL banikezwe amaphuzu angaphansi kwamaKhodi Okusebenza Okuhle e-dti (amaKhodi) kusko khadi Esejwayelekile okwesibili kulo nyaka futhi iqembu lijabulile ukuthi lenze inqubekela phambili ekwenzeni ngcono lama phuzu, nakuba kusasele umsebenzi omningi okufanele wenziwe. I-African Bank yenze ngcono isko sayo ukusuka ezingeni lomfakisandla lesi-6 ukuya ezingeni lesi-4 kanye ne-EHL ukusuka ezingeni le-6 ukuya ezingeni lesi-5. Kuzoba nokugxila okuqinile ekwenzeni la mazinga futhi ngo-2013. Ikhodi ye- Financial Services Sector (FSC) ivunyiwe futhi isandukufakwa kugazethi. Ukufaka isandla koguquko lwe-African Bank (B-BBEE) esikhathini esizayo nakho kuzokalwa ngaphansi kwale khodi kanjalo namaKhodi Okusebenza Okuhle okukalwe kuqhathaniswa eminyakeni emibili eyedlule.

I-ABIL iqalise ukusebenza kwezinhlelo zokunikezwa amandla omnotho kwabamnyama, Eyomhlaba (eyamiswa ngo-2005) kanye neHlumisa (eyamiswa ngo-2008). Izinhlelo zokunikeza amandla zihlose isizinda sabanini bamasheya abamnyama ngokubanzi, neningi labahlanganyeli okungabasebenzi abamnyama beqembu. Ngalo nyaka wezimali izinkampani ezimbili zokunikeza amandla zithole amasheya engeziwe e-ABIL ayizigidi eziyi-7,5, okwenza ukuthi ukuba namasheya okusebenzayo kube ngu-8,5% ngomhla ka-30 Septhemba 2012. Ukwengeza, izinkampani ezimbili zakhokha izigidi ezingu-R10 kubanikazi bamasheya njengezinhlukaniselwano ezejwayelekile onyakeni.

I-ABIL ikholelwa ukuthi amabhizinisi amancane adlala indima ebalulekile ekwenzeni imisebenzi kanye nomcebo emnothweni. Kungenxa yalesi sizathu ibhange leseka izinkampani ezincane nezinika amandla ngepholisi yalo lokuthenga impahla kanye ne-B-BBEE kanye nezinhlelo ezigxile kuma- Emerging Micro Enterprises (EME) okungawabantu abamnyama kanye nabesifazane abamnyama kanye nama- Qualifying Small Enterprises (QSE). I-ABIL ithatha le mizamo njengezinto ezibalulekile zebhizinisi.

Ukuze uthole olunye ulwazi ngemizamo yethu yoguquko kanye nemizamo ye-CSI, bheka umbiko wethu wokuqhubeka ku- http://africanbank.investoreports.com/africanbank_ar_2012/sustainability kanye newebhusayithi ye-Corporate Social Investment lapha 134.

I-Corporate Social Investment (CSI) ineqhaza elibalulekile okufanele iyidlale eNingizimu Afrika ekuletheni uguquko olunengqondo ekusizeni bonke labo abahlala kuyo. Izidingo zomphakathi ezibhekene nezwe lethu zinkulu futhi kuwumsebenzi wokuziphatha kahulumeni kanye nebhizinisi ukwenza umehluko ezimpilweni zabaningi. I-ABIL ifake isandla kumaphrojekthi amaningi ukukhuphula imiphakathi eswele eGauteng, eMpumalanga Kapa, eNtshonalanga Kapa, KwaZulu-Natali naseLimpopo. I-ABIL iyaqhubeka ukufuna amathuba okuthuthukisa izimpilo zezakhamuzi zaseNingizimu Afrika kanye nemiphakathi.

Umnyango womqondisi

U-Gordon Schachat, iphini likasihlalo eliphethe le-ABIL, i-African Bank ne-Ellerine Holdings Limited wathatha umhlalaphansi kula mabhodi ukusuka ngomhla ka-30 Septhemba 2012. Sekuwukuphela kwesikhathi – uGordon wayengomunye wabasunguli be-ABIL futhi ubebandakanyeke ekuthuthukisweni kwayo kusukela made over the years to form the ABIL group. ABIL and its boards express their sincere appreciation and gratitude to Gordon for the dedication and insight over this time.

Leeanne Goliath was appointed company secretary to African Bank Investments Limited on 18 October 2012, after Mduduzi Luthuli resigned on 1 August 2012.

Appreciation

We would like to extend our gratitude to our board members for their guidance and insight in steering the business through challenging times this past year. Our people have again exhibited strong commitment and dedication and we thank them for their contribution to the credible results achieved this year. We would also like to acknowledge the constructive input and cooperation from our trade unions, who support our people and help make ABIL a great place to work at.

Our appreciation goes to shareholders and funders for their continued support and to the regulators for their foresight and guidance in maintaining a stable, robust and world class financial system. Most importantly, we would like to thank our customers for their support over the past year and reinforce our commitment to continue to provide you with products that offer real value.

Condolences

Johan de Ridder, a member of the ABIL executive committee sadly passed away on 15 November 2012. The board of directors, management and staff express their condolences to his family and acknowledge his valuable contribution to the group over the last 13 years. He will be sorely missed both within the group and in the industry.

Condolences are also expressed to all family members of staff who passed away during the year and we thank them for their contribution to the group.

Outlook

Our core philosophy has always been to build a business that consistently delivers a valuable proposition to customers through different macro-economic cycles. While we will remain vigilant given the economic environment and increased competition, the group has spent the last few years building a business that we believe is robust and one that can withstand external pressures. Accordingly, ABIL remains focused towards generating sustainable and growing returns rather than expansive growth targets.

The Banking unit is continuing to target good sales and advances growth, albeit at a slower pace than in recent years with stable yields and steady asset quality.

At the Retail unit the focus will shift towards optimising and growing the business, now that the major changes to the operating model and the roll out of the supply chain are largely complete. New strategic imperatives are to grow the retail business in a challenging macro-economic environment and to maximise and optimise financial services value extraction from the Retail unit. The business will continue to outperform in a tough environment by driving efficiencies and operating leverage.

On behalf of the board

Mutle Mogase
Chairman

Leon Kirkinis
Chief executive officer

ngo-1994. Wenze ukufaka isandla okuqinile ekukhuleni nasempumelelweni yeqembu futhi wayebandakanyeke ngokujulile ekutholeni okuningi okwenziwa eminyakeni ukwakha iqembu le-ABIL. I-ABIL kanye namabhodi ayo uzwakalisa ukubonga kwabo okunokuzithoba kanye nokubonga kuGordon ngokuzinikela kanye nokubheka isikhathi eside.

U-Leeanne Goliath waqashwa waba unobhala wenkampani ku-African Bank Investments Limited ngomhla ka-18 Okthoba 2012, ngemuva kokwesula emsebenzini kukaMduduzi Luthuli ngomhla ka-1 Agasti 2012.

Ukubonga

Singathanda ukudlulisela ukubonga kwethu kumalungu ethu ebhodi ngokusihola kwawo kanye nokucabanga kwawo ekuqondiseni ibhizinisi ezikhathini ebeziphonsa inselele kulo nyaka odlule. Abantu bethu futhi sebekhombise ukuzinikela okuqinile kanye nokuzinikela futhi siyababonga ngokufaka kwabo isandla emiphumeleni ethembekile ezuzwe kulo nyaka. Singathanda futhi ukubonga umbono owakhayo kanye nokubambisana okuvela kuzinyunyana zethu zohwebo, ezeseka abantu bethu futhi zisize ukwenza i-ABIL ibe yindawo enhle yokusebenza.

Ukubonga kwethu kuya kubanikazi bamasheya kanye nabaxhasa ngezimali ngosizo lwabo oluqhubekayo kubalawuli ngokuqapha kwabo nokuhola ekugcineni uhlelo lwezimali olusimeme, olunamandla nolwezinga lomhlaba. Okubaluleke kakhulu, sithanda ukubonga amakhasimende ethu ngokuseseka kwawo onyakeni odlule nokuqinisa ukuzinikela kwethu ukuqhubeka nokunihlinzeka ngemikhiqizo enikeza inani langempela.

Amazwi Enduduzo

U-Johan de Ridder, ilungu lekomiti eliphethe le-ABIL udlule emhlabeni ngomhla ka-15 Novemba 2012. Ibhodi yabaqondisi, abaphathi kanye nabasebenzi badlulisa amazwi enduduzo emndenini wakhe futhi babonga nendima ebalulekile ayidlalile eqenjini ngaphezu kweminyaka eyi-13 eyedlule. Uzokhunjulwa kakhulu eqenjini nasembonini.

Amazwi enduduzo azwakaliswa futhi nakuwo wonke amalungu emindeni yabasebenzi abadlula emhlabeni kulo nyaka futhi siyabonga ngendima yabo abayidlalile eqenjini.

Umbono

Ifilosofi yethu ebalulekile bekulokhu njalo kuwukwakha ibhizinisi eliqhubeka nokuletha izinhlelo ezibalulekile kumakhasimende ngemijikelezo ehlukene yomnotho omkhulu. Nakuba sizohlala siqaphile uma sibheka isimo somnotho kanye nokukhula komncintiswano, iqembu lichithe iminyaka embalwa edlule lakha ibhizinisi esikholwa wukuthi linamandla nalelo elingamela izingcindezi ezivela ngaphandle. Ngakho-ke, i-ABIL ihlala igxile ekwenzeni izimbuyiselo eziqhubekayo nezikhulayo kunokuhlosa ukukhula okwandayo.

Iyunithi yokubhanga iqhubeka nokuhlosa ukuthengisa okuhle kanye nokuqhuba ukukhula, yize kungesivinini esihamba kancane kunaseminyakeni esandakudlula nezivuno ezisimeme kanye neqophelo eliphezulu lezimpahla elivikelekile.

Kuyunithi yokuthengisa ukugxila kuzoguqukela ekwenzeni ngcono nasekukhuliseni ibhizinisi, manje njengoba izinguquko ezinkulu zesibonelo sokusebenza kanye nokukhishwa kochunge lokunikezela ngempahla kakhulu sekuphelile. Izidingo zesu elisha wukukhulisa ibhizinisi lokuthengisa ekuphonseleni isimo sezomnotho omkhulu inselele kanye nokukhulisa kakhulu nokwenza ngcono ukuthathwa kwenani lemisebenzi yezezimali kuyunithi yoKuthengisa. Ibhizinisi lizoqhubeka nokusebenza ngokweqile esimeni esiphonsa inselele ngokuqhuba ukusebenza kahle kanye nokulawula ukusebenza.

Egameni lebhodi

Mutle Mogase
Usihlalo

Leon Kirkinis
Umsebenzi Oyisikhulu Esiphethe

Material issues

Our material issues were identified on the basis that:

- It is likely to have an impact on the future prosperity of the group or our stakeholders;
- It is regarded as material given the size, longevity and severity of the impact, positive or negative, and its ability to significantly influence decision making; and
- It should form part of the ongoing dialogue between ourselves and parties with a vested interest in ABIL's continued existence.

The selection of issues was informed by inputs from a broad spectrum of stakeholders, including, amongst others, our people, our customers, capital providers, regulators and suppliers, and was further reviewed, refined and finalised through engagement with the executive management and board of ABIL and our subsidiaries. It also took into account relevant regulation, our key competencies, key risks that the group is exposed to, and above all, the vision, mission and values of the organisation.

Material issue	*Why is it important?*	*Related risks*	*Related strategic issues*
M1. Leading the positioning of unsecured lending in the context of the broader industry	Unsecured lending is generally perceived negatively by market commentators as well as regulators, yet it has a significant role to play in increasing access to credit.	R2. Competitive landscape R3. Perception of unsecured lending R5. Growing ABIL's customer base R8. Capital, liquidity and funding R13. Regulation R14. Impact on society	S1. Maintain superior human capital S2. Offer a superior customer value proposition S6. Superior credit underwriting S7. Efficient and superior collections S8. Expanding our accountability horizons
M2. Structuring our business for the long term	As the unsecured credit market evolves and competition intensifies we need to expand our vision, mission and business model to continue meeting the needs of all stakeholders while staying true to our core beliefs and values.	R1. Economic environment R2. Competitive landscape R3. Perception of unsecured lending R4. Our people R6. Scalability R7. Credit risk R9. Managing costs R12. IT risk R13. Regulation R14. Impact on society	S1. Maintain superior human capital S2. Offer a superior customer value proposition S3. Low cost operational excellence S4. Efficient pervasive distribution S5. Efficient and innovative funding S6. Superior credit underwriting S7. Efficient and superior collections S8. Expanding our accountability horizons

Material issue	Why is it important?	Related risks	Related strategic issues
M3. Growing our people	Our vision will only become a reality through the continued commitment, energy and passion of our people, and their engagement and development is therefore central to the execution of our vision.	R2. Competitive landscape R3. Perception of unsecured lending R4. Our people R6. Scalability	S1. Maintain superior human capital S8. Expanding our accountability horizons
M4. Delivering value to customers	Our customer value proposition must deepen the credit relationship with our customers. It is important to ensure that we live up to the group's purpose to help customers to affordably meet their needs, achieve their dreams and manage the unanticipated financial events that occur through life.	R2. Competitive landscape R3. Perception of unsecured lending R4. Our people R5. Growing ABIL's customer base R6. Scalability R7. Credit risk R10. Ability to price for risk R14. Impact on society	S2. Offer a superior customer value proposition S3. Low cost operational excellence S4. Efficient, pervasive distribution S6. Superior credit underwriting S7. Efficient and superior collections
M5. Maintaining a sound funding and capital foundation	To safeguard operations and stakeholders' interests, and achieve growth objectives and shareholder returns, adequate capital and funding levels must be maintained.	R1. Economic environment R2. Competitive landscape R3. Perception of unsecured lending R6. Scalability R8. Capital, liquidity and funding R10. Ability to price for risk R13. Regulation	S3. Low cost operational excellence S5. Efficient and innovative funding
M6. Delivering value through sustainable and responsible processes	Managing the business in a responsible and proactive way safeguards stakeholders' interests and business reputation.	R3. Perception of unsecured lending R11. Payment system changes R13. Regulation	S2. Offer a superior customer value proposition S7. Efficient and superior collections S8. Expanding our accountability horizons
M7. Maintaining good corporate citizenship	Our vision is to improve the lives or South Africans and help develop our country through our core activities.	R2. Competitive landscape R3. Perception of unsecured lending R4. Our people R14. Impact on society	S8. Expanding our accountability horizons

Strategic review

Please refer to the Letter to stakeholders on page 24, Stakeholder engagement on page 44 and risk report on page 106, for further discussion of the actions implemented to achieve our strategic vision.

ABIL continues to build the group into a sustainable credit provider of scale, which uses capital efficiently and conducts business responsibly. ABIL has set itself an objective to return to a 25% to 30% return on equity (RoE) by 2016. It has been improving its RoE for the past four years. The improvement in its returns is being achieved through a process of stabilising yields, appropriate pricing for defaults, applying strict and dynamic forward looking underwriting controls and a keen focus on managing operating costs and reducing funding costs. ABIL has reduced its cost to income ratio from 36% in 2003 to 18% in 2012. Its cost to advances ratio more than halved over the same period, to 6,2%

ABIL's strategy and core competence revolve around the underwriting of unsecured credit, primarily focusing on and levering its appetite for credit risk. All other financial risks are mitigated as much as possible, through hedging strategies for interest rate and forex risk and not implementing any tax reduction schemes. The group does not take any market risk.

ABIL has a strong focus on active engagement with its employees and customers. Based on the feedback from these to stakeholder groups, it has made continuous improvements to the value proposition to customers and rolled out a range of new and innovative products which have attracted a broad range of new customers to the group.

Through access to the EHL store network, the group has extended African Bank's distribution footprint substantially during 2011/2012 through the rollout of low cost kiosks and carve-out branches in the EHL stores, leading to a significant lift in new business volumes.

The introduction of a variety of mobile and indirect channels has also led to a substantial improvement in convenience to customers and in attracting new customers. African Bank's credit card to moderate income earners has some unique features, such as a fixed instalment based on limit (not balance), providing certainty with regards to monthly obligations. African Bank has grown its market share in credit card from nothing in 2006 to more than 10%.

Strategic progress during 2012

Transforming our culture and maintaining superior human capital

ABIL places tremendous value on active and robust engagement with its people. Strong participation in biannual people surveys (>90%) and improvements in results demonstrate the commitment of our people. Roadshows were again held during the year, engaging with more than 5 000 African Bankers as well as smaller groups of customers. Likewise, in EHL, the Beyonders campaign engaged with 4 800 employees in 2012. The roadshows provide the opportunity for the various executive teams to engage with our people in person.

Other staff initiatives during the year included the launch of interest free study loans, a financial planning tool, staff loans, credit cards, funeral cover, balanced life and diversity workshops and health risk assessments as part of our people promise. The group also implemented a variety of social media engagement tools during the year, including Facebook, Twitter and blogs. The ABIL Institute (corporate university) and a pilot for a Grade 12 equivalent programme were launched countrywide. The Beyonders programme continued to deliver positive results in engaging and energising the workforce in the Retail unit.

For more information on people related initiatives, refer to stakeholder engagement on pages 44 to 46 and the people discussion of the sustainable development section on pages 140 to 153.

EHL strengthened its team during the year with the appointments of a new deputy chief executive, a new chief financial officer, and the appointment of an operations director and two new managing executives.

Improvements in the customer value proposition

The group provided credit to more than 2 million customers during the year. The introduction of the new customer credit interface across all of African Bank strengthened our value proposition to customers through quicker service, an easier application process and real-time disbursement of loans. More than 85% of applications now receive an offer within seven minutes, while over 70% of repeat customers receive an offer within five minutes.

African Bank extended its trading hours during the year with branches now open on public holidays and Sundays in all high volume locations.

Our *inseconds* remote channel continues to provide great customer convenience and access. The group received over a million applications which resulted in R2,1 billion of new business volumes being originated through this channel in 2012. It also offers convenient self service functionality for limit increases and credit offers, balance enquiries, mini statements and airtime sales. This functionality will be extended to loan customers during 2013. As at the end of September 2012 there were 274 000 subscribers activated for cellular phone services. Balance enquiries using cellular phone services increased to over 2 million for the 12 months. This service provides customers with convenience and instant response while reducing the pressure on the call centres at the same time. Self service terminals are being piloted in some of the branches, while *inseconds* is also being piloted in the social media environment.

Other initiatives included:

- Maximum loan sizes have been increased to R180 000 over 84 months;
- Customer rehabilitation initiatives are showing positive results;
- The group launched funeral insurance cover for credit card holders;
- A number of products were developed and launched which have added significantly to new business volumes and broadened our appeal. These new products include Payment Break, Interest Buster, Loan Consolidator and Cash loans in the Retail unit; and
- A more granular segmentation of our customer base was developed and customised offerings for these segments are being created.

Customer growth and rehabilitation

Growing our customers has been a challenge for the group, and was exacerbated in 2012 through the risk mitigation measures implemented during the year. While African Bank has been successful in attracting close to 600 000 new customers every year and some 250 000 repeat customers take out new loans with the Bank annually, an almost equivalent number of customers has typically been lost each year, largely through loans being paid off or written off. The latter needs to be addressed with the same vigour as the new customer acquisition strategies. In this regard, the group has embarked on a range of rehabilitation and insurance related initiatives as discussed earlier in this report.

For more information on the rehabilitation initiatives, refer to the Letter to stakeholders on page 24.

Optimising the value from the EHL acquisition

At the Retail unit the key strategic initiatives set at acquisition are largely complete. The financial services business was transferred to African Bank and the price of credit was reduced substantially. Extensive changes were made to the business model to transform EHL to the current profitable standalone business. In the past three years, more than 500 of the 1 000 stores were either refurbished, resited or replaced, the stock profile cleaned up, product quality improved and a state of the art regional retailing distribution and logistics infrastructure was established. The business has been substantially simplified in terms of the number of brands and management structures while all the brands now operate off a single IT system compared to seven separate systems at acquisition. Efficiencies in the Retail unit have also improved significantly – the workforce was decreased, 300 unprofitable stores closed and the total square metres reduced by 175 000 m^2 or 21%.

The infrastructure is far more productively used for merchandise sales as well as credit disbursement. The business model has become increasingly more robust and therefore operating risk has reduced markedly, as evidenced by the 35% earnings growth in very subdued economic conditions.

The implementation of the African Bank kiosks and carve-outs in Retail stores has also considerably improved access for our customers. The non-furniture credit business volumes generated through the Retail unit stores network more than doubled during 2012 to R3,6 billion, increasing the advances generated from the EHL channel to over R11 billion, relative to R5 billion at acquisition.

The distribution model between the Banking and Retail units is constantly being refined to incorporate new learnings from the different types of outlets. Each retail store has been enabled to provide African Bank credit. Where volumes didn't justify a full outlet, kiosks were absorbed into the retail store where accredited retail staff can sell African Bank products on commission basis. Almost 1 700 Retail unit staff and 780 stores have been accredited in the past six months.

Focus on business optimisation and low cost operational excellence

The strong growth over the past two years and the need to prepare the business for greater scale has given rise to a substantial increase in operating expenses at the Banking unit, due to the staffing of the kiosks and carve-outs, higher sales incentives given the new business volumes, volume based banking fees, IT development and other once off costs. Rapid growth inevitably gives rise to embedded inefficiencies. A programme initiated during the year aimed at improving efficiencies, has already registered some short term gains and has reduced the expenses run rate in the latter part of the year. It is expected to yield further positive results over the next 18 months.

At the Retail unit, the group has made substantial efficiency gains by changing the business model, redesigning the organisational structure and reducing excess capacity. It continues to implement strategies to optimise the business model and further reduce costs.

Strategic initiatives for 2013

ABIL competes in a dynamic, constantly evolving market – and our strategy continues to evolve given the dynamism of the industry. Our vision, mission and customer value proposition have been quantified into rolling five-year growth models targeting return on assets, return on equity and return on sales objectives. As part of our strategy process, we have identified key enablers in risk management as well as in information technology, identified key strategic imperatives up to 2015 and allocated responsibility to an appropriate team for planning, implementation and monitoring and identified the key success factors for effective strategy execution as being an appropriate operating model, appropriate capacity, relevant capability and optimal funding.

Strategy map 2013

Technology

- A robust IT architecture
- Comprehensive, effective, efficient wide area network
- Flexible, effective, efficient applications and data warehouse and management
- Robust and rigorous technology management processes

Key enablers

Risk management

- Appropriate effective risk governance structures
- Robust audit and compliance risk management
- Effective relationship management with all regulatory and legislative structures/bodies
- Appropriate structures, processes and capacity to manage operational strategic risks

Client value proposition
- Always there
- Best deal (price, term, instalment)
- Good faith friend (rehabilitation)
- Credit related products

Low cost operational excellence
- Efficient scalable model
- Processes
- Structures
- Infrastructure
- Costs

Efficient pervasive distribution
- Branch network
- Direct model (call centre)
- Virtual channel
- Partnerships (EHL, other)

Superior human capital
- Employee value proposition
- Succession
- Training and development
- Employment equity
- Decentralised decision making

Key strategic imperatives

Expanding our accountability horizons

Efficient superior collections

Superior credit underwriting
- Models and scorecards
- Expertise
- Analytical capability
- Rigorous operational risk management

Efficient and innovative funding and working capital management

For the Banking unit, the strategy has progressed beyond accessibility, responsibility and affordability towards being the credit provider allowing customers to live the life they want. The strategy has four pillars: "always there", "good faith friend", "best better deal" and "credit related products and services that work for our customers" and a variety of activities are under way to expand the value proposition in each of these dimensions.

At the Retail unit the focus will shift towards optimising and growing the business, now that the major changes to the operating model and the roll out of the supply chain are largely complete. The strategy remains anchored in operational excellence: operating off a lowest relative cost base, differentiated lowest price credit and an efficient, pervasive distribution network.

Focus areas for 2013

Banking unit	*Retail unit*
■ Enhancing our value proposition to our staff, with particular emphasis on the creation of internal opportunities for advancement ■ Completion of the rollout of the new front end ■ Further product enhancements, innovation and price differentiation ■ Growing the customer base through acquisition, retention and rehabilitation strategies ■ Enhancing branch collection capabilities ■ Seeking further operational efficiency gains throughout the business ■ Ensuring delivery of financial results that create superior shareholder value	■ Continuing initiatives to mobilise and energise staff ■ Growing the retail business ■ Optimising the credit operating model ■ Accelerating cost reduction ■ Bedding down and optimising the new supply chain ■ Maximising the financial services value from the Retail unit.

We believe we have the skills, experience and most importantly, the passion to give effect to the ABIL strategy and we have proven that we have the competency to effectively develop and grow our business to attain our vision of making a difference in people's lives.

What sets us apart

Quality of our people	• A transparent and open culture • The courage to face up to shortcomings and address these	• Committed, passionate, experienced and skilled staff
Dominant market position	• Exposed to highest growth end of credit market • The largest provider of consumer finance	• Deep understanding of industry and the market segment • Scale and technical expertise • A substantial distribution network
Focus on core competence of unsecured lending	• Credit risk assumed and all other risks mitigated • Business model is kept free of unnecessary complexity	• Innovation through continuous analysis of data
Strong risk management and collections capability	• Proprietary, multi-dimensional credit scoring and underwriting models • Strong governance and risk management	• Refined collections scorecards, 1 000 seat call centre, large, experienced collections team
Retail model with direct customer interaction and fast turnaround	• Scoring system allows rapid credit offer and transfer to customers' bank account	• Centralised credit underwriting allows swift adjustment for changes in the environment
Pricing based on individual customer risk profile	• Individual credit scoring system within excess of 60 discrete risk bands	• Ensures term and instalment size fit within customer affordability and existing commitments
Low cost operating model	• Consistent reduction in cost to assets • Interplay between risk, cost efficiency and WACC	• Relationship between cost efficiency and incremental risk a key value driver for customers
Well capitalised, high cash generation, high returns, high dividend yield	• Highly cash generative business • RoE focused	• Excess capital managed down to minimum, while maintaining high capital adequacy ratio and modest gearing
Strong solvency, operating in a well regulated banking environment	• A positive liquidity gap maintained at all times • Duration of liabilities targeted to be higher than the duration of assets	• 80% of funding portfolio sourced with maturity of greater than 12 months • SA banking sector rated second in the world by World Economic Forum

Stakeholder engagement

Our people

Engagement methods	Frequency	Stakeholders' issues	Link to material issue	Further detail and group response
Comms Café (a biweekly electronic newsletter)	Biweekly	■ More opportunities/ platforms for discussion	M3. Growing our people	■ Letter to stakeholders – page 24
Screen savers and electronic pop ups	Ongoing	■ Recognise talent, create opportunities for internal advancement	M6. Sustainable and responsive processes	■ Strategic review – page 38
Specialist emails to CEO	Ongoing	■ Interdepartmental interaction		■ Sustainable development – page 140 to 153
Staff, customer and brand roadshows	Biannual – 24 for 2012	■ More operational empowerment		■ Remuneration report – page 93
Intranet	Ongoing	■ Embrace social media		
Brain Wave – our innovation channel	Ongoing	■ Fair and equitable treatment		
Employee engagement surveys	Biannual	■ Being kept informed		
Electronic magazines	Quarterly			
Social media	Ongoing			
Meetings	Ongoing			
Presentations	Biannual			
Conferences	Annual			
Workshops	Ad hoc			
African Bank radio	Ongoing			

Active engagement with our people is a key strategic imperative for the group. For African Bank, regular roadshows with employees and customers is a key tool in the engagement process, designed to promote ownership and provide the opportunity for the executive team to engage with our people in person. The Retail unit also conducts roadshows and annual conferences at brand and group level each year.

The group completed its second and third annual staff engagement surveys during the past year. The results indicated an improvement in the "True Believer" status as compared to 2011 results. While we are pleased with the progress, much work still needs to be done. The Retail unit also completed its second staff engagement survey during the period with 5 518 employees participating in the survey. Survey results showed that employee satisfaction was generally higher than global benchmarks and stable to higher than in 2011 across the brands, except for the "intent to stay" dimension which was lower than last year, having been affected by the restructuring of the brands. The "Beyonders" programme in the Retail unit has proven to be very successful in engaging and energising its workforce and has been extended to all the retail brands during the current year.

What did our people request this year?

Our staff requests	*Our response*
More opportunities/ platforms for discussion	■ Our annual roadshows continued to provide discussion opportunities, with emphasis on the fact that our people have face-to-face time with the leadership of the group. ■ Regional focus groups were held in relation to the people engagement results. ■ Various email addresses with direct access to our executives, specifically "Leon", "Tell Lindiwe" and "Tell Yusuf", area available to all our people. ■ The interim and annual results were communicated live across group, including the retail operations network. ■ An internal blog on the intranet is available to pose questions and concerns and inspire conversations about positive experiences and living our values. ■ Regional manager conferences were held to discuss and agree issues and priorities. ■ "Edu-bytes", an electronic medium designed to manage the learning and change management process, was launched. ■ To scale up the learning process, the Virtual Wizard learning methodology has been adopted. ■ African Bank Radio is being piloted across the country, to create a learning, knowledge sharing, information tool for our people and our customers, via an additional medium.
Recognise talent, create opportunities for internal advancement	■ Recognition programmes have been implemented across the business. ■ There is an annual learnership programme in place, run in conjunction with BANKSETA. ■ Internal advancement is driven across the business and has become a particularly important aspect of development. ■ Personal development plans have been submitted for the majority of staff. ■ A personal mastery programme was offered throughout the retail operations network. ■ A mentorship programme is in place, in which identified talented individuals have been matched with a mentor. ■ An executive coaching programme is being initiated to give identified individuals the opportunity to partner with a coach. ■ The ABIL Institute was launched with a range of programmes geared to the needs of the industry.

Our staff requests	*Our response*
Interdepartmental interaction	■ A programme called "In your Shoes" was introduced into the business in 2011, with the objective of providing an opportunity for people within the call centre and Midrand support functions to experience life on the "coal face", in the branches. This follows on from a similar programme in 2010/2011 called "job shadowing" in which branches were brought into the call centres for a day, to understand the day-to-day challenges.
The ability to make decisions – more empowerment	■ An account management programme is the second phase to the new customer interface. This will allow credit decisions to be overridden by identified branch managers on a limited basis. ■ Operational empowerment has been implemented which allows branch managers decisions regarding appropriate marketing, repairs and merchandising.
Embrace social media	■ African Bank participates in a range of social media. ■ Communications support the marketing strategy with posts on Facebook, Twitter and blogs. ■ Measurables have been put in place including numbers of "likes", demographics and online reputation which measures brand reach and sentiment. ■ A social media management committee was set up this year, represented by various departments. ■ Our mobile offering, *inseconds,* has been integrated on Facebook and Twitter is used to generate leads and monitor and become involved in conversations. Our LinkedIn presence is being improved and used as a careers channel.
Fair and equitable treatment	■ Employment equity committees meet quarterly, where all designated groups are represented. ■ The executive committee meet quarterly for a "People Meeting", in which this is a consistent topic. ■ Emotional intelligence (EQ) courses have been running for over two years, in which the leadership of the Bank is exposed to extensive training on this topic. ■ Employment equity committees are leading the rollout of Diversity and Inclusion Workshops across the organisation.
Keep us informed	■ Following executive committee meetings each month, a "business update" email from the managing director is distributed to the entire business. This message has been designed to address progress on certain issues as well as transparency with regard to decisions that affect employees. ■ Regular updates on progress of issues across the business are communicated through biweekly editions of an electronic newsletter, "Comms Café", as well as through the online quarterly magazine.

Our customers

Engagement methods	Frequency	Stakeholders' issues	Link to material issue	Further detail and group response
Staff and customer roadshows	Biannual – 24 for 2012	■ New products such as savings and funeral products, student loans, vehicle finance and home loans ■ Changing our credit card benefits ■ ATMs ■ SMME finance ■ Loyalty rewards ■ Quicker approvals and query resolutions	M4. Delivering value to our customers M6. Sustainable and responsive processes	■ Letter to stakeholders – page 24 ■ Strategic review – page 38 ■ Sustainable development – pages 153 to 158
Focus groups	Specific projects			
Customer advocacy	Ongoing			
Store and branch network	Ongoing			
Social media	Ongoing			
Marketing and advertising activities	Ongoing			
Call centres	>3 million calls p.a.			
Mobile applications	Ongoing			
Websites for each brand	Ongoing			
Mobi site	Ongoing			
Customer research	Ongoing			
Store visits	Ongoing			
Mystery shopping	Ongoing			

Helping the organisation think CUSTOMER!

By creating an opportunity to engage with customers through our staff and customers roadshows, we are not only able to learn from them but through their stories, we became more aware of the contribution and changes we make every day in people's lives.

The group conducted its inaugural annual Customer Experience external benchmark surveys earlier this year. At the Banking unit, customers displayed a high emotional affinity with the Bank and indicated that we have met or exceeded expectations for more than 90% of customers surveyed. The Bank was generally perceived to be quick and efficient, with customers receiving better service and treatment than they expected. Customers particularly valued being said yes to, as well the larger loan sizes and helpful and friendly staff. Loans are, however, still perceived to be more expensive than expected.

At the Retail unit, customer feedback was particularly positive for Ellerines, Beares and Geen & Richards, and related mostly to better quality, variety and range of products, a better instore experience and an attractive credit offering and easy loans process. Customers highlighted some service and/or image issues in Wetherlys, Dial-a-Bed and Furniture City, which the group is attending to.

An inhouse customer research capability was installed this year to do qualitative research and focus groups as well as quantitative customer segmentation work. Extensive data capabilities were also added to assist customer contactability, direct marketing and analytical intelligence efforts. Various research studies were conducted telephonically as well as in face-to-face focus groups to gather customer insights in terms of their needs and perceptions around products and investments and to reinforce segmentation work – customer needs, what does the customer profile look like, what do they like and don't like in financial products, loyalty rewards (are those important or not) and get an understanding of customer experience with using the mobile *inseconds* channel.

Two key activities were put in place during 2011/2012 in the Banking unit. BATHINI, an internal perception survey which measures standards of customer service delivery (internal and external) and In Your Shoes, an internal programme to experience the journey a customer goes through when dealing with the business. This allows for an indepth understanding and highlighting of gaps, required improvements and process optimisation.

Our customers' requests	*Our response*
Homeloans	The group piloted two initiatives, involving the placing of kiosks in building stores for incremental housing and home ownership loans.
Student loans	We are in exploratory discussions with various parties to facilitate targeted education loans.
Funeral plan	African Bank now offers a funeral plan, called Claim Express to all credit card customers. The product was launched in April 2012 and offers cover options ranging from R10 000 to R50 000. It promises to pay out a cash amount selected by the customer within 24 hours of the claim being approved.
Retail savings	A web based retail savings system was launched in October 2012.
Embossed credit card	Card is planning a series of initiatives that will add value to customers through functionality and security enhancements. In response to customer requests, one of the value adds would be to provide embossed cards as an option.
ATM footprint expansion	We recognise customers' needs to access cash through an ATM network. We have engaged in a pilot project with an ATM supplier to gather further learnings before committing to further rollout.
Small business financing	We have commenced an initial investigation on opportunities for small business loans.
Loyalty rewards/club programmes	Opportunities and options available to African Bank are being investigated currently. The Retail unit has a successful club programme in place.

Our capital providers

Engagement methods	Frequency	Stakeholders' issues	Link to material issue	Further detail and group response
Local and international investor roadshows Funding roadshows Results presentations Investment conferences Meetings Conference calls Investor days SENS Website Social media Email notifications Webcasts	Three in 2012 Six in 2012 Four per annum Five in 2012 >180 in 2012 Four per annum One in 2012 Ongoing Ongoing Ongoing Ongoing Four per annum	■ Possibility of credit bubble ■ Intensifying competition ■ Regulatory reviews and possibility of regulatory intervention ■ Financial returns ■ Wholesale funding model ■ Basel III impact ■ Capital adequacy ■ Credit ratings	M5. Maintaining a solid foundation M6. Sustainable and responsive processes	■ Letter to stakeholders – page 24 ■ Strategic review – page 38 ■ Financial review – page 52 ■ Risk report – page 106 to 133

Striving to continuously improve the alignment between the group and its key stakeholders

ABIL engaged with a wide group of local and foreign investors during this financial year through roadshows, presentations, meetings, surveys and conferences, amongst others. The group believes in frequent and transparent disclosure and active engagement with investors and funders. ABIL was recognised as the award winner in the category of Best presentation to the Investment Analyst Society in 2011/12, its integrated report was rated excellent in the annual Ernst & Young integrated reporting survey and its sustainability report disclosure was rated amongst the best on the JSE in the IRAS 2012 review of sustainability reporting in South Africa.

Concerns and issues expressed by equity holders also weighed on the minds of debt investors which have had to be managed proactively throughout the year. There was continuous engagement through a variety of channels from the daily interactions through the funding desk, bilateral interactions with senior management, debt investor interactions as part of the results reporting and local and international roadshows.

Our capital providers' concerns	*Our response*
The growth in unsecured lending and increasingly competitive landscape remain of significant concern to investors	The group held an investor day, presented at investor conferences and held a large number of meetings to share our insights regarding the state of the unsecured market. ABIL implemented a range of initiatives to safeguard the group against deteriorating conditions which it also communicated to the market.
Capital adequacy and the impact of Basel III	Please refer to the risk section on page 121 to 124.
ABIL's ability to continue to fund on a wholesale basis and our plans for retail deposit taking	Substantial diversification of funding sources. A retail deposit initiative was also launched during Q4 2012.
Regulatory reviews, the potential for regulatory intervention in terms of the caps and insurance	Please refer to the risk section on pages 128 to 133.
Potential for changes to current credit ratings	Active engagement with credit rating agencies. Please refer to the risk section on pages 125 to 127.

Suppliers

Engagement methods	Frequency	Stakeholders' issues	Link to material issue	Further detail and group response
Meetings Workshops Supplier conferences	Ongoing Ad hoc Annually	■ Payments ■ B-BBEE compliance ■ Support	M2. Positioning our business for the long term M6. Sustainable and responsive processes	■ Letter to stakeholders – page 32 ■ Sustainable development – page 158 to 160

Merchandise suppliers

Merchandise suppliers are engaged with in a variety of ways, both informally and formally. Monthly promotion meetings are held with vendors to discuss promotional plans, price negotiations and volume discussions, while weekly/fortnightly planning meetings with top 20 vendors focus on business improvement. Offshore meetings are held twice a year with key suppliers/factories to discuss new product development, quality control, alternative funding models and logistics opportunities. Annual trading terms and supply chain reviews are also held with top vendors.

Non-merchandise suppliers

The group maintains a vendor database of some 2 830 active suppliers, of whom 65% have current and valid B-BBEE certificates. A formal accreditation process is carried out for any new vendor, including reference, CIPRO and ITC checks. These suppliers form the pool from which participants for tenders are drawn.

African Bank holds an annual supplier summit for top suppliers, which comprise 80% of spend of the total supplier base. The objective of the summit is to build open communication between African Bank and suppliers and to discuss the Bank's strategic business vision and its journey towards improved B-BBEE and a greener environment. The importance of compliance with procurement policies which take economic (cost efficiencies), social (B-BBEE compliance) and environmental (promoting environmentally friendly initiatives) factors into account when doing business with the group, is also addressed.

Key concerns from supplier groups are the rapid settlements of invoices, financial and technical support for small suppliers and exclusion as a result of non-B-BBEE compliance.

Regulators

Engagement methods	Frequency	Stakeholders' issues	Link to material issue	Further detail and group response
Meetings Prudential visits Submissions Statutory reporting Industry level engagements	Ad hoc Quarterly Monthly and ongoing Monthly Ad hoc	■ Growth and customer indebtedness ■ Insurance pricing ■ FAIS ■ Potential credit bubble	M5. Maintaining a solid foundation M6. Sustainable and responsive processes	■ Letter to stakeholders – page 28 ■ Risk report – page 128 to 133

The most important of these are discussed in the regulatory risk section on pages 128 to 133 and in the Letter to stakeholders on page 28.

During 2012, there were a variety of regulatory reviews being undertaken which may or may not impact the credit industry over time. ABIL's philosophy has always been to support initiatives that have the best interests of customers at heart and therefore to be proactively involved in the review process and adapt its business on a pre-emptive basis to any changes that may be required.

Communities

Engagement methods	Frequency	Stakeholders' issues	Link to material issue	Further detail and group response
Meetings Workshops Website CSI projects	Ongoing Ongoing Ongoing Ongoing	■ Financial support ■ Corporate responsibility	M2. Positioning our business for the long term M6. Sustainable and responsive processes	■ Letter to stakeholders – page 32 ■ Sustainable development – page 171 to 177

The group endeavours to utilise its retail footprint as a channel for positive change in order to contribute towards a brighter future for the children in the communities in which our branches operate. Development is the guiding principle of community involvement. The Ellerine Holdings Trust Fund and ABIL CSI funds are geared to make a sustainable difference the communities served by the group.

In the Retail unit, initiatives also focus on employee participation such as Siyanakekela, which entails voluntary contribution via payroll deductions to community causes; vocational service where employees volunteer their professional skills and time and public service.

Financial and operational review

How ABIL generates revenue and what risks are met in generating revenue

ABIL generates revenue from sale of merchandise, interest income, assurance income and non-interest income.

Sale of merchandise

Sale of merchandise is sale of furniture and appliances on cash or credit. The risk faced by the group is the overreliance on suppliers to supply the goods and selling of merchandise before it becomes obsolete. The group does not rely on a small group of suppliers and actively manages stock turnover to minimise obsolescence.

Interest income

Interest income is earned mainly on funds advanced to individual customers for unsecured personal loans and credit to purchase furniture and appliances. The interest rates charged to customers are dependent on a risk rating of the customer, which represents the credit risk. The risk faced is the customer not repaying all or a portion of the funds advanced. Thus the group assesses the affordability of repayment and risk profile of customers carefully. Arrear accounts are actively managed as soon as they are in default.

The group also earns interest income on cash reserves held and the risk faced is of the institution in which the group has invested the cash reserves not being able to repay the funds on demand. To minimise this risk, the group limits exposure to any one financial institution and also invests its cash reserves in highest risk rated banks in South Africa and major banks in foreign countries in which the group's Retail unit operates.

The group finances the advances through raising funding through unsecured listed bonds, promissory notes, fixed deposits and other short term money market funding. Interest is paid on these funding instruments on a fixed and floating rates basis. The group faces **interest rate risk** through the floating rate funds as well as **foreign currency risk** through foreign currency dominated funding. Significant interest rate risk is hedged by the group through interest rate swaps. All foreign currency risk is hedged through currency swaps. In entering into the interest rate and foreign currency swaps, the group faces **counterparty risk** which it manages by entering into swaps only with the highest risk rated financial institutions.

The group has **capital adequacy risk**, which is the risk that African Bank and the group will not have sufficient capital reserves to meet materially adverse market conditions beyond that which have already been factored into the business model. Capital adequacy is measured by expressing capital as a percentage of risk weighted assets. The group and African Bank manage this by ensuring that there is a sufficient buffer above the minimum capital reserves required in relation to risk weighted assets.

The group also faces **liquidity risk** in that deposits placed on call could be withdrawn at any point without notice. This risk is managed by ensuring that the group has a positive maturity profile at all stages and by maintaining minimum cash levels. In addition, African Bank is required to hold minimum reserve balances with the South African Reserve Bank (SARB). Consequently, African Bank is able to access liquidity with the SARB which is normally priced at the SARB repurchase rate.

Assurance income

Assurance income consists of premiums received for the group to insure various risks including death, disability, retrenchment, loss and damage to goods. Underwriting profit is earned over the life of an insurance product based on the difference between premiums received and claims paid on the risks insured. The group faces **underwriting risk** which is the risk that the actual claims will exceed the expected claims and the premium income received. Insured events are random and the actual number and amount of

The risk base of the group is not concentrated in any one region or sector of the economy

claims will vary from estimates. These risks are managed through product development and underwriting processes. Underwriting results of each risk class are monitored on a regular basis and corrective measures are taken where necessary. Furthermore, the risk base of the group is not concentrated in any one region or sector of the economy and the average individual insured (actual and potential) losses are limited to amounts which are not material to the group or individual subsidiary.

The insurance subsidiaries face **insurance capital adequacy risk**, being the risk that there are insufficient reserves to provide for materially adverse variations in actual claims experience as compared with that which has been assumed in the financial soundness valuation. The insurance subsidiaries ensure that they operate at capital adequacy requirement ratio well in excess of the minimum regulatory requirement.

Non-interest income

The non-interest income consists mainly of loan origination and service fees, credit card fees and delivery charges. Loan origination and service fees are earned from the group granting personal loans and credit to purchase furniture. Credit card fees are generated through banking transactions by individual customers at ATMs and point of sale devices. Delivery charges are earned on transporting goods after purchase to the customer's required location. Origination, service and credit card fees are subject to the same credit risk as interest income on funds advanced and are therefore managed in the same way.

For a more detailed discussion on how ABIL manages these and other key risks, refer to the web based risk report available at www.abil.co.za or pages 106 to 133 of this report.

Overview

Financial performance

ABIL increased its return on equity to 20,0% for the year ended 30 September 2012 (2011: 18,4%) and generated a return on average tangible equity of 36,3% (2011: 36,2%) in line with its targets. The group grew economic profit, after charging for its cost of equity, by 53% to R755 million (2011: R494 million). Headline earnings increased by 18% to R2 754 million (2011: R2 339 million), as did headline earnings per share to 342,5 cents (2011: 291,0 cents). A final ordinary gross cash dividend per share of 110 cents (2011: 100 cents) was declared, bringing the total ordinary dividend for the year to 195 cents per share (2011: 185 cents).

Headline earnings benefited from the replacement of secondary tax on companies (STC) with a dividend withholding tax by an amount of R69 million. Excluding this benefit, headline earnings would have been 15% higher than 2011.

The group's operating results were aided by engaged employees being focused on effective execution of business initiatives. The continued positive response from customers to the group's credit and retail product offerings, strong efficiency gains and growing margins at EHL, as well as the increased African Bank footprint through the EHL distribution network contributed to further growth in assets and profitability.

ABIL has managed to successfully steer through the continued economic volatility in 2012 and remains confident of its ability to entrench its position as the market leader in a larger, more competitive and fast changing unsecured credit market.

The Banking unit produced a return on equity of 22,9% (2011: 22,9%) and a return on average tangible equity of 35,4%. The unit grew headline earnings by 12% to R2 580 million (2011: R2 302 million) and economic profit by 12% to R945 million. The Bank benefited from robust sales and advances growth particularly in the first quarter, a slower reduction in yield than in recent years and stable asset quality, while cost growth and an elevated bad debt charge negatively affected profitability.

Headline earnings in the Retail unit increased by 35% to R257 million (2011: R190 million), despite difficult economic conditions and modest sales growth, as more efficient operations, strong cost containment and firmer margins from a more robust business model continued to provide operating leverage. The Retail unit generated a return on sales of 5,4%, a return on equity of 9,4% and a return on average tangible equity of 47,7%. It decreased its economic loss to R139 million from R211 million in the previous year.

In terms of the financial objectives set for 2012, the group substantially exceeded the advances growth target and met its return on equity target, while not achieving the merchandise sales growth target.

ABIL financial objectives

Objective	***2012 target %***	***2012 actual %***
Merchandise sales	>5	1,7
Advances growth	>25	33
Return on equity	>20	20

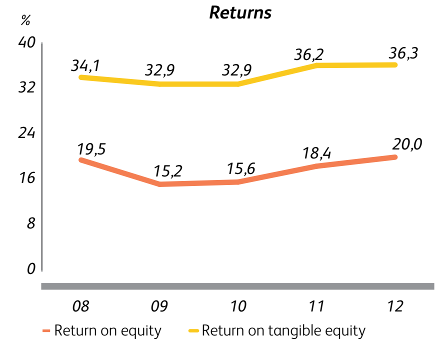
Dividends and dividend cover

ABIL has declared a final gross cash dividend of 110 cents (2011: 100 cents) per ordinary share for the year to 30 September 2012, bringing the total dividend for the year to 195 cents per share (2011: 185 cents). The ordinary dividend cover was 1,8 times, which is consistent with the guidance provided at the end of the previous financial year that the group would be increasing its dividend cover to 1,8 to 2,0 times. The group also offered a capitalisation share alternative to provide flexibility to shareholders.

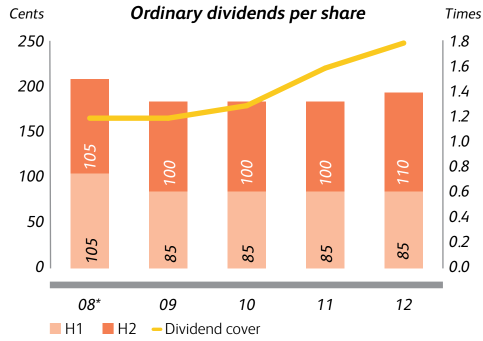
The group expects to maintain a dividend cover of 1,7 to 2,0 times for 2013.

The group has also declared a final gross cash preference share dividend of 327 cents per share (2011: 310 cents). resulting in a full year gross preference share dividend of 668 cents per share (2011: 620 cents). The gross up of the dividend by 10% due to the implementation of withholding tax on dividends, increased the dividend with effect from 1 April 2012, while the change in the repo rate with effect from 20 July 2012 decreased it.

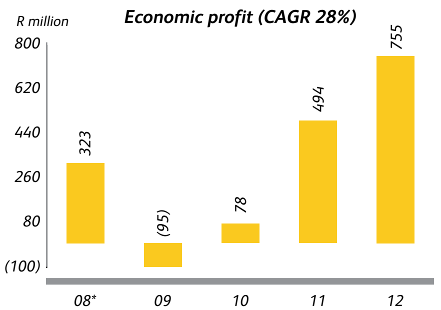
Return on equity in line with targeted levels



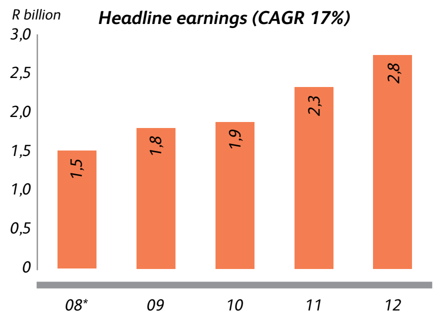
Dividend cover to support asset growth



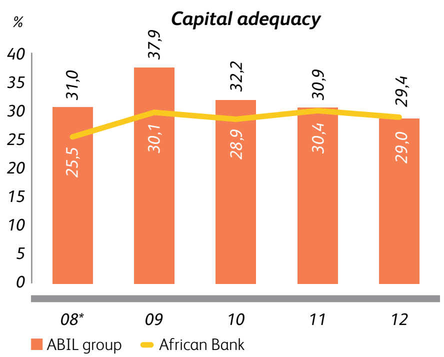
Strong growth in value creation



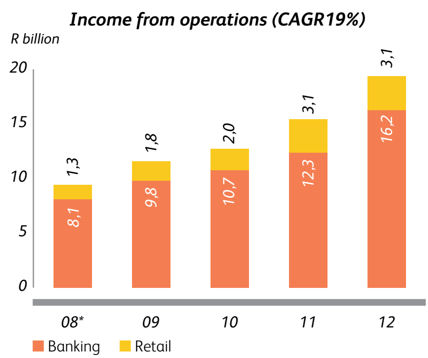
Consistent real growth in earnings



Adequately capitalised to support growth objectives



Strong growth in income generation



* *Acquisition of Ellerine Holdings Limited.*

Condensed segmental income statement

for the year ended 30 September 2012

R million	% change	30 September 2012 (Audited) ABIL group	Banking unit
Gross margin on retail business	2	**2 134**	**–**
Interest income on advances	36	**9 919**	**9 823**
Assurance income	29	**3 828**	**3 401**
Non-interest income	12	**3 291**	**3 018**
Income from operations	25	**19 172**	**16 242**
Credit impairment charge	45	**(5 197)**	**(5 170)**
Claims paid	49	**(912)**	**(918)**
Risk adjusted income from operations	18	**13 063**	**10 154**
Product insurance claims	(12)	**(60)**	**–**
Other interest and investment income	(35)	**219**	**324**
Interest expense	29	**(3 680)**	**(3 771)**
Operating costs	11	**(5 467)**	**(2 957)**
Indirect taxation: VAT	7	**(72)**	**(72)**
Profit from operations	14	**4 003**	**3 678**
Capital items	(>100)	**(6)**	**–**
Profit before taxation	14	**3 997**	**3 678**
Direct taxation: STC	(46)	**(82)**	**(2)**
Direct taxation: Normal	14	**(1 112)**	**(1 038)**
Profit for the year	18	**2 803**	**2 638**

Intersegment revenues included in income from operations are for the Retail unit only and amount to R206 million (2011: R122 million).

R million	% change	30 September 2012 (Audited) ABIL group	Banking unit
Profit for the year (basic earnings)	18	**2 803**	**2 638**
Preference shareholders	91	**(61)**	**(61)**
Basic earnings attributable to ordinary shareholders	17	**2 742**	**2 577**
Adjustments for non-headline items:		**12**	**3**
Gross adjustments		**17**	**4**
Tax thereon		**(5)**	**(1)**
Headline earnings	18	**2 754**	**2 580**

Retail unit	Consolidation adjustments	ABIL group	Banking unit	Retail unit	Consolidation adjustments
		30 September 2011 (Audited)			
2 134	–	2 083	–	2 083	–
96	–	7 308	7 198	110	–
427	–	2 962	2 532	430	–
479	(206)	2 930	2 624	428	(122)
3 136	(206)	15 283	12 354	3 051	(122)
(27)	–	(3 596)	(3 527)	(69)	–
6	–	(612)	(612)	–	–
3 115	(206)	11 075	8 215	2 982	(122)
(60)	–	(68)	–	(68)	–
74	(179)	339	319	46	(26)
(84)	176	(2 850)	(2 826)	(48)	24
(2 716)	206	(4 931)	(2 397)	(2 656)	122
–	–	(67)	(67)	–	–
329	(4)	3 498	3 244	256	(2)
(6)	–	1	1	–	–
323	(4)	3 499	3 245	256	(2)
–	(80)	(151)	1	–	(152)
(75)	1	(977)	(912)	(66)	1
248	(83)	2 371	2 334	190	(153)

Retail unit	Consolidation adjustments	ABIL group	Banking unit	Retail unit	Consolidation adjustments
		30 September 2011 (Audited)			
248	(83)	2 371	2 334	190	(153)
–	–	(32)	(32)	–	–
248	(83)	2 339	2 302	190	(153)
9	–	–	–	–	–
13	–	–	–	–	–
(4)	–	–	–	–	–
257	(83)	2 339	2 302	190	(153)

Condensed segmental statement of financial position

as at 30 September 2012

		30 September 2012 (Audited)	
R million	***% change***	***ABIL group***	***Banking unit***
Assets			
Short term deposits and cash	(4)	**3 070**	**3 394**
Statutory assets – bank and insurance	56	**4 322**	**3 533**
Inventories	(2)	**871**	**–**
Other assets	50	**1 310**	**971**
Other assets – intragroup		**–**	**464**
Taxation	108	**27**	**–**
Net advances	31	**46 013**	**46 130**
Deferred tax asset	64	**762**	**323**
Policyholders' investments	(100)	**–**	**–**
Property and equipment	35	**1 152**	**627**
Intangible assets	(10)	**683**	**–**
Goodwill		**5 472**	**4 000**
Total assets	26	**63 682**	**59 442**
Liabilities and equity			
Short term funding	175	**4 587**	**4 111**
Short term funding – intragroup		**–**	**184**
Other liabilities	4	**2 201**	**1 003**
Other liabilities – intragroup		**–**	**66**
Taxation	31	**94**	**79**
Deferred tax liability	(6)	**216**	**–**
Life fund reserve	(100)	**–**	**–**
Bonds and other long term funding	26	**37 320**	**37 300**
Subordinated bonds	38	**3 831**	**3 831**
Total liabilities	32	**48 249**	**46 574**
Ordinary shareholders' equity	8	**14 303**	**11 738**
Preference shareholders' equity	57	**1 130**	**1 130**
Total equity (capital and reserves)	11	**15 433**	**12 868**
Total liabilities and equity	26	**63 682**	**59 442**

Condensed statement of comprehensive income

for the year ended 30 September 2012

		30 September 2012 *(Audited)*	**30 September 2011 (Audited)**
R million	***% change***	***ABIL group***	***ABIL group***
Profit for the year	18	**2 803**	2 371
Other comprehensive income			
Exchange differences on translating foreign operations	(>100)	**(4)**	5
Movement in cash flow hedge reserve	>100	**(200)**	(2)
IFRS 2 reserve transactions	17	**(7)**	(6)
Other comprehensive income for the year, net of tax	>100	**(211)**	(3)
Total comprehensive income for the year	9	**2 592**	2 368

Retail unit	Consolidation adjustments	ABIL group	Banking unit	Retail unit	Consolidation adjustments
		30 September 2011 (Audited)			
92	**(416)**	3 198	3 288	62	(152)
605	**184**	2 775	2 524	251	–
871	**–**	885	–	885	–
411	**(72)**	872	669	256	(53)
184	**(648)**	–	126	221	(347)
27	**–**	13	–	13	–
363	**(480)**	35 099	35 047	312	(260)
437	**2**	465	125	339	1
–	**–**	1	1	–	–
531	**(6)**	852	511	343	(2)
683	**–**	761	–	761	–
755	**717**	5 472	4 000	755	717
4 959	**(719)**	50 393	46 291	4 198	56
476	**–**	1 666	1 175	491	–
459	**(643)**	–	221	119	(340)
1 689	**(491)**	2 013	817	1 456	(260)
–	**(66)**	–	60	–	(60)
15	**–**	72	55	17	–
216	**–**	229	–	229	–
–	**–**	1	1	–	–
20	**–**	29 672	29 672	–	–
–	**–**	2 775	2 775	–	–
2 875	**(1 200)**	36 428	34 776	2 312	(660)
2 084	**481**	13 246	10 796	1 886	564
–	**–**	719	719	–	–
2 084	**481**	13 965	11 515	1 886	564
4 959	**(719)**	50 393	46 291	4 198	56

Condensed group statement of changes in equity

for the year ended 30 September 2012

R million	*Share capital and premium*	*Distributable reserves*
Balance at 30 September 2010 (audited)	9 151	2 672
Dividends paid	–	(1 488)
Issue of preference shares	–	–
Profit on group employees acquiring ABIL Share Trust shares less dividends received	–	1
Shares purchased into the ABIL Employee Share Trust less share issued to employees (cost)	–	–
Transfer from share based payment reserve		726
Transfer to insurance contingency reserve	–	13
Total comprehensive income for the year	–	2 339
Balance at 30 September 2011 (audited)	9 151	4 263
Dividends paid	**–**	**(1 488)**
Issue of preference shares	**–**	**–**
Profit incurred on group employees acquiring ABIL Share Trust shares	**–**	**3**
Shares purchased into the ABIL Employee Share Trust less share issued to employees (cost)	**–**	**–**
Transfer from share based payment reserve	**–**	**77**
Transfer to insurance contingency reserve	**–**	**(4)**
Total comprehensive income for the year	**–**	**2 742**
Balance at 30 September 2012 (audited)	**9 151**	**5 593**

Notes

1.	**Treasury shares**		***30 September 2012 (Audited)***	***30 September 2011 (Audited)***
	Treasury shares at cost	R million	**–**	11
	Number of shares held	million	**–**	0,5
	Average cost per share	Rand	**–**	23,24

2.	**Number of ordinary shares at 30 September 2012**	***Total***	***Weighted***
	Number of shares in issue at the beginning of the year	**804 175 200**	**804 175 200**
	Treasury shares on hand	**–**	**(166 577)**
		804 175 200	**804 008 623**

Share based payment reserve	Other	Ordinary shareholder equity	Preference share capital and premium	Total
813	(240)	12 396	483	12 879
–	–	(1 488)	(32)	(1 520)
–	–	–	236	236
–	–	1	–	1
–	1	1	–	1
(726)	–	–	–	–
–	(13)	–	–	–
(6)	3	2 336	32	2 368
81	(249)	13 246	719	13 965
–	**–**	**(1 488)**	**(61)**	**(1 549)**
–	**–**	**–**	**411**	**411**
–	**–**	**3**	**–**	**3**
–	**11**	**11**	**–**	**11**
(77)	**–**	**–**	**–**	**–**
–	**4**	**–**	**–**	
(7)	**(204)**	**2 531**	**61**	**2 592**
(3)	**(438)**	**14 303**	**1 130**	**15 433**

Condensed group statement of cash flows

for the year ended 30 September 2012

R million	*30 September 2012 (Audited)*	*30 September 2011 (Audited)*
Cash generated from operations	**9 558**	7 746
Cash received from lending and insurance activities and cash reserves	**21 917**	18 329
Recoveries on advances previously written off	**300**	213
Cash paid to funders, staff, suppliers and insurance beneficiaries	**(12 659)**	(10 796)
Increase in gross advances	**(16 274)**	(13 605)
Increase in working capital	**(344)**	(398)
Decrease/(increase) in inventories	**14**	(34)
Increase in other assets	**(438)**	(577)
Increase in other liabilities	**80**	213
Indirect and direct taxation paid	**(1 486)**	(1 288)
Cash inflow from equity accounted incentive transactions	**14**	2
Cash outflow from operating activities	**(8 532)**	(7 543)
Cash outflow from investing activities	**(1 304)**	(1 252)
Acquisition of property and equipment (to maintain operations)	**(568)**	(483)
Disposal of property and equipment	**31**	80
Disposal of investment	**–**	1
Other investing activities	**(767)**	(850)
Cash inflow from financing activities	**10 487**	8 688
Cash inflow from funding activities	**11 625**	9 972
Issue of preference shares	**411**	236
Preference shareholders' payments and transactions	**(61)**	(32)
Ordinary shareholders' payments and transactions	**(1 488)**	(1 488)
Increase/(decrease) in cash and cash equivalents	**651**	(107)
Cash and cash equivalents at the beginning of the year	**3 609**	3 716
Cash and cash equivalents at the end of the year	**4 260**	3 609
Made up as follows:		
Short term deposits and cash	**3 070**	3 198
Statutory cash reserves – insurance	**1 190**	411
	4 260	3 609

Financial returns >

Return on equity

ABIL reported a return on equity of 20,0% for the year to 30 September 2012 (2011: 18,4%). Return on tangible equity (i.e. excluding goodwill) was 36,3%. Return on assets was 4,5% (return on tangible assets of 5,3%), and was geared 4,5 times. The group has steadily lifted its return on equity from a low of 15,2% in 2009. It has revised its medium to long term target to 25% to 30%. This is targeted to be achieved through a return on assets of some five to six times, geared a conservative five times that is considered prudent for a business of this nature.

The group's business philosophy has been built on the premise that we will constantly strive to add value to customers through the economic cycles, on a sustainable basis. This implies that ABIL will not target growth at the expense of returns by reducing the quality of the portfolio and thus incurring additional losses.

The Banking unit produced a return on assets of 4,7% and a return on equity of 22,9% relative to 5,5% and 22,9% respectively in the prior period. Return on tangible assets was 5,1% and return on tangible equity 35,4%. The Retail unit's return on equity improved from 6,9% to 9,4%. Return on tangible equity increased from 38,2% to 47,7%.

Banking unit return on assets and return on equity progression

(Ratios relative to average gross advances)

		Basis point change	2012	2011
Average gross advances	R million		**47 662**	34 914
Average shareholders' equity	R million		**11 278**	10 034
Income ratios				
Interest	%	(1)	**20,6**	20,6
Assurance	%	(12)	**7,1**	7,3
Other income	%	(118)	**6,3**	7,5
Total income yield	%	(131)	**34,1**	35,4
Expense ratios				
Credit loss	%	75	**(10,8)**	(10,1)
Credit life claims	%	17	**(1,9)**	(1,8)
Operating costs	%	(66)	**(6,2)**	(6,9)
Financing costs	%	9	**(7,4)**	(7,3)
Taxation	%	(47)	**(2,3)**	(2,8)
Total charges	%	(13)	**(28,7)**	(28,8)
Return on advances	%	(118)	**5,4**	6,6
Advances/total assets	%	347	**87,6**	84,2
Return on assets (RoA)	%	(81)	**4,7**	5,5
Gearing	times	69	**4,8**	4,1
Return on equity (RoE)	%	(7)	**22,9**	22,9

Retail unit return on sales model

(Ratios relative to sales)

		Basis point change	2012	2011
Sales	R million		**4 792**	4 710
Sale of merchandise			**100,0**	100,0
Cost of sales	%	30	**(55,5)**	(55,8)
Gross margin	%	30	**44,5**	44,2
Interest, assurance and non-interest income	%	(130)	**16,6**	17,9
Charge for bad and doubtful advances	%	90	**(0,6)**	(1,5)
Claims	%	30	**(1,1)**	(1,4)
Operating costs	%	160	**(52,2)**	(53,8)
Trading/operating margin	%	170	**7,2**	5,5
Net return on sales	%	140	**5,4**	4,0

The Retail unit's net return on sales increased from 4,0% to 5,4% on the back of an increase in gross margin and operating efficiencies, demonstrating the continuous productivity improvements in this business.

Income statement analysis

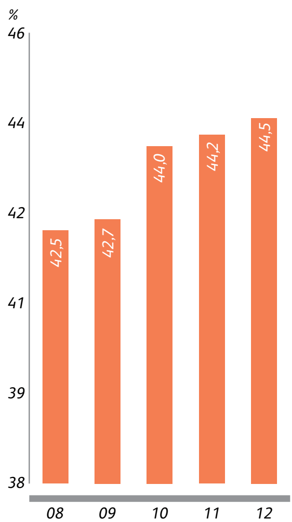
Merchandise sales and gross margin

Merchandise sales grew by 1,7% relative to the previous year to R4,8 billion. Comparable sales increased by 4,7%. Cash sales increased by 6,3%, while credit sales declined by 0,8%. Credit sales as a percentage of total sales at 62,7%, was below the previous year (2011: 64,3%). The decline in the credit sales mix trend was prevalent across all brands but especially in Beares, Geen & Richards and Rest of Africa.

A deterioration in the durable retail sector, continued deflation and risk reduction measures implemented by the group to avoid poor quality sales, as well as the reduction in the footprint resulted in low sales growth in the Retail unit.

Rest of Africa, Furniture City and Ellerines in particular performed better than last year, while Dial-a-Bed performed better on a comparable basis due to store closures. Geen & Richards, Beares and Wetherlys traded down. The biggest driver of the sales shortfall relates to Beares and Geen & Richards credit sales which were substantially down on last year given the risk reduction measures implemented by the Banking unit. Wetherlys' sales performance was impacted by the closure of three stores which all generated losses.

Gross profit margin



Product and merchandising – Improvements in buying skills and new merchandise systems contributed to better inventory management and firm margins, while pleasing progress was made in style and design differentiation and quality improvements. The group is making good headway in finding new suppliers and developing strategic supplier relationships.

The Retail unit concluded a significant new strategic relationship with Ashley (USA) which is the world's second largest furniture manufacturer and retailer to supply a full range of products to the group. Several other innovative initiatives are under way with existing vendors. The Retail unit completed negotiations with all suppliers to integrate them into the new supply chain and to renegotiate terms with respect to extracting costs from the supply chain. It has also established a new set of protocols with regards to quality assurance and quality checking to ensure product quality to customers is improved.

The Retail unit migrated production from the Roodefurn production plant to quality local manufacturers, resulting in the closure and elimination of losses at Roodefurn, better prices to customers and improved margins in Wetherlys. Wetherlys has also opened Hartmann & Keppler exclusive store-within-stores in selected top branches. Hartmann & Keppler offers upmarket ranges to homes, hotels, lodges and executive offices worldwide. Their ranges will complement the Wetherlys furniture offering, while stock will be carried by Hartmann & Keppler.

Footprint optimisation – To improve efficiencies in the distribution network, the Retail unit undertook an aggressive reduction in non-productive space and the development of smaller store formats. The combination of the two initiatives yielded a 29 339 m² reduction in store space, with a further 40 000 m² targeted for 2013. Trading space was reduced from 702 799 m² to 673 460 m² as the group extracted itself from some large sites, leading to an improvement in sales densities. The Retail unit opened 39 new stores during the year and closed 57, resulting in a total store count of 1 041.

The process of reducing store sizes continued, as evident in the reduction in store size by brand and a total reduction of square metres for the group. The impact of the store size reductions on sales efficiencies has been positive and the smaller store model is proving successful across all brands. Annual sales per store have improved by 4% from R4,4 million to R4,6 million, while annual merchandise sales per m² have increased by 5% from R6 662 to R6 972. It is important to note that the Retail unit does not exclude office and amenities space from retail space before calculating square metres. The smaller stores also have the added benefit of providing access to markets that would previously not have been profitable because of their smaller target markets. The group continues to pursue opportunities to dispose of and/or better utilise excess space.

The Dial-a-Bed online store (www.dialabed.co.za) was launched in February 2012. The virtual store is now also accessible in the larger stores in the brand and continues to grow. Other virtual stores are also planned for the next financial year. Appliance City – a wide range of plugged category offering and Furniture City – a wider range of furniture offer

Brand analysis

		Ellerines	***Beares***
Distribution			
Number of stores		571	189
Number of new stores opened[1]		25	8
Number of stores closed[1]		31	8
Percentage change in number of stores	%	(1)	–
Retail trading area	m²	306 286	128 620
Percentage change in m²	%	(5)	(3)
Average store size	m²	536	681
Merchandise sales	R million	2 108	794
Contribution per brand		44	17
Merchandise sales growth	%	6	(4)
Merchandise sales/m² growth[2]	%	10	(6)
Credit merchandise sales mix	%	84	61
Number of employees[3]		3 849	1 560

1 During the past 12 months.
2 Based on a 12-month rolling average.
3 Excludes 1 195 staff employed at central departments.

were launched in October. The virtual websites also serve to supplement the smaller store format by offering a broader range to customers than what is available in the store.

Supply chain, logistics and distribution – The logistics network roll out has been one of the key strategic projects for the last three years. The Boksburg distribution centre went into full scale operation, a further three distribution centres were opened in Gauteng, Eastern Cape and Western Cape, while the Durban unit was completed and has gone live on 1 November 2012 for stock intake. Approximately 728 stores have thus far transitioned into the new distribution network. 13 standalone cross docks were also opened and are live.

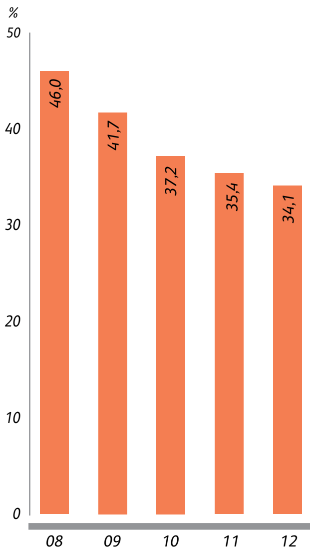
Many storerooms and hubs in the old network were closed as the new facilities went live. Staff were either transferred to the logistics supplier Barloworld, relocated from stores to the central facility, or took voluntary retrenchment. The Retail unit has now achieved the last leg of its three-year strategy to obtain a centralised, single logistics and distribution network and capability. It is also the first of its kind in South Africa.

Gross margin in the Retail unit increased by 2% to R2 134 million, on the back of merchandise sales growth of 1,7% and an improvement in the gross margin percentage from 44,2% to 44,5%. As per our philosophy, we will pursue profitable quality growth to drive returns rather than purely volume growth. Therefore the focus this year has been on preserving the margin by resisting the temptation to dilute margin in an attempt to increase sales. This strategy will be constantly reassessed in relation to market conditions.

The improvement in margins was achieved despite the closure of the Roodefurn production facility and the costs associated with this. Margins are expected to be firm in 2013. Over the longer term, once efficiencies are at a satisfactory level and growth rates in the economy are at the right levels, the high margins will be applied to further improve the value to customers.

Furniture City	*Geen & Richards*	*Dial-a-Bed*	*Wetherlys*	*Rest of Africa*	*Total*
35	78	61	30	77	**1 041**
–	3	1	1	1	**39**
1	3	9	3	2	**57**
(3)	–	(12)	(6)	(1)	**(2)**
58 459	62 715	17 290	49 006	51 084	**673 460**
(7)	3	(13)	(2)	2	**(4)**
1 670	804	283	1 634	663	**647**
412	501	299	279	399	**4 792**
9	10	6	6	8	**100**
3	(4)	–	(10)	9	**2**
12	(3)	6	(6)	7	**5**
55	51	6	–	64	**63**
489	639	230	372	914	**8 053**

Total income yield



Credit income

Credit income, earned primarily in the Banking unit and consisting of interest income on advances, assurance income and non-interest income, was 29% higher than the previous year at R17,0 billion. The growth was a function of the gross advances growth of 33%, as well as the slower reduction in the yield than previous years.

The income yield reduced from 35,4% in 2011 to 34,1%, in line with expectations. Fee income was impacted by African Bank initiatives to consolidate internal and external loans for customers to improve their affordability. No initiation fees are earned on these products. This trend will continue but the impact will reduce over time. The total income yield is expected to stabilise during 2013 and then start lifting marginally, as the momentum of the price increases implemented in 2012 begin to impact on the book.

Impairments and insurance claims

The credit impairment charge increased by 45% to R5,2 billion. The charge as a percentage of the advances book increased from 10,1% in 2011 to 10,8%. The increase in the charge was mainly volume driven and was further impacted by an increase in provisions to maintain coverage at historic norms, post a R1,9 billion write off in August 2012. After the write off, coverage dropped to 58% and provisions were topped up to bring coverage back to historical norms. The group signalled in the interim results that write offs would increase in the latter half of the year as a result of further refinements to its write off policy.

Given the current state of the market and the maturing of the high sales base in 2011 and 2012, the group expect a moderate increase in defaults to flow through during 2013. Some of the impact will be negated by enhanced credit vetting procedures and targeted sales initiatives. Focused collection strategies and a more integrated approach to operational risk management in the front end should also have a positive impact on reducing migrations from performing to non-performing loans. The write off criteria for NPLs has been revised using collections scorecards, which has resulted in loans being written off earlier than in the past. This revision, introducing objective criteria, was implemented in August 2012. The result of this change is that loans being written off earlier, are not fully provided for at the time of write off. In addition, revisions will be made to the incurred but not reported (IBNR) part of impairment provisions during financial 2013. These two changes are expected to increase the credit impairment charge by about 1% in 2013 and increase coverage marginally.

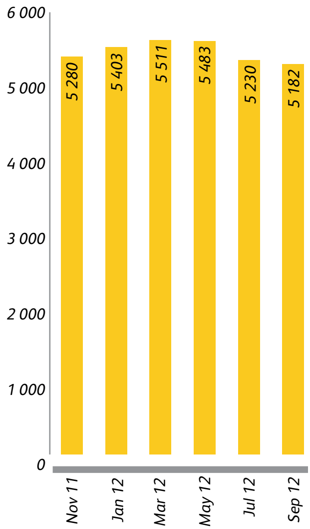
Credit life claims of R912 million grew by 49%. This growth included a R95 million increase in general insurance provisions, given the recent strikes and the uncertainty over how these ongoing developments will affect collections over the short term. Excluding this additional provision, claims increased by 33%, in line with advances growth. Insurance claims as a percentage of advances were 1,9%, relative to 1,8% in 2011. The claims ratio is expected to gradually increase over the medium term as the group broadens the range of insurable events for its customers.

Interest expense

Interest expense grew by 30% to R3,7 billion. Total funding at R45,7 billion, was 34% higher than the funding base of R34,1 billion in 2011, in line with asset growth.

Average cost of funding reduced from 9,4% to 9,2% as older, more expensive funding matured. The average cost of funding is expected to decrease modestly due to the stable interest rate environment assumed for 2013 and as more

Number of employees – Banking unit



Retail unit operating costs

expensive funding matures. Cheaper, shorter term instruments in the funding mix will also be used to drive down the average cost of funding, provided such funding meets the group's conservative liquidity risk appetite.

Short term deposits and cash remained at healthy levels throughout the year, with an average level of available cash of R3,6 billion. In addition, the group held statutory assets averaging approximately R3,7 billion during the year.

Operating expenses

Group operating expenses increased by 11% to R5,5 billion.

The Banking unit expenses increased by 23% to R3,0 billion (2011: R2,4 billion). This was mainly a function of the expanded distribution network and the growth in advances particularly in the first half of the year. The Bank employed additional people to staff the kiosks and carve-outs and doubled the call centre capacity. Growth in bank charges, credit card transaction costs and collections costs were all directly related to the growth in the advances book.

The significant focus on costs during the year has started to pay off. Employee numbers, amongst others, reduced from a peak of 5 511 in March 2012 to 5 182 in September 2012. Costs in the second half of the year grew by 16%, relative to the 31% increase in the first half. Operating expenses to advances continued to reduce from 6,9% to 6,2%, as advances grew faster than operating costs, providing positive operating leverage.

Cost growth at the Retail unit was well contained to 1,5%. Cost reduction measures were effected across the business and included centralising of back office functions from within the brands, combined and reduced marketing budgets, integrated management teams across different brands, the closure of Roodefurn, reduced logistics costs, reduced retail square metres and reduced staff numbers.

Operating expenses at the Retail unit are still impacted by a variety of duplicated costs related to the distribution centre rollout which will peak in 2013 and then start to decline towards the end of the year. Approximately R100 million in duplicated costs will be carried through 2013 as remaining old warehouses and fleets have to be shut down as leases expire and structures and staff levels are removed. The full benefit of the new distribution centres is only expected to be realised in 2015, although significant benefit will already accrue in 2014.

ABIL is continuously reassessing the spending on operating costs. As a strategic imperative, the group intends to further reduce the cost to advances ratio, in order to allow us to pass these benefits on to customers by either taking on more risk or by lowering the cost of credit. With the expected decrease in the rate of growth of sales for 2013 relative to the past two years, the current focus on the operating costs has also been intensified.

Taxation

Direct normal taxation increased by 14% to R1,1 billion with the effective taxation rate approximating the statutory corporate tax rate of 28%. Profit after tax benefited from the replacement of secondary tax on companies with the dividend withholding tax to the tune of R69 million.

The effective tax rate at the Retail unit of 23% was lower than the statutory rate, due to overprovision for tax in prior years and the tax effect of exempt insurance profit share arrangements.

Balance sheet analysis

Assets

New business volumes and advances

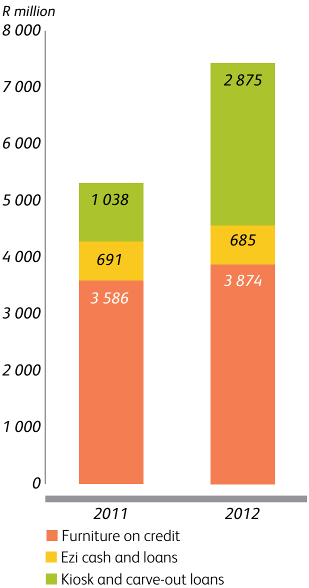
New credit business volumes for the year increased by 22% to R26,0 billion (2011: R21,3 billion). African Bank loan disbursements grew by 31% to R18,5 billion, supported by growth from the extended distribution network, credit card disbursements grew by 3% to R2,9 billion as the group pulled back on its higher risk entry level cards, while credit disbursements at the Retail unit increased by 7% to R4,6 billion.

Non-furniture credit sales through the retail store network increased from R1,7 billion in 2011, to R3,6 billion. Non-furniture disbursements have grown to almost equal the furniture related credit disbursements within 18 months. Total credit disbursements from the retail channel grew 40% to R7,4 billion, compared to R5,3 billion last year.

The group implemented further risk reduction strategies in the latter part of the year which impacted negatively on offer rates and slowed down new business volumes in both the Banking and Retail units.

Average loan sizes and instalments have grown by 26% and 30% respectively, mainly as a result of the consolidation product, which settles other credit agreements and opens up affordability for customers through net lower instalments. Excluding consolidation loans, average loan sizes and instalments have increased by 13% and 11% respectively.

Credit disbursements from Retail distribution network



Customers

The Bank attracted 573 000 new customers in this period and reactivated or rehabilitated 250 000 dormant customers. Some 470 000 customers paid down or had their loans settled by a third party and loans to 246 000 customers written off. Total active customers at 30 September were 2,6 million, 3% higher than in 2011.

An inhouse customer research capability was created during the year to do qualitative research and focus groups as well as quantitative customer segmentation work. Extensive data enhancements were also added to assist customer contactability, direct marketing and analytical intelligence efforts.

Products and channels

African Bank maintains a suite of different products for its customers and ensures that it is not dependent or over exposed to any one particular product at any stage. Products and product characteristics are also changed over time as customer needs and preferences change. Scoring for each product is carefully calibrated to attract particular customer segments based on the risk profile of that product.

Of the credit cards issued in 2012, 51 % were sold to new customers of the Bank

Of the credit cards issued in 2012, 51% were sold to new customers of the Bank. The Bank pulled back on high risk groups for this product during the year, which manifested in credit card disbursement growth slowing down substantially from previous years. However, the significant base of credit card holders that has been built up over the past few years and their card utilisation contributed to a healthy growth of 40% in credit card advances.

The Banking unit's consolidation loan is utilised partly as a defensive strategy against larger capital propositions by competitors, but also to assist our customers to improve their overall affordability and financial health. The Bank sold R6 billion of these loans to 186 000 customers, of which 81% were existing customers.

The Interest Buster product resulted in disbursements of R889 million to 244 000 customers during the past year. Average loan size for this product is R3 500 with a term of less than 12 months. Of the customers who took up the product, 40% were new to the Bank.

The Payment Break product was again launched to coincide with the 2012 festive period. A further benefit has been added that the customer could get a break every December, based on payment performance. The product is aimed at repeat customers for whom we have a proven payment history. Only 28% of customers who were offered this product during the year were new and they received 19% of total capital disbursed. EHL will also offer a Furniture Payment Break product and a Personal Loan Payment Break product for the first time.

The vehicle finance pilot is progressing cautiously. African Bank has to date financed some 1 350 cars and has generated a vehicle finance loan book of R132 million across 80 dealerships.

Insurance is core to strengthening the customer value proposition as a "good faith friend". As part of its initiatives in this regard, the Banking unit has been piloting a funeral insurance product which guarantees to pay out within 24 hours. The product has been well received and the group is investigating other insurance related and value adding product enhancements for customers.

Gross advances increased by 33% to R53,0 billion (2011: R39,9 billion) on the back of the growth in new business volumes and extension of term. Traditional African Bank advances increased by 33% to R37,0 billion, the credit card book grew by 40% to R7,3 billion on the back of new cards issued as well as R1,8 billion of card utilisation, which is not captured as disbursements. EHL furniture credit advances grew by 25% to R8,7 billion.

Financial services activities in the Retail unit – Gross advances in the 77 non-South African furniture stores increased by 12% to R393 million (2011: R350 million). Non-performing loans constituted 15,5% (2011: 17,4%) of the advances book, with total impairment provisions of R46 million representing a coverage of 75% of non-performing loans.

Key loan book statistics*

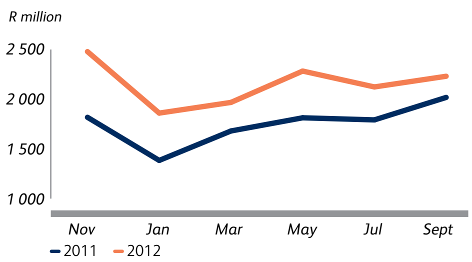
for the year ended 30 September 2012

		% change	2012	2011
New business volumes				
Total disbursements	R million	22	**25 978**	21 257
African Bank	R million	31	**18 493**	14 142
EHL credit sales	R million	7	**4 559**	4 277
Credit cards	R million	3	**2 925**	2 838
Number of new loans and cards sold	000	(1)	**2 116**	2 131
African Bank	000	–	**1 391**	1 387
EHL	000	(5)	**423**	445
Credit cards	000	1	**302**	299
Offer rates	%		**71**	74
Statistics based on disbursements – African Bank only				
Average net loan size[1]	Rand	26	**12 650**	10 071
Average term	Months	7	**48**	45
Average instalment[2]	Rand	30	**894**	688
Average card limit[3]	Rand	2	**9 693**	9 476
Advances statistics				
Gross advances	R million	33	**52 984**	39 912
Traditional African Bank advances	R million	33	**37 028**	27 779
EHL furniture credit advances	R million	25	**8 656**	6 917
Credit card advances	R million	40	**7 300**	5 216
Average gross advances	R million	37	**47 662**	34 914
Written off book	R million	11	**2 143**	1 928
Number of loans (excluding card)	000	(5)	**3 320**	3 484
Number of cards in issue	000	23	**899**	729
Customer statistics				
Number of customers	000	3	**2 620**	2 538
Number of new customers	000	(6)	**573**	612
Credit quality statistics				
NPLs to gross advances	%		**28,6**	27,5
Impairment provisions to gross advances	%		**17,2**	16,7
NPL coverage	%		**60,0**	60,9
Gross bad debt written off as a % of average gross advances	%		**9,3**	10,4

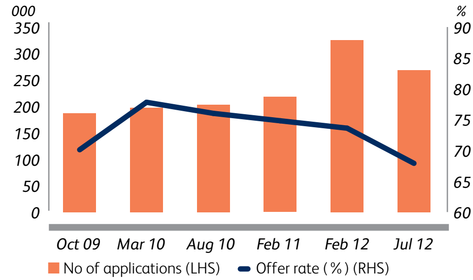
1 Net loan size excludes internal debt settlements but includes external debt settlements.
2 Excluding consolidation loans, average instalments increased 11%.
3 The definition for average card limit has changed from average limit across the entire portfolio, to average limit for current period sales.
** The loan book statistics excludes the advances generated outside of South Africa.*

Disbursement features

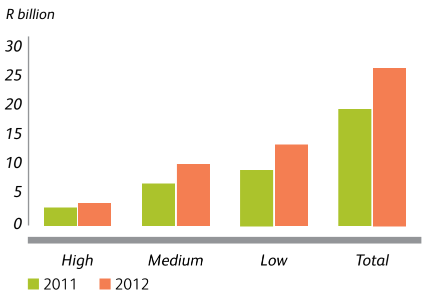
Disbursements growth curtailed in H2



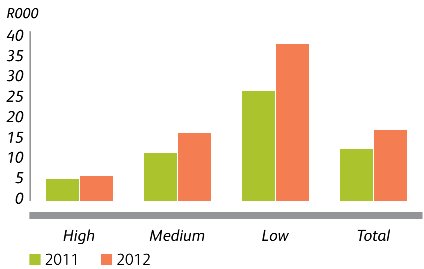
Offer rate



Capital by risk group

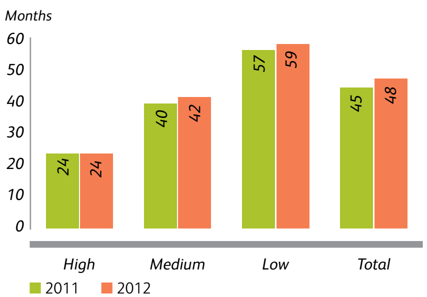


Average gross loan size by risk group*

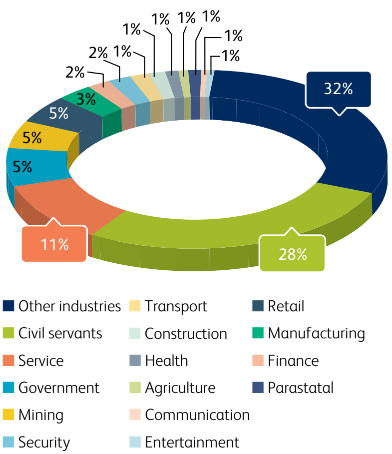


* *Gross loan size is the total capital disbursed on a new loan, including settled internal and external debt.*

Weighted average term by risk group



Composition of the advances book



Credit quality

Performing loans increased by 31% to R37,8 billion (2011: R28,9 billion) while NPLs increased by 38% to R15,2 billion (2011: R11,0 billion), representing 28,6% (2011: 27,5%) of gross advances. The increase in NPLs was mainly a function of the maturation of newer NPLs from the previous two years' high advances growth. NPL coverage was 60,0%, relative to 60,9% in the prior year.

The group initiated preventative measures at the end of 2011 by making its underwriting criteria more stringent and given evolving market dynamics, further risk amelioration measures were applied during 2012. These measures include:

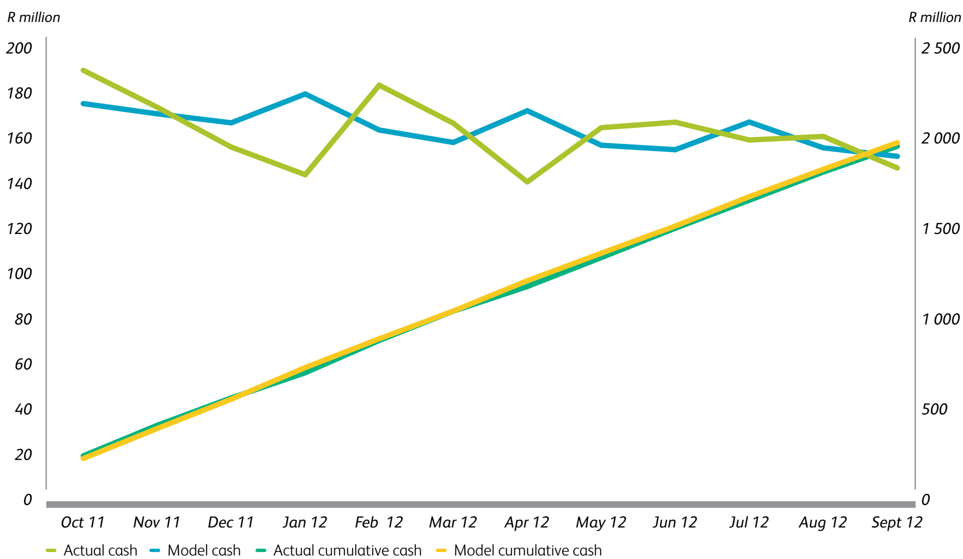
- Continuous monitoring of appropriate loan usage
- Stricter affordability and instalment limits
- Reduced exposure to high risk groups through shortened terms and reduced loan sizes
- Pulling back on higher risk segments in card and top up loans
- Increased pricing in riskier segments and
- Frequent rescoring of our entire customer base to identify trends in indebtedness levels

These underwriting interventions have been successful in achieving the group's targeted risk adjusted returns and in further limiting its exposure to emerging risk in the market.

The valuation of the written off book increased at a much slower rate than it did in recent years, growing 11% to a net attributable value of R2,1 billion. As a percentage of the total written off portfolio, this equates to 17,6 cents in the rand, relative to 18,1 cents in 2011.

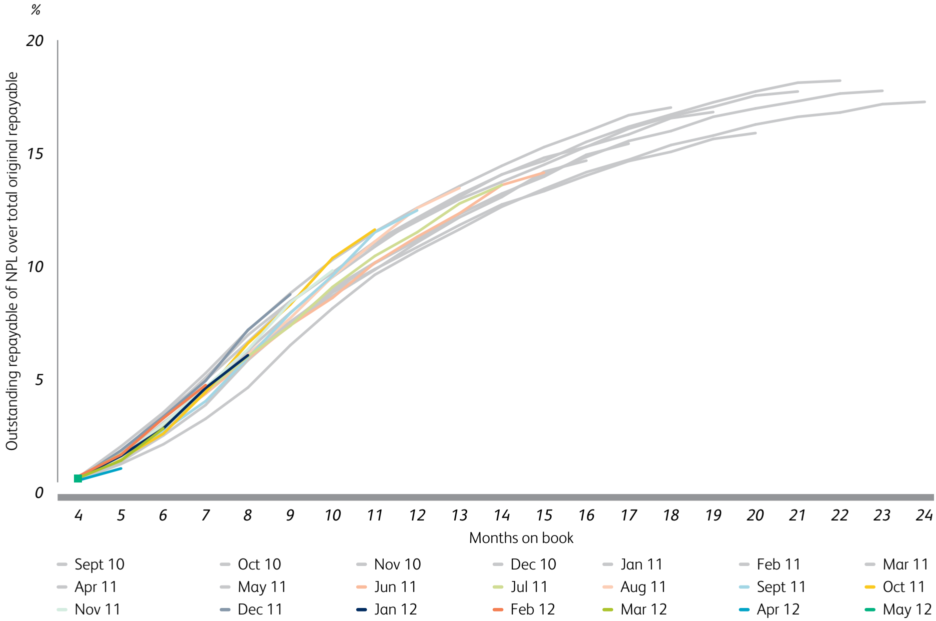
The graph below shows that the cumulative cash collected on September 2011 NPLs was R1,899 billion compared to the cumulative modelled cash of R1,919 billion. This represents 99% of the modelled cash and supports the adequacy of provisions. The monthly variances are essentially timing differences between expected and actual cash flows.

IAS 39 BackTest – NPLs and written off book



The graph below shows the vintages written on the African Bank debit order loan portfolio (being the most representative advances portfolio) since June 2011, overlaid onto the historical range of vintages dating back to September 2010. As is evident from the graph, vintages in the second half of 2011 have been tracking at the top end of historical ranges, and have been brought back into the middle of historic ranges, as a result of the risk reduction measures implemented over the last year.

Vintage graph – African Bank
(More than three cumulative missed instalments)



Inventory

Closing net inventory of R871 million was marginally lower than the 2011 level of R885 million, despite the duplication required during the implementation of the distribution centres and sales growth. This reflects improved control and a more balanced inventory performance. The implementation of the distribution centres, new merchandising systems and new buying processes is gradually starting to have a positive effect on inventory levels. Stock turn improved from 3,1 to 3,2 times during the year.

Property and equipment

Property and equipment increased by 35% from R852 million to R1,2 billion, largely due to the acquisition of additional IT equipment as well as the implementation of the new customer interface in the Banking unit. Upgrading and revamping of the branch network also contributed to the growth. At the Retail unit, the increase related primarily to capital expenditure on the assets in the distribution centres, upgraded IT systems and fixtures and fittings in new stores. The installation of a biometric system across the group also contributed to the increase.

Other assets

Other assets increased by 50% from R872 million to R1,3 billion. This was largely attributable to increases in inflation swaps and cross-currency swaps in African Bank as a result of fund raising during the year. At the Retail unit, the increase related primarily to distribution centre expenses that have been capitalised and which will be amortised over the period of the leases.

Credit quality analysis[1]

as at 30 September 2012

R million	% change	2012	2011
Breakdown of gross advances			
Performing loans	31	**37 824**	28 938
Non-performing loans (NPLs)	38	**15 160**	10 974
Gross advances	33	**52 984**	39 912
Written off book at net attributable value	11	**2 143**	1 928
Deferred administration fees	(88)	**(18)**	(150)
Gross advances including the written off book	32	**55 109**	41 690
Breakdown of impairment provisions			
Impairment provisions	35	**8 979**	6 643
Balance at the beginning of the year		**6 643**	5 528
Impairment provisions raised		**5 458**	3 729
Bad debts written off (gross)		**(4 424)**	(3 643)
Bad debts rehabilitated		**1 302**	1 009
Acquisitions of impairment provisions		**–**	20
Stangen credit life reserves		**112**	38
Impairment provisions including credit life reserves	36	**9 091**	6 681

R million	% change	12 months to 30 September 2012	12 months to 30 September 2011
Income statement charges			
Credit impairment charge	47	**5 170**	3 527
Impairment provisions raised		**5 458**	3 729
Bad debts recovered		**(288)**	(202)
Ratios			
NPLs as a % of gross advances		**28,6**	27,5
Impairment provisions as a % of NPLs		**59,2**	60,5
Stangen credit life reserves as a % of NPLs		**0,7**	0,3
Impairment provisions and credit life reserves as a % of NPLs excluding written off book (NPL coverage)		**60,0**	60,9
Impairment provisions as a % of gross advances		**17,2**	16,7
Income statement credit impairment charge as a % of average gross advances		**10,8**	10,1
Gross bad debts written off as a % of average gross advances		**9,3**	10,4
Bad debts rehabilitated as a % of average gross advances		**(2,7)**	(2,9)
Net bad debts written off as a % of average gross advances		**6,6**	7,5

1 The credit quality statistics excludes the advances generated outside of South Africa.

The group continued its drive towards funding diversification

Liabilities

Funding

Total funding at R45,7 billion, was 34% higher than the funding base of R34,1 billion at 30 September 2012, in line with asset growth. The bulk of the funding of R45,4 billion relates to Banking unit operations. Total interest bearing borrowings at the Retail unit were R955 million at 30 September 2012, partially funded by a loan from African Bank, with the rest comprising external funding.

Funding composition

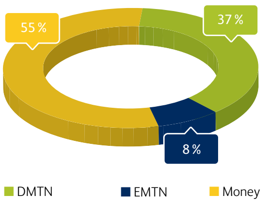
(based on term at origination)

R million	*% change*	*2012*	*2011*
Short term funding (<12 months)	>100	**4 295**	1 396
Demand deposits	23	**417**	340
Fixed and notice deposits	>100	**3 357**	686
NCDs	41	**521**	370
Long term funding (>12 months)	27	**41 131**	32 447
Listed senior bonds	40	**17 092**	12 209
Other long term loans	16	**20 208**	17 463
Subordinated bonds	38	**3 831**	2 775
Total Banking unit funding	34	**45 426**	33 843
Other	16	**312**	270
Total ABIL group funding	34	**45 738**	34 113
Average cost of funding (%)		**9,2**	9,4

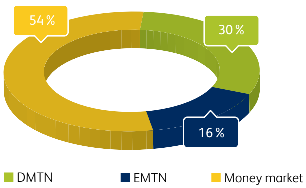
The group continued its drive towards funding diversification by significant issuance in the international markets, while also raising funding from several new South African investors both through the treasury desk and under the DMTN programme. During the year under review the group issued two new bonds under the EMTN programme, as well as a tap of the existing 2016 senior bond. In February 2012 the group issued a USD350 million senior five-year bond to investors in Europe and Asia, while tapping the existing 2016 senior bond for USD50 million, bringing that bond to USD400 million in total. The diverse participation of investors in the USD issuance in February 2012 was significantly increased from the previous EMTN debut issue, as was the amount of bids received.

In July 2012 the group further diversified its funding base through the issuance of a CHF 150 million three-year note to Swiss investors. This represented the first issuance of a CHF bond by a South African issuer into the Swiss market in over 20 years.

2011 funding liabilities



2012 funding liabilities



The composition of the group funding is shown in the graphs on the left.

A second Swiss bond of CHF125 million, or R1,2 billion was issued in November 2012. The second CHF bond was issued well below the coupon for the inaugural CHF bond and with a longer term, further strengthening the Bank's asset/liability profile and demonstrating the Swiss market's continued confidence and increasing appetite for African Bank paper.

The group aims to have no more than 20% of its total funding raised at any time with a term of less than one year (measured in terms of original contractual maturity). The current ratio of these short term liabilities is 9% of total liabilities. This is also reflected in a Basel III compliant liquidity coverage ratio exceeding 300%, well above the minimum requirement of 100%, applicable from 2015. This position continues to provide an opportunity to expand sources of funding and reduce the cost within acceptable liquidity risk parameters.

The group launched its retail savings and investments products on 1 October 2012. The offering is primarily web based and investors are able to register, view products, apply for new products and view statements online (www.africanbanksavings.co.za). Product offering includes Fixed Deposits, Flexible Fixed Deposits (where a portion of the deposit is available on notice) and Notice Deposits and range in term from 32 days to 60 months. This will further diversify the group's funding base and provide an attractive alternative investment proposition for private retail investors wishing to diversify their investment portfolio.

Credit rating

Moody's Investors Service affirmed African Bank's various long and short term ratings in October 2012. At the same time it changed the outlook on African Bank's senior debt and deposit ratings to negative from stable, in line with the negative sovereign rating outlook and the downgrade of South Africa's government bond rating. Moody's indicated that the outlook change was not driven by a deterioration in the standalone financial strength of African Bank, but rather by the weakening of the South African government's credit profile.

Capital management

The group balances solvency, growth and shareholder returns, including dividends, in managing its capital adequacy through the cycle. The group also strives to optimise the capital structure within the internal and regulatory requirements and holds the higher of regulatory and internal capital requirements. The group is well positioned for Basel III changes and is actively participating in the development of the Solvency and Assessment Management Framework (SAMII) in respect of its insurance subsidiaries.

The current capital adequacy and planned capital actions will enable the group to maintain its growth momentum over the medium term, while structuring capital efficiently and providing targeted shareholder returns, measured in terms of an increasing return on equity and an increased economic profit.

Capital

Basel III

Basel III implementation commences in South Africa in 2013, with the final draft of the regulations being expected to be signed into law before year end. Basel III introduces higher quality capital requirements both through increasing the proportion of core equity and through the quality on non-common equity instruments, with the introduction of the requirement for loss absorbency. The group continues to be well placed with regards to both capital adequacy and short term liquidity. ABIL's conservative gearing and strong internal equity generation results in a robust capital adequacy ratio, with a strong component of core equity Tier 1, as is required by Basel.

Target capital adequacy ranges

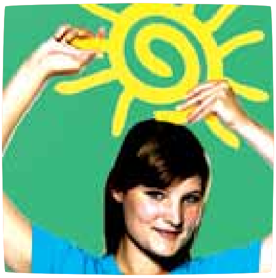
The group manages its targeted capital levels and mix, both at group and regulated entity level, taking into account the following factors:

- Regulatory requirements
- Internal capital requirements
- Other stakeholder expectations including rating agencies and shareholders

The target capital adequacy ratios for both ABIL and African Bank, including unappropriated profits, have incorporated the impact of Basel III and the year end levels are all at or above the group's internal capital adequacy requirements.

%	*Target range*	*ABIL*	*African Bank*
Tier 1	19 – 20	21,4	20,3
Total	26 – 27	29,4	29,0

The group typically holds capital slightly in excess of the target as a buffer for growth.



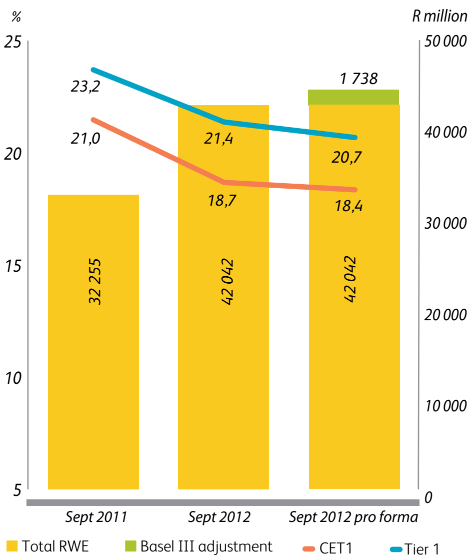
The group and Bank experienced significant balance sheet growth over the past financial year

Capital adequacy

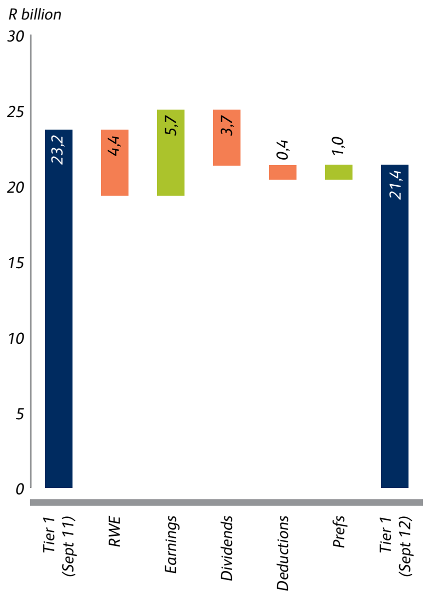
The group remains well capitalised in line with its target capital and comfortably above regulatory minimum requirements, and is well positioned for Basel III. Capital planning has also been done on a Basel III compliant basis and in line with the draft Regulations as they have developed. Capital planning balances the requirements for solvency, growth and returns to shareholders in the form of dividends.

The following graphs show the development of the group's Tier 1 capital ratio, as well as the *pro forma* impact of Basel III on the September 2012 figures:

Capital adequacy ratio



ABIL Tier 1 ratio



The changes to capital adequacy on a Basel III basis as depicted in the left hand graph resulted in a *pro forma* decrease in Tier 1 from 21,4% to 20,7%, are attributed to the following:

- Haircutting of additional Tier 1 perpetual preference shares
- Credit valuation adjustment (CVA) add on for counterparty credit risk
- Changes relating to the treatment of:
  - Investments in insurance subsidiaries at ABIL level
  - Deferred taxation

The group and Bank experienced significant balance sheet growth over the past financial year and it is notable that the capital ratios for both entities have remained strong, as is shown at a group level in respect of Tier 1 capital, moving from 23,2% to 21,4%.

The following actions during the year contributed to the strength and resilience of the capital ratios, and resulted in continued efficient capital structuring:

- The issuance of additional R1,3 billion Basel III entry level compliant capital during the year, offset partially by the redemption of an existing R300 million on its call date in August 2012
- The issuance of an additional R411 million in preference shares by ABIL, which was injected into the Bank as ordinary share capital
- The optimisation in the calculation of risk weighted exposures

The capital in the insurance companies in the group is managed significantly above the FSB requirements, taking into account various stakeholder requirements. The capital adequacy of ABIL and African Bank, are shown in the table on the following page.

Capital ratios

	ABIL		*African Bank*	
%	*2012*	*2011*	*2012*	*2011*
Core Tier 1	**17,0**	16,5	**18,6**	19,9
Unappropriated capital	**1,7**	4,5	**1,7**	1,8
Additional Tier 1	**2,7**	2,2	**–**	–
Total Tier 1	**21,4**	23,2	**20,3**	21,7
Tier 2	**8,0**	7,7	**8,7**	8,7
Total CaR (including unappropriated profits)	**29,4**	30,9	**29,0**	30,4

Economic profit

The Banking unit produced an economic profit of R945 million while the Retail unit reduced its economic loss from R211 million in 2011 to R139 million. These, combined with a R51 million charge for STC and other group consolidation adjustments, resulted in the ABIL group generating a 53% increase in economic profit to R755 million, relative to R494 million for 2011.

The cost of equity is reviewed annually to take cognisance of changes in funding rates and risk premiums and was maintained at 14,5% for the current year. It is also tested against investor expectations on an annual basis.

Economic profit model

	Average ordinary shareholders' equity (R million)	Return on equity (%)	Cost of equity (%)	Headline earnings (R million)	Charge for the cost of equity (R million)	Economic profit/(loss) (R million)
For the year ended 30 September 2012						
Banking unit	**11 278**	**22,9**	**14,5**	**2 580**	**(1 635)**	**945**
Banking unit – excluding goodwill	**7 278**	**35,4**	**14,5**	**2 580**	**(1 055)**	**1 525**
Goodwill	**4 000**	**n/a**	**14,5**	**–**	**(580)**	**(580)**
Retail unit	**2 729**	**9,4**	**14,5**	**257**	**(396)**	**(139)**
Retail unit – excluding goodwill	**2 012**	**12,8**	**14,5**	**257**	**(292)**	**(35)**
Goodwill arising on acquisition – equity component	**717**	**n/a**	**14,5**	**–**	**(104)**	**(104)**
STC and other consolidation adjustments	**(222)**		**14,5**	**(83)**	**32**	**(51)**
ABIL group	**13 785**	**20,0**	**14,5**	**2 754**	**(1 999)**	**755**
For the year ended 30 September 2011						
Banking unit	10 034	22,9	14,5	2 302	(1 455)	847
Banking unit – excluding goodwill	6 034	38,2	14,5	2 302	(875)	1 427
Goodwill	4 000	n/a	14,5	–	(580)	(580)
Retail unit	2 764	6,9	14,5	190	(401)	(211)
Retail unit – excluding goodwill	2 047	9,3	14,5	190	(297)	(107)
Goodwill arising on acquisition – equity component	717	n/a	14,5	–	(104)	(104)
STC and other consolidation adjustments	(76)		14,5	(153)	11	(142)
ABIL group	12 722	18,4	14,5	2 339	(1 845)	494

Accountability

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Contents

Corporate governance report

Ethical leadership and corporate citizenship

The board of directors and senior management are committed to the highest standards of corporate governance and strive to the highest moral and ethical business standards, as well as sound and transparent business practices.

African Bank Investments Limited embraces the principles of good corporate governance in order to ensure that an ethical foundation exists which promotes, *inter alia*:

Responsibility – by assuming responsibility for the actions of the company and being willing to take corrective actions to keep the company on a strategic path, that is ethical and sustainable;

Accountability – by being able to justify its actions and decisions to shareholders and other stakeholders;

Fairness – by giving fair consideration to the legitimate interests and expectations of all stakeholders of the company; and

Transparency – by disclosing information in a manner that enables stakeholders to make an informed analysis of the company's performance and sustainability.

King III principle	***ABIL***
Effective leadership based on an ethical foundation	✓
Responsible corporate citizen	✓
Effective management of company's ethics	✓

Application of King III

The board is committed to complying in all material respects, with the principles contained in the King III Code, as well as to the additional requirements for good corporate governance stipulated in the JSE's Socially Responsible Investment Index. We have performed a thorough review of the implications of King III and, where appropriate, the corporate governance structure has been amended to comply with the code.

For the period under review, the group has complied with all aspects of the code except that non-executive directors' fees are fixed. The fixed fee basis works more efficiently for the group because we have a performance appraisal system to deal with non-attendance at meetings.

Corporate governance structure

ABIL board

The board of directors is core to the group's system of corporate governance and is ultimately accountable and responsible for the performance and affairs of the group.

Group audit committee

Assists the board in discharging its duties relating to the safeguarding of assets, accounting systems and practices, the integrity of internal financial control processes and integrated reporting and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

Group risk and capital management committee

The quality, integrity and reliability of risk management of the ABIL group is delegated to the group risk and capital management committee.

Group remuneration and transformation committee

The role of the group remuneration and transformation committee is to support and advise the board of directors of ABIL by ensuring that employees of the company are appropriately and equitably compensated for their services to the company and motivated to perform to the best of their abilities in the interests of all stakeholders.

Ethics and sustainability committee

Assists management in the formulation and implementation of policies, principles and practices to foster the sustainable growth of the company. Sustainable growth shall encompass a business model that creates value consistent with the long term preservation and enhancement of financial, environmental and social capital.

Directors' affairs committee

The committee assists the board in its determination and evaluation of the adequacy, efficiency and appropriateness of the corporate governance structure and practices of the ABIL group of companies.

The charters for each of these committees are available on ABIL's website at www.abil.co.za.

The board and directors

The board takes decisions on a majority basis and therefore no one person has unfettered powers of decision making.

The board is responsible for determining the company's strategic direction and the control of the company. It provides effective and responsible leadership and exercises integrity and judgement in directing the group so as to achieve continuing prosperity for the group and its stakeholders.

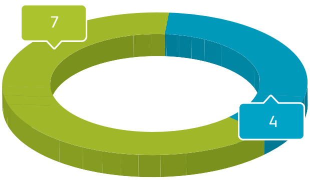
Board and committee membership as at 30 September 2012:

Board and committees	*Directors/members*
ABIL/African Bank Limited board	Mutle Mogase (Chairman), Ntombi Langa-Royds, Mojanku Gumbi, Sam Sithole, Johnny Symmonds, Jack Koolen, Nic Adams, Leon Kirkinis, Nithia Nalliah, Toni Fourie and Tami Sokutu
Group audit committee (GAC)	Sam Sithole (Chairman), Nic Adams and Johnny Symmonds
Group risk and capital management committee (GRCMC)	Nic Adams (Chairman), Johnny Symmonds, Mojanku Gumbi and Jack Koolen
Group remuneration and transformation committee (GRTC)	Ntombi Langa-Royds (Chairperson), Mutle Mogase and Mojanku Gumbi
Ethics and sustainability committee (ESC)	Ntombi Langa-Royds (Chairperson), Mutle Mogase and Jack Koolen
Directors' affairs committee (DAC)	Mojanku Gumbi (Chairperson), Mutle Mogase, Ntombi Langa-Royds, Sam Sithole and Nic Adams

Composition of the board

The ABIL board consists of 11 directors, classified as independent non-executive directors and executive directors. The independence of non-executive directors is contingent upon an evaluation as prescribed by King III.

Board composition



- Independent non-executive directors (7)
  - Mutle Mogase
  - Mojanku Gumbi
  - Nic Adams
  - Sam Sithole
  - Johnny Symmonds
  - Jack Koolen
  - Ntombi Langa-Royds
- Executive directors (4)
  - Leon Kirkinis
  - Toni Fourie
  - Nithia Nalliah
  - Tami Sokutu

Board meetings and attendance

The board of directors of ABIL met seven times during the year and details of the directors' attendance at the board and committee meetings are reflected in the table below:

Name	*Board*	*GAC*	*GRCMC*	*GRTC*	*DAC*	*ESC*
Number of meetings held	7	4	4	4	4	3[3]
Independent non-executive directors						
Mutle Mogase	7[1]	n/a	n/a	4	4	3
Nic Adams	6	4	4[1]	n/a	4	n/a
Sam Sithole	5	4[1]	n/a	n/a	4	n/a
Ntombi Langa-Royds	7	n/a	n/a	4[1]	4	3[1]
Mojanku Gumbi	6	n/a	3	4	4[1]	n/a
Johnny Symmonds	5	3	3	n/a	n/a	n/a
Jack Koolen	7	n/a	3	n/a	n/a	2
Executive directors						
Gordon Schachat[4]	6	n/a	n/a	n/a	3[2]	1[2]
Leon Kirkinis	7	2[2]	3[2]	3[2]	4[2]	3[2]
Nithia Nalliah	7	4[2]	4[2]	n/a	n/a	n/a
Toni Fourie	7	2[2]	3[2]	3[2]	n/a	2[2]
Tami Sokutu	7	4[2]	4[2]	n/a	n/a	2[2]

1 Denotes chairman/chairperson.
2 Denotes standing attendee/invitee.
3 ESC was established in November 2011, therefore only three meetings were held in the year.
4 Gordon Schachat resigned with effect from 30 September 2012.

The board adheres to the principles of King III which are tabulated below and the details regarding the manner of adherence to these principles is elaborated upon in the board charter available under the corporate governance section at www.abil.co.za.

King III principle	*ABIL*
The board is the focal point for and custodian of corporate governance	✓
Strategy, risk, performance and sustainability are inseparable	✓
Directors act in the best interests of the company	✓
The chairman of the board is an independent non-executive director	✓
Framework for the delegation of authority has been established	✓
The board comprises a balance of power, with a majority of non-executive directors who are independent	✓
Directors are appointed through a formal process	✓
Formal induction and ongoing training of directors is conducted	✓
The board is assisted by a competent, suitably qualified and experienced company secretary	✓
Regular performance evaluations of the board, its committees and the individual directors	✓
Appointment of well structured committees and oversight of key functions	✓
An agreed governance framework between the group and its subsidiary boards is in place	✓
Directors and executives are fairly and responsibly remunerated[1]	Partially applied
Remuneration of directors and senior executives is disclosed	✓
The company's remuneration policy is approved by its shareholders	✓

1 Non-executive directors earn fixed fees.

Period of office of board members

All non-executive directors are appointed for specific terms and reappointment is not automatic. An approved term limit policy exists which can be accessed at www.abil.co.za. In summary the term limit policy provides as follows:

- The chairman of the board shall serve for a maximum period of 10 years; and
- All other non-executive directors shall serve for a maximum period of six years, which may be extended for a further two years.

Board and committee evaluations

The performance of the board is evaluated on an annual basis and includes:

- An assessment of the performance and effectiveness of the board as a whole and that of individual directors, including the CEO of ABIL, the EHL CEO, the managing director of African Bank Limited and the group CFO;
- A peer evaluation by all directors ranking their fellow directors on contribution to the board; and
- An evaluation of each committee by members of the committee focusing on effectiveness of the chairman and contributions of individual committee members.

The evaluation process takes place by the completion of evaluation questionnaires based on the observations and experiences of board members throughout the year. The results are discussed by the board and one-on-one meetings are held with directors to discuss the results of the evaluations and propose developmental actions should they be required.

Company secretary

The board assess the competence and performance of the company secretary on an annual basis as part of the overall board evaluation process. The assessment was not carried out in the reporting period due to the resignation of the previous company secretary with effect from 1 August. Leeanne Goliath, who was appointed as company secretary on 18 October 2012, will be evaluated in the 2013 financial year allowing the board adequate time to consider and satisfy itself of Leeanne's performance. Leeanne has been with the group for more than 10 years, of which the last five years were spent in investor relations. She has a BCom from Unisa and has completed the Management Advanced Programme with WBS.

The board confirms that the company secretary maintains an arm's length relationship with the board when carrying out her duties and is not a director within the group.

Appointment of directors

The appointment of directors to the board is formal and transparent and a matter for the board as a whole. All directors are appointed for specific terms and reappointment is not automatic. The appointment of directors is facilitated by the directors' affairs committee which also serves as the nominations committee.

All appointments are subject to approval from the South African Reserve Bank (SARB) and fit and proper tests in terms of the Banks Act, 94 of 1990, as amended, the Companies Act, the JSE Listings Requirements and any other applicable legislation.

All directors' appointments are subject to shareholder approval at the annual general meeting immediately following the date of their appointment.

Induction and training

The induction, training and development of directors are conducted through a process consisting of:

- Providing directors with information relating to policies, processes, charters, minutes of meetings, results, financials and other material relevant to their taking up office as a director;
- Affording directors an open invitation to visit the operational divisions of the company, to meet with management and attend management meetings; and
- All directors are encouraged, at the cost of the business, to attend external courses presented by an institution of their choice.

Independent advice

In allowing the board to discharge their corporate responsibilities by exercising the care that an ordinary prudent person would exercise under similar circumstances, the board and the board committees may engage the services of external experts at ABIL's expense.

Succession planning

The remuneration and transformation committee and the directors' affairs committee review succession planning as a regular item on their respective agendas.

The directors' affairs committee of the board, in line with its terms of reference, from time to time reviews the general composition of the board and makes appropriate recommendations on the appointment of new executive or non-executive directors.

Conflict of interest

All directors are required to disclose any conflict or potential conflict of interest that they may have with regard to any activity within the group or any matter discussed at board and committee meetings.

Dealing in ABIL securities

In all cases a director may not deal in any securities relating to the group without first receiving clearance to trade. The board of directors of ABIL has approved a policy for dealing in securities which regulates the procedures that a director must follow prior to trading in any ABIL securities.

In terms of this policy, a director may not deal in any securities relating to ABIL without:

- First advising two designated directors, one of which must be a non-executive designated director, in advance of the director's intention to trade in any securities relating to ABIL; and
- Receiving clearance in writing from them.

In addition, directors may not deal in securities during a closed period and the board invokes a strict policy of prohibiting dealings in securities by all staff and associates during closed periods. The closed period conditions are strictly adhered to in terms of investor meetings and contacts.

Audit committee

The audit committee ensures that the combined assurance received is appropriate to address the significant risks facing the company. The combined assurance model consists of management, the risk committee, internal assurance providers, i.e. finance, internal audit, risk and various external assurance providers, as indicated in the scope and boundary on the inside front cover.

A comprehensive overview of the audit committee's role, mandate and activities is available in its charter under corporate governance section on www.abil.co.za. The following principles of King III have been included within the scope of the audit committee's roles and responsibilities:

King III principle	***ABIL***
Effective and independent	✓
Suitably skilled and experienced independent non-executive directors	✓
Chaired by an independent non-executive director	✓
Oversees integrated reporting	✓
A combined assurance model is applied to improve efficiency in assurance activities	✓
Satisfies itself of the expertise, resources and experience of the company's finance function	✓
Oversees internal audit	✓
Integral to the risk management process	✓
Oversees the external audit process	✓
Reports to the board and shareholders on how it has discharged its duties	✓

The governance of risk

The quality, integrity and reliability of risk management within the ABIL group of companies is delegated to the group risk and capital management committee. This committee assists the board in discharging its duties relating to the identification and monitoring of key risk areas and key performance indicators within the ABIL group of companies.

The King III requirements regarding risk governance are illustrated in the table below:

King III principle	***ABIL***
The board is responsible for the governance of risk and setting levels of risk tolerance	✓
The risk management committee assists the board in carrying out its risk responsibilities	✓
The board delegates the process of risk management to management	✓
The board ensures that risk assessments and monitoring is performed on a continual basis	✓
Frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	✓
Management implements appropriate risk responses	✓
The board receives assurance on the effectiveness of the risk management process	✓
Sufficient risk disclosure to stakeholders	✓

The governance of information technology (IT)

The IT strategy committee, chaired by the group CEO, assists the board in discharging its duties relating to IT performance management, ensuring that IT governance supports the effective and efficient management of IT resources, and facilitates the achievement of the company's strategic objectives.

The group IT charter was agreed and signed off during the year. The main objective of the charter is to ensure that IT strategic objectives are aligned with changes in the group's strategic needs, and judiciously manages IT risks and enables opportunities to be identified and acted on.

The group risk and capital management committee measures the company's overall exposure to IT risks and ensures that proper processes are in place to manage these risks. The responsibility for the implementation of IT governance is assigned to the chief information officer (CIO), as appointed by the CEO.

The King III requirements relating to the governance of information technology are illustrated in the table below:

King III principle	***ABIL***
The board is responsible for IT governance	✓
IT is aligned with the performance and sustainability objectives of the company	✓
Management is responsible for the implementation of an IT governance framework	✓
The board monitors and evaluates significant IT investments and expenditure	✓
IT is an integral part of the company's risk management	✓
IT assets are managed effectively	✓
The risk committee and audit committee assist the board in carrying out its IT responsibilities	✓

Compliance with laws, codes, rules and standards

The ABIL board is committed to high standards of integrity and fair dealing in the conduct of its business. It is committed to the preservation of its integrity and reputation and thus requires all business units, divisions, departments and subsidiaries within the ABIL group to have a good understanding of, and observe compliance with applicable laws, regulations and standards in each of the markets and jurisdictions within which they operate.

In complying with the King III requirements in the table below, the board of directors, as part of its current compliance policy, has an approved independent compliance function established in terms of Regulation 49 of the Banks Act, 94 of 1990, as amended.

King III principle	***ABIL***
The board ensures that the company complies with relevant laws	✓
The board and directors have a working understanding of the relevance and implications of non-compliance	✓
Compliance risk forms an integral part of the company's risk management process	✓
The board has delegated to management the implementation of an effective compliance framework and processes	✓

The responsibility for effective implementation of compliance throughout the ABIL group has been delegated to the group compliance officer. The compliance function enables the business to adhere to applicable regulatory requirements by ensuring that actions, processes and procedures are risk appropriate and ensures that the business can achieve its business goals without fear of penalties and loss of reputation.

Incidents of non-compliance are reported to the responsible executives or heads of business units, divisions, departments or subsidiaries for prompt resolution.

The office of the group compliance officer is also charged with the responsibility of assisting, guiding and advising the various business units, divisions, departments and subsidiaries within the ABIL group on how to discharge their duties in managing their compliance responsibilities and obligations.

The group audit committee oversees compliance matters within the ABIL group. The audit committee:

- Requires that the compliance officer reports non-compliance with laws and regulations or supervisory requirements to the audit committee; and
- Requires that the compliance officer submits a report on the level of compliance with laws and regulations or supervisory requirements at every meeting of the audit committee.

The group compliance officer has a direct reporting line to the group audit committee and unrestricted access to the chairman of the committee.

Internal audit

The group internal audit function is an essential management tool and one of the measures put in place by the group to maintain the integrity, adequacy, efficiency and effectiveness of the group's financial and other risk management control systems.

The scope of group internal audit encompasses the examination and evaluation of the adequacy and effectiveness of the group's system of internal control, information systems, governance processes and the quality of performance in carrying out assigned responsibilities.

To ensure independence, group internal audit is directly responsible to the audit committee and will remain independent of all line and functional management.

Group internal audit is responsible for utilising a systematic, disciplined approach to evaluating and improving the effectiveness of internal controls, which includes:

- Developing and maintaining a comprehensive audit programme necessary to ensure compliance with accounting standards, policies and procedures necessary to safeguard assets; and
- Communicating results of reviews by preparing timely reports, including recommendations for modifications of management practices, fiscal policies and accounting procedures as justified by audit findings.

King III principle	***ABIL***
Effective risk based internal audit	✓
Written assessment of the effectiveness of the company's system of internal controls and risk management	✓
Internal audit is strategically positioned to achieve its objectives	✓

Governing stakeholder relationships

ABIL recognises that it does not operate in a vacuum and is therefore cognisant of the environment within which it operates and its direct and indirect impact on its stakeholders, thereby informing how it conducts its business.

ABIL strives to maintain proactive engagement with its relevant stakeholder groups to manage expectations and reputational risks as well as align the group's objectives with those of its stakeholders.

ABIL's compliance with the King III principles relating to the stakeholder relationships is illustrated in the table below:

King III principle	***ABIL***
Appreciation that stakeholders' perceptions affect a company's reputation	✓
Management proactively deals with stakeholder relationships	✓
There is an appropriate balance between its various stakeholder groupings	✓
Equitable treatment of stakeholders	✓
Transparent and effective communication to stakeholders	✓
Disputes are resolved effectively and timeously	✓

A comprehensive overview of stakeholder engagement is provided on page 44 of this report.

Integrated reporting and disclosure

The ABIL integrated report is published annually and presents an overview of the group's activities, practices and financial performance for the year.

ABIL's sustainability, which is integrated with the financial reporting, presents a balanced analysis of the company's sustainability performance strategy in relation to issues that are relevant and material to the group and its stakeholders.

The report is reviewed by the audit committee and the board of directors to satisfy themselves of the materiality, accuracy and balance of disclosures. In addition, the various aspects of the integrated report are independently assured by a number of assurance providers.

King III principle	*ABIL*
Ensures the integrity of the company's integrated report	✓
Sustainability reporting and disclosure is integrated with the company's financial reporting	✓
Sustainability reporting and disclosure is independently assured	✓

Remuneration report

Introduction and report objectives

This report is designed to provide stakeholders with insight into and an understanding of the remuneration philosophy and policies that are adopted and applied across the group. Remuneration comprises normal monthly salary, other benefits, company contributions to retirement funds, bonuses and incentives paid to employees and executive directors and fees paid to non-executive directors. This report also provides full details with regard to the basis of determination of the group's total incentive pool.

The ever increasing level of complexity in the banking, insurance and retail industries due to the level of competition, level of regulation and product set, demands that we employ only the best personnel. This situation requires that the nature of remuneration rewards and motivates employees appropriately. At the same time ABIL is conscious of the increased and justified scrutiny over executive remuneration and the need for sensitivity in these times of economic uncertainty.

It is for this reason that ABIL strives to keep its remuneration policy as simple as possible whilst finding the balance to adequately reward and motivate its employees. The simplicity of the remuneration structure ensures that the remuneration of the directors and employees is transparent and enables stakeholders to clearly understand the basis used to remunerate employees and facilitate a strong link between remuneration and the performance of the group for the year. Furthermore, remuneration is determined and structured so as to compensate, attract and retain appropriately skilled employees whilst being aligned to the interests of the stakeholders.

Human capital is the most important asset required in carrying out the group's business in a differentiated way. The attraction and retention of appropriate skills is an area that requires continuous focus at the highest level of the organisation. In this regard, remuneration is one of the key drivers of aligning behaviour of human capital to the strategic intent of the group.

Through continuous engagement with our shareholders in the current year we have expanded disclosure of our remuneration policies in order to more clearly articulate our policies and provide better insight and understanding.

Financial highlights

The highlights summarise the financial performance of the group and puts remuneration for the year into context. Overall, the group performed well in difficult economic conditions by achieving its targeted return on equity and increasing headline earnings. However, the merchandise sales target and other internal objectives were not met largely due to the uncertain and difficult economic environment both locally and globally.

Metric	*Movement year-on-year*	*Target*
Return on equity	Increased by 160 bps to 20%	>20%
Merchandise sales	Increased by 2%	>5%
Advances growth (Banking unit)	Increased by 33%	>25%
Headline earnings	Increased 18%	Not published
Economic profit	Increased 53%	Not published

Significant changes in remuneration policy and structure from the prior year

Changes effected during the 2012 financial year

There has been no material change in the remuneration policy with regard to salaries and operational performance incentives during the year. The long term incentive plan (LTIP) for 2011 was changed in the following respects:

- Vesting was changed from four years of 25% per annum to five years with 15%, 20%, 20%, 20% and 25%; and

- Gearing was increased from 50% of the award value to 100%, 150% and 200% depending on seniority in the organisation with employees at 100%, management at 150% and executives at 200%.

The vesting period was lengthened in line with the recommendation in King III to ensure that long term incentives do not provide any material benefits before three years. This phase out of vesting in year one and year two will continue in future years until the ABIL executives do not have any LTIPs vesting within three years of award date.

The gearing was increased so as to afford participants with a potential for greater upside, but more importantly ensuring that the ABIL executives are at greater risk in the event of a reduction in the ABIL ordinary share price, thus aligning their interest more closely to that of shareholders.

Changes effected in respect of 2012 long term incentives: LTIP2012

The issue price of the LTIP2012 has been changed from the September VWAP to a 90-day VWAP using the calendar months of September, October and November. The reason for this change is that the annual results are only released to the market in November each year and the September price does not therefore necessarily reflect the year's performance for which the LTIPs are granted. Similarly the vesting price will be the 90-day price for the same months. The move from a 30-day to 90-day VWAP is to take into account the share price post the release of the final results, minimise the impact of temporary share price volatility on the LTIPs and also align to the fact that they are awarded in November of each year rather than September.

In addition, the gearing has been set at compulsory 100% of the award value for all participants with the option for the African Bank and Ellerine Furnishers members of the executive management committee entitled to elect a further gearing equal to 50% of award value. This will take the maximum gearing to 150% of the award value. The ABIL executive management committee members are entitled to elect a further gearing equal to 100% of the award value which then translates to a maximum gearing of 200% of award value. It was felt inappropriate to force all participants to take on more risk but rather to give the executives the elective to increase their risk under the LTIP should they so choose.

All other terms and conditions remain as those applicable to the LTIP2011.

Deferred bonus

Participants who would have qualified for LTIP2012 awards of R100 000 or less were given deferred bonuses. These deferred bonuses vest equally over three years commencing 30 September 2013. If the employee resigns prior to the vesting date, all unvested portions of the bonus are forfeit.

Remuneration governance

The group remuneration and transformation committee is a subcommittee of the main board which comprises three independent non-executive directors. This committee is tasked with assisting the board in formulating and monitoring the implementation of the group's transformation and remuneration policies. The group's policies are applicable to all subsidiaries including the foreign subsidiaries in Ellerines. Details of the directors comprising this committee and its activities are disclosed in the corporate governance report.

The board has delegated, through a documented charter, to the group remuneration and transformation committee certain responsibilities and powers which include the following:

- Monitoring the group's human resources policies, practices and procedures to ensure they are relevant, dynamic, competitive and aligned at all times to the strategy of the group.
- Monitoring the development and implementation of transformation and employment equity policies as a business imperative, with special focus on senior management and at the executive level.
- Approving the group's overall remuneration philosophy, including the structure of the monthly total cost to company (CTC), the incentive and retention schemes and performance measurement systems and criteria.
- Reviewing and approving the overall incentive pools for each financial year, in accordance with the group's approved incentive policy and schemes, taking into account the ever changing competitive landscape and customer needs.
- Determining and recommending to the board of directors for approval, the CTC and incentive allocations for executive directors and members of the ABIL executive management committee and the allocation between short term and long term incentives for the wider group.
- Reviewing and recommending to the board of directors for approval, the remuneration of non-executive directors based on recommendations from the executive directors.
- Ensuring that there is timeous, adequate and appropriate succession planning for all senior executives and key positions across the group.

- Ensuring that there is an adequate focus and attention being given to addressing the overall wellbeing of our employees.

The full charter of the group remuneration and transformation committee is available on the group website under corporate governance (www.abil.co.za).

Remuneration advisors

The group continues to utilise the services of independent consulting companies who specialise in remuneration and compensation as and when required, to assist with benchmarking employees and executive directors' remuneration and non-executive directors' fees.

Remuneration philosophy

The group is acutely aware of its dependency on appropriately qualified, trained and experienced personnel to achieve its goals. The rapid evolution of technology and increasing competition gives customers more choice with regard to their preferred service provider and the manner in which they choose to acquire goods and services, the consequence of which is that there is no room for mediocre service organisations to survive in the long term. Furthermore, the demand, both locally and internationally, for scarce skills is ever increasing, which is exacerbated locally by increased competition and regulation in the unsecured credit, retail and insurance industries.

As a result, the group's remuneration philosophy needs to ensure that it:

- Retains, develops and continues to attract people with the required skills necessary to enable the business to meet its current and future demands;
- Develops a collaborative and single business focus amongst the different business units and departments that is directed towards attaining the group's objectives and strategy rather than just individual, departmental or business unit success;
- Clearly differentiates and rewards performance excellence whilst discouraging and dealing with mediocrity;
- Achieves the appropriate balance between short and long term rewards;
- Enables the payment of rewards and incentives out of a portion of the shareholder value created during any given period; and
- Creates a sustainable leadership structure with the succession pool necessary for continuity, growth and one that progressively becomes more representative of the demographic of South Africa.

In order to ensure their independence and objectivity, all employees in the risk and financial control departments are remunerated in a manner that is independent of the businesses they oversee. The remuneration of these employees is dependent on the accomplishment of objectives of their functions and is structured to attract and retain qualified and experienced employees. This is to safeguard the integrity of the risk and financial control oversight on the reported results.

The group continues to strive for sustainable long term growth and to this end a greater portion of senior management and executive remuneration is put "at risk" against the delivery of key long term objectives and is linked to the performance of the group over a period of the next four to five years rather than being dependent on a single year's results or performance. ABIL's original entrepreneurial style of business, which is still manifest in the organisation, results in the promotion of individual accountability at all levels, recognition and encouraging initiative and innovation, whilst retaining a single business focus approach.

The group's remuneration philosophy has been developed around these core principles.

Remuneration policies and structures

Review of remuneration process and structure

The remuneration process and structure is reviewed annually, in July for Ellerines employees, October for African Bank employees and November for senior management and executives. There were no significant changes to the remuneration process during the reviews in the current financial year.

Changes for the 2013 financial year

Employees, excluding the ABIL executives, whose performance met job requirements, were granted increases of between 5% and 8% per annum on the CTC. In addition, the medical aid subsidy was increased to R650 per month for all employees whose annual CTC is less than R375 000.

Material downward adjustments

There were no material downward remuneration adjustments during the current and previous years that may have been necessitated by individuals' sustained weak performance. All poor performance is dealt with in line with the group's policy to assist and support the individual to achieve the level of performance required within a reasonable time, failing which the employment is terminated after the employee is taken through a fair and structured process.

Remuneration components

The remuneration includes the following significant components:

Component	*Summary*
Basic remuneration The basic remuneration comprises fixed monthly salaries for all permanent employees.	Permanent employees are compensated according to market related benchmarks, which are assessed on an ongoing basis with some employees on a CTC basis, whilst others are on cash packages, with certain statutory contributions to retirement funds, group life and healthcare schemes being made by the company.
Sign-on bonuses Sign-on bonuses are paid to attract specialised skills and to compensate new employees for loss of benefits from their immediate previous employers.	The amounts paid as sign-on bonus are at the discretion of the respective member of the group executive management committee and is conditional upon certain minimum service periods to the group depending on the quantum of the sign-on bonus.
Severance payments Severance cash payments are made to employees on early termination of contracts or employment either through retrenchment or mutual termination.	This does not apply to executive directors or members of the group executive management committee as there are no fixed term service contracts or guaranteed period of employment. Retrenchment payments are determined in terms of The Basic Conditions of Employment Act whereas mutual termination payments are negotiated having regard to the skills, period of service, resignation or termination, etc of the individual.
Guaranteed bonuses Guaranteed bonuses are paid to employees whose contracts contain a clause covering the payment of an annual bonus equal to a month's salary.	This does not apply to executive directors or members of the group and business unit executive management committees as their bonuses are dependent on both the individual and group performance.
Short and long term incentives Incentive payments are compensations paid to employees whose performance is at or above expectation having regard to their basic remuneration, and for their contribution towards the creation of sustainable shareholder value. This includes sales commission paid to Ellerines sales employees and incentives paid to African Bank sales and collections employees.	The incentive structures are designed to encourage and reward superior performance at all levels of the organisation, but are more focused at the management and executive level. The main principles of the structure are: ■ Whilst the Banking and Retail units are treated as two separate business units operationally for the purposes of determining economic profit, which is the group's measure of shareholder value creation and incentives for operational and managerial employees, the criteria for determining the incentive pool is different for each business unit. The Banking unit's incentive pool is based on a percentage of economic profit whilst the Retail unit is based on performance against budget for headline earnings. The group executive management committee's incentive pool is based on economic profit but subject to various targets being achieved at a group level. ■ The economic profit is defined as the headline earnings of the business for any given year less a charge for the cost of equity for ordinary shareholder funds. The charge for the cost of equity is calculated and based on the average ordinary shareholder funds multiplied by a cost of equity having regard to the risk premium attributable to ABIL's business. This cost of equity percentage is tested and adjusted, if necessary, after polling a pool of analysts and major shareholders. ■ The actual percentage of the group's economic profit that becomes available for payment as incentives is determined annually by the group remuneration and transformation committee within the maximum percentage as determined by the board on an annual basis.

Component	Summary
	■ An element of discretion is allowed on an exceptional basis to award short and long term incentives to employees where an operational unit within the two business units achieved its internal target although the business unit may not have achieved its target. This is to promote the retention of key employees through the economic cycles. Incentives are paid on achievement of operational targets for operational employees, whilst for managerial employees, incentives are based on achievement of operational targets and overall performance of the business unit and the group. The achievement of the group's internal targets is of paramount importance in the determination of whether the group executives qualify for any cash bonuses. This includes financial and non-financial targets.
Benefits Benefits assist with the economic security of employees. Employee benefits comprise pension and provident funds, group life and disability cover and company owned vehicles for certain employees.	Benefits are value, other than salaries, that are provided to employees in return for their contribution to the organisation. The group has various pension and provident funds which are defined contribution funds, with benefits determined based on contributions and the accumulated growth on the investments within the funds. Membership of a retirement benefit fund is compulsory for all permanent employees having a choice between group and labour union retirement funds. The employer contribution ranges between 6,5% and 13,0% with each of the funds having a minimum contribution level. Group life and disability cover is provided to employees in terms of a scheme for which a separate contribution is made by the employee. The group life cover for permanent employees is set at a compulsory minimum of three times with employees having the option to increase their individual cover to a maximum of seven times the annual fixed package. Membership of a medical scheme of the employee's choice has been made compulsory in African Bank but in Ellerines it is currently compulsory from middle management and above. Company owned vehicles are provided to those employees in the group whose job requires regular and necessary travel on business. These vehicles are provided on the basis that all costs relating to the running of the vehicles are borne by the group with the employee being taxed on the fringe benefit value thereof.

Short term incentive payments

The short term incentives include:

- Sales incentives paid to branch employees on a monthly and quarterly basis for achieving or exceeding sales and new customer targets;
- Collections incentives paid on a monthly and quarterly basis for achieving or exceeding cash receipting targets;
- Annual bonus paid to non-managerial employees which is a fixed portion of the pool with the maximum amount paid per employee approximating a month's salary, differentiated based on an individual's level of performance; and
- Annual discretionary bonuses for executive directors, executives, management and support services employees.

The sales commissions paid to the Ellerines sales employees do not form part of the incentive pool on the basis that sales commissions are an integral part of remuneration for sales employees in the retail industry as the commission is based directly on each furniture and appliance sale concluded by the employee. Incentives are not paid to employees for the sale of any of the group's long and short term insurance products.

Senior management earn a proportionately higher amount of their incentives through the long term incentive plan than through the annual bonus with approximately 60% in long term incentives. Typically, the short term incentives awarded to the members of the group executive management committee accounts for less than 25% of their total incentives in any year.

Long term incentives

The long term incentive plan is designed to encourage and reward superior long term shareholder value creation.

The LTIP award in any one year is reward for performance in that particular year and is recognition of only that year's performance. It is settled over a number of years to act as a retention tool and also ensures that some of the employees' future remuneration is at risk, as it is linked to the change in the ABIL share price, thus aligning the interests of employees with those of shareholders. This also ensures that decision makers take into account the long term impact of decisions taken in a particular year thus favouring decisions which create long term shareholder value.

The long term incentive plan (LTIP)

The LTIP is a cash settled share appreciation scheme, modelled on the performance of ABIL ordinary shares. Qualifying individuals are awarded a certain value of LTIPs each year, previously unitised into R10 units, with the instrument structured as follows:

- Each LTIP award, plus an additional gearing of between 100% and 200%, depending on the individual's level in the group (2011: between 100% and 200%), achieved through a notional non-recourse loan, is synthetically "invested" into ABIL shares. The entry price is set at the ABIL volume weighted average price (VWAP) for the three-month to end November (previously the calendar month of issue of the LTIPs, being September) of each year. The settlement value is determined with reference to the VWAP for the similar three-month period ending November (previously the VWAP for the month of vesting).
- Interest is accrued on the notional loan on a semi-annual basis and the dividends paid on the synthetic ABIL shares (grossed up at the corporate tax rate) are applied to reduce the loan balance. The interest rate charged on the notional loan is market related having regard to the risk free rate in the market and the risk premium relevant to a similar investment.
- The value of the LTIP, from time to time, is the market value of the synthetic ABIL shares, less the remaining balance on the notional loan after accruing interest and notional dividends.
- The LTIP vests annually on 30 September, and is paid out after the end of November at market value, based on the ABIL VWAP for the three months ending 30 November (previously the calendar month of vesting), over five tranches equivalent to 15% in the first year, 20% from the second to fourth years and 25% in the fifth year (2011: five tranches as above, 2010 and prior: four equal tranches). Should the individual resign or be dismissed, his or her unvested LTIPs will be forfeited and cancelled.
- Commencing with the LTIP2010 and going forward, individuals have been given the ability to roll over a tranche into the following year or years, which must be done prior to each vesting period. They may not be rolled beyond the last vesting date in terms of the LTIP tranche issued. The forfeiture rules apply equally to any tranche that may have been rolled over to the following year.
- Each year a new LTIP is created which runs parallel to the existing LTIPs resulting in a maximum of five separate LTIPs running concurrently.

Actual payments by component

ABIL group	2012 Number of employees	2012 Amount R million	2011 Number of employees	2011 Amount R million
Fixed remuneration		**1 988**		1 798
Variable payments		**633**		590
Guaranteed bonuses	**8 488**	**41**	10 008	46
Sign-on bonuses	**19**	**4**	25	7
Severance payments	**556**	**17**	838	28

Exposure to existing long term incentive schemes

The ABIL employee share option scheme

Share options

All outstanding options were exercised during the year at a strike price of R16,16 when the ABIL ordinary share price was R38,18.

Phantom option scheme in Ellerines

All of the phantom options in Ellerines vested during the year and there were no outstanding options at year end.

The table below shows the movement in phantom options during the year:

	Number of phantom options Million	Liability accrued as at September 2012 (IFRS 2) R million	Liability to be accrued in future periods R million	Total liability R million
Balance as at 30 September 2011	0,6	3,8	0,1	3,9
Accrued during the year	–	0,4	–	0,4
Cash settlement during the year	(0,6)	(4,2)	–	(4,2)
Adjustment of liability to fair value	–	–	(0,1)	(0,1)
Balance as at 30 September 2012	–	–	–	–

LTIP liability

The table below sets out the movement in the group LTIP exposure from the beginning of the year. This exposure includes tranches that have not yet vested. The table also shows the value at grant date of the exposure and whether that exposure has decreased or increased since grant date.

Changes in market value of LTIPs outstanding

R million	*LTIP 2008*	*LTIP 2009*	*LTIP 2010*	*LTIP 2011*
LTIPs outstanding as at 30/9/2011	46,4	65,7	89,7	157,8
Additions during the year (awards made during the year after 30/9/2011)	0,0	0,0	0,0	11,1
Change in value during the year	3,7	2,2	6,8	(4,9)
Amount paid during the year	(25,3)	(22,9)	(23,8)	(0,5)
Forfeitures	(1,8)	(3,4)	(6,7)	(17,1)
LTIPs outstanding as at 30/9/2012*	23,1	41,7	66,0	146,4
** This represents all tranches that are outstanding and that have not been paid or vested at 30 September 2012.*				
Value at grant date of outstanding LTIPs (remaining tranches)	13,4	30,7	67,0	155,2
Current gain (loss) on outstanding tranches	9,7	11,0	(1,0)	(8,8)

2012 incentive pool allocations

The board has decided that the allocation of the incentive pools for the Banking and Retail units have to be performed on separate bases for the 2012 financial year awards.

The Banking unit incentive pool is based on the achievement of economic profit at the Banking unit and ABIL group level. The maximum incentive pool is equal to 17% of the pretax economic value added (EVA) at the Banking unit level plus 8% at ABIL level. The total incentive pool at the Banking unit increased by 8% to R295 million (2011: R273 million) due to the good performance of the Banking unit in difficult economic conditions.

Banking unit	*R million*
Banking unit economic profit	**945**
ABIL group economic profit	**755**
EVA available for distribution	**307**
Incentive pool (pretax)	**295**
Variable pay incentives	**82**
Profit share for non-managerial employees	**22**
Annual cash incentive	**74**
LTIP	**101**
Deferred bonuses	**6**
Reserve for retention and recruitment	**10**
As a percentage of Banking unit pretax economic profit	**22,5%**

For the Retail unit, as it is at a different stage of development compared to the Banking unit, the incentive pool is determined based on the performance against budgets both at a brand and group level. Annual cash incentives are payable provided, that a minimum performance against budget is achieved. Thereafter a graduated increase is applied up to a maximum amount as a percentage of profits after tax.

Retail unit	*R million*
Headline earnings (Retail unit)	**257**
Incentive pool (pretax)	**51**
Annual cash incentive	**21**
LTIP	**30**
After tax cost of incentive pool	**37**
As a percentage of headline earnings	**14%**

The group annual cash incentive pool of R95 million (2011: R90 million), which was paid in November 2012, will be accounted for as an expense in the 2013 financial year. This treatment is in accordance with IFRS, and consistent with the prior years, as these bonuses, although relating to the performance for the 2012 financial year, are only determined and approved after the end of the financial year.

LTIP 2012 allocations amounting to R131 million (LTIP 2011: R153 million) were made to employees in November 2012. The vesting period is five years with the first tranche vesting on 30 September 2012. This will be accrued for as an expense, in accordance with IFRS 2, in the 2013 financial year and beyond. These LTIPs were issued at the VWAP for September to November 2012 (90 days) of R31,36 per ABIL ordinary share.

Executive directors and prescribed officers' remuneration

All executive directors and prescribed officers are members of the group executive management committee. Prescribed officers have been determined in terms of regulation 38 of the Regulations to the Companies Act, 2008.

The group remuneration and transformation committee determines the group executive management committee members' remuneration annually in the same manner as the increase for all employees, and it is approved by the board within the group's remuneration framework and philosophy. Adjustment in remuneration necessitated by any significant change in responsibility of an executive management committee member, or market remuneration for an equivalent role is motivated by the group chief executive officer to the group remuneration and transformation committee and if approved, recommended to the board for approval by the non-executive directors. The executive directors, as invitees, recuse themselves from all discussions relating to their remuneration.

The executive management committee members are employed under the general terms and conditions of employment applicable to all group employees, with no fixed term service contracts, restraints or guaranteed periods of employment within the group. The notice period for termination of service for executive directors and prescribed officers is one calendar month and they are required to retire from the group upon reaching the age of 65 years.

The overall remuneration of the group executive management committee members is based on a combination of achievement of financial objectives and strategic successes in the main strategic initiatives set for the year. Both of these areas are published, enabling the stakeholders to evaluate how the members were able to perform against the objectives for the year. Stakeholders are thus able to evaluate the remuneration of the members in relation to the performance against the group's objectives.

The components of executive directors and prescribed officers' remuneration are as follows:

	G Schachat		L Kirkinis		T Fourie		T Sokutu		N Nalliah		Total	
R000	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*
Executive directors												
Salary	**1 800**	1 631	**1 966**	1 966	**3 589**	3 365	**3 085**	2 876	**2 978**	2 805	**13 418**	12 643
Contributions[1]	**200**	200	**218**	218	**441**	415	**348**	329	**342**	320	**1 551**	1 482
Travel allowance	**–**	–	**–**	–	**400**	400	**–**	98	**120**	120	**520**	618
Total cost to company package	**2 000**	1 831	**2 184**	2 184	**4 430**	4 180	**3 433**	3 303	**3 440**	3 245	**15 487**	14 743
Other benefits[2]	**–**	–	**–**	–	**–**	–	**4**	–	**8**	13	**12**	13
Annual cash incentive[3]	**2 550**	3 000	**–**	–	**900**	1 045	**700**	1 000	**975**	1 350	**5 125**	6 395
Initial value of LTIP awarded[4]	**–**	–	**–**	3 500	**3 250**	3 553	**3 000**	2 178	**4 250**	4 204	**10 500**	13 435
Total remuneration	**4 550**	4 831	**2 184**	5 684	**8 580**	8 778	**7 137**	6 481	**8 673**	8 812	**31 124**	34 586

	C Chemel		J de Ridder		S Kahanovitz		G Roussos		Total	
R000	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*
Prescribed officers										
Salary	**3 054**	2 883	**1 821**	2 037	**2 663**	2 519	**2 377**	2 233	**9 915**	9 672
Contributions[1]	**343**	319	**209**	261	**295**	271	**276**	260	**1 122**	1 111
Travel allowance	**48**	48	**70**	141	**–**	–	**111**	111	**230**	300
Total cost to company package	**3 445**	3 250	**2 100**	2 439	**2 958**	2 790	**2 764**	2 604	**11 267**	11 083
Other benefits[2]	**–**	–	**–**	–	**8**	–	**–**	12	**8**	12
Annual cash incentive[3]	**950**	1 059	**–**	1 392	**750**	1 000	**850**	950	**2 550**	4 401
Initial value of LTIP awarded[4]	**4 000**	5 142	**–**	1 250	**2 750**	5 277	**4 500**	5 119	**11 250**	16 788
Total remuneration	**8 395**	9 451	**2 100**	5 081	**6 466**	9 067	**8 114**	8 685	**25 075**	32 284

1 Contributions to retirement funds.

2 Other benefits consist of long service awards and subsistence allowances for international travel.

3 The annual cash incentives relate to performance in the respective financial year and are approved by the group remuneration and transformation committee and paid in November subsequent to the respective financial year.

4 Award in the form of LTIP payable over five years. Also disclosed in the tables on pages 102 to 103.

Future remuneration

The executive directors and prescribed officers have decided to forego any increase in the annual cost to company package as a gesture towards closing the remuneration gap between the employees and themselves.

The remuneration of executive directors will vary in the future to the extent of the variable performance components being any cash bonuses and LTIP awards that may be granted each year. In respect of the LTIPs awarded in the current and past financial years, the actual amounts that may be paid to the executive directors for the LTIPs will vary depending on the performance of the ABIL share price.

Share options and converted options

None of the directors or prescribed officers had any share options or converted options outstanding under the discontinued share option scheme for any part of the current or previous financial year.

LTIP scheme

The allocations to executive directors and prescribed officers for the year ended 30 September 2012, together with movements in their LTIP portfolios, are reflected in the table below.

LTIPs awarded to executive directors and prescribed officers for the year ended 30 September 2012

R000	*Value as at 1 October 2011*	*2012 LTIPs awarded (note 1)*	*Change in value of LTIPs*	*LTIPs vested and payable (note 2)*	*Value as at 30 September 2012*
Executive directors					
Gordon Schachat	–	–	–	–	–
Leon Kirkinis (Chief executive officer)	3 500	–	(178)	–	3 322
Toni Fourie	8 858	3 250	38	(3 924)	8 222
Tami Sokutu	4 850	3 000	42	(1 941)	5 951
Nithia Nalliah (Chief financial officer)	8 138	4 250	13	(1 534)	10 867
Prescribed officers					
Charles Chemel	8 835	4 000	(42)	(1 660)	11 133
Johan de Ridder	3 610	–	66	(1 452)	2 224
Steven Kahanovitz	7 232	2 750	(184)	(1 536)	8 262
George Roussos	9 705	4 500	(5)	(1 433)	12 767
Total	54 728	21 750	(250)	(13 480)	62 748

LTIPs awarded to executive directors and prescribed officers for the year ended 30 September 2011

R000	*Value as at 1 October 2010*	*2011 LTIPs awarded (note 3)*	*Change in value of LTIPs*	*LTIPs vested and payable (note 4)*	*Value as at 30 September 2011*
Executive directors					
Gordon Schachat	–	–	–	–	–
Leon Kirkinis (Chief executive officer)	–	3 500	–	–	3 500
Toni Fourie (note 5)	8 764	3 553	(159)	(3 300)	8 858
Tami Sokutu	5 086	2 178	(77)	(2 337)	4 850
Nithia Nalliah (Chief financial officer) (note 5)	6 011	4 204	34	(2 111)	8 138
Past executive director					
David Woollam (note 6)	5 848	–	(110)	(2 979)	2 759
Prescribed officers					
Charles Chemel	6 618	5 142	(98)	(2 827)	8 835
Johan de Ridder	4 410	1 250	(57)	(1 992)	3 610
Steven Kahanovitz	5 210	5 277	781	(4 036)	7 232
George Roussos	7 536	5 119	(99)	(2 852)	9 705
Total	49 483	30 223	215	(22 434)	57 487

Notes

1 The 2012 LTIP awards relate to performance for the year ended 30 September 2012, and were approved by the board (based on the group remuneration and transformation committee's recommendations) on 15 November 2012.

2 This includes the LTIPs that vested on 30 September 2012 which were paid in October 2012.

3 The 2011 LTIP awards relate to performance for the year ended 30 September 2011, and were approved by the board (based on the group remuneration and transformation committee's recommendations) on the 17 November 2011.

4 This includes the LTIPs that vested on 30 September 2011 and paid in October 2011.

5 These directors have rolled their 2010 LTIP first tranche and thus it was not paid in November 2011.

6 Dave Woollam resigned as an executive director on 31 December 2010.

Business unit executive management committee remuneration

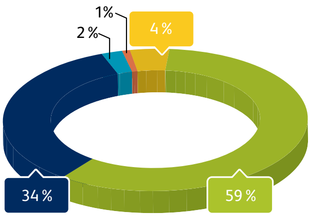
The two business units of the group, namely Banking unit and Retail unit, have executive management committees separate from the ABIL executive management committee. The names of the members of these committees are listed on the company's website (www.abil.co.za).

The individuals on these executive management committees are employed under the general terms and conditions of employment applicable to all group employees, with no fixed term service contracts, restraints or guaranteed periods of employment within the group.

The remuneration of each member of the executive management committees is dependent on the performance of each executive against the individual balanced scorecard of the executive's department. In order to ensure that "silo mentality" is minimised, the performance of the business unit and the larger ABIL group also impacts the level of incentives.

As with the ABIL executive management committee members, the incentives paid are made up of an annual cash incentive and LTIP award. On average the annual cash incentive makes up a maximum of 30% of the total incentive paid to executive management committee members.

Share of retained earnings between executives, employees and shareholders



The table below shows the total incentives paid to the members of the business unit executive management committees (excluding the ABIL executive management committee members).

	2012		2011	
	Number of exco members	Amount R000	Number of exco members	Amount R000
Annual cash incentive	**20**	**12 453**	21	12 933
Initial value of LTIP award	**20**	**37 640**	21	34 569
Initial value of BEE shares award[1]	**–**	**–**	1	350

1 The BEE shares awarded vest annually in one third tranches starting from approximately four years after the award date subject to the employee still being in the employment of ABIL.

Non-executive directors' remuneration

The non-executive directors are paid fixed fees for their responsibilities and duties on the boards of African Bank Investments Limited, African Bank Limited, Ellerine Holdings Limited and the insurance subsidiaries of the group. These fees are determined annually by the executive directors for all services rendered as directors of the boards and participation in the various subcommittees of the boards. Non-executive directors' fees are benchmarked, using external remuneration specialist consultants, against the market every three to four years, having regard to the size, complexity and geographical location, amongst others, of the group.

The fees payable to non-executive directors have been approved by shareholders in terms of section 66(8) and (9) of the Companies Act and in line with King III, in the annual general meeting in February 2012. The amounts approved by shareholders for non-executive directors' remuneration is as follows:

R000	2012	2011
Chairman's fees inclusive of board and committee fees	**1 475**	1 377
Non executive director	**214**	199
Chairman of the audit committee	**214**	199
Audit committee members	**107**	100
Chairman of the risk and capital management committee	**214**	199
Risk and capital management committee members	**107**	100
Chairman of the remuneration and transformation committee	**150**	141
Remuneration and transformation committee members	**75**	70
Chairman of the directors' affairs committee	**150**	141
Directors' affairs committee members	**75**	70
Chairman of the social and ethics committee	**150**	*
Social and ethics committee member	**75**	*

** This committee is new in the 2012 financial year.*

The directors are paid a fixed fee for membership of the board and various subcommittees. Fees are not dependent on attendance at meetings as directors' performance is evaluated annually through a peer review process by all members of the board and non-attendance is dealt with by the chairman as part of the performance assessment of the director. No additional fees are payable for special or ad hoc meetings. The remuneration payable compensates the directors for their time and contribution to the group.

The non-executive directors do not participate in any of the group's bonus and incentive schemes and neither do they receive any other benefits from the group. All expenses incurred in connection to travel and accommodation in attending meetings is reimbursed at cost.

The fees paid to the non-executive directors are as follows:

Remuneration for the year ended 30 September 2012

R000	ABIL board	ABIL board committees	Subsidiary boards and committees	2012 Total	2011 Total
Current directors					
M Mogase[1]	369		1 106	**1 475**	1 377
N Adams	54	99	457	**610**	568
S Sithole	54	72	377	**503**	434
N Langa-Royds	54	94	441	**589**	224
M Gumbi	54	76	496	**626**	257
J Koolen	54	27	347	**428**	200
J Symmonds	54	54	430	**538**	516
Past directors					
D Gibbon				**–**	302
M Nkeli				**–**	131
A Tugendhaft				**–**	255
Total	693	422	3 654	**4 769**	4 264

1 The chairman's fee is inclusive of all board committees.

Directors interest in shares of ABIL

The company does not have any shareholding requirements or targets for executive or non-executive directors. The schedule setting out the current shareholding of directors is in the directors' report on pages 214 to 215.

Risk report

Introduction

The management of risk is a fundamental element of the group's strategic business execution. The group risk management approach is an approved enterprise wide risk management methodology and philosophy to ensure adequate and effective risk management. In addition, the methodology also provides regulatory principles that, together with the risk management approach, will continue to ensure optimum return on shareholders' equity through the application of the following core principles:

- Clear assignment of responsibilities and accountabilities;
- Common enterprise wide risk management framework and process;
- The identification of uncertain future events that may influence the achievement of business plans and strategic objectives; and
- The integration of risk management activities within the group and across its value chains.

ABIL risk management philosophy and culture

Sustainable high quality shareholder returns can only be derived by accepting a certain measure of risk taking. In light of the understanding of risk management by the group, the board has strategically accepted a higher risk appetite for credit risk than most other credit lenders. This increased risk appetite is informed by a stable, effective and efficient risk management philosophy and framework within the group. ABIL views risks as an inherent part of running a successful business, i.e. risks are not only mitigated but are also analysed and investigated for potential opportunities. This approach provides the direct correlation and linkage between risk management and maximising shareholder value.

ABIL maintains an integrated, enterprise wide risk management programme. The group applies a logical and systematic methodology to identify, analyse, assess, mitigate and monitor all known risks. The critical success factor is the alignment of the key fundamentals of governance, business objectives, stakeholders, ethics, policies, standards, strategies and compliance.

The risk management process is continuous, with well defined procedures that support improved decision making by contributing a greater insight into risks and their potential impact. One of the objectives of the risk management philosophy is to ensure that mitigating strategies are geared to deliver reliable and timely risk management information.

ABIL's approach to risk accepts and embraces risk management as a core competency that allows the business to optimise risk taking through objectivity and transparency that will ensure effective and efficient risk pricing and optimised returns within a chosen risk appetite.

Risk management objectives

ABIL's risk management objectives are to ensure a proactive identification, understanding and assessment of risks, including activities undertaken that yield risks which could impact on business objectives. This is executed through various risk management and governance mechanisms and risk management oversight bodies. These include:

Independent board committees (audit, risk and capital management, remuneration, directors' affairs, ethics and sustainability)

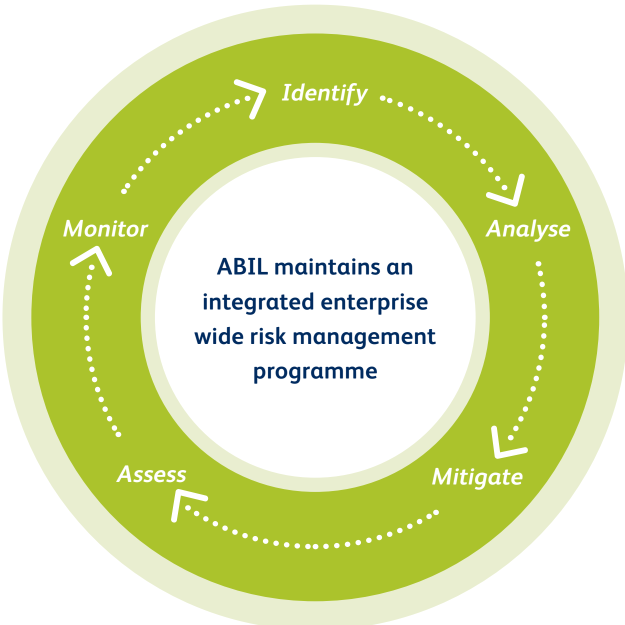
Risk management function – cooperation in all key operations throughout the group

Fraud risk management through an independent forensic department

An **operational risk department** operating as business partners to all business units to facilitate, coordinate and monitor effective risk management

ABIL risk management life cycle

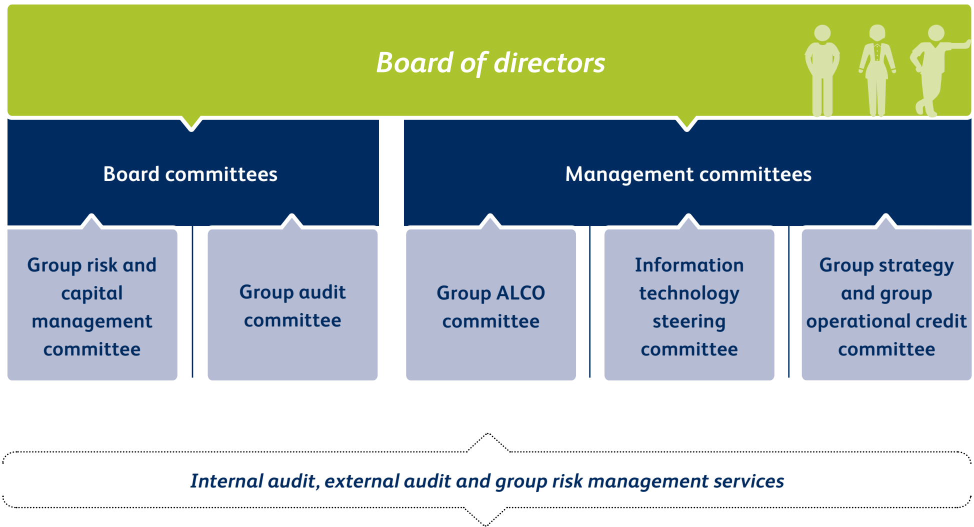
The risk management process is continuous, with well defined procedures that support improved decision making by contributing a greater insight into risks and their potential impact. One of the objectives of the risk management philosophy is to ensure that mitigating strategies are geared to deliver reliable and timely risk management information.



ABIL's embedded risk management philosophy has positioned the group to be resilient through the economic cycles, while its strong enterprise risk management culture has contributed significantly to the success of this business as a whole.

Risk universe and supporting structures

All risks facing the greater ABIL group are reviewed on an annual basis and the major groups of risks (before and after the application of mitigating controls) are set out and described below. Management of the two business units and the ABIL board are satisfied that these risks are being adequately managed to ensure the desired outcome is achieved. The diagram below depicts the risk universe faced by the group as well as the appropriate level of roles and responsibilities associated to the specific risk.



Risk universe

Accounting and taxation risk	Liquidity risk	Market risk	Business continuity risk	People and transformation risk
Compliance risk	Capital risk	Operational risk	Reputational risk	Social and environmental risk
New business risk	Interest rate risk	Information technology risk	Credit risk	Regulatory risk

Risk management – roles and responsibilities

ABIL believes that risk management is fundamental to effective corporate governance and the development and maintenance of a sustainable business. ABIL's risk methodology and philosophy allows the various business units to ensure business success with a measured balance between risk and reward.

ABIL firmly utilises and applies a holistic and integrated risk management approach. Included in the risk management mechanisms is the principle of "levels of defence". Business units, group risk management services together with internal and external audit participate in the holistic approach to risk management.

Three levels of defence as applied throughout the group:

Roles and responsibilities

Business units

- Ensure adequate resourcing for the management of risk in the business unit;
- Implement business unit policies and processes, where applicable, which are to be aligned with the group policies;
- Perform self assessments (including mapping of processes), identify indicators and monitoring thereof, identify action plans from these processes, implement and track;
- Identify losses, quantify where possible and maintain/populate the central operational loss database;
- Provide input/information/assistance to risk management in the development of strategy, policy and all other risk activities;
- Produce and table reports at business unit management meetings for action; and
- Ensure an appropriate level of awareness of risk management in the business unit and to foster a commensurate risk aware culture.

Enterprise risk management team

- Develop strategy, policies and standards;
- Keep up to date with regulatory requirements and what industry is doing;
- Provide quality control to ensure a consistent implementation of policy and processes across all business units;
- Provide consolidated reporting, inclusive of an overall risk profile, ensuring that major risks are identified and reported to the board;
- Communicate board and regulatory responses or directives to business units; and
- Perform final validation of business unit processes and key risk data.

Internal audit

- Audit adequacy/effectiveness of risk management via review of the framework and processes; and
- Utilise risk data to assist in the planning of audits.

Risk governance structure

Board and senior management involvement and understanding

The board is ultimately responsible for the corporate governance and financial soundness of the group. In fulfilment of that responsibility, the board approves the overall business strategy, which includes the overall risk policy and management of procedures. Senior management are responsible for overseeing the operations of the group.

Strong board and senior management oversight forms the cornerstone of an effective risk management process and is responsible for overseeing the development and maintenance of a framework to effectively manage risk in the group. This framework should go beyond an overly narrow compliance oriented approach to a holistic risk oriented approach. The internal risk measurement system must be closely integrated into the day-to-day risk management processes of the group. Its output must form an integral part of the process of monitoring and controlling the group's risk profile.

The board delegates responsibility for the oversight of risk management to the risk committee with an annual review by the full board. This is to be supported with reporting of business unit risk exposures and reports from internal audit on the effectiveness of the function.

Subcommittee oversight

The board, in discharging its risk management responsibilities, is supported by two subcommittees, namely the group audit committee and the group risk and capital management committee. These committees are the oversight bodies for the implementation of adequate and effective internal control mechanisms as well as efficient risk management frameworks. They also review the overall effectiveness of risk management structures and response strategies.

Independence of the risk management function

The Banks Act, 1990, as amended, requires an independent risk management function that is responsible for the design and implementation of the group's risk management framework. The function must be able to exercise professional judgement, make impartial recommendations and implement an effective framework for identifying, managing and monitoring risk. It does, however, not distract from the need that the function has to be familiar with the risk profile and control structure of the business units.

Group risk management consists of the following components:

- Internal audit;
- Forensic services;
- Compliance; and
- Legal.

Internal audit

The group's internal audit function is divided into two units – the Banking unit's (African Bank) internal audit and the Retail unit's (EHL) internal audit. The two units provide assurance on the group's financial services and bank related matters and retail business respectively. The internal audit function provides the group's board of directors, the group audit committee and management of the business units with independent, objective assurance, and consulting activities designed to add value to and improve the group's operations. Internal audit helps the group accomplish its strategic objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Internal controls reviewed include governance, risk oversight, organisational strategy and planning, operations, financial reporting and compliance.

The internal audit function operates in terms of an audit charter approved by the group audit committee and has full and free access to the group chief executive officer, business unit managing executives, chairman of the audit committee, and whenever needed, the chairman of the board. In addition, internal audit has unrestricted access to all organisational activities, records, property and personnel under review.

All significant operations, business activities and support functions are subject to review by internal audit. A combined assurance approach has been adopted and internal audit is responsible to drive this process within the group and to coordinate assurance given by the various assurance providers.

Combined assurance involves the integration of the assurance processes within the group in order to:

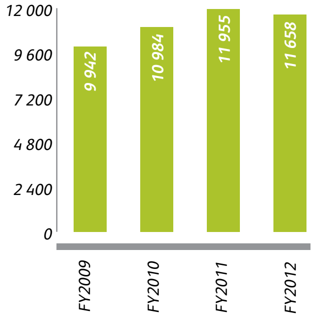
- Maximise risk and governance oversight and control efficiencies; and
- Optimise the overall assurance provided to the audit and risk committees, and ultimately to the board.

The internal audit coverage plan is determined annually, based on the relative degree of inherent risks identified from the ongoing enterprise wide risk assessments, together with a continuous assessment of areas that require specific focus or special projects with high levels of inherent risk. Key stakeholders and the various assurance providers are consulted and engaged in developing the annual coverage plan of internal audit. The group audit committee approves the plan annually and progress against the plan is reviewed at the quarterly audit committee meetings.

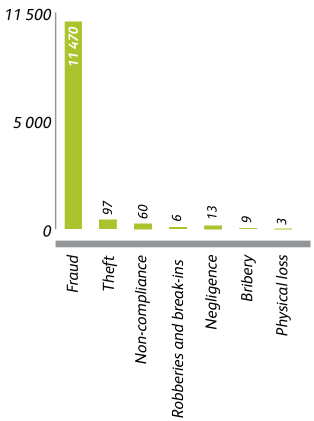
Audit results are reported to management, who are responsible for implementing corrective action necessary to eliminate any deficiencies noted in the system of internal control or risk management processes. Internal audit conducts follow up procedures to verify that the corrective action implemented by management is effective in strengthening internal controls.

The internal audit team conducts its audit activities in accordance with the Standards for the Professional Practice of Internal Auditing and in compliance with the Professional Standards of Conduct as set out by the International Institute of Internal Auditors.

Case volumes received: Year-on-year



Case volume by case type



Forensic services

Internationally, fraud and other economic crimes continue to remain a notable reputational and financial business risk.

As a responsible lender, fraud risk management remains central to the group's risk management procedures and clear ethical principles and behaviour are established as fundamentals of our business conduct and consequently, fraud risk is managed in an integrated manner, through specific frameworks and policy.

Various reactive and preventative fraud strategies and processes are applied in unison throughout the business on a routine basis.

In spite of the fact that ABIL's risk management philosophy dictates a larger appetite for credit risk than the typical credit provider, the board strongly upholds and reinforces a policy of zero tolerance towards any form of dishonesty, or the concealment thereof.

Antifraud responsibilities form an inherent part of all our employees' responsibilities and personnel at all levels are tasked with exercising care, due diligence and fraud control to prevent, detect and deter any fraudulent or dishonest behaviour.

In the fight against crime, we collaborate closely with external entities such as the SA Police Services (SAPS), the South African Fraud Prevention Services (SAFPS), the South African Banking Risk Information Centre (SABRIC) and the National Prosecuting Authority of South Africa (NPA).

A dedicated Forensic Services unit is responsible for investigating and preventing fraud and its various components impacting the Bank. The team has full and unreserved access to the group chief executive officer, business unit managing executives, chairpersons of the audit committee and risk committee and is granted full, free and unrestricted access to all organisational activities, records, property and personnel under review.

To facilitate and encourage the prompt and effective reporting of fraud, a number of reporting channels, which includes a confidential hotline, are available for use by employees, customers and others.

The various hotline details are:

- African Bank Ethics toll free line: 0800 20 20 18
- African Bank Ethics email address: abfraudethics@africanbank.co.za
- African Bank Ethics telefax: 087 942 4600
- Ellerine Holdings Ethics toll free line: (South Africa and Namibia) 0800 118 444
- Ellerine Holdings Ethics toll free line: (Botswana) 0800 600 828
- Ellerine Holdings Ethics toll free line: (Swaziland, Zambia and Lesotho) +27 11 678 0822
- Ellerine Holdings Ethics email address: alertline@emps.co.za

By intentionally focusing on fraud risk management in our business, within the overall framework of our common approach to risk management, we believe that we are suitably positioned to effectively respond to the challenges it continues to present.

Group compliance

The South African regulatory environment is rigorous, ubiquitous and robustly enforced. The shift in the regulatory landscape is towards a "twin peaks" approach, which will ultimately separate prudential and market conduct regulation. The fundamental principle being applied to market conduct regulations is consumer protection and to prudential regulations is the financial stability of the financial services sector. Corporate decision makers cannot afford to ignore or overlook the changes in the regulatory environment in making business decisions.

The move towards the "twin peaks" approach has consequently introduced and will continue to introduce changes in the legislative framework. The changes in the legislative framework are to refresh outdated legislation by substituting new legislation for old as has been done with the new Companies Act and King III and the introduction of legislation to align the regulatory environment to the "twin peaks" approach by implementing consumer protection legislation such as the National Credit Act, Consumer Protection Act and the anticipated introduction of the Protection of Personal Information Bill. This change in regulatory policy will also lead to amendments to the National Credit Act, Long-term Insurance Act, Short-term Insurance Act, Financial Advisory and Intermediary Services Act (FAIS Act) and the anticipated introduction of new legislation in the near future such as Treating Customers Fairly, Micro-Insurance and Credit Insurance.

On the prudential regulatory front there is a definite move to implement Basel III and the Solvency Assessment and Management (SAM) principles, which will have an impact on the capital requirements of financial services businesses.

The risk as a result of the shift in the regulatory environment, is a more costly and onerous environment in which to conduct business; however, being forewarned and forearmed may be cumbersome and time consuming but is far preferable to the alternative. In addition, continued pressure from labour, environmental and consumer focused clusters is giving rise to increased focus on employers and how they deal with their employees, consumers and the environment.

ABIL accepts and adopts a rigorous and proactive approach to all its regulatory responsibilities through the group risk management and compliance teams to ensure that we have the necessary rigour around our approach and implementation. Our risks are managed through internal policies and processes, which include risk management, legal, compliance and other technical requirements relevant to the business.

ABIL recognises its accountability to all its stakeholders under the legal and regulatory requirements applicable to its businesses. It is committed to comply with both the spirit and the letter of applicable requirements and to always act with due skill, care and diligence.

It is committed to the preservation of its integrity and reputation and thus requires all business units, divisions, departments and subsidiaries within the group to have a good understanding and strict compliance with applicable laws, regulations and standards in each of the markets and jurisdictions in which any of the business units, divisions, departments or subsidiaries within the group operates. In addition to all binding regulatory requirements, ABIL also subscribes to various non-binding codes, rules and standards such as the Code of Banking Practice, King Report on Corporate Governance in South Africa (King III), the Wolfsberg Principles on Politically Exposed Persons Identification, the Financial Action Task Force Recommendations, amongst others.

In terms of the Banks Act, a Bank is obliged to establish an independent compliance function as part of its risk management framework in order to ensure that the Bank continuously manages its regulatory risk. The group compliance officer fulfils the statutory function of the compliance officer of the Banking unit, as is required in terms of the Banks Act. In addition to fulfilling this role, the group compliance officer is also responsible for compliance within the entire group, which includes the Retail unit, and the various insurance companies within the ABIL group. The group compliance function forms part of the risk management framework of the group and this role requires an extensive understanding of the business being conducted by the various business units, divisions, departments and subsidiaries within the group.

The board ensures that the business of the group is conducted in a manner that facilitates effective corporate governance standards. The board of directors is responsible for overseeing the management of ABIL's compliance risk. The board via the group audit committee, therefore, ensures that compliance issues are resolved effectively and expeditiously by senior management with the assistance of the group compliance function.

ABIL also has proactive ongoing engagements with the relevant regulatory and government authorities to understand, ahead of time, what the possible specific interventions could be and to prepare for readiness in order to minimise the effect of additional and amended laws and regulations. There is a general increase in regulatory activity across the board in the financial services sector, which includes banking. The group will continue to engage and influence as appropriate.

Legal

The group legal function forms part of the Banking unit's risk management function. This function is charged with the responsibility of managing legal risk within the ABIL group. Its primary responsibility is to provide and procure legal advice for the group and the various business units within the group. This function is also responsible for managing any litigation in which any of the business units within the group may be engaged.

Operational risk management

For more detail, see the group's capital allocation methodology on page 121 of the 2012 integrated report.

ABIL utilises the standardised approach for credit risk and an alternative standardised approach for operational risk, in order to determine the minimum regulatory capital to be held for both these risk areas.

Operational risk is a risk of direct and indirect loss resulting from inadequate or failed internal processes, systems, people or external events.

While it is virtually impossible to totally eliminate operational risk, it is the duty of operational risk management to ensure that operational risk is well mitigated and properly managed.

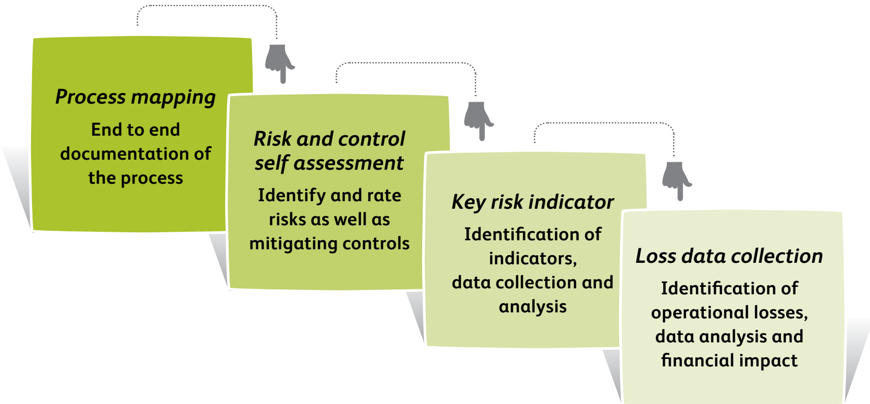
ABIL has developed an operational risk framework and policy which was approved by the board. The objective of the Banking unit's operational risk management function is to:

- Focus on key risks in the organisation as well as individual business units;
- Ensure that actual and potential operational risks are consistently identified, measured, monitored and managed in order to prevent unnecessary losses;
- Develop policies, standards, procedures and systems to maintain and enhance the management of operational risk with emphasis on prevention of losses;
- Continue to improve awareness and an appropriate operational risk management culture and accountability across all business units; and
- Ensure regulatory compliance.

The operational risk function is responsible for the following:

- Developing operational risks policies and procedures (input received from business units);
- Giving guidance to ensure adequate implementation of policies and procedures;
- Mapping business processes;
- Facilitating risk identification;
- Optimising business process for efficient risk management;
- Preparing consolidated reports for executive, risk and board committees including loss database, overall risk profile and analysis;
- Attending business units' monthly management meetings to address any operational risk issues that might arise;
- Challenging business units/risk owners in identification of risks;
- Monitoring key risk indicators; and
- Acting as risk consultant to business for any risks concerns identified by business.

The diagram below depicts the operational risk process and approach to risk management within business units:



Independent review

A regular and independent assessment by internal audit or external parties is required of the activities of the risk management function and business units to validate the framework and ensure data integrity and comprehensiveness.

Reviews should be sufficiently broad and detailed to permit appropriate auditor attestations regarding the activities of business units and the independent risk management function as well as the functioning of, and controls within, relevant risk data systems.

Business environment and internal control factors

Business control environment and internal control factors (BCICFs) are indicators of a bank's risk profile that reflects underlying business risk factors and an assessment of the effectiveness of the internal control environment. As such, the group's enterprise wide risk assessment methodology must capture key BCICFs that can change its risk profile.

These factors are used to obtain a forward looking view, directly reflect the quality of the group's operating and control environments and recognise both improvements and deterioration in risk profiles in a more immediate way. Therefore, the choice of each factor needs to be justified as a meaningful driver of risk, based on experience and involving the expert judgement of the business unit and translatable into quantitative measures that lend themselves to verification.

Summary of high level risks

Risk	*Mitigation*	*Further detail*
R1. Economic environment The group's growth and profitability is inextricably linked to the prosperity of the South African economy and its participants. Inflation and unemployment are two key indicators of increasing vulnerability in our targeted market segments.	ABIL constantly tracks leading indicators in the economic environment that might suggest symptoms of economic or financial distress in those segments of the market that it targets and adjusts its underwriting and affordability criteria accordingly. Given the group's outlook for a challenging economic environment into 2013, ABIL's targets reflect a more cautious stance in the coming year.	■ Letter to stakeholders – page 26 ■ Strategic review – page 38 ■ Credit risk section – page 118

Risk	*Mitigation*	*Further detail*
R2. Competitive landscape The competitive landscape has intensified over the course of the year. This resulted in a sharp increase in the unsecured lending book exposure in South Africa prompting calls for closer scrutiny of the unsecured lending industry.	We have sharpened our focus on managing emerging risk on a market segment basis. In addition, we have closely engaged with government and regulators to share available information, data analysis and emerging trends. The group will continue this partnership with government and regulators. ABIL has also further improved its own competitiveness through: ■ Active future target market segmentation; ■ A substantial distribution expansion programme; ■ A range of new and innovative products; and ■ A new customer interface that has improved service to customers.	■ Strategic review – page 38 ■ Letter to stakeholders – page 28
R3. Perception of unsecured lending The substantial growth in unsecured lending has received significant focus from stakeholders and media, and has created negative perceptions of the sustainability of the unsecured lending industry and of lending practices.	ABIL has engaged extensively with regulators, industry bodies and stakeholders to raise awareness of the risks of high growth in the industry and has helped reposition the risk so that participants took note and implemented more sustainable practices. In addition it was involved in consumer and media education to improve the awareness of the value added by the industry when used in a sustainable and responsible way.	■ Letter to stakeholders – page 24 ■ Material issues – page 36 ■ Stakeholder engagement – page 44
R4. Ability to recruit and retain appropriate skills The long term success of any organisation is predominantly dependent on the quality and retention of employees and their commitment and passion for the business. The failure to retain skilled employees or to keep them motivated may lead to increased costs and deteriorating performance. The considerable increase in competition recently, as well as the substantial growth in our business has made the recruitment, retention and employee satisfaction top priority in ABIL.	A number of strategies are implemented to mitigate this risk, including an appropriate suite of reward and benefit structures for existing employees and ongoing refinement of an attractive employee value proposition. ABIL spends a significant amount of time and energy in dialogue with our people.	■ Strategic review – page 38 ■ Employee section in the web based sustainability report – pages 134 to 181
R5. Growing ABIL's customer base ABIL's strategy is to continually improve our customer value proposition by translating scale and critical mass into greater customer value. To achieve and maintain the scale, we have to continue to broaden our customer base in our chosen market segment.	While attracting new customers remains core in growing the customer base, the group has also placed emphasis on customer retention and customer rehabilitation as part of its sustainability strategy. Focusing on new customers and growing customer numbers is necessary but not sufficient without focusing on customer retention. The group's scorecards now also include customer retention as one of the key areas to focus on.	■ Strategic review – page 38

Risk	Mitigation	Further detail
R6. Scalability of the business The group has audacious goals for the growth of the business over the short to medium term, and it is critical that all aspects of the business grow at the same pace to ensure the success of the business model.	The group has identified certain initiatives that are central to its growth aspirations: a more refined customer segmentation; the role of technology into the future; the operating model; the financial model; capital and funding; a redefined customer value proposition; and people strategies.	■ Strategic review – page 38
R7. Credit risk Key to the success of the business is the effective management of the group's credit exposures. The ongoing development of the group's underwriting models is dependent on the effective monitoring of credit risk metrics and trends, as these inform the continual changes necessary to calibrate the models correctly and to incorporate the effect of new risks as they emerge.	This monitoring takes place at two levels. Operational monitoring takes place online to ensure that the processing of applications is efficient and no processing discrepancies are left unattended. For purposes of the tactical monitoring each business unit compiles an extensive monthly operations credit pack which is reviewed by the operational credit committee. This information then forms the basis of a monthly strategic credit committee review and decision processes, which in turn, reports its findings to the group risk committee on a quarterly basis.	■ Credit risk section in the risk report – page 118
R8. Capital, liquidity and funding risk ABIL has to maintain adequate capital levels to safeguard its operations and stakeholders against risk and to allow it to grow. ABIL is exposed to liquidity risk arising from the need to finance its ongoing operations and growth. If the group is unable to obtain sufficient funding due to capital market conditions, the group may not be able to achieve expected growth, fund acquisitions or meet ongoing financing needs.	The group has a specialised balance sheet management function. Capital adequacy is constantly monitored on a current to three-year view to ensure that the business is adequately capitalised to achieve its objectives. The group maintains significant capital buffers and takes into account growth, stakeholder requirements, internal capital requirements and developing legislation. The group has an experienced treasury team who is responsible for managing the funding requirements of the group and managing liquidity and asset liability mismatch risk. It operates within a framework of strict risk mitigation parameters approved by the board.	■ Capital, liquidity and funding management section in the risk report – page 121
R9. Managing costs As the business experienced significant growth in the last couple of years, costs also grew more rapidly. There is a deliberate focus on cutting costs in appropriate areas of the business while investing in areas where it is necessary.	Substantial focus has been brought to bear on rightsizing the cost base of the business and introduce efficiencies post the rapid expansion of the distribution network. A cost committee has been set up to oversee budgetary processes, cost monitoring and all cost intensive projects.	■ Financial review – page 52
R10. Ability to price for risk ABIL's business model is geared to provide consistent returns through different economic cycles and to remain relevant for its customers across the entire risk spectrum. The structure of the NCA caps and the current level of interest rates have reduced the group's ability and flexibility to appropriately price for credit risk.	The group constantly applies discipline to not pursue unprofitable business, while at the same time implementing initiatives to support the pricing of the existing book through any deterioration of the economic cycle. It is also actively engaged in industry reviews of the structure of the NCA interest rate caps.	■ Credit risk section in the risk report – page 118 ■ Regulatory risk section in the risk report – page 128

Risk	Mitigation	Further detail
R11. Payment system changes African Bank is reliant on interbank payment systems for the efficient collection of payments due. Use is generally made of the NAEDO (non-authenticated early debit orders) system which caters for the prioritisation of these forms of payment over other payments such as Electronic Funds Transfers and Stop Orders. There are discussions in progress with the Reserve Bank which could lead to a change in the priority in which different payment types are processed. This could potentially affect the collections performance should the proposed changes relegate the NAEDO transactions to a lower priority.	The Bank is actively involved in all the discussions between the regulators and the Banking association to ensure a beneficial outcome for customers and credit providers, that ensures neutrality in the system.	
R12. Information technology risk Uninterrupted and efficient availability of information technology services has become indispensable and forms an integral part of the daily operations and strategy execution of the group.	A regular assessment is undertaken to ensure alignment between the strategy and long term business needs of the group and the ability of the information technology capacity to provide a cost effective execution thereof. System capacity is regularly assessed and upgraded. Required people skills are regularly assessed during the year. The group has made considerable investment in its IT environment to increase redundancy, availability and to have the right resources to provide business with expected levels of service.	■ IT risk section in the risk report – page 127
R13. Regulation Non-compliance with existing regulation and lack of awareness of developments in regulatory views may have a severe impact on the reputation and viability of the organisation.	ABIL accepts and adopts a rigorous approach to all its regulatory responsibilities to ensure that we have the necessary rigour around our approach and implementation. Compliance risks are managed through internal policies and processes, which include risk management, legal, compliance and other technical requirements relevant to the business. ABIL has ongoing engagement with the relevant authorities to try and understand ahead of time what the possible specific interventions could be and to prepare for readiness in order to minimise the effect of additional and amended laws and regulations.	■ Regulatory risk section in the risk report – page 128
R14. Impact on society Failure of the group to continually consider its impact on society and its responsibility as a corporate citizen may lead to reputational risk and missed opportunities for the organization to contribute to the growth of the nation.	ABIL's vision is to have a positive impact on our society. The group continuously evaluates its impact across all dimensions and uses its size, influence and financial strength to be a positive force in the development of our country.	■ Letter to stakeholders – page 24 ■ Material issues – page 36 ■ Strategic review – page 38

For a general discussion on how ABIL manages its risks related to **revenue generation**, refer to pages 52 to 53 in the expanded web based integrated report.

Review of high level risks

Our people

The long term success of any organisation is largely dependent on the quality of the employees that are recruited and the retention of its good performers. The group strives to be the employer of choice and will continue to build a winning culture. It firmly believes that its employees are its greatest assets and the achievement of its strategies with regard to its people will remain a major priority.

The ability to recruit, develop and retain appropriate skills for the group is made challenging by competition for specific skills required in both the retail and financial services environment. The failure to retain skilled employees or to recruit new employees may lead to increased costs and delay in new projects.

For more detailed discussions of these matters, please refer to the strategic review of the 2012 integrated report on page 38 and the employee section in sustainable development on pages 140 to 153.

A number of strategies are implemented to mitigate this risk, including attention to an appropriate suite of reward and benefit structures for existing employees and ongoing refinement of ABIL as an attractive employee proposition. ABIL mitigates the risk of a strike or other industrial relations disputes through a process of constructive dialogue with trade unions and the maintenance of effective working relationships.

Credit risk

The provision of unsecured loan and credit card finance remains the primary financial opportunity within the group. Accordingly, core competencies in terms of the underwriting, product specifications, pricing and collection of credit are constantly progressed in order to deliver value to customers and create shareholder value.

As business volumes have grown, it has become increasingly necessary for purposes of both decisioning consistency and cost, to standardise and automate credit decisioning. As a result, the focus areas for the year under review have been on maintaining and improving:

- Proprietary scoring models for underwriting, affordability assessment, portfolio performance and collection activity. In the year under review the most significant growth area in this regard has been in the collections scorecard arena;
- Customer and risk focused product development together with appropriate risk based pricing to minimise cross-subsidisation;
- Effective monitoring and understanding of the sensitivity of credit risk metrics and trends to various risk parameters. During the year several sets of analysis were performed to benchmark internal portfolio performance to bureau level trends as well as to identify areas of both increased risk, at the one extreme, or sales opportunities, at the other; and
- The architectural objective of a single set of business rules across all portfolios, suitably delivered through a single decisioning engine.

Continuous development of proprietary credit scoring (underwriting) models

The ABIL group views the taking of credit risk as one of its key competitive advantages in the market in which it operates. The group has developed proprietary probability models to predict both default risk and costs incurred by various customer segments. In this regard, the group's approach to the underwriting of credit is more aligned to that of insurance underwriting models, where there is an

expectation that losses will occur and the key is to accurately predict the probability of such a loss occurring within a customer segment rather than trying to avoid it.

The Banking unit has, over a number of years, developed its own proprietary credit scoring and underwriting models, which are continuously refined or reinvented in order to segment the spectrum of risk more finely and more accurately. Key to this process is relevant and accurate data, and the group has many years of historical information, at an individual loan level (on over 3 million customers) and at portfolio level, which it uses to both underwrite and price. Scorecard change cycles tend to span two years, and this trend is again proving accurate. The current generation of application scorecards have proved to be more adaptive than originally anticipated and remain useful for their intended purpose. However, new customer level scorecard architecture is currently in planning, with suitable scorecards to underpin this objective to follow. This will enable customer level scorecard decisioning, suitably adapted to cater for the channel, product or other risk discriminants that may be required. This capability will span the diverse needs of the business – home loans, vehicle finance, unsecured loans, personal loans or card offering.

Product development and appropriate risk based pricing

Whereas access to credit is optimised through the underwriting process, the customer value proposition is enhanced through the appropriate construct of product terms and the pricing thereof.

There is an important interplay between capacity to assume risk and cost efficiency embedded within the group's underwriting process as well as the relationship of both of these with the group's weighted average cost of capital (WACC). These three components make up the building blocks of the group's pricing and product models.

This principle has been a key strategic issue within ABIL over the last eight years as the group has moved along its price volume elasticity curve. Greater risk segmentation was a vital step in this process, as each risk segment has its own risk versus cost relationship and the tipping point will occur at different points along this volume journey.

In developing its product terms, loan sizes and pricing, the Banking unit constructs the price of each loan offer based on the building blocks of the WACC, cost absorption and risk for the particular loan. Thus for a high risk loan the WACC is weighted with a higher capital allocation, the cost as a proportion of the loan is higher as these loans are generally smaller and over a shorter period and naturally the risk is higher. The converse is true for a low risk loan.

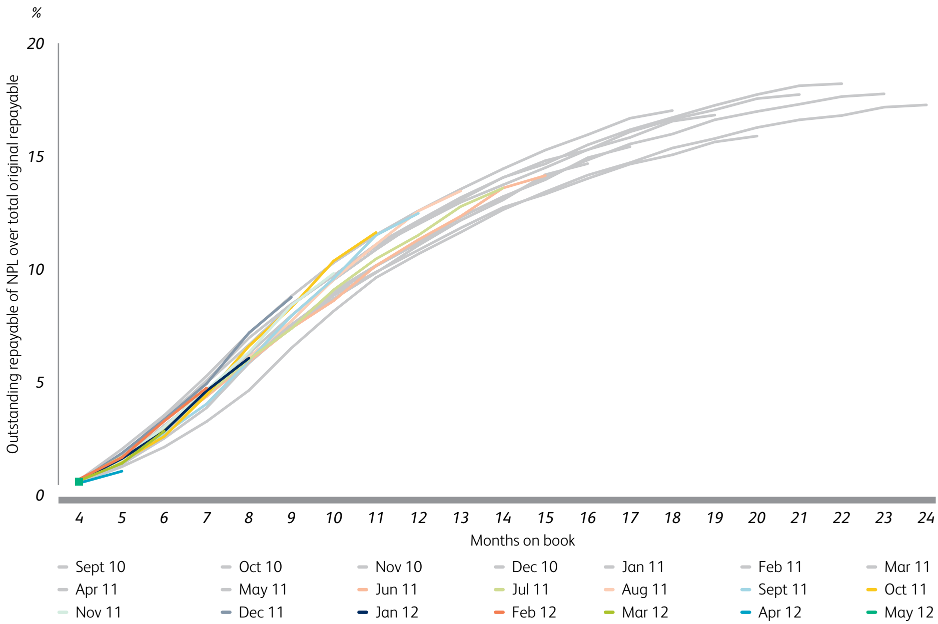
As loan sizes and/or terms increase, there is improved cost absorption; however, at the same time risk increases. Initially, for every unit increase, the rate of improvement in cost absorption outweighs the incremental increase in risk, until a tipping point is reached and the relationship inverts. Given that the risk curve will also oscillate due to changes in the credit cycle, the business endeavours to position its underwriting models on the conservative side of the apex, in order to optimise this relationship.

Vintage graphs

In terms of trends in the existing book, the group utilises vintages as a better and more immediate measure of portfolio risk than non-performing loan or arrears ratios. Vintage curves track each month's new loans as a discrete portfolio and plot the cumulative proportion of each portfolio that migrates into various levels of default status as time passes, as measured by the contractual number of missed instalments. ABIL defines an NPL as a loan with more than three instalments in arrears.

Vintages are produced for every product, term and risk group combination, on a 30 and 90 days in arrears basis, to evaluate trends on a more granular basis, which may be missed at a portfolio level. Vintages can be best described as a risk emergence measurement tool, through which the portfolio is "sliced and diced" in order to identify and understand the pockets/segments/micro-segments of risk. Where the vintage trend is lower than expected, additional risk may be taken and where risk is emerging more steeply than expected, remedial action can be taken. The vintages can be seen below.

Vintage graph – African Bank
(More than three cumulative missed instalments)



Affordability management

The affordability calculations utilised within the risk framework include a number of buffers to ensure that the Banking unit's lending remains both sustainable in terms of repayment and compliant in terms of the requirements of the National Credit Act. These buffers are generally risk based to ensure that as risk is extended, a larger buffer is evident. In addition to the risk buffers, the living expense model, used to determine a reasonable minimum living expense level for the applicant based on age, income and gender, is providing further comfort in this regard.

The risk buffers, in conjunction with the living expense model, continue to add an element of conservatism to the affordability calculations and are increased/decreased as the vintage micro-segments indicate either low or high risk.

Collections trends and adequacy of provisions

From a provisioning perspective, actual receipts relative to expected cash flows and the migration of loans into NPLs (and between collection platforms) are monitored on a monthly basis to discern emerging trends and to inform credit decisions and provisions.

Impairment provisions for both the Bank and Retail unit portfolios are determined in accordance with the requirements of International Accounting Standard 39 (IAS 39). The group is comfortable that its IAS 39 models accurately reflect the risk in the portfolios and forecast the future cash recoveries on non-performing loans. The cash recovery forecasts underlying the IAS 39 models are regularly back tested against historical cash receipt levels and are also adjusted to reflect management's expectations around future cash collections levels.

Refer to page 74 and 76 in the integrated report for a more detailed analysis of the credit quality of the portfolios, provisions and the IAS 39 models.

Tracking population – total indebtedness

For several years, segments of customers from within the ABIL group have been assessed on a quarterly basis, in order to monitor emerging trends of the market level of indebtedness of the Banking unit borrowers.

The oldest population dates from December 2003 and comprises 17 000 customers. The second population, from March 2006, consists of 15 000 customers and a third population, from September 2008 and consisting of 15 000 customers was added since the last integrated report. The monitoring of the oldest population will shortly be discontinued as it has become outdated and no longer provides relevant and valuable insights to management.

Quarterly snapshots from the credit bureau are extracted for these customers, which provide us with the ability to track the credit obligations for these groups over time. In addition, the analysis gives the group an important insight into the credit supply dynamics of different credit providers within the market.

In the period under review the following high level insights were obtained from this analysis:

- Credit providers continue to increase the reporting of jointly owned homeloans to the bureau;
- It is noteworthy that a significant number of customers from all three populations remain active within the Banking unit environment, which indicates a high level of retention;
- Through this exercise, the last observation relates to the ability to better understand the activities of competitors in terms of customer selection and product deployment; and
- The group also rescores its entire customer base on a forthnightly basis to gain insights into emerging trends, specifically increased indebtedness and/or financial distress.

Portfolio management

During the year a capability was also developed in the business to forward model the portfolio based on a variety of assumptions. For example, an increase in growth in sales in a particular segment/group of segments will help inform what the balance sheet and income statement might reflect a year or two hence as well as what operational capacities might be required across the value chain to support this level of business activity. This expertise then more holistically informs the impact of critical management decisions as and when they are made.

Capital, liquidity and funding

The business opportunity of the group is the provision of unsecured credit. This results in an extremely conservative capital and liquidity risk appetite within the group. Risk governance is applied through the monthly group ALCO and group capital management forum, and reported to the group risk and capital management committee.

Basel III

The Basel III proposals, agreed by the Governors and Heads of the BCBS and endorsed by the G20 leaders at their November 2010 Seoul summit, are to be adopted in the South African bank regulatory framework and will be implemented from 1 January 2013 with various phase-ins and transitional arrangements through

31 December 2018. To this end, the Banks Act and the regulations will be amended to provide for the implementation of Basel III, and SARB has circulated the final draft of the amended regulations. Effecting changes to the Banks Act requires parliamentary approval whilst effecting changes to the regulations requires the approval of the Minister of Finance.

Basel III places enhanced emphasis on the consistency and quality of capital and on curtailing, among other things, liquidity risk, through the imposition of a short term Liquidity Coverage Ratio (LCR) and longer dated Net Stable Funding Ratio (NSFR). From a capital perspective the most heavily impacted banks are those with relatively large market businesses, particularly trading activities, complex securitisations, over-the-counter derivatives (counterparty credit risk) and securities lending.

Basel III introduces higher quality capital requirements both through increasing the amount of core equity and through the quality on non-common equity ratios, with the introduction of the requirement for loss absorbency more fully described below.

Basel III introduces two new buffers: a capital conservation buffer of 2,5% (if a bank enters the range of this buffer, it is subject to dividend and bonus restrictions) and a countercyclical buffer that ranges between 0% and 2,5%, depending on whether the rate of credit extension exceeds the growth of the real economy. These buffers are due to be phased in from 2016.

Basel III also introduces new features for non-common equity instruments. These instruments must be "loss absorbent", that is, convertible to ordinary shares or written off at the option of the relevant regulator upon the occurrence of the relevant trigger event. A relevant trigger event occurs when the relevant regulator determines that the Bank would become non-viable without such conversion or write off without a public sector injection of capital into the bank. The detailed terms for such transactions may be impacted by the text of the final amended regulations and Banks Act. ABIL is extremely active in industry discussions to finalise the regulations relating to this new style of capital and incorporates the potential likely outcomes into its strategic capital planning.

Basel III requires that non-common equity capital instruments issued pre-1 January 2013 which do not meet the Basel III loss absorbent criteria, be "grandfathered", that is phased out over a 10-year period from 1 January 2013. All of ABIL's capital instruments issued prior to 1 January 2013 are eligible for grandfathering. The ability of ABIL to replace these instruments with "loss absorbent" instruments over the 10-year period will depend on the extent to which the text of the amended regulations and Banks Act has been finalised to enable the issue of such instruments in significant volumes, the appetite of the capital markets for these types of instruments (given that all banks will be coming to the markets to make such issuances) and the ability to issue such instruments at a price mutually acceptable to ABIL and investors.

Basel III also introduces a new relatively blunt edged maximum leverage ratio, which aims to restrict excessive bank leverage, as evidenced in many of the high profile bank failures and bail outs during the financial crisis. South African banks and ABIL in particular, are well placed to meet the expected requirements.

Solvency and Assessment Management Framework (SAM)

The FSB is currently developing the Solvency and Assessment Management Framework. The expected implementation date for SAM is 1 January 2015. A series of Quantitative Impact Studies and parallel run processes have commenced. ABIL is a participant in and contributor to these processes and will plan its business activities around the changing legislation as required.

The group's capital and liquidity risk appetite is as follows.

Capital adequacy

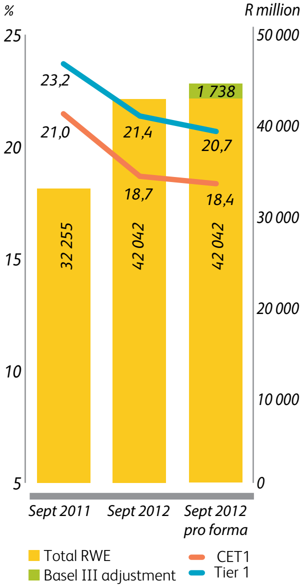
Target capital adequacy ranges

The group manages its targeted capital levels and mix, both at group and regulated entity level, taking into account the following factors:

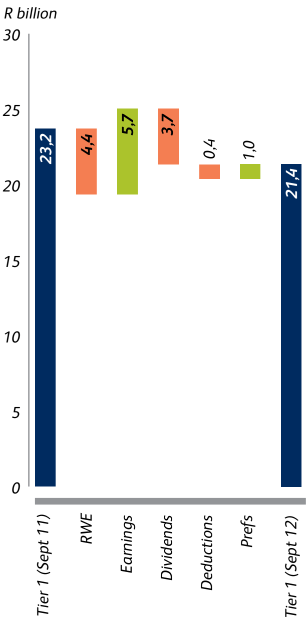
- Regulatory requirements;
- Internal capital requirements; and
- Other stakeholder expectations including rating agencies and shareholders.

The target capital adequacy ratios for both ABIL and African Bank, including unappropriated profits, have incorporated the impact of Basel III and the year end levels are all at or above the group's internal capital adequacy requirements.

ABIL – capital adequacy ratio



ABIL – Tier 1 ratio



%	Target range (30 September 2012)	ABIL (30 September 2012)	African Bank (30 September 2012)
Tier 1	**19 – 20**	**21,4**	**20,3**
Total	**26 – 27**	**29,4**	**29,0**

The group typically holds capital slightly in excess of the target as a buffer for growth.

Capital adequacy

The group remains well capitalised above its target capital and comfortably above regulatory minimum requirements, and is well positioned for Basel III. Capital planning has been done on a Basel III compliant basis and in line with the draft regulations as they have developed. Capital planning balances the requirements for solvency, growth and returns to shareholders in the form of dividends.

The graphs on the left show the development of the group's Tier 1 capital ratio, as well as the *pro forma* impact of Basel III on the September 2012 figures.

The changes to capital adequacy on a Basel III basis resulted in a *pro forma* decrease in Tier 1 from 21,4% to 20,7% and are attributed to the following:

- Haircutting of additional Tier 1 perpetual preference shares;
- Credit valuation adjustment (CVA) add on for counterparty credit risk; and
- Changes relating to the treatment of investments in insurance subsidiaries at ABIL level and deferred taxation.

The group and Bank experienced significant balance sheet growth over the past financial year and it is notable that the capital ratios for both entities have remained strong, as is shown at a group level in respect of Tier 1 capital, moving from 23,2% to 21,4% on the left hand graph.

The following actions during the year contributed to the strength and resilience of the capital ratios, and resulted in continued efficient capital structuring:

- The issuance of additional R1,3 billion Basel III entry level compliant capital during the year, offset partially by the redemption of an existing R300 million on its call date in August 2012;
- The issuance of an additional R411 million in preference shares by ABIL, which was injected into the Bank as ordinary share capital;
- The optimisation in the calculation of risk weighted exposures.

The capital in the insurance companies in the group is managed significantly above the FSB requirements, taking into account various stakeholder requirements.

The capital adequacy of ABIL and the Banking unit are shown in the following table:

Capital adequacy

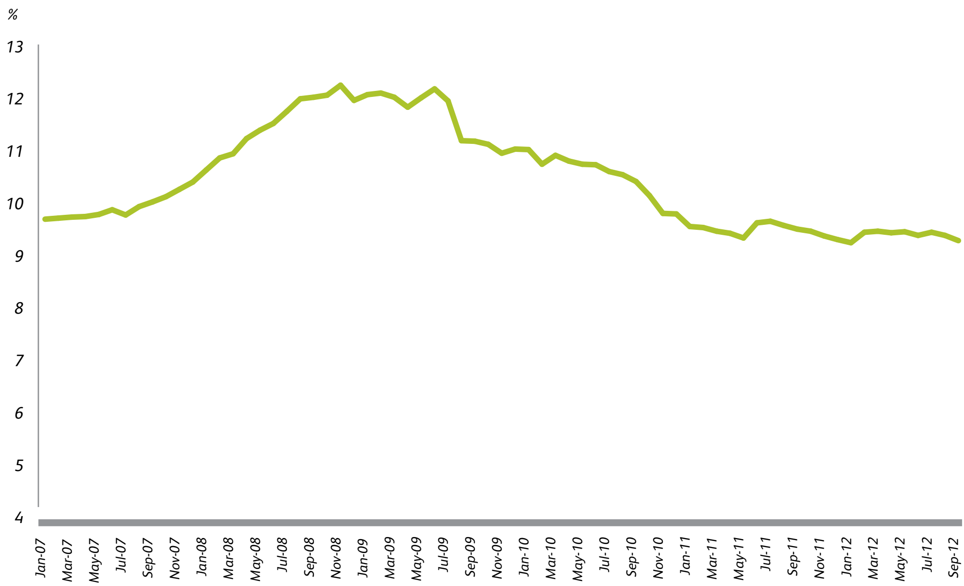
	ABIL		African Bank	
R million	***30 September 2012***	***30 September 2011***	***30 September 2012***	***30 September 2011***
Qualifying regulatory capital and reserves				
Issued Tier 1	**14 018**	11 808	**11 674**	10 123
Ordinary share capital	**20**	20	**121**	121
Ordinary share premium	**9 131**	9 131	**8 083**	7 672
Appropriated profits	**4 867**	2 657	**3 470**	2 330
Deductions – Tier 1	**6 888**	6 486	**4 134**	4 082
Goodwill	**5 472**	5 472	**4 000**	4 000
Intangible assets	**817**	854	**134**	82
Deferred tax assets	**439**	–	**–**	–
50% investment in Insurance entities	**160**	160	**–**	–
Common Equity Tier 1	**7 131**	5 323	**7 540**	6 041
Total preference share capital	**1 130**	719	**–**	–
Preference share capital	**–**	–	**–**	–
Preference share premium	**1 130**	719	**–**	–
Total Tier 1 capital	**8 261**	6 042	**7 540**	6 041
Secondary capital – Tier 2	**3 768**	2 871	**3 763**	2 867
Subordinated redeemable debt	**3 640**	2 775	**3 640**	2 775
General allowance for credit impairment	**128**	96	**123**	92
Deductions – Tier 2	**410**	400	**250**	240
50% investment in Insurance entities	**160**	160	**–**	–
Other regulatory adjustments	**250**	240	**250**	240
Total Tier 2 Capital	**3 358**	2 471	**3 513**	2 627
Total qualifying regulatory capital and reserves	**11 619**	8 513	**11 053**	8 668
Unappropriated profits	**724**	1 437	**691**	537
Total capital and reserve funds	**12 343**	9 950	**11 744**	9 205
Credit risk	**37 192**	27 895	**37 427**	27 699
Operational risk	**2 602**	1 973	**2 572**	1 942
Other asset risk	**2 248**	2 388	**551**	671
Total risk weighted assets	**42 042**	32 256	**40 550**	30 312
Regulatory minimum capital requirements at 9,5% (8,0% + 1,5%)				
Credit risk	**3 533**	2 650	**3 556**	2 631
Operational risk	**247**	187	**244**	184
Other asset risk	**214**	227	**52**	64
Total regulatory minimum capital requirement	**3 994**	3 064	**3 852**	2 879
	%	%	**%**	%
Capital Ratios				
Core Equity Tier 1	**17,0**	16,5	**18,6**	19,9
Unappropriated Capital	**1,7**	4,5	**1,7**	1,8
Additional Tier 1	**2,7**	2,2	**0,0**	0,0
Total Tier 1	**21,4**	23,2	**20,3**	21,7
Tier 2	**8,0**	7,7	**8,7**	8,7
Total CaR (including unappropriated profits)	**29,4**	30,9	**29,0**	30,4
Regulatory CaR	**27,6**	26,4	**27,3**	28,6

Liquidity and funding

The group manages banking group liquidity through the Banking unit, which is the regulated funding entity of the group. Liquidity risk includes asset liability mismatch (ALM) risk. The group manages liquidity risk significantly in excess of regulatory requirements and includes the requirements of stakeholders, including rating agencies and depositors, in determining its liquidity risk profile.

During the year the group continued to strengthen its liquidity profile and diversify its debt investor base, while delivering a further slight decrease in its overall cost of funding.

Cost of funding



Near term liquidity risk – up to three months

The group manages short term liquidity on a three-month stress basis and has an extremely conservative risk appetite for short term funding, especially when considering that the norm within the banking industry in general is to regard one month liquidity as short term. This is also reflected in the Bank's Basel III compliant liquidity coverage ratio exceeding 300%, well above the minimum requirement of 100%, applicable from 2015.

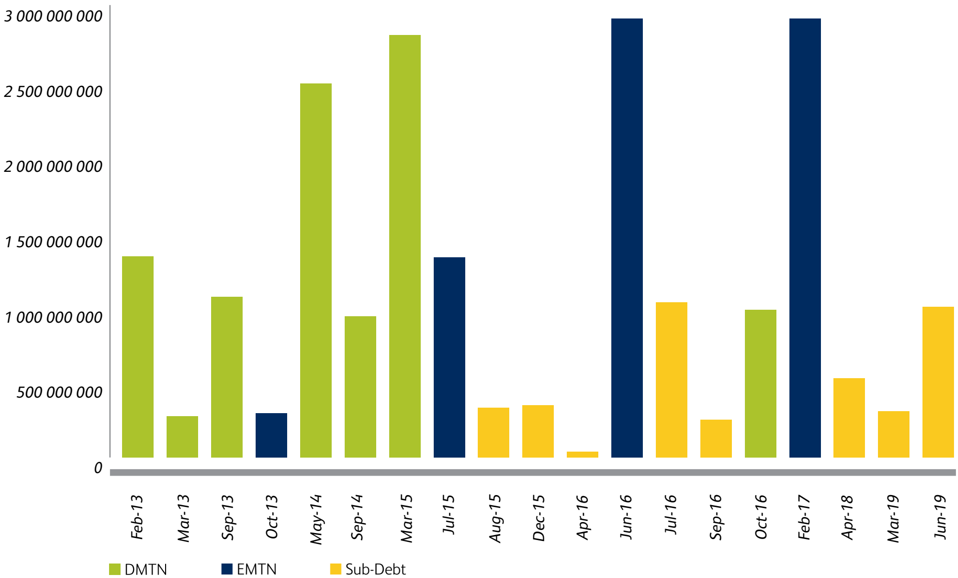
Stress testing is done on a scenario basis to assess whether the group has sufficient cash on hand to ensure that that it can survive an anticipated stress scenario three months into the future, while executing certain feasible management actions. As a further safeguard against funding stress the group will not raise more than 20% of the funding in any one month with a maturity of less than one year. This ratio is currently running at 9%.

Asset Liability Management Risk (ALM)

The group also maintains a positive asset liability mismatch ratio, meaning that the maturity profiles of the on book assets receipts precedes that of the expected outflows of the liabilities on a cumulative basis.

The group's profile of longer dated publicly listed instruments under the Domestic Medium Term Note Programme (DMTN) and Euro Medium Term Note Programme (EMTN) also shows a well managed maturity profile.

DMTN, EMTN and Sub-Debt bonds contractual maturity profile



The group's average duration of liabilities is targeted to exceed the average duration of its assets. As at 30 September 2012 the average duration of liabilities, at 18,3 months, exceeded the average duration of assets, at 15,4 months.

Funding diversification

The group continued its issuance in the international markets under the EMTN programme while also issuing paper to several new South African investors both through the treasury desk and under the DMTN programme.

While longer term listed paper is typically issued under the DMTN and EMTN programmes, medium term paper, typically up to a three-year maturity, is used on a bilateral basis by the treasury funding desk. Instruments are issued to a diverse range of institutional and money market investors on a day-to-day basis.

The group relies on minimal funding from the interbank market, limiting the usage of this market to facilities to provide back up during periods of higher loan growth, typically over the calendar year end.

The group aims to raise 45% to 60% of total funding from the treasury desk, while it aims to raise 40% to 55% of total funding through a combination of DMTN and EMTN programmes. During the year under review the group further diversified its debt investor base through the issuance of two bonds under the EMTN programme, and a tap of the existing 2016 senior bond.

In February 2012 the group issued a USD350 million senior five-year note to investors in Europe and Asia, while tapping the existing 2016 senior bond for USD50 million, bringing that up to USD350 million. In July 2012 the group further diversified its funding base through the issuance of a CHF 150 million three-year note to Swiss investors.

This represented the first issuance of a CHF bond by a South African issuer into the Swiss market in over 20 years, demonstrating the continued appetite for the group's paper in the international market.

The group also launched its range of retail deposit products to the market on 1 October 2012. The product offering includes fixed deposits, flexible fixed deposits and notice

The group is continually assessing the associated risks to eliminate downtime and improve recovery strategies.

deposits at highly competitive rates. The terms of these products range from 32 days to 60 months. This will further diversify its funding base and provide an attractive investment proposition for private retail investors wishing to diversify their investment portfolio.

Information technology (IT) risk

There is a constant and significant level of demand on IT resources to deliver technology solutions to support business growth as well regular system upgrades, replacements and conversions. Uninterrupted and efficient availability of information technology services has become indispensable and forms an integral part of the daily operations and strategy execution of the group.

A regular assessment is undertaken to ensure alignment between the strategy and long term business needs of the group and the ability of the IT capacity to provide cost effective execution thereof. IT plays an important role in enabling the strategic direction and to ensure effective and efficient processes and activities within the group. Inappropriate deployment of technology and lack of congruence between IT and business could lead to ineffective and inefficient business processes and unnecessary costs. In light of the above risks, the group has introduced an IT steering committee with specific focus on IT strategy, prioritisation and driving the group objective and strategy through IT as major support function to the business units.

System capacity is regularly assessed and upgraded where necessary to take advantage of scale, efficiencies and cost reductions. Required people skills are regularly assessed to ensure the Banking unit stays abreast of developments and to ensure that optimum efficiency standards are maintained. During the year the group has made considerable investment in its IT environment to increase redundancy, availability and to have the right resources to provide business with expected levels of service.

Continuous enhancement in the hardware, software and resource environment include, *inter alia*, the following:

- Disaster recovery – fail over systems and processes developed, maintained and improved for connectivity, hardware and software failures;
- New front end development;
- Standardised connectivity and hardware in branches;
- Augmented capacity – storage and processing; and
- Skills development, management and retention.

Critical areas of concern and associated control:

- Rate of change and project overload – active management and control applied through IT steering committee and IT business priority meeting;
- Business continuity planning including disaster recovery (IT) – advanced business continuity plan (BCP) and active hardware, software and connectivity fail over processes developed (refer section below); and
- Number of inhouse developed applications – advanced and improved system development methodology and platform including agile and rules based applications (e.g. Gazelle).

Business continuity and disaster recovery

Business continuity management in ABIL has continued to improve the ability of all critical operations to manage any unexpected business disruption. The group is continually assessing the associated risks to eliminate downtime and improve recovery strategies.

ABIL's documented business continuity plan has recently been revised and approved by the board, and it relates to real-time availability of systems and IT, and includes disaster recovery. The strategy is reviewed and infrastructure at the offsite disaster recovery centre is tested annually. Testing includes simulation of a disaster event whereby key users of systems are requested to test the functionality of the recovered system at the disaster recovery centre. Generators and uninterrupted power supply capabilities at the central offices and key sites minimise disruptions from power outages.

The Banking unit has the ability to switch its main debtors management and front end system to run interchangeably between the disaster recovery and live sites, reducing potential downtime to less than 30 minutes in the event of a disaster. The Retail unit has secured a syndicated offsite facility, fully configured to which it can relocate in the event of the loss of their central office.

Appropriate insurance cover exists to provide effective cover against business continuity disasters.

Financial risk

ABIL's strategy and core competence resolves around the underwriting of unsecured credit, primarily focusing on and leveraging its appetite for credit risk (refer credit risk section page 118 for detailed information). All other financial risks, such as interest rate risk, market risk and tax risk, are mitigated to levels that are acceptable to the group.

Interest rate risk management

In line with this philosophy relating to financial risk, the group has a policy of maintaining a neutral view to interest rate risk. Given that the nature of the loans that the group offers are predominantly at fixed rates of interest, funding is raised primarily at fixed rates to match this profile. Most variable rate funding is swapped into a fixed rate exposure by way of a directly matched interest rate derivative or an appropriate inflation derivative. To the extent, however, that the growing credit card portfolio exposes the Bank to floating interest rate returns, an increasing portion of the funding raised by the Bank will be done on a floating rate basis, thus matching our assets to our liabilities. This strategy results in a steady funding cost and low interest rate exposure through the cycles.

Despite the group's policy of maintaining a neutral view, there will inevitably be some residual interest rate exposures across the yield curve, and in this regard the group would only enter into derivative hedging instruments where the exposure exceeded internal tolerances and the cost of the hedge is economically viable.

The group risk committee has set a limit for the effect of a 2% movement in the yield curve to be no more than 1,75% of headline earnings on a 12-month basis. Refer to the sensitivity analysis on page 293 and 294 of the annual financial statements for a discussion of the impact of interest rate movements on the profitability of the group.

Market risk

The group avoids exposing itself to any other financial market risk, such as foreign currency, equity or commodity price movement risk. As the EMTN programme is utilised to raise funding in foreign currencies, the Bank will be careful to neutralise any cross currency movement risk by way of entering into appropriate cross-currency swaps, both as to the settlement of the capital in local currency terms and the settlement of future coupon and capital payments in foreign currency terms. In the Retail unit, the group uses forward cover to protect itself against any currency exposure related to the importing of merchandise.

The group invests its cash resources predominantly in the short term interbank money markets, and limits are set for exposures to any bank based on its capital base and stability

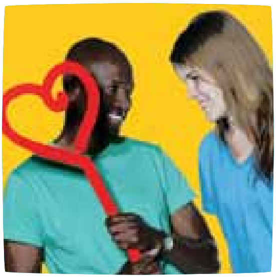
The only derivative contracts the group has entered into, relate to:

- The hedging of the group's long term share based incentive scheme, and the nature of the hedge contract is a contract for differences (CFD) on the underlying ABIL share, which matches exactly the profile of the long term incentive plan exposure; and
- The hedging of residual interest exposure as discussed under interest rate risk management.

The group does not undertake any speculative trading in derivatives.

Tax risk

Tax risk ordinarily arises when certain transactions are structured in order to optimise the tax benefits of such a transaction. In line with ABIL's stance on risks not associated with its core business, we have taken a conscious decision not to enter into any transactions which may be structured on a tax aggressive basis nor that may be dependent on tax base. Appropriately qualified and experienced internal and external tax resources are used extensively to review business practices to ensure proper compliance with tax legislation.



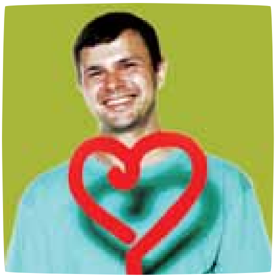
Regulatory risk

South Africa's current environmental regulatory regime is rigorous and robustly enforced, and is becoming more and more stringent with government utilising its regulatory arms in order to boost its intervention for a more stable banking sector and one that is perceived to be fairer to the customer. The law framework is a key factor in corporate decision making that companies cannot afford to overlook.

Alongside the area of consumer protection, companies have also been revising business practices to contend with, among others, the new Companies Act, King III, insurance regulations including Financial Advisory and Intermediary Services (FAIS) regulations, data protection laws and capital and liquidity requirements (Basel III and SAM). The risk is a more costly and onerous environment in which to conduct business.

ABIL accepts and adopts a rigorous approach to all its regulatory responsibilities through the group risk management and compliance teams to ensure that we have the necessary rigour around our approach and implementation. Compliance risks are managed through internal policies and processes, which include risk management, legal, compliance and other technical requirements relevant to the business.

ABIL also has ongoing engagement with the relevant authorities to try and understand ahead of time what the possible specific interventions could be and to prepare for readiness in order to minimise the effect of additional and amended laws and regulations. There is a flurry of work that is being done by regulators as a result of the interest in unsecured lending. On top of that there is a general increase in regulatory activity across the board in the banking sector. The table on the following page indicates the various activities that we are involved in. We will continue our efforts to engage and influence as appropriate.



Regulatory issue	Description	Risk/Impact	Current position
FAIS Act	The FSB expressed the view that anyone selling an insurance product is obliged to be registered as a representative as defined in the FAIS Act and must meet the FAIS Act qualification requirements.	The front end personnel both in the Banking and Retail units do not have the qualifications nor the level of skill to meet the FAIS Act qualification requirements in their current form. The failure to comply with the FAIS Act requirements could result in both the Banking and Retail units losing its FSP licences resulting in the inability to conduct the business of selling credit life and product insurance.	The FSB, after much lobbing by the CGSA, the trade unions, SAIA and other industry bodies have acknowledged that a "one size fits all" qualification requirement is not an appropriate way to improve the level of consumer protection in the industry. The FSB has therefore published an amendment to the FAIS Act fit and proper regulations introducing a new subcategory of representative that would need to meet a lower level of qualification as compared to the current level. Until such time that the level of qualification and examination requirements are determined all FSPs and representatives conducting business in these new subcategories are exempted from the qualification and examination requirements.

Regulatory issue	Description	Risk/Impact	Current position
Consumer Credit Insurance	The FSB and National Treasury conducted an enquiry relating to the business practices of insurance companies providing consumer credit insurance in 2012.	The purpose of the enquiry was to gather information regarding credit insurance practices, procedures and abuses in the credit insurance market. It is anticipated that there will be policy changes as well as regulatory and legislative changes, which will have a direct impact on the manner in which credit insurance business is conducted.	The insurance entities within the ABIL group participated in this enquiry. Management is engaging with National Treasury to establish the policy direction National Treasury intends taking on this issue, as well as to stay close to the developments taking place in this area.
Micro-Insurance	National Treasury has published the Micro-Insurance Policy document and draft legislation on Micro-Insurance is expected during the course of late 2012 early 2013.	In terms of the policy document, National Treasury and the FSB intend regulating the lower segment of the insurance industry, specifically funeral insurance, short term personal lines insurance and credit insurance.	The Banking Association and SAIA are participating in the various joint industry and government workstreams in order to assist government with the development of draft legislation.
Treating Customers Fairly (TCF)	The FSB has embarked on a principle based initiative to regulate the insurance industry. Treating Customers Fairly will introduce legislation that is similar to that implemented in the United Kingdom to regulate insurance practices on the principle of treating customers fairly.	A revision of the thinking behind the manner in which insurance products are designed, produced and delivered to consumers. The culture of "Treating Customers Fairly" will impact on the life cycle of the insurance product. The entire insurance product life cycle, including governance, management and executive decisions, contemplation of product, design of product, delivery of product, customer engagement and aftersales would need to meet the TCF principles. Draft legislation is expected towards the end of 2012.	The FSB is engaging with industry bodies in order to develop draft legislation on TCF. SAIA has established a task team/ committee to deal with various issues relating to the implementation of TCF that may affect short term insurers. Relyant Insurance Company is a member of SAIA and is represented on the relevant SAIA committees.

Regulatory issue	Description	Risk/Impact	Current position
Twin Peaks	National Treasury published the "Safer Financial Sector Policy" document, which will segment the regulation of market conduct and prudential regulation between the Reserve Bank and FSB in respect of all financial institutions.	Market conduct of financial institutions, including banks and insurance companies, will ultimately be regulated by the FSB and prudential regulation of all financial institutions will be regulated by the Reserve Bank.	A host of initiatives are being driven by National Treasury to implement the Twin Peaks regulatory framework: Basel III, SAM, Micro-Insurance policy and legislation, Consumer Credit Insurance legislation, Draft Amendments to the Banks Act, Draft Financial Services General Amendment Bill, TCF and possible amendments to the NCR, amongst others. The implementation of the Twin Peaks regulatory framework will result in numerous changes to legislation regulating financial institutions.
NCR	In the light of the surge in unsecured lending in the market the NCR is in the process of conducting a number of enquiries and investigations relating to unsecured lending. These enquiries and investigations are market related, product related, general information gathering and related to potential reckless lending practices.	These reviews have already culminated in a joint agreement between National Treasury and the Banking Association of South Africa to ensure responsible market conduct for bank lending.	A number of investigations are being conducted by the NCR relating to the practices of the industry when engaging with customers. These relate to the practices to avoid lending recklessly, disclosures made to consumers, marketing practices, and debt counselling practices.
SAM	The Solvency Assessment and Management Project is being conducted by the FSB. The ultimate legislation that will be published will regulate the solvency of insurance companies. Currently the FSB is conducting Quantitative impact studies (QIS) the first voluntary QIS 1 was run last year. The FSB intends implementing SAM by January 2015.	The impact on the business is currently being assessed. The group is adjusting its processes to meet the interim requirements.	The Bank will participate in QIS 2.

Regulatory issue	Description	Risk/Impact	Current position
Basel III	The SARB is in the process of introducing the implementation of the Basel III principles within the banking sector which cover capital and liquidity.	The group is well placed for the implementation of Basel III over the staggered implementation period.	ABIL meets the minimum standards expected of Basel III based on the current regulations, with the exception of the Net Stable Funding Ratio, which is being implemented from 2018. The SARB is in the process of amending the regulations to the Banks Act in order to align the regulations to the Basel III principles and some of these amendments to the regulations will be implemented in January 2013.

Sustainable development

About this section

ABIL's 2012 sustainable development section covers the activities and performance of the group, and presents a comprehensive analysis of issues that are relevant and material to the group and to our stakeholders. The report complements our ongoing engagement with our stakeholders, and for a more detailed analysis on our approach to sustainability and performance, stakeholders can obtain more information in our web based reports on www.abil.co.za.

We continue to use the Global Reporting Initiative's (GRI) G3.1 guidelines and have reported against the indicators in the GRI Financial Services Sector Supplement. We have reported at a B+ Level in terms of the GRI G3.1 guidelines. Our performance against the full set of GRI indicators, as well as a detailed framework of performance indicators and internal policies can be found in this report (pages 182 to 196).

We report on our transformation progress using the Department of Trade and Industry's (dti) Codes of Good Practice for Broad-based BEE (codes) frameworks that aim to drive transformation beyond compliance to focus on sustainable development.

Integrated Reporting and Assurance Services (IRAS) provided an independent third party assurance over certain key performance indicators (denoted throughout the report), the GRI application level and ABIL's alignment with AccountAbility's AA1000AS (2008) guidelines. The assurance statement can be found on page 180. Group internal audit's review of the report, in line with the Combined Assurance approach under the King III Report on Governance for South Africa (King Code), provides support for the assurance statement and Enlightened Energy reviewed our carbon disclosure.

We welcome the comments of our stakeholders on this report and the way we approach our sustainability priorities. Please contact Marilyn Budow, Consumer and Sustainability Advocate, MBudow@africanbank.co.za or on +27 11 256 9743 with your feedback.

Terms used in this report to describe our operations are:

ABIL or group	Includes African Bank Limited, Ellerine Holdings Limited (EHL), The Standard General Insurance, Relyant Insurance Limited and Relyant Life
Banking unit	African Bank Limited and The Standard General Insurance Company Limited
Retail unit	Ellerine Holdings Limited, excluding foreign operations, but including Relyant Insurance Limited and Relyant Life

GRI 3.4. 3.5. 3.6. 3.13

Umuntu nge African Bank, you like a compass that shows one aspired direction

Dear Sir/Madam

In the year 2009 I embarked on a journey, a profound journey of success but it wasn't going to be successful or even possible if it wasn't because of African Bank. I just want to take this time to write a letter of gratitude and appreciation of African Bank, for taking an initiative about my future. African Bank gave me a beautiful gift that many wish to have but somehow fail to have it due to financial hiccups. Truly speaking I don't know what I would have done if the Bank didn't put their hands towards building a brighter future for me. The Bank has planted a seed towards my future it is up to me to make sure that seed is nourished so that it can bear more fruits than this. You have changed the lives of many people both young and old, may you continue being the faithful bank that you are. As a token of my appreciation I wrote a poem about the Bank.

Thank you for creating beauty in my future.

Yours sincerely

Pretty Sekgota

African Bank ***by Pretty Sekgota***

A bank of no division, a people's bank… a bank that uproots and prunes its nation, like clay in the potter's hands, it's what African Bank has made us… took us from a place of no return and placed us in a place of splendor.

Oh… African Bank you fight poverty by giving us riches beyond measure, riches like education and second chances… oh yes!! You not only a credit bank but a father oh… no!!! a mother who cares so deeply about the growth and success of Africans.

*Many say umuntu… umuntungabantu but I say **no… no… no… umuntu… umuntu nge African Bank,** you like a compass that shows one aspired direction and that direction is the passion of giving amongst our people.*

*One comes to you with **nothing**… but lives with **everything!!!!!!!***

African Bank… a bank for the nation…

Economic impact

In this section, we review our performance in terms of our commitment to sustainable development.

Increasing our economic value added value by 12% during 2012

R million	*2012*	*2011*	*2010*	*2009*	*2008*
Value added					
Income from operations	**19 172**	15 283	12 724	12 044	9 654
Claims paid	**(972)**	(680)	(709)	(484)	(243)
Charge for bad and doubtful advances	**(5 197)**	(3 596)	(2 693)	(2 511)	(1 856)
Risk adjusted income from operations	**13 003**	11 007	9 322	9 049	7 555
Other interest and investment income	**219**	339	390	406	342
Interest expense	**(3 680)**	(2 850)	(2 383)	(2 025)	(1 313)
Capital items and loss on sale of assets	**(17)**	(4)	28	(7)	(11)
Total value added	**9 525**	8 492	7 357	7 423	6 573
Value allocated					
Employees and directors	**2 614**	2 412	2 152	2 098	1 737
Black Economic Empowerment	**–**	–	–	–	291
Suppliers of various services	**2 544**	2 268	2 061	2 260	1 793
Provide shareholders with cash dividends	**1 549**	1 520	1 524	1 580	1 528
Government (direct taxes, STC, VAT and RSC)	**1 466**	1 395	673	1 016	814
Retention for growth	**1 352**	897	947	469	410
Total value allocated	**9 525**	8 492	7 357	7 423	6 573

Promoting empowerment

Performance against the B-BBEE dti scorecard

ABIL continues its commitment to deliver economic, social and employee development through enforcing policies that drive transformation beyond compliance to focus on sustainable development. For the past two years, the Banking and Retail units have been measured under the dti's Codes of Good Practice Generic scorecard (the CoGP) (link to www.dti.gov.za). Previously, the Banking unit was measured under the Financial Sector Charter (FSC) which has been under review. The new FSC was gazetted after ABIL's 2012 year end and will be reported on in the 2013 integrated report.

Both the Banking and Retail units improved against the CoGP scorecard, achieving Levels 4 and 5 respectively in 2011, from Level 6 in 2010, with a target score of Level 3 and 4 respectively for 2012. Their verified B-BBEE score is 70 (2010: 46) and 55 (2010: 49) respectively, as illustrated by the table on the following page – two notches up for the Banking unit and one notch up for the Retail unit.

GRI EC6

*Scorecard information**	*Target score*	*Banking unit score 2011*	*Banking unit score 2010*	*Retail unit score 2011*	*Retail unit score 2010*
Ownership	**20,00**	7,35	6,45	7,35	6,45
Management and control	**10,00**	5,40	4,28	–	1,49
Employment equity	**15,00**	8,80	8,59	3,97	3,99
Skills development	**15,00**	12,60	6,73	5,62	2,44
Preferential procurement	**20,00**	16,79	15,22	18,34	16,78
Enterprise development	**15,00**	15,00	0,72	15,00	12,65
Socio-economic development	**5,00**	4,03	4,11	5,00	5,00
Total score	**100,00**	69,97	46,10	55,28	48,80

* *Data on 2012's performance not available at time of publication.*

To achieve continuous improvements in the group's rating, a review of opportunities to enhance our empowerment and transformation status was conducted, and areas for improvement identified using the CoGP scorecard as a guide, as discussed in detail below. In the short term, ownership, management and employment equity have been prioritised, while the group continues to focus on the upliftment of the skills base of our people.

GRI EC1. EC8

Promotion of empowerment and equity ownership

This pillar measures access to finance and also looks at the ownership element of the scorecard.

The group's primary commitment continues to be at the centre of improving the lives of South Africans through broadening and deepening access to credit. While our target market has broadened to include all South Africans who would like to access credit, the majority of our customers continue to be those who historically had no access to credit. The group's focus remains to provide credit which helps individuals improve their homes and quality of life, educate their children, assist new and striving entrepreneurs to start and support their businesses through personal loans, as well as address general personal and household needs for individuals.

ABIL enabled shareholders to create wealth through its two empowerment vehicles, Eyomhlaba and Hlumisa, which sold shares at a substantial discount to a broad base of Black shareholders (which included employees, customers and other qualifying Black people in South Africa). As at 30 September 2012, the two companies owned 68 million ABIL ordinary shares, which equated to an effective BEE shareholding of 8,5%. Of the 8,5%, 2% is owned by Black women, and 1,4% is owned by Black directors of ABIL.

In February 2012, the two companies paid R10 million to shareholders as ordinary dividends.

CoGP's ownership scores for both the Banking and Retail units have improved to 7,35 (2010: 6,45).

Developing our people – human capital

This measures three elements of the CoGP scorecard, namely; management control, employment equity and skills development. These are amongst the areas of priority for the group in 2013.

Management control

For the reporting year (2011), the Banking unit had 12 (2010: 13) directors serving on the ABIL board; five members were Black, of which two were women. At executive management level the Black representation has improved, with three Black members of which one is a woman, resulting in an overall improvement in the score of 26%. The Retail unit did not have Black representation at board and senior management levels, but with the recent appointments of two Black executives at board and executive management levels, these numbers will improve.

Employment equity

Employment equity is at the heart of the group's strategy for 2013. ABIL is committed to creating equal opportunities for all races to be represented at all managerial levels, especially putting more focus at middle management, senior management and employees with disabilities. In the past few years, the Banking unit has focused on achieving internal and employment equity targets set by the Department of Labour at executive levels. These targets were achieved and surpassed in the case of junior management. The Banking unit achieved 8,80 on employment equity, a slight improvement while the Retail unit score remained level at 3,97. More work is being done to ensure improvement in these scores.

Developing talent – skills development

In 2011, skills development was one of the Banking unit's main focal points resulting in a tremendous improvement of 87% on the CoGP scorecard, achieving 12,60 (2010: 6,73). This was the result of introducing different training programmes from junior level to executive training programmes. The Banking unit introduced various learnerships, namely; BANKSETA supported programmes with an 85% retention rate, internal learnerships for aspiring and junior managers, and learnerships for the unemployed relatives of the Banking unit's employees. Leadership programmes which include executive coaching; leadership based coaching for women and personal mastery classes, have received positive reception. Other internal skills development programmes included internal mentorship for all employees, people roadshows and career assessments. The group had 485 employees that matriculated and four Adult Basic Education and Training (ABET) employees who graduated this year through the training programme. ABIL launched its corporate university (ABIL Institute) which focuses on professional development of employees at all levels, for both the Banking and Retail units and which will continue to increase the contribution on the Skills Development element of the B-BBEE codes.

For more information on employment equity and skills development please refer to the employee section under social impact, on pages 147.

The Retail unit improved its Skills Development score from 2,44 to 5,62 and this number is targeted to improve in 2012 through an enhanced focus on training, as well as the participation in Learnership programmes.

GRI EC6

Preferential procurement and enterprise development

ABIL believes that small businesses play a vital role in creating jobs and wealth in the economy. It is for this reason that the group supports small and medium, Black and Black women owned companies by channelling more business towards them to help these companies be financially independent and through granting customers personal credit to use towards starting or supporting small businesses.

Preferential procurement

The group believes in stimulating job creation through buying from local suppliers. We engage with our service providers, business units and brands on procurement policy and strategy through our annual summits and regular interactions on service delivery.

Environmental sustainability is our focus for the next three years, and incorporates green procurement which is in its infancy stage. ABIL has recently developed the green procurement policy which forms part of the group procurement policy. It promotes environmental sustainability by service providers through their products and services, and stresses the importance to incorporate economic, social and environmental factors into all its purchasing decisions.

Currently the group has 2 830 service providers with a total measured spend of R2,8 billion (2011: R2,3 billion) (comprises the discretionary expenses including property leases, employee costs and tracers). This year approximately 80% (2011: 55%) of total spend was channelled through B-BBEE compliant companies, and of this number 41% (2011: 38%) was towards exempted micro-enterprises (EMEs) and qualifying small enterprises (QSEs). Although we have not achieved our internal targets of 90% and 50% respectively, we are working hard to improve these numbers.

The Banking unit's preferential procurement's CoGP score has improved by 10% to 16,79 (2010: 15,22). The Retail unit has improved by 9% to 18,34 (2010: 16,78). We aim to improve both scores for 2012 and beyond.

Supplier and enterprise development

The Banking unit has focused on value creation in our supply chain through empowering small and medium service providers by paying some of them early to improve their cash flow, helping them achieve their B-BBEE credentials and supplying them with used office furniture and computers to better their working conditions and environment.

This year, the Banking unit has far surpassed its CoGP targets achieving full points on enterprise development. This score is based on the results of a research conducted by an independent company on the Banking unit's loan usage. The results show that, on a conservative view, at least 1% of our loans are used towards starting or supporting small businesses. Also, it has emerged in our people and customer roadshows, that a growing number of customers use our loans to start small businesses through third parties. We plan to maintain this score going forward. The Retail unit also scored full points on this element through similar initiatives.

GRI SO1

Investing in corporate social investment

Corporate social investment (CSI) has a vital role to play in South Africa in bringing about meaningful transformation to the benefit of all the people living in our country. The social needs facing our country are substantial and it is a moral duty for government and big business to make a difference in the lives of the many. Uplifting communities has always been central to the group, and we continue to seek out CSI opportunities to further enhance the lives of South African citizens and communities. For the 2011 verification year, ABIL spent R8,8 million on CSI initiatives within communities in Gauteng, KwaZulu-Natal, Limpopo, Eastern Cape and Western Cape.

For a detailed report on CSI initiatives please refer to corporate social investment under social impact on page 161.

The Banking unit achieved 4,03 on the CoGP scorecard and we plan to improve it to 5 points, while the Retail unit achieved full points.

Plans going forward

Going forward ABIL will broaden its transformation initiatives to include economic development, employee development and socio and business development, which cover elements that are in the CoGP and the revised FSC, as illustrated below:

Social impact

Our people – Banking unit

Our vision will only become a reality through the continued commitment, energy and passion of our people, and their engagement and development is therefore central to the execution of our vision.

The people focus in the Banking unit during 2012 was on ensuring a much more efficient and better experience for our people in terms of transactional human capital processes and on creating a working environment that is conducive for people to stand out.

Employee turnover

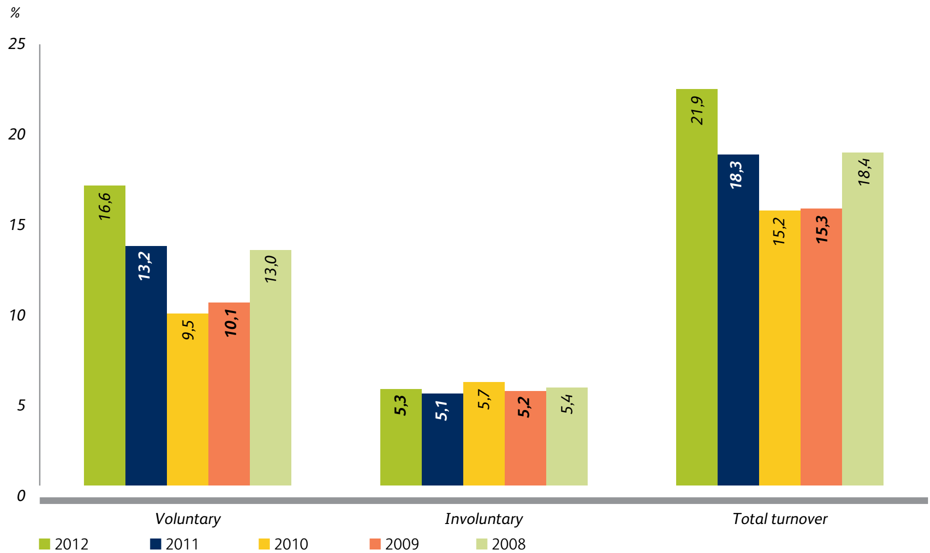
At year end, the Banking unit had a total of 5 182 permanent employees, an increase of 4,1% relative to 2011 (4 978).

The increase in headcount is largely as a result of expansion of the branch network in retail operations and in the call centres.

	2012	*2011*	*2010*	*2009*	*2008*	*2007*
Opening balance	**4 978**	3 935	3 476	3 426	3 011	2 727
Employee gains	**1 317**	1 790	1 049	586	1 030	777
Less: Attrition	**(1 113)**	(747)	(590)	(536)	(615)	(493)
Resignations	**(842)**	(540)	(372)	(352)	(423)	(341)
Retrenchments	**–**	(13)	(62)	(8)	(42)	(21)
Dismissals (misconduct)	**(191)**	(110)	(85)	(36)	(6)	(17)
Deaths (not work related)	**(28)**	(15)	(27)	(32)	(19)	(14)
Other*	**(52)**	(69)	(44)	(108)	(125)	(100)
Closing balance	**5 182**	4 978	3 935	3 476	3 426	3 011
Temporary employees	**442**	439	216	169	360	168

* *Other refers to emigration, abscondment and mutual terminations.*

Overall employee turnover increased to 21,9% (2011: 18,3%) predominately as a result of the high turnover in the call centre and sales environments. The Banking unit mainly employs entry level employees in the call centre and branches, and these employees tend to change jobs more frequently to advance their careers.



Please note: involuntary turnover refers to employees whose service has been terminated by the Banking unit.

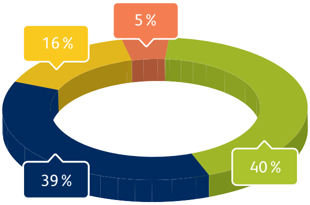
Workforce composition

Province	*Permanent*	*Non-permanent*	*Grand Total*
Eastern Cape	279	–	**279**
Free State	166	–	**166**
Gauteng	3 217	440	**3 657**
KwaZulu-Natal	457	–	**457**
Limpopo	176	1	**177**
Mpumalanga	199	–	**199**
Northern Cape	53	–	**53**
North West	224	–	**224**
Western Cape	411	1	**412**
South Africa total	5 182	442	**5 624**

Of the permanent employees at the Banking unit, 66% are female and 34% male. Given that 79% of employees are below the age of 40 years, the Banking unit is considered to have a reasonably young workforce with the majority of staff employed in the sales and call centre environments. This correlates with 72% of staff having a tenure with the Banking unit of between zero and five years.

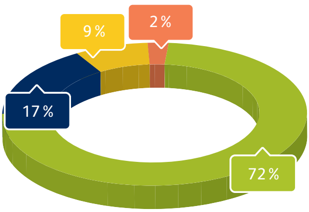
GRI LA8

Age analysis



Under 30 | 40 to 49
30 to 39 | Over 50

Tenure with company



0 to 5 years | 11 to 15
6 to 10 | 15 plus

Employee wellbeing programme (EWP)

The Banking unit's Employee Value Proposition (EVP) forms part of the EWP. It is integrally linked to the Banking unit's core values, and benefits, products and processes are designed to convey the EVP to the Banking unit's employees.

The financial element of the wellness programme ensures that our people are equipped with the knowledge and tools that enable them to behave in a way that leads them towards better financial management. There has been a lower incidence of people proactively seeking assistance for money management issues through our service provider ICAS in this period than the preceding period and people have been participating in the Banking unit's Financial Care Programme (FCC).

The group also offers the 6cents programme through ICAS, a financial planning tool that makes your finances easy to understand and control.

In addition, the following programmes are available to both our permanent and temporary employees:

- **Psychological Counselling Services:** ICAS Southern Africa provides psychosocial counselling services to our people and their dependants in all of South Africa's official languages. These services are provided 24 hours a day via dedicated toll free access to the ICAS National Support Centre. Employees and dependants can also be referred to the professional affiliates for face-to-face short term counselling.
- **LifeManagement Services:** The LifeManagement service offers telephonic information and assistance on legal problems, financial concerns and family matters. LifeManagement services provide detailed, practical information, education, resources and referrals to help individuals manage their work-life responsibilities.
- **eCare Online Services:** The ICAS eCare service is a uniquely tailored online programme that is provided to all employees within the Banking unit. This service allows our people to access a wellbeing portal that provides health and wellbeing information that spans all relevant topics, providing a number of interactive tools and professional advisory services.

The EWP also delivered a health screenings and wellness awareness in the latter part of 2012, which included health risk screening, personalised reporting, and professional guidance from a range of medical schemes and wellbeing professionals.

The EWP embarked on the roll out of a workshop entitled, **"The Balancing Act"**. The workshop covered five aspects of our wellness strategy, namely; physical, financial, social, community and career wellness. The workshop is a follow on to the Health Reimbursement Account (HRA) which took place in the latter part of the year, with over 813 employees having participated.

Other benefits that we have available for our permanent employees are:

- Medical Aid;
- Compulsory Funeral Plan;
- Express Claim Funeral Policy launched in May 2012 (1 243 people applied);
- Bursaries;
- Interest free study loans;
- Internal Learnerships;
- Employee loans and credit card;
- Provident Fund;
- Death Cover; and
- Disability.

The Banking unit has increased the medical aid subsidy provided to employees in lower levels. The purpose of a medical aid is to minimise out of pocket medical payments thereby, providing our people with health security.

HIV/AIDS workplace programme

The Banking unit acknowledges the seriousness and implications of HIV/AIDS, and therefore remains committed to providing a supportive working environment for people living with HIV/AIDS.

During 2012, the Banking unit together with their disease management partners (CareWorks) embarked on a process of transferring all the HIV positive employees registered on the CareWorks HIV treatment programme to their respective medical aids. Through the Banking unit's benefits, we provide employees with a subsidised medical aid, which assists with comprehensive HIV/AIDS cover on all medical aid options. All exclusions were waivered and 100% uptake was achieved.

Taking HIV out of isolation, the future strategy within the Banking unit's wellness area is to rather approach HIV as a chronic condition and focus on positive living. There has been great progress during our past HIV awareness programmes and continues to educate employees on the importance of early detection, prevention and healthy living through a holistic wellness methodology.

It is unfortunately not possible to analyse antiretroviral coverage via the various schemes, therefore no data is available at the time of the report.

Occupational health and safety

ABIL strives to ensure legal compliance to all relevant Health and Safety legal requirements.

In recognition of our responsibility as an employer in terms of this Act, we have instituted the following:

- Emergency and fire evacuation policy and procedures;
- A comprehensive employee wellness programme;
- Fully trained first-aid officers;
- Regular safety and first-aid training for employees;
- Annual independent health and safety compliance audits; and
- Future initiatives – to place all relevant policies and procedures on the intranet.

We are pleased that the incident rate has improved since the last financial year, with almost a 50% reduction in health and safety related incidents.

We strive towards continuous improvement of the health and safety performance, and to ensure this, we have set specific objectives and targets with the group.

Workplace injuries

	2012	*2011*	*2010*	*2009*
Number of injuries	**11***	20	14	32
Lost time (hours)	**338**	540	224	296

* *All minor injuries.*

Skills development and talent management

The Banking unit's business performance is dependent on our ability to attract, retain and develop high performing employees, as well as to ensure business continuity and sustainable growth through building a talent pipeline to meet current and future business objectives.

Learnership Programmes remain great focus areas in order to introduce learners to the workplace. Objectives are:

- To assist our employees obtaining a recognised qualification – 49 of the Banking unit's employees benefited from the learnership;
- To build a talent pipeline that feeds into entry level permanent positions in the call centre and IT environment. In the financial year the Banking unit appointed 85% of the learners into permanent positions; and
- To create employment opportunities for the unemployed, thereby contributing towards the reduction of unemployment in South Africa, the Banking unit has introduced a learnership specifically aimed at granting employment opportunities. In the financial year, opportunities were granted that benefited 222 unemployed people.

ABIL Institute

The ABIL Institute has provided leadership and management programmes to permanent employees at the Banking unit, thereby developing the management and leadership skills important in their respective roles. 153 people benefited from this in the financial year.

BANKSETA partnership

The Banking unit is an accredited service provider that has been accredited by the BANKSETA, working in partnership with this SETA focusing on skills development. 21 people benefited from leadership development as a result of this partnership.

Driven Leadership Development Programmes

In addition to the above, the Banking unit in partnership with accredited service providers, successfully launched the following programmes:

- Women In Conversation – aimed at group coaching up and coming young female leaders in the Banking unit – 24 people benefited from this initiative
- Executive Coaching – 33 people benefited
- Emotional Intelligence training – 40 people benefited

- Mentorship – 25 mentors and 17 mentees
- Diversity and Inclusion Workshops – 25 people benefited
- Personal Mastery – 694 people benefited
- Leadership Development Programme – 22 benefited
- Coaching for Performance – 70 benefited
- High Performance Programme – six benefited – this programme is aimed at developing EE employees at junior levels to become future leaders
- Mediocrity to Magnificence – 54 benefited
- Life Skills Accelerator – 70 benefited

Study Assistance Programmes

The Banking unit is passionate about people development and sponsors deserving employees to further their academic studies through bursaries and interest free study loans. 62 people benefited in the last financial year.

Summary of skills statistics	***2012***	***2011***
Investment in employee training and development*	**R21 million**	R9,7 million
Proportion of the above focused on Black employees**	**R19,3 million**	R9,1 million
Training and developments interventions	**26 553**	14 242
Employees trained on learnerships	**185**	224
Number of employees who received leadership training	**936**	515
Learners attending BANKSETA programmes	**20**	83
Talent development programme participants	**144**	13

* *Including the compulsory 1% skills levy.*
** *African, Coloured and Indian people.*

Total number of people trained on internal and external programmes

	African		***Coloured***		***Indian***		***White***		***Total people trained***
Programme	***Female***	***Male***	***Female***	***Male***	***Female***	***Male***	***Female***	***Male***	
Customer interface	10 188	6 120	1 403	956	677	689	1 141	602	**21 776**
Compliance	1 237	1 029	332	333	132	146	196	135	**3 540**
Selling skills	546	330	110	55	70	24	60	42	**1 237**
Grand total	11 971	7 479	1 845	1 344	879	859	1 397	779	**26 553**

Total number of hours trained on internal and external programmes

	African		***Coloured***		***Indian***		***White***		***Total hours trained***
Programme	***Female***	***Male***	***Female***	***Male***	***Female***	***Male***	***Female***	***Male***	
Customer interface	55 731	32 935	6 080	5 015	4 216	4 519	9 848	4 286	**122 630**
Compliance	2 687	2 218	601	667	249	277	434	261	**7 394**
Selling skills	2 364	1 462	460	240	312	106	252	182	**5 378**
Grand total	60 782	36 615	7 141	5 922	4 777	4 902	10 534	4 729	**135 402**

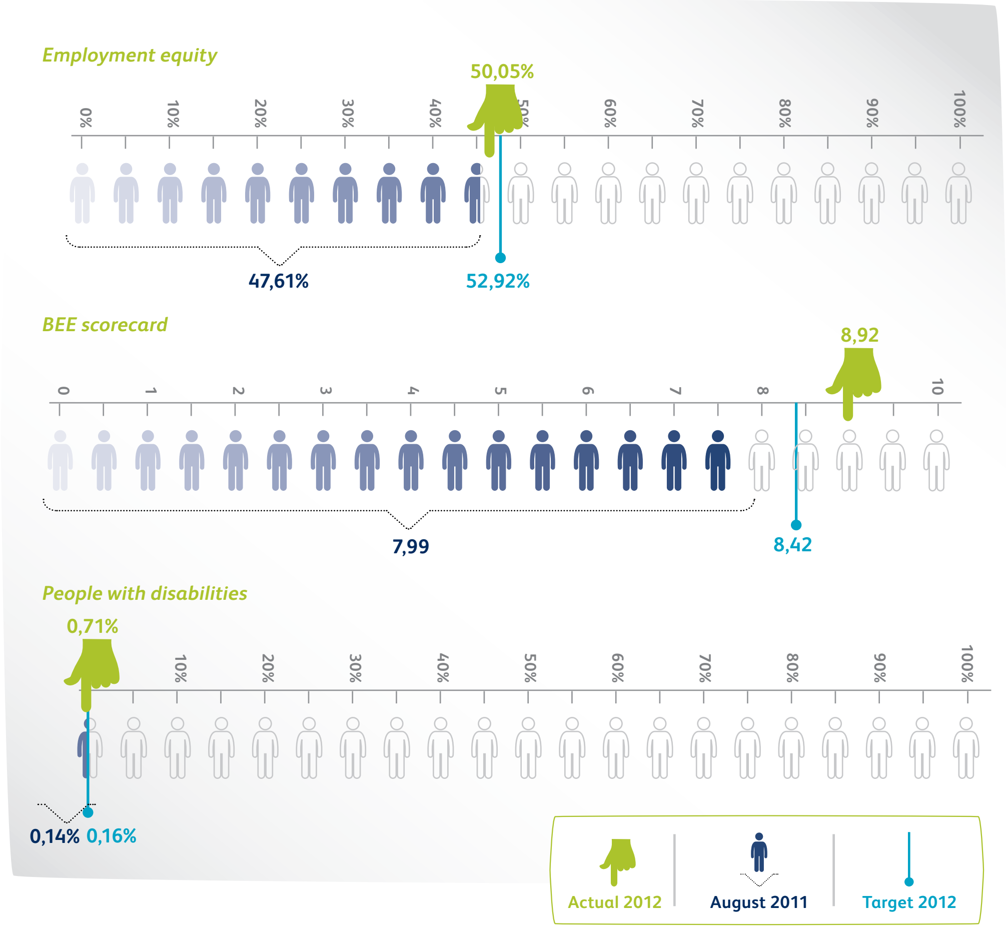
Number of hours trained by employee category (LA10)

	African		***Coloured***		***Indian***		***White***		***Total hours trained***
Occupational levels	***Female***	***Male***	***Female***	***Male***	***Female***	***Male***	***Female***	***Male***	
Top management	–	–	–	–	–	–	–	–	**–**
Senior management	96	8	64	90	8	96	179	33	**574**
Professionally qualified	1 236	1 487	422	459	535	1261	2 038	1 704	**9 142**
Skilled technical	6 889	6 024	2 219	1 281	2 035	1 527	5 209	2 229	**27 413**
Semi-skilled	38 816	20 203	3 788	2 804	1 983	1 274	2 641	667	**72 176**
Defined decision making	–	–	–	–	–	–	–	–	**–**
Temporary employees	13 745	8 893	648	1 288	216	744	467	96	**26 097**
Grand total	60 782	36 615	7 141	5 922	4 777	4 902	10 534	4 729	**135 402**

Transformation and employment equity

The Banking unit's transformation approach is to change the business so that the workforce is equitably representative of the demographic profile of the South African population. The employment equity committee has been reconstituted, meets on a quarterly basis and has put every effort into accelerating our transformation process.

Below shows the composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity:



	Permanent employees				All employees			
	Average August 2011 %	Target September 2012 %	Actual 2012 %		Average August 2011 %	Target September 2012 %	Actual 2012 %	
Employment equity	47,61	**50,05**	**52,92**	■	51,89	**54,12**	**56,61**	■
People with disabilities	0,14	**0,71**	**0,16**	■	0,14	**0,71**	**0,16**	■

	Employee equity				People with disabilities			
Occupational level	August 2011 %	Actual 2012 %	Target September 2012 %	Target gap % under (over)	August 2011 %	Actual 2012 %	Target September 2012 %	Target gap % under (over)
Top management	3,29	**3,52**	**3,52**	–	–	**–**	**–**	–
Senior management	5,88	**6,76**	**7,63**	0,88	–	**–**	**–**	–
Professionally qualified	7,04	**7,84**	**7,27**	(0,57)	0,03	**0,04**	**0,04**	–
Skilled technical	12,14	**12,64**	**12,28**	(0,36)	0,02	**0,06**	**0,03**	(0,03)
Semi-skilled	12,64	**12,11**	**12,72**	0,61	0,09	**0,06**	**0,65**	0,59
Unskilled	6,62	**10,06**	**6,63**	(3,43)	–	**–**	**–**	–

As part of our transformation plan a comparison of income differentials was undertaken, comparing levels/categories/gender/race, etc and from that, each business unit developed action plans which are currently in implementation phase.

Summary of our employment equity profile

	Male				Female				Foreign nationals		
Occupational level	A	C	I	W	A	C	I	W	Male	Female	Grand total
Top management	1	–	1	6	–	–	–	–	–	–	**8**
Senior management	5	5	4	21	3	1	1	11	1	–	**52**
Professional qualified	45	12	30	108	36	14	16	72	1	3	**337**
Skilled technically	222	40	45	91	261	58	61	163	1	2	**944**
Semi-skilled	930	120	58	25	2 110	285	153	148	1	–	**3 830**
Unskilled	3	–	–	–	8	–	–	–	–	–	**11**
Total permanent	1 206	177	138	251	2 418	358	231	394	4	5	**5 182**
Temporary workers	141	20	10	6	229	11	7	14	4	–	**442**
Grand total	1 347	197	148	257	2 647	369	238	408	8	5	**5 624**

Key: A = African, C = Coloured, I = Indian, W = White.

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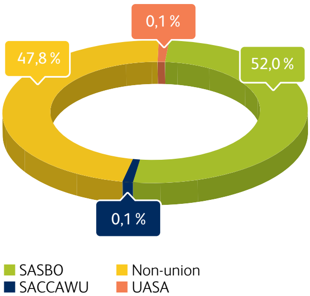
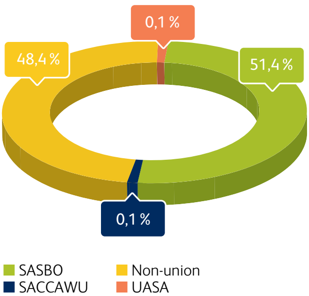
Union membership 2012



Union membership 2011



For more information on our people refer to S1. Growing our people, in the strategic review section on page 38.

Employee relations

To promote and maintain a harmonious relationship with its employees, and to foster good relations with unions, is a core objective of the group.

The trade union membership for the Banking unit is 52% (2011: 52%). The membership within the bargaining unit is 55%.

The headcount has increased, especially in the sales environment and there have been withdrawals of membership from SASBO.

Salary negotiations with SASBO that lead to collective agreements are negotiated on behalf of the bargaining unit and not the entire membership of the Banking unit. As the bargaining unit has a majority of SASBO membership, any agreements negotiated on behalf of the bargaining unit also include the non-members. These agreements are valid for a year after the agreement is reached and signed. The standard operating procedure for consultation and negotiation with union and/or non-union members is a minimum of one month. (LA5)

Employee retrenchments declined from 13 in the previous year, to 0 this year.

During the year under review, the Banking unit received 77 referrals to the CCMA. A total of 129 (2011: 138) employees were dismissed and terminated from the employ of the Banking unit.

Our people – Retail unit

This year has been marked by a drastic change in the management of our top talent, potential top talent and succession planning in general. 40 individuals were identified as top talent from the middle and senior management levels. These individuals were paired with 15 senior executives as their mentors. The mentors are mainly executive management members and brand managing executives. The equity breakdown of these 40 individuals is 65% from the designated group, 38% is Black and 40% is female. A dedicated resource was appointed to head: talent management with its own budget allocation. The programme is formally known as the Leaders for Tomorrow.

Each brand, as part of its succession plan, identified two branch managers per region and two regional managers per operations division as successors. Assessments were done on these successors to identify their development needs and development plans were developed to address those needs. Key executive roles for which succession plans have been made are: chief executive officer, chief financial officer, chief operating officer, merchandise director and brand managing executives.

We nominated three individuals to participate in the Rising Star Awards, hosted by the Human Capital Institute Africa. One of our employees was announced as winner of the "Young Talented – Rising Stars" in the retail sector.

Another customer satisfaction survey was conducted in March 2012 in conjunction with the Corporate Leadership Council to measure staff engagement levels. Action plans to address areas of concern have been compiled and implemented. Independent quarterly surveys are conducted with the employees that have left the company to establish the "real" reason for leaving. Feedback is provided to the brands and central office departments for actioning.

Workforce composition

Province/Country	*Permanent*	*Non-permanent*	*Grand total*
Gauteng	2 576	109	**2 685**
Namibia	283	–	**283**
Limpopo	575	30	**605**
Lesotho	117	–	**117**
Eastern Cape	975	41	**1 016**
North West	515	33	**548**
Swaziland	84	–	**84**
Free State	446	23	**469**
Mpumalanga	721	34	**755**
Western Cape	582	26	**608**
Botswana	299	–	**299**
Zambia	110	–	**110**
KwaZulu-Natal	1 413	60	**1 473**
Northern Cape	178	18	**196**
Total staff	8874	374	**9 248**

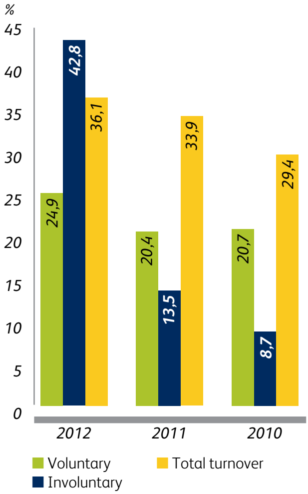
Employee movement

	2012	*2011*	*2010*
Opening balance	**10 303**	11 992	13 454
Employee gains	**2 527**	2 099	2 283
Minus attrition	**(3 582)**	(3 788)	(3 745)
Resignations	**(2 393)**	(2 171)	(2 636)
Retrenchments	**(537)**	(819)	(327)
Dismissals (misconduct)	**(491)**	(583)	(536)
Deaths (not work related)	**(73)**	(97)	(104)
Other*	**(88)**	(118)	(142)
Total employees**	**9 248**	10 303	11 992

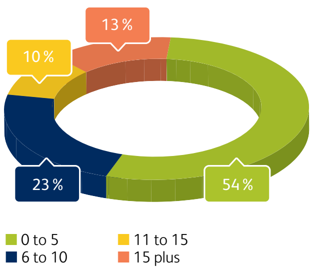
* *Other refers to ill health and retirements.*

** *Total number of employees in RSA and foreign operations.*

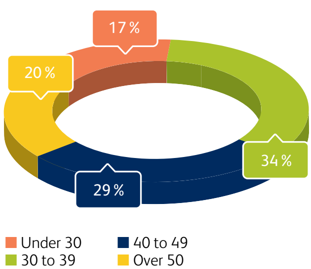
Employee turnover



2012 – tenure with company (years)



2012 age (years)



Employee turnover

There has been an increase in employee turnover predominately in involuntary turnover. The increase in turnover can firstly be attributed to vigorous performance management on especially poor performing sales staff, and secondly the company continued with the process of outsourcing our logistical function with a section 197 of the Labour Relations Act, 1995, transfer. The section 197 transfer was accompanied by a voluntary retrenchment offer for those individuals that did not want to or could not transfer to the various new facilities.

Employee composition

The gender split of the company indicates an almost even split between women and men – 45% male and 55% female. Staff tenure with the company remains low with 54% in the zero to five-year category. The average age of employees is between 30 and 39 years.

Employee wellbeing

The Retail unit is committed to supporting employees who are infected or affected by HIV/AIDS. We offer employees a fully integrated HIV treatment programme.

HIV/AIDS treatment, counselling and testing programmes are available free of charge for all employees and their spouses. Awareness programmes are annually initiated to keep employees informed and sensitised. There are also programmes offered to employees after sexual abuse or involuntarily exposure to HIV, as well as for awareness and testing.

Both programmes are voluntary and anonymous. The only information supplied to the employer is statistical information regarding the number of employees tested and the number on antiretroviral programmes.

The statistics below are from testing and training during 2012:

	2012
Number of staff tested	**468**
% of staff tested HIV positive	**10%**
Total number of employees on awareness programme	**237**
Total number of employees on ARV programme	**109**

Occupational health and safety

The company is subject to the Occupational Health and Safety Act, 1993 (OHSA Act). In recognition of our responsibility as an employer in terms of this Act, we have instituted the following:

- Appointment of responsible persons for the various brands. Brand managing executives are designated as responsible persons;
- A fully operational health and safety committee;
- Emergency and fire evacuation policy and procedures;
- A comprehensive employee wellness programme;
- Fully trained first-aid officers;
- Regular safety and first-aid training for employees;

- Annual independent health and safety compliance audits; and
- Future initiatives – to place all relevant policies and procedures on the intranet.

Significant work has been done to support health and safety compliance. A health and safety system has been developed and has been implemented at all workplaces throughout the group.

The health and safety system entails the following:

- The branch manager of every operating store is a health and safety representative;
- Safety representative compiles a monthly inspection along the guidelines of a checklist;
- The checklist is kept in store for record purposes;
- Any item highlighted on the checklist as out of line is escalated to a more senior level, i.e. the regional manager;
- The highlighted items are fixed and/or addressed with immediate effect;
- Reporting on health and safety matters is escalated from branch level to regional manager level, through to operational executive level, right through to the managing executive of the brand. The managing executive is ultimately responsible for health and safety in that brand and submits a report to the chief operating officer;
- Our regional administration managers operate independently from the various brands and conduct cycle inspections throughout the year with branches being scored against a predetermined scorecard;
- Every brand also has a National Consultative Forum (NCF) which convenes quarterly to discuss various matters for consultation, including health and safety. The NCF comprises representatives from all levels of staff; and
- A dedicated health and safety coordinator has been appointed to manage this portfolio.

Workplace injuries	***2012***	***2011***	***2010***
Number of incidents/ injuries	**32**	34	40
Hours lost	**1 541**	658	770
Work related fatalities	**–**	2	–

The most common cause of incidents was motor vehicle accidents, employees slipping on slippery floors, moving of stock and the loading and offloading of vehicles.

We have been very fortunate in that we had no fatalities during the reporting period.

All employees have access to Netcare 911 that provides counselling services. This service is available at no cost to employees and family members.

Employee relations

The core objective of our employee relations strategy is to promote and maintain a harmonious relationship between the Retail unit and its employees, and to foster good relations with unions. The Retail unit further promotes and respects freedom of association and employee rights and is committed to fair treatment and non-discriminatory work practices.

The Retail unit has a fully functional labour relations department, which assists line management not only in the effective management but also acts as a strategic business partner.

All employees have the right to freedom of association with trade unions, irrespective of their position within the company. Collective bargaining as a process of engaging with organised labour is a fully integrated work practice within the Retail unit. 34% of employees are SACCAWU members, 1% lower than 2011. Union interactions are not limited to national level negotiations and consultative forum meetings; however, meetings with unions at branch and regional level are regulated through collective agreements.

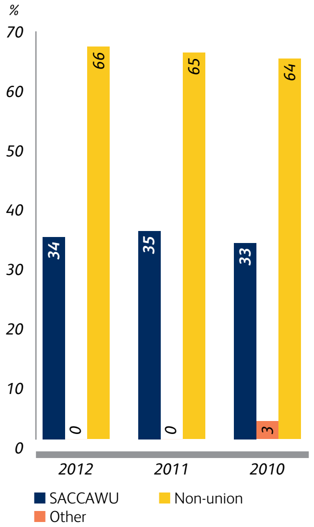
During the year under review, EHL received 103 referrals to the CCMA, a marginal decrease from 124 in 2011, of which only six had a resolution not in favour of the company.

Skills development

Training and development has been identified as a critical component for advancement. Various programmes are available, but specific functional training programmes have been identified for employees in middle and junior management levels. These training programmes are available as eLearning programmes and employees are being assessed through skills tests.

The abovementioned training programmes are a condition of employment for all newly appointed regional managers, branch managers, assistant/trainee managers and sales staff, and have to be completed within their probation period. We have added the distance learning programme as condition for promotion to the level of branch manager (including branch manager to a higher grade store) and regional managers.

Union membership



During the year, 328 people participated in five learnerships, pitched at NQF Levels 4 to 5, which was sponsored by the Wholesale and Retail SETA (W&RSETA). In addition, the W&RSETA also sponsored another International Leadership Development Programme (ILDP) for three learners and a Regional Management Development Programme for seven learners.

Summary of skills statistics	*2012*	*2011*
Investment in employee training and development*	**R12 million**	R9,3 million
Proportion of the above focused on Black employees**	**R9,2 million**	n/a
Training and developments interventions	**14 404**	9 478
Employees currently on learnerships	**245**	161
Number of employees receiving leadership training	**170**	51
Learners currently on a W&RSETA programme	**328**	282
Employees currently on a talent development programme	**41**	56

* *Excluding the compulsory 1% skills levy.*
** *African, Coloured and Indian people.*

Internal programmes (total people trained)

	Male				*Female*				
Types of training	*A*	*C*	*I*	*W*	*A*	*C*	*I*	*W*	*Grand total*
Sales Course	292	54	40	76	392	35	10	85	**984**
Management Development Course	152	16	30	60	147	34	23	114	**576**
Regional Managers Course	3	2	0	0	2	2	3	0	**12**
Beyonders	1 002	67	15	73	1 599	102	24	177	**3 059**
Maintaining Safety Security and Housekeeping	17	1	6	2	13	2	9	12	**62**
Biometric Time and Attendance	39	6	13	35	65	11	9	26	**204**
Diversity	30	15	5	7	38	18	8	14	**135**
Time Management	12	1	7	15	4	5	4	22	**70**
HTSC, NCA, FAIS, SE	2	–	0	0	4	0	1	–	**7**
Coaching and Mentoring	13	1	6	17	5	6	4	20	**72**
Receptionist	–	–	0	–	4	–	–	–	**4**
CPA	14	1	4	1	19	6	3	6	**54**
Credit In Seconds	291	–	3	12	253	5	1	17	**582**
IT 4 U System Training	22	–	–	2	131	3	1	11	**170**
In Store Product Knowledge	657	126	118	190	1 400	189	113	266	**3 059**
Other Training (CPS, Tax Back, Loan Improve Client Affordability, etc)	1 173	87	55	109	1 048	195	134	250	**3 051**
Synergy Training	270	28	43	152	468	81	35	159	**1 236**
Be in Sync Wave 1	120	13	26	58	283	86	72	117	**775**
Logistics	72	14	1	14	145	29	–	17	**292**
Total	4 181	432	372	823	6 020	809	454	1 313	**14 404**

Internal programmes (training hours)

Training hours	*Male* A	C	I	W	*Female* A	C	I	W	*Grand total*
Sales Course	35 040	6 480	4 800	9 120	47 040	4 200	1 200	10 200	**118 080**
Management Development Course	18 240	1 920	3 600	7 200	17 640	4 080	2 760	13 680	**69 120**
Regional Managers Course	360	240	–	–	240	240	360	–	**15 360**
Beyonders	120 240	8 040	1 800	8 760	191 880	12 240	2 880	21 240	**367 080**
Maintaining Safety Security and Housekeeping	2 040	120	720	240	1 560	240	1 080	1 440	**7 440**
Biometric Time and Attendance	4 680	720	1 560	4 200	7 800	1 320	1 080	3 120	**24 480**
Diversity	3 600	1 800	600	840	4 560	2 160	960	1 680	**16 200**
Time Management	1 440	120	840	1 800	480	600	480	2 640	**8 400**
HTSC, NCA, FAIS, SE	240	–	–	–	480	–	120	–	**840**
Coaching and Mentoring	1 560	120	720	2 040	600	720	480	2 400	**8 640**
Receptionist	–	–	–	–	480	–	0	–	**480**
CPA	1 680	120	480	120	2 280	720	360	720	**6 480**
Credit In Seconds	34 920	–	360	1 440	30 360	600	120	2 040	**69 840**
IT 4 U System Training	2 640	–	–	240	15 720	360	120	1 320	**20 400**
In Store Product Knowledge	78 840	15 120	14 160	22 800	168 000	22 680	13 560	31 920	**367 080**
Other Training (CPS, Tax Back, Loan Improve Client Affordability, etc)	140 760	10 440	6 600	13 080	125 760	23 400	16 080	30 000	**366 120**
Synergy Training	32 400	3 360	5 160	18 240	56 160	9 720	4 200	19 080	**148 320**
Be in Sync Wave 1	14 400	1 560	3 120	6 960	33 960	10 320	8 640	14 040	**93 000**
Logistics	8 640	1 680	120	1 680	17 400	3 480	–	2 040	**35 040**
Total	501 720	51 840	44 640	98 760	722 400	97 080	54 480	157 560	**1 728 480**

External Programmes (total people trained)

Type of training	*Male* A	C	I	W	*Female* A	C	I	W	*Grand Total*
New Managers Programme	23	1	7	17	27	1	7	25	**108**
Management Advance Programme	–	–	–	–	–	–	–	1	**1**
Presentation Skills	–	–	–	–	–	–	–	1	**1**
International Executive Development Programme – IEDP	–	–	–	1	–	–	–	–	**1**
Matric Equivalent	4	1	1	–	11	1	–	1	**19**
Higher Certificate in Business Management – Retail	6	3	–	1	1	–	1	4	**16**
Higher Certificate in Business Management – Credit Banking	–	–	–	–	1	–	–	–	**1**
World Retail Congress	–	1	–	2	–	–	–	1	**4**
MBA – GIBS	–	–	–	–	–	–	–	1	**1**
Six Sigma – Green Belt	–	–	–	5	1	–	2	4	**12**
GIBS – Master Class	–	–	1	2	–	–	–	–	**3**
LDF – Quest	3	1	1	8	5	–	1	7	**26**
Merchandise and Planning Annual Conference	–	–	–	3	–	–	–	0	**3**
Discovery Leadership Programme	–	–	1	1	–	–	–	1	**3**
Diploma in Project Management	–	–	–	–	–	–	–	1	**1**
Educational Kinesiology	4	–	2	2	5	1	–	5	**19**
Essential In Retail Maths	94	42	10	77	77	43	9	103	**455**
Finance For Non-financial Managers	22	1	4	15	14	7	1	22	**86**
Total	156	50	27	134	142	53	21	177	**760**

Transformation and employment equity

The following approaches are being followed to achieve the employment equity goals:

Recruitment

- Non-government organisations have been approached for assistance with the recruitment of people with disabilities, i.e. the "Association of People with Disabilities".
- Learnership programmes developed by the W&RSETA and endorsed by the Retail unit ensure that suitably qualified people of the designated group are recruited to enable the company to reach its targets and goals.
- Specialist agencies are used to assist to ensure the company meets its EE obligations.
- All appointments made in the identified occupational levels in terms of this plan will only be approved after the sign off by senior executives. Preference to be given to previously disadvantaged individuals.

Training and development

Training and development has been identified as a critical component for advancement and has been introduced as a condition of employment for certain job categories (in the junior management levels). Various modules are available, but specific functional training modules have been identified for employees in mid-management and junior management levels.

Compulsory training has been introduced as a minimum requirement for promotion to branch and regional manager positions. Dedicated skills facilitators have been appointed in the various brands to address the skills levels of employees.

Other programmes/initiatives

- An employment equity executive has been appointed to manage the EE portfolio for the company;
- Sufficient time off is allowed for all representatives of the consultative forum to prepare and to fully participate at meetings;
- Mentoring is an effective channel for transferring knowledge across the organisation, from the most experienced employees to those less knowledgeable. To sustain its growth track record, the company introduced such a programme during 2011;
- The company firmly believes in leadership assessments, thus all new recruits at middle and senior management will undergo assessment tests prior to being appointed;
- The LDF and LDF quest was developed to contribute towards developing the leadership pipeline given the company's strategic growth objectives and to assist the company in developing top talent's leadership qualities and accelerate their development paths;
- Performance is enhanced by a performance management process that is utilised throughout the company; and
- Numerous strategies were implemented to ensure the achievement of goals and targets. Amongst others, targeted recruitment and performance bonuses are some of the main drivers to ensure compliance.

Monitoring and review mechanisms

Various human capital governance structures are in place to ensure we deliver on the employment equity agenda. These structures include monthly executive management meeting and reporting, quarterly HC forums, quarterly Ellerine Furnishers board meetings, quarterly transformation committee meetings, quarterly corporate and brand level EE forums.

Diversity and sensitisation training

Members of the various EE consultative forums within the company will continue to receive training on diversity and sensitisation. A group wide sensitisation programme will be done during 2013 which will address unfair discrimination, diversity and tolerance.

Succession planning

At brand level, branch and regional managers from the designated group are to be identified for training, development, coaching and mentoring – to be appointed as regional managers and operations executives in the future.

Communication strategy

The EE consultative forums within each brand serve as the leading communication vehicle. Communication has been identified as a barrier, hence a concerted effort is being made to rectify this perception. Vehicles like the marketing divisions and the company and brand magazines will be utilised extensively to bridge this barrier.

Dispute resolution

The internal grievance procedure is used to address internal disputes and the appropriate dispute resolution mechanism as prescribed by the Employment Equity Act should be used for disputes not amicably resolved through the grievance procedure or in the event of an external dispute.

Customer experience – Banking unit

The Banking unit's customer experience objectives for 2012 were to:

- Improving the customer value proposition
  - Customer experience – mission statement
  - People experience
  - Brand experience

– Channel experience – service, take-up and turnaround times
- Treating customers fairly
  – Consumer advocate office – independent voice of customers
  – Responsible lending practices
- Community support
  – Side by side community empowerment
- Performance
  – Customer experience performance indictors

The customer experience mission statement

In 2012 we launched our first Banking unit customer experience mission statement: “African Bank will create differentiated experiences across all our touch points that are relevant to our customers’ individual needs supported by our brand, our products and processes and delivered by our emotionally engaged, passionate and empowered people.”

People experience

In 2012 we implemented various initiatives to improve our people experience by empowering them to deliver and receive the best service experience.

Our SMILE ambassador campaign allows our people and customers to share their best service stories via our SMILE ambassador email address. Electronic newsletters (“Comms Café”) are sent out twice weekly and these stories are published in the newsletters, and are incorporated in the web based magazine “eVoice”. This initiative assists in recognising and rewarding our various SMILE ambassadors who are living out the values of the business.

Prior to 2012, we implemented an “In Your Shoes” programme to up skill our people on cross-functional processes and allow them to experience a day in the life of our customers in branches or other divisions. Following the success of our programme, it became compulsory for all other employees to attend.

In order to understand and drive internal service improvements, we launched BATHINI: “what are our people saying”. We are able to measure the level of service provided against a clear set of performance measurements. The results are tracked and reported in our group scorecard. We set an annual target of 80% for the 2012 financial year. We tracked the results over three quarters and we managed to see big improvement in service levels (Q1 – 64%, Q2 – 62%, Q3 – 76%).

African Bank is the first bank in South Africa to launch our own radio station. In October 2012, we went live in several branches and central office with our Banking unit “Le Beat” radio station pilot. The radio station was designed to enhance the experience of our people and customers for people to connect with each other and to have a platform to share the work they are carrying out in the regions and central office. The content of the station is designed to educate, communicate and inform our employees and customers on our latest product offerings as well as drive customer education around financial literacy.

The Banking unit also launched the Collections Collect with CARE initiative, focused on changing behaviour, systems and processes to assist customers with the right type of financial assistance when they experience difficulties in repaying their instalments. Our Collect with CARE slogan translates into:

- C = Collect;
- A = Advise;
- R = Rehabilitate; and
- E = Empathise.

During October 2012, the Banking unit joined several companies in South Africa and around the globe to celebrate Customer Service Week, "the African Bank way". We adopted the 2012 theme of "Be the One" and incorporated it into our company values to recognise our people in their quest to improve our customer's service experience. We used this initiative to launch our next phase of our customer service journey.

Brand experience

A key driver in the Banking unit is to create value for our customers by ensuring that we translate customer insights into memorable customer experiences.

As a result of customer insights obtained through various research studies and focus groups, African Bank will be refreshing and repositioning our brand value proposition in 2013. This will allow the alignment of the brand with new and existing segments of our target market as well as our new product offerings to ensure that we address the most relevant needs of our customers.

Part of this journey also includes sharing the various customer stories and thank you notes, enhancing our processes, policies and procedures to ensure that we are truly able to deliver on our brand promise of "credit that works for you".

Channel experience

Branch – our Branch Service Scorecard Index is an independent measure of our branch service measures. Of our 588 branches measured during 2012, 81% of the branches have scored above the 80% target. The survey is conducted by an independent company. We believe in being accessible to our customers and have expanded the branch network with an additional 44 new branches, thus taking our total number of branches to 637.

We have completed our new branch look and feel upgrades to accommodate customer preferences and support business integration. For added convenience banking hours have been extended and key branches also trade on Sundays and public holidays. Various mobile banking vehicles also support African Bank's promise of making credit more accessible.

Remote – we offer self services to our customers that allow them to apply for credit, check their balances or simply buy airtime via their cellphones.

Responsible lending

The Banking unit is committed to adhering to its legal and moral requirements in practicing responsible lending practices. We provide independent results on how our customers choose to utilise the finance they obtain from us versus their initial intent. Our research shows that loans obtained from the Banking unit are continuously used for social upliftment purposes.

The top reasons as disclosed by customers in the survey are as follows:

Reason for taking a loan	2012 (%)	2011 (%)	2010 (%)
Housing/Home	**30**	18	24
Debt	**35**	10	13
Education	**15**	9	10

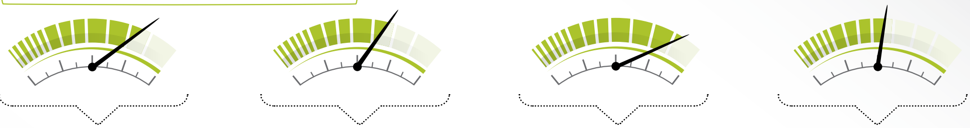
For more information about our CSI programmes, please refer to page 161.

The ABIL Development Trust converts "aid" into "sustainable opportunities" by implementing projects that educate and protect our environment for the future, find markets for the present, produce proudly South African products, create opportunities for competitiveness and generate jobs.

Overall perceptions and performance of African Bank

Overall value

	Mean (%)	% 9 and 10 ratings
African Bank	83	57
Competitors	81	52

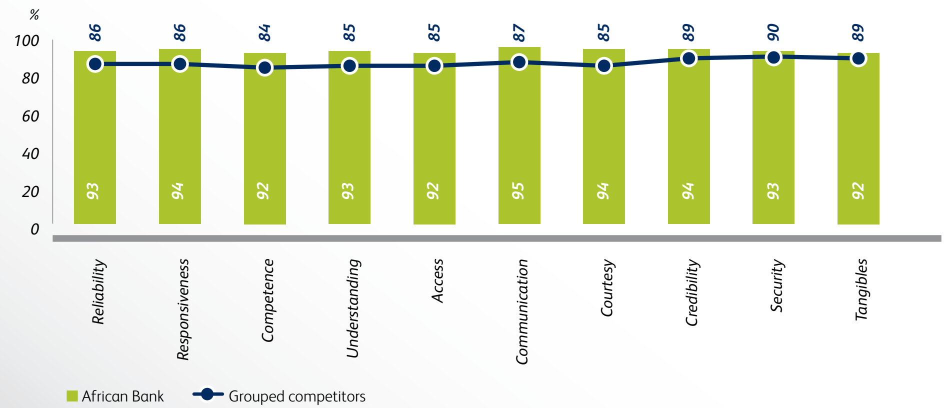


83% *Preferred supplier index African Bank*

78% *Net Promoter Score African Bank*

92% *Emotional affinity African Bank*

52% *Committed customers African Bank*



Performance indicators

External customer experience performance ratings

Our external customer benchmark studies are done by an independent research company. During 2012, we conducted our first customer experience benchmark study. The results indicated that 52% of the customers surveyed ranked as being committed and loyal to the Banking unit.

Customer experience – Retail unit

Marketing communications

In this highly competitive environment, the Retail unit is committed to fair competition principles, ensuring our practices are ethical and adhere to responsible communication of our products. This implies adhering always to the codes of the Advertising Standards Authority (aSa) as well as responding speedily to them on any issues raised by customers.

There were only two complaints made against our brands to the aSa during the year to which we acted swiftly to comply and resolve. We also have established channels to deal with customer feedback and cooperate with the National Credit Regulator and National Consumer Commission.

All our marketing communications, advertising, promotion, and sponsorship ensures strict adherence to a range of laws, standards and codes, in particular are the National Credit Act, Advertising Standards Authority, Electronic Communications and Transactions Act, Direct Marketing Association and the Consumer Protection Act.

A review of marketing and insurance material at stores was undertaken during the year, to ensure compliance.

A range of training programmes have been implemented for all relevant employees, to ensure there is a thorough understanding and implications of the Act. This training is directly linked to employees key results areas (KRAs).

Legal department

The Retail unit has a legal unit which has a representative at the Credit Ombudsman and regularly attends all meetings and workshops on compliance and the Act, keeping abreast with any changes to the Act.

Corporate directives

Corporate directives are distributed as and when necessary and have an escalation process in place to resolve conflicts expeditiously. Employees are aware to escalate certain category complaints to our call centre, which then escalates it to the relevant brand as well as our legal department.

GRI PR7

Marketing communications

Due to the above strict processes in dealing with marketing compliance issues the Retail unit has had no incidents of non-compliance with regulations concerning marketing communications which has resulted in a fine, penalty, warning or voluntary codes.

GRI PR8

Customer privacy

There has never been a legitimate breach of customer privacy or a loss of customer data. All our processes are 100% compliant with the laws in South Africa and hence our information capital is rated as a centre of information excellence.

GRI PR9

Compliance

No fees have been paid out on fines for non-compliance with laws and regulations concerning the provision and use of products and services. As stated under marketing communications, due to the above strict processes in dealing with marketing compliance issues we have had no incidents of non-compliance with regulations concerning marketing communications which has resulted in a fine, penalty, warning or voluntary codes.

GRI PR3 and PR4

Customer product information and labelling

In the retail industry, informing customers regarding the proper use, care and composition of the products that they purchase is an important component of our interaction with our customers. We want our customers to purchase products knowing that they are of good quality, safe and produced responsibly. Care is taken to ensure that suppliers provide the legally prescribed labelling on products so that customers are informed of the composition and origination of materials, where applicable.

Our suppliers are bound to comply with the requirements of the Consumer Protection Act, 2010, and declare their awareness of that obligation when they sign the supplier terms and conditions of doing business with the group. We are in the process of creating a list of requirements that align with the compliance expectations of the Occupational Health and Safety Act, 85 of 1993, that will form part of the terms and conditions of doing business with the Retail unit.

There is no formal monitoring system in place to record, analyse and report on the instances of non-compliance regarding labelling and product information from suppliers at this time. The business does acknowledge that collecting and monitoring that data will enable better supplier management in the future, and plans to implement a system for collecting this data from suppliers are being explored. Whilst this has not yet been done it has been prioritised and will commence in conjunction with a complete supplier survey in February 2013.

GRI PR5

Customer satisfaction

For more information about the group's customer satisfaction surveys, please refer to the strategic review section on page 39.

Customers are the key to this business and any time they are not satisfied it is a serious concern for the group. Customer complaints are documented and dealt with on an individual basis, ensuring that each customer receives the attention and experience they deserve. Any indication that products procured by the group are potentially hazardous or may result in harm to our customers is treated with gravity and appropriate actions are taken to prevent any injury or harm to our customers.

Sustainable practices at suppliers

The group relies heavily on developing long term relationships with core suppliers and has worked hard over the years to foster strong ties between the group and the suppliers we work with. It is as a result of this dedication to those relationships that the group is able to work with its suppliers towards sustainable business practices. Sustainability within merchandise is governed through continued use of supplier contracts which provide guidelines regarding the terms and conditions of purchase and trade with the group. No suppliers are able to do business with the group without first undertaking to sign and to uphold our terms and conditions.

At present, the conditions and terms for suppliers include a declaration of compliance in terms of the Consumer Protection Act, 2010. Going forward, the inclusion of a global best practice declaration by suppliers is being investigated which is envisaged to include declarations regarding the proper treatment of workers and work conditions as well as proper management of environmental resources. This will include regulations by the Occupational Health and Safety Act, 85 of 1993.

The continued belief that long term relationships with suppliers will lead to mutually beneficial partnerships is the cornerstone of successfully meeting sustainability targets in the future. Retail as a sector requires that our offering to customers be ever evolving in order to continuously differentiate our products and partnering with our suppliers makes that development possible. A questionnaire has been developed that will be completed by all merchandise suppliers by February 2013 that seeks to assess the suppliers awareness and compliance from a sustainability perspective. This includes timelines for suppliers that have not begun any initiatives.

GRI PR1. PR2

Assessment of supplier compliance

At present, the assessment of products and services for their health and safety impacts does not exist in a pre-emptive format. The group is largely reactive to products which show some health or safety concerns and relies on its suppliers to address issues of non-compliance as discussed above.

Environmentally responsible procurement

The group is committed to ensuring that the products that come through the business are environmentally responsible and sustainable. The establishment of a set of minimum requirements for all procurement within the group is in its early developmental stage. It is the hope of the group to collaborate with our suppliers to ensure compliance with local environmental regulations and strive to reach environmental targets that exceed those specified in regulation in the future. The reduction of water and electricity usage by factories and adoption of environmentally sustainable practices by manufacturers are among those items being explored.

Already, the impact of timber furniture manufacturing on the environment is taken into consideration with imported furniture items and items produced for Wetherlys, and responsible environmental management solutions are being considered as part of long term business strategies throughout the Retail unit. Formalised policies and procedures regarding the responsibilities of suppliers to the environment are in the pipeline at this point.

Environmental impact reduction

All property transactions in the Retail unit comply with municipal regulations and a certificate for compliance is required before occupancy of any new property. As part of compliance to the municipal regulations, environmental impact assessments are required to ensure that property transactions are environmentally responsible.

An initiative to develop waste recycling processes at the Boksburg Distribution Centre is complete and well under way. This initiative will reduce the waste from packaging throughout the Retail unit, and will incorporate the cooperation of suppliers to reduce the waste generated through the distribution centre, which provides an opportunity to implement methods for recycling of packaging and other waste through one location.

Responsible labour practices

The maintenance of responsible labour practices is a priority for the group that should be extended to third parties we do business with. Sustainable business practices cannot succeed in isolation and so partnerships with our suppliers are essential in ensuring that our business ethics become pervasive through all associated businesses.

Enforcement of compliance with local labour regulations (including the Basic Conditions of Employment Act and Employment Equity legislation) and global best practices with regard to human rights standards are being explored presently. It is the Retail unit's aim to implement policies which require suppliers to declare their compliance with regulations as well as compliance with the group's no tolerance for human rights abuses. Partnering with our suppliers to share best practices is another way to grow and develop cooperatively with suppliers.

Assessment of compliance to sustainable policies by suppliers will form an integral part of supplier strategy going forward. Presently, factories which supply the business are scrutinised with site visits to ensure that human rights abuses are not occurring and that factories uphold an ethical working environment that does not violate responsible employment conditions. These site visits are prerequisites currently for new factories, particularly those outside of the country, and more formalised audit procedures for factories are being examined for the future.

Occupational health and safety is observed throughout the group and formal processes are under way to ensure that compliance with OHASA regulations is followed throughout the group.

Progress in policy

Sustainable processes have been a steadily developing area of focus for the business. It is important to the group that the correct processes and procedures are put into place in such a way as to function for the group and each business within it. An occupational health and safety officer was recently appointed, who is responsible for championing the supplier interface and monitoring the compliance of our suppliers. Creating the role and accountability for the championing of sustainability initiatives is a positive first step towards implementing a policy for sustainable business for the group. The Retail unit will reassess the impact of the suppliers and their awareness once the surveys have been completed in February 2013.

ABIL Consumer Advocate's Office (CAO)

For six years in a row, the Banking unit has won the Ombudsman for Banking Service's award for excellence in complaints handling. The Banking unit was awarded in category B – which is the banking sector excluding the four major banks.

The ABIL CAO was established in 2004 to act as a protector of the rights and interests of ABIL consumers. Its key success is based on the fact that it operates independently of the group's operations with a mandate to make its own rulings on consumer complaints, to which the business is bound. Its terms of reference which informs its rulings include determining matters not only on the basis of law, but most importantly on the basis of fairness.

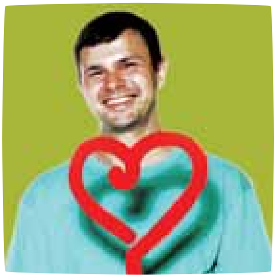
The CAO receives most of its complaints directly from consumers who have been to the Banking or Retail unit, and are unhappy with the outcome. The Banking unit branches, Retail unit outlets and departments also escalate matters to the CAO where the consumers are unhappy with the outcome of their complaint.

The CAO is also responsible for assessing and responding to complaints from regulators, statutory bodies and the media, to ensure a fair resolution in these instances.

During this financial year, the CAO received a total of 10 939 complaints, an increase of 35% from the previous year. The large increase is partly due to the fact that the CAO took over the responsibility for the Consumer Lounge, where consumers who visit the central office in Midrand (1 537 for 2012) are assisted with their queries and complaints. Of the matters brought before the CAO in 2012, 57% (2011: 61%) had a resolution in favour of the consumer, either as a valid complaint or a gesture of goodwill. A total of R6,3 million was written off or refunded to consumers (2011: R6,2 million).

The CAO is also active in the broader consumer education arena:

- The key activity for 2012 was the continuation of the two-year financial education project started in January 2011, jointly funded with the Deutsche Investitions-und Entwicklungsgesellschaft GmbH (DEG). The first year entailed financial education to consumers through various avenues including educational talks at Commutanet platforms at various taxi ranks throughout the country, and "towntalks" in various communities. In the second year, the focus shifted to radio as a more effective medium for financial education and a weekly radio slot was commissioned on 11 different radio stations in as many



languages, each week dealing with a different topic. The topics were chosen from phone calls and emails received from listeners who were invited to raise concerns which could be discussed on the programme. Topics included the right to return goods, to cancel fixed term contracts, prescription, credit bureaus and many more. 26 weekly programmes were concluded and a competition held from which a survey was conducted as to the success and effect of this form of education. We concluded that this is a more effective medium than gathering consumers to a classroom type situation.

- Another two-year pilot project which was a joint venture initiative with the dti, Finmark Trust and the Credit Ombud concluded in 2011, with the report finalised in 2012. Three money guidance offices called "Imali Matters" were established in Gauteng, Cape Town and Durban, which offered guidance to consumers on money matters as well as assisting with complaints. The results were interesting in that the credit bureau records of participants were assessed at the outset and at the end of the project, and showed a definite improvement. It thus appeared that one-on-one face-to-face guidance and education, although an expensive form of engagement, did have a positive behavioural change impact. Interestingly, a further bureau assessment was undertaken 10 months after the project concluded, i.e. where consumers no longer had the support and guidance of Imali Matters. Bureau records showed a deterioration, which could lead to a conclusion that behaviour change is a long term project and that consumers benefit from ongoing support. We believe that a not-for-profit institution such as Imali Matters would have a valuable role to play in assisting consumers in sound money management and complaint redress.

GRI EC8. EC9. S01

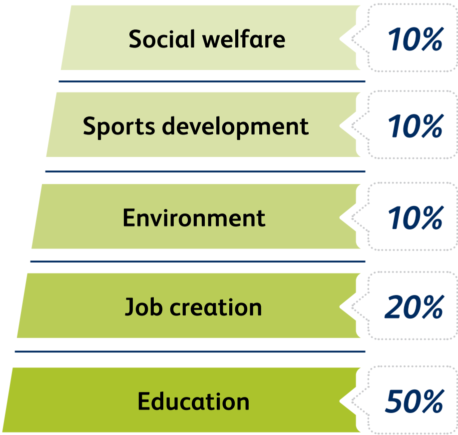
Corporate social investment

The Banking unit – a sustainable approach to community development

The Banking unit's sales distribution network is divided into five geographic areas within South Africa. To ensure that social investment takes place in each of these five regions the ABIL Development Trust's CSI community development initiatives are active within each of these regions.

The implementation strategy is based on a principle of identifying specific focus areas of extreme poverty and unemployment, one within each of the five designated sales areas, and then, in conjunction with project partners, initiating community development projects within these focus areas.

These community development projects are focused on:



- Education, with particular attention being centred on the sciences; mathematics, English literacy and computer literacy (50% of available funds allocated to education);
- Job creation (20%);
- Sport development (10%);
- Environmental projects (10%); and
- Social welfare (10%).

Project proposals are submitted for evaluation to regional CSI committees which comprise both employees of the Banking unit, as well as external members with specific skills or interest, and who participate on these regional committees on a voluntary basis giving of their expertise and time in order to enhance the quality of decisions taken. Each project is scrutinised carefully against the strategic framework set by the board of trustees as well as project specific criteria, *inter alia,* the implementation timeline; proposed outcomes or results which in every project must be clearly and quantitatively defined in order to measure success; overall budget requirements; the cost per beneficiary; the administration or project management cost as a percentage of the overall project; and the latter measure there to ensure that a high percentage of the funds allocated are used to the benefit of the beneficiaries and not the project leaders.

Once approved in the respective regional committees memoranda of agreement are entered into formalising the relationships with the project implementers, defining success milestones to be reached against which staged draws are made, recording the success measured between the parties, specifying reporting requirements and generally documenting the scope and nature of the project.

On implementation each project is allocated a project monitor, generally one of the regional committee members, whose task is to monitor project progress and ensure that no barriers or blockages to success are encountered, but without in any way reducing the project implementers' accountability nor intervening in the project.

Repeat project proposals are only considered once all deliverables for an approved project have either been met in full and in accordance with the signed project charter or where sufficient progress towards meeting these deliverables has been made with a clear indication that the project will succeed.

Community development activities during the year

In the 2011/2 financial year the ABIL Development Trust funding impacted the lives of 43 065 primary beneficiaries through the delivery of 38 projects in the five regions.

KwaZulu-Natal implemented 14 projects in the Ilembe district, followed by Gauteng with 11 projects in Ivory Park and Tembisa, then Eastern Cape with five projects in Veeplaas and Walmer, Limpopo with four projects in Blouberg and Western Cape with four projects located in the Blackheath/Electric City/Eerste Rivier/Mfuleni area, north of Khayalitsha.

The total project community development spend was R8,8 million.

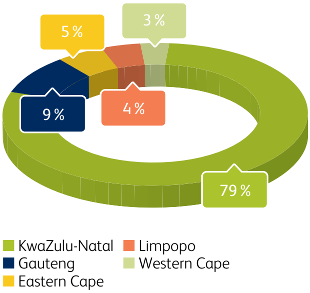
Performance against budget allocation

Due to the overwhelming challenges being faced in education, the largest portion of the CSI spend was disbursed to this need.

These projects played a significant role in helping disadvantaged children in key aspects such as information technology (in KwaZulu-Natal); physical science (with projects in all five regions); mathematics (in two regions); English literacy and early childhood development (in four regions).

Whilst there is also an overwhelming need for job creation in South Africa the challenges of job creation remain extremely high. Many training institutions offer skills training, often at high cost being subsidised through various SETAs, but very few of these projects guarantee employment on successful completion of the training, nor do they offer vital support or mentorship on the job during the first few months; both of

Number of projects



which criteria are prerequisites for approval for funding in the Banking unit's programmes.

A highlight for the CSI initiative has been the spontaneous partnering by other organisations with the ABIL Development Trust where the social impact of our projects has been recognised. This gearing effect has served to add further momentum to the projects or alternatively, to complement the trust's activities where funders have chosen to fund other activities aligned to our work but which the trust has been unable to fund. An example of this is the donation of libraries and resources to various schools in Limpopo and KwaZulu-Natal secured through the efforts of our English literacy partners in each of these areas, thereby increasing the social impact to these schools. Organisations who have partnered the trust to date include the Ilembe Chamber of Commerce, Industry and Tourism (ICCIT), Enterprise Ilembe, Afrisun, Rotary and the Gavin Hood Foundation.

KBETEY – English literacy and teacher mentorship

The English language, as the basis for the majority of subjects taught throughout a learner's school career, is critical to the success of any further learning. The philosophy of empowering teachers through training, onsite support, teaching aids and tools with the specific outcome of improving English literacy in Grades 3 to 6, has borne positive results in 33 primary schools.

There are 185 teachers and 9 770 learners on the programme in KwaZulu-Natal and Limpopo.

In particular, the Banking unit's essay, poetry and spelling bee competitions have proved to be very successful.

Progress is tracked through stringent pre and post assessments relating to literacy levels per grade and to ensure the effectiveness of the project, the same assessments are conducted in non-participating schools and compared to the results of participating schools.

Educators are assessed throughout the year by the project facilitator and those that achieve the best results and demonstrate a willingness to go the extra mile are recognised and rewarded accordingly.

TRAC – Reaching tomorrow's engineers

The ABIL Development Trust is supporting four mobile Science laboratories and one fixed laboratory in an effort to address the dire shortage of learners choosing a career in science, engineering and electronics. Nationally, this programme has engaged 27 schools, 58 physical science educators and 3 348 learners.

Children from disadvantaged backgrounds are, for the first time, being exposed to computers and laboratory equipment. Each school has set a target to increase the number of learners obtaining 60% or more in physical science and in order to support that target, a 10% improvement on pre and post testing cycles has been set.

Spelling contest winners, English Literacy Project

Practical experiments, Science Mobile Laboratory Project

Ilembe schools connectivity project (ISCP) – wireless broadband, teacher training and personal computers

2012 was a very exciting year for many disadvantaged schools in the KwaDukuza area. In an effort to close the digital divide, the ABIL Development Trust is funding a project that provides wireless internet to 20 disadvantaged schools, all of whom went "live" and began experiencing a new world through access to the internet.

The ISCP was launched in May 2012 by Mr Senzo Mchunu, MEC for the Department of Education in KwaZulu-Natal who indicated a desire to implement similar facilities in as many schools as funding will allow.

The first phase of the project was to install the wireless network whilst simultaneously training selected teachers from each of the 20 schools. With a 97% attendance rate and a 100% pass rate, 103 educators were trained and certified in the care/use of computers during the June/July school holidays. For many of the educators, it was their first time to have access to and operate a computer.

Each school received between five and 10 computers with a total of 150 refurbished computers being donated by the Banking unit, all of which were configured and installed in the schools.

Currently, educators are accessing the internet for teaching resources through access to education portals, the National Education database and for personal development purposes. Access to social networking sites and harmful content has been blocked.

Adequate arrangements for security and network support have been made and the project facilitator regularly visits schools to assist with training and to monitor use and value offered through the network. To date the results are extremely promising.

Teachers training, IT Education Project

"FOOTY" – football development for U9, U11 and U13 children

The FOOTY project implemented in conjunction with AmaZulu's Clive Barker is active in 30 primary schools and three community fields in the KwaDukuza area. 150 coaches have been trained and 4 608 children are participating in the project.

Initially the project was purely school based but it soon became apparent that an even greater need for positive engagement of children through sport is to provide a healthy alternative for after school activities. The project has expanded to include three community fields and after a short period of time, they are enjoying great success with an average of 200 children per age category participating every weekday afternoon.

The school based outreach focuses primarily on the coaches with daily onsite technical and management support ensuring effective training sessions for the children and organising of interschool matches and tournaments. As part of the project, each age category participates in five tournaments with 12 players chosen to represent the Banking unit in the ultimate AmaZulu tournament.

The Banking unit team chosen from participants in this programme was the runner up in the 2011 AmaZulu tournament and they are hard at work preparing for the 2012 clash.

Community Coaching Project

For more information on CSI visit http://www.africanbank.investoreports.com/about-abil-group/sustainability.

Corporate social investment – Retail unit

During 2012, the Retail unit was involved in the following CSI initiatives:

Bursary scheme

48 bursary grants, valued at R523 000 assisted dependants of employees with tertiary studies at universities and universities of technology.

Siyanakekela Community Investment Programme

Our Siyanakekela Community Investment Programme employees collected R302 552 in the second year, through voluntary pledges of between R5 and R500 per month and fundraising opportunities. Employee contributors are nominating registered non-profit organisations to be the beneficiaries. To allow maximum impact from the funds invested, focus areas are the prevention of child abuse, prevention of HIV and AIDS, and the care of orphans and vulnerable children.

Ekukhanyeni Development Centre

Since inception in 2003, preschool children, out-of-school youth and unemployed women have received quality training though the Ekukhanyeni Community Development Centre (ECDC) – previously the Ellerines Community Development Centre.

This year, the Retail unit has continued to provide the premises in Germiston, which used to house the old central office, without charge as well as making a monthly donation to fund the running expenses including salaries, rates and municipal charges, telephone costs, security and building maintenance.

The Early Childhood Development Programme

The registered Early Childhood Development Centre, at the ECDC, has provided a safehaven – as well as a stimulation programme – for more than 300 children, between the ages of three and six, who have working mothers in the local community.

Education and training courses

In nine years, more than 2 000 out-of-school youth have been trained in the ECDC academic section and over 500 previously unemployed women have completed their skills training at the ECDC.

Retail unit brands

This year, the Merchandise and Brands units provided donations of products to a number of schools and registered non-profit organisations in the local communities.

GRI EC1. EC8

Environmental impact

The gravity of the global environmental challenge has required international cooperation in the form of the United Nations Framework Convention on climate change and the ratification of the Kyoto Protocol, to which South Africa has been a signatory. The protocol has aimed to ensure a reduction of emissions by developed countries and for its part, South Africa has committed to reducing domestic emissions by 34% by the year 2020, and 42% by the year 2025. Similarly, South Africa has committed to contributing towards the achievement of the International Millennium Development Goals, which includes "Ensuring Environmental Sustainability".

ABIL is committed to implementing the principles of sustainable development, and fully endorses the national and international agenda on environmental sustainability. The group's green journey began in 2011 and although ABIL is classified as a low to medium emitter of greenhouse gases, we believe in earnest that efforts to reduce our environmental impact should be undertaken with the same vigour as is expected of major emitting entities.

Environmental strategy

ABIL's approach to environmental sustainability focuses on reducing its negative impact through identifying and measuring outputs, setting targets and forming appropriate structures, developing a phased action plan which includes implementing plans throughout the organisation, education and awareness of employees and stakeholders, obtaining buy-in and active commitment from management and all employees.

During 2012, ABIL finalised its environmental policy which governs environmental sustainability within the group. This policy is aligned to the international and national agenda on the environmental issues, the King III Reporting principles and corporate governance standards.

A formal structure has been established to guide and review the group's environmental initiatives. Both the Banking and Retail units have established green sustainability committees. The Retail unit committee has made great progress in 2012, launching the green journey and implementing a number of emissions reducing activities. The Retail unit's green committee has galvanised environmental transformation progress within the unit. The Banking unit's committee, which was established in 2011, lost traction in 2012 which resulted in the committee being restructured bringing in senior employees to ensure that the green agenda is more effectively communicated throughout the group.

We have realised that the greening journey is still in its infancy and it has encountered many obstacles along the way. The group is committed to making the necessary changes, but also wants to be genuine and transparent about the difficulties that have been experienced along this complicated and intricate journey towards sustainability.

Reduction targets

ABIL has set reduction targets to help drive environmental sustainability within the group and manage the reduction of its carbon footprint. Reductions will be monitored and measured against set targets and will be reviewed annually and amended as targets are attained. The targets set are as follows:

Environmental aspect	Target (CO_2e = CO_2 equivalent)
Energy	A 10% reduction in energy usage by 2014 from 2010 baseline of 61 303 tons CO_2e, i.e. target for 2014 is 55 173 tons CO_2e and 34% by 2020, i.e. target for 2020 is 40 460 tons CO_2e, relative to current operational size.
Water	Establish baseline by December 2012 and reduce our water consumption at our main campuses and outlets by a minimum of 10% by 2014. Longer term targets will be set by March 2013.
Paper	Paper consumption will be reduced by a minimum of 10% by 2014 with longer term targets to be set by March 2013.
	Paper recycling statistics are recorded on a monthly basis with targets relative to paper reduction to be set by March 2013.
General waste	Record accurate data on all general waste that has been recycled and sent to landfill by December 2012 with longer term targets to be set by March 2013.
Business travel (employee commuting, employees reimbursed travel, transport of supplies, business flights and car rental)	A 10% reduction in business travel by 2014 from a 2010 baseline of 13 152 tons CO_2e, i.e. target for 2014 is 11 837 tons CO_2e by 2014.
Scope 1 emissions (diesel consumption for generators, refrigerants, group owned vehicles)	A 10 % reduction in scope 1 emissions by 2014 from 2010 baseline of 24 328 tons CO_2e, i.e. target for 2014 is 21 895 tons CO_2e by 2014.

Reporting, monitoring and measuring ABIL's carbon footprint

ABIL has again been included in the JSE's Socially Responsible Investment (SRI) index.

The Carbon Disclosure Project (CDP) is our key area of reporting on environmental sustainability and through this channel and others ABIL publishes environmental sustainability and carbon footprint data. ABIL's Scope 1, 2 and 3 emissions were verified by the group's internal audit team as well as an independent third party for the first time in 2012.

ABIL's scores for 2012 were 93% for disclosure and a B rating for performance (in relation to 2011 scores of 74% for disclosure and a D rating for performance).

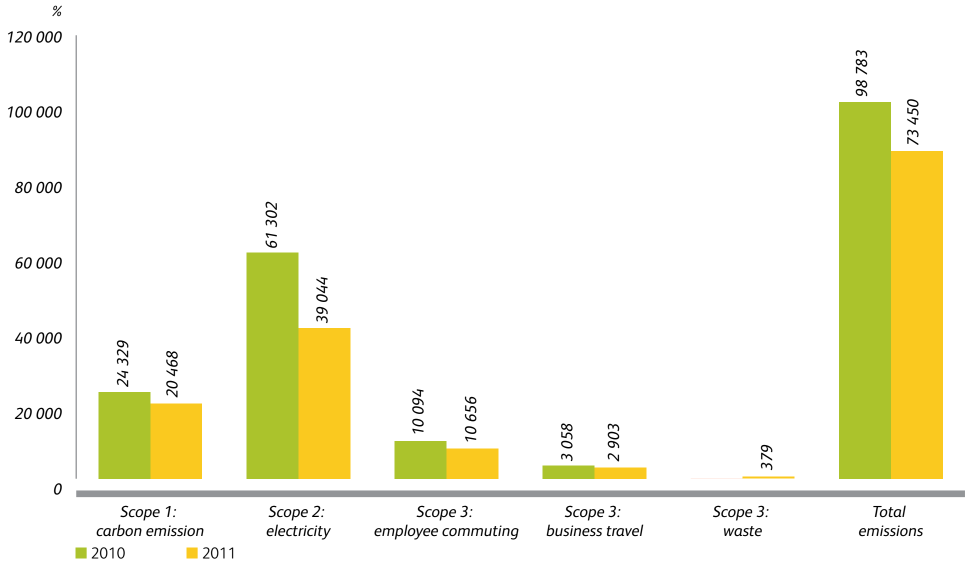
> The group's Scope 1, 2 and 3 emissions were verified by the group's internal audit team as well as an independent third party for the first time in 2012.

ABIL's carbon footprint

Methodology	The GHG protocol methodology was used. An external expert was consulted where clarity was needed for emission factors that were not available for South Africa.
Inclusions	ABIL's group activities, equipment and operations, as well as employee commuting, business travel, waste generation for central offices and branches are also included.
Exclusions	Non-South African business operations for the Retail unit are excluded as it is not significant to the total impact.

Our carbon footprint for the reporting period October 2010 – September 2011 (2011 financial year) was 73 450 metric tons of CO_2e emissions which are broken down as follows:

Graph 1: ABIL's carbon emissions



ABIL's carbon footprint for the financial years 2010/2011

Scope per GHG protocol		*Group* 2010	*Group* 2011	*Banking unit* 2010	*Banking unit* 2011	*Retail unit* 2010	*Retail unit* 2011
Scope 1: Direct GHG emissions from:	metric tons	**24 329**	**20 468**	3 052	2 597	21 277	17 871
Refrigerants	metric tons	**5 095**	**2 535**	2 597	1 989	2 498	546
Diesel generators	metric tons	**6**	**41**	6	37	–	4
Group owned vehicles	metric tons	**19 228**	**17 892**	449	571	18 779	17 321
Scope 2: Indirect GHG emissions from:	metric tons	**61 302**	**39 044**	18 969	11 464	42 333	27 580
Electricity – central offices	metric tons	**7 501**	**3 991**	6 211	2 621	1 290	1 370
Electricity – Roodefurn	metric tons	**1 151**	**1 179**	–	–	1 151	1 179
Electricity – branches and stores	metric tons	**52 650**	**33 738**	12 758	8 843	39 892	24 895
Distribution centre – Boksburg	metric tons	**–**	**136**	–	–	–	136
Scope 3: Other indirect emissions from:	metric tons	**13 152**	**13 938**	5 010	5 387	8 142	8 551
Employee commuting	metric tons	**10 094**	**10 656**	3 596	3 974	6 498	6 682
Waste	metric tons	**–**	**379**	–	89	–	290
Employees vehicles reimbursed	metric tons	**678**	**604**	160	74	518	530
Business flights	metric tons	**579**	**485**	202	164	377	321
Car rental	metric tons	**30**	**54**	11	28	19	26
Transportation and distribution	metric tons	**1 771**	**1 760**	1 041	1 058	730	702
Total CO_2 emissions	metric tons	**98 783**	**73 450**	27 031	19 448	71 752	54 002

GRI EN3, EN4, EN29

Weaknesses and shortfalls

Obtaining accurate data has been a key focus area in 2012. The Banking unit has uncovered numerous billing errors which have limited our ability to report accurately on the consumption of water and electricity. Attempts to have the errors rectified by the municipality have still not achieved the necessary corrections. Electricity meters have, however, been installed at the Banking unit's central office, which will help in obtaining more accurate consumption data from relevant departments and suppliers.

Procedures and processes have also been set up to collect accurate data on a regular basis. This will limit the need for projections and estimations and provide a more accurate carbon footprint going forward.

Recording accurate water and electricity data for ABIL's branch network is challenging but this has allowed us to rework processes. Calculated estimations and projections were used in ABIL's CDP reports for the past two years, and graph 1 shows a reduction in overall emissions.

However, the group is cautious about stating that we have reached our reduction targets, due to the fact that in some cases, estimations and projections were used to calculate the carbon footprint owing to a lack of accurate data. ABIL will only be willing to publically state that its reduction target has been achieved once the data is accurate, and the savings have again been verified by a third party.

The 2012 CDP submission was ABIL's second one to the National Business Initiative's CDP. This has allowed us to understand the intricacies of the group's business operations, as well as the need to establish a structured process and procedure to obtain accurate data. This has been a real learning curve for ABIL, and as we continue on the green journey the group is building a strong foundation to ensure all environmental initiatives are sustainable.

GRI EN18

ABIL's greening journey

In 2012, ABIL reduced its carbon emissions by investing in a power factor correction centre, a building management system at the Banking unit's central office, installing energy efficient lighting and motion sensors at both the Retail and Banking units' central offices, as well as in the new and revamped branches. The Retail unit has also engaged with green technologies to help reduce costs and their environmental impact.

Energy

ABIL's primary negative impact is linked to energy consumption and with rising energy costs means that this has been a key focus area.

The Banking unit has installed electricity meters at its Midrand central office, which has not only helped with obtaining accurate data, monitoring and measuring but has also assisted with reduction of emissions. A decision has been taken by the Banking unit that all new branches that have been constructed or will be in the future will no longer be fitted with geysers, resulting in less energy consumption. The Retail unit has taken a decision that all geysers in 1 072 stores nationally will be switched off and disconnected. This has saved the Retail unit an estimated 11 526 144 kWh for the financial year 2010/2011. Motion sensors have been installed in all meeting rooms at the Retail unit's central office in Sandton and the electricity circuits have been spilt to reduce the number of lights that are burning unnecessarily.

A group wide energy reduction committee has been established to drive the process collectively and to develop an implementation plan with costs.

Water

ABIL is a relatively small water user and consumed 11 142 (Banking unit only) kilo litres on both central office campuses during the financial year 2011/2012. ABIL has set up processes to collate data from the branch network in order to increase data accuracy and our reporting integrity. Daily water meter readings are recorded to supplement the lack of proper billing.

In our venture to achieving true sustainability, bottled water is being phased out at all corporate events, training workshops and board meetings. This has also assisted in educating employees and reducing our environmental impact.

Information technology (IT)

ABIL has invested in the IT environment in term of systems and infrastructure. During the 2012 financial year 194 monitors were replaced. The Banking unit replaced 64 watt HP 7540 Cathode Ray Tube monitors with Samsung 19” LCD Power Consumption Maximum 20 watts, with a difference in wattage being 44 W. This equated to a total savings of 22 944 38 kilo watt hours and the Banking unit saved 2 363 tons CO_2e.

The Banking unit’s IT division has developed a virtualisation strategy and has been able to reduce the physical footprint by running 597 virtual servers on only 25 servers. Each physical server consumes 675 watts per day, which equates to utilising 147 086 kilo watts for the year to operate 597 servers. The virtualisation of servers has allowed the Banking unit to save 69 177 kilo watts of electricity per year and has reduced the Banking unit’s emissions by 71 tons of CO_2e.

Laser cartridges at the Banking unit’s central office are collected for remanufacture and reuse. Approximately 289 ink cartridges were recycled for 2011 and 166 recycled cartridges were purchased. This helped save 498 kg CO_2e by using remanufactured cartridges.

The Retail unit has also adopted virtualisation of servers and has reduced the number of physical servers from 429 to approximately 20, and this has significantly reduced electricity consumption. New disc storage facilities have also reduced the amount of power used. The Cathode Ray Tube (CRT) monitors within 1 072 stores have been replaced with energy efficient LCD flat screens.

The Retail unit’s IT division selected its preferred service provider because the company complies with International Organisation for Standardisation (ISO) standards with regard to the disposal of discarded, out-of-date IT equipment. Where possible, the parts of used computers and computer printers including glass, plastic and electrical wiring, are reused or recycled in a manner that is not harmful to the environment.

Paper

ABIL only purchases paper that is approved by the Forest Stewardship Council (FSC) to ensure that this resource comes from a sustainable source. We have also focused on reducing consumption.

All marketing material at the Banking unit is printed on paper that is FSC approved and a particular brand known as Hi-Q Titan Plus, which is manufactured by Hansol, an environmentally responsible company.

A complete life cycle assessment of this product was not done but a clear disadvantage is that this product is imported from Korea, case in point that embarking on a green journey is complex and the true costs of decisions also need to be taken into consideration when they are made. ABIL attempts to purchase local products wherever practically possible and where the true costs have been considered.

Since 2012, the Banking unit has also reduced its Loan Agreement page count by six pages and now prints its contracts double sided. The average number of contracts per month for the 2012 financial year was 141 703. This is an estimated resultant savings of 1 700 436 pages and an approximate CO_2 saving of 7,26 tons.

Printers are being set to print in duplex mode. At an estimated average of 5,8 million pages printed per month this could potentially halve the paper usage of all multipage printed documents. This has a direct environmental impact on trees used. Currently only 24% of printers are set to duplex print, and this should be increased to all printers that have the ability to print in duplex mode.

The Banking unit published an internal magazine for employees at regular intervals during the year. As part of the cost saving initiative, embracing technology and going green, the internal magazine has now changed to an electronic publication – “eVoice”. This change has saved an estimated 1,4 tons of paper from being consumed and 1,3 tons of CO_2 emissions being emitted into the atmosphere.

Paper savings were also realised at the Retail unit. An estimated total of 165 000 less paper of the club magazine were printed due to the change in the paper grade, from 60 gsm to 57 gsm and finally to 51 gsm. The Ellerines brand changed their paper grade from 49 gsm to 45 gsm and this resulted in 8,2% less paper consumption.

The Retail Unit purchased new computer printers, with revised specifications, that will reduce the amount of paper used through the introduction of management controls and dualsided print options. Colour printers have been replaced with black and white printers.

An electronic payslip system has also been implemented with the Retail unit and this has reduced the amount of paper used to provide approximately 10 000 employees, in six countries, with printed payslips each month (x 13 annually). The introduction of a biometric system for attendance and time keeping also reduced the amount of paper used to record the daily attendance of approximately 10 000 employees in six countries (x 12 annually).

All leave applications are now processed electronically with a further reduction in the amount of paper that was used in the manual recording of all types of leave.

GRI EN2

Waste and recycling

The Banking and Retail units recycle all general waste at the central office campuses which includes separate paper recycling processes. Over this financial year, the Retail unit has recycled 22 tons of paper and just over 15 tons of general waste including cans, cartons, plastic, newspaper and magazines. The Banking unit recycled over 8 tons of paper and 40 tons of general waste over the same period. This amounted to a total of 85 tons for both central office campuses.

The three R concept of REDUCE – REUSE – RECYCLE will be adopted by the Retail unit in waste reduction and waste management.

The Banking unit hosted its Annual Conference on 12 September 2012, and the notebooks and pens that were provided to each delegate were manufactured out of recycled material. The notebooks contained 70 pages that were manufactured from 100% recycled material, the cover of the notebook was made from 100% recycled cartons and the barrel of the pens fashioned out of 70% recycled cartons.

Greening the supply chain

The green procurement policy which forms part of the group procurement policy was developed and finalised in 2012. The policy will ensure that ABIL procures goods and services in a manner that allows the group to make choices where material costs are a key consideration, yet where the true costs (social, environmental and economic) are taken into account. Environmental issues were again at a focal point of the Supplier Summit that was held in October 2012. All suppliers were required to submit their company's environmental policy, reduction plans to reduce consumption of resources and targets, provide monthly emissions data and their green supplier policy.

Group supply chain and logistics

Suppliers previously delivered furniture and appliances to over 1 000 stores in South Africa and countries in southern Africa where the Retail unit has a trading footprint. The stores of more than six brands were previously responsible for the delivery of furniture and appliances to their customers.

As a first for the retail furniture industry in South Africa, the Retail unit has rolled out a National Distribution Network. This will have a major impact on the cost management of the Retail unit, as well as significant impact in the reduction of the carbon footprint of the company.

Retail unit distribution centres

The following aspects have direct impact on the environment through the significant reduction of the Retail unit's carbon footprint:

All new distribution centres are incorporating leading edge eco-friendly design, construction and development. This includes:

- Environmental and sustainable design principles;
- Use of solar technology, where feasible;
- Recycled building material used in the construction of the walls and other areas;
- Thermal insulation used throughout;
- Water management and, where possible, the recycling and use of grey water is incorporated into the design; and
- Indigenous gardens.

GIS technology is used in planning the routes of drivers with both distance and traffic flow taken into consideration. This has already improved the deliveries per vehicle per day, with more improvements planned.

GRI EN7

Employees' education and training

The Retail unit held a training workshop for 23 green champions at its central office earlier this year. The two new green committees, both at the Retail and Banking units, which are made up of senior managers and executives, also attended training facilitated by environmental specialists.

Employees' buy-in has proven to be difficult because the greening journey requires a complete mind shift change and this takes time. However, ABIL is committed to making the change and educating employees around the environmental crisis and the effects it has on business, and on them as individuals.

ABIL's largest area of emissions is generated from purchased electricity and therefore the employees' education and awareness campaigns are currently focused around this key area. ABIL in partnership with Eskom held two energy awareness campaigns for our employees, one at the Retail unit central office and the other at the Banking unit central office. Eskom facilitated an industrial theatre performance on the day of the event and companies that specialise in energy efficient lighting and electrical equipment were invited to showcase their products to employees.

GRI EN30

Community engagement

ABIL realises that while looking inward is an impact initiator in the environmental transformation journey, it is also important to work with others to secure environmental safety of the planet. ABIL has now become an active member within the Midrand Environmental Forum, where its central office is situated, and through them has connected with the broader Midrand community. The ABIL environmental transformation officer was invited as a guest speaker on the community radio programme to talk about and educate the public around environmental issues as well as ABIL's green journey.

The Banking unit participated in a community cleanup in September 2012 in light of National Cleanup Week and cleaned up an environmentally sensitive area within the Midrand area. This area is a wetland, which provides numerous environmental benefits to the surrounding areas.

Through engaging with the Midrand Environmental Forum, this has allowed ABIL to interact with other corporates around sustainability issues. ABIL attended the first Environment Indaba hosted by the Midrand Forum with the aim to get businesses around the Midrand area to work together to tackle the climate change issue a global problem that starts with local action.

The Banking unit also engages with the community through our Corporate Social Investment projects to address direct and indirect social and environmental impacts of water, sanitation, food and energy security as documented below.

Eastern Cape

A permaculture schools project was established with the aim of feeding the children and generating income for the community. This was environmentally beneficial as vacant land was converted to permaculture that used organic farming methods as well as water harvesting techniques were employed.

A sanitary solutions project was carried out with seven day care centres, this allowed the children to utilise proper toilet systems and reduced adverse impacts on the environment which existed due to improper sanitation facilities.

Gauteng

There are 28 vegetable tunnels that are active within Gauteng, sponsored by the Banking unit. These tunnels feed 3 400 children daily and have employed 25 community members. These tunnels have taught children to respect the environment and use it wisely for their benefit.

KwaZulu-Natal

The MCA thermo geyser project manufactured and provided 10 solar water geysers to homes and crèches within disadvantaged areas of KwaZulu-Natal. The savings reported were approximately 50% of the electricity bill after the solar water geysers were installed.

The Green Legacy Initiative was also run in KwaZulu-Natal where 5 000 trees were donated by the Wildlands Conservation Trust and volunteers planted the trees in two communities, two industrial parks and 30 schools.

Biodiversity

South Africa has the third highest level of biodiversity in the world, but due to the effects of climate change biodiversity is dwindling. ABIL's business operations do not have a major impact on biodiversity but we ensure that our central office gardens are landscaped with indigenous plants to fit the natural habitat.

Going forward

Through the implementation of the environmental policy the following key areas were identified in 2012 and will continue to be a priority in 2013:

- Recording and improving the accuracy of data
- Measuring and monitoring against objectives and targets and driving down emissions with a focus on electricity
- Re-education: Employees awareness and training

ABIL is committed to environmental sustainability and reducing our carbon footprint. The greening journey is a challenging one as it includes behaviour change from a throw away culture to one of modesty and respect for the natural world which we have come to take for granted. Despite the challenges we are excited that we can improve each year and feel confident that through working together internally and with others this can be achieved.

2011 environmental DMA

For the past few years, ABIL has undertaken a number of initiatives to mitigate our negative impact on the environment. These initiatives, while adding value, have been ad hoc and occurred without a defined strategy, impact assessment or coordinated plan of action.

The seriousness of the global environmental crisis, and our desire to actively align ourselves to the principles of sustainable development, has led to the realisation that we can no longer justify our stance that we are classified as a low to medium impact company and that our efforts therefore need not have the same rigour as is expected of significant contributors of greenhouse gases.

We realise that unconscious consumption causes damage to the environment and that we are in a position, not only to manage our impact on the environment consciously, more efficiently and less wastefully, but also to influence the change we want to see internally, as well as from our stakeholders and suppliers.

A formal structure has been implemented to guide and review our environmental initiatives. The ABIL consumer advocate was appointed to head up the environmental portfolio for the group, reporting to the executive director of risk, with oversight by the ABIL sustainability board subcommittee. A dedicated specialist environmental officer was appointed and a strategy for transformation developed. The strategy encompasses an alignment of actions and outcomes for the Banking and Retail units working together.

Case studies

Cato Ridge

The Retail unit's Cato Ridge premises has undertaken the following green, environmental and sustainability aspects:

- Material used for the sublayer flooring and hardstand was sourced from the nearby Asmang mine, and has therefore assisted in cleaning up part of the mining dump
- Electricity consumption will be reduced due to the use of motion sensors being installed
- Natural ventilation and separately activated smoke ventilation is being used, as well as having several walls and the roof insulated
- All office windows have been thermally tinted which will reduce the heat load caused by the sunlight, and the structure of the offices has been designed to prevent direct sunlight in these areas
- The bricks used onsite are made from 70% recycled material
- Part of the labour was sourced from the local community
- Only local indigenous flora has been planted

Epping

The new R95 million warehouse in Epping, made of recycled material including crushed concrete and bricks from the old Athlone power station, has received an award for the developers.

- Growthpoint Properties Limited won the SA Property Owners Association (SAPOA) Innovative Excellence Award for building this facility
- The bricks contain 70% recycled material from the demolished Athlone power station
- The latest green building technologies were applied to convert a contaminated old foundry into the new warehouse
- The facility was converted into a high spec, high tech warehouse of international standards
- The design has shifted the distribution model from parochial to regional, achieving greater operational and economic efficiency
- Recycled steel and electrical cables were also utilised
- Eco-glass windows and efficient airconditioning system aid with energy saving temperature management

Independent verification statement

To the management and stakeholders of African Bank:

Enlightened Energy (EE) was engaged by African Bank Investment Limited (hereafter ABIL) to provide independent verification services of the Greenhouse Gas (GHG) Emissions Assessment (carbon footprint), covering the period 1 October 2010 to 30 September 2011. The carbon footprint included emission sources from scope 1, 2 and 3 from African Bank and Ellerines. The engagement was a desktop verification comprising an expert team led by EE's principal carbon management emissions practitioner, Kimberly van Niekerk, with 10 years' experience in GHG emissions profile analysis, carbon management, Carbon Disclosure Project (CDP) advisory and emission reduction strategy development with numerous top-tier customers in various countries.

GHG Protocol Guidelines and ISO Standard

To the best of our ability, this verification engagement has been managed in accordance with the GHG Protocol's Corporate Accounting and Reporting Guidelines and the ISO 14064-3 Standard, where the methodology of the engagement was structured to meet the ISO Standard's requirements.

Independence

EE was not responsible for the preparation of any part of the carbon footprint and has not undertaken any project work for ABIL in the reporting period concerning reporting or footprint data collection. EE's responsibility in performing its verification activities is to the management of ABIL alone and in accordance with the terms of reference agreed with it.

Carbon footprint verification objectives

A carbon footprint measures total amount of GHG emissions produced by an organisation over a specified time period and assists management in understanding its GHG risks and identifying emission reduction opportunities. The objective of the verification is to provide ABIL stakeholders with an independent opinion of whether the carbon footprint was carried out in accordance with the GHG Protocol and ISO 14064 Standards. ABIL intends to use the verified GHG emissions data in its 2012 submission to the CDP.

Scope of work performed

GHG Protocol Compliance

The process used in arriving at this verification statement is based on the guidance and reporting principles contained in the GHG Protocol and in the ISO 14064-3 Standard, as well as other best practices in GHG emissions reporting.

Our approach to verification included the following:

- A review of carbon footprint data gathering, collation, calculation and reporting methodology at ABIL's head office to assess compliance with the GHG Protocol principles of relevance, completeness, consistency, transparency and accuracy;
- A review of the final report and sample calculations for errors and/or anomalies; and
- Interviews, if/where necessary, with the individual(s) responsible for preparing the carbon footprint to clarify any issues and ensure that compliant processes were used to determine the footprint.

Findings

It was determined that, in general, improvements are needed in the company's GHG emissions accounting and reporting processes in certain areas. It is noted that:

GHG Protocol and ISO 14064

- Relevance – ABIL has included the three footprint scopes (1, 2 and 3) broken down correctly for the reporting period. This serves the decision making needs of the company.
- Completeness – improvement is needed to ensure that all required emission sources are included in the calculation of the footprint. Emissions from CH4 and N_2O (these two, together with CO_2, are to be included at a minimum as

best practice) gasses are absent and the lack of a complete data set for electricity consumption leads to an over/underestimation of total emissions.

- Consistency – improvement is needed to ensure that the methodology is based on primary sources, used consistently throughout the assessment as stated in a footprint report. Where lack of data requires the use of secondary or estimated data, the reasoning behind this must be discussed.
- Transparency – improvement is needed in making key assumptions and methodologies clear, disclosing and referencing emission factor sources and discussing any issues.
- Accuracy – improvement is needed in including emissions from the main three GHGs (mentioned above) and utilising emission factors contained in the IPCC in accordance to the GHG Protocol's best practice to ensure that quantification is neither over nor underestimated.

Recommendations

GHG Assessment

- While ABIL presents its footprint correctly in terms of scope breakdown, the presentation should be part of a larger report which includes discussion of organisational boundaries, assumptions and methodologies used and the reasoning underlying their respective usage.
- ABIL's hybrid approach to data sources – drawing from both the UK Department for the Environment, Food and Rural Affairs (DEFRA) and the GHG Protocol – is not best practice. ABIL should adopt the GHG Protocol and ISO 14064 as the Standards from which it takes general guidance on footprint methodology and all critical inputs.
- Primary data should be used whenever possible and cases where it is not available must be discussed as part of the footprint report.
- Assumptions and methodology should be made clear in the discussion included as part of the footprint report.
- Data sets utilised should be complete and the footprint should include all six GHGs (with CO_2, CH4 and N_2O being sufficient as best practice).

Conclusions

Based on the information reviewed, a determination of "limited assurance" over the carbon footprint, including scopes 1, 2 and 3, is appropriate. With the incorporation of the improvements discussed above, ABIL will have a greater level of confidence that the footprint accurately reflects the GHG emissions produced by ABIL and that the reporting of the GHG emissions is in accordance with the principles set by the GHG Protocol and ISO 14064.

Kimberly van Niekerk
Verification team leader

Enlightened Energy
kvanniekerk@enlenergy.com

Johannesburg

Independent third party assurance statement

To the board and stakeholders of African Bank Investments Limited (ABIL):

Integrated Reporting and Assurance Services (IRAS) was commissioned by ABIL to provide independent third party assurance (ITPA) over the sustainability content within their 2012 integrated report (the report), covering the period 1 October 2011 to 30 September 2012. The assurance team consisted of Lauren Stirling and Michael H Rea, our lead certified sustainability assurance practitioner, with 13 years' experience in environmental and social performance measurement, including sustainability reporting and assurance.

AccountAbility AA1000AS (revised, 2008)

To the best of our ability and significant experience in sustainability report assurance, this engagement has been managed in accordance with AccountAbility's AA1000AS (2008) assurance standard, where the format of the engagement was structured to meet the AA1000AS Type I (Moderate) requirements.

Independence

IRAS has not been responsible for the preparation of any part of the report, nor has IRAS undertaken any commissions for ABIL that would conflict with our independence. Responsibility for producing this report was the responsibility of ABIL. Thus IRAS is, and remains, an independent assurer over the content and processes pertaining to this report.

Assurance objectives

The objectives of the assurance process were to provide ABIL's stakeholders an independent "moderate level assurance" opinion on whether:

- The sustainability content within the Report adheres to the AA1000AS (2008) principles of *Inclusivity, Materiality and Responsiveness*; and
- The sustainability content within the report meets the Global Reporting Initiative (GRI) G3 guidelines Application Level B reporting requirements.

Assurance approach and limitations

The process used in arriving at this assurance statement is based on AccountAbility's AA1000AS (2008) guidance, the GRI's G3 Application Level requirements, as well as other best practices in sustainability reporting assurance. Our approach to assurance included the following:

- A review of sustainability measurement and reporting procedures at ABIL's head offices to determine the context and content of sustainability management by the company;
- A review of ABIL's information collation and reporting procedures to define the content of the report by looking at the materiality of issues included in the report, stakeholder engagement responses to issues identified, determination of sustainability context and coverage of material issues, ultimately leading to adherence to the AA1000AS principles of *Inclusivity, Materiality and Responsiveness*;
- Reviews of drafts of the report for any significant errors, anomalies and/or insupportable assertions; and
- Reviews of drafts of the report to confirm that the requisite number of GRI G3 indicators had been covered in the Report in order to meet the GRI's G3 Application Level B requirements.

The process was limited to the content and assertions made within the report for the period under review, and did not extend to a comprehensive analysis of the accuracy, reliability, completeness and/or consistency of the data presented by ABIL. Rather, sustainability data presented within the report was subjected to reasonability tests during proof editing. The process was further limited to reviewing policies and procedures for ethics, governance and stakeholder engagements, and did not extend to the physical engagement of any stakeholders to arrive at our assurance opinion.

Findings

Based on our review of the Report, as well as the processes employed to collect and collate information reported herein, it is our assertion that:

- ABIL adequately adheres to the Accountability AA1000APS principles of *Inclusivity, Materiality and Responsiveness.*
- The report adequately meets the GRI G3's requirements for Application Level B+. However, it was found that the reporting of performance against a few indicators continues to require data quality improvements and/or further detail in disclosure. Moreover, it should be noted that while the Disclosures on Management Approach meet minimum reasonable reporting expectations, there is definite room for improvement.
- Improvements can be made with respect to the collection, collation and reporting of data for key sustainability performance indicators.

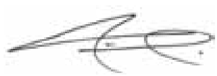
Conclusions and recommendations

Based on the information reviewed via desk research and management interviews, IRAS is confident that this report provides a comprehensive and balanced account of ABIL's social and environmental performance for the period under review. The information presented is based on systematic processes and we are satisfied that the reported sustainability data reasonably represents ABIL's ability to manage and/or report on its performance, while meeting the AA1000AS (2008) principles of *Inclusivity, Materiality and Responsiveness.* Moreover, and although the quality of data of some GRI G3 indicators can be improved, this report appears to meet the GRI G3's requirements for Application Level B (B+ with this assurance engagement).

However, the following recommendations have been identified:

- With respect to adherence to AccountAbility's AA1000APS principle of Responsiveness, ABIL should continue to ensure that feedback to stakeholders on sustainability matters occurs in line with King III's recommendations for "Integrated Reporting".
- ABIL should improve the extent to which explanations are offered relative to how the company manages key sustainability elements, as per the GRI's guidance around Disclosures on Management Approach. At bare minimum, the company should clearly explain what is measured, how often, via what measurement techniques, and to whom results are reported.
- Having successfully addressed the requirements of GRI G3 Application Level B+, it is our recommendation that ABIL continue to ensure that its sustainability reporting processes meet no less than the GRI's G3 Application Level B reporting requirements in subsequent reporting periods.

For more information about the assurance process employed to assess the corporate responsibility section within ABIL's 2011 SD report, email michael@iras.co.za.



IRAS
integrated reporting
& assurance services

Integrated Reporting and Assurance Services

7 December 2012

Johannesburg

GRI index

	Description	*Explanation*
1.	**Strategy and analysis**	
1.1	Statement from the most senior decision maker of the organisation	The chairman and CEO have jointly produced a comprehensive Letter to stakeholders (on page 24), which provides the reader with an overview of the trends in the lending landscape, strategic objectives, a competitor analysis and overall performance. Key material issues and sustainability priorities are defined and reviewed in terms of the previous years' performance. Current issues such as the impact of strikes in the mining sector have been discussed. Social and economic sustainability issues are incorporated reflecting the level of integration.
1.2	Description of key impacts, risks and opportunities	The strategic review (page 38) provides an overview of ABIL's strengths and opportunities. It also provides a discussion of the key positive impacts to customers through the provision of unsecured lending. A comprehensive risk report is also provided (page ##). Also refer to www.abil.co.za for the complete risk report.
2.	**Organisational profile**	
2.1	Name of the organisation	African Bank Investments Limited (ABIL).
2.2	Primary brands, products, and/or services	Available under operating structure on page 3.
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures	An operational breakdown is provided. Subsidiaries are highlighted. Refer to the group structure on page 3 and in the web based annual financial statements at www.abil.co.za.
2.4	Location of organisation's headquarters	59 16th Road, Midrand, South Africa, 1685.
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues	Banking unit operates in South Africa exclusively, whilst the Retail unit has limited operations in Swaziland, Zambia, Namibia, Botswana and Lesotho.
2.6	Nature of ownership and legal form	ABIL is a publicly owned management holding company listed on the JSE Limited with wholly owned subsidiaries within the South African unsecured credit environment. The shareholders' profile is available on page 13.

Description		Explanation
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	The markets served are LSM 2 – 8 formally employed and self employed individuals in the SA unsecured credit and furniture and appliances retailing environment. Available in the profile on page 2.
2.8	Scale of the reporting organisation	The scale of the organisation in terms of advances, sales, employees, number of customers and distribution footprint is available on page 3.
2.9	Significant changes during the reporting period regarding size, structure or ownership	There have been no significant changes in the size, structure or ownership during the current reporting period, other than through organic growth or operations.
2.10	Awards received in the reporting period	Green building in EHL won an Innovative Excellence Award page 177. ABIL was recognised as the award winner in the category of Best Presentation to the Investment Analysts Society in 2011/12. Its integrated report was rated excellent in the annual Ernst & Young integrated reporting survey and its sustainability report disclosure was rated the best on the JSE in the survey – Review of Sustainability Reporting in SA (IRAS). For six years in a row, the Banking unit has won the Ombudsman for Banking Services Award for excellence in complaints handling. This is available on pages 4 and 160.
3.	**Report parameters**	
3.1	Reporting period for information provided	1 October 2011 to 30 September 2012.
3.2	Date of most recent previous report	The 2011 integrated report was published in December 2011 covering the 2011 financial year, which was the latest report, and is available on the website, www.abil.co.za.
3.3	Reporting cycle	The group reports annually.
3.4	Contact point for questions regarding the report or its contents	Contact information for Investor Relations is available on the inside front cover. Contact information for Consumer Advocates Offices is available on the inside front cover and page 134.
3.5	Process for defining report content	Details are available in the About this report on page 134. IFRS, the King Report on Corporate Governance for South Africa 2009 (King III) requirements, the Global Reporting Initiative's sustainability reporting guidelines and the Framework for Integrated Reporting and the Integrated Report Discussion Paper, have been cited. The report content was guided by the GRI technical protocol as well as what is relevant and material to key stakeholders. The material information was reviewed and approved by the board.
3.6	Boundary of the report	The 2012 integrated reports covers relevant aspects of all the South African operations of the group, which includes African Bank, EHL group of brands and insurance activities of Stangen and Relyant Insurance Company.
3.7	State any specific limitations on the scope or boundary of the report	The foreign operations in the EHL group are not material in the context of the ABIL group and these operations have been excluded from the scope of this report.
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities	The foreign operations in the EHL group are not material in the context of the ABIL group and these operations have been excluded from the scope of this report.

Description		Explanation
3.9	Data measurement techniques and the bases of calculations	Details of data definitions on page 200, as well as the web based annual financial statements for financial reporting at www.abil.co.za.
3.10	Explanation of the effect of any restatements of information provided in earlier reports, and reasons for such restatement	Where restatements have been made, explanations have been provided at the relevant section in the report – refer to note 58 in the annual financial statements on page 308. These all relate to disclosures in the notes and have no impact on the reported earnings or the financial position of the group.
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	There has been no change in the scope and boundary of this report, relative to previous reports.
3.12	Table identifying the location of the standard disclosures in the report	The report includes a comprehensive GRI content index which provides additional information on the specific indicators.
3.13	Policy and current practice with regard to seeking external assurance for the report	Integrated Reporting and Assurance Services (IRAS) was the external assurance company used for the assurance statement. The assurance statement is provided on page 180 with additional information in About this report on page 134.
4.	**Governance, commitments, and engagement**	
4.1	Governance structure of the organisation	A clear organogram outlines the ABIL board, its various committees and their responsibilities (refer to the corporate governance report on page 84). Details of the governing structure, including the nature of the composition of the board and the various board committees is also provided in the web based governance report at www.abil.co.za.
4.2	Indicate whether the chairman is also an executive officer	We have an independent non-executive chairman.
4.3	Board structure stating number of members	The board consists of 11 directors, with four executive directors and seven independent non-executive directors and is detailed on page 86. Also refer to the web based corporate governance report at www.abil.co.za
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	ABIL engaged with a wide group of local and foreign investors during this financial year – for example: roadshows, presentations, meetings, surveys and conferences. Engagement with employees has been through roadshows, presentations of results, surveys, emails to Leon, Tell Lindiwe, Tell Yusuf, etc (refer page 44 of stakeholder engagement).
4.5	Linkage between compensation and performance including departure arrangements and social and environmental performance	Refer to commentary provided in the remuneration report on page 93.
4.6	Processes for managing conflicts of interest	All directors are required to disclose any conflict or potential conflict of interest as discussed in the governance report on page 89.
4.7	Process for determining the qualifications and expertise of the members of the highest governance body and its committees	Details in the web based governance report at www.abil.co.za. Amongst other requirements, consideration is given to gender and racial diversity.

Description		Explanation
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	Values are outlined describing how ABIL governs behaviour and interaction with others and customers. Our values are available on page 5 in ABIL in perspective.
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles	Procedures for the identification and management of material issues in the business are available on page 36, in addition the board established a sustainability and ethics committee during the year, of which details are available in the web based corporate governance report at www.abil.co.za.
4.10	Processes for evaluating performance, particularly with respect to economic, environmental, and social performance	The performance of the overall board is evaluated on an annual basis and with the constitution of the sustainability and ethics committee matters with respect to environmental and social performance will be addressed. Individual directors undergo performance appraisals against the businesses development and we have developed an integrated strategy model to anchor our strategy execution and measure how well we are serving all our stakeholders, details available on page 84. More details are available of the web based corporate governance report at www.abil.co.za.
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	A comprehensive risk report has been provided and an introduction outlines ABIL's precautionary approach as it applies to the organisations management of risk. Precaution may be defined as "caution in advance". The principle implies that there is a social responsibility to protect the public from exposure to harm, when investigation has found a plausible risk (refer to the risk report on page 106).
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses	ABIL subscribes to a number of externally developed charters, principles and other initiatives, including: Companies Act, Basel II and Banks Act, FAIS Act, Occupational Health and Safety Act, Consumer Protection Act, The Carbon Disclosure project (CDP). As well as ■ King III ■ Global reporting initiative ■ JSE's sustainability reporting initiative ■ Financial Sector Charter ■ dti codes ■ Code of Banking Practice ■ Payments Association of South Africa

Description		Explanation
4.13	Memberships in associations and/or national/ international advocacy organisations	Memberships include: ■ Business Unity South Africa ■ National Business Initiative ■ Consumer Goods Council of South Africa ■ South African Insurance Association ■ Money Advice Association ■ South African Banking Risk Intelligence Centre ■ Investment Analysts Society
4.14	List of stakeholder groups engaged by the organisation	Refer to stakeholder engagement on page 44 to 51.
4.15	Basis for identification and selection of stakeholders with whom to engage	An overview of our philosophy on stakeholder engagement is available on page 44. The stakeholder groups have been identified on the basis of the extent to which they are affected by the operations and decisions of the group, as well as their ability to influence the performance or strategic direction of the group.
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and group	Refer to stakeholder engagement on page 44 to 57. Many approaches to stakeholder engagement have been given as well as the frequencies of each engagement for each stakeholder.
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded through its reporting	A list of stakeholder issues and the relevant material issue that it links to have been listed on pages 44 to 51. Stakeholder issues have been listed, and provide information of where more detail can be found in the report. Detailed responses have been given in the stakeholder engagement section, broken down according to group.
Economic		
Economic performance		
DMA	Disclosure on management approach ■ Economic performance ■ Market presence ■ Indirect economic impacts	ABIL contributes to the economy and the people by stimulating growth through its operation, and distribution of wealth to its various stakeholders. Where possible, our policies ensure that we employ locally based people. We further stimulate growth through the procurement policies. Also by providing affordable credit to our customers, we enable them which in turn assists the communities. Full commentary will be inserted in the integrated report in the following year's reporting.
EC1	Direct economic value generated and distributed	A summary of value added information is provided on page 136 with graphical illustration on page 136.
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Climate change risks that could possibly impact the group, both activities and financially, include: compliance to regulatory changes, damages to property and assets (be this by man or extreme weather). The risk is minimal as the costs are not high and risk processes are in place. For the Banking unit, the impacts would be indirect, through the impact it may have on our customers, their housing and their insurance. This may affect borrowing or insurance packages. For the Retail unit, the impact may be through logistical needs.
EC3	Coverage of the organisation defined benefit plan obligations	Not applicable as the group does not have any defined benefit plans.

Description		Explanation
EC4	Significant financial assistance received from government	We do not receive any form of financial assistance from government nor do they have a shareholding in the company.
Market presence		
EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	We do not benchmark entry level wages against the local minimum wage; however, we do benchmark against similar positions in the market to ensure that we provide employees with a competitive and fair wage.
EC6	Policy, practices, and proportion of spending on locally based suppliers at significant locations of operation	The group's preferential procurement policies and performance has been outlined on page 136. The report outlines the group's policy/practices for preferring locally based suppliers (i.e. SA owned/BEE compliant). Includes a statement of the factors that influence supplier selection to include environmental performance and green procurement.
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	There is a standard recruitment policy in place and common practice is to recruit in local communities, whenever possible. Refer to Letter to stakeholders on page 24, stakeholder engagement on page 44 and CSI on page 161.
Indirect economic impacts		
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in kind, or *pro bono* engagement	A brief outline is given of the Ellerine Holdings Trust Fund and the ABIL CSI funds, and the total expenditure is given on page 161. Detailed reporting on other CSI projects has been given in the sustainability section. Also refer to Letter to stakeholders on page 24.
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	ABIL discusses how their business units products and services produce an indirect economic impact on the communities. Research shows that customers utilise more than 50% on housing, home improvements and education. Is supported by marketing research. Includes a discussion of the negative impacts of credit and rehabilitation efforts. Refer to CSI on page 161. We further contribute through taxes paid; providing sustainable full time employment, directly and indirectly, as well as by developing our people through training and skills development; and we stimulate economic activity through procurement.
Environmental		
Materials		
DMA	Disclosure on management approach ■ Materials, energy, water ■ Biodiversity ■ Emissions, effluents, waste ■ Products and services ■ Compliance, transport, overall	We outline the environmental strategy on page 168 – which provides an overview of policies, structures, committees and targets. Reporting on the measurements for energy, water, biodiversity, emissions and waste, products and services, compliance and transport is detailed in sustainable development on page 169.
EN1	Materials used by weight or volume	Not available – currently ABIL does not record such data. IT technology products and paper have been listed as materials used.
EN2	Percentage of materials used that are recycled input materials	Reference to environmental impact on page 168.

Description		Explanation
Energy		
EN3	Direct energy consumption by primary energy source	544,54 GJ – refer to environmental impact on page 168.
EN4	Indirect energy consumption by primary source	136 469,20 GJ – refer to environmental impact on page 168.
EN5	Energy saved due to conservation and efficiency improvements	41 495,28 GJ – refer to environmental impact on page 168. Energy savings from installing meters, removing geysers, improving screens, servers and other IT equipment have been realised and reported.
EN6	Initiatives to provide energy efficient or renewable energy based products and services, and reductions in energy	Reference to environmental impact on page 168. Efficiency initiatives have been listed, but as yet no data has been quantified.
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Reference to environmental impact on page 168. Initiatives have been outlined; however, reductions achieved have not been quantified.
Water		
EN8	Total water withdrawal by source	11,142 kilo litres (Banking unit only) – refer to environmental impact on page 168. Processes have been set up to collate data from the branch network in order to increase data accuracy and reporting integrity.
EN9	Water sources significantly affected by withdrawal of water	A large volume of water is not required by the group's operations and therefore we do not measure water withdrawal.
EN10	Percentage and total volume of water recycled and reused	We do have a water recycling programme in place, but data not recorded.
Biodiversity		
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	ABIL's business operations do not have a major impact on biodiversity but we ensure that our central office gardens are landscaped with indigenous plants to fit the natural habitat.
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	None of our activities or products and services have an impact on biodiversity in protected areas.
EN13	Habitats protected or restored	Due to the nature of our business operations, this aspect is not applicable.
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	This indicator is not material to ABIL's business operations as we do not have a major impact on biodiversity. However, we ensure that our central office gardens are landscaped with indigenous plants to fit the natural habitat.
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	Our operations have not and do not have any adverse impact on IUCN Red List species and national conservation list species.

Description		Explanation
Emissions, effluents and waste		
EN16	Total direct and indirect greenhouse gas emissions by weight	Available in our CDP report on page 169. Total greenhouse gas emissions as the sum of direct and indirect emissions in tonnes of CO_2 equivalent has been provided. The standard used has been indicated. The methodology has been provided, as well as the inclusions and exclusions. Refer to page 169.
EN17	Other relevant indirect greenhouse gas emissions by weight	The data is reported in the CDP report on page 169.
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Available in our CDP report on page 169.
EN19	Emissions of ozone depleting substances by weight	Sufficient data is not yet available as our greening journey is still in its infancy. The group endeavours to report on this in 2013.
EN20	NOx, SOx, and other significant air emissions by type and weight	Sufficient data is not yet available as our greening journey is still in its infancy. The group endeavours to report on this in 2013.
EN21	Total water discharge by quality and destination	Sufficient data is not yet available as our greening journey is still in its infancy. The group endeavours to report on this in 2013.
EN22	Total weight of waste by type and disposal method	Sufficient data is not yet available as our greening journey is still in its infancy. The group endeavours to report on this in 2013.
EN23	Total number and volume of significant spills	Due to the nature of our business operations, we generate little or no hazardous waste therefore this environmental aspect is not applicable.
EN24	Weight waste deemed hazardous under the terms of the Basel Convention	Due to the nature of our business operations, we generate little or no hazardous waste therefore this environmental aspect is not applicable.
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff	ABIL's business operations do not directly impact on any water body or related habitat therefore this environmental aspect is not reported on.
Products and services		
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Refer to page 153. Targets have been set against which the group can measure its mitigation going forward.
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	The Retail unit has not developed a packaging reclaim process as yet.
Compliance		
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	ABIL has been compliant with the environmental laws and regulations, and therefore no fines or sanctions were imposed.

Description		Explanation
Transport		
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	13 559 CO_2 equivalent (business travel and courier) – refer to the CDP report on page 169. Indirect CO_2 emissions from commuting and transport have been quantified and a discussion of the logistics of the retail units quantified.
Overall		
EN30	Total environmental protection expenditures and investments by type	Community investments in relation to the environment have been outlined. Employees Education and Training: R50 000 Environmental Advisor: R60 000 Corporate Social Investment Projects: Environmental
Social: Labour practices and decent work		
DMA	Disclosure on management approach ■ Employment ■ Labour/management relations ■ Occupational health and safety ■ Training and education ■ Diversity and equal opportunity ■ Equal remuneration for women and men	Our vision will only become a reality through the continued commitment, energy and passion of our people, and their engagement and development is therefore central to the execution of our vision. Details of the investment, growth and social impact of our employees is on pages 140 to 161.
Employment		
LA1	Total workforce by employment type, employment contract, and region, broken down by gender	The total number of employees for both business units has been broken down according to type of employment contract, as well as geographic region. Refer to information on our people on pages 140 to 161.
LA2	Total number and rate of employee turnover by age group, gender, and region	Employee turnover is given and broken down according to reason for turnover, voluntary and involuntary. Refer to information on our people on pages 140 to 161.
LA3	Benefits provided to full time employees that are not provided to temporary or part time employees, by significant locations of operations	A range of benefits are available to permanent employees, death benefit cover, disability cover, funeral cover, medical aid subsidy, maternity leave, family responsibility leave, study leave, employees' discounts on furniture purchases, loans to employees at preferred rates, performance bonuses. Some benefits are regulated by legislation but in all cases better than the minimums prescribed. Additional commentary is available on pages 140 to 161.
Labour/management relations		
LA4	Percentage of employees covered by collective bargaining agreements	Of the Banking unit, 52% of employees are unionised. Additional commentary is available on pages 147 to 150.
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	The standard operating procedure for consultation and negotiation with union and/or non-union members is a minimum of one month. The Retail unit has a two-year wage and conditions of employment agreement with SACCAWU. Further details on employee relations are available on pages 147 to 150.

Description		Explanation
Occupational health and safety		
LA6	Percentage of total workforce represented in formal joint management worker health and safety committees that help monitor and advise on occupational health and safety programmes	Although the group does not have a formal agreement with SACCAWU, they are still kept informed on health and safety issues within the Banking unit. The Retail unit has done significant work to support health and safety compliance. A health and safety system has been developed and has been implemented at all workplaces throughout the group.
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region	Workplace injuries and lost time hours are reported on pages 143 and 150 for the Banking unit and Retail unit respectively.
LA8	Education, training, counselling, prevention, and risk control programmes in place to assist workforce members, their families, or community members regarding serious diseases	The group's approach to HIV/AIDS education and support is reported and accompanied by data of employees tested at the Banking unit, and details of the awareness programmes at the Retail unit are available on pages 143 and 149.
LA9	Health and safety topics covered in formal agreements with trade unions	Although the group does not have a formal agreement with SACCAWU, they are still kept informed on health and safety issues within the Banking unit. As above in LA6.
Training and education		
LA10	Average hours of training per year per employee by gender, and by employee category	Detailed coverage of the number of employees trained has been provided and broken down according to racial group and gender, number of employees and hours trained on pages 144 and 151.
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Skills programmes are in place with BANKSETA to address skills development needs of employees within the Banking unit. Furthermore, a contact centre learnership for unemployed people from previously disadvantaged communities, creating a pool of skilled candidates that could be employed at the Banking unit as positions become available. Refer to pages 144 and 151 for more details on learning and skills development for the group.
LA12	Percentage of employees receiving regular performance and career development reviews, by gender	At the Banking units, the performance of all employees is reviewed against preset performance standards and key result areas (KRAs). These ratings against performance standards or KRAs are used as guidelines for annual salary reviews and performance bonuses. Within the Retail unit, all employees, except those in non-management bargaining units of the Ellerines and Wetherlys brands, undergo some form of performance review during the year. The reason for the exclusion is the fact that both groups are unionised with negotiated salaries. Having said that, the sales employees in the Ellerines brand are subjected to a monthly sales performance review. The performance of all other sales employees are reviewed monthly with quarterly adjustments to their retainers and subsequent performance targets. A discussion on the group's talent management strategy has been outlined including performance management on pages 143 and 153.

Description		Explanation
Diversity and equal opportunity		
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	The board composition is available in the web based corporate governance report at www.abil.co.za and a breakdown of employees on pages 141 and 143. The EE profile has been provided outlining the breakdown of employees per category according to gender, minority group membership and contract.
Equal remuneration for women and men		
LA14	Ratio of basic salary and remuneration of women to men by employee category and by significant locations of operations	ABIL's human capital principles and practices are based on equal opportunity and non-discrimination and as such remuneration is defined by the role of the employee and not gender.
Social: Human rights		
DMA	Disclosure on management approach ■ Investment and procurement practices ■ Non-discrimination ■ Freedom of association and collective bargaining ■ Child labour ■ Prevention of forced and compulsory labour ■ Security practices ■ Indigenous rights ■ Assessment ■ Remediation	The maintenance of socially responsible labour practices are a priority for the group for all its employees, and should be extended to third parties we do business with. We are committed to complying with the applicable laws, labour legislation and the Constitution of SA, and having a strong focus on the respect for human rights.
Investment and procurement practices		
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	With our operations predominantly in South African we comply with the country's laws, legislation and Constitution which has a strong focus the respect for human rights. Unless there is reason to be concerned about potential human rights non-compliance or violations, no clauses in this regard are included in investment agreements.
HR2	Percentage of significant suppliers, contractors that have undergone human rights screening, and actions taken	Whilst the Retail unit has no contractual provisions for human rights screening of suppliers, all foreign suppliers are personally screened from a compliance perspective. The merchandise director and respective buyers visit factories before any purchase is concluded.
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Only train policies on technical aspects of the job, as well as training relating to processes around discipline and incapacity, and not anything about human rights. The cornerstone of the processes when followed is fairness, but this will not relate strictly to human rights. As such, this has not been reported on.
Non-discrimination		
HR4	Total number of incidents of discrimination and corrective actions taken	No violations were reported. Our grievance procedure allows employees to address any manner of conduct that they feel aggrieved about which includes discrimination and victimisation.

Description		Explanation
Freedom of association and collective bargaining		
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights	No violations were reported. With a significant percentage of employees covered by collective bargaining agreements and unionised, we view these high percentages as an indication of our commitment to freedom of association. Employee relation practices are provided on pages 147 and 150.
Child labour		
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labour, and measures taken to the elimination of child labour	Our compliance with labour legislation through our human capital policies and practices uphold the fundamental labour rights of employees. No incidents of child labour were reported. Presently, factories which supply the Retail unit are scrutinised with site visits to ensure that human rights abuses are not occurring and that factories uphold an ethical working environment that does not violate socially responsible employment conditions. Site visits are a prerequisite for new factories, particularly those outside of the country, and more formalised audit procedures for factories are being investigated.
Forced and compulsory labour		
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour	Our compliance with labour legislation through our human capital policies and practices uphold the fundamental labour rights of employees. No incidents of forced labour were reported.
Security practices		
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations	Nil.
Indigenous rights		
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	No violations were reported.
Social: Society		
DMA	Disclosure on management approach ■ Local communities ■ Corruption ■ Public policy ■ Anticompetitive behaviour ■ Compliance	Upliftment to communities through both business units are provided, and through CSI initiatives. The group's compliance is regulated by the SARB, NCA and other bodies such as FSB and the JSE. The group also has a risk management and governance structure, which is overseen by the group risk and capital management committee and group audit committee – these bodies ensure adherence to all legislation and regulation. Case study on the Distribution centres shows that the Retail unit is endeavouring to assist with the community.

Description		Explanation
Communities		
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development plans	This indicator has been partially covered in the Letter to stakeholders (page 24). It discusses how the business unit's products and services produce an indirect economic impact on the communities they enter – through research it shows that the customers utilize more than 50% of their borrowings for housing, home improvements and education, and use it to improve their daily lives and grow their families' future. This is supported by market research. A discussion of the negative impacts of credit and rehabilitation efforts is included.
Corruption		
SO2	Percentage and total number of business units analysed for risks related to corruption	This indicator has not yet been reported.
SO3	Percentage of employees trained in organisation's anticorruption policies and procedures	Antifraud responsibilities form an inherent part of all our employees' responsibilities.
SO4	Actions taken in response to incidents of corruption	The case volumes for each year from Forensic services have been provided (refer to page 111).
Public policy		
SO5	Public policy positions and participation in public policy development and lobbying	None.
SO6	Total value of financial and inkind contributions to political parties, politicians, and related institutions by country	None.
Anticompetitive behaviour		
SO7	Total number of legal actions for anticompetitive behaviour, antitrust, and monopoly practices and their outcomes	None.
Compliance		
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	None.
Social: Product responsibility		
DMA	Disclosure on Management Approach PR ■ Customer health and safety ■ Product and service labelling ■ Marketing communications ■ Customer privacy ■ Compliance	Please see pages 157 to 161. In the retail industry, informing customers regarding the proper use, care and composition of the products that they purchase is an important component of our interaction with our customers. We want our customers to purchase products knowing that they are of good quality, safe and produced responsibly. Care is taken to ensure that suppliers provide the legally prescribed labelling on products so that customers are informed of the composition and origination of materials, where applicable.

Description		Explanation
Customer health and safety		
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	At present, the assessment of products and services for their health and safety impacts does not exist in a pre-emptive format. The Retail unit is largely reactive to products which show some health or safety concerns and relies on its suppliers to address issues of non-compliance. Manufacturers are required to declare their compliance with local regulations and the Consumer Protection Act of 2010 but a system of measuring compliance with a standardised method has not been established. Further commentary is available on page 158 of the integrated report.
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	Refer to PR1.
Product and service labelling		
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	The Retail unit's suppliers are bound to comply with the requirements of the Consumer Protection Act 2010 and declare their awareness of that obligation before signing the supplier terms and conditions when doing business with the group. Currently, none of the products in the business are assessed for compliance with procedures related to information and labelling required by products and services in a formalised process.
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	Product labelling must comply with the regulation relevant to the country in which it is sold; however, the Retail unit does not currently have a formal monitoring system in place to record, analyse and report on the instances of non-compliance regarding labelling and product information from suppliers.
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Information on customer management is presented on pages 153 to 161. The practices and policies that are in place to assess and maintain customer satisfaction have been described, and the key conclusions of surveys have been reported. A table of requests and responses has been given providing granularity.
Marketing communications		
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	With the Banking and Retail units being a part of the ABIL group, it is imperative that on all marketing collateral where reference to credit is made that all brands comply with the regulations and requirements as set out by the NCR Act 34, of 2005. We also comply with the Code of Banking Practice, the FAIS ACT, CPA, the Direct Marketing Association of South Africa and we ensure that our adverts adhere to the Advertising Standards Authority – which is an independent body set up and paid for by the marketing communication industry to ensure that its system of self regulation works in the public interest.

Description		Explanation
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	Due to the above strict processes in dealing with marketing compliance issues we have not had any incidents of non-compliance with regulations concerning marketing communications which has resulted in a fine, penalty, warning or voluntary codes.
Customer privacy		
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	We do not have any substantiated complaints regarding breaches of customer privacy and losses of customer data. ABIL's consumer advocate's office acts as a protector of the rights and interests of our customers. Data is provided on page 160.
Compliance		
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	In 2011, no money was paid out on fines for non-compliance with laws and regulations concerning the provision and use of products and services.

Annual financial statements

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These financial statements were prepared under the supervision of the chief financial officer, Nithia Nalliah CA(SA), and have been audited in compliance with the applicable requirements of the Companies Act, 71 of 2008.

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Financial definitions

All-in tax rate (%)

The all-in tax rate is the income statement taxation charge (i.e. both direct and indirect taxation) expressed as a percentage of profit before any taxation.

Average cost of funding

The average cost of funding is calculated by expressing the interest expense as a percentage of the average total interest bearing liabilities.

Average gross advances

The average gross advances are the sum of the month end gross advances for the period, divided by the number of months in the period.

Average interest bearing liabilities

The average interest bearing liabilities comprise subordinated bonds/debentures, bonds and other long term and short term funding and are calculated as the sum of the month end balances for these instruments, divided by the number of months in the period.

Bad debts to advances ratio (%)

The bad debts to advances ratio is calculated by expressing the charge for bad and doubtful advances as a percentage of average gross advances.

Basel Capital Accord

The Basel Capital Accord (Basel 2,5) of the Bank for International Settlements is an improved capital adequacy framework accomplished by aligning banks' capital requirements with enhanced modern risk management practices and sophisticated risk assessment capabilities. Basel 2,5 became effective for all South African banks on 1 January 2012.

Basic earnings attributable to ordinary shareholders

Profit for the period less dividends on non-redeemable, non-cumulative, non-participating preference shares declared during the reporting period.

Basic earnings per share (cents)

Basic earnings per share are calculated by dividing basic earnings attributable to ordinary shareholders by the weighted number of shares in issue during the period.

Capital adequacy ratio (%)

The capital adequacy of banks and banking groups is measured in terms of the requirements of the Banks Act (Act 94 of 1990, as amended) and regulations thereto. The ratio is calculated by dividing the sum of Tier 1 and Tier 2 capital by the risk weighted assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, investments in money market instruments and cash reserves held by the insurance company, net of bank overdrafts.

Cash flow hedge

A risk management technique used to insulate financial results from exposure to variability in cash flows that is attributable to a particular risk associated with an asset or liability that could affect profit or loss or a highly probable forecast transaction that could affect profit or loss.

Cash-generating unit

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Comparable sales growth (%)

Comparable sales growth is measured using 12 months average sales over 12 months average square metres.

Cost to advances ratio (%)

The cost to advances ratio is calculated by expressing the operating expenses as a percentage of average gross advances.

Cost to income ratio (%)

The cost to income ratio is calculated by expressing the operating expenses as a percentage of total income.

Deferred taxation assets

Deferred taxation assets are the amounts of income taxation recoverable in future years in respect of deductible temporary differences arising from differences between the taxation and accounting treatment of transactions and the carry forward of unused taxation losses.

Direct taxation

Direct taxation includes normal South African and foreign jurisdiction taxation on income, capital gains tax (CGT) and secondary tax on companies (STC).

Dividend cover (times)
Dividend cover is calculated by dividing basic earnings attributable to ordinary shareholders for the period by ordinary dividends declared for the period excluding STC costs.

Economic profit
Reported headline earnings less a charge for an imputed cost of capital, based on average shareholder funds, multiplied by the estimated average cost of equity for the group, resulting in a measure of shareholder value creation.

Effective tax rate (%)
The effective tax rate is the direct taxation charge per the income statement expressed as a percentage of profit before taxation.

Fully diluted basic earnings per share (cents)
Fully diluted basic earnings per share are calculated by dividing basic earnings attributable to ordinary shareholders by the fully diluted number of ordinary shares in issue during the period.

Fully diluted headline earnings per share (cents)
Fully diluted headline earnings per share are calculated by dividing headline earnings by the fully diluted number of ordinary shares in issue during the period.

Fully diluted number of shares in issue
The fully diluted number of shares in issue is the weighted number of ordinary shares in issue adjusted for the impact of outstanding options under the ABIL Employee Share Participation Scheme as defined in IAS 33 – earnings per share.

Gearing
Gearing represents the ratio of average total assets to average ordinary shareholders' equity, and therefore indicates the extent to which the group uses debt financing to fund assets. Gearing is important in order to optimise the weighted average cost of capital and the return on equity of the group.

Gross margin (%)
The gross margin percentage is determined by taking the total revenue from the sale of merchandise, less cost of sales, divided by the total revenue from the sale of merchandise for the period.

Headline earnings
The guidance given on headline earnings, as issued by the South African Institute of Chartered Accountants (SAICA) in circular 3/2012 of June 2012 has been used for the purposes of definition and calculation. Headline earnings consist of basic earnings attributable to ordinary shareholders adjusted for goodwill impairments, capital profits and losses and other non-headline items.

Headline earnings per share (cents)
Headline earnings per share are calculated by dividing headline earnings by the weighted number of ordinary shares in issue during the period.

IFRS
International Financial Reporting Standards, as adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB.

Indirect taxation
Value-added tax (VAT) and other taxes, levies and duties paid to government, excluding direct taxation.

JIBAR
Johannesburg Interbank Agreed Rate, which is the rate that South African banks charge each other for wholesale money.

National Credit Act
The National Credit Act (Act No 34 of 2005) (NCA) became fully operational on 1 June 2007. Subject to certain defined exceptions it regulates all arm's length credit agreements that are made or have an effect within the Republic of South Africa and it replaced the Usury Act (Act No 73 of 1968) (including the Exemption Notices published by the Minister of Trade and Industry in terms of section 15A), the Credit Agreements Act (Act No 75 of 1980) and the Integration of Usury Laws Act (Act No 57 of 1996).

Net asset value per share (cents)
Net asset value per share is calculated as ordinary shareholders' equity divided by the number of ordinary shares in issue (net of treasury shares) at the end of the period.

Non-performing loans (NPLs)
Non-performing loans are defined as loans that have more than three cumulative instalments in arrears. Primarily, NPLs are considered impaired loans in terms of IAS 39 and therefore require an assessment for impairment provisions.

Financial definitions *continued*

NPL coverage (%)

NPL coverage is calculated as the total impairment provisions (including ceded credit life reserves) divided by non-performing loans.

Operating margin (%)

The operating margin percentage is determined by the profit from operations, excluding the interest expense, divided by the sale of merchandise for the period.

Perpetual preference shares

Perpetual preference shares are non-redeemable, non-cumulative and non-participating preference shares which carry a dividend as a fixed percentage of the prime overdraft lending rate.

Primary (Tier 1) capital

Primary capital consists of issued ordinary share capital and perpetual preference share capital, retained earnings and reserves.

Rehabilitated loans

Where a loan or receivable which has previously been written off as bad, starts generating cash repayments at a certain minimum level to that required of loans and receivables that are on balance sheet, such previously written off loan is brought back onto the balance sheet with an appropriate allowance for impairment.

Return on assets (RoA) (%)

Return on assets is calculated by expressing headline earnings as a percentage of monthly average total assets.

Return on equity (RoE) (%)

Return on equity is calculated by expressing headline earnings as a percentage of monthly average shareholders' equity. Alternatively, return on equity is equal to return on assets multiplied by the gearing ratio.

Risk weighted assets

Risk weighted assets are determined by applying risk weights to balance sheet assets and off balance sheet assets and commitments according to the relative credit risk of the counterparty. The risk weighting for each balance sheet asset and off balance sheet asset is defined by the regulations to the Banks Act (Act No 94 of 1990, as amended).

South African Benchmark Overnight Rate (SABOR)

Volume weighted average of interbank funding at a rate other than the current repo rate and the 20 highest rates paid by banks on their overnight and call deposits, plus a 5% weight for funding through foreign exchange swaps.

Sale of merchandise

Sale of merchandise is defined as the consideration received or receivable from the sale of goods and services, net of discounts, excluding value-added tax, insurance and other revenue.

Sales

Sales constitute the aggregate of the amount disbursed in a period. In the case of the credit card products, sales represent the aggregate value of credit limits granted in respect of credit cards issued during the period.

Statutory assets – bank and insurance

Statutory assets – bank and insurance comprises cash reserves and prudential liquid assets placed with the South African Reserve Bank, together with insurance prudential cash reserves as required by the Financial Services Board.

Secondary (Tier 2) capital

Secondary capital is made up of qualifying subordinated debt and portfolio impairments net of deferred tax.

Stock turn

Stock turn is calculated by dividing the rolling annual cost of sales by the average inventory of the preceding 12 months.

Total expected recoverable

The number of contractual instalments on a loan multiplied by the total monthly instalment, including insurance and service fees.

Weighted number of shares in issue

The weighted number of shares in issue is calculated as the number of ordinary shares in issue at the beginning of the year, increased by shares issued during the period, reduced by shares cancelled or bought back during the period, further reduced by treasury shares as a result of share transactions in the ABIL Employee Share Trust, weighted on a time basis for the period in which they have participated in the income of the group.

Acronyms and abbreviations

ABIL	African Bank Investments Limited group of companies
ABL	African Bank Limited
AGM	Annual general meeting
ALCO	Asset and liability committee
ASSA	Actuarial Society of South Africa
Basel	Basel Capital Accord
BEE	Black Economic Empowerment
CAGR	Compound annual growth rate
CAR	Capital adequacy requirement
CFD	Contract for difference
CGT	Capital gains taxation
CGU	Cash-generating unit
CIPC	Companies and Intellectual Properties Commission
CSI	Corporate social investment
DEG	Deutsche Investitions-und Entwicklungsgesellschaft mbh
DMTN	Domestic medium term note
DTI	Department of Trade and Industry
DPS	Dividend per share
Ellerines/EHL	Ellerine Holdings Limited group of companies
EMTN	European medium term note
EPS	Earnings per share
EU	European Union
EUR	Euro (€)
Eyomhlaba	Eyomhlaba Investment Holdings Limited, ABIL's first BEE programme
FEC	Forward Exchange Contract
FICA	Financial Intelligence Centre Act
FIFO	First-in, first-out
FSB	Financial Services Board
FSV	Financial Soundness Valuation
GAAP	Generally Accepted Accounting Practice
GBP	Pound sterling (£)
HEPS	Headline earnings per share
Hlumisa	Hlumisa Investment Holdings Limited ABIL's second BEE programme
IAR	Incurred and reported
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
ICAAP	Internal capital adequacy assessment process
IFC	International Finance Corporation
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
ISDA	Institute of Swap Dealers Association
JIBAR	Johannesburg Interbank Agreed Rate
JSE	JSE Limited
LGD	Loss given default
LHS	Left hand side
LSM	Living standards measure
LTIP	Long term incentive plan
MCAR	Minimum capital adequacy requirement
MOI	Memorandum of incorporation
NACA	Nominal annual compounded annually
NACM	Nominal annual compounded monthly
NACQ	Nominal annual compounded quarterly
NACS	Nominal annual compounded semi-annually
NCA	National Credit Act
NPL	Non-performing loan
OTC	Over-the-counter
PD	Probability of default
PGN	Professional guidance note
PL	Performing loan
Proparco	Societé de promotion et de participation par la cooperation économique SA
Remco	Group remuneration committee
RHS	Right hand side
R million	Millions of rand
RoA	Return on assets
RoE	Return on equity
SA	South Africa
SABOR	South Africa Benchmark Overnight Rate
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SENS	Securities exchange news service
SME	Small and medium enterprise
SPE	Special purpose entity
SPV	Special purpose vehicle
STC	Secondary tax on companies
STRATE	Share transactions totally electronic
Tier 1	Primary capital
Tier 2	Secondary capital
Tier 3	Tertiary capital
UK	United Kingdom
US	United States of America
USD	United States dollar ($)
VAT	Value-added tax
ZAR	South African rand (R)

Nine-year summarised group statement of financial position

as at 30 September 2012

R million	Eight-year compound growth %	30 September IFRS compliant 2012	2011	2010	2009	2008	2007	2006	2005	SA GAAP compliant 2004
Assets										
Short term deposits and cash, statutory assets	15	**7 392**	5 973	5 216	4 876	4 380	2 629	1 724	1 664	2 434
Inventories	n/a	**871**	885	851	859	767	–	–	–	–
Other assets	28	**2 099**	1 351	847	1 074	848	216	259	251	289
Net advances	34	**46 013**	35 099	25 360	20 486	16 452	8 752	6 064	5 282	4 472
Property and equipment	30	**1 152**	852	622	586	496	155	116	112	140
Intangible assets	n/a	**683**	761	834	906	978	–	–	–	–
Goodwill	n/a	**5 472**	5 472	5 472	5 472	5 472	–	–	–	–
Total assets	31	**63 682**	50 393	39 202	34 259	29 393	11 752	8 163	7 309	7 335
Liabilities and equity										
Short term money market funding	31	**4 587**	1 666	1 038	3 108	4 219	808	447	633	544
Other liabilities	25	**2 511**	2 315	2 182	1 745	1 919	579	607	608	433
Bonds and other long term funding	34	**37 320**	29 672	20 877	14 705	10 332	7 095	4 217	3 256	3 524
Subordinated bonds/ debentures	45	**3 831**	2 775	2 226	2 044	511	305	202	197	193
Total liabilities	34	**48 249**	36 428	26 323	21 602	16 981	8 787	5 473	4 694	4 694
Ordinary shareholders' equity	24	**14 303**	13 246	12 396	12 174	11 929	2 482	2 207	2 122	2 641
Preference shareholders' equity	n/a	**1 130**	719	483	483	483	483	483	483	–
Minority shareholders' interest	n/a	**–**	–	–	–	–	–	–	10	–
Total equity (capital and reserves)	25	**15 433**	13 965	12 879	12 657	12 412	2 965	2 690	2 615	2 641
Total liabilities and equity	31	**63 682**	50 393	39 202	34 259	29 393	11 752	8 163	7 309	7 335

Nine-year summarised group income statement

for the year ended 30 September 2012

R million	Eight-year compound growth %	12 months to 30 September (audited) IFRS compliant 2012	2011	2010	2009	2008	2007	2006	2005	SA GAAP compliant 2004
Gross margin on retail business	n/a	**2 134**	2 083	1 974	1 791	1 313	–	–	–	–
Interest income on advances	19	**9 919**	7 308	5 950	5 437	4 285	3 098	2 974	2 752	2 490
Assurance income	34	**3 828**	2 962	2 309	2 565	2 288	823	492	431	366
Non-interest income	35	**3 291**	2 930	2 491	2 251	1 768	707	446	274	294
Income from operations	25	**19 172**	15 283	12 724	12 044	9 654	4 628	3 912	3 457	3 150
Charge for bad and doubtful advances	35	**(5 197)**	(3 596)	(2 693)	(2 511)	(1 856)	(823)	(606)	(488)	(484)
Claims paid	37	**(912)**	(612)	(626)	(462)	(220)	(81)	(68)	(74)	(75)
Risk adjusted income from operations	22	**13 063**	11 075	9 405	9 071	7 578	3 724	3 238	2 895	2 591
Product insurance claims	n/a	**(60)**	(68)	(83)	(22)	(23)	–	–	–	–
Other interest and investment income	8	**219**	339	390	367	342	170	113	156	118
Interest expense	30	**(3 680)**	(2 850)	(2 383)	(2 025)	(1 313)	(636)	(465)	(492)	(453)
Operating costs	25	**(5 467)**	(4 931)	(4 481)	(4 576)	(3 734)	(1 091)	(1 048)	(951)	(946)
BEE charge	n/a	**–**	–	–	–	(291)	–	–	–	–
Indirect taxation: VAT	1	**(72)**	(67)	(20)	(18)	(56)	(38)	(46)	(50)	(69)
Profit from operations	16	**4 003**	3 498	2 828	2 797	2 503	2 129	1 792	1 558	1 241
Capital items	n/a	**(6)**	1	34	(7)	(11)	–	37	–	–
Share of associate companies' income	(100)	**–**	–	–	–	–	–	–	1	1
Profit before taxation	16	**3 997**	3 499	2 862	2 790	2 492	2 129	1 829	1 559	1 242
Direct taxation: STC and Normal	12	**(1 194)**	(1 128)	(920)	(935)	(932)	(754)	(653)	(616)	(486)
Profit for the year	18	**2 803**	2 371	1 942	1 855	1 560	1 375	1 176	941	756
Per share statistics										
Basic earnings per share (cents)	10	**341,0**	291,0	237,2	224,3	210,5	268,4	229,5	198,1	160,3
Headline earnings per share (cents)	10	**342,5**	291,0	235,2	225,2	211,6	268,4	223,3	201,5	161,6
Weighted number of shares in issue (million)	7	**804,0**	803,7	803,7	803,7	718	497	497	471	472

Currency adjusted group statement of financial position

as at 30 September 2012

	R million		USD million	
	2012	**2011**	**2012**	**2011**
Assets				
Short term deposits and cash	**3 070**	3 198	**369**	395
Statutory assets – bank and insurance	**4 322**	2 775	**520**	343
Inventories	**871**	885	**105**	109
Other assets	**1 310**	872	**157**	108
Taxation	**27**	13	**3**	2
Net advances	**46 013**	35 099	**5 530**	4 339
Deferred tax asset	**762**	465	**92**	57
Policyholders' investments	**–**	1	**–**	–
Property and equipment	**1 152**	852	**139**	105
Intangible assets	**683**	761	**82**	94
Goodwill	**5 472**	5 472	**658**	676
Total assets	**63 682**	50 393	**7 655**	6 228
Liabilities and equity				
Short term funding	**4 587**	1 666	**552**	206
Other liabilities	**2 201**	2 013	**265**	249
Taxation	**94**	72	**11**	9
Deferred tax liability	**216**	229	**26**	28
Life fund reserve	**–**	1	**–**	–
Bonds and other long term funding	**37 320**	29 672	**4 486**	3 668
Subordinated bonds/debentures	**3 831**	2 775	**460**	343
Total liabilities	**48 249**	36 428	**5 800**	4 502
Ordinary shareholders' equity	**14 303**	13 246	**1 719**	1 637
Preference shareholders' equity	**1 130**	719	**136**	89
Total equity (capital and reserves)	**15 433**	13 965	**1 855**	1 726
Total liabilities and equity	**63 682**	50 393	**7 655**	6 228
Rates used for currency conversion				
Year end rate	**1,00**	1,00	**8,32**	8,09

Currency adjusted group income statement

for the year ended 30 September 2012

	R million		USD million	
	2012	**2011**	**2012**	**2011**
Gross margin on retail business	**2 134**	2 083	**264**	300
Interest income on advances	**9 919**	7 308	**1 229**	1 051
Assurance income	**3 828**	2 962	**474**	426
Non-interest income	**3 291**	2 930	**408**	421
Income from operations	**19 172**	15 283	**2 375**	2 198
Credit impairment charge	**(5 197)**	(3 596)	**(644)**	(517)
Claims paid	**(912)**	(612)	**(113)**	(88)
Risk adjusted income from operations	**13 063**	11 075	**1 618**	1 593
Product insurance claims	**(60)**	(68)	**(7)**	(10)
Other interest and investment income	**219**	339	**27**	49
Interest expense	**(3 680)**	(2 850)	**(456)**	(410)
Operating costs	**(5 467)**	(4 931)	**(677)**	(709)
Indirect taxation: VAT	**(72)**	(67)	**(9)**	(10)
Profit from operations	**4 003**	3 498	**496**	503
Capital items	**(6)**	1	**(1)**	–
Profit before taxation	**3 997**	3 499	**495**	503
Direct taxation: STC and Normal	**(1 194)**	(1 128)	**(148)**	(162)
Profit for the year	**2 803**	2 371	**347**	341
Per share statistics				
Basic earnings per share (cents)	**341,0**	291,0	**42,3**	41,9
Headline earnings per share (cents)	**342,5**	291,0	**42,4**	41,9
Weighted number of shares in issue (million)	**804,0**	803,7	**804,0**	803,7
Reconciliation of headline earnings				
Basic earnings attributable to ordinary shareholders	**2 742**	2 339	**340**	341
Adjustment for non headline items:				
Gross adjustment	**17**	–	**3**	–
Tax thereon	**(5)**	–	**(1)**	–
Headline earnings	**2 754**	2 339	**342**	341
Rate used for currency conversion				
Average rate	**1,00**	1,00	**8,07**	6,95

Certificate from the company secretary

In terms of section 88(2)(e) of the Companies Act, 2008, I certify that to the best of my knowledge and belief, African Bank Investments Limited has lodged with the Registrar of Companies for the financial year ended 30 September 2012 all such returns as are required of a public company in terms of the Companies Act, and that all returns are true, correct and up to date.

L Goliath
Company secretary

Midrand
7 December 2012

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the group financial statements of African Bank Investments Limited, comprising the statement of financial position at 30 September 2012, the income statement, the statement of comprehensive income, the statement of changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

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; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

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

Approval of the annual financial statements

The annual financial statements set out on pages 211 to 320 were approved by the board of directors and signed on its behalf by:

M Mogase
Chairman

L Kirkinis
Chief executive officer

Midrand
7 December 2012

Independent auditor's report

We have audited the group and separate annual financial statements of African Bank Investments Limited set out on pages 9 to 17 and 218 to 320, which comprise the statement of financial position as at 30 September 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes, comprising a summary of significant accounting policies, other explanatory information and the remuneration report.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the group and separate financial position of African Bank Investment Limited as at 30 September 2012, and its consolidated financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 30 September 2012, we have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche
Registered auditors

Per Mgcinisihlalo Jordan
Partner

7 December 2012

Audit committee report

The audit committee presents its report for the financial year ended 30 September 2012 as required by section 94(7)(f) of the Companies Act. The audit committee has been constituted in accordance with applicable legislation and regulations.

Purpose of the audit committee

The main purpose of the audit committee is to assist the board in discharging its duties relating to the safeguarding of assets, accounting systems and practices, the integrity of internal financial control processes and the preparation of accurate financial reporting and statements in compliance with all legal requirements and accounting standards.

Membership and attendance

The audit committee consists of three members who are all independent non-executive directors. The committee meets at least four times per annum.

The names of the members and attendance at meetings are recorded in the corporate governance section of the integrated report.

Functions of the audit committee

The audit committee has approved the audit committee charter and has discharged the functions in terms of the charter which included:

- Reviewing and approving the group external audit plan including the proposed audit scope, approach to group risk activities and the audit fee;
- Confirming the independence of the auditors Deloitte & Touche and approval of the appointment of Mr Mgcinisihlalo Jordan as the designated auditor;
- Reviewing external audit reports;
- Assessing the nature and extent of non-audit services;
- Evaluating the role, independence and effectiveness of the internal audit function;
- Approving the appointment or dismissal of the head of internal audit;
- Approving the internal audit charter and internal audit plan;
- Reviewing the accounting policies adopted by the group and all proposed changes in accounting policies and practices;
- Reviewed the interim and annual financial statements to confirm the financial statements are prepared in accordance with International Financial Reporting Standards, the Companies Act of South Africa (Act 71 of 2008, as amended) and the Listings Requirements of the JSE Limited;
- Reviewing the group compliance plan and assessing the procedures for identifying the regulatory risks; and
- Reviewing the legal matters that could have a significant impact on the group's financial statements.

Attendance by auditors and executive directors

The internal and external auditors attended and reported at all meetings of the audit committee. The executive directors also attended all meetings by invitation.

Independence of external auditors

The audit committee has satisfied itself that the auditors are independent of the group.

Expertise and experience of financial director

As required by the JSE Listings Requirements, the audit committee has assessed and is unanimously satisfied that the group financial director, Nithia Nalliah, has the appropriate skills, qualifications and experience to continue in this position.

Internal financial controls, accounting practices and group annual financial statements

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

The committee is satisfied that the group annual financial statements are in compliance, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards, and recommended the financial statements for approval by the board.

Sam Sithole
Chairman: Group audit committee

7 December 2012

The directors present their report to shareholders, together with the audited group annual financial statements of the company and the group for the financial year ended 30 September 2012.

Nature of the business and principal subsidiaries

ABIL is a publicly quoted bank controlling company, in terms of the Banks Act No 94 of 1990, as amended, listed on the JSE Limited which operates businesses within the Republic of South Africa and in the neighbouring countries of Zambia, Botswana, Lesotho, Namibia and Swaziland. The two main areas in which the group operates are the underwriting of unsecured credit risk through the provision of personal loans to the formally employed emerging market, which is confined to the Republic of South Africa, and the retailing of furniture and appliances for cash and credit both within and outside the Republic of South Africa. ABIL was founded on the development of the unsecured credit market with the intention of growing the market by making credit available to the majority of the South African citizens who were denied credit. It has achieved this through a significant distribution base throughout South Africa, predicated on self developed dynamic credit scoring models and efficient collection methods. ABIL has the following principal operating subsidiaries, with a full list of subsidiaries being disclosed in Appendix A.

- African Bank Limited is registered as a bank under the Banks Act and is the main operating company, carrying on the business of providing unsecured personal loans to both the formally and informally employed South African residents through its own branches and the Ellerines Group branches within South Africa.
- Ellerine Holdings Limited, through its main operating subsidiary, Ellerine Furnishers (Proprietary) Limited is engaged in the business of retailing furniture and appliances for cash and on credit to the markets spanning all LSMs. The credit for sales within South Africa is provided by African Bank.
- The Standard General Insurance Company Limited is registered as a life insurance company under the Long-term Insurance Act (Act No 52 of 1998, as amended), and provides credit life products to customers of African Bank Limited.
- Relyant Insurance Company Limited is registered as a short term insurance company under the Short-term Insurance Act (Act No 53 of 1998, as amended), and is primarily engaged in the sale of optional insurance on goods purchased by customers on credit from Ellerine Furnishers.
- Relyant Life Assurance Company Limited is registered as a life insurance company under the Long-term Insurance Act and provides funeral insurance products and insurance of credit life products to customers of African Bank Limited and Ellerine Furnishers (Proprietary) Limited.

Share capital

Ordinary shares

The authorised share capital remains unchanged at 1 000 000 000 shares of 2,5 cents each.

No shares were issued during the current year (2011: Nil). At 30 September 2012, the issued ordinary share capital totalled 804 175 200 (2011: 804 175 200) shares of 2,5 cents each representing R20,1 million (2011: R20,1 million). There were no shares repurchased during the current financial year (2011: Nil).

Preference shares

The authorised preference share capital remains unchanged at 20 000 000 shares of R0,01 each. During the current year ABIL issued an additional 5 480 778 non-redeemable, non-cumulative, non-participating preference shares with a par value of R0,01 each on 23 March 2012. The shares were issued at a premium of R76,13 per share and share issue expenses of R6 million were off set against the preference share premium. These shares rank *pari passu* with the 8 042 251 preference shares already in issue.

The issued preference share capital at 30 September 2012 totalled 13 523 029 (2011: 8 042 251) shares of R0,01 each representing R135 230 (2011: R80 422).

Holding company

ABIL does not have a holding company.

ABIL shares held by subsidiary companies

During the 2012 financial year the 473 415 shares previously held by the ABIL Employee Share Trust were issued to the employees or sold to third parties. As at 30 September 2012 there are no shares held by subsidiary companies.

Borrowing powers

In terms of the MOI, the group has unlimited borrowing powers. The group obtains its funding primarily through the

Domestic Medium Term Note (DMTN) Programme by the issue of Corporate Bonds which trade on the Bond Exchange of South Africa. The total funding approved by the board of directors in terms of the DMTN programme is R25 billion (2011: R15 billion). The capital outstanding to third parties in terms of the DMTN programme at 30 September 2012 is R9,93 billion (2011: R9,77 billion).

During the previous financial year, the board of directors approved and listed on the London Stock Exchange, a European Medium Term Note (EMTN) Programme amounting to USD1 billion. An additional USD1 billion was approved during the current financial year taking the EMTN to USD2 billion.

During the year under review African Bank Limited issued bonds in terms of the EMTN programme amounting to USD400 million and CHF150 million which has been converted into local currency equating to R4 331 million.

Subsidiaries in the group also have funding facilities from South African banks outside the group which are secured by suretyships issued by the subsidiaries' holding company.

The total borrowings of the group at 30 September 2012 are R45,7 billion (2011: R34,1 billion). Full details of the borrowings are shown in notes 14, 17 and 18 to the annual financial statements.

Going concern

The directors have satisfied themselves that the company and group are in a sound financial position and that sufficient borrowing facilities are accessible in order to enable the group to meet its foreseeable cash requirements. In addition, there has been no material change in the markets in which the group operates and it has the necessary skills to continue operations. On this basis they consider that the company and group has adequate resources to continue operating for the foreseeable future and therefore deem it appropriate to adopt the going concern basis in preparing the company and group's financial statements for this reporting period.

Post balance sheet events

Subsequent to year end, African Bank Limited has issued an additional Swiss bond amounting to CHF125 million.

Major capital expenditures

The group made total additions to its fixed assets of R568 million (2011: R483 million) during the past financial year.

Regulatory approval

As at the date of this directors' report, there is no outstanding regulatory approval.

Dividends to ordinary shareholders

On 19 November 2012, the board of directors declared a final cash dividend for the 2012 financial year of 110 cents per ordinary share.

	2012 cents	*2011 cents*
Ordinary dividends		
Interim, paid on 18 June 2012 to shareholders registered on 15 June 2012	**85**	85
Final, payable on 18 December 2012 to shareholders registered on 14 December 2012	**110**	100
Total	**195**	185

The dividend has been declared as a cash distribution but with an opportunity for ordinary shareholders to elect capitalisation shares to provide flexibility for shareholders wishing to increase their holding in the company given recent changes to dividend tax in South Africa.

Ordinary shareholders will be entitled to elect to receive ordinary shares of 2,5 cents each in the company as capitalisation shares *in lieu* of the cash dividend (the capitalisation issue), to be determined by the ratio that 110 cents bears to the 3 176,33719 cents being the volume weighted average price of the company's ordinary shares on the exchange operated by the JSE Limited (JSE) during the nine-day trading period ended 29 November 2012, provided that where the application of this ratio gives rise to a fraction of an ordinary share, no fractional entitlement shall arise and the result of such calculation will be rounded up to the nearest whole number where the fraction is greater than or equal to 0,5 and rounded down to the nearest whole number where the fraction is less than 0,5.

Dividends to preference shareholders

On 19 November 2012, the board of directors declared a cash preference dividend of 327 cents per preference share in respect of the second half of the 2012 financial year.

	2012 cents	2011 cents
Preference dividends		
Interim, paid on 18 June 2012 to shareholders registered on 15 June 2012	**341**	310
Payable on 18 December 2012 to shareholders registered on 14 December 2012	**327**	310
Total	**668**	620

All dividends have been declared out of profits available for distribution and no secondary tax on companies (STC) credits were utilised.

Directors and changes in directors

In accordance with article 13 of the company's memorandum of incorporation one third of the directors shall retire at each annual general meeting on a rotational basis as determined in this article. Retiring directors are eligible for re-election. The following directors were re-elected at the annual general meeting held on 7 February 2012:

- Advocate Mojankunyane Florence Gumbi (Non-executive director)
- Nomalizo Beryl Langa-Royds (Non-executive director)
- Jacobus Dorotheus Maria Gerardus Koolen (Non-executive director)
- Robert John Symmonds (Non-executive director)

Gordon Schachat, executive deputy chairman of ABIL, African Bank Limited and Ellerine Holdings Limited retired from these boards with effect from 30 September 2012.

ABIL board of directors

- Mutle Constantine Mogase (Independent non-executive chairman)
- Leonidas (Leon) Kirkinis (Executive director)
- Nicholas (Nic) Adams (Independent non-executive director)
- Antonio (Toni) Fourie (Executive director)
- Mojankunyane Florence (Mojanku) Gumbi (Independent non-executive director)
- Jacobus Dorotheus Maria Gerardus (Jack) Koolen (Independent non-executive director)
- Nomalizo Beryl (Ntombi) Langa-Royds (Independent non-executive director)
- Nithiananthan (Nithia) Nalliah (Executive director)
- Samuel (Sam) Sithole (Independent non-executive director)
- Thamsanqa Mthunzi (Tami) Sokutu (Executive director)
- Robert John (Johnny) Symmonds (Independent non-executive director)

Company secretary and registered office

The previous company secretary, Mduduzi Luthuli resigned with effect from 1 August 2012. Leeanne Goliath was appointed as company secretary on 18 October 2012. Her business address is 59 16th Road, Midrand, 1685, and her postal address is Private Bag X170, Halfway House, 1685.

Directors' interest in shares

The directors' direct and indirect interests (including associates) in the issued share capital of the company are set out in the following table. All the shares are held beneficially.

There has been no material change in the interest of directors in the preference issued share capital of the company between 30 September 2012 and the date of this report.

Material change in the interest of directors in the ordinary share capital occurred after 30 September 2012 to the date of this report as Eyomhlaba and Hlumisa purchased an additional 2 375 000 and 1 450 000 ordinary shares respectively. This changed the indirect interest at the date of this report, of the directors listed below to be as follows:

	Indirect interest
Nithia Nalliah	**2 395 318**
Tami Sokutu	**5 685 532**
Mutle Mogase	**3 043 535**
Sam Sithole	**994 995**

Interest of directors of the company directly and indirectly in the shares of ABIL

Name	*Notes*	*2012 Direct*	*2012 Indirect*	*2012 Total*	*2011 Direct*	*2011 Indirect*	*2011 Total*
Current directors							
Ordinary shares							
Executive directors							
Leon Kirkinis (CEO)		**3 000 000**	**13 500 000**	**16 500 000**	3 000 000	13 500 000	16 500 000
Toni Fourie	1	**–**	**300 042**	**300 042**	–	296 291	296 291
Nithia Nalliah (CFO)	4	**–**	**2 284 238**	**2 284 238**	–	2 091 647	2 091 647
Tami Sokutu	5	**–**	**5 420 381**	**5 420 381**	–	4 904 786	4 904 786
Subtotal		**3 000 000**	**21 504 661**	**24 504 661**	3 000 000	20 792 724	23 792 724
Non-executive directors							
Mutle Mogase (Non-executive chairman)	6	**–**	**2 901 263**	**2 901 263**	–	2 611 897	2 611 897
Nic Adams		**2 000**	**1 265 783**	**1 267 783**	2 000	1 265 783	1 267 783
Sam Sithole	7	**–**	**947 742**	**947 742**	–	632 360	632 360
Johnny Symmonds		**2 000**	**–**	**2 000**	2 000	–	2 000
Subtotal		**4 000**	**5 114 788**	**5 118 788**	4 000	4 510 040	4 514 040
Total		**3 004 000**	**26 619 449**	**29 623 449**	3 004 000	25 302 764	28 306 764
Past directors							
Ordinary shares							
Gordon Schachat	8	**3 000 000**	**9 000 000**	**12 000 000**	3 000 000	9 000 000	12 000 000
Dave Gibbon	9	**–**	**–**	**–**	–	5 500	5 500
Mpho Nkeli	9	**–**	**–**	**–**	–	154 366	154 366
Oshy Tugendhaft	9	**–**	**–**	**–**	–	10 000	10 000
Dave Woollam	9	**–**	**–**	**–**	1 175 000	–	1 175 000
Subtotal		**3 000 000**	**9 000 000**	**12 000 000**	4 175 000	9 169 866	13 344 866
Total ordinary shares		**6 004 000**	**35 619 449**	**41 623 449**	7 179 000	34 472 630	41 651 630
Preference shares							
Dave Woollam	9	**–**	**–**	**–**	10 000	–	10 000
Total preference shares		**–**	**–**	**–**	10 000	–	10 000

Note 1: Toni Fourie's entire indirect holding is held by his associates.

Note 2: Eyomhlaba Investment Holdings Limited (Eyomhlaba) owns 43 826 465 (2011: 40 083 465) ordinary shares in ABIL which is 5,5% (2011: 4,99%) of ABIL's issued ordinary share capital. The directors' holding in ABIL has changed to the percentages shown in notes 3 to 6 as a result of the acquisition by Eyomhlaba of 3 743 000 ordinary shares during the year and the additional shares being purchased by some of the directors.

Note 3: Hlumisa Investment Holdings Limited (Hlumisa) owns 23 782 808 (2011: 19 978 908) ordinary shares in ABIL which is 3% (2011: 2,48%) of ABIL's issued ordinary share capital. The directors' indirect holding in ABIL has changed to the percentages shown in notes 3 to 6 as a result of the acquisition by Hlumisa of 3 803 900 ordinary shares during the year and the additional shares being purchased by some of the directors.

Note 4: Nithia Nalliah has a 4,86% (2011: 4,80%) interest in Eyomhlaba and a 0,64% (2011: 0,64%) interest in Hlumisa.

Note 5: Tami Sokutu has a 9,95% (2011: 10,00%) interest in Eyomhlaba and a 4,45% (2011: 4,48%) interest in Hlumisa.

Note 6: Mutle Mogase has a 4,90% (2011: 4,93%) interest in Eyomhlaba and a 3,16% (2011: 3,19%) interest in Hlumisa.

Note 7: Sam Sithole has a 0,71% (2011: 0,31%) interest in Eyomhlaba and a 2,68% (2010: 2,55%) interest in Hlumisa.

Note 8: Gordon Schachat, executive deputy chairman of ABIL, African Bank and Ellerine Holdings Limited, retired from these boards with effect from 30 September 2012.

Note 9: These directors resigned from the ABIL board in the prior financial year.

Remuneration and employee incentive participation schemes

Details in respect of directors' remuneration and the group's long term incentive plans are fully disclosed in the remuneration report.

Interest of directors and officers in transactions

During the financial year no material contracts were entered into in which directors and officers of the company had an interest and which significantly affected the business of the group. The directors had no interest in any third party or company responsible for managing any of the business activities of the group.

Special resolutions by ABIL

At the annual general meeting held on 7 February 2012, African Bank Investments Limited shareholders passed the following special resolutions:

- **Special resolution 1 – remuneration of non-executive directors**
  The approval of the remuneration payable to non-executive directors for their services as directors for the year ended 30 September 2012.
- **Special resolution 2 – amendment of article 8 – meetings of members**
  Amendment of the company's MOI by the insertion of article 8.4 in terms of the JSE Listings Requirements prescribes that meeting of members is required to be held to decide or determine any matter, and such meeting may not be held by means of a written resolution.
- **Special resolution 3 – amendment of article 9 – electronic participation at meetings of members**
  Amendment of the company's MOI by inserting article 9.10 to enable shareholders to participate by electronic communication in shareholder meetings in accordance with the Companies Act.
- **Special resolution 4 – amendment of article 27 – accounts and records**
  To enable the company to provide shareholders with a copy of summarised financial statements and directions for obtaining complete annual financial statements for the preceding financial year in accordance with the Companies Act.
- **Special resolution 5 – amendment of article 8.3 and 29 – notices**
  With regards to the time period to deliver notices of shareholders meetings and the manner of which such notices should be provided in accordance with the Companies Act, the JSE Listings Requirements and any applicable law.
- **Special resolution 6 – amendment of article 41 – use of electronic media**
  To enable the company to provide notices to shareholders and others by means of electronic medium in accordance with the Companies Act and any applicable law; and to remove from the MOI those provisions regarding electronic communication which are no longer of application.
- **Special resolution 7 – correction of technical matters in the MOI**
  The amendments are of a technical nature and are to assist the company and its shareholders in understanding its MOI in the context of the current legislation.
- **Special resolution 8 – lodging of consolidated MOI with CIPC**
  All amendments to the MOI will be consolidated into one document and lodged with the Companies and Intellectual Property Commission.
- **Special resolution 9 – general authority to provide financial assistance to related or interrelated companies and corporations**
  To provide ABIL with general authority to provide financial assistance to its related or interrelated companies in accordance with section 45 of the Companies Act.
- **Special resolution 10 – specific authority to provide financial assistance to BEE companies**
  To provide financial assistance to either or both of Eyomhlaba and Hlumisa should ABIL believe that this will assist ABIL towards achieving its Black Economic Empowerment objectives through such funding.
- **Special resolution 11 – general repurchases**
  To enable the company or any of its subsidiaries, by way of general authority from shareholders, to repurchase the issued securities of the company, subject to the MOI of the company, the provisions of the Companies Act and the JSE Listings Requirements, when applicable.

Special resolutions by principal subsidiaries

The following special resolutions were passed by principal subsidiaries of the company:

- The approval of the remuneration payable to non-executive directors for their services as directors for the year ended 30 September 2012; and

- Granting the general approval to provide financial assistance to other ABIL group companies under section 45 of the Companies Act.

In addition to the above resolutions, ABL approved a special resolution ratifying all affected debentures issued after 1 January 2008 up until an amendment to the MOI to remove such limitation, restriction or qualification contained in the MOI of African Bank Limited.

Litigation statement

In terms of section 11.26 of the Listings Requirements of the JSE, the directors are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the group's financial position.

Acquisitions, disposals/terminations and pre-emptive rights

Various dormant subsidiaries were placed under voluntary liquidation during the financial year, details of which are listed in Appendix A.

Insurance and directors and officers' indemnity

The group protects itself against banker's comprehensive crime and professional indemnity by maintaining a comprehensive insurance programme. As permitted by the company's MOI, the company has granted indemnities to the directors, in relation to certain losses and liabilities which they may incur in the course of acting as directors of the company or of one or more of its subsidiaries. The company secretary has also been granted indemnities covering her role as company secretary of the company and its subsidiaries. The board believes that it is in the best interest of the group to attract and retain the services of the most able and experienced directors and officers by offering competitive terms of engagement, including the granting of indemnities on terms consistent with legislation and best practice.

Auditors

Deloitte & Touche has expressed its willingness to continue as auditors and resolutions proposing its reappointment, confirmation that Mr Mgcinisihlalo Jordan will be the designated lead audit partner and authorising the board to set its remuneration will be submitted at the forthcoming annual general meeting.

JSE Listings Requirements

African Bank Investments Limited and its directors have, during the 12-month period ended 30 September 2012 and to the date of this report, complied with all listing requirements and every disclosure requirement for continued listings on the JSE as imposed by the JSE Limited during the period.

Other information

In accordance with the Companies Act and the JSE listings rules, the directors are required to bring certain additional information to the attention of shareholders in the directors' report. Information on names of directors and the King III compliance statement are in the corporate governance report.

Group statement of financial position

as at 30 September 2012

R million	Notes	2012	2011
Assets			
Short term deposits and cash	5	**3 070**	3 198
Statutory assets – bank and insurance	6	**4 322**	2 775
Inventories	7	**871**	885
Other assets	8	**1 310**	872
Taxation		**27**	13
Net advances	9	**46 013**	35 099
Deferred tax asset	10	**762**	465
Policyholders' investments		**–**	1
Property and equipment	11	**1 152**	852
Intangible assets	12	**683**	761
Goodwill	13	**5 472**	5 472
Total assets		**63 682**	50 393
Liabilities and equity			
Short term funding	14	**4 587**	1 666
Other liabilities	15	**2 201**	2 013
Taxation		**94**	72
Deferred tax liability	10	**216**	229
Life fund reserve	16	**–**	1
Bonds and other long term funding	17	**37 320**	29 672
Subordinated bonds, debentures and loans	18	**3 831**	2 775
Total liabilities		**48 249**	36 428
Ordinary share capital	19	**20**	20
Ordinary share premium	19	**9 131**	9 131
Reserves	20	**5 152**	4 095
Ordinary shareholders' equity		**14 303**	13 246
Preference shareholders' equity	21	**1 130**	719
Total equity		**15 433**	13 965
Total liabilities and equity		**63 682**	50 393

Group income statement

for the year ended 30 September 2012

R million	Notes	2012	2011
Gross margin on retail business	22	**2 134**	2 083
Interest income on advances	23	**9 919**	7 308
Assurance income	24	**3 828**	2 962
Non-interest income	25	**3 291**	2 930
Income from operations		**19 172**	15 283
Credit impairment charge	26	**(5 197)**	(3 596)
Claims paid	24	**(912)**	(612)
Risk adjusted income from operations		**13 063**	11 075
Product insurance claims	24	**(60)**	(68)
Other interest and investment income	23	**219**	339
Interest expense	27	**(3 680)**	(2 850)
Operating costs	28	**(5 467)**	(4 931)
Indirect taxation: VAT	29	**(72)**	(67)
Profit from operations		**4 003**	3 498
Capital items	30	**(6)**	1
Profit before taxation		**3 997**	3 499
Direct taxation: STC	29	**(82)**	(151)
Direct taxation: Normal	29	**(1 112)**	(977)
Profit for the year	31	**2 803**	2 371
Profit for the year (basic earnings)	31	**2 803**	2 371
Preference shareholders	31	**(61)**	(32)
Basic earnings attributable to ordinary shareholders	31	**2 742**	2 339
Per share statistics			
Basic earnings per share (cents)	31	**341,0**	291,0
Number of shares in issue (net of treasury shares) (million)	32	**804,2**	803,7
Weighted number of shares in issue (million)	32	**804,0**	803,7
Dividends per ordinary share (cents)			
Interim – paid	33	**85**	85
Final – declared	33	**110**	100
Total ordinary dividends		**195**	185

Group statement of comprehensive income

for the year ended 30 September 2012

R million	Notes	2012	2011
Profit for the year	31	**2 803**	2 371
Other comprehensive income			
Exchange differences on translating foreign operations		**(4)**	5
Movement in cash flow hedge reserve		**(200)**	(2)
IFRS 2 reserve transactions (employee incentives)		**(7)**	(6)
Other comprehensive income for the year, net of tax		**(211)**	(3)
Total comprehensive income for the year		**2 592**	2 368

Group statement of changes in equity

for the year ended 30 September 2012

R million	*Notes*	*Ordinary share capital and premium*	*Retained earnings*
Balance at 30 September 2010		9 151	2 672
Dividends paid	33	–	(1 488)
Issue of preference shares	43	–	–
Profit on group employees acquiring ABIL Share Trust shares less dividends received	34	–	1
Shares purchased into the ABIL Employee Share Trust less shares issued to employees (cost)	34	–	–
Transfer from share based payment reserve to retained earnings		–	726
Transfer from insurance contingency reserve to retained earnings		–	13
Total comprehensive income for the year		–	2 339
Balance at 30 September 2011	19, 20, 21	9 151	4 263
Dividends paid	33	**–**	**(1 488)**
Issue of preference shares	43	**–**	**–**
Profit on group employees acquiring ABIL Employee Share Trust shares	34	**–**	**3**
Shares issued to employees from the ABIL Employee Share Trust	34	**–**	**–**
Transfer from share based payment reserve to retained earnings		**–**	**77**
Transfer to insurance contingency reserve from retained earnings		**–**	**(4)**
Total comprehensive income for the year		**–**	**2 742**
Balance at 30 September 2012	19, 20, 21	**9 151**	**5 593**

Share based payment reserve	*Cash flow hedging reserve*	*Insurance contingency reserve*	*Foreign currency translation reserve*	*Treasury shares*	*Preference share capital and premium*	*Total*
813	(227)	18	(19)	(12)	483	12 879
–	–	–	–		(32)	(1 520)
–	–	–	–	–	236	236
–	–	–	–	–	–	1
–	–	–	–	1	–	1
(726)	–	–	–	–	–	–
–	–	(13)	–	–	–	–
(6)	(2)	–	5	–	32	2 368
81	(229)	5	(14)	(11)	719	13 965
–	**–**	**–**	**–**	**–**	**(61)**	**(1 549)**
–	**–**	**–**	**–**	**–**	**411**	**411**
–	**–**	**–**	**–**	**–**	**–**	**3**
–	**–**	**–**	**–**	**11**	**–**	**11**
(77)	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**4**	**–**	**–**	**–**	**–**
(7)	**(200)**	**–**	**(4)**	**–**	**61**	**2 592**
(3)	**(429)**	**9**	**(18)**	**–**	**1 130**	**15 433**

Group statement of cash flows

for the year ended 30 September 2012

R million	Notes	2012	2011
Cash generated from operations	35	**9 558**	7 746
Cash received from lending and insurance activities, sale of merchandise and cash reserves	36	**21 917**	18 329
Recoveries on advances previously written off	26	**300**	213
Cash paid to funders, employees, suppliers and insurance beneficiaries	37	**(12 659)**	(10 796)
Increase in gross advances	38	**(16 274)**	(13 605)
Increase in working capital		**(344)**	(398)
Decrease/(increase) in inventories		**14**	(34)
Increase in other assets		**(438)**	(577)
Increase in other liabilities		**80**	213
Indirect and direct taxation paid	39	**(1 486)**	(1 288)
Cash inflow from equity accounted incentive transactions	40	**14**	2
Cash outflow from operating activities		**(8 532)**	(7 543)
Cash outflow from investing activities		**(1 304)**	(1 252)
Acquisition of property and equipment (to maintain operations)		**(568)**	(483)
Disposal of property and equipment		**31**	80
Disposal of investment		**–**	1
Other investing activities	41	**(767)**	(850)
Cash inflow from financing activities		**10 487**	8 688
Cash inflow from funding activities	42	**11 625**	9 972
Issue of preference shares	43	**411**	236
Preference shareholders' payments and transactions	33	**(61)**	(32)
Ordinary shareholders' payments and transactions	33	**(1 488)**	(1 488)
Increase/(decrease) in cash and cash equivalents		**651**	(107)
Cash and cash equivalents at the beginning of the year		**3 609**	3 716
Cash and cash equivalents at the end of the year	44	**4 260**	3 609

Notes to the group annual financial statements

1. General information

African Bank Investments Limited is a listed company incorporated in the Republic of South Africa. The company is the ultimate holding company for African Bank Limited, The Standard and General Insurance Company Limited and Ellerine Holdings Limited group as well as for a number of non-trading entities.

The principal activities of the group are disclosed in the directors' report. The registered office and principal places of business is disclosed on the inside back cover of the integrated report.

2. Adoption of new standards and interpretations effective for the current financial year

2.1 New and revised IFRSs with no material effect on the consolidated financial statements

The following new and revised standards, amendment to standards and interpretation have been applied in the current year. The application of these new and revised standards and interpretations has not had any material effect on the amounts reported for the current and prior years.

IFRS/IFRIC	*Title and details*
IFRIC 14	**Prepayments of a Minimum Funding Requirement** The amendment applies in the limited circumstances when an entity is subject to a minimum funding requirement and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.
IFRS 1	**First-time Adoption of International Financial Reporting Standards** The amendments to IFRS 1 are set out in Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters. The first amendment replaces references to a fixed transition date of 1 January 2004 with the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.
IFRS 7	**Financial Instruments Disclosure: Transfers of financial assets** The amendments to IFRS 7 require additional disclosure for financial assets transferred but not derecognised and for financial assets that are derecognised, but the entity retains some form of continuing involvement after the transaction.
IAS 24	**Revised definition of Related Parties** The amendment removes certain of the disclosure requirements for government related entities, clarifies the definition of a related party and requires entities to disclose commitments to related parties.
Annual Improvements	**Annual Improvements Project** The annual improvements projects' aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement.

2.2 New and revised IFRSs in issue but not yet effective

The group has not applied the following new and revised IFRSs that have been issued but not yet effective:

IFRS/IFRIC	*Title and details*	*Expected impact*
IFRS effective for periods beginning 1 January 2012		
IAS 1	**Presentation of Financial Statements** Presentation of Items of Other Comprehensive Income. This amendment was issued to eliminate inconsistencies in the presentation of items in the statement of other comprehensive income. The amendment requires an entity to group the items of other comprehensive income on the basis of whether the amounts will subsequently be reclassified to profit or loss or not.	This amendment addresses disclosure in the annual financial statements and will not affect the financial position nor financial results. The impact of the revised disclosure is not expected to be significant.
IAS 12	**Income Taxes** IAS 12 requires that deferred tax assets are measured based on whether the entity expects to recover the carrying amount of the asset through use or through sale. This assessment of the method of recovery may be difficult to assess for investment property measured using the fair value model. The amendment provides a practical solution by introducing a presumption that the carrying amount of such investment property will normally be recovered through sale.	The group will comply with the standard and will make sure that the set off requirements are applied correctly when the standard becomes effective.
Annual Improvements	**Annual Improvements Project** The annual improvements projects' aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement.	These improvements are not expected to have a significant impact to the group.
IFRS effective for periods beginning 1 January 2013		
IFRIC 20	**Stripping Costs in the Production Phase of a Surface Mine** The interpretation deals with waste removal costs that are incurred in surface mining activity during the production phase of a mine and considers when and how to account separately for benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.	The interpretation is not applicable to the group.

IFRS/IFRIC	Title and details	Expected impact
IFRS 7	**Financial Instruments: Disclosures** Amendments related to the enhancement of disclosure about offsetting of financial assets and financial liabilities. The amendments do not change the current offsetting model in IAS 32, which requires an entity to offset a financial asset and financial liability in the statement of financial position only when the entity currently has a legally enforceable right to set off and intends either to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously. The amendments clarify the set off requirements as well as the requirements towards the disclosure of the financial instruments that are offset.	The group will comply with the standard and will make sure that the set off requirements are applied correctly when the standard becomes effective.
IFRS 10	**Consolidated Financial Statements** IFRS 10 establishes a new control model for determining which entities should be consolidated. The standard also provides guidance on how to apply the principle of control to specific situations in order to identify whether an investor controls an investee. IFRS 10 supersedes a portion of IAS 27 Separate and Consolidated Financial Statements and SIC 12 Consolidation – Special Purpose Entities.	The group is in the process of assessing the impact that IFRS 10 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 10.
IFRS 11	**Joint Arrangements** The standard supersedes IAS 31 Joint Ventures and aims to improve on IAS 31 by establishing accounting principles that are applicable to all joint arrangements. The standard distinguishes between two types of joint arrangements, joint operations and joint ventures. The accounting for joint operations remains unchanged from IAS 31 and all joint ventures should be equity accounted in the financial statements of the venture.	The standard is not expected to have a significant impact on the group.

IFRS/IFRIC	Title and details	Expected impact
IFRS 12	**Disclosure of Interests in Other Entities** The standard aims to provide consistent disclosure requirements for subsidiaries, joint arrangements, associates and structured entities. IFRS 12 requires disclosure of information that will enable users to evaluate the nature of the risks associated with the interest and the effect of the interest on the financial position, performance and cash flows of the reporting entity.	This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact of the revised disclosure is not expected to be significant.
IFRS 13	**Fair Value Measurement** IFRS 13 was issued in order to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that currently exist under the different IFRSs that require or permit fair value measurement. It provides a fair value hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.	The group is in the process of assessing the impact that IFRS 13 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 13.
IAS 19	**Employee Benefits** The main changes include the removal of the corridor approach, which allowed entities the option to defer the recognition of actuarial gains and losses on defined benefit plans. The revised standard requires that all remeasurements arising from defined benefit plans be presented in other comprehensive income. It also includes enhanced disclosure requirements for defined benefits plans.	This amendment will not have an impact on the group, as the group does not have any defined benefit plans.
IAS 27	**Consolidated and Separate Financial Statements** IAS 27 removes the accounting and disclosure requirements for consolidated financial statements as a result of the issue of IFRS 10 and IFRS 12, which establish new consolidation and disclosure standards. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	The group will comply with the standard and will make sure that the set off requirements are applied correctly when the standard becomes effective.

IFRS/IFRIC	Title and details	Expected impact
IAS 28	**Investments in Associates and Joint ventures** IAS 28 Investments in Associates and Joint Ventures (amended) supersedes IAS 28 Investments in Associates as a result of the issue of IFRS 11 and IFRS 12. The new IAS 28 prescribes the accounting for investment in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The disclosure requirements relating to these investments are now contained in IFRS 12.	This amendment will have no significant impact on the group, as the group does not have any investments in associates and joint ventures.
IFRS effective for periods beginning 1 January 2014		
IAS 32	**Financial Instruments: Classification and Measurement** The amendments do not change the current offsetting model in IAS 32, which requires an entity to offset a financial asset and financial liability in the statement of financial position only when the entity currently has a legally enforceable right to set off and intends either to settle the asset and liability or a net basis or to realise the asset and settle the liability simultaneously. The amendments are made to clarify the application principles on the offsetting requirements for the financial assets and financial liabilities.	The group will comply with the standard and will make sure that the set off requirements are applied correctly when the standard becomes effective.
IFRS effective for periods beginning 1 January 2015		
IFRS 7	**Financial Instruments: Disclosures** Amendments require specific disclosure about the initial application of IFRS 9. The amendments defer the effective date of IFRS 9 from periods beginning on or after 1 January 2013 to periods beginning on or after 1 January 2015. The amendments to IFRS 7 require additional disclosures on transition from IAS 39 to IFRS 9. The new transitional disclosures include, but are not limited to: Changes in the classifications of financial assets and financial liabilities, showing separately: a) the changes in the carrying amounts on the basis of their measurement categories in accordance with IAS 39 (i.e. not resulting from a change in measurement attribute on transition to IFRS 9); and	Also effective when IFRS 9 is first applied. The group will comply with the standard and will reconsider the classification of its financial assets into financial assets at amortised cost or fair value when the standard becomes effective.

IFRS/IFRIC	Title and details	Expected impact
	b) the changes in the carrying amounts arising from a change in measurement attribute, such as from amortised cost to fair value, on transition to IFRS 9. The following four financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to IFRS 9: a) The fair value of the financial assets or financial liabilities at the end of the reporting period. b) The fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified. c) The effective interest rate determined on the date of reclassification. d) The interest income or expense recognised. Implementation guidance has been added to IFRS 7, which illustrates how the quantitative disclosures might be made.	
IFRS 9	**Financial Instruments: Classification and Measurement** This standard is part of the IASB's three-part project intended to ultimately replace current IAS 39: Recognition and Measurement of Financial Instruments standard. This phase deals with classification and measurement of financial assets. The main features of this new standard require that classification be based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The standard also requires that a financial asset be initially measured at fair value through profit and loss and plus, in case of financial asset not at fair value through profit and loss, particular transaction costs and subsequently be measured at amortised cost or fair value.	The group will comply with the standard and will reconsider the classification of its financial assets into financial assets at amortised cost or fair value when the standard becomes effective.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, which are described below, the management is required to make judgements, 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, judgements and assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

A change in accounting estimate is defined as an adjustment to the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Estimates, judgements and assumptions made, predominantly relate to impairment provisions for loans and advances, impairment testing of trademarks and goodwill, determining the net realisable value of inventory and useful lives, residual values and depreciation methods for property and equipment and useful lives of trademarks and brands. Other judgements made relate to classifying financial assets and liabilities into their relevant categories and in the determination of their fair value for measurement and disclosure purposes.

The following are the critical judgements and key estimation uncertainties that management have made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

3.1 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the company is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using valuation techniques. The company uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

The main assumptions and estimates which management considers when applying valuation techniques are:

- The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates.

- Selecting an appropriate discount rate for the instrument. Management bases the determination of this rate on its assessment of what a market participant would regard as an appropriate spread of the rate of the instrument over the appropriate risk free rate.
- Judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

3.2 *Impairment testing*

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that certain key assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

The company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on a biannual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

3.2.1 *Goodwill and trademarks impairment*

When assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (cash-generating units). Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units.

The process of identifying and evaluating goodwill and trademark impairment is inherently uncertain because it requires significant management judgement in making a series of estimations, the results of which are highly sensitive to the assumptions used. The review of goodwill and trademark impairment represents management's best estimate of the factors below:

- The future cash flows of the cash-generating units are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long term pattern of sustainable cash flows thereafter. Forecasts are compared to the actual performance and verifiable economic data in future years; however, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects at the time of the assessment.
- The discount rate used to discount the future expected cash flows is linked to the group's average cost of capital. The cost of capital and cost of equity is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk free interest rate and a premium to reflect the inherent risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions outside of management's control and are therefore established on the basis of significant management judgement and are subject to uncertainty.

If the present value of the projected cash flows is less than the carrying value of the underlying net assets (including trademarks, brands and goodwill) an impairment charge is recorded in profit or loss. This calculation requires the exercise of significant judgement by management, if the estimates prove to be incorrect or performance does not meet expectations, which affects the amount and timing of future cash flows, then goodwill and trademarks may become impaired in future periods.

3.2.2 *Impairment of advances*

Advances impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the reporting date. Management is required to exercise judgement in making assumptions and estimations when calculating advances impairment allowances on both individually and collectively assessed loans and advances.

The group regularly reviews its advances to assess for impairment. Impairment allowances are established to recognise incurred impairment losses in its advances. In determining whether impairment has occurred at the reporting date the group considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timing. Where this is the case, the impairment loss is the difference between the carrying value of the advance and the present value of the estimated future cash flows discounted at the advance's original effective interest rate.

Impairment allowances are calculated using formulae which take into account factors such as the length of time that the customers' accounts have been in arrears, historical loss rates and credit quality of the advances. The determination of these allowances requires the exercise of considerable judgement by management involving matters such as local economic conditions. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to change in future periods.

Estimates are subject to estimation uncertainty, in part because the assessments are done on the portfolio basis as it is not practicable to identify losses on an individual loan basis because of the large number of individually insignificant loans in the portfolio.

In addition, the use of statistically assessed historical information is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the reporting date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not fully reflected in the statistical models. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment allowances derived solely from historical loss experience.

This key area of judgement is subject to uncertainty and is highly sensitive to factors such as investment in collection infrastructure, loan portfolio growth, product mix, unemployment rates, loan product features, economic conditions, the level of interest rates, account management policies and practices, changes in laws and regulations, and other factors that can affect customer payment patterns. These judgement areas are included in models which are used to calculate impairments.

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 loss estimates and actual loss experience.

3.2.3 Impairment of other receivables and held to maturity investments

The group assesses its other receivables and held to maturity investments for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the company makes judgements as to whether there is observable data indicating a decrease in the estimated future cash flows from these financial assets.

The impairment for other receivables and held to maturity investments is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

3.3 Provisions

By their nature, various assumptions are applied in arriving at the carrying value of provisions that are recognised in terms of the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37).

Where the provision relates to a legal matter, management relies on input from the group's legal counsel in assessing the probability of matters of a significant nature.

3.4 Current and deferred taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation in the different tax jurisdictions in which the group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax is provided for on the fair value adjustments of assets based on the expected manner of recovery, i.e. sale or use. This manner of recovery affects the rate used to determine the deferred tax liability or asset.

The group recognises the net future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the company to realise the deferred tax assets recorded at the end of the reporting period could be impacted.

3.5 Offsetting financial assets and liabilities

The group offsets certain financial assets and liabilities, when it has a legal right to offset such financial instruments and there is an intention to settle these financial instruments on a net basis. When determining whether it is appropriate to offset financial assets and liabilities, the following judgement is applied:

- In the absence of a contractual agreement that provides for offsetting, the group applies the common law principles when determining whether there is a legally enforceable right to offset. The application of these common law principles are subject to a significant degree of interpretation. In these instances, where necessary, legal advice is obtained to ensure that the application of the common law principles are correctly applied within the ambit of the law. Using the legal advice obtained, management assesses whether there is a legal right to offset accounts.
- When determining whether there is an intention to settle a financial asset and financial liability, management evaluates the underlying terms of the contract to identify whether there is a legal right to offset which could also indicate the group's intention to settle on a net basis. In addition, management considers whether there is past

practice which indicates that amounts have been offset. Management also evaluates whether the customers accounts are managed on a net basis which would support the view that there is an intention to settle on a net basis.

4. Significant accounting policies

The significant accounting policies set out below have been applied in the preparation and presentation of the African Bank Investments Limited (ABIL) group financial statements as well as the ABIL company annual financial statements in dealing with items that are considered material by all the companies within the ABIL group during this reporting period.

4.1 Statement of compliance

The group and company annual financial statements are prepared in accordance with, and comply with, the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board

(IASB), Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, the AC 500 standards as issued by the Accounting Practices Board and the requirements of the Companies Act of South Africa (Act 71 of 2008).

4.2 Basis of preparation

The group and company financial statements have been prepared in accordance with the going concern principle and using a historical cost basis, except where specifically indicated otherwise in the accounting policies.

The group statement of financial position is presented in order of liquidity with the exception of certain long term liabilities which reflect the original timeframe and intention of the instrument entered into. Reference to the current maturities of these financial liabilities is disclosed in the notes and in the analysis of financial assets and liabilities. The accounting policies and their application are consistent with the previous year except where specifically stated otherwise.

Functional and presentation currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates.

The consolidated and company financial statements are presented in South African rand, which is the group's functional currency. All monetary information and figures have been rounded to the nearest million rand (R million), unless otherwise stated.

4.3 Basis of consolidation

The group financial statements incorporate the financial statements of the company and the entities controlled by the company (its subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the group.

All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

Subsidiaries and special purpose entities

The group annual financial statements incorporate the annual financial statements of the company, its subsidiaries, the ABIL Employee Share Trust, the Ellerine Holdings Share Incentive Trust and the Relyant Share Option Trust. For this purpose, subsidiaries are companies over which the group, either directly or indirectly, has the power to govern the financial and operating policies so as to obtain the benefits from their activities.

The operating results of the subsidiaries are included from the effective dates that control is acquired and up to the effective dates of disposal. Business combinations are accounted for in accordance with the acquisition method. All intragroup transactions, balances, income and expenses are eliminated on consolidation.

Eyomhlaba Investment Holdings Limited and Hlumisa Investment Holdings Limited, both special purpose vehicles created to facilitate ABIL's Broad-based Black Economic Empowerment programme, are not consolidated into the ABIL group, due to the fact that ABIL has no control over these entities, nor does it have an interest in the economic risks and rewards associated with these entities.

The ABIL Development Trust, created in terms of the group's corporate social investment programme, is not consolidated into the ABIL group as the group does not have an interest in the economic risks and rewards associated with the trust.

In the holding company financial statements, investments in subsidiaries are accounted for at cost. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

Business combinations

Acquisitions of subsidiaries or entities and businesses (assets and liabilities) are accounted for using the acquisition method. The cost of a business combination is measured as the aggregate of the fair values (at the acquisition date) of assets obtained, liabilities incurred or assumed and equity instruments issued (plus all costs relating to the issue of such equity instruments) by the group in exchange for control of the acquiree.

Transaction costs for any business combination prior to 1 October 2009 are capitalised as part of the consideration transferred. Transaction costs incurred on a business combination on or after 1 October 2009 are recognised in profit or loss as and when they are incurred.

The excess of the consideration transferred over the fair value of the identified assets acquired and the liabilities assumed is recorded as goodwill and accounted for in terms of the accounting policy for goodwill.

Where the cost of the acquisition includes any asset or liability resulting from a contingent consideration arrangement, that asset or liability is measured at the acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (refer below). All other subsequent changes in the fair value of a contingent consideration classified as an asset or liability are accounted for in accordance with the relevant IFRSs.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations, are recognised at their fair value at the date of acquisition, except:

- Deferred taxation asset or liabilities, which are measured in accordance with IAS 12 Income Taxes;
- Liabilities or assets related to employee benefit arrangements, which are recognised and measured in accordance with IAS 19 Employee Benefits;
- Liabilities or equity instruments that relate to replacement, by the group, of an acquiree's share based payment awards, which are measured in accordance with IFRS 2 Share based Payments; and
- Assets that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised at fair value less costs to sell.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the group reports provisional amounts for the items for which the accounting is incomplete. Where provisional amounts were reported, these are adjusted during the measurement period (refer below). Additional assets or liabilities are recognised to reflect any new information about the facts and circumstances that existed at the date of acquisition, which, if known, would have affected the amounts recognised on that date.

The measurement period is the period from the date of acquisition to the date the group receives complete information about facts and circumstances that existed at the acquisition date. The measurement period is subject to a maximum of one year after the acquisition date.

Common control transactions

Common control transactions, in which ABIL is the ultimate parent entity both before and after the transaction, are accounted for at book value in ABIL's financial statements with no gain or loss recognised in profit or loss.

4.4 Assets and liabilities

An asset is a resource controlled by the group as a result of past events and from which future economic benefits are expected to flow to the group.

Assets are recognised if it is probable that future economic benefits will flow to the group and the asset has a cost or value that can be measured reliably.

A liability is a present obligation of the group arising from past events, the settlement of which is expected to result in an outflow, from the group's resources, embodying economic benefits.

Liabilities are recognised if it is probable that the settlement of the obligation will result in an outflow of resources embodying economic benefits and the settlement amount can be measured reliably.

4.5 Intangible assets

4.5.1 Goodwill

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity and is recognised at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The carrying amount of goodwill is assessed annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

At the acquisition date, goodwill acquired is allocated to cash-generating units and any impairment is determined using the value-in-use methodology in relation to these units.

On disposal of a subsidiary, associate, jointly controlled entity or a cash-generating unit, the amount of goodwill attributable is included in the determination of the profit or loss on disposal.

Negative goodwill, which represents the excess of the group's interest in the fair value of the identifiable assets and liabilities acquired over the cost of acquisition, is recognised immediately in profit or loss.

Where the group reorganises its reporting structure in a manner that changes the composition of the cash-generating unit to which goodwill has been allocated, the goodwill is reallocated in a manner that best reflects the goodwill associated with the reorganised cash-generating units.

4.5.2 Trademarks

No valuation is made of internally developed and maintained trademarks or brand names and all costs incurred on these are expensed in the period in which they are incurred. Expenditure incurred to maintain these trademarks or brand names is charged to profit or loss in the period in which such costs are incurred.

Trademarks acquired are capitalised initially at their purchased cost and are assessed at the individual asset level as having either a finite or indefinite useful life. All the acquired trademarks have a finite useful life.

Where a trademark has a finite life, it is amortised on a straight-line basis over its estimated useful life, which is generally between 10 and 20 years.

The useful lives of all trademarks are assessed on an annual basis, or more frequently when any indication of impairment exists. Any adjustments, where applicable, are made on a prospective basis. Trademarks are carried at cost less any accumulated amortisation and any impairment losses.

4.6 Property and equipment

Property and equipment are tangible items that are held for use in the production or supply of goods or services, or for administrative purposes and are expected to be used during more than one period.

Owner-occupied property, buildings, leasehold improvements, furniture, computer equipment and software, office equipment and motor vehicles are stated at cost less accumulated depreciation and impairment losses.

Assets held which are acquired under a suspensive sale are capitalised. At the commencement of the suspensive sale agreements the assets are reflected at the lower of fair value and the present value of future minimum lease payments. The related liability is recognised at an equivalent amount. Finance charges are accounted for over the period of the transactions using the effective interest rate method.

Depreciation is charged to profit or loss on a straight-line basis and is calculated to reduce the original costs to the expected residual values over the estimated useful lives. Useful lives and residual values are assessed on an annual basis. Any adjustments that may be necessary are accounted for prospectively. Useful lives have been determined to be as follows:

Computer equipment and software	Two to five years
Office furniture and equipment	Three to six years
Motor vehicles	Four to five years
Leasehold improvements and capitalised leased assets	Over the shorter of the lease term or its useful life
Buildings (owner occupied)	Useful life (limited to 50 years)
Land is not depreciated	

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

4.7 *Impairment of non-financial assets*

Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment and when an indicator for impairment exists. Intangible assets that are subject to amortisation and other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher amount of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (cash-generating units). Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed.

In respect of other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.8 *Non-current assets held for sale*

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within 12 months from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less estimated costs to be incurred to sell the asset.

4.9 *Inventories*

Inventories, being assets held for sale in the ordinary course of business, are stated at the lower of cost and estimated net realisable value. Cost is determined on the first-in first-out basis and includes all costs of purchase, costs of conversion and other costs such as transportation and handling costs incurred in bringing the inventories to their present location and condition, net of discount and rebates received. The cost of manufactured products includes both direct expenditure and a proportion of production overheads based on the normal level of activity. Net realisable value represents the estimated selling price in the ordinary course of business, less all estimated costs of completion and the costs to be incurred in marketing, selling and distribution.

The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write down or loss occurs.

4.10 *Financial instruments*

A financial instrument is defined as a contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial instruments, as reflected on the statement of financial position, include all financial assets, financial liabilities, derivative instruments and equity instruments held for investment, trading, hedging or liquidity purposes, but exclude investments in subsidiaries, associated companies and joint ventures, employee benefit plans, investment property, property and equipment, inventory, assets and liabilities of insurance operations, deferred taxation, taxation payable, provisions, intangible assets and goodwill.

Financial instruments are accounted for under IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures.

Financial assets are classified into the following categories:

– financial assets at fair value through profit or loss;
– held-to-maturity investments;
– loans and receivables; and
– available-for-sale financial assets.

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 and financial liabilities depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

4.10.1 Initial recognition

Financial instruments are recognised on the statement of financial position when the group becomes a party to the contractual provisions of a financial instrument.

4.10.2 Initial measurement

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

4.10.3 Subsequent measurement

Subsequent to initial measurement, financial instruments are either measured at fair value or amortised cost, depending on their classification:

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

  Financial instruments at fair value through profit or loss consist of trading instruments and instruments that the group has elected, on the date of initial recognition, to designate as at fair value through profit or loss. Net gains and losses arising from financial instruments categorised as at fair value through profit or loss are determined inclusive of interest or dividend income.

  A financial asset or financial liability is classified as held for trading if:

  – it has been acquired or incurred principally for the purpose of selling or repurchasing in the near term; or
  – on initial recognition it is a part of an identified portfolio of identifiable financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking; or
  – it is a derivative that is not designated and effective as a hedging instrument.

  Financial assets and financial liabilities other than a financial asset or liability held for trading may be designated as at fair value through profit or loss upon initial recognition to the extent it produces more relevant information because it either:

  – forms part of a group of financial assets and/or financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the group's documented risk management or investment strategy, and information about the grouping is provided internally to management on that basis; or
  – eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
  – it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

- **Held-to-maturity financial assets**

  Held-to-maturity financial assets 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, other than those that meet the definition of loans and receivables or those that were designated as at fair value through profit or loss or available-for-sale.

  Held-to-maturity financial assets are measured at amortised cost, using the effective interest method, less any provisions for impairment with the interest income recognised in profit or loss.

- **Loans and receivables**

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those designated by the group as at fair value through profit or loss or available-for-sale.

  Trade receivables, loans, advances and other receivables that are not held for trading purposes and have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method, less an allowance for impairment losses.

  The majority of the group's advances are included in the loans and receivables category.

- **Available-for-sale financial assets**

  Available-for-sale financial assets are non-derivative financial assets that are intended to be held for an undefined period of time, which may be sold in response to the need for liquidity or changes in interest rates, exchange rates or equity prices. Interest income on these assets is recognised as part of interest income, based on the asset's original effective interest rate. Gains and losses arising from changes in fair value are recognised in other comprehensive income, until the asset is disposed of or it is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Interest income is excluded from the fair value gains and losses which are recognised in other comprehensive income.

- **Financial liabilities at amortised cost**

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

4.10.3.1 Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments (including all fees receivable that form an integral part of the effective interest rate) through the expected life of the financial asset/liability or, where appropriate, a shorter period.

4.10.3.2 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration paid or received. Transaction costs that are directly attributable are included in the initial fair value of financial assets and financial liabilities, other than those at fair value through profit or loss.

Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is an unlisted instrument, the fair value is determined by using applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for a financial asset with similar terms and conditions.

4.10.4 Derecognition of financial instruments

The group 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 group transfers the financial asset, including substantially all the risks and rewards of ownership of the asset; or
- it transfers the contractual rights to receive the cash flows from the financial asset; or
- it retains the contractual rights to receive the cash flows of the financial asset, but assumes a corresponding contractual obligation to pay the cash flows to one or more recipients, and consequently transfers substantially all the risks and benefits associated with the asset; or
- no future economic benefits are expected from their use.

A financial liability (or group of financial liabilities) or a part of a financial liability (or part of a group of financial liabilities) is derecognised when and only when the liability is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

The difference between the carrying amount of a financial asset or financial liability (or part thereof) that is derecognised and the consideration paid or received, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss for the period.

4.10.5 Derivative financial instruments

The group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

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

Embedded derivatives

Derivatives embedded in non-derivative host contract are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contracts are not measured at fair value through profit or loss.

4.10.6 Hedge accounting

The group designates certain financial instruments as hedging instruments, which includes derivatives and non-derivatives (in respect of foreign currency risk), as either fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Hedging relationships recognised by the group are of two types:

– fair value hedge – a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss; or
– cash flow hedge – a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss.

4.10.6.1 Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the remeasurement of both the derivative and the hedged item are recognised in profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same profit or loss category as the related hedged item. Any ineffectiveness is also recognised in the same profit or loss category as the related hedged item.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued.

4.10.6.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in the statement of changes in equity. The gain or loss relating to any ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are transferred to profit or loss in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects profit or loss in the case of a financial asset or a financial liability. If the forecast transaction is no longer expected to occur, the cumulative gains or losses that were recognised in equity are immediately transferred to profit or loss.

4.10.7 Offsetting

Financial assets and liabilities are offset and the net amount reported only when a legally enforceable right to set off the recognised amount exists and there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position.

4.11 Investments

Investments are recognised on a trade-date basis and are initially measured at fair value plus, in the case where financial instruments are not at fair value through profit or loss, any directly attributable transaction costs.

Debt securities that the group has the express intention and ability to hold to maturity are classified as held-to-maturity debt securities. At subsequent reporting dates, held-to-maturity securities are measured at amortised cost using the effective interest rate method less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified at fair value through profit or loss or available-for-sale, and are measured at subsequent reporting dates at fair value.

4.12 Loans and advances and related impairment provisions

4.12.1 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention to trade the receivable. Loans and advances originated by African Bank (whether in African

Bank or Ellerines group branches) are in the form of personal unsecured loans that are either paid back in fixed equal instalments or in the case of credit cards are revolving credit facilities. Loans and advances originated outside South Africa by the furniture retailer for the purchase of furniture and appliances are secured over the items sold.

Advances are classified as loans and receivables 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.

Advances, which are deemed uncollectible in whole or in part, are written off either fully or partially against the impairment allowance account for non-performing loans.

Cash collected on loans, which have previously been written off, is recognised in profit or loss as bad debts recovered as and when the cash is received.

Partially written off advances

Advances which are in arrears for an extended period of time (and are partially uncollectible), are written off against the impairment allowance account for non-performing loans and are carried at their recoverable amount. The recoverable amount is determined by discounting the estimated future cash flows at the original effective interest rate.

The estimate of the cash flows is performed on a portfolio basis as opposed to a loan basis, as these advances exhibit similar credit characteristics.

Rehabilitated loans

Loans previously written off which subsequently have a regular repayment profile and meet other minimum recognition criteria, are written back on to the statement of financial position in the advances portfolio. These loans are recorded on an individual account basis at the gross amount outstanding along with the appropriate impairment provision.

4.12.2 Impairment provisions

The group reviews the carrying amounts of its loans and advances to determine whether there is any indication that those loans and advances have become impaired using objective evidence at a loan level. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in the payment of interest or principal;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower is over-indebted;
- 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, including:

- adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying less than the minimum monthly amount); or
- national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers or adverse changes in industry conditions that affect the borrowers in the group).

The group estimates the recoverable amount on a portfolio 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.

The recoverable amount is the sum of the estimated future cash flows, discounted to their present value using a discount rate that reflects the portfolio of advances' original effective interest rate.

If the recoverable amount of the advance is estimated to be less than the carrying amount, the carrying amount of the advance is reduced to its recoverable amount by raising an impairment provision (through the use of a separate allowance account), which is recognised as an expense in profit or loss. A write off is effected against the allowance account when the debtor is deemed to be partially or fully impaired and not recoverable.

In order to provide for latent losses in a group of loans that has not yet been identified as specifically impaired, an impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods. Groups of loans and advances are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows.

Where an impairment loss subsequently reverses, the carrying amount of the advance is increased to the revised estimate of its recoverable amount, but so 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.

Impairment provisions raised during the year are charged to profit or loss.

4.13 Borrowings

Borrowings are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost and interest is recognised over the period of the borrowing using the effective interest rate method.

Non-participating preference shares, which do not carry a mandatory coupon, are not redeemable on a specific date, or at the occurrence of a contingent future event at the option of the shareholder and where the dividend payments are discretionary, are classified as equity. Dividends on such preference shares are accounted for in the statement of changes in equity.

4.14 Cash and cash equivalents

Short term deposits and cash comprise fixed and notice deposits as well as call and current accounts with financial institutions.

For purposes of the statement of financial position, South African Reserve Bank cash requirements and prudential liquid assets, together with insurance prudential cash reserves required by the Financial Services Board, are not disclosed as short term deposits and cash but rather as "statutory assets – bank and insurance".

For the purposes of the statement of cash flows, cash and cash equivalents comprise short term deposits and cash, and cash reserves held by the insurance companies.

4.15 Short term and long term insurance

Insurance contracts are those contracts under which the group subsidiaries (as insurers) accept significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects them. Short term insurance benefits are provided under short term policies which cover goods and appliances purchased on credit by the policyholders from group subsidiaries and also cover death, disability and retrenchment in terms of which their indebtedness to the group is settled upon the happening of the insured event. The group also provides funeral cover which provides benefits on death of the policyholder or a family member of the policyholder. Long term insurance benefits are provided under the credit life policies sold by the long term insurance subsidiary of the group in terms of which customers of the Bank are covered for death, disability, retrenchment and short time benefits. Benefits range from payment of instalments to settling the total indebtedness to the group provided the insured event takes place whilst the insurance policy is in force. Insurance policies are lapsed if the premiums are in arrears for more than a predetermined period from time to time, and after due notice is served on the policyholder.

4.16 Policyholder liabilities

Insurance contracts that are still in force are computed annually at the statement of financial position date by the insurance companies statutory actuary, in accordance with the provisions of the Long-term Insurance Act, 1998, and valued in terms of the Financial Soundness Valuation (FSV) basis in accordance with the Standards of Actuarial practice (SAP) and Advisory Practice Notes (APN) issued by the Actuarial Society of South Africa and represent the group's total policyholder liabilities. The following SAPs are of relevance to the liability calculations:

- SAP 104: Calculation of the value of assets, liabilities and capital adequacy requirement of long term insurers (October 2012)
- APN 105: Minimum requirements for deriving AIDS extra mortality rates (June 2012)
- APN 106: Actuaries and long term insurance in South Africa (October 2012)

These Standards of Actuarial Practice and Advisory Practice Notes are available on the website of the Actuarial Society of South Africa (www.actuarialsociety.co.za).

Claims incurred prior to the end of the financial year, but not reported until after that date, are brought into account in the valuation of the policyholder liabilities.

The group does not recognise negative reserves (i.e. an asset) that may arise if future insurance premium income is taken into account after allowance for unexpired risk. The statutory actuary sets a discretionary margin, allowed for in terms of PGN 104, such that it is equal to the elimination of the overall negative reserves (i.e. an asset) for insurance contracts.

The transfer to policyholder liabilities under insurance contracts reflected in profit or loss as part of assurance income is a result of the changes in actuarial liabilities and net adjustments to contingency and other insurance reserves.

4.16.1 Life fund reserve

The life fund reserve equals the amount of the actuarial valuation of the liability to parties outside the group according to the insurance policies and contracts in force at the statement of financial position date.

4.16.2 Group policyholder liabilities

Group policyholder liabilities (which are in the form of credit life reserves) are the actuarial reserves of the life company and the reserves of the short term insurance company on credit life policies issued to customers of group subsidiaries. Such reserves are included in impairment provisions and this results in additional provision coverage to the extent that the policies are ceded by the policyholder to subsidiaries in the group.

4.16.3 Linked endowment products

Linked endowment products are investment related products where the risk and reward of the underlying investment portfolio is assumed and accrues directly to the policyholder. These products, which provide for returns based on the change in value of the underlying investments, are initially recorded at cost and reflected as policyholders' investments on the statement of financial position. Valuations are adjusted for the effects of changes in foreign currency exchange rates in respect of the underlying investments that are in foreign currencies.

Actuarial liabilities of the linked endowment products are stated at the same value as the underlying supporting investments.

There is no financial risk to the group on these linked endowment products; however, the investments and the related liabilities do not qualify for offsetting in terms of IFRS and are therefore shown at their respective gross values.

4.17 Provisions

Provisions represent liabilities of uncertain timing or amount and are measured at the expenditure or cash outflow required to settle the present obligation.

Provisions are recognised when the group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

4.17.1 Onerous contracts

The present obligations arising under any onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits that are expected to be derived by the group under such contract.

4.17.2 Restructuring

A restructuring provision is recognised when the group has:

– developed a detailed formal plan to carry out any restructuring, and
– raised a valid expectation in those that are or will be affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by such restructuring.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and not costs associated with the ongoing activities of the entity.

Future operating costs or losses are not provided for.

4.17.3 Liabilities under extended warranties

The group sells extended warranty non-insurance products to customers on a voluntary basis. Provisions for warranty costs are recognised at the date of sale of the relevant products, at the estimated future expenditure required to settle the group's obligation under such extended warranty contract. The estimated future expenditure is determined with reference to claims notified and past claims experience in relation to the extended warranty products.

4.18 Equity

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

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

Ordinary and preference share capital are separately disclosed on the statement of financial position and statement of changes in equity.

4.18.1 Share capital

Share capital issued by the company is recorded at the value of the proceeds received less the external costs directly attributable to the issue of the shares. Where shares are issued for consideration other than in cash under a business combination in terms of IFRS 3, the value at which the issued shares are recorded is the market value of the company's shares at the date of issue.

4.18.2 Treasury shares

Where the company or any other member of the group purchases the company's equity share capital, such shares are classified as treasury shares and the par value of these treasury shares is deducted from the share capital, whereas the remainder of the cost price is deducted from the share premium until the treasury shares are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

Treasury shares are deducted from the issued and weighted average number of shares on consolidation. All dividends received on treasury shares are eliminated on consolidation. The group does not recognise any gains or losses through profit or loss when its own shares are repurchased.

4.18.3 Dividends

Dividends to equity holders are recognised as a liability in the period in which they are declared and are accounted for as movement in reserves in the statement of changes in equity. Dividends declared after the statement of financial position date are not recognised but are disclosed in the dividends note.

4.19 Revenue recognition

Revenue comprises income from sale of merchandise, interest income, assurance premium income and non-interest income.

4.19.1 Sale of merchandise

Sale of merchandise is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of discounts and value-added tax, and excluding any interest or related charges.

Revenue from the sale of merchandise is recognised when all the following conditions have been satisfied:

- the significant risks and rewards of ownership in the goods have been transferred to the buyer;
- the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

4.19.2 Interest income

Interest income is accrued on a yield to maturity basis by reference to the principal outstanding and the interest rate applicable. Where the group advances interest free loans, the interest income is accrued on a yield to maturity basis using an imputed interest rate, taking into account the risk rating of the customers granted these loans.

In instances where a loan is in arrears for greater than six months, an assessment is made regarding the recoverability of the loan or group of loans and if necessary, based on available evidence at that date, the accrual of interest from that date is partially or fully suspended and not recognised in profit or loss.

4.19.3 Rendering of services

When the transaction involves the rendering of services and the outcome can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

4.19.3.1 Assurance income

Premiums receivable from insurance contracts are recognised as revenue in profit or loss when they are due in terms of the contract, after deducting unearned premiums. Unearned premiums, represent the proportion of premiums written in the current or prior years which relate to risks that have not expired by the end of the financial year and are calculated on a time proportionate basis.

Premium income is disclosed net of reinsurance premiums but gross of commission. Premium income received in advance is included in trade and other payables.

4.19.3.2 Non-interest income

Non-interest income consists primarily of administration fees on loans and advances, delivery charges, extended warranty fees, club fees as well as any other sundry income.

4.19.3.3 Administration fees

Administration fees charged consist of two components:

- **Origination fees on loans granted**

  These fees are charged upfront, are capitalised into the loan, and are primarily based on the cost of granting the loan to the individual. In accordance with IAS 18 – Revenue, these origination fees are considered an integral part of the loan agreement and therefore recognised as an integral part of the effective interest rate and are accounted for over the shorter of the original contractual term and the actual term of the loan using the effective interest rate method. The deferred portion of the fees is recorded in the statement of financial position as a provision for deferred administration fees. The group does not defer any related operating costs, as these are all internal costs which are not directly attributable to individual transactions and as such are primarily absorbed infrastructure costs.

- **Monthly service fees**

  These are fees, which form an integral part of the effective interest rate and are charged to the customers on a monthly basis. These fees are recognised as part of the effective interest rate over the shorter of the original contractual term and the actual term of the loans and receivables. Beyond the original contractual term of the loan, the fee is recognised in profit or loss as it is charged to the customer on a monthly basis.

  While both these components are regarded as integral parts of the effective interest rate, they are not accounted for as interest income, but as non-interest income.

4.19.3.4 Delivery charges

Delivery charges are recognised as income at the date the goods are delivered to the customers.

4.19.3.5 Club fees

The club fees are recognised over the term of the membership such fees are related to.

4.19.3.6 Extended warranty fees

The extended warranty fees are recognised at the date the goods are delivered to the customers. At the same time a provision is recognised as per 4.17.3.

4.20 Cost of sales

When inventories are sold, the carrying amount in respect of such inventory is recognised as part of cost of sales. Any write down of inventories to estimated net realisable value and all losses of inventories or reversals of previous write downs or losses are recognised in cost of sales in the period in which the write down, loss or reversal occurs.

4.21 Insurance benefits and claims

Insurance benefits and claims incurred under insurance contracts include death, disability, short time, retrenchment, funeral payments as well as accidental damage, theft and fire in respect of furniture and appliances and are recognised in profit or loss net of any related reinsurance recoveries. Insurance claims are recognised when notification is received by the insurance subsidiaries. The estimate of the expected settlement value of claims that are notified but not paid at the statement of financial position date is included in trade and other payables

4.22 Taxation

4.22.1 Indirect taxation

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

4.22.2 Direct taxation

Direct taxation in profit or loss consists of South African and foreign jurisdiction corporate income tax, inclusive of capital gains tax (CGT) (currently payable, prior year adjustments and deferred) as well as foreign jurisdiction withholding taxes and secondary tax on companies (STC) (currently payable and deferred).

4.22.2.1 Current and withholding taxation

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

Taxation in respect of the South African life assurance companies is determined using the four fund method applicable to life insurance companies in terms of the Income Tax Act.

Current tax is charged or credited to profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the tax is also dealt with in equity.

4.22.2.2 Deferred taxation

Deferred taxation is provided on temporary differences using the balance sheet liability method.

Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation base. However, deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit or loss nor taxable income. The amount of deferred taxation provided is based on the taxation rates and laws enacted or substantially enacted at the statement of financial position date.

Deferred taxation is charged or credited in profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the deferred taxation is also dealt with in equity.

The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

The deferred taxation related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in profit or loss together with the deferred gain or loss.

Deferred tax assets are recognised on the tax effects of income tax losses available for carry forward, if the group considers it probable that future taxable income will be available against which the unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

4.22.2.3 STC

STC on dividends, net of STC credits earned, is provided for and expensed through profit or loss in the period in which the dividend paid is accounted for. STC is payable only on dividends as defined in the Income Tax Act.

To the extent that it is probable that dividends will be declared against which unused STC credits can be utilised, a deferred tax asset is recognised for STC credits.

4.23 Share based payments

Share based payment transactions of the group primarily relate to the group's long term incentive scheme for employees. In addition, any issue of new ordinary shares pursuant to the creation of the group's Black Economic Empowerment programme is also treated as a share based transaction.

4.23.1 Share based payments under the group's long term incentive plan (LTIP) for employees

The group has a cash-settled share appreciation rights scheme, in terms of which employees receive units based on an initial value of an ABIL listed share, and receive on the maturity date the market value of the units based primarily on the ABIL share price. This instrument qualifies as share based payments under IFRS 2 – Share based Payment.

The share appreciation rights instruments have a predetermined vesting profile, which results in a lapsing of the instrument if the employee resigns or is dismissed before the vesting date. In accordance with IFRS 2, where the equity instruments do not vest until the employee has completed a specified period of service, it is assumed that the services rendered by the employee, as consideration for those equity instruments, will be received in the future over the vesting period.

In the case of the share appreciation rights scheme, the fair value of the amount payable to the employees is recognised as an expense in profit or loss, with a corresponding increase in liabilities, over the vesting period of the instrument on a straight-line basis. The fair value of the liability is remeasured at each reporting date until settled and any changes in the fair value of the liability are recognised as employment costs in profit or loss. No amount is recognised for services received in part if part of the share appreciation rights granted do not vest because of a failure to satisfy a vesting condition.

4.23.2 Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at measurement date using standard option pricing or share appreciation rights valuation models. The valuation technique is consistent with generally accepted valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable and willing market participants would consider in setting the price of the equity instruments.

4.23.3 ABIL Broad-based Black Economic Empowerment (B-BBEE) share ownership programme

Transactions in which equity instruments are indirectly issued to historically disadvantaged individuals at below fair value are accounted for as share based payments. Where the transaction is subject to the inclusion of service conditions, the expense is recognised over the period of the service conditions, with a corresponding increase in equity. Where the transaction is not subject to any service conditions, the group recognises the expense in full at grant date, with a corresponding increase in equity.

4.24 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets, that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.25 Leased assets

Leases are classified as finance leases or operating leases at the inception of the lease.

Leased assets are classified as operating leases where the lessor effectively retains the risks and benefits of ownership. Obligations incurred under operating leases are recognised in profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the term of the lease.

Finance leases are recognised as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments at the date of acquisition. The lease payments are allocated between the liability and interest to achieve a constant interest rate on the liability outstanding. The interest is recognised in profit or loss over the lease period. The property or equipment acquired is depreciated over the useful life of the assets, unless it is probable that the group will not take ownership of the asset, it which case it is depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

4.26 Translation of foreign currencies

4.26.1 Foreign currency transactions and balances

A foreign currency transaction is recorded, on initial recognition in South African rand (the functional currency), by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

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

Cash flows arising from transactions in a foreign currency are recorded in the functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

4.26.2 Net investment in a non-South African operation

The results and financial position of a non-South African operation are translated into the functional currency being South African rand using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate of exchange at the date of that statement of financial position;
- income and expenses are translated at the average exchange rates for the year; and
- all resulting exchange differences are recognised as a separate component of equity.

Foreign exchange differences arising on an item that forms part of a net investment in a non-South African operation are recognised initially in other comprehensive income and in the foreign currency translation reserve.

On the disposal of a non-South African operation, any cumulative gains or losses that remain deferred in equity are recognised in profit or loss at the time at which the profit or loss on disposal of the foreign operation is recognised.

4.27 Employee benefits

4.27.1 Post employment benefits

4.27.1.1 Defined contribution plans

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

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

4.27.1.2 Defined benefit plans

Gains or losses on the curtailment or settlement of defined benefit plans are recognised when it can be demonstrated that there is a commitment to curtailment or settlement.

4.27.1.3 Post retirement healthcare benefit

Post retirement healthcare benefits are provided by certain subsidiaries to qualifying employees and retired employees in terms of certain employment contracts. The entitlement to these benefits is usually based on the employee remaining in service up to the retirement age.

The healthcare benefit costs are determined through annual actuarial valuations by independent consulting actuaries using the projected unit credit method. Such gains or losses are recognised over the expected remaining working lives of the participating members. Adjustments are made annually through profit or loss for provisions held for members who have already retired. Actuarial gains or losses are recognised in full in the period in which they occur.

4.27.2 Short term benefits

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

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

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

4.28 Contingent liabilities and commitments

4.28.1 Contingent liabilities

A contingent liability is disclosed when:

- a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the group; or
- the group has a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources will be required to settle such obligation or the amount of the obligation cannot be measured with sufficient reliability.

4.28.2 Commitments

Items are classified as commitments where the group has committed itself at the reporting date to future significant transactions or the acquisition of assets for material amounts.

4.29 Segmental reporting

An operating segment is a component of an entity which engages in business activities from which it earns revenues and incurs expenses, for which separate financial information is available and whose operating results are regularly evaluated by the chief operating decision maker in deciding how to allocate resources and assessing its performance. The operating segments of the group are the Banking unit and Retail unit.

Transactions between segments are priced at market related rates.

4.30 Comparative figures

Where necessary, comparative figures within notes have been restated to conform to changes in presentation in the current year.

R million	2012	2011
5. Short term deposits and cash		
Fixed and notice deposits	**1 342**	12
Call deposits	**1 564**	3 186
Current accounts	**164**	–
	3 070	3 198

Included in call deposits are margin requirements placed with Rand Merchant Bank of R655 million (2011: R137 million) relating to the hedge for the LTIP. These deposits bear interest at SABOR. A further R224 million (2011: R242 million) of call deposits represents swap collateral deposits from various counterparties. These deposits bear interest at rates varying from 4,77% to 5,24% NACM. The amounts (including interest) related to margin deposits are repayable on termination of the contract or as stipulated in the individual contracts.

Fixed deposits consist of zero coupons with interest rates varying from 5,00% to 6,73% p.a., as well as various deposits with SA banks bearing interest at market related rates.

R million	2012	2011
6. Statutory assets – bank and insurance		
Treasury bills and debentures: SA Reserve Bank	**2 079**	1 581
Cash deposits with the SA Reserve Bank	**1 053**	783
Insurance prudential cash reserves	**1 190**	411
	4 322	2 775

Included above are assets pledged with the South African Reserve Bank, in terms of the Banks Act and regulations to the Banks Act, to the value of R3 132 million (2011: R2 364 million).

The market value of the treasury bills and debentures is R3 132 million (2011: R2 364 million).

Treasury bills and debentures have interest rates varying from 4,96% to 5,57% NACQ. There is no interest on the cash deposits with SARB.

Insurance prudential cash reserves: fixed cash deposits are held at various SA banks with the interest rates varying from 4,825% to 6% p.a. and maturity dates varying from 10 October 2012 to 26 March 2013.

R million	2012	2011
7. Inventories		
Merchandise and finished goods	**876**	889
Raw materials and consumables	**–**	5
Provision for stock obsolescence	**(5)**	(9)
	871	885
8. Other assets		
Prepayments	**81**	5
Interest rate and foreign currency swaps	**966**	595
Sundry receivables	**263**	272
	1 310	872

R million	*2012*	*2011*
9. Net advances		
Gross advances including partially written off advances	**55 056**	41 937
Deferred administration fees	**(18)**	(150)
Gross advances after deferred administration fees	**55 038**	41 787
Impairment provisions	**(9 025)**	(6 688)
Net advances	**46 013**	35 099
Analysis of gross advances by book		
Lending books	**52 612**	39 628
Retail	**35 283**	25 616
Payroll	**409**	475
Credit card	**7 300**	5 216
Mining (excludes mining debit order advances)	**1 051**	1 314
Ellerine group South African stores	**8 176**	6 657
Ellerine group – foreign	**393**	350
Pay down books	**285**	374
Partially written off advances	**2 159**	1 935
Total gross advances including partially written off book	**55 056**	41 937
Analysis of gross advances by type		
Retail/debit order	**35 568**	25 704
Ellerine group – foreign	**393**	350
Credit card	**7 300**	5 216
Payroll	**1 460**	1 913
Saambou Personal Loan advances	**–**	162
Ellerine group South African stores	**8 176**	6 657
Partially written off advances	**2 159**	1 935
Total gross advances including partially written off advances	**55 056**	41 937
Balance of impairment provisions at the beginning of the year	**6 688**	5 590
Impairment provisions raised (refer note 26)	**5 492**	3 804
Bad debts written off against the impairment provisions	**(5 026)**	(3 975)
Bad debts rehabilitated	**1 871**	1 269
Balance of impairment provisions at the end of the year	**9 025**	6 688

9. Net advances *continued*

Impairment provisions are based on an incurred loss model per IAS 39 – Financial instruments: recognition and measurement. Estimated future cash flows for loans and advances considered to be impaired are discounted using the original effective interest rate.

During the year, the group rehabilitated onto the statement of financial position R1 871 million (2011: R1 269 million) of loans previously written off. The policy regarding rehabilitation of written off loans requires such loans to be performing above minimum criteria, with a regular payment profile, before they qualify for reinstatement onto the balance sheet, together with the appropriate impairment provisions. Partially written off advances are reinstated at their net recoverable value determined on a discounted cash flow basis.

The impairment provision for gross advances is classified into two categories, i.e. specific impairments and portfolio impairments (IBNR). The specific impairments provision of R8 863 million (2011: R6 567 million) is in respect of the non-performing loan book whilst the portfolio impairments provision of R162 million (2011: R121 million) is in respect of the performing loan book. The portfolio provision covers losses actually incurred but not yet recorded in relation to customers who may have already suffered stress in making contractual payments, but such information has not been formally conveyed to the group. The performing loan book does have arrears of up to three cumulative instalments which do not necessarily indicate that all these loans are non-performing, in terms of the group's definition of non-performing loans.

The gross amount owing on the partially written off book is R12,3 billion (2011: R10,9 billion).

9.1 Credit risk

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The group's primary focus is the underwriting of unsecured loans and accordingly, credit risk features as a dominant financial risk within the group. The credit risk management framework outlining the policies and procedures applied by the group is set out in the risk report (refer page 106).

The group continually monitors the performance of each loan. Where payments are missed, the loan repayment period might be extended with a view to recovering all required instalments. In other circumstances the group may be required under law to renegotiate a loan. However, these loans remain either past due or impaired and therefore the group does not provide a separate analysis of renegotiated items in terms of IFRS 7.

IFRS 7 requires disclosure of the fair value of collateral for those items considered impaired. The group currently takes collateral only in very limited circumstances (for example, within the Ellerines business unit outside South Africa where the credit has been granted by Ellerines as opposed to African Bank). The collateral predominantly takes the form of non-financial assets being the furniture and appliances sold on credit, the nature of which renders it impracticable to determine their fair value.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the group's maximum exposure to credit risk.

9. Net advances *continued*

9.1 *Credit risk continued*

9.1.1 Credit risk exposure

Analysis of credit quality

R million	*Retail*	*Payroll*	*Credit Card*	*Mining*	*Pay down portfolio*	*Ellerines (including converted)*	*Ellerines foreign*	*Total*
2012								
Financial assets that are neither past due nor impaired								
Advances	22 630	243	5 065	562	28	4 235	233	32 996
Low risk	13 008	89	2 359	197	–	1 389	70	17 112
Medium risk	7 612	87	1 506	316	28	1 891	70	11 510
High risk	2 010	67	1 200	49	–	955	93	4 374
Financial assets that are past due but not yet impaired	2 668	19	804	51	2	1 038	99	4 681
Financial assets that are impaired	4 080	41	694	192	88	1 241	21	6 357
Carrying amount	9 985	147	1 431	438	255	2 903	61	15 220
Provision for impairment	(5 905)	(106)	(737)	(246)	(167)	(1 662)	(40)	(8 863)
Partially written off advances								2 159
Total credit exposure	29 378	303	6 563	805	118	6 514	353	46 193

9. Net advances *continued*

9.1 Credit risk continued

9.1.1 Credit risk exposure continued

R million	*Retail*	*Payroll*	*Credit Card*	*Mining*	*Pay down portfolio*	*Ellerines (including converted)*	*Ellerines foreign*	*Total*
2012								
Deferred administration fees								(18)
Incurred but not reported provision								(162)
Net advances								46 013
Reconciliation of allowance account								
Balance at the beginning of the year	4 574	105	361	274	208	1 005	40	6 567
Bad debts charge net of recoveries	2 614	36	807	433	(41)	1 569	33	5 451
Bad debt (write offs)	(1 283)	(35)	(431)	(461)	–	(912)	(33)	(3 155)
Balance at the end of the year	5 905	106	737	246	167	1 662	40	8 863

R million	*Up to 3 months*	*Greater than 3 months to 6 months*	*Greater than 6 months to 9 months*	*Greater than 9 months*	*Total*
Ageing of financial assets that are past due but not impaired	4 663	9	5	4	4 681

9. Net advances *continued*

9.1 *Credit risk continued*

9.1.1 *Credit risk exposure continued*

R million	Retail	Payroll	Credit Card	Mining	Pay down portfolio	Ellerines (including converted)	Ellerines foreign	Total
2011								
Financial assets that are neither past due nor impaired								
Advances	16 074	290	3 887	830	34	4 025	207	25 347
Low risk	8 312	211	1 855	291	–	1 442	58	12 169
Medium risk	7 346	76	1 047	467	34	2 101	64	11 135
High risk	416	3	985	72	–	482	85	2 043
Financial assets that are past due but not yet impaired	2 004	23	595	74	2	756	82	3 536
Financial assets that are impaired	2 964	57	373	136	129	872	21	4 552
Carrying amount	7 538	162	734	410	337	1 877	61	11 119
Provision for impairment	(4 574)	(105)	(361)	(274)	(208)	(1 005)	(40)	(6 567)
Partially written off advances								1 935
Total credit exposure	21 042	370	4 855	1 040	165	5 653	310	35 370
Deferred administration fees								(150)
Incurred but not reported provision								(121)
Net advances								35 099
Reconciliation of allowance account								
Balance at the beginning of the year	3 962	120	304	184	229	665	54	5 518
Bad debts charge net of recoveries	1 959	30	419	235	(7)	1 042	77	3 755
Impairment provision (disposed)/acquired	–	–	–	–	–	20	(20)	–
Bad debt (write offs)	(1 347)	(45)	(362)	(145)	(14)	(722)	(71)	(2 706)
Balance at the end of the year	4 574	105	361	274	208	1 005	40	6 567

9. Net advances *continued*

9.1 *Credit risk* *continued*

9.1.1 *Credit risk exposure continued*

R million	Up to 3 months	Greater than 3 months to 6 months	Greater than 6 months to 9 months	Greater than 9 months	Total
Ageing of financial assets that are past due but not impaired	3 521	8	3	4	3 536

R million	Opening balance	Recognised in profit and loss (refer note 29.2)	Recognised in other compre-hensive income	Closing balance
10. Deferred tax asset/liability				
10.1 Deferred taxation analysis				
2012				
Temporary differences				
Deferred administration fees	**18**	**(38)**	**–**	**(20)**
Incentive schemes	**41**	**3**	**3**	**47**
Deferred tax on hedge accounting (swaps)	**105**	**–**	**107**	**212**
Portfolio impairment for credit losses	**155**	**(18)**	**–**	**137**
Accelerated capital allowances	**11**	**1**	**–**	**12**
Capital gains tax losses	**1**	**–**	**–**	**1**
Secondary tax on companies	**2**	**(2)**	**–**	**–**
Other provisions	**82**	**(5)**	**–**	**77**
Instalment sale debtors allowance	**(164)**	**142**	**–**	**(22)**
Trademarks	**(213)**	**22**	**–**	**(191)**
Other	**(20)**	**(9)**	**–**	**(29)**
Total	**18**	**96**	**110**	**224**
Unused tax losses and credits				
Estimated tax losses	**218**	**104**	**–**	**322**
Total	**236**	**200**	**110**	**546**

R million	Opening balance	Recognised in profit and loss (refer note 29.2)	Recognised in other comprehensive income	Closing balance
10. Deferred tax asset/liability *continued*				
10.1 Deferred taxation analysis *continued*				
2011				
Temporary differences				
Deferred administration fees	2	16	–	18
Incentive schemes	30	8	3	41
Deferred tax on hedge accounting (swaps)	90	15	–	105
Portfolio impairment for credit losses	156	(1)	–	155
Accelerated capital allowances	15	(4)	–	11
Capital gains tax losses	1	–	–	1
Secondary tax on companies	1	1	–	2
Other provisions	85	(3)	–	82
instalment sale debtors allowance	(267)	103	–	(164)
Trademarks	(234)	21	–	(213)
Other	(21)	1	–	(20)
Total	(142)	157	3	18
Unused tax losses and credits				
Estimated tax losses	159	59	–	218
Total	17	216	3	236

R million	2012	2011
The deferred tax above is disclosed as follows:		
Deferred tax asset	**762**	465
Deferred tax liability	**(216)**	(229)
	546	236
10.2 Unrecognised deferred tax assets		
Deferred tax assets not recognised at reporting date:		
Estimated tax losses	**16**	18
Temporary differences	**3**	3
	19	21

The unrecognised deferred tax asset above relates to the Ellerines group in respect of foreign entities only.

R million	Cost 2012	Accumulated depreciation 2012	Carrying value 2012	Cost 2011	Accumulated depreciation 2011	Carrying value 2011
11. Property and equipment						
Furniture	**576**	**(265)**	**311**	451	(233)	218
Computer equipment and software	**868**	**(500)**	**368**	682	(428)	254
Office equipment	**274**	**(123)**	**151**	185	(138)	47
Motor vehicles	**34**	**(21)**	**13**	42	(25)	17
Carve-outs and kiosks	**4**	**(2)**	**2**	4	(2)	2
Leasehold improvements	**332**	**(194)**	**138**	298	(166)	132
Land and buildings (investment properties)	**1**	**–**	**1**	3	–	3
Land and buildings (owner occupied)	**193**	**(25)**	**168**	201	(22)	179
Total	**2 282**	**(1 130)**	**1 152**	1 866	(1 014)	852

The carrying amounts of property and equipment at 30 September 2012 for the group are reconciled as follows:

R million	Carrying value at the beginning of the year	Transfers	Additions	Depreciation (refer note 28)	Disposals and write offs	Carrying value at the end of the year
11.1 Reconciliation of the carrying amounts of property and equipment						
2012						
Furniture	**218**	**24**	**141**	**(62)**	**(10)**	**311**
Computer equipment and software	**254**	**1**	**216**	**(99)**	**(4)**	**368**
Office equipment	**47**	**–**	**135**	**(17)**	**(14)**	**151**
Motor vehicles	**17**	**–**	**4**	**(3)**	**(5)**	**13**
Containers and kiosks	**2**	**–**	**1**	**(1)**	**–**	**2**
Leasehold improvements	**132**	**–**	**54**	**(41)**	**(7)**	**138**
Land and buildings (investment properties)	**3**	**–**	**–**	**–**	**(2)**	**1**
Land and buildings (owner occupied)	**179**	**(25)**	**17**	**(3)**	**–**	**168**
Total	**852**	**–**	**568**	**(226)**	**(42)**	**1 152**

11. Property and equipment *continued*

11.1 Reconciliation of the carrying amounts of property and equipment *continued*

R million	Carrying value at the beginning of the year	Transfers	Additions	Deprecia-tion (refer note 28)	Disposals and write offs	Carrying value at the end of the year
2011						
Furniture	139	–	144	(55)	(10)	218
Computer equipment and software	181	–	199	(67)	(59)	254
Office equipment	48	–	23	(16)	(8)	47
Motor vehicles	14	–	8	(3)	(2)	17
Carve-outs and kiosks	3	–	–	(1)	–	2
Leasehold improvements	96	–	69	(29)	(4)	132
Land and buildings (investment properties)	–	5	–	–	(2)	3
Land and buildings (owner occupied)	141	–	40	(2)	–	179
Total	622	5	483	(173)	(85)	852

Assets with a cost of R149 million, but with a carrying value of R42 million were either disposed of, written off or removed from the fixed assets register during the current financial year. There are also assets in the construction phase with a value of R178 million that are included in fixed assets, but on which depreciation has not yet been charged.

The group has committed capital expenditure of R43 million (2011: R45 million) and authorised, but not yet contracted for, capital commitments of R221 million (2011: R230 million) as at 30 September 2012.

The board has delegated an authority to management to incur capital expenditure up to R25 million (2011: R25 million) per contract, and any amounts in excess of this are required to be approved by the board.

A register of properties is available to shareholders for inspection at the registered office of ABIL.

The group has elected not to use the fair value of owner-occupied property as the deemed cost as at 1 October 2004 (the transition date) and accordingly will continue to use the original cost of the asset and to depreciate it in accordance with IAS 16 – Property, Plant and Equipment.

R million	2012	2011
12. Intangible assets		
Cost	**1 043**	1 043
Market position 1 – Ellerines, Town Talk, FurnCity and Savells/Fair Deal	**710**	710
Market position 2 – Beares, Lubners	**174**	174
Market position 3 – Furniture City	**16**	16
Market position 4 – Geen & Richards	**64**	64
Dial-a-Bed and Mattress Factory	**20**	20
Wetherlys and Osiers	**47**	47
Rainbow Loans	**12**	12
Amortisation	**(343)**	(271)
Market position 1 – Ellerines, Town Talk, FurnCity and Savells/Fair Deal	**(245)**	(192)
Market position 2 – Beares, Lubners	**(54)**	(43)
Market position 3 – Furniture City	**(5)**	(4)
Market position 4 – Geen & Richards	**(17)**	(14)
Dial-a-Bed and Mattress Factory	**(7)**	(6)
Wetherlys	**(14)**	(11)
Rainbow Loans	**(1)**	(1)
Impairment	**(17)**	(11)
Mattress Factory	**(2)**	–
Osiers	**(4)**	–
Rainbow Loans	**(11)**	(11)
Net carrying value	**683**	761
Reconciliation of carrying value		
Movements during the year:		
Balance at the beginning of the year	**761**	834
Amortisation	**(72)**	(73)
Impairment	**(6)**	–
Balance at the end of the year	**683**	761

R million	Balance at the beginning of the year	Amortisation	Impairment	Balance at the end of the year
12. Intangible assets *continued*				
12.1 Trademarks per brand				
2012				
Ellerines	**276**	**(17)**	**–**	**259**
Town Talk	**124**	**(18)**	**–**	**106**
FurnCity	**89**	**(13)**	**–**	**76**
Savells/Fairdeal	**29**	**(5)**	**–**	**24**
Beares	**96**	**(6)**	**–**	**90**
Lubners	**35**	**(5)**	**–**	**30**
Furniture City	**12**	**(1)**	**–**	**11**
Geen & Richards	**50**	**(3)**	**–**	**47**
Dial-a-Bed	**12**	**(1)**	**–**	**11**
Mattress Factory	**2**	**–**	**(2)**	**–**
Wetherlys	**32**	**(3)**	**–**	**29**
Osiers	**4**	**–**	**(4)**	**–**
	761	**(72)**	**(6)**	**683**

Trademarks represent registered rights to the exclusive use of certain trademarks and brand names and have been stated at fair value determined by external trademark valuation specialists on acquisition of Ellerines, using the royalty relief method.

R million	2012	2011
13. Goodwill		
Net carrying value of goodwill		
Cost at the beginning and end of the year	**5 472**	5 472
13.1 Goodwill allocation		
African Bank	**4 000**	4 000
Market position 1 – Ellerines, Town Talk, FurnCity and Savells/Fair Deal	**784**	861
Market position 2 – Beares, Lubners	**137**	152
Market position 3 – Furniture City	**32**	32
Market position 4 – Geen & Richards	**290**	290
Dial-a-Bed and Mattress Factory	**98**	98
Wetherlys and Osiers	**39**	39
Rest of Africa	**92**	–
Net carrying value of goodwill	**5 472**	5 472

13. Goodwill *continued*

13.1 Goodwill allocation continued

The allocation of goodwill among the cash-generating units has changed as a result of the separation of the Rest of Africa brand which is now being managed as a separate cash-generating unit.

Goodwill represents the excess of the purchase consideration over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition purchased as part of a business combination. Factors that contributed to the recognition of goodwill within the total cost of acquisition include the value of the control premium and the potential to market new loan products through a significantly increased number of stores. The fair value of these intangibles could not be individually measured.

Goodwill is tested for impairment in accordance with the group's accounting policies.

13.2 Goodwill impairment testing

The group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period for African Bank Limited and a four year period for the Ellerines group.

Cash flows beyond the four-year period are extrapolated using an estimated growth rate of 4,5% for the Ellerine group cash-generating units. The growth rate does not exceed the long term average growth rate for the relevant market.

A post tax discount rate of between 11,4% and 12,9% (2011: 12,6% and 14,5%) was used for impairment testing of Ellerines group goodwill. The discount rate reflects Ellerines group brands weighted average cost of capital adjusted for relevant risk factors.

A post tax discount rate of 14,5% was used for impairment testing of African Bank Limited goodwill. This discount rate reflects African Bank Limited's current cost of equity.

These calculations indicated that there was no impairment in the carrying value of the goodwill.

R million	**2012**	**2011**
14. Short term funding		
Demand deposits	**709**	610
Fixed and notice deposits	**3 357**	686
Negotiable certificates of deposit	**521**	370
	4 587	1 666

Demand deposits consist of monthly coupons with interest rates varying from 3,25% to 4,75% NACM (2011: 3,75% to 5,25% NACM).

Fixed deposits consist of zero coupons and quarterly coupons with interest rates varying from 5,00% to 6,50% NACQ, NACS, and NACA (2011: 5,15% to 6,60% NACQ, NACS, and NACA).

Negotiable certificates of deposits consists of zero coupons with interest rates varying from 5,93% to 6,35% NACS and NACA (2011: 5,85% to 6,65% NACS and NACA).

R million	2012	2011
15. Other liabilities		
Trade creditors	**451**	494
Advances with credit balances	**43**	49
Liabilities to employees as a result of incentive transactions	**50**	80
Liability for cash settled converted options (refer note 54)	**–**	4
Liability for cash settled LTIPs (refer note 54)	**154**	138
Interest rate and foreign currency swaps	**524**	348
Shareholders for odd lot offer	**13**	13
Shareholders for dividends	**13**	12
Provision for leave pay	**90**	94
Provision for straight-lining of leases	**98**	75
Sundry creditors and accruals	**765**	706
	2 201	2 013
16. Life fund reserve		
Movements in the fund during the year:		
Balance at the beginning of the year	**1**	14
Transfer to the income statement	**(1)**	(13)
Balance at the end of the year	**–**	1

The life fund at 30 September 2012 equals the amount of the statutory actuarial valuation of the liability to parties outside the group according to the assurance policies and contracts in force at that date. The statutory basis of valuation of the life fund has been conducted in accordance with the applicable Standards of Actuarial Practice and Advisory Practice Notes issued by the Actuarial Society of South Africa.

R million	2012	2011
17. Bonds and other long term funding		
Unsecured listed bonds (listed on JSE)	**9 933**	9 766
Unsecured listed bonds (listed on foreign stock exchanges)	**7 159**	2 443
Unsecured long term loans	**20 208**	17 463
Other long term funding	**20**	–
Total bonds and other long term funding	**37 320**	29 672

Bonds and other long term funding with a nominal value of R15 billion (2011: R12,9 billion) are payable within the next 12 months.

R million	2012 Face value	2012 Interest capitalised
17. Bonds and other long term funding *continued*		
17.1 Unsecured listed bonds (listed on JSE)		
ABLC 03 bonds with an original face value of R400 million, issued on 6 May 2011, were redeemed on 7 November 2011. Interest was calculated and payable quarterly at the three-month JIBAR rate plus 0,4 %	–	–
ABLC 04 bonds with an original face value of R200 million, issued on 15 August 2011, were redeemed on 15 February 2012. Interest was calculated and payable quarterly at the three-month JIBAR rate plus 0,3 %	–	–
ABLC 07 bonds with an original face value of R500 million, issued on 15 August 2012, are redeemable on 15 February 2013. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 0,4 %	500	4
ABL6 bonds with an original face value of R1,05 billion, issued on 18 June 2007, were redeemed on 18 June 2012. Interest was calculated and payable semi-annually at a coupon rate of 10,25 %	–	–
ABL7 bonds with an original face value of R1 billion, issued on 18 February 2008, are redeemable on 18 February 2013. Interest is calculated and payable semi-annually at a coupon rate of 11,85 %*	821	12
ABLI01 bonds with an original nominal value of R149 million, issued on 24 April 2008, are redeemable on 31 March 2013. They were issued as a replica of the R189 inflation linked bond and at issue the inflation adjusted face value was R246 million. Interest is calculated and payable semi-annually at a fixed coupon rate of 6,25 % adjusted by the inflation index	268	6
ABL8A bonds with an original face value of R725 million, issued on 19 September 2008, are redeemable on 19 September 2013. Interest is calculated and payable semi-annually at a coupon rate of 13,00 %*	632	3
ABL8B bonds with an original face value of R525 million, issued on 19 September 2008, are redeemable on 19 September 2013. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 3,00 %*	433	1
ABL9 bonds with an original face value of R550 million, issued on 19 February 2009, were redeemed on 19 February 2012. Interest was calculated and payable quarterly at the three-month JIBAR rate plus 3,30 %	–	–
ABLI02 bonds with an original face value of R2 020 million, issued on 8 May 2009, are redeemable on 8 May 2014. Interest is calculated and payable semi-annually at a fixed coupon rate of 8,00 % adjusted by the inflation index	2 020	502

2012 Unamortised discount	2012 Net liability	2011 Face value	2011 Interest capitalised	2011 Unamortised discount	2011 Net liability
–	**–**	400	4	–	404
–	**–**	200	2	–	202
–	**504**	–	–	–	–
–	**–**	446	13	–	459
–	**833**	821	12	(2)	831
–	**274**	212	–	42	254
(1)	**634**	632	3	(2)	633
–	**434**	433	1	–	434
–	**–**	524	5	–	529
–	**2 522**	2 020	73	260	2 353

R million	2012 Face value	2012 Interest capitalised
17. Bonds and other long term funding *continued*		
17.1 *Unsecured listed bonds (listed on JSE)* *continued*		
ABL10A bonds with an original face value of R500 million, issued on 15 March 2010, are redeemable on 15 March 2015. Interest is calculated and payable semi-annually at a coupon rate of 11,50 %*	**450**	**2**
ABL10B bonds with an original face value of R500 million, issued on 15 March 2010, are redeemable on 15 March 2015. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 3,15 %	**500**	**2**
ABLI 03 bonds with an original face value of R750 million, issued on 15 March 2010, are redeemable on 15 March 2015. Interest is calculated and payable semi-annually at a fixed coupon rate of 5,10 % adjusted by the inflation index	**750**	**118**
ABL11A bonds with an original face value of R525 million, issued on 29 September 2010, are redeemable on 29 September 2014. Interest is calculated and payable semi-annually at a coupon rate of 9,50 %	**525**	**25**
ABL11B bonds with an original face value of R475 million, issued on 29 September 2010, are redeemable on 29 September 2014. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 2,50 %*	**380**	**8**
ABL12B bonds with an original face value of R1 billion, issued on 8 March 2011, are redeemable on 8 March 2015. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 2,40 %	**1 000**	**4**
ABL13 bonds with an original face value of R278 million, issued on 11 October 2011, are redeemable on 11 October 2016. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 2,50 %	**278**	**5**
ABLI 04 bonds with an original face value of R652 million, issued on 11 October 2011, are redeemable on 11 October 2016. Interest is calculated and payable semi-annually at a fixed coupon rate of 4,00 % adjusted by the inflation index	**652**	**36**
Total	**9 209**	**728**

* *The current face value is lower than the original face value as a result of early redemptions in the prior year.*

2012		2011			
Unamortised discount	Net liability	Face value	Interest capitalised	Unamortised discount	Net liability
(2)	**450**	450	2	(3)	449
–	**502**	500	2	–	502
–	**868**	750	2	55	807
–	**550**	525	–	–	525
–	**388**	380	–	–	380
(1)	**1 003**	1 000	5	(1)	1 004
–	**283**	–	–	–	–
–	**688**	–	–	–	–
(4)	**9 933**	9 293	124	349	9 766

R million	Face value	Interest capitalised
17. Bonds and other long term funding *continued*		
17.2 Unsecured listed bonds (listed on foreign stock exchanges)		
ABLSJ15, with an original face value of USD300 million, issued on 15 June 2011, are redeemable on 15 June 2016. The second tranche, with an original face value of $50 million, was issued on 2 March 2012. Interest is calculated and payable semi-annually at a coupon rate of 6,0% USD	**2 413**	**42**
ABLSJ16, with an original face value of USD350 million, issued on 24 February 2012, are redeemable on 24 February 2017. Interest is calculated and payable semi-annually at a coupon rate of 8,125% USD	**2 703**	**20**
ABLSJ17, with an original face value of CHF150 million, issued on 24 July 2012, are redeemable on 24 July 2015. Interest is calculated and payable semi-annually at a coupon rate of 4,76% CHF	**1 253**	**12**
Total	**6 369**	**74**

	Face value	Interest capitalised
17.3 Unsecured long term loans		
Promissory notes	**11 459**	**154**
Fixed deposits	**8 396**	**150**
Total	**19 855**	**304**

The promissory notes consists of zero coupons, quarterly coupons and semi-annual coupons, with the rates varying from 5,68% to 11,8% NACQ, NACS and NACA. These notes have various maturities, ranging from 1 October 2012 to 13 July 2016. Promissory notes with a nominal value of R6 358 million (2011: R4 091 million) are payable within the next 12 months.

The fixed deposits consists of zero coupons, quarterly coupons, and semi-annual coupons, with interest rates varying from 5,68% to 13,06% NACQ, NACS and NACA. These fixed deposits have various maturities, ranging from 10 October 2012 to 1 September 2017. Fixed deposits with a nominal value of R5 113 million (2011: R7 217 million) are payable within the next 12 months.

2012			2011				
Foreign currency translation	Unamortised discount	Net liability	Face value	Interest capitalised	Foreign currency translation	Unamortised discount	Net liability
503	(43)	2 915	2 033	38	397	(25)	2 443
211	(19)	2 915	–	–	–	–	–
64	–	1 329	–	–	–	–	–
778	(62)	7 159	2 033	38	397	(25)	2 443

2012			2011				
Foreign currency translation	Unamortised discount	Net liability	Face value	Interest capitalised	Foreign currency translation	Unamortised discount	Net liability
–	–	11 613	6 845	72	–	–	6 917
49	–	8 595	10 346	159	41	–	10 546
49	–	20 208	17 191	231	41	–	17 463

R million	*Face value*
18. Subordinated bonds, debentures and loans	
Subordinated bonds (ABLS1) with an original face value of R300 million, issued on 8 August 2007 were redeemed on 8 August 2012. Interest up to 8 August 2012 was calculated at the three-month JIBAR plus 1,6 % payable quarterly	**–**
Subordinated Bonds (ABLS2 A) with an original face value of R520 million, issued on 13 July 2009, are redeemable on 13 July 2016. Interest is calculated and payable semi-annually at a fixed rate of 15,50 %	**520**
Subordinated bonds (ABLS2 B) with an original face value of R480 million, issued on 13 July 2009, are redeemable on the 13 July 2016. Interest is calculated at the three-month JIBAR plus 6,3 % and payable quarterly	**480**
Subordinated bonds (ABLS3) with a face value of R515 million, issued on 31 March 2011, are redeemable on the 2 April 2018. Interest is calculated at the three-month JIBAR plus 4,0 % and payable quarterly	**515**
Subordinated bonds (ABLS4) with a face value of R300 million, issued on 29 March 2012, are redeemable on the 29 March 2019. Interest is calculated at the three-month JIBAR rate plus 4,50 % and payable quarterly	**300**
Subordinated bonds (ALBS5) with a face value of R867 million, issued on 29 June 2012, are redeemable on 29 June 2019, but not later than 29 June 2024. Interest is calculated at the three-month JIBAR rate plus 4,99 % and payable quarterly	**867**
Subordinated bonds (ABLSI 01) with a face value of R133 million, issued on 29 June 2012, are redeemable on or after 28 June 2019 but no later than 28 June 2024. Interest is calculated at a fixed coupon rate of 4,50 % adjusted by the inflation index and payable semi-annually	**133**
Subordinated debentures with a face value of R200 million, issued on 6 August 2008, are redeemable on or after 6 August 2015, but not later than 6 August 2020. These debentures are zero coupon, with interest being calculated at the three-month JIBAR plus 5 % and capitalised quarterly. On 6 August 2015 the rate resets to the three-month JIBAR plus 7,5 %	**200**
Subordinated debentures with a face value of R25 million, issued on 2 April 2009, are redeemable on or after 2 April 2016, but not later than 2 April 2021. These debentures are zero coupon, with interest being calculated at the three-month JIBAR plus 5 % and capitalised quarterly. On 2 April 2016 the rate resets to the three-month JIBAR plus 7,5 %	**25**
International Finance Corporation (IFC) subordinated Tier II capital qualifying loan with a face value of R350 million, issued on 12 January 2009, are redeemable on or after 15 December 2015, but not later than 15 December 2020. Interest for the initial seven-year non-callable period translates into three-month JIBAR plus 3,65 % and payable quarterly. On 15 December 2015 the rate resets to the three-month JIBAR plus a market determined spread with the same payment intervals	**350**
Proparco subordinated Tier 2 capital qualifying loan with a face value of R100 million, issued on 28 August 2009, is redeemable on 15 September 2016. Interest is calculated at the three-month JIBAR plus 5,775 % and payable quarterly	**100**
DEG subordinated Tier 2 capital qualifying loan with a face value of R150 million, issued on 27 October 2009, and redeemable on 15 September 2016. Interest is calculated at the three-month JIBAR plus 5,375 % and payable quarterly	**150**
	3 640

2012			2011			
Interest capitalised	Unamortised discount	Net liability	Face value	Interest capitalised	Unamortised discount	Net liability
–	–	–	300	3	–	303
18	–	538	520	18	(1)	537
12	–	492	480	13	–	493
12	–	527	515	–	–	515
8	–	308	–	–	–	–
–	–	867	–	–	–	–
2	–	135	–	–	–	–
130	–	330	200	97	–	297
12	–	37	25	9	–	34
1	(3)	348	350	1	(4)	347
–	(1)	99	100	1	(2)	99
2	(2)	150	150	2	(2)	150
197	**(6)**	**3 831**	2 640	144	(9)	2 775

		2012 Number of shares	2012 R million	2011 Number of shares	2011 R million
19.	**Ordinary share capital and premium**				
	Authorised				
	Ordinary shares of 2,5 cents each	**1 000 000 000**	**25**	1 000 000 000	25
	Issued				
	Ordinary shares at par value of 2,5 cents each	**804 175 200**	**20**	804 175 200	20
	Ordinary share premium		**9 131**		9 131
			9 151		9 151

Unissued shares

The directors have no general authority to issue any of the unissued share capital. The directors have the authority to contract ABIL or any subsidiary to acquire shares not exceeding 3% of the issued share capital.

Shares issued during the current and previous years

No shares were issued during the current and previous financial years.

Treasury shares

As at 30 September 2012 the ABIL Employee Share Trust held nil (2011: 473 415) shares.

R million		2012	2011
20.	**Reserves**		
	Reserves comprise the following:		
	Retained earnings	**5 593**	4 263
	Share based payment reserve	**(3)**	81
	Cash flow hedging reserve	**(429)**	(229)
	Treasury shares held by the ABIL Employee Share Trust	**–**	(11)
	Insurance contingency reserve	**9**	5
	Foreign currency translation reserve	**(18)**	(14)
	Total reserves	**5 152**	4 095

Insurance contingency reserve

In terms of the Short-term Insurance Act, the group's insurance subsidiaries are required to hold contingency reserves equivalent to 10% of their net premiums written during the financial year.

	2012		2011	
	Number of shares	R million	Number of shares	R million
21. Preference shareholders' equity				
Authorised				
Preference shares of 1 cent each	**20 000 000**	**–**	20 000 000	–
Issued				
Preference shares at par value of 1 cent each	**13 523 029**	**–**	8 042 251	–
Preference share premium		**1 130**		719
		1 130		719

The preference shares are non-redeemable, non-cumulative and non-participating preference shares. On 23 March 2005, 5 000 000 shares were issued at a premium of R99,99 per share and share issue expenses of R17 million were set off against the preference share premium. A further 3 042 251 were issued during the 2011 financial year and 5 480 778 shares were issued in the current year as below.

ABIL will not declare an ordinary dividend unless a preference dividend has been declared. Preference dividends will be calculated at 75,9 % of the daily average prime overdraft rate which prevailed in respect of the period for which the dividend is calculated.

Shares issued during the year

ABIL issued an additional 5 480 778 non-redeemable, non-cumulative, non-participating preference shares with a par value of R0,01 each on 23 March 2012. The shares were issued at a premium of R76,13 per share and share issue expenses of R6 million were offset against the preference share premium. These shares rank *pari passu* with the 8 042 251 preference shares already in issue.

R million	2012	2011
22. Gross margin on retail business		
Sale of merchandise	**4 792**	4 710
Cost of sales	**(2 658)**	(2 627)
	2 134	2 083
23. Interest and investment income		
Interest income on advances	**9 919**	7 308
Other interest and investment income	**219**	339
Interest received on cash reserves	**202**	325
Dividends received	**17**	14
	10 138	7 647

R million	2012	2011
24. Net assurance income		
24.1 Assurance income		
Premiums received	**3 827**	2 949
Transferred from the life fund (refer note 16)	**1**	13
	3 828	2 962
24.2 Claims		
Life insurance claims	**(912)**	(612)
Product insurance claims	**(60)**	(68)
	(972)	(680)
25. Non-interest income		
Loan origination fees	**812**	707
Service fees	**1 529**	1 475
Credit card fees	**664**	435
Delivery charges	**184**	177
Other	**102**	136
	3 291	2 930

In accordance with IAS 18 – Revenue, loan origination and monthly service fees are considered an integral part of the loan agreement, and accordingly are amortised to the income statement over the contractual life of the loan using the effective interest rate method, with the unamortised portion of the fees recorded as deferred administration fees.

R million	2012	2011
26. Charge for bad and doubtful advances		
Increase in impairment provisions (refer note 9)	**5 492**	3 804
Loss on repossessions	**5**	5
Recoveries on advances previously written off	**(300)**	(213)
	5 197	3 596
27. Interest expense		
Subordinated debt	**337**	281
Unsecured listed bonds	**1 672**	1 149
Unsecured long term loans	**1 326**	1 074
Secured long term loans	**1**	1
Demand deposits	**14**	11
Fixed and notice deposits	**155**	90
Negotiable certificates of deposit	**35**	15
Interest on short term facilities	**61**	38
Other interest	**79**	191
	3 680	2 850

R million	2012	2011
28. Operating costs		
Advertising and marketing	**162**	176
Amortisation of trademarks (refer note 12)	**72**	73
Auditors' remuneration	**18**	16
Audit fees – current year	**17**	15
Fees for other services	**1**	1
Bank charges	**300**	255
Card transaction	**101**	83
Collection	**94**	71
Depreciation on property and equipment (refer note 11)	**226**	173
Information technology	**193**	147
Loss on disposal of property and equipment	**11**	5
Motor vehicle	**197**	153
Operating lease premiums	**832**	766
Leasehold fixed property	**740**	684
Motor vehicles	**45**	43
Computers and other equipment	**47**	39
Printing, stationery and courier	**103**	113
Professional fees	**48**	54
Legal fees	**5**	5
Management fees	**11**	15
Consultants and other professional fees	**32**	34
Property expenses	**136**	126
Employment	**2 610**	2 408
Basic remuneration	**2 065**	1 870
Bonuses and incentives	**158**	166
Charge for share based incentives	**96**	92
Executive directors' remuneration (paid by subsidiaries)*		
Basic remuneration	**15**	16
Bonuses	**6**	–
Commissions paid to sales agents	**270**	264
Non-executive directors' remuneration	**5**	4
Fees paid by subsidiaries	**4**	3
Fees paid by holding company	**1**	1
Telephone, fax and other communication	**189**	165
Other expenses	**170**	143
	5 467	4 931

* *Actual long term incentive plan payments are disclosed in the remuneration report.*

R million	2012	2011
29. Indirect and direct taxation		
Indirect charge per the income statement	**72**	67
Direct taxation charge per the income statement: STC	**82**	151
Direct taxation charge per the income statement	**1 112**	977
SA normal taxation	**1 114**	974
Withholding taxation	**1**	5
Foreign taxation – normal	**(3)**	(2)
Total taxation charge per the income statement	**1 266**	1 195
All-in tax rate (calculated as the total taxation charge per the income statement expressed as a percentage of net income before any indirect and direct taxation) (%)	**31,1**	33,5
29.1 Indirect taxation		
Value-added tax (VAT)	**72**	67
Indirect taxation charge per the income statement	**72**	67
29.2 Direct taxation		
Secondary tax on companies (STC)		
Current year	**80**	152
Deferred tax	**2**	(1)
Withholding taxes	**1**	5
Current tax – SA		
Current year	**1 312**	1 109
Prior years' underprovision	**8**	74
Current tax – Foreign		
Current year	**1**	4
Prior years' overprovision	**(8)**	–
Deferred tax – SA		
Current year	**(196)**	(134)
Prior years' overprovision	**(10)**	(75)
Deferred tax – Foreign		
Current year	**4**	(6)
Direct taxation charge per the income statement	**1 194**	1 128
29.3 Income tax recognised in other comprehensive income		
IFRS 2 reserve transaction (employee incentives)	**3**	(3)
Cash flow hedging	**79**	–
Total tax recognised in other comprehensive income	**82**	(3)

R million	*2012*	*2011*
29. Indirect and direct taxation *continued*		
29.4 Tax rate reconciliation		
Profit before taxation (amount used as the denominator in the tax rate reconciliation)	**3 997**	3 499
	%	%
Total taxation charge (direct and indirect) for the year as a percentage of the above	**31,7**	34,2
Indirect taxation: Value-added tax	**(1,8)**	(1,9)
Effective rate of taxation	**29,9**	32,2
Secondary tax on companies	**(2,1)**	(4,3)
Withholding taxes	**–**	(0,1)
Capital items	**–**	0,1
Non-taxable income	**0,3**	0,3
Disallowable expenses	**(0,3)**	(0,2)
Other (including prior year tax adjustments)	**0,2**	–
Standard rate of South African taxation	**28,0**	28,0

R million	*2012*	*2011*
30. Capital items		
Impairment of trademarks	**(6)**	–
Capital profit on sale of investment (VISA shares)	**–**	1
Amount per the income statement	**(6)**	1
Taxation thereon	**2**	–
	(4)	1
31. Reconciliation between basic earnings and headline earnings and per share statistics		
Reconciliation between basic earnings and headline earnings		
Profit for the year (basic earnings)	**2 803**	2 371
Preference shareholders	**(61)**	(32)
Basic earnings attributable to ordinary shareholders	**2 742**	2 339
Adjusted for non-headline earnings:		
Gross adjustment	**17**	–
Tax thereon	**(5)**	–
Headline earnings	**2 754**	2 339
Per share statistics		
Basic earnings per share (cents)	**341,0**	291,0
Headline earnings per share (cents)	**342,5**	291,0

Million	2012 Total number of shares in issue	2012 Weighted number of shares in issue	2011 Total number of shares in issue	2011 Weighted number of shares in issue	2011 Fully diluted number of shares in issue
32. Number of shares					
Number of shares in issue at the end of the year	**804,2**	**804,2**	804,2	804,2	804,2
Treasury shares on hand	**–**	**(0,2)**	(0,5)	(0,5)	(0,5)
Dilution as a result of outstanding options	**–**	**–**	–	–	0,1
	804,2	**804,0**	803,7	803,7	803,8

R million	2012	2011
33. Ordinary and preference dividends		
33.1 Ordinary dividends		
Final dividend number 22 of 100 cents per ordinary share (2011: 100 cents)	**804**	804
Interim dividend number 23 of 85 cents per ordinary share (2011: 85 cents)	**684**	684
Total ordinary and special dividends paid during the year	**1 488**	1 488
Interim dividend number 23 of 85 cents per ordinary share (2011: 85 cents)	**684**	684
Final dividend number 24 of 110 cents per ordinary share (2011: 100 cents)	**885**	804
Total ordinary and special dividends relating to income for the year	**1 569**	1 488
Final dividend number 24 of 110 cents per ordinary share was approved by the board on 19 November 2012. No provision has been made for these dividends in the financial statements for the year ended 30 September 2012.		
33.2 Preference dividends		
Final preference dividend number 14 of 310 cents per preference share (2011: 367 cents)	**24**	17
Interim preference dividend number 15 of 341 cents per preference share (2011: 310 cents)	**37**	15
Total preference dividends paid during the year	**61**	32
Interim preference dividend number 15 of 341 cents per preference share (2011: 310 cents)	**46**	15
Final preference dividend number 16 of 327 cents per preference share (2011: 310 cents)	**44**	25
Total preference dividends relating to the year	**90**	40

Preference dividend number 16 of 327 cents per preference share was approved by the board on 19 November 2012. No provision has been made for these dividends in the financial statements for the year ended 30 September 2012.

All dividends declared are out of revenue reserves. The final dividend for the 2011 financial year was subject to STC.

No STC credits were utilised for the interim and final ordinary and preference dividends declared in May 2012 and November 2012.

	2012 Number of shares (million)	2012 R million	2011 Number of shares (million)	2011 R million
34. ABIL Employee Share Trust transactions				
Profit on group employees acquiring ABIL Employee Share Trust shares	**n/a**	**3**	n/a	1
Shares issued to employees from the ABIL Employee Share Trust	**0,1**	**11**	–	1
Total movement in equity attributable to ABIL Employee Share Trust	**–**	**14**	–	2

R million	*2012*	*2011*
35. Cash generated from operations		
Profit from operations	**4 003**	3 498
Adjusted for:		
Indirect taxation	**72**	67
(Decrease)/increase in deferred administration fees	**(132)**	80
Increase in impairment provisions	**5 492**	3 804
Decrease in credit life reserves	**–**	(18)
Depreciation on property and equipment	**226**	173
Amortisation of intangible assets (trademarks)	**72**	73
Share based payment charge accounted for in equity	**(10)**	(8)
Hedge variation margin and fee accounted for in equity	**29**	26
Movement in cash flow hedge accounted for in equity	**(279)**	(3)
Loss on disposal of fixed assets	**11**	5
Foreign exchange translation accounted for in equity	**(4)**	5
Incentive accruals	**79**	57
Transfer from life fund in respect of third party policies	**(1)**	(13)
	9 558	7 746
36. Cash received from lending and insurance activities, sale of merchandise and cash reserves		
Sale of merchandise (refer note 22)	**4 792**	4 710
Interest income (refer note 23)	**10 138**	7 647
Gross premiums received (refer note 24)	**3 828**	2 962
Non-interest income (refer note 25)	**3 291**	2 930
Non-cash items included in the above	**(132)**	80
	21 917	18 329

R million	2012	2011
37. Cash paid to funders, employees, suppliers and insurance beneficiaries		
Interest expense (refer note 27)	**(3 680)**	(2 850)
Basic remuneration, bonuses and incentives to staff and directors (refer note 28)	**(2 344)**	(2 144)
Commissions paid to sales agents (refer note 28)	**(270)**	(264)
Bank charges (refer note 28)	**(300)**	(338)
Operating lease premiums (refer note 28)	**(832)**	(766)
Cost of merchandise sold (refer note 22)	**(2 658)**	(2 627)
Other cash operating costs	**(1 603)**	(1 127)
Insurance claims paid (refer note 24)	**(972)**	(680)
	(12 659)	(10 796)
38. Increase in gross advances		
Opening balance of gross advances	**41 937**	31 038
Less: Closing balance of gross advances	**(55 056)**	(41 937)
Movement in gross advances	**(13 119)**	(10 899)
Less: Bad debts written off (refer note 9)	**(5 026)**	(3 975)
Add: Bad debts rehabilitated (refer note 9)	**1 871**	1 269
	(16 274)	(13 605)
39. Indirect and direct taxation paid		
Decrease in tax liability	**22**	39
Increase in prepaid tax	**(14)**	84
Indirect and direct taxation charged to the income statement	**(1 266)**	(1 195)
Deferred tax portion of amount charged to the income statement (refer note 10)	**(200)**	(216)
Income tax accounted for in equity	**(28)**	–
	(1 486)	(1 288)
40. Cash inflow from equity accounted transactions		
Cash inflow as a result of shares issued to employees from the ABIL Employee Share Trust (refer note 34)	**11**	1
Cash inflow as a result of profits on group employees acquiring ABIL Employee Share Trust shares	**3**	1
	14	2
41. Other investing activities		
Increase in statutory assets (excluding insurance statutory cash reserves)	**(768)**	(864)
Decrease in policyholders' funds	**1**	14
	(767)	(850)

R million	2012	2011
42. Cash inflow from funding activities		
Funding raised	**17 181**	13 327
Bonds issued	**6 619**	4 210
Subordinated bonds issued	**1 300**	515
Other treasury funding	**9 262**	8 602
Funding redeemed	**(5 556)**	(3 355)
Bonds	**(2 730)**	(1 180)
Short term funding	**(726)**	(131)
Other treasury funding	**(2 100)**	(2 044)
	11 625	9 972
43. Preference shareholders' transaction		
Share capital issued by the company	**426**	243
Accrued dividends	**(9)**	(2)
Share issue costs related to the above	**(6)**	(5)
	411	236
44. Cash and cash equivalents		
Short term deposits and cash	**3 070**	3 198
Statutory cash reserves – insurance (refer note 6)	**1 190**	411
	4 260	3 609

45. Segment information

45.1 Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the operating chief decision maker in order to allocate resources to the segments and to assess their performance.

Information reported to the group's chief operating decision maker for the purpose of resource allocation and assessment of segment performance is more specifically focused on the category of each type of service provided.

The Banking unit segment provides credit and insurance through African Bank Limited and The Standard General Insurance Company Limited.

The Retail unit segment retails furniture, appliances and related services through Ellerine Furnishers (Proprietary) Limited, Relyant Insurance Company Limited and Relyant Life Assurance Company Limited.

45. Segment information *continued*

R million	Segment income from operations 2012	Segment income from operations 2011	Segment interest expense 2012	Segment interest expense 2011	Segment taxation expense 2012	Segment taxation expense 2011	Segment profit after taxation 2012	Segment profit after taxation 2011
45.2 Segment revenue and results								
Banking unit	**16 242**	12 354	**3 771**	2 826	**1 040**	911	**2 638**	2 334
Retail unit	**3 136**	3 051	**84**	48	**75**	66	**248**	190
Total	**19 378**	15 405	**3 855**	2 874	**1 115**	977	**2 886**	2 524
Group and consolidation adjustments	**(206)**	(122)	**(175)**	(24)	**79**	151	**(83)**	(153)
ABIL group	**19 172**	15 283	**3 680**	2 850	**1 194**	1 128	**2 803**	2 371

R million	Segment assets 2012	Segment assets 2011	Segment liabilities 2012	Segment liabilities 2011
45.3 Segment assets and liabilities				
Banking unit	**59 442**	46 291	**46 574**	34 776
Retail unit	**4 959**	4 198	**2 875**	2 312
Total	**64 401**	50 489	**49 449**	37 088
Group and consolidation adjustments	**(719)**	(96)	**(1 200)**	(660)
ABIL group	**63 682**	50 393	**48 249**	36 428

For the purpose of monitoring segment performance and allocating resources between segments all assets and liabilities are allocated to the operating segments using the same method used for monthly internal reporting purposes. Consequently, the allocation above will not necessarily reconcile to the individual segments' statements of financial position. However, the group totals of each of the items above do reconcile to the group statement of financial position.

R million	Depreciation and amortisation 2012	Depreciation and amortisation 2011	Material non-cash items other than depreciation and amortisation (impairment provision) 2012	Material non-cash items other than depreciation and amortisation (impairment provision) 2011	Additions to non-current assets 2012	Additions to non-current assets 2011
45.4 Other segment information						
Banking unit	**124**	83	**5 458**	3 729	**246**	278
Retail unit	**174**	163	**34**	75	**326**	207
Total	**298**	246	**5 492**	3 804	**572**	485
Group and consolidation adjustment	**–**	–	**–**	–	**(4)**	–
ABIL group	**298**	246	**5 492**	3 804	**568**	485

46. Financial risk

46.1 Interest rate risk

The subsidiaries are exposed to interest rate risk associated with the effects of fluctuations in the prevailing levels of market rates on their financial positions and cash flows. The table below summarises the subsidiaries' exposure to interest rate risk through grouping assets and liabilities into repricing categories, determined to be the earlier of the contractual repricing date or maturity.

R million	*Up to 1 month*	*Greater than 1 month to 3 months*	*Greater than 3 months to 12 months*	*Beyond 12 months*	*Non-interest sensitive items*	*Total*
2012						
Assets						
Short term deposits and cash	2 608	378	–	–	84	3 070
Statutory assets – bank and insurance	2 047	972	250	–	1 053	4 322
Inventories	–	–	–	–	871	871
Other assets and taxation	894	–	–	–	443	1 337
Net advances	8 502	2 034	5 524	29 953	–	46 013
Deferred tax asset	–	–	–	–	762	762
Property and equipment	–	–	–	–	1 152	1 152
Intangible assets	–	–	–	–	683	683
Goodwill	–	–	–	–	5 472	5 472
Total assets	14 051	3 384	5 774	29 953	10 520	63 682
Liabilities and equity						
Short term funding	1 707	1 255	1 625	–	–	4 587
Other liabilities and taxation	524	–	–	–	1 771	2 295
Deferred tax liability	–	–	–	–	216	216
Bonds and other long term funding	8 016	13 976	5 999	9 329	–	37 320
Subordinated bonds, debentures and loans	1 363	1 931	–	537	–	3 831
Shareholders' equity	–	–	–	–	15 433	15 433
Total liabilities and equity	11 610	17 162	7 624	9 866	17 420	63 682
On-balance sheet interest sensitivity	2 441	(13 778)	(1 850)	20 087	(6 900)	–

R million	Up to 1 month	Greater than 1 month to 3 months	Greater than 3 months to 12 months	Beyond 12 months	Non-interest sensitive items	Total
46. Financial risk *continued*						
46.1 Interest rate risk *continued*						
2011						
Assets						
Short term deposits and cash	2 287	855	–	–	56	3 198
Statutory assets – bank and insurance	1 181	873	160	–	561	2 775
Inventories	–	–	–	–	885	885
Other assets and taxation	119	–	–	–	766	885
Net advances	6 275	1 829	5 425	21 570	–	35 099
Deferred tax asset	–	–	–	–	465	465
Policyholders' investments	–	–	–	–	1	1
Property and equipment	–	–	–	–	852	852
Intangible assets	–	–	–	–	761	761
Goodwill	–	–	–	–	5 472	5 472
Total assets	9 862	3 557	5 585	21 570	9 819	50 393
Liabilities and equity						
Short term funding	694	176	796	–	–	1 666
Other liabilities and taxation	–	–	–	–	2 085	2 085
Deferred tax liability	–	–	–	–	229	229
Life fund reserve	–	–	–	–	1	1
Bonds and other long term funding	5 777	12 461	2 305	9 129	–	29 672
Subordinated bonds, debentures and loans	526	1 712	–	537	–	2 775
Shareholders' equity	–	–	–	–	13 965	13 965
Total liabilities and equity	6 997	14 349	3 101	9 666	16 280	50 393
On-balance sheet interest sensitivity	2 865	(10 792)	2 484	11 904	(6 461)	–

46. Financial risk *continued*

46.2 Liquidity risk

R million	Up to 1 month	Greater than 1 month to 3 months	Greater than 3 months to 12 months	Beyond 12 months	Total
Assets and liabilities maturities as at 30 September 2012					
Assets					
Short term deposits and cash	2 692	378	–	–	3 070
Statutory assets – bank and insurance	2 047	972	250	1 053	4 322
Inventories	253	618	–	–	871
Other assets and taxation	184	108	140	905	1 337
Net advances	1 488	2 850	9 207	32 468	46 013
Deferred tax asset	–	–	–	762	762
Property and equipment	–	–	–	1 152	1 152
Intangible assets	–	–	–	683	683
Goodwill	–	–	–	5 472	5 472
Total assets	6 664	4 926	9 597	42 495	63 682
Liabilities and equity					
Short term funding	1 652	1 240	1 695	–	4 587
Other liabilities and taxation	532	278	996	489	2 295
Deferred tax liability	–	–	–	216	216
Bonds and other long term funding	1 040	809	13 097	22 374	37 320
Subordinated bonds/debentures and loans	–	–	–	3 831	3 831
Shareholders' equity	–	–	–	15 433	15 433
Total liabilities and equity	3 224	2 327	15 788	42 343	63 682
Net liquidity gap	3 440	2 599	(6 191)	152	–

R million	Up to 1 month	Greater than 1 month to 3 months	Greater than 3 months to 12 months	Beyond 12 months	Total
46. Financial risk *continued*					
46.2 Liquidity risk *continued*					
Assets and liabilities maturities as at 30 September 2011					
Assets					
Short term deposits and cash	2 343	855	–	–	3 198
Statutory assets – bank and insurance	960	873	160	782	2 775
Inventories	228	643	14	–	885
Other assets and taxation	203	222	60	400	885
Net advances	1 252	2 426	8 113	23 308	35 099
Deferred tax asset	–	–	–	465	465
Policyholders' investments	–	–	1	–	1
Property and equipment	–	–	–	852	852
Intangible assets	–	–	–	761	761
Goodwill	–	–	–	5 472	5 472
Total assets	4 986	5 019	8 348	32 040	50 393
Liabilities and equity					
Short term funding	692	176	798	–	1 666
Other liabilities and taxation	1 003	332	724	26	2 085
Deferred tax liability	–	–	–	229	229
Life fund reserve	–	–	1	–	1
Bonds and other long term funding	1 422	1 455	10 179	16 616	29 672
Subordinated bonds/debentures and loans	–	–	303	2 472	2 775
Shareholders' equity	–	–	–	13 965	13 965
Total liabilities and equity	3 117	1 963	12 005	33 308	50 393
Net liquidity gap	1 869	3 056	(3 657)	(1 268)	–

The table above analyses the group's financial assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

The matching and controlled mismatching of the maturities and interest rates of financial assets and liabilities are fundamental to the management of risk within the group. It is unusual for bank and bank controlling companies ever to be completely matched since the business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of financial assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the group and its exposure to changes in interest rates.

46. Financial risk *continued*

46.3 Unutilised facilities

The group has secured unutilised facilities of R615 million (2011: R302 million) which were available at 30 September 2012. The total unsecured unutilised credit facilities granted to African Bank credit card holders as at 30 September 2012 was R723 million (2011: R548 million).

46.4 Credit risk

All loans by African Bank are granted in the Republic of South Africa as unsecured loans.

The group manages its exposure to credit losses by assessing affordability of repayment of the loan, customers' risk profile, employment status and stability, etc and prices such credit appropriately. Collection of instalments is done by way of cash repayments in store, electronic debit order payments directly from customer bank accounts and payroll deductions. All arrear accounts are actively managed on an ongoing basis from the day after the account goes into arrears using various methods which include deferred arrangements and legal collections to minimise the arrear loan book. Further details can be found in the risk management report on ABIL's website, www.abil.co.za.

The group is exposed to credit risk in terms of swaps that the group has entered into with various South African banks to the value of approximately R1 413 million (2011: R588 million).

The group maintains cash and cash equivalents and short term investments with various financial institutions and in this regard it is the group's policy to limit its exposure to any one financial institution. Deposits are placed only with South African banks and foreign banks which have a presence within South Africa.

Ellerine Holdings Limited's foreign subsidiaries maintain their cash and cash equivalents and short term investments with various financial institutions. Deposits are placed only with the banks within their respective countries and limited to the major banks.

46.5 Currency risk

The group has foreign currency exposure within the Ellerines business unit in respect of business conducted by subsidiaries in Botswana, Zambia as well as countries in the Common Monetary Area namely Lesotho, Swaziland and Namibia, as well as the import of merchandise.

African Bank has foreign currency exposure in respect of its US dollar and Swiss franc denominated bonds. The exposure is swapped into South African rand hence there is no foreign currency exposure.

The Ellerines business unit adopts a prudent approach to forward cover. In this regard, at 30 September 2012, all forward exchange contracts related to specific items appearing in the balance sheet and all significant foreign trade exposures were fully covered. The writing of option contracts is prohibited, thus currency options are only purchased as a cost effective alternative to forward exchange contracts. Details of outstanding forward contracts at 30 September 2012 are presented below. All these commitments mature within one year.

	2012			2011		
	Foreign currency USD/EUR/CHF million	Rand at fair value R million	Rand at contract rate R million	Foreign currency USD/EUR million	Rand at fair value R million	Rand at contract rate R million
Assets						
USD (FEC)	**7**	**62**	**60**	8	64	57
EUR (FEC)	**0,4**	**6**	**5**	0,3	3	3
Liabilities						
USD (bonds and fixed deposits)	**735**	**6 123**	**4 920**	–	–	–
CHF (bond)	**150**	**1 329**	**1 265**	–	–	–

The profit of R3 million (2011: R7 million profit) has been recognised in profit for the year and the loss of R1 267 million (2011: R Nil) has been recognised in other comprehensive income. The net uncovered transaction exposure at 30 September 2012 amounted to R Nil (2011: R Nil).

46. Financial risk *continued*

46.6 Capital adequacy risk (banking)

Capital adequacy risk is the risk that the Bank will not have sufficient capital reserves to meet materially adverse market conditions beyond that which has already been factored into the business model.

Capital adequacy is measured by expressing capital as a percentage of risk weighted assets. The Banks Act specifies the minimum capital required to be held in relation to risk weighted assets.

The Bank's capital adequacy ratio at 30 September 2012 was 27,3% (2011: 28,6%) which is above the minimum regulatory requirement. The group's capital adequacy policy is explained in detail in the capital and funding management section within the risk management review section of the annual report.

46.7 Life assurance risk

Insurance risk

Insurance risk is the risk assumed under any one insurance contract that the insured event occurs. By the very nature of an insurance contract, this risk is random and unpredictable. The majority of insurance claims are paid to the group's operating companies (as a cessionary) in respect of credit life.

Capital adequacy risk (insurance)

Capital adequacy risk is the risk that there are insufficient reserves to provide for materially adverse variations in actual claims experience as compared with that which has been assumed in the financial soundness valuation. The capital adequacy requirement (CAR) ratio of Stangen is 2,55 times (2011: 2 times) and Relyant Life Assurance Company Limited is 2,06 times (2011: 4,67 times), which is well in excess of the minimum regulatory requirement of 1.

46.8 Insurance risk management

Exposure to insurance risk

The group underwrites risks that natural persons and other entities wish to transfer to an insurer. Such risks include the perils around physical loss or damage to goods, death, disability and loss of employment that may give rise to an insured event. As such the group is exposed to uncertainty surrounding the timing and severity of claims under insurance contracts. The principal risk is that the frequency and/or severity of the claims are greater than expected. Insurance events are, by their nature, random and the actual number and size of events during any one year may vary from those estimated and experienced in prior periods. The product features of insurance contracts that have an effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below:

- Death and disability – provides indemnity for disability to the insured by settling the amount due to the group;
- Physical loss of goods – provides indemnity for losses sustained through theft, accidental loss or other similar acts by replacing the goods;
- Damage to goods – provides indemnity for damages to items insured by repairing or replacing the goods; and
- Loss of employment – provides indemnity for losses on group credit exposure in relation to unemployment due to retrenchment by paying the instalment to the group and/or setting the debt due to the group.

Benefits are primarily paid to settle the outstanding debt owing by the customer to the group or repair/replace the item sold.

All insurance risks underwritten for non-group companies have been curtailed by 30 September 2010 with the result that all insurance is now predominantly to customers in respect of transactions with group companies.

Limiting exposure to insurance risk

The exposure to insurance risk is limited through an underwriting strategy, limits and adopting appropriate risk assessment techniques. In this regard the risk base of the group is not concentrated in any one region or sector of the economy and the average individual insured losses are approximately R2 400 per product insurance claim and R10 500 per life insurance claim.

46. Financial risk *continued*

46.9 Underwriting risk

Underwriting risk is the risk that the actual claims will exceed the expected claims and the premium income received. Insured events are random and the actual number and amount of claims will vary from estimates. These risks are managed through product development and underwriting processes.

The development of claims liabilities provides a measure of the ability to estimate the ultimate value of claims. The group does not underwrite long term risks and consequently the uncertainty about the amount and timing of claim payments is limited. Regular estimates of claims are performed in reviewing the adequacy of the claims provisions and corrective action is taken where necessary. Claims development is reviewed by management on a regular basis.

Underwriting results of each risk class are monitored on a regular basis and corrective measures are actioned where applicable.

Biannual actuarial valuations are also performed for the long term insurance business in order to assist in the timely identification of experience variances.

46.10 Market price risk

Market price risk is the risk that the value of a financial asset will fluctuate as a result of changes in the market prices or changes in market interest rates. Investment in marketable securities are valued at fair value and are therefore susceptible to market fluctuations. The fair value of all financial assets approximates the carrying value in the balance sheet. Risk is also managed by diversification and investing in highly rated financial institutions.

Investment decisions are delegated by the board to the ALCO which has the ultimate responsibility for the investment portfolio's risk profile and the related investment decisions.

47. Market risk management

47.1 Interest rate risk management

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group has significant fair value interest rate risk arising from its fixed rate advances portfolio. In order to mitigate this risk, the group seeks to achieve funding that is at a fixed rate. This not only reduces the fair value interest rate exposure but also achieves a fixed cost of lending for the group.

It is not always feasible to issue fixed rate funding and therefore the group makes use of derivative instruments in order to reduce the cash flow risk arising from changes in interest rates. In terms of the treasury mini-manual the Bank is required to maintain a risk sensitivity limit of 1,75% given a 200 basis point shift in applicable interest rates. The hedges transacted by the Bank are in response to this limit. Where possible, the group designates these derivatives as effective cash flow hedges. This accounting treatment results in an economically represented income statement but does create accounting volatility within equity.

Sensitivity analysis based on 100 basis point increase in interest rates

IFRS 7 requires that a sensitivity analysis be provided for changes in interest rates. The sensitivity analyses below have been determined based on exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Given the extent of the risk and the current risk mitigants, a more sophisticated (e.g. value at risk) analysis is not considered necessary.

The sensitivity analysis below is based on an increase in rates. Given the linear structure of the group's portfolio, a 100 basis point increase in interest rates would result in a corresponding net increase of R51 million (2011: R42 million) in net income before tax and a R62 million decrease (2011: R68 million) in equity (pretax).

R million	Carrying value at year end	Amount exposed to market risk	Index to which interest rate is linked	Income statement impact Pretax	Income statement impact Post tax	Equity impact Pretax	Equity impact Post tax
47. Market risk management *continued*							
47.1 Interest rate risk management *continued*							
2012							
Financial assets							
CPI linked swaps	371	3 310	CPI/JIBAR	–	–	33	24
Interest rate swaps	#	516	JIBAR	–	–	5	4
Statutory assets	1 190	789	Prime	8	6	–	–
Statutory assets	3 132	2 079	JIBAR	21	15	–	–
Credit card advances (net)	6 563	6 563	Repo	115	83	–	–
Cash and cash equivalents	3 162	1 764	JIBAR	18	13	–	–
Cash and cash equivalents	92	92	Prime	1	1	–	–
Total financial assets	**14 510**	**15 113**		**163**	**118**	**38**	**28**
Financial liabilities							
Bonds	9 933	*	CPI/JIBAR	–	–	–	–
Promissory notes	11 613	6 800	JIBAR	68	49	–	–
Fixed deposits	11 659	3 312	JIBAR	33	24	–	–
Interest rate swaps	515	9 292	JIBAR	–	–	93	67
CPI linked swaps	9	682	CPI/JIBAR	–	–	7	5
Short term funding	1 873	1 097	JIBAR	11	8	–	–
Subordinated bonds, debentures and loans	3 831	*	JIBAR	–	–	–	–
Other long term funding	20	20	Prime	–	–	–	–
Total financial liabilities	**39 453**	**21 203**		**112**	**81**	**100**	**72**
Net effect on profit and loss and equity				**51**	**37**	**(62)**	**(44)**

* *There is no exposure to market risk as the principal amounts are fully hedged against changes in the interest rate via interest rate swaps or CPI linked.*

Amounts below R1 million.

R million	Carrying value at year end	Amount exposed to market risk	Index to which interest rate is linked	Income statement impact		Equity impact	
				Pretax	Post tax	Pretax	Post tax
47. Market risk management *continued*							
47.1 Interest rate risk management *continued*							
2011							
CPI linked swaps	201	3 177	CPI/JIBAR	–	–	32	23
Statutory assets	472	472	Prime	5	4	–	–
Statutory assets	2 364	1 581	JIBAR	16	11	–	–
Credit card advances (net)	4 855	4855	Repo	88	63	–	–
Cash and cash equivalents	3 122	3 122	JIBAR	31	22	–	–
Cash and cash equivalents	62	62	Prime	1	1	–	–
Total financial assets	11 076	13 269		141	101	32	23
Financial liabilities							
Bonds	9 766	–	CPI/JIBAR	–	–	–	–
Promissory notes	6 917	1 877	JIBAR	19	14	–	–
Fixed deposits	10 948	7 442	JIBAR	74	54	–	–
Interest rate swaps	348	9 955	JIBAR	–	–	100	72
Short term funding	911	2	JIBAR	–	–	–	–
Subordinated bonds, debentures and loans	2 775	–	JIBAR	–	–	–	–
Unsecured short term funding	610	610	Prime	6	4	–	–
Total financial liabilities	32 275	19 886		99	72	100	72
Net effect on profit and loss and equity				42	29	(68)	(49)

47. Market risk management *continued*

47.2 Foreign exchange rate risk management

The group undertakes a limited number of transactions, in respect of the Ellerines trading requirements, that are denominated in a foreign currency. The group has a strict policy in terms of these transactions and forward cover is taken out for each transaction. These transactions are economically hedged, but IAS 39 hedge accounting is not applied.

Foreign currency risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Currency risk in the Bank arises as a result of foreign currency denominated borrowings. The Bank's risk objective is to protect its net earnings against the impact of adverse exchange rate movements. Hedging of currency exposures is achieved through the use of approved derivative instruments transacted with approved financial institutions.

The Bank uses cross currency swaps to hedge its foreign currency risk. The principal terms of these swaps are substantially similar to those of the hedged items with regard to maturity dates, interest reset dates, nominal values, and amortisation profile. Where possible, the company designates these derivatives as effective cash flow hedges. This accounting treatment results in an economically represented income statement but does not create accounting volatility within equity.

Sensitivity analysis based on 10% increase in exchange rates

IFRS 7 requires that a sensitivity analysis be provided for changes in exchange rates. The sensitivity analysis has been determined based on the exposure to exchange rates for both derivatives and non-derivative instruments (foreign trade creditors) at the balance sheet date. The analysis is prepared assuming the amount at the balance sheet date was outstanding for the whole year. Given the policy applied by management a 10% sensitivity adjustment is applied so as to ensure compliance with the strategy and that there are no open exchange rate exposures.

47. Market risk management *continued*

47.2 Foreign exchange rate risk management *continued*

R million	Carrying value at year end	Amount exposed to market risk	Index to which interest rate is linked	Income statement impact Pretax	Income statement impact Post tax	Equity impact Pretax	Equity impact Post tax
Market risk management							
Foreign exchange rate risk management							
2012							
Financial assets							
Cross currency swaps	**565**	**5 357**	**USD**	**–**	**–**	**536**	**386**
Cross currency swaps	**30**	**1 263**	**CHF**	**–**	**–**	**126**	**91**
Forward exchange contracts	**68**	**68**	**USD/EUR**	**7**	**5**	**–**	**–**
Total financial assets	**663**	**6 688**		**7**	**5**	**662**	**477**
Financial liabilities							
Foreign denominated bonds	**5 830**	**5 830**	**USD**	**–**	**–**	**583**	**420**
Foreign denominated bonds	**1 329**	**1 329**	**CHF**	**–**	**–**	**133**	**96**
Fixed deposits	**293**	**293**	**USD**	**–**	**–**	**29**	**21**
Foreign trade creditors	**67**	**67**	**USD/EUR**	**7**	**5**	**–**	**–**
Total financial liabilities	**7 519**	**7 519**		**7**	**5**	**745**	**537**
2011							
Financial assets							
Cross currency swaps	387	2 274	USD	–	–	227	164
Forward exchange contracts	67	67	USD/EUR	7	5	–	–
Total financial assets	454	2 341		7	5	227	164
Financial liabilities							
Foreign denominated bonds	2 443	2 443	USD	–	–	244	176
Fixed deposits	284	284	USD	–	–	28	20
Foreign trade creditors	67	67	USD/EUR	7	5	–	–
Total financial liabilities	2 794	2 794		7	5	272	196

48. Liquidity analysis

Liquidity risk management

Liquidity risk is defined as the risk that the group will encounter difficulty in meeting obligations associated with financial liabilities.

The group risk and capital committee, through the group ALCO, has set limits and benchmarks in order to mitigate liquidity risk to the appropriate levels. These policies have been described in the risk report on page 106.

The following table represents the group's undiscounted contractual cash flows of liabilities per remaining maturity and includes all cash outflows related to the principal amount as well as the future payments. Thus the analysis of cash flows will not agree directly with the balance on the statement of financial position. The analysis is based on the earliest date on which the group can be required to pay and is not necessarily the date at which the group is expected to pay. Where an effective hedging relationship exists, the net cash fixed flows per hedged item have been disclosed.

R million	*Up to 1 month*	*Greater than 1 month to 6 months*	*Greater than 6 months to 12 months*	*Greater than 1 year to 2 years*	*Greater than 2 years to 5 years*	*Greater than 5 years*	*Total*
2012							
Financial liabilities							
Promissory notes	**573**	**1 847**	**4 825**	**1 861**	**3 566**	**–**	**12 672**
Fixed deposits	**436**	**2 726**	**2 275**	**735**	**3 003**	**–**	**9 175**
Demand deposits	**1 178**	**2 799**	**183**	**–**	**–**	**–**	**4 160**
Bank overdraft and call loans	**476**	**–**	**–**	**–**	**–**	**–**	**476**
Other liabilities	**479**	**1 004**	**–**	**–**	**–**	**–**	**1 483**
Derivative instruments	**–**	**2**	**33**	**60**	**369**	**60**	**524**
Subordinated bonds and debentures	**14**	**126**	**161**	**298**	**2 346**	**2 105**	**5 050**
Bonds and other long term funding	**24**	**2 036**	**2 013**	**4 525**	**12 844**	**–**	**21 442**
Total liabilities	**3 180**	**10 540**	**9 490**	**7 479**	**22 128**	**2 165**	**54 982**
2011							
Financial liabilities							
Promissory notes	171	1 556	2 475	1 050	1 981	–	7 233
Fixed deposits	1 330	3 012	3 761	1 661	2 220	–	11 984
Demand deposits	1 032	528	468	–	–	–	2 028
Unsecured short term funding	610	–	–	–	–	–	610
Other liabilities	500	509	–	–	–	–	1 009
Life fund reserve	14	120	433	252	2 911	618	4 348
Bonds and other long term funding	–	1 594	880	2 796	9 097	–	14 367
Total liabilities	3 657	7 319	8 017	5 759	16 209	618	41 579

49. Interest rate and currency risk hedging

In terms of the group's interest rate hedging strategy, it has entered into a number of interest rate and currency swap agreements that convert the floating rate of interest paid on an identified underlying financial liability into a fixed rate. This enables the group to mitigate the cash flow risk arising from the change in interest rates on the issued variable rate liabilities. In terms of IAS 39 these swaps have been documented and designated as effective cash flow hedges. The hedged risk is either quarterly resetting JIBAR or the effect of changes in CPI and currency movements and the derivative instruments are settled on a net basis at each cash flow date.

The fair value of the derivative instruments is determined using accepted valuation methodologies and the applicable market rate on date of valuation. The average interest rate is based on the outstanding balances at the end of the financial year.

The table below illustrates the outstanding notional values of each of the hedges, the weighted average fixed interest rate and the full fair value of the derivative (including accrued interest) as at year end. The hedges have also been segmented based on their contractual maturity.

Cash flow hedges – interest rate

R million	*Average contracted interest rate*	*Hedged amount*	*Fair value asset*	*Fair value liability*
2012				
Less than 1 year	**7,85%**	**3 182**	**61**	**(32)**
1 to 2 years	**10,82%**	**4 389**	**221**	**(63)**
Exceeding 2 years but less than 5 years	**9,50%**	**5 580**	**89**	**(370)**
Greater than 5 years	**12,00%**	**648**	**–**	**(59)**
Net carrying amount		**13 799**	**371**	**(524)**
2011				
Less than 1 year	7,70%	2 492	–	(36)
1 to 2 years	9,28%	1 406	43	(48)
Exceeding 2 years but less than 5 years	9,85%	8 961	158	(243)
Greater than 5 years	12,22%	515	–	(21)
Net carrying amount		13 374	201	(348)

Cash flow hedges – currency

R million	*Average contracted rate*	*Hedged amount*	*Fair value asset*	*Fair value liability*
2012				
1 to 2 years	**10,12%**	**241**	**41**	**–**
Exceeding 2 years but less than 5 years	**12,63%**	**6 379**	**554**	**–**
Net carrying amount		**6 620**	**595**	**–**
2011				
Exceeding 2 years but less than 5 years	12,44%	2 274	387	–
Net carrying amount		2 274	387	–

49. Interest rate and currency risk hedging *continued*

In terms of the IAS 39 hedge accounting requirements the change in fair value of the hedging instrument found to be effective will be recognised in the statement of changes in equity in the hedging reserve. Complete ineffectiveness will be recognised directly in profit or loss for the period where the hedge effectiveness exceeds the 80% to 125% threshold. To the extent that the change in the fair value of the hedged item is overeffective (i.e. greater than 100%) but still within the 80% to 125% threshold, the amount of overeffectiveness will be recognised in profit and loss. To the extent that the relationship is undereffective (but within the threshold) the full amount of the change will be recognised in equity. All hedges in the current period were found to be effective.

Given the hedging methodology applied, only the fair value adjustment on the derivative is recognised in equity and any interest accrual on the derivative is recognised in interest expense, therefore no amounts (other than ineffectiveness) are transferred out of equity into the income statement directly. The hedging reserve will reduce to zero in line with the pull to par effect on the swap.

Interest rate hedging reserve reconciliation

R million	*2012*	*2011*
Balance at the beginning of the year	**229**	227
Net gains recognised	**279**	3
Tax effect	**(79)**	(1)
Deferred tax recognised in equity	**(107)**	(17)
Income tax recognised in equity	**28**	16
Balance at the end of the year	**429**	229

50. Long term share incentive scheme hedge

In terms of the group's long term share incentive scheme, the group is exposed to changes in its underlying share price as a result of the IFRS 2 charge. In order to hedge this risk, the group has entered into a series of total return equity swaps with a highly rated financial institution. In terms of this hedge, the group is covered from changes in its own equity price. In terms of the hedge designation, any movement in the group's share price is hedged. This enables the group to mitigate the cash flow risk arising when the LTIP options given to employees are exercised. In terms of IAS 39 these swaps have been documented and designated as effective cash flow hedges.

The fair value of the derivative instruments is determined using accepted valuation methodologies and the applicable market rate on date of valuation.

The hedge is constructed so as to mirror the expected vesting of the LTIP options.

50. Long term share incentive scheme hedge *continued*

The table below represents the reconciliation of the LTIP hedging reserve.

LTIP hedging reserve reconciliation

R million	*2012*	*2011*
Balance at the beginning of the year	**(81)**	(87)
Net losses on hedging instrument recognised in equity	**10**	9
Amount transferred to retained earnings	**77**	–
Tax effect	**(3)**	(3)
Balance at the end of the year	**3**	(81)

The amounts transferred to profit and loss are recognised as part of operating expenses.

51. Analysis of financial assets and liabilities

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

The following table analyses the financial assets and financial liabilities in the balance sheet per class and category of financial instruments to which they are assigned. An estimate of the fair value per class of the financial instrument is also provided.

51.1 Analysis of financial assets

R million	*Notes*	*Loans and receivables*	*Held-to-maturity financial instruments*	*Financial instruments at fair value through profit or loss*	*Non-financial instruments*	*Total*
2012						
Assets						
Short term deposits and cash	5	**3 070**	**–**	**–**	**–**	**3 070**
Statutory assets – bank and insurance	6	**2 243**	**2 079**	**–**	**–**	**4 322**
Inventories	7	**–**	**–**	**–**	**871**	**871**
Other assets	8	**10**	**–**	**3**	**331**	**344**
Derivative instrument	8	**–**	**–**	**966**	**–**	**966**
Taxation receivable		**–**	**–**	**–**	**27**	**27**
Net advances	9	**46 013**	**–**	**–**	**–**	**46 013**
Deferred tax asset	10	**–**	**–**	**–**	**762**	**762**
Property and equipment	11	**–**	**–**	**–**	**1 152**	**1 152**
Intangible assets	12	**–**	**–**	**–**	**683**	**683**
Goodwill	13	**–**	**–**	**–**	**5 472**	**5 472**
Total assets		**51 336**	**2 079**	**969**	**9 298**	**63 682**
Fair value		**52 613**	**2 079**	**977**		

51. Analysis of financial assets and liabilities *continued*

51.1 Analysis of financial assets continued

R million	*Notes*	*Loans and receivables*	*Held-to-maturity financial instru-ments*	*Financial instruments at fair value through profit or loss*	*Non-financial instru-ments*	*Total*
2011						
Assets						
Short term deposits and cash	5	3 198	–	–	–	3 198
Statutory assets – bank and insurance	6	783	1 992	–	–	2 775
Inventories	7	–	–	–	885	885
Other assets	8	96	–	–	181	277
Derivative instrument	8	–	–	595	–	595
Taxation receivable		–	–		13	13
Net advances	9	35 099	–		–	35 099
Deferred tax asset	10	–	–		465	465
Policyholders' investments		–	–	1	–	1
Property and equipment	11	–	–	–	852	852
Intangible assets	12	–	–	–	761	761
Goodwill	13	–	–	–	5 472	5 472
Total assets		39 176	1 992	596	8 629	50 393
Fair value		39 293	1 992	596		

Income statement effect of financial instruments by category

R million	*2012*	*2011*
Interest income recognised – loans and receivables	**9 943**	7 525
Interest income recognised – held at amortised cost	**195**	122
Total	**10 138**	7 647
Included in the above is interest income earned on impaired financial assets – advances	**1 227**	872

51. Analysis of financial assets and liabilities *continued*

51.2 Analysis of financial liabilities

		Amortised cost				
R million	***Notes***	***Listed funding***	***Unlisted funding***	***Fair value Other***	***Non-financial instruments***	***Total***
2012						
Liabilities						
Short term funding	14	**–**	**4 587**	**–**	**–**	**4 587**
Other liabilities	15	**–**	**–**	**–**	**1 677**	**1 677**
Derivative instruments	15	**–**	**–**	**524**	**–**	**524**
Taxation payable		**–**	**–**	**–**	**94**	**94**
Deferred tax liability	10	**–**	**–**	**–**	**216**	**216**
Bonds and other long term funding	17	**17 092**	**20 228**	**–**	**–**	**37 320**
Subordinated bonds/ debentures and loans	18	**2 866**	**965**	**–**	**–**	**3 831**
Total liabilities		**19 958**	**25 780**	**524**	**1 987**	**48 249**
Fair value		**22 112**	**26 821**	**524**	**–**	
2011						
Liabilities						
Short term funding	14	1 175	491	–	–	1 666
Other liabilities	15	–	–	–	1 665	1 665
Derivative instruments	15	–	–	348	–	348
Taxation payable		–	–	–	72	72
Deferred tax liability	10	–	–	–	229	229
Life fund reserve	16	–	–	1	–	1
Bonds and other long term funding	17	12 208	17 464	–	–	29 672
Subordinated bonds/ debentures and loans	18	1 846	927	–	–	2 775
Total liabilities		15 229	18 882	349	1 966	36 428
Fair value		13 652	19 559	349		

Income statement effect of financial instruments by category

R million	***2012***	***2011***
Interest expense recognised for financial liabilities at amortised cost	**3 230**	2 578
Interest expense recognised for financial liabilities at fair value	**450**	272
Total	**3 680**	2 850

51. Analysis of financial assets and liabilities *continued*

51.3 Fair value of financial instruments

51.3.1 Valuation techniques applied for the purpose of measuring fair value

The fair values of financial assets and liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. FEC contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

51.3.2 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted 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).

51. Analysis of financial assets and liabilities *continued*

51.3 Fair value of financial statements continued

51.3.2 Fair value measurements recognised in the statement of financial position continued

R million	*Level 1*	*Level 2*	*Level 3*	*Total*
2012				
Assets				
Financial assets				
Derivative instruments	**–**	**969**	**–**	**969**
Total	**–**	**969**	**–**	**969**
Liabilities				
Financial liabilities				
Derivative instruments	**–**	**524**	**–**	**524**
Total	**–**	**524**	**–**	**524**
2011				
Assets				
Financial assets				
Derivative instruments	–	595	–	595
Policyholders' investments	1	–	–	1
Total	1	595	–	596
Liabilities				
Financial liabilities				
Derivative financial instruments	–	348	–	348
Other liabilities		1	–	1
Total	–	349	–	349

There were no transfers between Level 1 and Level 2 during the year.

52. Contingent liabilities

The group has deposits with the Standard Bank of South Africa Limited (SBSA) for electronic funds transfer (EFT) and electricity guarantees totalling R6 million (2011: R7 million).

An indemnity of R0,7 million was issued to SBSA on 29 June 2006 to cover a guarantee made to VISA in respect of credit card transactions (2010: R0,7 million).

One of the group's insurance subsidiaries, Stangen, has not provided for outstanding level life claims amounting to R125 million (2011: R125 million) as, after extensive repeated efforts, the beneficiaries could not be traced. The amount is made up of 27 433 policies whereof the bulk of the events occurred between five and 10 years ago. In the financial year 2008 an outside party was tasked to trace the next of kin of all unclaimed level life policies and this exercise resulted in R5,7 million (under 1 200 policies) being paid to beneficiaries. The probability of any claims being subsequently made is, from prior experience and based on the result of the exercise by the third party, extremely low. Should any claims be made they will be taken as losses in the relevant period.

Gilt Edged Management Services (Proprietary) Limited (GEMS), a subsidiary of the group via Theta Investments (Proprietary) Limited, has a contingent liability to customers as a result of a court order issued in 2004, to pay reparations to customers who might have been prejudiced by actions of the company between 1999 and 2002. The terms of the court order require each customer to sign an acceptance and waiver form before the settlement can be made. In terms of the court order the maximum amount of potential reparations was R60,1 million of which in excess of R40,0 million was paid by the end of September 2006. Subsequent to September 2006, a marginal amount of R0,2 million of reparations was paid to GEMS customers.

The group has a contingent exposure to legal claims of R1,3 million (2011: R1,4 million).

R million	*2012*	*2011*
53. Operating lease commitments		
Payable within one year	**714**	672
Property	**663**	623
Equipment	**25**	20
Motor vehicles	**26**	29
Payable between one and five years	**1 806**	1 599
Property	**1 729**	1 505
Equipment	**33**	62
Motor vehicles	**44**	32
Payable thereafter – property	**625**	785
Total operating lease commitments	**3 145**	3 056

54. Long term incentive plan (LTIP) commitments

There is no liability (2011: R4 million) for the converted option instrument. The liability of R154 million (2011: R138 million) for the LTIPs issued in October 2008, October 2009, October 2010 and October 2011 has been included in other liabilities (refer note 15). Refer to the remuneration report for a full analysis of the converted option instrument and the LTIP scheme.

55. Retirement and post retirement benefits

The group contributes to defined contribution pension funds and defined contribution provident funds. These funds are registered under the Pension Funds Act, 1956.

The schemes are funded by both member and company contributions, which are charged to the income statement as they are incurred.

55.1 Pension and provident fund benefits

Subsidiary companies contribute to separate pension and provident funds which are governed by the Pension Funds Act, 1956, and are in the nature of defined contribution plans. These funds are managed by employer and employee elected trustees. Separate administrators are contracted to run the fund on a day-to-day basis. An independent consultant has also been appointed to the fund to oversee the operations and provide professional advice to the trustees.

The schemes are funded by both member and company contributions, which are charged to the income statement as they are incurred.

The defined contribution schemes are exempt from regular actuarial valuations as no actuarial shortfall is anticipated.

The funds cover the eligible employees other than those employees who opt to be or are required by legislation to be members of various industry funds. Employees may choose which fund they wish to belong to. All eligible employees are members of a fund.

55.2 Post retirement medical benefits

Certain subsidiaries in the group subscribe to third party medical aid societies and the group provides certain post retirement benefits by subsidising a portion of the medical aid contribution of retired members. The liability in respect of post retirement medical benefits which has been fully provided for and included in provisions, amounts to R10 million (2011: R13 million).

56. Short term insurance regulatory ratios

The regulatory solvency margin at the year end for the short term insurance subsidiary (housed within the Ellerines business unit) was as follows:

%	2012	2011
Relyant Insurance Company Limited	**45**	31

The regulatory minimum solvency margin is 25%.

57. Related party information

57.1 Relationship between holding company and subsidiaries

African Bank Investments Limited holds 100% of (inter alia) African Bank Limited, Ellerine Holdings Limited, Theta Investments (Proprietary) Limited and The Standard General Insurance Company Limited (Stangen). Details of investment in subsidiaries/controlled entities are disclosed in appendix B. All group subsidiaries were wholly owned at 30 September 2011.

57.2 Related party balances and transactions

African Bank Investments Limited (ABIL) has entered into financial transactions with its subsidiaries.

R million	*2012*	*2011*
Loan owing to ABIL by ABL	**–**	20
Loan owing by ABIL to ABL	**235**	–
	235	–

The highest balance during the year of the loan between African Bank Limited and African Bank Investments Limited was R235 million (2011: R291 million). The loan is unsecured, interest free and is repayable no later than 30 June 2013.

58. Restatement and reclassification of comparatives

58.1 Interest expense categories

The interest expense in the 2011 financial year recognised for different categories of financial liabilities disclosed in note 51.2 has been restated.

The effect of the restatement is disclosed below:

R million	*As previously reported*
Interest expense recognised for financial liabilities at amortised cost	2 850
Interest expense recognised for financial liabilities at fair value	–
Total	2 850

R million	*As restated*
Interest expense recognised for financial liabilities at amortised cost	2 578
Interest expense recognised for financial liabilities at fair value	272
Total	2 850

This is merely a reclassification with no impact on the financial results of the group.

58. Restatement and reclassification of comparatives *continued*

58.2 Subordinated debentures

In the 2011 financial year, in the disclosure of subordinated debentures (note 18), there was a misclassification between the face value of the debentures and the capitalised interest.

R million	***As previously reported***
Face value	326
Interest capitalised	5
Net liability	331

R million	***As restated***
Face value	225
Interest capitalised	106
Net liability	331

This is merely a reclassification with no impact on the financial results of the group.

58.3 Interest rate risk management

In the prior financial year the credit card advances whose interest rates are linked to the repo rate were not disclosed in the interest rate risk management section (note 47.1) as sensitive to movement in rates. This has been corrected and this led to an increase in the financial assets exposed to market risk by R4 855 million to R13 269 million. The income statement pretax and post tax effect increased by R88 million and R63 million respectively.

Company statement of financial position

as at 30 September 2012

R million	Notes	2012	2011
Assets			
Short term deposits and cash	2	**7**	21
Deferred tax asset		**1**	1
Investment in subsidiaries	3	**12 225**	11 814
Total assets		**12 233**	11 836
Liabilities and equity			
Loan from group company	4	**235**	–
Other liabilities	5	**28**	29
Total liabilities		**263**	29
Ordinary share capital	6	**20**	20
Ordinary share premium	6	**9 131**	9 131
Reserves	7	**1 689**	1 937
Ordinary shareholders' equity		**10 840**	11 088
Preference shareholders' equity	8	**1 130**	719
Total equity (capital and reserves)		**11 970**	11 807
Total liabilities and equity		**12 233**	11 836

Company income statement

for the year ended 30 September 2012

R million	Notes	2012	2011
Non-interest income	9	**1 390**	2 301
Total income		**1 390**	2 301
Operating costs	10	**(9)**	(8)
Profit before taxation		**1 381**	2 293
Direct taxation: STC	11	**(80)**	(152)
Direct taxation: SA normal	11	**–**	–
Profit for the year		**1 301**	2 141
Basic earnings (profit for the year) attributable to:		**1 301**	2 141
Preference shareholders	13	**61**	32
Ordinary shareholders	12	**1 240**	2 109

Company statement of comprehensive income

for the year ended 30 September 2012

R million	2012	2011
Profit for the year	**1 301**	2 141
Other comprehensive income	**–**	–
Total comprehensive income	**1 301**	2 141

Company statement of changes in equity

for the year ended 30 September 2012

R million	Notes	Ordinary share capital and premium	Retained earnings	Share based payment reserve	Preference share capital and premium	Total
Balance at 30 September 2010	6, 7, 8	9 151	590	726	483	10 950
Issue of preference shares	8	–	–	–	236	236
Dividends paid	13	–	(1 488)	–	(32)	(1 520)
Transfer from share based payments reserve to retained earnings		–	726	(726)	–	–
Total comprehensive income for the year		–	2 109	–	32	2 141
Balance at 30 September 2011	6, 7, 8	9 151	1 937	–	719	11 807
Issue of preference shares	8	**–**	**–**	**–**	**411**	**411**
Dividends paid	13	**–**	**(1 488)**	**–**	**(61)**	**(1 549)**
Total comprehensive income for the year		**–**	**1 240**	**–**	**61**	**1 301**
Balance at 30 September 2012	6, 7, 8	**9 151**	**1 689**	**–**	**1 130**	**11 970**

Company statement of cash flows

for the year ended 30 September 2012

R million	Notes	2012	2011
Cash generated from operating activities	14	**1 381**	2 293
Decrease in working capital		**(1)**	3
(Decrease)/increase in other liabilities		**(1)**	3
Direct taxation paid	15	**(80)**	(152)
Cash flow from operating activities		**1 300**	2 144
Cash outflow from investing activities		**(411)**	(867)
Increase in investment in African Bank Limited		**(411)**	(867)
Cash outflow from financing activities		**(903)**	(1 284)
Increase in loans from subsidiaries		**235**	–
Issue of preference shares	16	**411**	236
Dividends paid to preference shareholders		**(61)**	(32)
Dividends paid to ordinary shareholders		**(1 488)**	(1 488)
Decrease in cash and cash equivalents		**(14)**	(7)
Cash and cash equivalents at the beginning of the year		**21**	28
Cash and cash equivalents at the end of the year	17	**7**	21

Notes to the company annual financial statements

R million	2012	2011
1. Significant accounting policies		
The annual financial statements of African Bank Investments Limited are prepared according to the same principles used in preparing the group annual financial statements of the ABIL group. These accounting policies are in note 4 of the group accounting policies.		
2. Short term deposits and cash		
Call and current accounts	**7**	21
	7	21
3. Investment in subsidiaries		
Unlisted shares		
Shares at cost less impairments	**12 225**	11 814
Indebtedness to the company	**–**	–
	12 225	11 814
See appendix B for information relating to subsidiaries.		
4. Loan from group company		
Loan from group company	**235**	–
	235	–
The loan from African Bank Limited is unsecured, interest free and repayable on or before 30 June 2013.		
5. Other liabilities		
Sundry creditors and accruals	**3**	4
Shareholders for odd lot offer	**13**	13
Shareholders for unclaimed dividends	**12**	12
	28	29

	2012 Number of shares	2012 R million	2011 Number of shares	2011 R million
6. Ordinary share capital and premium				
Authorised				
Ordinary shares of 2,5 cents each	**1 000 000 000**	**25**	1 000 000 000	25
Issued				
Ordinary shares at par value of 2,5 cents each	**804 175 200**	**20**	804 175 200	20
Ordinary share premium		**9 131**		9 131
		9 151		9 151

Unissued shares

The directors have no authority to issue any of the unissued share capital. The directors have the authority to contract African Bank Investments Limited or any subsidiary to acquire shares not exceeding 3 % of the issued share capital.

Shares issued during the year

No shares were issued during the 2012 financial year.

Shares issued during the previous year

No shares were issued during the 2011 financial year.

R million	*2012*	*2011*
7. Reserves		
Reserves comprise the following:		
Retained earnings	**1 689**	1 937
Total reserves	**1 689**	1 937

	2012 Number of shares	*2012* R million	*2011* Number of shares	*2011* R million
8. Preference shareholders' equity				
Authorised				
Preference shares of 1 cent each	**20 000 000**	**–**	20 000 000	–
Issued				
Preference shares at par value of 1 cent each	**13 523 029**	**–**	8 042 251	–
Preference share premium		**1 130**		719
		1 130		719

The preference shares are non-redeemable, non-cumulative and non-participating preference shares. On 23 March 2005, 5 000 000 shares were issued at a premium of R99,99 per share and share issue expenses of R17 million were set off against the preference share premium. A further 3 042 251 were issued during the 2011 financial year and 5 480 778 shares were issued in the current year as below.

ABIL will not declare an ordinary dividend unless a preference dividend has been declared. Preference dividends will be calculated at 75,9 % of the daily average prime overdraft rate which prevailed in respect of the period for which the dividend is calculated.

Shares issued during the year

ABIL issued an additional 5 480 778 non-redeemable, non-cumulative, non-participating preference shares with a par value of R0,01 each on 23 March 2012. The shares were issued at a premium of R76,13 per share and share issue expenses of R6 million were offset against the preference share premium. These shares rank *pari passu* with the 8 042 251 preference shares already in issue.

R million	*2012*	*2011*
9. Non-interest income		
Dividends received from subsidiary companies	**1 390**	2 301
	1 390	2 301

R million	2012	2011
10. Operating costs		
Auditors' remuneration	**3**	2
Audit fees – current year	**3**	2
Non-executive directors' remuneration	**1**	1
Other expenses	**4**	5
11. Direct taxation		
Direct taxation charge per the income statement: STC	**80**	152
Direct taxation charge per the income statement: SA normal	**–**	–
Total taxation charge per the income statement	**80**	152
11.1 Direct taxation		
Secondary tax on companies (STC)		
Current year	**80**	152
SA normal tax		
Current year	**–**	–
Deferred tax		
Current year	**–**	–
Direct taxation charge per the income statement	**80**	152
11.2 Tax rate reconciliation		
Profit before taxation (amount used as the denominator in the tax rate reconciliation)	**1 381**	2 293
	%	%
Total taxation charge for the year as a percentage of profit before taxation	**5,8**	6,6
Effective rate of taxation	**5,8**	6,6
Secondary tax on companies	**(5,8)**	(6,6)
Dividend income	**28,2**	28,1
Disallowable expenses	**(0,2)**	(0,1)
Standard rate of South African taxation	**28,0**	28,0

R million	2012	2011
12. Reconciliation between basic earnings and headline earnings		
Reconciliation between basic earnings and headline earnings		
Basic earnings (profit for the year) attributable to:	**1 301**	2 141
Preference shareholders	**61**	32
Ordinary shareholders	**1 240**	2 109
Basic earnings attributable to ordinary shareholders	**1 240**	2 109
Adjusted for non-headline items	**–**	–
Headline earnings	**1 240**	2 109
13. Ordinary and preference dividends		
13.1 Ordinary dividends		
Final dividend number 22 of 100 cents per ordinary share (2011: 100 cents)	**804**	804
Interim dividend number 23 of 85 cents per ordinary share (2011: 85 cents)	**684**	684
Total ordinary and special dividends paid during the year	**1 488**	1 488
Interim dividend number 23 of 85 cents per ordinary share (2011: 85 cents)	**684**	684
Final dividend number 24 of 110 cents per ordinary share (2011: 100 cents)	**885**	804
Total ordinary and special dividends relating to income for the year	**1 569**	1 488
Final dividend number 24 of 110 cents per ordinary share was approved by the board on 19 November 2012. No provision has been made for these dividends in the financial statements for the year ended 30 September 2012.		
13.2 Preference dividends		
Final preference dividend number 14 of 310 cents per preference share (2011: 367 cents)	**24**	17
Interim preference dividend number 15 of 341 cents per preference share (2011: 310 cents)	**37**	15
Total preference dividends paid during the year	**61**	32
Interim preference dividend number 15 of 341 cents per preference share (2011: 310 cents)	**46**	15
Final preference dividend number 16 of 327 cents per preference share (2011: 310 cents)	**44**	25
Total preference dividends relating to the year	**90**	40

Preference dividend number 16 of 327 cents per preference share was approved by the board on 19 November 2012. No provision has been made for these dividends in the financial statements for the year ended 30 September 2012.

All dividends declared are out of revenue reserves. The final dividend for 2011 financial year was subject to STC.

No STC credits were utilised for the interim and final ordinary and preference dividends declared in May 2012 and November 2012.

R million	2012	2011
14. Cash generated from operations		
Profit from operations	**1 381**	2 293
Adjusted for:		
Impairment of investment in Ellerine Holdings Limited	**–**	–
	1 381	2 293
15. Direct taxation paid		
Direct taxation charged to the income statement	**80**	152
	80	152
16. Preference shareholders' transaction		
Share capital issued by the company	**426**	243
Accrued interest	**(9)**	(2)
Share issue costs related to the above	**(6)**	(5)
	411	236
17. Cash and cash equivalents		
Short term deposits and cash	**7**	21
	7	21

18. Facility unutilised

African Bank Investments Limited does not have any unutilised credit facilities.

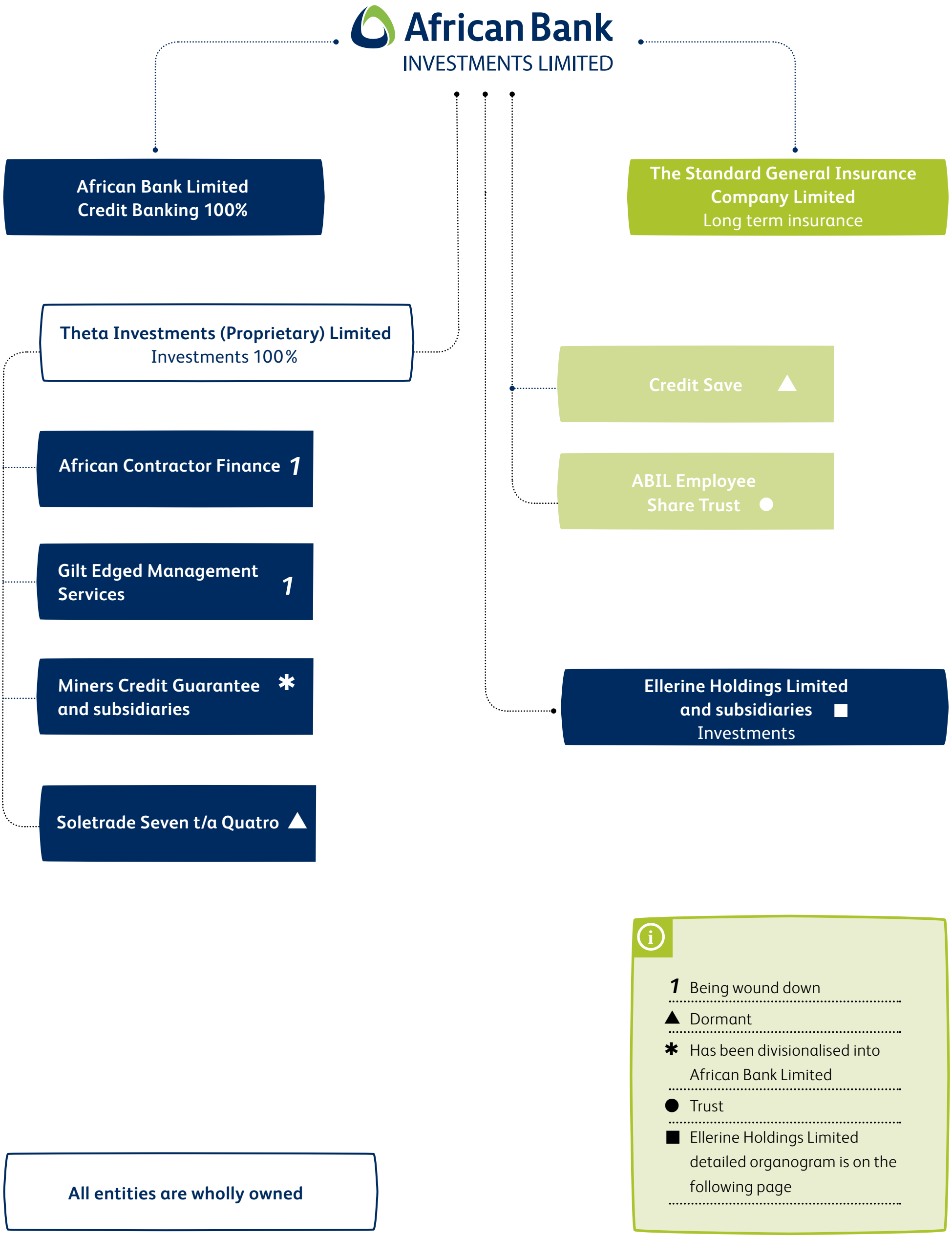
19. Related party information

African Bank Investments Limited holds 100% of, *inter alia*, African Bank Limited, Ellerine Holdings Limited, Theta Investments (Proprietary) Limited and The Standard General Insurance Company Limited. Details of investment in subsidiaries/controlled entities are disclosed in appendix B. For details on loans to/from the company, refer note 3.

Director related transactions

There were no material transactions with directors other than interests in share capital and share options and emoluments as disclosed in the directors' report, note 9 and the remuneration report.

Appendix A: Group structure and profile



ehl
ellerine holdings limited

- **Ellerine Retail Limited** – Retail Holding Company
  - Ellerine Trading (Proprietary) Limited 1
  - Ellerine Retail (Botswana) (Proprietary) Limited
  - Relyant Life Assurance Company Limited
  - Ellerine Management Services (Proprietary) Limited 1
  - Ellerine TM (Proprietary) Limited 1
  - Ellerine Personal Finance (Proprietary) Limited 1
  - Ellerine Credit Finance (Proprietary) Limited 1
  - Ellerine Retail (Namibia) (Proprietary) Limited
  - Relyant Retail (Swaziland) (Proprietary) Limited
  - Geen & Richards (Swaziland) (Proprietary) Limited 1
  - Relyant Insurance Company Limited – Insurance
    - Prefsure (Botswana) Limited – Insurance
  - Ellerine Services (Proprietary) Limited – Investments
    - Ellerine Furnishers (Namibia) (Proprietary) Limited
    - Customer Protection Insurance Company (Namibia) (Proprietary) Limited

- **Customer Protection Insurance Company Limited** – Insurance
- Ellerine Properties (Proprietary) Limited 1
- Ellerines Furnishers (Botswana) (Proprietary) Limited
- Ellerine Furnishers (Lesotho) (Proprietary) Limited
- Ellerines Furnishers (Swaziland) (Proprietary) Limited
- Ellerine Furnishers (Zambia) (Proprietary) Limited
- Hedgeley Investments (Proprietary) Limited 1
- Ellerine Properties (Flagstaff) (Proprietary) Limited 1
- Ellerine Properties (Giyani) (Proprietary) Limited 1
- Ellerine Properties (Idutywa) (Proprietary) Limited 1
- Ellerine Estate (Swaziland) (Proprietary) Limited 1
- Ellerine Properties (Botswana) (Proprietary) Limited 1
- Town Talk Furnishers (Bushbuckridge) (Proprietary) Limited 1
- Riotone (Proprietary) Limited

- **Ellerine Furnishers (Proprietary) Limited 2** – Retail Company
  - Ellerines Development (Butterworth) (Proprietary) Limited 1
  - Ellerines Development (Engcobo) (Proprietary) Limited 1
  - Ellerines Development (Umtata) (Proprietary) Limited 1

i
1 Non-trading – dormant
2 Financial services provider

All entities are wholly owned

Appendix B: Investment in subsidiaries/controlled entities

		Issued share capital		Effective percentage held		Investment (at cost and impairments)		Loans	
	Type of business	2012 R million	2011 R million	2012 %	2011 %	2012 R million	2011 R million	2012 R million	2011 R million
Direct holdings by African Bank Investments Limited									
African Bank Limited	Credit bank	**121**	121	**100**	100	**8 220**	7 809	**(235)**	–
Theta Investments (Proprietary) Limited	Investments	**–**	–	**100**	100	**64**	64	**–**	–
Theta Investments (Proprietary) Limited – impairment		**–**	–	**–**	–	**(29)**	(29)	**–**	–
Standard General Insurance Company Limited – cost	Long term insurance	**5**	5	**100**	100	**539**	539	**–**	–
Standard General Insurance Company Limited – impairment		**–**	–	**–**	–	**(338)**	(338)	**–**	–
Creditsave (Proprietary) Limited	Dormant	**–**	–	**100**	100	**8**	8	**–**	–
ABIL Employee Share Trust – cost	Share trust	**–**	–	**100**	100	**200**	200	**–**	–
ABIL Employee Share Trust – impairment		**–**	–	**–**	–	**(200)**	(200)	**–**	–
Ellerine Holdings Limited	Retail	**6**	6	**100**	100	**9 164**	9 164	**–**	–
Ellerine Holdings Limited – impairment		**–**	–	**–**	–	**(5 403)**	(5 403)	**–**	–
						12 225	11 814	**(235)**	–

All subsidiaries are incorporated in the Republic of South Africa.

Shareholder information

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Contents

Dividend declaration

Shareholders are advised of the following dividend declarations in respect of ordinary shares and preference shares.

Ordinary dividend

Ordinary shareholders are advised that the board of directors has declared a final gross cash dividend of 110 cents per ordinary share (93,500 cents net of dividend withholding tax) for the 12 months to 30 September 2012, (the cash dividend). The dividend has been declared as a cash distribution but with an opportunity for ordinary shareholders to elect capitalisation shares to provide flexibility for shareholders wishing to increase their holding in the company given recent changes to dividend tax in South Africa.

Ordinary shareholders will be entitled to elect to receive ordinary shares of 2,5 cents each in the company as capitalisation shares in lieu of the cash dividend (the capitalisation issue), to be determined by the ratio that 110 cents bears to 3176,33719 cents, representing the volume weighted average price of the company's ordinary shares on the exchange operated by the JSE Limited (JSE) during the nine-day trading period ended 29 November 2012. The ratio of capitalisation shares that may be applied for in terms of the capitalisation issue is therefore 3,46311 capitalisation shares for every 100 ordinary shares held on the record date, being Friday, 14 December 2012 ("the record date"). No secondary tax on companies (STC) credits were utilised as part of the ordinary cash dividend declaration.

The cash dividend will be paid out of profits of the company while the new ordinary shares to be issued pursuant to the capitalisation issue will be done from the company's share premium reserves but limited to the par value of 2,5 cents per share.

Trading in the Strate Limited environment does not permit fractions and fractional entitlements. Accordingly, where an ordinary shareholders' entitlement to new ordinary shares calculated in accordance with the above formula gives rise to a fraction of a new ordinary share, such fraction of a new ordinary share will be rounded up to the nearest whole number where the fraction is greater than or equal to 0,5 and rounded down to the nearest whole number where the fraction is less than 0,5.

Tax implications

The cash dividend and the capitalisation issue are likely to have tax implications for both resident and non-resident shareholders. Shareholders are therefore encouraged to consult their professional tax advisers should they be in any doubt as to the appropriate action to take.

In terms of the Income Tax Act, the cash dividend will, unless exempt, be subject to dividend withholding tax (DWT) that was introduced with effect from 1 April 2012. South African resident shareholders that are liable for DWT, will be subject to DWT at a rate of 15% of the cash dividend and this amount will be withheld from the cash dividend with the result that they will receive a net amount of 93,500 cents per share. Non-resident shareholders may be subject to DWT at a rate of less than 15% depending on their country of residence and the applicability of any double tax treaty between South Africa and their country of residence.

The capitalisation issue is not subject to DWT in terms of the Income Tax Act, but the subsequent disposal of shares obtained as a result of the capitalisation issue is likely to have income tax or capital gains tax (CGT) implications. Where any future disposals of shares obtained as a result of the capitalisation issue falls within the CGT regime, the base cost of such shares will be regarded as nil in terms of the Income Tax Act (or the value at which such shares will be included in the determination of the weighted average base cost method be zero).

Preference dividend

Preference shareholders are advised that the board of directors has declared a gross final cash preference share dividend of 327 cents per share (277,950 cents net of dividend withholding tax), bringing the total preference share dividend for the year to 668 cents per share. The dividends have been declared from income reserves and no secondary tax on companies credits have been used.

A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt from the tax.

Dividend timetable

Cash dividend/Capitalisation issue	*Ordinary shares*
Share code	ABL
ISIN	ZAE000030060
Company registration number	1946/021193/06
Company tax reference number	9850164717
Dividend number	24
Gross cash dividend per share	110 cents
Net dividend amount represented as cents per share	93,500 cents
Issued share capital as at declaration date	804 175 200
Declaration date	Monday, 19 November 2012
Finalisation announcement released on SENS	Friday, 30 November 2012
Finalisation announcement published in the press	Monday, 3 December 2012
Last date to trade to be eligible for the cash dividend/capitalisation shares	Friday, 7 December 2012
Shares commence trading ex-cash dividend/capitalisation shares	Monday, 10 December 2012
Last day to elect to receive the Capitalisation Issue instead of the Cash Dividend, Forms of Election to reach the Transfer Secretaries by 12:00 noon on	Friday, 14 December 2012
Record date in respect of cash dividend/capitalisation shares	Friday, 14 December 2012
Payment date	Tuesday, 18 December 2012

	Preference shares
Share code	ABLP
ISIN	ZAE000065215
Company registration number	1946/021193/06
Company tax reference number	9850164717
Dividend number	16
Gross cash dividend per share	327 cents
Net dividend amount represented as cents per share	277,950 cents
Issued share capital as at declaration date	13 523 029
Declaration date	Monday, 19 November 2012
Last date to trade *cum-dividend*	Friday, 7 December 2012
Shares commence trading *ex-dividend*	Monday, 10 December 2012
Record date	Friday, 14 December 2012
Dividend payment date	Tuesday, 18 December 2012

Share certificates may not be dematerialised or rematerialised between Monday, 10 December 2012 and Friday, 14 December 2012, both dates inclusive.

Shareholders' diary

Event	Date
Annual general meeting	5 February 2013
Interim results	20 May 2013
Financial year end	30 September
Annual results presentation	18 November 2013
Posting of integrated reports	28 December 2013

Listings information

Listings exchange	JSE Limited		
Sector	General financial		
Subsector	Consumer finance		
Share codes			ISIN
Ordinary shares		JSE: ABL Reuters: ABLJ.J Bloomberg: ABL SJ Equity	ZAE000030060
Preference shares		JSE: ABLP Reuters: ABLPp.J	ZAE000065215
ADR programme	Level 1		
ADR symbol	AFRVY		
Conversion ratio	One ADR is equivalent to five ordinary shares		

Credit rating

Moody's Investors Service credit rating

Rating	*2012*	*2011*	*2010*	*2009*	*2008*
Global long term	**Baa2**	Baa2	Baa2	Baa2	Baa2
Global short term	**P-2**	P-2	P-2	P-2	P-2
National long term	**A1.za**	A1.za	A1.za	A1.za	A1.za
National short term	**Prime-1.za**	Prime-1.za	Prime-1.za	Prime-1.za	Prime-1.za
Outlook	**Negative***	Stable	Stable	Stable	Stable

* *The outlook was changed to negative, in line with Moody's negative sovereign outlook for South Africa.*

Ratings were affirmed on 4 October 2012.

JSE statistics

		2012	2011	2010	2009	2008
Traded price (per share)						
Close	cents	**3 305**	3 300	3 585	2 950	2 520
High	cents	**4 065**	4 046	3 728	3 174	3 718
Low	cents	**3 103**	3 181	2 768	1 940	2 196
Market capitalisation	R million	**26 578**	26 538	28 830	23 723	20 265
Value of shares traded	R million	**35 504**	29 044	27 452	24 507	26 027
Value traded as % of market capitalisation	%	**134**	109	95	103	128
Volume of shares traded	millions	**996**	811	868	936	930
Volume traded as % of number in issue	%	**124**	101	108	116	116
Price/earnings ratio	times	**10,2**	12,8	16,1	15,0	8,8
Dividend yield	%	**5,6**	5,6	5,2	6,4	9,3
Earnings yield	%	**9,8**	7,8	6,2	6,7	11,3
Price-to-book ratio	times	**1,9**	2,0	2,3	1,9	1,7
Average number of shares in issue	millions	**804**	804	804	804	718
Shares issued	millions					306,3#
Number of shareholders		**19 293**	18 316	12 550	11 019	13 766

 # ABIL acquired the Ellerines group in January 2008. The consideration was settled by means of a fresh issue of 294,7 million shares. Another 11,6 million shares were issued in terms of the Ellerines BEE programme.

Analysis of ordinary shareholders

Top shareholders/managers of ABIL shares

Manager	*Holding*	*%*
Government Employees Pension Fund (PIC)	98 269 677	12,2
JP Morgan Asset Management	71 327 638	8,9
STANLIB Asset Management	50 790 500	6,3
Eyomhlaba Investment Holdings Limited	43 826 465	5,5
Investec Asset Management	34 644 778	4,3
BlackRock Inc	30 664 024	3,8
Directors' holding*	29 623 449	3,7
Abax Investments	28 427 926	3,5
RMB Morgan Stanley	26 935 814	3,4
Sanlam Investment Management	25 612 488	3,2
Government Singapore Investment Corp	24 530 687	3,1
Hlumisa Investment Holdings Limited	23 782 808	3,0
The Vanguard Group Inc	21 772 019	2,7
Afena Capital	19 442 776	2,4
Pictet & Cie Banquiers	16 834 645	2,1

** Directors' holdings includes shares held indirectly through ABIL's BEE programmes.*

Top beneficial holders

Beneficial owner	***Holding***	***%***
Government Employees Pension Fund (PIC)	115 215 409	14,3
ABIL's BEE programmes*	67 609 273	8,5
Liberty Life Association of Africa	36 771 257	4,6
RMB Morgan Stanley	26 869 755	3,3
Government Singapore Investment Corporation	19 983 145	2,5
Pictet & Cie Banquiers	16 834 645	2,1
Leon Kirkinis	16 500 000	2,1
Vanguard Emerging Markets Stock Fund	14 848 466	1,9
Nedgroup Investments	12 765 957	1,6
Ishares MSCI Emerging Markets Index Fund	12 199 390	1,5
Gordon Schachat	12 000 000	1,5
Wood C	10 074 533	1,3
**** ABIL's BEE programmes***		
Eyomhlaba Investment Holdings Limited	43 826 465	5,5
Hlumisa Investment Holdings Limited	23 782 808	3,0

Analysis of ordinary shareholders

as at 30 September 2012

Range	*Number of holders*	*% of total shareholders*	*Number of shares*	*% of total issued share capital*
1 – 999	8 221	**42,6**	3 264 826	**0,4**
1 000 – 9 999	9 313	**48,3**	25 341 364	**3,2**
10 000 – 99 999	1 327	**6,9**	34 890 199	**4,3**
100 000 – more	432	**2,2**	740 678 811	**92,1**
Total	19 293	**100,0**	804 175 200	**100,0**
Shareholder spread				
Non-public	10	**–**	30 684 055	**3,8**
Directors	9	**–**	29 623 449	**3,7**
Development Trust	1	**–**	1 060 606	**0,1**
Public	19 283	**100,0**	773 491 145	**96,2**
Total	19 293	**100,0**	804 175 200	**100,0**
Distribution of shareholders				
Individuals	14 729	**76,3**	47 456 896	**5,9**
Banks	134	**0,7**	127 922 967	**15,9**
Pension/provident fund	220	**1,1**	142 660 046	**17,7**
Growth funds/unit trusts	366	**1,9**	269 104 258	**33,5**
Investment companies	3	**–**	67 609 273	**8,4**
Nominees and trusts	2 676	**13,9**	40 726 037	**5,1**
Limited companies	44	**0,2**	13 539 105	**1,7**
Insurance companies	73	**0,4**	51 091 394	**6,4**
Private companies	327	**1,7**	38 247 268	**4,8**
Medical aid schemes	49	**0,3**	1 034 181	**0,1**
Other corporate bodies	513	**2,7**	4 072 850	**0,5**
Close corporations	159	**0,8**	710 925	**0,1**
Totals	19 293	**100,0**	804 175 200	**100,0**

Analysis of preference shareholders

as at 30 September 2012

Range	*Number of holders*	*% of total shareholders*	*Number of shares*	*% of total issued share capital*
1 – 999	781	**35,4**	345 445	**2,6**
1 000 – 9 999	1 198	**54,3**	3 315 418	**24,5**
10 000 – 99 999	202	**9,2**	4 447 805	**32,9**
100 000 – more	25	**1,1**	5 414 361	**40,0**
Total	2 206	**100,0**	13 523 029	**100,0**
Shareholder spread				
Non-public	–	**–**	–	**–**
Public	2 206	**100,0**	13 523 029	**100,0**
Total	2 206	**100,0**	13 523 029	**100,0**
Distribution of shareholders				
Individuals	1 547	**70,1**	4 789 880	**35,4**
Growth funds/unit trusts	42	**1,9**	3 327 594	**24,6**
Nominees and trusts	448	**20,3**	2 046 767	**15,1**
Insurance companies	7	**0,3**	729 229	**5,4**
Limited companies	4	**0,2**	182 580	**1,4**
Close corporations	45	**2,0**	668 494	**4,9**
Private companies	73	**3,3**	1 311 347	**9,7**
Other corporate bodies	40	**1,8**	467 138	**3,5**
Total	2 206	**100,0**	13 523 029	**100,0**
Top beneficial shareholders				
SAHD			500 000	**3,7**
SBSA ITF MOM OPP INC FD			376 000	**2,8**
SBSA ITF OMUT FLEX FND			295 557	**2,2**
SBSA ITF MOM BB FL IN SA			145 931	**1,1**
SBSA ITF 4I INC FD MOM			125 000	**0,9**
SBSA ITF OMUT REAL INC FND			94 942	**0,7**
Grindrod Diversified Preference Shares			347 533	**2,6**
Invested Absoluted Balanced Fund			320 000	**2,4**
Winburn Investments CC			318 514	**2,4**
NES Investments (Proprietary) Limited			311 934	**2,3**
Hollard Insurance Company Limited			246 000	**1,8**
Liberty Group Shareholders			225 806	**1,7**
Liberty Life Association of Africa Limited			202 387	**1,5**
Liberty Active Investment			135 483	**1,0**
Personal Trust High Yield Growth Fund			205 719	**1,5**
Personal Trust Conservative Managed			180 228	**1,3**
Stanlib Dynamic Return Fund			180 000	**1,3**
GFS Holdings Limited			163 149	**1,2**
Tantalum Enhanced Cash Fund			143 912	**1,1**
Van Tonder #2			141 800	**1,1**
Wanckel (SRO883)			137 000	**1,0**
Regent Insurance Company Limited			128 650	**1,0**
Legal Expenses Insurance SA Limited			125 392	**0,9**
Borman Consulting & Investments (Proprietary) Limited			109 626	**0,8**
Platinum/The Waterford Family Trust			100 000	**0,7**

Annual general meeting >

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Contents

Notice of annual general meeting

Notice is hereby given that the 66th annual general meeting of the shareholders of ABIL (the AGM) for the year ended 30 September 2012 will be held at **11:00 on Tuesday, 5 February 2013**.

To ensure that the registration procedures are completed by 11:00, please register for the AGM from 10:00. Please note that section 63(1) of the Companies Act, 71 of 2008, as amended (the 2008 Companies Act), requires that meeting participants (including proxies) must provide reasonably satisfactory identification before being entitled to attend or participate in the meeting. Forms of identification include valid identity documents, drivers licences and passports.

The venue for the AGM will be the registered office of the company, situated at 59 16th Road, Halfway House, Midrand.

The company intends to make provision for shareholders of the company to participate in the AGM by **electronic communication**. Please see the details for this set out in paragraph 14.2 below.

The purpose of the AGM is:

A. To present to the shareholders the annual financial statements (which statements include the directors' report and the audit committee report) for the year ended 30 September 2012, a summarised form of which was sent to the shareholders with this notice;
B. For one of the members of the ABIL group ethics and sustainability committee (being ABIL's social and ethics committee as contemplated in the 2008 Companies Act) to present to the shareholders a report on the matters within its mandate;
C. To consider all and any matters of the company as may lawfully be dealt with at the meeting;
D. To consider and, if deemed fit, to pass with or without modification, the ordinary and special resolutions of shareholders set out hereunder in the manner required by the 2008 Companies Act.

The board of directors of the company has determined that the record date for the purpose of determining which shareholders of the company are entitled to receive notice of the AGM is Friday, 7 December 2012 and the record date for purposes of determining which shareholders of the company are entitled to participate in and vote at the AGM is Friday, 25 January 2013. Only shareholders who are registered in the register of shareholders of the company on Friday, 25 January 2013 will be entitled to participate in and vote at the AGM. Accordingly, the last day to trade in order to be eligible to participate in and vote at the meeting is Friday, 18 January 2013.

Explanatory note

All references in this notice of AGM (including all of the ordinary and special resolutions contained herein other than special resolution 2) to the company's memorandum of incorporation or MOI refer to provisions of that portion of the company's constitutional documents that was, prior to the introduction of the 2008 Companies Act, called the company's memorandum of association and articles of association.

1. Ordinary resolution 1 – Election of L Kirkinis

RESOLVED THAT Leonidas Kirkinis, who retires in accordance with the company's MOI and being eligible, offers himself for re-election, be re-elected as director of the company with immediate effect.

Percentage of voting rights required to pass this resolution: 50% plus one vote of the voting rights exercised.

2. Ordinary resolution 2 – Election of N Adams

RESOLVED THAT Nicholas Adams, who retires in accordance with the company's MOI and being eligible, offers himself for re-election, be re-elected as director of the company with immediate effect.

Percentage of voting rights required to pass this resolution: 50% plus one vote of the voting rights exercised.

3. **Ordinary resolution 3 – Election of N Nalliah**

RESOLVED THAT Nithiananthan Nalliah, who retires in accordance with the company's MOI and being eligible, offers himself for re-election, be re-elected as director of the company with immediate effect.

Percentage of voting rights required to pass this resolution: 50% plus one vote of the voting rights exercised.

4. **Ordinary resolution 4 – Election of S Sithole**

RESOLVED THAT Samuel Sithole, who retires in accordance with the company's MOI and being eligible, offers himself for re-election, be re-elected as director of the company with immediate effect.

Percentage of voting rights required to pass this resolution: 50% plus one vote of the voting rights exercised.

Motivation for ordinary resolutions 1 to 4

In terms of the MOI of the company, one third of the directors are required to retire at each annual general meeting. There are 11 directors of ABIL. Accordingly, four directors are required to retire, and such directors must be selected from those directors who have served longest in time since their last election or re-election. Applying these requirements, the four directors listed in ordinary resolutions 1 to 4 are required to retire and they are entitled and have offered themselves for re-election. The board recommends to shareholders the re-election of the four directors.

The profiles of the directors standing for re-election appear at the end of this notice.

5. **Ordinary resolution 5 – reappointment of the auditors**

RESOLVED THAT Deloitte & Touche be reappointed as auditors of the company (and as at the date of this notice of AGM, Deloitte & Touche has determined that Mgcinisihlalo Jordan will continue to be the designated auditor to perform the functions of auditor of the company, Mr Jordan having been first so appointed in 2009).

Percentage of voting rights required to pass this resolution: 50% plus one vote of the voting rights exercised.

Motivation for ordinary resolution 5

Deloitte & Touche has indicated its willingness to continue in office and ordinary resolution 5 proposes the reappointment of that firm as the company's auditor until the conclusion of the next annual general meeting.

At the ABIL audit committee meeting held on 12 November 2012, the committee considered the independence of the auditor, Deloitte & Touche, in accordance with section 94(8) of the 2008 Companies Act. The ABIL audit committee also considered whether Deloitte & Touche is independent as prescribed by the Independent Regulatory Board for Auditors established by the Auditing Profession Act and was satisfied that Deloitte & Touche was independent. The audit committee nominates Deloitte & Touche for reappointment as registered auditor of the company.

Furthermore, the ABIL audit committee has, in terms of paragraph 3.86 of the JSE Listings Requirements, considered and satisfied itself that Deloitte & Touche, the reporting accountant and individual auditor are accredited to appear on the JSE List of Accredited Auditors, in compliance with section 22 of the JSE Listings Requirements.

6. **Ordinary resolution 6 – non-binding advisory vote on the remuneration policy**

RESOLVED THAT, as contemplated in King III which requires that the remuneration policy of the company be tabled to shareholders for a non-binding advisory vote, the shareholders approve the remuneration policy of the company (excluding the remuneration of the non-executive directors) as annexed to this notice.

Percentage of voting rights required to pass this resolution: as this is not a matter that is required to be resolved or approved by shareholders, no minimum voting threshold is required. Nevertheless, for record purposes, the minimum percentage of voting rights to adopt this resolution as a non-binding advisory vote is 50% plus one vote of the voting rights exercised.

Motivation for ordinary resolution 6

In terms of the King III recommendations, the company's remuneration policy should be tabled for a non-binding advisory vote every year at the relevant annual general meeting. The essence of this vote is to enable the shareholders to express their views on the remuneration policies adopted by the company.

Accordingly, the shareholders are requested to endorse the company's remuneration policy.

7. Special resolution 1 – remuneration of non-executive directors

RESOLVED THAT the remuneration payable to non-executive directors for their services as directors for the financial year ending 30 September 2013 (the 2013 financial year) will be as indicated in the table below as adjusted thereafter to take account of inflation (subject to a maximum increase of 5% per annum), which adjustment shall only be applicable until a change to the non-executive directors' remuneration is approved at a subsequent shareholders' meeting:

Emoluments payable to non-executive directors

Rand	*2013 financial year*	*2012 financial year*	*Increase percentage*
Chairman's fees inclusive of board and all committee fees	1 548 750	**1 475 000**	5%
Non-executive directors	224 700	**214 000**	5%
Chairman of the audit committee	224 700	**214 000**	5%
Audit committee members	112 350	**107 000**	5%
Chairman of the risk and capital management committee	224 700	**214 000**	5%
Risk and capital management committee members	112 350	**107 000**	5%
Chairman of the remuneration and transformation committee	157 500	**150 000**	5%
Remuneration and transformation committee members	78 750	**75 000**	5%
Chairman of the directors' affairs committee	157 500	**150 000**	5%
Directors' affairs committee members	78 750	**75 000**	5%
Chairman of the social and ethics committee	157 500	**150 000**	5%
Social and ethics committee member	78 750	**75 000**	5%

Percentage of voting rights required to pass this resolution: 75% of the voting rights exercised.

Motivation for special resolution 1

In terms of section 66(8) and (9) of the 2008 Companies Act, remuneration may only be paid to directors for their service as directors in accordance with a special resolution approved by the shareholders within the previous two years and if not prohibited in a company's MOI. ABIL's MOI does not prohibit the payment of such remuneration. The remuneration sought to be approved is to be paid to the non-executive directors, as they are not remunerated as employees of the company, as in the case of the executive directors. ABIL performs an independent benchmark exercise every three to four years to determine if the non-executive directors' remuneration is in line with market having regard to the size, complexity, time demanded, skills, experience and qualifications of its non-executive directors. This exercise was performed in late 2011 and it was found that the non-executive directors' fees were currently in line with the market. The annual increase has been set at 5%.

8. Special resolution 2 – adoption of a revised MOI

RESOLVED THAT a revised MOI, in the form of the draft tabled at the AGM, initialled by the chairman of the meeting for the purpose of identification, be and is hereby adopted in substitution for and to the exclusion of the entire current MOI of the company.

As the revised MOI contains proposed amendments to the literal terms attaching to preference shares (as set out in clauses 38 and 39 of the revised MOI, with the only substantive changes being to clauses 38.10 and 38.13 read with clause 16.2 of the revised MOI), this resolution is subject to the company obtaining the prior sanction of a resolution, passed at a separate class meeting of the holders of the preference shares in the same manner *mutatis mutandis* as a special resolution, approving the amendments to clauses 38 and 39.

Should the preference shareholders fail to sanction the amendments to clauses 38 and 39 of the revised MOI, it is RESOLVED THAT the revised MOI (excluding the proposed amendment to clauses 38 and 39 and on the basis that clause 16.2 thereof shall then not apply to the preference shares described in such clauses) be and is hereby adopted in substitution for the current MOI.

Percentage of voting rights required to pass this resolution: 75% of the voting rights exercised.

Motivation for special resolution 2

The 2008 Companies Act came into effect on 1 May 2011 ("the general effective date"). From the general effective date, ABIL's memorandum of association and articles of association became known as its memorandum of incorporation (referred to in this notice as the MOI).

In terms of the transitional arrangements set out in Schedule 5 to the 2008 Companies Act, at any time within two years immediately following the general effective date, a pre-existing company (such as ABIL) may file, without charge, an amendment to its memorandum of incorporation to bring it in harmony with the 2008 Companies Act. Further, Schedule 10 to the JSE Listings Requirements stipulates that within the same period of two years contained in the 2008 Companies Act, a listed company must harmonise its memorandum of incorporation with the JSE Listings Requirements.

The revised MOI proposed for adoption by the shareholders contains substantially similar principles to those which are contained in the current MOI of ABIL other than as required as a result of harmonising the revised MOI with the requirements of the 2008 Companies Act and the JSE Listings Requirements (as set out in the revised Schedule 10 thereof).

Due to this harmonisation with the requirements of the revised Schedule 10 of the JSE Listings Requirements, the revised MOI contains amendments to the literal terms and conditions applicable to the preference shares. The two substantive changes made to the preference share terms have been made to cater for the following two requirements stipulated in Schedule 10 of the JSE Listings Requirements, namely:

8.1 where shareholders (other than holders of ordinary shares) are permitted to vote at a general or annual general meeting of the company, their votes may not carry any special rights or privileges and their total voting rights at such general meeting or annual general meeting may not exceed 24,99% of the total voting rights of all shareholders at such meeting; and

8.2 no further securities ranking in priority to, or *pari passu* with, existing preference shares, of any class shall be created without a special resolution passed at a separate general meeting of such preference shareholders.

Whilst the ABIL MOI needs to record the requirement set out in paragraph 8.1 above, this has no practical effect on the voting rights of preference shareholders. This is because, as at 7 December 2012 (and prior to the issue of any new ordinary shares as a result of the election ABIL gave ordinary shareholders in December 2012 to receive ordinary ABIL shares as capitalisation shares instead of the cash dividend declared on 19 November 2012), there were 804 175 200 ordinary ABIL shares issued of 2,5 cents each and 13 523 029 issued ABIL preference shares of 1 cent each. Based on the number and par value of the issued shares in ABIL, at any meeting of shareholders at which both ordinary shareholders and preference shareholders are entitled to vote, the maximum percentage of the vote controlled by preference shareholders, assuming voting by all shareholders on a poll, is 0,67% of the voting rights. (This percentage is likely to have decreased as a result of the capitalisation share election referred to above.) Practically the maximum voting rights which preference shareholders could control at a general or annual general meeting of ABIL is considerably below the 24,99% limit stipulated in the JSE Listings Requirements.

The inclusion of a provision in the revised MOI in compliance with the requirement contained in paragraph 8.2 above grants the preference shareholders an additional right.

As the literal terms of the preference shares are being amended through the harmonisation process above, all amendments to clauses 38 and 39 require the prior sanction of a resolution passed at a separate class meeting of the holders of the preference shares in the same manner *mutatis mutandis* as a special resolution. Such a meeting has been called to be held prior to the AGM.

Further, the holders of the preference shares are entitled to vote, either in person or by proxy, at the AGM in respect of special resolution 2, due to the proposed amendment to clauses 38 and 39 contained in the revised MOI.

The following documents, or copies thereof, will be available for inspection during normal business hours at the registered office of ABIL, from the date of this notice of AGM up to and including the date of the AGM (and can also be found on ABIL's website www.abil.co.za):

(i) the current MOI; and
(ii) the revised MOI.

9. Special resolution 3 – general authority to provide financial assistance to related or interrelated companies and corporations

RESOLVED THAT, to the extent required by the 2008 Companies Act, the board of directors of the company may, subject to compliance with the requirements of either section 44 or section 45 of the 2008 Companies Act, as the case may be, the company's MOI and the JSE Listings Requirements, authorise the company to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, to any of its subsidiaries and/or any other company or corporation that is related or interrelated to the company, for any purpose or in connection with any matter including, but not limited to, the subscription of any option, or any securities, issued or to be issued by a related or interrelated company, or for the purchase of any securities of the company or a related or interrelated company. Such authority shall not extend to permitting the company to provide any such financial assistance for the purposes of or in connection with the acquisition of any securities issued by the company unless it relates to any general repurchase of ABIL shares by ABIL or any subsidiary of ABIL or the shareholders have provided the company with the necessary authority to do so by virtue of a separate authorising resolution.

Percentage of voting rights required to pass this resolution: 75% of the voting rights exercised.

Motivation for special resolution 3

Prior to the 2008 Companies Act becoming effective, ABIL, acting through its board, was entitled without shareholder permission, to make intercompany loans, grant financial assistance to group companies and further was entitled to provide financial assistance, should the directors deem it appropriate, in connection with the acquisition of shares and debentures of its subsidiaries.

However, sections 44 and 45 of the 2008 Companies Act limit this ability. These sections provide, amongst other, that the particular financial assistance must be provided only pursuant to a special resolution of the shareholders, adopted within the previous two years, which approves such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category and the board of directors must be satisfied that:

9.1 immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test; and
9.2 the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

ABIL would like the ability to provide financial assistance to its related or interrelated companies in accordance with sections 44 and 45 of the 2008 Companies Act, if necessary. However, in respect of any such financial assistance provided in connection with the acquisition of ABIL shares such right will only allow for the provision of financial assistance in connection with any general repurchase of ABIL shares in terms of the permission sought in special resolution 5 below.

In order, amongst other things, to ensure that ABIL subsidiaries and other related and interrelated companies and corporations have access to financing and/or financial backing from ABIL to the extent necessary to enable them to carry on their business activities, it is necessary to obtain the approval of shareholders as set out in the special resolution above.

10. Special resolution 4 – specific authority to provide financial assistance to BEE companies

RESOLVED THAT, to the extent required by section 44 of the 2008 Companies Act, the board of directors of the company may, subject to compliance with the requirements of the 2008 Companies Act, authorise the company to provide direct or indirect financial assistance to either or both of Eyomhlaba Investment Holdings Limited (Eyomhlaba) and Hlumisa Investment Holdings Limited (Hlumisa), being the companies through which ABIL's first and second Black Economic Empowerment programmes are operated. Any such financial assistance will be on terms no less favourable to the ABIL group than the following terms:

10.1 the borrower will be either or both of Eyomhlaba and Hlumisa;
10.2 the lender of the funding will be ABIL and/or any of its wholly owned subsidiaries;
10.3 the funding will be in the form of a loan and/or preference share funding;
10.4 the maximum repayment period for any such funding will be the lesser of:
10.4.1 five years; and
10.4.2 a period ending at the end of the empowerment period (as amended from time to time) applicable to Eyomhlaba and/or Hlumisa, as the case may be, which empowerment period is currently planned, in respect of each of Eyomhlaba and Hlumisa, to end on 31 December 2015;
10.5 the maximum amount of any funding will be R500 million in the case of Eyomhlaba and R250 million in the case of Hlumisa;
10.6 the funding may constitute additional new funding for Eyomhlaba or Hlumisa and/or funding to be utilised to settle third party funding obligations of Eyomhlaba or Hlumisa, as the case may be;
10.7 the minimum funding return (albeit interest or dividend) of any such financial assistance, in the case of a floating rate instrument, will be the prime overdraft rate of the lender's main bankers applicable at the inception of such funding arrangement (which rate is, at the date of issue of this notice, currently 8,5%) per annum (nominal annual compounded semi-annually) and, in the case of a fixed rate instrument, will be determined with reference to a relevant risk free benchmark of equivalent duration to the funding instrument concerned plus a margin above such relevant risk free benchmark calculated, at the inception of such funding arrangement, to provide at least the equivalent of the minimum funding return referred to above;
10.8 there may not be security received in respect of the funding although the borrower will be obliged to maintain an asset to debt cover ratio of at least two (calculated as if the funding had been raised and utilised for the purposes intended being the purchase of ABIL shares or rights to ABIL shares and/or to redeem or settle any other third party funding obligation);
10.9 the rights of the lender may be subordinated to other external funders of the borrower; and
10.10 any funding return not paid by the borrower to the lender timeously will accumulate for later payment or for payment on redemption.

As part of the approval contained in this special resolution 4, the company will be entitled to acquire from external funders all or part of the preference shares issued by Eyomhlaba and/or Hlumisa and held by external funders, provided the terms attaching to such preference share fall substantially within the parameters set out above.

Percentage of voting rights required to pass this resolution: 75% of the voting rights exercised.

Motivation for special resolution 4

Eyomhlaba and Hlumisa were established in 2005 and 2008 respectively as special purpose vehicles with the main object of acquiring and continuing to acquire ABIL ordinary shares. It is through those companies that broad based ownership of a significant number of ABIL ordinary shares by Black persons is intended to be achieved. As at 7 December 2012, Eyomhlaba and Hlumisa jointly owned approximately 8,9% of the ordinary shares of ABIL.

In 2012, Eyomhlaba and Hlumisa entered into preference share funding agreements with a consortium of financial institutions. As a result of these agreements:

(i) Eyomhlaba has issued 33 preference shares raising capital of R330 million; and
(ii) Hlumisa has issued 18 preference shares raising capital of R180 million.

ABIL would like the ability to provide additional financial assistance to either or both of Eyomhlaba and Hlumisa should ABIL believe that this will assist ABIL towards achieving its Black Economic Empowerment objectives through such funding (and subject to the terms of the existing preference share funding arrangements entered into by Hlumisa and Eyomhlaba).

In addition, the existing preference share funding agreements give ABIL the opportunity to acquire preference shares from the existing external funders, mainly in circumstances of default, and ABIL would like the ability to exercise such rights if it believes this necessary to protect ABIL's Black Economic Empowerment objectives.

For this reason, it is necessary to obtain the approval of shareholders as set out in the special resolution above.

11. Special resolution 5 – general repurchases

RESOLVED THAT, as a general approval, the acquisition by the company, and/or any subsidiaries of the company, from time to time, of the issued securities of the company, upon such terms and conditions and in such amounts as the directors of the company may from time to time determine, be and is hereby authorised, but subject to the MOI of the company, the provisions of the 2008 Companies Act and the JSE Listings Requirements, when applicable, and provided that:

11.1 the acquisitions by the company and its subsidiaries of securities in the capital of the company may not, in the aggregate, exceed in any one financial year, 3% of the company's issued share capital of the class of the repurchased securities as at the beginning of the financial year;

11.2 the aggregate percentage of issued securities in the company which the company's subsidiaries may hold as treasury stock, at any time, shall not exceed 10% of the company's issued share capital for each class of securities at the relevant times and no voting rights attached to those securities may be exercised while those securities are held by such subsidiaries;

11.3 Additional requirements imposed by the JSE Listings Requirements

It is recorded that the company or its subsidiaries may only make a general acquisition of securities of the company if the following JSE Listings Requirements are met:

11.3.1 the repurchase of securities being effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty (reported trades are prohibited);

11.3.2 the approval by the shareholders in terms of this special resolution shall be valid only until the next annual general meeting of the company or 15 months from the date of the AGM at which this special resolution is passed, whichever period is shorter;

11.3.3 repurchases may not be made at a price greater than 10% above the weighted average of the market value for the securities for the five business days immediately preceding the date on which the transaction is effected or, if the company's securities have not traded in such five business day period, the JSE should be consulted for a ruling;

11.3.4 at any point in time, the company may only appoint one agent to effect any repurchases on its behalf;

11.3.5 a resolution by the board of directors of the company that they authorise the repurchase, that the company pass the solvency and liquidity test contemplated in the 2008 Companies Act and that since that test was done there has been no material change to the financial position of the ABIL group;

11.3.6 any such general repurchases are subject to exchange control regulations and approvals at that point in time;

11.3.7 the company and/or its subsidiaries may not repurchase any securities in terms of this authority during a prohibited period, as defined in the JSE Listings Requirements, unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period; and

11.3.8 when the company, together with its subsidiaries, has cumulatively repurchased 3% of the initial number of the relevant class of securities an announcement will be made.

Percentage of voting rights required to pass this resolution: 75% of the voting rights exercised.

Motivation for special resolution 5 and statement required in terms of paragraph 11.26 of the JSE Listings Requirements

Pursuant to and in terms of the JSE Listings Requirements, the board of directors of the company hereby state that:

- At the date of this notice, the board of directors of the company has no definite intention of repurchasing shares, other than in relation to hedging the group's exposure to the ABIL share price under its long term incentive programme. It is proposed and the directors believe it to be in the best interests of the company that shareholders pass special resolution 5 which will give the directors the authority to repurchase a maximum of 3% of the company's issued share capital in any one financial year.
- In determining the method by which the company would repurchase its securities, the maximum number of securities to be repurchased and the date on which such repurchase will take place, the directors of the company will only make repurchases if, at the time of the repurchase, they are of the opinion that:
  a) the company and the group will, after the repurchase, be able to pay their debts as they become due in the ordinary course of business for the 12-month period following the date of such repurchase;
  b) the consolidated assets of the company and the group, fairly valued and recognised and measured in accordance with the accounting policies used in the latest audited financial statements, will, after the repurchase, be in excess of the consolidated liabilities of the company and the group for the 12-month period following the date of the repurchase;
  c) the issued share capital and reserves of the company and the group will, after the repurchase, be adequate for the ordinary business purposes of the company and the group for the 12-month period after the date of the repurchase;
  d) the working capital available to the company and the group will, after the repurchase, be adequate for the ordinary business purposes of the company and the group for the 12-month period following the date of the repurchase; and
  e) upon entering the market to proceed with the general repurchase, the company's sponsor has confirmed the adequacy of the company's working capital for the purposes of undertaking a general repurchase of shares.
- Since the method of acquisition and the number of securities to be acquired are still to be determined by the board of directors in the future, the board of directors shall only exercise the authority hereby granted to it if, within the board's discretion, circumstances should merit such exercise and provided that, on the date of the acquisition of

the securities and taking into account the effect thereof, the company will be able to comply with the requirements of a) to d) above.

- In addition to the above requirements, any resolution by the board of directors authorising any such repurchase must include a statement that the company passed the solvency and liquidity test contemplated in the 2008 Companies Act and that since the test was done there have been no material changes to the financial position of the group.
- Finally, the directors shall not make any payment in whatever form to acquire shares unless it is satisfied the relevant requirements of section 48 of the 2008 Companies Act have been fulfilled.
- As at the date of the issue of this notice of AGM, the ABIL group does not hold any treasury shares.
- For the purposes of considering special resolution 5 and in compliance with the JSE Listings Requirements, the general information required in Rule 11.26 of the JSE Listings Requirements has been included in an annexure headed *"Paragraph 11.26 Information"* at the end of this notice.

12. Ordinary resolution 7 – general issue of shares for cash to the BEE companies

RESOLVED THAT the directors of the company be and are hereby authorised, by way of a renewable general authority, to issue authorised but unissued ordinary shares in the capital of the company for cash as and when they in their discretion deem fit, subject to the 2008 Companies Act, the Banks Act, the MOI prevailing at the time to which the context concerns and the JSE Listings Requirements, when applicable, on the basis that:

12.1 this authority shall be valid until the company's next annual general meeting or for 15 months from the date that this resolution is passed, whichever period is shorter;

12.2 the ordinary shares may only be issued to Eyomhlaba Investment Holdings Limited and Hlumisa Investment Holdings Limited, being the companies (the "BEE companies") through which ABIL's first and second Black Economic Empowerment programmes are operated;

12.3 the maximum number of ordinary shares of a par value of 2,5 cents each which may be issued pursuant to this authority is limited to 12 million ordinary shares, being marginally less than 1,5% of the number of issued ordinary shares of the company as at 7 December 2012 (and, in determining the number of ordinary shares issued pursuant to this authority, account must be taken of the number of any ordinary shares which may be issued in future arising out of the issue of any options under this authority);

12.4 of this authority;

12.4.1 a maximum of 8 million ordinary shares may only be used in circumstances where ABIL has granted ordinary shareholders an election to receive a cash dividend or capitalisation shares and the BEE company concerned is precluded in terms of its memorandum of incorporation from electing to receive such capitalisation shares; and

12.4.1 a maximum of 4 million ordinary shares may be issued to the BEE companies in other circumstances;

12.5 the price at which ordinary shares are to be issued to each of the BEE companies (should such company agree to subscribe for ABIL ordinary shares on these terms) will be the higher of:

12.5.1 the weighted average traded price of the ordinary ABIL shares used by ABIL to determine the number of capitalisation shares which ordinary shareholders would be entitled to receive should they elect capitalisation shares in the circumstances contemplated in paragraph 12.4 above; and

12.5.2 a price which is 90% of the weighted average traded price of the ordinary shares measured over the 30 business days prior to the date that the price of the issue is agreed between the issuer and the party subscribing for the securities; and

12.6 any such general issues are subject to exchange control regulations and approvals, to the extent applicable, at that point in time.

Percentage of voting rights required to pass this resolution: 75% of the voting rights exercised.

Motivation for ordinary resolution 7

ABIL recently granted its ordinary shareholders an election to receive capitalisation shares *in lieu* of the cash dividend declared on 19 November 2012. Each of the BEE companies is precluded in terms of its memorandum of incorporation from electing the capitalisation shares and therefore is forced to accept the cash dividend and then use the cash dividend to buy more ABIL ordinary shares on the JSE. ABIL granted the option to elect capitalisation shares to its ordinary shareholders with a view to preserving capital to fund the continued growth of African Bank Limited.

ABIL would like to have the ability to offer each of the BEE companies the opportunity to use all or part of the cash dividend that such company is obliged to elect to receive and then use to buy ABIL ordinary shares on the JSE, to rather subscribe for ordinary shares in ABIL. This would then have the same effect as would have been the case had the BEE companies elected to receive capitalisation shares. The further benefit for ABIL is that its BEE companies continue to increase their BEE shareholding in ABIL without having to incur transaction costs that would be incurred for purchases on the JSE, thus enabling the BEE companies to increase their holding in ABIL with this saving.

ABIL will only use this part of the authority (being in respect of a maximum of 8 million ordinary ABIL shares) in circumstances where ABIL has granted ordinary shareholders an election to receive a cash dividend or capitalisation shares and the BEE company concerned is precluded in terms of its memorandum of incorporation from electing to receive such capitalisation shares.

The BEE companies have also raised third party preference share funding which they must use to acquire ABIL shares. Given ABIL's desire to obtain capital to fund the continued growth of African Bank Limited, ABIL would like permission to issue up to a maximum of 4 million further ordinary ABIL shares to the BEE companies, should the BEE companies agree to subscribe for such shares.

The minimum price per share which the BEE companies could pay for new ABIL ordinary shares issued to it would be the weighted average traded price of the ordinary ABIL shares used by ABIL to determine the number of capitalisation shares which ordinary shareholders would be entitled to receive should they elect capitalisation shares, but may be higher if 90% of the relevant 30 business day VWAP is higher.

The maximum aggregate number of ordinary shares of a par value of 2,5 cents each which ABIL may issue pursuant to this authority is 12 million ordinary shares, being marginally less than 1,5% of the number of issued ordinary shares of the company as at 7 December 2012.

13. Ordinary resolution 8 – directors' authority to implement special and ordinary resolutions

RESOLVED THAT, as an ordinary resolution, each and every director of the company be and is hereby authorised to do all such things and sign all such documents as may be necessary for or incidental to the implementation of the resolutions passed at this meeting.

Percentage of voting rights required to pass this resolution: 50% plus one vote of the voting rights exercised.

Motivation for ordinary resolution 8

This resolution is to provide the directors with the necessary authority to do all things necessary to act under or implement the decisions and resolutions passed at this meeting.

14. General information

14.1 Voting and proxies

All shareholders of the company are entitled to attend and speak at the AGM or any adjournment thereof. All holders of ordinary shares will be entitled to vote on each resolution at the AGM or any adjournment thereof. Holders of preference shares shall be entitled to attend and speak at the AGM or any adjournment thereof but shall only be entitled to vote in respect of special resolution 2.

A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies (who need not be a shareholder of the company) to attend, participate in and vote at the meeting in the place of the shareholder.

The attached form of proxy is only to be completed by those shareholders who:

- hold shares in certificated form; or
- are recorded on the subregister in dematerialised electronic form with "own name" registration.

All other beneficial owners who have dematerialised their shares through a Central Securities Depository Participant (CSDP) or broker and wish to attend the AGM, must instruct their CSDP or broker to provide them with the necessary Letter of Representation, or they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. These shareholders must not use a form of proxy.

It is requested that the company receives completed forms of proxy by no later than 11:00 on Friday, 1 February 2013 at the office of the company's transfer secretaries, Link Market Services SA (Proprietary) Limited. The address of Link Market Services SA (Proprietary) Limited is:

13th Floor,
Rennie House,
19 Ameshoff Street,
Braamfontein

PO Box 4844,
Johannesburg,
2000

Any forms of proxy not lodged by this time may be handed to the chairman of the AGM immediately prior to the commencement of the AGM.

Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend, speak and vote in person at the AGM should the shareholder decide to do so. A summary of the shareholders' rights in respect of proxy appointments as contained in section 58 of the 2008 Companies Act is set out on the attached proxy form.

14.2 Electronic participation in the AGM

Please note that the company intends to make provision for shareholders of the company, or their proxies, to participate in the AGM by way of electronic communication. In this regard, shareholders or their duly appointed proxy(ies) who wish to participate at the AGM via electronic communication (Participants) must apply to the company's transfer secretaries (whose address is set out in paragraph 14.1 above and on the attached application form) using the application form attached hereto. The application form must be received by the company's transfer secretaries by no later than 17:00 on Monday, 28 January 2013.

Participants are advised that they will not be able to vote during the meeting. Such Participants, should they wish to have their vote counted at the meeting, must act in accordance with the general instructions contained in paragraph 14.1 above regarding voting and proxies.

Shareholders must take note of the following:

- A limited number of telecommunication lines will be available;
- Each Participant will be contacted prior to the commencement of the meeting *via* email and/or SMS/text

message utilising the details provided by the Participant in the application form attached hereto. Participants will be provided with a code and relevant telephone number to allow them to dial in;

– The cost of the electronic communication facilities will be for the account of the company, although the cost of the shareholder's telephone call will be for his/her own expense.

14.3 Directions for obtaining a copy of financial statements

A summarised form of the audited financial statements of the company are sent to shareholders with this notice. A copy of the complete financial statements can be found on ABIL's website (www.abil.co.za) or a copy thereof can be requested in writing from Link Market Services SA (Proprietary) Limited (whose address is set out in paragraph 14.1 above).

By order of the board

African Bank Investments Limited
Leeanne Goliath
Company secretary
7 December 2012

Registered office

59 16th Road,
Midrand,
1685

Private Bag X170,
Midrand,
1685

Directors' curricula vitae

Samuel (Sam) Sithole
Independent non-executive director

Date appointed	21 May 2009
Business address	59 16th Road, Midrand, 1685
Qualifications	BAcc (Hons) (University of Zimbabwe), CA(Z), CA(SA), ACA (ICAEW), Advanced Diploma in Banking (University of Johannesburg) and Programme for Leadership Development (Harvard Business School)
Nationality	Zimbabwean
Directorships	Non-executive director of African Bank Investments Limited and African Bank Limited. Executive director of Brait South Africa Limited and its related subsidiary companies; Valucorp 154 CC and Proline Trading 102 (Proprietary) Limited.
Profile	Sam is currently the group financial director of Brait South Africa Limited. He is a former audit partner of Deloitte, with whom he spent a total of 12 years at their Harare, London (UK) and Johannesburg offices.

Nicholas (Nic) Adams
Independent non-executive director

Date appointed	1 February 2008
Business address	59 16th Road, Midrand, 1685
Qualifications	BCom (Hons), CTA (UCT), ACMA
Nationality	South African
Directorships	Non-executive director of African Bank Investments Limited, African Bank Limited, MKP Holdings (Proprietary) Limited, Garden of Development Company (Proprietary) Limited, Swanvest (Proprietary) Limited, Findlay's Properties No 5 (Proprietary) Limited and Uplands College (Proprietary) Limited. Executive director of TukTuk Investments (Proprietary) Limited and Walter H Adams (Kimberley) Limited.
Profile	Nic is a chartered accountant by training who spent six years at Deloitte as a partner in the consulting division. He is currently a private equity investor investing own funds in a variety of unlisted investments, mostly venture or development capital in the IT, training and tourism/wildlife industries.

Leonidas (Leon) Kirkinis
Chief executive officer of ABIL

Date appointed	1 July 1997
Business address	59 16th Road, Midrand, 1685
Qualifications	BCom, BAcc
Nationality	South African
Directorships	Executive director of African Bank Investments Limited, African Bank Limited and executive chairman of Ellerine Holdings Limited.
Profile	Leon, currently chief executive officer of ABIL and managing director of African Bank Limited, founded African Bank Investments Limited (previously Theta Group Limited) in partnership with Gordon Schachat. He guided the company through the various mergers, acquisitions and the operational establishment of the present day African Bank Investments Limited.

Nithiananthan (Nithia) Nalliah
Group chief financial officer

Date appointed	5 May 2009
Business address	59 16th Road, Midrand, 1685
Qualifications	BCompt (Hons) (Unisa), Post Graduate Diploma in Tax Law (RAU), ACMA, CA(SA)
Nationality	South African
Directorships	Executive director of African Bank Investments Limited, African Bank Limited, The Standard General Insurance Company Limited and other ABIL group companies, Stazione Properties (Proprietary) Limited, Highly Commended Investments 801 (Proprietary) Limited and Magnolia Ridge Properties 272 (Proprietary) Limited. Non-executive director of Eyomhlaba Investment Holdings Limited and Hlumisa Investment Holdings Limited.
Profile	Nithia is currently the group financial director of ABIL. He joined ABIL in March 2006 and was appointed the chief financial officer in October 2006.

Remuneration policy of African Bank Investments Limited

Introduction

In the conduct of businesses that engage in the supply of credit, financial services and goods and related services to satisfy people's personal needs, it is undisputable that human capital is the most important asset required in carrying out this objective in a differentiated way. As a dominant and significant player in the unsecured credit market and major retailer of furniture and appliances, the attraction and retention of appropriate skills is an area that requires continuous focus at the highest level of the organisation. In this regard, remuneration is one of the key drivers of aligning behaviour of human capital to the strategic intent of the group. The importance of having a remuneration philosophy that is balanced so as to achieve long term sustainable organisational objectives rather than being driven by short term profit and executive gains is self evident following the last global financial crisis.

Remuneration governance

The board has a subcommittee, the group remuneration and transformation committee, which comprises three independent non-executive directors. This committee is tasked with assisting the board in formulating and monitoring the implementation of the group's transformation and remuneration policies. The transformation aspect of the group remuneration and transformation committee's responsibilities is dealt with in detail in the corporate governance section of the integrated report. The group remuneration and transformation committee has the following responsibilities, amongst others, with regard to remuneration:

- Reviewing and approving the overall incentive pools for each financial year, in accordance with the group's approved incentive policy and schemes, taking into account the changing competitive landscape and in the context of the group's strategic intent;
- Determining and recommending to the board of directors for approval, the salary packages and incentive allocations for executive directors and members of the group executive committee and the allocation between short term and long term incentives; and
- Reviewing and recommending to the board of directors for approval, the remuneration of non-executive directors based on recommendations from the executive directors.

Remuneration philosophy and policies

The group continues to strive for sustainable long term growth and to this end a greater portion of management and executive remuneration is put "at risk" against the delivery of key long term objectives and is linked to the performance of the group over a period of years rather than being dependent or unduly weighted on a single year's results or performance. No share options or shares are issued to employees or directors. There are three components to remuneration which is determined along the following basis:

Basic remuneration and employee benefits

The basic remuneration comprises fixed salaries for all permanent employees and variable incentives paid to collections and sales staff. Permanent employees are compensated according to market related benchmarks, which are assessed on an ongoing basis with some employees on a total cost to company package basis whilst others are on cash packages, with certain statutory contributions to pension, provident, group life and healthcare schemes being made. All non-managerial staff in the Ellerine Holdings Limited group (EHL) are entitled to an annual bonus equivalent to a month's salary.

Short term incentive payments

Approximately 65% of the total incentive pool is paid by way of short term incentives based on annual performance of individual staff members, management and executive directors. These incentives encompass the variable remuneration payable to African Bank sales employees based on sales targets, collections staff based on collections target achievement and other performance targets and annual performance bonuses to all support services employees, management and executive directors. Sales commission paid to EHL employees currently does not form part of the incentive pool because sales commissions are regarded as an integral part of remuneration in the furniture retail industry. It is determined with direct reference to the actual sales concluded by the individual sales employees.

The short term bonus will be a smaller component of total incentives for senior management, executives and executive directors and is not expected to exceed 40% of the total incentive payment to this group. There are no future service conditions attached to the payment of short term incentives.

Long term incentive plans (LTIP)

The LTIP is a cash settled, share appreciation scheme, modelled on the performance of ABIL shares, which is awarded to employees generally at management level and higher. Qualifying participants are awarded a certain value of LTIPs each year, with the instrument structured as follows:

- The total LTIP award, plus an additional gearing of between 100% and 200% of the award amount (2011: 100% to 200%) achieved through a notional loan, is synthetically "invested" into ABIL shares, i.e. assuming an award of R50 000 LTIPs, it would result in between R100 000 and R150 000 being notionally invested in ABIL shares. The gearing is at the higher end for executives.
- The entry price is set at the ABIL volume weighted average price (VWAP) for the three calendar months being September to November of the year of issue (2011: VWAP for month of September). The settlement value is determined with reference to the VWAP for such three-month period (September to November) in year of vesting (2011: month of vesting).
- Interest is accrued on the notional loan on a semi-annual basis and the dividends paid on the synthetic ABIL shares (grossed up at the corporate tax rate) are applied to reduce the notional loan balance. The interest rate charged on the notional loan is market related.
- The value of the LTIP from time to time is the market value of the synthetic ABIL shares, less the remaining balance on the notional loan after accruing interest and notional dividends.
- The LTIP vests over five years (2011: five years) on the following ratio 15:20:20:20:25 (2011: unchanged). Employees will be given the option to roll over a tranche into the following year or years, which must be done prior to each vesting period. Any LTIP rolled over will be subject to the same forfeiture rules in the event the employee resigns or is dismissed prior to the new vesting date.
- The LTIP is paid out at market value, based on the ABIL VWAP for the three calendar months being September to November of the year of vesting (2011: VWAP for the month of vesting). Should the individual resign or be dismissed, the unvested LTIPs will be forfeited and cancelled.
- There are no further performance criteria attached to payment of prior year LTIPs. However, this is being reviewed for members of the group executive and changes will be made to make a portion of the LTIP payable in subsequent years subject to further performance criteria.
- Each year a new LTIP will be created which will run parallel to existing LTIPs resulting in a maximum of five separate LTIPs running concurrently.

A greater portion of the incentives for the executives are granted through LTIPs to ensure that their performance is balanced more towards a longer term sustainable performance of the group linked to the execution of the strategy as approved by the board. Performance is also assessed departmentally using scorecards that assess performance against predetermined criteria.

Award criteria

The quantum of all short and long term incentives actually awarded to each individual is determined having regard to the individual's own performance against pre-agreed key responsibility areas (KRAs) which are set and agreed early during each financial year between the individual and their manager. Performance assessments are conducted immediately after the end of the financial year which then determines the performance rating of the individual. No incentives are paid to employees or executives where the performance rating reflects below an agreed expected level for the role employed. An element of the incentive is also dependent on the business unit/department's performance and the company and group's performance as a whole so as to encourage teamwork.

In respect of LTIPs and bonuses where the payment is deferred to future years, subsequent years' performance of the individual or group is not taken into account before payment may be made on the basis that the award was made for services rendered in a prior year with only payment being deferred. The amounts payable for the LTIPs are, however, subject to variation as a result of movements in the ABIL ordinary share price.

Non-executive directors' fees

Non-executive directors' fees are benchmarked against the market every three to four years having regard to the nature of the business, complexity, skills needed, qualifications, experience, time demanded from the individual, etc. Independent specialist remuneration consultants are used for this purpose. Annual increases outside of this adjustment are generally at or slightly higher than that granted to the executive directors of ABIL. No bonuses or incentives are paid or awarded to the non-executive directors.

Conclusion

The board, through the group remuneration and transformation committee, applies the above policies having regard to the markets in which the group operates and improving them where necessary to achieve the group's objectives.

Paragraph 11.26 information

(i) Directors and management of ABIL and its major subsidiaries

Board of directors of ABIL and African Bank

Non-executive: MC Mogase (Chairman), N Adams, Advocate MF Gumbi, JDMG Koolen (Dutch, SA resident), NB Langa-Royds, S Sithole (Zimbabwean), RJ Symmonds

Executive: L Kirkinis (CEO), A Fourie, N Nalliah, TM Sokutu

(ii) Major shareholders of ABIL

The major ABIL shareholders as at 30 September 2012 based on 804 175 200 ordinary shares in issue and 13 523 029 preference shares in issue, are:

Shareholders holding ordinary shares

Top fund managers	*Holding*	*%*
Government Employees Pension Fund (PIC)	**98 269 677**	12,2
JP Morgan Asset Management	**71 327 638**	8,9
STANLIB Asset Managers	**50 790 500**	6,3
Eyomhlaba Investment Holdings	**43 826 465**	5,5

Top beneficial shareholders	*Holding*	*%*
Government Employees Pension Fund (PIC)	**115 215 409**	14,3
ABIL's BEE programmes*	**67 609 273**	8,5
Eyomhlaba Investment Holdings Limited	**43 826 465**	5,5
Hlumisa Investment Holdings Limited	**23 782 808**	3,0

Shareholders holding in excess of 5% of existing preference shares

None.

(iii) Material change

Post balance sheet events

The directors of ABIL are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in the ABIL group and ABIL company annual financial statements, which significantly affects the financial position at 30 September 2012 or the results of its operations or cash flows for the year then ended.

(iv) Directors' interests in securities

Interest of directors of the company directly and indirectly in the shares of ABIL

Name	Notes	2012 Direct	2012 Indirect	2012 Total	2011 Direct	2011 Indirect	2011 Total
Current directors							
Ordinary shares							
Executive directors							
Leon Kirkinis (CEO)		**3 000 000**	**13 500 000**	**16 500 000**	3 000 000	13 500 000	16 500 000
Toni Fourie	1	**–**	**300 042**	**300 042**	–	296 291	296 291
Nithia Nalliah (CFO)	4	**–**	**2 284 238**	**2 284 238**	–	2 091 647	2 091 647
Tami Sokutu	5	**–**	**5 420 381**	**5 420 381**	–	4 904 786	4 904 786
Subtotal		**3 000 000**	**21 504 661**	**24 504 661**	3 000 000	20 792 724	23 792 724
Non-executive directors							
Mutle Mogase (Non-executive chairman)	6	**–**	**2 901 263**	**2 901 263**	–	2 611 897	2 611 897
Nic Adams		**2 000**	**1 265 783**	**1 267 783**	2 000	1 265 783	1 267 783
Sam Sithole	7	**–**	**947 742**	**947 742**	–	632 360	632 360
Johnny Symmonds		**2 000**	**–**	**2 000**	2 000	–	2 000
Subtotal		**4 000**	**5 114 788**	**5 118 788**	4 000	4 510 040	4 514 040
Total		**3 004 000**	**26 619 449**	**29 623 449**	3 004 000	25 302 764	28 306 764
Past directors							
Ordinary shares							
Gordon Schachat	8	**3 000 000**	**9 000 000**	**12 000 000**	3 000 000	9 000 000	12 000 000
Dave Gibbon	9	**–**	**–**	**–**	–	5 500	5 500
Mpho Nkeli	9	**–**	**–**	**–**	–	154 366	154 366
Oshy Tugendhaft	9	**–**	**–**	**–**	–	10 000	10 000
Dave Woollam	9	**–**	**–**	**–**	1 175 000	–	1 175 000
Subtotal		**3 000 000**	**9 000 000**	**12 000 000**	4 175 000	9 169 866	13 344 866
Total ordinary shares		**6 004 000**	**35 619 449**	**41 623 449**	7 179 000	34 472 630	41 651 630
Preference shares							
Dave Woollam	9	**–**	**–**	**–**	10 000	–	10 000
Total preference shares		**–**	**–**	**–**	10 000	–	10 000

Note 1: Toni Fourie's entire indirect holding is held by his associates.

Note 2: Eyomhlaba Investment Holdings Limited (Eyomhlaba) owns 43 826 465 (2011: 40 083 465) ordinary shares in ABIL which is 5,5% (2011: 4,99%) of ABIL's issued ordinary share capital. The directors' holding in ABIL has changed to the percentages shown in notes 3 to 6 as a result of the acquisition by Eyomhlaba of 3 743 000 ordinary shares during the year and the additional shares being purchased by some of the directors.

Note 3: Hlumisa Investment Holdings Limited (Hlumisa) owns 23 782 808 (2011: 19 978 908) ordinary shares in ABIL which is 3% (2011: 2,48%) of ABIL's issued ordinary share capital. The directors' indirect holding in ABIL has changed to the percentages shown in notes 3 to 6 as a result of the acquisition by Hlumisa of 3 803 900 ordinary shares during the year and the additional shares being purchased by some of the directors.

Note 4: Nithia Nalliah has a 4,86% (2011: 4,80%) interest in Eyomhlaba and a 0,64% (2011: 0,64%) interest in Hlumisa.

Note 5: Tami Sokutu has a 9,95% (2011: 10,00%) interest in Eyomhlaba and a 4,45% (2011: 4,48%) interest in Hlumisa.

Note 6: Mutle Mogase has a 4,90% (2011: 4,93%) interest in Eyomhlaba and a 3,16% (2011: 3,19%) interest in Hlumisa.

Note 7: Sam Sithole has a 0,71% (2011: 0,31%) interest in Eyomhlaba and a 2,68% (2010: 2,55%) interest in Hlumisa.

Note 8: Gordon Schachat, executive deputy chairman of ABIL, African Bank and Ellerine Holdings Limited, retired from these boards with effect from 30 September 2012.

Note 9: These directors resigned from the ABIL board in the prior financial year.

With the exception of the amounts recorded below, there has been no change in the interests of the current directors of ABIL between 30 September 2012 and the last practicable date for preparing information for inclusion in the notice of AGM, being 7 December 2012. This is prior to the date of the results being known of the election ABIL gave to ordinary shareholders in December 2012 to receive ordinary ABIL shares instead of the cash dividend declared on 19 November 2012.

Since 30 September 2012 to 7 December 2012, Eyomhlaba and Hlumisa purchased an additional 2 375 000 and 1 450 000 ordinary shares, respectively. This changed the indirect interest, at the date of this notice, of the directors listed below to be as follows:

	Indirect interest
Nithia Nalliah	**2 395 318**
Tami Sokutu	**5 685 532**
Mutle Mogase	**3 043 535**
Sam Sithole	**994 995**

(v) Share capital of ABIL

Ordinary shares

This information is as at the last practicable date for preparing information for inclusion in the notice of AGM, being 7 December 2012. This is prior to the date of the results being known of the election ABIL gave to ordinary shareholders in December 2012 to receive ordinary ABIL shares instead of the cash dividend declared on 19 November 2012.

The authorised share capital comprises 1 000 000 000 shares of 2,5 cents each.

The issued ordinary share capital comprises 804 175 200 shares of 2,5 cents each.

Preference shares

The authorised preference share capital comprises 20 000 000 shares of 1 cent each.

The issued preference share capital comprises 13 523 029 shares of 1 cent each.

(vi) Litigation

The directors of ABIL are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the ABIL group's financial position.

(vii) Responsibility statement

The directors of ABIL, whose names are given in paragraph (i) above, collectively and individually accept full responsibility for the accuracy of the information contained herein and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the information referred to herein contains all information required by law and the JSE Listings Requirements.

Application form: Electronic participation

African Bank Investments Limited

(Registration number: 1946/021193/06)
(Incorporated in the Republic of South Africa)
(Registered bank controlling company)
(Ordinary share code: ABL)
(ISIN: ZAE000030060)
(Preference share code: ABLP)
(ISIN: ZAE000065215)
(ABIL or the company)

To be returned to the transfer secretaries, Link Market Services SA (Proprietary) Limited, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein (PO Box 4844, Johannesburg, 2000) or *via* electronic mail to corpactfax@linkmarketservices.co.za or *via* facsimile to fax number 086 674 3330 as soon as possible and no later than 17:00 on Monday, 28 January 2013.

Full name of shareholder:

If corporate – registration number of shareholder:

If corporate – name of individual authorised to represent the corporate:

Identity number of individual shareholder or individual representative of a corporate:

Email address:

Cellphone number:

Telephone number (including dialling code from SA):

Name of CSDP or broker (if shares are in dematerialised form):

Contact number of CSDP/broker:

Number of share certificate (if applicable):

Documents to be attached to this application form

- Proxies of shareholders may participate in the AGM *via* electronic communication provided that completed proxy forms have been lodged in accordance with the instructions contained in the notice of AGM and such completed proxy form is also attached to this application form.
- Documentary evidence establishing the authority of a person who is to participate in the AGM on behalf of a shareholder in a representative or other legal capacity (such as a power of attorney or other written authority) must be attached to this application form.
- CSDPs or brokers registered in the company's subregister participating on instructions from beneficial owners of shares registered in the company's subregister are requested that they identify the beneficial owner in the subregister on whose behalf they are participating and attach a copy of the instructions from such owner to this application form.
- Holders of dematerialised shares wishing to participate in the AGM must inform their CSDP or broker of such intention and request their CSDP or broker to issue them with the necessary authorisation to attend, which authorisation must be attached to this application form.
- A copy of the identity document of the individual shareholder or individual representative or proxy of a shareholder must be attached to this application form.

Application form: Electronic participation *continued*

Terms and conditions for participation

- The cost of dialling in using a telecommunication line is for the expense of the Participant, but the cost of establishing the telephone conferencing facility will be a cost of the company.
- The Participant indemnifies the company against any loss, injury, damage, penalty or claim arising in any way from the use of the telecommunication lines to participate in the AGM or any interruption in the ability of the shareholder or Participant to participate in the AGM by electronic communication whether or not the problem is caused by any act or omission on the part of the shareholder or anyone else, including the company.
- Shareholders who wish to participate in the AGM by dialling in must note that they will not be able to vote during the AGM. Such shareholders, should they wish to have their vote counted at the AGM, must act in accordance with the general instructions contained in the notice of AGM by:
  - completing and lodging the form of proxy; or
  - contacting their CSDP.
- The application form will only be considered if the application form has been completed in full and signed by the shareholder/proxy, although the company shall be entitled, at its sole and absolute discretion, to accept any incomplete forms.

Signed at ______________________ on ______________________ 2013

Signature ______________________

Assisted by (where applicable) ______________________

Form of proxy

African Bank INVESTMENTS LIMITED

African Bank Investments Limited

(Registration number: 1946/021193/06)
(Registered bank controlling company)
(Preference share code: ABLP)
(ABIL or the company)
(Incorporated in the Republic of South Africa)
(Ordinary share code: ABL)
(ISIN: ZAE000030060)
(ISIN: ZAE000065215)

I/We (name in BLOCK LETTERS)

of (address in BLOCK LETTERS)

Telephone work ( ) Telephone home ( )

hereby appoint (see note 2 overleaf):

1. or failing him/her

2. or failing him/her,

3. the chairman of the AGM,

as my/our proxy to act for me/us at the AGM and at each adjournment or postponement thereof in respect of all, or, if not all, the following lesser number, of the ordinary shares and/or the preference shares registered in my/our name (see notes 3 and 4 overleaf):

My/our proxy (if I am/we are an ordinary shareholder) is instructed to vote for and/or against the following resolutions (which in the case of a proxy for a preference shareholder may only be given in respect of special resolution 2), with or without modification, and/or abstain from voting in respect of the above number of ABIL shares as follows:

	For	*Against*	*Abstain*
Ordinary resolution 1 – the election of L Kirkinis as a director			
Ordinary resolution 2 – the election of N Adams as a director			
Ordinary resolution 3 – the election of N Nalliah as a director			
Ordinary resolution 4 – the election of S Sithole as a director			
Ordinary resolution 5 – the reappointment of auditors			
Ordinary resolution 6 – advisory vote on remuneration policy			
Special resolution 1 – remuneration payable to non-executive directors			
Special resolution 2 – adoption of a revised MOI			
Special resolution 3 – financial assistance to related companies			
Special resolution 4 – financial assistance to BEE companies			
Special resolution 5 – general repurchases			
Ordinary resolution 7 – general issue of shares for cash			
Ordinary resolution 8 – directors' authority to implement special and ordinary resolutions			

(Tick whichever is applicable. If no directions are given, the proxy will be entitled to vote or to abstain from voting, as that proxy deems fit.)

Signed at on 2013

Signature

Assisted by (where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder/s of ABIL) to attend, participate in and, where such shareholder is an ordinary shareholder (but subject to note 1 overleaf), vote in place of that shareholder at the AGM.

PLEASE READ THE NOTES OVERLEAF

Instructions on who may use this proxy form

- This proxy form is for use:
  - in respect of the AGM of the company to be held on Tuesday, 5 February 2013 at African Bank Limited, 59 16th Road, Midrand; and
  - only by ABIL shareholders holding certificated shares and shareholders who have dematerialised their shares and who have elected "own name" registration.
- ABIL shareholders who have already dematerialised their shares through a Central Securities Depository Participant (CSDP) or broker must not complete this form of proxy and must provide their CSDP or broker with their voting instructions, except for shareholders who have elected own name registration in the subregister through a CSDP or broker, which shareholders must complete this form of proxy and lodge it with their CSDP or broker in terms of the custody agreement entered into between them and their CSDP or broker. Holders of dematerialised shares wishing to attend the AGM must inform their CSDP or broker of such intention and request their CSDP or broker to issue them with the necessary authorisation to attend.

Notes

1. **While preference shareholders are entitled to attend and speak at the AGM, either in person or represented by proxy, preference shareholders shall not be entitled to vote, either in person or by proxy, at the AGM other than in respect of special resolution 2. Accordingly any aspect of this proxy form regarding voting on any other resolution does not apply to the preference shareholders. If any preference shareholder completes any part of the voting instructions other than in respect of special resolution 2, those instructions will not apply and will be disregarded.**
2. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided, with or without deleting "the chairman of the AGM", but any such deletion must be initialled by the shareholder. The person whose name stands first on the form of proxy and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow.
3. A shareholder who wishes to appoint more than one proxy must complete a separate form of proxy for each proxy such shareholder wishes to appoint. Any shareholder who requires further copies of the forms of proxy should contact Link Market Services SA (Proprietary) Limited. Where more than one proxy is appointed by a shareholder, each such proxy must be appointed only in respect of a specified number of all of the shares held by such shareholder in the company and the aggregate of all such specified number of shares in respect of which proxies are appointed by such shareholder must not exceed the aggregate number of shares held by such shareholder. Where such aggregate number of shares is exceeded, any of the proxy forms causing such result may be excluded at the AGM.
4. A shareholder's voting instructions to the proxy must be indicated by the insertion of the relevant number of shares in respect of which such proxy is appointed in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the AGM as he/she deems fit in respect of all of the shareholder's votes exercisable thereat, but subject to the following. A shareholder is not obliged to use all the votes exercisable by the shareholder, but the total of the votes cast by the shareholder or his/her proxy/ies and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder.
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative or other legal capacity (such as power of attorney or other written authority) must be attached to this form of proxy unless previously recorded by the company secretary or waived by the chairperson of the AGM if he is reasonably satisfied that the right of the representative to participate and vote has been reasonably verified. CSDPs or brokers registered in the company's subregister voting on instructions from beneficial owners of shares registered in the company's subregister are requested that they identify the beneficial owner in the subregister on whose behalf they are voting and return a copy of the instruction from such owner to the transfer secretaries, Link Market Services SA (Proprietary) Limited, together with this form of proxy.
6. Any alteration or correction made to this proxy form must be initialled by the signatory/ies, but any such alteration or correction will only be validly made if it is accepted by the chairperson.
7. The chairperson of the AGM may reject or accept any form of proxy which is completed and/or submitted other than in accordance with these instructions and notes, provided that the chairperson is satisfied as to the manner in which a shareholder wishes to vote.
8. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the company.
9. A proxy may not delegate his/her authority to act on behalf of the shareholder, to another person.
10. Forms of proxy must be lodged with, or posted to the offices of, the company's transfer secretaries, Link Market Services SA (Proprietary) Limited, to be received by no later than 11:00 on Friday, 1 February 2013.

Summary of shareholders rights in respect of proxy appointments as contained in section 58 of the 2008 Companies Act

- The shareholder may appoint an individual as a proxy, including an individual who is not a shareholder of the company, to participate in and speak and vote at the shareholders meeting on behalf of the shareholder.
- The shareholder may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder.
- The proxy form must be dated and signed by the shareholder appointing the proxy.
- An appointed proxy may delegate his/her authority to act on the shareholder's behalf to another person, subject to any restrictions set out in the proxy form.
- The proxy form must be delivered to the transfer secretaries of the company, namely Link Market Services SA (Proprietary) Limited, before the proxy exercises any of the shareholder's rights at the shareholders meeting.
- Irrespective of the form of instrument used to appoint a proxy:
  - the appointment of the proxy is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder;
  - the appointment is revocable unless the proxy appointment expressly states otherwise;
  - if the appointment of the proxy is revocable, a shareholder may revoke the proxy appointment by (1) cancelling it in writing, or making a later inconsistent appointment of a proxy; and (2) delivering a copy of the revocation instrument to the proxy and to the company.
- The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the relevant shareholder as of the later of:
  - the date stated in the revocation instrument, if any; or
  - the date on which the revocation instrument was delivered to the company and the proxy as aforesaid.
- If the instrument appointing a proxy or proxies has been delivered to the company, as long as that appointment remains in effect, any notice that is required by the 2008 Companies Act or the company's MOI to be delivered by the company to the shareholder must be delivered by the company to:
  - the shareholder; or
  - the proxy or proxies (if the shareholder has in writing directed the company to do so and has paid any reasonable fees charged by the company for doing so).
- A proxy is entitled to exercise, or abstain from exercising, any voting rights of the shareholder without direction, except to the extent that the instrument appointing the proxy provides otherwise.
- The appointment of the proxy utilising the proxy form attached to the AGM notice remains valid only until the end of the AGM or any adjournment or postponement thereof.

Contact details of Link Market Services South Africa (Proprietary) Limited – the company's transfer secretaries

13th Floor,
Rennie House,
19 Ameshoff Street,
Braamfontein

PO Box 4844,
Johannesburg,
2000

Notes

Corporate information

Board of directors

Non-executive

MC Mogase (Chairman), N Adams, Advocate MF Gumbi, JDMG Koolen#, NB Langa-Royds, S Sithole*, RJ Symmonds

*# Dutch, South African resident   * Zimbabwean*

Executive

L Kirkinis (CEO), A Fourie, N Nalliah, TM Sokutu

Company secretary

LM Goliath

African Bank Investments Limited

(Incorporated in the Republic of South Africa)
(Registered bank controlling company)
(Registration number: 1946/021193/06)
(Ordinary share code: ABL) (ISIN: ZAE000030060)
(Preference share code: ABLP) (ISIN: ZAE000065215)

Share transfer secretaries

Link Market Services South Africa (Proprietary) Limited
13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein
PO Box 4844, Johannesburg, 2000
Telephone: +27 11 713 0800
Telefax: +27 86 674 4381

Registered office

59 16th Road,
Midrand, South Africa, 1685
Private Bag X170, Midrand, South Africa, 1685

Investor relations and shareholder details

	Lydia du Plessis	Chiquita Schram
Telephone:	+27 11 564 6991	+27 11 256 9523
Email:	investor.relations@africanbank.co.za	

Complaints and fraud

Fraud

African Bank ethics toll free line:
0800 20 20 18

African Bank ethics email address:
abfraudethics@africanbank.co.za

African Bank ethics telefax:
087 942 4600

EHL ethics toll free line (South Africa and Namibia):
0800 118 444

EHL ethics toll free line (Botswana):
0800 600 828

EHL ethics toll free line (Swaziland, Zambia and Lesotho):
+27 11 678 0822

EHL ethics email address:
alertline@emps.co.za

Complaints

Call centre number:
0861 111 011

Company's websites

www.abil.co.za
www.africanbank.co.za
www.ellerines.co.za
www.beares.co.za
www.geenrichards.co.za
www.furniturecity.co.za
www.wetherlys.co.za
www.dialabed.co.za

Disclaimer

Certain statements made in this document are forward looking. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by the forward looking statements. Words such as expect, anticipate, estimate, target, predict, believe and other similar expressions, and future or conditional verbs such as will, should, would, and could are intended to identify such forward looking statements. Readers should not rely solely on the forward looking statements.

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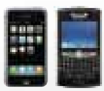
African Bank
INVESTMENTS LIMITED



Use your QR code reader on your smartphone to scan this barcode. The link will take you directly to www.abil.co.za

For more information please visit our website at http://www.abil.co.za