

A large, semi-transparent photograph of a young man with dark skin and curly hair, wearing round sunglasses and a colorful, patterned shirt. He is smiling and holding up a smartphone to take a selfie. The background is a bright, outdoor setting with greenery. The photograph is overlaid with several overlapping diagonal bands of different colors: light green, light blue, medium blue, and dark blue, which create a sense of motion and depth.

Integrated Report 2018

Advancing lives

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INTRODUCTION

OUR APPROACH TO REPORTING

This is the African Bank Holdings Limited Group's third integrated report, incorporating our wholly owned subsidiaries African Bank Limited and African Insurance Group Limited, collectively known as the Group or the Bank.

Our aim with our reporting is to provide our stakeholders with information that we believe is of material interest to them and that will provide them with the information they need to make an informed assessment of our ability to create value over the short, medium and long term. To achieve this we have provided you with information on:

- 06 • our strategy (page 06)
- 12 • our leadership team (pages 12 to 19)
- 22 • how we apply our business model to create long-term value by employing our pool of resources and relationships in certain capitals to increase the stock of resources and relationships in other capitals (pages 22 to 23)
- 24 • our management of risks, opportunities and the material issues on which our reporting is based (pages 24 to 29)
- 05 • our performance against our strategic scorecard (page 05)
- 66 • our approach to governance throughout the report and in intellectual capital (pages 66 to 83)

Our sustainability reporting forms part of this report. We do not publish a separate report.

We have also identified throughout the report where King IV principles are being applied in the day-to-day governing of our business and the outcomes achieved.

REPORTING SCOPE AND BOUNDARY

This report, which covers the period 1 October 2017 to 30 September 2018, provides information relating to the performance of all the Group's operations, as included in the financial reporting boundaries and as determined by the International Financial Reporting Standards (IFRS). None of the Group's operations have undergone any significant change to their size or change in structure or ownership during the year under review. Internal and external factors that can substantially impact our business have been considered and, where material, their real and potential impacts are covered in this report.

In addition to this report, we have published annual financial statements (AFS), which are available on our website: www.africanbank.co.za.

The reporting process for all our reports has been guided by the principles and/or requirements of IFRS, the International Integrated Reporting Council's (IIRC) International Reporting <IR> Framework, the King IV Report on Corporate Governance 2016 (King IV), the JSE Listings Requirements and the Companies Act, 71 of 2008.

In terms of human rights, labour, the environment and our anti-corruption efforts we apply the Principles of the United Nations Global Compact (UNGCR).

Website	
Page number	
King IV reference	K
Annual financial statements	
Strategy	

BOARD APPROVAL

K5

The African Bank Board acknowledges its responsibility for ensuring the integrity of our integrated reporting. We confirm that we have collectively reviewed the preparation of the report and its contents.

We are of the view that, to the best of our knowledge and belief, African Bank's integrated reporting:

- offers a balanced view of our strategy and how it relates to the organisation's ability to create value in the short, medium and long term
- addresses all matters material to our stakeholders' decision-making by explaining how African Bank creates value over time and takes into consideration the organisation's impact on the environment in which it operates and its stakeholders
- addresses our use of the six capitals (resources and relationships), the outcome of our use of these capitals and how their availability has impacted our strategy and business model.

Independent non-executive directors

Mark Harris

Sybille McCloghrie

Sydney Mhlarhi

Happy Ralinala

Louisa Stephens

Peter Temple

Frans Truter

Non-executive director

Brian Riley

Executive directors

Basani Maluleke
(Chief Executive Officer)

Gustav Raubenheimer
(Chief Financial Officer)

ASSURANCE

The annual financial statements, which comply with IFRS, were audited by PricewaterhouseCoopers Inc. Their unqualified report is available in our online annual financial statements <https://www.africanbank.co.za> or at the Company's registered office at 59 16th Road, Midrand, 1685.

Assurance on other parts of this report was largely derived from internal sources including Internal Audit. This includes governance oversight and management and internal controls. These form part of African Bank's combined assurance model.

80 Our combined assurance model (see pages 80 to 83), which includes assurance over our external reporting process, is continually reviewed to ensure it enables an effective control environment and supports the integrity of information used for internal decision-making, strategy development and planning.

FORWARD-LOOKING STATEMENTS

Certain statements in this report constitute forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance, objectives or achievements of African Bank, as well as the industry in which it operates, to be materially different from future results, performance, objectives or achievements expressed or implied by these forward-looking statements. The performance of African Bank is subject to the effect of changes in the economic environment and prevailing market conditions.

GIVE US YOUR FEEDBACK

We would welcome your feedback on our reporting for 2018 and any suggestions you may have in terms of what you would like to see incorporated in our report for 2019.

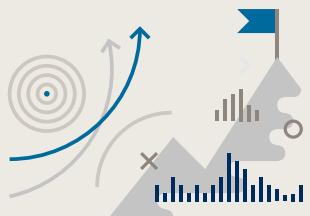
To do so please contact Markus Borner (investor.relations@africanbank.co.za or 011 564 7495).



KEY FEATURES OF OUR PERFORMANCE AGAINST OUR STRATEGIC SCORECARD

29%

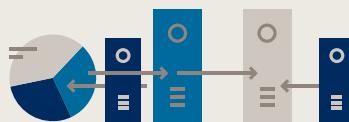
INCREASE IN OUR OPERATING PROFIT TO
R1 453 MILLION
(excluding foreign
exchange movement)



32

10.6%

RETURN ON EQUITY
(BRANCH NETWORK 21% RoE)



37

225%

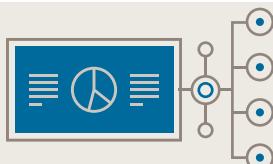
GROWTH IN
RETAIL DEPOSITS



51

R8.2 BILLION

IN CASH BALANCES
AT YEAR-END

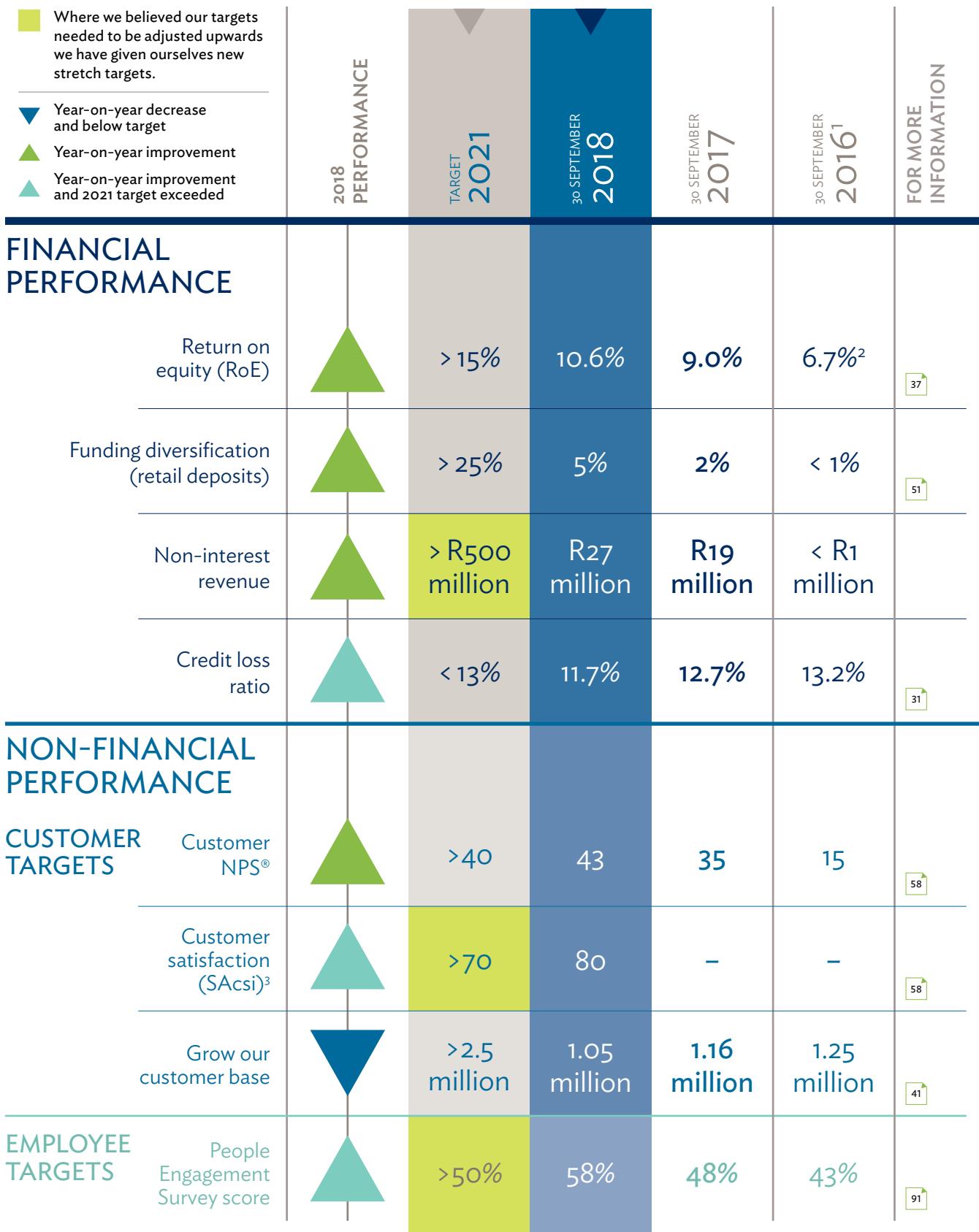


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LEADER POSITION

IN ALL CATEGORIES OF SAcsi LATEST ANNUAL RESEARCH
INTO THE SOUTH AFRICAN BANKING INDUSTRY



¹ The 2016 results are for the six months ended 30 September 2016² Excludes write-off for goodwill³ African Bank participated in the SACSI for the first time in 2018

WHERE WE OPERATE

We operate *throughout* South Africa



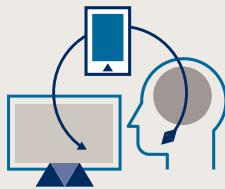
FACE-TO-FACE
in our
391
branches



VOICE-TO-VOICE
through our
contact centres
and our Direct Sales
channel



DIGITALLY
through
our website



When we launch our
OMNICHANNEL
offering in 2019
our customers will be able
to engage with us
seamlessly through all
three of these channels

OUR PURPOSE

Appeals to the heart
of what we do



Advancing lives
through financial
and related services

OUR STRATEGY

To be a leader
in customer
satisfaction

It is underpinned by
**Our governance,
compliance and values**

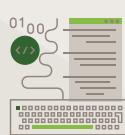
Culture



Customer
centricity



Data



Our business focus
and approach needs
to change, as does the
technology that will
enable this change, if
we are to preserve our
competitiveness and
sustainability in the
rapidly changing banking
landscape. To achieve
these changes we have
reviewed and refreshed
our strategy

THE VALUES UNDERPINNING OUR ASPIRATION TO ADVANCING LIVES



TRANSPARENCY

- • In all our interactions, we commit to open and honest communication, whether it be written or verbal
- • We are open to considering different viewpoints and we commit to expressing our own, respectfully
- • We commit to being accountable for our activities and accept responsibility for them. We disclose the results of our activities and deliver on our promises.
- • We say what we mean and we do what we say



CREATIVITY

Creativity helps us look at situations in a new way, with a fresh perspective.

- • We use creativity to find solutions that advance lives
- • We use data to develop creative and appropriate solutions
- • We take pride in collaborating to unlock value using our creativity



COLLABORATION

- • We bring our unique talents together for the benefit of the team
- • We work together internally and externally to find the best solution
- • We place the customer at the centre of all decision-making, we encourage honest debates and we respect and commit to final decisions
- • We commit to aligning and harmonising our practices and actions and to contributing positively towards achieving the agreed goal.



EMPATHY

- • We respect that we are all different
- • We are genuinely attentive and we attempt to put ourselves in other peoples' shoes
- • We seek to understand people; should we differ in opinion we will respond to them with sensitivity and compassion
- • We are dedicated to making a difference to the lives of people living in underprivileged communities in South Africa



SUSTAINABILITY

Sustainable organisations create long-term shared value to advance lives. To be sustainable we need to be:

- • committed to transformation because we know that leveraging our diversity will enable greater innovation and growth
- • ethical in everything we do including in the creation of our products and the delivery of our services
- • committed to advancing the lives of our employees and the communities we serve
- • profit conscious

02

LEADERSHIP REVIEW

BOARD REVIEW

It has been both a challenging and rewarding year for African Bank during which South Africa has struggled with a recession and political uncertainty.

The seamlessness of our leadership transition, when Basani Maluleke took over as Chief Executive Officer (CEO) from Brian Riley in April 2018, is reflected in the Bank's excellent performance against its strategy (see page 05).

Our Chairman, Louis von Zeuner, having received an invitation to join the board of another bank on 1 February 2019, gave advance notice of his intention to stand down from the African Bank Board. He was advised by the regulatory authorities that it was necessary for him to complete a six-month cooling off period before taking up his new appointment, which led to him standing down from our Board on 31 July 2018. We requested Louisa Stephens, a well-experienced and capable director who has been a member of our Board since July 2015, to coordinate our activities pending the appointment of a new Chairman.

Meeting our responsibilities as a Board

During the year under review, both as South Africans and members of our Board, we have had cause to reflect on what has happened in our country over the past 10 years and how we can ensure it never happens again. We need to constantly remind ourselves of why these things happen and what we need to do to ensure they don't happen again.

The policies, codes and processes that we have introduced in African Bank ensure that throughout the Bank we have an ethical approach to the way we do business and the way we make decisions. The behaviour of our

61 employees with regard to ethics (see page 61 of the human capital section of this report in this regard) indicates how well they understand what having an ethical culture means and that they are committed to being part of establishing an ethical culture in African Bank.

Previously, we said we would be expanding both our Board and management team to include technology and in particular fintech skills. Mark Harris, who has extensive experience in this field, joined the Board this year and a new Chief Information Officer and Group Executive Customer Engagement joined our executive management team.

We were fortunate to have been able to appoint Happy Ralinala to the Board who further enhances the Board's banking K₁ skills set.

A year of progress

The Bank made good progress with delivering against its strategy during 2018. We launched our transactional banking product to our employees in April 2018, achieved exceptional growth in retail deposits, grew our online Direct Sales offering and also made good progress with our omnichannel offering (see page 10 of the CEO's review for more information). The excellent work of our credit team has substantially improved our credit predictability, which is an important factor in the improved quality of our lending (see page 43 of financial capital and page 66 of intellectual capital for more information).

Our rating as a leader in customer experience in the 2017 Sacsi and our employee engagement score that substantially exceeds the industry benchmark, are both an excellent indication that we are doing well in terms of achieving our goal of being a leader in customer satisfaction.

We were disappointed that our joint venture with MMI Holdings did not create the value we had hoped it would. It was not, however, a costly initiative and we are confident that the Bank will use the lessons learned to assist it in delivering on its partnership strategy in the year ahead.

Advancing our strategy

Our Chairman spoke last year of the opportunity we have to create a new diversified bank using the latest technology, and he emphasised the need to be nimble and creative to seize opportunities. Having completed the first phase of this process by launching our transactional banking offering to over 3 000 employees, the management presented the Board with a proposed update to the Bank's strategy, the adoption of which we have approved.

06 This update, set out on page 06 and discussed in the CEO's review on page 10, aims to put our customers at the centre of everything we do by investing in the data capabilities we need to better understand our customers and advance lives.

In the previous financial year we highlighted that the banking environment has evolved to the point where we need specialists in data science to work with customer data through analytics, modelling, stress testing and future planning and that we had been fortunate to attract the right people.

Brand building

Customers' trust in the new African Bank resulted in the Bank achieving the industry leading customer service scores we mentioned previously. The trust depositors are placing in the Bank has grown our retail deposits by over 200% in the year under review. To have restored trust in the Bank, and at the same time exceeded the strategic targets we set ourselves, is an excellent achievement contributed to by all at the Bank.

Outlook

We expect the year ahead to be challenging as the economy remains sluggish and uncertainty prevails. We expect that our new credit strategy and scorecard will continue to contribute to better quality credit disbursements, but that the further tightening of our credit policy during the 2018 financial year is likely to negatively impact our sales in 2019.

During the first half of 2019 we will be launching our transactional banking product and our omnichannel offering to the public, which will be a major milestone for the Bank.

In terms of addressing the Bank's refinancing requirements the Board is satisfied that management has made significant progress towards achieving a shareholder-backed liquidity support arrangement, which we expect to be in place by March 2019.

Among the ongoing day-to-day regulatory challenges facing the banking industry is Debitcheck, the new debit order system, which the South African Reserve Bank (SARB) requires us to implement; the debt relief bill, which could impact the ability of banks to lend to the segment of the market that the bill addresses; and the requirements of the Protection of Personal Information (PoPI) Act 4, 2013. The projects the Bank has in place to address these challenges are running within the timelines we set for them and the Board is monitoring progress.

We have addressed the IFRS9 adjustment and have controls in place to ensure we can deliver provisioning according to these new standards.

In conclusion

We would like to recognise and thank Louis von Zeuner, who chaired the Bank from June 2015, for his considerable contribution to the stabilising of the Bank following its curatorship and for putting in place a robust governance structure and a strong Board with a diverse set of skills. On behalf of members of the Board who were fortunate to work with Louis during his tenure as Chairman of the Board our thanks go to him for playing a major role in the successes the Bank has achieved over the past three years and its future sustainability. We would also like to thank our colleague, Louisa Stephens, for her exemplary coordination of our activities since Louis' departure.

We welcomed Brian Riley back to the Board who, having stepped down as Chief Executive Officer, resigned his executive directorship and joined us as a non-executive director. The Board would

also like to thank Brian for his outstanding contribution to the Bank during his time as its Chief Executive Officer.

The Board is confident that our CEO and her executive team can deliver on our strategy and would also like to thank them for the excellent work they did in this regard during the year under review. We are also confident that as a Board we are able to provide the Bank with effective and ethical leadership and ensure it remains a responsible corporate citizen.

Mark Harris
Sybille McCloghrie
Sydney Mhlarhi
Happy Ralinala
Brian Riley
Louisa Stephens
Peter Temple
Frans Truter
Basani Maluleke
 Chief Executive Officer
Gustav Raubenheimer
 Chief Financial Officer



**WE HAVE MET AND
FREQUENTLY EXCEEDED**
 the targets we only expected
 to achieve by 2021

- Achieved an overall employee engagement score of 58%! This is a measure of the level of active commitment that the employees of our organisation have to its purpose. It compares favourably to an industry average of 38% and bodes well for the future performance of the Bank and the achievement of our strategy.

05

As you can see on page 05 of this report, we have already attained or exceeded seven of our strategic scorecard metrics. This is evidence of real traction on delivering on our strategy.

Securing our future

Strategy is not an abstract or static concept, however, one has to adapt and evolve strategy as circumstances change. The “heavy lifting” that we have done since emerging from curatorship in April 2016 has put us in a sound position to evolve the strategy in meaningful ways. The management team has made significant changes that have put the Bank on a solid platform to pursue the adoption of our digital business model. Digitisation has gathered pace in the financial services market generally and has recently been accelerated by the anticipated entry of new digital banks. In response to these developments, we have crafted a new strategic framework to enable us to offer our customers a compelling digital experience at a low cost.

We recognise that our customers require greater personalisation and convenience, across a greater variety of products, all delivered at a low cost. We have therefore continued with our journey of replatforming the IT architecture of the Bank, in preparation for leveraging that platform to deliver on the needs of our customers. We have modified our strategy and simplified the Bank’s purpose to *Advancing lives through financial and related services*. Everything we do must be in service of advancing the lives of our customers, our employees and our broader community of stakeholders. Our strategy is supported by three pillars – culture, customer-centricity and data.

Culture – Successful organisations are invariably purpose driven. In the context of an emerging digital world, successful digital organisations are also customer-centric and data-centric. Accordingly, we have refined the expression of our culture to be that we aspire to create solutions that advance lives. We have recognised that the adoption of a successful culture is a complex process. To facilitate this

change we ran a leadership programme throughout the year (see page 64 of the human capital section of the report for more information). This programme is supported by ongoing training and development to equip our people with the relevant skills to succeed in a digital organisation.

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Customer-centricity – Customers’ needs for greater personalisation and convenience are evolving at a rapid pace as technology becomes further embedded in our everyday lives. Our ability to respond to those needs quickly and effectively will enable us to attract new customers and increase customer retention. The imminent launch of our hugely exciting transactional banking offering, initially to our existing customers and then to the rest of South Africa in early 2019 will significantly improve our ability to understand our customers and to become more responsive to their needs.

Data – Our ability to anticipate and meet customer needs will depend in large part on our ability to manage, enrich and interpret data. We fully anticipate that in the years ahead, data will become our most important asset. To that end, we are building on our existing data capabilities to gain a richer understanding of our customers and how to serve them more effectively. Furthermore, we are strengthening the data analytics capabilities across our business to enable us to extract cost and productivity efficiencies and to serve the evolving needs of our customers.

The three pillars of our strategy are themselves underpinned by a continued commitment to good governance and compliance and a strong focus on values. Our values play an important part in how we do things at African Bank. We believe that doing business ethically is value-accretive and I maintain that the leading SAcsci scores which we achieved, together with our stellar employee Engagement Survey scores bear testimony to this. Our determinedly ethical and humane approach to collections, which I encourage you to read about (see

95

page 95 of the relationship capital section of this report) has resulted in us having one of the best collections records in the banking industry.

2019 will therefore be a seminal year for African Bank, as we re-platform our business, introduce leading-edge technologies and drive a culture change to enable us to be more nimble and responsive to the evolving digital market. Our prime intention is to offer

CHIEF EXECUTIVE OFFICER'S REVIEW

It has been a singular privilege to lead the Bank during this past year, through its transition to becoming a digital organisation that advances the lives of its customers, employees and other stakeholders.

The Bank has delivered a pleasing performance over the past year, despite a challenging economic environment. I have selected a few of the more significant highlights for the year:

- Our operating profit increased 29% to R1 453 million
- Achieved a significant milestone on our journey to becoming a digital bank, with the launch of our transactional banking offering, known as the MyWORLD account to our employees in April. The take-up of MyWORLD exceeded our wildest expectations – over 3000 of our employees voluntarily opened bank accounts and we have seen a pleasing increase in the number and range of transactions processed
- Achieved a 225% year-on-year increase in retail deposits. While this growth was off a low base, it signals good momentum towards building a strong retail deposit franchise and a diversified funding base, which is a core component of our strategy
- Grew our sales by 21%. As a result of the significant tightening of our underwriting criteria at regular intervals since 2016, the quality of our advances book has consistently improved, with over 88% of new business written to low risk customers.
- Rated as a leader in customer experience in the 2017 South African Customer Satisfaction Index (SACSI), which found that both our branches and our contact centres exceeded our customers’ expectations

a marketplace for our customers that can be accessed through a number of interoperable channels, which we refer to as the omnichannel approach. We believe that by offering customers a choice of where, and with whom they bank and at affordable pricing, we will be able to capture a sizeable market share for African Bank.

To support the attainment of our strategic objectives, we have strengthened our executive team through the appointment of a new Chief Information Officer, Penny Futter, and a new Group Executive for Customer Engagement, Kena Setshegoe. Both Penny and Kena have deep technology expertise, which has become essential in the context of our digital strategy.

Meeting our future commitments

The refinancing of our maturing liabilities has been a major focus for our executive team during the year under review. While the business has robust levels of both capital and liquidity, we recognise that it may be challenging to fully re-integrate ourselves into the wholesale funding markets without some support from our shareholders. We therefore continue to proactively work with our shareholders to establish a shareholder-backed liquidity support arrangement. Significant progress has been made towards finalising such an arrangement, which has been designed to provide material liquidity support as the Bank continues to develop and roll out its digital business model. Further announcements in this regard will be made once the arrangement has been finalised and becomes legally binding.

The way forward

We expect the 2019 financial year to be particularly challenging as the South African economy is expected to struggle to achieve growth, and our customers will be impacted by rising inflation (increases in the fuel price being of particular concern) and possible job losses. Political uncertainty is also likely to be a feature of at least the first half of the year, ahead of the general election. In anticipation of the challenging economic outlook, we have again recently recalibrated our credit scorecards towards an even more conservative posture, ensuring that we continue to only write loans that are within our credit risk appetite.

We are looking forward to introducing the MyWORLD transactional banking offering to all South Africans in 2019. This is a significant milestone for the business and we will use the opportunity to reposition African Bank in the minds of consumers as a formidable competitor in the fast-evolving and competitive digital landscape.

In conclusion

I must express my appreciation to our executive team for the excellent work they have done to deliver on our strategic milestones during the year under review. African Bank is managed by a very capable executive team that has weathered the storms of curatorship and remains fully committed to achieving our new digital strategy.

I would also like to thank the Board for its support throughout an exciting but challenging year for the Bank, and I look forward to the contributions from our new Board members as we tackle the year ahead.

Basani Maluleke
Chief Executive Officer



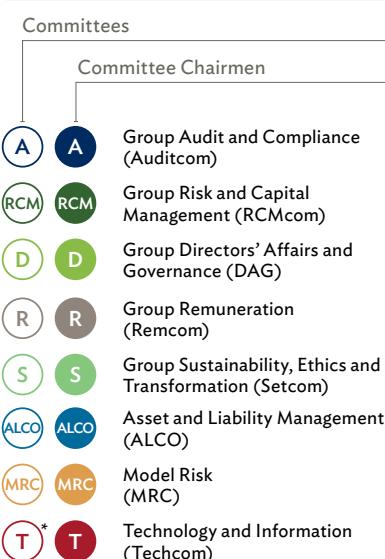
A SIGNIFICANT
MILESTONE ON OUR
JOURNEY TO BECOMING A
DIGITAL BANK
WAS THE LAUNCH OF
TRANSACTIONAL BANKING
TO OUR EMPLOYEES

03

OUR LEADERSHIP

Focused on providing ethical and effective leadership, ensuring African Bank is a responsible corporate citizen creating value for its stakeholders

BOARD COMPOSITION



* Committee constituted in October 2018

OUR BOARD

1. Mark Harris	Chairman:	Technology and Information Committee (Techcom)
(T)	Member:	Group Risk and Capital Management Committee (RCMcom)
2. Sybille McCloghrie	Chairman:	Group Remuneration Committee (Remcom)
(R)	Member:	Group Sustainability, Ethics and Transformation Committee (Setcom), Group Directors' Affairs and Governance Committee (DAG) and Techcom
3. Sydney Mhlarhi	Chairman:	Asset and Liability Management Committee (ALCO)
(ALCO)	Member:	Group Audit and Compliance Committee (Auditcom)
4. Happy Ralinala	Chairman:	Setcom
(S)	Member:	Remcom, DAG and Auditcom
5. Brian Riley	Member:	Setcom, RCMcom and Techcom
(S)		
6. Louisa Stephens Board coordinator	Chairman:	DAG
(D)		
7. Peter Temple	Chairman:	Model Risk Committee (MRC) and RCMcom
(RCM)	Member:	DAG
8. Frans Truter	Chairman:	Auditcom
(A)	Member:	DAG and Remcom

EXECUTIVE DIRECTORS

9. Basani Maluleke

10. Gustav Raubenheimer

50% OF OUR BOARD MEMBERS ARE BLACK

40% OF OUR BOARD MEMBERS ARE FEMALE



**OUR BOARD
MEMBERS**
ARE COLLECTIVELY
COMMITTED TO
LEADING ETHICALLY
AND IN THE BEST
INTEREST OF THE
BUSINESS

**ALL OUR
DIRECTORS**
HAVE EXTENSIVE
EXPERIENCE AS BOARD
MEMBERS

OUR BOARD

1. Mark Harris (59)

 Independent non-executive director
BSc (Wits)

Skills and experience

Mark joined the Kagiso Media Group as its Group Chief Executive Officer in August 2013. During his time at Kagiso he managed Kagiso Media's delisting from the JSE and designed and implemented a strategy to steer the group through a digital transformation journey that created some of the largest digital businesses in South Africa. Before joining Kagiso Media he was with IBM for over 34 years, during which he worked in consulting, sales and marketing and technical management positions, both in South Africa and internationally. His international work included support and development projects for IBM in the United States, France and Germany. In his final two years at IBM he was Vice President EMEA Business Development.

Appointed August 2018

2. Sybille McCloghrie (62)

 Independent non-executive director
BCom, BCom (Hons) (Unisa), MBA
(Hariot-Watt University Edinburgh),
CAIB(SA)

Skills and experience

Sybille's leadership and technology experience includes serving as the Chief Executive Officer of Symelation Holdings Proprietary Limited, a technology-based company serving, among others, financial institutions as well as providing accessible business solutions to small, medium and micro-sized enterprises, with a specific focus on enterprise development. Prior to this, she was responsible for the commercialisation and international expansion of Tilos Proprietary Limited, operating in software product development and consultancy. Her banking experience includes working in various executive roles in service delivery and business development at FirstRand Bank.

Appointed July 2015



3. Sydney Mhlarhi (45)

 Independent non-executive director
BCom, BAcc, CA(SA), Diploma in
Financial Markets and Instruments (UJ)

Skills and experience

Sydney is a founding member and director of Tamela Holdings Proprietary Limited, a black-owned investment holding and advisory company established in 2008. Before founding Tamela he was the Chief Investment Officer of Makalani Holdings, a mezzanine financer. He has over 20 years' experience in investment banking, having previously held various corporate positions in Standard Corporate and Investment Bank from 1998 to 2004.

Appointed July 2016



4. Happy Ralinala (47)

 Independent non-executive director
MBA (Bond)



Skills and experience

Happy has had significant experience in the banking industry, holding various senior positions at Absa Bank (previously Barclays Africa) between September 2010 and September 2017, including leading and directing Business Banking South Africa to provide oversight over the enterprise and commercial business activities of Barclays Africa; heading up public sector business banking for Barclays Africa and holding the position of Regional Executive: Northern Region. Her final position at Absa was that of Managing Executive: Private and Wealth Banking Africa. Prior to her time at Absa Happy joined FNB in September 2004 as area manager and served as Provincial Executive and Provincial Chairman at FNB between January 2009 and August 2010. Happy also gained sales and marketing experience in both the healthcare and financial services industries before joining FNB.

Appointed May 2018



5. Brian Riley (61)

 Non-executive director
AEP (Unisa), AMP (Harvard Business School)



Skills and experience

Brian, who was CEO designate of the old bank during curatorship, became CEO of the restructured African Bank Group and new bank in April 2016. He stepped down as CEO in March 2018. Before joining WesBank in 1988, from which he retired as CEO and a member of the FirstRand Strategic Executive Committee in 2013, he held various positions in the United Kingdom at Lloyds and Scottish Finance Group, the Provident Financial Group and Clerical Medical and General Assurance Company.

Appointed May 2018

Tenure Four months as non-executive director (previously an executive director from June 2015 to March 2018)



6. Louisa Stephens (42)

 Independent non-executive director
BBusSc (Finance) (UCT), BCom (Hons)
(UJ), CA(SA), CD(SA)

Skills and experience

Louisa is currently an independent financial trader at Prime Select Holdings. She qualified as a chartered accountant in 2004 and as a chartered director in 2017. Louisa gained investment banking experience at RMB. She has occupied various key positions at the National Empowerment Fund, Circle Capital Ventures, Sasol Group Finance and Nozala Investments. She was previously the Chief Investment Officer for Circle Capital Ventures Proprietary Limited, General Manager Investments and Finance at Nozala Investments Proprietary Limited and a fund manager at the National Empowerment Fund's Corporate Fund (uMnotho Fund). The Board has elected Louisa to coordinate its activities pending the identification of a new chairman. She stepped down as Chairman of the Setcom in May 2018. In August 2018, as a consequence of her Board Coordinator role, she stepped down from the Auditcom and as Chairman of the RCMcom.

Appointed July 2015

RCM

MRC

D

7. Peter Temple (46)

*Independent non-executive director
BBusSc (Actuarial) (UCT), Fellow of
Actuarial Society of South Africa (FASSA),
Fellow of Institute of Actuaries (UK)*

Skills and experience

Peter has been Regional Director of General Reinsurance Africa Limited, a Berkshire Hathaway company, since February 2009, having previously occupied a number of senior management positions in the company since joining it in 1999. In his current position Peter is responsible for the life/health business for the United Kingdom, Ireland and South Africa. From 1992 to 1998 he held various positions in Momentum EB Proprietary Limited, where he was appointed to the Executive Committee in 1998, and the Southern Life Association Limited.

Appointed April 2016

A

R

D

8. Frans Truter (63)

*Independent non-executive director
BCom (Hons), CA(SA), AMP (Oxford)*

Skills and experience

Frans joined the Momentum Group (now MMI) in 1988 as its Chief Financial Officer, which position he held until 2004. From 2004 to 2007 he was Director Strategic Investment for the Momentum Group. He was involved with Momentum's merger with Southern Life, the takeover of Lifegro and Momentum's Sage Group acquisition. Before joining the Momentum Group he was an associate director at Deloitte and a senior accountant at the South African Reserve Bank.

Appointed August 2015

EXECUTIVE DIRECTORS**9. Basani Maluleke (41)**

*Executive director
BCom, LLB (UCT), MBA (Kellog)*

Skills and experience

Basani assumed her role as Chief Executive Officer of African Bank in April 2018, after serving as an independent non-executive director from July 2015 and joining the executive team as Group Executive: Head of Operations in July 2017. Having qualified as an attorney at Edward Nathan Sonnenbergs, she joined FirstRand Bank as a member of RMB's corporate finance team that pioneered the structuring and implementation of BEE ownership transactions for JSE-listed companies. She subsequently joined the FNB Division as the Head of Private Clients. During her 12 years at the FirstRand Group she gained experience in corporate finance, retail banking and private equity.

Appointed July 2017 as executive director (independent non-executive director for two years from July 2015)

10. Gustav Raubenheimer (48)

*Executive director
BCom, BCom (Hons) (Pretoria),
CA(SA)*

Skills and experience

Before joining African Bank as Credit Executive in 2012 Gustav gained varied banking, financial and analytical skills experience while serving as an articled clerk at Deloitte & Touche, and working for FirstRand Bank, the FNB Division's Corporate Bank, Nedbank's Credit Lab and Absa's Retail and Commercial division. As Credit Executive, responsible for managing credit risk, provisions for bad debt and pricing, he was instrumental in identifying the deteriorating performance of the Bank's loan book and alerting management to the situation that ultimately led to the Bank being placed in curatorship. Gustav was appointed Chief Financial Officer of the African Bank Group in July 2015.

Appointed July 2015

THE ATTENDANCE OF OUR DIRECTORS AT BOARD AND COMMITTEE MEETINGS DEMONSTRATES A HIGH LEVEL OF COMMITMENT TO THEIR RESPONSIBILITIES AS DIRECTORS

	Boards		Committees							
	ABH Board	ABL Board	Auditcom	Remcom	Setcom	RCMcom	DAG	ALCO	MRC	Techcom
Board member										
NON-EXECUTIVE DIRECTORS										
Louis von Zeuner (resigned 31 July 2018)	5/5	4/4					3/4			
Mark Harris (appointed 29 August 2018. Appointed to RCMcom and appointed Chair of Techcom 20 September 2018)	1/1	1/1								
Sybille McCloghrie (stepped down from RCMcom 31 August 2018, appointed to Techcom on 20 September 2018)	7/7	6/6		4/4	4/4	4/4	4/4			
Sydney Mhlarhi (appointed to ALCO 1 December 2017)	6/7	5/6	6/6					10/10		
Happy Ralinala (appointed to the Board on 23 May 2018 and appointed Chairman of Setcom on 23 May 2018)	4/4	3/3		2/2	1/1		1/1			
Brian Riley (appointed non-executive director on 25 May 2018. Appointed to RCMcom, Setcom and Techcom on 20 September 2018)	3/3	2/2			-	-				-
Louisa Stephens (resigned from ALCO on 30 November 2017 and stepped down as Chairman of Setcom on 23 May 2018, and Chairman of RCMcom and as a Member of Auditcom and Setcom on 31 August 2018)	7/7	6/6	6/6		3/3	5/5	4/4	1/1		
Peter Temple (appointed Chair RCMcom on 31 August 2018 and appointed to DAG on 20 September 2018)	7/7	6/6				4/5	-		10/10	
Frans Truter	7/7	6/6	6/6	4/4			4/4			
EXECUTIVE DIRECTORS										
Brian Riley (resigned as executive director on 31 March 2018)	2/2	3/3	3/3	1/1	2/2	3/3		4/4		
Basani Maluleke <i>Chief Executive Officer</i> (appointed in on 1 April 2018)	6/7	6/6	6/6	3/4	4/4	5/5		8/8		
Gustav Raubenheimer <i>Chief Financial Officer</i>	7/7	6/6	5/6	4/4	3/4	5/5		6/11	8/10	

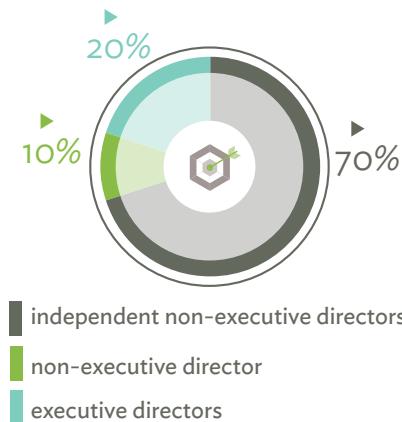
ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

Certain directors attend meetings of committees of which they are not members, by invitation of the Board or committee Chairman, when their input on a specific matter/before that meeting is required. The executive directors attend all relevant Board committee meetings.

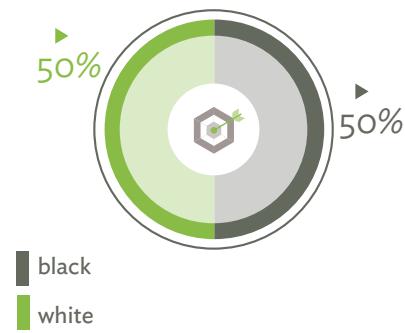
BOARD GENDER AND DIVERSITY TARGETS

African Bank Holdings has adopted gender and diversity targets for its Board, which have been included in our Group employment equity policy. These targets are based on those applied throughout our business. Our preference is to appoint black females, then black males. We remain cognisant, however, of the need to ensure we have the specialist skills we require.

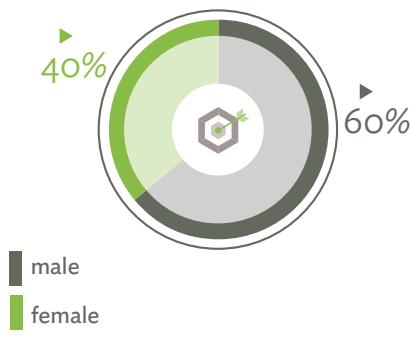
BOARD INDEPENDENCE AS AT 30 SEPTEMBER 2018



BOARD AND RACIAL PROFILE



BOARD GENDER PROFILE



SIGNIFICANT OR KEY DIRECTORSHIPS HELD BY AFRICAN BANK HOLDINGS BOARD MEMBERS AT 30 SEPTEMBER 2018

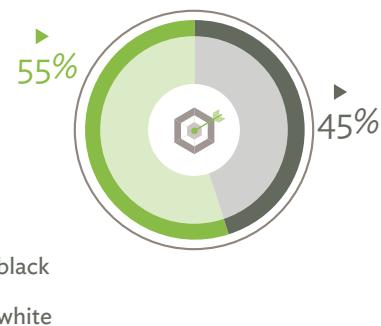
Sydney Mhlarhi	Tamela Holdings Limited
Sybille McCloghrie	Symelation Holdings Proprietary Limited
Happy Ralinala	Small Enterprise Finance Agency SOC Limited (SEFA)
Louisa Stephens	Royal Bafokeng Platinum Limited (four years) Institute of Directors in Southern Africa (NPC) Multichoice South Africa Holding Proprietary Limited and Multichoice SA Proprietary Limited BAIC Automobile South Africa Proprietary Limited
Peter Temple	GRF Services Limited
Frans Truter	MMI Group Limited (nine years)

The skills and experience of our Board

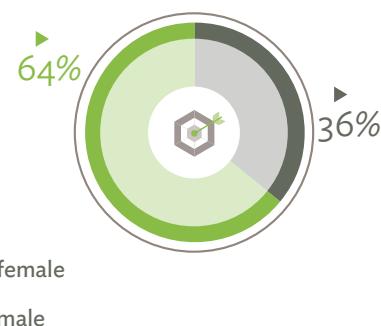
The table below sets out the varied and extensive experience of the African Bank Board



EXECUTIVE COMMITTEE RACIAL PROFILE



EXECUTIVE COMMITTEE GENDER PROFILE



OUR EXECUTIVE COMMITTEE

1. Basani Maluleke (41)

*Chief Executive Officer
BCom, LLB (UCT), MBA (Kellogg)*

Appointed April 2018
(Joined July 2017)

2. Gustav Raubenheimer (48)

*Chief Financial Officer
BCom, BCom (Hons) (Pretoria), CA(SA),
CFA*

Appointed July 2015
(Joined October 2012)

3. Penny Futter (40)

*Chief Information Officer
BSc Computer Science (UKZN)*

Appointed September 2018

4. Gavin Jones (54)

*Executive: Funding and Liability Management, Treasury
BA LLB (UCT), H Dip Tax (Wits)*

Appointed March 2016
(Joined May 2009)

5. Vere Millican (41)

*Group Executive: Credit
NDip in Management, BSc (Hons) in Banking and International Finance (Cass Business School)*

Appointed October 2015
(Joined April 2013)

6. Lindiwe Miyambu (46)

*Group Executive: Human Capital
BEd (National University of Lesotho), Certificate in Labour Relations, Post-graduate Diploma in Labour Relations*

Appointed November 2015
(Joined September 2010)

7. Serge Mosime (45)

*Group Executive: Sales, Direct Sales
BCom (Accounting), National Diploma (cost and management accounting), SLP, EDP, Global Executive Development Programme (GIBS)*

Appointed October 2017
(Joined October 2017)

8. Mellony Ramalho (45)

*Group Executive: Sales and Branch Network
BA Industrial Psychology (Unisa), IMM Marketing Management Diploma (Damelin), MAP Certificate (Wits), MBA (Educor Milpark)*

Appointed May 2016
(Joined February 2016)

9. George Roussos (51)

*Group Executive: Digital and Transactional Banking
BCom (Wits), BAcc (Wits), CA(SA)*

Appointed March 2013
(Joined July 1998)

10. Kena Setshogoe (44)

*Group Executive: Customer Engagement
BCom (NWU), Management Advancement Programme (Wits), Foundations of Management (Chartered Management Institute (UK))*

Appointed November 2018
(Joined November 2018)

11. Piet Swanepoel (55)

*Chief Risk Officer
BCom (Marketing Management) (Pretoria), Advanced Management Programme (Templeton College, Oxford University)*

Appointed July 2015
(Joined June 2014)



36%

OF OUR EXCO MEMBERS
ARE WOMEN

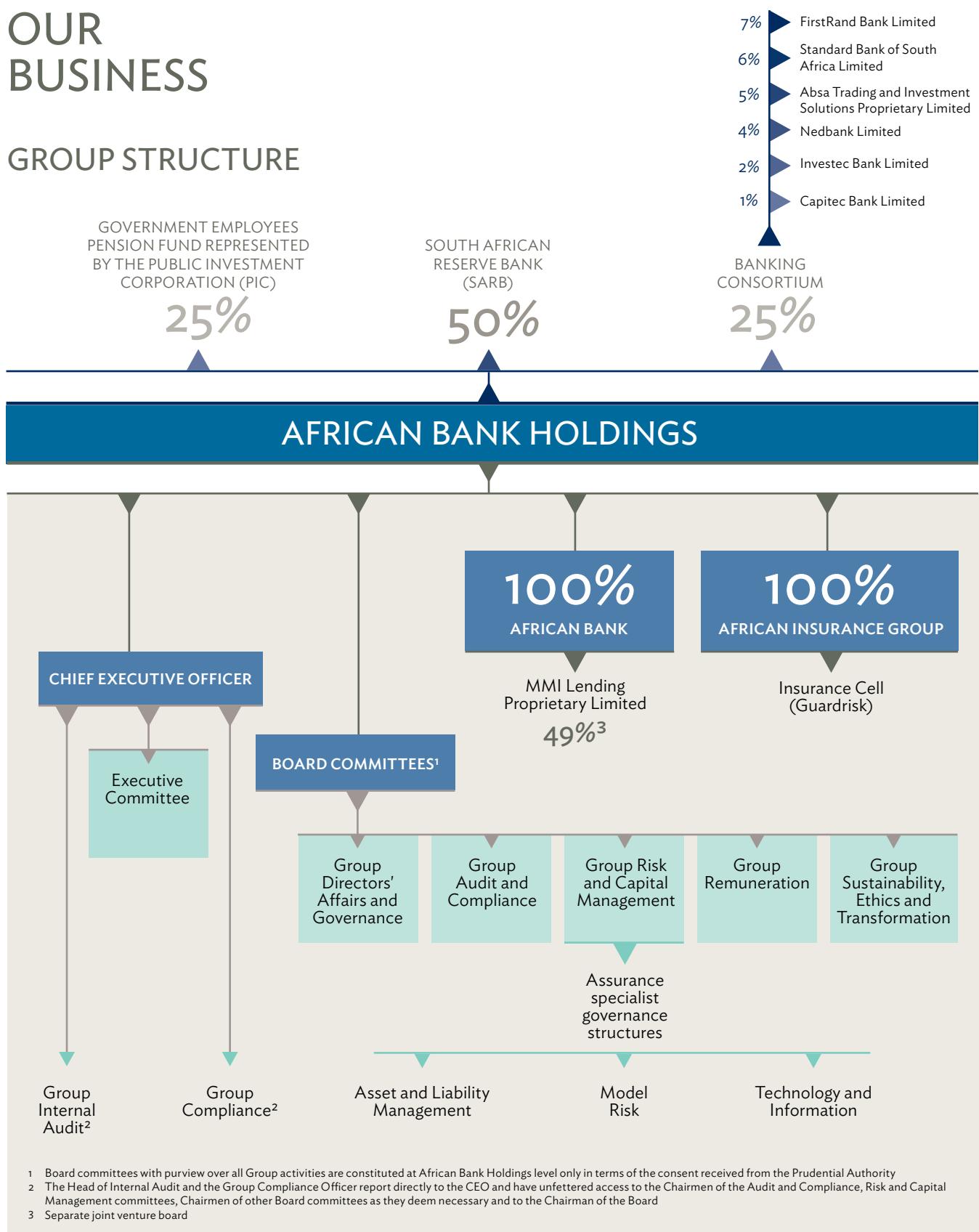
45%

OF OUR EXECUTIVE
COMMITTEE MEMBERS
ARE BLACK

04

OUR BUSINESS

GROUP STRUCTURE



WHAT WE DO

African Bank from 4 April 2016

When the new African Bank opened its doors on 4 April 2016, following the curatorship of the old bank, its leadership was given two distinct and overlapping mandates.

Our mandates

The leadership of African Bank's first mandate is to:

Fulfil the requirements of the base case laid out in the offer memorandum and offer documents to debt holders in the Bank.

This requires the Bank to develop and implement a strategy that will enable it to continue as an unsecured lender, applying greatly improved underwriting criteria and ultimately repaying the new debt instruments as they become due, beginning in April 2018 (see page 66 of intellectual capital and page 43 of the financial capital section of the report for information on our progress in this regard).

66

43

- ▶ 10 It also requires the upskilling of our people (see the leadership review on page 10, the productive capital section on page 55 and human capital on page 64 for information on our progress).

Building and maintaining a fresh reputation is a key element in our development of a successful business. Transparent and proactive communication with our stakeholders, and in particular our shareholders, funders and current debt investors, our customers and our regulators is essential if we are to build and maintain trust. This report, which is an important part of our communication with our stakeholders, particularly with our shareholders, current debt funders and investors, provides information on the progress we are making towards meeting the requirements of both of these mandates.

The second mandate is to:

Seek out the most viable path for a longer-term sustainable future through a diversified product offering that allows our customers to advance their lives.

The intention being that the new African Bank that emerges will offer a diversified range of products and services that will compete on the basis of innovation, creating customer value and socially responsible banking. We plan to use our revised business model to develop a successful business that ultimately will attract potential shareholders from South Africa or further afield.

We have made good progress with our transition from a single-product business to a diversified financial services business. This transition requires a major digital transformation internally and in our channels to market.

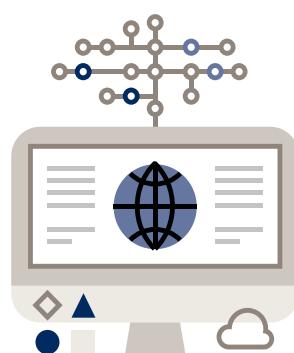
INNOVATION, CREATING CUSTOMER VALUE AND SOCIALLY RESPONSIBLE BANKING



IMPLEMENT A STRATEGY

that will enable African Bank to continue as an unsecured lender

African Bank will offer a **DIVERSIFIED RANGE OF PRODUCTS AND SERVICES**

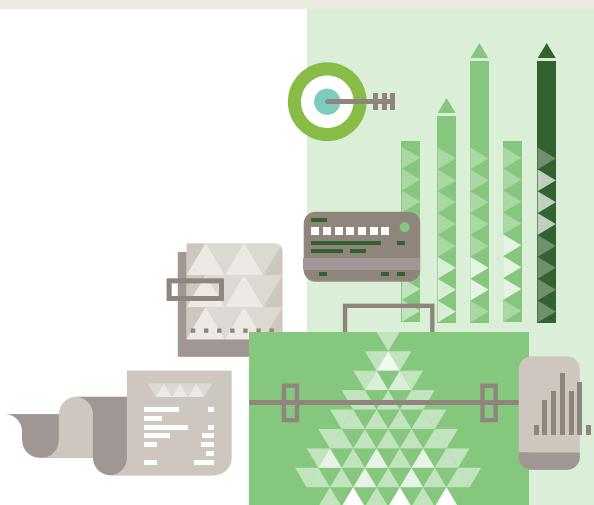


HOW WE USE OUR BUSINESS MODEL TO CREATE VALUE

As a bank we see our role as helping our clients navigate life events instead of merely being a place for transactions

The stock of capital we had at the beginning of the year

FINANCIAL CAPITAL



- ▶ Well-capitalised balance sheet

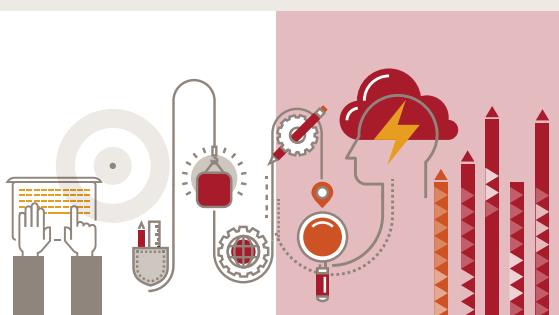
- ▶ R9 108 million in capital and reserves
- ▶ CET1 capital at 30.0%
- ▶ R10.1 billion in cash and cash equivalents (including excess RSA sovereign investment)
- ▶ 148% improvement in retail deposit book
- ▶ Solid earnings trajectory
- ▶ Tightening of credit policy moved us into a lower risk environment
- ▶ Credit loss ratio of 12.7%
- ▶ Cost-to-income ratio of 31%

PRODUCTIVE CAPITAL



- ▶ Branch network upgraded and repositioned to ensure optimal location of its 388 branches
- ▶ Branch of the future to provide more customer-focused solution piloted
- ▶ Direct Sales for voice-to-voice launched
- ▶ Stabilised, refreshed and revamped existing IT systems
- ▶ Enhanced website
- ▶ Progress with digitisation of solutions

INTELLECTUAL CAPITAL



- ▶ Brand reputation
- ▶ Met all legal and regulatory requirements
- ▶ Compliance with the terms of our banking licence
- ▶ Adopted King IV principles
- ▶ Unique funeral policy that allows customers to choose any beneficiaries they want, not necessarily family members
- ▶ Direct Sales delivered
- ▶ Stable technology platform to effect delivery and use of data science

SOCIAL AND RELATIONSHIP CAPITAL



- ▶ Customer NPS® made a greater than 100% improvement to 35 as a result of the application of our customer-centric strategy and customer-focused leadership
- ▶ Employee engagement at 48%, one of the highest in the country
- ▶ Contact centre scripts in customer's preferred language and communication style
- ▶ All our policies available in plain language
- ▶ The education of 168 200 children benefited from corporate social investment in 2017
- ▶ Business accelerator initiative for SMMEs in place for year ahead

HUMAN CAPITAL



- ▶ 3 348 employees
- ▶ Effective experienced leaders
- ▶ Branch and contact centre employees upskilled to provide customer-focused service retail banking
- ▶ Replaced people we lost with the skills we need in a diversified retail bank

NATURAL CAPITAL



- ▶ Recycled 50% of the waste generated in our Midrand Campus
- ▶ Recycled or donated old equipment and ensured new IT equipment is energy efficient
- ▶ Implementing paperless process

The outcomes we achieved from employing our stock of capitals

- ▶ Further increased surplus capital through profitability and lower capital requirement
- ▶ R10 127 million in capital and reserves
- ▶ CET1 capital at 34.9%
- ▶ R8 245 million in cash and cash equivalents (including excess RSA sovereign investment)
- ▶ 225% improvement in retail deposit book
- ▶ Improved operating earnings by 29% to R1 453 million
- ▶ Lower risk customers represented 83% of advances, increase from 75% as at prior year
- ▶ Credit loss ratio of 11.7%
- ▶ Cost-to-income ratio of 33%

Trade-offs and actions to enhance outcomes

- ▶ Buybacks of R2 billion in bilateral deposits and repayment of maturing wholesale liabilities of R2.4 billion reduced negative interest margin by R274 million
- ▶ No dividends declared or paid to shareholders
- ▶ Earnings and reduced surplus cash holdings
- ▶ Positive cash generation offset by redemption in liabilities (see page 50 of financial capital)
- ▶ Increased marketing and enhanced distribution
- ▶ Pull back on credit risk and early redemption of excess liabilities
- ▶ Conservative and generally more risk averse approach to credit underwriting criteria resulted in lower volume but better quality new business (see page 45 of financial capital)
- ▶ Reduced credit risk appetite resulted in pull back of loans to more risky customer base (see page 44 of financial capital)
- ▶ Investment in new business initiatives (see page 37 of financial capital)

50

45

44

37

- ▶ Further upgrading and repositioning of branches to provide more customer-focused solution and to preparing branches for transactional banking in 2019
- ▶ Additional employees in our branches for launch of transactional banking
- ▶ Transactional banking launched to employees in April 2018
- ▶ Further enhancement of website in preparation for omnichannel

- ▶ Investment ongoing
- ▶ Prepared for omnichannel introduction in 2019
- ▶ Good progress made in our digitisation journey

- ▶ Leadership position in all categories of SAcsci 2017 indicate successful rebuilding of branch reputation
- ▶ Met all legal and regulatory requirements
- ▶ Through further development of our transactional banking offering made progress towards meeting the requirements of our banking licence
- ▶ Adopted King IV principles
- ▶ Made progress with our omnichannel offering to be delivered in 2019
- ▶ Application of our ability to build models that predict customer behaviour allows us to devise the best possible credit scorecard

- ▶ Investment in omnichannel positioning the Bank for the future
- ▶ Able to use data to inform the decisions we make

- ▶ Through our customer-centric approach and commitment to using our social investment to create a value chain of programmes designed to give their beneficiaries the opportunity to excel, we are achieving our goal of being a responsible corporate citizen

- ▶ Achieved King IV outcome of being a responsible corporate citizen

- ▶ 3 438 employees
- ▶ 362 interns in branches and 158 learnerships in our contact centres
- ▶ Leadership programme facilitated change into a multiproduct, multichannel offering
- ▶ Employee commitment to excellence in customer service reflected in our performance in SAcsci in 2017
- ▶ Data science expertise

- ▶ Increased technology expertise through strengthened executive team
- ▶ Ability to build models that predict customer behaviour has resulted in the Bank writing consistently better quality business
- ▶ Learnerships in our contact centres enhancing collections effectiveness and developing their skills.

- ▶ 66% of the waste generated in our Midrand Campus was recycled in 2018
- ▶ Monthly reporting of branch electricity and water data
- ▶ National water risk assessment completed
- ▶ Water footprint calculated and monitored for the first time

- ▶ Making progress towards better utility management and reducing our impact on climate change

MANAGING OUR RISKS AND OPPORTUNITIES

The aim of this section of our report is to provide you with information on known, new and changing issues that currently, and may in the future, impact our industry as a whole and our business in particular.

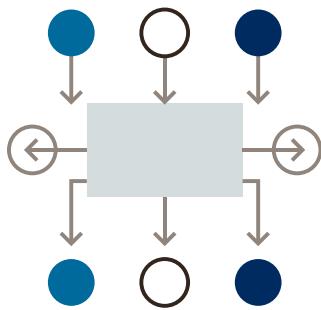
We have provided you with page references where you will find information on our response to the risks and opportunities these issues present, their implications for our business model and our ability to create value.

BY SETTING OUR RISK APPETITE

we ensure that we consider risk information in our decision-making and planning

WE USE A TOP-DOWN APPROACH

for defining and embedding our risk appetite into the business



OUR CHANGING BUSINESS CONTEXT

KNOWN ISSUES

- Macro-economic conditions ▲▼
- South Africa's sovereign rating ▼
- Regulatory environment ▼
- Country's poor reputation with regard to ethics ▼

NEW AND CHANGING ISSUES

- New banks entering the South African market ▲▼
- Disruptors ▲▼
- Rapid digitisation through innovation ▲▼
- Crypto currencies and distributed ledgers ▲▼
- Protection of personal information (PoPI) Act, 4 of 2013 ▲▼
- Impact of audit industry disruption ▲▼
- Debt relief bill ▼
- DebiCheck ▼

EXTERNAL ENVIRONMENT

KEY RISKS AND OPPORTUNITIES

- Rebuilding African Bank brand ▲
- Cost management ▲▼
- Credit risk management ▲▼
- Talent management ▲▼
- Cyber security resilience ▲▼
- Digital transformation ▲▼
- Transformation ▲▼
- Treating customers fairly ▲▼
- Advancing lives ▲
- Achieving a competitive edge through innovation ▲

INTERNAL ENVIRONMENT

- Impact of PoPI Act on data management and digital marketing ▲▼
- Delivering transactional banking ▲▼
- Providing seamless omnichannel banking ▲▼
- Partnerships ▲▼
- Retail deposits ▲▼

Legend:

- ▲ = opportunity
▼ = risk

Our Board assumes responsibility for the governance of risk, sets the direction for how we approach and address risk and mandates the Risk and Capital Management Committee (RCMcom) and its subcommittees, the Asset and Liability Management Committee (ALCO) and Model Risk Committee (MRC), to exercise ongoing oversight of risk management. This section of our integrated report sets out the outcomes of this oversight

AN ENTERPRISE-WIDE VIEW OF RISK

Our Board-approved enterprise risk management (ERM) framework aligns our strategies, processes, people, technology and knowledge with the purpose of evaluating and managing the challenges we face in protecting and creating stakeholder value. It ensures adequate and effective risk management by providing:

a clear assignment of responsibilities and accountabilities

a common ERM framework and process

the identification of uncertain future events that may influence the achievement of our business plans and strategic objectives

the integration of risk management activities throughout the Group and across its value chains.

Our ERM process is a proactive, interactive and continuous process integrated with the Group's strategic and business processes, through which we identify our risks and opportunities.

The Group's approach to the governance of risks and opportunities is designed to ensure that we have adequate and effective strategies, policies, procedures and processes in place to address the nature and complexity of the risks and opportunities inherent in our business activities and our operating environment (see pages 76 to 77 of the intellectual capital section of this report for a detailed assessment of our application of the King IV Report on Corporate Governance, Principle 11, which states that the governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives). Our oversight, management and assurance of risk management are based on the three lines of defence and combined assurance models. This enables an effective internal control environment and supports the integrity of information used for internal decision-making, strategy development and business planning in the Group.

The Group has a mature risk management culture. The Bank however understands that the risk and opportunity landscape is continuously evolving and therefore the continued focus on maintaining and cultivating the operational risk management culture.

A RISK MANAGEMENT PROGRAMME THAT CORRESPONDS TO THE NATURE, SCALE AND COMPLEXITY OF THE ACTIVITIES OF THE AFRICAN BANK HOLDINGS GROUP

Our approach to risk appetite and risk tolerances

Our risk appetite defines the nature and amount of risk we are willing to take to meet our strategic objectives. By setting our risk appetite we ensure that we consider risk information in our decision-making and planning. We define our risk appetite using qualitative statements and quantitative measures at principal risk, legal entity and business unit level and specify the risks we seek, accept or avoid.

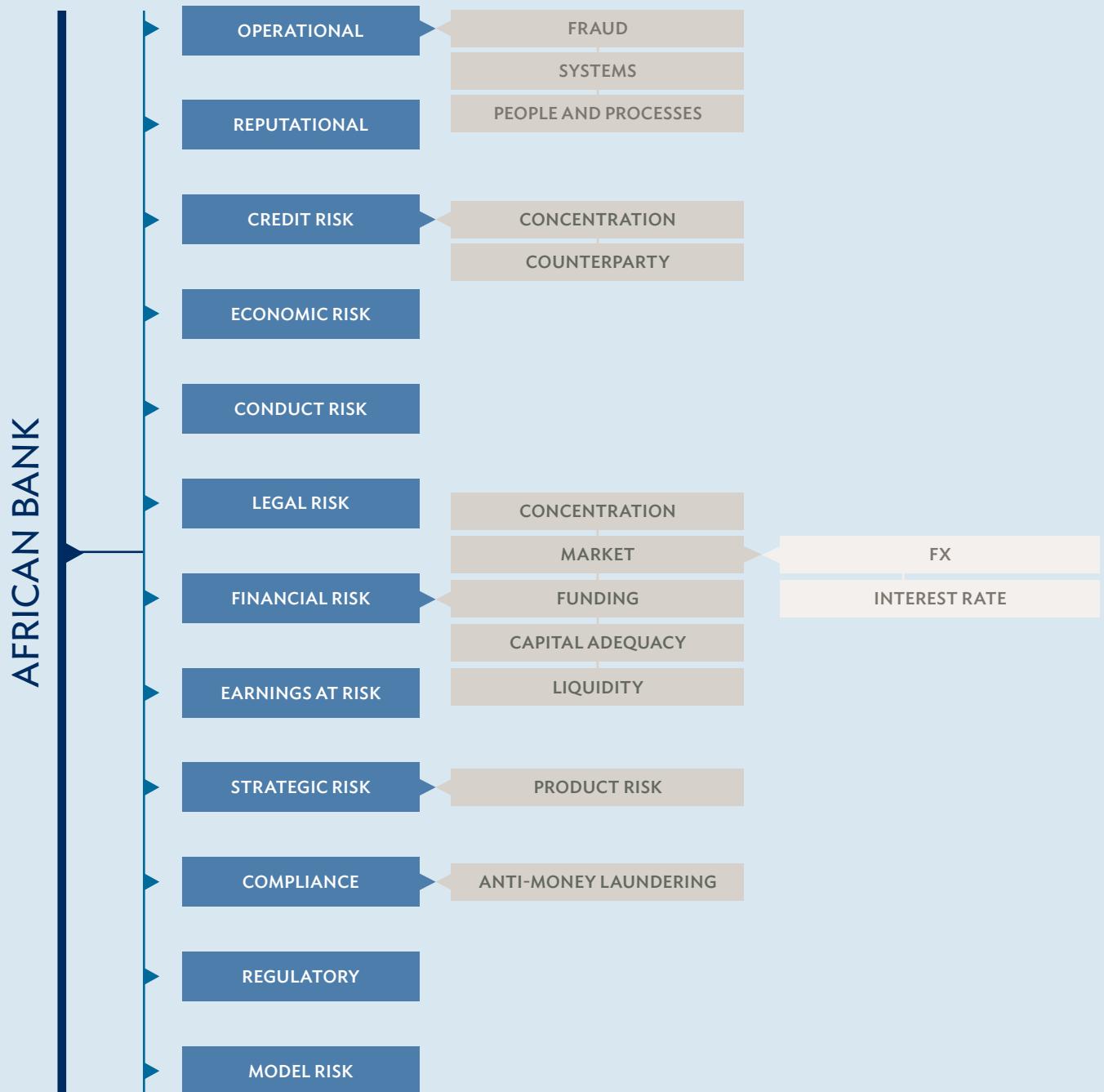
We use a top-down approach for defining and embedding our risk appetite into the business. This approach enables us to translate our strategy into our day-to-day operations. The framework is based on the Bank's risk profile (risk universe) and is cascaded into the various business units through key risk indicators.

THE GROUP'S KEY RISK APPETITE MEASURES WHICH ARE USED TO MANAGE OUR OPERATIONS EFFICIENTLY WHILE BALANCING RISK AND RETURN

Risk appetite statement (qualitative)	Definition	Risk appetite measure (quantitative)
Compliance risk: The Group has zero tolerance for the risk that might arise from compliance breaches. The Group strives to fully comply with Acts and regulations that have been identified as business critical.	The risk of regulatory sanctions, material financial loss, or loss to reputation that the entity may suffer as a result of its failure to comply with applicable legislation, regulations and internal rules and standards	No fines for non-compliance No compliance breaches
Operational risk: The Group actively manages operations with the aim of minimising operational risk losses where possible. It therefore has a low tolerance for operational risk.	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events including fraud, business continuity and information technology risk.	Below industry norm
Credit risk: The Group has an acceptable level of risk appetite for credit risk, which is considered one of its key competitive advantages in the market.	The risk of loss due to a borrower or counterparty failing to meet its obligations in accordance with agreed terms resulting in non-performance.	< 13%
Capital risk: The Group has zero tolerance for breaches of minimum regulatory capital limits.	Capital requirement is the amount of capital a bank or other financial institution has to hold, as required by its financial regulator. This is usually expressed as a capital adequacy ratio of equity that must be held as a percentage of risk-weighted assets.	CET1/Tier 1 > regulatory limit

The Bank's risk universe

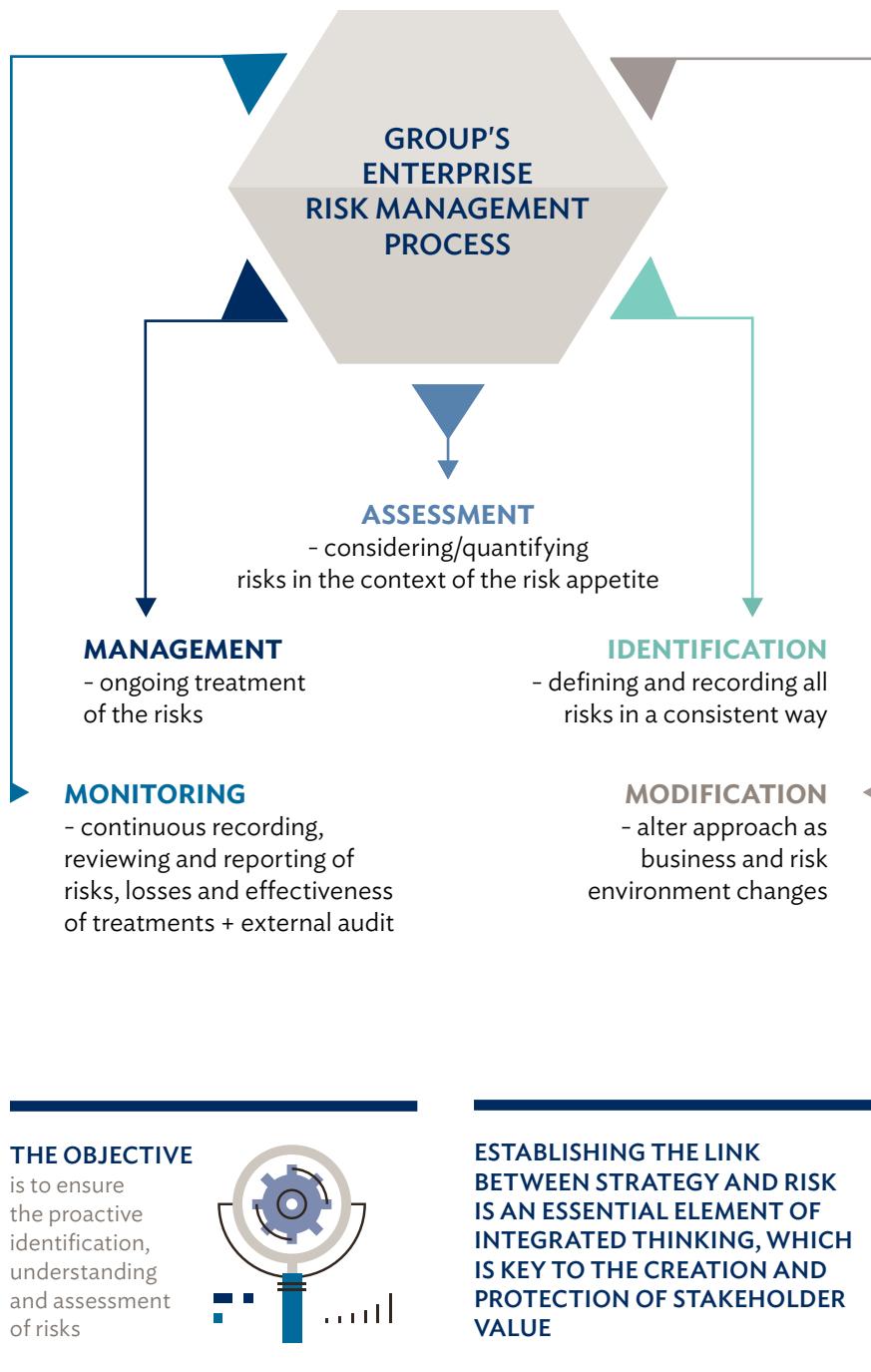
The Bank's risk universe includes the full range of risks that could impact, either positively or negatively, on the ability of the organisation to achieve its long-term objectives.



The Group's risk management objective is to ensure the proactive identification, understanding and assessment of risks, including activities undertaken that result in risks which could impact on business objectives. This is executed through various risk management and governance mechanisms and risk management oversight bodies.

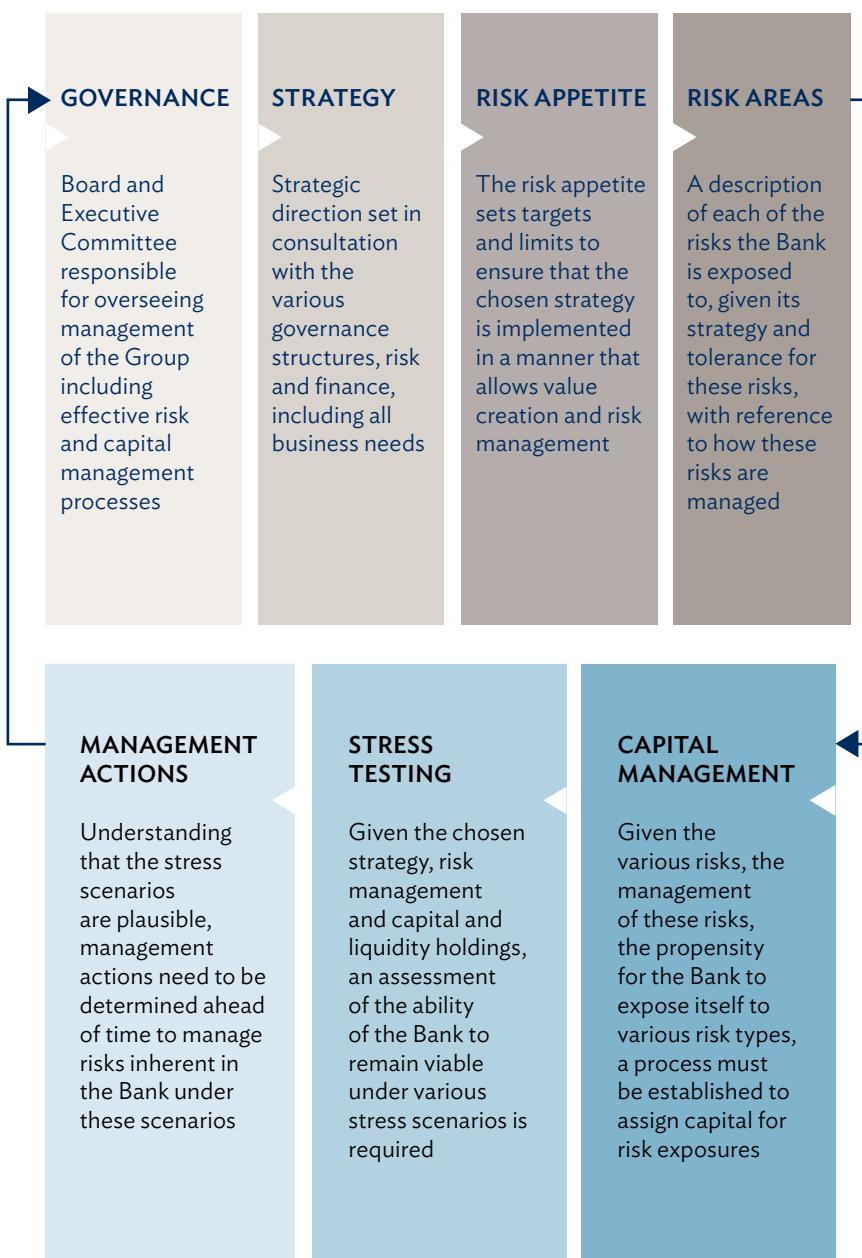
These include:

THE GROUP'S KEY RISK APPETITE MEASURES, WHICH ARE USED TO MANAGE OUR OPERATIONS EFFICIENTLY WHILE BALANCING RISK AND RETURN



Stress testing as a risk management tool

The Bank has a comprehensive stress testing policy designed to identify a spectrum of potential adverse financial and operational conditions that could impact on our capital, liquidity, RoE and risk appetite limits. This stress testing policy also provides a coherent methodology to quantify the Bank's ability to survive these adverse conditions, while maintaining the minimum required capital adequacy and liquidity positions. We perform stress testing as part of our overall internal capital adequacy and assessment process (ICAAP) the purpose of which is to inform the Board of the ongoing assessment of the Bank's risks, how we intend mitigating these risks and how much current and future capital is necessary, having considered other mitigating factors (see the diagram that follows and the section on managing our balance sheet, which further elaborates on the process). Risk-specific stress testing further strengthens the Group's stress testing process.



Managing our balance sheet from a capital adequacy perspective

We manage our capital adequacy from both a regulatory capital adequacy and an internal or economic capital perspective as part of the ICAAP

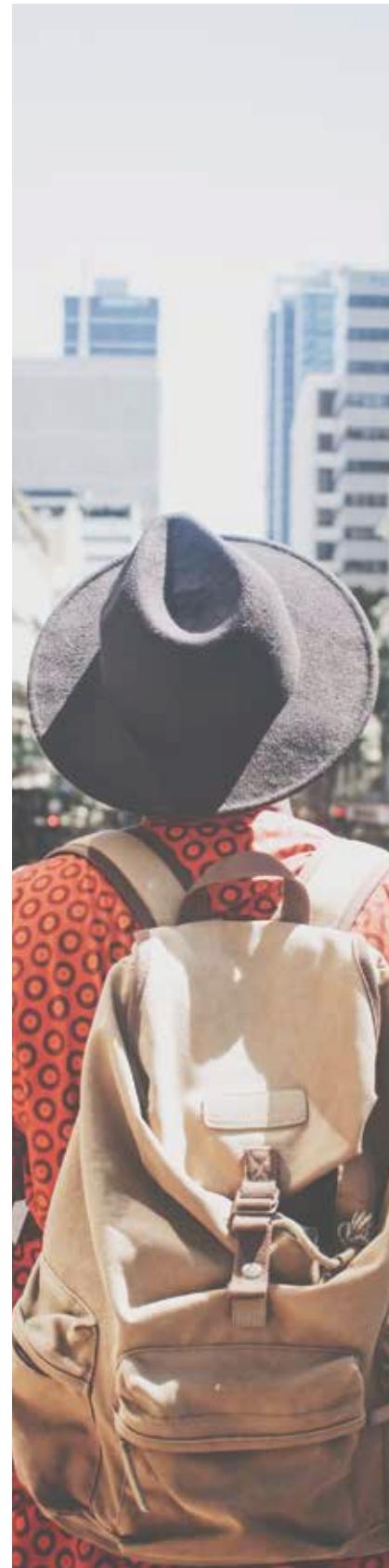
For internal capital management purposes the Group assesses its available financial resources, or economic capital, against its internally calculated economic capital requirements to determine whether African Bank has adequate capital to provide protection against the risks to which it is exposed. During this process we acknowledge that certain risks are apparent in our organisation and allocate capital accordingly to address these risks. This risk assessment is integrated into the risk management activities that take place as part of our ERM methodology.

In setting capital adequacy targets the Bank uses the end-state Basel III minimum ratios plus a stress testing buffer set as part of the ICAAP process. As the Group has not to date issued Tier 1 capital it targets the same ratio of 27% for CET1 and Tier 1 and a 33.5% total capital adequacy ratio at the African Bank level. We deem a lower capital adequacy target ratio of 31% appropriate for the Group, as a result of Tier 2 capital issued by the Bank not qualifying at the Group level (see page 51 of the financial capital section of this report for information on African Bank's capital adequacy). We monitor our actual capital adequacy against forecast and in order to continually assess potential adequacy risks the Group incorporates the capital impact into its evaluation of new business proposals. We disclose further information with regard to our regulatory capital ratios in conjunction with related risk and liquidity information as part of our quarterly Basel Pillar 3 reporting process. The Group issues comprehensive Basel Pillar 3 reports with our interim and annual results. Abridged Basel Pillar 3 reports are issued quarterly.

Our top strategic risks and related material matters

Our materiality determination process is an integral part of our efforts to embed integrated thinking in African Bank and to identify the issues that form the basis of our internal and external reporting.

Strategy	Potential risks and opportunities	Material issues	Our response
Customer-centricity	<ul style="list-style-type: none"> Customer value proposition Macroeconomic environment Reputational risk Anti-money laundering 	<ul style="list-style-type: none"> RSA Inc rating Unemployment Change management 	<ul style="list-style-type: none"> Digital transformation Risk-based scoring Customer-focused products
Digital customer-focused information technology platform	<ul style="list-style-type: none"> Stability, availability and scalability Customer-centric interactions Cyber security 	<ul style="list-style-type: none"> Minimal business interruptions Vendor management 	<ul style="list-style-type: none"> Information technology development and design Business continuity Dedicated cyber security team
Diversity product offering	<ul style="list-style-type: none"> Digital customer interaction Capital requirements Employee development 	<ul style="list-style-type: none"> Experience and expertise Digital transformation 	<ul style="list-style-type: none"> Partner where it makes sense Transformation of human capital Opportunities for people to develop and learn
Optimise balance sheet competitiveness	<ul style="list-style-type: none"> Increasing shareholder value Stable returns Economic stability Geopolitical risk <ul style="list-style-type: none"> Increasing investment uncertainty regarding emerging markets Lack of business confidence 	<ul style="list-style-type: none"> Capital and liquidity regulations Cost of compliance Access to capital 	<ul style="list-style-type: none"> Responsible credit granting Enhanced customer value proposition Appropriate risk/reward balance Acquiring liquidity and capital support from shareholders



05

OUR PERFORMANCE

FINANCIAL CAPITAL



Our financial capital consists of the pool of funds that is available to us to produce products, provide services and invest in technology, people and growth. It is obtained through financing, such as debt and equity and generated through our operations.

All our financial information is reported analysed on an adjusted basis, in order to allow for better comparability between African Bank's financial information and that of other banks.

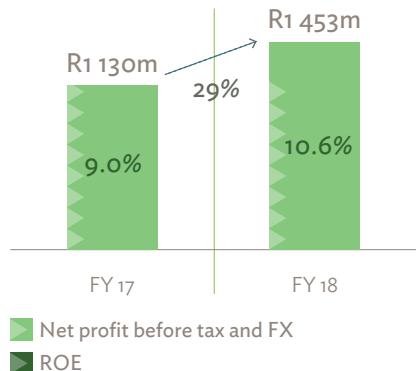
INTRODUCTION

We were able to achieve pleasing results in our second full financial year after buying the advances and other assets from Residual Debt Services Limited under curatorship (previously known as African Bank) on 4 April 2016. This was despite a challenging macroeconomic environment. We are therefore able to provide a comparison of our performance over a two-year period for the first time.



These results included a year-on-year increase in the Group's earnings of 29% to R1 453 million (2017: R1 130 million) before tax and foreign exchange gains or losses, and an increased RoE of 10.6% (H1 2017: 9.0%) notwithstanding of materially higher capital levels.

Earnings trend



The changes in profitability can be seen in the return on average advances (RoA) analysis in the graph on this page. RoA increased from 2.8% to 3.8% year-on-year on an after tax basis.

Key drivers of the improvement in RoA included an increase in net interest income (15.8% RoA to 17.4% RoA) as a result of lower overall interest expense resulting from the reduction in liabilities.

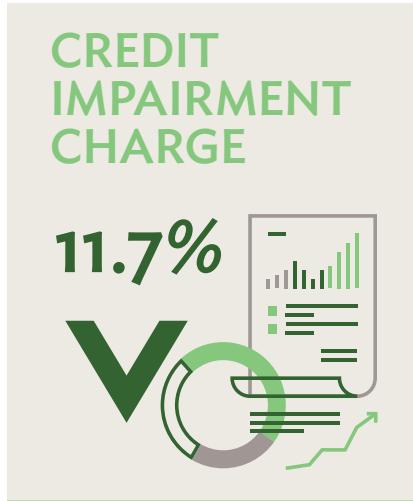
Impairments have continued to reduce below the long-term target of 13.0%, reducing from 12.7% RoA to 11.7% RoA, as a result of continued strong performance in collections, as well as regular and effective credit policy reviews. These factors reduced our risk experience, despite the macroeconomic environment, which during the period was not conducive to growth and continued to put pressure on the consumer.

A reduction in non-interest revenue (6.0% RoA to 4.9% RoA) resulted from the reduced risk appetite, which resulted in larger longer-term new business disbursements. Larger longer-term loans result in a lower RoA for non-interest income.

A lower collection fee from Residual Debt Services and lower card transaction fees placed additional downward pressure on non-interest income (NIR).

Insurance income was steady (4.6% RoA to 4.8% RoA).

Largely flat overall operating expenses and slightly lower average gross advances resulted in an increased opex charge when measured on an RoA basis (9.6% RoA to 9.9% RoA).



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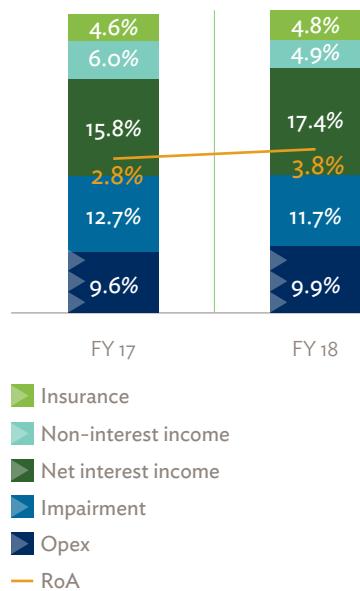
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Analysis of return on average advances (RoA)



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the 12 months ended 30 September 2018

International Financial Reporting Standards (IFRS) require that we recognise the business acquired from the old African Bank on 4 April 2016, including the advances book, at fair value at acquisition. We therefore reflect the advances book net of existing old African Bank credit risk impairment provisions, as at the date of acquisition, in our published financial statements. The acquired book's margin is shown on a yield to maturity basis in the net interest income line on the income statement and will continue to be shown as such in our future financial statements to the extent that the acquired advances remain on book. This requirement makes it difficult to compare African Bank's income statement performance with those of other banks.

To enhance understanding we have included a normalised income statement that treats the book as if it was originated and not acquired, i.e. it is not accounted for on a yield-to-maturity basis. In addition, the results of the insurance business have been grossed up for taxation and the foreign exchange volatility has been separately disclosed in the normalised results. These adjustments increased the operating profit as reported under IFRS from R1 187 million to R1 453 million. The reported net profit after tax for the period is R1 019 million (2017: R786 million).

	2018		2017		Adjusted results difference	
	IFRS	Adjusted results	IFRS	Adjusted results	Rm	%
Rm						
Interest income on advances	7 168	6 215	5 700	6 228	(13)	-
Non-interest income	1 199	1 696	1 526	2 118	(422)	(20)
TOTAL INCOME	8 367	7 911	7 226	8 346	(435)	(5)
Credit impairment charge	(3 608)	(3 153)	(2 448)	(3 568)	415	(12)
INTEREST AFTER IMPAIRMENT	4 759	4 758	4 778	4 778	(20)	-
Other interest income*	482	482	819	819	(338)	(41)
Interest expense and similar charges	(2 051)	(2 078)	(2 725)	(2 690)	612	(23)
NET INTEREST INCOME	3 168	3 162	2 872	2 907	254	9
Operating expenditure	(2 616)	(2 615)	(2 607)	(2 607)	(8)	-
Indirect taxation	(65)	(65)	(56)	(56)	(9)	15
Insurance income	(268)	972	336	886	86	10
Dividends received	968	0	303	-	-	-
Net insurance result	700	972	639	886	86	10
OPERATING PROFIT	1 187	1 453	848	1 130	323	29
Foreign exchange losses on net open position	0	6	0	(35)	41	(117)
Taxation	(168)	(441)	(62)	(309)	(132)	43
NET PROFIT AFTER TAXATION	1 019	1 019	786	786	233	30

* Includes MMI share and intergroup interest and opex



Operating profit
INCREASED BY 29%
TO R1 453 MILLION

Interest expense
HAS REDUCED BY 23%

Rm 612

Credit impairment charge of R3 153 million
HAS REDUCED BY 12%

Rm 415

TOTAL INCOME

Total income of R7 911 million (2017: R8 346 million) was down 5 % compared to the prior year primarily as a result of a decrease in non-interest income due to larger average loan sizes and longer loan terms, lower Residual Debt Services (RDS) and credit card fees. These factors combined to decrease non-interest income by 20% compared to the previous year. Interest income on advances at R6 215 million (2017: R6 228 million) was flat compared to the prior period.

CREDIT IMPAIRMENT CHARGE

The credit impairment charge of R3 153 million improved by R415 million compared to the charge of R3 568 million in the prior year. When measured as a percentage of average gross advances, the charge reduced from 12.7% to 11.7% of average gross advances. Impairments have continued to reduce below the long-term average target of 13.0% as a result of continued strong performance in collections, as well as regular and effective credit policy reviews. These factors reduced our risk experience, despite a macroeconomic environment, which during the period, was not conducive to growth and continued to put pressure on the consumer. The recoveries on the total written-off book for the period amounted to R818 million (2017: R537 million).

OTHER INTEREST INCOME AND INTEREST EXPENSE

Other interest income of R482 million (2017: R819 million) has reduced by 41%, while interest expense and similar charges of R2 078 million (2017: R2 690 million) has reduced by 23%, resulting in a reduction in the net interest charge of R338 million. This has been as a result of lower average cash and liability balances as the Group has reduced its surplus cash holdings by repaying contractually due liabilities and a continued focus on liability management.

OPERATING EXPENDITURE

Operating expenditure reported at R2 615 million (2017 : R2 607 million) was flat compared to the prior year. This was as a result of the positive impacts of continued judicious cost management offset by investments in the new business initiatives, particularly in respect of the investment in the omnichannel architecture and the MyWORLD transactional banking roll out.

NET INSURANCE RESULT

Insurance income of R972 million improved by 10% from R886 million in the prior year.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Rm	2018	2017	% change
ASSETS			
Cash and cash equivalents	7 225	6 866	5
Regulatory deposits and sovereign debt securities	2 130	4 722	(55)
Derivative assets	47	748	(94)
Net advances	19 178	18 743	2
Account receivable and other assets	210	218	(4)
Investments	449	650	(31)
Property and equipment	597	494	21
Intangible assets	72	75	(4)
Current tax	–	49	(100)
Deferred tax	760	389	95
TOTAL ASSETS	30 668	32 954	(7)
LIABILITIES AND EQUITY			
Short-term funding	5 061	4 305	18
Derivative liabilities	–	5	(100)
Creditors and other liabilities	647	621	4
Current tax	24	0	100
Bonds and other long-term funding	13 279	17 385	(24)
Subordinated bonds, debentures and loans	1 530	1 530	–
TOTAL LIABILITIES	20 541	23 846	(14)
Ordinary share capital	5	5	–
Ordinary share premium	9 995	9 995	–
Reserves and accumulated losses	127	(892)	(114)
TOTAL EQUITY (CAPITAL AND RESERVES)	10 127	9 108	11
TOTAL LIABILITIES AND EQUITY	30 668	32 954	(7)

Rm 19 178

Net advances
REPORTED AT R19 178 MILLION
INCREASED BY 2%

 **14%**

Total liabilities
R20 541 MILLION HAVE
REDUCED BY 14%

Rm 8 246*

We continue
TO HOLD HIGH CASH BALANCES
REPORTED AT R8 246 MILLION
AT YEAR-END

CASH AND CASH EQUIVALENTS

African Bank continues to hold high cash balances reported at R7 225 million (2017: R6 866 million) at year-end, an increase of 5% reported at the end of the prior year. This balance, together with the excess regulatory deposits and sovereign debt securities held over and above the minimum requirements and amounting to R1 020 million, results in total available cash resources of R8 246 million (2017: R10 108 million). This provides sufficient available liquidity to cover over 12 months of contractual maturities of liabilities. Further detail in respect of liquidity is given in the liquidity and funding section on pages 49 to 50.

DERIVATIVE ASSETS

Derivative assets at R47 million (2017: R748 million) have reduced significantly as a result of maturing foreign exchange derivative hedging contracts.

NET ADVANCES

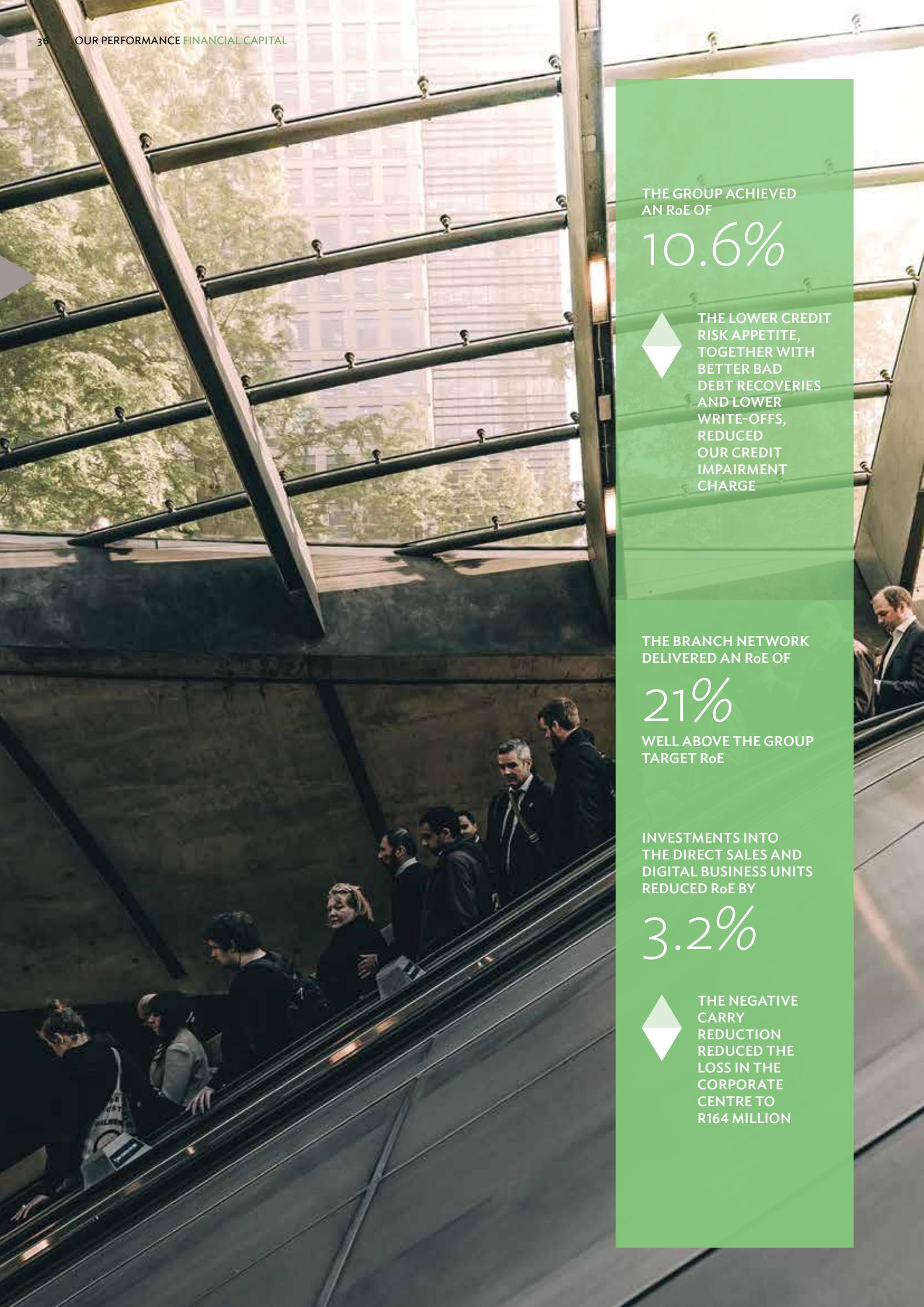
Net advances reported at R19 178 million (2017: R18 743 million) have increased by 2% from the previous year, as a result of an increase in gross advances from R26 513 million to R27 523 million as detailed under Advances overview (page 42). This is offset by higher provisioning, as provisioning cover had increased from 29.3% to 30.2% in recognition of the risks inherent in the book as a result of the macroeconomic pressures facing our customer base and specific regulatory and industry developments, including the potential impact of the National Credit Amendment Bill, and the potential impact of the proposed changes to the debit order collections regime in 2019. Further detail on provisioning methodology and levels is provided in Our provisioning and impairments methodology and advances and coverage overview by contractual delinquency (CD) bucket sections on pages 46 to 47.

TOTAL LIABILITIES

Total liabilities of R20 541 million (2017: R23 846 million) have reduced by 14% or R3 305 million on a year to year basis. Bonds and other long term funding, with a contractual maturity date of longer than 12 months from the reporting date, at R13 279 million (2017: R17 385 million) have reduced significantly by 24% a year earlier. Short-term funding of R5 061 million (2017: R4 305 million), with a contractual maturity date less than 12 months from the reporting date, has increased as existing wholesale funding taken on as part of the restructured liabilities from the old African Bank approach their restructured maturity profile and those maturing between April and September 2018 were paid out. Our continued success in attracting retail deposits has, on the other hand, increased the liabilities balances of the Bank. Retail deposits of R1 111 million (2017: R341 million) have increased by over 200% during the period and now represent 6% of total funding liabilities. Further information in respect of liquidity and funding and the retail deposit portfolio can be found on pages 49 and 51 respectively.

TOTAL EQUITY

Total equity amounting to R10 127 million (2017: R9 108 million) has increased by 11%, or R1 019 million, from the 2017 year-end as a result of the retained profits for this financial year. No dividends were paid or declared during the year under review. The increased total equity together with a reduction in the capital requirement, resulted in an increased Group level core with equity tier 1 (CET1) ratio of 34.9% (2017: 30.9%). Lower cash balances following the net repayment of funding liabilities was the primary reason for the reduction in the capital requirement, which together with the additional capital resulted in the increased CET1 ratio. Further information in respect of Capital Adequacy can be found on page 51.



THE GROUP ACHIEVED
AN RoE OF

10.6%

◆ THE LOWER CREDIT RISK APPETITE, TOGETHER WITH BETTER BAD DEBT RECOVERIES AND LOWER WRITE-OFFS, REDUCED OUR CREDIT IMPAIRMENT CHARGE

THE BRANCH NETWORK DELIVERED AN RoE OF

21%

WELL ABOVE THE GROUP TARGET RoE

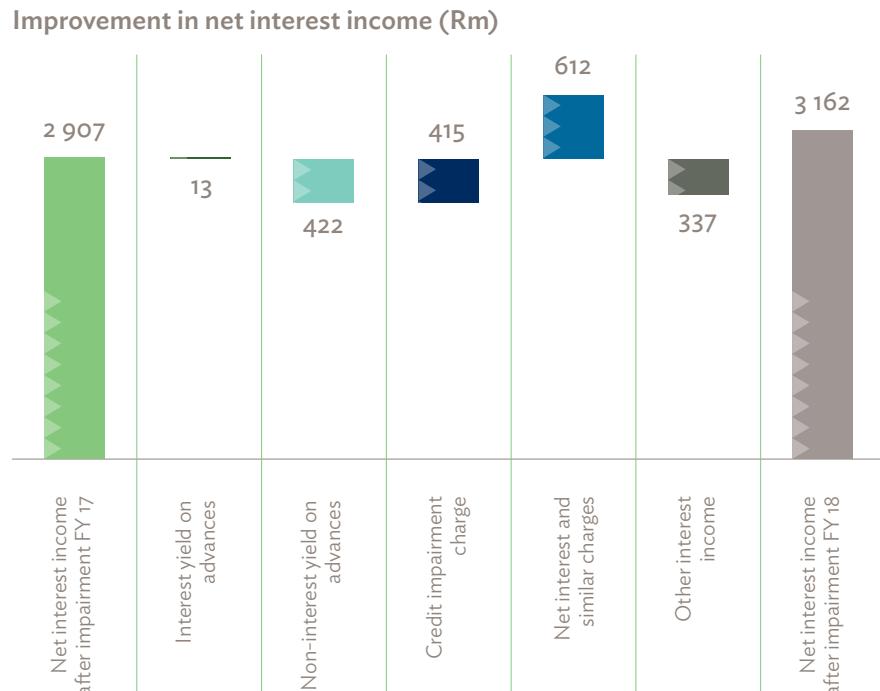
INVESTMENTS INTO THE DIRECT SALES AND DIGITAL BUSINESS UNITS REDUCED RoE BY

3.2%

◆ THE NEGATIVE CARRY REDUCTION REDUCED THE LOSS IN THE CORPORATE CENTRE TO R164 MILLION

IMPROVEMENT IN NET INTEREST INCOME

A lower credit risk appetite improved recoveries and lower write-offs led to a significantly lower impairment charge, while our debt buybacks and repayment of maturing liabilities reduced our interest charge. These were partly offset by lower fees earned as a result of writing lower risk business, and lower RDS collection fees and reduced credit card fees. The reduction in the Group's cash balances following our debt buybacks reduced our other interest income.



ANALYSIS OF DRIVERS OF RoE

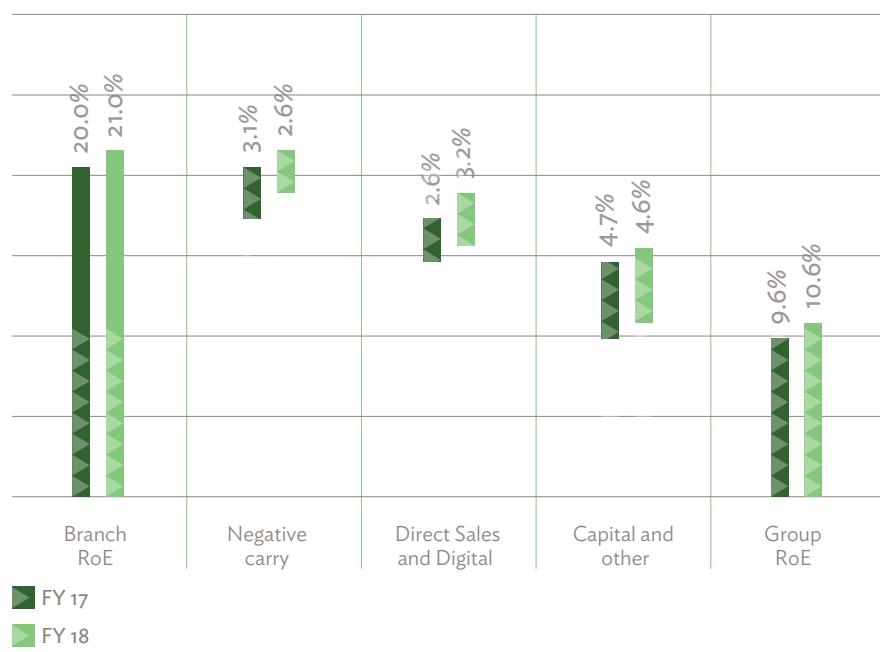
The branch network continued to deliver an RoE above the group target of 15%, reporting an RoE of 21.0% (2017: 20.0%). The income statement

³⁸ split by strategic focus area on page 38 provides more granularity regarding the profitability of the various business areas within the Group. The profitability of Direct Sales is expected to increase due to ongoing enhancements to systems and processes to improve the customer experience and lower the cost per loan disbursed through the channel. Transactional banking is accounted for in the Digital business unit and will initially continue to reflect the charge of the upfront expenses as the business is established.

Investments into the Direct Sales and Digital business units reduced RoE by 3.2% (2017: 2.6%), while the negative carry as a result of excess cash negatively impacted RoE by 2.6% (2017: 3.1%), and surplus capital over and above the target CET1 ratio of 27.0% reduced RoE by 4.6% (2017: 4.7%).

The negative carry within the Corporate centre is expected to be reduced by further balance sheet optimisation over the longer term.

FY 18 - Return on equity drivers analysis



INCOME STATEMENT BY STRATEGIC FOCUS AREA

The following table shows a split of the income statement by strategic focus area. The branch network generated an operating profit of R2 040 million (2017: R1 937 million) and a net profit after tax of R1 400 million (2017: R1 395 million) resulting in an RoE of 21.0% (20.0%). The loss after taxation in Direct Sales of R28 million (2017: loss R45 million) has reduced slightly from the previous year as the business has grown. The loss in the Digital business of R187 million (2017: loss R121 million) has increased, reflecting the charge of the upfront expenses as the business is established. The loss in the Corporate centre of R164 million (2017: loss R443 million) has reduced significantly as a result of strategic initiatives to optimise the balance sheet, including the buybacks of liabilities as further elaborated on the Liquidity and funding section on page 49.

49

INCOME STATEMENT BY STRATEGIC FOCUS AREA for the year ended 30 September 2018

Rm	Branch network	Direct Sales	Digital	Corporate	Total
Interest income on advances	6 077	138	–		6 215
Non-interest income	1 113	12	–	571	1 696
TOTAL INCOME	7 191	150	–	571	7 911
Credit impairment charge	(3 087)	(66)	–		(3 153)
INTEREST AFTER IMPAIRMENT	4 104	84	–	571	4 758
Other interest income	546	17	–	(82)	481
Interest expense and similar charges	(1 839)	(58)	–	(181)	(2 078)
NET INTEREST INCOME	2 810	43	–	308	3 161
Operating expenditure	(1 658)	(113)	(253)	(590)	(2 615)
Indirect taxation	(53)	(3)	(6)	(3)	(65)
Insurance income	940	34			972
OPERATING PROFIT	2 040	(39)	(260)	(285)	1 453
Foreign exchange losses on net open position	–	–	–	6	6
Taxation	(640)	11	73	115	(441)
NET PROFIT AFTER TAXATION	1 400	(28)	(187)	(164)	1 019
RETURN ON EQUITY (%)	21.0%				
			10,6%		

The negative interest margin associated with the cash balance allocated to the Branch Network and Direct Sales has been allocated to Corporate for this analysis.

2018

THE BRANCH NETWORK
GENERATED AN OPERATING
PROFIT OF

Rm 2 040

Net profit after tax of R1 400 million

2017

THE BRANCH NETWORK
GENERATED AN OPERATING
PROFIT OF

Rm 1 937

Net profit after tax of R1 395 million

INCOME STATEMENT BY STRATEGIC FOCUS AREA for the year ended 30 September 2017

Rm	Branch network	Direct Sales	Digital	Corporate	Total
Interest income on advances	6 169	59	—	—	6 228
Non-interest income	1 391	9	—	718	2 118
TOTAL INCOME ON ADVANCES	7 560	68	—	718	8 346
Credit impairment charge	(3 542)	(26)	—	—	(3 568)
INTEREST AFTER IMPAIRMENT	4 018	42	—	718	4 778
Other interest income	536	7	—	276	819
Interest expense and similar charges	(1 822)	(29)	—	(855)	(2 706)
NET INTEREST INCOME	2 731	21	—	139	2 891
Operating expenditure	(1 609)	(105)	(164)	(729)	(2 607)
Indirect taxation	(48)	(2)	(4)	(3)	(56)
Gain due to liability management	—	—	—	16	16
Insurance income	862	24	—	—	886
OPERATING PROFIT	1 937	(63)	(168)	(577)	1 130
Foreign exchange losses on net open position	—	—	—	(35)	(35)
Taxation	(542)	18	47	169	(309)
NET PROFIT AFTER TAXATION	1 395	(45)	(121)	(443)	786
RETURN ON EQUITY (%)	20.0%			9.0%	

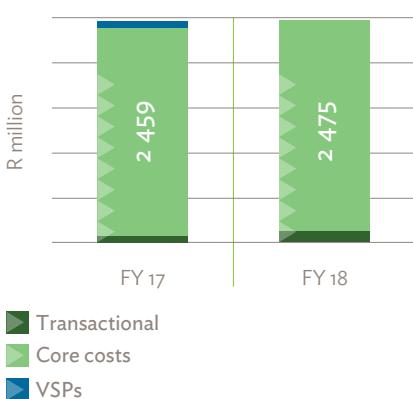
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OPERATING COSTS FLAT YEAR-ON-YEAR

African Bank remains extremely cost conscious, while recognising the need to make cost-effective investments in achieving our strategy. It is against this background that we are pleased to report that at R2 615 million (2017: R2 607 million) our operating expenditure increased marginally year-on-year. Tight cost control resulted in a cost-to-income ratio of 33% (2017: 31%).

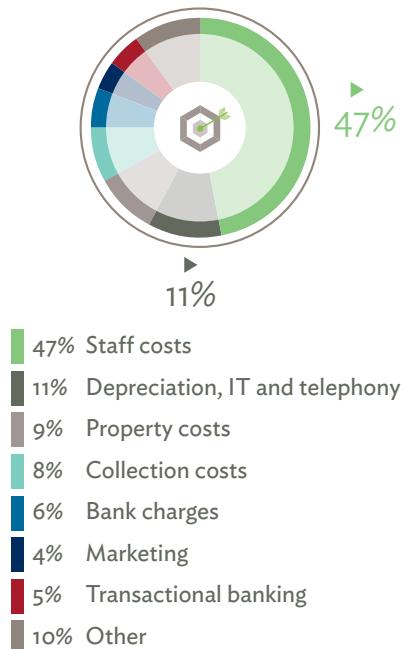
Core costs, or business as usual costs, at R2 475 million (2017: R2 459 million) were also largely flat year-on-year. This is excluding the impact of our investment in the transactional banking platform of R140 million in 2018. The core cost figure for 2017 excludes the impact of transactional banking costs of R79 million and voluntary severance payments (VSPs) of R67 million.

Operating expenditure



Employee costs made up 47% (2017: 45%) of our 2018 costs with depreciation, IT and telephony being the next highest expenditure category.

Operating costs FY 18



ENCOURAGING RESULTS WITH OUR CUSTOMER MIX PERCENTAGE

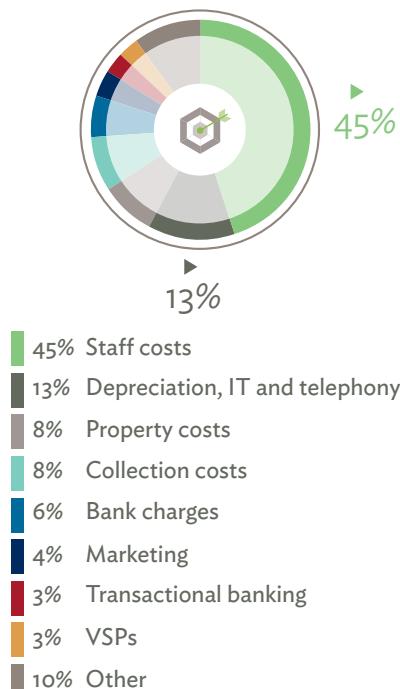
34%

OF THE NEW LOANS

the Bank has written during the year were for new customers

compared to 28% in the previous year

Operating costs FY 17



CREDIT BUSINESS OVERVIEW

While African Bank is delivering on its strategy and diversified business model, it continues to be a significant and responsible provider of unsecured credit, providing access to personal loans and credit cards for consumers in South Africa. In this section of the financial capital analysis we provide an overview of our credit business including an analysis of the new business volumes, risk emergence and the credit quality of the customer retail advances.

Improved new business volumes

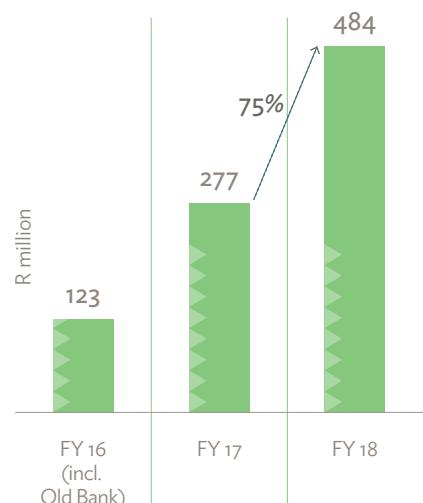
New loan and credit card business written for the year under review was R9 656 million (2017: R7 989 million), represents an increase of 21% year-on-year, with the Direct Sales channel contributing R484 million (2017: R277 million), an increase of 75% on the previous year. The new web channel launched during the period contributed R136 million (2017: R Nil). The branch network increased new business disbursements by 17% to R9 037 million (2017: R7 712 million) from the prior period. This increase was as a result of branch network and distribution efficiencies being realised, and an increase in loan sizes resulting from a continued focus on lower risk customers qualifying for larger loans. The Group increased its maximum personal loan size to R250 000 during the year under review. The first graph depicts the three-year trend for credit disbursements across all channels, while the second graph shows the growth in the disbursements through the Direct Sales channel.

The positive growth in the Direct Sales new business disbursements is shown in the graph below

New Credit disbursements



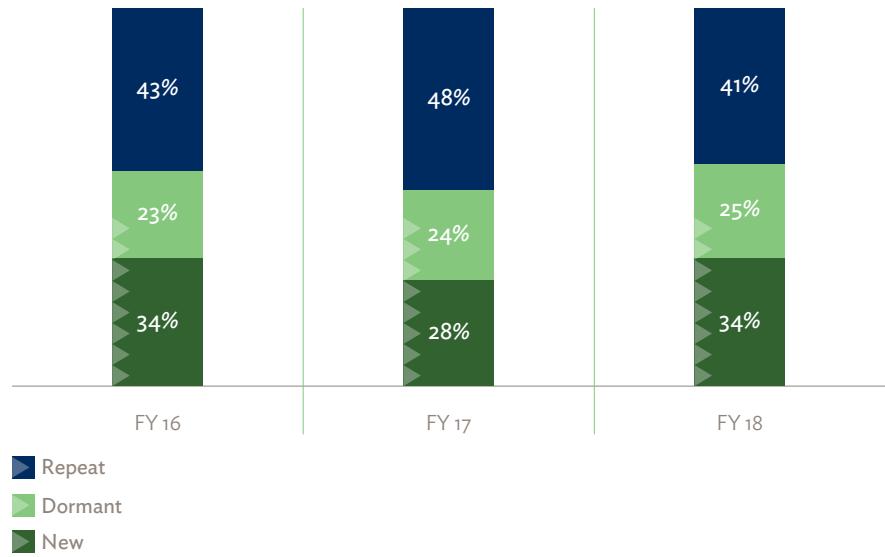
Direct Sales disbursements



Increasing new customer proportion

The graph below shows the half yearly split of the Bank's retail lending customers over the last three years, split between 'New', 'Dormant', and 'Repeat' customers. New customers have not previously had a loan or a credit card with the Bank, while dormant customers do not have a loan or credit card with the Bank at time of application. Repeat customers have an existing loan or credit card with the Bank at time of application.

Total bank customer split by year - number of customers



In conjunction with the pull back in risk over the past two years, African Bank has also focused on amending its distribution network, through the more effective use of the Direct Sales channel and also through targeted marketing campaigns, to attract lower risk customers from higher LSM groups to the Bank. These efforts are starting to show encouraging results with our customer mix percentage, as measured on a semi-annual basis over the past two years, showing an increased percentage of new customers. The reduction in new customers during the 2017 financial year was as a result of the pull back in risk from September 2016, which resulted in the exclusion of certain customer groupings. Thirty four percent of the new loans the Bank has written during the year ended 30 September 2018 were for new customers, compared to 28% in the previous year.

Advances overview

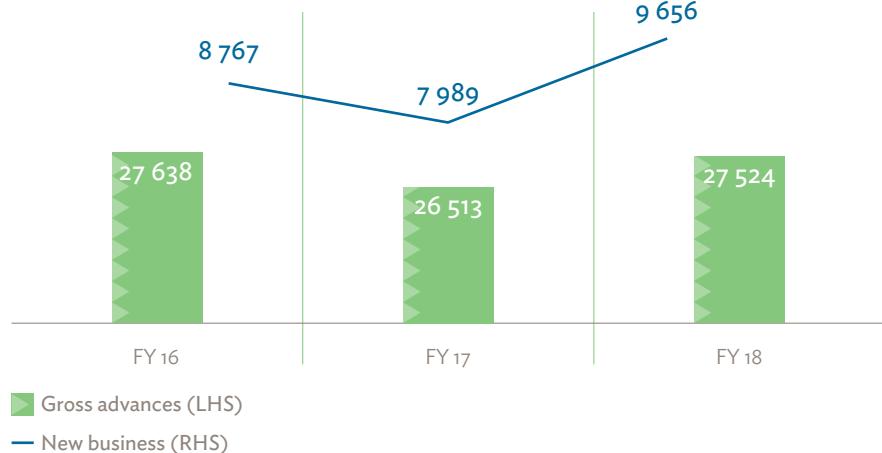
The gross advances book amounted to R27 524 million (2017: R26 513 million) representing an increase of 4% from the previous year. Increased new credit disbursements contributed positively to the growth in gross advances. The adjacent graph shows the six-monthly reported gross advances balances against the new business written on an annual basis. The decline during the year to 30 September 2017 was accentuated due to a more conservative write-off policy, whereby accounts where no repayment had been received for five months were fully impaired, as opposed to a six-month requirement previously.

The impact of the various components driving the change in advances is shown in the adjacent gross advances waterfall. The new business payouts comprise net new loan disbursements but excluding any settlement and readvance (SRA) amounts and credit card utilisation.

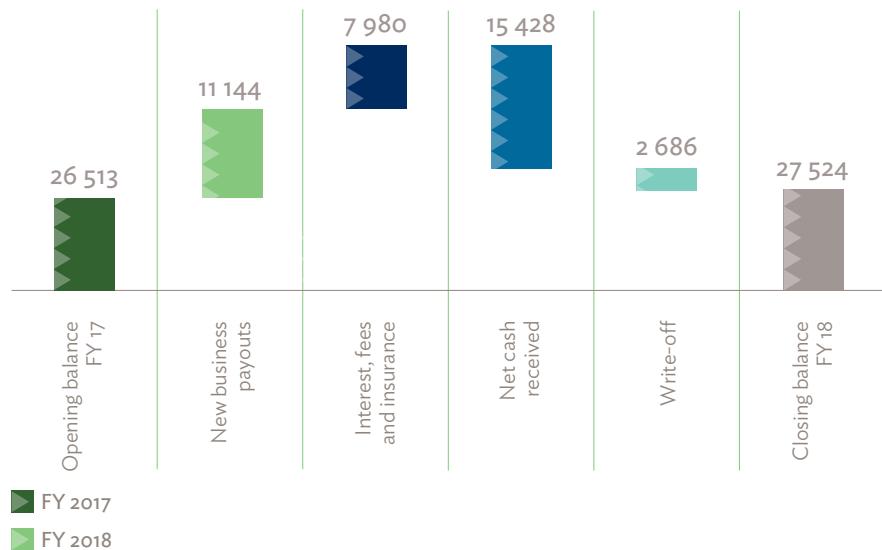
Net cash received, net of any SRAs and including credit card repayments and write-offs, decreased gross advances.

New business payouts (R11 444 million) differ from new business payments under the Advances overview above (R9 656 million) as the latter includes new credit cards issued and limit increases, as opposed to credit card utilisation. Net cash received includes all personal loan and credit card repayments but excludes amounts on new loans used to settle existing African Bank debt.

Advances and new business



Gross advances FY 2018 (R million)

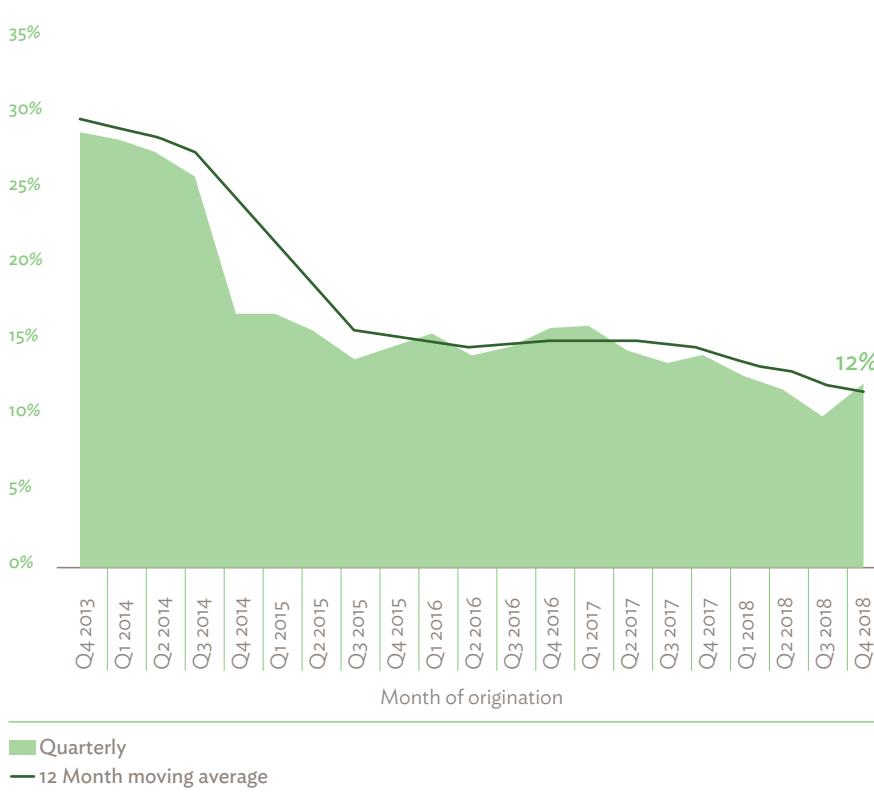


Disbursements used to settle existing debt

In certain limited instances a proportion of a new personal loan granted is used to settle an existing African Bank personal loan, this type of loan is typically referred to as an SRA, as the original personal loan is settled and there is a readvance of the difference between the new gross personal loan approved and the amount settled on the original personal loan. This practice is relatively commonplace in the South African unsecured lending market, however, its application varies significantly between credit providers.

African Bank will only consider a customer for an SRA after the original loan has been on its book for six months or longer. This rule was put in place in the old African Bank in June 2014 and is the primary reason for the decrease in SRAs over the last four years. Furthermore, SRAs are only granted to low risk customers in good standing. The Bank does not charge an origination fee on any part of the SRA personal loan. The Bank recognises there is a risk that an improper application of SRAs can disguise the true nature of the advanced book over time and has implemented controls over SRAs to manage this risk. The implementation of these controls has therefore significantly reduced the proportion of SRAs from just under 30% to 12% of the total gross disbursements when measured on a 12-month moving average basis, as shown in the graph below.

Proportion of gross disbursements to settle existing debt



Quality of new business

The conservative and generally more risk averse changes in the credit underwriting criteria applied by the Bank typically result in lower volume but better quality new business being put on book. While the added focus on marketing, sales and distribution in conjunction with the successful launch and development of the non-traditional channels such as Direct Sales and web-based origination have begun to influence new business volumes positively, this has not been at the expense of the quality of the business that has been put on book.



**LOWER VOLUME
BUT BETTER
QUALITY NEW
BUSINESS**



**DIRECT SALES AND
WEB-BASED
ORIGINATION HAVE
BEGUN TO POSITIVELY
INFLUENCE NEW
BUSINESS VOLUMES**

Quality of new business continued

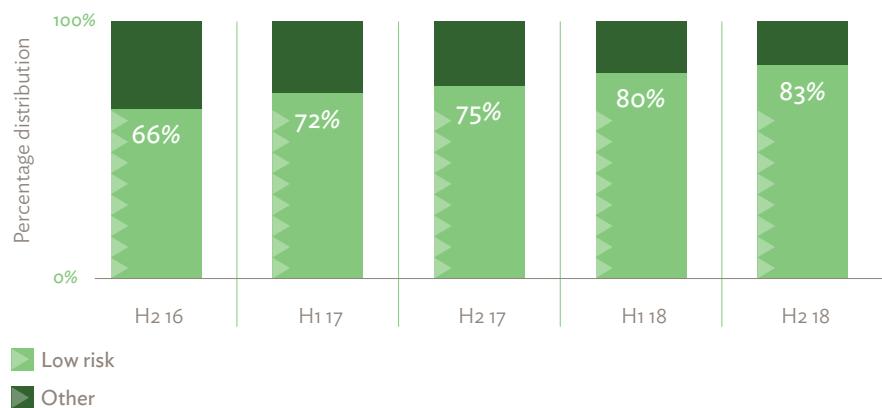
The graph shows the increased and consistent better quality business being put on book, as measured on a six-monthly basis. Since September 2016, as a result of the significant tightening in underwriting standards as at that date, well over 80% of new business written has been to the best five (out of 22) risk bands. This is reflected as the 'low risk distribution' in the graph alongside.

Risk band distribution at origination (semi-annual)



The shift to better low risk customers has also had a positive impact on the composition of the overall book on the balance sheet, with 83% of the gross advances balance as at 30 September 2018 representing low risk customers. This number has increased significantly from 66% as at 30 September 2016.

Risk band distribution at reporting date (semi-annual)



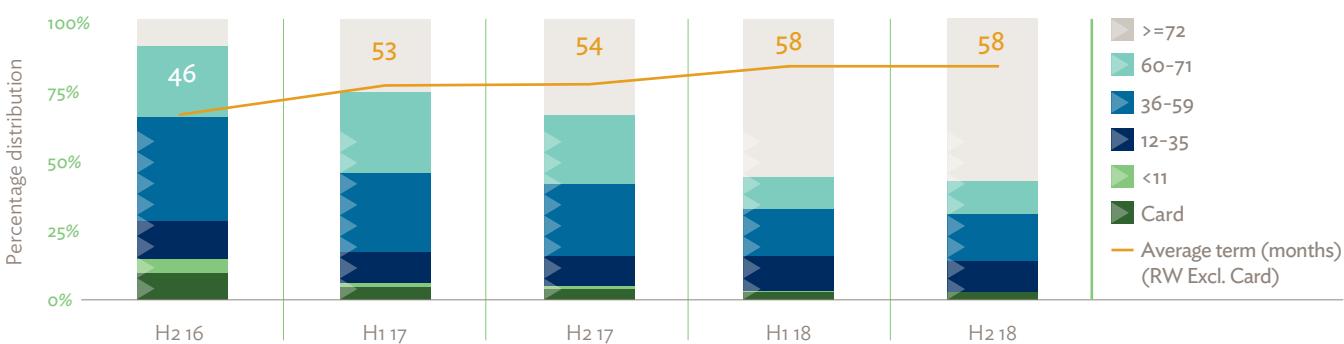
Loan size and loan term

Lower risk customers typically qualify for better personal loan offers. These normally result in larger and longer-term loans. Consistent with the industry as a whole, African Bank has seen a shift towards larger and longer-term personal loans as it has concentrated on these lower risk customers. The average loan size and loan term is shown on a half-yearly basis in the two graphs below.

Loan size disbursements (half yearly)



Loan term distribution (half yearly)



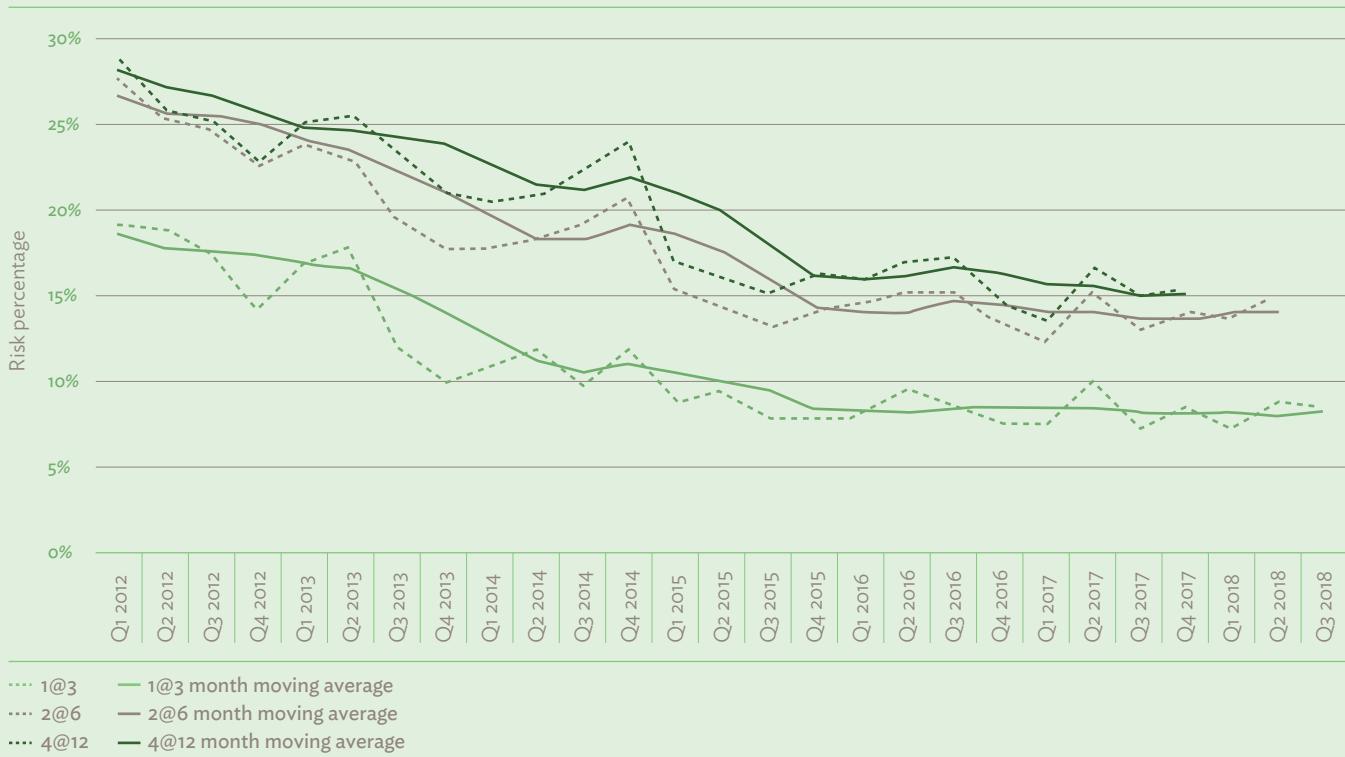
RISK EMERGENCE TRENDS

The Bank monitors credit risk very closely. Overall, credit risk emergence is summarised in the vintage analysis below. This graph compares the level of arrears of consecutive quarterly origination vintages at a similar maturity, or month-on-book. The portfolio analysed comprises all the loans granted by the old African Bank until 4 April 2016, and those granted thereafter by the new African Bank. Three comparisons by tranche of business originated on a quarterly basis are shown: the percentage of accounts with any missed instalments as at three months-on-book; the percentage of accounts with two or more missed instalments as at six months-on-book; and the percentage of accounts with four or more instalments as at 12 months-on-book. The solid lines refer to 12-month moving averages, which highlight trends where these are distorted by the periodic volatility.

The portfolio analysed comprises
ALL THE LOANS GRANTED
by the old African Bank until
4 April 2016, and those granted
thereafter by the new African Bank



Quarterly early risk emergence trends (total book)



More recent origination tranches, particularly those from 2014 onwards, continue to reflect lower risk. It is also apparent that the current risk experience continues to trend significantly lower than at the beginning of the observation period.

PROVISIONING AND IMPAIRMENTS

Methodology

We apply the same methodology to both our loan and credit card portfolios to determine the level of credit provisioning and impairment required on each and every debtor. The Bank uses contractual delinquency (CD) classification to identify the type of impairment to be calculated within the portfolio. CD is defined as the total contracted-for receivable to date, less cash actually received, divided by the original contractual instalment. The result is then rounded up to the closest whole number (i.e. CD 0.1 or even one cent) is categorised as CD1)

The categories used to identify impairment

CD	Explanation of CD	Provision type
CD 0	Performing advances that are not past due and are within the original contractual terms	Incurred but not reported (IBNR)
CD 1-3	Advances where between one and three contractual instalments have been missed, or where instalments have been reduced after their contractual rate of repayment	Portfolio specific impairment (PSI)
CD 4+	Advances where four or more instalments have been missed	Specific impairment (SI)
CD 4 recency 5	More than four instalments have been missed and no payments have been received over the past five months	Fully impaired/written off

For advances categorised as CD 0, an impairment provision classified as incurred but not reported (IBNR) is raised. For all advances, where at least part of an instalment was missed (CD1 – >CD 4+), an impairment provision for the portfolio specific (PSI) and specific impairment (SI), dependant on the CD count, is raised. For all advances where more than four instalments have been missed and no payments have been received over the past five months, the entire advance is fully impaired and treated as written-off for accounting purposes. Any subsequent recoveries on these balances are reflected as bad debt recoveries.

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

The impairment charge for IBNR provision for CD 0 advances:

- Objective evidence of impairment over the emergence period
- Emergence period - also referred to as LEP (loss emergence period), which represents the Bank's estimate (for accounting purposes) of the average amount of time from the point at which a loss is incurred (but not yet identified) to the point at which the loss is observed and confirmed. The Bank currently utilises a 90-day emergence period
- In considering the occurrence of a loss event over the life of a loan, it is assumed that there is a constant risk of the loss event occurring at any point in the life of the loan.

The impairment charge for PSI and SI provision for CD 1 to CD 4+ advances is as follows:

- Segmentation is done on a delinquency basis, with each segment's advances being treated as a discrete portfolio, upon which an analysis of historically observed recoveries is performed, in order to develop a historical base for expected loss rates
- Derived statistics, based on actual experience, are used in plotting recovery values on a model curve that reflects the risk profile of the portfolio
- Recoveries are limited to 60 months for the purposes of calculating the impairment provisions.

For fully impaired/write-offs:

Advances greater than or equal to CD 4 and where payments have not been received for five months are fully impaired and netted off against the impairment allowance account for specific impairment. Such a write-off is recorded as an impairment through a direct reduction of carrying value of the financial asset to zero. Therefore, gross advances are reflected net of advances that have been written off.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce differences between loss estimates and actual loss experiences.

All impaired loans and advances are reviewed monthly. Any changes to the amount and timing of the expected future cash flows compared to previous estimates will result in a change to the charges for impairment of loans and advances in profit or loss, which affects retained earnings and available core equity tier capital, reducing available capital for both regulatory and economic capital calculations.

IFRS9

The Group will apply IFRS9 in its next financial year, categorising its advances into three stages as required. The description of the three stages for African Bank is as follows:

Stage 1: Financial assets for which credit risk has not significantly increased since initial recognition. These assets are still performing within original expectations as at origination.

Stage 2: Financial assets for which credit risk has significantly increased since initial recognition. This includes accounts that have missed payments but have not defaulted. In addition, under IFRS 9, even if an account has not missed any payments it could be classified as stage 2 based on a deterioration in its risk profile since initial recognition.

Stage 3: Financial assets which have defaulted (equivalent to IAS39 90 days past due assumption of default) but that have not yet reached write-off.

The requirements under IFRS9 require a revision of the write-off policy. The Group will provide an IFRS9 transition report as part of its results for the six months ended 31 March 2019, which we expect to be released during May 2019.

ADVANCES AND COVERAGE OVERVIEW BY CD BUCKET

An overview of the total book by arrears bucket and the provisioning levels by each bucket

Book split and size

	H1 2017 %	H2 2017 %	H1 2018 %	H2 2018 %
CD 0	52	53	53	53
CD 1-3	14	13	13	13
CD 4+	34	34	34	34
Total (Rm)	28 135	26 513	26 922	27 478
Written-off book (Rm)	12 271	13 384	13 314	12 279

The coverage ratios per the CD categories remained relatively constant across the last four reporting periods.

Coverage by CD bucket

	H1 2017 %	H2 2017 %	H1 2018 %	H2 2018 %
CD 0	5	5	6	5
CD 1-3	35	36	40	40
CD 4+	67	65	63	66
Total book	30.0	29.3	29.4	30.2

The impairment coverage remains adequate and consistent as the models that are used to calculate the coverage ratio are extensively back tested and are also benchmarked against our competitors.

The written-off book at R12.3 billion has zero value attributed to it on the Bank's consolidated statement of financial position.

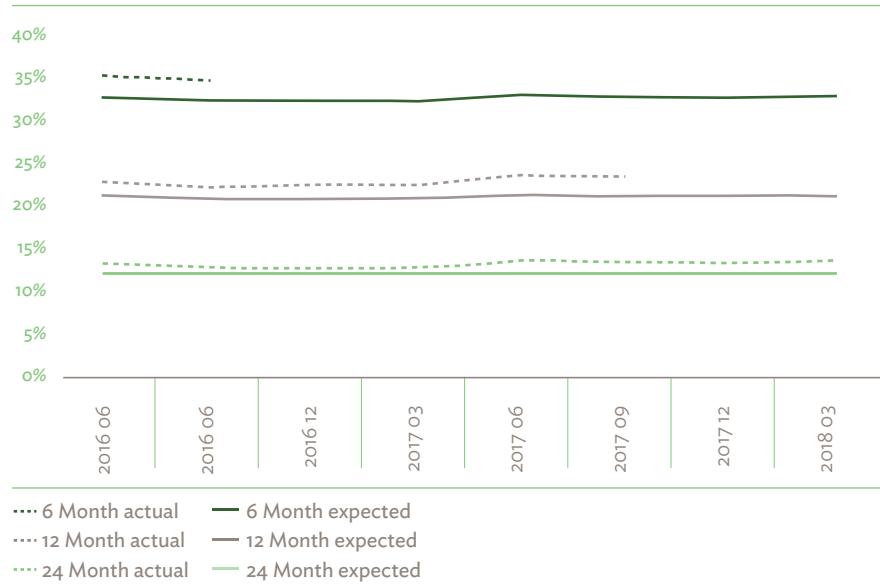


The graph below reflects the result of the back testing of the current models at each quarter end from June 2015 to current. The solid lines represent the expected collections on a discounted basis after the stated months on book, while the dotted lines represent the actual discounted collections. The numbers 6, 12 and 24 represent the monthly instalments due since the observation date. This data set represents the total arrears book on a consolidated basis. As can be seen from the graph, actual discounted receipts continue to outperform modelled discounted receipts, giving African Bank and its stakeholders comfort on the sufficiency of its provisioning and the accuracy (and level of conservatism of its provisioning models) over several years. Both these calculations are on a discounted basis, which is in line with IFRS compliant provisioning policy.

The back-testing results over an extended period against provisioning provide comfort on the adequacy of provisioning, especially during the adverse economic cycle experienced in recent years.

Actual vs expected cumulative discounted percentage of gross outstanding amount recovered

Overall actual vs expected by cycle



Collection on later contractual delinquencies

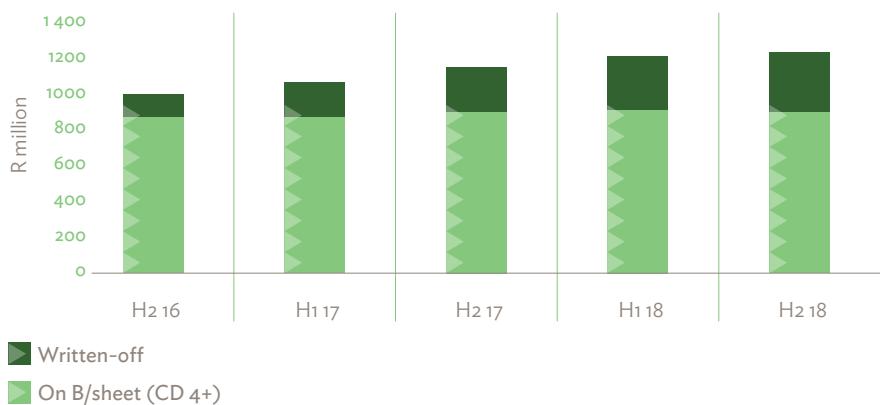
African Bank's write-off policy requires that all customer amounts on which there have been no collections for a period of five months are written off. The total of these amounts was R12.3 billion as at 30 September 2018. The balances reflected under the CD4+ category in the previous analysis, under 'Advances coverage overview by CD bucket', have all had receipts in the last five months before the reporting date, and therefore remain on balance sheet.

The proportion of CD 4+ balances has remained relatively constant and remain a feature of African Bank's advances balances, representing approximately 34% of the gross advances balance. While the back testing of the discounted

collections against the levels of provisioning provides the requisite level of comfort against the inclusion of the CD4+ balances on the balance sheet at the appropriate level of provisioning, it should also be noted that the actual collections against this delinquency bucket are significant.

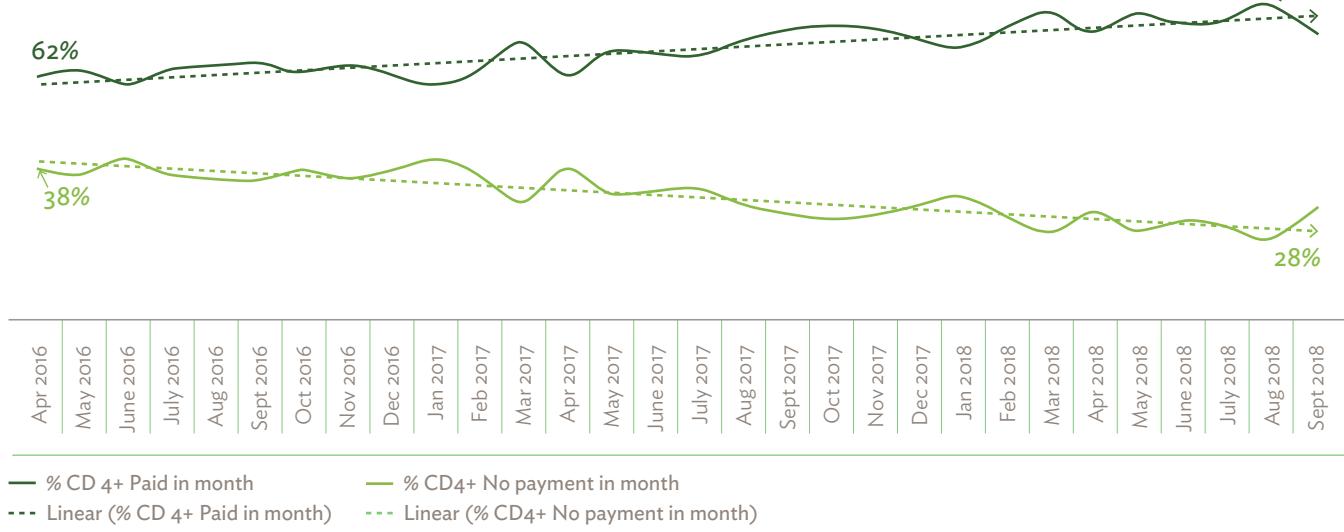
The following graph shows the quarterly collections on all CD4+ balances over the last 12 months, including both the written-off balances and the on balance sheet advances. The total collections over the year ended 30 September 2018 amounted to R2.6 billion (2017: R2.1 billion). The R0.8 billion is reflected as bad debts recovered, decreasing the impairment charge through time, while R1.8 billion is offset against the amount outstanding on the CD4+ balances.

Half-yearly collections CD4+ and written-off book

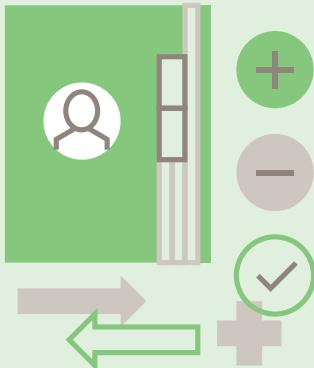


Increased efficiencies in the collections process have resulted in an increasing trend in the number of CD4+ customers paying when observed over a longer time period. This is shown in the graph below which measures the percentage of on balance sheet CD 4+ customers by number that are paying as per the blue lines, and those not as per the green lines. The number of customers paying has increased steadily over the period from 62% in April 2017 to its current level of over 72%, for September 2018.

Customers with CD 4+ monthly payment behaviour



AFRICAN BANK'S WRITE-OFF POLICY requires that all customer amounts on which there have been no collections for a period of five months are written off



Ro.8 billion

IS REFLECTED AS BAD DEBTS RECOVERED

while the R1.8 billion is offset against the amount outstanding on the CD4+ balances

72%
NUMBER OF CD4 CUSTOMERS PAYING

LIQUIDITY AND FUNDING

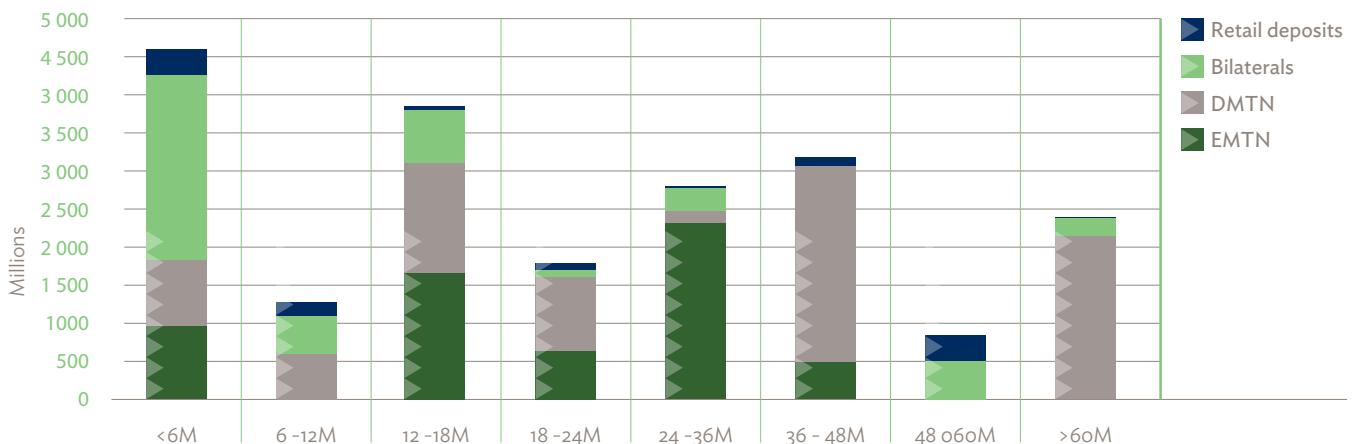
The Bank bought back bilateral deposits amounting to R2.0 billion during the year under review. The maturities of these deposits ranged from April 2018 to June 2019, further reducing the negative cost of carry, while not impacting the longer-term liquidity profile. Furthermore the Bank repaid maturing wholesale liabilities amounting to R2.2 billion between April and

September 2018. Under a largely neutral operational cash flow, the available cash on hand of R8.2 billion including surplus liquid assets is sufficient to more than cover the maturing liabilities of R5.9 billion for the next 12 months.

African Bank is faced with a maturing liquidity profile as the liabilities acquired through the restructuring of the old

African Bank matured from April 2018. The liability profile of these remaining liabilities, after debt buybacks to date, and including the R1 111 million retail deposits on book, as at 30 September 2018 is shown in the graph below.

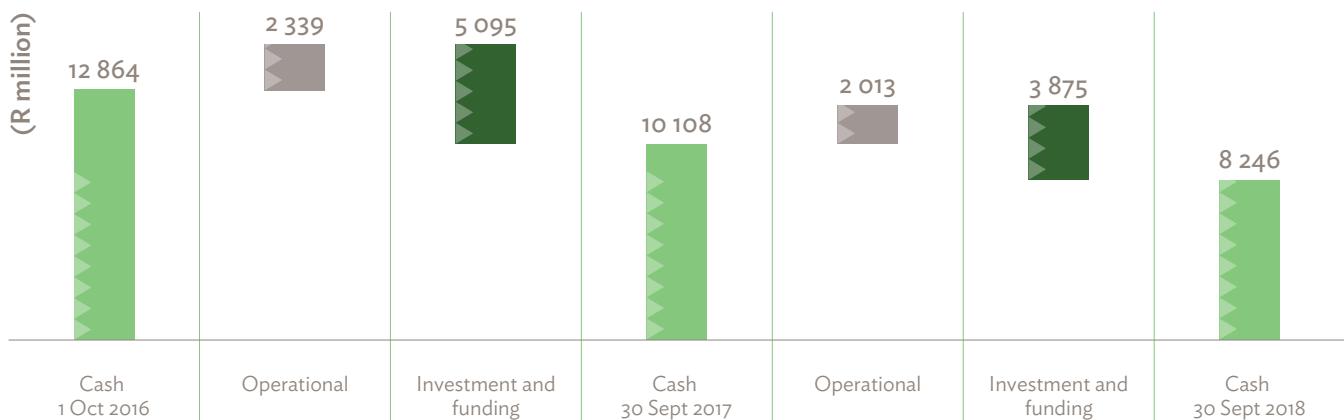
Maturity profile of funding liabilities



An analysis of the operational, cash flows including treasury interest paid and received and taxation and other payments over the current and prior financial years shows consistent positive cash generation over the period as the business has reported increasing profitability off a relatively static customers advances book and

decreasing wholesale liabilities and surplus cash. The analysis shows positive cash generation of R2.3 billion and R2.0 billion in 2017 and 2018, respectively. The major drivers for the positive operational cash flows are the fact that collections significantly exceed new credit business disbursements.

Annual cash flow summary



R m	FY 2016	FY 2017	FY 2018
Regulatory deposits and sovereign debt securities	1 237	4 722	2 130
Less statutory requirements	1 237	1 476	1 110
Surplus liquid assets	–	3 246	1 020
Cash and cash equivalents	12 864	6 862	7 226
Cash reserves	12 864	10 108	8 246
Beginning year balance		12 864	10 108
Operational cash flows		2 339	2 013
Investment and funding		(5 095)	(3 875)
Net cash outflow from financing activities		(5 092)	(4 215)
Net outflow from investing activities, excluding dividend received		(117)	(285)
Increase in customer deposits		201	751
Exchange rate movements on cash and cash equivalents		(87)	(126)
End of year balance		10 108	8 246

In order to address the future requirements in the subsequent periods, management has proactively engaged the shareholders of African Bank Holdings Limited to establish a shareholder-backed liquidity support

arrangement. Significant progress has been made towards finalising such an arrangement, which is being designed to support African Bank Limited's plans to reintegrate itself into the South African debt capital markets in due course.

Further announcements in this regard will be made once the arrangement has been finalised and becomes legally binding.

Retail savings deposits up over 200%

As part of African Bank's strategic objective to strengthen its balance sheet and improve our competitiveness, we are actively diversifying our funding base and targeting term retail deposits of up to five years. While the retail deposit business is still relatively new to the Bank, we have achieved significant success in growing our retail deposit book to R1 111 million as at 30 September 2018, an increase of 225% since 30 September 2017. Retail deposits now represent 5% (2017: 2%) of the Bank's total funding and are expected to continue to grow significantly allowing us to reach our target of 25% of non-wholesale funding by 2021. The number of retail depositors has increased from 9 246 to 15 404, while the average deposit has grown from approximately R36 881 to R72 059 over the same period.

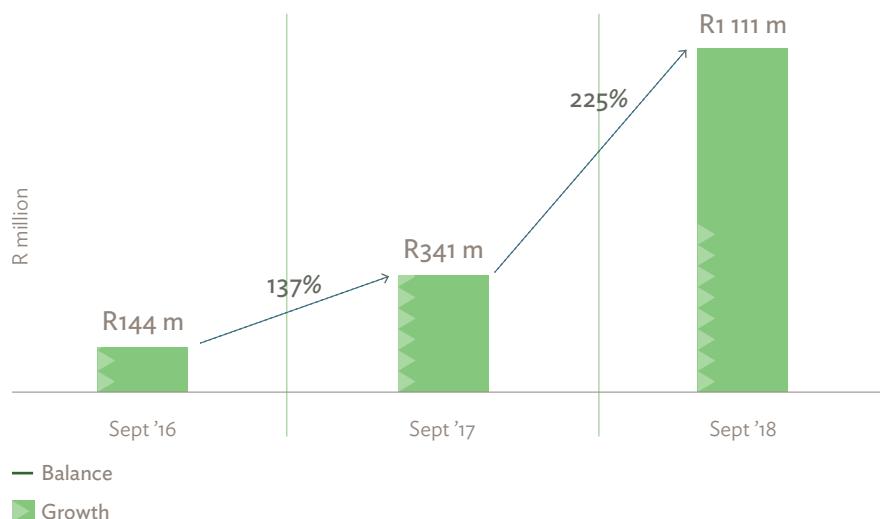
CAPITAL ADEQUACY

As at 30 September 2018 the African Bank reported a regulatory capital CET1/Tier 1 ratio of 31.5% and 34.9%, and a total ratio of 37.8% and 37.7%, at a Bank and Group level, respectively. Further detail regarding regulatory capital adequacy for the Group can be accessed in the Basel Pillar 3 disclosures published together with this report.

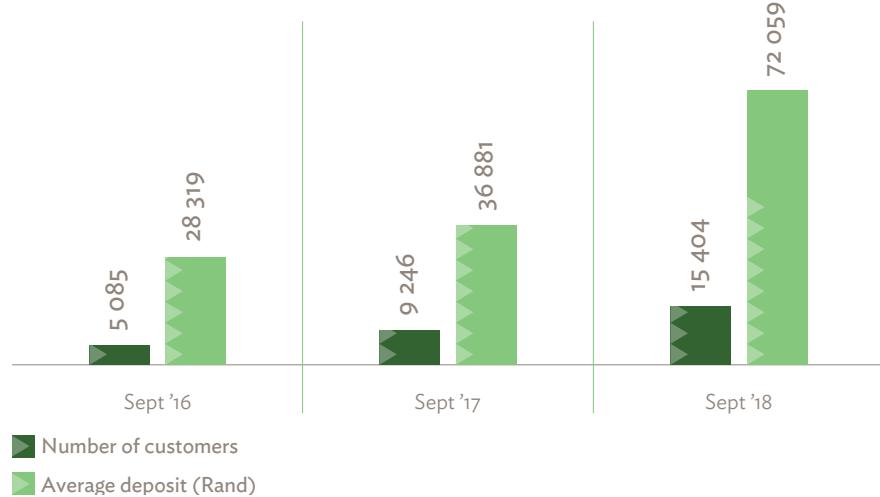
The Bank and the Group both remain well capitalised under IFRS, above the internal target CET1 level of 27% for Bank and Group, and above the target total levels of 33.5% for Bank and 31.5% for Group.

The actual capital adequacy ratios in excess of internal benchmarks, position the Group well for the anticipated impact of IFRS 9, which is expected to be approximately R0.8 billion, after tax, based on the composition of the book as at 30 September 2018. African Bank will implement IFRS 9 in its 2019 financial statements and publish an IFRS9 transition report incorporating the 1 October 2018 impact of IFRS 9 in the results for the six months ended 31 March 2019. The pro forma impact of IFRS9 on the regulatory capital adequacy ratios as at 30 September 2018 is shown in the right hand column of the adjacent graph.

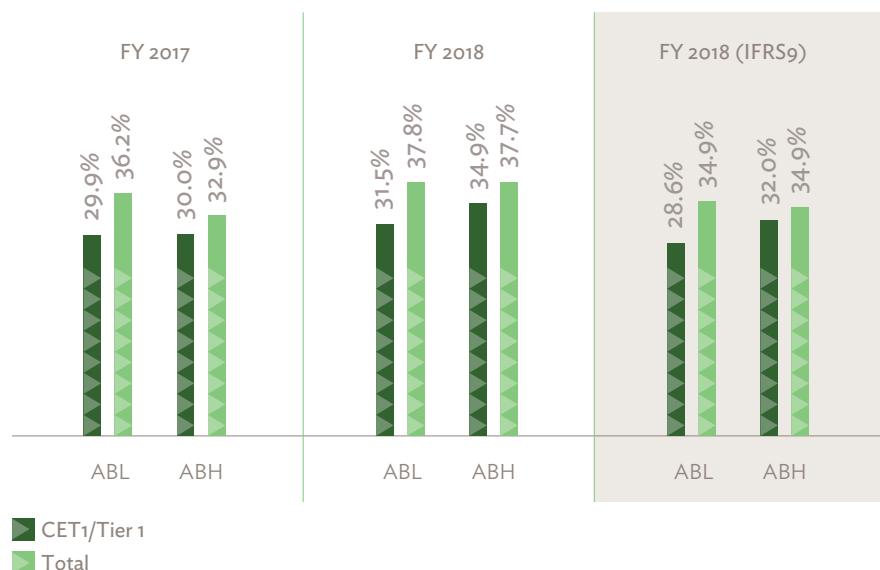
The growth in our retail deposit book



Growth in the number of customers and the average size of their deposits



Regulatory capital adequacy



CREDIT RATINGS

African Bank is rated by Standard & Poor's Rating Services (S&P). During July 2018, after recalibrating its national scale mapping table for South Africa, S&P reviewed its national scale credit ratings in respect of the financial institutions on which it maintains a public credit rating. As a result of this review, African Bank's long-term national scale rating was raised to zaA- from zaBBB, while the short-term national scale rating was retained at zaA-2.

The Bank's underlying credit quality was reviewed as part of its annual credit assessment during March 2018 where S&P noted the following significant points as part of their ratings review:

- the Bank's profitability had improved markedly over the year ended 30 September 2017, and this positive trend is likely to continue, supporting very strong capitalisation
- while the Bank's large liquid asset cushion and staggered funding maturities limit the near-term refinancing risk, long-term funding stability remains a concern
- the stable outlook on the global scale ratings reflects the opinion that, over the next 12-18 months, risks for the Bank remain limited due to improving profitability, very strong capitalisation, and low refinancing risk.

INSURANCE OPERATIONS

The Group has a cell captive agreement with Guardrisk, via African Insurance Group Limited, whereby insurance products sold by the Group are managed in the insurance cell captive. In accordance with IFRS the insurance cell captive is not consolidated. The holder of the shares in the cell captive, African Insurance Group Limited (InsureCo) is contractually obliged to invest additional capital in the cell to adhere to insurance capital adequacy requirements. Accordingly, InsureCo recognises the investment in the cell captive as an investment in insurance products. Any surplus capital profits in the cell captive in excess of minimum capital adequacy requirements accrue to African Insurance Group Limited. For purposes of the adjusted results the pre-tax profit of the cell of R972 million for the year ended 30 September 2018 (2017: R886 million) is included in the pre-tax profits for the Group.

As at the reporting date of 30 September 2018 the cell captive is well provided for with an IBNR reserve of R430 million (2017: R449 million) and is well capitalised at R382 million (2017: R650 million).

FOREIGN CURRENCY EXPOSURE

The Bank's foreign currency liabilities, as at 30 September 2018 including accrued interest, comprise USD275 million and CHF158 million denominated unsecured senior bonds, issued under its Euro Medium Term Note (EMTN) Programme, collectively referred to as EMTNs. As at the reporting date EMTNs are economically hedged by a combination of USD term cash deposits, USD and CHF call deposits and South African Sovereign USD denominated bonds. The deposits resulted in a materially effective economic hedge, and a long net open position as at the reporting date, due to the deposits earning a lower rate than the rate paid on the liabilities. This construct is hedged by holding a higher effective asset position than the liabilities and has resulted in a reported foreign currency gain of R6 million for the year ended 30 September 2018 (2017: loss R35 million), as the ZAR weakened against USD and CHF during the reporting period. The net long spot open position at 30 September 2018 was USD19 million and CHF15 million respectively.

The respective ZAR spot rates as at 30 September 2017 and 2018 are shown below.

ZAR spot rates	30 Sept 2018	30 Sept 2017
USD	14.15	13.52
CHF	14.50	13.95

AFRICAN BANK'S LONG-TERM NATIONAL SCALE RATING WAS RAISED to zaA- from zaBBB, while the short-term national scale rating was retained at zaA-2

THE GROUP HAS A CELL CAPTIVE AGREEMENT WITH GUARDRISK, via African Insurance Group Limited, whereby insurance products sold by the Group are managed in the insurance cell captive



THE GROUP'S HEDGED FOREIGN CURRENCY LIABILITIES, including accrued interest, comprise

USD275 million

and

CHF158 million

denominated unsecured senior bonds





20%

INCREASE IN OUR
CUSTOMER NPS®
YEAR-ON-YEAR

3000

OF OUR EMPLOYEES
OPENED MyWORLD
ACCOUNTS ON OUR
TRANSACTIONAL
BANKING PLATFORM

PRODUCTIVE CAPITAL



Our productive capital includes our buildings, our infrastructure and the goods we own or lease that make it possible for us to deliver products and services to our customers. It also includes these products and services. It is key to our sustainability and if we make good use of it our productive capital allows us to be flexible, innovative and increase the speed to market of our products and services.

The year under review has been a significant one in the evolution of African Bank from a single service bank to a customer-centric, full service digital bank during which we focused on achieving our strategic objectives of *advancing lives* by:

- Creating a culture, environment and way of working that puts the customer at the centre of everything we do
- Creating a culture of data centricity towards customer-centricity
- Surprising and delighting our customers with more than they expect of us, by connecting them to an integrated, multiproduct, multichannel experience
- Identifying and developing great partnerships
- Empowering/equipping our team with the skills necessary for new ways of working that will ensure we provide a new level of customer experience
- Strengthening our balance sheet to improve our competitiveness.



NUMBER OF BRANCHES IN EACH PROVINCE

Eastern Cape	26
Free State	18
Gauteng	139
KwaZulu-Natal	64
Limpopo	25
Mpumalanga	30
North West	25
Northern Cape	12
Western Cape	52

PREPARING FOR CHANGE

The initiatives we have invested in to equip the Bank to compete in an increasingly competitive and challenging environment included its replatforming, which by streamlining our processes and increasing efficiencies made it possible for us to achieve a 21.0% return on equity (RoE) in our branches in the year under review. We also upgraded our branches, closed some, opened new ones and gave our branch employees new uniforms.

A key step in our transformation journey and our efforts to meet the requirements of our banking licence is the introduction of transactional banking. Gearing up to ensure we are ready for this key step in the transformation of our business has been a key focus of ours during the year under review.

We needed to ensure that:

- our people have the skills and the necessary training (see page 64 of the human capital section of this report) to continue to exceed our customers' expectations (see page 91 of the relationship capital section of this report for details)
- our branches and branch network are well-positioned and designed to provide excellent customer experiences (see below)
- we create an exceptional transactional banking experience for our customers by partnering with an international fintech company and experienced providers of core transactional banking services to the South African banking industry (see page 67 of the intellectual capital section of this report for details)
- our fee structure is competitive and accessible for our customers.

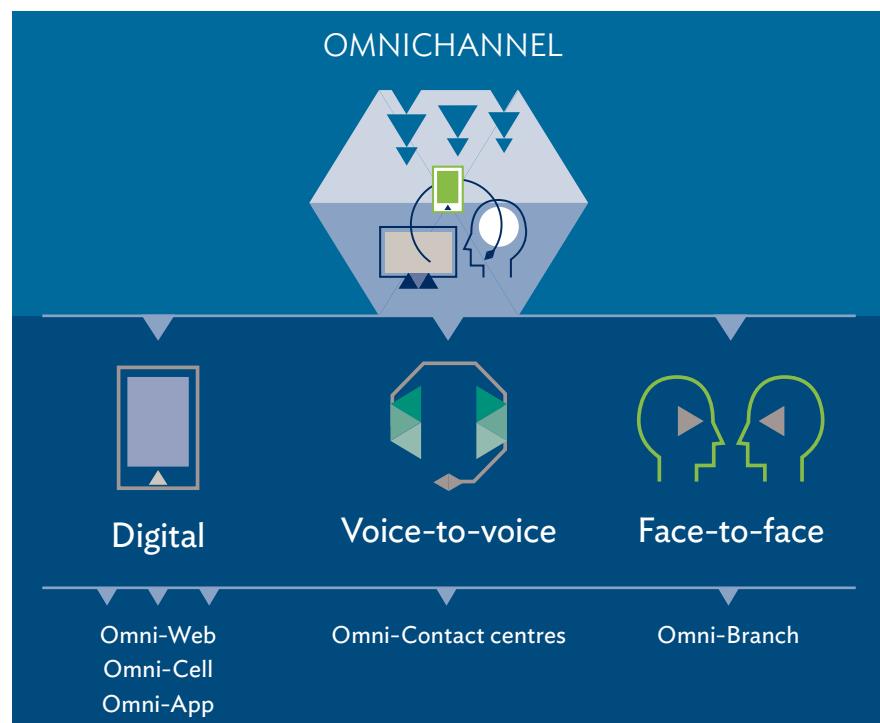
More than 80% of our employees have opened African Bank MyWORLD transactional banking accounts and have been operating these accounts on our system since April 2018.

Employees who serve customers in our branches and contact centres have also received training on the system and on omnichannel.

At the same time we have made good progress with the integration of our various channels that will provide our customers with a seamless, consistent omnichannel banking experience offering them the choice of banking with us using a mobile phone, the web, contacting a call centre, or by visiting one of our branches.

ENABLING SEAMLESS ENGAGEMENT THROUGH OUR OMNICHANNEL OFFERING

Some elements of our omnichannel are already in place. These include our website, contact centres and our branches. During 2019 using our digital technology platform we will be integrating all the elements of our omnichannel offering so that our customers can, if they wish, choose to begin a transaction in a digital channel and complete it through Direct Sales (voice-to-voice) and/or at a branch (face-to-face).



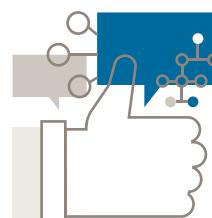
PREPARING OUR BRANCH CHANNEL FOR THE FUTURE

During the 2018 financial year we continued to review the positioning of our branches using geo-mapping, market propensity analysis and lifestyle data to assist us with the positioning and design of our branches. The changing Living Standards Measure (LSM) profiles of our customers has influenced the positioning of some of our new branches, which have been positioned to meet the needs of our changing client base.

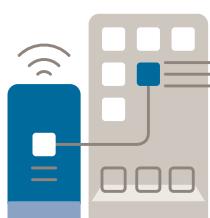
All our new branches showed a profit at year-end and overall our branch network achieved a return of 21%.

The feedback from the survey we conducted when we tested our branch of the future concept in the 2017 financial year was very positive and the learnings we gained from this feedback are being applied to our branches. We have also introduced additional furniture and components to meet the requirements for transactional banking, including a transactional banking service desk and a card printer so that we can issue cards in our branches.

**FEEDBACK ON THE
BRANCH OF THE
FUTURE WAS
POSITIVE**



WE INTRODUCED A CARD PRINTER SO WE CAN ISSUE CARDS IN OUR BRANCHES







The reception desk in the newly designed African Bank branch in Boulders, Midrand



A customer service desk dedicated to introducing customers to our new transactional banking offering is included in all our branches.

ON 30 SEPTEMBER 2018
AFRICAN BANK HAD

391

BRANCHES (2017:388)

PRODUCTIVE CAPITAL CONTINUED

THE ROLE OF OUR CONTACT CENTRE CHANNEL

The scores our contact centres achieved in the South African Consumer Satisfaction Index (Saci) at the end of 2017 were an indication of our ability to meet our customers' expectations and the levels of service we have been able to deliver through these centres. They were the highest scoring banking contact centres in terms of meeting customer expectations of overall quality; meeting needs and reliability; and customers' experience of the quality of our service and product delivery.

Our sales contact centres include an investment-specific contact centre serving customers contacting us via the Call Me Back function on our website. As we are able to process investment-related inquiries online through our digital channel supported by the contact centre customers no longer need to complete their investment transactions through our branch network.

BROADENING OUR INSURANCE OFFERING

While our joint venture with MMI Holdings did not deliver the value we had hoped, African Bank remains committed to its strategy of establishing insurance partnerships that will allow us to broaden the range of insurance products we can offer our customers and broaden our customer base.

The Bank's income from sales of its insurance products increased 10% year-on-year. Our funeral policy is proving to be particularly popular, with sales averaging around 3 000 a month. The policy was designed with our value of having empathy for our customers in mind and our commitment to giving our customers more than they expect of us. Customers receive a payout within 24 hours and their cover increases every six months while their premiums stay

the same. They can choose to cover up to 18 additional people on their policy and these can include family, friends or relatives.

PRODUCTS THAT ADVANCE LIVES

ADVANCING THE LIVES OF OUR CUSTOMERS

Thank you for giving me more value than I expect. It is good to know that you partner with Edcon to give me more value.

I would not be where I am now if it was not for African Bank. I am back on my feet again because of African Bank. You brought spring into my life.

I could finish building my house because of the loan you offered me.

A R10 000 loan could help me pay for my younger brother's school fees at MUT.

Sales of our Silver and Gold VISA-enabled credit cards averaged 1 600 a month in 2018. In addition to the advantage of our VISA-enabled cards being accepted by thousands of merchants, they offer customers up to 60 days interest-free credit on point of sale purchases if they settle their outstanding balances in full by the due date, free travel assistance and access to free online and mobile services.

Direct Sales for voice-to-voice sales

Recognising that customers want convenient, safe and easy to use banking channels we launched this sales channel through which, using a combination of digital (the Call Me Back facility on our website) and contact centre functionality, we originate and fulfil credit sales. Our investment in

Direct Sales, together with our new credit strategy and credit scorecard, is creating a compelling value proposition for our customers and a competitive advantage for African Bank through which we expect to access more affluent customers and increase our profitability (see page 41 of financial capital for more information).

Finding ways to offer more value than our customers expect

In the 2018 financial year we added Digital Planet to the range of retail partners with whom we have negotiated preferential deals for our customers. Our customers apply for credit from African Bank to meet a need they have. We researched what these needs are and identified a range of retail partners with whom we negotiated deals with the aim of adding value to our customers' lives. An example of how our new partner Digital Planet adds value to our customers' loans is by offering them a reduced price on a notebook bundle.

Encouraging savings through our investment product

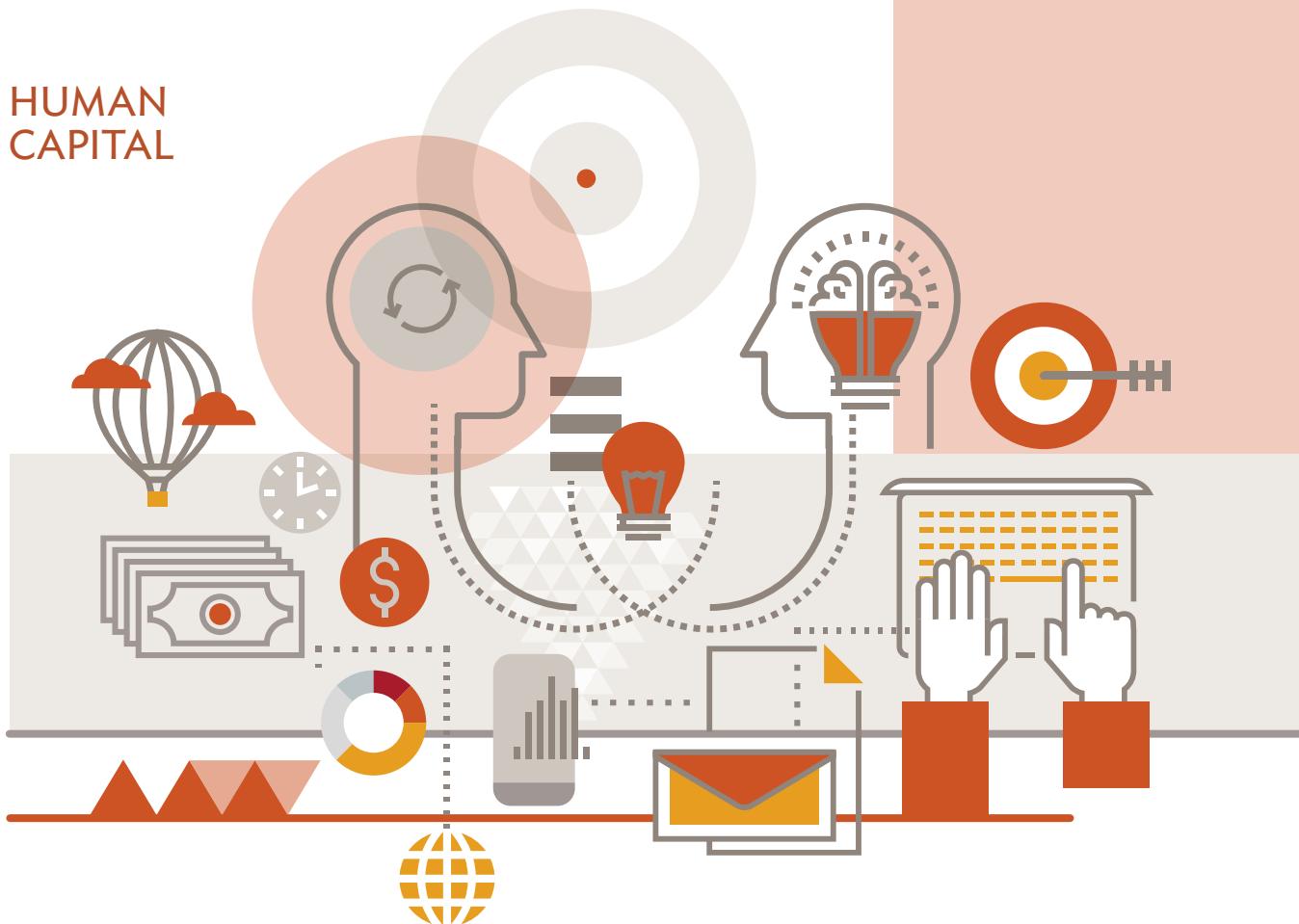
During the year under review sales of our retail investment products, initially introduced in the 2017 financial year, resulted in the Bank holding R1 111 million in retail deposits at year-end. These products, which include a tax-free savings product, a fixed deposit, a notice deposit and an accumulator product offer market leading interest rates. These products have attracted customers from a wide range of LSM groups.

The majority of these investment products (83%) have been sold through our branch channel, while our investment contact centre accounted for 12% of sales and our web channel for 5%.



The transaction desks in our new branch design.

HUMAN CAPITAL



Our human capital is made up of our people's competencies, capabilities and experience, their motivation to innovate, and their commitment to *Advancing lives* by achieving our strategic objectives and applying our values (see page 05).

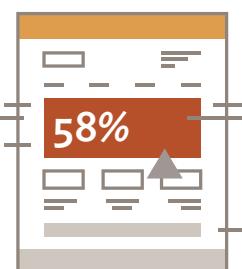
The process of changing the culture in African Bank continues. In the previous financial year we aligned our employees' behaviour towards our customers with our K₃ commitment to being a responsible corporate citizen. To align the Bank's treatment of its employees with the way we wanted them to treat our customers, we improved our employee value proposition, upgraded their work environment and provided our branch employees with new uniforms. We gave our branch employees mobile phones on which an African Bank communication app is loaded to facilitate our communication with them. We have also upgraded our head office, refreshed the canteen, provided enabling spaces, a gym and a shuttle service.

In the year under review while we continued to focus on developing the culture we have chosen for African Bank, which is underpinned by our five values, we also needed to prepare our people for the changes involved in becoming an omnichannel transactional bank. It was critical for us to ensure that not only do our employees have the necessary technical skills (see page 64) but that they also have an understanding of what will change, what the changes will mean for them, and what they need to do to facilitate these changes.

58%

OF OUR EMPLOYEES TOLD US
THEY WERE FULLY ENGAGED
IN 2018

compared to the industry
average of 38%



ESTABLISHING AN ETHICAL CULTURE

Our Code of Ethics was refreshed during the 2018 financial year and to make sure our people understand the Code, what is expected of them, the difference between ethical and unethical behaviour and how to report behaviour they think may be unethical, we provided extensive training on the Code. We also revisited our whistleblowing policy, which clearly states how we protect whistle-blowers. Our Board-approved Treating Customers Fairly policy and our Treating Customers Fairly initiative are an important part of our efforts to establish an ethical culture (see page 68 of intellectual capital for more information). We are pleased that our efforts towards establishing an ethical culture have resulted in our employees feeling comfortable to report their suspicions of unethical behaviour and to engage with our ethics office. Our employees' reporting of suspected unethical behaviour increased during the year under review (see page 68 of intellectual capital for information K₁ on our application of King IV Principle 1 regarding ethical leadership and K₂ Principle 2 regarding governing ethics in a way that supports the establishment of an ethical culture).

PROMOTING EXCELLENCE

Our Shining Stars programme initially recognises employees at departmental level, based on their performance against their achievement criteria. Those employees recognised as stars at departmental level then take part in the Bank level programme. At Bank level two Shining Stars are chosen in the category into which most of our employees fall and one employee is chosen from the other categories. This happens three times a year. The five stars who are selected, have lunch with the Chief Executive Officer and the Group Executive: Human Capital, receive invitations to company events and are treated like VIPs during the period that they are Shining Stars. The 15 Shining Stars recognised during the year are invited to a year-end function at which one winner per category is announced. The winners receive a trophy and a prize. The prizes range from an overseas trip to attending a training course overseas.

EMPLOYEE BENEFITS

The benefits we provide our employees over and above the legally mandated employee benefits are intended to support employees' physical and financial wellness and encourage them to study with the aim of furthering their career. They include:

- subsidised medical aid
- substantial death and disability benefits
- a provident fund (contributions calculated on the employees' full package with the aim of encouraging our people to save for their retirement)
- staff loans at preferential rates
- five days of paternity leave
- bursaries for studies relevant to our business

When we identified that some of our employees needed help finding a way to buy their own homes, we partnered with an organisation that helps them understand how they can qualify for a home loan and access the government's finance-linked individual subsidy programme.

Health and wellness benefits

We provide our employees with information on a range of health aspects and also hold regular health and wellness days for them. They also have access to the ICAS employee well-being programme (www.icas.co.za). During the year under review we provided our head office employees with gym facilities. In the regions where our employees don't have access to a gym we provide financial support for outside activities, such as running clubs, etc. The services of a general practitioner are also available to our head office employees once a week.

PERFORMANCE MANAGEMENT

The performance of all our employees is assessed annually against their agreed achievement criteria. Performance is measured against role appropriate key results areas (KRAs) contracted to at the beginning of each financial year. Performance reviews take place every six months and employees' performance against their KRAs inform their rewards.

In our contact centres our employees have monthly targets and they are rewarded for achieving their targets.

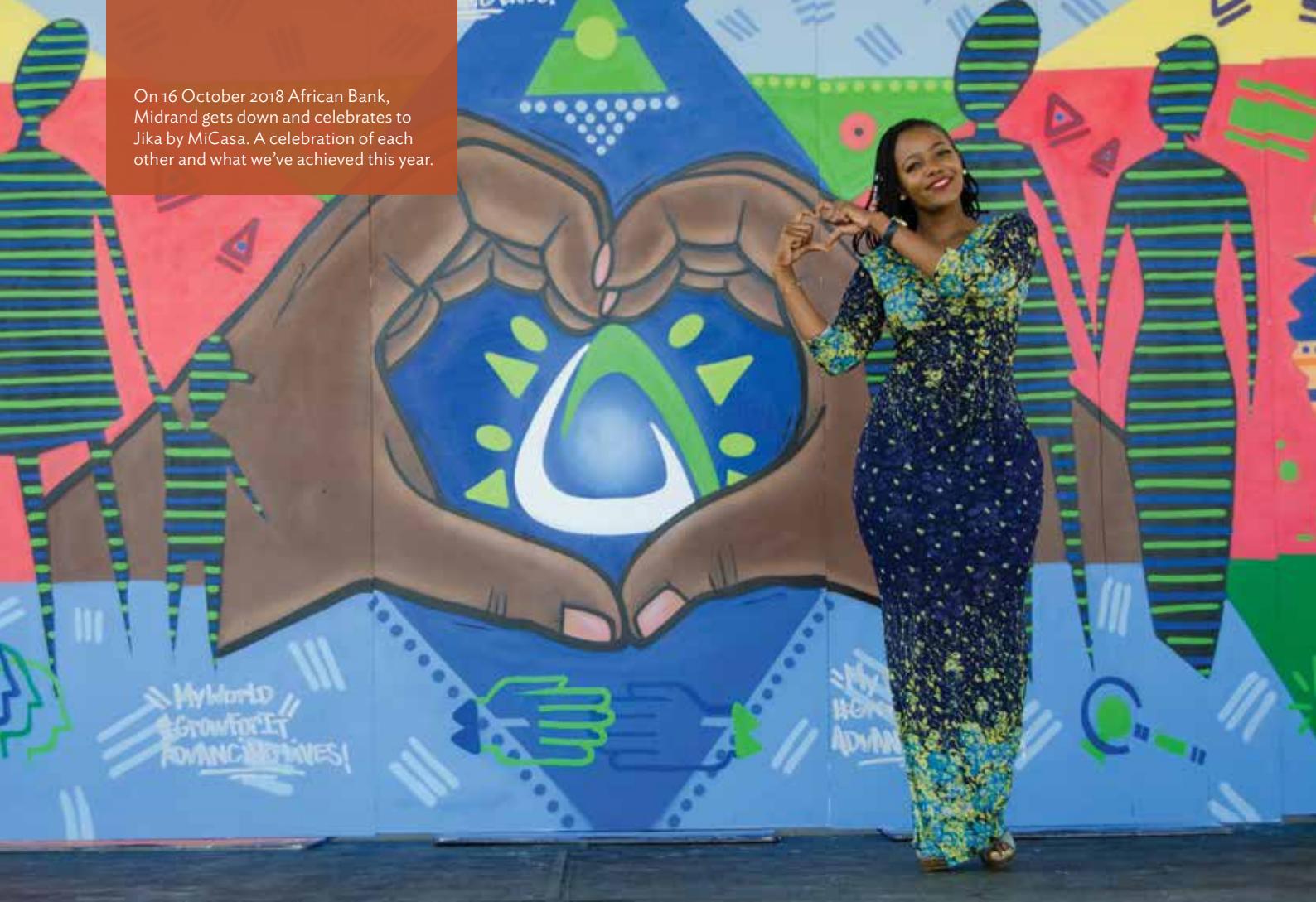
Management performance measurement

Our executive team members enter into performance contracts at the start of each financial year. The contracts of our executive team, including that of our Chief Executive Officer, are aligned to the strategic and performance objectives of the Group. In addition, the executives' performance contracts are also aligned to the KRAs of their individual business units. A milestone assessment of their performance takes place half way through the financial year and the final assessment takes place at financial year-end. These performance scores form the basis of the decisions made regarding annual salary increases and the awarding of short- and long-term incentives. The Directors' Affairs and Governance Committee approve the KRAs and remuneration packages of the Chief Executive Officer, the Chief Financial Officer and internal assurance providers.

Our leaders' performance against their KRAs is rated by their direct reports and peers by means of an annual leadership and values survey we conduct. In turn our employees are rated on their application of the Company values by their managers and peers.



On 16 October 2018 African Bank, Midrand gets down and celebrates to Jika by MiCasa. A celebration of each other and what we've achieved this year.



EMPLOYMENT EQUITY

During the previous financial year changes were made to our recruitment policy on the recommendation of our Employment Equity Committee whose members are elected by their business areas. The recruitment and promotion within the Group to senior, critical and scarce skills positions of non-employment equity candidates are subject to consultation with and approval by the Employment Equity Committee, the Human Capital Executive and the Chief Executive Officer. Any proposed appointment that does not meet our employment equity requirements has to be justified before it is approved.

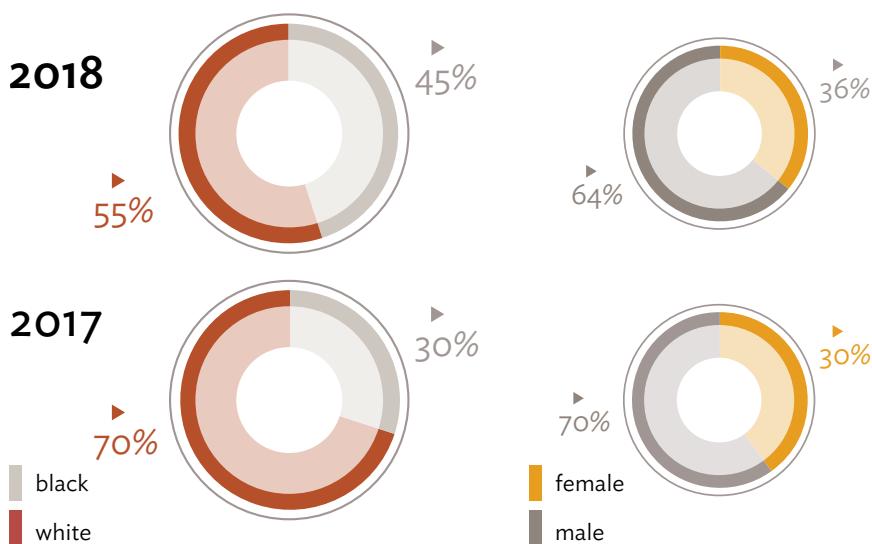
K₁₃

The Sustainability, Ethics and Transformation Committee (Setcom) reviews the Group's employment equity plans and monitors its performance against these plans.

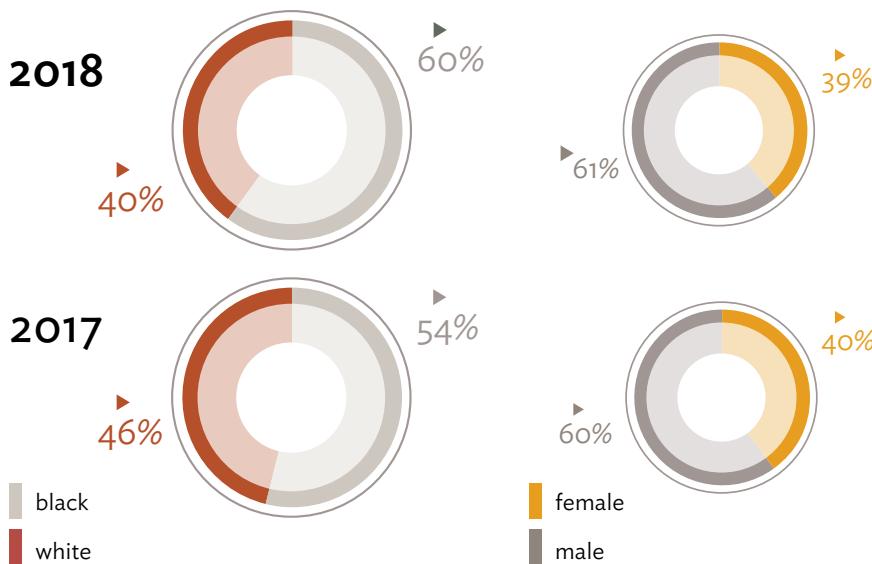
During the 2018 financial year we have been able to create opportunities for graduates not previously employed by recruiting 478 historically disadvantaged graduates as interns in our branches and into learnerships in our contact centres. This has created employment opportunities for graduates in the rural areas where job opportunities are very limited (see Learning and development on page 64 for information on the training these interns received). We hope to access external funding that will allow us to provide more previously disadvantaged graduates with intern opportunities in future and create a skills pipeline for ourselves and our industry.

EMPLOYMENT EQUITY STATISTICS

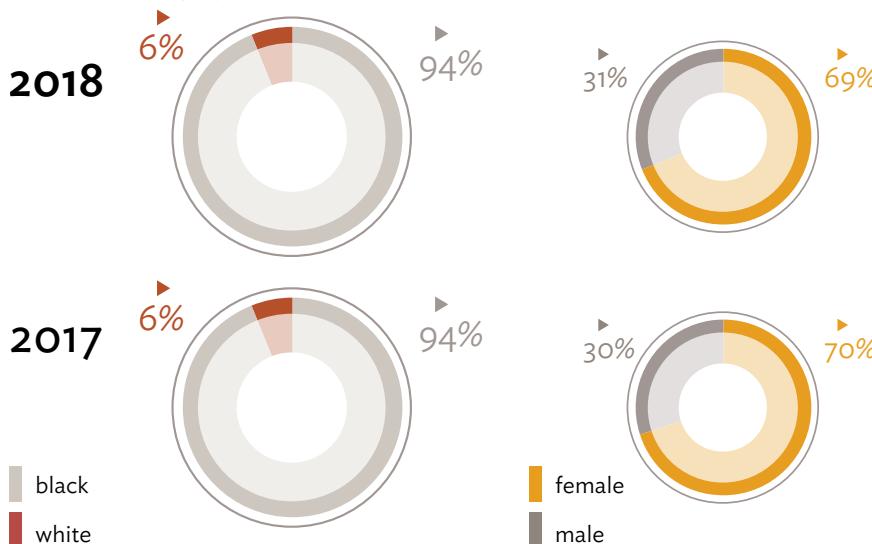
Executive Committee



Senior and middle management



Skilled technical, semi-skilled and unskilled employees



Total percentage of permanent employees who are black

2018 **92%** 2017 **90%**

Total percentage of employees who are female

2018 **66%** 2017 **67%**

EMPLOYEE STATISTICS

2018
(as at 30
September)

Permanent employees



3 438

2017
(as at 30
September)



3 348

Change year-on-year

3%

Non-permanent employees



428



50



= 478

interns in our branches

learnerships in our contact centres

478 young South Africans were given work opportunities

Total number of employees

2018



3 958

2017



3 403

(includes 42 seasonal, casual temporary workers)

Change year-on-year

16%

The voluntary turnover of permanent employees during the year is generally regarded as an indication of how satisfied employees are. In the year under review our permanent employee voluntary turnover was 8.78% (2017: 11.75%) of our total workforce.

LABOUR RELATIONS

In 2018 50.69% (1 742) of our permanent employees were members of Sasbo, and 56.09% (1 718) of the bargaining unit are members.

Our wage agreement with the union is renegotiated every year.

LEARNING AND DEVELOPMENT

Preparing our people for change

The focus of our training in the year under review was on preparing both our leadership and our employees for the introduction of omnichannel and transactional banking, as well as ensuring our employees all completed the requisite compliance training. As a result, we have had to postpone and review some of the 18-month learning plans we developed following the skills audit we completed in 2017. Once we are comfortable that our employees are sufficiently skilled to deliver an outstanding customer experience to all our customers, we will continue with these learning plans.

To support the big change in thinking required on our journey towards becoming an omnichannel retail bank we introduced leadershift sessions, which were attended by all our leaders. The purpose of these sessions was to change mindsets, move thinking in line with the milestones on our journey and ensure leaders understood what was going to change for their teams so they could prepare their people for the changes. Some of the leadership training we typically provide was rescheduled to allow for the leadershift programme.

Providing learning and development opportunities

We have been able to use the assistance we received from BANKSETA to provide previously disadvantaged employees with opportunities to study further with tertiary institutions. Their studies include business-related and law degrees and certificates in banking. The 362 interns we employed this year were provided with extensive internal training. This included Financial Advisory and Intermediary Services (FAIS) accreditation, which qualifies them for employment in the financial services industry, practical on-the-job training, service skills and systems and product training.

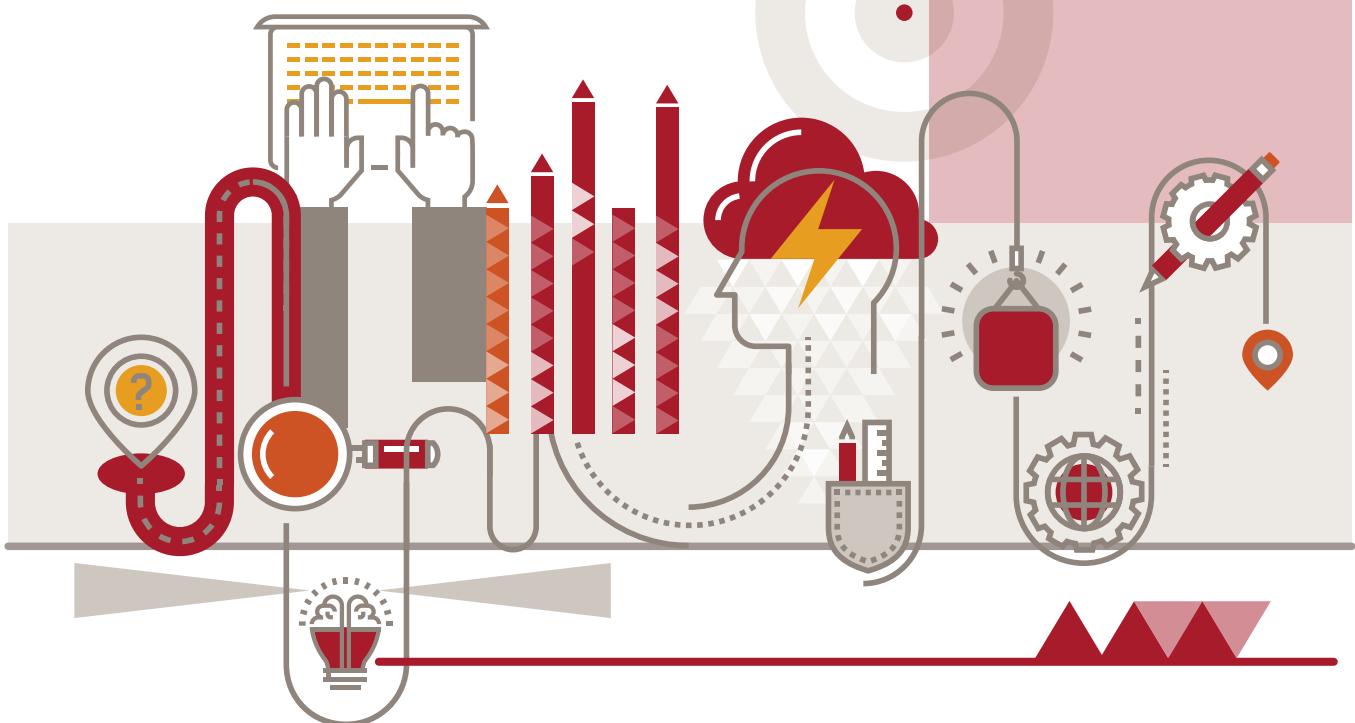




African Bank rocks Rocktober Day
16 October 2018 marked a company-wide celebration of each other and all that we've achieved this year.



INTELLECTUAL CAPITAL



Our intellectual capital is a key driver of our sustainable growth. It includes our organisational knowledge, culture, governance and leadership structures. It also includes our processes, approach to remuneration, risk and credit management, the systems that support and facilitate integrated thinking in the Bank, our ability to deliver on our business strategy and our all-important relationships.

Our economic value depends on how we manage and use these assets to extract value and make the best possible use of them. Leveraging our intellectual capital allows us to implement as effectively and efficiently as possible.

USING DATA SCIENCE TO BETTER PREDICT LENDING OUTCOMES

We believe that in today's world we win or lose on our ability to apply data science and leverage the knowledge and insights we gain to better understand our customers and to use this understanding and the capabilities we have in the organisation to optimise our value proposition to our customers and our balance sheet.

90% rating

THE DATA SCIENCE ACADEMY REVIEWED OUR CREDIT TEAM in 2018 against its data science maturity index and gave us an expert rating for 90% of their measures. The only measure for which we didn't get an expert rating was visualisation and communication.

Data science at African Bank is founded on a robust governance framework for risk models which ensures that model risk is appropriately mitigated while innovation is still strongly encouraged. The framework includes:

- a Model Risk Committee (MRC), first established in 2015 before the establishment of the new African Bank, to ensure that models used across the organisation are appropriately scrutinised and evaluated by experts and senior business stakeholders

- our enterprise risk management (ERM) process, which is applied to identify risks and opportunities and assure the modelling processes
- independent model validations, which are performed to ensure model reliability
- best practice which has been codified, shared and embedded across the analyst and data science community
- adoption of best practice ISO 20000 standard Credit IT change management practice which has improved change success rates and reduced implementation risk.

In 2015 we performed an end-to-end evaluation of our entire credit life cycle. Opportunities for improvement were identified, prioritised and to date we have reached the following significant milestones:

- Credit decisions that were previously spread throughout our workflow have now been fully centralised in a market-leading, award-winning credit decision solution designed in partnership with FICO, a global analytics group
- Our credit bureau strategy has been optimised to ensure that we extract maximum value from credit bureau data
- The scorecard segmentation and models have been redeveloped using an in-house, proprietary model development tool that allowed us to increase the scorecard ranking ability by 25%. This allows us to much better identify the right customers for our risk appetite
- In addition to National Credit Regulator (NCR) affordability requirements we have developed our own internal indebtedness models to determine a client's propensity to pay or to enter debt counselling. This allows us to optimise the offer we make to clients, taking into account their own individual circumstances while minimising credit risk
- We have introduced a take-up model, which enables the Bank to offer the best product to each individual with the highest potential value (i.e. prices, loan size offered, term offered, etc.)
- Using real-time pricing champion challengers we are able to determine how to optimally price our portfolio to achieve a win-win scenario for both our customers and African Bank
- The use of generic algorithms within an internally developed optimisation framework, presented at various industry-leading analytics conferences, has allowed us to find the optimal credit policy to be applied at an individual customer level. This incorporates various innovative models and an advanced understanding of

customer behaviour. The overall result is a significant increase in the risk segment where this strategy has been adopted.

- 40% sales lift to low risk customers achieved while controlling risk within risk appetite and target levels.

25% RELATIVE LIFT IN OUR APPLICATION SCORECARD RANKING ABILITY

Data science has contributed to the broader organisation by:

- assisting with improving customer service, which has resulted in increased conversions in our virtual channels. An engagement engine was developed and implemented and is used to interact with clients digitally to help them through the loan fulfillment process
- making it possible to analyse branch locations and profitability individually and providing models that help guide managers with productivity improvement, flag fraudulent behaviour, determine which branches should be closed and where new branches should be opened, further enhancing efficiency in our branch network
- optimising collections placement strategies using advanced analytical and financial modelling to increase net-of-cost collections across internal call centres, external debt collectors, tracers and attorney collections
- improving contactability across call centres by making better use of data sources
- implementing direct marketing models that ensure we target the right audience for credit and investments and maximise the value from our direct marketing spend
- enhancing customer profiling using machine-learning approaches.

Our data science capabilities have helped to improve the Bank's stability and profitability. The advent of transactional banking will provide us with additional information about our customers, which will further improve our ability to manage risk and enhance our value proposition to customers.

Managing the impact of a challenging and constantly changing economic environment

In the economic environment in which we are currently operating we can expect that variables will constantly shift. We monitor our scorecard and calculate the Gini coefficient every month.

We also continually feed information into our learning tool and test, learn, refine and develop outcomes.

The future impact of our new credit strategy

Our improved ability to predict our lending and the application of our new credit strategy and scorecard are enabling our omnichannel approach.

CREATING BUSINESS VALUE THROUGH OUR USE OF TECHNOLOGY

Our IT strategy is inextricably linked with our business strategy. The initial aim of our IT investment programme was to address IT governance and stability, which we achieved during the 2017 financial year. We also made significant investments in monitoring our security infrastructure and core banking platforms. These are essential building blocks in the enablement of our ambitious and exciting omnichannel approach.

Transforming and modernising

To support the Bank's growth, transformation and modernisation we aim to remain asset light and reduce our capital expenditure by leveraging service models that enhance value and reduce the total cost of ownership wherever possible, while ensuring we have the flexibility and agility we need to achieve our digital transformation. This approach allows for increased scalability and optimised licensing. We are assessing how best to leverage cloud technology to reduce costs and meet our needs. We also embarked on our paperless journey in 2017. The introduction of omnichannel will help us further reduce our use of paper as all our forms can now be completed online.

Our focus this year has been on delivering two key transforming and modernising technology projects: transactional banking and omnichannel. The addition of transactional banking to our existing credit and investment product offering allows us to achieve our strategic objective of becoming a retail bank. By introducing omnichannel we are able to offer our customers a choice of where and how they bank.

INTELLECTUAL CAPITAL CONTINUED

Our omnichannel offering will provide our customers with a seamless, uniform experience whether they are banking online, from a desktop or mobile device, or in a bricks and mortar branch. By the first quarter of 2019 our customers will be able to transact, apply for a loan and invest online using our omnichannel offering.

We commenced implementation of our omnichannel offering in 2017 and by April 2018 our employees were able to transact using our Omni-App. This has given our employees the opportunity to thoroughly test our transactional banking offering before it goes live to our customers. The process has also exposed our employees to the Omni-App customer experience. They have been able to identify issues that were referred back to the project team for resolution, which enabled continual improvement. They will also have the advantage of knowing the system well by the time they introduce it to our customers (see page 64 of Human capital for information on the change management and training initiatives we introduced during 2018 to ensure we are all prepared for the change that transforming into a retail bank will bring to African Bank).

64

OMNICHANNEL AT AFRICAN BANK – YOUR CHOICE OF WHERE AND HOW YOU BANK

(See page 55 of productive capital for details of our omnichannel offering)

CHOOSE HOW AND WHERE YOU:

Apply for credit



Invest



Transact



Cyber security

The frequency and severity of cyber attacks is an ongoing challenge for business as a whole, and the banking industry in particular. At African Bank we have not only made several key and innovative cyber security investments, both in terms of technology and employees, but we have also given a great deal of thought to the leadership decisions we may need to make in the type of crisis situation that could result from a cyber attack. Our security operations centre is manned 24 hours a day and we have partnered with specialists who assist with the monitoring of our exposure to cyber attacks. We have also implemented systems that allow our fraud team to monitor transactional fraud and transaction risk, while our IT security team monitors for cyber risk

and responsible corporate citizenship. We welcome the outcomes-driven approach to corporate governance of King IV, the latest update of the King IV Report on Corporate Governance principles, which provides us with the opportunity to assess whether our approach to corporate governance, an essential element of our intellectual capital, is facilitating:

- ethical and effective leadership
- an ethical culture
- responsible corporate citizenship
- accountability and effective control
- effective risk governance
- transparency that ensures our stakeholders are provided with the information they need to make informed decisions about our business
- value creation for all our stakeholders.

Towards achieving an ethical culture

By our application of:

Principle 1: The governing body should lead ethically and effectively and

Principle 2: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture

Our Board is ultimately responsible for ethical behaviour within the Group. To this end it approved the Group Code of Ethics (the Code) in 2016 and established the Sustainability, Ethics and Transformation Committee (Setcom) to which it delegated responsibility for ensuring the adequate formulation and implementation of policies and practices that support the establishment of an ethical culture in the Group. An Ethics Committee, that reports into the Setcom, forms part of our management governance structure. During 2018 the Ethics Committee and Setcom reviewed and revised the Code and the enhancement of the process to further embed the code and associated behaviours. In addition, as part of our efforts to continually improve the governance of behaviour and compliance in the Bank a new whistle-blowing policy was developed and approved by the Board in August 2018.

A Board-approved Treating Customers Fairly policy (TCF) and our TCF initiative are an important part of our efforts to establish an ethical culture in African Bank and ensure we achieve a key aspect of *Advancing Lives*, which is treating our customers fairly (see pages 91 and 95 of this report for more information in this connection).

91

CORPORATE GOVERNANCE THAT ENSURES AND PROTECTS VALUE

Assessing the effectiveness of our approach to corporate governance, our Board and management recognise that to achieve our central strategic objective of *Advancing lives* and to gain the trust of our stakeholders requires transparency, sound corporate governance, ethical business practices

Establishing an ethical culture is a key element of our focus on instilling a culture in the Bank that underpins the five values through which we seek to bring a greater degree of humanity to our banking.

The reporting of any suspicion of unethical behaviour is becoming entrenched in the Bank as our employees are developing an awareness of how important it is for us to establish an ethical culture. Their willingness to report their suspicions to the Ethics Office is an encouraging indication that they feel safe to do so. Our whistleblowing line, which allows for anonymous reporting and is available to both our internal and external stakeholders, is also well used (for more information see page 61 of this report).

Responsible corporate citizenship

By our application of:

Principle 3: The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen

Our Board and Setcom are responsible for ensuring the Bank is and is seen to be a responsible corporate citizen. The Setcom oversees the development of the policies and practices governing our corporate citizenship role and our performance as a responsible corporate citizen, by monitoring our performance with regard to the:

Workplace: Employment equity, fair and responsible remuneration and the safety, health and wellness, dignity and development of our employees; seeking feedback from our employees through the People Engagement Survey and, where appropriate, acting on this feedback (see pages 60 to 104 of this report for details).

Economy: Exercising responsible corporate citizenship by tightening our credit policy; implementing a refined credit scorecard and reducing our risk appetite; complying with legislation and regulations to address fraud and corruption by establishing an anti-money laundering (AML) function and an AML/countering financial terrorism (CFT) compliance risk management programme and system (see page 79 for details); responsible and transparent reporting and compliance with tax legislation.

Role of African Bank in society:

Advancing lives is at the core of our business strategy and our commitment to protecting the human rights of both our employees and our customers; ensuring we are treating customers fairly through our TCF programme and TCF Committee; seeking feedback from our customers through the NPS® and the South African Customer Satisfaction Index (SACSI) and, where appropriate, acting on this feedback (see page 93); the funding of community education and sports projects with measurable outcomes through the African Bank Development Trust (see page 84); and helping small, medium and micro enterprises (SMMEs) grow their businesses through a business accelerator initiative and mentoring programme provided by members of our management team (see page 89).

Environment: Implementing our Board-approved sustainability policy and an effective environmental management plan aimed at responsible management of our waste, increasing our energy efficiency, reducing our carbon footprint, including our IT carbon footprint, and conserving water (see page 100).

Achieving good performance

By our application of:

Principle 4: The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process

The Bank recognises that its activities and the outcomes of these activities can have both positive and negative impacts on the triple context (the economy, society and the environment) in which we operate and the capitals we employ in our business to create value for our stakeholders by achieving a good performance.

When we agreed our strategies, we assessed the risks and opportunities they present in relation to our risk appetite and risk tolerance, which take into account the triple context, and established our strategic scorecard and our financial, customer and people targets to be achieved by 2021. We measure our performance against these targets (see page 05 of this report). The business model we use to create economic value (see pages 22 and 23 of this report) incorporates the triple context and explains how we use our stock of the six capitals to create value.

We have made good progress with our Board-approved strategic plan intended to secure the Group's future. It includes creating a diversified bank by developing new products, new channels to market and a transactional banking offering using the latest technology (see page 67)

Our investment in the replatforming of the Bank's systems (the upgrading and repositioning of our branches to ensure their optimal location), allowed us to achieve a very pleasing return on equity in our branch network of 21% in the year under review.

Our commitment to creating social value includes our investment in internships, which has given unemployed graduates job opportunities and access to skills development not previously available to them. The focus of our efforts to address the social and economic needs of South Africa is on helping good performers to gain access to career opportunities that will allow them to become valuable members of society.

AN ETHICS COMMITTEE, which reports into our Setcom, forms part of our management governance structure

Branch network
RoE of
21%

The Setcom advises and provides guidance to the Board on the effectiveness of management's efforts in respect of social, ethics and sustainable development-related matters. It also carries out its duties as prescribed in the Companies Act, 71 of 2008 and reports on its discharge of its duties in this regard to the Board and stakeholders (see page 114 of this report).

By our application of:

Principle 5: The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and custodianship of corporate governance in the organisation

The Board assumes responsibility for the integrity of our integrated report (see page 03 of this report).

INTELLECTUAL CAPITAL CONTINUED

We engage with our stakeholders throughout the year to provide them with information on our performance, any challenges we are facing and our view of the future. We do this through our interim and annual reporting, presentations, one-on-one conversations, face-to-face meetings and Stock Exchange News Service (SENS) announcements. The materiality process we follow helps us identify and address the matters material to our stakeholders in our reporting.

The aim of our combined assurance model, which includes both internal and external assurance services, is to provide our Group Audit and Compliance Committee (Auditcom) with the comfort that significant areas of risk within the Group are adequately addressed and that suitable controls exist to mitigate these risks. Our aim is to include external assurance on the integrity of economic, social and environmental information in our combined assurance plan.

The matters we identified as being of concern to our stakeholders and our response to these concerns are set out on pages 90 to 95 of this report.

Achieving effective control and legitimacy

By our application of:

Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation

Principle 7: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively

Principle 8: The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with the balance of power and the effective discharge of its duties

Principle 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness

Principle 10: The governing body should ensure that the appointment of and delegation to management contributed to role clarity and the effective exercise of authority and responsibilities

Our application of Principles 6 and 8

Our Board performs its duties within a governance framework (the framework) of policies and controls that apply to all the businesses in the ABH Group and provide for effective risk assessment and management of our economic, social and environmental performance. The framework sets out the Board's commitment to ethical leadership, the application of ethical business practices and sound corporate governance. It also takes into account the requirements of King IV, the Companies Act, 71 of 2008 (as amended), the Banks Act, 94 of 1990 (as amended), and other relevant legislation, regulations and local and global best practice. The framework, which supports the achievement of our business strategy, is continually reviewed to ensure it continues to support effective decision-making, provides robust controls and is aligned to evolving best practice.

Our Board Charter, which is closely aligned with the recommendations of King IV, details the responsibilities of the Board, while our Memorandum of Incorporation (MOI) also addresses certain of our directors' responsibilities and powers.

The Board's MOI also sets out the shareholder's delegation of authority to the Board, which has a formal schedule of matters reserved for its consideration and decision. Its delegation of certain matters to its committees and businesses in the the Bank is described in the terms of reference of these committees, which are available from the Company Secretary. In addition, the Board delegates authority to the Chief Executive Officer who delegates to and is supported by the Executive Committee.

The Board regulations require that one-third of our non-executive directors retire annually by rotation. Before recommending their re-election to the shareholders the Board evaluates the performance of the directors due for re-election and establishes whether or not they are available for re-election.

The profiles of our Board and committee members, (set out on page 12), demonstrate that the good balance of knowledge, skills, experience, diversity and independence of our Board members more than adequately equips them to discharge their responsibilities effectively and objectively. We do, however, recognise that there is room for improvement in the composition of our Board in terms of achieving an appropriate balance of knowledge, skills, experience, diversity and independence and we have addressed this in 2018.

16 The analysis on page 16 of this report set out the diversity and independence of our Board members. In accordance with the JSE Listings Requirements of February 2017 our integrated report for 2018 includes the racial and gender targets we have set for our Board and our performance against these targets (see page 16).

16

Through the application of strong, independent directors and the separation and clear definition of the roles and responsibilities of the Chairman and Chief Executive Officer, the Bank has established a clear balance of power and authority at Board level. Our Board and committee activities in 2018 can be found on page 71 of this section of our report.

71

The Board established that the appointed Company Secretary maintains an arm's length relationship with the ABH executive team; the Board does not interfere with the performance of her corporate governance responsibilities and, as required in terms of section 3.84(h) of the JSE Listings Requirements, having assessed her abilities based on her qualifications, experience and levels of competence, endorsed and confirmed her appointment as Group Company Secretary.

Our application of Principle 9

The Chairman conducts an annual assessment with each director, following which succession needs and/or training needs are determined. To facilitate continued improvement, the Board evaluated its performance and that of its committees during 2018 and the Chairman and individual Board members also conducted self-evaluations of their performance as Board members.

These assessments will be conducted by an independent external consultant in 2019.

Our board and committee activities in 2018

What kept our Board busy this year	What will keep the Board busy in 2019
Our omnichannel and transactional banking journey	Public launch of transactional banking and omnichannel
Adoption of the Bank's digital model	Implementation of the Bank's digital model
Board succession	IT stability, information and cyber security
MMI partnership	Execution of liquidity facility
Application of King IV	Securing new partnerships (insurance and telco)
IT stability, information and cyber security	Board succession
Further embedding of King IV	
What kept our Auditcom busy this year	What will keep the Auditcom busy in 2019
Revision of the compliance risk management policy and approval of the Group Anti-money laundering policy	Implementation of IFRS9
Changes to the impairments model principles in terms of the IAS39 principles, which address concerns raised by the external auditor	Transactional banking assurance processes
The Group's methodology for arriving at its IFRS9 range	Company valuation for LTI purposes
Governance, including IT governance associated with the transactional banking project with a focus on change controls, AML issues and risks	Governance, including IT governance associated with the transactional banking project with a focus on change controls, AML issues and risks
Termination of the co-source arrangement with KPMG for certain internal audit work	Monitoring of control environment in transactional banking environment
Transactional banking assurance processes	
MMI partnership accounting policies	
Company valuation for LTI purposes	
Appointment of external auditors 2018 - 2020	
Change of designated audit partner	
108 The Auditcom report is available on page 108 of this report, the RCMCom report is on page 110 and the Setcom report is on page 112	
What kept our RCMcom busy this year	What will keep the RCMcom busy in 2019
Monitored the performance of the new V5 credit scorecard	Continually monitoring transactional banking risks
Considered project risk and risk generally for transactional banking	Monitor credit risk in relation to developing macroeconomic factors
IT risk/cyber security	Monitor risk relating to development and implementation of DebiCheck processes
• Received independent report on cyber risk and recommendations	
• Responded to Prudential Authority guidance on cyber resilience	
Received report on new bureau strategy and credit performance	Monitor risk relating to implementation of National Credit Amendment Bill
Considered impact of DebiCheck	Monitor risk in terms of impact of launch of transactional banking on employees
Considered Credit Regulator queries and impact of proposed new legislation	Monitor IT risks relating to system stability, network congestion and cyber security (ongoing)
Received reports on BCBS 239 implementation	Monitor risk in terms of execution of liquidity facility
Considered individual director risk assessments	Monitor risk relating to resources and capability in the IT environment
Approved ICAAP and Recovery Plans, monitored triggers	Monitor risk relating to data collection and storage.
Approved revisions to ALCO charter and counter-party limits	
Undertook annual reviews of Risk Framework and risk appetite, material malfunction definition and threshold	
Received presentations on the Viceroy reports and African Bank's practices	
What kept the Remcom busy this year	What will keep the Remcom busy in 2019
Ensuring equity in remuneration practice	Continued focus to ensure equity in remuneration process and practice
Review of variable remuneration policies and practice	Continue focus on remuneration policies and practice to identify risk to key employees and where skills demand, consideration of retention incentives
Identification of new variable remuneration	Implementation of new long-term incentive scheme
Mandate for annual salary negotiation and outcome	Pay practice, impact and mandate for annual salary negotiation
Executive Succession Plan	Executive succession plan
Review of executive director, Exco and Assurance Provider packages	Identified remuneration needs for specialist skills required to deliver the Bank's digital model
What kept the Setcom busy this year	What will keep the Setcom busy in 2019
Achievement of employment equity plan	Continued employment equity drive
Establishment of B-BBEE tactical plan	Drive strategies to achieve Level 4 B-BBEE accreditation
Readyng our employees for transactional banking, aligning skills, training and incentives	Drive employee readiness for transactional banking, aligning skills, training and incentives
Formalising ESE management and reporting	Manage stakeholder relations in terms of sustainability, ethics and transformation
	Identify and manage sustainability risks across the business
	Engage independent third-party assessor
	Establishing culture required for digital model, and drive
What kept our DAG Committee busy this year	What will keep the DAG Committee busy in 2019
Considered King IV readiness	Ensure further embedding of King IV
Considered Board performance assessment	Consider Board and Board Committee assessments and action plans
Approved Board, Board Committee and Executive succession plans	Consider Board and Executive succession and approve plans
Established a nominations sub-committee, who undertook the identification of possible new directors and conducted interviews	Consider new directors as identified in succession plans and appoint Ensure effective induction of new directors



OUR CORPORATE
GOVERNANCE
IS DESIGNED TO
PROTECT AND CREATE
SUSTAINABLE VALUE

The unique and most powerful part of our credit strategy and scorecard is our ability to build models that predict customer behaviour using a machine learning tool.

67%

INCREASE IN
THE NUMBER OF
CUSTOMERS MAKING
RETAIL DEPOSITS
WITH AFRICAN BANK

58%

OF OUR EMPLOYEES
WERE FULLY
ENGAGED IN 2018 –
20% ABOVE THE
INDUSTRY AVERAGE



INTELLECTUAL CAPITAL CONTINUED

Our application of Principle 10

As indicated in the structure that follows a Board-approved delegation of authority is in place, which together with the duties and authorities that form part of the Board Charter, delineate the authority of the Chief Executive Officer (CEO) who is responsible for the implementation and execution of the Group's Board-approved strategy, policies and business plans.

The CEO's contract is for an indefinite period, which may be terminated by the Group or the CEO by mutual agreement, with a minimum notice period of three months. The Board appoints the CEO whose performance is assessed against key performance metrics annually. These metrics are aligned to the key performance objectives of the Group and are approved by the Board for each forthcoming year.

The Bank's effective succession planning resulted in a replacement for its CEO, Brian Riley, already being in place when he announced his intention to retire.

The executive team that the CEO has established to assist her in fulfilling her obligations is made up of professionals with the banking industry skills and experience necessary to ensure the sustainability of the Group's existing business and the successful implementation of strategic initiatives.

The structure of the management committees that ensure effective corporate governance within the Group is set out in the diagram that follows.

The Board also appoints the Company Secretary who is accountable to the Board.

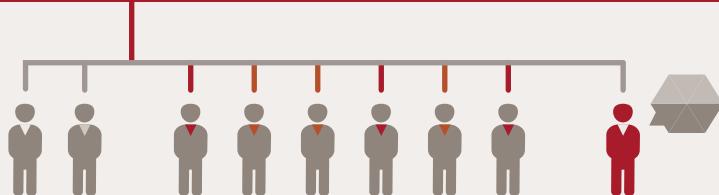
Corporate governance designed to protect and create sustainable value

The diagram that follows explains how our governance structures create value for our stakeholders by providing direction and leadership, facilitating the setting and steering of strategy, establishing an ethical culture, effective control and legitimacy through accountability, delegation, monitoring and oversight.

By applying Principle 4

The Board

Provides direction to the business with the aim of creating sustainable value (see page 08 of the Board's review for more information) by setting, steering and overseeing our business strategy and plans, risk and opportunity management, performance and sustainable development



Performs its role as custodian of governance in African Bank by establishing accountability, delegation, monitoring and oversight

By applying:

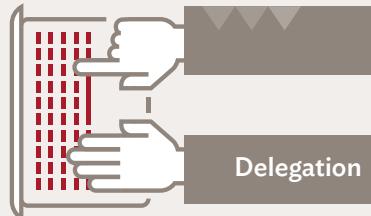
Principles 1,2, 3 and 6 – ethical leadership, establishing an ethical culture, responsible corporate citizen (see pages 68,69 and 70)

Principles 3, 11, 12, 13, 14, 15 and 16 – appropriate strategies, policies, charters, terms of reference, assurance services and functions in place to achieve compliance with relevant laws and regulations; effective control at Board, committee, executive and management levels; effective risk management and technology and information governance; responsible corporate citizenship and stakeholder inclusiveness (see the capitals for information on their application).

Principle 10 – Board-approved delegation of authority is in place that promotes independent judgement, a balance of power, role clarity and effective discharge of duties at Board, committee, executive and management levels.



Accountability



Delegation

Monitoring



Oversight

Delegation to Board committees

By applying Principle 8 – accountability monitoring and oversight

Our Board committees report to the Board on the statutory duties and Board-assigned responsibilities set out in their terms of reference every quarter. These terms of reference are regularly reviewed and are available from the Company Secretary.



By applying Principle 10 – appointment of and delegation to management

The roles and responsibilities of the Chairman and the Chief Executive Officer (CEO) are separate and clearly defined. The CEO is accountable to the Board for leading the implementation and execution of our Board-approved strategy, policies and business plans.

MANAGEMENT GOVERNANCE STRUCTURE



USING CORPORATE GOVERNANCE TO CREATE SUSTAINABLE VALUE FOR OUR STAKEHOLDERS

¹ Treating Customers Fairly Council

² The Heads of Internal Audit and Group Compliance have functional reporting lines to the CEO and have unfettered access to the Chair of the Auditcom, RCMcom and all other Board Committee chairs.

INTELLECTUAL CAPITAL CONTINUED

Achieving effective control

By our application of:

Principle 11: The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives

The contribution risk governance makes to our intellectual capital

Our risk governance structures and processes, which include the oversight, management and assurance of risk management, are based on the three lines of defence model. Our use of this model has two important aims: to provide the Board and its committees with oversight of the Group's risk management activities and to embed the culture and practice of risk management in our day-to-day business activities. It also provides the Group with three independent views of risk in the organisation.

RISK GOVERNANCE AT AFRICAN BANK USING THE THREE LINES OF DEFENCE MODEL

RESPONSIBILITY	ACCOUNTABILITY	GOVERNANCE STRUCTURES
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First line of defence

Chief Executive Officer, Executive Committee and client-facing business units		
Formulate Group business strategy	Accountable for ensuring African Bank has and maintains an efficient and transparent risk management process	Executive Committee's management committees

Second line of defence

Chief Risk Officer and Group Risk function		
Monitor Group risk relative to strategy	Accountable for developing a culture of performance monitoring and compliance and facilitating compliance throughout the organisation	Executive Risk Committee

Third line of defence

Board and Board committees

African Bank Board of Directors		
Board committees		
RCMcom	Auditcom	DAG
Risk and sustainability, capital and liquidity management	Audit and compliance	Sustainability, ethics and management
Setcom	RCMcom	
Ethics and transformation	Human Capital Risk Reward Remuneration equity	
Subcommittees		
ALCO	MRC	ITC

Assurance

External audit

Independent audit of annual financial statements	Accountable for providing an opinion on the Group's financial statements in accordance with IFRS standards and the requirements of the Companies Act and the Banks Act Regulatory return audit	Auditcom Combined assurance forum
--------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------

Internal audit

Internal Audit and other assurance providers in terms of our combined assurance framework	Internal Audit is accountable for delivering on the risk-based Internal Audit plan approved annually by the Auditcom Other assurance providers are accountable in line with their relevant professional standards
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Our Board has taken responsibility for the governance of risk in the African Bank Group, by:

- setting the direction for how we approach and address risk
- annually reviewing the Bank's risk management policies and processes
- reviewing the Group's risk appetite and risk tolerance annually and more frequently if necessary
- ensuring we have the appropriate enterprise risk management (ERM) framework, people, processes and technology in place to evaluate and manage the uncertainties we face in protecting and creating stakeholder value

The Board has ultimate responsibility, not only for risk and opportunity management but also for developing our risk appetite and setting and monitoring our risk tolerances (see Managing our risks and opportunities on pages 24 to 29). In addition to the Board and Risk and Capital Management Committee's (RCMcom) assessment of our risks, individual directors annually assess the Group's top five risks that fall within their particular areas of expertise/focus. If the Board and RCMcom consider it necessary any new risks that have been identified are added to the risk register.

The role of the RCMcom

The Board delegates oversight responsibility for the quality, integrity and reliability of risk and opportunity management in the Group to the RCMcom. The roles and responsibilities of the committee are set out in a Board-approved charter.

initiatives, assist it with the discharge of its responsibilities in terms of the management of risk, and capital and compliance across the Group.

The Board-approved recovery plan policy includes a trigger framework. This framework includes triggers in respect of capital, liquidity and operational risks. Its ratios are applicable to African Bank Limited, which is where the Group's primary risk resides. The Group's risk assessment and quantification process is measured against the framework's various triggers and is reported on monthly to the ALCO and quarterly to the RCMcom.

Our business continuity plan, which is owned by the Group's Chief Risk Officer, and our operational risk function and disaster recovery plan, which is owned by the Chief Information Officer, form part of our overall recovery plan.

The embedding of stress testing in our risk management governance framework

Our group uses stress testing as a risk management tool to identify and quantify the potential adverse financial and operational conditions that could impact our capital, liquidity, return on equity (RoE) and risk appetite limits. We perform capital stress testing as part of our overall annual internal capital adequacy assessment process (ICAAP). A diagram that explains the process and additional information can be found in Managing our risks and opportunities on pages 24 to 29 of this report.

The RCMcom:

- assists the Board with identifying and monitoring key risk and performance areas
- provides the Board with a quarterly report on risk and opportunity management
- monitors business unit risk exposures and the effectiveness of the risk management function
- considers external factors (social, competitive, economic, political, regulatory, legislative and environmental) that could impact African Bank or provide it with opportunities, when identifying and monitoring key risk areas.

The RCMcom's subcommittees – the Asset and Liability Committee (ALCO) and the Model Risk Committee (MRC) – and the Technology and Information Committee (ITC), which specifically focuses on IT risk and optimisation of our digital strategy and innovation



OF OUR DIRECTORS ARE INDEPENDENT NON-EXECUTIVE DIRECTORS

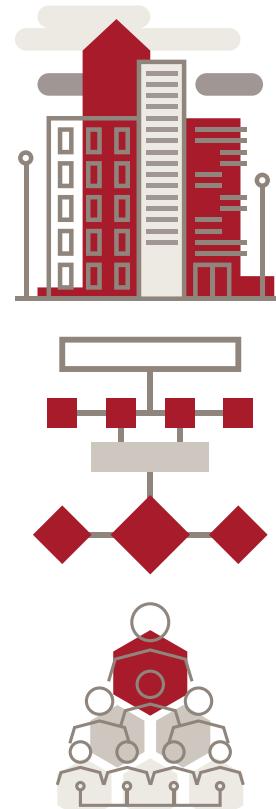
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ALL THE MEMBERS OF OUR AUDIT AND COMPLIANCE COMMITTEE

are independent non-executive directors

EFFECTIVE CONTROL AND LEGITIMACY

By applying King IV Principles 6 and 8, we provide a governance framework of policies and controls that apply throughout the ABH Group



THE RISK AND CAPITAL MANAGEMENT COMMITTEE'S SUBCOMMITTEES

assist with the discharge of the Bank's risk and capital management and compliance responsibilities

INTELLECTUAL CAPITAL CONTINUED

Achieving effective control continued

The contribution information governance makes to our intellectual capital

By our application of:

Principle 12: The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives

Technology and information governance is a focus area of the Auditcom, responsibility for which was delegated to it by the Board. Executive responsibility for technology and information lies with the Chief Information Officer who heads up the IT Steering Committee, reporting into the Executive Committee. There is a clear link between the Bank's strategic objectives and its IT focus. Our three-year IT investment, underpinned by the @2020 IT approach, includes an investment in IT governance and stability. Previously a significant concern

as a result of severe historic under-investment, our investment in this area has created stability and provided us with an opportunity to add value to our IT governance capability. We continue to invest in our systems. Consolidating and improving the quality of our data has also been a focus for the Group. We have made substantial progress in this regard over the past two years (see page 66 of the intellectual capital section of this report for more information on our use of data science).

IT governance and stabilisation has been a key system investment area at African Bank in the past two years

IT governance, stabilisation	IT risk management	IT security	IT governance	Systems stability and performance	Leadership and people plan
▲	▲	▲	▲	▲	▲

Achieving legitimacy

By our application of:

Principle 13: The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen

We have established an independent Compliance Office in accordance with the requirements of the Banks Act, the Board's approach to compliance and the continually expanding compliance requirements of the South African financial services industry.

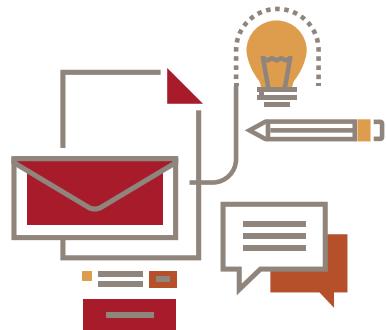
The compliance office mitigates our regulatory risk and the possibility of regulatory fines and reputational risk, by:

- putting in place mitigation controls and procedures
- investing in ongoing training aimed at establishing a culture of compliance in the Group
- addressing legislative and regulatory compliance requirements.

Compliance governance

Our Board is committed to full compliance with the letter and spirit of all applicable laws and regulations, supervisory requirements, policies and relevant codes at all times. Our compliance is aligned with the Group's strategic objectives. The Board has delegated responsibility to the Auditcom for ensuring that the Group's compliance universe is documented and prioritises legislation and regulation using a risk-based approach, which ensures that the compliance office prioritises high risk areas.

The Group Compliance Officer is accountable to the Board and the Auditcom, to whom he reports every quarter, and has unfettered access to the Chairman of the Board and the chairs of all the Board committees. The Group Compliance Officer's functional reporting line is directly to the Chief Executive Officer of African Bank. Should any case of non-compliance or of significant compliance risk arise the Auditcom will report the situation to the Board and oversee any remedial action required to its resolution.



INITIATIVES UNDERTAKEN TO STRENGTHEN THE GROUP'S COMPLIANCE DURING 2018

Supported by compliance champions the Compliance Officer:

- ▶ increased monitoring of compliance-related business activities to ensure business activities comply with relevant legislation and regulation requirements
- ▶ conducted adequacy and effectiveness reviews.

Anti-money laundering

The Group established an anti-money laundering (AML) function in accordance with the requirement of the Financial Intelligence Centre Act (FICA), 2001 (as amended), which is implementing all the critical AML policies, including the core AML policy and risk framework, which have been approved by our Board.

The head of the Group's AML function reports to the Chief Risk Officer, has unfettered access to the Chairman of the Board and the chairs of all the Board committees and provides the Auditcom with AML reports every quarter. His office facilitates the Group's compliance with the FICA provisions and is responsible for submitting all the requisite reports to the Financial Intelligence Centre (FIC). The FIC is responsible for combating money laundering activities and the financing of terrorism and related activities.

During 2018 the Bank introduced a new Board-approved AML/countering financial terrorism (CFT) compliance risk management programme.

The systems we have in place to enable the Bank's compliance with its customer risk assessment and reporting obligations have been independently tested by a third party agency to ensure they meet best practice international standards. Our AML system is regularly enhanced to ensure the controls we have in place can mitigate AML/CFT risks.

During 2018 the following AML initiatives took place:

- Implementing the Financial Intelligence Centre Amendment Act (Act No 1 of 2017) with a special focus on:
 - migration from a rules-based regime to a risk-based methodology
 - reviewing current AML policies, processes and systems in line with the New FIC Amendment Act
 - conducting an AML risk assessment and updating the Bank's compliance risk management programme
 - updating core banking systems in line with new customer due diligence requirements, including simplified, ongoing and enhanced due diligence for each customer segment
 - updating of AML training materials
- Participating in:
 - industry-related forums
 - the forthcoming country evaluation by the Financial Action Task Force
- Contributing to the safeguarding of the financial system.

By our application of:

Principle 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term

By our application of:

Principle 15: The governing body should ensure that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision-making and of the organisation's external reports

We understand it is essential that our strategy, risks, performance and rewards are aligned if we are to create shareholder value. Our Remuneration Committee's (Remcom) mandate includes ensuring our remuneration philosophy, policy and practices achieve this (see pages 102 to 107 of our Remuneration review). Remcom also assists the Board in fulfilling its obligations to ensure the Group remunerates fairly, responsibly and transparently by ensuring our Board-approved remuneration framework and supporting policy are applied throughout the Group and that our remuneration policies and practices are designed to attract talent, retain key officials and support our succession planning.

In accordance with the requirements of the Companies Act, the fees to be paid to our non-executive directors for their services as directors of the Group are submitted for approval by shareholders by means of a special resolution at our annual general meeting.

To provide shareholders with the opportunity to express their views on our remuneration philosophy, policy and implementation report, they are tabled every year for separate non-binding votes by shareholders at our annual general meeting. Should either our remuneration policy or our implementation report be voted against by 25% or more of the voting rights exercised, our Board commits to taking steps in good faith towards engaging to establish the reasons for the dissenting votes and appropriately addressing legitimate and reasonable objections and concerns raised.

Combined assurance

To ensure we have adequate assurance across the Group, and to prevent gaps or duplication in assurance efforts, we have adopted a combined assurance approach. To facilitate combined assurance we employ an integrated planning and reporting process, which is achieved by aligning the activities of the separate functions across our Group.

To facilitate the communication and discussion necessary to achieve combined assurance we have established a combined assurance forum, that meets quarterly. The members of the forum include our Chief Risk Officer, who chairs the forum, our Chief Financial Officer, the Group Heads of Enterprise Risk, Operational Risk, Legal and Internal Audit (who led the discussion in the meetings) the Group Compliance Officer and our External Auditors. Tracking of progress on assurance activities is ongoing and it is reported on quarterly to the Auditcom, depending on the nature of the area assured.

The Auditcom obtained assurance on the financial statements and internal controls included in the ABH Group's integrated reporting and carried out its statutory duties set out in section 90 of the Companies Act, 71 of 2008. It satisfied itself as to the expertise and experience of the Chief Financial Officer and the financial function. It also assessed the independence and performance of the internal and external audit functions. (See the Auditcom report in the annual financial statements available online at

▼▼▼ www.africanbank.co.za)

INTELLECTUAL CAPITAL CONTINUED

OUR COMBINED ASSURANCE MODEL

MANAGEMENT COMMITTEE STRUCTURES SUPPORTING OUR APPROACH TO COMBINED ASSURANCE

1

MANAGEMENT

- Ownership of risk and executive review
- Policies and procedures (including critical controls)
- Management review
- Periodic self-awareness



2

RISK FUNCTION, LEGAL, COMPLIANCE, ANTI-MONEY LAUNDERING

- Risk oversight and monitoring



3

INTERNAL AND EXTERNAL AUDIT

- Independent and objective assurance of the effectiveness of the controls, compliance and risk management



4

EXCO, BOARD AND BOARD COMMITTEES

- Unlimited and unrestricted access to all information and reports issued by the three lines of defence



Internal Audit

Our Internal Audit function, which is governed by our Auditcom and Board-approved Internal Audit Charter, is responsible for implementing our combined assurance initiative. It reports to each Auditcom meeting on audits concluded during the previous period and their outcomes. The resolution of any adverse findings arising from audits is the responsibility of the executive responsible for the area concerned. Internal Audit tracks the resolution of adverse findings and reports on their status to the Auditcom.

The RemCom, the membership of which includes the Chair of Auditcom and a member of the Auditcom, oversees the Head of Internal Audit's performance assessment and the remuneration packages of the Group's senior assurance providers, including the Head of Internal Audit.

The Head Group Internal Audit is solely responsible for the function, scope of work and quality of delivery of the Group's Internal Audit. His functional reporting line is to the Chairman of Auditcom and his administrative reporting line is directly to the Group's Chief Executive Officer. The Head Group Internal Audit has unfettered access to the Chairman of the Board and the chairs of all the Board subcommittees.

The Internal Audit function has completed the three-year programme it embarked on in 2016 to strengthen its internal skills and competencies and to ensure that its team members have the appropriate professional qualifications. It now has the skills and resources it needs to execute the Internal Audit plan. The provision of certain specialist internal audit functions by external services providers has allowed our Internal Audit function to augment and strengthen its competencies in key areas.

The activities of Internal Audit, which are aligned with the Group strategy and our core values, are designed to ensure quality, efficiency and agility in the delivery of assurance services and to meet the assurance expectations of our stakeholders.

A risk-based Internal Audit plan

The Internal Audit plan for the year ahead is approved annually by the Auditcom and its execution is tracked to completion by the committee. The plan is also reviewed during the year to ensure it remains relevant should changes take place in the business and our operating environment. If changes are necessary they are approved by the Auditcom.

THE PROGRESS INTERNAL AUDIT MADE WITH THE KEY FOCUS AREAS REQUESTED BY THE BOARD AND THE KEY INITIATIVES PLANNED FOR THE 2018 AND 2019 FINANCIAL YEARS

Initiatives	Progress
Credit	Completed and continuous monitoring of aspects of credit models
Treasury (including capital management)	Completed and consistent/ongoing review of key aspects of balance sheet and capital management
Information technology	Completed
Proactive assurance of Group strategic transformation activities	Proactive and real-time assurance on Omnichannel and transactional banking programme - with Internal Audit walking the path with the programme
Advanced, continuous and more proactive data analytics	Embedded continuous auditing in payments, credit and collections and rolling out, where applicable, to other streams of operations
Ongoing execution of its professional development plan	Significant progress made in professional qualifications of Internal Audit personnel. Ongoing and continuous mentoring, on the job training, certification and courses are currently being completed for professional development

Some key initiatives Internal Audit will be undertaking in FY2019 to ensure it can provide high quality risk-based advisory and assurance services aligned to the Group's top strategic and operational objectives include:

- advanced and more predictive analytics
- functional re-alignment with changes within the Group.

This is in addition to the key focus areas requested by the Board of:

- credit
- treasury (including capital management)
- information technology
- Omnichannel and transactional banking.

Internal Audit was able to conduct its work free of any restrictions and is of the view that at year-end there were no material internal control weaknesses/deficiencies that would render the internal financial controls and financial systems ineffective in producing reliable information for the financial statements.

The Group's sensitivity towards cyber and information security is at an all-time high following recent incidents in the financial services sector. Relatively minor cyber-related incidents can be devastating. The negative effect on consumer confidence in the transactional offering and the Bank as a whole could severely impact the ability of the Bank to attract new customers onto our transactional banking platform. Internal Audit is adopting a risk-based approach for the current financial year and the year ahead, which incorporates continuous real-time assurance of access control aspects of information security and traditional assurance reviews of governance and security posture controls.

As part of the Bank's strategic objectives of growing and diversifying its product offering, being more customer-centric and being a fully-fledged retail bank, the Bank has embarked on a strategic programme and project that addresses the digitisation of the Bank, improving and opening new channels for customer interfaces, and growing and improving customer product offerings. The growth in our operations and the introduction of transactional banking changes in the way the Bank functions, will result in our exposure to risk and opportunities evolving from where it is currently. The controls embedded our processes will need to be more real time, more frequent and automated. In addition, management oversight needs to incorporate the analysis of information for behavioural trends outside the norm.

The principle controls required must cover the spectrum from preventative, detection and mitigation actions if improvement is needed. As part of the process of giving assurance on these controls during the build and implementation phase, Internal Audit has adopted a programme approach and is undertaking deep dives on key operational processes.

INTELLECTUAL CAPITAL

CONTINUED

Our combined assurance matrix follows

	First line of defence	Second line of defence			Third line of defence	Governance structured reported to	Framework/standard	Outcome	Frequency of assurance and/or reporting
Key threats associated with strategic objectives/ Targets	Exco	Group Risk	Compliance/ AML/ Legal	Sustainability	Independent assurance providers				
Reliable financial and other reporting					External audit (PwC)	Exco and Auditcom	IFRS ¹ JSE ²	Adequate coverage	Biannual
					Internal audit	Setcom and RCMcom			
Performance against strategic scorecard				PwC	Exco and Board	Board ³	As above	Monthly Quarterly	
Financial targets				IA	PwC	Exco, Auditcom and Board	Board ⁴	As above	Monthly Quarterly
Efficiency of operations				IA	IA	Exco, RCMcom and Auditcom	Divisional	As above	Ongoing throughout the year
Customer targets					IA	Setcom and Exco	Third party ⁶ Measurement	As above	Monthly Quarterly
					NPS				
					Provides customer engagement				
People targets						Exco, Setcom and Remcom	Measurement ⁷	As above	Monthly Quarterly
Compliance with laws and regulations					IA	Exco, RCMcom and Auditcom	Applicable legislation and regulation	As above	Monthly Quarterly
					PwC				
					Independent assurance providers				

Legend

- Exco providing assurance
- Group Risk
- Auditcom
- Internal Audit
- External Audit (PwC)
- Other external assurance providers
- Sustainability

¹ International Financial Reporting Standards

² JSE Securities Exchange South Africa Limited Listings Requirements

³ Board-approved strategy

⁴ Board-approved business plan and budgets

⁵ Group and divisional performance, stability, monitoring targets and measures

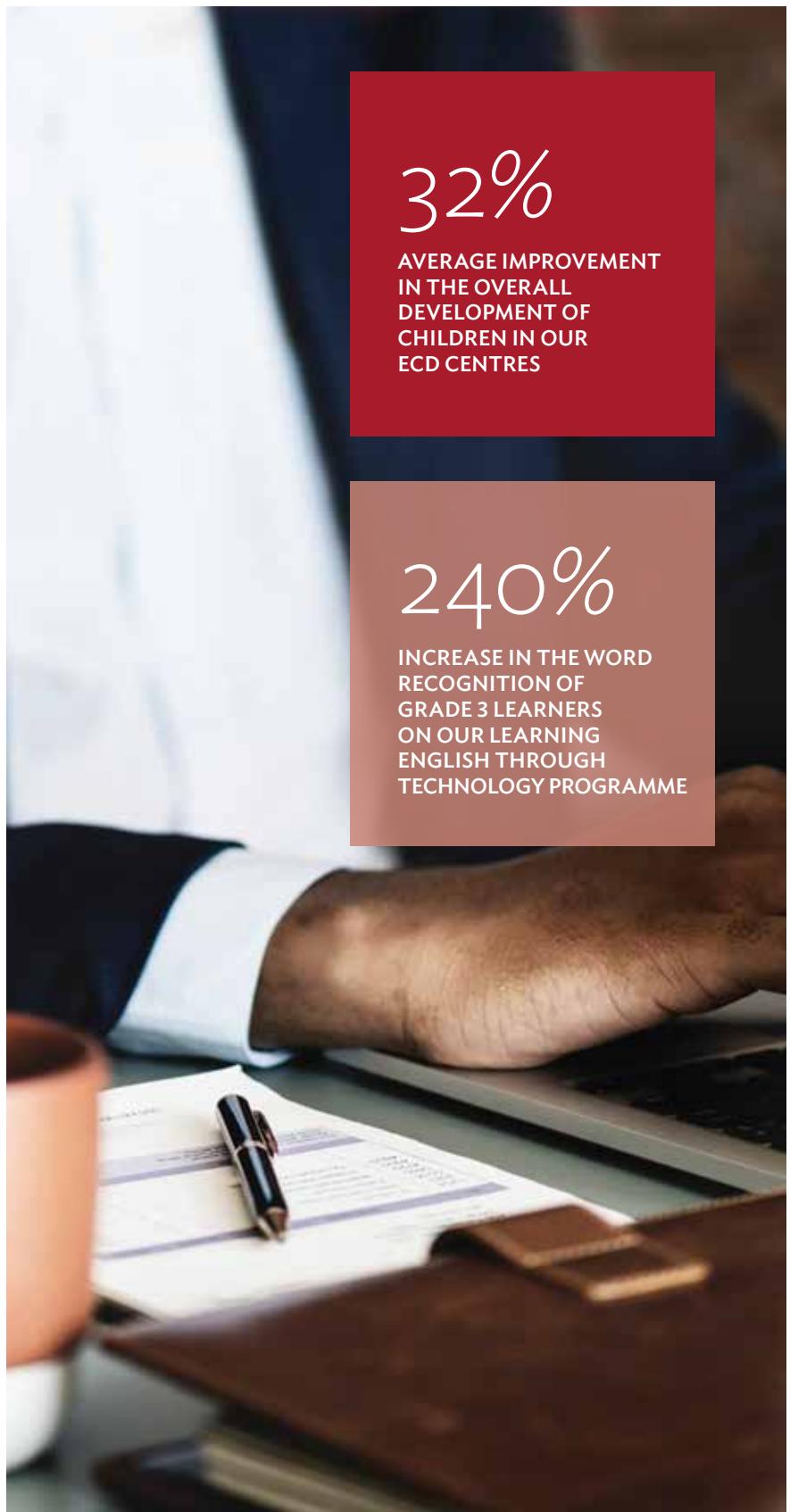
⁶ NPS® and SAcSi

⁷ Performance assessments, engagement surveys, diversity targets

By our application of:

Principle 16: In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time

Balancing the needs, interests and expectations of our stakeholders is a key material issue for African Bank. Information on how we have approached our stakeholder relations can be found on pages 90 to 95 of this report. Our Board has identified its responsibilities with regard to engaging with our investors and the regulators as being a material corporate governance issue, which is addressed through regular reporting and engagement (see page 92 of relationship capital).



SOCIAL AND RELATIONSHIP CAPITAL



This section of our report looks at our approach to adding value and creating a stable society in which to operate through our social responsibility, achieving our purpose of *Advancing lives* in all that we do, our willingness to engage, share information with and respond to our stakeholders and build trust in our brand.

SOCIAL CAPITAL

Creating a value chain of programmes designed to give their beneficiaries the opportunity to excel.

Our employees' role in our community investment

We are both extremely proud of and humbled by our employees' contribution to our investment in our communities. We have included information on some of their contributions in this section of the report.

There are two ways our employees can contribute to our efforts to address the social and economic needs of South Africans through education:

- through our community champions awards and, our employee-owned initiatives.

Every month we select three to five projects to receive a Community Champion award. To qualify for an award, employees (we prefer it to be a team of employees as we have found team projects are more likely to succeed) must present a proposal for a project they would like to undertake in their community. We sponsor projects financially (up to R20 000) and will provide some assistance with their execution, but responsibility for completing the project lies with the Community Champions who were awarded funding for their projects.

CREATING OPPORTUNITIES FOR EXCELLENCE BY INVESTING IN POTENTIAL

AFRICAN BANK

PRE-SCHOOL

- ▶ **Facilitating early childhood development (ECD) by investing in:**
 - the training of service providers
 - a parent support programme

PRIMARY SCHOOL

- ▶ **Learning English through technology**
For Grades 3 and 4 children currently and Grade 2 children from 2019
- ▶ **Primary school sports programme**
Promoting excellence in soccer, netball and cricket and creating opportunities for those who excel to be awarded study bursaries

HIGH SCHOOL

- ▶ **Maths Rocks programme**
- ▶ **School Connectivity computer programme**
- ▶ **The Smart Girls Rock programme**
- ▶ **Entrepreneurship programme**
Providing opportunities for children to excel and flourish

COMMUNITY CHAMPIONS AWARDS PROGRAMME

Projects nominated and run by our employees in their communities with funds provided by African Bank

AFRICAN BANK VOLUNTEERS AT WORK

Our employees choose to support our social investment programme by giving of their time and resources

At African Bank we are very proud of the difference we are able to make in the lives of the young people touched by our commitment to enhancing their education through our various programmes. While African Bank's corporate social investment makes our programmes possible, it is the outstanding commitment and passion of our people for making a difference in their communities that makes what we do so special.

COMMITTED TO UNEARTHING POTENTIAL AND PROVIDING PEOPLE WITH THE CAPACITY TO EXCEL



SOCIAL AND RELATIONSHIP CAPITAL CONTINUED

We work hard to make sure our programmes are the most effective available, that we are delivering them in areas where the need is greatest and where they can have the most impact.

In order to get the best possible value for our investment, African Bank only invests in programmes with measurable outcomes. The participation of the schools and centres where our programmes are delivered is essential to their success. An important part of our work in schools is ensuring the schools' continued participation. If we are unable to achieve this commitment we will move the programme to another school in the area.

Our corporate social investment team is responsible for monitoring the NGOs that currently deliver our programmes and it works hard to ensure that these NGOs are doing their best to deliver excellent programmes with measurable results. At the same time our team constantly seeks out NGOs with innovative and exceptional programmes that could contribute to our value chain.

A good start makes all the difference

Early childhood development (ECD) can provide the social and educational foundation that will give children the confidence and skills they need to flourish and excel at school. It is, however, key that those providing ECD are suitably qualified for the important roles they play. To this end African Bank has invested in a two-year training programme for the owners and employees of the ECD centres we support. Those who successfully complete the training are certified to run an ECD centre and to educate the children in their care.

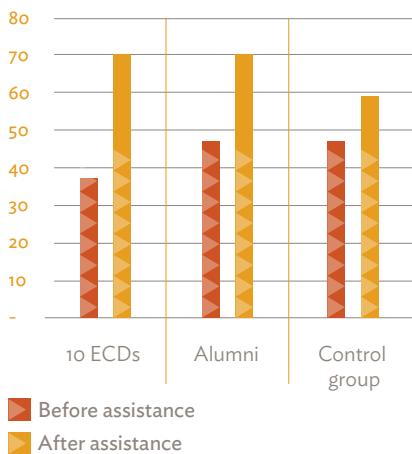
In the Eastern Cape we added a parent support programme, which teaches parents how to promote ECD using items available in the home.

How our employees supported our ECD programme

During 2018 our employees supported and supplemented African Bank's investment by providing our ECD centres with food, building a wall and repaving the Thato Day Care Centre in Tembisa. They also invested their time in interacting with the children.

Measurable results of which we can be proud:

A summary of the results of assessments conducted on children in our ECD centres



Both the 91 children tested in our 10 ECD centres and the 29 children in our alumni ECD centres (previously assisted by African Bank) achieved an average improvement in their overall development of 32%, while the 31 children in the two control group ECD centres only achieved an average improvement of 10%.

Learning English through technology

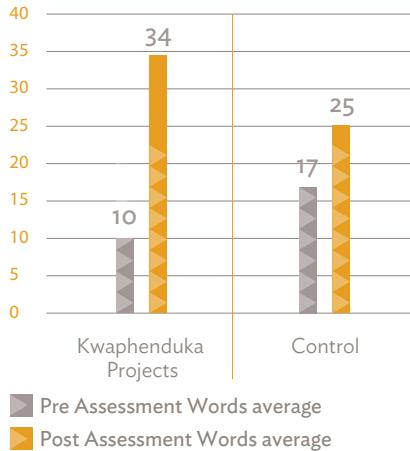
Children who have little or no grounding in English are at a major disadvantage when English becomes their language of instruction, and they are likely to lose out on the opportunity to excel in maths if the situation isn't rectified. African Bank invests in English literacy programmes in disadvantaged schools with extremely low English literacy levels.

Our NGO partners delivering this programme noticed that in areas of extreme poverty, where on average there are 50 learners in a class and teaching methods are still quite old-fashioned, Grade 3 learners had lost interest in learning. We needed to find ways to gain their interest and get them learning. We introduced exciting learning aids on tablets that bring

energy and creativity to the learning process. We track the progress learners participating in the programme are making with English.

Measurable results:

2017 Grade 3 - 1min Word Recognition Test



The programme is implemented by Kwaphenduka Projects in KwaZulu-Natal where we measure the students' progress through a word recognition test, which assesses their ability to identify words, as well as a Cloze test that assesses their comprehension of the words. There has been a 100% improvement in both the learners' ability to read and to comprehend English.

Currently, the programme is available to Grade 3 and 4 learners. We intend including Grade 2 learners in the programme in 2019 to help learners to start developing their English language skills as early as possible.

Our English literature programme operates in the provinces of Limpopo, the Eastern Cape and KwaZulu-Natal.

Investing in their futures

Our programmes for high school learners include:

- an after-school maths programme for Grades 8 to 11
- a computer literacy programme
- the exciting Smart Girls Rock programme

After-school maths

Excelling in maths in matric could be, and has been, life-changing for disadvantaged learners (see Jessica Sehlavelo's story on page 88 of this report). That's why the main aim of our after-school maths programme, which operates in 16 schools in the Eastern Cape, Gauteng, KwaZulu-Natal and Western Cape provinces where the maths aggregate is mostly below 20%, is to get learners to take pure maths for matric instead of settling for maths literacy.

The programme provides lessons after school throughout the week. In Grades 8 and 9 it focuses on why learners should take pure maths, making maths as interesting as possible and developing the learners' confidence in their mathematical ability. From Grades 9 to 11 the main focus is on those learners who show mathematical talent with the aim of helping them to excel at maths in matric, which will not only help them obtain bursaries or scholarships to fund their tertiary studies, it will also open up a wide variety of career choices.

Measurable results:

In 2016:

- there was a 24% improvement in the maths marks of Grade 8s participating in the programme
- a Grade 10 learner achieved 99% in the year-end maths exam
- two Grade 8 learners, whose pre-assessment scores were lower than 20%, achieved 80% for maths by year-end.

In 2017:

- we saw a 31% improvement in the maths marks of Grade 11s participating in the programme, which is where the change matters most as they prepare to enter university
- nine Grade 11 learners moved into the 80% and above category, which is a marked improvement from where the learners started in Grade 8.

HOW OUR EMPLOYEES SUPPORTED OUR EFFORTS TO INVEST IN THE FUTURE OF DISADVANTAGED LEARNERS

Giving back in Sebokeng

One of our employees, who went to school in Sebokeng, joined forces with some of his classmates, who are all professionals, to arrange Saturday morning classes for matriculants at their old school. Through our Community Champions programme we were able to help them provide these classes.

And in Soweto

One of our employees noticed that the learners he came across had no idea of what they wanted to do, so he organised a career workshop to which he invited learners from various schools. The learners were given information on possible areas of study and the careers to which they could lead. To encourage the learners he also presented awards to those who had excelled academically. We also supported this project through a Community Champions award.

The vegetable garden at the Love Trust ECD centre in Midrand, where the curriculum includes teaching the children about nutrition and growing things sustainably.



The children at Thato Day Care Centre in Tembisa enjoy their renovated play area



The Thato Day Care Centre in Tembisa is the CSI project our Collections team chose to support this year. Regular visitors to the centre, the Collections team provided it with mattresses, tables, a stove, a fridge and educational toys. They also repainted and renovated the play area



AFTER-SCHOOL MATHS

31%

improvement in Grade 11
maths marks

NINE GRADE 11 LEARNERS
MOVED INTO THE

80%
and above category

Linking sport with education to improve lives

We want our after-school sports programme, which is aimed at 10- to 15-year-old learners, to provide young people with the opportunity to excel at sport and to learn life skills. The sports included in our programme are football, netball and cricket. Learners must be achieving at school before they can join the programme.

Our football programme runs in KwaZulu-Natal and the Western Cape. To help players excel, which could create both education and sports opportunities for them, we have formed a team in each province made up of the players who perform best in the football clinics and development programmes we hold at schools and in the communities. These teams are coached to compete with the development teams that feed into professional soccer teams.

In the Gauteng province our cricket programme is very well supported by our employees. The eight schools from Ivory Park and Tembisa currently participate in this programme to build a strong team of under 12-year-old players who can compete successfully with suburban schools.

In the Eastern Cape we sponsor the Hope for Kids netball initiative. This programme, which targets girls between the ages of 10 and 16, gives them the opportunity to use sport to keep healthy, stay away from drugs and teen pregnancy, and access education opportunities through bursaries to leading schools in the province. This initiative is our only sports programme specifically targeting girls. It assists more than 500 girls from over 30 township schools located in and around Port Elizabeth.

Measurable results:

In 2016 our footballers' sporting achievements resulted in four of our players being offered bursaries to attend top schools and in 2017 our netball programme achieved a similar success with three players being offered bursaries to a top college in the Eastern Cape. Annam Marashula, a student from the Zwidé township, not only gained a bursary to the college, but she has also been chosen to participate in the Hope for Kids Netball Academy in partnership with the Nelson Mandela University.

Our CSI budget

OUR TOTAL BUDGET:



HOW OUR EMPLOYEES SUPPORTED OUR SPORTS PROGRAMME

To make sure our football team could perform at their best, our KwaZulu-Natal employees raised funds to provide players with scientifically designed food boxes geared to provide balanced nutrition and immune system support. This effort followed our employees' discovery that some of the players hadn't had anything to eat before the game that day.

Changing lives with the Smart Girls Rock programme

Over the past two years African Bank's Smart Girls Rock programme gave 12 Grade 11 female learners from Ivory Park and Tembisa, who were scoring between 20% and 30% for most subjects, an opportunity to change their lives. The learners were given every possible resource to try and improve their lives. This included providing them with technology, extra lessons, study guides and calculators. They also visited the Bank where they spent time with our executives.

The principle we applied to the programme was that while we couldn't change the social challenges the girls faced in their home environment, we could change their school environment by providing them with the resources that would achieve this change. By introducing them to positive role models in the Bank they were exposed to the possibilities available to them.

Measurable results:

Ten of the Smart Girls who successfully completed matric in 2017 are now studying at tertiary institutions across Gauteng. The star of the group, Jessica

Sehlabelo, was the top performing student in Ekurhuleni North. She achieved three distinctions for matric with the following incredible marks: 100% for both maths and accounting and 98% for science. She is now studying actuarial science at Wits University.

These very measurable results are most encouraging. They confirm that an amazing change in performance can be achieved with the right resources and role models, which can open up a wonderful future.

In 2019 we will be expanding the programme to ensure that our 10 girls act as mentors to the next group and walk them through their journey. This will ensure that the current matriculants have 'big sisters' they can always turn to and confide in as we get all these girls to graduation.

Building skills for the digital world

We identified the need for a computer programme in remote schools in KwaZulu-Natal. Our programme started with the provision of computer lessons for teachers, together with three years' access to free Internet for the school. The aim of Internet access was to help the schools realise the benefits they would gain from having access to research and teaching materials on the Internet. Computer training for learners followed. To make the project sustainable schools needed to take responsibility for the cost of Internet access once their initial free access period ended. The schools had clearly seen the benefit of Internet access as the majority of them are now paying for their access to the Internet.

In Gauteng we piloted a programme in 2018 with the aim of reviving the defunct online computer laboratories originally established by the provincial government in 10 schools. We first of all checked that the computers in the 10 laboratories involved in our pilot were operational and repaired any that needed repair. Students are now able to use the computers as part of the information technology (IT) curriculum and to further their interest in IT.

A large orange triangle containing the text '20%'.

STUDENTS IN KWAZULU-NATAL HAVE ACHIEVED A 20% INCREASE IN THEIR ABILITY TO USE COMPUTERS.

Enterprise and supplier development

In 2017 we committed to running a business accelerator initiative with the aim of helping participants grow their businesses.

We used our initial funding of R500 000 to pilot the project in 2018. Using an external service provider specialising in enterprise and supplier development we supported a micro enterprise supplier of debt collection services to African Bank (the owner of which had previously been an employee of African Bank), operating mainly in Limpopo province. The assistance provided to the company included the development of a business plan and cash flow management guidance. We provided office facilities, including access to workstations, telephone lines and photocopying facilities. Initially, the business was based solely in Limpopo where it has been successful. Its expansion into Gauteng proved challenging and, as a result, it decided to focus on Limpopo.

Sustainable procurement

In 2018 we developed Responsible Sourcing Principles with the objective of positively influencing the environmental sustainability performance of our suppliers and landlords, and sustainable credentials for the goods and services that we purchase. In 2019 our focus will be on ensuring that all existing and new suppliers adopt these principles. In addition, in 2019 we will extend the landlord survey to the top 100 suppliers by spend and measure from whom we procure against the principles and the Bank's environmental sustainability policy.



Both the girls and boys in the school can participate in the cricket coaching programme African Bank holds at the Winnie Mandela Primary School in Tembisa



The African Bank CSI programme introduces coaching in a new sport to a previously disadvantaged community and uses sport to encourage children to improve their academic performance. To qualify to play sport in the programme children have to improve their performance in the classroom.

OUR AFTER-SCHOOL SPORTS PROGRAMME PROVIDES 10- TO 15-YEAR-OLDS THE OPPORTUNITY TO EXCEL AT SPORT AND LEARN LIFE SKILLS

SOCIAL AND RELATIONSHIP CAPITAL CONTINUED

RELATIONSHIP CAPITAL

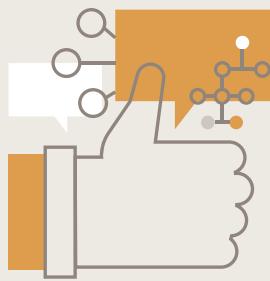
Our relationship capital is about engaging with the people connected with us in every way possible, receiving their input, listening to them, informing them, respecting and upholding their human rights, acting with integrity and taking action to deliver value to our stakeholders. Our relationships also support our ability to create value.

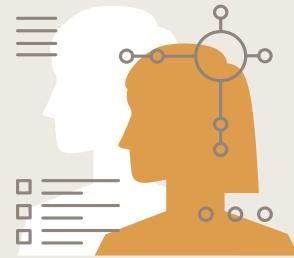
Every part of our business interacts with stakeholders and these stakeholder relationships impact directly and indirectly on our business, its reputation and its ability to create value for our stakeholders. Because of the importance of stakeholder engagement and responsiveness to African Bank we have included targets in our strategic scorecard (see page 05) for measuring our engagement and responsiveness performance with both our people and our customers (see page 91 for information on our performance in this regard).

We invest in understanding our stakeholders' views and needs and recognise that the quality of these relationships determines the continued success of our business and our brand.

OUR STAKEHOLDERS



Stakeholders	Their needs and expectations	The value we create for our stakeholders
CUSTOMERS 	<ul style="list-style-type: none"> • Treating customers fairly • Fair terms • Transparency • Exceeding customer expectations • Quality and convenience of access to our products and services, increasingly through digital channels 	<ul style="list-style-type: none"> • We exist to provide our customers with financial services that advance their lives. These currently include loan, investment and insurance products. In the near future these will also include transactional banking • We are advancing the lives of our customers by adding value to their loans through deals we have negotiated for them with a range of retail partners that offer them more than they expect • Our excellent SAcsci score and the ongoing improvement in our NPS® score indicate that we are exceeding our customers' expectations and are a leader in service delivery in South Africa • Our market-leading investment products have contributed to the diversification of our funding • Our customers also indicated that they believe that fair treatment of our customers is central to our brand's culture. Our sales team does not earn incentives on sales

Stakeholders	Their needs and expectations	The value we create for our stakeholders
OUR PEOPLE 	<ul style="list-style-type: none"> • Fair remuneration and incentives • Job security • Training and development to match new business requirements • Career development opportunities 	<ul style="list-style-type: none"> • Through their service delivery to our customers our employees create value for the Bank, and they also add value to their communities through our very active employee volunteer programme • The changes taking place in our business are providing our employees with opportunities for career development • The internships we introduced during FY2018 provided previously unemployed graduates with work and skills development opportunities • We made a substantial investment in skills development to ensure our people are equipped to provide excellent service when our new transactional banking product is launched to customers. We also provided all our employees with ethics training • 80% of our employees opened transactional banking accounts with African Bank and their feedback is helping us to ensure we provide our customers with an excellent product

SOCIAL AND RELATIONSHIP CAPITAL CONTINUED

Stakeholders

INVESTORS (EQUITY AND DEBT INVESTORS/ FINANCIERS)



Their needs and expectations

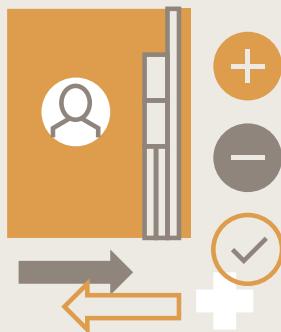
- Our ability to deliver on our strategy
- Profitability
- Balance sheet performance
- Appropriate risk provisioning
- Liquidity management
- Service levels

The value we create for our stakeholders

- The financial capital provided by our equity and debt investors, together with our retained earnings, allow us to operate and grow our business
- We report on our performance and progress through regular presentations, including our interim and year-end results presentations and face-to-face meetings and our integrated reporting
- Our Stock Exchange News Service (SENS) announcements keep investors updated on our performance and interest rate results on our listed debt

Stakeholders

REGULATORS



Their needs and expectations

- Compliance with all legal and regulatory requirements
- Effective governance
- Stability
- A responsible taxpayer

The value we create for our stakeholders

- Regulation and good governance reduce systemic risk and contribute to a sound and stable banking sector and an economy that provides stakeholders with the opportunity to prosper. The tax we pay contributes to the economic and social development of the country
- We regularly report to the PA on our compliance with the terms of our banking licence, the stability of our business and the effectiveness of our governance practices
- We contribute to government through our tax contributions and the taxes we collect on behalf of SARS (see annual financial statements)

A LEADER IN CUSTOMER SATISFACTION

We entered African Bank into the South African Customer Satisfaction Index (SACSI) in 2017, an annual independent national benchmark of customer satisfaction and the quality of products and services. SACSI is also part of a global network of research groups.

We have set ourselves the challenging task of exceeding customer expectations and we are very proud that in the SACSI's measurement of the gap between customer expectations and perceived quality, African Bank is one of only three banks to exceed their customers' expectations.

In all categories in the SACSI we achieved leader position, when compared with other financial industry brands, which indicates that we are significantly better than the industry average.

African Bank also tied for second place with First National Bank in overall customer satisfaction. We led in the branch network customer satisfaction category across all sectors and also tied for first place in the contact centre customer satisfaction category across all sectors.

We had the lowest number of customer complaints when compared with the other South African financial industry brands at 9.3%, which is lower than the world-class benchmark of 10% customer complaints.

Areas we will be working on to further improve our customers' experience are improving our rating for treating our customers with respect (we came second); reducing the waiting time in our branches and contact centres; making our customers feel important and valued; and delivering on our promises.

Stakeholders

SOCIETY



Their needs and expectations

- Advancing lives
- Easy access to fairly priced banking services
- Access to loans on fair terms
- Accessible deposit products
- Community investment
- Transformation through complying with and where possible exceeding B-BBEE legislation
- Social positioning
- Our brand reputation
- Business continuity

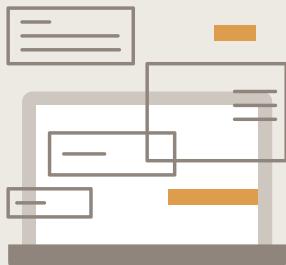
The value we create for our stakeholders

- Our commitment to *Advancing lives*, treating our customers fairly, investing in and engaging with communities, enterprise and supplier development and providing transparent communication is all part of social positioning
- Our policies and values are aimed at ensuring our customers receive fair terms and that we have earned the trust of our customers
- Our diversification into a digital transactional banking offering will provide community members with easy access to full service banking
- Through our corporate social investment in education and sport we aim to provide the children in our communities with the opportunity to excel in both areas
- Our investment in enterprise and supplier development is aimed at contributing to the sustainability of SMMEs in our communities
- Our commitment to preferential procurement from previously disadvantaged South Africans benefits these businesses (see page 89)
- Our communication with our external stakeholders by means of our reporting, formal media and informal communication via social media is aimed at providing clear and transparent information and building our brand reputation

SOCIAL AND RELATIONSHIP CAPITAL CONTINUED

Stakeholders

ASSOCIATIONS AND INDUSTRY AND PROFESSIONAL BODIES



Their needs and expectations

- Inclusive economy
- Good corporate citizenship from banks
- Conducive banking environment

The value we create for our stakeholders

- African Bank's commitment to *Advancing lives* and offering more value than expected is intended to ensure we are a good corporate citizen and provide a conducive banking environment for our customers

Stakeholders

BUSINESS PARTNERS



Their needs and expectations

- Performance of both partners in terms of our agreement
- Mutual benefit and profitability

The value we create for our stakeholders

- Standardising terms and contracts
- Procurement processes enhanced including empowerment reporting

ENSURING WE TREAT OUR CUSTOMERS FAIRLY DURING THE COLLECTION PROCESS WORKS FOR US

Our approach to collecting money from our customers is an important part of our efforts to ensure we treat our customers fairly. Our approach is based on our mantra Collect with CARE:

CONSULT with the customer first

ADVISE the customer of what their options are

Help customers **REHABILITATE** themselves

Always **EMPATHISE** with the customer

We use the quality controls we have in place for all aspects of the call centre, which includes listening to calls to ensure our collection process is customer-centric. We also constantly remind our consultants that all of us could easily be in the same position as the customer and that *We are You*. We do not tolerate bad behaviour towards our customers and our consultants are not allowed to put the phone down without first entertaining what the customer has to tell them. We expect the same behaviour from our lawyers and external debt collectors, who are all subject to audits by our audit team as part of the audit process who listen to their phone calls. Our consultants are coached and also receive customer experience verbatim feedback.

To encourage customers to make regular payments that help improve their credit record, we also reward regular payers with grocery vouchers and airtime. We do spot checks with some of the customers who have made their final payment to find out whether they felt they were treated fairly and with respect. We want our customers to feel that when they are in trouble they can come and talk to us.

During 2018, to assist our customers we began holding customer service days and we invited our customers to come and talk to us about any queries they might have, including debt collection. To assist customers our debt counselling team and legal team take part in these customer service days, which are well attended. Customers told us they appreciated being able to talk to us face to face.

We also recognise that the job of a consultant is demanding and stressful. We have monthly and quarterly rewards that we use to recognise our consultants' ethical behaviour and results. Our business is about people and it's important that the 700 people working in our collections centre are happy at work.

Our approach

We recognise that there will always be those customers who have no intention of meeting their financial commitments, but the way we behave towards our customers definitely works for us as we have one of the best collection records in the banking industry.



5%

REDUCTION
YEAR-ON-YEAR IN
GHG EMISSIONS FROM
ELECTRICITY USE AT
OUR MIDRAND CAMPUS

Our multi-step
five-year
environmental
sustainability
strategy will help
us deliver on our
environmental
aspirations.

WE PLAN TO RECYCLE
AT LEAST

50%

OF OUR TOTAL WASTE
BY 2022

66%

OF OUR WASTE AT
OUR MIDRAND CAMPUS
WAS RECYCLED



NATURAL CAPITAL



We define natural capital as all the renewable and non-renewable environmental resources and processes that support the current and future prosperity of African Bank and its stakeholders.

While African Bank does not manufacture any products our operational activities have an impact on the environment. Our goal is to minimise our operational footprint through more efficient energy and water usage and to reduce the amount of waste our operations generate, and we are committed to responsible reporting on our material environmental impact.



Our achievements in 2018

- Our Group-wide African Bank sustainability policy was approved in 2018
- The Bank's sustainability strategy and action plan was approved for implementation from 1 October 2018

The improvements we achieved

- We were successful in achieving monthly reporting of branch electricity and water data
- A national water risk assessment was completed, which allows us to better understand our water risk and opportunities in light of the current water crisis in some parts of South Africa
- We calculated and monitored our water footprint for the first time in 2018
- Our Sustainability committee's charter was ratified this year

Our challenges in 2019

- Finding a suitable service provider to ensure correct and consistent billing from municipalities and landlords
- The implementation of our online carbon emissions management system will only take place in the next financial year

OUR APPROACH TO SUSTAINABILITY

Our environmental sustainability vision is for African Bank to be a responsible corporate citizen committed to making a meaningful impact through proactive sustainable environmental practices within our operations and supply chain. Our environmental sustainability policy, which was ratified in 2018, sets out our commitment to achieving our vision, recognises that sustainability is a strategic priority for the Bank and guides the implementation of our sustainability focus.

In order to deliver our policy aspirations, African Bank has developed a multi-step five-year environmental sustainability strategy. We believe that embedding environmental sustainability at the centre of our every day practices will give African Bank a competitive advantage. To this end, the focus of our policy and strategy is the operational aspects of the Bank's activities as that is our biggest contribution to CO₂e emissions and it is also our biggest opportunity to show that we are responsible stewards of the environment.

Our strategic priority areas are to:

- reduce our carbon emissions
- conserve the natural resources we use
- add valuable impact through teaching and employee engagement.

The Board's Social, Ethics and Transformation Committee (Setcom) is accountable for the Bank's environmental sustainability management and reporting. The Setcom is in turn supported by the Group's Sustainability Specialist who is responsible for providing direction for the Group's sustainability focus and developing and implementing the Bank's Environmental Sustainability policy and strategy. In 2019 the Bank aims to implement a Sustainability Committee, which will support the Sustainability Specialist and will be accountable for strategic direction.

ENERGY EFFICIENCY

Over 80% of our carbon footprint is a result of energy consumption. Since 2008 we have concentrated our efforts on reducing the amount of electricity we use through environmentally responsible technology such as LED globes, occupancy sensors, efficient air conditioning and the installation of power meters across our head office to ensure that we collect accurate energy consumption data. In 2018 we continued to drive the installation of LED globes at our Midrand Campus. Through this and other energy reduction initiatives we have reduced the energy usage by 40% at our Midrand Campus since 2008.

From the beginning of the 2018 financial year we implemented monthly reporting for branch electricity data as the first step to ensuring that the Bank's branch network contributes to minimising our energy consumption. Although we have a greater quantity of data from the previous year, data discrepancies are still a challenge due to late invoicing. We are currently investigating and sourcing a third party to manage our branch network billing to ensure consistency and accuracy through the evaluation of our power factors and consumption data per branch for the last 36 months.

Overall, our energy consumption increased during the year under review as a result of better data collection from the branches. In spite of renovations at our Midrand Campus we were able to decrease our energy consumption.

Our five-year strategy aims to:

- ensure data reliability, constant and accurate invoicing and the use of external programmable check meters
- develop a roadmap energy management plan with measurable scientifically based reduction targets
- achieve online/remote monitoring and management of branch energy data
- design minimum energy requirements for all our branches
- install 100% LED lighting in all our branches.

WE WILL DEVELOP A ROADMAP ENERGY PLAN



NATURAL CAPITAL CONTINUED

WATER MANAGEMENT AND CONSERVATION

Our water usage as a Bank is almost not material in relation to our entire carbon footprint, however, from 2017 we began calculating our water footprint and in 2018 have included it in our overall carbon footprint calculation. Our Midrand Campus continues to use water supplied by our boreholes. This has significantly reduced our dependency on the municipal council water supply and we only make use of council water supply when servicing the boreholes. To identify opportunities to minimise our branch network water usage we need to first understand our water usage through the consistent reporting and potential roll out of independent water meters. In 2018, we implemented monthly reporting of branch water usage and also conducted a water risk assessment to understand which of our branches are vulnerable to drought conditions and developed a guide to reduce our Group-wide water consumption. This year we were able to include our branch water consumption in our carbon footprint analysis.

Our five-year water reduction target is aimed at reducing the Bank's water consumption to at or below our 2008 baseline through:

- continuous monitoring of water consumption data at Midrand Campus to identify areas of potential savings, even though we are no longer using municipal water
- preparing a water conservation and adaptability plan for our branches in water scarce areas, based on the World Wildlife Fund (WWF) water assessment tool
- installing water conservation technology such as rainwater harvesting and water-efficient fixtures (toilets, urinals, faucets) where feasible.

MONITORING AND INSTALLING WATER CONSERVATION TECHNOLOGY



WASTE MANAGEMENT

In 2018 we installed recycling bins in our canteen areas at the Midrand Campus and conducted a landlord survey to ascertain what recycling initiatives are in place in our branches. We were able to recycle 66% of our waste at our Midrand Campus. Discouragingly, only 21% of landlords have implemented programmes to reduce the amount of waste sent to landfill. In 2019 we will conduct a branch specific survey to understand what kind of waste is generated by our branches and to determine how much is sent to landfill and what can be recycled or reused.

Our five-year waste reduction targets are to:

- reduce the Bank's waste generation to at or below our 2008 baseline
- achieve continuous year-on-year reductions in waste arising per full-time employee
- recycle at least 50% of the total waste produced by African Bank by 2022.

We aim to achieve this by:

- ensuring waste is measured correctly, moving away from m³ to kg or tonnes
- driving electronic communication – printing limits per employee
- developing a waste generation (including office equipment and landscape waste) baseline for the Group and ensuring that all waste is handled by legally registered waste collectors that dispose of non-recyclable waste correctly
- moving away from individual bins per employee to departmental recycling bins to drive recycling and reuse.

ENSURING WASTE IS MEASURED CORRECTLY

DRIVING ELECTRONIC COMMUNICATION

DEVELOPING A WASTE GENERATION BASELINE

SHARED RECYCLING BINS



ENVIRONMENTAL SUSTAINABILITY EDUCATION

We believe that an important part of reaching our environmental sustainability target is ensuring that African Bankers have access to formal and informal opportunities to develop knowledge, skills and an understanding of environmental sustainability challenges that will equip them to find innovative solutions for the Bank. In 2018 we aimed to create an e-Learning module for the Bank's employees, however, due to the launch of our new banking products it was postponed to January 2019.

As a first step to achieving our five-year strategy which will begin in 2019 we will focus on:

- providing appropriate training to support employees to effectively contribute to achieving the Group's environmental sustainability aspirations
- including environmental sustainability information in the new employee on-boarding pack
- adoption of an employee sustainability pledge.

PROVIDING APPROPRIATE TRAINING

SUSTAINABILITY INFORMATION



SUSTAINABILITY PLEDGE

Carbon emissions: Environmental performance indicators

Scope per greenhouse gas (GHG) protocol	FY2018 (metric tonnes)	FY2017 (metric tonnes)	FY2016 (metric tonnes)
Scope 1: Direct GHG emissions	678.35	824.02	572.00
Refrigerant gases: Head Office*	509.73	653.79	327.00
Stationary fuels (generators)	19.62	0.91	33.00
Mobile fuels (company-owned vehicles)	149.00	169.32	212.00
Scope 2: Indirect GHG emissions	21 340.65	13 940.34	14 062.00
Head Office	4 731.65	4 991.00	5 265.00
Branches	16 609.00	8 389.01	8 797.00
Scope 3: Indirect emissions	772.02	549.39	577.00
Waste: Head Office	161.00	225.00	76.00
Staff vehicles reimbursed	126.14	147.80	137.00
Business flights	356.92	123.58	319.00
Car rentals	20.95	27.04	19.00
Transportation and distribution**	79.45	18.98	26.00
Water	28.46	5.00	0
Total CO₂ emissions	22 791	15 314	15 211

* Refrigerant gases were up because a number of refills were completed this year. They will decrease as not many refills are scheduled for next year.

** Deliveries to our branches increased during FY2018 by a significant amount. In FY2019 there will be a focus on streamlining deliveries to the branch network.



06

STATUTORY REPORTING

REMUNERATION REVIEW

If we are to create shareholder value it is essential that our strategy, risks, performance and reward are aligned.

Part one: Background statement

The aim of African Bank Holdings' remuneration philosophy is to promote the achievement of our strategic objectives over the short, medium and long term by encouraging individual performance through the setting and administration of a remuneration policy, the implementation of which results in fair, responsible and transparent remuneration. It is also our aim to align our approach to remuneration with our values and the interests of our stakeholders. We refer you to page 79 of the intellectual capital section of this report for information on our Board's application of King IV Principle 14 to our remuneration governance.

79

In the view of our Remuneration Committee (Remcom) our remuneration policy achieved its stated objective of promoting the achievement of our strategic objectives. The results of our performance against our strategic scorecard set out on page 05 of this report confirm this.

05

Results of the advisory vote on our remuneration policy and implementation report

The advisory vote on our remuneration policy and the application thereof, held at African Bank Holdings' annual general meeting on 23 February 2018, was unanimously supported by our shareholders.

Internal and external factors that influenced our remuneration for 2018

The demand in the market for specialist skills has resulted in the Bank taking action to protect certain IT and project management skills and those skills that will be necessary for our digital journey.

Preparing for the launch of transactional banking has required the deployment of specialist IT and project skills, which has resulted in the implementation of retention strategies for these and key employees in the project team.

The Bank is sensitive to the risk of approach by other banks and financial institutions to those professional staff in credit risk and other areas of activity where data and actuarial/quantitative skills are required.

Areas of focus for 2018

During the year, the Remcom considered the remuneration policy and made changes to:

- the variable remuneration policy, to ensure that for executives and senior employees, a greater weighting was given to deferred short-term incentives (STIs) and long-term incentives (LTIs) in variable remuneration awards
- clarify the rules around the awards of LTIs
- clarify the role of the Remcom in the approval of certain executive and assurance provider remuneration packages.

Independent remuneration consultants

Prior to the ABH Annual General Meeting held on 23 February 2018, our major shareholder indicated that consideration should be given to implementing a long-term incentive scheme, which would provide a greater weighting to long-term incentives (LTI) in variable pay packages.

The Remcom engaged PE Corporate Services SA (Pty) Limited to advise on:

- an LTI which would promote the alignment of executives and key employees to the Bank's strategic objective
- a scheme that would have a retention ethos
- a scheme that took cognisance of risk outcomes
- a scheme that aligned to shareholder value creation.

Our future areas of focus will include:

- Review of key risk areas in terms of remuneration of key employees in leadership and specialist roles
- Further refinement of long-term incentive scheme
- Embedding the long-term incentive scheme
- Ensuring appropriate market remuneration for employees in specialist transactional banking roles
- Continued focus on ensuring equitable remuneration across all roles.

Part two: Our remuneration framework and policy

Remuneration structure and design

The aim of our remuneration framework and policy is sustainable value creation. The table that follows summarises the remuneration offered to all our employees. The short-term incentive (STI) component applies to all employees, while LTI applies to executive, senior and middle management.

Company performance hurdles and the incentive pool in respect of these hurdles are approved by the Remcom for the financial year ahead. Performance hurdles were set for the 2018 financial year based on the Group NPBT after providing for the incentive pool.

Mitigating remuneration risk

Our remuneration policy, which deferral periods (see the table that follows), for our STI and LTI schemes provides for the monitoring of risk-based outcomes over the period subsequent to the deferral and, if necessary, the application of forfeiture and/or clawback.

Total guaranteed package (fixed)																										
Purpose and link to strategy: Attract and retain talent and key employees and support our succession planning	All guaranteed money paid to individual employees monthly																									
Eligibility	All our employees																									
Remuneration methodology	Reviewed annually in October against market benchmarks Linked to: <ul style="list-style-type: none">• individual performance• the value of the contribution a particular role makes to the business• achievement of team and organisational strategic objectives																									
Benefits included in total guaranteed package (fixed)																										
Purpose and link to strategy: Improve employees' financial planning and security on retirement	<ul style="list-style-type: none"> • Provident fund • Subsidised medical aid • Death and disability benefits • Study assistance including bursaries for studies relevant to our business • Staff loans at preferential rates • Five days of paternity leave 																									
Eligibility	Basic benefits provided to all employees																									
Variable remuneration																										
Purpose and link to strategy: Variable remuneration is awarded annually to executives, identified senior management and employees in key roles	<p>In the 2018 financial year, variable remuneration awards were made in the form STIs and LTIs as follows:</p> <table border="1"> <thead> <tr> <th>%</th><th>STI</th><th>LTI</th></tr> </thead> <tbody> <tr> <td>Executives and senior managers</td><td>50</td><td>50</td></tr> <tr> <td>Senior managers and professionally qualified</td><td>67</td><td>33</td></tr> <tr> <td>Other managers</td><td>85</td><td>15</td></tr> </tbody> </table>	%	STI	LTI	Executives and senior managers	50	50	Senior managers and professionally qualified	67	33	Other managers	85	15													
%	STI	LTI																								
Executives and senior managers	50	50																								
Senior managers and professionally qualified	67	33																								
Other managers	85	15																								
Variable Remuneration STI																										
Purpose and link to strategy: Encourage a high-performing culture that promotes the achievement of our strategic objectives while practicing appropriate risk taking in the year under review	<p>Linked to individual performance, the results achieved against agreed key results areas (KRAs) and aligned to strategic objectives</p> <p>Awards are made annually, once the Group AFS are approved by the Board, usually at end November/early December, in cash as follows:</p> <table border="1"> <thead> <tr> <th></th><th>Paid on award</th><th colspan="3">Deferred</th></tr> <tr> <th></th><th>November/ December</th><th>following year June</th><th>following year December</th><th>thereafter June</th></tr> </thead> <tbody> <tr> <td>Executives and Upper Senior Management</td><td><R 2 000 000</td><td>>R 2 000 000 33.3%</td><td>>R 2 000 000 33.3%</td><td>>R 2 000 000 33.3%</td></tr> <tr> <td>Senior Managers and professionally qualified and specialist skilled employees</td><td><R 1 000 000</td><td>>R 1 000 000 50%</td><td>>R 1 000 000 50%</td><td></td></tr> <tr> <td>Middle Managers and skilled employees</td><td><R 750 000</td><td>>R 750 000 50%</td><td>>R 750 000 50%</td><td></td></tr> </tbody> </table>		Paid on award	Deferred				November/ December	following year June	following year December	thereafter June	Executives and Upper Senior Management	<R 2 000 000	>R 2 000 000 33.3%	>R 2 000 000 33.3%	>R 2 000 000 33.3%	Senior Managers and professionally qualified and specialist skilled employees	<R 1 000 000	>R 1 000 000 50%	>R 1 000 000 50%		Middle Managers and skilled employees	<R 750 000	>R 750 000 50%	>R 750 000 50%	
	Paid on award	Deferred																								
	November/ December	following year June	following year December	thereafter June																						
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Senior Managers and professionally qualified and specialist skilled employees	<R 1 000 000	>R 1 000 000 50%	>R 1 000 000 50%																							
Middle Managers and skilled employees	<R 750 000	>R 750 000 50%	>R 750 000 50%																							
Eligibility	All employees have the option of converting part of their short-term incentives to a deferred incentive, up to 50% of the total award, subject to the rules of the scheme. (The converted portion is subject to the rules of the LTI scheme)																									
Non-award of STI and forfeiture of award or any deferred portion of award, clawback	<p>The STI Pool will not be released in the event of:</p> <ul style="list-style-type: none"> • Non-achievement by the Group of its strategic or financial objectives; • Any major risk or other event which has a material impact on the financial performance of the Group will lead to either the total pool or a business unit pool being withheld; • Employees forfeit any unpaid portion of a STI following voluntary resignation or any "fault" termination (e.g. dismissal) or suspension in terms of the Group disciplinary code, prior to the payment thereof; • Where there has been proof of misconduct, the Remcom, at its discretion, may seek to recover any portion of STI awarded for performance during the period of misconduct, notwithstanding that it may have been settled. 																									

Variable Remuneration LTI	
Purpose and link to strategy: Retain and incentivise key employees by linking performance to achievement of long-term strategic objectives within the risk appetite and risk tolerance set by our Board (currently achievement of Strategic scorecard 2021 targets)	<p>LTIs are awarded annually in late November/early December, once the Group AFS have been approved by the Board.</p> <p>Awards are based on a valuation of African Bank Holdings, calculated on the present value of future cash flows. An independent valuation is undertaken annually by the Bank's auditors and presented to the Auditcom, which, once approved, makes a recommendation on its adoption to the Remcom and Board.</p> <p>LTIs are deferred and vest in equal tranches as to one-third 12 months, 24 months and 36 months after award date.</p> <p>For all participants, other than the Executive Committee participants, settlement of the tranches is made on vesting, based on the valuation of ABH at the immediate past financial year-end. These participants may retain the first and second tranches in the scheme until the vesting of the third tranche, when they are obliged to accept settlement.</p> <p>For Executive Committee participants, the first and second tranches are retained until the vesting date of the third tranche and the total award settled on that date.</p>
Eligibility	Executives, senior and middle management
Forfeiture – provides an important risk adjustment mechanism	<p>The events that lead to forfeiture and clawback in the STI scheme will be equally applied in the LTI scheme.</p> <p>The scheme's rules make provision for forfeiture and clawback of deferred incentives before payment or at payment</p>

Fair and responsible remuneration

A systematic and non-discriminatory system of rating for all roles in the Bank, using identical selected parameters, is in place. A process to ensure alignment in respect of all roles is undertaken.

In the past year focus has been placed on the basic salaries of employees in the lower grades to ensure that defensible salaries at those levels are in place, and appropriate. There has been greater weighting of salary increases at those levels.

All employees have access to a full suite of Employee Benefits.

The Bank is conscious of the need to encourage its employees to further their education and therefore provides bursary schemes and other education schemes.

Non-executive directors' remuneration

Non-executive directors (NED) fees are reviewed annually by the Remcom and where changes are justified, recommended to the Board, and if supported, to the shareholders at the AGM for approval.

In considering NED fees, cognisance is taken of actual fees paid to directors of similar sized banks, where the governance structures and activities of their boards and board committees are aligned to those of the Group.

In setting fees, the Committee further considers the nature and role of the committee and its skills requirements and weights the fees accordingly.

As a general rule, members of committees earn 40% of the fee payable to the Chairperson of the committee.

Key risk and assurance providers

The proposed remuneration and variable pay packages of the key risk officers and assurance providers are independently considered by the Remcom and approved.

Part three: Implementation report

The Remcom, which holds management accountable for ensuring that remuneration is distributed fairly, has monitored the implementation of our remuneration policy and is of the view that there were no deviations from it during the 2018 financial year.

Prescribed Officers – Remuneration

	Basic salary R	Retirement, medical aid and other R	Allowances R	Total 2018 R	Total 2017 R
Penny Futter¹ Chief Information Officer	283 500	31 500	1 000	316 000	–
Gavin Jones Group Executive: Funding and Liability Management, Treasury	2 795 246	525 838	12 000	3 333 084	3 115 812
Vere Millican Group Executive: Credit	2 841 076	309 072	21 082	3 171 230	2 847 516
Lindiwe Miyambu Group Executive: Human Capital	2 729 315	335 257	296 871	3 361 443	3 133 236
Mellony Ramalho Group Executive: Sales, Branch network	266 940	327 064	18 200	3 014 204	2 324 827
George Roussos Group Executive: Digital and Transactional Banking	3 578 898	386 836	133 697	4 099 431	3 634 532
Petrus Swanepoel Chief Risk Officer	2 907 696	396 504	–	3 304 200	3 088 032
Hendus Venter² Chief Information Officer	1 504 362	265 476	7 000	1 776 838	2 859 735

¹ Joined 1 September 2018

² Resigned 30 April 2018

Prescribed Officers – Incentive awards

	Short-term incentive award December 2016 R	Deferred incentive 2016 ¹ Paid November 2017 R	Total incentive award December 2017 R	Total Short Term incentive 2017 ³ R	Long-term Incentive ² R
Gavin Jones	1 763 644	780 702	3 982 191	1 991 096	1 991 096
Vere Millican	1 611 205	713 219	3 637 967	1 818 984	1 818 984
Lindiwe Miyambu	1 780 377	820 620	4 019 942	2 009 971	2 009 971
Mellony Ramalho	1 267 500	464 263	3 592 400	1 796 200	1 796 200
George Roussos	2 054 283	1 009 478	4 638 399	2 319 200	2 319 200
Petrus Swanepoel	1 706 834	755 550	3 961 945	1 980 973	1 980 973
Hendus Venter⁴	2 500 000	713 219	2 977 292	1 488 646	1 488 646

¹ Deferred portion of 2016 incentive award

² Incentives are awarded in November/December once the annual financial statements have been approved by the Board.

³ In terms of 2017 incentive scheme, total award split 50:50 to STI and LTI

⁴ Resigned 30 April 2018 (LTI forfeited)

Prescribed Officers – Incentive awards settlement

	Short-term incentive				Long-term incentive		
	Paid December 2017 R	Paid June 2018 R	Deferred December 2018 R	Deferred June 2019 R	Vests December 2018 R	Vests December 2019 R	Vests December 2020 R
Gavin Jones	1 991 096	–	–	–	663 699	663 699	663 699
Vere Millican	1 818 984	–	–	–	606 328	606 328	606 328
Lindiwe Miyambu	2 000 000	3 324	3 324	3 324	669 990	669 990	669 990
Mellony Ramalho	1 796 200	–	–	–	598 733	598 733	598 733
George Roussos	2 000 000	106 400	106 400	106 400	773 067	773 067	773 067
Petrus Swanepoel	1 980 973	–	–	–	660 324	660 324	660 324
Hendus Venter¹	1 488 646	–	–	–	598 733	598 733	598 733

¹ Resigned 30 April 2018

Executive Directors – Remuneration

	Basic Salary R	Retirement, medical aid and other R	Allowances R	Total 2018 R	Total 2017 R
Basani Maluleke¹ Chief Executive Officer	3 219 333	747 333	12 000	3 978 666	778 000
Gustav Raubenheimer Chief Financial Officer	3 625 473	451 059	25 500	4 102 032	3 832 275
Brian Riley² Chief Executive Officer	2 508 462	–	6 000	2 514 462	4 182 500

¹ Executive director wef 3 July 2017, CEO wef from 1 April 2018

² CEO until 31 March 2018

Executive Directors – Incentive awards

	Total Short Term incentive award December 2016 R	Deferred incentive 2016 * ¹ Paid November 2017 R	Total incentive award December 2017 R	Short-term incentive 2017 * ² R	Long-term Incentive * ² R
Basani Maluleke	–	–	994 325	497 162	497 162
Gustav Raubenheimer	2 302 963	1 017 345	4 916 808	2 458 404	2 458 404
Brian Riley	4 875 000	1 395 600	7 500 000	3 750 000	3 750 000

¹ Deferred portion of 2016 incentive award

² Ito of 2017 incentive scheme, total award split 50:50 to STI and LTI

Prescribed Officers – Incentive awards settlement

	Short-term incentive 2017				Long-term incentive 2017		
	Paid December 2017 R	Paid June 2018 R	Deferred December 2018 R	Deferred June 2019 R	Vests December 2018 R	Vests December 2019 R	Vests December 2020 R
Basani Maluleke	497 162	–	–	–	165 720	165 720	165 720
Gustav Raubenheimer	2 000 000	152 801	152 801	152 801	819 468	819 468	819 468
Brian Riley	2 000 000	583 333	583 333	583 333	1 250 000	1 250 000	1 250 000

Non-executive directors' – Remuneration

The fees to be paid to our non-executive directors for the services they render to the Company in accordance with the requirements of section 66(9) of the Companies Act, 71 of 2008 (as amended), were approved by shareholders at our annual general meeting held annually.

	2018 Group	2017 Group
	R	R
LL von Zeuner (Chairman)* ¹	1 152 585	984 323
B Maluleke* ²	852 526	293 368
SL McCloghrie	545 753	613 610
SK Mhlarhi	73 078	474 576
IS Sehoole	1 012 918	683 384
L Stephens	518 010	656 137
PJ Temple	840 731	375 815
FJ Truter	135 092	723 663
H Ralinala* ³	82 592	–
TOTAL	5 213 285	4 804 876

Fees for their services as directors are paid quarterly in arrears in November, February, May and August.

Effective from 1 May 2017, following a directive from SARS, directors who are VAT vendors are obliged to levy VAT for their services. The fees paid in the 2018 financial year include VAT paid in respect of these directors for the full financial year. In the 2017 financial year VAT was paid on the fees for four months (May to August).

*¹ Resigned 31 July 2018

*² Earned prior to appointment as an executive on 3 July 2017

*³ Appointed May 2018

*⁴ Appointed May 2018



R5 213 285

2018

NON-EXECUTIVE DIRECTORS'
REMUNERATION

R4 804 876

2017

NON-EXECUTIVE DIRECTORS'
REMUNERATION

AUDIT AND COMPLIANCE COMMITTEE REPORT

The responsibilities of the Group's Audit and Compliance Committee (Auditcom), which provides this report for the financial year ended 30 September 2018, are set out in the Companies Act and the Banks Act.

The members of the Auditcom are appointed by the Board of African Bank Holdings (ABH), as required by the Banks Act, which takes precedence over the Companies Act. There is therefore no need for membership of the Auditcom to be approved by Shareholders. Only independent non-executive directors are eligible to serve on the Auditcom. The Board performs an annual review of the Auditcom's compliance with its charter responsibilities, governance and best practice.

Members	Appointed	Resigned
Frans Truter (Chairman)	August 2015	
Sydney Mhlarhi	July 2016	
Louisa Stephens	July 2015	August 2018
Happy Ralinala	September 2018	

The Auditcom holds separate meetings with the Head: Internal Audit, Group Compliance Officer, the Chief Risk Officer and our external auditors, PricewaterhouseCoopers Inc..

The Chairman of the Board; the executive directors, who are the Chief Executive Officer and the CFO/Financial Director; and executive management are invitees to meetings of the Auditcom, but are excluded from the separate meetings held between the Auditcom and the internal and external auditors.

Execution of the functions of the Auditcom

The Auditcom has executed its duties and responsibilities during the financial year in accordance with its mandate as it relates to auditor independence, assisting the Board in its evaluation of the adequacy and efficiency of our internal control systems, accounting practices, information systems and auditing practices applied by the Group in the day-to-day management of the business.

Given the recent spate of governance failures in the South African business environment, the committee reassessed the adequacy of its terms of reference (TOR) and the functions set out in its TOR, bearing in mind the lessons that can be taken from these failures.

During the year under review, the committee considered among other matters, the following:

Financial control, accounting and reporting

- reviewed and recommended to the Board for approval the:
 - integrated report
 - unaudited interim results
 - audited annual financial statements
- reviewed changes to the impairments model in terms of the IAS principles
- reviewed information technology governance associated with the transactional banking project with a focus on change controls, AML issues and risks
- reviewed management's process and progress with respect to new financial accounting and reporting developments
- reviewed the results of the Group's internal quantitative impact studies, as well as the results and external auditor's report on the Group's IFRS 9 hard close audit process
- evaluated the appropriateness, adequacy and efficacy of accounting policies

- discussed and resolved any significant or unusual accounting matters
- reviewed the effectiveness and efficiency of tax reporting and compliance
- satisfied itself as to the expertise, resources and experience of the finance function and Chief Financial Officer.

External audit

- satisfied itself as to the expertise, experience and independence of incoming engagement partner
- assessed the independence of the external auditors
- recommended the external auditors to shareholders for appointment in compliance with the Companies Act and Banks Act
- reviewed and approved the external audit plan and external auditor's fee
- determined the nature and extent of non-audit services performed by the external auditors and the fees paid to them.

Internal Audit

- reviewed and approved the internal audit plan
- terminated the co-source arrangement with KPMG for all but one engagement
- monitored and satisfied itself as to the effectiveness of the Group's Internal Audit function
- reviewed Internal Audit's findings on the adequacy and effectiveness of the Group's internal control systems and information systems
- reviewed Internal Audit's findings on the adequacy and reliability of management information
- reviewed the transactional banking assurance processes.

Compliance

- monitored and satisfied itself as to the effectiveness of the Group Compliance function, including but not limited to the oversight and assurance provided in respect of the Banks Act and market conduct regulations
- reviewed Group Compliance's findings on the effectiveness of the Group's regulatory controls
- recommended a revision of the compliance and risk management policy to the Board for approval
- recommended the Group anti-money laundering policy to the Board for approval.

Annual financial statements

The Auditcom has:

- considered the annual financial statements with the external auditors, Chief Executive Officer and the CFO/Financial Director and reviewed the appropriateness of significant judgements and accounting policies
- recommended the annual financial statements and the integrated report to the Board for approval.

External Auditors' independence and fees

The external auditors, PricewaterhouseCoopers Inc. (PwC), have been the Group's auditors since curatorship, which was a condition of our banking licence. This mandated period expired at the end of September 2017.

PwC was awarded the external audit, following a closed tender process, for the three-year period from 2018, subject to annual reviews. This is in accordance with section 94(8) of the Companies Act. This includes taking into consideration the auditor's previous appointments and other engagements or other work undertaken.

It was a requirement of the committee that an empowerment firm be engaged by PwC so that skills transfer can be effected. A partner and professional employees of Rakoma and Associates formed part of the PwC audit team.

Specific consideration was given to the non-audit work undertaken by PwC in respect of the development of the Bank's transactional banking service offering. This non-audit work was in relation to project management and was limited solely to this function, with no strategic, executive or managerial input provided.

The committee disclosed these services and the associated fees to the Prudential Authority, and presented evidence of the measures taken to ensure the maintained independence of the auditors to the Independent Regulatory Board for Auditors.

The requisite assurance was sought from the external auditors that the internal governance processes within PwC support and demonstrate its claim of independence and this assurance was provided.

The Auditcom is satisfied with the independence of PwC.

In accordance with PwC's internal rotation policy Mr Ranesh Premlall Hariparsad has replaced Mr Thomas Magill as the designated audit partner. The Auditcom has assessed Mr Hariparsad's experience and knowledge and has satisfied itself that his appointment meets the requirements of section 22 of the JSE Listings Requirements.

Independence of the Internal Auditor

Nelan Govender CA(SA), is the Head, Group Internal Audit and is responsible for management of the Internal Audit function.

To augment our Internal Audit skills the Bank entered into a co-sourcing arrangement with KPMG. During the year the decision was taken to terminate the relationship and follow a managed transition exit. This was to allow for the inhouse function to become adequately capacitated and to ensure key assurance activities are not impacted, in particular assurance on transactional banking.

K₁₅ The Auditcom satisfied itself as to the independence of the Group's Internal Audit function in accordance with section 94(8) of the Companies Act.

Appropriateness of the expertise and experience of the CFO/Financial Director

The Auditcom is satisfied with the experience, expertise and adequacy of resources within the Finance function and of the CFO/Financial Director, Mr Gustav Raubenheimer CA(SA).

Effectiveness of internal controls

The Auditcom reviews a biannual report on combined assurance, including internal controls, provided by the Combined Assurance Committee, which is attended by representatives from finance, risk, external audit, compliance and legal. The report indicated that the Group's coverage in terms of combined assurance was adequate and that embedding of the combined assurance process is progressing well. Nothing has come to the attention of the Auditcom to indicate that there was a breakdown in the adequacy and effectiveness of the internal financial controls in place and combined assurance.

The Bank's combined assurance model and related assurance from the various assurance providers is managed through a three lines of defence model (see page 82 of the intellectual capital section of this report).

Internal controls were assessed against the:

- efficiency of operations
- reliability of financial reporting
- compliance with applicable laws and regulations (Banks Act, King IV).

The assessment indicated that controls had improved since the previous assessment in May 2017.

Solvency, liquidity and going concern

The Auditcom reviewed the going concern assessments, liquidity and solvency and related tests every quarter. The committee has made a recommendation to the Board that the Group and Company are of a going-concern status.

Key matters as reported on by the External Auditors

In respect of key audit matters reported on in the current year, the Auditcom's oversight and monitoring processes included:

- key areas of judgement
- credit risk – impairments
- credit risk – IFRS 9
- insurance risk – IBNR estimates
- impairment test on the investment in subsidiary, ABL
- going concern and liquidity test
- operational and information technology risk, including manual control environment
- regulatory and compliance risk including tax and VAT compliance

In conclusion

The Auditcom has complied with and discharged its regulatory, governance and legal responsibilities as set out in the Companies Act and Banks Act.

The Auditcom would like to extend its gratitude to Louisa Stephens for her contribution to the work of the committee from its inception, until August 2018.

Frans Truter

Chairman

Group Audit and Compliance Committee

22 November 2018

REPORT OF THE RISK AND CAPITAL MANAGEMENT COMMITTEE

The Committee was kept well-occupied during the year under review to fulfil its mandate to assist the Board in its management of risk and capital across the Bank, not only by the business as usual monitoring undertaken by the Committee on a quarterly basis, but also due to the advent of new business initiatives, changes in the regulatory environment and macroeconomic factors.

THE COMMITTEE, AIDED BY ITS SUB-COMMITTEES, THE ASSET AND LIABILITY MANAGEMENT COMMITTEE (ALCO) AND THE MODEL RISK COMMITTEE (MRC), CONTINUALLY MONITORED THE FOLLOWING ENTERPRISE RISK MATTERS:



Annual Board Risk Assessment

The Board members annually assess the most significant risks, privately, without consultation with the executives. The results are consolidated and presented to the Committee. Any risks identified, which are not already recorded in the risk register, and considered relevant are added and managed.

Risk Appetite

The Committee conducted its annual review of the Bank's risk appetite and associated metrics and some amendments and additions were made, as a result of significant new initiatives being undertaken by the Bank (such as transactional banking, omni and partnerships) as well as concerns around the macroeconomic environment.

Further, the committee placed focus on embedding the Bank's recovery plan

framework into day-to-day enterprise risk management and disseminating it down into the ALCO, MRC and Executive Committee reporting. The Bank's 2017 Recovery Plan was reviewed and updated to align to guidance provided by the Prudential Authority. The Plan and its related scenarios were approved by the Committee and subsequently the Board. The process of developing the Bank's 2018 Recovery Plan has commenced.

To further strengthen our risk and capital management processes we are also transitioning from an annual internal capital adequacy assessment process (ICAAP) to a biannual ICAAP.

Credit

From a credit perspective, macroeconomic factors apparent during the year under review led to the committee conducting a robust review of the Bank's credit models and subsequent recalibration and refinement of the models.

We further refined our view of credit by implementing a dual credit bureau assessment process, which has increased the accuracy of our modelling. In addition, through the employment of machine learning, we have been able to further segment the market and gain a better understanding of market segments in which we have not previously operated. This understanding has allowed us to improve our sales performance, despite tightening our credit policy.

The work the Bank has undertaken on understanding credit segmentation was recognised by FICO, an international data analytics company that assists the Bank with its credit modelling, and as a result, FICO invited Vere Millican, our Group Executive: Credit to give a presentation on the activities of the Bank's credit team at FICO World 2018, their annual global conferences in Miami, USA.

The implementation of IFRS9, the International Financial Reporting Standard promulgated by the

International Accounting Standards Board (IASB), has had a significant impact on our governance of credit risk and how we calculate provisioning. Previously our view of the macroenvironment was an overlay on our modelling processes; now we consider activities in the economic environment and utilise the identified aspects in building our models.

Although the Bank is only formally implementing IFRS9 in FY2019, we conducted a parallel run of IAS39 and IFRS9 standards in FY2018 in order to assess the overall impact of IFRS9. The IFRS9 models were robustly interrogated by the Finance team, the MRC, our external auditor and our Committee, and were deemed appropriate.

Information Technology (IT)

The Committee placed significant focus on IT risk during the year under review, due to the Bank's legacy architecture, development of the omni and transactional platform and the ever-increasing threat of cybercrime.

Although the omni and transactional banking initiatives are generating significant excitement within the Bank, the Committee recognised the need for comprehensive assessments of the risks associated with these initiatives. We received regular updates on the projects from both the responsible Group Executive and Internal Audit, who conducted vigorous deep-dives into the systems, processes, controls, documentation and change management.

Overall systems stability rated high on our list of potential risks, and to this end, where necessary the Bank engaged the specialised services of third parties to assist in assessing and providing opinion on mitigating the risks associated with our systems.

Capacity and skills in IT remained a challenge during the year under review, however, the necessary steps are being taken to mitigate these risks as quickly as possible, to ensure improvement in the overall support offered by IT across the business.

Early in the year under review, having recognised the increasing threat of cybercrime throughout the world, the Committee received a comprehensive report from PricewaterhouseCoopers Inc. on cyber risk. Furthermore, the Bank took guidance from the International Organisation of Securities Commission (IOSCO) on cyber resilience for financial infrastructures.

Collections

The draft National Credit Amendment Bill was identified as a future risk for the Bank and the industry as a whole. The Bill, which provides a debt relief opportunity for individuals earning less than R7 500 per month with existing cumulative unsecured debt of less than R50 000, remains under review by Parliament, but is expected to be implemented early in 2019. The Banking Association of South Africa (BASA) has made a formal submission on the Bill in terms of the constitutionality thereof and the extinguishment of property rights included in the Bill, which allows for full or part write-off of any assets.

The Committee will closely monitor this matter in FY2019 and has already commenced an assessment of the impact of the Bill on the Bank.

An additional new risk identified by the Bank during the year under review relates to the DebiCheck process. This regulatory programme is an industrywide initiative that enables individuals to approve their new debit orders (once-off and electronically) so as to prevent incorrect debit orders from being processed through their accounts. This programme will replace the current non-authenticated early debit order (NAEDO) process, likely with effect from October 2019. Currently, collections on 95% of the Bank's customer accounts are processed through NAEDO and migration of these customers to the new DebiCheck system could prove risky; however, processes and controls to mitigate the risk have been identified and implemented.

Treasury

The Committee monitored the various activities of the Treasury team during the year under review, which included maturing liabilities, net open currency position on hedges, capital adequacy, bilateral buy-backs of DMTN bonds, retail funding and a review of large exposure limits.

The previously identified liquidity risk resulted in a shareholder backed liquidity proposal being received by the Committee, and progress in this regard is well underway.

The Committee is pleased to note that Retail funding has exceeded targets during the year under review.

Governance, Compliance and Legislation

We received regular updates on governance, compliance and legislative matters throughout the year, including implementation of the Bank's Risk Data Aggregation and Risk Reporting (RDARR) programme, which is progressing according to schedule, Directors' and Officers' insurance, sale of book debt and regulatory reporting. We are comfortable that these matters are being affected and monitored appropriately, from a risk perspective.

Going forward

Having implemented the necessary risk and capital management policies and practices throughout the business, our primary risk focus in FY2019 will be on transactional banking and the risk maturity in that environment, to ensure the success of the launch of our offering to customers.

Peter Temple
Chairman

Risk and Capital Management Committee

22 November 2018

SUSTAINABILITY, ETHICS AND TRANSFORMATION COMMITTEE REPORT

The Setcom's responsibilities are set out in section 72(4) of the Companies Act, 71 of 2008 (as amended).

It assists the Board in fulfilling its obligations with regard to the application of King IV the Broad-Based Black Economic Empowerment (B-BBEE) Act (as amended) and Employment Equity Act. The committee's mandate is set out in its Board-approved charter, which is aligned to the Group's statutory and other responsibilities, as assigned by the Board. The charter is reviewed annually to ensure its relevance.

I took on the role of Chair of the Bank's Setcom for its final meeting of the 2018 financial year. I look forward to my involvement during the 2019 financial year in ensuring our committee not only meets its responsibilities but that at the same time, by providing effective and ethical leadership, it makes an important contribution to the Bank's sustainable value creation and its performance as a responsible corporate citizen.

The committee reviews quarterly reporting on its responsibilities, which include:

- monitoring and oversight of the Bank's transformation and employment equity performance against plans

- monitoring and oversight of ethics
- reviewing and monitoring compliance with and application of legislation and practices with regard to the environment, health, public safety and well-being of the Bank's employees and customers
- monitoring the Group's performance as a good corporate citizen, which includes its stakeholder relations and meeting and, where possible, exceeding its social commitments
- monitoring all aspects of the Bank's customer experience, including Treating Customers Fairly and marketing and sales ethics
- ensuring the policies and practices relevant to its areas of responsibility are adequately and appropriately formulated
- reporting to stakeholders annually on matters relevant to the Setcom.

For details of attendance at the committee's meetings during the 2018 financial year see page 16 of this integrated report.

Ethics

During the year under review our committee, which receives a quarterly report on any unethical behaviour, reviewed and approved amendments proposed to the Bank's procurement policy and company-wide procurement procedures. It also had oversight

K₂ of a review of all the Bank's major procurement contracts and vendors.

The committee reviewed proposed revisions to the policies designed to protect the Bank's employees from fraud syndicates and approved these revisions.

The committee also reviewed the communication campaign designed to encourage ethical conduct, which included SMS messaging and ethics dialogue training, which began in 2017 and continued in the year under review.

The committee received a presentation from the Bank's Brand Alignment Forum, which is responsible for monitoring ethics in its marketing activities and the practices in place

to ensure the Bank's marketing communication is ethical. The forum's membership includes the Bank's Ethics Officer.

The Bank's annual B-BBEE verification process for the 2017 year was completed in May 2018 and the Bank was awarded a Level 5 rating in terms of the new codes.

The Bank has improved its standing in four of the seven measurement elements, however, it has not as yet met the sub-minimum requirement for supplier development. Meaningful projects will be identified to affect an improvement in this score.

It is the Group's intention to achieve a Level 4 rating in the 2018 verification process.

In developing its five-year transformation and B-BBEE plan, the activities that will drive the improvement of the Bank's B-BBEE score to Level 3 and ultimately to Level 2, will be identified and initiated.

The Committee has been tasked with ensuring that we achieve our objectives in terms of the plan.

Transformation

It was clear to our committee from the reporting we received that the Bank is making good progress with its transformation plan, particularly at senior management, professionally qualified and skilled technical levels. While it did not meet its overall target at the time of submitting its report to the Department of Labour, the Bank expects to have achieved most of its targets by the time it makes its next submission.

Skills development

The skills gaps in branch management and supervisory levels that were identified by the Bank in 2016 have been addressed.

The Bank encourages its employees to pass the National Financial Advisory and Intermediary Services (FAIS) qualification, and it assists each participating employee by funding two exam attempts per employee. Good progress is being made with employees qualifying before the deadline of 2022.

The focus of skills development during the year under review has been on omnichannel and transactional banking requirements. In the new financial year, the Bank will be focusing on identifying and recognising talent and investing in the development of skills for these individuals.

Customer relationships

The Bank's success in terms of its NPS® and SAcsi scores is an indication of the good quality of our customer service levels. It also continues to perform well with regard to the six Treating Customers Fairly outcomes.

Corporate social investment

The Bank conducted a review of the impact and sustainability of all its major CSI projects during the year under review. The results of this review will guide our CSI investment in the new financial year.

During the 2018 financial year we disbanded the trust that previously managed our CSI programme and the programme is now managed internally.

Sustainability

The Bank's Environment, Health and Public Safety Charter was approved during the year under review, which will act as the mandate for the newly-established Sustainability Committee, whose members include representatives from all the business units. The Bank made progress with the collection of carbon footprint data from its branch network during the year under review.

Going forward, as the Bank starts to gain maturity and its ethos of ethics, transformation and sustainability becomes embedded throughout the business, the committee will have the opportunity to expand its activities in a meaningful way to meet the Bank's overall mission to advance lives.

I look forward to fulfilling my responsibilities as Chairman of the committee in the year ahead.

Happy Ralinala
Chairman

Sustainability, Ethics and Transformation Committee

22 November 2018



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GLOSSARY OF TERMS

ABH	African Bank Holdings Limited
ABL	African Bank Limited
ALCO	Asset and Liability Management Committee
AFS	Annual financial statements
AML	Anti-money laundering
CD	Contractual delinquency
CET₁	Common equity tier 1
CFT	Combating the financing of terrorism
CSI	Corporate social investment
DMTN	Domestic Medium Term Note
EMTN	Euro Medium Term Note
ERM	Enterprise risk management
FAIS	Financial Advisory and Intermediary Services
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act, 2001 (as amended)
IBNR	Incurred but not reported
ICAAP	Internal capital adequacy and assessment process
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IT	Information technology
King IV	King IV Report on Corporate Governance
LSM	Living Standards Measure
LTI	Long-term incentives
MRC	Model Risk Committee
NAEDO	Non-authenticated early debit order payment system
NCR	National Credit Regulator
NIR	Non-interest income
NPBT	Net profit before tax
PA	Prudential Authority
PIC	Public Investment Corporation

PoPI Act	Protection of Personal Information Act, 4 of 2013
PSI	Portfolio specific impairment
RCMcom	Risk and Capital Management Committee
Remcom	Remuneration Committee
RoA	Return on advances
RoE	Return on equity
SARB	South African Reserve Bank
SENS	Stock Exchange News Service
Setcom	Sustainability, Ethics and Transformation Committee
SI	Specific impairment
SMMEs	Small, medium and micro enterprises
SRA	Settlement and readvance
STI	Short-term incentives
TCF	Treating Customers Fairly
Techcom	Technology and Information Committee
UNGC	United Nations Global Compact
VSPs	Voluntary severance payments

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CORPORATE INFORMATION

Board of directors	Mark Harris, Sybile McCloghrie, Basani Maluleke (CEO*), Sydney Mhlarhi, Happy Ralinala, Gustav Raubenheimer (CFD)*, Brian Riley, Louisa Stephens, Peter Temple, Frans Truter *Executive director
Company Secretary	Maliga Chetty mchetty2@africanbank.co.za
African Bank Holdings Limited	(Incorporated in the Republic of South Africa) (Registered bank controlling company) (Registration number 2014/176855/06)
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Share transfer secretaries	African Bank Limited 59 16th Road, Midrand, 1685 Private Bag X170, Halfway House, 1685 Telephone: +27 (0) 11 256 9000 mchetty2@africanbank.co.za
Investor relations and financial media contact details	Markus Borner Telephone: +27 (0) 11 564 7495 Email: investor.relations@africanbank.co.za Louise Brugman Telephone: +27 (0) 11 787 3015
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Complaints and fraud	African Bank ethics toll-free line: 0800 20 20 18 African Bank ethics email address: abfraudethics@africanbank.co.za African Bank call centre number: 0861 111 011

