Annual Report 2010

A focus on our people

African Bank
INVESTMENTS LIMITED

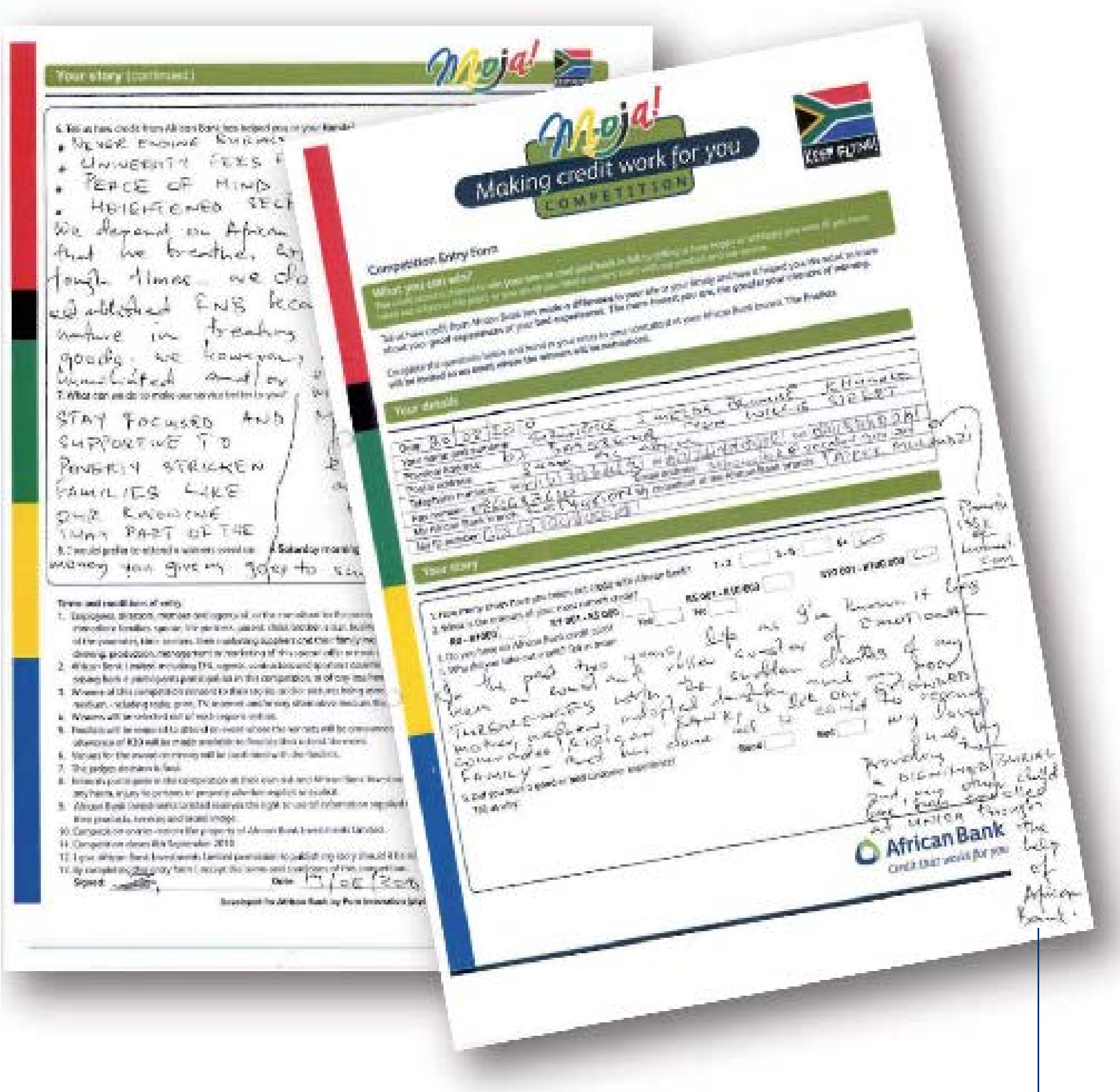
Contents Page

Annual report for the twelve months ended 30 September 2010

The African Bank business unit ('African Bank' or 'the Bank') consists of African Bank and Stangen, the group's insurance arm. It also includes other group companies reflecting the ABIL group prior to the acquisition of the EHL group. The activities of these businesses are closely related and, as a result, the outcome of their business activities is measured as one entity. In order to ensure comparability with the 2009 year, Ellerines financial services advances and related income have been disclosed under the EHL business unit in this set of results, notwithstanding the legal ownership by African Bank from September 2010. Its results will be included in the African Bank business unit from the 2011 financial year.

All photography used in this report is of ABIL staff members

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



"African Bank, is like our extended family, and has done all it could to rescue my loved ones by providing them a dignified burial. Second, my other child has been enrolled at UNISA through the help of African Bank."

Sibongile Khumalo

Group profile

ABIL is a management holding company with wholly owned businesses within the South African credit and consumer finance environment.

Our objective is to continually improve our customer proposition by translating scale and critical mass into greater customer value. To achieve this, we continue to tap significant growth channels in under serviced markets and pass the scale benefits on to customers in the form of cheaper credit and better value.

2,3 million
Credit customers

R39 billion
Total assets

15 900
Number of employees

6
Furniture retail brands

We operate through two primary businesses, African Bank and Ellerines as well as insurance subsidiaries The Standard General Insurance Company and Relyant Insurance Company.

African Bank

African Bank offers competitively priced long and short term loans, as well as credit card and credit life products to a predominantly formally employed and banked market.

ABIL's purpose is to positively impact people's lives through the provision of credit. We make it possible for people to achieve their dreams – build houses, educate themselves and their children, buy cars, furniture and appliances and help with family emergencies.

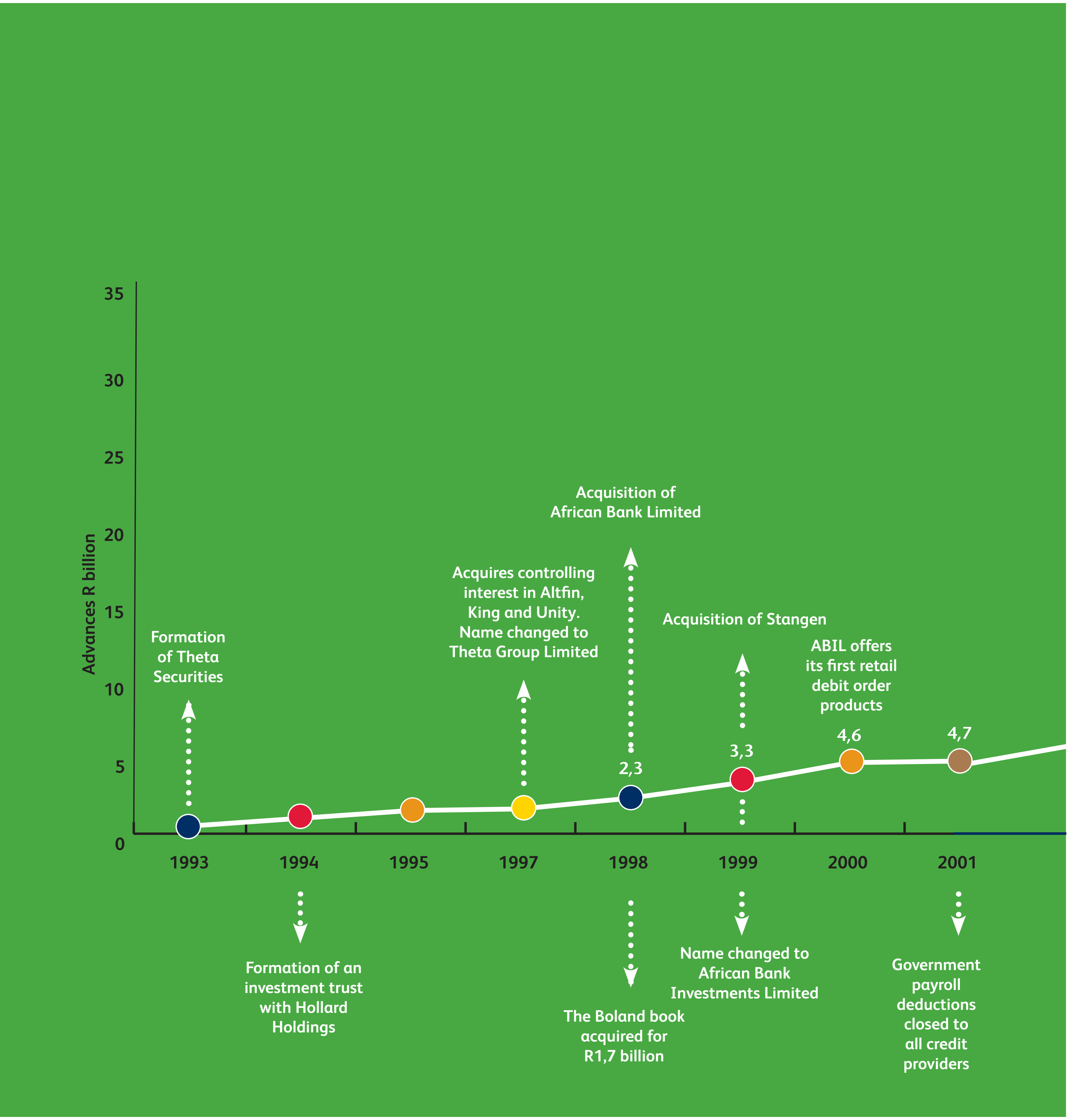
We do this by providing our customers with unsecured credit and quality furniture and household goods that are affordable.

R15 billion	**R29 billion**
Revenue	Advances book

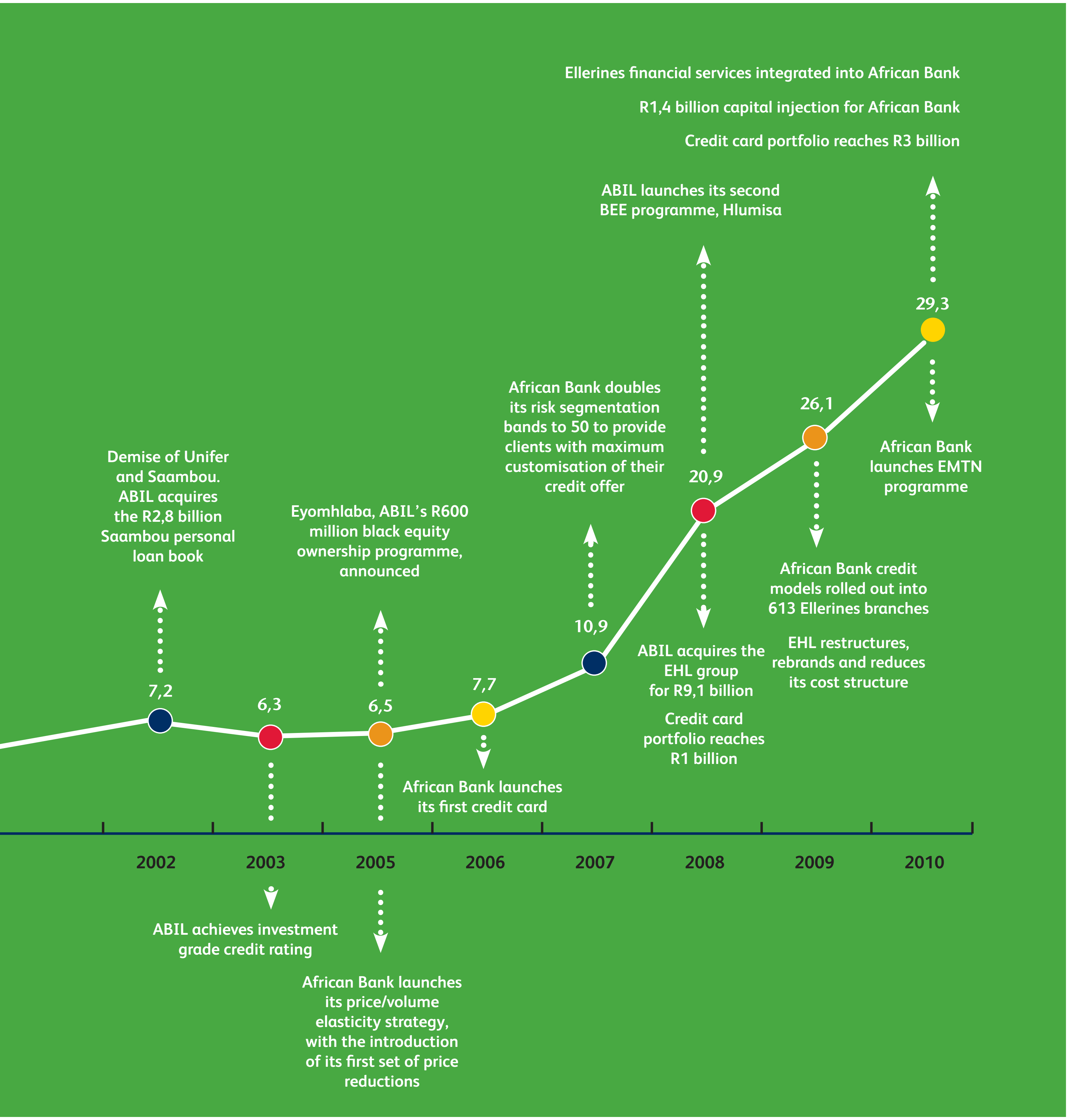
400	**114**	**1 000**
Bank branches	Kiosks	Retail stores

Ellerines (EHL) is a furniture and appliances retailer which provides affordable products and offers credit facilities through African Bank, for the purchase of its goods. It operates in the formally employed banked market, the informally employed market, as well as higher lifestyle markets than those traditionally targeted by African Bank.

Our history



Advances R billion
35
30
25
20
15
10
5
0
Acquisition of African Bank Limited
Acquires controlling interest in Altfin, King and Unity. Name changed to Theta Group Limited
Acquisition of Stangen
ABIL offers its first retail debit order products
Formation of Theta Securities
4,6
4,7
3,3
2,3
1993
1994
1995
1997
1998
1999
2000
2001
Formation of an investment trust with Hollard Holdings
Name changed to African Bank Investments Limited
The Boland book acquired for R1,7 billion
Government payroll deductions closed to all credit providers



Ellerines financial services integrated into African Bank
R1,4 billion capital injection for African Bank
Credit card portfolio reaches R3 billion
ABIL launches its second BEE programme, Hlumisa
29,3
African Bank doubles its risk segmentation bands to 50 to provide clients with maximum customisation of their credit offer
26,1
African Bank launches EMTN programme
Demise of Unifer and Saambou. ABIL acquires the R2,8 billion Saambou personal loan book
20,9
Eyomhlaba, ABIL's R600 million black equity ownership programme, announced
African Bank credit models rolled out into 613 Ellerines branches
10,9
ABIL acquires the EHL group for R9,1 billion
EHL restructures, rebrands and reduces its cost structure
7,2
6,3
6,5
7,7
Credit card portfolio reaches R1 billion
African Bank launches its first credit card
2002
2003
2005
2006
2007
2008
2009
2010
ABIL achieves investment grade credit rating
African Bank launches its price/volume elasticity strategy, with the introduction of its first set of price reductions

Key differentiators

Quality of our people	• A transparent and open culture • The courage to face up to shortcomings and address these • Committed, passionate, experienced and skilled staff
Dominant market position	• Exposed to the highest growth sector of the credit market • The largest provider of consumer finance • Scale and technical expertise • A substantial distribution network
Focus on core competence of unsecured lending	• Credit risk assumed and all other risks mitigated • Business model is kept free of unnecessary complexity • Innovation through continuous analysis of data

Strong risk management and collections capability	• Proprietary, multi dimensional credit scoring and underwriting models • Strong governance and risk management • Refined collections scorecards, 800 seat call centre, large, experienced collections team
Retail model with direct client interaction and fast turnaround	• Scoring system allows rapid credit offer and transfer to customer's bank account • Centralised credit underwriting allows swift adjustment for changes in the environment
Pricing based on individual customer risk profile	• Individual credit scoring system with in excess of 60 discrete risk bands • Ensures term and instalment size fit within customer affordability and existing commitments
Low cost operating model	• Consistent reduction in cost to assets for past five years • Interplay between risk, cost efficiency and WACC • Relationship between cost efficiency and incremental risk a key value driver for customers
High cash generation, high returns, high dividend yield	• Highly cash generative business – R5,7 billion cash from operations in 2010 • RoE focused • Excess capital managed down to minimum, while maintaining high capital adequacy ratio and modest gearing
A conservative capital, funding and liquidity management strategy	• A positive liquidity gap maintained at all times • Duration of liabilities targeted to be twice the duration of assets • 80 % of funding portfolio sourced with maturity of greater than 12 months • Does not rely on funding from the interbank market

Nine-year group financial highlights

for the 12 months ended 30 September

		2010	2009	2008	2007	2006
Key shareholder ratios						
Profit for the year	R million	**1 942**	1 855	1 560	1 375	1 176
Basic earnings attributable to ordinary shareholders	R million	**1 906**	1 803	1 511	1 334	1 140
Basic earnings per share	cents	**237,2**	224,3	210,5	268,4	229,5
Headline earnings	R million	**1 890**	1 810	1 519	1 334	1 109
Headline earnings per share	cents	**235,2**	225,2	211,6	268,4	223,3
Number of ordinary shares in issue (net of treasury shares)	million	**803,7**	803,7	803,7	497,2	496,9
Weighted average number of ordinary shares in issue	million	**803,7**	803,7	717,9	497,1	496,7
Fully diluted number of ordinary shares in issue	million	**803,8**	803,8	718,0	497,4	497,2
Number of preference shares in issue	million	**5**	5	5	5	5
Economic profit/(loss)	R million	**78**	(95)	323	1 004	808
Net asset value per ordinary share	cents	**1 542**	1 515	1 484	499	444,1
Return on assets	%	**5,1**	5,7	8,1	13,5	14,2
Return on equity	%	**15,6**	15,2	19,5	60,6	55,3
Dividends per share						
Total ordinary dividends	cents	**185**	185	210	225	200
Special dividends paid	cents	**–**	–	–	–	–
Total ordinary and special dividends	cents	**185**	185	210	225	200
Dividend cover	times	**1,3**	1,2	1,2	1,2	1,1
Payout ratio	%	**78,7**	82,2	99,2	83,8	89,6
Total preference share dividends	cents	**691**	842	1 076	890	753
Performance ratios (per RoE model)						
Total income yield on average advances	%	**35,7**	39,7	44,8	49,2	53,8
Bad debt expense to average advances	%	**9,9**	10,6	10,5	8,9	8,5
Cost to income	%	**24,7**	23,9	23,9	24,0	27,3
Cost to average advances	%	**8,8**	9,6	10,7	11,8	14,7
Assets and credit quality ratios						
Gross advances	R million	**29 334**	25 178	20 938	10 890	7 727
Total non-performing loans (NPLs)	R million	**9 103**	8 250	6 239	3 004	2 213
Total impairment provisions	R million	**5 608**	5 661	4 376	1 892	1 435
NPLs to gross advances	%	**31,0**	32,8	29,8	27,6	28,6
Total impairment provisions to gross advances	%	**19,1**	22,5	20,9	17,4	18,6
NPL coverage	%	**61,6**	68,6	70,1	63,0	64,8
Bad debt write-offs to average gross advances	%	**10,4**	7,6	6,4	5,9	6,4
Capital ratios (Basel II capital)						
ABIL group capital adequacy	%	**32,2**	37,9	31,0	32,8	35,5
African Bank capital adequacy	%	**28,9**	30,1	25,5	28,4	31,9
Cost of funds						
Average cost of funds	%	**10,5**	11,7	11,0	9,7	9,9

2005	2004	2003	2002	
943	756	660	499	Profit attributable to ordinary and preference shareholders
935	756	660	499	Profit for the period – preference dividends paid in the period
198,7	160,3	136,2	102,0	Profit attributable to ordinary shareholders/weighted number of ordinary shares in issue
948	762	680,0	511	Basic earnings attributable to ordinary shareholders – goodwill impairments – capital profits or losses of non-recurring nature
201,5	161,6	140,4	104,4	Headline earnings/weighted average number of ordinary shares in issue
495,1	472,3	474,2	489,6	Number of ordinary shares issued – shares held by the group classified as treasury shares.
470,6	471,6	484,4	488,9	Ordinary shares in issue + [(new ordinary shares issued – ordinary shares cancelled – treasury shares) x (number of days in issue/365)]
472,4	489,4	n/a	n/a	Weighted number of ordinary shares in issue + dilution from outstanding options
n/a	n/a	n/a	n/a	Number of preference shares issued/ordinary dividends per share for the period
602	397	n/a	n/a	Headline earnings – (estimated cost of equity % x average ordinary shareholders' equity)
428,6	559,1	588,1	497,1	Ordinary shareholders' equity/number of ordinary shares in issue (net of treasury shares)
13	11,6	10,6	8,9	Headline earnings/average total assets
39,7	31,3	25,9	23,2	Headline earnings/average shareholders' equity
122	92	56	30	Total ordinary dividends declared relating to the financial year
100	53	100	–	Excess capital returned to shareholders in the form of special dividends declared relating to the financial year
222	145	156	30	Total ordinary and special dividends declared relating to the financial year
1,6	1,7	2,4	3,4	Headline earnings per share (adjusted for BEE charge)/ ordinary dividends per share for the period
110,2	89,7	111,1	28,7	Total ordinary and special dividends per share/headline earnings per share
530	n/a	n/a	n/a	Total preference share dividends declared relating to the financial year
54,6	49,2	43	48,2	(Interest income + net assurance income + non-interest income)/ average gross advances
7,9	7,7	6,7	10,4	Charge for credit losses/average gross advances
28,1	30,8	36,2	36,6	Operating expenses/(interest income + net assurance income + non-interest income)
15,4	15,1	15,5	17,6	Operating expenses/average gross advances
6 454	6 129	6 314	7 166	Total outstanding advances at the end of the period excluding the partially written off book
1 642	2 246	2 625	2 990	Outstanding balance of loans that have more than three cumulative instalments in arrears excluding partially written off book
1 117	1 657	1 961	2 376	Balance of all impairment provisions (including insurance reserves) raised against advances
25,4	36,6	41,6	41,7	Non-performing loans/gross advances
17,3	27,0	31,1	33,2	Total impairment provisions/gross advances
68,0	73,8	74,7	79,5	Total impairment provisions/NPLs
19,7	13,5	13,1	12,2	Net bad debts written off/average gross advances
36,2	40,4	44,5	38,1	Group qualifying capital/group assets at risk
32,9	34,7	40,8	34,0	(Tier 1 capital + Tier 2 capital)/risk-weighted assets as per Banks Act requirements
12,2	12,7	14,5	13,5	Interest expense/average interest-bearing liabilities

Sustainability performance indicators

	ABIL Consoli-dated 2010	EHL 2010	African Bank 2010
Economic performance indicators			
Impact on customers			
Number of loans (000s)	4 124	1 373	2 751
Sales measured in loan amounts disbursed annually (Rm)	13 792	2 670	11 122
Sale of merchandise (Ellerines) (Rm)	4 487	4 487	n/a
Impact on suppliers (Rm)			
Total paid to suppliers (excluding merchandise)	2 061	1 262	799
Major sources of suppliers:			
Computer equipment and software	129	80	49
Leasehold improvements	34	16	18
Operating lease premiums: leasehold fixed property	606	509	97
Consultants and other professional fees	23	5	18
Impact on employees			
Total payroll and benefits (Rm)	1 894	1 246	648
IFRS 2 – Incentive scheme benefits (Rm)	40	–	40
Commissions to sales force (Rm)	214	180	34
Minimum wage (R)	n/a	3 000	4 650
Minimum annual bonus (R)	n/a	1 385	3 000
Impact on providers of capital (Rm)			
Total interest paid to funders	2 383		
Total dividends to ordinary shareholders	1 488		
Total dividends to preference shareholders	36		
Reserves	3 245		
Impact on public sector (Rm)			
Total taxes	940		
– SA Normal	773		
– Foreign	(3)		
– Withholding	3		
– Value added tax (VAT)	20		
– Secondary tax on companies (STC)	147		
Environmental performance indicators			
Electrical energy consumption (Midrand) (Mwh)	6 031	n/a	6 031
Social performance indicators			
Full-time employees	15 927	11 992#	3 935#
Net full-time employment creation	(1 003)	(1 462)#	459#
Employee turnover – voluntary (%)		21	9
Employee turnover – involuntary (%)		9	6
% unionised employees		36	54
Training expenditure (Rm)	16,9	8,3	13,6
Social responsibility expenditure	10,8	5,6	5,2
Political grants (R 000)	–	–	–

** 9 months*

#378 employees moved from EHL to African Bank as part of the transfer of Ellerines financial services

ABIL Consoli-dated 2009	EHL 2009	African Bank 2009	ABIL Consoli-dated 2008	EHL 2008*	African Bank 2008
3 900	1 241	2 659	3 587	1 390	2 197
12 616	2 915	9 701	11 549	1 836	9 713
4 196	4 196	n/a	3 092	3 092	n/a
2 260	1 634	626	1 793	1 286	507
113	54	59	95	35	60
36	16	20	39	17	22
592	499	93	464	383	81
41	22	19	29	17	12
1 832	1 271	561	1 559	1 028	531
76	31	45	52	(11)	63
190	146	44	126	80	46
n/a	3 000	4 200	n/a	3 000	4 200
n/a	n/a	5 000	n/a	n/a	5 000
2 025			1 313		
1 528			1 479		
52			49		
3 023			2 778		
953			988		
764			765		
8			13		
4			5		
18			56		
159	73	86	149		
6 020	n/a	6 020	5 806	n/a	5 806
16 930	13 454	3 476	19 302	15 876	3 426
(2 372)	(2 422)	50	(1 467)	(1 876)	409
	31	10		26	13
	15	5		7	5
	58	53		32	30
16,7	3,0	13,7	17,6	3,9	13,7
14,2	5,3	8,9	11,3	5,1	6,2
–	–	–	–	–	–

Key stakeholders

Our staff

3 935 employees in African Bank, up

2%

11 992 employees in EHL, down

8%

"We promise a **safe** and **challenging work environment**, fair and equitable **reward**, **ample opportunity** to develop and grow, and a community of like-minded people who want to make a difference to the society we live in."

ABIL firmly believes that building a sustainable, profitable and relevant business is based primarily on a focus on our staff. This year was the start of a journey to get close to our employees, to share our vision and to accelerate the building of a culture that is transparent and courageous, and that will face up to its own shortcomings and have the determination to tackle these challenges to the best of its ability. Our roadshows to every member of staff in African Bank have inspired us and have provided a wealth of information, innovation and energy.

We attracted almost 1 000 volunteers from all levels in the organisation to take these ideas and help us implement them in a way that would improve our working environment and our value proposition to our customers. They asked for staff to be treated as customers with regard to the credit facilities we offer to them and we are implementing a new staff loans process as a result. They suggested opportunities for branch and call centre teams to swap places for a day to help them gain insight into each other's challenges and opportunities. So far, 111 call centre and collection consultants have visited branches between May and October 2010 and 214 branch consultants and managers have visited the call centres in Midrand during the same period.

They asked for a unified front end system and we've invested over R21 million to make this a reality. It is scheduled to be tested by the end of calendar 2010 and deployed for use by June 2011. They suggested that we also run roadshows to inspire our customers and make them a real part of the African Bank family. We held five customer roadshows around the country during the past three months. The response of this engagement with our staff and our customers has inspired us to strengthen these relationships on a day-to-day basis with continuous interaction and honest discussions.

At EHL, we asked for feedback from staff after two years of very substantial restructuring, changes in leadership, changes in processes and general disruption. People felt it was a much better place to work, offered more opportunity and freedom to perform, had a more relaxed atmosphere, better working conditions and benefits and importantly, that the group was much better positioned to compete effectively.

Some of the other highlights of the year included:

- We conducted 17 720 training interventions during the year;
- A medical aid subsidy was implemented for all African Bank staff in 2010 and has been improved upon in 2011;
- African Bank became a SETA accredited training provider;
- A variety of learnership development programmes were implemented to up-skill current staff and recruit unskilled and unemployed citizens;

- EHL established a Leadership Development Forum;
- A group wide Human Capital Forum was launched to focus on our people development and satisfaction;
- Current top talent and budding talent were identified and programmes are being implemented to help them achieve their potential;
- Good progress was made on succession for key seats in ABIL;
- *ABmag* won an award as Best Internal Magazine nationwide; and
- Wage negotiations were concluded amicably.

In our engagement with our employees, concerns that were raised related to compensation and benefits, development and growth, transformation and stability and security. We have heard these concerns and we are committed to deal with them in an open and honourable way.

Our customers

We promise affordable, responsible and hassle free credit to our customers. We will develop products to meet customers' every credit need. We will give the smallest instalment for the biggest loan size and provide flexible repayment options. We will empower customers to make good credit calls and work with them if they find themselves in financial difficulty. We will listen!

Where we offer retail products, we will provide quality products that satisfy our customers' lifestyle aspirations at the most affordable credit pricing.

	African Bank	EHL	Total
Total customers	1 800 000	952 000	2 300 000*
New credit customers	314 000	250 000	564 000

** Approximately 17% overlap in customers between the two businesses*

Our roadshows highlighted a multitude of aspects that could be addressed to improve the value to customers, from new products and services, to enhancements to current products and changes to our front end and service delivery processes. Emanating from this, various projects have already been implemented, including the introduction of a 'payment break' product and increases in maximum loan sizes from R50 000 to R100 000, to better accommodate customers with a need for housing related or vehicle finance. The Bank is piloting the roll-out of its own branded network of ATMs, with the first ATM installed in September 2010. Various other product launches and enhancements have also been introduced, as discussed in the Strategic review on page 31.

In addition to a range of 'special deal' credit offers that were deployed during the year, EHL has recently introduced cash 'top-up' products in the stores. Customers buying furniture are now able to access any unutilised credit offer at the same price as their furniture deal, which effectively gives customers access to the cheapest stand-alone credit in the market. EHL has also recently introduced stand-alone credit to customers who may require funds for other purposes. New products are being tested and will be brought to the market during the 2011 financial year.

A variety of measures were implemented this year to safeguard the group's customers against financial distress – we further improved the assessment of customers' affordability, established a financial rehabilitation centre to assist over-indebted customers, worked closely with interested parties to find a sustainable solution for the debt mediation process and developed a credit health check to warn customers that are moving towards an over-indebted situation. The group piloted various mobile initiatives to keep customers informed of the status of their financial obligations and launched three 'Imali Matters' Money Advice offices as part of a year-long pilot in customer protection, in joint venture with the DTI, Finmark Trust and the Credit Ombudsman.

We also cleansed the credit records of more than 400 000 customers and rehabilitated 78 000 customers. ABIL extended its credit insurance policies to cover customers, not only for death, disability and unemployment, but also during periods of short time and compulsory unpaid leave – situations that can create severe financial distress. The group continues to explore ways to improve its insurance product as a value enhancement for customers.

Ten new African Bank branches were opened during 2010 and another 30 are scheduled to open during the first quarter of the 2011 financial year. African Bank kiosks were piloted within EHL stores during the year and the first 114 kiosks were rolled out in the last quarter of the financial year. The Bank is planning a full roll-out to all appropriate EHL stores during 2011, which is expected to more than double African Bank's footprint at relatively low cost.

EHL introduced new look and feel stores across all brands for an improved shopping experience. Merchandise ranges were updated and product quality and differentiation improved. It also developed a range of "private label" products with local assembly to reduce product prices. Packaged solutions were particularly well received by customers this year. Please refer to the EHL operational review on page 85 for more information.

In addition to the physical distribution network, the African Bank and EHL call centres handled close to 12 million incoming and outbound calls during the year and African Bank granted 36 000 web-based loans.

Across the group, our customers' main concerns continued to revolve around pricing, service excellence and product quality; and areas that were highlighted as requiring improvement covered proactive communication and dialogue, speedier resolution of complaints and paperless and simpler internal processes.

Our capital providers

We undertake to continue to build the group into a sustainable credit provider of scale, which uses capital efficiently and conducts business responsibly. We will maintain balanced, transparent disclosure and keep investors and funders informed about the affairs and prospects of the company, to the best of our ability.

Shareholders

58%	42%	7%	5%
Local shareholding	International shareholding	BEE shareholding	Shareholding by directors

We maintained regular contact with a range of capital providers throughout the year through results presentations, conference calls, investor conferences, webcasts, and in excess of 184 one-on-one investor meetings.

We provided unrestricted investor access to management at both of our major operating businesses, whilst ensuring equitable and transparent dissemination of material information.

Discussions with our investors focused mainly on customer growth in African Bank, the extraction of value from the acquisition of EHL and the integration of its financial services activities.

Funders

R24 billion

of funding

>40

domestic funders

R14,7 billion

of bonds issued through African Bank's DMTN programme to date.

EMTN programme listed on the London Stock Exchange during 2010.

We broadened the range of domestic debt providers to the group, and laid the foundations for attracting foreign based debt capital.

We built further on our conservative approach to both capital adequacy and liquidity, while reducing our overall weighted average cost of capital. Our credit ratings assigned by Moody's Global Investors Service were maintained.

We were proud to receive an award from the Investment Analyst Society for best investor relations in our industry segment, but took note of a decline in ABIL's ratings in the bi-annual Campbell Belman perception survey amongst investors and the media.

Unions

The group has recognition agreements with

- SACCAWU (EHL – South Africa);
- NUCCAW (EHL – Lesotho);
- NUCIW (EHL – Zambia);
- CAWUSWA (EHL – Swaziland) and
- SASBO (African Bank)

"We promise fair and transparent labour practices and open and honest engagement with unions."

African Bank staff unionised

54%

Staff at EHL-RSA unionised

36%

Wage negotiations were again concluded without any labour disruptions.

Contact with unions was maintained through branch and regional interactions, meetings, consultations, national consultative forums and national negotiating councils. The main concerns from unions during the year related to job security, retrenchments, change management, salary increases, employment equity and employment creation.

Suppliers

The group has a proud reputation as a reliable and prompt payer. We maintain strong, long term relationships with suppliers that fulfil our requirements. We have a specific focus on smaller suppliers whom we assist in terms of longer term contracts, the funding of machinery, cash advances on order and support through their cash cycle, to ensure their sustainability.

Our journey to more environmentally friendly sourcing is in its infancy. Renewable timber resources are utilised in our imports and at Wetherlys, but has not yet been implemented elsewhere in our merchandising. A group-wide quality control office is being set up that will set minimum standards for a comprehensive list of procurement items and score potential suppliers based on their product quality, governance and safety practices, transformation credentials and use of renewable resources.

The group maintains contact with suppliers through regular supplier meetings, presentations and trade shows. Executives are involved in the selection of smaller suppliers. The main concerns of suppliers centre around the lead time to deliver products, delivery efficiencies, trading terms and margins and business performance.

4 429 suppliers

R4,9

billion spent

"We undertake to show good faith in our dealings with our suppliers, to settle our obligations promptly, and to provide a reliable channel to markets."

Regulators

We commit to conduct our businesses practices in a way that is fully compliant with the laws and regulations that apply to us. We pledge cooperation and active participation in forums that will make our industry a more sustainable one.

The group is regulated by the SA Reserve Bank (Registrar of Banks and NPSD/PASA), the Financial Services Board, the Financial Intelligence Centre, the JSE Limited and the National Credit Regulator.

The group maintains interaction with all regulators through frequent contact and submissions as well as active involvement in industry level engagements on pertinent legislative and regulatory issues.

The main concerns from regulators during 2010 related to the debt review process under the National Credit Act, to interpretative issues in the National Credit Act pending an Appeal Court declaratory ruling and to the application of the FAIS Act in the EHL group and African Bank environments.

Communities

The group maintains ongoing interaction with the communities it is involved in, through dedicated community development officers (at EHL) and quarterly meetings between communities and African Bank. CSI projects received a renewed focus and impetus this year with the broadening of the scope of the community projects in African Bank to also include projects in KwaZulu Natal. The Mathomo-Mayo food garden in Ivory Park won the Department of Agriculture's "Gauteng Female Farmer of the year" award for the second year running.

"We pledge to be a socially responsible and humane corporate citizen, that invests in our communities and that will continue to make progress to minimise the negative impact we have on the environment we operate in."

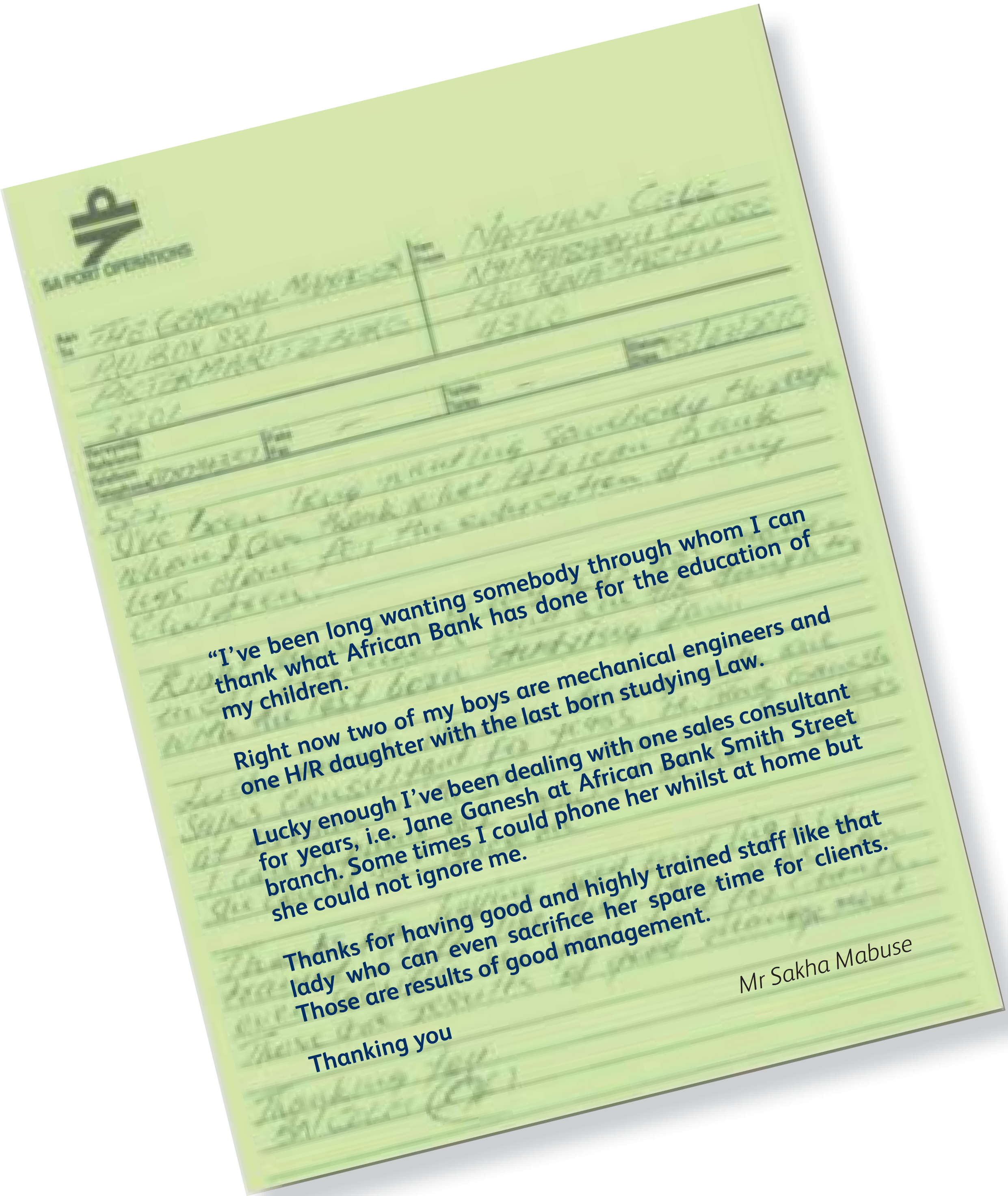
CSI expenditure of
R10,8
million
1 250 employee volunteers in African Bank
EHL launched employee contribution scheme

EHL employees launched a monthly voluntary contributions scheme to benefit nominated non-profit organisations country wide this year, while employee volunteerism for African Bank community projects more than doubled to 1 250 people.

The main concerns from community forums remain capacity building within the communities, the sustainability of support from corporates, further involvement from employees, more information on who benefits from the investments and greater impact of funds invested.

Please see our web-based sustainability report for details of our corporate social responsibility programmes.


HAVE Nothing



"I've been long wanting somebody through whom I can thank what African Bank has done for the education of my children.

Right now two of my boys are mechanical engineers and one H/R daughter with the last born studying Law.

Lucky enough I've been dealing with one sales consultant for years, i.e. Jane Ganesh at African Bank Smith Street branch. Some times I could phone her whilst at home but she could not ignore me.

Thanks for having good and highly trained staff like that lady who can even sacrifice her spare time for clients. Those are results of good management.

Thanking you

Mr Sakha Mabuse

Letter to stakeholders

This year was the start of a journey to reinvigorate the organisation and to get closer to our staff and our customers. During the year, we embarked on a series of nationwide roadshows to all employees and large groups of customers to reinforce the founding vision of the business 17 years ago and share the sense of commitment and deeper meaning about what the group stands for. The principal message to our staff and to our customers was that we were not in the business of simply selling loans, but of empowering fellow South Africans and helping them to fulfil their dreams. In this context, we needed their feedback and passion to continuously improve on what we offer as a service provider and an employer. The response we got from these roadshows exceeded all our expectations and the group has already embarked on projects to implement many of the ideas to improve our value to customers, our service and ABIL as a workplace.

At the time that the group was created, the majority of South Africa's population did not have access to housing, electricity and quality education, or the means to acquire these important building blocks to a better quality of life. One of the solutions, in our view, was to provide people with access to unsecured credit.

We dedicated ourselves to taking risk on people where no one else was prepared to. From 1999 to 2010, the group engaged with over 5 million customers and had cumulative sales of R57 billion. Independent research estimates that at least half of this money was used for incremental housing, while more than 2 million loans were provided for education.

To ensure sustainability, this access initially came at a high price to our customers, to compensate for the unknown risks and lack of scale in our business at the time. We realised that we had to grow our business to scale, in order to be able to pass the cost benefits on to our customers and provide greater utility of credit. Scale or critical mass enables efficiency in each of the three pricing components of our pricing, namely the cost of capital, risk, and overheads. In this regard, it is pleasing to note that the 55 % average all-in rate a customer was charged in 2005 has steadily reduced to 35 %.

We don't have a mindset of scarcity – in 2004, the total market size was estimated at R49 billion and our advances book was R5 billion. Today the market is estimated to be in excess of R100 billion and our advances book has increased to R29 billion. We intend to continue to grow the market (and our advances book) by relentlessly improving our value proposition to customers and to access pockets of the market that are underdeveloped. Of the R1 trillion credit market in South Africa, 67 % relates to mortgages and 13 % to car loans. While these two categories represent 80 % of the value of the credit market, they only constitute 20 % of the number of credit transactions, implying that the majority of people are still not able to satisfy their total credit need. It is our purpose to continue to address this to the best of our ability.

Our objective in the coming year will be to focus on our responsibility to our customers and our staff, and implement a variety of initiatives to improve our offering. We understand that the very existence of our business is dependent on our ability to continue to deliver value not only to our customers, but to all stakeholders, and that sustainable growth can only be achieved through paying greater attention to the world in which we operate.

Overview of the year

The first six months of this financial year was characterised by generally subdued economic conditions and lower consumer spending resulting from sizable retrenchments across a variety of industries. These conditions necessitated a continuation of the lower risk appetite that the group maintained during the 2009 financial year and the group reported muted growth in sales and profitability at the interim stage. These factors were further exacerbated by a complex restructuring at EHL. While trading conditions remained tough in the second half, greater

Izincwadi zababambiqhaza

Unyaka-mali odlulileyo ngokuqinisekileyo ungachazwa 'njengonyaka wabantu' – kubasebenzi bethu kunye nabathengi bethu. Ngelixa lonyaka, sithe saqalisa inkqubo zendlela kuzwelonke kubo bonke abasebenzi bethu kwakunye namaqela amakhulu abathengi ukumilisela ukufumana umbono weshishini iminyaka eli-17 eyadlulayo yaye sabelane ngomoya wokuzimisela nentsingiselo enzulu yokuba iqela limele ntoni. Umyalezo ophambili kubasebenzi nabathengi bethu ibikukuba besingekho kwishishini nje lokuthengisa imali-mboleko kodwa elokuxhobisa aboMzantsi Afrika nokubanceda ukuzalisekisa amaphupha abo. Kulo mxholo besifuna iimpendulo kwanobutsha-ntliziyo bokuphucula ngokuqhubekekayo oko sikunikezayo njengomboneleli ngenkonzo kwanomqeshi. Impendulo esiyifumeneyo kwezi nkqubo zendlela zithe zangaphaya kobesikulindele yaye iqela sele liqalisile ngeeprojekthi ukumillisela uninzi lweengcamango ukuphucula ixabiso lethu kubathengi, inkonzo yethu kwakunye ne-ABIL njengendawo yokusebenza.

Ngexesha iqela ebeliqulunqwe ngalo, uninzi lwabemi boMzantsi Afrika belingenalo ufikelelo kwizindlu, umbane kwakunye nemfundo esemgangathweni, okanye iindlela zokufumana zinto ezibalulekileyo zokwenza ngcono ubulunga bobomi. Esinye sezisombululo, kuluvo lwethu, ibikukubonelela abantu ngokufikelela kwikhredithi engakhuselwanga.

Sizinikele ekuthatheni umngcipheko kubantu apho bekungekho namnye ungomnye ebekulungele ukwenza oko. Ukusuka ngowe-1999 ukuya kowama-2010, iqela eliqulethe ngaphezu kwezigidi ezi-5 zabathengi nelithe lanentengiso ezongezelelekileyo ezizigidigidi ezingama-57. Uphando oluzimeleyo luthekelela ukuba okungenani ihafu yale mali yasetyenziswa kulwandiso lwezindlu, ngelixa ngaphezu kwezigidi ezi-2 zeemali-mboleko zithe zanikezelwa kwezemfundo.

Ukuqinisekisa ukugcinakala, olu fikelelo luqale ukuvela ngexabiso eliphezulu kubathengi bethu, ukuze kubuyekezelwe imingcipheko engaziwayo kwakunye nokunqongophala kwesikali kwishishini lethu ngelo xesha. Sithe safumanisa ukuba kufuneke sikhulise ishishini lethu kwisikali ukuze sikwazi ukudlula iinzuzo zeendleko kubaxhasi bethu yaye sinikeze ngekhredithi eluncedo kakhulu. Isikali okanye isambuku esinobunzima senza kubekho impumelelo kwixabiso ngalinye leekhomponenti ezintathu zokuxabisa kwethu, ezizezi indleko yekhapitali, umngcipheko kwakunye neendleko ezingaphezulu zeshishini. Ngokumayela noku kuyancumisa ukuqaphela ukuba i-avareji yeepesenti ezingama-55 kuwo wonke umlinganiselo umthengi ebebizwe wona ngowama-2005 uthe wehla ngokuzinzileyo waya kuma kuma-35 eepesenti.

Asinayo ingqondo yokunqaba – ngowama-2004 itotali yesayizi yemakethi yathekelelelwa kwizigidigidi ezingama-R49 yaye incwadi yethu yokunyuswa koboleko ibezizigidigidi ezi-R5. Namhlanje imakethi ithekelelwa ukuba ngaphaya kweizigidigidi ezili-R100 yaye incwadi yethu yokunyuswa koboleko inyuke yayakuma kuma-R29 ezigidigidi. Sijolise ekuqhubeni nokukhulisa imakethi (kwakunye nencwadi yokunyuswa koboleko) ngokuthi siphucule ngokungenalusizi isindululo sexabiso sethu kubathengi nokuthi sifikelele kwiipokotho zemakethi engakhulanga ngokwaneleyo. Kwikhredithi yesigidi sezigidi zezigidi ezi-R1 kwimakethi yoMzantsi Afrika, ama-67 eepesenti anxulumene nezivumelwano zokubambisa yaye i-13 leepesenti kwiimali-mboleko zemoto. Ngelixa ezi ndidi zimbini zimele ama-80 eepesent exabiso lekhredithi yemakethi, bamisa ama-20 eepesenti kuphela enani lekhredithi zentengiselwano, okuthetha ukuba uninzi lwabantu alukabinako ukwanelisa isidingo sabo setotali yekhredithi. Yinjongo yethu ukuqhuba nokusombulula oku kangangoko sinako.

Injongo yethu kunyaka ozayo iyakuba kukugxila kuxanduva lwethu kubathengi bethu nakubasebenzi bethu, nokumilisela iintlobo ngeentlobo zamanyathelo okuqala ukuphucula unikezo lwethu. Siyaqonda ukuba kwankqu ubukho beshishini lethu kuxhomekeke ekukwazini kwethu ukuqhubeka ukuhambisa ixabiso hayi kubathengi bethu nje kuphela, kodwa kubo bonke abanini-zabelo yaye ukukhula okugcinakalayo bungathi buzuzwe ngokuqwalasela okumandla kwihlabathi apho sisebenza khona.

risk segmentation and a significant reinvigoration of the business had a positive impact on sales and advances growth for the remainder of the year.

Group headline earnings increased by 4% to R1 890 million, as did headline earnings per share to 235,2 cents. Average ordinary shareholder's equity grew to R12,1 billion, with the group return on equity (RoE) improving marginally from 15,2% to 15,6%.

Headline earnings for the African Bank business unit were R1 505 million. Income from operations grew by 8%, with a 20% growth in advances partially offset by a 360 basis points decline in total income yield. Total charges against income reduced by 220 basis points, driven by improvements in the bad debt charge, operating expenses and funding cost as a percentage of advances. The return on assets (RoA) declined from 7,7% to 5,7% which, together with increased gearing of 7,8 times, produced a return on equity of 44,8%.

EHL reported headline earnings of R385 million. The retail division achieved a turnaround in profitability on the back of sales growth, stronger margins and efficiency gains. Good credit sales growth was offset by write offs, resulting in flat advances. This, combined with a decline in income yields and a higher cost allocation, generated lower earnings for the financial services division. EHL generated a return on equity of 9,6% for the period (excluding goodwill).

Black economic empowerment

ABIL's first black economic empowerment programme, Eyomhlaba, was augmented with the launching of its second plan, Hlumisa, in 2008. Both programmes targeted a broad base of black shareholders, with the majority of the participants being black employees of the group.

The two programmes have been growing steadily, acquiring additional ABIL shares through dividend payments and a further offer to Hlumisa shareholders in November 2009. This offer was oversubscribed and R79 million raised versus a target of R68 million. Hlumisa issued an additional 15 million ordinary shares as a result of the offer. Since 1 October 2009, Hlumisa purchased a further 3,5 million ABIL shares and now owns 18,7 million shares or 2,3% of ABIL.

Eyomhlaba paid its second dividend to shareholders in March 2010. It also purchased a further 1,6 million ABIL shares during the year. Eyomhlaba now holds 38,9 million shares or 4,8% of ABIL.

Eyomhlaba and Hlumisa shareholders will be able to sell a portion of their shareholding to other black investors from January 2011. Further information regarding the trading of these shares will be posted to those shareholders in due course.

Corporate social investment

For as long as South Africa remains deeply affected by poverty, disease, illiteracy and unemployment, a definitive spectrum of social upliftment and economic development programmes is essential to provide relief to our poorest communities. It is therefore vitally important for financial institutions like ABIL to increase our support of poverty alleviation programmes, such as housing development, education and skills development, if we are to ultimately improve the quality of life of previously disadvantaged communities around the country.

It is within this context that African Bank has focused on interventions within two adopted communities, the first being Ivory Park located near our head office in Midrand, Gauteng, and the second being James Village near King William's Town in the Eastern Cape. The projects undertaken in these areas cover aspects such as setting up small vegetable farms and gardens to promote self sufficiency, growing a chicken rearing enterprise and a bakery, revamping centres for orphans and pre-schools, supplying basic sanitation, training unemployed youths to become

Isishwankathelo sonyaka

Iinyanga ezintandathu zokuqala zalo nyaka-mali ubuphawulwe ziimeko zezoqoqosho ezidambileyo kwanokuchitha imali okuphantsi komthengi okukhokelele kudilizo lwabasebenzi okukhulwana noko kwiintlobo ntlobo zamashishini ngeli thuba. Ezi meko zenze kwayimfuneko ukuqhubekeka nokungathandi okukhulu okungamandla iqela elithe lakugcina ngonyaka-mali wama-2009 yaye iqela linike ingxelo emi ngxi kukhulo kwintengiso nakwingeniso ngethuba lexesha lethutyana. Ezi fektha zithe zenziwa mandundu lulungiso ngokutsha oluntsokothileyo e-EHL kwakunye nenqanaba lokwaneliseka e-African Bank. Ukwahluka okukhulu komngcipheko kwanokunika amandla amatsha abalulekileyo kwishishini kube nefuthe elihle kwiintengiso yaye kwanyusa ukukhula kwihafu yesibini yonyaka.

Imivuzo yamanqaku aphambili eqela yonyuke ngesi-4 seepesenti ukuya kwisigidi esi-R1 890 ngenxa yezifektha zingasentla, njengoko yenzile imivuzo yamanqaku aphambili ngesabelo ngasinye ukuya kuma-235,2 eesenti. I-avareji yobulungisa besabelo esiqhelekileyo sikhule sayakuma kwi-R12,1 sezigidigidi, kwanobulungisa bembuyekezo yeqela (RoE) iphucuka ngokungenamsebenzi ukusuka kwi-15,2 leepesenti ukuya kwi-15,6 leepesenti.

Imivuzo yamanqaku aphambili yecandelo leshishini le-African Bank ibisisigidi esi-R1 505. Ingeniso ikhule ngeepesenti ezisi-8, nanjengoko ama-20 eepesenti zokukhula ekunyukeni bekulinganiswa ngokungenamkhethe ngama-360 esiseko samanqaku olandulo kwitotali yengeniso evelisiweyo. Itotali yendleko kumvuzo ezincitshiswe ngama-220 esiseko samanqaku esiqhutyezelelwe ziimpucuko kwintlawulo yamatyala amabi, iinkcitho ezisebenzayo kwakunye nendleko zenkxaso njengepesenti yezonyuso. Imbuyekezo kwii-asethi (RoA) zehliswe ukusuka kwisi-7,7 sepesenti ukuya kwisi-5,7 seepesenti esithi xa sihlanganisiwe kunye nezixhobo zamaxesha asi-7,8 zivelise imbuyekezo kubulungisa bama-44,8 eepesenti.

I-EHL inike ingxelo kwimivuzo yamanqaku aphambili ezigidi ezingama-R385. Ulwahlulo lwentengiso luzuze utshintsho ebelungalindelekanga kwingeniso kumva wokukhula kweentengiso, iimajini ezingamandla kwakunye neenzuzo ezinempumelelo. Ukukhula kwekhredithi elungileyo yeentengiso bekungalinganiswanga ngeelahleko ukhokelela kunyuselo oluphantsi. Oku kuhlanganisiwe nolandulo kwingeniso evelisiweyo kwakunye nokubekwa kwendleko okuphezulu, kuvelise imivuzo ephantsi kwiinkonzo zemali zolwahlulo. I-EHL yenze ingqokelela yembuyekezo kubulungisa besi-9,6 seepesenti ngelo thuba (kungaquki ilungelo elinikwa ngumthengisi weshishini ukuba umthengi abe ngumlandeli wakhe).

Ugunyaziso loqoqosho lwabantsundu

Inkqubo yokuqala ye-ABIL yogunyaziso loqoqosho lwabantsundu, i-Eyomhlaba yandiswa ngokundulula isicwangciso sayo sesibini, iHlumisa ngowama-2008. Zombini ezi nkqubo zithagethe isiseko esibanzi sabo bantsundu banenxaxheba nesabelo kwishishini noninzi lwabathabathi nxaxheba abangabasebenzi abantsundu beqela.

Ezi nkqubo zimbini bezisoloko zikhula ngokungaguqukiyo, zizuza izabelo ezongezelelekileyo ze-ABIL ngeentlawulo zezahlulwa kwakunye nomnikelo ongaphaya kwabanenxaxheba nezabelo kwiHlumisa ngoNovemba wama-2009. Lo mnikelo uthe wafunwa ngokugqithisileyo yaye ama-R79 ezigidi aqokelelwa ngokuthelekisa nethagethi yama-R68 ezigidi. IHlumisa yakhupha i-R15 lezigidi ezongezelelekileyo zezabelo eziqhelekileyo njengesiphumo somnikelo. Oko kwangomhla woku-1 Oktobha 2009, iHlumisa yathenga ezinye izabelo ze-ABIL ezingaphaya zezigidi ezi-R3,5 yaye ngoku ingumnini zabelo ze-R18,7 lezigidi okanye iipesenti ezi-2,3 ze-ABIL.

I-Eyomhlaba yahlawula izahlulwa zayo zesibini kwabo banenxaxheba nezabelo kwisishini ngoMatshi 2010. Yaphinda yathenga esinye isigidi se-R1,6 sezabelo ze-ABIL ngalo nyaka. I-Eyomhlaba ngoku ibamba izigidi ezingama-R38,9 ezabelo okanye isi-4,8 seepesenti ze-ABIL.

Abanenxaxheba nezabelo kumashishini i-Eyomhlaba neHlumisa bayakubanako ukuthengisa inxenye yenxaxheba nezabelo zabo kwishishini kwabanye abatyali-zimali abantsundu ukusuka ngoJanyuwari 2011. Ulwazi olungaphaya ngokuphathelene norhwebo lwezi zabelo luyakubhengezwa kwabo banexhaxheba nezabelo kwishishini kwangethuba.

builders, and revamping sports fields to act as community hubs. The programme will be expanded to KwaZulu Natal in the coming year and we are continuously looking for other initiatives to make a lasting impact.

The Ellerine Holdings Trust Fund has also continued to benefit communities through early childhood development projects, product donations, the funding of its Ellerines community development centre providing education and training to 120 students, life skills training to underprivileged groups and enterprise development, amongst others.

For more details on these projects, please refer to the Sustainability report available on our website.

Changes to the board of directors

There were no changes to the board of directors during the year under review.

Dave Woollam, who has been on a leave of absence for much of this year, has requested that upon his return to the group, he change his role from that of a full time executive, to one that would allow him to act as an advisor to ABIL. His reasons for this are based on a personal lifestyle choice, which we respect. Accordingly, Dave Woollam will resign from the boards of both ABIL and African Bank with effect from 31 December 2010 and will rejoin ABIL in his new capacity in the new year. Dave will work closely with Leon Kirkinis and the other ABIL executives, and we believe will continue to bring his considerable insight and knowledge of the business to bear on various strategic opportunities and challenges.

Appreciation

We would like to thank our employees for their commitment and enthusiastic response to our call to share our vision. To our customers and other stakeholders, we reinforce our commitment to continue to provide real value to you and we thank you for your support over the past year.

Outlook

Whilst economic conditions are expected to remain challenging, we do expect some improvement during the next financial year as lower inflation and interest rates start to stimulate consumer spending.

For African Bank, the recent lift in sales bodes well for the 2011 financial year.

The Bank is targeting an acceleration in its sales and advances growth, a moderate decline in yield, a more efficient application of cash resources and steady asset quality. The card division will concentrate on promoting credit cards to the EHL customer base, increasing call centre sales and improving the value proposition for existing customers. The Bank is targeting modest growth in operating costs for the next financial year. The final outcome will depend on the extent to which the Bank will be able to negate sales induced increases in variable costs, such as card transaction costs, collections and sales commissions, through cost cutting initiatives elsewhere.

The Bank's focus areas for 2011 will include:

- Becoming more people centred with regard to our staff;
- Increasing the number of new customers;
- Building on the recent sales momentum;
- Reducing operating expenditure;
- Reducing the average costs of funds;
- Enhancing the branch collection capabilities and branch empowerment programme;
- Focusing on the rehabilitation of customers in financial distress; and
- Improving client service levels and streamlining customer processes.

Utyalo-mali lequmrhu lentlalo

Oko nje uMzantsi Afrika usachaphazeleka ngokunzulu yindlala, izifo, ukungabinamfundo kwanokungaphangeli, ububanzi obugqibeleleyo bophakanyiso lwentlalo kwaneenkqubo zophuhliso loqoqosho zibalulekile ukunikeza ukuphumza kuluntu lwethu olusweleyo kakhulu. Ngoko ke kubaluleke kakhulu ukuba amaziko ezemali afana ne-ABIL ukunyusa inkxaso yethu kwiinkqubo zokudanjiswa kwendlala, ezinjengophuhliso lwezindlu, imfundo nophuhliso lwezakhono, ukuba besinokuphucula ekugqibeleni ubulunga bobomi bolo luntu luhlelelekileyo kwilizwe lonke.

Kukulendawo apho u-African Bank athe wagxila khona kulamlo kwiindawo ezimbini zoluntu ezithe zamkelwa, eyokuqala iyi-Ivory Park emi kufuphi ne-ofisi yethu engundlunkulu eMidrand, eRhawutini yaye eyesibini iyiJames Village kufuphi naseQonce eMpuma Koloni. Iiprojekthi ezithenjisiweyo kwezi ndawo ziquka iinkangeleko ezinjengokuseka iifama ezincinci zemifuno kunye neegadi ukukhuthaza ukuzimela, ukukhulisa iinkukhu ukukhulisa ishishini kwakunye nendawo yokubhaka, ukulungisa amaziko ukulungiselela iinkedama kwakunye nezikolo zabasakhulayo, kunikezwa ngezococeko ezisisiseko, kuqeqeshwa ulutsha olungaphangeliyo ukuze lubengabakhi, yaye lulungise amabala ezemidlalo ukusebenza njengoluntu. Le nkqubo iyakwandiswa iye naKwaZulu Natala kunyaka ozayo yaye siyaqhubeka ukujonga amanye amanyathelo amatsha ukwenza ifuthe elingapheliyo.

U-Ellerines Holdings Trust Fund uthe waphinda waqhubeka nokunceda uluntu ngeeprojekthi zophuhliso zobuntwana zaphambi kwexesha, iminikelo ngemveliso, inkxaso ngemali kwiziko lophuhliso loluntu lwayo lwe-Ellerines lunikeza ngemfundo noqeqesho kubafundi abali-120, uqeqesho lwezakhono zobomi kumaqela ahlelelekileyo nakuphuhliso leshishini phakathi kwamanye.

Ngeenkcukacha ezithe vetshe ngezi projekthi, nceda ubhekise kwingxelo yeCSI efumaneka kwiwebhusayithi yethu.

Utshintsho kubalawuli bebhodi

Azange kubekho lutshintsho kwibhodi yabalawuli kunyaka ophantsi kohlolo.

UDave Woollam obesoloko esekhefini lokungabikho ikakhulu kulo nyaka uthe wacela ekubuyeni kwakhe kwiqela, watshintshela indima yakhe yokuba ngumlawuli osisigxina kuleyo eyakumvumela ukuba asebenze njengomcebisi we-ABIL. Izizathu zakhe zoku zisekelwe kukhetho lwakhe lwendlela yakhe yobuqu yokuphila, esiyihloniphayo. Ngokunjalo uDave Woolam uyakuthi arhoxe kuzo zombini iibhodi eye-ABIL neye-African Bank ukusuka ngowama-31 Disemba 2010 yaye uyakuphinda ajoyine i-ABIL kwisikhundla sakhe esitsha kunyaka omtsha. UDave uyakusebenza ngokusondeleyo noLeon Kirkinis kwakunye nabanye abalawuli be-ABIL yaye sikholelwa ukuba uyakuqhubeka ukuzisa ingqiqo yakhe kwakunye nolwazi lweshishini ukulungela amathuba awohlukeneyo obuchule kwanemicelimngeni.

Umbulelo

Singathanda ukubulela abasebenzi bethu ngokuzimisela kwabo kwanokusabela kwabo okunomdla kwikhwelo lethu lokwabelana ngombono wethu. Kubathengi bethu kwanabanye abanini-zabelo, similisela ukuzibophelela kwethu ukuqhubeka nokubonelela ngexabiso eliyinene kuni yaye siyanibulela ngenkxaso yenu kunyaka odlulileyo.

Uqikelelo

Ngelixa iimeko zoqoqosho zilindeleke ukuba zihlale zinemicelimngeni, silindele uphucuko oluthile kulonyaka-mali uzayo njengoko ukuhla kwamandla emali kunye neenzala kuqala ukukhuthaza ukuchitha komthengi ekuthengeni.

Ku-African Bank ukunyuka okutsha kwakamvanje kwiintengiso kunxuba kakuhle kunyaka-mali wama-2011. Ibhanki ithagethe ukunyuka kwesantya kwiiseyile zayo nakukhulo lwayo okumandla, kulandulo oluphakathi oluvelisiweyo, kwisicelo esifaneleke nangakumbi semithombo yemali kwakunye nobulunga be-asethi obungaguquguqukiyo. Icandelo lamakhadi liyakugxila ekukhuthazeni amakhadi ekhredithi kwisiseko somthengi kwi-EHL, kunyusa iintengiso zeziko lonxibelelwano ngomnxeba yaye kuphucula isindululo sexabiso kubathengi abasele bekhona. Ibhanki ithagetha ukukhula okuncinane kwiindleko zokusebenza zonyaka-mali ozayo. Isiphumo sokugqibela siyakuxhomekeka kubungakanani apho iBhanki iyakubanakho ukukhanyela iintengiso ezidaliweyo kusandisa iindleko ezahlukeneyo, ezifana neendleko zamakhadi entengiselwano, iingqokelelo kwakunye neekomishini zeentengiso, ngokuncwela iindleko zamanyathelo okuqala kwezinye indawo.

EHL's priorities for the retail part of the business for the next year will remain on margin delivery, stock, working capital and cash management, supply chain optimisation and sales growth while, as its credit provider, African Bank will concentrate on providing EHL with differentiated lowest price credit and innovative value added products to its customer base. The merchandising focus for 2011 will be on product innovation to drive higher margin opportunities, on developing strategic supplier relationships, growing the imported component of the business in order to ensure differentiation and enhance margins, and on bringing a number of new opportunities to fruition.

The table below sets out ABIL's medium-term financial objectives, specifically a targeted return on equity in excess of 30 %. Against the group RoE of 15,6 % reported in 2010, there is clearly still much work to be done.

Financial objectives for 2011

Objective	Actual 2009	Actual 2010	Target 2011	Medium-term target (Rolling 4 years)
Merchandise sales	R4,2 bn	R4,5 bn	>8,5 %	R8 bn – R9 bn p.a.
Advances growth	31 %	20 %	>25 %	> 15 % CAGR
Return on equity	15,2 %	15,6 %	>18 %	>30 %

Ultimately, the success of these targets rests on the shoulders of the 15 900 staff members of the group and their ability to provide market leading products and services to our customers. We expect to make satisfactory progress towards our medium term objectives in the coming year.

ABIL's vision remains to positively impact our customers' lives through access to unsecured credit. Improving the utility of the credit through larger amounts, longer terms and lower pricing is central to this vision. To achieve the latter, the group needs to continue to increase the scale of its activities. The integration of Ellerines financial services into African Bank has set the platform from which the group will be able to explore new opportunities and access broader markets. We fully intend to exploit these opportunities in the years ahead, for the benefit of our loyal and growing customer base.

On behalf of the board

Mutle Mogase
Chairman

Gordon Schachat
Executive deputy chairman

Leon Kirkinis
Chief executive officer

Iindawo iBhanki ezakugxila kuzo kowama-2011 ziquka:

- Ukujonga kakhulu ebantwini ngokuphathelele nabasebenzi bethu
- Ukunyusa inani labathengi abatsha
- Ukwakha kwimmentam yeentengiso zakutsha nje
- Ukunciphisa inkcitho esebenzayo
- Ukunciphisa i-avareji yeendleko zeengxowa-mali
- programme Ukukhuthaza uqokelelo lokubanakho kwesebe nenkqubo yogunyaziso yesebe
- Ukugxila ekubuyiseleni isidima kubathengi abakuxinzelelo lwezemali
- Ukuphucula amanqanaba enkonzo yomxhasi nokufezekisa iinkqubo zomthengi.

Izinto ze-EHL ezisemqoka zenxenye yentengiso yeshishini yonyaka ozayo ziyakuhlala kuhanjiso lwemajini, kwisitokhwe, kusebenza ikhapitali (inkunzi) nabalawuli bemali ezinkozo, impumelelo kwitsheyini lokunikeza nokukhula kwentengiso ngelixa njengomnikezi wekhredithi u-African Bank uyakujonga ekunikezeni u-EHL ngekhredithi zamaxabiso aphantsi awohlukeneyo kwanexabiso elizisa okutsha longeziwe kwiimveliso kwisiseko sabathengi bayo. Ugxilo lorhwebo lowama-2011 luyakuba kwimveliso ezisa utshintsho olutsha ukukhuthaza amathuba aphezulu emajini, ekuphuhliseni unxulumano lomnikezi olunobuchule, ukukhulisa ikhomponenti efunyenwe kwelinye ilizwe ukwenzela ishishini ukuze kuqinisekiswe iyantlukwano nokukhuthaza imajini nasekuziseni inani lamathuba amatsha kwimpumelelo.

Itheyibhile engezantsi ibonisa injongo yezemali yethemu ephakathi ye-ABIL, ingakumbi imbuyiselo kubulungisa obuthagethiweyo ngokugqithe ama-30 eepesenti. Ngokuchasene neqela iRoE le-15.6 leepesenti elixelwe ngowama-2010 ngokucacileyo kusekho umsebenzi omninzi ekusafanele ukuba wenziwe.

Iinjingo zezemali zonyaka wama- 2011

Injongo	Incam yowama- 2009	Incam yowama- 2010	Ithagethi 2011	Iithagethi zethemu ephakathi (Iminyaka emi-4 eqhubayo)
Iintengiso kwimpahla ezithengwayo nezithengiswayo	R4,2 bn	R4,5 bn	>8,5 %	R8 bn – R9 bn ngonyaka
Ukukhula konyuso	31 %	20 %	>25 %	> 15 % CAGR
Imbuyiselo kubulungisa	15,2 %	15,6 %	>18 %	>30 %

Ekugqibeleni impumelelo yezi thagethi ilele emagxeni amalungu ali-15 900 abasebenzi beqela nokubanakho kwabo ukunikeza iimveliso eziphambili zemakethi kwaneenkonzo kubathengi babo. Silindele ukwenza inkqubela phambili kwiinjongo zethemu yethu ephakathi kunyaka ozayo.

Umbono ka-ABIL usahleli unefuthe elihle kwiimpilo zabathengi bethu ngofikelelo kwikhredithi engakhuselwanga. Ukuphucula uncedo lwekhredithi ngezambuku ezikhulu, iithemu ezinde namaxabiso aphantsi kusisizekabani kulo mbono. Ukuzuza isiqingatha, iqela lifuna ukuqhubeka nokunyusa isikali semisebenzi yaso. Umanyano lweenkonzo zemali zika-Ellerines kwezakwa-African Bank kuseke iqonga apho iqela liyakubanakho ukuhlola amathuba amatsha yaye lifikelele kwiimakethi ezibanzi. Sijolise ngokupheleleyo ukuwasebenzisa ngamandla la mathuba kule minyaka izayo ukuze sizincede kwintembeko yethu kubathengi nokukhulisa isiseko sabathengi bethu.

Egameni lebhodi

Mutle Mogase
Usihlalo

Gordon Schachat
Usekela Sihlalo

Leon Kirkinis
Umlawuli oyiNtloko

Strategic review

In addition to the focus on our people, the key focus areas during 2010 are listed below, together with a discussion of the progress made in those areas.

Key focus areas	Progress in 2010
Maintain a foundation of financial strength	ABIL continued to benefit from its conservative approach to capital management during this period. It ensured stable credit ratings, a steady flow of available funding, and a reduction in the cost of funding. Total funding increased to R23,9 billion by September 2010, up 30 % from R18,4 billion in the prior year, primarily to support the growth in the advances book. Cash holdings have been particularly significant during the year under review, not only in response to the muted global liquidity environment, but also to ensure sufficient capacity to deal with the implications of the integration of the Ellerines financial services business into the Bank. The group continued to explore and execute a number of new initiatives in order to expand the universe of its funding sources. To this end, African Bank initiated a range of new funding relationships during the year under review. As at 30 September 2010, the group's internal capital model indicated an optimal level of regulatory capital for the ABIL group of R7 137 million, or 26,3 % of assets at risk. Against this ABIL's higher total capital base of R8 735 million (after impairments for goodwill and trademarks) will enable the group to maintain its growth momentum.
Maintain and develop an appropriate skills base	African Bank implemented initiatives this year to identify its top talent and broaden the range of training available to its staff. Its training became BANKSETA accredited. Executives engaged with employees across the organisation during the year, which had a positive effect on the culture and motivation of staff. Benefits were improved to include a medical aid subsidy for all staff members. Whilst the total number of staff in EHL has reduced on the back of brand consolidations and the closure of unprofitable stores, it has also focused on attracting significant additional retail skills. In some of the brands, managing executives have been replaced and in all brands executive teams bolstered with management sourced from across the retail spectrum. Succession planning has progressed well with successors in place for all key seats in the brands and at group level. The executive teams of ABIL and African Bank were also reorganised and strengthened towards the end of the financial year.

Key focus areas	Progress in 2010
Grow our customer base through product and service innovation	The group has not yet made enough headway in growing its customer base. While some growth in new customers was achieved during the year, the total number of clients on the book reduced through substantial net write offs. The focus on this aspect of our business has intensified, primarily through product and service innovation. A major segmentation project was implemented and attention was centred on ways to extract value from the African Bank/EHL partnership. The focus thus far has been on providing new value-adding products to the customer base and in this regard, the group has already implemented a cash top-up product and a product that offers the customer a once-off repayment holiday. Several other products are being piloted and more details will be provided when they are launched. Greater flexibility was introduced in EHL with no deposit and deferred instalment campaigns. In addition, the price reductions and new credit proposition have given EHL the ability to launch 'lowest instalment product' campaigns. This has been particularly successful in bringing in new customers and has also stimulated sales of merchandise. New customers represent 50 % of the Ellerines' through the door population. The group has also been piloting African Bank kiosks and branches in EHL stores and the initial results in terms of attracting new customers have been positive, with little cannibalisation of the existing base. Kiosks are being rolled out to a wider network of stores.
Integrate the financial services activities of EHL into African Bank	The integration project was finalised during the 2010 financial year. EHL's South African stores were converted onto African Bank's credit origination platform. The collections and call centre activities of the two entities were combined and a single, central credit risk management function was created. The financial services business of EHL was also transferred to African Bank in September 2010. The transaction was an important milestone in the realisation of the group's strategic objectives for the EHL acquisition. Through the transaction, ABIL subscribed for further ordinary shares in African Bank resulting in R1,4 billion of unimpaired new capital for the Bank.
Re-invigorate EHL's retail offering	Following on the initiatives undertaken in 2009 to reposition the brands within the EHL group, this year's main focus areas were on further reducing the cost base and implementing strategies that improved the value to the customer. Cost savings were achieved across most areas of the retail division and the further optimisation of the distribution network received attention. Substantial work was done on the implementation of the new integrated supply chain. Merchandising ranges were rationalised, renewed and focused around identified customer segments as part of the merchandising strategy to drive product leadership. The business also focused on delivering differentiated, lowest price credit offerings for each brand. These initiatives have started to bear fruit as is evidenced in the increase in sales and the turnaround in profitability of the retail business unit.

Strategic initiatives for 2011 and beyond

ABIL

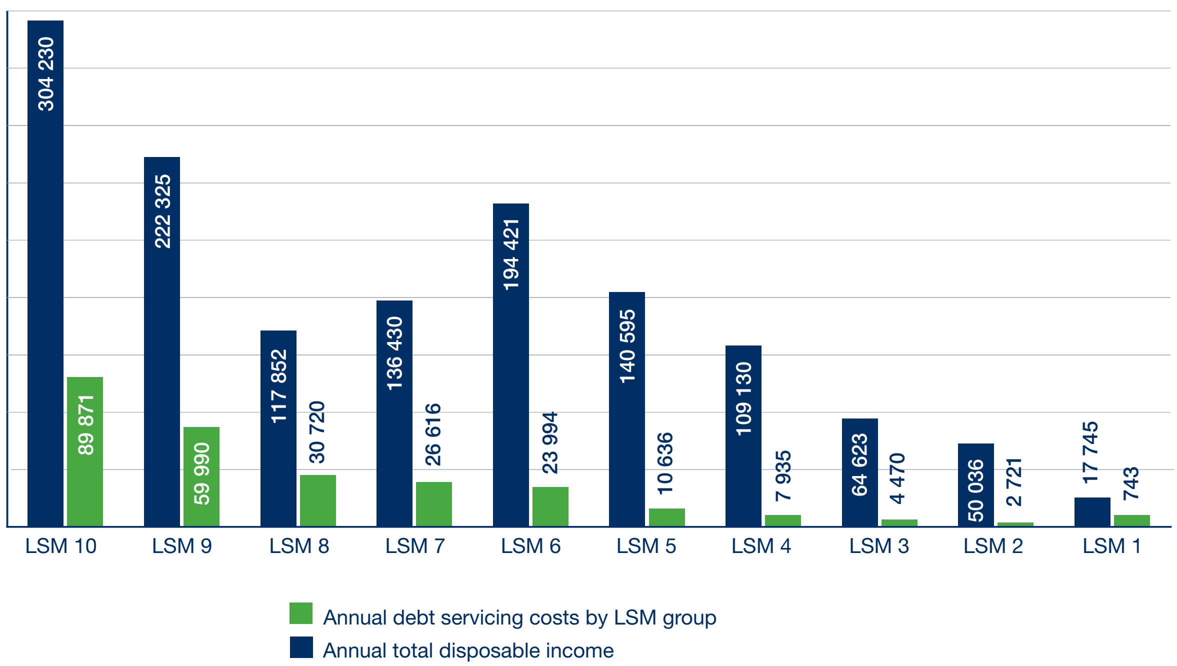
ABIL has defined itself as a management holding company within the South African credit and consumer finance environment which has wholly owned businesses, as well as an intention to pursue partnerships and alliances as channels to market.

Following from this strategic intent, ABIL's financial objective is to more than double the size of its business in the next four years and to deliver a return on equity of greater than 30% on this base.

We believe there is significant opportunity in our target market. In 2008 the annual disposable income of the South African population was R1 357 billion. Debt servicing costs made up R258 billion, of which about R15 billion was collected by ABIL, representing a share of wallet of 6%. The graph on the next page shows the total disposable income and debt servicing portion. The low ratio of debt servicing payments to total disposable income is an indication of the extent that the lower LSMs are underserved.

With our low cost strategy and ability to manage risk, we believe we can not only grow our share of wallet but also increase the overall wallet size. By continuing our tradition of taking risk on people where no one else is prepared to, we can provide opportunities for people to build houses, own cars or educate their children.

Annual total disposable income and debt servicing payments by LSM 2008, Rm



Broadly the following are the main strategic objectives for ABIL for the next financial year:

- Integrate and optimise the African Bank operations;
- Transform the value proposition and delivery model of the Bank to service a broader market;
- Grow the client base of the Bank and convert EHL customers into African Bank customers as well;
- Build EHL into a premier cash retailer; and
- Expand ABIL's presence in the retail footprint in South Africa.

African Bank

The African Bank business unit's strategic intent is to positively impact people's lives through the provision of credit. We want to make it possible financially for people to achieve their dreams. In order to differentiate ourselves in the mind of the customer, we strive to provide "the best deal" to customers.

African Bank's 'best deal' promise

Responsible lending

We will empower customers to make good credit calls and rehabilitate 'bad luck' customers back to financial health.

Access

We aim to, over time, give credit to everyone – a 100 % approval rate. For some people our promise is conditional on them changing their financial behaviour.

We will make credit available 24/7. We will develop credit products to meet every customer need and service customers through their lifecycle of credit needs.

Fast and easy

We will design our front and back end processes to make interactions with us hassle free.

Affordability

We will be the cheapest. We'll give the smallest instalment for biggest loan size with flexible repayment options.

African Bank's strategic focus cascades from ABIL's vision. The strategy can be summarised as follows, to:

- Strive to be the lowest cost producer – ensuring operational cost efficiencies and translating this into the lowest prices for our customers;
- Maintain and optimise our higher risk appetite through superior underwriting and collections;
- Be pervasive by developing products and channels to allow anytime, anywhere access;
- Improve customer acquisition and retention through an increased focus on customer understanding and communication; and
- All of the above will be underpinned by:
  - People strategies with particular emphasis on leadership development, decision making, personal empowerment and development of black management; and
  - Efficient and scalable information technology.

With regard to EHL, African Bank's strategic imperative in the short to medium term is to leverage the EHL footprint and customer base to provide value added credit to all EHL customers. The main new product development initiatives for 2010 were driven by the Bank's key themes above. Several initiatives were implemented to enable EHL customers to access credit from the Bank. These included the integration of access to credit/cash within the retailer footprint, in particular enabling customers to obtain additional cash with their furniture purchases easily and seamlessly. Initiatives under the access theme included a 'cash top-up' product, EHL standalone credit and other products in pilot phase, which will be communicated to the market as they are rolled out more sustainably.

African Bank has developed new processes and mechanisms to enable customers to enjoy a better credit experience with the Bank. It has redesigned and is busy developing a new loan origination and customer platform for deployment in the Bank and in EHL. African Bank branded ATMs have also been developed and are being rolled out.

The Bank is finalising a 'quick-quote' mobile service for customers. The same service has also been developed for staff of EHL brands, which will enable sales staff to better interact with furniture shoppers. A mobile/cellular phone service to enable Bank customers to quickly and cheaply obtain account information has also been developed. Card customers can also use the facility to buy airtime as well as stop cards if lost or stolen.

The Bank has launched a 'payment break' loan offer, where customers can elect to defer loan repayments until a future date.

We have also implemented a variety of initiatives to assist customers who are in financial difficulty, including involvement in the debt mediation process and a CURE unit to offer support to African Bank's over indebted and financially distressed customers to become financially fit and credit active again outside of the debt mediation arena, amongst others.

Ellerines

EHL's strategic intent is to be a South African retail group, managing a number of retail chains, distributing a relevant range of furniture and home furnishings to the lower, middle and upper income target markets through dominant, highly differentiated chains. The chains are supported by centralised centres of excellence that leverage synergy opportunities across the group.

EHL's purpose is to provide affordable quality furniture to customers through a pervasive low cost network of conveniently located stores, and thereby improve the quality of their lives. With the integration of financial services complete, the overarching strategic imperative for the EHL business unit is to continue to build and grow a profitable retail business.

Main areas of strategic focus

	Achieve a low relative cost base. Substantial cost savings have been achieved over the last three years, but opportunities still exist to drive unproductive costs out of all EHL systems, processes and structures
	Build and maintain a pervasive and efficient footprint
	Strive for operational excellence, particularly related to: • Branch experience – look and feel • Credit processes and credit delivery • Sales processes
	Develop supply chain excellence through the roll-out of a logistics strategy
	Continue with progress in product leadership by exploring ways and means to provide the best quality product at the right price to our client base

For more information on the initiatives that are being implemented to build on each of these areas, please refer to the EHL operational review on page 83 of this annual report.

Credit remains a key enabler for customers in their furniture purchase. Cascading from ABIL and linked to African Bank, the key strategic focus relating to credit is to offer customers a superior credit offer that is differentiated by brand and is:

- Lowest priced;
- Best access; and
- Hassle free.

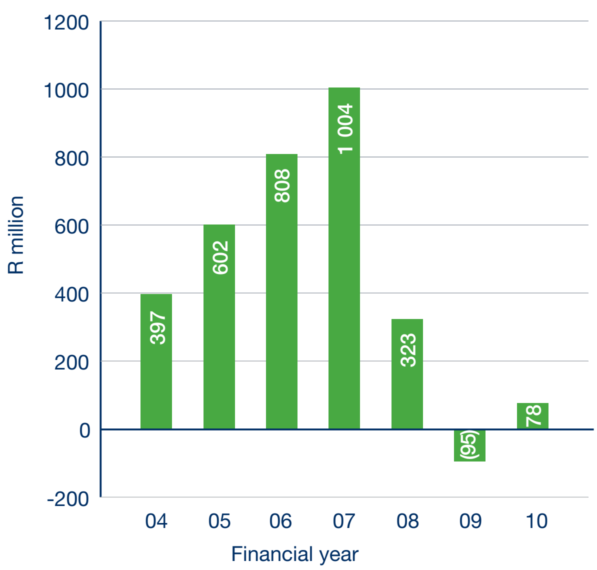
Opportunities also exist in EHL to leverage the African Bank customer base to offer better value added retail credit and furniture products.

Financial review
Results at a glance

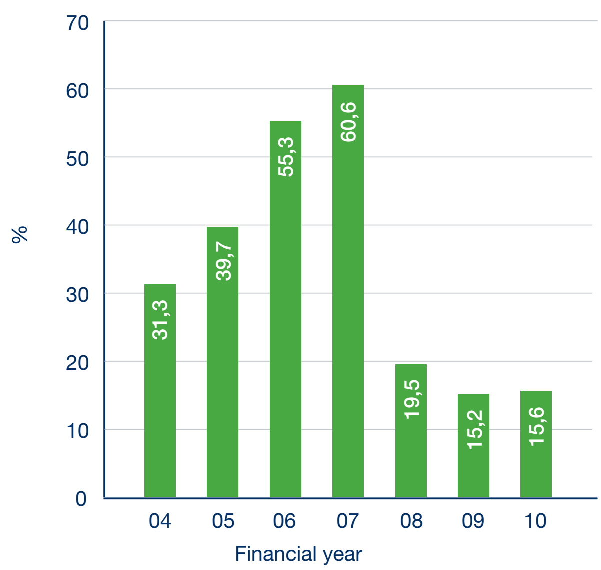
Features

- ABIL reported a return on equity of 15,6 % for the twelve months to 30 September 2010 (2009: 15,2 %).
- The group generated headline earnings of R1 890 million (2009: R1 810 million) and headline earnings per share of 235,2 cents (2009: 225,2 cents), an increase of 4 % respectively.
- A final ordinary dividend per share of 100 cents (2009: 100 cents) was declared, bringing the dividend for the year to 185 cents (2009: 185 cents).
- African Bank headline earnings declined marginally to R1 505 million (2009: R1 525 million), with higher profits in the second half of the year not sufficient to offset the lower growth in the first half.
- EHL headline earnings increased by 35 % to R385 million (2009: R285 million), benefiting from firmer sales and margins, a lower bad debt charge and a further decline in operating expenses.
- The integration of Ellerines financial services into African Bank was completed in September 2010.

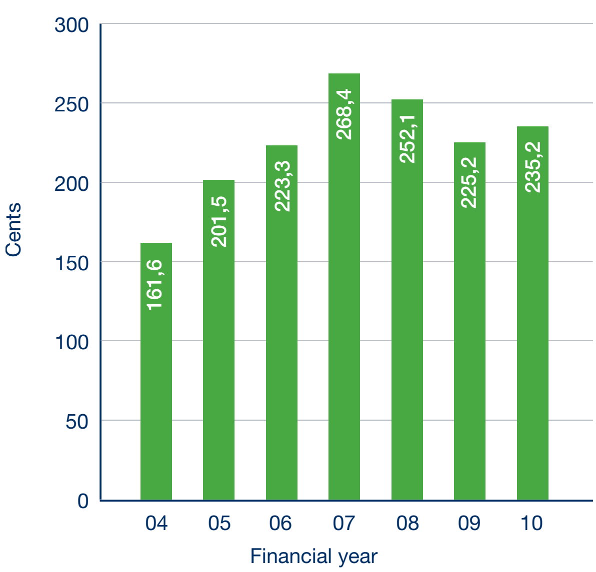
Economic profit



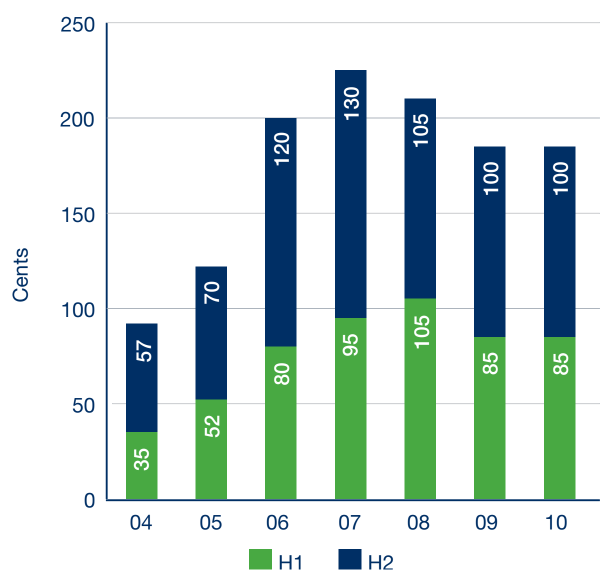
Return on equity



Headline earnings per share



Ordinary dividends per share



African Bank Investments Limited

Financial statistics

for the 12 months ended 30 September 2010

		% change	Audited 2010	2009
Key shareholder ratios				
Headline earnings	R million	4	**1 890**	1 810
Headline earnings per share	cents	4	**235,2**	225,2
Fully diluted headline earnings per share	cents	4	**235,1**	225,2
Number of ordinary shares in issue (net of treasury shares)	million		**803,7**	803,7
Weighted number of ordinary shares in issue	million		**803,7**	803,7
Fully diluted number of ordinary shares in issue	million		**803,8**	803,8
Number of preference shares in issue	million		**5,0**	5,0
Average ordinary shareholder's equity	R million	1	**12 083**	11 909
Return on equity	%		**15,6**	15,2
Economic profit/(loss)	R million		**78**	(95)
Net asset value per ordinary share	cents	2	**1 542**	1 515
Tangible net asset value per ordinary share	cents	5	**758**	721
Regulatory capital per Basel II				
Risk weighted exposure	R million		**25 848**	19 772
Minimum regulatory capital required	%		**19,5**	19,5
Actual qualifying capital	%		**32,2**	37,9
Capital per internal model				
Assets at risk	R million		**27 154**	22 288
Optimal capital required	%		**26,3**	26,9
Actual qualifying capital	%		**32,2**	37,6
Dividends per ordinary share				
Interim – paid	cents	–	**85**	85
Final – declared	cents	–	**100**	100
Total ordinary dividends	cents	–	**185**	185
Dividend cover	times		**1,3**	1,2
Payout ratio	%		**78,7**	82,2
Dividends per preference share				
Interim – paid	cents	(25)	**355**	475
Final – declared	cents	(8)	**336**	367
Total preference dividends	cents	(18)	**691**	842

Economic profit

African Bank's economic profit was R1 001 million while EHL incurred a R216 million economic loss, based on its internal capital. These, combined with a R708 million charge for goodwill, resulted in the ABIL group generating a net economic profit of R78 million, relative to a loss of R95 million for the 12 months to September 2009.

	Average ordinary share-holder's equity Rm	Return on equity %	Cost of equity %	Headline earnings Rm	Charge for the cost of equity Rm	Economic profit/(loss) Rm
12 months ended 30 September 2010						
African Bank business unit	**3 360**	**44,8**	**15**	**1 505**	**(504)**	**1 001**
Consolidated Ellerines business unit	**8 723**	**4,4**	**15**	**385**	**(1 309)**	**(924)**
Ellerines business unit						
– based on its own equity	**4 006**	**9,6**	**15**	**385**	**(601)**	**(216)**
Goodwill arising on acquisition						
– equity component	**4 717**	**n/a**	**15**	**–**	**(708)**	**(708)**
Consolidated ABIL group	**12 083**	**15,6**	**15**	**1 890**	**(1 812)**	**78**
12 months ended 30 September 2009						
African Bank business unit	2 845	53,6	16	1 525	(455)	1 070
Consolidated Ellerines business unit	9 064	3,1	16	285	(1 450)	(1 165)
Ellerines business unit						
– based on its own equity	4 347	6,6	16	285	(695)	(410)
Goodwill arising on acquisition						
– equity component	4 717	n/a	16	–	(755)	(755)
Consolidated ABIL group	11 909	15,2	16	1 810	(1 905)	(95)

Dividends and dividend cover

ABIL has declared a final dividend of 100 cents per ordinary share, bringing the total dividend for the year to 185 cents per ordinary share. The ordinary dividend cover was 1,3 times which represented a payout ratio of 79 % of headline earnings per share. The group has indicated that it will move to a dividend cover of a minimum of 1,5 times in the next financial year to support its growth targets.

The group has also declared a final preference share dividend of 336 cents per share.

Group internal economic capital model and assumptions
as at 30 September 2010

R million	Balance sheet as at 30 Sep 2010	% capital required	Optimal capital	Assets at risk
Net advances	**25 360**			
Net performing advances	**20 078**	22,5	4 518	20 078
Net non-performing advances	**5 282**	33,8	1 783	5 282
Goodwill (impaired against capital below)	**5 472**	n/a	–	
Intangible assets (impaired against capital below)	**834**	n/a	–	
Property and equipment	**622**	20,0	124	622
Policyholders' investments	**15**	0,0	–	
Assets held for sale	**5**	0,0	–	
Deferred tax asset	**409**	0,0	–	
Inventories	**851**	25,0	213	851
Other assets	**321**	20,0	64	321
Taxation	**97**	0,0	–	
Statutory assets – bank and insurance	**1 806**	0,0	–	
Short term deposits and cash	**3 410**	0,0	–	
Total assets	**39 202**			
Insurance companies' capital requirement			331	
Short term funding interest rate buffer	**1 038**	10,0	104	
Optimal capital required versus assets at risk			**7 137**	**27 154**
Optimal capital as a % of assets at risk			26,3	

Analysis of capital	Core tier 1	Core tier 1 (ordinary shareholder equity)	Other tier 1 (pref shares) and tier 2 (sub debt)	Total capital
Balance per balance sheet as at 30 September 2010		12 396	2 428	14 824
Impairments against capital:				
Goodwill		(5 472)		(5 472)
Trademarks (after deducting deferred tax liability)		(600)		(600)
Preference dividends declared but not yet paid (excl STC)		(17)		(17)
Net qualifying capital as at 30 September 2010	72 %	**6 307**	**2 428**	**8 735**
% of assets at risk		23,2	8,9	32,2
Optimal capital	70 %	**(4 996)**	**(2 141)**	**(7 137)**
Capital surplus		1 311	287	1 598

Assumptions

The group's capital allocation model is underpinned by a number of assumptions, which have been set out below;

- Capital requirements are applied to assets that are classified as "assets at risk". Assets excluded from this classification are:
  - Goodwill and trademarks which are impaired directly off core tier 1 equity.
  - Policyholders' investments which are matched by a back-to-back liability.
  - Assets held for sale, where a reasonable level of certainty exists that carrying values are realisable.
  - Deferred tax and taxation assets, which all relate to short term timing differences or actual amounts recoverable from SARS.
  - Statutory assets, short term deposits and cash are all invested in either government securities or high grade banks with short term tenures and hence there is negligible economic probability of loss.
- Performing loans – The group maintains a capital underpin equivalent to 2,25 times the average annual expected credit losses on these loans.
- Non-performing loans – IAS 39 requires that all impaired loans are carried at the net present value of the expected future cash flows of these loans, discounted at the original effective interest rate of the loans. This implies that the future running yield from these loans based on their net carrying value will equal that of performing loans as the present value discount unwinds. However there is a higher inherent risk associated with these loans and the projection of cash flows and accordingly the level of capital has been set at 1,5 times that required for performing loans, or 33,75 %.
- Other assets and property and equipment are allocated 20 % capital. Retail inventories are allocated 25 % capital.
- An interest rate buffer has been created based on 10 % of all short term funding activities (defined as less than 12 months from origination). This buffer would be sufficient to absorb a 500 basis points increase in the rollover of this funding for a period of two years.
- At least 70 % of the optimal capital is targeted to be in the form of core tier 1 equity, which is defined as ordinary shareholders' funds.

Capital adequacy

As at 30 September 2010, the group's internal capital model indicated an optimal level of capital for the ABIL group of R7,1 billion, or 26,3 % of assets at risk. Against this, ABIL's higher total capital base of R8,7 billion (after impairments for goodwill and trademarks) will enable the group to maintain its growth momentum.

The Banking Supervision Division of the SA Reserve Bank has recently indicated that African Bank's regulatory minimum capital will be revised upwards to 24,5 % with effect from 1 April 2011. Following the acquisition of the Ellerines financial services activities by African Bank in September 2010, its regulatory capital adequacy ratio at 28,9 %, already exceeded this higher requirement.

African Bank Investments Limited

Divisional income statement

for the 12 months ended 30 September 2010

R million	Consolidated	2010 (Audited) Group and consol adj	African Bank business unit
Gross margin on retail business	1 974	–	–
Interest income on advances	5 950	–	4 877
Net assurance income	1 600	–	998
Non-interest income	2 491	–	1 765
Income from operations	12 015	–	7 640
Charge for bad and doubtful advances	(2 693)	–	(2 200)
Risk-adjusted income from operations	9 322	–	5 440
Other interest and investment income	390	(102)	435
Interest expense	(2 383)	102	(2 182)
Operating costs	(4 481)	–	(1 411)
Indirect taxation: VAT	(20)	–	(20)
Profit from operations	2 828	–	2 262
Capital items	34	–	15
Profit before taxation	2 862	–	2 277
Direct taxation: STC	(147)	–	(96)
Direct taxation: Normal	(773)	–	(640)
Profit for the year	1 942	–	1 541
Reconciliation of headline earnings			
Profit for the year (basic earnings)	1 942	–	1 541
Preference shareholders	(36)	–	(36)
Basic earnings attributable to ordinary shareholders	1 906	–	1 505
Adjustments for non-headline items:			
Capital items	(19)	–	–
Tax thereon	3	–	–
Headline earnings	1 890	–	1 505

Ellerines business unit	Consolidated	Group and consol adj	African Bank business unit	Ellerines business unit
	2009 (Audited)			
1 974	1 791	–	–	1 791
1 073	5 437	–	4 245	1 192
602	2 081	–	1 243	838
726	2 251	–	1 591	660
4 375	11 560	–	7 079	4 481
(493)	(2 511)	–	(1 929)	(582)
3 882	9 049	–	5 150	3 899
57	367	(39)	328	78
(303)	(2 025)	39	(1 816)	(248)
(3 070)	(4 576)	–	(1 330)	(3 246)
–	(18)	–	(18)	–
566	2 797	–	2 314	483
19	(7)	–	–	(7)
585	2 790	–	2 314	476
(51)	(159)	–	(86)	(73)
(133)	(776)	–	(651)	(125)
401	1 855	–	1 577	278
401	1 855	–	1 577	278
–	(52)	–	(52)	–
401	1 803	–	1 525	278
(19)	7	–	–	7
3	–	–	–	–
385	1 810	–	1 525	285

African Bank Investments Limited

Divisional statement of financial position

as at 30 September 2010

R million	Consolidated	2010 (Audited) Group and consol adj	African Bank business unit
Assets			
Short term deposits and cash	3 410	–	3 327
Statutory assets – bank and insurance	1 806	–	1 618
Inventories	851	–	–
Other assets	321	(248)	120
Other assets – intragroup	–	(3 401)	2 990
Taxation	97	–	85
Net advances	25 360	–	20 632
Deferred tax asset	409	–	1
Assets held for sale	5	–	–
Policyholders' investments	15	–	15
Property and equipment	622	–	313
Intangible assets	834	–	–
Goodwill	5 472	4 717	–
Total assets	**39 202**	**1 068**	**29 101**
Liabilities and equity			
Short term funding	1 038	–	413
Other liabilities	1 743	(222)	877
Other liabilities – intragroup	–	(3 401)	411
Taxation	33	–	4
Deferred tax liability	392	–	141
Liabilities held for sale	–	–	–
Life fund reserve	14	–	14
Bonds and other long term funding	20 877	–	20 872
Subordinated bonds	2 226	–	2 226
Total liabilities	**26 323**	**(3 623)**	**24 958**
Ordinary shareholders' equity	12 396	4 691	3 660
Preference shareholders' equity	483	–	483
Total equity (capital and reserves)	**12 879**	**4 691**	**4 143**
Total liabilities and equity	**39 202**	**1 068**	**29 101**

Ellerines business unit	2009 (Audited) Consolidated	Group and consol adj	African Bank business unit	Ellerines business unit
83	3 553	–	3 498	55
188	1 323	(101)	1 128	296
851	859	–	–	859
449	357	93	105	159
411	–	(959)	858	101
12	20	–	1	19
4 728	20 486	–	16 755	3 731
408	501	–	59	442
5	181	–	–	181
–	15	–	15	–
309	586	–	279	307
834	906	–	–	906
755	5 472	4 717	–	755
9 033	34 259	3 750	22 698	7 811
625	3 108	165	1 598	1 345
1 088	1 363	(147)	383	1 127
2 990	–	(959)	101	858
29	77	–	58	19
251	265	–	–	265
–	25	–	–	25
–	15	–	15	–
5	14 705	–	14 695	10
–	2 044	–	2 044	–
4 988	21 602	(941)	18 894	3 649
4 045	12 174	4 691	3 321	4 162
–	483	–	483	–
4 045	12 657	4 691	3 804	4 162
9 033	34 259	3 750	22 698	7 811

African Bank business unit

Financial statistics

for the 12 months ended 30 September 2010

		% change	Audited 2010	2009[1]
Key shareholder ratios				
Headline earnings	R million	(1)	**1 505**	1 525
Economic profit	R million	(6)	**1 001**	1 070
Performance ratios				
Total income yield on average advances	%		**34,5**	38,1
Bad debt expense to average advances	%		**9,9**	10,4
Cost to average advances	%		**6,4**	7,2
Cost to income	%		**18,5**	18,8
Return on assets	%		**5,7**	7,7
Return on equity	%		**44,8**	53,6
Asset and credit quality ratios				
Gross advances	R million	20	**24 283**	20 224
Performing loans	R million	20	**16 549**	13 843
Non-performing loans (NPLs)	R million	21	**7 734**	6 381
Average gross advances	R million	19	**22 155**	18 583
Net advances	R million	23	**20 632**	16 755
Written off book	R million	57	**1 220**	777
Total impairment provisions (incl credit life reserves)	R million	14	**4 841**	4 239
NPLs to gross advances	%		**31,8**	31,6
Total impairment provisions and credit life reserves to gross advances	%		**19,9**	21,0
NPL coverage	%		**62,6**	66,4
Gross bad debt write offs to average gross advances	%		**15,0**	12,1
Bad debts rehabilitated to average gross advances	%		**7,3**	8,5
Funding and cash reserves				
Funding (incl subordinated bonds)	R million	30	**23 922**	18 438
Average cost of funds	%		**10,4**	11,4
Cash and statutory assets	R million	7	**4 945**	4 626
Capital ratios				
African Bank capital adequacy	%		**28,9**	30,1
Tier 1	%		**20,4**	20,5
Tier 2	%		**8,5**	9,6
Customers				
Disbursements of new loans	R million	15	**11 122**	9 701
Number of customers	000	(1)	**1 809**	1 835

[1] *The residual value of the written off book was included in gross advances and non-performing loans in September 2009 and has now been disclosed separately. Gross advances, NPLs and related ratios for 2009 have been recalculated to take cognisance of this change.*

African Bank business unit

Results at a glance

Financial performance

Headline earnings for African Bank declined by 1 % to R1 505 million for the 12 months ended 30 September 2010 (2009: R1 525 million). The Bank generated a return on equity of 44,8 % (2009: 53,6 %) and an economic profit of R1 001 million (2009: R1 070 million). The Bank's performance was a tale of two halves, with an improved performance in the second half offsetting lower sales and profitability in the first half.

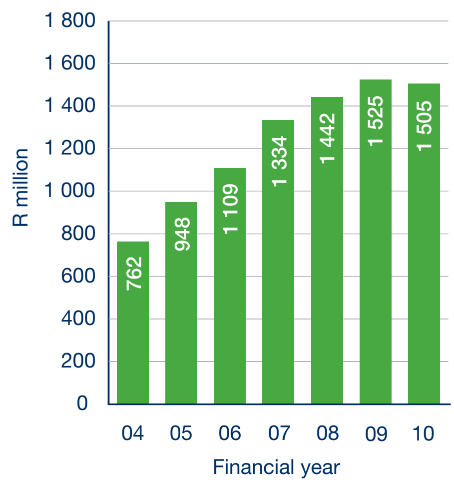
The performance of the African Bank business unit during this period was shaped by the following primary drivers:

- Sales of new loans increased by 15 % to R11 122 million, while advances were 20 % higher, at R24 283 million.
- The total income yield declined by 360 basis points to 34,5 % (2009: 38,1 %). The continuing shift in business mix towards lower risk segments contributed to this decline, but the yield was mainly impacted by interest suspension on a higher proportion of NPLs within the advances book and higher insurance claims as a result of a further deterioration in unemployment during the year.
- The average funding rate improved from 11,4 % to 10,4 %. The funding base increased by 30 % to cater for the accelerated sales growth in the second half, as well as the integration of the EHL advances book. Net financing costs increased by 17 % as a result.
- Operating costs to average advances improved from 7,2 % to 6,4 %, with the overall increase in costs limited to 6 %.
- The bad debt charge was 14 % higher at R2 200 million on the back of the growth in the advances book. As a percentage of the advances book, it improved from 10,4 % in 2009 to 9,9 %. The ratio benefited from the higher insurance claims as a result of job losses in the economy.

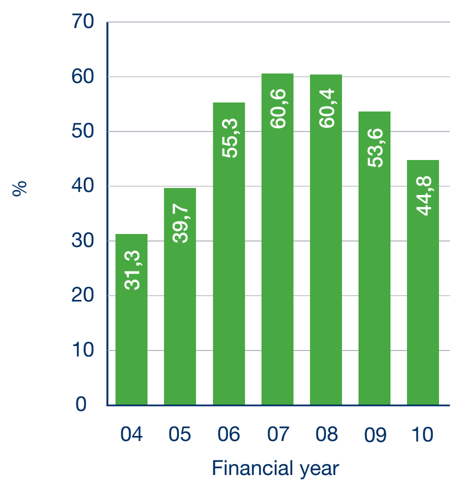
Performance against 2010 objectives

Objective	Target for 2010	Actual for 2010
Advances growth	20 % – 25 %	20 %
Decline in yield on advances	3,0 % – 3,5 %	3,6 %
Cost to average advances	6,0 % – 6,5 %	6,4 %
Bad debt expense to average advances	10,5 % – 11,0 %	9,9 %
Average funding cost	10,0 % – 10,5 %	10,4 %

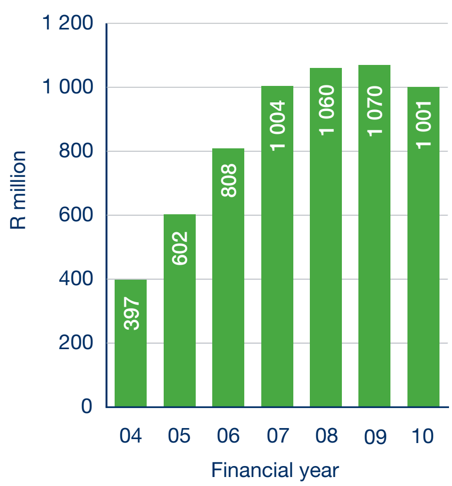
Headline earnings



Return on equity



Economic profit



African Bank business unit

Income statement

for the 12 months ended 30 September 2010

R million	% change	Audited 2010	2009
Interest income on advances	15	**4 877**	4 245
Net assurance income	(20)	**998**	1 243
Non-interest income	11	**1 765**	1 591
Income from operations	8	**7 640**	7 079
Charge for bad and doubtful advances	14	**(2 200)**	(1 929)
Risk-adjusted income from operations	6	**5 440**	5 150
Other interest income	33	**435**	328
Interest expense	20	**(2 182)**	(1 816)
Operating costs	6	**(1 411)**	(1 330)
Indirect taxation: VAT	11	**(20)**	(18)
Profit from operations	(2)	**2 262**	2 314
Capital items	–	**15**	–
Profit before taxation	(2)	**2 277**	2 314
Direct taxation: STC	12	**(96)**	(86)
Direct taxation: SA normal	(2)	**(640)**	(651)
Profit for the year	(2)	**1 541**	1 577

Reconciliation of headline earnings

R million	% change	Audited 2010	2009
Profit for the year (basic earnings)	(2)	**1 541**	1 577
Preference shareholders	(31)	**(36)**	(52)
Basic earnings attributable to ordinary shareholders	(1)	**1 505**	1 525
Adjusted for non-headline item	–	**–**	–
Headline earnings	(1)	**1 505**	1 525

African Bank business unit

Statement of financial position

as at 30 September 2010

R million	% change	Audited 2010	2009
Assets			
Short term deposits and cash	(5)	**3 327**	3 498
Statutory assets – bank and insurance	43	**1 618**	1 128
Other assets	14	**120**	105
Other assets – EHL intragroup (Note 1)	>100	**2 990**	858
Taxation	>100	**85**	1
Net advances	23	**20 632**	16 755
Deferred tax asset	(98)	**1**	59
Policyholders' investments	–	**15**	15
Property and equipment	12	**313**	279
Total assets	28	**29 101**	22 698
Liabilities and equity			
Short term funding	(74)	**413**	1 598
Short term funding – EHL intragroup	>100	**411**	101
Other liabilities	>100	**877**	383
Taxation	(93)	**4**	58
Deferred tax liability	–	**141**	–
Life fund reserve	(7)	**14**	15
Bonds and other long term funding	42	**20 872**	14 695
Subordinated bonds	9	**2 226**	2 044
Total liabilities	32	**24 958**	18 894
Ordinary shareholder's equity	10	**3 660**	3 321
Preference shareholder's equity	–	**483**	483
Total equity (capital and reserves)	9	**4 143**	3 804
Total liabilities and equity	28	**29 101**	22 698

Note 1. This asset arises as a result of the EHL advances continuing to be reported under EHL notwithstanding the fact that legal ownership has transferred to African Bank towards the end of the 2010 financial year.

African Bank business unit

Return on assets and return on equity model

for the 12 months ended 30 September

R million	**2010**	2009	2008
Interest income on advances	**4 877**	4 245	3 323
Net assurance income	**998**	1 243	1 191
Non-interest income	**1 765**	1 591	1 244
Total income	**7 640**	7 079	5 758
Charge for credit losses	**(2 200)**	(1 929)	(1 361)
Operating expenses	**(1 411)**	(1 330)	(1 209)
Net financing costs (including pref dividends)	**(1 783)**	(1 540)	(924)
Taxation (including STC and indirect taxation)	**(756)**	(755)	(822)
Capital items	**15**	–	–
Total charges against income	**(6 135)**	(5 554)	(4 316)
Headline earnings	**1 505**	1 525	1 442
Average gross advances (excl value of w/o book)	**22 155**	18 583	13 491
Average total assets	**26 197**	19 816	14 150
Average ordinary shareholder's equity	**3 360**	2 845	2 389

	2010		2009		2008	
Interest/Advances	**22,0%**		22,8 %		24,6 %	
Assurance/Advances	**4,5%**		6,7 %		8,8 %	
Other income/Advances	**8,0%**		8,6 %		9,2 %	
Total income yield	*equals*	**34,5%**	*equals*	38,1 %	*equals*	42,7 %
Bad debts/Advances	**(9,9%)**		(10.4 %)		(10,1 %)	
Opex/Advances	**(6,4%)**		(7,2 %)		(9,0 %)	
Financing costs/Advances	**(8,0%)**		(8,3 %)		(6,8 %)	
Taxation/Advances	**(3,4%)**		(4,1 %)		(6,1 %)	
Other/Advances	**0,1%**		0,0 %		0,0 %	
Total charges/Advances	*equals*	**(27,7%)**	*equals*	(29,9 %)	*equals*	(32,0 %)
		equals		*equals*		*equals*
Return on advances		**6,8%**		8,2 %		10,7 %
		multiply		*multiply*		*multiply*
Advances/Total assets		**84,6%**		93,8 %		95,3 %
		equals		*equals*		*equals*
Return on assets (RoA)		**5,7%**		7,7 %		10,2 %
		multiply		*multiply*		*multiply*
Gearing		**7,8**		7,0		5,9
		equals		*equals*		*equals*
Return on equity (RoE)		**44,8%**		53,6 %		60,4 %

African Bank business unit

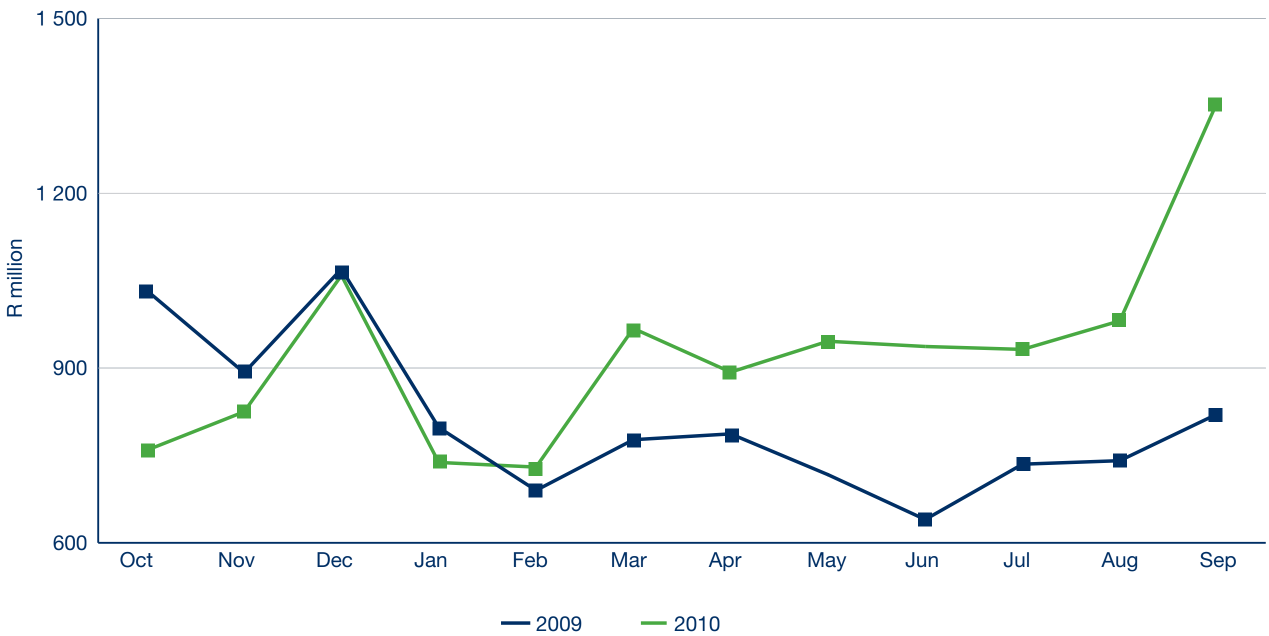
Sales and advances

Sales of new loans and credit cards

		% change	2010	2009
Sales	R million	15	**11 122**	9 701
Number of new loans and cards	000	(6)	**1 352**	1 444
Number of new clients	000	(17)	**314**	377
Average loan size	Rand	22	**8 224**	6 719
Average term	Months	27	**42**	33
Average instalment	Rand	12	**597**	534
Client approvals	%		**73**	69

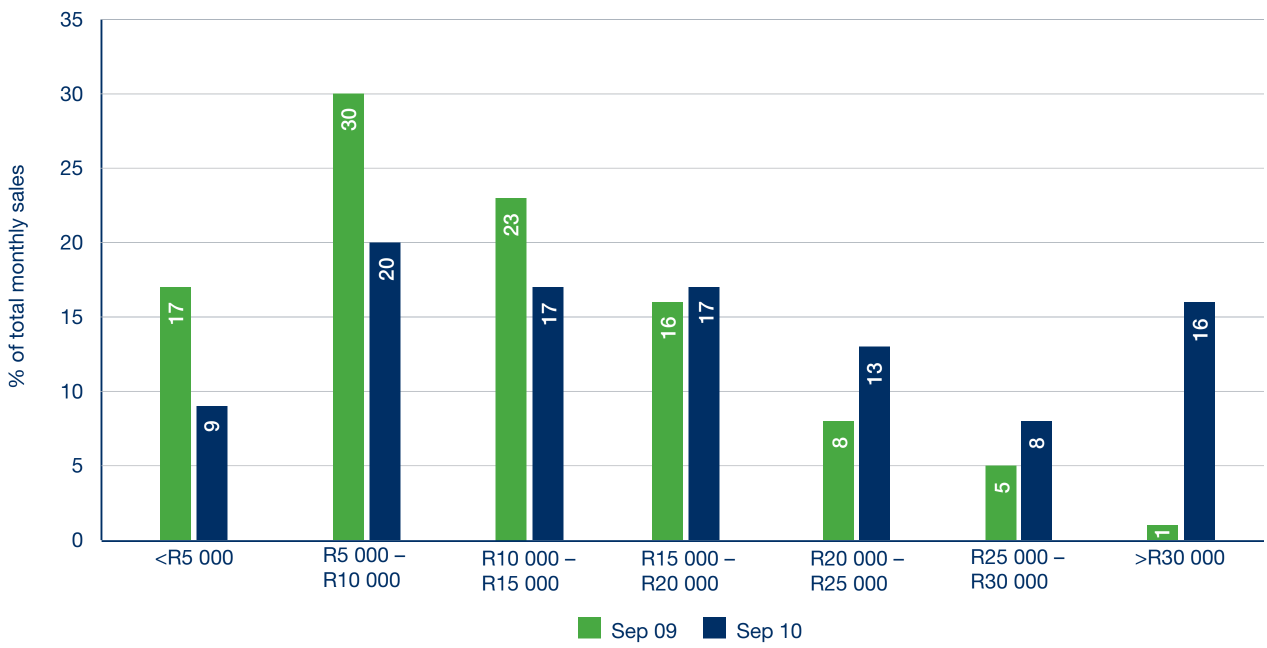
Sales of new loans and cards for the year were R11 122 million, a 15 % increase relative to 2009. The continued emphasis on lower risk clients with larger, longer term loans resulted in an increase in average loan size to R8 224 and term to 42 months, as well as a reduction in the number of loans and cards sold from 1,44 million last year to 1,35 million. Following a 3 % decline in sales in the first half, sales increased by 36 % in the second half of the year, a function of the lower base and a reinvigorated front end.

Sales of new loans



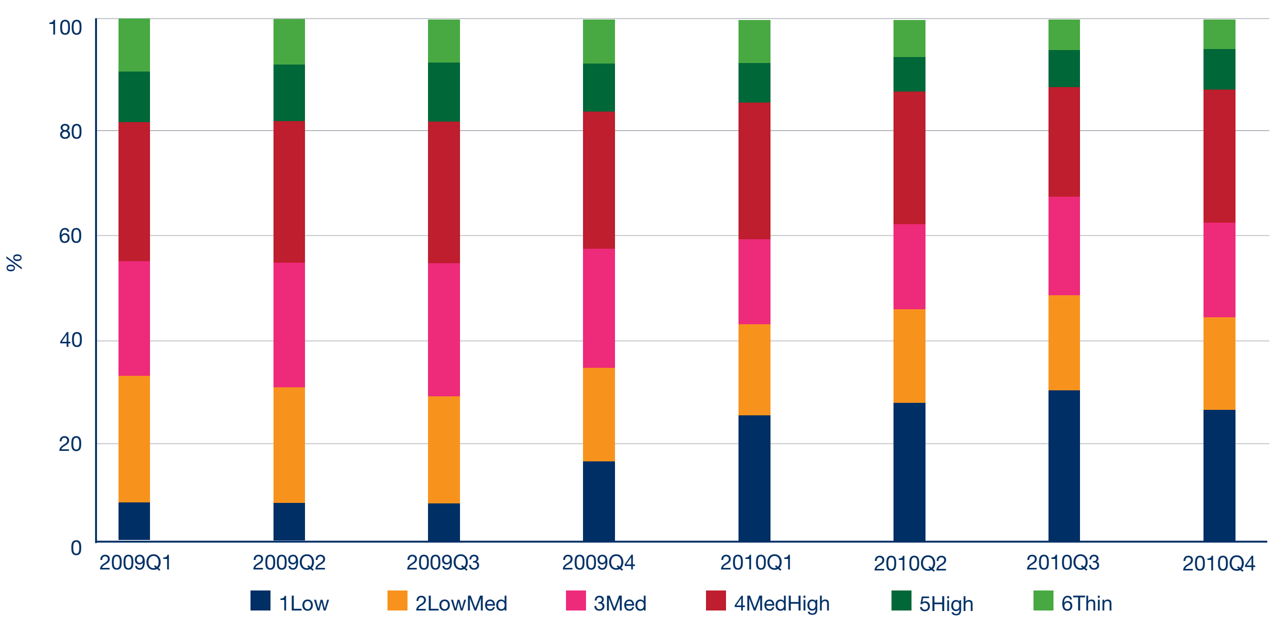
Application volumes have increased notably in the past six months. A number of product changes, including extension of term, loan size and limits on credit cards were implemented over the last quarter, which had a positive effect on sales growth. The following chart depicting the distribution of loan sizes indicates the extent to which term has been extended and therefore the utility of credit for clients has been improved over the past year.

Distribution of loan sizes



While sales remain skewed towards the low risk end, the Bank has started relaxing its credit criteria for higher risk groups, as evident in the 'Incidence risk distribution' graph below, which shows that the number of loans to higher risk groups has started to increase modestly, off a relatively low base.

Incidence risk distribution (number of loans)



African Bank business unit

Sales and advances *continued*

Credit card summary

		% change	2010	2009
Disbursements	R million	49	**1 467**	984
Credit card loan portfolio	R million	56	**2 936**	1 888
Number of new cards issued	000	9	**174**	160
Total number of cards in issue	000	25	**506**	405
Average limit across all cards	Rand	40	**6 116**	4 354

The Bank's credit card activities reached 500 000 active cards and an asset base of R2,9 billion in 2010. Sales of new card limits for the year reached R1,5 billion.

Advances analysis

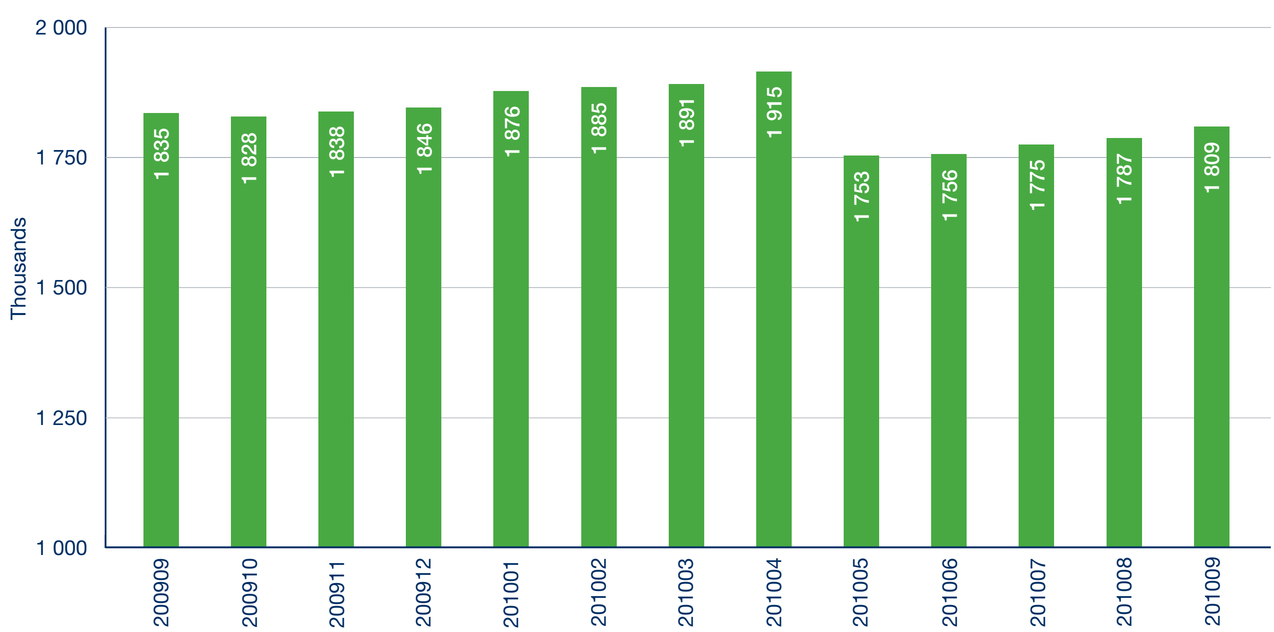
		% change	2010	2009
Gross advances	R million	20	**24 283**	20 224
Average gross advances	R million	19	**22 155**	18 583
Written off book	R million	57	**1 220**	777
Gross advances including written off book	R million	21	**25 503**	21 001
Number of loans	000	3	**2 751**	2 659
Number of customers	000	(1)	**1 809**	1 835

Gross advances grew by 20% to R24 283 million in 2010. The growth was mainly achieved through an increase in average loan size and extension of term, given the emphasis on low risk business over this period. The advances growth was impacted by lower disbursements in the first half of the year and relatively higher write offs.

Growth in customers in 2010 remained constrained by low risk appetite as well as further write offs, which reduced overall client numbers.

The retail debit order portfolio grew by 19% and remains the largest at 79% of the advances book, while the credit card portfolio (which represents 12% of the book) reported growth of 56%.

Active customers



African Bank business unit

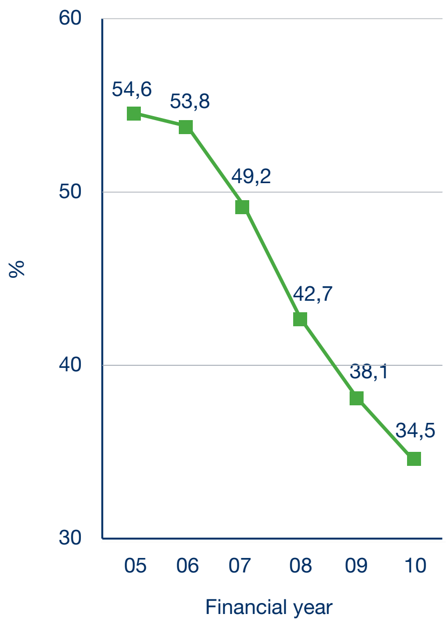
Yield analysis

The total income yield in 2010 was 34,5 %, against the 38,1 % reported in 2009. Several factors contributed to this reduction in yield.

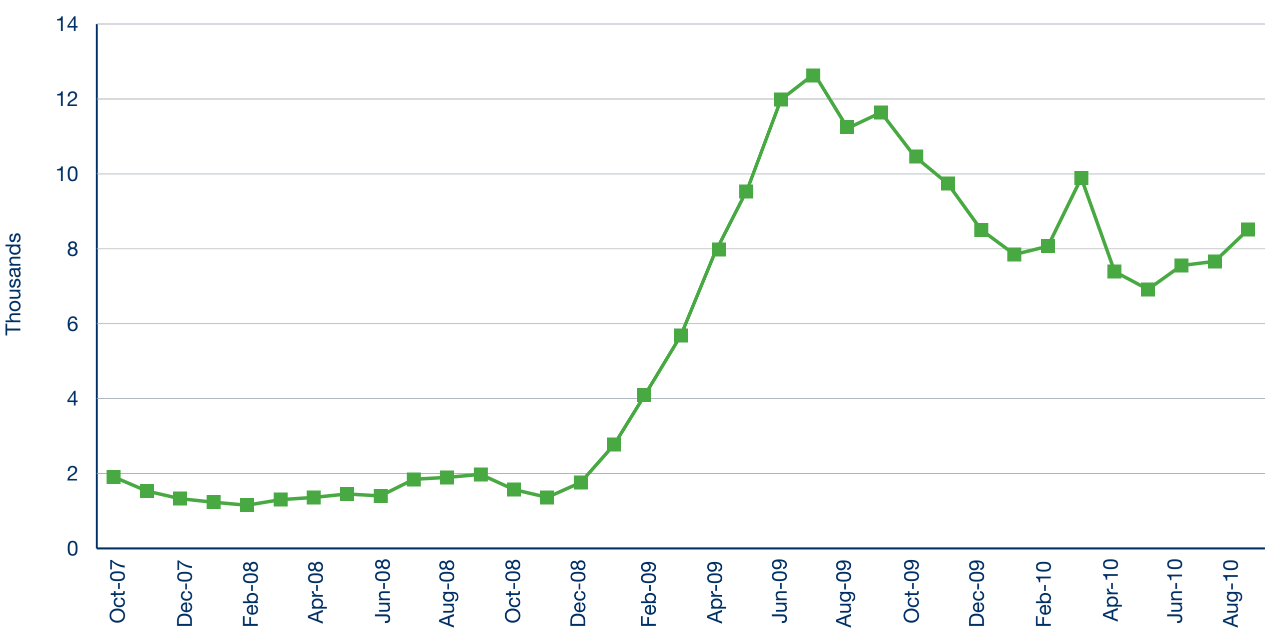
- The Bank changed the way in which it settles insurance claims in order to accelerate benefits to customers who lost their jobs and this project, together with a generally higher level of unemployment related insurance claims, resulted in a 20 % decline in net assurance income.
- While NPLs as a percentage of advances at year-end were at similar levels to 2009, NPLs during the year were at substantially higher levels than in 2009. This resulted in higher suspension of interest and fees and a reduced yield.
- The sales mix of the past year favoured lower priced, longer term loans to lower risk customers, with the improvement in the risk-adjusted yield only expected to materialise over the medium term.

Total yield is expected to continue to decline modestly over time as a result of price reductions, suspension of interest, the paydown of higher priced loans originated prior to 2008 and a bigger credit card portfolio at lower yields. The ultimate impact on yield will however depend on the aggregate outcome of the group's risk appetite and the mix of business written over time.

Total income yield



Number of retrenchment claims paid



African Bank business unit

Operating costs

Operating costs were R1 411 million for the year, representing a 6 % increase on the previous year (2009: R1 330 million). Operating costs as a percentage of average gross advances improved from 7,2 % to 6,4 %.

Staff costs, which represents 51 % of total costs, grew by 11 %. This was largely the result of salary increases in October 2009 and the introduction of a medical aid subsidy for non-managerial staff. Bank charges were the second largest cost item and predominantly relate to disbursement and debit order costs. The Bank undertook a project to reduce its debit order costs this year, which resulted in a 2 % decline in bank charges despite the increase in the advances book. Card transaction costs increased by 36 % to R45 million, on the back of a 56 % growth in the credit card advances book. These costs are recovered from card customers, with the revenue included in non-interest income.

With the integration of the Ellerines financial services now completed, there is opportunity for efficiency gains in the combined operation as well as scale benefits in terms of shared services across the group.

R million	% change	**2010**	2009
Staff costs	11	**722**	650
Basic remuneration and commissions	15	**630**	546
Annual bonuses paid in November	(12)	**52**	59
Charge for long term incentives	(11)	**40**	45
Bank charges	(2)	**172**	175
Operating lease premiums	4	**97**	93
Telephone, fax and other communication costs	11	**73**	66
Depreciation on property and equipment	(4)	**69**	72
Card transaction costs	36	**45**	33
Information technology costs	(14)	**36**	42
Printing, stationery and courier costs	2	**41**	40
Advertising and marketing costs	(16)	**27**	32
Other expenses	2	**129**	127
Total operating costs	6	**1 411**	1 330

African Bank business unit

Asset quality

Charge for bad and doubtful advances

The charge for bad and doubtful advances at R2 200 million (2009: R1 929 million) was 14% higher than the comparative period, on the back of a 20% increase in the gross advances book. As a result, the charge as a percentage of average advances improved from 10,4% in 2009, to 9,9% for the 2010 financial year. The latter decline was achieved on the back of the Bank's focus on lower risk clients over the past eighteen months, its continued risk differentiation, the increase in settlement of insurance claims, extended collections scorecards and improved operational risk management. Excluding changes to the claims procedures discussed in the yield analysis on page 55, the bad debt charge would have been 10,5%.

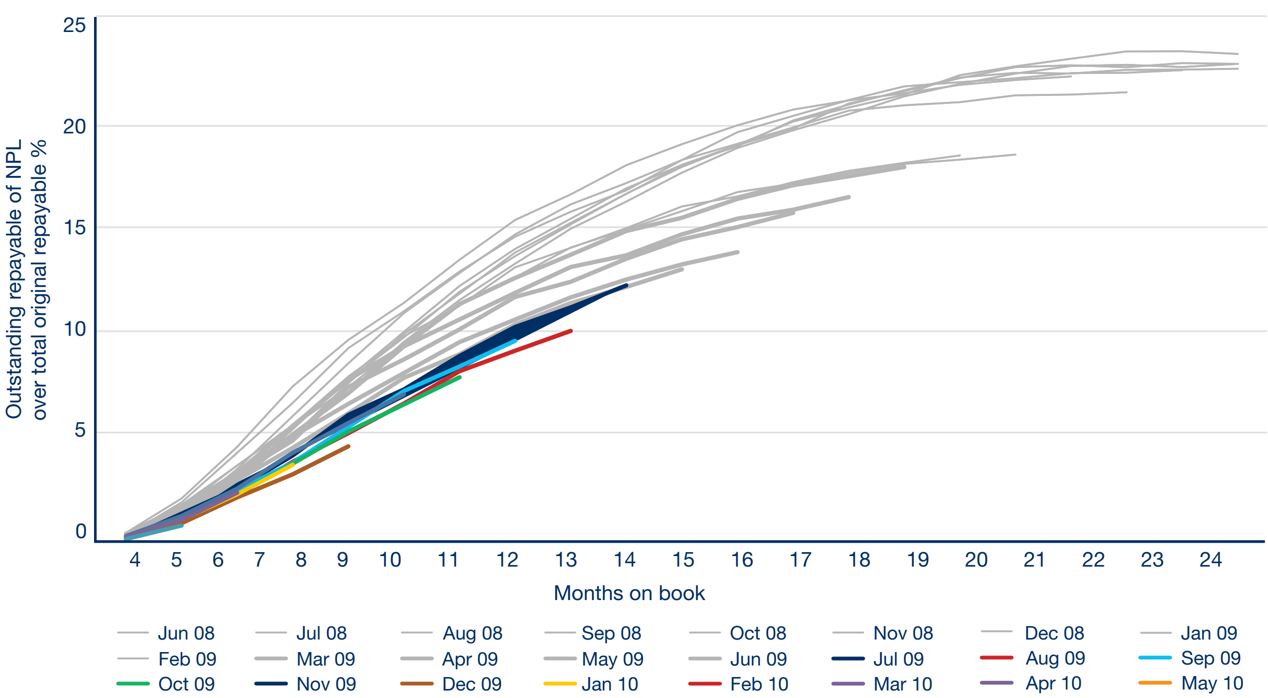
Vintages

In order to gain a meaningful understanding of the effectiveness of the underwriting models, the group focuses on analysing credit vintage curves, which segment the emergence of risk in discrete underwriting periods, as a better and more immediate measure of the risk in the portfolio than the aggregate NPLs and bad debt charge. A vintage curve tracks each month's new loans as a unique portfolio and plots the cumulative proportion of the portfolio that migrates into an NPL status, being loans with more than three cumulative instalments in arrears.

It is important to note that recent vintages have a fairly minor impact on the current year's bad debt charge. The latter is substantially more influenced by business written over the past eighteen months, as depicted by the older and higher vintages in grey on the graph below. However, the performance of the latest vintages serves as a leading indicator that the lower risk in recent sales should translate into a lower bad debt charge going forward.

The graph below shows the vintages written since August 2009, overlaid onto the historic range of vintages dating back to June 2008. As is evident from the graph, these vintages have been tracking below previous points for the past 12 months. The better risk performance is partly due to new risk segmentation that was rolled out towards the end of the previous financial year and partly to the shift in mix towards lower risk customers.

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



African Bank business unit

Asset quality *continued*

Non-performing loans remained relatively flat as a percentage of gross advances at 31,8 % (2009: 31,6 %). Impairment provisions increased by R600 million, resulting in NPL coverage ratio of 62,6 % (2009: 66,4 %). The Bank wrote off R3,3 billion in non-performing loans during the year (2009: R2,3 billion). The write offs related mostly to the relatively high sales volumes achieved in the second half of the 2008 financial year.

NPL coverage is heavily dependent on the age of the NPLs in the portfolio and in turn, on the extent of NPLs written off during the period. The lower NPL coverage ratio is the result of an improvement in the quality of NPLs as well as higher write offs this year.

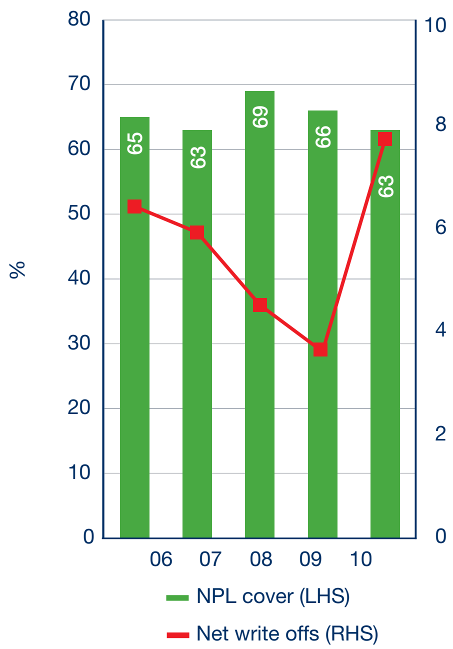
As at 30 September 2010, the present value placed on future cash flows to be derived from the R6,6 billion previously written off book (off balance sheet book), was R1,2 billion (2009: R777 million). This represents 18,5 cents in the rand (2009: 13,7 cents). The increase in the valuation was driven by an improvement in the quality of the written off book, after R2,2 billion of loans on which no cash had been received were cleared from this book.

It has become apparent from the relatively high level of rehabilitation of previously written off loans, that the Bank is writing off loans too early. In terms of the provisioning policy, write offs occur after 13 months, while cash flow trends reflect peak recoveries only occur around 22 months from default. This disconnect has resulted in added complexity in the group's asset quality disclosure, including write offs, rehabilitations and valuations of written off loans on which substantial cash is still being recovered.

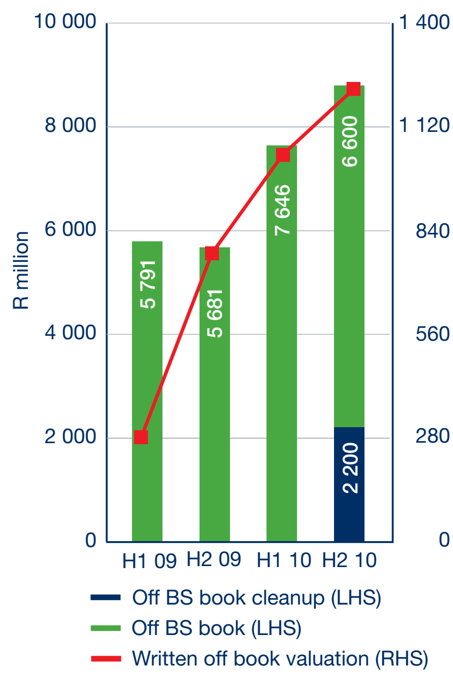
The policy to write off bad debts is currently being reviewed to determine the most appropriate time for write off, with the objective of keeping the bad debts permanently off balance sheet once they are written off. Any cash subsequently received will be accounted for as bad debt recoveries in the period in which such cash is received. The consequence of this policy amendment will be that bad debts written off will not be brought back onto the balance sheet as rehabilitated advances.

Loans that reach contractual delinquency status will be partially written off to reflect their expected realisable amount, before ultimately being written off in full if necessary.

NPL cover vs write offs



Written off book



Asset quality analysis
as at 30 September 2010

R million	% change	2010	2009
Breakdown of gross advances			
Performing loans	20	**16 549**	13 843
Non-performing loans (NPLs)	21	**7 734**	6 381
Gross advances	20	**24 283**	20 224
Written off book	57	**1 220**	777
Deferred administration fees	>100	**(30)**	(7)
Gross advances including written off book	21	**25 473**	20,994
Impairment provisions and credit life reserves			
Impairment provisions	14	**4 841**	4 239
Balance at the beginning of the period		**4 239**	2 838
Impairment provisions raised		**2 279**	2 065
Bad debts written off (gross)		**(3 322)**	(2 252)
Bad debts rehabilitated		**1 628**	1 588
Acquisitions of impairment provisions (SBJV)		**17**	–
Total impairment provisions and credit life reserves	14	**4 841**	4 239

R million	12 months to 30 Sep 2010	12 months to 30 Sep 2009
Income statement charges		
Charge for bad and doubtful advances	**2 200**	1 929
Impairment provisions raised	**2 279**	2 065
Bad debts recovered	**(79)**	(136)
Ratios		
NPLs as a % of gross advances	**31,8**	31,6
Total impairment provisions and credit life reserves as a % of NPLs (NPL coverage)	**62,6**	66,4
Total impairment provisions and credit life reserves as a % of gross advances	**19,9**	21,0
Income statement charge for bad debts as a % of average gross advances	**9,9**	10,4
Gross bad debts written off as a % of average gross advances	**15,0**	12,1
Bad debts rehabilitated as a % of average gross advances	**(7,3)**	(8,5)
Net bad debts written off as a % of average gross advances	**7,6**	3,6
Ratios calculated including the written off book (as disclosed in 2009)		
NPLs as a % of gross advances (including the written off book)	**35,2**	34,1
Total impairment provisions and credit life reserves as a % of NPLs (NPL coverage including the written off book)	**54,1**	59,2

African Bank business unit

Liquidity and funding

The Bank increased total funding liabilities by 30 % to R23,9 billion in 2010 (2009: R18,4 billion). The net funding cost (including preference dividends) for the period increased by 16 % to R1,8 billion (2009: R1,5 billion) as a result of the higher funding base, but improved from 8,3 % to 8,0 % as a percentage of advances. This latter reduction was driven by a decline in the average cost of funding from 11,4 % to 10,4 %, in turn a function of lower interest rates, tighter credit spreads and the replacement of older, more expensive debt with new, lower cost funding.

Funding composition (based on term at origination)

R million	% change	**2010**	2009
Short term funding	(52)	**824**	1 699
Demand deposits	58	**450**	284
Fixed and notice deposits	(68)	**374**	1 155
NCDs	(100)	**–**	260
Long term funding	38	**23 098**	16 739
Listed senior bonds	35	**8 583**	6 381
Other long term loans	48	**12 289**	8 314
Subordinated bonds	9	**2 226**	2 044
Total funding	30	**23 922**	18 438
Average cost of funding (%)		**10,4**	11,4
Total cash reserves	7	**4 945**	4 626
Average cash reserves	48	**5 487**	3 707

The lower cost of funding was achieved despite a deliberate reduction in shorter term funding (i.e. with maturities of less than 12 months at origination), significant investment in systems and staff, as well as several initiatives to diversify the Bank's funding base. The listing of an EMTN programme on the London Stock Exchange in July 2010 was an important step in this regard, and whilst a small initial transaction under this programme has already been concluded, it is expected that access to the international capital markets will provide more meaningful funding for the Bank over the medium term.

The Bank raised R8,4 billion of new funding during the year (2009: R7,0 billion), with R2,75 billion raised via the issue of long term, listed bonds, and the balance through a range of bilateral transactions. Notwithstanding the substantial amount of new funding raised, the Bank was also successful in retaining its maturing liabilities, with 85 % of maturing deposits reinvested with the Bank.

The Bank had cash and cash equivalents of R4,9 billion at 30 September 2010. The ratio of maturing assets to maturing liabilities was maintained at a level of at least 2 times throughout the year, as was a significant liquidity buffer.

Ellerines business unit

Financial statistics

for the 12 months ended 30 September 2010

		% change	Audited 2010	2009[1]
Key shareholder ratios				
Headline earnings	R million	35	**385**	285
Economic loss	R million	47	**(216)**	(410)
Return on equity	%		**9,6**	6,6
Retail performance ratios				
Headline earnings	R million	>100	**124**	(185)
Sales	R million	7	**4 487**	4 196
Cash sales	R million	(3)	**1 817**	1 881
Credit sales	R million	15	**2 670**	2 315
Credit sales % of total sales	%		**59,5**	55,2
Comparable sales growth	%		**9,3**	(12,9)
Gross profit margin	%		**44,0**	42,7
Operating cost as % of sales	%		**46,3**	55,1
Operating margin	%		**4,3**	(5,4)
Return on sales	%		**2,8**	(4,4)
Stock turn*	times		**3,1**	2,9
Number of stores			**1 028**	1 028
Retail trading area	m^2	(2)	**709 399**	722 486
Number of employees		(11)	**11 992**	13 454
Sales/store*	R 000	7	**4 364**	4 083
Sales/m^2*	Rand	9	**6 325**	5 809
Sales/employee*	R 000	20	**374**	312
Financial services performance ratios				
Headline earnings	R million	(44)	**261**	470
Gross advances	R million	2	**5 051**	4 954
Performing loans	R million	19	**3 682**	3 085
Non-performing loans (NPLs)	R million	(27)	**1 369**	1 869
Average gross advances	R million	1	**5 140**	5 095
Net advances	R million	27	**4 728**	3 731
Total impairment provisions (including credit life reserves)	R million	(46)	**767**	1 422
NPLs to gross advances	%		**27,1**	37,7
Total impairment provisions and credit life reserves to gross advances	%		**15,2**	28,7
NPL coverage	%		**56,0**	76,1
Bad debt write offs to average gross advances	%		**27,3**	23,4
Total income yield on average advances	%		**41,0**	47,0
Bad debt expense to average advances	%		**9,6**	11,4
Cost to average advances	%		**19,3**	18,3
Cost to income	%		**47,2**	38,9
Return on assets	%		**5,2**	10,7
Return on equity	%		**10,2**	16,1
Number of active accounts	000	11	**1 373**	1 241

** 12 month rolling average*

[1] The residual value of the written off book was included in gross advances and non-performing loans in September 2009 and has now been disclosed separately. Gross advances, NPLs and related ratios for 2009 have been recalculated in order to ensure comparability.

Ellerines business unit

Results at a glance

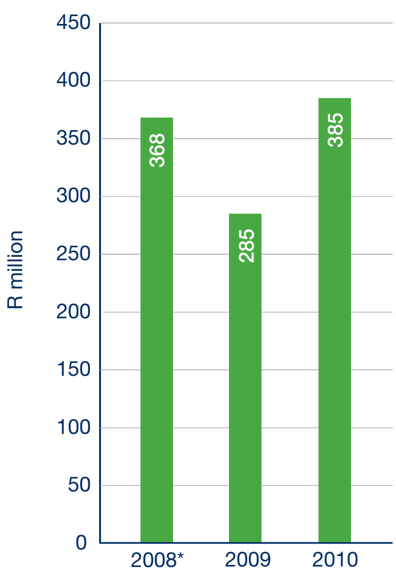
Financial performance

The EHL group increased headline earnings by 35 % to R385 million in the twelve months to 30 September 2010 (2009: R285 million). The retail business unit achieved headline earnings of R124 million (2009: R185 million loss), driven by improving merchandise sales, firm gross margins and a further reduction in operating costs. The financial services division's headline earnings reduced from R470 million to R261 million. Income was impacted by a flat advances base and a substantial drop in yield. A higher cost allocation to this division also impacted negatively on its bottom line. The main drivers of the results were:

- Sales of merchandise increased by 7 % to R4 487 million (2009: R4 196 million), or 9 % on a like-for-like basis.
- The gross margin improved from 42,7 % to 44,0 %, driven by improved buying, more effective marketing and supply chain improvements.
- The credit sales mix increased from 55,2 % to 59,5 % of total sales as a result of better pricing and improved credit campaigns.
- Operating costs reduced by 5 % or R176 million to R3 070 million.
- Gross advances at R5 051 million (2009: R4 954 million) remained relatively flat, as a 30 % growth in advances was offset by a R1 401 million write off. Performing loans grew by 19 % while non-performing loans reduced by 27 %.
- The overall yield earned on average gross advances declined from 47,0 % to 41,0 %, as a result of the implementation of price reductions, the increased suspension of interest and the effect of *in duplum* on loans in arrears, mostly from the pre-acquisition book.
- The bad debt charge improved from 11,4 % to 9,6 % of average gross advances as the quality of the book improved.

The business reduced its economic loss to R216 million, relative to the loss of R410 million in 2009.

Headline earnings

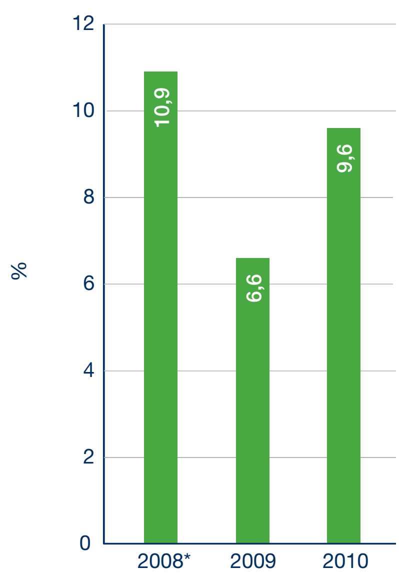


* 9 months

Return on sales – Retail division

* 9 months

Return on equity



* 9 months

Performance against financial objectives

Objective	Actual 2009	Actual 2010	Target 2014
Retail			
Sales	R4,2 bn	R4,5 bn	R8 bn – R9 bn p.a.
Credit sales to total sales	55,2 %	59,5 %	70 %
Operating cost to sales	55,1 %	46,3 %	35 % – 40 %
Stock turn	2,9 times	3,1 times	5 times
Return on sales	(4,4 %)	2,8 %	>10 %
Financial services			
Income yield	47,0 %	41,0 %	< 40 %
Cost to average advances	18,3 %	19,3 %	7,5 %
Bad debt expense to average advances	11,4 %	9,6 %	11 %

Brand analysis

		Ellerines	Beares	Furniture City	Geen & Richards	Wetherlys	Dial-a-Bed
Number of stores		636	196	34	73	31	58
New stores opened		9	7	2	8	3	13
Stores closed		19	19	–	1	2	1
Retail trading area	m^2	365 730	142 106	67 031	55 760	59 875	18 897
Sales	R million	1 927	944	472	518	326	300
Credit sales mix	%	77,1	68,0	52,8	55,6	–	1,8
Sales growth	%	5,0	7,4	6,1	27,0	(7,9)	26,6
Comparable sales growth	%	11,4	16,2	0,7	16,5	(17,6)	14,7
Number of employees		5 818	2 204	639	740	733	256
Advances book	R million	3 173	1 128	371	357	–	6
Number of loans	000	1 016	266	45	34	–	3

Ellerines business unit

Income statement

for the 12 months ended 30 September 2010

R million	% change	Audited 2010	2009
Sale of merchandise	7	**4 487**	4 196
Cost of sales	4	**(2 513)**	(2 405)
Gross margin on retail business	10	**1 974**	1 791
Interest income on advances	(10)	**1 073**	1 192
Net assurance income	(28)	**602**	838
Non-interest income	10	**726**	660
Income from operations	(2)	**4 375**	4 481
Charge for bad and doubtful advances	(15)	**(493)**	(582)
Risk-adjusted income from operations		**3 882**	3 899
Other interest and investment income	(27)	**57**	78
Interest expense	22	**(303)**	(248)
Operating costs	(5)	**(3 070)**	(3 246)
Profit from operations	17	**566**	483
Capital items	>100	**19**	(7)
Profit before taxation	23	**585**	476
Direct taxation: STC	(30)	**(51)**	(73)
Direct taxation: Normal	6	**(133)**	(125)
Profit for the year	44	**401**	278

Reconciliation of headline earnings

R million	% change	Audited 2010	2009
Profit for the year (basic earnings)	44	**401**	278
Adjusted for non-headline items:			
Capital items	>100	**(19)**	7
Tax thereon	–	**3**	–
Headline earnings	35	**385**	285

Ellerines business unit

Statement of financial position

as at 30 September 2010

R million	% change	Audited 2010	2009
Assets			
Short term deposits and cash	51	**83**	55
Statutory assets – insurance	(36)	**188**	296
Intragroup deposit – African Bank	>100	**411**	101
Inventories	(1)	**851**	859
Taxation	(37)	**12**	19
Other assets	>100	**449**	159
Net advances	27	**4 728**	3 731
Deferred tax asset	(8)	**408**	442
Assets held for sale	(97)	**5**	181
Property and equipment	1	**309**	307
Intangible assets	(8)	**834**	906
Goodwill	–	**755**	755
Total assets	16	**9 033**	7 811
Liabilities and equity			
Short term funding	(54)	**625**	1 345
Intragroup loan – African Bank	>100	**2 990**	858
Other liabilities	(3)	**1 088**	1 127
Taxation	53	**29**	19
Deferred tax liability	(5)	**251**	265
Liabilities held for sale	(100)	**–**	25
Long term funding	(50)	**5**	10
Total liabilities	37	**4 988**	3 649
Ordinary shareholder's equity	(3)	**4 045**	4 162
Total equity (capital and reserves)	(3)	**4 045**	4 162
Total liabilities and equity	16	**9 033**	7 811

Ellerines business unit

Retail division

The retail division generated headline earnings of R124 million for the past twelve months, a turnaround from the loss of R185 million reported in 2009. The main contributors to this performance were the growth in sales, a firmer gross margin and a substantial reduction in operating expenses. The return on sales in this period improved to 2,8 % from the negative 4,4 % last year, reflecting greater operational efficiency, improved trading and attractive client value propositions in terms of both product and credit offerings.

Sale of merchandise

Sale of merchandise increased by 7 % to R4 487 million or 9 % on a comparable basis. All the brands except Wetherlys showed improvements, with Geen & Richards, Beares and Dial-a-Bed being the best performers. Ellerines and Furniture City improved in the second half of the year, reversing negative growth in the first half to report 5 % and 6 % growth for the year, respectively.

Beares and Geen & Richards grew comparable sales by 16 % and 17 % respectively and Dial-a-Bed by 15 %. Ellerines grew by 11 %, Furniture City maintained comparable sales relative to last year and Wetherlys declined by 18 %.

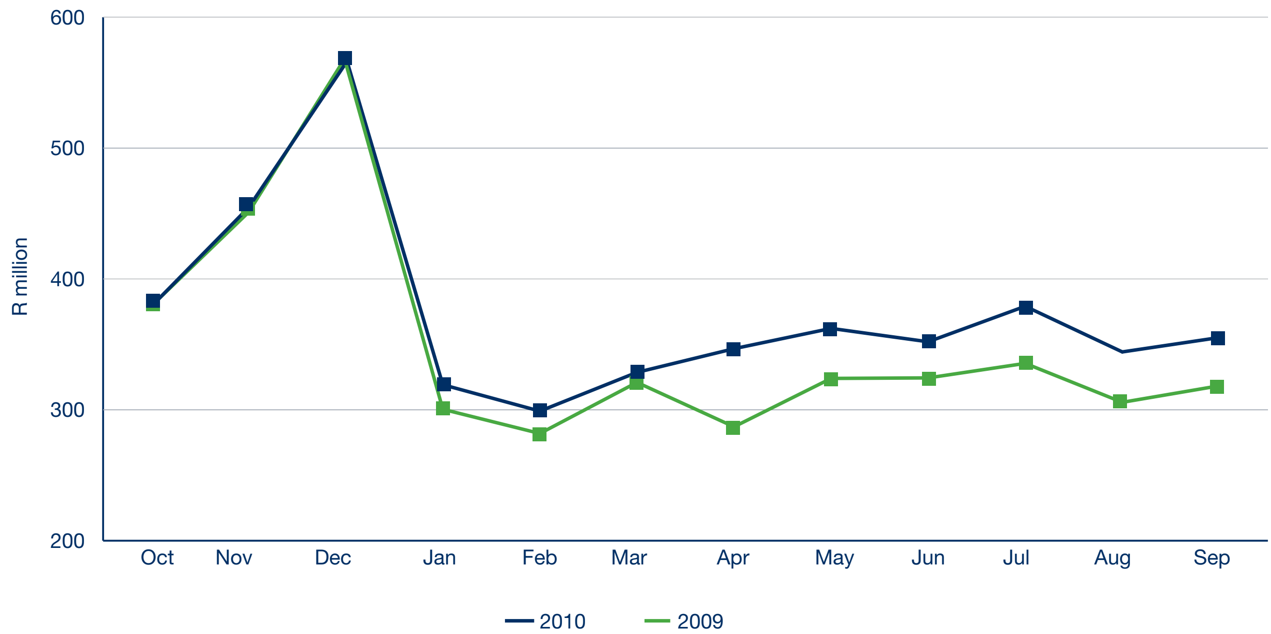
Cash sales reduced by 3 %, while credit sales increased by 15 %. Credit sales as a percentage of total sales, at 59,5 %, were well up on the previous year (2009: 55,2 %). All credit brands improved their credit sales mix materially. The brands benefited from higher approval rates, higher credit limits, cheaper credit and longer terms available to customers as a result of the new African Bank credit platform and scoring models. Dial-a-Bed also recently introduced a credit offer to their customers.

Wetherlys continued to underperform. A special project was initiated to implement a remedial plan. The business has also been reducing excess square metres in their big box stores, which will in turn reduce rental, staff, utilities and stockholding costs.

Sale of merchandise (R million)

By brand	% change in number of stores	% change	**2010**	**% contribution per brand**	2009	% contribution per brand
Ellerines	(2)	5	**1 927**	**43**	1 836	44
Beares	(6)	7	**944**	**21**	879	21
Furniture City	6	6	**472**	**10**	445	11
Geen & Richards	11	27	**518**	**12**	408	10
Dial-a-Bed	26	27	**300**	**7**	237	5
Wetherlys	3	(8)	**326**	**7**	354	8
Early Bird (disposed of)			**–**	**–**	37	1
Total	**–**	**7**	**4 487**	**100**	**4 196**	**100**

Sale of merchandise



Sale of merchandise per brand

Ellerines business unit

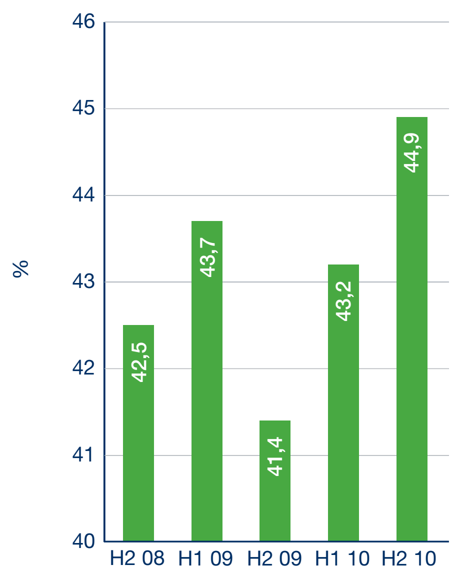
Retail division *continued*

Gross margin

The merchandise sales successes enabled the business to again trade at higher margins for the period. Despite the fact that some deflation in certain categories and a higher mix of lower margin TV products was evident in the period leading up to the FIFA World Cup, the business managed to increase margins for the full year.

Controls over markdowns improved to further protect margin erosion and continued progress was made in terms of the reduction of phased out and discontinued stocks.

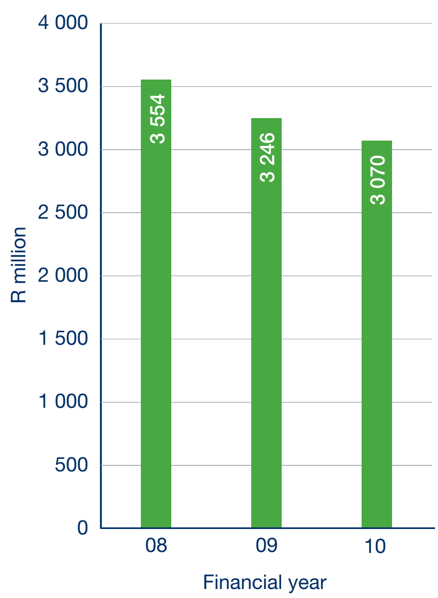
Gross profit margin



Operating costs

Total operating costs in EHL decreased by a further 5% or R176 million in 2010 to R3 070 million. The largest operating cost savings were derived from administration expenses, which include bank charges, legal, audit and consulting fees, IT costs, telephone and stationery costs. The brand consolidation initiative has resulted in a further 15% saving in advertising costs this year, on the back of a 31% saving in 2009. The total number of staff reduced further from 13 454 in September 2009 to 11 992, which reduced overall staff costs despite annual increases.

Operating costs



Operating costs per major category (including financial services division costs)

R million	% change	**2010**	2009
Staff costs	(1)	**1 440**	1 448
Administration expenses	(26)	**491**	666
Property and lease expenses	3	**620**	603
Delivery and logistic costs	2	**191**	188
Depreciation and amortisation of intangibles	6	**194**	183
Advertising and marketing costs	(15)	**134**	158
Total	(5)	**3 070**	3 246

In the retail division, operating cost as a percentage of sales reduced from 55% to 46%, which lifted the operating margin from a negative 5% to a positive 4%. Costs in the financial services division were up 7%, as a result of a change in the internal cost allocation and commission structures between the two divisions and the fact that the group postponed the implementation of cost reduction initiatives until the integration of the division with African Bank was completed. An operating cost split between retail and financial services of 74,2:25,8 (2009: 75:25) was used in this year's results, together with an 8% commission on credit sales (2009: 5%) being paid to the retail division.

Return on sales model – retail

R million	2010	2009
Sale of merchandise	4 487	4 196
Cost of sales of merchandise	(2 513)	(2 405)
Gross profit	1 974	1 791
Non-interest income	296	296
Operating expenses	(2 077)	(2 314)
Trading/operating profit (loss)	193	(227)
Net finance cost	(31)	(35)
Taxation	(38)	77
Headline earnings	124	(185)
Capital items (after tax)	16	(7)
Net profit (loss)	140	(192)

Return on assets and return on equity model – financial services

R million	2010	2009
Interest income on advances	1 073	1 192
Net assurance income	602	838
Non-interest income	430	364
Total income	2 105	2 394
Charge for credit losses	(493)	(582)
Operating expenses	(993)	(932)
Net financing costs	(215)	(135)
Taxation (including STC and indirect taxation)	(143)	(275)
Total charges against income	(1 844)	(1 924)
Headline earnings	261	470
Average gross advances	5 140	5 095
Average total assets	5 007	4 392
Average ordinary shareholder's equity	2 550	2 927

	2010			2009		
Sales/Sales	100,0%			100,0 %		
Cost of sales/Sales	(56,0%)			(57,3 %)		
Gross margin	*equals*	44,0%		*equals*	42,7 %	
Non-interest income/Sales	6,6%			7,1 %		
Opex/Sales	(46,3%)			(55,1 %)		
Trading/operating margin	*equals*	4,3%		*equals*	(5,4 %)	
Financing costs/Sales	(0,7%)			(0,8 %)		
Taxation/Sales	(0,8%)			1,8 %		
Net return on Sales	*equals*	2,8%		*equals*	(4,4 %)	

	2010			2009		
Interest/Advances	20,9%			23,4 %		
Assurance/Advances	11,7%			16,4 %		
Other income/Advances	8,4%			7,1 %		
Total income yield	*equals*	41,0%		*equals*	47,0 %	
Bad debts/Advances	(9,6%)			(11,4 %)		
Opex/Advances	(19,3%)			(18,3 %)		
Financing costs/Advances	(4,2%)			(2,6 %)		
Taxation/Advances	(2,8%)			(5,4 %)		
Total charges/Advances	*equals*	(35,9%)		*equals*	(37,8 %)	
			equals			*equals*
Return on advances			5,1%			9,2 %
			multiply			*multiply*
Advances/Total assets			102,7%			116,0 %
			equals			*equals*
Return on assets (RoA)			5,2%			10,7 %
			multiply			*multiply*
Gearing			2,0			1,5
			equals			*equals*
Return on equity (RoE)			10,2%			16,1 %

Ellerines business unit

Financial services division

The return on assets for the financial services division for the 12 months was 5,2 %, compared to the 10,7 % in the comparative period. Lower income and higher operating expenses and financing costs were the primary reasons for the lower performance. These are discussed in detail in the yield section of this report. The reduction in the charge for credit losses was not sufficient to offset the lower income.

The focus remains on improving collections to reduce the suspension of interest and in so doing increase yields, reducing the cost of funding and reducing operating costs.

New credit deals

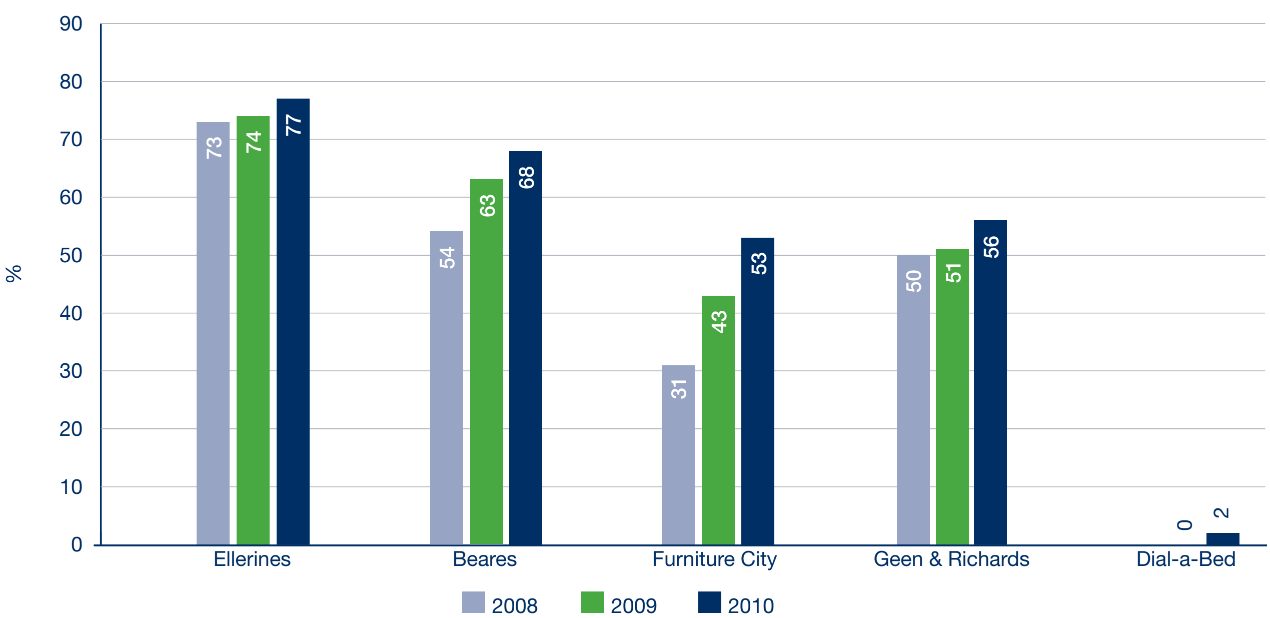
		% change	**2010**	2009
Total credit sales	R million	15	**2 670**	2 315
Overall credit sales mix	%		**59,5**	55,2
Number of new loans and cards sold	000	(3)	**415**	427
Number of new clients	000	7	**250**	233
Average loan size	Rand	31	**7 110**	5 427
Average term	Months	18	**32**	27
Average instalment	Rand	17	**495**	423
Credit approvals	%		**72,1**	66,3

Credit sales mix by brand

	% change	Credit sales 2010 Rm	Credit sales 2009 Rm	Credit sales mix 2010 %	Credit sales mix 2009 %	Credit approvals 2010 %	Credit approvals 2009 %
Ellerines	10	**1 487**	1 358	**77,1**	73,9	**73,2**	65,7
Beares	15	**641**	556	**68,0**	63,3	**68,2**	65,5
Furniture City	30	**249**	192	**52,8**	43,1	**75,9**	72,9
Dial-a-Bed	–	**5**	–	**1,8**	–	**75,0**	–
Geen & Richards	38	**288**	209	**55,6**	51,2	**69,2**	66,8
Total	15	**2 670**	2 315	**59,5**	55,2	**72,1**	66,3

New credit deals totalled R2 670 million in the 12 months to September 2010, a 15 % increase on the R2 315 million for the comparative period in 2009. These figures exclude VAT, delivery charges and related costs that are also financed as part of the credit extended. The credit sales mix improved markedly across all brands. Credit sales have grown largely by increasing the value and term of loans, rather than by the number of applications booked. Average deal size has increased from R5 427 to R7 110 year-on-year, while average term has increased from 27 months to 32 months.

Credit sales mix



Ellerines business unit

Financial services division *continued*

Advances

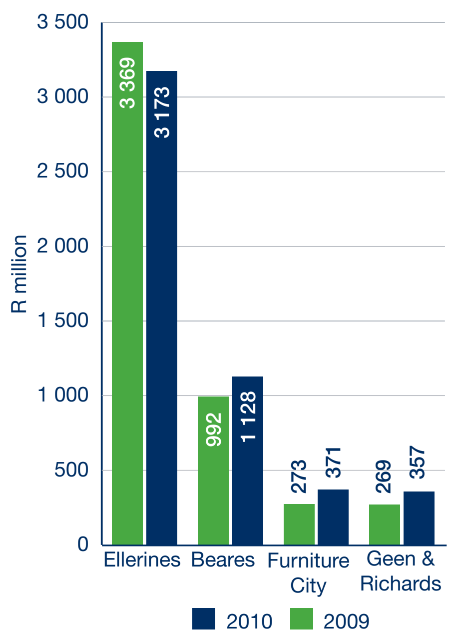
		% change	2010	2009
Gross advances	R million	2	**5 051**	4 954
Written off book	R million	>100	**484**	226
Gross advances including written off book	R million	7	**5 535**	5 180
Average gross advances	R million	1	**5 140**	5 095
Number of loans	000	11	**1 373**	1 241
Number of customers	000	(2)	**952**	968

Advances by brand

R million	% change	2010	2009
Ellerines	(6)	**3 173**	3 369
Beares	14	**1 128**	992
Furniture City	36	**371**	273
Geen & Richards	33	**357**	269
Dial-a-Bed	–	**6**	–
Rainbow Loans	(69)	**11**	51
Gross advances	2	**5 051**	4 954

Gross advances increased by 2% to R5 051 million. Higher volumes of credit applications, higher approval rates and greater loan sizes contributed to the growth in Beares, Furniture City and Geen & Richards. The Ellerines book was most affected by the extraordinary bad debt write off discussed in the asset quality section on page 75.

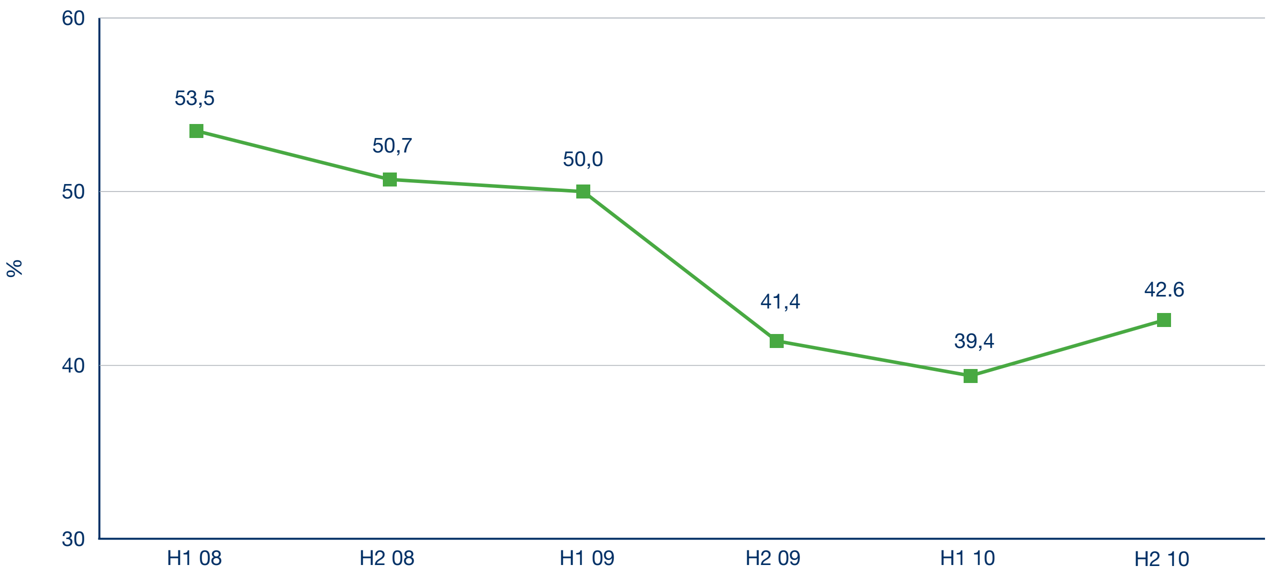
Advances



Yield analysis

The total financial services yield continued to decrease from 47 % in 2009 to 41 % in 2010, mainly as a result of interest suspension and the *in duplum* rule being applied. The reduction in the cost of credit to customers and the reduction of insurance premiums relating to credit sales, both of which were implemented in 2009, have also contributed to the decline in yield. Yields continued to improve incrementally as the effect of interest suspension and *in duplum* started to reduce during the year. This is evidenced by the yield improving from 39,4 % in the first six months of the year, to 42,6 % for the second half of the year.

Total income yield

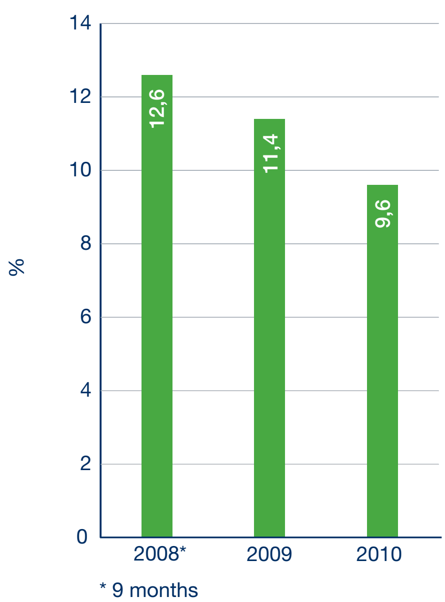


Asset quality

Charge for bad and doubtful advances

The charge for bad and doubtful advances for the 12 months to 30 September 2010 was R493 million or 9,6 % of advances, substantially down from the 11,4 % of advances reported in 2009. Credit quality has improved notably. A significant write off of old delinquent loans was done before the book was integrated with African Bank. More sophisticated collection methodologies combined with cash collections at branch level continued to yield positive results. Stricter credit criteria implemented over the past two years, as well as the improved risk evident on the African Bank credit platform, has impacted positively on the bad debt charge. The group also converted EHL collections onto the African Bank systems without any material deterioration in the performance of the converted book.

Gross bad debt charge

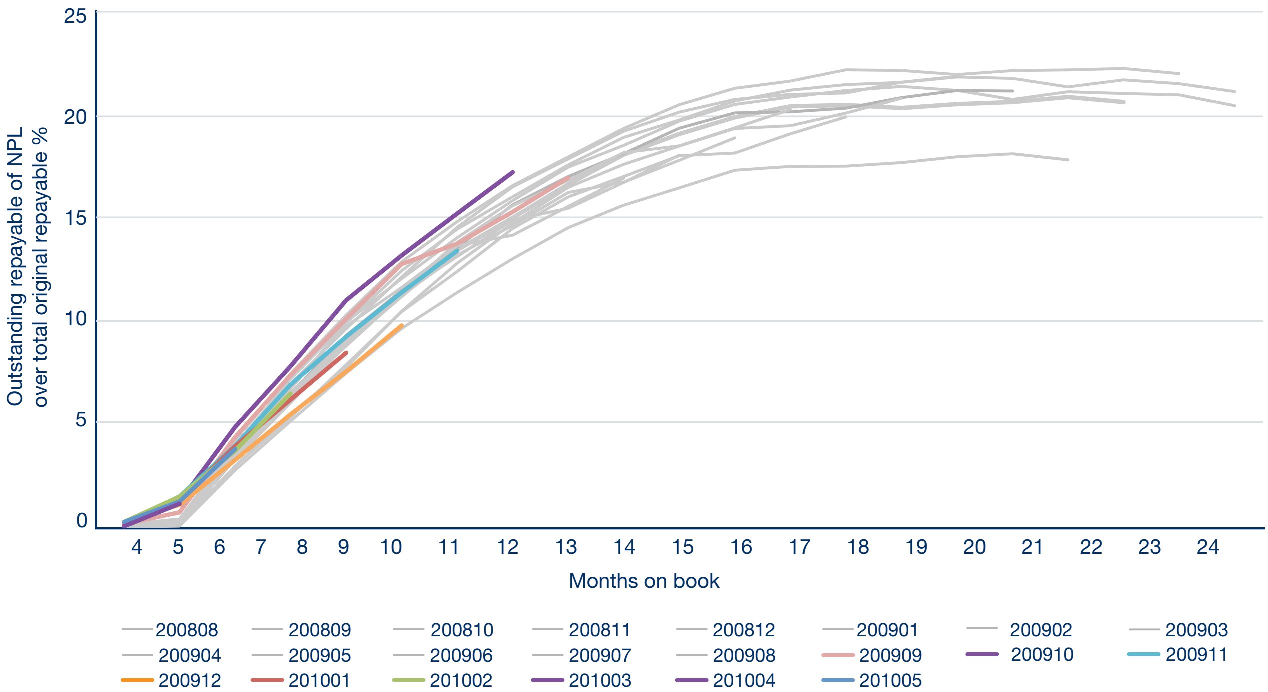


Ellerines business unit

Asset quality

The roll-out of the African Bank platform to EHL stores together with the first set of scorecards built specifically for EHL and which allowed the group to segment customers irrespective of which brand the customer frequented, was completed in September 2010. The change in credit sales mix towards lower risk brands, increased debit order repayments and decreases in sales where an affidavit is used to confirm the customer's income level in the Ellerines brand, should all have a positive impact on the credit risk performance during 2011.

Vintage graph – EHL consolidated – More than three cumulative missed instalments



The risk reduction demonstrated in the vintages and the higher write offs resulted in non-performing loans decreasing by 27 % to R1 369 million. NPLs as a percentage of gross advances reduced to 27 % (2009: 38 %).

Impairment provisions declined by 46 % to R767 million, primarily as a result of the high write offs and improved quality of the book. As a result of the conversion, an extraordinary write off of some R600 million of fully provisioned loans was done to harmonise the contractual delinquency calculation between EHL and African Bank. This reduced the NPL coverage from 76 % in the prior year to 56 %. Excluding this write off, the NPL coverage was 69 %. Bad debt write offs as a percentage of average advances were 27 %. It is expected that NPL coverage in EHL will gradually be aligned with that of African Bank.

Ellerines business unit

Asset quality analysis

as at 30 September 2010

R million	% change	2010	2009
Breakdown of gross advances			
Performing	19	**3 682**	3 085
Non-performing	(27)	**1 369**	1 869
Gross advances	2	**5 051**	4 954
Written off book	114	**484**	226
Deferred administration fee	48	**(40)**	(27)
Gross advances including written off book	7	**5 495**	5 153
Impairment provisions and credit life reserves			
Impairment provisions	(46)	**749**	1 385
Balance at the beginning of the period		**1 385**	1 509
Impairment provisions raised		**507**	887
Bad debts written off (gross)		**(1 401)**	(1 196)
Bad debts rehabilitated		**258**	185
Credit life reserves		**18**	37
Total impairment provisions and credit life reserves	(46)	**767**	1 422

R million	12 months to 30 Sep 2010	12 months to 30 Sep 2009
Income statement charges		
Charge for bad and doubtful advances	**493**	582
Impairment provisions raised	**507**	887
Release of fair value adjustment provision	**–**	(286)
Loss on repossessions	**10**	17
Bad debts recovered	**(24)**	(36)
Ratios		
NPLs as a % of gross advances	**27,1**	37,7
Total impairment provisions and credit life reserves as a % of NPL's (NPL coverage)	**56,0**	76,1
Total impairment provisions and credit life reserves as a % of gross advances	**15,2**	28,7
Income statement charge for bad debts as a % of average gross advances	**9,6**	11,4
Gross bad debts written off as a % of average gross advances	**27,3**	23,4
Bad debts rehabilitated as a % of average gross advances	**(5,0)**	(3,6)
Net bad debts written off as a % of average gross advances	**22,2**	19,8
Ratios calculated including the written off book (as disclosed in 2009)		
NPLs as a % of gross advances (including the written off book)	**33,5**	40,4
Total impairment provisions and credit life reserves as a % of NPLs (NPL coverage including the written off book)	**41,4**	67,9

African Bank operational review

Our people

Staff has been the focus in 2010. The ABIL vision was shared with all our staff during high energy roadshows across the country, in which participation and innovation were emphasised and a solution attitude was encouraged. As people experienced the vision and purpose of our business in a tangible way, a shift in culture was inevitable and we are beginning to see these subtle changes, creating efficiencies and innovation in the way we do things. Besides all the initiatives implemented as a result of the feedback from the roadshows, a new sales training programme was also introduced for our sales teams and considerable improvement in their skills and competence has been observed.

More details about our initiatives for staff are available in our web-based Sustainability report at **www.abil.co.za**

Customers

Customer roadshows – Giving a voice to our customers

To improve ongoing dialogue with our customers, Moja! our customer roadshows, were born and have proven to be exceptionally effective in engaging with customers.

The objectives were to:

- Connect with our customers in an authentic way;
- Engage with our customers, to show the people and leaders of African Bank what our business is all about, and allow us all to get to know our customers as people; and
- Develop a foundation and communication process that would allow us to engage more openly with our customers, and develop insights into customer needs and the way forward.

The challenge would be to sustain the momentum, to continue to connect with our customers and to act on the feedback that we receive to improve our offer to customers.

Consumer Advocate's Office

The ABIL Consumer Advocate's Office (CAO), established in 2004, continues to be the consumer watchdog for the ABIL group. It receives complaints from consumers who are unhappy with the service they have received from the Bank or EHL store, as well as from regulators, ombuds and the media. Staff also refer unhappy consumers to this office.

The CAO has an independent mandate to adjudicate on all consumer complaints and its rulings by which the Bank is bound, are based not only on whether the Bank has acted legally but also on whether the outcome has been fair in any given situation.

During this financial year, the CAO received a total of 7 065 complaints, an increase of 20 % from the previous year. Of the matters brought before the office, 61 % (2009: 64 %) had a resolution in favour of the customer, either as a valid complaint or a gesture of goodwill.

The CAO also expanded its jurisdiction in 2010 to include all EHL brands, with the initial focus being on complaints from the National Credit Regulator and Credit Ombud.

In addition to the above reactive support provided to the Bank and consumers, the CAO proactively identifies policies, processes and practices which it feels could negatively impact on service delivery, and engages with the relevant divisions within the Bank for these to be reviewed and amended or rectified where appropriate. In this year the CAO investigated 165 issues, resulting in 53 policy/process rectifications.

The Consumer Advocate's Office continues to promote consumer rights and education by working with others in the consumer protection arena. The highlight for the past year has been the setting up and official launch of three 'Imali Matters' Money Advice offices as part of a year-long pilot. The initiative is the result of a joint venture of the DTI, Finmark Trust, the Credit Ombud and African Bank. Imali offices offer free guidance on any money related matter eg savings, signing of contracts, taking insurance, wills, inheritance, understanding account statements and credit bureaus. The offices also assist consumers to lodge complaints against institutions where they have been unfairly treated and need a remedy and refer cases to the different ombuds, regulators and the DTI.

Through the African Bank Corporate Social investment forum, funding for infrastructure continues to be provided to two non-profit consumer organisations. These are the National Consumer Forum, one of the leading consumer bodies in South Africa, and the Cape-based debt activist group, You and Your Money.

Debt counselling

The implementation of the National Credit Act has resulted in the establishment of debt counselling for financially distressed customers. While the principle of debt counselling is sound, the implementation of the process thus far has not been successful, creating confusion in the industry for all parties, credit providers, debt counsellors and the courts.

The industry under the auspices of the National Credit Regulator, established a task team to identify the key issues and make recommendations to resolve these. Significant progress has been made and it is envisaged that a workable solution will be available to the industry by the second quarter of next year.

ABIL has been closely involved in the task team and views these initiatives in a very positive light and will be implementing the recommendations in the forthcoming year.

Curing delinquent consumers outside of the debt mediation environment

African Bank wants customers to come to the Bank as the first step towards finding a solution to their debt problems and has recently implemented a specialised customer unit to enhance and support customer rehabilitation as part of its customer rehabilitation and retention strategy.

The CURE (Customer Understanding, Retention and Education) unit's main focus is to offer support to African Bank's over indebted and financially distressed customers to become financially fit and credit active again. The objective of this unit is to understand the customer's financial situation, debt exposures and reasons for distress. It wants to retain customers by offering different restructuring solutions, tracking behaviour and effectively managing the defaults. CURE will implement solutions and future products for distressed and over indebted customers in alignment of the National Credit Act, i.e. debt consolidations, voluntary debt counselling and payment rescheduling. It will also educate and empower customers to manage their finances responsibly, build brand equity and retain customers for their credit needs for life.

Customer satisfaction

A customer experience measurement tool was launched and incorporated in the operational scorecards, focusing on the quality of service our branches and service contact centre offer to existing and potential customers. African Bank's performance is in line with market, however improvement is always required to ensure that existing customers are retained and new customers are acquired.

Service problems and the resolution thereof were identified as areas the Bank needs to resolve. Various structural initiatives are currently being investigated, with the objective of addressing problem areas identified in the Consulta Customer Experience measurement.

Products

A new payment break product, with the first repayment due date in the new year, was introduced to the market in the last quarter of the financial year. This product has been particularly successful, contributing to a notable increase in sales volumes month-on-month.

Various new products will be initiated to the market during the 2011 financial year, as discussed in the Letter to Stakeholders.

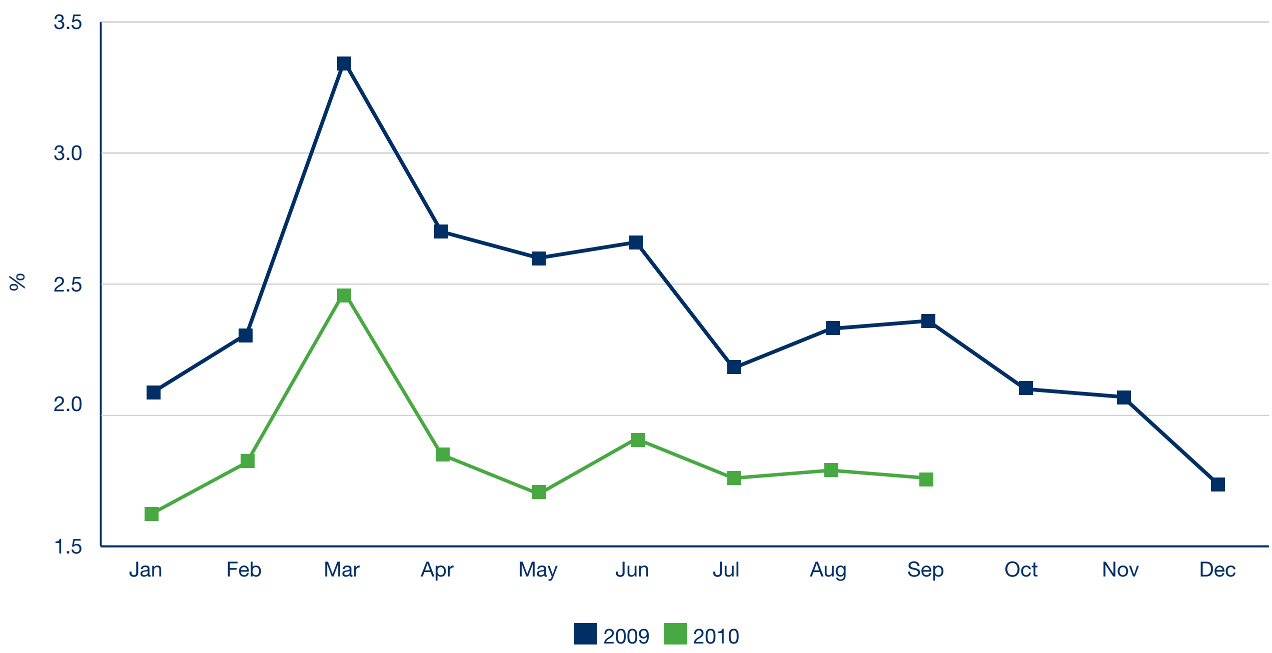
The credit card business reached 500 000 active cards and an asset base of R3 billion this year. African Bank is also piloting the roll-out of its own branded network of ATMs, with the first ATM installed in September 2010.

Distribution

As discussed on page 16, ten new African Bank branches were opened during 2010 and African Bank started tapping into the Ellerines distribution network to extend its footprint in the market. By September 2010, 114 African Bank kiosks were operational within stores of selected brands. The Bank will continue to roll these kiosks out in 2011, which is expected to more than double African Bank's footprint over the coming year.

As part of its reinvigoration drive, greater responsibility has been placed on branch staff to focus on collections and client service. This has led to a considerable drive to improve deal quality and to ensure accurate data capture, and has been effective in reducing the number of loans migrating into NPLs in the past year, as depicted below. The graph plots the percentage of loans written on which the first three instalments are missed and is mostly reflective of the effectiveness of the underwriting models, as well as deal quality and early stage collections.

Missed third instalment



Systems

African Bank provided a stable uninterrupted IT platform on which customers could transact throughout 2010. The past year has been one of consolidation and investment in technology.

Some of our highlights for the past year included:

- The refreshment of key components of the Network Infrastructure supporting the branches;
- An improved clustered security layer providing protection to the Bank and its customers;
- Integration of the EHL network by connecting some 1 000 EHL branches to transact on African Bank systems;
- The roll-out of the front end Loan Origination system into approximately 1 000 EHL branches;
- The crafting of a Multi-Channel Architecture allowing for 24x7 transacting capability in branches, at ATMs, using mobile phones, the internet and third-party originators;
- Consolidating the front end applications into one Services Oriented Architecture (SOA) capable of servicing the Bank and EHL. This is in development and will be deployed to African Bank early in 2011;
- The development of a web-based Disaster Recovery application;
- The delivery of new products and new application functionality for both internal and external customers; and
- The conversion of the EHL debtors book onto the Bank's systems.

A new front end IT system will be introduced during the 2011 financial year. We envisage the system to improve and simplify the customer acquisition process and to contribute towards improved customer service, better turnaround times and quicker query resolutions.

Collections

The past financial year has been a challenging one for collections, with a combination of poorer economic conditions and the integration of the Ellerines financial services business putting pressure on maintaining satisfactory collection rates.

A number of key strategic initiatives have been undertaken which bodes well for the year ahead.

- **Review and redesign of collections processes**
  The collections division has always been focused on managing the operations in an effective and cost efficient way. With this in mind and also as a result of the acquisition of the Ellerines loan portfolio, we will be initiating a project to redesign collections processes in order to further enhance efficiencies and also allow for the differentiation of collections strategies that will be required for the more diversified credit portfolio.

- **The conversion of EHL onto African Bank systems**
  Over and above having to maintain and improve on the collections activities of the African Bank portfolio, we also recently completed the conversion of the EHL loan portfolio onto the African Bank systems, as well as integrating the entire collections and back office functions. This entails the absorption of three operating divisions from EHL and included the relocation of two collections offices from Cape Town and Benoni to Midrand. Processes have been put in place to integrate the EHL collections practices in African Bank.

  The year ahead will be focused on reviewing collections methodologies and strategies with the aim of improving collections rates and also identifying further opportunities to improve on efficiencies.

- **Further development of predictive capabilities in collections**
  African Bank has over the past couple of years developed the capacity within collections to develop scorecards with the aim of both improving collections rates as well as becoming more efficient in its collections processes.

There are a number of scorecards being utilised in the collections division, and the latest addition to these is the implementation of the 'distressed customer' scorecard. This scorecard enables us to identify, proactively, whether a customer will default and thus allow us to implement certain proactive strategies to both assist the customer as well as protect the capital at risk.

Significant focus for the year ahead will be placed on developing and improving the customer value proposition for customers who are experiencing difficulties in meeting their monthly debt obligations.

- **Improvement of customer service offering**
  The constant striving to service customers in the most efficient and customer centric way has resulted in the creation of an initiative that will aim to improve our customer service proposition and also make it easier for our customers to interact with us.

  This initiative will include the end to end review of all our customer service processes and the redesign and build of a new customer service/customer friendly system.

  In addition to the above, African Bank has acquired a new telephony system which is currently in the process of being installed in our customer service and sales call centres that will also assist in significantly improving our customer service.

Environmental initiatives

The Bank has implemented some initiatives during the year to improve environmental efficiencies at its head office. Light fittings were retrofitted to accommodate more efficient lighting and sensors installed to keep lights on only in areas where staff is working. The temperatures of geysers have been turned down and air conditioner compressors retrofitted with more power efficient scroll compressors. A compost heap to convert garden refuse into compost was built and a water purification system installed to utilise water from a stream that runs through the property. Sensor taps to reduce the amount of water required and energy efficient hand dryers to reduce paper consumption were also fitted. A new building management system to provide better control of power and water consumption was acquired. Existing, bulky furniture is being phased out and replaced with new generation furniture that will improve utilisation of floor space and will therefore delay the need to purchase or build another building.

Plans for the new year include installing a power factor correction device in the substation and looking at more efficient ways to deal with waste products and to further improve recycling.

EHL operational review

The EHL group has improved its performance substantially over the past two years. This has only been possible by focusing on every aspect of the business with a view to increase efficiencies, raise the quality and improve the value to our customers.

Customers

We regularly commission research to enhance our understanding of customer needs and expectations. As a result of the insights we are gathering from this research, EHL continues to make considerable advancement in the formulation and implementation of customer focused strategies.

The Customer Value Proposition (CVP) which we formulated for each of our six brands focuses on a more customer centric approach where customers are central to our business strategy. Customer needs and perceptions are addressed through a number of initiatives, such as:

- The rollout of each brand's "new look" stores which significantly differentiates each brand;
- Review of current merchandise and a commitment to ongoing product innovation and quality;
- Creating a favourable shopping environment, in terms of store location, layout and overall in-store execution;
- Unique marketing strategies as appropriate to each brand specific target client;
- Alignment of brand image through the enhanced management of the promotions processes; and
- Continued research and interaction with our clients to keep abreast of the evolution of their needs.

Consumer Protection Act

The Consumer Protection Act has as its objectives assisting those who are disadvantaged, promoting fair business practices, protecting consumers from improper trade practices and dishonest conduct, promoting informed consumer choice and promoting consensual dispute resolution.

The Act is expected to come into effect during 2011 and deals with, amongst others, liability for damage caused by goods. Suppliers will be liable for any harm caused wholly or partly as a consequence of supplying unsafe goods, a product failure, defect or hazard in any goods, or "inadequate instructions or warnings provided to the consumer pertaining to any hazard arising from or associated with the use of any goods". This is the section of the Act that potentially has the most effect on EHL business. It is imperative for suppliers covered by the Act to take every precaution in ensuring that only safe and reliable goods are sold and that suppliers have adequate public liability insurance.

EHL has been in readiness prior to these provisions coming into effect. The relevant provisions of the Act were addressed with our merchandising, marketing and operations teams during workshops in 2009 and in 2010. Delivery charges, club fees, consumer agreements, manuals, supplier contracts and supplier indemnity clauses, amongst others, were reviewed in relation to the Act. Gap analyses were done and any shortcomings addressed in the context of available information. Business practices will again be reviewed when final regulations are published to ensure that the group complies with every aspect of the Act.

The Act does not apply to a credit agreement under the National Credit Act.

Suppliers

The need to formalise supplier relationships in a structured environment and in alignment with the group's logistics/ supply chain project necessitated the commissioning of a special project to rationalise the number of suppliers that EHL deals with. The completion of the project enhanced the building of strategic relationships with the remaining suppliers and strengthened the group's position with regard to supply of goods into the future. Given the fragility of the local industry, the group focused on strategic relationships with key vendors in various forms, in order to create a sustainable and robust supply of goods into the future. This improves the group's competitive advantage, as these arrangements provide exclusivity and first to market opportunities for our brands as well as driving down costs for consumers.

Where contracts for non-merchandise goods and/or services are entered into centrally, a SLA (Service Level Agreement) always forms an intrinsic part of the contract documentation. The SLA is then managed at agreed intervals and monitors service, quality, price and related matters.

Quality and safety are major focus areas

Product quality formed a large part of the criteria used to rationalise the supplier base. This aspect remains a priority in our regular interactions with suppliers.

Extracting cost efficiencies to drive greater value for money

Becoming more meaningful to fewer suppliers meant that the increased volumes with the relevant suppliers allowed for better logistics and procurement efficiencies, thereby reducing costs.

Enhanced product ranges driven by customer choice

Range analysis continues to drive innovation by merchants in order for product selection to remain relevant and competitive. The group is confident that the product offering is cognisant of the current trends.

Suppliers' impact on the environment

It is pleasing to note that suppliers are not only ensuring that packaging material and consumables are environmentally friendly, but effort is also being made to use recycled materials whenever possible to do so.

Where imports are concerned, our market benefits from stringent controls that are required in the UK and United States.

Supply chain integration project

EHL continued to develop its integrated supply chain during 2010. The first major facility (Boksburg Distribution Centre) will be operational in March 2011. The remaining network facilities will go live by region and are scheduled to be completed by mid-2012. The custom design will result in a brand agnostic, centralised distribution model. The supply chain network has been designed to optimise planning, warehouse utilisation and transportation fleets, while simultaneously bringing down costs across the supply chain. It will also improve supplier collaboration, resulting in better sourcing and procurement. Suppliers will be able to reduce overproduction or waste at their factories, which will in turn reduce the requirement of natural resources (e.g. wood, cotton etc). Improved inventory visibility and supplier collaboration will also reduce stockholding in the EHL facilities, which will reduce warehousing cost. Importantly, service delivery to customers will also improve.

All the new facilities will include energy efficient lighting, waste water treatment, plastic and paper recycling facilities. This will reduce the requirement for natural resources per square metre of warehousing space. Improved transport planning and route optimisation will increase vehicle utilisation (vehicle capacity utilisation and fleet utilisation) and reduce kilometres and fuel consumption per delivery. This will result in lower carbon emissions per cube or per product moved. Some progress was already made this year, even though the project is in its infancy.

Current fleet statistics are as follows:

	2010	2009
Fleet size	**1 827**	2 191
Kilometres travelled	**83 151 959**	92 727 628
Fuel (Rands)	**70 527 950**	79 187 060

Preferential procurement

EHL continues to manage a supplier database which currently comprises 1 270 approved non-merchandise suppliers, of which 280 have BEE certification on the database. This translates to 22 % of existing suppliers having BEE certificates. When considering potential suppliers to be listed on the supplier database their BEE credentials play an important role in the selection criteria applied. This is particularly applied in the non-merchandise suppliers of goods and services arena.

Merchandising

Across all brands, merchandise ranges were reviewed, updated and focused around identified customer segments during this year. Differentiation and improved quality merchandise was a key driver. A growth in import purchases also aided this strategy.

The private label strategy using the TEK trademark was very successful during 2010. This strategy involves establishing brands in certain categories that EHL owns. The value proposition is predictated on quality products at better prices for the consumer. These products produce higher margins while offering value to customers.

'Packaged solutions', where the group uses affordable credit to drive down the monthly cost of a total household solution, proved highly successful this year. One such deal in Furniture City offered a whole household of products, i.e. lounge furniture including an LCD television, a dining room suite and a bedroom suite, all for R999 per month on low interest credit. Not only did the total package cost less than the sum of the parts, the low credit cost also improved the affordability substantially and led to a marked increase in average transaction values.

Stock turn

Stock turn improved from 2,9 times in 2009 to 3,1 times in 2010. New appointments in the planning function and an investment in training helped to improve the planning skills base.

Changes to the group's logistical capabilities will be implemented in 2011. Further improvements to planning system capabilities are expected to drive higher efficiencies and increase stock turns further.

Imported merchandise

Imports are a growing portion of the business. During 2010, a payment mechanism which provides offshore funding at overseas rates was developed and the benefit in terms of cash flow will be seen in 2011.

We are looking to grow our import component to support better differentiation. A policy of buying forward cover for the foreign exchange is followed to protect the group from negative fluctuations in exchange rates.

The merchandising focus for 2011 will be on product innovation which can lead to higher margin opportunities and/or lower costs, on continuing to grow the import component of the business in order to ensure differentiation, and on bringing a number of new retail formats to fruition.

With the arrival of the Boksburg distribution centre in March 2011, the logistical capabilities will be greatly enhanced, while the upgrade to the Pyramid planning tool will strive to maximise the efficiencies of the inventory.

Distribution

The disposal of the large property portfolio was substantially completed and 42 non-performing stores were closed. At the same time 42 new stores including four new Dial-a-Bed "store within stores" were opened, resulting in trading area for the year of 709 399 m^2, down from 722 486 m^2. The group negotiated in excess of 400 property lease renewals during the year, while overall property escalations were held below 6 %.

Capital expenditure for the year on new stores, remodels and logistics infrastructure was R96 million.

New stores and new formats will be added to the portfolio based upon market and brand demand and continued focus will be placed on improving trading densities. Increases in rates and electricity should be partially offset through aggressive negotiations on new and existing leases.

Environmental impact

Based on the NERSA approved tariff increases awarded to Eskom for the next three years it has become even more important to focus on the utilities spend (energy and water) within the group.

Electricity consumption and energy efficiency projects have been identified and launched within the group. There are several pilot projects running in selected stores regarding these two key areas of lighting and energy efficiency. The new technology will be implemented in a limited programme and the results monitored prior to a structured rollout across the brands.

Rain water tanks were installed on the roofs of the EHL head office buildings to provide water for ablutions in the buildings. The group is investigating extending this supply to kitchens in the buildings as well.

Other areas of opportunity in the wider environmental focus have been identified, such as the outsourcing of the logistics to ensure optimisation of efficiencies and minimisation of our energy consumption and/or negative impact to the environment.

Information technology

Excellent progress has been made in moving the underlying support infrastructure for financial services onto the Bank's IT platforms. All loan origination within the retail operation is now conducted on the Bank's loan origination system. This achievement now frees IT resources to concentrate on enabling the improvement of retail operations.

One of the key initiatives undertaken to improve retail operations has been the complete overhaul of the logistics process. From an IT point of view good progress has been made in this area by the introduction of a service oriented architecture and business operations platform. This technology has enabled the modular integration of third party logistics and will form a key part of the retail architecture in the future.

Much work has also been done in providing instant access to merchandising and planning information in order to facilitate better decision making within these areas. This initiative will be supported in the forthcoming months with the introduction of a more sophisticated merchandise planning system that will allow for planning and much higher levels of detail. This will assist in driving inventory levels down and inventory availability up.

IT infrastructure is also in the process of being simplified with the roll-out of a server virtualisation strategy. Server virtualisation will not only reduce complexity and hence the costs of maintaining the infrastructure but will significantly reduce power consumption; estimates of carbon emission reduction from server virtualisation within the retail environment amount to 700 tons of carbon per annum.

"The credit from African Bank has help by restoring my dignity back. Also my financial status was restored. I am with this bank for a long time and it was able to pay for my children at the tertiary level. Also, I am driving a new car through African Bank."

Christinah Ndlovu

ABIL board of directors

Mutle Constantine Mogase (46), Independent non-executive chairman

Date appointed: 12/03/2007

Qualifications: BComm; Executive Development Programme and Graduate Diploma in Corporate Governance

Directorships: Non-executive chairman of African Bank Investments Limited and African Bank Limited; Non-executive director of Air Liquide; ECI Africa Consulting (Pty) Limited and JP Morgan Advisory Board; Executive chairman of Vantage Capital Group; and executive director of Vantage Capital Investments (Pty) Limited

Mutle has been an independent non-executive director of African Bank Investments Limited and African Bank Limited since 2007 and currently serves as the non-executive chairman of African Bank Investments Limited and African Bank Limited. He is currently the executive chairman of Vantage Capital Group. Vantage Capital is an investment and financial services group with interests in private equity, mezzanine funding and principal investments. Mutle was also a key member of the team that developed the Financial Services Charter. He was a chairman of the Micro Finance Regulatory Council (MFRC) and it was during his tenure that the National Credit Act was developed.

David Braidwood Gibbon (68), Independent non-executive director

Date appointed: 01/06/2003

Qualifications: CA (SA)

Directorships: Non-executive director of African Bank Investments Limited; African Bank Limited; The Spar Group Limited; The Standard General Insurance Company Limited; Relyant Insurance Company Limited; Relyant Life Assurance Company Limited and Customer Protection Insurance Company Limited and Elkanah School of Creative Learning (Pty) Limited

Former partner at Deloitte with over 30 years' experience in audit and related services to banking and financial services clients.

Nicholas Adams (51), Non-executive director

Date appointed: 01/02/2008

Qualifications: BComm (Hons); CTA (UCT); ACMA

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

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

Ashley Tugendhaft (62), Non-executive director

Date appointed: 01/04/2003
Qualifications: BA; LLB
Directorships: Non-executive director of African Bank Investments Limited; African Bank Limited; Imperial Holdings Limited; Pinnacle Technology Holdings Limited; Tshole-Unicode (Pty) Limited and Tshole Business Solutions (Pty) Limited

Oshy is a senior partner of the law firm Tugendhaft Wapnick Banchetti & Partners (TWB). Oshy has over 35 years' legal experience.

Robert John Symmonds (51), Independent non-executive director

Date appointed: 21/05/2009
Qualifications: BComm (Hons) (UCT); Strategic Banking Programme (IMD-Lausanne); Executive Development Programme (GIMT)
Directorships: Non-executive director of African Bank Investments Limited; African Bank Limited; Leppard and associates; Umlimi Underwriting; Financial Management International; Heavy Commercial Vehicles; Professional Indemnity Mutual Solutions; Consort Technical Underwriters; Pinnafrica Limited; Cast Arena Trade and Invest 87 (Pty) Limited; The Standard General Insurance Company Limited; Relyant Life Assurance Company Limited; Relyant Insurance Company Limited and Customer Protection Insurance Company Limited; Executive director of Lombard Insurance Company Limited; Managing director Lombard Insurance Company Limited; Lombard Life; Lombard Insurance Limited; Lombard Trade Finance; Lombard Guarantee Services (Pty) Limited – registered in Botswana and Lombard Consolidated (Pty) Limited

Currently the managing director of the Lombard Insurance Company Limited. Previously the CEO of Mercantile Lisbon Bank Holdings Limited.

Samuel Sithole (37)*, Independent non-executive director

Date appointed: 21/05/2009
Qualifications: Bachelor of Accountancy (Honours) (University of Zimbabwe); Chartered Accountant registered with the Institutes of Chartered Accountants in Zimbabwe (ICAZ), England & Wales (ICAEW) and South Africa (SAICA); and Advanced Diploma in Banking from the University of Johannesburg

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

Currently the Group financial director of Brait SA. Sam, a chartered accountant by training, had been at Deloitte since 1996 with experience at both their Harare and London offices.

** Zimbabwean with permanent SA residence status*

Mpho Elizabeth Kolekile Nkeli (46), Independent non-executive director

Date appointed: 07/03/2008
Qualifications: BSc Environmental Science; MAP (Wits) and MBA (GIBS)

Directorships: Non-executive director of African Bank Investments Limited; African Bank Limited and Hlumisa Investment Holdings Limited; Executive director of Alexander Forbes Africa, its divisions and subsidiaries and Investment Solutions

Mpho has worked for a number of companies in marketing, communications, HR and transformation positions for the past 15 years. She is currently the Group executive director of HR and transformation at Alexander Forbes.

Gordon Schachat (58), Executive deputy chairman

Date appointed: 01/07/1995

Directorships: Deputy executive chairman of African Bank Investments Limited, African Bank Limited and Ellerine Holdings Limited; Non-executive director of Motifprops 26 (Pty) Limited; Trakprops 4 (Pty) Limited; Xtraprops 208 (Pty) Limited and Saringwe Art (Pty) Limited

Gordon was one of the original founders and architects of the ABIL group in partnership with Leon Kirkinis, the current CEO. His business career spans nine years with the Schachat housing group, thereafter 13 years in the field of private equity and investment banking which, in partnership with the Hollard Group in 1995, culminated in the listing of the Boabab Investment Trust, the forerunner of the current ABIL group.

Leonidas Kirkinis (51), Chief executive officer – ABIL

Date appointed: 01/07/1997
Qualifications: BComm; BAcc

Directorships: Executive director of African Bank Investments Limited and African Bank Limited; Executive chairman of Ellerine Holdings Limited

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

Antonio Fourie (50), Executive director

Date appointed: 21/10/2003
Qualifications: BComm

Directorships: Executive director of African Bank Investments Limited and African Bank Limited; Chief executive officer of Ellerine Holdings Limited

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

David Farring Woollam (47), Executive director

Date appointed: 01/11/2002
Qualifications: CA(SA)

Directorships: Executive director of African Bank Investments Limited and other group subsidiary companies; African Bank Limited and The Standard General Insurance Company Limited

Dave served as financial director of BoE Limited from 1999 to 2002 after returning from London where he spent some 11 years working in the financial services industry. Dave joined ABIL as group financial director in November 2002.

Nithiananthan Nalliah (51), Executive director

Date appointed: 05/05/2009
Qualifications: BCompt (Hons) (Unisa); P Grad Dip Tax Law (RAU); ACMA, CA(SA)

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

Nithia is currently the group financial director and an executive director of ABIL and African Bank. He joined ABIL as chief financial officer in October 2006. Nithia is a CA(SA) and was a senior partner at Deloitte prior to his joining the group.

Thamsanqa Mthunzi Sokutu (47), Executive director

Date appointed: 19/05/2003
Qualifications: BSc (Honours); MSc

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

Tami is the executive director responsible for ABIL's group risk functions covering both the African Bank and EHL businesses. Before taking over responsibility for group risk, Tami was managing director of African Bank: Retail Business.

Corporate governance

Introduction

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

- **Responsibility** by assuming responsibility for the actions of the company and being willing to take corrective actions to keep the company on a strategic path that is ethical and sustainable;
- **Accountability** by being able to justify its actions and decisions to shareholders and other stakeholders;
- **Fairness** by giving fair consideration to the legitimate interests and expectations of all stakeholders of the company; and
- **Transparency** by disclosing information in a manner that enables stakeholders to make an informed analysis of the company's performance and sustainability.

King III

In September 2009, the King Commission released its revised King Code on Corporate Governance (King III). The group is required to comply with King III from 1 October 2010. The transition to reporting in terms of the revised code has been addressed by the group and enhanced procedures are being put in place to ensure that the already existing procedures meet the requirements of King III. The principles of King III are detailed below and an overview is provided of the group's continued full compliance with King II for the period under review and the further requirements of King III, which have already been adopted.

The board

The board continues to comply with the principles of King II and adherence to the principles of King III, which are tabulated below, is elaborated upon in the Board Charter which is available on **www.abil.co.za**.

	King III principles
1.	The board is responsible for corporate governance
2.	The board should provide effective and responsible leadership
3.	The board is responsible for ensuring that an ethical foundation exists
4.	The board should be responsible for the governance of risk
5.	The board should be responsible for information technology governance
6.	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards
7.	The board should ensure that there is an effective risk based internal audit
8.	The board should report on the effectiveness of the company's system of internal control
9.	The board and its directors should act in the best interests of the company
10.	The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed
11.	The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should also not fulfil the role of the chairman of the board
12.	The board should appoint the chief executive officer and establish a framework for the delegation of authority
13.	The board should comprise a balance of power and authority, with a majority of non-executive directors such that no one individually has unfettered powers of decision making. The majority of non-executive directors should be independent

	King III principles *continued*
14.	Directors should be appointed through a formal and transparent process
15.	The induction and ongoing training and development of directors should be conducted through formal processes
16.	The board should be assisted by a competent and suitably qualified company secretary
17.	The evaluation of the board, its committees and the individual directors should be performed each year
18.	The board should delegate certain functions to well structured committees but without abdicating its own responsibilities

"You cannot comply your way into **ethical** or **trustworthy** behaviour."

The audit committee

The audit committee charter, which is available on www.abil.co.za, provides a comprehensive overview of the audit committee's role, mandate and activities.

The following principles of King III have been included within the scope of the audit committee's roles and responsibilities.

	King III principles
1.	The committee will ensure that a combined assurance model is applied
2.	The committee is responsible for recommending the appointment of the external auditor and to oversee the external audit process
3.	The committee will evaluate the performance of the finance function on an annual basis
4.	The committee will examine and review the annual financial statements, the interim reports, the accompanying reports to shareholders, the preliminary announcement of results and any other announcement regarding the company's results or other financial information to be made public, prior to submission and approval by the board.

The risk and capital management committee

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

	King III principles
1.	The board should be responsible for the governance of risk
2.	The board should determine the levels of risk tolerance
3.	The risk committee should assist the board in carrying out its risk responsibility
4.	The board should delegate to management the responsibilities to design, implement and monitor the risk management plan
5.	The board should ensure that risk assessments are performed on a continual basis
6.	The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks
7.	The board should ensure that management considers and implements appropriate risk responses
8.	The board should ensure continual risk monitoring by management
9.	The board should receive assurance regarding the effectiveness of the risk management process
10.	The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders

The comprehensive risk management review can be found on our website at www.abil.co.za. The risk and capital management committee is constituted in terms of Section 64A of the Banks Act 94 of 1990 as amended, and within this constitution undertakes the following activities:

- Evaluating the adequacy and efficiency of risk policies, procedures and controls applied;
- Identifying various risks that the group is exposed to;
- Developing a risk mitigation strategy;
- Ensuring that a formal risk assessment is undertaken;
- Identifying and regularly monitoring key risk/performance indicators;
- Promoting communication through reporting structures;
- Establishing an independent group risk management function;
- Enhancing the adequacy and efficiency of risk management policies, procedures, practices and controls;
- Monitoring risk management on a globalised basis;
- Establishing and implementing processes of internal control;
- Establishing and implementing policies and procedures so that the group identifies, measures and reports all material risks;
- Establishing processes that relate capital to the level of risk;
- Establishing processes that state capital adequacy goals taking into account the group's strategic focus and business plan.

The governance of information technology

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

	King III principles
1.	The board should be responsible for information technology (IT) governance
2.	IT should be aligned with the performance and sustainability objectives of the company
3.	The board should delegate to management the responsibility for the implementation of an IT governance framework
4.	The board should monitor and evaluate significant IT investments and expenditure
5.	IT should form an integral part of the company's risk management
6.	The board should ensure that information assets are managed effectively
7.	A risk committee and audit committee should assist the board in carrying out its IT responsibilities

To ensure that IT governance supports the effective and efficient management of IT resources and in order to facilitate the achievement of the company's strategic objectives an IT strategy committee has been constituted to assist the board in discharging its duties relating to IT performance management. This will ensure that the group can be aligned with changes in its strategic needs, judiciously manages IT risks and enables opportunities to be identified and acted on.

The committee has an independent role with accountability to both the board and the group risk and capital management committee.

The responsibility for the implementation of IT governance is assigned to the CIO, as appointed by the CEO. The CIO acts as an intermediary between the board and management on IT-related issues. The group risk and capital management committee measures the company's overall exposure to IT risks and ensures that proper processes are in place to manage these risks.

Compliance with laws, codes, rules and standards

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

As per the recommendations of King III as illustrated in the table below, the board of directors as part of its current compliance policy has an approved independent compliance function established in terms of Regulation 49 of the Banks Act 94 of 1990 as amended.

	King III principles
1.	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards
2.	The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business
3.	Compliance risk should form an integral part of the company's risk management process

The responsibility to facilitate compliance throughout the ABIL group has been delegated to the group compliance officer who heads up the compliance function. The group compliance officer is responsible for the effective implementation of the compliance function within the entire group.

The compliance function enables the business to adhere to applicable regulatory requirements by ensuring that actions, processes and procedures are risk appropriate and ensures that the business can achieve its business goals without fear of penalties and loss of reputation.

The office of the group compliance officer

- Monitors compliance within the various business units, divisions, departments and subsidiaries within the ABIL Group;
- Identifies areas of non-compliance; and
- Reports these to the responsible executives or heads of the business units, divisions, departments or subsidiaries for prompt resolution.

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

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

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

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

Internal audit

	King III principles
1.	The board should ensure that there is an effective risk based internal audit
2.	Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management
3.	The audit committee should be responsible for overseeing internal audit
4.	Internal audit should be strategically positioned to achieve its objective
5.	The board should ensure that there is an effective risk based internal audit

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

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

To ensure independence, group internal audit is directly responsible to the audit committee and will remain independent of all line and functional management. The audit committee is also responsible for appointing the Head of internal Audit.

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

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

The board

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

Independence of directors and composition of the board

The ABIL board consists of 13 directors, classified as independent non-executive directors, non-executive directors and executive directors. Executive directors are salaried employees involved in the management of the company. Non-executive directors are not involved in the day-to-day activities of the group. The independence of non-executive directors is contingent upon an evaluation based on the parameters below. An independent non-executive director should not:

- Be a major shareholder who can control or significantly influence management or the board;
- Have a direct or indirect interest in the company (including any parent or subsidiary in a consolidated group with the company) which exceeds 5 % of the group's total number of shares in issue;
- Have a direct or indirect interest in the company that is less than 5 % of the group's total number of shares in issue, but is material to his/her personal wealth;
- Be employed by the company or the group of which he/she currently forms part in any executive capacity, or be appointed as the designated auditor or partner in the group's external audit firm, or senior legal adviser for the preceding three financial years;
- Be a member of immediate family of an individual who is, or has during the preceding three financial years, been employed by the company or the group in an executive capacity;
- Be a professional adviser to the company or the group, other than as a director;
- Have any business or other relationship (contractual or statutory) which could be seen by an objective outsider to interfere materially with capacity to act in an independent manner, such as being a director of a material customer or of a supplier to the company;
- Receive remuneration contingent upon the performance of the company; and/or
- Participate in a share incentive/option scheme of the company.

Based on the above evaluation the composition of the ABIL board is illustrated below:

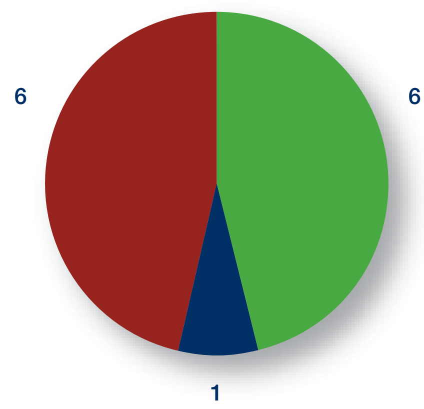
Composition of the board

Independent non-executive directors (5)
- Mutle Constantine Mogase – Chairman of the board
- David Braidwood Gibbon
- Samuel (Sam) Sithole
- Robert John (Johnny) Symmonds
- Mpho Elizabeth Kolekile Nkeli

Non-executive directors (2)
- Ashley (Oshy) Tugendhaft (TWB Attorneys are legal advisors to ABIL)
- Nicholas Adams (ABIL shareholding is material to his personal wealth)

Executive directors (6)
- Gordon Schachat – Deputy chairman of the board
- Leonidas (Leon) Kirkinis – ABIL chief executive officer and African Bank managing executive
- David (Dave) Farring Woollam
- Antonio (Toni) Fourie – EHL chief executive officer
- Thamasanqa Mthunzi (Tami) Sokutu – Executive director – Risk, compliance and sustainability
- Nithiananthan (Nithia) Nalliah – Group chief financial officer

Composition of the board



Period of office of board members

All directors are appointed for specific terms and re-appointment is not automatic. An approved term limit policy exists which can be accessed at www.abil.co.za. In summary the term limit policy provides as follows:
- The chairman of the board shall serve for a maximum period of 10 years; and
- All other non-executive directors shall serve for a maximum period of six years, which may be extended for a further two years.

In terms of the term limit policy David Gibbon and Oshy Tugendhaft will reach their term limits in 2011.

A third of directors retire by rotation annually, and if eligible and available, their names are submitted for re-election to the AGM.

Board and committee evaluations

The performance of the board is evaluated on annual basis and includes
- An assessment of the performance and effectiveness of the board as a whole and that of individual directors, including the chief executive officer of ABIL, the EHL chief executive officer and the managing director of African Bank Limited;
- A peer evaluation by all directors ranking their fellow directors on contribution to the board; and
- An evaluation of each committee by members of the committee focusing on effectiveness of the chairman and contributions of individual committee members.

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

In the previous assessment two areas for improvement were highlighted namely :

- An enhanced focus on corporate social responsibility, integrated sustainability and non-financial matters; and
- A greater focus and commitment to human resource issues and people development.

In order to actively address corporate social responsibility and sustainability a CSI Forum has been constituted, Human capital has been an increased focus area of the CEO and the group as illustrated in the Letter to Stakeholders.

Appointment of directors

The appointment of directors is facilitated by the directors' affairs committee which also serves as the nominations committee.

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

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

Skills and experience of the board

The board comprises persons with diverse experience. It monitors the mix of skills and experience of directors in order to assess whether the board has the necessary tools to perform its oversight function effectively.

Interaction with management

There is a policy of open communication between the board and management and this ensures that the board if fully informed of major matters concerning ABIL and its business.

Induction and training

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

- Providing directors with information relating to policies, processes, charters, minutes of meetings, results, financials and other material relevant to their taking up office as a director; and
- Affording directors an open invitation to visit the operational divisions of the company, to meet with management and attend management meetings.

All directors are encouraged at the cost of the business to attend external courses presented by the Gordon Institute of Business Science and any other institution.

Independent advice

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

Succession planning

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

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

Conflict of interest

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

Board meetings and attendance

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

Members	ABIL board					ABIL strategy
	November 2009	February 2010	May 2010	Special board August 2010	September 2010	May 2010
Non-executive directors						
Mutle Mogase	√	√	√	√	√	√
Nic Adams	√	√	√	√	√	√
Oshy Tugendhaft	√	√	x ✡	√	√	√
David Gibbon	√	√	√	√	√	√
Mpho Nkeli	√	√	x	√	√	√
Sam Sithole	√	x	√	√	√	x
Johnny Symmonds	√	√	√	√	√	√
Executive directors						
Gordon Schachat	x	√	√	√	√	√
Leon Kirkinis	√	√	√	√	√	√
Dave Woollam	√	√	√	√	√	√
Tami Sokutu	√	x	√	√	√	√
Toni Fourie	√	√	√	√	√	√
Nithia Nalliah	√	√	√	√	√	√

✡ *Jewish holiday*

Dealing in ABIL securities

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

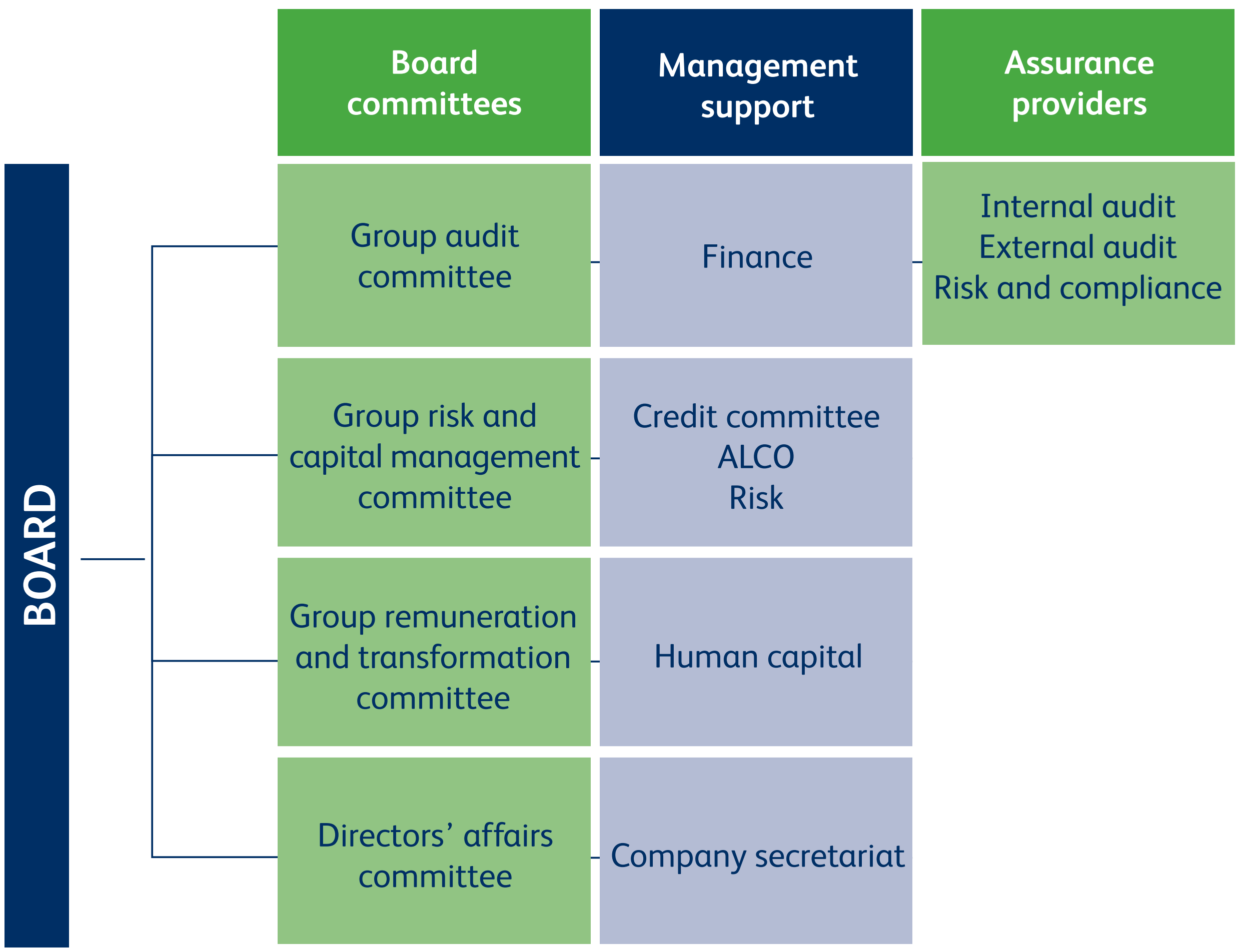
In terms of this policy, a director may not deal in any securities relating to ABIL without:

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

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

Board committees

The board has set four permanent committees from amongst its members and has defined specific roles and responsibilities for them. The committees provide the board with oversight and report on their work at each board meeting. The roles, responsibilities, duties and objectives of the committees are set out in the respective committee charters. The complete charters are available on the group's website at www.abil.co.za or from the group secretariat of the Bank on request. The committees receive management support and are provided with assurance as illustrated below.



The membership of the sub-committees of the board are detailed below :

Group audit committee	David Gibbon (Chairman) Nic Adams Johnny Symmonds Sam Sithole	Date appointed: 2003-06-01 Date appointed: 2008-02-01 Date appointed: 2009-05-21 Date appointed: 2009-05-21
Group risk and capital management committee	Nic Adams (Chairman) Sam Sithole Johnny Symmonds Oshy Tugendhaft	Date appointed: 2008-02-01 Date appointed: 2009-05-21 Date appointed: 2009-05-21 Date appointed: 2003-04-01
Group remuneration and transformation committee	Mpho Nkeli (Chairperson) Mutle Mogase Oshy Tugendhaft	Date appointed: 2008-03-07 Date appointed: 2007-03-12 Date appointed: 2003-04-01
Directors' affairs committee	Oshy Tugendhaft (Chairperson) David Gibbon Nicholas Adams Mutle Mogase Mpho Nkeli	Date appointed: 2003- 04-01 Date appointed: 2003-06-01 Date appointed: 2008-02-01 Date appointed: 2007-03-12 Date appointed: 2008-03-07

Group audit committee

The audit committee comprises four non-executive directors of the board. The members are elected by the board from amongst the non-executive directors in compliance with the Banks Act 94 of 1990 as amended.

The committee has an independent role with accountability to both the board and shareholders. The committee does not assume the function of management which remains the responsibility of the executive directors, officers and other members of senior management.

The audit committee ensures that the combined assurance received is appropriate to address the significant risks facing the company. The combined assurance model consists of management, the risk committee, internal assurance providers i.e. finance, internal audit, risk, compliance and external assurance providers i.e. external auditors. To ensure that the committee can effectively comply with its terms of reference, the group chief financial officer, the external auditors and the head of risk and internal audit and the group compliance officer attend the meetings as invitees. The audit committee, as part of its charter, also considers any non-audit services provided by the external auditors.

The audit committee chairman is also an attendee at the group risk and capital management committee meetings. Details of the membership, relevant qualification and experience and attendance of the members are provided on the next page.

For the Charters and terms of reference of the board and its various committees, please refer to the governance section of the ABIL website at **www.abil.co.za**

Group audit committee membership, qualifications, experience and attendance

	Nov 2009	Feb 2010	May 2010	Sep 2010	Qualifications
David Gibbon (Chairperson)	√	√	√	√	**CA (SA)** Former partner at Deloitte with over 30 years' experience in audit and related services to banking and financial services clients
Johnny Symmonds	√	√	√	x	**BComm (Hons) (UCT); Strategic Banking Programme (IMD-Lausanne); Executive Development Programme (GIMT)** Currently the managing director of the Lombard Insurance Company Limited. Previously the CEO of Mercantile Lisbon Bank Holdings Limited
Nic Adams	√	√	√	√	**BComm (Hons); CTA (UCT); ACMA** A Chartered Accountant by training and spent six years as a partner at Deloitte, in the Consulting division. One of the original founding members of Baobab Solid Growth, the original ABIL. Currently a private equity investor investing own funds in a variety of unlisted investments mostly venture or development capital in the IT, training and tourism/wildlife industries
Sam Sithole	√	√	√	√	**Bachelor of accountancy (honours) – University of Zimbabwe; CA; Advanced Diploma Banking – UJ** Currently the group financial director of Brait SA. Sam, a chartered accountant by training, had been at Deloitte since 1996 with experience at both their Harare and London offices

Group risk and capital management committee

The group risk and capital management committee comprises four non-executive directors of the board of directors. The members are elected by the board from amongst the non-executive directors in compliance with the Banks Act 94 of 1990 as amended.

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

The committee's key areas of focus, amongst others are:

- High level risks within the business;
- Credit risk;
- Interest rate and liquidity risk;
- Information technology risk;
- Operational risk;
- Legal risk;
- Tax risk;
- LTIP hedge risk;
- ICAAP; and
- Fraud and other matters.

Details of the attendance of the members are illustrated below:

Group risk and capital management committee attendance

	Nov 2009	Feb 2010	May 2010	Sep 2010
Nic Adams (Chairperson)	√	√	√	√
Johnny Symmonds	√	√	√	x
Oshy Tugendhaft	√	√	√	√
Sam Sithole	√	√	√	√

Group remuneration and transformation committee

The remuneration and transformation committee comprises three non-executive directors of the board of directors. The members are elected by the board from amongst the non-executive directors.

The role of the group remuneration and transformation committee (the committee) is to support and advise the board of directors of African Bank Investments Limited by ensuring that employees of the company are appropriately and equitably compensated for their services to the company and motivated to perform to the best of their abilities in the interests of all stakeholders. The committee looks at the following issues, amongst others: compensation and incentive programme for the CEO, executive directors and all employees, succession planning, performance management, HIV/AIDS, racial transformation and employment equity policies, remuneration of non-executive directors and human resources policies.

In compliance with the principles of King III, the group remuneration policy was approved by shareholders at the AGM held on 27 March 2010 and has been included for approval in the notice of the AGM to be held on 25 January 2011.

Group remuneration and transformation committee attendance

	Nov 2009	Feb 2010	May 2010	Sep 2010
Mpho Nkeli (Chairperson)	√	√	√	√
Mutle Mogase	√	√	√	x
Oshy Tugendhaft	√	√	√	√

Directors' affairs committee

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

The following issues amongst others are addressed by the directors' affairs committee:

- Establishing and maintaining a board directorship continuity programme which entails a review of the mix of skills, experience and other qualities of board members;
- Making recommendations to the board on the appointment of new executive and non-executive directors;
- Assisting the board in the nomination of successors to key positions within the ABIL group of companies and to ensure that a management succession plan is in place;
- Reviewing the performance of executive directors and non-executive directors through an annual assessment, under the co-ordination of the chairman of the board, the board as a whole and by the contribution of each individual director; and
- Assisting the board in ensuring that the ABIL group of companies is at all times compliant with all applicable laws, regulations and codes of conduct and practices relating to corporate governance.

	Oct 2009	Aug 2010	Sep 2010
Oshy Tugendhaft (Chairperson)	√	√	√
Nic Adams	√	√	√
Mutle Mogase	√	√	√
Mpho Nkeli	x	√	√
David Gibbon	√	√	√

Remuneration report

Introduction

As a business that engages in the supply of goods and services to satisfy peoples' personal needs, human capital is the most important asset required in carrying out this objective in a differentiated way. As a dominant player in the unsecured credit market, the attraction and retention of appropriate skills is an area that requires continuous focus at the highest level of the organisation. In this regard, remuneration is one of the key drivers of aligning behaviour of human capital to the strategic intent of the group. The importance of having a remuneration philosophy that is balanced so as to achieve long term sustainable organisational objectives rather than being driven by short term profit and executive gains has been amplified by the global financial crisis of the past eighteen months.

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

Group remuneration and transformation committee

The board has a sub-committee, the group remuneration and transformation committee (Remco), which comprises three non-executive directors, two of whom are independent. This committee is tasked with assisting the board in formulating and monitoring the implementation of the group's transformation and remuneration policies. Details of the directors comprising this committee and its activities are disclosed on page 106 of the corporate governance section.

Remuneration philosophy

The group is acutely aware of its dependency on appropriately qualified, trained and experienced personnel to achieve its goals. The evolution of technology and increasing competition gives customers more choice with regard to their preferred service provider, the consequence of which is that there is no room for mediocre service organisations to survive in the long term.

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

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

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

Remuneration governance

The board has, through a documented charter, delegated to the Remco certain responsibilities and powers which include the following:

- Monitoring the group's human resources policies, practices and procedures to ensure they are relevant, dynamic, competitive and aligned at all times to the strategy of the group;
- Monitoring the development and implementation of transformation and employment equity policies as a business imperative;
- Approving the group's overall remuneration philosophy, including basic pay structures, incentive and retention schemes, and performance measurement systems and criteria;
- Reviewing and approving the overall incentive pools for each financial year, in accordance with the group's approved incentive policy and schemes, taking into account the ever changing competitive landscape and customer needs;
- Determining and recommending to the board of directors for approval, the basic packages and incentive allocations for executive directors and members of the group executive committee and the allocation between short term and long term incentives;
- Reviewing and recommending to the board of directors for approval, the remuneration of non-executive directors based on recommendations from the executive directors;
- Ensuring that there is timeous, adequate and appropriate succession planning for all senior executives and key positions across the group; and
- Ensuring that there is an adequate focus and attention being given to addressing the overall wellbeing of our staff including the potential current and future impact of HIV/AIDS on human capital from a group perspective.

The full charter of the Remco is available on the group website (www.abil.co.za) under Corporate Governance.

Remuneration policies and structures

The group determines remuneration along the following significant components:

Basic remuneration and employee benefits

The basic remuneration comprises fixed guaranteed salaries for all permanent employees and sales commissions paid to sales staff. Permanent employees are compensated according to market related benchmarks, which are assessed on an ongoing basis with some employees on a total cost to company (TCC) basis whilst others are on cash packages, with certain statutory contributions to pension, provident, group life and healthcare schemes being made. The group has various pension and provident funds which are defined contribution funds, with benefits determined based on contributions and growth in investment of funds. Membership of a retirement benefit fund is compulsory for all permanent staff, with employees having a choice between group and union retirement funds. The employer contribution ranges between 6,5 % and 13,0 % with each of the funds having a minimum contribution level.

Group life and disability cover is provided to employees in terms of a scheme for which a separate contribution is made by the employee. The group life cover for permanent employees ranges between 3 and 7 times the annual fixed package. Membership of a medical scheme has been made compulsory in African Bank but in Ellerines it is currently compulsory only at certain levels. The group continues to evaluate options on how medical benefits could be provided to all employees within the group over time.

Company owned vehicles are provided to those employees in the group whose job entails regular and necessary travel on business to various branches within the Ellerines business. These vehicles are provided on the basis that all costs relating to the running of the vehicles are borne by the group with the employee being taxed on the fringe benefit value thereof.

Incentive payments

Incentive payments are compensations paid to employees whose performance is at or above expectation having regard to their basic remuneration, and for their contribution towards the creation of sustainable shareholder value. The incentive structures are designed to encourage and reward superior performance at all levels of the organisation, but are more focused at the management and executive level. The integrated incentive structure covers both short term cash incentives and the long term incentive plan with a stronger bias towards long term for management and executives. The main principles of the structure are:

- Whilst African Bank and Ellerines are treated as two separate business units for the purposes of determining economic profit, which is the group's measure of shareholder value creation and incentives for operational staff, the group is treated as a single business unit for the purposes of determining incentives at the group executive committee level.
- The basic premise for the determination of incentives is that there must be creation of shareholder value in any given year, or else there will be no incentives paid. All incentives paid by the group are funded out of a pool derived from the economic profit of the group, but evaluated at business unit level. The economic profit is defined as the headline earnings of the business for any given year less a charge for the cost of equity for ordinary shareholder funds. The charge for the cost of equity is imputed and based on the average ordinary shareholder funds multiplied by a market consensus derived cost of equity.
- The actual percentage of the group's economic profit available for payment as incentives is determined annually at the discretion of Remco within the maximum percentage as determined by the board.
- In aggregate, approximately seventy percent of the incentive pool is used to pay short term incentives including:-
  - Sales incentives paid to branch staff on a monthly and quarterly basis for achieving or exceeding sales and new client targets;
  - Collections incentives paid on a monthly and quarterly basis for achieving or exceeding cash receipting targets;
  - Annual profit share bonus divided equally and paid to all non-managerial staff;
  - Annual discretionary bonuses for executive directors, management and support services staff; and
  - The remaining thirty percent of the pool is used to fund a long term incentive plan, designed to encourage and reward superior long term shareholder value creation.
  - Senior management earn a proportionately higher amount of their incentives through the long term incentive plan than through the annual bonus with approximately 60 % in long term incentives in 2010.

The sales commissions paid to the Ellerines sales staff do not form part of the incentive pool because sales commissions are an integral part of remuneration for sales staff in the retail industry.

The executive team were not awarded any cash bonuses for 2010 financial year due to the group's internal targets not being achieved. Awards were made to the executives under the long term incentive plan to reward achievement of the medium to long term targets of the group.

The Long term Incentive Plan (LTIP)

The use of a share option scheme ceased in 2006 and the LTIP scheme was introduced for long term incentives.

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

- Each LTIP unit, plus an additional 100 % (2009 and prior: 50 %) gearing achieved through a notional non-recourse loan, is synthetically "invested" into ABIL shares. i.e. R20 (2009: R15) is 'notionally invested' into ABIL shares. The entry price is set at the ABIL volume-weighted average price (VWAP) for the calendar month of issue of the LTIPs, being September of each year. The settlement value is determined with reference to the VWAP for the month of vesting.
- Interest is accrued on the R10 (2009: R5) notional loan on a semi-annual basis and the dividends paid on the synthetic ABIL shares (grossed up at the corporate tax rate) are applied to reduce the loan balance. The interest rate charged on the notional loan is market-related having regard to the risk free rate in the market and the risk premium relevant to a similar investment.
- The value of the LTIP, from time to time, is the market value of the synthetic ABIL shares, less the remaining balance on the notional loan after accruing interest and notional dividends.
- The LTIP vests annually, and is paid out at market value, based on the ABIL VWAP for the calendar month of maturity, in four equal annual tranches. Should the individual resign or be dismissed, his or her unvested LTIPs will be forfeited and cancelled. From this year, individuals will be given the ability to roll-over a tranche into the following year or years, which must be done prior to each vesting period.
- Each year a new LTIP will be created which will run parallel to existing LTIPs resulting in a maximum of four separate LTIPs running concurrently.

Exposure to existing long term incentive schemes

The ABIL Employee share option scheme

Share options

The following table sets out details of the remaining share options under the scheme for the year ended 30 September 2010, which have all vested. The outstanding exposure is fully covered by treasury shares held by the ABIL Employee Share Trust.

Share options outstanding at 30 September 2010

	Number of shares (thousands)
Balance as at 30 September 2009	164
Options taken up and lapsed during the year	(10)
Balance as at 30 September 2010	154

No options were exercised during the year. The strike price of the unexercised options is R9,68 on 34 320 options and R16,86 for the remaining 120 000 options. The closing share price of ABIL at 30 September 2010 was R35,85 (2009: R29,40).

Phantom option scheme in EHL

Prior to the acquisition by ABIL, EHL had a cash-settled phantom share option scheme in place for management and executives. These phantom options were issued during the period November 2005 to July 2007 and were based on the EHL Holdings Limited share price. Subsequent to the acquisition of the entire share capital of EHL in January 2008, the phantom shares are now based on the equivalent ABIL share price using the ratio that was applied in acquiring the EHL shares ie 255 ABIL ordinary shares for every 100 EHL shares. These options vest at 25 % per annum commencing twenty four months from date of issue and are cash-settled. The last vesting will be in July 2012, but with the significant majority terminating in November 2011.

LTIPs were issued by EHL during August 2007 which is materially on the same principles as set out above except that it was not determined on the economic profit of Ellerine Holdings Limited.

The strike price and conversion ratios were reset to the ABIL ordinary share post the acquisition and the table below sets out the number of phantom options outstanding at the end of the current period.

Phantom options at 30 September 2010

	Number of phantom options Millions	Liability accrued as at Sep 2010 (IFRS2) R million	Liability to be accrued in future periods R million	Total liability R million
Balance as at 30 September 2009	3,0	17,3	4,0	21,3
Accrued during the year	0,0	6,7	0,0	6,7
Cash settlement during the year	(1,2)	(7,2)	0,0	(7,2)
Adjustment of liability to fair value	0,0	0,0	(2,3)	(2,3)
Forfeitures	(0,2)	0,0	0,0	0,0
Balance as at 30 September 2010	1,6	16,8	1,7	18,5

LTIP liability in respect of remaining non-vested tranches

The table below sets out the remaining LTIP liability in respect of each of the outstanding LTIPs which vests in future financial years.

Group LTIP liability outstanding (R million)

		30 September 2010							30 September 2009		
Tranche	Initial value of grant in respect of remaining tranches	Market value at 30 Sep **2010**	Accrued liability as at 30 Sep **2010**	Vesting 30 Sep 2011	Vesting 30 Sep 2012	Vesting 30 Sep 2013	Vesting 30 Sep 2014	Initial value of grant in respect remaining tranches	Market value at 30 Sep 2009	Accrued liability as at 30 Sep 2009
LTIP 2006								14,0	25,8	11,5
LTIP 2007	9,6	**14,0**	**9,3**	14,0				30,0	32,2	18,8
LTIP 2007 EHL	3,8	**6,0**	**4,5**	6,0				7,7	10,4	6,1
LTIP 2008	32,3	**55,6**	**20,8**	27,8	27,8			48,4	62,0	21,5
LTIP 2009	46,0	**64,3**	**22,6**	21,4	21,4	21,4		50,9	63,4	15,9
LTIP 2010	69,8	**69,8**	**0,0**	17,5	17,5	17,5	17,5			
	161,5	**209,7**	**57,2**	86,6	66,7	38,9	17,5	151,0	193,7	73,7

LTIP payments

The following table sets out the LTIP payments made during the financial year in respect of those LTIP tranches that vested during the year. The table includes the LTIPs vested on 30 September 2010 although only paid during October 2010.

	30 September 2010			30 September 2009			
Tranche	**ABIL share price at grant Rand**	**ABIL share price at vesting Rand**	**Amount paid in year to 30 Sep R million**	Tranche	ABIL share price at grant Rand	ABIL share price at vesting Rand	Amount paid in year to 30 Sep R million
LTIP 2006	**23,59**	**34,53**	**30,3**	LTIP 2005	20,80	29,40	18,2
LTIP 2007	**31,61**	**33,95**	**18,7**	LTIP 2006	23,59	22,62	20,6
LTIP 2007 EHL	**26,16**	**33,17**	**6,1**	LTIP 2007	31,61	29,40	16,3
LTIP 2008	**26,20**	**33,95**	**24,0**	LTIP 2007 EHL	26,16	29,29	5,5
LTIP 2009	**29,40**	**33,95**	**22,6**	LTIP 2008	26,20	29,40	21,7
LTIP 2010	**33,95**	**–**	**0,0**	LTIP 2009	29,40	–	–
			101,7				82,2

2010 incentive pool allocations

The board has established that the after tax cost of the total incentive pool in any year may not exceed 22,5 % of the economic profit of the group. However, in order to ensure that the African Bank business unit employees are not prejudiced by the restructuring of EHL, each of African Bank and EHL have been assessed separately for the purposes of the incentive pools. The total incentive pool, as a percentage of the African Bank business unit's pre-tax economic profit for 2010, is 13,5 % (2009: 10,8 %).

The total incentives paid in African Bank was down by 7 % at R158 million (2009: R170 million), which is reflective of the profit being flat for the year.

Whilst EHL incurred an economic loss in 2010, headline earnings increased by 35 % over 2009 and on this basis a total of R6,5 million (2009: R3 million) was paid as short term cash bonuses and LTIPs of R25 million (2009: R16 million) were awarded for the 2010 financial year in order to reward outstanding individual performance and retain the skills of certain key individuals.

R million	**2010**	2009
Economic profit		
African Bank business unit	**1 001**	1 070
Ellerines business unit	**(924)**	(737)
– Based on its own equity	**(216)**	(1 410)
– On goodwill component	**(708)**	(755)
Total economic (loss)/profit	**78**	(95)
Allocations		
Variable pay incentives – paid during the year	**55**	55
Profit share for non-managerial staff	**9**	9
Annual performance bonuses	**38**	46
Long term incentive plan (LTIP) 2010	**85**	62
Reserve for new recruits, promotions and retentions	**–**	7
Total incentive pool	**187**	179
After tax cost of incentive pool	**135**	129

The variable pay incentives include all performance-based cash incentives (excluding sales commissions payable to the sales staff in EHL) paid during the year on a monthly or quarterly basis. These are primarily for non-managerial sales and collections staff who, in addition to their basic salary, receive incentives for achieving and exceeding internal operational targets.

The profit share for non-managerial staff is a fixed portion of the pool, with a fixed maximum amount per employee in the African Bank business unit, but differentiated on an individual level based on level of performance.

The annual performance bonus pool of R38 million, which was paid in November 2010, will be accounted for as an expense in the 2011 financial year. This treatment is in accordance with IFRS, and consistent with the prior years, as these bonuses are only determined and approved after the end of the financial year.

LTIP allocations amounting to R85 million, equivalent to a synthetic investment in 2,5 million ABIL shares, were made to employees in November 2010. The vesting period is four years with the first tranche vesting on 30 September 2011. This will be accrued for as an expense, in accordance with IFRS 2, in the 2011 financial year and beyond. These LTIPs were issued at the VWAP for September 2010 of R33,95 per ABIL ordinary share.

The notional gearing has been increased from 50 % to 100 % of the LTIP award in respect of the LTIP 2010 tranche only with the employee able to roll over the vesting to the next period, but limited such that the last vesting date will be 30 September 2014.

Hedging of exposure from ABIL share price movements

In keeping with the strategy of limiting exposure to those risks directly related to its core business, the group has largely hedged its exposure under the LTIP and phantom option schemes, after taking into account an expected lapse rate, in order to avoid volatility in the group's earnings due to movements in the ABIL share price. The total exposure has been hedged except for the LTIP 2010 granted in November 2010, which will be hedged as soon as practically possible.

The financial effect of the hedge entered into is that any movement in the ABIL share price from the hedge price will result in a compensating gain or loss in relation to the LTIP liability to employees. These differences are determined on specific dates in terms of the hedge to match the group's liability in terms of the LTIP.

Executive directors' remuneration

Remco determines the executive directors' remuneration annually in the same manner as all employees, and it is approved by the board within the group's remuneration framework and philosophy. Adjustment in remuneration necessitated by any significant change in responsibility of an executive director is motivated by the group chief executive officer to Remco and if approved, recommended to the board for approval by the non-executive directors. The executive directors recuse themselves from all discussions relating to their remuneration.

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

Remuneration report *continued*

Basic remuneration, benefits and bonuses paid to executive directors

The components of executive directors' group remuneration are as follows:

Remuneration, benefits and bonuses paid to executive directors for the year ended 30 September 2010

All amounts in R 000	Date appointed to the board	Salary	Retire-ment and medical contri-butions	Total cost to company package	Annual cash bonus (note 1)	Other benefits (note 3)	Total
Gordon Schachat (executive deputy chairman) (note 4)	01/07/1995	1 650	183	1 833	–	4	1 837
Leon Kirkinis (chief executive officer)	01/07/1997	1 965	218	2 183	–	4	2 187
Toni Fourie	21/10/2003	3 021	378	3 400	–	400	3 800
Tami Sokutu	19/05/2003	2 710	316	3 026	–	150	3 176
Dave Woollam (note 5)	01/11/2002	1 998	349	2 347	–	–	2 347
Nithia Nalliah (chief financial officer)	05/05/2009	2 364	266	2 630	–	120	2 750
Total		13 708	1 711	15 419	–	678	16 097

for the year ended 30 September 2009

All amounts in R 000	Date appointed to the board	Salary	Retire-ment and medical contri-butions	Total cost to company package	Annual cash bonus (note 2)	Other benefits (note 3)	Total
Gordon Schachat (executive deputy chairman)	01/07/1995	1 830	170	2 000	1 200	–	3 200
Leon Kirkinis (chief executive officer)	01/07/1997	1 998	186	2 184	1 500	5	3 689
Toni Fourie	21/10/2003	2 881	303	3 184	1 000	401	4 586
Tami Sokutu	19/05/2003	2 593	253	2 846	900	150	3 896
Dave Woollam	01/11/2002	2 967	299	3 266	1 200	15	4 481
Nithia Nalliah (chief financial officer) (note 6)	05/05/2009	753	89	842	1 000	50	1 892
Total		13 023	1 300	14 323	6 800	621	21 744

Notes

1. No cash performance bonuses were awarded to the executives in respect of the financial year ended 30 September 2010.
2. These cash performance bonuses relate to the financial year ended 30 September 2009 and were approved by the board (after Remco approval) on 19 November 2009 and paid at the end of November 2009. This has been expensed in full, in terms of IFRS, in the 2010 financial year.
3. Other benefits consist of long service awards, subsistence and travel allowances.
4. Gordon Schachat took the month of September 2010 as unpaid leave.
5. Dave Woollam was on extended unpaid leave for the majority of the period from May 2010 to September 2010.
6. Remuneration is shown from date of appointment to the board.

Share options and converted options

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

LTIP scheme

The allocations to executive directors for the year ended 30 September 2010, together with movements in their LTIP portfolios, are reflected in the table below.

LTIPs awarded to executive directors for the year ended 30 September 2010

All amounts in R 000	Value as at 1 Oct 2009	2010 LTIPs awarded (note 1)	Change in value of LTIPs	LTIPs vested and payable (note 2)	LTIPs forfeited	Value as at 30 Sep 2010
Gordon Schachat (executive deputy chairman)	–	–	–	–	–	–
Leon Kirkinis (chief executive officer)	–	–	–	–	–	–
Toni Fourie	8 793	2 500	2 801	(5 330)	–	8 764
Tami Sokutu	5 172	1 250	1 667	(3 003)	–	5 086
David Woollam	7 800	–	2 517	(4 469)	–	5 848
Nithia Nalliah (chief financial officer)	4 406	1 900	2 521	(2 816)	–	6 011
Total	**26 171**	**5 650**	**9 506**	**(15 618)**	**–**	**25 709**

for the year ended 30 September 2009

All amounts in R 000	Value as at 1 Oct 2008	2009 LTIPs awarded (note 3)	Change in value of LTIPs	LTIPs vested and payable (note 4)	LTIPs forfeited	Value as at 30 Sep 2009
Gordon Schachat (executive deputy chairman)	–	–	–	–	–	–
Leon Kirkinis (chief executive officer)	–	–	–	–	–	–
Toni Fourie	8 736	2 500	2 134	(4 577)	–	8 793
Tami Sokutu	4 898	1 550	1 230	(2 506)	–	5 172
David Woollam	7 631	2 300	1 902	(4 033)	–	7 800
Nithia Nalliah (chief financial officer)	3 175	1 900	389	(1 058)	–	4 406
Total	24 440	8 250	5 656	(12 175)	–	26 171

Notes

1. The 2010 LTIP awards relate to performance for the year ended 30 September 2010, and were approved by the board (based on Remco's recommendations) on 17 November 2010.
2. This includes the LTIPs that vested on 30 September 2010 which were paid in October 2010.
3. The 2009 LTIP awards relate to performance for the year ended 30 September 2009, and were approved by the board (based on Remco's recommendations) on 19 November 2009.
4. This includes the LTIPs that vested on 30 September 2009 and paid in October 2009.

Non-executive directors' remuneration

The non-executive directors are paid fixed fees for their responsibilities and duties on the boards of African Bank Investments Limited, African Bank Limited and the insurance subsidiaries of the group. These fees are determined annually by the executive directors for all services rendered as directors of the boards and participation in the various sub-committees of the boards. Non-executive directors' fees are benchmarked against the market every three years.

The fees are not dependent on attendance at meetings as directors' performance is evaluated annually through a peer review process by all members of the board. The fees paid to the non-executive directors are as follows:

Remuneration for the year ended 30 September 2010

All amounts in R 000	**Date appointed to the board**	**Note**	**Fees for services as directors 2010**	2009
Current directors				
Mutle Mogase (non-executive chairman)	12/03/2007		**1 275**	843
Nic Adams	01/02/2008		**526**	485
Mpho Nkeli	07/03/2008		**380**	300
Dave Gibbon	01/06/2003	1	**560**	400
Oshy Tugendhaft	01/04/2003		**472**	455
Samuel Sithole	21/05/2009		**369**	113
Robert John Symmonds	21/05/2009	1	**495**	171
Past directors:				
Ashley Mabogoane (past non-executive chairman)	01/12/1999	2	**–**	588
Bahle Goba	06/06/2003	3	**–**	153
Brian Steele	19/05/2003	3	**–**	252
Total			**4 077**	3 760

Notes

1. Also member of the board of subsidiaries in the group for which the fee is included above.
2. Ashley Mabogoane resigned from all the boards on 1 April 2009 due to the group's term limit policy.
3. Bahle Goba and Brian Steele resigned from all the boards on 21 May 2009, having reached their term limits.

The non-executive directors do not participate in any of the group's bonus and incentive schemes and neither do they receive any other benefits from the group.

Directors interest in shares in ABIL

This information is set out in the directors' report on page 143.

Risk management review

The section below contains an abbreviated version of our risk management review. Interested readers are invited to refer to the full report on our website at www.abil.co.za for a more detailed discussion of the various risks within the group and the actions taken to mitigate these risks.

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

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

The ABIL risk management philosophy and culture

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

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

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

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

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

Risk management mechanisms

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

The group operates in a structured manner with defined processes and procedures enabling risk assessment within a controlled environment. Accordingly, an assessment of key risks is performed with weightings on impact and probability assigned. Existing controls are assessed and if necessary, adjusted. Thereafter reports are generated at regular intervals to enable monitoring of risk levels.

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

- Independent board committees (audit, risk and capital management, remuneration, directors' affairs);
- Risk management function cooperation in all key operations throughout the group;
- Assurance from internal audit on the control environment;
- Fraud risk management through an independent forensic department;
- An operational risk department operating as business partners to all business units to facilitate, coordinate and monitor effective risk management;
- Compliance department; and
- Group legal advisors.

ABIL group risk governance structure

Group board of directors

The board of directors is ultimately responsible for oversight of proper risk management and internal control mechanisms. The board monitors the implementation of their strategies and objectives through various board and executive committees. The board delegates the oversight responsibility to the risk committee to deal with the various risk portfolios, set risk tolerance and monitor the entire risk management process.

Sub-committee oversight

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

Management

Management of the group is responsible for the day-to-day implementation of adequate and effective internal control mechanisms. Strong senior management oversight forms the cornerstone of an effective operational management process. They are responsible for overseeing the development and maintenance of a methodology to effectively manage risk in the group which goes beyond a narrow compliance-oriented approach to a holistic risk approach. This includes *inter alia* an embedded risk management culture throughout the organisation, with management taking frontline responsibility for identifying, understanding and managing risk in pursuit of its strategy and aligning these with the overall business risk policy and approved risk tolerance levels.

Group risk management

As far as enterprise risk management is concerned, the group risk management function is responsible for ensuring the existence and application of an effective risk management framework throughout the group.

The group risk management functions are independent and segregated from their underlying business units and are responsible for providing guidance, coordination and assurance regarding the implementation of the group risk management methodology.

Group risk management is also responsible for facilitating risk management and risk monitoring across all departments within business units in order to ensure that the enterprise risk management framework is established and maintained. This is effected via:

- The establishment of risk policies which reflect risk principles, risk appetite and risk tolerance;
- The creation of risk identification and management processes;
- The monitoring and support of risk management practices; and
- Comprehensive reporting to the various executive committees, board sub-committees and board of directors.

Group risk management consists of the following components:

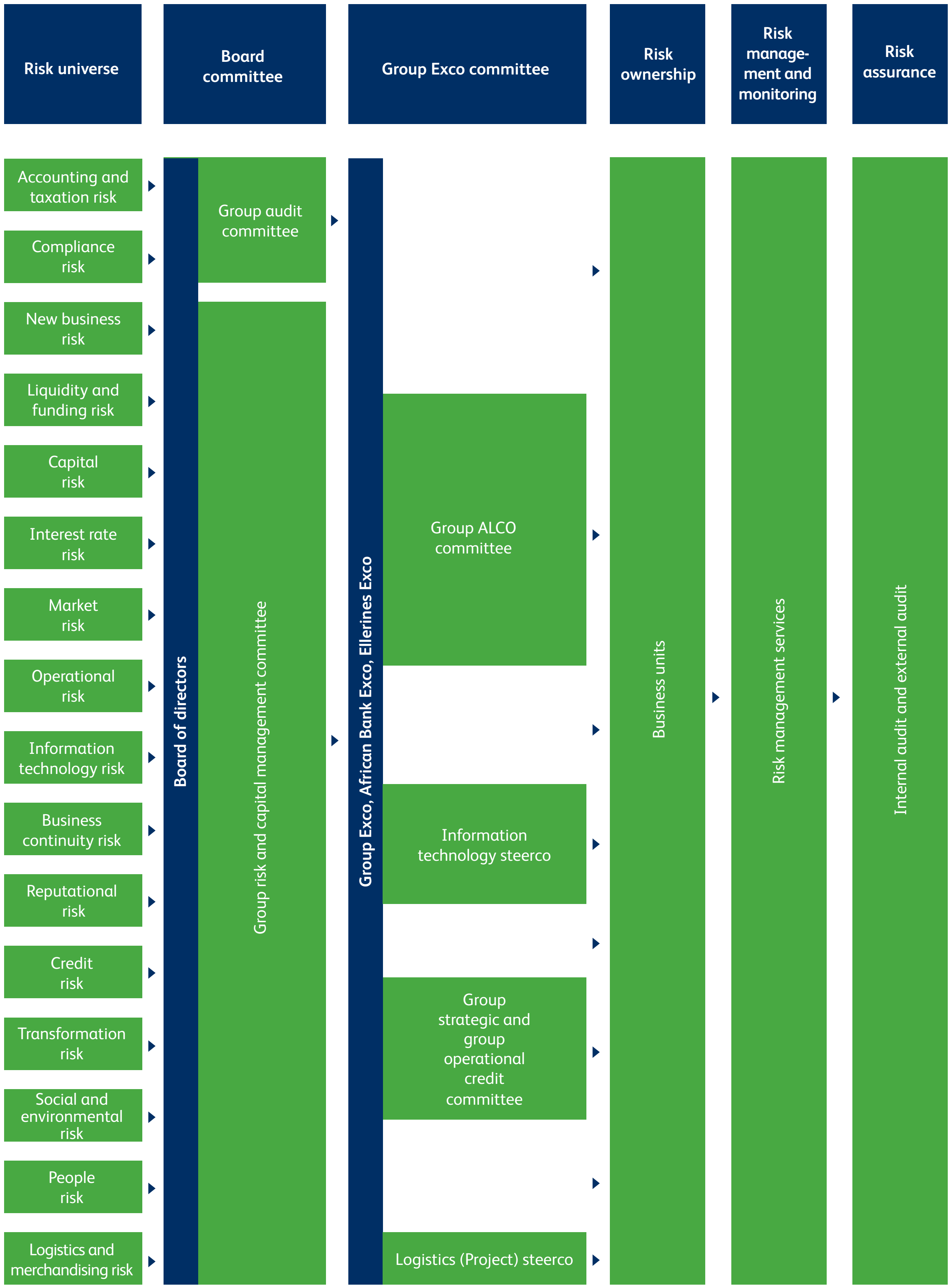
- Internal audit;
- Forensics;
- Compliance;
- Legal; and
- Enterprise risk.

King III

In September 2009, the King Commission released its revised King Code on Corporate Governance (King III). The transition to reporting in terms of the revised code has been addressed by the group and enhanced procedures have been put in place to ensure that the already existing procedures meet the requirements of King III. These requirements have been incorporated into the charters of the board and the committees within the ABIL group.

Refer to the governance report on pages 94 to 107 for more detail on King III compliance.

ABIL's risk universe



Summary of high level risks

Risk	Mitigation	Further detail
Strategic risk The strategy of any business is inextricably linked to risk. The group's assessment of risk informs the choices made when determining the strategy.	A clear framework for strategy determination and execution that is supported by an annual strategic calendar has been institutionalised in the organisation.	Please refer to page 30 of this annual report for a discussion of ABIL's strategic initiatives.
Liquidity and funding risk ABIL is exposed to liquidity risk arising from the need to finance its ongoing operations and growth. If the group is unable to obtain sufficient funding due to capital market conditions, the group may not be able to raise sufficient funds to achieve expected growth, fund acquisitions or meet the group's ongoing financing needs.	The group has an experienced Treasury team who are responsible for managing the funding requirements of the group and managing liquidity risk. It operates within a framework of strict risk mitigation parameters approved by the board.	For more detailed discussions of these matters, please refer to the Capital, Liquidity and Funding Management section in the web-based risk report.
Credit risk Key to the ongoing development of the group's underwriting models is the effective monitoring of credit risk metrics and trends, as these inform the continual changes necessary to calibrate the models correctly and to incorporate the effect of new risks as they emerge.	This monitoring takes place at two levels – operational and tactical. The operational monitoring takes place on-line each day to ensure that the processing of applications is efficient and no processing discrepancies are left unattended. For purposes of the tactical level of monitoring each business unit compiles an extensive monthly operations credit pack which is reviewed by the operational credit committee. This information then forms the basis of a monthly strategic credit committee review and decision processes, which, in turn, reports its findings to the group risk committee on a quarterly basis.	For more detailed discussions of these matters, please refer to the Credit Risk section in the web-based risk report.
Competitive landscape and market conditions More providers of unsecured lending are entering the market and attempting to erode the market share of ABIL. In light of this as well as increased pressure on household spend, this is a strategic risk that has been identified as well as actively managed by the group to prevent the eroding of market share and also to ensure organic growth through the acquisition of new clients.	ABIL has introduced various initiatives including: • Active future target market segmentation; • Branch expansion programme including 'super' branches; • New superior and sophisticated products; and • Refinement of current products.	For more detailed discussions of these matters, please refer to the Strategic review on page 30 of this annual report.

Risk	Mitigation	Further detail
Information technology risk Uninterrupted and efficient availability of information technology services has become indispensable and forms an integral part of the daily operations and strategy execution of the group.	A regular assessment is undertaken to ensure alignment between the strategy and long term business needs of the group and the ability of the information technology capacity to provide a cost effective execution thereof. System capacity is regularly assessed and upgraded. Required people skills are regularly assessed. During the year the group has made considerable investment in its IT environment to increase redundancy, availability and to have the right resources to provide business with expected levels of service.	For more detailed discussions of these matters, please refer to the Operational reviews on pages 81 and 87 of this annual report. and the web-based risk report.
Business continuity and disaster recovery ABIL has to maintain the ability of all critical operations to manage any unexpected business disruption.	The group is continually assessing the associated risks to eliminate down-time and improve recovery strategies. The strategy is reviewed and infrastructure at the off-site disaster recovery centre is tested annually. African Bank has the ability to switch its main debtors management system to run interchangeably between the disaster recovery and live sites, reducing potential downtime to less than 30 minutes in the event of a disaster. EHL has secured a syndicated off-site facility, fully configured, to which it can relocate in the event of the loss of their head office. Appropriate insurance cover exists to provide effective cover against business continuity disasters.	Please refer to the web-based risk report for more information.
People The long term success of any organisation is largely dependent on the quality of the staff that is recruited and the retention of its good performers. The failure to retain skilled employees or to recruit new staff may lead to increased costs and delay in new projects.	A number of strategies are implemented to mitigate this risk, including attention to an appropriate suite of reward and benefit structures for existing employees and ongoing refinement of ABIL as an attractive employee proposition. ABIL mitigates the risk of a strike or other industrial relations disputes through a process of constructive dialogue with trade unions and the maintenance of effective working relationships.	For more detailed discussions of these matters, please refer to the strategic section of the 2010 annual report on page 30 and the employee section in the web-based sustainability report.
Logistics and merchandising One of the key contributors to achieving competitive advantage in EHL is the provision of a low cost system that can meet customer needs in terms of merchandise availability across the network and deliver customers' orders within promised lead times.	EHL is in the process of implementing a major new supply chain project that encompasses all logistics aspects in terms of cost, inventory availability and customer expectations. The scope of the implementation project entails the delivery of the physical infrastructure to create a single logistics platform for all EHL stores including the information systems to deliver warehouse management and transportation planning. Progress on this project is managed through a dedicated steering committee with dedicated resources managing the key deliverable of this project.	For more information, please refer to the Strategic review on page 30, the EHL operational review on page 83 of this annual report and the web-based risk report.

Group annual financial statements

Group annual financial statements *continued*

Company annual financial statements

Notes to the company annual financial statements

Financial definitions

All-in tax rate (%)
The all-in tax rate is the income statement taxation charge (i.e. both direct and indirect taxation) expressed as a percentage of profit before any taxation.

Average cost of funding
The average cost of funding is calculated by expressing the interest expense as a percentage of the average total interest-bearing liabilities.

Average gross advances
The average gross advances is the sum of the month-end gross advances for the period, divided by the number of months in the period.

Average interest-bearing liabilities
The average interest-bearing liabilities comprise subordinated bonds/debentures, bonds and other long term and short term funding and is calculated as the sum of the month-end balances for these instruments, divided by the number of months in the period.

Bad debts to advances ratio (%)
The bad debts to advances ratio is calculated by expressing the charge for bad and doubtful advances as a percentage of average gross advances.

Basel Capital Accord
The Basel Capital Accord (Basel II) of the Bank for International Settlements is an improved capital adequacy framework accomplished by aligning banks' capital requirements with enhanced modern risk management practices and sophisticated risk assessment capabilities. Basel II became effective for all South African banks on 1 January 2008.

Basic earnings attributable to ordinary shareholders
Profit for the period less dividends on non-redeemable, non-cumulative, non-participating preference shares declared during the reporting period.

Basic earnings per share (cents)
Basic earnings per share is calculated by dividing basic earnings attributable to ordinary shareholders by the weighted number of shares in issue during the period.

Capital adequacy ratio (%)
The capital adequacy of banks and banking groups is measured in terms of the requirements of the Banks Act (number 94 of 1990, as amended) and regulations thereto. The ratio is calculated by dividing the sum of tier 1 and tier 2 capital by the risk-weighted assets.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, deposits held on call with banks, investments in money market instruments and cash reserves held by the insurance companies, net of bank overdrafts.

Cash flow hedge
A risk management technique used to insulate financial results from exposure to variability in cash flows that is attributable to a particular risk associated with an asset or liability that could affect profit or loss or a highly probable forecast transaction that could affect profit or loss.

Cash-generating unit
A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Cost to advances ratio (%)
The cost to advances ratio is calculated by expressing the operating expenses as a percentage of average gross advances.

Cost to income ratio (%)
The cost to income ratio is calculated by expressing the operating expenses as a percentage of total income.

Deferred taxation assets
Deferred taxation assets are the amounts of income taxation recoverable in future years in respect of deductible temporary differences arising from differences between the taxation and accounting treatment of transactions and the carry-forward of unused taxation losses.

Direct taxation
Direct taxation includes normal South African and foreign jurisdiction taxation on income, withholding taxes, capital gains tax (CGT) and secondary tax on companies (STC).

Dividend cover (times)
Dividend cover is calculated by dividing headline earnings per share (adjusted for the BEE charge) by ordinary dividends per share for the period.

Economic profit/(loss)
Reported headline earnings less a charge for an imputed cost of capital, based on average shareholders' funds, multiplied by the estimated average cost of equity for the group, resulting in a measure of shareholder value creation.

Effective tax rate (%)
The effective tax rate is the direct taxation charge per the income statement expressed as a percentage of profit before taxation.

Fully diluted basic earnings per share (cents)
Fully diluted basic earnings per share is calculated by dividing basic earnings attributable to ordinary shareholders by the fully diluted number of ordinary shares in issue during the period.

Fully diluted headline earnings per share (cents)
Fully diluted headline earnings per share is calculated by dividing headline earnings by the fully diluted number of ordinary shares in issue during the period.

Fully diluted number of shares in issue
The fully diluted number of shares in issue is the weighted number of ordinary shares in issue adjusted for the impact of outstanding options under the ABIL Employee Share Participation Scheme as defined in IAS 33 – Earnings per share.

Gearing
Gearing represents the ratio of average total assets to average ordinary shareholders' equity, and therefore indicates the extent to which the group uses debt financing to fund assets.

Gross margin (%)
The gross margin percentage is determined by taking the total revenue from the sale of merchandise, less cost of sales, divided by the total revenue from the sale of merchandise for the period.

Headline earnings
The guidance given on headline earnings, as issued by the South African Institute of Chartered Accountants (SAICA) in circular 3/2009 of August 2009 has been used for the purposes of definition and calculation. Headline earnings

consist of basic earnings attributable to ordinary shareholders adjusted for goodwill impairments, certain capital profits and losses and other non-headline items.

Headline earnings per share (cents)
Headline earnings per share is calculated by dividing headline earnings by the weighted number of ordinary shares in issue during the period.

IFRS
International Financial Reporting Standards, as adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB.

Impairment provisions
Impairment provisions comprise specific impairments against non-performing loans and advances, portfolio provisions for incurred but not reported loss events as well as group credit life reserves.

Indirect taxation
Value-added tax (VAT) and other taxes, levies and duties paid to government, excluding direct taxation.

JIBAR
Johannesburg Interbank Agreed Rate, which is the rate that South African banks charge each other for wholesale money.

National Credit Act
The National Credit Act (No. 34 of 2005) (NCA) became fully operational on 1 June 2007. Subject to certain defined exceptions it regulates all arm's length credit agreements that are made or have an effect within the Republic of South Africa and it replaces the Usury Act (No. 73 of 1968) (including the Exemption Notices published by the Minister of Trade and Industry in terms of section 15A), the Credit Agreements Act (No. 75 of 1980) and the Integration of Usury Laws Act (No. 57 of 1996).

Net asset value per ordinary share (cents)
Net asset value per share is calculated as ordinary shareholders' equity divided by the number of ordinary shares in issue (net of treasury shares) at the end of the period.

Non-performing loans (NPLs)
Non-performing loans are defined as loans and advances that have more than three cumulative instalments in arrears. Primarily, NPLs are considered impaired loans in terms of IAS 39.

NPL coverage (%)
NPL coverage is calculated as the total impairment provisions (including ceded credit life reserves) divided by non-performing loans.

Operating margin (%)
The operating margin percentage is determined by the profit from operations, excluding the interest expense, divided by the sale of merchandise for the period.

Perpetual preference shares
Perpetual preference shares are non-redeemable, non-cumulative and non-participating preference shares which carry a dividend as a fixed percentage of the prime overdraft lending rate.

Primary (tier 1) capital
Primary capital consists of issued ordinary share capital and perpetual preference share capital, retained earnings and reserves.

Rehabilitated loans

Where a loan or receivable which has previously been written off as bad, starts generating cash repayments at a certain minimum level to that required of loans and receivables that are on balance sheet, such previously written off loan is brought back onto the balance sheet with an appropriate allowance for impairment.

Return on assets (RoA) (%)

Return on assets is calculated by expressing headline earnings for the period as a percentage of average total assets calculated for the number of months in the reporting period.

Return on equity (RoE) (%)

Return on equity is calculated by expressing headline earnings for the period as a percentage of monthly average shareholders' equity. Alternatively, return on equity is equal to return on assets multiplied by the gearing ratio.

Risk-weighted assets

Risk-weighted assets are determined by applying risk weights to balance sheet assets and off-balance sheet assets and commitments according to the relative credit risk of the counterparty. The risk weighting for each balance sheet asset and off-balance sheet asset is defined by the regulations to the Banks Act (number 94 of 1990).

Sale of merchandise

Sale of merchandise is defined as the consideration received or receivable from the sale of goods and services, net of discounts, excluding value-added tax, insurance and other revenue.

Sales

Sales constitute the aggregate of the capital amount disbursed in a period in respect of loans granted. In the case of the credit card products, sales represent the aggregate value of credit limits granted in respect of credit cards issued during the period.

Statutory assets – bank and insurance

Statutory assets – bank and insurance comprises cash reserves and prudential liquid assets placed with the South African Reserve Bank, together with insurance prudential cash reserves as required by the Financial Services Board.

Secondary (tier 2) capital

Secondary capital is made up of qualifying subordinated debt and portfolio impairments net of deferred tax. For the purposes of the internal economic capital model, only the qualifying subordinated debt is included in tier 2 capital.

Stock turn

Stock turn is calculated by dividing the rolling annual cost of sales by the average inventory of the preceding twelve months.

Tangible net asset value per ordinary share (cents)

Tangible net asset value per share is calculated as ordinary shareholders' equity less the carrying value of all intangible assets and goodwill divided by the number of ordinary shares in issue (net of treasury shares) at the end of the period.

Weighted number of shares in issue

The weighted number of shares in issue is calculated as the number of ordinary shares in issue at the beginning of the year, increased by shares issued during the period, reduced by shares cancelled or bought back during the period, and further reduced by treasury shares as a result of share transactions in the ABIL Employee Share Trust, weighted on a time basis for the period in which they have participated in the income of the group.

Acronyms and abbreviations

ABIL	African Bank Investments Limited group of companies
ABL	African Bank Limited group of companies
AGM	Annual general meeting
ALCO	Asset and liability committee
ASSA	Actuarial Society of South Africa
Basel	Basel Capital Accord
BEE	Black economic empowerment
CAGR	Compound annual growth rate
CAR	Capital adequacy requirement
CFD	Contract for difference
CGT	Capital gains taxation
CGU	Cash generating unit
CSI	Corporate social investment
DEG	Deutsche Investitions-und Entwick-lungsgesellschaft mbh
DMTN	Domestic medium term note
DTI	Department of Trade and Industry
DPS	Dividend per share
Ellerines	Ellerine Holdings Limited group of companies
EHL	Ellerine Holdings Limited group of companies
EMTN	European medium term note
EPS	Earnings per share
EU	European Union
EUR	Euro (€)
Eyomhlaba	Eyomhlaba Investment Holdings Limited, ABIL's first BEE programme
FICA	Financial Intelligence Centre Act
FIFO	First-in, first-out
FSB	Financial Services Board
FSV	Financial Soundness Valuation
GAAP	Generally Accepted Accounting Practice
GBP	Pound sterling (£)
HEPS	Headline earnings per share
Hlumisa	Hlumisa Investment Holdings Limited ABIL's second BEE programme
IAR	Incurred and reported
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
ICAAP	Internal capital adequacy assessment process
IFC	International Finance Corporation
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
ISDA	Institute of Swap Dealers Association
JIBAR	Johannesburg Interbank Agreed Rate
JSE	JSE Limited
LGD	Loss given default
LHS	Left hand side
LSM	Living standards measure
LTIP	Long term incentive plan
Masonge	Masonge Investment Holdings Limited, ABIL's second BEE programme, renamed Hlumisa
MCAR	Minimum capital adequacy requirement
NACA	Nominal annual compounded annually
NACM	Nominal annual compounded monthly
NACQ	Nominal annual compounded quarterly
NACS	Nominal annual compounded semi-annually
NCA	National Credit Act
NPL	Non-performing loan
OTC	Over-the-counter
PD	Probability of default
PGN	Professional Guidance Note
PL	Performing loan
Proparco	Societé de promotion et de participation par la coopération économique SA
Remco	Group remuneration committee
RHS	Right hand side
R million	Millions of rand
RoA	Return on assets
RoE	Return on equity
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SENS	Securities exchange news service
SME	Small and medium enterprise
SPE	Special purpose entity
SPV	Special purpose vehicle
STC	Secondary tax on companies
STRATE	Share transactions totally electronic
Tier 1	Primary capital
Tier 2	Secondary capital
Tier 3	Tertiary capital
UK	United Kingdom
US	United States of America
USD	United States dollar ($)
VAT	Value-added tax
ZAR	South African rand

Nine-year summarised group statement of financial position

as at 30 September 2010

R million	Eight year compound growth %	2010	2009	2008	2007	2006	2005	2004	2003	2002
		30 September (audited)								
		IFRS compliant						SA GAAP compliant (prior to IFRS adoption)		
Assets										
Short term deposits, cash and statutory assets	19	**5 216**	4 876	4 380	2 629	1 724	1 664	2 434	1 628	1 257
Inventories	n/a	**851**	859	767	–	–	–	–	–	–
Other assets	3	**847**	1 074	848	216	259	251	289	257	677
Net advances	23	**25 360**	20 486	16 452	8 752	6 064	5 282	4 472	4 400	4 900
Property and equipment	16	**622**	586	496	155	116	112	140	193	189
Intangible assets	n/a	**834**	906	978	–	–	–	–	–-	–
Goodwill	n/a	**5 472**	5 472	5 472	–	–	–	–	–	–
Total assets	24	**39 202**	34 259	29 393	11 752	8 163	7 309	7 335	6 478	7 024
Liabilities and equity										
Short term money market funding	5	**1 038**	3 108	4 219	808	447	633	544	884	690
Other liabilities	6	**2 182**	1 745	1 919	579	607	608	433	359	1 388
Bonds and other long term funding	32	**20 877**	14 705	10 332	7 095	4 217	3 256	3 524	2 251	2 269
Subordinated bonds, debentures and loans	36	**2 226**	2 044	511	305	202	197	193	190	187
Total liabilities	25	**26 323**	21 602	16 981	8 787	5 473	4 694	4 694	3 684	4 534
Ordinary shareholders' equity	23	**12 396**	12 174	11 929	2 482	2 207	2 122	2 641	2 789	2 434
Preference shareholders' equity	n/a	**483**	483	483	483	483	483	–	–	–
Minority shareholders' interest	(100)	**–**	–	–	–	–	10	–	5	56
Total equity (capital and reserves)	23	**12 879**	12 657	12 412	2 965	2 690	2 615	2 641	2 794	2 490
Total liabilities and equity	24	**39 202**	34 259	29 393	11 752	8 163	7 309	7 335	6 478	7 024

Nine-year summarised group income statement

for the year ended 30 September 2010

R million	Eight year compound growth %	2010	2009	2008	2007	2006	2005	2004	2003	2002
		30 September (audited)								
		IFRS compliant						SA GAAP compliant (prior to IFRS adoption)		
Gross margin on retail business	n/a	**1 974**	1 791	1 313	–	–	–	–	–	–
Interest income on advances	15	**5 950**	5 437	4 285	3 098	2 974	2 752	2 490	2 296	2 005
Net assurance income	25	**1 600**	2 081	2 045	742	424	357	291	247	260
Non-interest income	30	**2 491**	2 251	1 768	707	446	274	294	323	300
Income from operations	21	**12 015**	11 560	9 411	4 547	3 844	3 383	3 075	2 866	2 565
Charge for bad and doubtful advances	22	**(2 693)**	(2 511)	(1 856)	(823)	(606)	(488)	(484)	(445)	(553)
Risk-adjusted income from operations	21	**9 322**	9 049	7 555	3 724	3 238	2 895	2 591	2 421	2 012
Other interest and investment income	21	**390**	367	342	170	113	156	118	143	83
Interest expense	25	**(2 383)**	(2 025)	(1 313)	(636)	(465)	(492)	(453)	(464)	(389)
Operating costs	22	**(4 481)**	(4 576)	(3 734)	(1 091)	(1 048)	(951)	(946)	(1 036)	(938)
BEE charge	n/a	**–**	–	(291)	–	–	–	–	–	–
Indirect taxation: VAT	(5)	**(20)**	(18)	(56)	(38)	(46)	(50)	(69)	(52)	(29)
Profit from operations	18	**2 828**	2 797	2 503	2 129	1 792	1 558	1 241	1 012	738
Capital items	n/a	**34**	(7)	(11)	–	37	–	–	–	–
Share of associate companies' income	(100)	**–**	–	–	–	–	1	1	2	7
Profit before taxation	18	**2 862**	2 790	2 492	2 129	1 829	1 559	1 242	1 014	745
Direct taxation: STC and Normal	18	**(920)**	(935)	(932)	(754)	(653)	(616)	(486)	(347)	(237)
Profit after taxation	18	**1 942**	1 855	1 560	1 375	1 176	943	755	667	508
Minority interest	(100)	**–**	–	–	–	–	–	1	(7)	(9)
Profit for the year	19	**1 942**	1 855	1 560	1 375	1 176	943	756	660	499
Per share statistics										
Basic earnings per share	11	**237,2**	224,3	210,5	268,4	229,5	198,7	160,3	136,2	102,0
Headline earnings per share	11	**235,2**	225,2	211,6	268,4	223,3	201,5	161,6	140,4	104,4
Weighted number of shares in issue (million)	6	**803,7**	803,7	718,0	497	497	471	472	484	489

Currency adjusted group statement of financial position

as at 30 September 2010

	Group		Group	
	2010	2009	**2010**	2009
	R million	R million	**US$ million**	US$ million
Assets				
Short term deposits and cash	**3 410**	3 553	**490**	485
Statutory assets – bank and insurance	**1 806**	1 323	**260**	181
Inventories	**851**	859	**122**	117
Other assets	**321**	357	**46**	49
Taxation	**97**	20	**14**	3
Net advances	**25 360**	20 486	**3 645**	2 799
Deferred tax asset	**409**	501	**59**	68
Assets held for sale	**5**	181	**1**	25
Policyholders' investments	**15**	15	**2**	2
Property and equipment	**622**	586	**89**	80
Intangible assets	**834**	906	**120**	124
Goodwill	**5 472**	5 472	**787**	748
Total assets	**39 202**	34 259	**5 635**	4 680
Liabilities and equity				
Short term funding	**1 038**	3 108	**149**	425
Other liabilities	**1 743**	1 363	**251**	186
Taxation	**33**	77	**5**	11
Deferred tax liability	**392**	265	**56**	36
Liabilities held for sale	**–**	25	**–**	3
Life fund reserve	**14**	15	**2**	2
Bonds and other long term funding	**20 877**	14 705	**3 001**	2 009
Subordinated bonds, debentures and loans	**2 226**	2 044	**320**	279
Total liabilities	**26 323**	21 602	**3 784**	2 951
Ordinary shareholders' equity	**12 396**	12 174	**1 782**	1 663
Preference shareholders' equity	**483**	483	**69**	66
Total equity (capital and reserves)	**12 879**	12 657	**1 851**	1 729
Total liabilities and equity	**39 202**	34 259	**5 635**	4 680
Rates used for currency conversion				
Year-end rate	**1,00**	1,00	**6,96**	7,32

Currency adjusted group income statement

for the year ended 30 September 2010

	Group		Group	
	2010	2009	**2010**	2009
	R million	R million	**US$ million**	US$ million
Gross margin on retail business	**1 974**	1 791	**265**	208
Interest income on advances	**5 950**	5 437	**799**	630
Net assurance income	**1 600**	2 081	**215**	241
Non-interest income	**2 491**	2 251	**335**	261
Income from operations	**12 015**	11 560	**1 614**	1 340
Charge for bad and doubtful advances	**(2 693)**	(2 511)	**(362)**	(291)
Risk-adjusted income from operations	**9 322**	9 049	**1 252**	1 049
Other interest and investment income	**390**	367	**53**	43
Interest expense	**(2 383)**	(2 025)	**(320)**	(235)
Operating costs	**(4 481)**	(4 576)	**(602)**	(530)
Indirect taxation: VAT	**(20)**	(18)	**(3)**	(3)
Profit from operations	**2 828**	2 797	**380**	324
Capital items	**34**	(7)	**5**	(1)
Profit before taxation	**2 862**	2 790	**385**	323
Direct taxation: STC and Normal	**(920)**	(935)	**(124)**	(109)
Profit for the year	**1 942**	1 855	**261**	214
Per share statistics				
Basic earnings per share (cents)	**237,2**	224,3	**31,8**	26,0
Headline earnings per share (cents)	**235,2**	225,2	**31,6**	27,0
Weighted number of shares in issue (million)	**803,7**	803,7	**803,7**	803,7
Reconciliation of headline earnings				
Basic earnings attributable to ordinary shareholders	**1 906**	1 803	**256**	209
Adjustment for:				
Capital items	**(19)**	7	**(3)**	1
Tax thereon	**3**	–	**1**	–
Headline earnings	**1 890**	1 810	**254**	210
Rate used for currency conversion				
Average rate	**1,00**	1,00	**7,45**	8,64

Directors' responsibility statement

The company's directors are responsible for the preparation and fair presentation of the group annual financial statements of African Bank Investments Limited, comprising the statement of financial position at 30 September 2010, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

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

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

Approval of the group annual financial statements

The group annual financial statements were approved by the board of directors and are signed on its behalf by:

M Mogase
Chairman

L Kirkinis
Chief executive officer

Midrand
9 December 2010

Certificate from the company secretary

In terms of section 268G (d) of the Companies Act (No. 61 of 1973, as amended), I certify that, to the best of my knowledge and belief, African Bank Investments Limited has lodged with the Registrar of Companies for the financial year ended 30 September 2010 all such returns as are required of a public company in terms of the Companies Act, and that all returns are true, correct and up to date.

Y Mistry
Company secretary

Midrand
9 December 2010

Independent auditor's report

To the members of African Bank Investments Limited

Introduction
We have audited the accompanying consolidated and separate annual financial statements of African Bank Investments Limited, which comprise the directors' report, the statement of financial position as at 30 September 2010, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 138 to 246 and the remuneration report on pages 108 to 118.

Directors' responsibility for the financial statements
The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Auditor's opinion
In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of African Bank Investments Limited as at 30 September 2010, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Deloitte & Touche

Deloitte & Touche
Registered Auditors

Per Mgcinisihlalo Jordan
Partner

Building 8, Deloitte Place, The Woodlands, Woodlands Drive, Woodmead, Sandton

9 December 2010

National Executive: GG Gelink (*Chief Executive),* AE Swiegers (*Chief Operating Officer),* GM Pinnock *(Audit),*
DL Kennedy *(Tax & Legal and Risk Advisory),* L Geeringh *(Consulting),* L Bam *(Corporate Finance),*
CR Beukman *(Finance),* TJ Brown *(Clients & Markets),* NT Mtoba *(Chairman of the Board),*
MJ Comber *(Deputy Chairman of the Board).*

A full list of partners and directors is available on request.

Report of the audit committee

The audit committee presents its report for the financial year ended 30 September 2010 as required by section 270A of the Companies Act. The audit committee has been constituted in accordance with applicable legislation and regulations.

Purpose of the audit committee

The main purpose of the audit committee is to assist the board in discharging its duties relating to the safeguarding of assets, accounting systems and practices, the integrity of internal financial control processes and the preparation of accurate financial reporting and statements in compliance with all legal requirements and accounting standards.

Membership and attendance

The audit committee consists of four members who are all non-executive directors. The committee met four times during the year.

The names of the members and attendance at meetings are recorded in the corporate governance section of the annual report.

Functions of the audit committee

The board has approved the audit committee charter and the audit committee has discharged the functions in terms of the charter which included:

- Reviewing and approving the group external audit plan including the proposed audit scope, approach to group risk activities and the audit fee;
- Confirming the independence of the auditors Deloitte & Touche and approval of the appointment of Mgcinisihlalo Jordan as the designated auditor;
- Reviewing external audit reports;
- Assessing the nature and extent of non-audit services;
- Evaluating the role, independence and effectiveness of the internal audit function;
- Approving the appointment or dismissal of the head of internal audit;
- Approving the internal audit charter and internal audit plan;
- Reviewing the accounting policies adopted by the group and all proposed changes in accounting policies and practices;
- Reviewed the interim and annual financial statements to confirm the financial statements are prepared in accordance with International Financial Reporting Standards, the Companies Act of South Africa (Act 61 of 1973, as amended) and the Listing Requirements of the JSE Limited;
- Assessing the going concern status of the group;
- Reviewing the group compliance plan and assessing the procedures for identifying the regulatory risks; and
- Reviewing the legal matters that could have a significant impact on the group's financial statements.

Attendance by auditors and executive directors

The internal and external auditors attended and reported at all meetings of the audit committee. The executive directors also attended all meetings by invitation.

Independence of external auditor

The audit committee has satisfied itself that the auditors are independent of the group.

Expertise and experience of financial director

As required by the JSE Listings Requirements, the audit committee has assessed and is unanimously satisfied that the group chief financial officer, Nithia Nalliah, has the appropriate skills, qualifications and experience to continue in this position.

David Gibbon
Chairman: Group Audit Committee

9 December 2010

Directors' report
for the year ended 30 September 2010

The directors present their report to shareholders, together with the audited annual financial statements of the company and the group for the financial year ended 30 September 2010.

Nature of the business and principal subsidiaries

ABIL is a publicly quoted bank-controlling company, in terms of the Banks Act No. 94 of 1990, as amended, listed on the JSE Limited which operates businesses within the Republic of South Africa and in the neighbouring countries of Zambia, Botswana, Lesotho, Namibia and Swaziland. The two main areas in which the group operates are the underwriting of unsecured credit risk through the provision of personal loans primarily to the formally employed emerging market, which is confined to the Republic of South Africa, and the retailing of furniture and appliances for cash and credit both within and outside the Republic of South Africa. ABIL was founded on the development of the unsecured credit market with the intention of growing the market by making credit available to the majority of the South African citizens who were denied credit. It has achieved this through a significant distribution base throughout South Africa, predicated on self-developed dynamic credit scoring models and efficient collection methods. ABIL has the following principal operating subsidiaries, with the list of direct subsidiaries being disclosed on page 246:

- African Bank Limited is registered as a bank under the Banks Act and is the main operating company, carrying on the business of providing unsecured personal loans to both the formally and informally employed South African residents through its own branches and the Ellerines branches within South Africa.
- Ellerine Holdings Limited, through its main operating subsidiary, Ellerine Furnishers (Pty) Limited, is engaged in the business of retailing furniture and appliances for cash and on credit to the markets spanning all LSMs. The credit for sales within South Africa is provided by African Bank.
- The Standard General Insurance Company Limited is registered as a life insurance company under the Long term Insurance Act (Act No. 52 of 1998, as amended, and provides credit life products to customers of African Bank Limited.
- Relyant Insurance Company Limited is registered as a short term insurance company under the Short Term Insurance Act No. 53 of 1998, as amended, and is primarily engaged in the sale of insurance on goods purchased by customers on credit from Ellerine Furnishers.

Share capital

Ordinary shares

The authorised share capital remains unchanged at 1 000 000 000 shares of 2,5 cents each.

No shares were issued during the current year (2009: nil). At 30 September 2010, the issued ordinary share capital totalled 804 175 200 (2009: 804 175 200) shares of 2,5 cents each representing R20,1 million (2009: R20,1 million). There were no shares repurchased during the current financial year (2009: nil).

Preference shares

The authorised preference share capital at 30 September 2010 was increased (at the annual general meeting held on 23 March 2010) to 20 000 000 (2009: 5 000 000) shares of R0,01 each totalling R200 000 (2009: R50 000). The issued preference share capital at 30 September 2010 amounted to 5 000 000 (2009: 5 000 000) shares of R0,01 each. There were no changes to the issued preference share capital during the financial year.

Holding company

ABIL does not have a holding company.

ABIL shares held by subsidiary companies

As at 30 September 2010 no subsidiaries held shares and the ABIL Employee Share Trust held 477 415 (2009: 482 254) ABIL ordinary shares.

Financial results and subsidiaries

The financial results for the financial year are set out in detail on pages 146 to 243 of these annual financial statements. The interest of the company (ABIL) in the aggregate net income and losses after taxation (before intergroup dividends) of subsidiaries is:

R million	**2010**	2009
Profits	**5 970**	2 308
Losses	**(27)**	(444)
ABIL's interest in profits and losses of subsidiaries	**5 943**	1 864
ABIL company profit	**1 497**	1 602
Total ABIL group before consolidation adjustments	**7 440**	3 466
Group transactions eliminated and consolidation adjustments	**(5 498)**	(1 611)
Group profit for the year	**1 942**	1 855

Borrowing powers

In terms of the articles of association, the group has unlimited borrowing powers. The group obtains its funding primarily through the Domestic Medium Term Note (DMTN) Programme by the issue of Corporate Bonds which trade on the Bond Exchange of South Africa. The total funding approved by the board of directors in terms of the DMTN programme is R15 billion (2009: R15 billion). The capital outstanding to third parties in terms of the DMTN programme at 30 September 2010 is R8,58 billion (2009: R6,38 billion).

During the financial year, the board of directors approved and listed on the London Stock Exchange, a European Medium Term Note (EMTN) Programme amounting to US$1 billion.

Subsidiaries in the group also have funding facilities from South African banks outside the group which are secured by sureties issued by the subsidiaries' holding company. The total borrowings of the group at 30 September 2010 are R24,1 billion (2009: R19,9 billion). Full details of the borrowings are shown in notes 12, 15 and 16 to the annual financial statements.

Going concern

The directors have satisfied themselves that the company and group are in a sound financial position and that sufficient borrowing facilities are accessible in order to enable the group to meet its foreseeable cash requirements. In addition, there has been no material change in the markets in which the group operates and it has the necessary skills to continue operations. On this basis they consider that the company and group has adequate resources to continue operating for the foreseeable future and therefore deem it appropriate to adopt the going-concern basis in preparing the company's and group's financial statements for this reporting period.

Post-balance sheet events

Subsequent to year end, African Bank Limited issued a bond in terms of the EMTN programme amounting to US$35 million which has been swapped into local currency equating to R241 million.

Major capital expenditures

The group made total additions to its fixed assets of R277 million (2009: R289 million) during the past financial year.

Regulatory approval

As at the date of this directors' report, there is no outstanding regulatory approval.

Dividends to ordinary shareholders

On 22 November 2010, the board of directors declared a final cash dividend for the 2010 financial year of 100 cents per ordinary share.

	2010 cents	2009 cents
Ordinary dividends		
Interim, paid on 21 June 2010 to shareholders registered on 18 June 2010	**85**	85
Final, payable on 20 December 2010 to shareholders registered on 17 December 2010	**100**	100
Total	**185**	185

Dividends to preference shareholders

On 22 November 2010, the board of directors declared a cash preference dividend of 336 cents per preference share in respect of the second half of the 2010 financial year.

	2010 cents	2009 cents
Preference dividends		
Interim, paid on 21 June 2010 to shareholders registered on 18 June 2010	**355**	475
Final, payable on 20 December 2010 to shareholders registered on 17 December 2010	**336**	367
Total	**691**	842

All dividends have been declared out of profits available for distribution and are subject to secondary tax on companies.

Directors and changes in directors

The details of current directors are provided on pages 90 to 93.

In accordance with Article 13 of the company's articles of association one-third of the directors shall retire at each annual general meeting on a rotational basis as determined in this article. Retiring directors are eligible for re-election.

The following directors were re-elected at the annual general meeting held on 23 March 2010:

Leonidas Kirkinis	(Chief executive officer)
Nicholas Adams	(Non-executive director)
Robert Johnny Symmonds	(Independent non-executive director)
Nithiananthan Nalliah	(Executive director: chief financial officer)
Samuel Sithole	(Independent non-executive director)

Company secretary and registered office

The group company secretary is Yashmita Mistry. Her business and postal address is the registered office of the company which is set out on the inside back cover of this annual report.

Directors' interest in shares

The directors' direct and indirect interests in the ordinary and preference issued share capital of the company are set out in the table below. All the shares are held beneficially.

There has been no material change in the interest of directors in the ordinary and preference issued share capital of the company between 30 September 2010 and the date of this report.

Interest of directors of the company directly and indirectly in the shares of ABIL at 30 September

			2010			2009		
Name	Date appointed to the board	Notes	**Direct**	**Indirect**	**Total**	Direct	Indirect	Total
Ordinary shares								
Executive directors								
Gordon Schachat (executive deputy chairman)	01 July 1995		**3 000 000**	**9 000 000**	**12 000 000**	3 000 000	9 000 000	12 000 000
Leon Kirkinis (chief executive officer)	01 July 1997		**3 000 000**	**13 500 000**	**16 500 000**	3 000 000	13 250 000	16 250 000
Toni Fourie	21 Oct 2003		**–**	**276 691**	**276 691**	–	192 388	192 388
Nithia Nalliah	05 May 2009	3	**–**	**2 023 457**	**2 023 457**	–	2 002 532	2 002 532
Tami Sokutu	19 May 2003	4	**–**	**4 713 287**	**4 713 287**	203 000	4 310 962	4 513 962
Dave Woollam	01 Nov 2002		**1 275 000**	**–**	**1 275 000**	1 275 000	–	1 275 000
Subtotal			**7 275 000**	**29 513 435**	**36 788 435**	7 478 000	28 755 882	36 233 882
Non-executive directors								
Mutle Mogase (non-executive chairman)	12 Mar 2007	5	**–**	**2 502 218**	**2 502 218**	–	2 424 566	2 424 566
Nic Adams	01 Feb 2008		**2 000**	**1 265 783**	**1 267 783**	2 000	1 265 783	1 267 783
Mpho Nkeli	07 Mar 2008	6	**–**	**146 279**	**146 279**	–	176 345	176 345
Sam Sithole	21 May 2009	7	**–**	**588 642**	**588 642**	–	114 235	114 235
Johnny Symmonds	21 May 2009		**2 000**	**–**	**2 000**	2 000	–	2 000
Oshy Tugendhaft	01 April 2003		**–**	**10 000**	**10 000**	–	10 000	10 000
Subtotal			**4 000**	**4 512 922**	**4 516 922**	4 000	3 990 929	3 994 929
Past non-executive director								
Ashley Mabogoane	01 Dec 1999	8	**–**	**–**	**–**	4 000	1 005 000	1 009 000
Subtotal			**–**	**–**	**–**	4 000	1 005 000	1 009 000
Total ordinary shares			**7 279 000**	**34 026 357**	**41 305 357**	7 486 000	33 751 811	41 237 811
Preference shares								
Executive director								
Dave Woollam			**10 000**	**–**	**10 000**	–	–	–
Total preference shares			**10 000**	**–**	**10 000**	–	–	–

Note 1: Eyomhlaba Investment Holdings Limited (Eyomhlaba) owns 38 910 072 (2009: 37 024 174) ordinary shares in ABIL which is 4,84% (2009: 4,6%) of ABIL's issued ordinary share capital. The directors' indirect holdings in ABIL increased to the percentages shown in notes 3 to 7 as a result of the acquisition by Eyomhlaba of 1 885 898 ordinary shares during the year.

Note 2: Hlumisa Investment Holdings Limited (Hlumisa) owns 18 668 908 (2009: 15 010 250) ordinary shares in ABIL which is 2,32% (2009: 1,87%) of ABIL's issued share capital. These directors' indirect holdings in ABIL increased to the percentages shown in notes 3 to 7 as a result of the acquisition by Hlumisa of 3 658 658 ordinary shares during the year and the additional shares acquired in the Hlumisa offer to existing black shareholders and offer to ABIL black employees and black directors.

Note 3: Nithia Nalliah has a 4,80% (2009: 4,83%) interest in Eyomhlaba and a 0,63% (2009: 1,18%) interest in Hlumisa and holds 38 340 ABIL ordinary shares indirectly.

Note 4: Tami Sokutu has a 9,99% (2008: 10,04%) interest in Eyomhlaba and a 4,42% (2008: 3,95%) interest in Hlumisa.

Note 5: Mutle Mogase has a 4,92% (2009: 4,95%) interest in Eyomhlaba and a 3,14% (2008: 3,95%) interest in Hlumisa.

Note 6: Mpho Nkeli has a 0,21% (2009: 0,21%) interest in Eyomhlaba and a 0,35% (2009: 0,66%) interest in Hlumisa.

Note 7: Sam Sithole has a 0,31% (2009: 0,31%) interest in Eyomhlaba and a 2,51% (2009: 0%) interest in Hlumisa.

Note 8: Ashley Mabogoane resigned effective 1 April 2009.

Remuneration and employee incentive participation schemes

Details in respect of directors' remuneration and the group's long term incentive schemes are fully disclosed in the remuneration report on pages 108 to 118.

Interest of directors and officers in transactions

During the financial year no material contracts were entered into in which directors and officers of the company had an interest and which significantly affected the business of the group. The directors had no interest in any third party or company responsible for managing any of the business activities of the group.

Special resolutions by ABIL

At the annual general meeting held on 23 March 2010, African Bank Investments Limited shareholders passed the following special resolutions:

- Amendment of preference share rights to incorporate an increase in preference share dividends to compensate for any withholding tax when the proposed change to dividend tax comes into effect and to allow for further issues of preference shares by increasing the authorised preference share capital from 5 000 000 shares to 20 000 000 shares;
- Approval to grant financial assistance to either or both of Eyomhlaba Investment Holdings Limited and Hlumisa Investment Holdings Limited; and
- Granting the directors the general authority to buy back a maximum of 3% of the company's issued shares.

Special resolutions by subsidiaries

Details of special resolutions passed by principal subsidiaries during the current financial year are:

- Ellerine Furnishers (Pty) Limited and Ellerine Holdings Limited amended their articles of association to authorise the company to make payments to their members by way of capital or reserves distribution subject to section 90 of the Companies Act.

Litigation statement

In terms of section 11.26 of the Listings Requirements of the JSE, the directors, whose names are given on pages 90 to 93 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the group's financial position.

Acquisitions, disposals/terminations and pre-emptive rights

Disposals/terminations

In the current year, the group disposed of the Ellerines property portfolio for R195 million. This portfolio was previously disclosed as an asset held for sale.

African Bank Limited disposed of its pre-emptive right and option to repurchase the business or entire issued equity shares of SA Taxi Finance (Pty) Limited for R15 million.

Insurance and directors' and officers' indemnity

The group protects itself against banker's comprehensive crime and professional indemnity by maintaining a comprehensive insurance programme. As permitted by the company's articles of association, the company has granted indemnities to the directors, in relation to certain losses and liabilities which they may incur in the course of acting as directors of the company or of one or more of its subsidiaries. The company secretary has also been granted indemnities covering her role as company secretary of the company and its subsidiaries. The board believes that it is in the best interest of the group to attract and retain the services of the most able and experienced directors and officers by offering competitive terms of engagement, including the granting of indemnities on terms consistent with legislation and best practice.

Auditors

Deloitte & Touche has expressed its willingness to continue as auditors and resolutions proposing its reappointment, confirmation that Mr Mgcinisihlalo Jordan will be the designated lead audit partner and authorising the board to set its remuneration will be submitted at the forthcoming annual general meeting.

JSE listings requirements

African Bank Investments Limited and its directors have, during the 12 month period ended 30 September 2010 and to the date of this report, complied with all listings requirements and every disclosure requirement for continued listing on the JSE as imposed by the JSE Limited during the period.

Other information

In accordance with the Companies Act, No. 61 of 1973 and the JSE listing rules, the directors are required to bring certain additional information to the attention of shareholders in the directors' report. Information on names of directors and the King II compliance statement are included in the board of directors' section and corporate governance and remuneration report respectively. In terms of the JSE listings requirements, ABIL is required to comply with King III with effect from its financial year commencing 1 October 2010. The group has not chosen to early adopt King III.

Group statement of financial position

as at 30 September 2010

R million	Notes	Group 2010	2009
Assets			
Short term deposits and cash	2	**3 410**	3 553
Statutory assets – bank and insurance	3	**1 806**	1 323
Inventories	4	**851**	859
Other assets	5	**321**	357
Taxation		**97**	20
Net advances	6	**25 360**	20 486
Deferred tax asset	7	**409**	501
Assets held for sale	8	**5**	181
Policyholders' investments		**15**	15
Property and equipment	9	**622**	586
Intangible assets	10	**834**	906
Goodwill	11	**5 472**	5 472
Total assets		**39 202**	34 259
Liabilities and equity			
Short term funding	12	**1 038**	3 108
Other liabilities	13	**1 743**	1 363
Taxation		**33**	77
Deferred tax liability	7	**392**	265
Liabilities held for sale	8	**–**	25
Life fund reserve	14	**14**	15
Bonds and other long term funding	15	**20 877**	14 705
Subordinated bonds, debentures and loans	16	**2 226**	2 044
Total liabilities		**26 323**	21 602
Ordinary share capital	17	**20**	20
Ordinary share premium	17	**9 131**	9 131
Reserves	18	**3 245**	3 023
Ordinary shareholders' equity		**12 396**	12 174
Preference shareholders' equity	19	**483**	483
Total equity (capital and reserves)		**12 879**	12 657
Total liabilities and equity		**39 202**	34 259

Group income statement
for the year ended 30 September 2010

R million	Notes	Group 2010	Group 2009
Gross margin on retail business	20	**1 974**	1 791
Interest income on advances	21	**5 950**	5 437
Net assurance income	22	**1 600**	2 081
Non-interest income	23	**2 491**	2 251
Income from operations		**12 015**	11 560
Charge for bad and doubtful advances	24	**(2 693)**	(2 511)
Risk-adjusted income from operations		**9 322**	9 049
Other interest and investment income	21	**390**	367
Interest expense	25	**(2 383)**	(2 025)
Operating costs	26	**(4 481)**	(4 576)
Indirect taxation: VAT	27	**(20)**	(18)
Profit from operations		**2 828**	2 797
Capital items	28	**34**	(7)
Profit before taxation		**2 862**	2 790
Direct taxation: STC	27	**(147)**	(159)
Direct taxation: Normal	27	**(773)**	(776)
Profit for the year	29	**1 942**	1 855
Profit for the year (basic earnings)	29	**1 942**	1 855
Preference shareholders	29	**(36)**	(52)
Basic earnings attributable to ordinary shareholders	29	**1 906**	1 803
Per share statistics			
Basic earnings per share (cents)	29	**237,2**	224,3
Fully diluted basic earnings per share (cents)	29	**237,1**	224,3
Number of shares in issue (net of treasury shares) (million)	30	**803,7**	803,7
Weighted number of shares in issue (million)	30	**803,7**	803,7
Fully diluted number of shares in issue (million)	30	**803,8**	803,8
Dividends per ordinary share (cents)			
Interim – paid	31	**85**	85
Final – declared	31	**100**	100
Total ordinary dividends		**185**	185

Group statement of comprehensive income

for the year ended 30 September 2010

R million	Notes	Group 2010	2009
Profit for the year	29	**1 942**	1 855
Other comprehensive income			
Exchange differences on translating foreign operations		**(11)**	(25)
Movement in cash flow hedge reserve		**(195)**	(18)
IFRS 2 reserve transactions (employee incentives)		**8**	11
Shares purchased into the ABIL Employee Share Trust less shares issued to employees (cost)		**1**	–
Loss incurred on group employees acquiring ABIL Share Trust shares	32	**1**	2
Other comprehensive income for the year, net of tax		**(196)**	(30)
Total comprehensive income for the year		**1 746**	1 825

Group statement of changes in equity

for the year ended 30 September 2010

R million	Notes	Ordinary share capital and premium	Distributable reserves	Share-based payment reserve
Balance at 30 September 2008	17, 18, 19	9 151	2 201	586
Dividends paid	31	–	(1 528)	–
Transfer to insurance contingency reserve		–	(42)	–
Total comprehensive income for the year		–	1 805	11
Balance at 30 September 2009	17, 18, 19	9 151	2 436	597
Dividends paid	31	**–**	**(1 488)**	**–**
Transfer to share-based payment reserve		**–**	**(208)**	**208**
Transfer from insurance contingency reserve		**–**	**25**	**–**
Total comprehensive income for the year		**–**	**1 907**	**8**
Balance at 30 September 2010	17, 18, 19	**9 151**	**2 672**	**813**

Cash flow hedging reserve	Insurance contingency reserve	Foreign currency translation reserve	Treasury shares	Preference share capital and premium	Total
(14)	1	17	(13)	483	12 412
–	–	–	–	(52)	(1 580)
–	42	–	–	–	–
(18)	–	(25)	–	52	1 825
(32)	43	(8)	(13)	483	12 657
–	**–**	**–**	**–**	**(36)**	**(1 524)**
–	**–**	**–**	**–**	**–**	**–**
–	**(25)**	**–**	**–**	**–**	**–**
(195)	**–**	**(11)**	**1**	**36**	**1 746**
(227)	**18**	**(19)**	**(12)**	**483**	**12 879**

Group statement of cash flows

for the year ended 30 September 2010

R million	Notes	Group 2010	2009
Cash generated from operations	33	**5 698**	6 026
Cash received from lending and insurance activities, sale of merchandise and cash reserves	34	**15 662**	14 756
Recoveries on advances previously written off	24	**103**	172
Cash paid to funders, employees, suppliers and insurance beneficiaries	35	**(10 067)**	(8 902)
Increase in gross advances	36	**(7 658)**	(6 918)
Decrease/(increase) in working capital		**205**	(62)
Increase in other assets		**(103)**	(40)
Decrease/(increase) in inventories		**8**	(89)
Increase in other liabilities		**300**	67
Indirect and direct taxation paid	37	**(794)**	(1 192)
Cash inflow from equity accounted incentive transactions	38	**2**	1
Cash outflow from operating activities		**(2 547)**	(2 145)
Cash outflow from investing activities		**(493)**	(399)
Acquisition of property and equipment (to maintain operations)		**(277)**	(289)
Acquisition of joint venture advances book		**(19)**	–
Disposal of property and equipment		**240**	18
Disposal of option		**15**	–
Other investing activities	39	**(452)**	(128)
Cash inflow from financing activities		**2 760**	3 068
Cash inflow from funding activities	40	**4 284**	4 648
Preference shareholders' payments and transactions	31	**(36)**	(52)
Ordinary shareholders' payments and transactions	31	**(1 488)**	(1 528)
(Decrease)/increase in cash and cash equivalents		**(280)**	524
Cash and cash equivalents at the beginning of the year		**3 996**	3 472
Cash and cash equivalents at the end of the year	41	**3 716**	3 996

Notes to the group annual financial statements
for the year ended 30 September 2010

1. Principal accounting policies

The principal accounting policies set out below have been applied in the preparation and presentation of the African Bank Investments Limited (ABIL) consolidated financial statements as well as the African Bank Investments Limited company annual financial statements and have been applied consistently, unless stated otherwise, in dealing with items that are considered material by all the companies within the ABIL group during this reporting period.

1.2 Basis of preparation

The group and company financial statements are prepared on a going concern basis using accrual accounting. The going concern basis assumes that the group will continue in operation for the foreseeable future. Under accrual accounting the effects of transactions and other events are recognised when they occur (rather than when the cash is received) and are recorded in the accounting records of the periods to which they relate.

The group consolidated and company annual financial statements are prepared in accordance with, and comply with, the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, and the requirements of the South African Companies Act 61 of 1973 (as amended).

The historical cost basis is followed, except for:

- certain financial assets and liabilities that are measured on a fair value basis, in terms of IAS 39 Financial Instruments: Recognition and Measurement;
- assets and liabilities held for sale;
- financial assets and liabilities held at fair value;
- liabilities for cash-settled share-based payment arrangements;
- policyholder investment contract liabilities; and
- inventories, which are on other bases as specifically stated in the notes to the financial statements.

The group statement of financial position is presented in order of liquidity with the exception of certain long term liabilities which reflect the original timeframe and intention of the instrument entered into. Reference to the current maturities of these financial liabilities is disclosed in the notes and in the analysis of financial assets and liabilities. The accounting policies are consistent with the previous year except where otherwise specifically stated. These financial statements are presented in South African rand, which is the group's functional currency. All monetary information and figures have been rounded to the nearest million rand (R million), unless otherwise stated.

1.3 Adoption of new standards, amendment to standards and interpretations effective for the current financial year

The following new standards, amendment to standards and interpretation have been adopted during the current year:

1. Principal accounting policies *continued*

1.3 Adoption of new standards and interpretations effective for the current financial year *continued*

IFRS/IFRIC	Title and details	Impact
IFRIC 17	**Distribution of Non-cash Assets to Owners** The interpretation clarifies how an entity should measure distribution of assets other than when it pays cash dividends to its owners. These assets will be measured at their fair value, and the difference between the fair value and the carrying value will be recorded in the profit or loss for the period.	The adoption of this standard has not led to any changes in the group's accounting policies and has no impact on the reported results or financial position of the group or company.
IFRS 2 (amended)	**Vesting Conditions and Cancellations** The amendments to IFRS 2 clarify that vesting conditions are performance conditions and service conditions only. The amendments also clarify that cancellations of share options by parties other than the entity are to be accounted for in the same way as cancellations by the entity.	The adoption of this standard has not led to any changes in the group's accounting policies and has no impact on the reported results or financial position of the group or company.
IFRS 3 and IAS 27 (revised)	**Revision to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements** The revised IFRS 3 retains the current basic requirements. The most significant amendments are that the acquisition related costs will now be recognised as an expense in the income statement when incurred, rather than included in goodwill. The revised IFRS 3 also states that contingent consideration must be recognised and measured at fair value at the acquisition date. Subsequent changes in fair value are recognised in accordance with other IFRSs, usually in the income statement rather than by adjusting goodwill. The amendment to IAS 27 requires that changes in a parent's ownership interest in a subsidiary that does not result in a loss of control be accounted for within equity.	The adoption of this standard has resulted in changes in the group's accounting policies for business combinations and consolidations. This change in policy had no impact on the results or financial position of the group or company.
IFRS 7	**Financial Instruments: Disclosures** The amendments to IFRS 7 require enhanced disclosures about fair value measurements and liquidity risk.	The adoption of this standard has led to expanded disclosures regarding the group's financial instruments. There is no impact on the reported results or financial position of the group or company.

1. **Principal accounting policies** *continued*

1.3 Adoption of new standards and interpretations effective for the current financial year *continued*

IFRS/IFRIC	Title and details	Impact
IFRS 8	**Operating Segments** IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its reportable operating segments. Operating segments are components of an entity about which separate financial information is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assessing performance.	The adoption of this standard has led to redesignation of the group's reportable segments but has had no impact on the reported results or financial position of the group or company.
IAS 1 (revised)	**Presentation of Financial Statements** IAS 1 is comprehensively revised including requiring a statement of comprehensive income.	The adoption of this standard has led to revised disclosures but has had no impact on the reported results or financial position of the group or company.
IAS 23 (amended)	**Borrowing Costs** The amendment removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The capitalisation of borrowing costs as part of the cost of such assets is therefore now required.	The adoption of this standard has not led to any changes in the group's accounting policies and has no impact on the reported results or financial position of the group or company.
IAS 32 (amended)	**Financial Instruments Puttable at Fair Value** The amendment to IAS 32 requires the classification of certain puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro rata share of the entity only on liquidation as equity. The amendment sets out specific criteria that are to be met to present the instruments as equity together with related disclosure requirements.	The adoption of this standard has not led to any changes in the group's accounting policies and has no impact on the reported results or financial position of the group or company.
IAS 39 (amended)	**Eligible Hedged Items** The amendment clarifies that inflation may only be hedged in instances where changes in inflation are contractually specified portions of cash flows of a recognised financial instrument. It also clarifies that an entity is permitted to designate purchased or net purchased options as a hedging instrument in a hedge of a financial or non-financial item and to improve effectiveness, an entity is allowed to exclude the time value of money from the hedging instrument.	The adoption of this standard has not led to any changes in the group's accounting policies and has no impact on the reported results or financial position of the group or company.

1. Principal accounting policies *continued*

1.4 Use of estimates, judgements and assumptions

In preparing the consolidated financial statements, management is required to exercise its judgement in the process of applying the group's accounting policies, make estimates, judgements and assumptions that affect reported income, expenses, assets and liabilities and disclosure of contingent assets and liabilities.

Estimates, judgements and assumptions made, predominantly relate to impairment provisions for loans and advances (note 6), impairment testing of trademarks and goodwill, determining the net realisable value of inventory (note 4) and useful lives, residual values and depreciation methods for property and equipment (note 9) and useful lives of trademarks and brands. Other judgements made relate to classifying financial assets and liabilities into their relevant categories and in the determination of their fair value for measurement and disclosure purposes.

A change in accounting estimate is defined as an adjustment to the carrying value of an asset, liability or the amount of the periodic consumption of an asset that results from new information or new developments. Changes in accounting estimates are recognised in profit or loss during the period in which the change is made.

1.5 Assets and liabilities

An asset is a resource controlled by the group as a result of past events and from which future economic benefits are expected to flow to the group.

Assets are only recognised if they meet the definition of an asset, it is probable that future economic benefits will flow to the group and the asset has a cost or value that can be measured reliably.

A liability is a present obligation of the group arising from past events, the settlement of which is expected to result in an outflow, from the group's resources, embodying economic benefits.

Liabilities are only recognised if they meet the definition of a liability, it is probable that an outflow of resources embodying economic benefits will result from the settlement of the obligation and the amount at which the settlement will take place can be measured reliably.

1.6 Consolidation

1.6.1 Basis of consolidation

The group consolidated annual financial statements incorporate the annual financial statements of the company, its subsidiaries, the ABIL Employee Share Trust, the Ellerine Holdings Share Incentive Trust and the Relyant Share Option Trust. For this purpose, subsidiaries are companies over which the group, either directly or indirectly, has the power to govern the financial and operating policies so as to obtain the benefits from their activities.

The operating results of the subsidiaries are included from the effective dates that control is acquired and up to the effective dates of disposal. Business combinations are accounted for in accordance with the acquisition method. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

On acquisition, the group recognises the subsidiary's identifiable assets, liabilities and contingent liabilities at fair value, except for assets classified as held-for-sale, which are recognised at fair value less costs to sell. Any equity instruments issued by the group in exchange for control of the acquiree are recorded at fair value at the date of issue, plus all costs relating to the issue of such equity instruments.

1. Principal accounting policies *continued*

1.6 Consolidation *continued*

1.6.1 Basis of consolidation (continued)

Costs incurred to effect a business combination are expensed in the period incurred.

Premiums or discounts arising on the acquisition of subsidiaries are treated in terms of the group's accounting policy for goodwill.

Eyomhlaba Investment Holdings Limited and Hlumisa Investment Holdings Limited, both special purpose vehicles created to facilitate ABIL's broad-based black economic empowerment programme, are not consolidated into the ABIL group, due to the fact that ABIL has no control over these entities, nor does it have an interest in the economic risks and rewards associated with these entities.

The ABIL Development Trust, created in terms of the group's corporate social investment programme, is not consolidated into the ABIL group as the group does not have an interest in the economic risks and rewards associated with the trust.

In the holding company financial statements, investment in subsidiaries are accounted for at cost. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

1.6.2 Goodwill

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity and is recognised at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The carrying amount of goodwill is assessed annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. An impairment loss recognised on goodwill is not reversed in a subsequent period.

Negative goodwill, which represents the excess of the group's interest in the fair value of the identifiable assets and liabilities acquired over the cost of acquisition, is recognised immediately in profit or loss.

At the acquisition date, goodwill acquired is allocated to cash generating units and any impairment is determined using the value-in-use methodology in relation to these units.

On disposal of a subsidiary, associate, jointly controlled entity or a cash generating unit, the amount of goodwill attributable is included in the determination of the profit or loss on disposal.

1.6.3 Joint ventures

A joint venture is a contractual agreement between the group and another party to undertake an economic activity, which is subject to joint control, in which the group has a long term interest. Joint control is where the strategic, financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

1. Principal accounting policies *continued*

1.6 Consolidation *continued*

1.6.3 Joint ventures (continued)

Investments in joint ventures are accounted for on the proportional consolidation method, whereby the group's proportionate share in assets, liabilities, revenue, expenses and cash flows of the joint venture are combined with similar items in the consolidated financial statements on a line by line basis.

Where the group transacts with its joint venture, unrealised profits and losses are eliminated to the extent of the group's interest in the joint venture. The results of the joint venture are included from the effective date of acquisition and up to the effective date of disposal.

1.6.4 Segmental reporting

An operating segment is a component of an entity which engages in business activities from which it earns revenues and incurs expenses, for which separate financial information is available and whose operating results are regularly evaluated by the chief operating decision maker in deciding how to allocate resources and assessing its performance. The operating segments of the group are the Banking unit, Ellerines Retail and Ellerines Financial Services.

1.6.5 Non-South African entities

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates.

Resulting exchange differences are classified as a foreign currency translation reserve and recognised directly in equity. On disposal of such a group entity, this reserve is recognised in profit or loss.

1.7 Trademarks

No valuation is made of internally developed and maintained trademarks or brand names and all costs incurred on these are expensed in the period in which they are incurred. Expenditure incurred to maintain these trademarks or brand names is charged to profit or loss in the period in which such costs are incurred.

Trademarks acquired are capitalised initially at their purchased cost and are assessed at the individual asset level as having either a finite or indefinite useful life. All the acquired trademarks have a finite useful life.

Where a trademark has a finite life, it is amortised on a straight line basis over its estimated useful life, which is generally between 10 to 20 years.

The useful lives of all trademarks are assessed on an annual basis, or more frequently when any indication of impairment exists, to ensure that the carrying value does not exceed the recoverable amount. Any adjustments, where applicable, are made on a prospective basis. Trademarks are carried at cost less any accumulated amortisation and any impairment losses.

1.8 Property and equipment

Property and equipment are tangible items that are held for use in the production or supply of goods or services, or for administrative purposes and are expected to be used during more than one period.

1. Principal accounting policies *continued*

1.8 Property and equipment *continued*

Owner-occupied property, buildings, leasehold improvements, furniture, computer equipment and software, office equipment and motor vehicles are stated at cost less accumulated depreciation and impairment losses.

Assets held which are acquired under a suspensive sale are capitalised. At the commencement of the suspensive sale agreements the assets are reflected at the lower of fair value and the present value of future minimum lease payments. The related liability is recognised at an equivalent amount. Finance charges are accounted for over the period of the transactions on the effective interest rate method.

Depreciation is charged to profit or loss on a straight line basis and is calculated to reduce the original costs to the expected residual values over the estimated useful lives. Useful lives and residual values are assessed on an annual basis. Any adjustments that may be necessary are accounted for prospectively. Useful lives have been determined to be as follows:

Computer equipment and software	2 to 5 years
Office furniture and equipment	3 to 6 years
Motor vehicles	4 to 5 years
Leasehold improvements	Over the shorter of the lease term or its useful life
Buildings (owner-occupied)	Useful life (limited to 50 years)

Land is not depreciated.

The carrying amounts of property and equipment are written down to their estimated recoverable amounts, where the estimated recoverable amount is lower than the carrying value. All gains or losses arising on the disposal or scrapping of property and equipment are recognised in profit or loss in the period of disposal or scrapping. Repairs and maintenance are charged to profit or loss when the expenditure is incurred.

1.9 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within 12 months from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less estimated costs to be incurred to sell the asset.

1.10 Inventories

Inventories, being assets held for sale in the ordinary course of business, are stated at the lower of cost and estimated net realisable value. Cost is determined on the first-in first-out basis and includes all costs of purchase, costs of conversion and other costs such as transportation and handling costs incurred in bringing the inventories to their present location and condition, net of discount and rebates received. The cost of manufactured products includes both direct expenditure and a proportion of production overheads based on the normal level of activity. Net realisable value represents the estimated selling price in the ordinary course of business, less all estimated costs of completion and the costs to be incurred in marketing, selling and distribution.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs.

1. Principal accounting policies *continued*

1.11 Financial instruments

A financial instrument is defined as a contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial instruments, as reflected on the statement of financial position, include all financial assets, financial liabilities, derivative instruments and equity instruments held for investment, trading, hedging or liquidity purposes, but exclude investments in subsidiaries, associated companies and joint ventures, employee benefit plans, investment property, property and equipment, inventory, assets and liabilities of insurance operations, deferred taxation, taxation payable, provisions, intangible assets and goodwill.

Financial instruments are accounted for under IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures.

Financial assets are classified into the following categories:
- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables; and
- available-for-sale financial assets.

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

The classification of financial assets and financial liabilities depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

1.11.1 Initial recognition

Financial instruments are recognised on the statement of financial position when the group becomes a party to the contractual provisions of a financial instrument.

1.11.2 Initial measurement

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

1.11.3 Subsequent measurement

Subsequent to initial measurement, financial instruments are measured at either fair value or amortised cost, depending on their classification:

- Financial assets and financial liabilities at fair value through profit or loss
  Financial instruments at fair value through profit or loss consist of trading instruments and instruments that the group has elected, on the date of initial recognition, to designate as at fair value through profit or loss. Net gains and losses arising from financial instruments categorised as at fair value through profit or loss are determined inclusive of interest or dividend income.

  An investment is classified as held for trading if:
  - it has been acquired principally for the purpose of selling in the short term; or
  - it is a part of an identified portfolio of financial assets in which there is recent evidence of short term profit-taking; or
  - it is a derivative that is not designated and effective as a hedging instrument.

1. **Principal accounting policies** *continued*

1.11 Financial instruments *continued*

1.11.3 Subsequent measurement (continued)

Financial assets and liabilities other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition to the extent it produces more relevant information because it:

- forms part of a group of financial assets and/or financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the group's documented risk management or investment strategy, and information about the grouping is provided internally to management on that basis; or
- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

- Other financial liabilities

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

- Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group has both the positive intent and ability to hold to maturity, other than those that meet the definition of loans and receivables or those that were designated as at fair value through profit or loss or available-for-sale.

Held-to-maturity financial assets are measured at amortised cost, using the effective interest method, less any provisions for impairment with the interest income recognised in profit or loss.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those designated by the group as at fair value through profit or loss or available-for-sale.

Trade receivables, originating loans and advances and other receivables that are not held for trading purposes and have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method, less an allowance for impairment losses.

The majority of the group's advances are included in the loans and receivables category.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to the need for liquidity or changes in interest rates, exchange rates or equity prices. Interest income on these assets is recognised as part of interest income, based on the asset's

1. Principal accounting policies *continued*

1.11 Financial instruments *continued*

1.11.3 Subsequent measurement (continued)

original effective interest rate. Gains and losses arising from changes in fair value are recognised directly in equity, until the asset is disposed of or it is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Interest income is excluded from the fair value gains and losses which are recognised in equity.

Listed government bonds held in terms of statutory requirements are accounted for as available-for-sale financial assets.

1.11.3.1 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments (including all fees receivable that form an integral part of the effective interest rate) through the expected life of the financial asset/liability or, where appropriate, a shorter period.

1.11.3.2 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration paid or received. Transaction costs that are directly attributable are included in the initial fair value of financial assets and financial liabilities, other than those at fair value through profit or loss.

Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is an unlisted instrument, the fair value is determined by using applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and valuation techniques commonly used by market participants.

1.11.4 Derecognition of financial instruments

The group derecognises a financial asset (or group of financial assets) or a part of a financial asset (or part of a group of financial assets) when:

- the contractual rights to the cash flows arising from the financial asset have expired; or
- the group transfers the financial asset, including substantially all the risks and rewards of ownership of the asset; or
- it transfers the contractual rights to receive the cash flows from the financial asset; or
- it retains the contractual rights to receive the cash flows of the financial asset, but assumes a corresponding contractual obligation to pay the cash flows to one or more recipients, and consequently transfers substantially all the risks and benefits associated with the asset; or
- no future economic benefits are expected from their use.

1. Principal accounting policies *continued*

1.11 Financial instruments *continued*

1.11.4 Derecognition of financial instruments (continued)

A financial liability (or group of financial liabilities) or a part of a financial liability (or part of a group of financial liabilities) is derecognised when and only when the liability is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

The difference between the carrying amount of a financial asset or financial liability (or part thereof) that is derecognised and the consideration paid or received, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss for the period.

1.11.5 Offsetting

Financial assets and liabilities are offset and the net amount reported only when a legally enforceable right to set off the recognised amount exists and there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position.

1.12 Investments

Investments are recognised on a trade-date basis and are initially measured at fair value plus, in the case where financial instruments are not at fair value through profit or loss, any directly attributable transaction costs.

Debt securities that the group has the express intention and ability to hold to maturity are classified as held-to-maturity debt securities. At subsequent reporting dates, held-to-maturity securities are measured at amortised cost using the effective interest method less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as at fair value through profit or loss or available-for-sale, and are measured at subsequent reporting dates at fair value.

1.13 Loans and advances and related impairment provisions

1.13.1 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention to trade the receivable. Loans and advances originated by the Bank are in the form of personal unsecured loans that are either paid back in fixed equal instalments or in the case of credit cards are revolving credit facilities. Loans and advances originated by the furniture retailer for the purchase of furniture and appliances are secured over the items sold.

Advances are classified as loans and receivables and are measured at amortised cost using the effective interest rate method, less any impairment losses through the use of an allowance account whereby the amount of the losses are recognised in profit or loss. Origination fees and monthly service fees that are integral to the effective interest rate are capitalised to the value of the loan and amortised to profit or loss over the contractual life of the loan using the effective interest rate method.

1. Principal accounting policies *continued*

1.13 Loans and advances and related impairment provisions *continued*

1.13.1 Loans and advances (continued)

Advances, which are deemed uncollectible, are written off either fully or partially against the impairment allowance account for non-performing loans.

Cash collected on loans, which have previously been written off, is recognised in profit or loss as bad debts recovered as and when the cash is received.

Partially written off book

Loans previously written, off which subsequently result in certain minimum cash flows being received, are written back onto the statement of financial position in the advances portfolio. The write back of a previously written off loan means the recording of the recoverable outstanding amount of the loan on the statement of financial position at amortised cost without an allowance account, at the time it meets the definition of an asset and certain predetermined performance criteria. This recoverable amount is determined by discounting the estimated future cash flows at the original effective interest rate. The estimated future cash flows are based on the historic actual cash collected on these loans since they were written-off and on similar loans that were, subsequent to being written off, brought back onto the statement of financial position in prior reporting periods. The value recorded on these loans is on a portfolio basis rather than by individual loan account. Subsequent to this initial recording, an impairment allowance account is used in subsequent reporting periods to recognise any amount of the loan, the recovery of which is regarded as being doubtful or irrecoverable.

Rehabilitated loans

Loans previously written off which subsequently have a regular repayment profile and meet other minimum criteria, are written back on to the statement of financial position in the advances portfolio. These loans are recorded at the gross amount outstanding along with the appropriate impairment provision. These loans are recorded on an individual account basis.

1.13.2 Impairment provisions

The group reviews the carrying amounts of its loans and advances to determine whether there is any indication that those loans and advances have become impaired using objective evidence at a loan level. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in the payment of interest or principal;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

- it becoming probable that the borrower is over-indebted;
- indication that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying less than the minimum monthly amount); or
  - national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers or adverse changes in industry conditions that affect the borrowers in the group).

The group estimates the recoverable amount on a portfolio basis using portfolio statistics derived from past performance of similar financial assets, taking into account any changes to collection procedures and projected future market conditions.

The recoverable amount is the sum of the estimated future cash flows, discounted to their present value using a discount rate that reflects the portfolio of advances' original effective interest rate.

If the recoverable amount of the advance is estimated to be less than the carrying amount, the carrying amount of the advance is reduced to its recoverable amount by raising an impairment provision (through the use of a separate allowance account), which is recognised as an expense in profit or loss. A write off is effected against the allowance account when the debtor is deemed to be partially or fully impaired and not recoverable.

Where the impairment loss subsequently reverses, the carrying amount of the advance is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the advance in prior years. A reversal of an impairment loss is immediately recognised in profit or loss.

Impairment provisions raised during the year are charged to profit or loss.

1.14 Derivative financial instruments and hedge accounting

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The group initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the statement of financial position at fair value. Derivatives are subsequently re-measured at their fair value with all movements in fair value recognised in profit or loss, unless it is a designated and effective hedging instrument.

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

1. Principal accounting policies *continued*

1.14 Derivative financial instruments and hedge accounting *continued*

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

The method of recognising fair value gains or losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if so, the nature of the hedged item. The group is not party to any derivatives that are held for trading. When derivatives are designated in a hedging relationship, the group designates them as either:

- hedges of the fair value of recognised financial assets or liabilities or firm commitments (fair value hedges); or
- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedges).

Hedge accounting is applied to derivatives designated in this way provided certain criteria are met.

The group documents, at the inception of the hedging relationship, the relationship between the hedged items and the hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships.

The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging relationships are highly effective in offsetting changes in fair values or cash flows of hedged items.

1.14.1 Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same profit or loss category as the related hedged item. Any ineffectiveness is also recognised in the same profit or loss category as the related hedged item.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued.

1.14.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in the statement of changes in equity. The gain or loss relating to any ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are transferred to profit or loss in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects profit or loss in the case of a financial asset or a financial liability. If the forecast transaction is no longer expected to occur, the cumulative gains or losses that were recognised in equity are immediately transferred to profit or loss.

1. Principal accounting policies *continued*

1.15 Borrowings

Borrowings are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

Non-participating preference shares, which do not carry a mandatory coupon, are not redeemable on a specific date, or at the occurrence of a contingent future event at the option of the shareholder and where the dividend payments are discretionary, are classified as equity. Dividends on such preference shares are accounted for in the statement of changes in equity.

1.16 Cash and cash equivalents

Short term deposits and cash comprise fixed and notice deposits as well as call and current accounts with financial institutions in South Africa.

For purposes of the statement of financial position, South African Reserve Bank cash requirements and prudential liquid assets, together with insurance prudential cash reserves required by the Financial Services Board, are not disclosed as short term deposits and cash but rather as "statutory assets – bank and insurance".

For the purposes of the statement of cash flows, cash and cash equivalents comprise short term deposits and cash, net of bank overdrafts, and cash reserves held by the insurance companies.

1.17 Short term and long term insurance

Insurance contracts are those contracts under which the group subsidiaries (as insurers) accept significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects them. Short term insurance benefits are provided under short term policies which cover goods and appliances purchased on credit by the policyholders from group subsidiaries and also cover death, disability and retrenchment in terms of which their indebtedness to the group is settled upon the happening of the insured event. Long term insurance benefits are provided under the credit life policies sold by the long term insurance subsidiary of the group in terms of which customers of the Bank are covered for death, disability, retrenchment and short-time benefits. Benefits range from payment of instalments to settling the total indebtedness to the group provided the insured event takes place whilst the insurance policy is in force. Insurance policies are lapsed if the premiums are in arrears for more than a predetermined period from time to time and after due notice is served on the policyholder.

1.17.1 Policyholder liabilities

Insurance contracts that are still in force are computed annually at the statement of financial position date by the insurance companies' statutory actuary, in accordance with the provisions of the Long term Insurance Act, 1998 and valued in terms of the Financial Soundness Valuation (FSV) basis in accordance with Professional Guidance Notes (PGN) issued by the Actuarial Society of South Africa and represent the group's total policyholder liabilities. The following PGNs are of relevance to the liability calculations:

- PGN 102 (Mar 1995): Life Offices – HIV/AIDS
- PGN 104 (Jan 2005): Life Offices – Valuation of Long Term Insurers
- PGN 105 (Mar 2007): Recommended AIDS extra mortality bases
- PGN 106 (Jul 2005): Actuaries and Long Term Insurance in South Africa
- PG 110 (Dec 2007): Reserving for minimum investment return guarantees

1. Principal accounting policies *continued*

1.17 Short term and long term insurance *continued*

1.17.1 Policyholder liabilities (continued)

These Professional Guidance Notes are available on the website of the Actuarial Society of South Africa (www.actuarialsociety.co.za).

Claims incurred prior to the end of the financial year, but not reported until after that date, are brought into account in the valuation of the policyholder liabilities.

The group does not recognise negative reserves (i.e. an asset) that may arise if future insurance premium income is taken into account after allowance for unexpired risk. The statutory actuary sets a discretionary margin, allowed for in terms of PGN 104, such that it is equal to the elimination of the overall negative reserves (i.e. an asset) for insurance contracts.

The transfer to policyholder liabilities under insurance contracts reflected in profit or loss as part of assurance income is a result of the changes in actuarial liabilities and net adjustments to contingency and other insurance reserves.

1.17.2 Life fund reserve

The life fund reserve equals the amount of the actuarial valuation of the liability to parties outside the group according to the insurance policies and contracts in force at the statement of financial position date.

1.17.3 Statutory contingency reserve

Provision is made for the full amount of the contingency reserve required, in terms of the Short Term Insurance Act, No. 53 of 1998, calculated at 10% of the net written premiums. Transfers to and from this reserve are taken directly to and from distributable reserves.

1.17.4 Group policyholder liabilities

Group policyholder liabilities (which are in the form of credit life reserves) are the actuarial reserves of the life company and the reserves of the short term insurance company on credit life policies issued to clients of group subsidiaries. Such reserves are included in impairment provisions and this results in additional provision coverage to the extent that the policies are ceded by the policyholder to subsidiaries in the group.

1.17.5 Linked endowment products

Linked endowment products are investment-related products where the risk and reward of the underlying investment portfolio is assumed and accrues directly to the policyholder. These products, which provide for returns based on the change in value of the underlying investments, are initially recorded at cost and reflected as policyholders' investments on the statement of financial position. Valuations are adjusted for the effects of changes in foreign currency exchange rates in respect of the underlying investments that are in foreign currencies.

Actuarial liabilities of the linked endowment products are stated at the same value as the underlying supporting investments.

There is no financial risk to the group on these linked endowment products, however the investments and the related liabilities do not qualify for offsetting in terms of IFRS and are therefore shown at their respective gross values.

1. Principal accounting policies *continued*

1.18 Provisions

Provisions represent liabilities of uncertain timing or amount and are measured at the expenditure or cash outflow required to settle the present obligation.

Provisions are recognised when the group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

1.18.1 Onerous contracts

The present obligations arising under any onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits that are expected to be derived by the group under such contract.

1.18.2 Restructuring

A restructuring provision is recognised when the group has:

- developed a detailed formal plan to carry out any restructuring, and
- raised a valid expectation in those that are or will be affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by such restructuring.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and not costs associated with the ongoing activities of the entity.

1.18.3 Extended warranties

The group sells extended warranty non-insurance products to customers on a voluntary basis. Provisions for warranty costs are recognised at the date of sale of the relevant products, at the estimated future expenditure required to settle the group's obligation under such extended warranty contract. The estimated future expenditure is determined with reference to claims notified and past claims experience in relation to the extended warranty product.

1.18.4 Provision for leave pay

The cost of providing employee benefits is accounted for in the period in which the benefits are earned by employees.

The expected cost of short term accumulating compensated absences is recognised as an expense as the employees render services that give them the right to entitlement of such absence.

1.19 Equity

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

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

Ordinary and preference share capital are separately disclosed on the statement of financial position and statement of changes in equity.

1.19.1 Share capital

Share capital issued by the company is recorded at the value of the proceeds received less the external costs directly attributable to the issue of the shares. Where shares are issued

1. Principal accounting policies *continued*

1.19 Equity *continued*

1.19.1 Share capital (continued)

for consideration other than in cash under a business combination in terms of IFRS 3, the value at which the issued shares are recorded is the market value of the company's shares at the date of issue.

1.19.2 Treasury shares

Where the company or any other member of the group purchases the company's equity share capital, such shares are classified as treasury shares and the par value of these treasury shares is deducted from the share capital, whereas the remainder of the cost price is deducted from the share premium until the treasury shares are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

Treasury shares are deducted from the issued and weighted average number of shares on consolidation. All dividends received on treasury shares are eliminated on consolidation. The group does not recognise any gains or losses through profit or loss when its own shares are repurchased.

1.19.3 Dividends

Dividends to equity holders are recognised as a liability in the period in which they are declared and are accounted for as movement in reserves in the statement of changes in equity. Dividends declared after the statement of financial position date are disclosed in the dividends note.

1.20 Revenue recognition

Revenue comprises income from sale of merchandise, interest income, assurance premium income and non-interest income.

1.20.1 Sale of merchandise

Sale of merchandise is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of discounts and value-added tax, and excluding any interest or related charges.

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the significant risks and rewards of ownership in the goods have been transferred to the buyer;
- the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.20.2 Interest income

Interest income is accrued on a yield to maturity basis by reference to the principal outstanding and the interest rate applicable. In instances where a loan is in arrears for

1.20.2 Interest income (continued)

greater than six months, an assessment is made regarding the recoverability of the loan or group of loans and if necessary, based on available evidence at that date, the accrual of interest from that date is partially or fully suspended and not recognised in profit or loss.

1.20.3 Net assurance income

Premiums receivable from insurance contracts are recognised as revenue in profit or loss when they are due in terms of the contract, after deducting unearned premiums. Unearned premiums, which represent the proportion of premiums written in the current or prior years which relate to risks that have not expired by the end of the financial year, are calculated on a time proportionate basis. Net assurance income consists of premiums received after taking into account any transfers to or from the actuarial policyholder liabilities under insurance contracts and any benefits paid or payable to policyholders.

Premium income is disclosed net of reinsurance premiums but gross of commission. Premium income received in advance is included in trade and other payables.

Insurance benefits and claims incurred under insurance contracts include death, disability, short time, retrenchment payments, accidental damage, theft and fire in respect of furniture and appliances and are recognised in profit or loss net of any related reinsurance recoveries. Insurance claims are recognised when notification is received by the insurance subsidiaries. The estimate of the expected settlement value of claims that are notified but not paid at the statement of financial position date is included in trade and other payables.

1.20.4 Non-interest income

Non-interest income consists primarily of administration fees on loans and advances, delivery charges, extended warranty fees, club fees as well as any other sundry income.

1.20.4.1 Administration fees

Administration fees charged consist of two components:

- Origination fees on loans granted
  These fees are charged upfront, are capitalised into the loan, and are primarily based on the cost of granting the loan to the individual. In accordance with IAS 18 Revenue, these origination fees are considered an integral part of the loan agreement and therefore recognised as an integral part of the effective interest rate and are accounted for over the shorter of the original contractual term and the actual term of the loan using the effective interest rate method. The deferred portion of the fees is recorded in the statement of financial position as a provision for deferred administration fees. The group does not defer any related operating costs, as these are all internal costs which are not directly attributable to individual transactions and as such are primarily absorbed infrastructure costs.

- Monthly servicing fees
  These are fees which form an integral part of the effective interest rate and are charged to customers on a monthly basis. These fees are recognised as part of the effective interest rate over the shorter of the original contractual

1. Principal accounting policies *continued*

1.20 Revenue recognition *continued*

1.20.4 Non-interest income (continued)

1.20.4.1 Administration fees (continued)

term and the actual term of the loans and receivables. Beyond the original contractual term of the loan, the fee is recognised in profit or loss as it is charged to the customer on a monthly basis.

While both these components are regarded as integral parts of the effective interest rate, they are not accounted for as interest income, but as non-interest income.

1.20.4.2 Delivery charges

Delivery charges are recognised as income at the date the goods are delivered to the customers.

1.21 Cost of sales

When inventories are sold, the carrying amount in respect of such inventory is recognised as part of cost of sales. Any write-down of inventories to estimated net realisable value and all losses of inventories or reversals of previous write downs or losses are recognised in cost of sales in the period in which the write down, loss or reversal occurs.

1.22 Taxation

1.22.1 Indirect taxation

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

1.22.2 Direct taxation

Direct taxation in profit or loss consists of South African and foreign jurisdiction corporate income tax, inclusive of capital gains tax (CGT) (currently payable, prior year adjustments and deferred) as well as foreign jurisdiction withholding taxes and secondary tax on companies (STC) (currently payable and deferred).

STC on dividends, net of STC credits earned, is provided for and expensed through profit or loss in the period in which the dividend paid is accounted for. STC is payable only on dividends as defined in the Income Tax Act.

1.22.2.1 Current taxation

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

Taxation in respect of the South African life assurance companies is determined using the four fund method applicable to life insurance companies in terms of the Income Tax Act.

1. Principal accounting policies *continued*

1.22 Taxation *continued*

1.22.2 Direct taxation (continued)

1.22.2.1 Current taxation (continued)

Current tax is charged or credited to profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the tax is also dealt with in equity.

STC that arises from the distribution of dividends is recognised at the same time as the liability to pay the related dividend.

1.22.2.2 Deferred taxation

Deferred taxation is provided on temporary differences using the balance sheet liability method. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation base. However, deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit or loss nor taxable income. The amount of deferred taxation provided is based on the taxation rates and laws enacted or substantially enacted at the statement of financial position date.

Deferred taxation is charged or credited in profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the deferred taxation is also dealt with in equity.

The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

The deferred taxation related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in profit or loss together with the deferred gain or loss.

Deferred tax assets are recognised on the tax effects of income tax losses available for carry-forward, if the group considers it probable that future taxable income will be available against which the unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

1. Principal accounting policies *continued*

1.23 Share-based payments

Share-based payment transactions of the group primarily relate to the group's long term incentive scheme for employees. In addition, any issue of new ordinary shares pursuant to the creation of the group's black economic empowerment programme is also treated as a share-based transaction.

1.23.1 Share-based payments under the group's long term incentive programme (LTIP) for employees

The group has a cash-settled share appreciation rights scheme, in terms of which employees receive units based on an initial value of an ABIL listed share, and receive on the maturity date the market value of the units based primarily on the ABIL share price. This instrument qualifies as share-based payments under IFRS 2 Share-based Payment.

The share appreciation rights instruments have a predetermined vesting profile, which results in a lapsing of the instrument if the employee resigns or is dismissed before the vesting date. In accordance with IFRS 2, where the equity instruments do not vest until the employee has completed a specified period of service, it is assumed that the services rendered by the employee, as consideration for those equity instruments, will be received in the future over the vesting period.

In the case of the share appreciation rights scheme, the fair value of the amount payable to the employees is recognised as an expense in profit or loss, with a corresponding increase in liabilities, over the vesting period of the instrument on a straight line basis. The fair value of the liability is re-measured at each reporting date until settled and any changes in the fair value of the liability are recognised as employment costs in profit or loss. No amount is recognised for services received in part if part of the share appreciation rights granted do not vest because of a failure to satisfy a vesting condition.

1.23.2 Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at measurement date using standard option pricing or share appreciation rights valuation models. The valuation technique is consistent with generally accepted valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable and willing market participants would consider in setting the price of the equity instruments.

1.23.3 ABIL broad based black economic empowerment (BBBEE) share ownership programme

Transactions in which equity instruments are indirectly issued to historically disadvantaged individuals at below fair value are accounted for as share-based payments. Where the transaction is subject to the inclusion of service conditions, the expense is recognised over the period of the service conditions, with a corresponding increase in equity. Where the transaction is not subject to any service conditions, the group recognises the expense in full at grant date, with a corresponding increase in equity.

1.24 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets, that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

1. Principal accounting policies *continued*

1.25 Leased assets

Leases are classified as finance leases or operating leases at the inception of the lease.

Leased assets are classified as operating leases where the lessor effectively retains the risks and benefits of ownership. Obligations incurred under operating leases are recognised in profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the term of the lease.

Finance leases are recognised as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments at the date of acquisition. Finance costs represent the difference between the total leasing commitments and the fair value of the assets acquired. Finance costs are charged to profit or loss over the term of the lease and at interest rates applicable to the lease on the remaining balance of the obligations.

1.26 Translation of foreign currencies

1.26.1 Foreign currency transactions and balances

A foreign currency transaction is recorded, on initial recognition in South African rand (the functional currency), by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

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

Cash flows arising from transactions in a foreign currency are recorded in the functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

1.26.2 Net investment in a non-South African operation

The results and financial position of a non-South African operation are translated into the functional currency being South African rand using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate of exchange at the date of that statement of financial position;
- income and expenses are translated at the average exchange rates for the year; and
- all resulting exchange differences are recognised as a separate component of equity.

Foreign exchange differences arising on an item that forms part of a net investment in a non-South African operation are recognised initially in other comprehensive income and in the foreign currency translation reserve. On the disposal of a non-South African operation, any cumulative gains or losses that remain deferred in equity are recognised in profit or loss at the time at which the profit or loss on disposal of the foreign operation is recognised.

1. Principal accounting policies *continued*

1.27 Retirement benefits

1.27.1 Defined contribution plans

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

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

1.27.2 Defined benefit plans

Gains or losses on the curtailment or settlement of defined benefit plans are recognised when it can be demonstrated that there is a commitment to curtailment or settlement.

1.27.3 Post-retirement health care benefit

Post-retirement health care benefits are provided by certain subsidiaries to qualifying employees and retired employees in terms of certain employment contracts. The entitlement to these benefits is usually based on the employee remaining in service up to the retirement age.

The health care benefit costs are determined through annual actuarial valuations by independent consulting actuaries using the projected unit credit method. Such gains or losses are recognised over the expected remaining working lives of the participating members. Adjustments are made annually through profit or loss for provisions held for members who have already retired. Actuarial gains or losses are recognised in full in the period in which they occur.

1.28 Contingent liabilities and commitments

1.28.1 Contingent liabilities

A contingent liability is disclosed when:

- a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the group; or
- the group has a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources will be required to settle such obligation or the amount of the obligation cannot be measured with sufficient reliability.

1.28.2 Commitments

Items are classified as commitments where the group has committed itself at the reporting date to future significant transactions or the acquisition of assets for material amounts.

R million	Group 2010	2009
2. Short term deposits and cash		
Fixed and notice deposits	**13**	27
Call and current accounts	**3 397**	3 526
	3 410	3 553
3. Statutory assets – bank and insurance		
Treasury bills and debentures: SA Reserve Bank	**988**	661
Cash deposits with the SA Reserve Bank	**510**	387
Insurance prudential cash reserves – bank and cash	**306**	275
Listed bonds: Government of RSA	**2**	–
	1 806	1 323
Included above are assets pledged with the South African Reserve Bank, in terms of the Banks Act and regulations to the Banks Act, to the value of R1 498 million (2009: R1 048 million). The market value of the treasury bills and debentures is R997 million (2009: R758 million).		
4. Inventories		
Merchandise and finished goods	**852**	872
Raw materials and consumables	**6**	5
Provision for stock obsolescence	**(7)**	(18)
	851	859
5. Other assets		
Variation margin on LTIP hedges	**41**	12
Prepayments	**13**	5
Other insurance cash reserves	**–**	168
Sundry receivables	**267**	172
	321	357
The sundry receivables include derivative instruments amounting to R25 million (2009: R54 million).		
6. Net advances		
Gross advances including partially written off book	**31 038**	26 181
Deferred administration fees	**(70)**	(34)
Gross advances after deferred administration fees	**30 968**	26 147
Impairment provisions	**(5 608)**	(5 661)
Net advances	**25 360**	20 486

R million	Group 2010	2009
6. Net advances *continued*		
Analysis of gross advances by book		
Lending books	**28 853**	24 702
Retail	**19 068**	16 002
Payroll	**548**	626
Credit card	**2 936**	1 888
Mining	**1 249**	1 171
Ellerines	**4 575**	61
EHL group	**477**	4 954
Pay down books	**482**	476
Partially written off book	**1 703**	1 003
Total gross advances including partially written off book	**31 038**	26 181
Analysis of gross advances by type		
Retail/debit order	**19 189**	16 027
EHL group	**477**	4 954
Credit card	**2 936**	1 888
Payroll	**1 950**	1 983
Saambou Personal Loan Book	**208**	265
Ellerines	**4 575**	61
Partially written off book	**1 703**	1 003
Total gross advances including partially written off book	**31 038**	26 181
Impairment provisions and reserves		
Balance of impairment provisions at the end of the year	**5 590**	5 624
Balance of impairment provisions at the beginning of the year	**5 624**	4 347
Acquisition on joint venture advances book	**17**	–
Impairment provisions raised (refer note 24)	**2 786**	2 952
Bad debts written off against the impairment provisions	**(4 723)**	(3 448)
Bad debts rehabilitated	**1 886**	1 773
Credit life reserves	**18**	37
Total impairment provisions and reserves	**5 608**	5 661

6. Net advances *continued*

Impairment provisions are based on an incurred loss model per IAS 39 Financial Instruments: Recognition and Measurement. Estimated future cash flows for loans and advances considered to be impaired are discounted using the original effective interest rate.

Credit life insurance reserves are the actuarial reserves held by the group's insurance company on policies ceded to African Bank Limited by customers as security and which provide additional provision coverage. With effect from 1 June 2007, being the date of introduction of the National Credit Act (Act 34 of 2005), to 28 May 2008, clients' credit life policies were prohibited from being ceded to African Bank Limited in respect of unsecured loans without such loan being regarded as secured. The National Credit Act was amended in the Government Gazette dated 29 May 2008 (No. 30713) to allow cession (without a loan being regarded as secured) and the change was implemented in African Bank Limited in respect of policies issued on or after 1 July 2008. All loans granted by Ellerines group are secured at origination date and the insurance policies are ceded as further security.

During the year, the group rehabilitated onto the balance sheet R1 886 million (2009: R1 773 million) of loans previously written off. The policy regarding rehabilitation of written off loans requires such loans to be performing above a minimum criteria, with a regular payment profile, before they qualify for reinstatement onto the balance sheet, together with the appropriate impairment provisions. Partially written off advances are reinstated at their net recoverable value determined on a discounted cash flow basis.

The impairment provision for gross advances is classified into two categories i.e. specific impairments and portfolio impairments (IBNR). The specific impairments provision of R5 518 million (2009: R5 422 million) is in respect of the non-performing loan book whilst the portfolio impairments provision of R72 million (2009: R202 million) is in respect of the performing loan book. The portfolio provision covers losses actually incurred but not yet recorded in relation to clients who may have already suffered stress in making contractual payments, but such information has not been formally conveyed to the group. The performing loan book does have arrears of up to three cumulative instalments which do not necessarily indicate that all these loans are non-performing, in terms of the group's definition of non-performing loans.

The gross amount owing on the partially written off book is R10,1 billion (2009: R8 billion).

R million	Opening balance	Recognised in profit and loss (refer note 27)	Recognised in other comprehensive income	Transfer from liabilities held for sale	Closing balance
	Group 2010				
7. Deferred tax asset/liability					
7.1 Deferred taxation analysis					
Temporary differences					
Deferred administration fees	(3)	5	–	–	2
Incentive schemes	40	(7)	(3)	–	30
Deferred tax on hedge accounting (swaps)	17	(3)	76	–	90
Portfolio impairment for credit losses	411	(255)	–	–	156
Accelerated capital allowances	14	1	–	–	15
Capital gains tax losses	1	–	–	–	1
Secondary tax on companies	3	(2)	–	–	1
Other provisions	96	(11)	–	–	85
Instalment sale debtors allowance	(58)	(209)	–	–	(267)
Trademarks	(254)	20	–	–	(234)
Other	(68)	72	–	(25)	(21)
	199	(389)	73	(25)	(142)
Unused tax losses and credits					
Estimated tax losses	37	122	–	–	159
	37	122	–	–	159
	236	(267)	73	(25)	17

R million	Opening balance	Recognised in profit and loss (refer note 27)	Recognised in other comprehensive income	Transfer from liabilities held for sale	Closing balance
	Group 2009				
7. Deferred tax asset/ liability *continued*					
7.1 Deferred taxation analysis *continued*					
Temporary differences					
Deferred administration fees	23	(26)	–	–	(3)
Incentive schemes	47	(2)	(5)	–	40
Deferred tax on hedge accounting (swaps)	5	4	8	–	17
Portfolio impairment for credit losses	412	(1)	–	–	411
Accelerated capital allowances	9	5	–	–	14
Capital gains tax losses	1	–	–	–	1
Secondary tax on companies	–	3	–	–	3
Other provisions	97	(1)	–	–	96
Instalment sale debtors allowance	(133)	75	–	–	(58)
Trademarks	(275)	21	–	–	(254)
Other	(16)	(50)	–	(2)	(68)
	170	28	3	(2)	199
Unused tax losses and credits					
Estimated tax losses	–	37	–	–	37
	–	37	–		37
	170	65	3	(2)	236

R million	Group 2010	2009
7. Deferred tax asset/liability *continued*		
7.1 Deferred taxation analysis *continued*		
The deferred tax above is disclosed as follows:		
Deferred tax asset	**409**	501
Deferred tax liability	**(392)**	(265)
	17	236
7.2 Unrecognised deferred tax assets		
Deferred tax assets not recognised at reporting date:		
Estimated tax losses	**17**	14
Unused withholding tax credits	**3**	4
Temporary differences	**3**	2
	23	20
The unrecognised deferred tax asset above relates to the Ellerine Holdings Limited group only.		
8. Assets and liabilities held for sale		
Assets		
Property and equipment	**5**	181
Total assets	**5**	181
Liabilities and equity		
Deferred tax liability	**–**	25
Total liabilities	**–**	25
Ordinary shareholders' equity	**5**	156
Total equity (capital and reserves)	**5**	156
Total liabilities and equity	**5**	181

During the year, assets held for sale with a carrying amount of R176 million were sold in terms of the agreement that was signed in the prior year at a profit of R19 million. Management plans to sell the remaining assets with a carrying amount of R5 million in the next financial year. Thus the R5 million is still classified as held for sale as the assets continue to be actively marketed.

R million	Cost 2010	Accumulated depreciation 2010	Carrying value 2010	Cost 2009	Accumulated depreciation 2009	Carrying value 2009
			Group			
9. Property and equipment						
Furniture	**379**	**(240)**	**139**	342	(222)	120
Computer equipment and software	**580**	**(399)**	**181**	584	(424)	160
Office equipment	**181**	**(133)**	**48**	187	(125)	62
Motor vehicles	**42**	**(28)**	**14**	60	(36)	24
Containers and kiosks	**4**	**(1)**	**3**	1	–	1
Leasehold improvements	**326**	**(230)**	**96**	317	(218)	99
Land and buildings (owner-occupied)	**164**	**(23)**	**141**	141	(21)	120
Total	**1 676**	**(1 054)**	**622**	1 632	(1 046)	586

The carrying amounts of property and equipment at 30 September 2010 for the group are reconciled as follows:

R million	Carrying value at beginning of year	Additions	Depreciation (refer note 26)	Disposals and write offs	Carrying value at end of year
			Group 2010		
9.1 Reconciliation of the carrying amounts of property and equipment					
Furniture	**120**	**75**	**(50)**	**(6)**	**139**
Computer equipment and software	**160**	**129**	**(79)**	**(29)**	**181**
Office equipment	**62**	**10**	**(22)**	**(2)**	**48**
Motor vehicles	**24**	**3**	**(4)**	**(9)**	**14**
Containers and kiosks	**1**	**3**	**(1)**	**–**	**3**
Leasehold improvements	**99**	**34**	**(32)**	**(5)**	**96**
Land and buildings (owner-occupied)	**120**	**23**	**(2)**	**–**	**141**
Total	**586**	**277**	**(190)**	**(51)**	**622**

R million	Group 2009 Carrying value at beginning of year	Additions	Depreciation (refer note 26)	Disposals and write-offs	Carrying value at end of year
9. Property and equipment *continued*					
9.1 Reconciliation of the carrying amounts of property and equipment *continued*					
Furniture	115	52	(47)	–	120
Computer equipment and software	118	113	(66)	(5)	160
Office equipment	61	19	(18)	–	62
Motor vehicles	38	4	(9)	(9)	24
Containers and kiosks	1	–	–	–	1
Leasehold improvements	106	36	(43)	–	99
Land and buildings (owner-occupied)	57	65	(2)	–	120
Total	496	289	(185)	(14)	586

The group has committed capital expenditure of R56 million (2009: R20 million) and authorised, but not yet contracted for, capital commitments of R369 million (2009: R162 million) as at 30 September 2010.

The board has delegated an authority to management to incur capital expenditure up to R25 million (2009: R15 million) per contract, and any amounts in excess of this are required to be approved by the board.

A register of properties is available to shareholders for inspection at the registered office of ABIL.

The group has elected not to use the fair value of owner-occupied property as the deemed cost as at 1 October 2004 (the transition date) and accordingly will continue to use the original cost of the asset and to depreciate it in accordance with IAS 16 Property, Plant and Equipment.

R million	Group 2010	Group 2009
10. Intangible assets		
Cost	**1 043**	1 043
Market position 1 – Ellerines, Town Talk, FurnCity and Savells/Fair Deal	**710**	710
Market position 2 – Beares and Lubners	**174**	174
Market position 3 – Furniture City	**16**	16
Market position 4 – Geen & Richards	**64**	64
Dial-a-Bed and Mattress Factory	**20**	20
Wetherlys and Osiers	**47**	47
Rainbow Loans	**12**	12
Amortisation	**(198)**	(126)
Market position 1 – Ellerines, Town Talk, FurnCity and Savells/Fair Deal	**(134)**	(86)
Market position 2 – Beares and Lubners	**(32)**	(20)
Market position 3 – Furniture City	**(4)**	(3)
Market position 4 – Geen & Richards	**(12)**	(7)
Dial-a-Bed and Mattress Factory	**(6)**	(3)
Wetherlys and Osiers	**(9)**	(6)
Rainbow Loans	**(1)**	(1)
Impairment	**(11)**	(11)
Rainbow Loans	**(11)**	(11)
Net carrying value	**834**	906
Reconciliation of carrying value		
Movements during the year:		
Balance at the beginning of the year	**906**	978
Amortisation	**(72)**	(72)
Balance at the end of the year	**834**	906

10. Intangible assets *continued*

10.1 Trademarks per brand *continued*

R million	Balance at the beginning of the year	Amortisation	Balance at the end of the year
Ellerines	310	(22)	**288**
Town Talk	159	(11)	**148**
FurnCity	117	(10)	**107**
Savells/Fairdeal	38	(5)	**33**
Beares	107	(8)	**99**
Lubners	47	(4)	**43**
Furniture City	13	(1)	**12**
Geen & Richards	58	(6)	**52**
Dial-a-Bed	14	(2)	**12**
Mattress Factory	3	(1)	**2**
Wetherlys	35	(2)	**33**
Osiers	5	–	**5**
	906	(72)	**834**

Trademarks represent registered rights to the exclusive use of certain trademarks and brand names and have been stated at fair value determined by external trademark valuation specialists on acquisition of Ellerines, using the royalty relief method.

R million	Group 2010	Group 2009
11. Goodwill		
Net carrying value of goodwill on the acquisition of Ellerine Holdings Limited		
Cost at beginning of the year	**5 472**	5 472
Cost at end of the year	**5 472**	5 472
11.1 Goodwill allocation		
Market position 1 – Ellerines, Town Talk, FurnCity and Savells/Fair Deal	**861**	4 561
Market position 2 – Beares and Lubners	**152**	351
Market position 3 – Furniture City	**32**	42
Market position 4 – Geen & Richards	**290**	350
Dial-a-Bed and Mattress Factory	**98**	98
Wetherlys and Osiers	**39**	39
Rainbow Loans	**–**	31
African Bank	**4 000**	–
Net carrying value of goodwill	**5 472**	5 472

The allocation of goodwill has changed as a result of African Bank Limited acquiring the Ellerines South African financial services business in September 2010.

11. Goodwill *continued*

11.1 Goodwill allocation *continued*

Goodwill represents the excess of the purchase consideration over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition purchased as part of a business combination. Factors that contributed to the recognition of goodwill within the total cost of acquisition include the value of the control premium and the potential to market new loan products through a significantly increased number of stores. The fair value of these intangibles could not be individually measured.

Goodwill is tested for impairment in accordance with the group's accounting policies.

11.2 Goodwill impairment testing

Trademarks and goodwill acquired through the acquisition of Ellerines have been allocated to the various brands, representing cash generating units and have been tested for impairment accordingly.

The recoverable amount of the underlying cash generating units has been determined based on a value-in-use calculation using the cash flow projections for the forthcoming financial year, as per the financial budgets approved by the directors, adjusted for expected annual growth thereafter in accordance with the group's strategic plan. The average revenue growth rate for the following five years is 17,4% (2009: 12,9%). Thereafter, a perpetuity growth rate of 4,5% (2009: 4,5%) was used. The after-tax discount rate applied to the cash flow projections was 12,09% (2009: 13,9%).

The forecast free cash flows were based on management's strategic plan of achieving at least 20% market share, growing sales of merchandise to between R8 billion and R9 billion per annum, credit sales increasing to 70% of total sales, reducing operating cost to sales to between 35% and 40%, and achieving a return on sales greater than 10% by 2014. Management believes that any reasonable change in the key assumptions would not cause the carrying amounts of the cash generating units to exceed the recoverable amounts.

These calculations indicated that there was no impairment in the carrying value of the goodwill or trademarks.

R million	Group 2010	Group 2009
12. Short term funding		
12.1 Short term money market funding	**1 038**	2 758
12.2 Secured short term funding	**–**	350
	1 038	3 108
12.1 Short term money market funding		
Demand deposits	**39**	116
Fixed and notice deposits	**374**	1 155
Negotiable certificates of deposit	**–**	260
Unsecured short term loans	**625**	1 227
	1 038	2 758
12.2 Secured short term funding		
ABSA Bank Limited	**–**	350
	–	350

The loans of R350 million with ABSA Bank Limited consisting of a R150 million loan and a R200 million loan were repaid in full during the current financial year.

Demand deposits consist of monthly coupons with interest rates varying from 4,25% to 5,75% NACM.

Fixed deposits consist of zero coupons, monthly coupons, quarterly coupons and semi-annual coupons, with interest rates varying from 6,15% to 10,16% NACM, NACQ, NACS and NACA.

Unsecured short term loans carry interest rates varying from 6,5% to 9,5% NACM.

R million	Group 2010	Group 2009
13. Other liabilities		
Trade creditors	**390**	361
Advances with credit balances	**48**	32
Liabilities to employees as a result of incentive transactions	**54**	45
Liability for cash-settled converted options (refer note 45)	**17**	17
Liability for cash-settled LTIPs (refer note 45)	**123**	113
Fair value liability (contract for difference)	**321**	85
Teba Credit (Proprietary) Limited deferred purchase price	**4**	5
Shareholders for odd-lot offer	**13**	13
Shareholders for dividends	**10**	9
Provision for leave pay	**17**	13
Provision for straight lining of leases	**4**	4
Sundry creditors and accruals	**742**	666
	1 743	1 363

R million	Group 2010	2009
14. Life fund reserve		
Movements in the fund during the year:		
Balance at the beginning of the year	**15**	18
Transfer to the income statement (refer note 22)	**(1)**	(3)
Balance at the end of the year	**14**	15
The life fund at 30 September 2010 equals the amount of the statutory actuarial valuation of the liability to parties outside the group according to the assurance policies and contracts in force at that date. The statutory basis of valuation of the life fund has been conducted in accordance with applicable Actuarial Society of South Africa Professional Guidance Notes.		
15. Bonds and other long term funding		
15.1 Unsecured listed bonds	**8 583**	6 381
15.2 Unsecured long term loans	**12 289**	8 314
15.3 Secured debentures	**5**	10
Total bonds and other long term funding	**20 877**	14 705

Bonds and other long term funding to the nominal amount of R8,50 billion (2009: R6,28 billion) are payable within the next 12 months.

R million	Group Face value 2010	Group Interest capitalised 2010
15. Bonds and other long term funding *continued*		
15.1 Unsecured listed bonds		
ABL4, ABL5, ABL6, ABL7, ABLI01, ABL8A, ABL8B ABL9, ABLI02, ABL10A, ABL10B, ABLI03, ABL11A, ABL11B bonds issued on the Bond Exchange of South Africa	8 485	157
Discount amortised	–	
Less: Held by group subsidiary	(204)	–
Total	**8 281**	**157**
ABL4 bonds with an original face value of R500 million, now R800 million as a result of further issues in 2006, were redeemed on 31 August 2010. Interest was calculated and payable semi-annually at a coupon rate of 9,00%.	–	–
ABL5 bonds with an original face value of R750 million, issued on 11 August 2006, are redeemable on 11 August 2011. Interest is calculated and payable semi-annually at a coupon rate of 9,70%. The current face value is lower than the original face value as a result of early redemptions.	598	8
ABL6 bonds with an original face value of R1,05 billion, issued on 18 June 2007, are redeemable on 18 June 2012. Interest is calculated and payable semi-annually at a coupon rate of 10,25%. The current face value is lower than the original face value as a result of early redemptions.	446	13
ABL7 bonds with an original face value of R1 billion, issued on 18 February 2008, are redeemable on 18 February 2013. Interest is calculated and payable semi-annually at a coupon rate of 11,85%. The current face value is lower than the original face value as a result of early redemptions.	821	12
ABLI01 bonds with an original nominal value of R149 million, issued on 24 April 2008, are redeemable on 31 March 2013. It was issued as a replica of the R189 inflation linked bond and at issue the inflation adjusted face value was R246 million. Interest is calculated and payable semi-annually at a fixed coupon rate of 6,25% adjusted by the inflation index.	246	37
ABL8A bonds with an original face value of R725 million, issued on 19 September 2008, are redeemable on 19 September 2013. Interest is calculated and payable semi-annually at a coupon rate of 13,00%. The current face value is lower than the original face value as a result of early redemptions.	640	3
ABL8B bonds with an original face value of R525 million, issued on 19 September 2008, are redeemable on 19 September 2013. Interest is calculated and payable quarterly at the three month JIBAR rate plus 3,00%. The current face value is lower than the original face value as a result of early redemptions.	440	1

Group					
Unamortised discount 2010	**Net liability 2010**	Face value 2009	Interest capitalised 2009	Unamortised discount 2009	Net liability 2009
150	**8 792**	6 242	143	49	6 434
–	**–**	–	–	–	–
(5)	**(209)**	(49)	–	(4)	(53)
145	**8 583**	6 193	143	45	6 381
–	**–**	507	4	(1)	510
(1)	**605**	598	8	(1)	605
–	**459**	446	13	–	459
(2)	**831**	821	12	(2)	831
–	**283**	246	29	(1)	274
(2)	**641**	640	3	(2)	641
–	**441**	440	1	–	441

R million	Group Face value 2010	Interest capitalised 2010
15. Bonds and other long term funding *continued*		
15.1 Unsecured listed bonds *continued*		
ABL9 bonds with an original face vale of R550 million, issued on 19 February 2009, are redeemable on 19 February 2012. Interest is calculated and payable quarterly at the three month JIBAR rate plus 3,30%. The current face value is lower than the original face value as a result of early redemption in the prior year.	524	6
ABLI02 bonds with an original face value of R2 020 million, issued on 8 May 2009, are redeemable on 8 May 2014. Interest is calculated and payable semi-annually at a fixed coupon rate of 8,00% adjusted by the inflation index.	2 020	70
ABL10A bonds with an original face value of R500 million, issued on 15 March 2010, are redeemable on 15 March 2015. Interest is calculated and payable semi-annually at a coupon rate of 11,50%.	500	3
ABL10B bonds with an original face value of R500 million, issued on 15 March 2010, are redeemable on 15 March 2015. Interest is calculated and payable quarterly at the three month JIBAR rate plus 3,15%.	500	2
ABLI 03 bonds with an original face value of R750 million, issued on 15 March 2010, are redeemable on 15 March 2015. Interest is calculated and payable semi-annually at a fixed coupon rate of 5,10% adjusted by the inflation index.	750	2
ABL11A bonds with an original face value of R525 million, issued on 29 September 2010, are redeemable on 29 September 2014. Interest is calculated and payable semi-annually at a coupon rate of 9,50%.	525	–
ABL11B bonds with an original face value of R475 million, issued on 29 September 2010, are redeemable on 29 September 2014. Interest is calculated and payable quarterly at the three month JIBAR rate plus 2,50%.	475	–
Less: Bonds held by group subsidiary	(204)	–
Total	**8 281**	**157**
15.2 Unsecured long term loans		
Promissory notes	5 758	132
Fixed deposits	6 232	167
Total	**11 990**	**299**

		Group			
Unamortised discount 2010	**Net liability 2010**	Face value 2009	Interest capitalised 2009	Unamortised discount 2009	Net liability 2009
–	**530**	524	6	–	530
143	**2 233**	2 020	67	56	2 143
(5)	**498**	–	–	–	–
–	**502**	–	–	–	–
17	**769**	–	–	–	–
–	**525**	–	–	–	–
–	**475**	–	–	–	–
(5)	**(209)**	(49)	–	(4)	(53)
145	**8 583**	6 193	143	45	6 381
–	**5 890**	4 486	87	–	4 573
–	**6 399**	3 607	134	–	3 741
–	**12 289**	8 093	221	–	8 314

15. Bonds and other long term funding *continued*

15.2 Unsecured long term loans *continued*

The promissory notes consist of zero coupons, quarterly coupons and semi-annual coupons, with the rates varying from 6,75% to 11,80% NACQ, NACS and NACA. These notes have various maturities, ranging from 1 October 2010 to 3 September 2015. Promissory notes with a nominal value of R4 054 million (2009: R3 118 million) are payable within the next 12 months.

The fixed deposits consist of zero coupons, monthly coupons, quarterly coupons and semi-annual coupons, with interest rates varying from 6,70% to 13,06% NACM, NACQ, NACS and NACA. These fixed deposits have various maturities, ranging from 1 October 2010 to 13 January 2016. Fixed deposits with a nominal value of R3 848 million (2009: R2 655 million) are payable within the next 12 months.

R million	Group 2010	Group 2009
15.3 Secured debentures		
The debentures, which have a nominal value of R23 million and bear interest at a fixed rate of 13,86% per annum, are repayable in 2011. They are secured by a first mortgage bond over property with a carrying value of R70,5 million, a guarantee by Ellerine Holdings Limited and a cession of all rentals on the property. The lender has subscribed for additional shares in the underlying subsidiary for a consideration of R28 million. The shares and the purchase consideration are to be delivered and paid, respectively in 2011. As Ellerine Holdings Limited has acquired the right to these shares, the net present value of the deferred proceeds on the issue of the shares of R4,9 million has been offset against the amount due to the lender.	**5**	10
Total	**5**	10

R million	Group Face value 2010	Group Interest capitalised 2010
16. Subordinated bonds, debentures and loans		
Subordinated bonds	**1 300**	**35**
Subordinated debentures	**292**	**5**
Subordinated IFC loan	**350**	**1**
Subordinated Proparco loan	**100**	**1**
Subordinated DEG loan	**150**	**2**
	2 192	**44**

Group					
Unamortised discount 2010	**Net liability 2010**	Face value 2009	Interest capitalised 2009	Unamortised discount 2009	Net liability 2009
(1)	**1 334**	1 300	37	(1)	1 336
–	**297**	225	39	–	264
(5)	**346**	350	2	(6)	346
(2)	**99**	100	–	(2)	98
(2)	**150**	–	–	–	–
(10)	**2 226**	1 975	78	(9)	2 044

16. Subordinated bonds, debentures and loans *continued*

Subordinated bonds (ABLS1) with a face value of R300 million, issued on 8 August 2007, are redeemable on or after 8 August 2012, but not later than 8 August 2017. Interest up to 8 August 2012 is calculated at the three month JIBAR plus 1,6% and payable quarterly. On 8 August 2012 the rate resets to the three month JIBAR plus 3,6% with the same payment intervals.

Subordinated bonds (ABLS2 A) with an original face value of R520 million, issued on 13 July 2009, are redeemable on 13 July 2016. Interest is calculated and payable semi-annually at a coupon rate of 15,50%.

Subordinated bonds (ABLS2 B) with a face value of R480 million, issued on 13 July 2009, are redeemable on 13 July 2016, interest is calculated at the three month JIBAR plus 6,30% and payable quarterly.

Subordinated debentures with a face value of R200 million, issued on 6 August 2008, are redeemable on or after 6 August 2015, but not later than 6 August 2020. These debentures are zero coupon, with interest being calculated at the three month JIBAR plus 5% and capitalised quarterly. On 6 August 2015 the rate resets to the three month JIBAR plus 7,5%.

Subordinated debentures with a face value of R25 million, issued on 2 April 2009, are redeemable on or after 2 April 2016 but not later than 2 April 2021. These debentures are zero coupon, with interest being calculated at the three month JIBAR plus 5% and capitalised quarterly. On 2 April 2016 the rate resets to the three months JIBAR plus 7,5%.

Subordinated IFC loan with a face value of R350 million, issued on 12 January 2009, is redeemable on or after 15 December 2015, but not later than 15 December 2020. Interest up to 15 December 2015 is calculated at the three month JIBAR plus 3,65% and payable quarterly. On 15 December 2015 the rate resets to the three month JIBAR plus 7,65% with the same payment intervals.

Subordinated Proparco loan with a face value of R100 million, issued on 28 April 2009, and redeemable on 15 September 2016. Interest is calculated at the three month JIBAR plus 5,775% and payable quarterly. The redemption dates on this loan were renegotiated since 30 September 2009.

Subordinated DEG loan with a face value of R150 million, issued on 27 October 2009, and redeemable on 15 September 2016. Interest is calculated at the three month JIBAR plus 5,375% and payable quarterly.

	Group			
	2010		2009	
	Number of shares	**R million**	Number of shares	R million
17. Ordinary share capital and premium				
Authorised				
Ordinary shares of 2,5 cents each	**1 000 000 000**	**25**	1 000 000 000	25
Issued				
Ordinary shares at par value of 2,5 cents each	**804 175 200**	**20**	804 175 200	20
Ordinary share premium		**9 131**		9 131
		9 151		9 151

Unissued shares

The directors have no general authority to issue any of the unissued share capital. The directors have the authority to contract ABIL or any subsidiary to acquire shares not exceeding 3% of the issued share capital.

Shares issued during the current and previous years

No shares were issued during the current and previous financial years.

Treasury shares

As at 30 September 2010 the ABIL Employee Share Trust held 477 415 (2009:482 254) shares.

R million	Group 2010	2009
18. Reserves		
Reserves comprise the following:		
Distributable reserves	**2 672**	2 436
Share-based payment reserve	**813**	597
Cash flow hedging reserve	**(227)**	(32)
Treasury shares held by the ABIL Employee Share Trust	**(12)**	(13)
Insurance contingency reserve	**18**	43
Foreign currency translation reserve	**(19)**	(8)
Total reserves	**3 245**	3 023

Insurance contingency reserve

In terms of the Short term Insurance Act, the group's insurance subsidiaries are required to hold contingency reserves equivalent to 10% of their net premiums written during the financial year.

	Group 2010 Number of shares	2010 R million	2009 Number of shares	2009 R million
19. Preference shareholders' equity				
Authorised				
Preference shares of 1 cent each	**20 000 000**	**–**	5 000 000	–
Issued				
Preference shares at par value of 1 cent each	**5 000 000**	**–**	5 000 000	–
Preference share premium		**483**		483
		483		483

Five million non-redeemable, non-cumulative, non-participating preference shares with a par value of R0,01 each were issued on 23 March 2005. The shares were issued at a premium of R99,99 per share and share issue expenses of R17 million were set off against the preference share premium. ABIL will not declare an ordinary dividend unless a preference dividend has been declared. Preference dividends will be calculated at 69% of the daily average prime overdraft rate which prevailed in respect of the period for which the dividend is calculated.

R million	Group 2010	Group 2009
20. Gross margin on retail business		
Sale of merchandise	**4 487**	4 196
Cost of sales	**(2 513)**	(2 405)
	1 974	1 791
21. Interest and investment income		
Interest income on advances	**5 950**	5 437
	390	367
Interest received on cash reserves	**385**	358
Investment income	**5**	9
	6 340	5 804
22. Net assurance income		
Premiums received	**2 308**	2 562
Less: Benefits to policyholders	**(709)**	(484)
Paid to policyholders	**(728)**	(476)
Movement in incurred and reported credit life reserves (refer note 6)	**19**	(8)
Net assurance income before transfer	**1 599**	2 078
Transferred from the life fund (refer note 14)	**1**	3
	1 600	2 081
23. Non-interest income		
Loan origination fees	**579**	519
Service fees and recovery of collection charges	**1 301**	1 193
Credit card fees	**306**	238
Delivery charges	**173**	180
Rental income – investment properties	**14**	21
Other	**118**	100
	2 491	2 251

In accordance with IAS 18 Revenue, loan origination and monthly service fees are considered an integral part of the loan agreement, and accordingly are amortised to the income statement over the contractual life of the loan using the effective interest rate method, with the unamortised portion of the fees recorded as deferred administration fees.

R million	Group 2010	Group 2009
24. Charge for bad and doubtful advances		
Increase in impairment provisions (refer note 6)	**2 786**	2 952
Release of fair value adjustment provision	**–**	(286)
Loss on repossessions	**10**	17
Recoveries on advances previously written off	**(103)**	(172)
	2 693	2 511

R million	Group 2010	2009
25. Interest expense		
Subordinated debt	**272**	135
Unsecured listed bonds	**827**	624
Unsecured long term loans	**940**	742
Secured long term loans	**1**	2
Demand deposits	**8**	20
Fixed and notice deposits	**72**	160
Negotiable certificates of deposit	**18**	81
Secured short term loans	**31**	46
Interest on short term facilities	**110**	179
Other interest	**104**	36
	2 383	2 025
26. Operating costs		
Advertising and marketing costs	**161**	189
Amortisation of trademarks (refer note 10)	**72**	72
Auditors' remuneration	**19**	16
Audit fees – current year	**15**	15
Fees for other services	**4**	1
Bank charges	**214**	216
Collection costs	**96**	104
Depreciation on property and equipment (refer note 9)	**190**	185
Information technology costs	**145**	–
Operating lease premiums	**667**	668
Leasehold fixed property	**606**	592
Motor vehicles	**40**	53
Computers and other equipment	**21**	23
Printing, stationery and courier costs	**112**	127
Professional fees	**42**	50
Legal fees	**4**	4
Management fees	**15**	5
Consultants and other professional fees	**23**	41
Loss on sale of property and equipment	**6**	6
Property expenses	**112**	105
Motor vehicle costs	**151**	135

R million	Group 2010	Group 2009
26. Operating costs *continued*		
Staff costs	**2 148**	2 098
Basic remuneration	**1 736**	1 660
Bonuses and incentives	**136**	140
Charge for share-based incentives	**40**	76
Executive directors' remuneration (paid by subsidiaries):		
Basic remuneration	**15**	15
Bonuses	**7**	9
Charge for share-based incentives	**–**	8
Commissions paid to sales agents	**214**	190
Non-executive directors' remuneration:	**4**	4
Fees paid by subsidiaries	**3**	3
Fees paid by holding company	**1**	1
Telephone, fax and other communication costs	**166**	174
Other expenses	**176**	427
	4 481	4 576
27. Indirect and direct taxation		
Indirect taxation charge per the income statement	**20**	18
Direct taxation charge per the income statement: STC	**147**	159
Direct taxation charge per the income statement	**773**	776
SA normal taxation	**773**	764
Withholding taxation	**3**	4
Foreign taxation – normal	**(3)**	8
Total taxation charge per the income statement	**940**	953
All-in tax rate (calculated as the total taxation charge per the income statement expressed as a percentage of net income before any indirect and direct taxation)	**32,6%**	33,9%
27.1 Indirect taxation		
Value-added tax (VAT)	**20**	18
Indirect taxation charge per the income statement	**20**	18
27.2 Direct taxation		
Secondary tax on companies (STC)		
Current year	**145**	161
Deferred	**2**	(2)
Withholding taxes	**3**	4
SA current tax		
Current year	**518**	839
Prior years' overprovision	**(16)**	(6)

R million	Group 2010	2009
27. Indirect taxation and direct taxation *continued*		
27.2 Direct taxation *continued*		
Foreign current tax		
Current year	**3**	6
Prior years' overprovision	**–**	(4)
Deferred tax		
Current year	**259**	(70)
Prior years' underprovision of deferred tax asset	**12**	1
Deferred tax – foreign		
Current year	**(6)**	6
Direct taxation charge per the income statement	**920**	935
27.3 Income tax recognised in other comprehensive income		
Deferred tax		
IFRS 2 reserve transaction (employee incentives)	**(76)**	(8)
Loss incurred on group employees acquiring ABIL Share Trust shares	**3**	5
Total tax recognised in other comprehensive income	**(73)**	(3)
27.4 Tax rate reconciliation		
Profit before taxation (amount used as the denominator in the tax rate reconciliation)	**2 862**	2 790
	%	%
Total taxation charge (direct and indirect) for the year as a percentage of the above	**32,8**	34.2
Indirect taxation: Value-added tax	**(0,7)**	(0,7)
Effective rate of taxation	**32,1**	33,5
Secondary tax on companies	**(5,1)**	(5,7)
Withholding taxes	**0,1**	(0,1)
Capital gains tax	**(0,5)**	0,1
Capital items	**0,2**	(0,0)
Non-taxable income	**0,8**	0,6
Disallowable expenses	**(0,1)**	(0,4)
Other (including prior year tax adjustments)	**0,5**	0,0
Standard rate of South African taxation	**28,0**	28,0
28. Capital items		
Capital profit on sale of assets held for sale	**19**	–
Capital profit on sale of option	**15**	–
Impairment of goodwill (Early Bird)	**–**	(7)
Amount per the income statement	**34**	(7)
Taxation thereon	**(3)**	–
	31	(7)

The capital profit on sale of assets held for sale of R19 million has been added back net of tax of R3 million in calculating headline earnings.

R million		Group 2010	2009
29. Reconciliation between basic earnings and headline earnings and per share statistics			
Reconciliation between basic earnings and headline earnings			
Profit for the year (basic earnings)		**1 942**	1 855
Preference shareholders		**(36)**	(52)
Basic earnings attributable to ordinary shareholders		**1 906**	1 803
Adjusted for:			
Capital items		**(19)**	7
Tax thereon		**3**	–
Headline earnings		**1 890**	1 810
Per share statistics			
Basic earnings per share	cents	**237,2**	224,3
Fully diluted basic earnings per share	cents	**237,1**	224,3
Headline earnings per share	cents	**235,2**	225,2
Fully diluted headline earnings per share	cents	**235,1**	225,2

	Group					
	2010			2009		
Million	**Total number of shares in issue**	**Weighted number of shares in issue**	**Fully diluted number of shares in issue**	Total number of shares in issue	Weighted number of shares in issue	Fully diluted number of shares in issue
30. Number of shares						
Number of shares in issue at the end of the year	**804,2**	**804,2**	**804,2**	804,2	804,2	804,2
Treasury shares on hand	**(0,5)**	**(0,5)**	**(0,5)**	(0,5)	(0,5)	(0,5)
Dilution as a result of outstanding options	**–**	**–**	**0,1**	–	–	0,1
	803,7	**803,7**	**803,8**	803,7	803,7	803,8

R million	Group 2010	2009
31. Ordinary and preference dividends		
31.1 Ordinary dividends		
Final dividend number 18 of 100 cents per ordinary share (2009: 105 cents)	**804**	844
Interim dividend number 19 of 85 cents per ordinary share (2009: 85 cents)	**684**	684
Total ordinary dividends paid during the year	**1 488**	1 528
Interim dividend number 19 of 85 cents per ordinary share (2009: 85 cents)	**684**	684
Final dividend number 20 of 100 cents per ordinary share (2009: 100 cents)	**804**	804
Total ordinary dividends relating to income for the year	**1 488**	1 488
Final dividend number 20 of 100 cents per ordinary share was approved by the board on 22 November 2010. No provision has been made for these dividends and their related STC in the financial statements for the year ended 30 September 2010.		
31.2 Preference dividends		
Final preference dividend number 10 of 367 cents per preference share (2009: 551 cents)	**18**	28
Interim preference dividend number 11 of 355 cents per preference share (2009: 475 cents)	**18**	24
Total preference dividends paid during the year	**36**	52
Interim preference dividend number 11 of 355 cents per preference share (2009: 475 cents)	**18**	24
Final preference dividend number 12 of 336 cents per preference share (2009: 367 cents)	**17**	18
Total preference dividends relating to the year	**35**	42

Final preference dividend number 12 of 336 cents per preference share was approved by the board on 22 November 2010. No provision has been made for these dividends and their related STC in the financial statements for the year ended 30 September 2010.

All dividends declared are out of revenue reserves, payable in cash and are subject to STC.

	Group			
	2010		2009	
	Number of shares	**R million**	Number of shares	R million
32. ABIL Employee Share Trust transactions				
ABIL dividends received in the ABIL Employee Share Trust	**n/a**	**1**	n/a	2
Tax effect of the loss incurred on group employees acquiring ABIL Employee Share Trust shares	**n/a**	**–**	n/a	–
Loss incurred on group employees acquiring ABIL Employee Share Trust shares	**–**	**1**	–	2

	Group	
R million	**2010**	2009
33. Cash generated from operations		
Profit from operations	**2 828**	2 797
Adjusted for:		
Indirect taxation	**20**	18
Decrease in deferred administration fees	**36**	(76)
Increase in impairment provisions	**2 786**	2 952
(Decrease)/increase in credit life reserves	**(19)**	8
Depreciation on property and equipment	**190**	185
Amortisation of intangible assets (trademarks)	**72**	72
Share-based payment charge accounted for in equity	**11**	–
Hedge variation margin and fee accounted for in equity	**(29)**	15
Movement in cash flow hedge accounted for in equity	**(271)**	2
Losses on disposal of fixed assets	**6**	1
Foreign exchange translation accounted for in equity	**(11)**	(25)
Incentive accruals	**80**	73
Transfer from life fund in respect of third party policies	**(1)**	(3)
Other non-cash items	**–**	7
	5 698	6 026
34. Cash received from lending and insurance activities, sale of merchandise and cash reserves		
Sale of merchandise (refer note 20)	**4 487**	4 196
Interest income (refer note 21)	**6 340**	5 804
Net premiums received (refer note 22)	**2 308**	2 562
Non-interest income (refer note 23)	**2 491**	2 251
Non-cash items included in the above	**36**	(57)
	15 662	14 756

R million	Group 2010	2009
35. Cash paid to funders, employees, suppliers and insurance beneficiaries		
Interest expense (refer note 25)	**(2 383)**	(2 025)
Basic remuneration, bonuses and incentives to staff and executive directors (refer note 26)	**(1 894)**	(1 824)
Commissions paid to sales agents (refer note 26)	**(214)**	(190)
Bank charges (refer note 26)	**(214)**	(216)
Operating lease premiums (refer note 26)	**(667)**	(688)
Cost of merchandise sold (refer note 20)	**(2 513)**	(2 405)
Other cash operating costs	**(1 454)**	(1 078)
Insurance claims paid (refer note 22)	**(728)**	(476)
	(10 067)	(8 902)
36. Increase in gross advances		
Opening balance of gross advances	**26 181**	20 938
Less: Closing balance of gross advances	**(31 038)**	(26 181)
Movement in gross advances	**(4 857)**	(5 243)
Less: Bad debts written off (refer note 6)	**(4 723)**	(3 448)
Add: Bad debts rehabilitated (refer note 6)	**1 886**	1 773
Add: Acquisition of joint venture advances book	**36**	–
	(7 658)	(6 918)
37. Indirect and direct taxation paid		
Decrease in tax liability	**(44)**	(161)
Increase in prepaid tax	**(77)**	(13)
Indirect and direct taxation charged to the income statement	**(940)**	(953)
Deferred tax portion of amount charged to the income statement (refer note 7)	**267**	(65)
	(794)	(1 192)
38. Cash inflow from equity accounted incentive transactions		
Cash inflow as a result of shares purchased into the ABIL Employee Share Trust net of shares issued to employees (refer note 32)	**1**	–
Cash inflow as a result of losses incurred on group employees acquiring ABIL Employee Share Trust shares	**1**	1
	2	1
39. Other investing activities		
Increase in statutory assets (excluding insurance statutory cash reserves)	**(452)**	(140)
Decrease in policyholders' funds	**–**	12
	(452)	(128)

R million	Group 2010	2009
40. Cash inflow from funding activities		
Funding raised	**8 439**	7 059
Bonds issued	**2 750**	2 570
Subordinated bonds issued	**150**	1 475
Other treasury funding	**5 539**	3 014
Funding redeemed	**(4 155)**	(2 411)
Bonds	**(507)**	(756)
Short term funding	**(1 462)**	(4)
Other treasury funding	**(2 186)**	(1 651)
	4 284	4 648
41. Cash and cash equivalents		
Short term deposits and cash	**3 410**	3 553
Statutory cash reserves – insurance (refer note 3 and note 5)	**306**	443
	3 716	3 996

42. Financial risk

42.1 Interest rate risk

The subsidiaries are exposed to interest rate risk associated with the effects of fluctuations in the prevailing levels of market rates on their financial positions and cash flows. The table below summarises the subsidiaries' exposure to interest rate risk through grouping assets and liabilities into repricing categories, determined to be the earlier of the contractual repricing date or maturity.

R million	Up to 1 month	Greater than 1 month to 3 months	Greater than 3 months to 12 months	Beyond 12 months	Non-interest sensitive items	Total
30 September 2010						
Assets						
Short term deposits and cash	1 445	1 865	100	–	–	3 410
Statutory assets – bank and insurance	792	310	120	74	510	1 806
Inventories	–	–	–	–	851	851
Other assets and taxation	38	–	–	–	380	418
Net advances	3 652	1 373	4 429	15 906	–	25 360
Deferred tax asset	–	–	–	–	409	409
Assets held for sale	–	–	–	–	5	5
Policyholders' investments	–	–	–	–	15	15
Property and equipment	–	–	–	–	622	622
Intangible assets	–	–	–	–	834	834
Goodwill	–	–	–	–	5 472	5 472
Total assets	5 927	3 548	4 649	15 980	9 098	39 202

R million	Up to 1 month	Greater than 1 month to 3 months	Greater than 3 months to 12 months	Beyond 12 months	Non-interest sensitive items	Total
42. Financial risk *continued*						
42.1 Interest rate risk *continued*						
Liabilities and equity						
Short term funding	759	8	271	–	–	1 038
Other liabilities and taxation	322	–	5	–	1 449	1 776
Deferred tax liability	–	–	–	–	392	392
Life fund reserve	–	–	–	–	14	14
Bonds and other long term funding	2 776	8 068	3 179	6 854	–	20 877
Subordinated bonds, debentures and loans	523	1 166	18	519	–	2 226
Shareholders' equity	–	–	–	–	12 879	12 879
Total liabilities and equity	**4 380**	**9 242**	**3 473**	**7 373**	**14 734**	**39 202**
On-balance sheet interest sensitivity	**1 547**	**(5 694)**	**1 176**	**8 607**	**(5 636)**	**–**

Assuming the financial assets and liabilities on hand at 30 September 2010 were to remain on hand until maturity or settlement without any action by the subsidiaries to alter the resulting interest rate risk exposure, an immediate and sustained 1% parallel decline in the yield curve could result in the net interest income of the group for the next twelve months declining by R85 million (2009: R88 million).

R million	Up to 1 month	Greater than 1 month to 3 months	Greater than 3 months to 12 months	Beyond 12 months	Non-interest sensitive items	Total
30 September 2009						
Assets						
Short term deposits and cash	1 743	1 810	–	–	–	3 553
Statutory assets – bank and insurance	320	616	–	–	387	1 323
Inventories	–	–	–	–	859	859
Other assets and taxation	–	–	142	–	235	377
Net advances	777	2 056	5 758	11 895	–	20 486
Deferred tax asset	–	–	–	–	501	501
Assets held for sale	–	–	–	–	181	181
Policyholders' investments	–	–	–	–	15	15
Property and equipment	–	–	–	–	586	586
Intangible assets	–	–	–	–	906	906
Goodwill	–	–	–	–	5 472	5 472
Total assets	2 840	4 482	5 900	11 895	9 142	34 259

R million	Up to 1 month	Greater than 1 month to 3 months	Greater than 3 months to 12 months	Beyond 12 months	Non-interest sensitive items	Total
42. Financial risk *continued*						
42.1 Interest rate risk *continued*						
Liabilities and equity						
Short term money market funding	1 734	465	909	–	–	3 108
Other liabilities and taxation	162	3	70	59	1 146	1 440
Deferred tax liability	–	–	–	–	265	265
Liabilities	–	–	–	–	25	25
Life fund reserve	–	–	–	–	15	15
Bonds and other long term funding	3 373	4 606	3 344	3 382	–	14 705
Subordinated bonds, debentures and loans	521	983	18	522	–	2 044
Shareholders' equity	–	–	–	–	12 657	12 657
Total liabilities and equity	5 790	6 057	4 341	3 963	14 108	34 259
On-balance sheet interest sensitivity	(2 950)	(1 575)	1 559	7 932	(4 966)	–

R million	Up to 1 month	Greater than 1 month to 3 months	Greater than 3 months to 12 months	Beyond 12 months	Total
42.2 Liquidity risk					
Assets and liabilities maturities as at 30 September 2010					
Assets					
Short term deposits and cash	**1 445**	**1 865**	**100**	**–**	**3 410**
Statutory assets – bank and insurance	**191**	**310**	**120**	**1 185**	**1 806**
Inventories	**254**	**418**	**179**	**–**	**851**
Other assets and taxation	**78**	**200**	**93**	**47**	**418**
Net advances	**807**	**1 707**	**5 933**	**16 913**	**25 360**
Deferred tax asset	**–**	**–**	**–**	**409**	**409**
Assets held for sale	**–**	**–**	**5**	**–**	**5**
Policyholders' investments	**–**	**–**	**–**	**15**	**15**
Property and equipment	**–**	**–**	**–**	**–**	**622**
Intangible assets	**–**	**–**	**–**	**–**	**834**
Goodwill	**–**	**–**	**–**	**–**	**5 472**
Total assets	**2 775**	**4 500**	**6 430**	**18 569**	**39 202**

R million	Up to 1 month	Greater than 1 month to 3 months	Greater than 3 months to 12 months	Beyond 12 months	Total
42. Financial risk *continued*					
42.2 Liquidity risk *continued*					
Liabilities and equity					
Short term funding	759	8	271	–	1 038
Other liabilities and taxation	952	187	530	107	1 776
Deferred tax liability	–	–	–	392	392
Life fund reserve	–	–	–	14	14
Bonds and other long term funding	726	1 558	6 084	12 509	20 877
Subordinated bonds, debentures and loans	13	13	18	2 182	2 226
Shareholders' equity	–	–	–	12 879	12 879
Total liabilities and equity	2 450	1 766	6 903	28 083	39 202
Net liquidity gap	325	2 734	(473)	(9 514)	–
Assets and liabilities maturities					
as at 30 September 2009					
Assets					
Short term deposits and cash	1 743	1 810	–	–	3 553
Statutory assets – bank and insurance	707	616	–	–	1 323
Inventories	246	429	184	–	859
Other assets and taxation	195	97	17	68	377
Net advances	777	2 056	5 758	11 895	20 486
Deferred tax asset	–	–	–	501	501
Assets held for sale	–	–	181	–	181
Policyholders' investments	–	–	–	15	15
Property and equipment	–	–	–	586	586
Intangible assets	–	–	–	906	906
Goodwill	–	–	–	5 472	5 472
Total assets	3 668	5 008	6 140	19 443	34 259
Liabilities and equity					
Short term funding	1 734	465	909	–	3 108
Other liabilities and taxation	593	229	559	59	1 440
Deferred tax liability	–	–	–	265	265
Liabilities held for sale	–	–	25	–	25
Life fund reserve	–	–	–	15	15
Bonds and other long term funding	431	717	5 451	8 106	14 705
Subordinated bonds, debentures and loans	15	10	18	2 001	2 044
Shareholders' equity	–	–	–	12 657	12 657
Total liabilities and equity	2 773	1 421	6 962	23 103	34 259
Net liquidity gap	895	3 587	(822)	(3 660)	–

42. Financial risk *continued*

42.2 Liquidity risk *continued*

The tables above analyse the group's financial assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

The matching and controlled mismatching of the maturities and interest rates of financial assets and liabilities are fundamental to the management of risk within the group. It is unusual for bank and bank-controlling companies ever to be completely matched since the business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of financial assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the group and its exposure to changes in interest rates.

42.3 Unutilised facilities

The group has secured unutilised facilities of R974 million (2009: R252 million) which were available at 30 September 2010. The total unsecured unutilised credit facilities granted to African Bank credit card holders as at 30 September 2010 was R638 million (2009: R344 million).

42.4 Credit risk

All loans by African Bank are granted in the Republic of South Africa as unsecured loans. Credit granted by Ellerines to customers for the purchase of furniture and appliances is secured over the items sold with title to such goods not passing to the customer until the full outstanding amount due is paid.

The group manages its exposure to credit losses by assessing affordability of repayment of the loan, customers' risk profile, employment status and stability, etc and prices such credit appropriately. Collection of instalments is done by way of cash repayments in store, electronic debit order payments directly from customer bank accounts and payroll deductions. All arrear accounts are actively managed on an ongoing basis from the day after the account goes into arrears using various methods which include deferred arrangements and legal collections to minimise the arrear loan book. Further details can be found in the risk management report on the website on www.abil.co.za.

The group is exposed to credit risk in terms of interest rate swaps that the group has entered into with various other South African banks to the value of approximately R25 million (2009: R32 million).

The group maintains cash and cash equivalents and short term investments with various financial institutions and in this regard it is the group's policy to limit its exposure to any one financial institution. Deposits are placed only with South African banks and foreign banks which have a presence within South Africa.

Ellerine Holdings Limited's foreign subsidiaries maintain their cash and cash equivalents and short term investments with various financial institutions. Deposits are placed only with the banks within their respective countries and limited to major banks.

42.5 Currency risk

The group's foreign currency exposure is within the Ellerines business unit in respect of business conducted by subsidiaries in Botswana, Lesotho, Namibia, Swaziland and Zambia as well as the import of merchandise.

The Ellerines business unit adopts a prudent approach to forward cover. In this regard, at 30 September 2010, all forward exchange contracts related to specific items appearing in the balance

42. Financial risk *continued*

42.5 Currency risk *continued*

sheet and all significant foreign trade exposures were fully covered. The writing of option contracts is prohibited, thus currency options are only purchased as a cost effective alternative to forward exchange contracts. Details of outstanding forward contracts at 30 September 2010 are presented below. All these commitments mature within one year.

	2010			2009		
	Foreign currency US$/€ million	**Rand at fair value R million**	**Rand at contract rate R million**	Foreign currency US$/€ million	Rand at fair value R million	Rand at contract rate R million
US Dollars	**11**	**77**	**86**	7	57	61
Euro	**0,2**	**2**	**2**	0,05	1	1

The mark-to-market loss of R9 million (2009: R4 million) has been recognised in the income statement. The net uncovered transaction exposure at 30 September 2010 amounted to Rnil (2009: Rnil).

42.6 Capital adequacy risk (banking)

Capital adequacy risk is the risk that the bank will not have sufficient capital reserves to meet materially adverse market conditions beyond that which has already been factored into the business model.

Capital adequacy is measured by expressing capital as a percentage of risk-weighted assets. The Banks Act (No. 94 of 1990, as amended) together with the regulations to the Banks Act specifies the minimum capital holding required in relation to risk-weighted assets.

African Bank Limited's capital adequacy ratio at 30 September 2010 was 28,9% (2009: 30,1%) compared to the regulatory requirement of 21,7% (being 19,5% plus the operational risk floor increase of 1,2% prescribed by the South African Reserve Bank plus the 1% buffer determined by the board of directors). The group's capital adequacy policy is explained in detail in the capital and funding management section within the risk management review section of the annual report.

42.7 Life assurance risk

Insurance risk

Insurance risk is the risk assumed under any one insurance contract that the insured event occurs. By the very nature of an insurance contract, this risk is random and unpredictable. The majority of insurance claims are paid to the group's operating companies (as a cessionary) in respect of credit life.

Capital adequacy risk (insurance)

Capital adequacy risk is the risk that there are insufficient reserves to provide for adverse variations in actual claims experience as compared with that which has been assumed in the financial soundness valuation. The capital adequacy requirement (CAR) ratio is 2,6 times (2009: 3,3 times), which is well in excess of the minimum regulatory requirement of 1.

42.8 Insurance risk management

Exposure to insurance risk

Ellerines underwrites risks that natural persons and other entities wish to transfer to an insurer. Such risks include the perils around physical loss, theft, damage, death, disability and loss of employment

42. Financial risk *continued*

42.8 Insurance risk management *continued*

that may give rise to an insured event. As such Ellerines is exposed to uncertainty surrounding the timing and severity of claims under insurance contracts. The principal risk is that the frequency and/or severity of the claims are greater than expected. Insurance events are, by their nature, random and the actual number and size of events during any one year may vary from those estimated and experienced in prior periods. The product features of insurance contracts that have an effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts in Ellerines are set out below:

- Death and disability – provides indemnity for disability to the insured;
- Physical loss of goods – provides indemnity for losses sustained through accidental loss or other similar acts;
- Theft of goods – provides indemnity for losses sustained through theft or other similar acts;
- Damage to goods – provides indemnity for damages to items insured; and
- Loss of employment – provides indemnity for losses on group credit exposure in relation to employment.

Benefits are primarily paid to settle the outstanding debt owing by the customer to the group or repair/replace the item sold.

All insurance risks underwritten for non-group companies were curtailed by 30 September 2010 with the result that all insurance is now predominantly to clients in respect of transactions with the group.

Limiting exposure to insurance risk

The exposure to insurance risk is limited through an underwriting strategy, limits and adopting appropriate risk assessment techniques. It is not the group's policy to reinsure risks that are within its risk appetite. All significant and material third party insurance arrangements have been terminated during the year. In this regard the risk base of the group is not concentrated in any one region or sector of the economy and the average individual insured losses are approximately R7 000 per claim.

42.9 Underwriting risk

Underwriting risk is the risk that the actual claims will exceed the expected claims and the premium income received. Insured events are random and the actual number and amount of claims will vary from estimates. These risks are managed through product development and underwriting processes.

The development of claims liabilities provides a measure of the ability to estimate the ultimate value of claims. The group does not underwrite long term risks and consequently the uncertainty about the amount and timing of claim payments is limited. Regular estimates of claims are performed in reviewing the adequacy of the claims provisions and corrective action is taken where necessary. Claims development is reviewed by management on a regular basis.

Underwriting results of each risk class are monitored on a regular basis and corrective measures are actioned where applicable.

Bi-annual actuarial valuations are also performed for the long term insurance business in order to assist in the timely identification of experience variances.

42.10 Market price risk

Market price risk is the risk that the value of a financial asset will fluctuate as a result of changes in the market prices or changes in market interest rates. Investments in marketable securities are valued at fair value and are therefore susceptible to market fluctuations. The fair value of all financial assets approximates the carrying value in the balance sheet. Risk is also managed by diversification and investing in highly rated financial institutions.

Investment decisions are delegated by the board to the ALCO which has the responsibility for the investment portfolio's risk profile and the related investment decisions.

43. Contingent liabilities

The group has deposits with The Standard Bank of South Africa Limited (SBSA) for electronic funds transfer (EFT) and electricity guarantees totalling R6,6 million (2009: R5,1 million).

An indemnity of R0,7 million was issued to The Standard Bank of South Africa on 29 June 2006 to cover a guarantee made to VISA in respect of credit card transactions (2009: R0,7 million).

One of the group's insurance subsidiaries, Stangen, has not provided for outstanding level life claims amounting to R125 million (2009: R106 million) as, after extensive efforts, the beneficiaries could not be traced. The amount is made up of 27 504 (2009: 27 236) policies whereof the bulk of the events occurred between four and eight years ago. In the 2008 financial year an outside party was tasked to trace the next of kin of all unclaimed level life policies and this exercise resulted in R5,7 million (1 178 policies) being paid to beneficiaries. The probability of any claims being subsequently made is, from prior experience and based on the result of the exercise by the third party, extremely low. Should any claims be made they will be taken as losses in the relevant period.

Gilt Edged Management Services (Pty) Limited (GEMS), a subsidiary of the group via Theta Investments (Pty) Limited, has a contingent liability to clients as a result of a court order issued in 2004, to pay reparations to clients who might have been prejudiced by actions of the company between 1999 and 2002. The terms of the court order require each client to sign an acceptance and waiver form before the settlement can be made. In terms of the court order the maximum amount of potential reparations was R60,1 million of which in excess of R40,0 million was paid by the end of September 2006. Subsequent to September 2006, a marginal amount of R0,2 million of reparations was paid to GEMS clients.

The group has a contingent exposure to legal claims of R0,5 million (2009: R0,5 million).

	Group	
R million	**2010**	2009
44. Operating lease commitments		
Payable within one year	**574**	520
Property	**549**	493
Equipment	**2**	2
Motor vehicles	**23**	25
Payable between one and five years	**1 016**	808
Property	**993**	783
Equipment	**2**	3
Motor vehicles	**21**	22
Payable thereafter	**–**	–
Total operating lease commitments	**1 590**	1 328

45. Long term incentive plan (LTIP) commitments

The R17 million (2009: R17 million) liability for the converted option instrument and the R123 million (2009: R113 million) liability for the LTIPs issued in October 2007, October 2008 and October 2009 has been included in other liabilities (refer note 13). Refer to the remuneration report on pages 108 to 118 for a full analysis of the converted option instrument and the LTIP scheme.

46. Retirement and post-retirement benefits

The group contributes to defined contribution pension funds and defined contribution provident funds. These funds are registered under the Pension Funds Act, 1956.

The schemes are funded by both member and company contributions, which are charged to the income statement as they are incurred.

46.1 Pension and provident fund benefits

Subsidiary companies contribute to separate pension and provident funds which are governed by the Pension Funds Act, 1956, and are in the nature of defined contribution plans. These funds are managed by employer and employee elected trustees. Separate administrators are contracted to run the fund on a day-to-day basis. An independent consultant has also been appointed to the fund to oversee the operations and provide professional advice to the trustees.

The funds cover the eligible employees other than those employees who opt to be or are required by legislation to be members of various industry funds. Employees may choose which fund they wish to belong to. All eligible employees are members of the funds.

46.2 Post-retirement medical benefits

Certain subsidiaries of the group subscribe to a third party medical aid society and the group provides certain post-retirement medical benefits by subsidising a portion of the medical aid contribution of retired members. The liability in respect of post-retirement medical benefits which has been fully provided for and included in provisions, amounts to R23 million (2009: R11 million).

47. Related party information

47.1 Relationship between holding company and subsidiaries

African Bank Investments Limited holds 100% of *(inter alia)* African Bank Limited, Ellerine Holdings Limited, Theta Investments (Pty) Limited and The Standard General Insurance Company Limited (Stangen). Details of investment in subsidiaries/controlled entities are disclosed in appendix B on page 246. All group subsidiaries were wholly-owned at 30 September 2010.

47.2 Related party transactions

African Bank Investments Limited (ABIL) has entered into financial services transactions with its subsidiaries.

	Group	
R million	**2010**	2009
Loans owing to ABIL by ABL	**28**	51
	28	51

The highest balance during the year of the loan between African Bank Limited and African Bank Investments Limited was R52 million (2009: R56 million). The loan is unsecured, interest free and has no fixed repayment terms.

47. Related party information *continued*

47.2 Related party transactions *continued*

Director-related transactions

Through his legal practice, TWB Attorneys, Oshy Tugendhaft is one of the legal advisors to the group. Legal fees paid to TWB Attorneys for the year amounted to R1,1 million (2009: R0,7 million).

There were no other material transactions with directors apart from interests in share capital, share options and emoluments as disclosed in the directors' report, note 26, and the remuneration report on pages 108 to 118 respectively.

48. Short term insurance regulatory ratios

The regulatory solvency margin at the year end for the short term insurance subsidiaries (all housed within the Ellerines business unit) was as follows:

%	**2010**	2009
Relyant Insurance Company Limited	**43**	36

The regulatory minimum solvency margin is 15%.

49. Segment information

49.1 Adoption of IFRS 8 Operating Segments

The group has adopted IFRS 8 Operating Segments with effect from 1 October 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the operating chief decision maker in order to allocate resources to the segments and to assess their performance.

Information reported to the group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is more specifically focused on the category of each type of service provided. The group's reportable segments under IFRS 8 are therefore as follows:

Banking unit
Ellerines retail
Ellerines financial services

The banking unit segment provides credit and insurance through African Bank Limited and Standard General Insurance Company Limited.

The Ellerines retail segment retails furniture, appliances and related services through Ellerine Furnishers (Proprietary) Limited.

Ellerines financial services provides credit and insurance through Ellerine Furnishers (Proprietary) Limited, Relyant Life Assurance Company Limited and Relyant Insurance Company Limited.

The information regarding the group's reportable segments is presented below. Amounts reported for the prior year have been restated to conform to the requirements of IFRS 8.

49. Segment information *continued*

49.2 Segment revenue and results

R million	Segment revenue 2010	Segment revenue 2009	Segment interest expense 2010	Segment interest expense 2009	Segment taxation expense 2010	Segment taxation expense 2009	Segment profit after taxation 2010	Segment profit after taxation 2009
Banking unit	**8 075**	7 407	**2 182**	1 816	**736**	737	**1 541**	1 577
Ellerines Retail	**4 804**	4 513	**52**	56	**41**	273	**140**	(192)
Ellerines Financial Services	**2 141**	2 451	**251**	192	**143**	(75)	**261**	470
Total income from reportable segments	**15 020**	14 371	**2 485**	2 064	**920**	935	**1 942**	1 855
Consolidation adjustments	**(102)**	(39)	**(102)**	(39)	**–**	–	**–**	–
ABIL consolidated	**14 918**	14 332	**2 383**	2 025	**920**	935	**1 942**	1 855

49.3 Segment assets and liabilities

R million	Segment assets 2010	Segment assets 2009	Segment liabilities 2010	Segment liabilities 2009
Banking unit	**29 101**	22 698	**24 958**	18 894
Ellerines Retail	**3 580**	3 313	**1 881**	1 860
Ellerines Financial Services	**5 453**	4 498	**3 107**	1 789
Total assets	**38 134**	30 509	**29 946**	22 543
Consolidation adjustments	**1 068**	3 750	**(3 623)**	(941)
ABIL consolidated	**39 202**	34 259	**26 323**	21 602

For the purpose of monitoring segment performance and allocating resources between segments all assets and liabilities are allocated to the operating segments using the same method used for monthly internal reporting purposes. Consequently, the allocation above will not necessarily reconcile to the individual segments' statements of financial position. However, the consolidated totals of each of the items above do reconcile to the group statement of financial position.

49. Segment information *continued*

49.4 Other segment information

R million	Depreciation and amortisation 2010	Depreciation and amortisation 2009	Material non-cash items other than depreciation and amortisation (Impairment provision) 2010	Material non-cash items other than depreciation and amortisation (Impairment provision) 2009	Additions to non-current assets 2010	Additions to non-current assets 2009
Banking unit	**69**	72	**2 279**	2 065	**106**	159
Ellerines Retail	**145**	134	**–**	–	**171**	130
Ellerines Financial Services	**48**	51	**507**	887	**–**	–
ABIL consolidated	**262**	257	**2 786**	2 952	**277**	289

50. Restatement and reclassification of comparatives

The group has restated and reclassified certain items in the notes to the financial statements as previously reported in the year ended 30 September 2009. These restatements and reclassifications all relate to disclosure in the notes and have no impact on the reported earnings or the financial position of the group. The details of the restatements and reclassifications are set out below.

50.1 Deferred taxation (Note 7)

The group previously reported the movement in the total net deferred tax balances rather than disclosing the movement in each category as recognised through profit or loss, statement of comprehensive income, statement of changes in equity and transfer to or from liabilities held for sale. This has now been changed as disclosed in note 7.

Furthermore, the deferred tax movement through the statement of changes in equity should have been split between the movement through the statement of changes in equity and the transfer from the liabilities held for sale. This has been corrected as follows:

R million	As previously reported	Adjustment	As currently reported
Movement through the statement of changes in equity	1	2	3
Transfer from liabilities held for sale	–	(2)	(2)
Total	1	–	1

50.2 Deferred taxation (Note 27.2)

In the prior year the deferred tax charge was not split between South African and foreign deferred taxation. This has now been separately disclosed as follows:

R million	As previously reported	Adjustment	As currently reported
Deferred tax: current year	(64)	(6)	(70)
Deferred tax – foreign: current year	–	6	6
Total	(64)	–	(64)

50. Restatement and reclassification of comparatives *continued*

50.3 Unutilised facilities (Note 42.3) *continued*

In the prior year, the group incorrectly showed unutilised facilities as R814 million. This has been corrected to show an amount of R252 million.

50.4 Market risk management (Note 54.1)

In the prior year the group did not show the post-tax impact of the cash and cash equivalents that are linked to the JIBAR and also incorrectly disclosed the interest swaps liability as a negative liability. In the current year both items have been corrected and the comparatives restated.

R million	Carrying value at year-end	Income statement impact Pre-tax	Income statement impact Post-tax	Equity impact Pre-tax	Equity impact Post-tax
Financial assets					
Cash and cash equivalents					
– as previously reported	3 498	35	–	–	–
Adjustment	–	–	25	–	–
Cash and cash equivalents					
– as currently reported	3 498	35	25	–	–
Financial liabilities					
Interest rate swaps					
– as previously reported	(85)	(5)	(3)	(8)	(6)
Adjustment	170	10	6	16	12
Interest rate swaps					
– as currently reported	85	5	3	8	6

50.5 Foreign exchange risk management (Note 54.2)

In the prior year the group showed the carrying value of the amount exposed to market risk for both derivatives and non-derivative instruments in foreign currency rather than in South African rand. The comparatives have been corrected.

Carrying value at year end

R million	As previously reported	Adjustment	As currently reported
Foreign exchange exposure	7	51	58

50.6 Credit quality (Note 58)

The group previously reported the analysis of credit quality for African Bank and Ellerines as two separate notes. The group has combined the two notes and only one group analysis of credit quality note has been disclosed. This is due to the fact that the majority of the Ellerines financial services business was transferred to African Bank during September 2010 and the significant majority of the group’s advances are held in African Bank.

50.7 Credit quality: Ellerines business unit (Note 58)

The group previously reported the total credit exposure in the Ellerines business unit inclusive of the partially written off advances rather than showing the partially written off advances separately. The partially written off book has been shown separately in the current year and the comparatives have been restated as follows:

50. Restatement and reclassification of comparatives *continued*

50.7 Credit quality: Ellerines business unit (Note 58) *continued*

R million	As previously reported	Adjustment	As currently reported
Financial assets that are impaired (Carrying amount)	2 127	(226)	1 901
Partially written off advances	–	226	226
Total	2 127	–	2 127

50.8 Credit quality: African Bank business unit (Note 58)

In the prior year, the African Bank low risk financial assets that are neither past due nor impaired were incorrectly disclosed in the high risk line and the high risk financial assets that are neither past due nor impaired were disclosed in the low risk line. As a result, the low risk unimpaired advances were understated and the high risk unimpaired advances were overstated by the same amount. This has now been corrected by restating prior year numbers as follows:

R million	As previously reported	Adjustment	As currently reported
Low risk	1 371	4 573	5 944
High risk	6 184	(4 573)	1 611
Total	7 555	–	7 555

51. Key assumptions concerning the future and sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates, judgements and assumptions. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected. The accounting policies deemed critical to the group's results and financial position, based upon materiality and significant judgements and estimates, are discussed below.

Advances impairment allowances

The group regularly reviews its advances to assess for impairment. Impairment allowances are established to recognise incurred impairment losses in its advances. In determining whether an impairment has occurred at the balance sheet date the group considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings. Where this is the case, the impairment loss is the measurable difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the advance's original effective interest rate.

Impairment allowances are calculated using formulae which take into account factors such as the length of time that the customers' accounts have been in arrears, historical loss rates and credit quality of the advances. The determination of these allowances requires the exercise of considerable judgement by management involving matters such as local economic conditions. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses.

51. Key assumptions concerning the future and sources of estimation uncertainty *continued*

Goodwill, trademarks and brands

The group reviews the goodwill for impairment at least annually or when events or changes in economic circumstances indicate that impairment may have taken place. The group's trademarks and brands are assessed for impairment when events or changes in economic circumstances indicate that an impairment may have taken place.

Impairment reviews are performed by projecting future cash flows, based upon budgets and plans and making appropriate assumptions about rates of growth and discounting these using a rate that takes into account prevailing market interest rates and the risks inherent in the business.

If the present value of the projected cash flows is less than the carrying value of the underlying net assets, including trademarks, brands and goodwill, an impairment charge is required in the income statement. This calculation requires the exercise of significant judgment by management, if the estimates prove to be incorrect or performance does not meet expectations, which affects the amount and timing of future cash flows, goodwill, trademarks and brands may become impaired in future periods.

52. Standards and interpretations issued but not yet effective

IFRS/IFRIC	Title and details	Effective for reporting periods commencing on or after/Expected impact
IFRIC 14	**Prepayments of a Minimum Funding Requirement (amendments to pensions accounting)** The amendment applies in the limited circumstances when an entity is subject to a minimum funding requirement and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.	1 January 2011 This amendment will not have an impact on the group, as the group does not have any defined benefit assets.
IFRIC 19	**Extinguishing of Financial Liabilities with Equity Instruments** The interpretation provides guidance on the accounting treatment of transactions where a financial liability is extinguished by the issue of equity instruments. These transactions are often offered as debt or equity swaps.	1 July 2010 This interpretation is not expected to have a significant impact on the group.
IFRS 1	**Full-cost oil and gas assets.** Entities using the full cost method may elect exemption from retrospective application of IFRSs for oil and gas assets. Entities electing this exemption will use the carrying amount under its old GAAP as the deemed cost of its oil and gas assets at the date of first-time adoption of IFRSs. **Determining whether an arrangement contains a lease** If a first-time adopter with a leasing contract made the same type of determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by IFRIC 4 Determining whether an Arrangement Contains a Lease, but at a date other than that required by IFRIC 4, the amendments exempt the entity from having to apply IFRIC 4 when it adopts IFRSs.	1 January 2010 These amendments are not applicable to the group.

52. Standards and interpretations issued but not yet effective *continued*

IFRS/IFRIC	Title and details	Effective for reporting periods commencing on or after/Expected impact
IFRS 1	**Limited exemption from Capital Comparative IFRS 7 Disclosure for first -time adopters** The amendment provides relief to first-time adopters of International Financial Reporting Standards from providing the additional disclosures introduced in March 2009 by the amendment to IFRS 7 Improving Disclosures of Financial Instruments. The additional disclosure requirement included in IFRS 7 requires enhanced disclosures about the fair value of measurement and liquidity risk.	1 July 2010 This amendment will not have an impact on the group, as the group has already adopted IFRS.
IFRS 2	**Group cash-settled share-based payment transactions** Amendments clarify the accounting for group cash-settled share-based payment transactions. The amendments clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements. In these arrangements, the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay those suppliers. The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2 Group and Treasury Share Transactions. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11.	1 January 2010 This amendment is not expected to significantly affect the results of the group.
IFRS 7	**Financial Instruments Disclosure:** Amendments enhancing disclosure about transfers of financial assets.	1 July 2011 The amendment will not affect the financial position or results but will result in additional disclosure.
IFRS 9	**Financial Instruments** This IFRS is the IASB's three part project intended to ultimately replace current IAS 39: Recognition and Measurement of Financial Instruments standard. This phase deals with classification and measurement of financial assets. The main features of this new standard require that classification be based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The standard also requires that a financial asset be initially measured at fair values through profit and loss plus, in case of financial asset not at fair value through profit and loss, particular transaction costs and subsequently be measured at amortised cost or fair value.	1 January 2013 The group will comply with the standard and will reconsider the classification of its financial assets into financial assets at amortised cost or fair value when it becomes effective.

52. Standards and interpretations issued but not yet effective *continued*

IFRS/IFRIC	Title and Details	Effective for reporting periods commencing on or after/Expected impact
IAS 24	**Revised definition of Related Parties** The amendment removes certain of the disclosure requirements for government related entities and clarifies the definition of a related party.	1 January 2011 This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact of the revised disclosure is not expected to be significant.
IAS 32	**Financial Instruments: Presentation – Amendments relating to classification of rights issues** The amendment clarifies the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. The amendment requires the rights issues offered pro rata to all of an entity's existing shareholders to be classified as equity instruments regardless of the currency in which the exercise price is denominated.	1 February 2010 This amendment is not expected to have an impact on the group.
Annual Improvements	**Annual Improvements Project** As part of its annual improvements projects, the IASB has issued its editions of annual improvements. The annual improvements projects' aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement.	
	The second annual improvements project	1 January 2010
	The third annual improvements project	1 July 2010
	The fourth annual improvements project	1 January 2011 These improvements are not expected to have a significant impact to the group.

53. Analysis of financial assets and liabilities

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies on pages 151 to 174 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the financial assets and financial liabilities in the balance sheet per class and category of financial instruments to which they are assigned. An estimate of the fair value per class of the financial instrument is also provided.

R million	Notes	Advances	Statutory assets and cash	Other	Non-financial instru-ments	Total
53.1 Analysis of financial assets						
30 September 2010						
Assets						
Short term deposits and cash	2	–	3 410	–	–	3 410
Statutory assets – bank and insurance	3	–	1 806	–	–	1 806
Inventories	4	–	–	–	851	851
Other assets	5	–	–	74	222	296
Derivative instrument	5	–	–	25	–	25
Taxation receivable		–	–	–	97	97
Net advances	6	25 360	–	–	–	25 360
Deferred tax asset	7	–	–	–	409	409
Assets held for sale	8	–	–	–	5	5
Policyholders' investments		–	–	15	–	15
Property and equipment	9	–	–	–	622	622
Intangible assets	10	–	–	–	834	834
Goodwill	11	–	–	–	5 472	5 472
Total assets		25 360	5 216	114	8 512	39 202
Fair value		25 273	5 225	114		
Categories of financial instruments						
Fair value						
Derivatives designated as cash flow hedging instruments		–	–	25	–	25
Designated fair value through profit and loss		–	–	15	–	15
Statutory assets – available for sale		–	1 806	–	–	1 806
Amortised cost						
Loans and receivables		25 360	3 410	74	–	28 844
Non-financial instruments		–	–	–	8 512	8 512
		25 360	5 216	114	8 512	39 202

R million	Notes	Advances	Statutory assets and cash	Other	Non-financial instruments	Total
53.1 Analysis of financial assets *continued*						
30 September 2009						
Assets						
Short term deposits and cash	2	–	3 553	–	–	3 553
Statutory assets – bank and insurance	3	–	1 323	–	–	1 323
Inventories	4	–	–	–	859	859
Other assets	5	–	–	220	83	303
Derivative instrument		–	–	54	–	54
Taxation		–	–	–	20	20
Net advances	6	20 486	–	–	–	20 486
Deferred tax asset	7	–	–	–	501	501
Assets held for sale	8	–	–	–	181	181
Policyholders' investments		–	–	15	–	15
Property and equipment	9	–	–	–	586	586
Intangible assets	10	–	–	–	906	906
Goodwill	11	–	–	–	5 472	5 472
Total assets		20 486	4 876	289	8 608	34 259
Fair value		20 612	4 973	987		
Categories of financial instruments						
Fair value						
Derivatives designated as cash flow hedging investments		–	–	54	–	54
Designated fair value through profit and loss		–	–	15	–	15
Amortised cost						
Statutory assets – held-to-maturity		–	1 048	–	–	1 048
Loans and receivables		20 486	3 828	220	–	24 534
Non-financial instruments		–	–	–	8 608	8 608
		20 486	4 876	289	8 608	34 259

Income statement effect of financial instruments by category

R million	Group 2010	Group 2009
Interest income recognised – loans and receivables	**6 207**	5 743
Interest income recognised – available for sale	**133**	–
Interest income recognised – held-to-maturity	**–**	61
	6 340	5 804

53. Analysis of financial assets and liabilities *continued*

53.2 Analysis of financial liabilities

R million	Notes	Amortised cost Listed funding	Amortised cost Unlisted funding	Fair value Other	Equity and reserves	Other non-financial instruments	Total
30 September 2010							
Liabilities and equity							
Short term funding	12	–	1 038	–	–	–	1 038
Other liabilities	13	–	–	9	–	1 413	1 422
Derivative instruments	13	–	–	321	–	–	321
Taxation payable		–	–	–	–	33	33
Deferred tax liability	7	–	–	–	–	392	392
Life fund reserve	14	–	14	–	–	–	14
Bonds and other long term funding	15	8 583	12 294	–	–	–	20 877
Subordinated bonds, debentures and loans	16	2 226	–	–	–	–	2 226
Shareholders' equity	17, 18, 19	–	–	–	12 879	–	12 879
Total liabilities and equity		10 809	13 346	330	12 879	1 838	39 202
Fair value		11 960	13 373	330			
30 September 2009							
Liabilities and equity							
Short term money market funding	12	–	3 108	–	–	–	3 108
Other liabilities	13	–	46	4	–	1 228	1 278
Derivative instruments	13	–	–	85	–	–	85
Taxation payable		–	–	–	–	77	77
Deferred tax liability	7	–	–	–	–	265	265
Liabilities held for sale	8	–	–	–	–	25	25
Life fund reserve	14	–	15	–	–	–	15
Bonds and other long term funding	15	6 395	8 310	–	–	–	14 705
Subordinated bonds, debentures and loans	16	2 044	–	–	–	–	2 044
Shareholders' equity	17, 18, 19	–	–	–	12 657	–	12 657
Total liabilities and equity		8 439	11 479	89	12 657	1 595	34 259
Fair value		8 488	12 417	89			

53. Analysis of financial assets and liabilities *continued*

53.2 Analysis of financial liabilities *continued*

Income statement effect of financial instruments by category

R million	Group 2010	2009
Interest expense recognised for financial liabilities at amortised cost	**2 383**	2 025
	2 383	2 025

53.3 Fair value of financial instruments

53.3.1 Valuation techniques applied for the purpose of measuring fair value

The fair values of financial assets and liabilities are determined as follows:

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes redeemable notes, bills of exchange, debentures and perpetual notes).

The fair values of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

53.3.2 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

R million	Level 1	Level 2	Level 3	Total
53. Analysis of financial assets and liabilities *continued*				
53.3 Fair value of financial instruments *continued*				
53.3.2 Fair value measurements recognised in the statement of financial position continued				
30 September 2010				
Assets				
Financial assets				
Policyholders' investments	15	–	–	15
Derivative instruments	–	25	–	25
Statutory assets	1 806	–	–	1 806
Total	1 821	25	–	1 846
Liabilities				
Financial liabilities				
Derivative instruments	–	321	–	321
Other liabilities	–	9	–	9
Total	–	330	–	330
30 September 2009				
Assets				
Financial assets				
Policyholders' investments	15	–	–	15
Derivative instruments	–	54	–	54
Total	15	54	–	69
Liabilities				
Financial liabilities				
Derivative instruments	–	85	–	85
Other liabilities	–	4	–	4
Total	–	89	–	89

There were no transfers between Level 1 and Level 2 during the period.

54. Market risk management

54.1 Interest rate risk management

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group has significant fair value interest rate risk arising from its fixed rate advances portfolio. In order to mitigate this risk, the group seeks to achieve funding that is at a similarly fixed rate. This not only reduces the fair value interest rate exposure but also achieves a fixed cost of lending for the group.

It is not always feasible to issue fixed rate funding and therefore the group makes use of derivative instruments in order to reduce the cash flow risk arising from changes in interest rates. In terms of the treasury mini-manual the bank is required to maintain a risk sensitivity limit of 1,75% given a 200 basis point shift in applicable interest rates. The hedges transacted by the bank are in response to this limit. Where possible, the group designates these derivatives as effective cash flow hedges.

54. Market risk management *continued*

54.1 Interest rate risk management *continued*

This accounting treatment results in an economically represented income statement but does create accounting volatility within equity.

Sensitivity analysis based on 100 basis point increase in interest rates

IFRS 7 requires that a sensitivity analysis be provided for changes in interest rates. The sensitivity analyses below have been determined based on exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Given the extent of the risk and the current risk mitigants, a more sophisticated (eg value-at-risk) analysis is not considered necessary.

The sensitivity analysis below is based on an increase in rates. Given the linear structure of the group's portfolio, a 100 basis point increase in interest rates would result in a corresponding net decrease of R15 million (2009: R7 million increase) in net income before tax and a R235 million decrease (2009: R7 million increase) in equity (pre-tax).

R million	Carrying value at year-end	Amount exposed to market risk	Index to which interest rate is linked	Income statement impact		Equity impact	
				Pre-tax	Post-tax	Pre-tax	Post-tax
30 September 2010							
Financial assets							
CPI linked swaps	25	246	CPI/JIBAR	–	–	7	5
Statutory assets	1 686	1 176	Prime	12	8	–	–
Cash and equivalents	3 314	3 314	JIBAR	33	24	–	–
Cash and equivalents	83	83	Prime	1	1	–	–
Total financial assets	**5 108**	**4 819**		**46**	**33**	**7**	**5**
Financial liabilities							
Bonds	8 583	321	JIBAR	3	2	–	–
Promissory notes	5 890	1 811	JIBAR	18	13	–	–
Fixed deposits	6 399	3 213	JIBAR	32	23	–	–
Interest rate swaps	304	7 335	JIBAR	2	1	158	114
CPI linked swaps	18	2 931	CPI/JIBAR	–	–	84	60
Unsecured short term funding	1 039	625	Prime	6	4	–	–
Total financial liabilities	**22 233**	**16 236**		**61**	**43**	**242**	**174**
Net effect on profit and loss and equity				**(15)**	**(10)**	**(235)**	**(169)**

R million	Carrying value at year-end	Amount exposed to market risk	Index to which interest rate is linked	Income statement impact Pre-tax	Income statement impact Post-tax	Equity impact Pre-tax	Equity impact Post-tax
54. Market risk management *continued*							
54.1 Interest rate risk management *continued*							
30 September 2009							
Financial assets							
Interest rate swaps	21	1 121	JIBAR	–	–	6	5
CPI linked swaps	21	246	CPI/JIBAR	–	–	9	7
Statutory assets	296	296	Prime	5	4	–	–
Cash and equivalents	3 498	3 498	JIBAR	35	25	–	–
Cash and equivalents	55	55	Prime	1	1	–	–
Total financial assets	3 891	5 216		41	30	15	12
Financial liabilities							
Debentures	264	264	JIBAR	5	4	–	–
Promissory notes	4 573	902	JIBAR	9	6	–	–
Fixed deposits	3 741	400	JIBAR	4	3	–	–
Interest rate swaps	85	4 850	JIBAR	5	3	8	6
Unsecured short term funding	1 059	1 059	Prime	11	8	–	–
Total financial liabilities	9 722	7 475		34	24	8	6
Net effect on profit and loss and equity				7	6	7	6

54.2 Foreign exchange rate risk management

The group undertakes a limited number of transactions, in respect of the Ellerines trading requirements, that are denominated in a foreign currency. The group has a very strict policy in terms of these transactions and forward cover is taken out for each transaction. These transactions are economically hedged, but IAS 39 hedge accounting is not applied.

Sensitivity analysis based on 10% increase in exchange rates

IFRS 7 requires that a sensitivity analysis be provided for changes in exchange rates. The sensitivity analyses below have been determined based on the exposure to exchange rates for both derivatives and non-derivative instruments (foreign trade creditors) at the balance sheet date. The analysis is prepared assuming the amount at the balance sheet date was outstanding for the whole year. Given the policy applied by management a 10% sensitivity adjustment is applied so as to ensure compliance with the strategy and that there are no open exchange rate exposures. The group was not exposed to foreign exchange rate risk in the prior year.

R million	Carrying value at year-end	Amount exposed to market risk	Index to which interest rate is linked	Income statement impact Pre-tax	Income statement impact Post-tax	Equity impact Pre-tax	Equity impact Post-tax
54. Market risk management *continued*							
54.2 Foreign exchange rate risk management *continued*							
30 September 2010							
Financial assets							
Foreign exchange exposure	**79**	**79**	**USD/Euro**	**8**	**6**	**–**	**–**
Total financial assets	**79**	**79**		**8**	**6**	**–**	**–**
Financial liabilities							
Foreign trade creditors	**78**	**78**	**USD/Euro**	**8**	**6**	**–**	**–**
Total financial liabilities	**78**	**78**		**8**	**6**	**–**	**–**
30 September 2009							
Financial assets							
Foreign exchange exposure	58	58	USD/Euro	6	4	–	–
Total financial assets	58	58		6	4	–	–
Financial liabilities							
Foreign trade creditors	56	56	USD/Euro	6	4	–	–
Total financial liabilities	56	56		6	4	–	–

55. Liquidity analysis

Liquidity risk management

Liquidity risk is defined as the risk that the group will encounter difficulty in meeting obligations associated with financial liabilities.

The group risk and capital committee, through the group ALCO, has set limits and benchmarks in order to mitigate liquidity risk to the appropriate levels. These policies have been described in the risk management review on page 119.

The following table represents the group's undiscounted contractual cash flows of liabilities per remaining maturity and includes all cash outflows related to the principal amount as well as the future payments. Thus the analysis of cash flows will not agree directly with balances on the statement of financial position. The analysis is based on the earliest date on which the group can be required to pay and is not necessarily the date at which the group is expected to pay. Where an effective hedging relationship exists, the net cash fixed flows per hedged item have been disclosed.

R million	Up to 1 month	Greater than 1 month to 6 months	Greater than 6 months to 12 months	Greater than 1 year to 2 years	Greater than 2 years to 5 years	Greater than 5 years	Total
55. Liquidity analysis *continued*							
Liquidity risk management *continued*							
30 September 2010							
Financial liabilities							
Promissory notes	**109**	**1 825**	**2 364**	**843**	**1 346**	**–**	**6 487**
Fixed deposits	**617**	**1 318**	**2 109**	**1 244**	**1 544**	**419**	**7 251**
Demand deposits	**534**	**–**	**–**	**–**	**–**	**–**	**534**
Unsecured short term funding	**95**	**228**	**513**	**–**	**–**	**–**	**836**
Other liabilities	**877**	**–**	**–**	**–**	**–**	**–**	**877**
Life fund reserve	**–**	**–**	**–**	**–**	**14**	**–**	**14**
Bonds and other long term funding	**12**	**477**	**1 093**	**2 184**	**3 132**	**7 644**	**14 542**
Total liabilities	**2 244**	**3 848**	**6 079**	**4 271**	**6 036**	**8 063**	**30 541**
30 September 2009							
Financial liabilities							
Promissory notes	174	1 177	2 078	478	941	–	4 848
Fixed deposits	547	1 544	1 979	418	797	–	5 285
Negotiable certificates of deposit	119	144	–	–	–	–	263
Demand deposits	511	–	–	–	–	–	511
Unsecured short term funding	1 853	150	200	–	–	–	2 203
Other liabilities	–	691	–	–	–	–	691
Life fund reserve	–	–	–	–	15	–	15
Bonds and other long term funding	36	413	938	1 919	7 596	2 210	13 112
Total liabilities	3 240	4 119	5 195	2 815	9 349	2 210	26 928

56. Interest rate risk hedging

In terms of the group's interest rate hedging strategy, it has entered into a number of interest rate swap agreements that convert the floating rate of interest paid on an identified underlying financial liability into a fixed rate. This enables the group to mitigate the cash flow risk arising from the change in interest rates on the issued variable rate liabilities. In terms of IAS 39 these swaps have been documented and designated as effective cash flow hedges. The hedged risk is either quarterly resetting JIBAR or the effect of changes in CPI and the derivative instruments are settled on a net basis at each cash flow date.

The fair value of the derivative instruments is determined using accepted valuation methodologies and the applicable market rate on date of valuation. The average interest rate is based on the outstanding balances at the end of the financial year.

56. Interest rate risk hedging *continued*

The table below illustrates the outstanding notional values of each of the hedges, the weighted average fixed interest rate and the full fair value of the derivative (including accrued interest) as at year-end. The hedges have also been segmented based on their contractual maturity.

Cash flow hedges

R million	Average contracted rate	Hedged amount	Fair value asset	Fair value liability
30 September 2010				
Less than 1 year	**7,41%**	**2 092**	**–**	**(14)**
1 to 2 years	**7,97%**	**1 907**	**–**	**(59)**
Exceeding 2 years up to 5 years	**11,53%**	**5 156**	**25**	**(151)**
Greater than 5 years	**8,56%**	**1 357**	**–**	**(98)**
Net carrying amount		**10 512**	**25**	**(322)**
30 September 2009				
Less than 1 year	9,54%	2 553	–	(34)
1 to 2 years	8,58%	646	–	(12)
Exceeding 2 years up to 5 years	9,23%	2 320	23	(39)
Greater than 5 years	8,39%	698	18	–
Net carrying amount		6 217	41	(85)

In terms of the IAS 39 hedge accounting requirements the change in fair value of the hedging instrument found to be effective will be recognised in the statement of changes in equity in the hedging reserve. Complete ineffectiveness will be recognised directly in profit or loss for the period where the hedge effectiveness exceeds the 80% to 125% threshold. To the extent that the change in the fair value of the hedged item is over-effective (ie greater than 100%) but still within the 80% to 125% threshold, the amount of over-effectiveness will be recognised in profit and loss. To the extent that the relationship is under-effective (but within the threshold) the full amount of the change will be recognised in equity. All hedges in the current period were found to be effective.

Given the hedging methodology applied, only the fair value adjustment on the derivative is recognised in equity and any interest accrual on the derivative is recognised in interest expense, therefore no amounts (other than ineffectiveness) are transferred out of equity into income statement directly. The hedging reserve will reduce to zero in line with the pull to par effect on the swap.

Interest rate hedging reserve reconciliation

	Group	
R million	**2010**	2009
Balance at the beginning of the year	**33**	14
Net gains recognised	**266**	43
Tax effect	**(75)**	(7)
Amount recognised in profit or loss	**3**	(17)
Balance at the end of the year	**227**	33

57. Long term share incentive scheme hedge

In terms of the group's long term share incentive scheme, the group is exposed to changes in its underlying share price as a result of the IFRS 2 charge. In order to hedge this risk, the group has entered into a series of total return equity swaps with a highly rated financial institution. In terms of this hedge, the group is covered from changes in its own equity price. In terms of the hedge designation, any increase in the group's share price is hedged. This enables the group to mitigate the cash flow risk arising when the LTIP options given to employees are exercised. In terms of IAS 39 these swaps have been documented and designated as effective cash flow hedges.

The fair value of the derivative instruments is determined using accepted valuation methodologies and the applicable market rate on date of valuation.

The hedge is constructed so as to mirror the expected vesting of the LTIP options.

In terms of the IAS 39 hedge accounting requirements the change in fair value of the hedging instrument found to be effective will be recognised in the statement of changes in equity in the hedging reserve. Complete ineffectiveness will be recognised directly in profit or loss for the period where the hedge effectiveness is outside the 80% to 125% threshold. To the extent that the change in the fair value of the hedged item is over-effective (i.e. greater than 100%) but still within the 80% to 125% threshold, the amount of over-effectiveness will be recognised in profit and loss. To the extent that the relationship is under-effective (but within the threshold) the full amount of the change will be recognised in equity. All hedges in the current period were found to be effective.

The table below represents the reconciliation of the LTIP hedging reserve.

LTIP hedging reserve reconciliation

	Group	
R million	**2010**	2009
Balance at the beginning of the year	**129**	140
Net losses on hedging instrument recognised in equity	**(11)**	(15)
Amount transferred to profit and loss	**(208)**	–
Tax effect	**3**	4
Balance at the end of the year	**(87)**	129

The amounts transferred to profit and loss are recognised as part of operating expenses.

58. Credit risk

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The group's primary focus is the underwriting of unsecured loans and accordingly, credit risk features as a dominant financial risk within the group. The credit risk management framework setting out the policies and procedures applied by the group is set out in the risk management review (refer page 119).

The group continually monitors the performance of each loan. Where payments are missed, the loan repayment period might be extended to ensure repayment of all required instalments. In other circumstances the group may be required under law to renegotiate a loan. However, these loans remain either past due or impaired and therefore the group does not provide a separate analysis of renegotiated items in terms of IFRS 7.

58. Credit risk *continued*

Credit risk management *continued*

IFRS 7 requires disclosure of the fair value of collateral for those items considered impaired. The group takes collateral only in very limited circumstances (for example within the Ellerines business unit where the credit has been granted by Ellerines as opposed to African Bank). The collateral predominantly takes the form of non-financial assets being the furniture and appliances sold on credit, the nature of which renders it impracticable to determine their fair value.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the group's maximum exposure to credit risk.

R million	Retail	Pay-roll	Credit card	Mining	Pay down port-folio	Ellerines con-verted	Ellerines foreign and uncon-verted	Total
58.1 Credit risk exposure								
Analysis of credit quality								
30 September 2010								
Financial assets that are neither past due nor impaired								
Advances	11 539	335	2 132	835	55	2 446	296	17 638
Low risk	6 118	305	1 130	292	29	1 380	110	9 364
Medium risk	5 163	1	954	470	21	822	144	7 575
High risk	258	29	48	73	5	244	42	699
Financial assets that are past due but not yet impaired	1 296	21	275	58	4	689	106	2 449
Financial assets that are impaired	2 271	72	225	172	194	775	21	3 730
Carrying amount	6 233	192	529	356	423	1 440	75	9 248
Provision for impairment	(3 962)	(120)	(304)	(184)	(229)	(665)	(54)	(5 518)
Total credit exposure	15 106	428	2 632	1 065	253	3 910	423	23 817
Deferred administration fees								(70)
Incurred but not reported provision								(72)
Credit life reserves								(18)
Partially written-off advances								1 703
Net advances								25 360

R million	Retail	Pay-roll	Credit card	Mining	Pay down port-folio	Ellerines con-verted	Ellerines foreign and uncon-verted	Total
58. Credit risk *continued*								
58.1 Credit risk exposure *continued*								
Reconciliation of allowance account								
Balance at the beginning of the year	3 296	116	213	218	240	–	1 339	5 422
Bad debts charge net of recoveries	2 115	47	248	94	(112)	39	485	2 916
Impairment provision (disposed)/acquired	–	–	–	–	17	654	(654)	17
Bad debt (write offs)/ rehabilitations	(1 449)	(43)	(157)	(128)	84	(28)	(1 116)	(2 837)
Balance at the end of the year	3 962	120	304	184	229	665	54	5 518

R million	Up to 3 months	Greater than 3 months to 6 months	Greater than 6 months to 9 months	Greater than 9 months	Total
Ageing of financial assets that are past due but not impaired	2 430	9	4	6	2 449

R million	Retail	Payroll	Credit card	Mining	Ellerines	Pay down portfolio	Ellerines foreign	Total
58. Credit risk *continued*								
58.1 Credit risk exposure *continued*								
Analysis of credit quality								
30 September 2009								
Financial assets that are neither past due nor impaired Advances	8 591	298	1 254	693	8	58	2 053	12 955
Low risk	4 769	11	581	152	–	–	431	5 944
Medium risk	3 443	287	315	338	8	58	951	5 400
High risk	379	–	358	203	–	–	671	1 611
Financial assets that are past due but not yet impaired	2 332	130	234	185	58	3	1 000	3 942
Financial assets that are impaired	1 784	81	187	76	169	–	562	2 859
Carrying amount	5 079	198	400	294	409	–	1 901	8 281
Provision for impairment	(3 295)	(117)	(213)	(218)	(240)	–	(1 339)	(5 422)
Total credit exposure	12 707	509	1 675	954	235	61	3 615	19 756
Deferred administration fees								(34)
Incurred but not reported provision								(202)
Credit life reserves								(37)
Partially written off advances								1 003
Net advances								20 486
Reconciliation of allowance account								
Balance at the beginning of the year	1 936	141	150	241	275	–	1 450	4 193
Bad debt charge net of recoveries	1 819	26	159	61	(61)	–	901	2 905
Bad debt (write-offs)/ rehabilitations	(460)	(50)	(96)	(84)	26	–	(1 012)	(1 676)
Balance at the end of the year	3 295	117	213	218	240	–	1 339	5 422

R million	Up to 3 months	Greater than 3 months to 6 months	Greater than 6 months to 9 months	Greater than 9 months	Total
Ageing of financial assets that are past due but not impaired	3 654	147	77	64	3 942

Company statement of financial position

as at 30 September 2010

R million	Notes	Company 2010	2009
Assets			
Short term deposits and cash	2	**28**	1
Other assets	3	**–**	26
Deferred tax asset		**1**	1
Investment in subsidiaries	4	**10 947**	10 973
Total assets		**10 976**	11 001
Liabilities and equity			
Other liabilities	5	**26**	24
Total liabilities		**26**	24
Ordinary share capital	6	**20**	20
Ordinary share premium	6	**9 131**	9 131
Reserves	7	**1 316**	1 343
Ordinary shareholders' equity		**10 467**	10 494
Preference shareholders' equity	8	**483**	483
Total equity (capital and reserves)		**10 950**	10 977
Total liabilities and equity		**10 976**	11 001

Company income statement

for the year ended 30 September 2010

R million	Notes	Company 2010	2009
Revenue			
Non-interest income	9	**6 909**	1 611
Total income		**6 909**	1 611
Operating costs	10	**(5 412)**	(9)
Profit before taxation		**1 497**	1 602
Direct taxation: STC	11	**–**	–
Direct taxation: SA normal	11	**–**	–
Profit for the year		**1 497**	1 602
Basic earnings (profit for the year) attributable to:		**1 497**	1 602
Preference shareholders	13	**36**	52
Ordinary shareholders	12	**1 461**	1 550

Company statement of comprehensive income

for the year ended 30 September 2010

R million	Notes	Company 2010	2009
Profit for the year		**1 497**	1 602
Other comprehensive income		**–**	–
Total comprehensive income		**1 497**	1 602

Company statement of changes in equity

for the year ended 30 September 2010

		Company				
R million	**Notes**	**Ordinary share capital and premium**	**Distri-butable reserves**	**Share based payment reserve**	**Preference share capital and premium**	**Total**
Balance at 30 September 2008		9 151	595	726	483	10 955
Dividends paid	13	–	(1 528)	–	(52)	(1 580)
Total comprehensive income for the year		–	1 550	–	52	1 602
Balance at 30 September 2009	6, 7, 8	**9 151**	**617**	**726**	**483**	**10 977**
Dividends paid	13	**–**	**(1 488)**	**–**	**(36)**	**(1 524)**
Total comprehensive income for the year		**–**	**1 461**	**–**	**36**	**1 497**
Balance at 30 September 2010	6, 7, 8	**9 151**	**590**	**726**	**483**	**10 950**

Company statement of cash flows

for the year ended 30 September 2010

R million	Notes	Company 2010	2009
Cash generated from operations	14	**6 900**	1 631
Decrease in working capital		**28**	2
Decrease in other assets		**26**	–
Increase in other liabilities		**2**	2
Direct taxation paid	15	**–**	–
Cash flow from operating activities		**6 928**	1 633
Cash outflow from investing activities		**(5 403)**	(3)
Increase in investment in African Bank Limited		**(5 403)**	–
Decrease in loans from subsidiary		**–**	(3)
Cash outflow from financing activities		**(1 498)**	(1 631)
Decrease/(increase) in loans to subsidiaries		**26**	(51)
Dividends paid to preference shareholders		**(36)**	(52)
Dividends paid to ordinary shareholders		**(1 488)**	(1 528)
Increase/(decrease) in cash and cash equivalents		**27**	(1)
Cash and cash equivalents at the beginning of the year		**1**	2
Cash and cash equivalents at the end of the year	16	**28**	1

Notes to the company annual financial statements

for the year ended 30 September 2010

1. Principal accounting policies

The annual financial statements of African Bank Investments Limited are prepared according to the same principles used in preparing the consolidated annual financial statements of the ABIL group. For detailed accounting policies please refer to pages 151 to 174 of this report.

R million	Company 2010	Company 2009
2. Short term deposits and cash		
Call and current accounts	**28**	1
	28	1
3. Other assets		
Sundry receivables	**–**	26
	–	26
4. Investment in subsidiaries		
Unlisted		
Shares at cost less impairments	**10 947**	10 922
Indebtedness to the company	**–**	51
	10 947	10 973
See appendix B for information relating to subsidiaries.		
5. Other liabilities		
Sundry creditors and accruals	**3**	2
Shareholders for odd-lot offer	**13**	13
Shareholders for unclaimed dividends	**10**	9
	26	24

	Company 2010 Number of shares	Company 2010 R million	Company 2009 Number of shares	Company 2009 R million
6. Ordinary share capital and premium				
Authorised				
Ordinary shares of 2,5 cents each	**1 000 000 000**	**25**	1 000 000 000	25
Issued				
Ordinary shares at par value of 2,5 cents each	**804 175 200**	**20**	804 175 200	20
Ordinary share premium		**9 131**		9 131
		9 151		9 151

6. Ordinary share capital and premium *continued*

Unissued shares

The directors have no authority to issue any of the unissued share capital. The directors have the authority to contract African Bank Investments Limited or any subsidiary to acquire shares not exceeding 3% of the issued share capital.

Shares issued during the year

No shares were issued during the 2010 financial year.

Shares issued during the previous year

No shares were issued during the 2009 financial year.

	Company	
R million	**2010**	2009
7. Reserves		
Reserves comprise the following:		
Distributable reserves	**590**	617
Share-based payment reserve	**726**	726
Total reserves	**1 316**	1 343

	Company			
	2010		2009	
	Number of shares	**R million**	Number of shares	R million
8. Preference shareholders' equity				
Authorised				
Preference shares of 1 cent each	**20 000 000**	**–**	5 000 000	–
Issued				
Preference shares at par value of 1 cent each	**5 000 000**	**–**	5 000 000	–
Preference share premium		**483**		483
		483		483

Five million non-redeemable, non-cumulative, non-participating preference shares with a par value of R0,01 each were issued on 23 March 2005. The shares were issued at a premium of R99,99 per share and share issue expenses of R17 million were set-off against the preference share premium. ABIL will not declare an ordinary dividend unless a preference dividend has been declared. Preference dividends will be calculated at 69% of the daily average prime rate which prevailed in respect of the period for which the dividend is calculated.

R million	Company 2010	2009
9. Non-interest income		
Dividends received from subsidiary companies	**6 909**	1 611
	6 909	1 611
10. Operating costs		
Auditors' remuneration	**3**	3
Audit fees – current year	**3**	2
Prior year underprovision	**–**	1
Non-executive directors' remuneration	**1**	1
Impairment of investment in Ellerine Holdings Limited	**5 403**	–
Other expenses	**5**	5
	5 412	9

The impairment of Ellerine Holdings Limited relates to the disposal of the Ellerines Financial Services business to African Bank Limited. The impairment loss recorded above is equal to the dividend received from Ellerine Holdings Limited as a result of the transfer of the financial services business, which is included in non-interest income per note 9.

R million	Company 2010	2009
11. Direct taxation		
Direct taxation charge per the income statement: STC	**–**	–
Direct taxation charge per the income statement: SA normal	**–**	–
Total taxation charge per the income statement	**–**	–
11.1 Direct taxation		
Secondary tax on companies (STC)		
Current year	**–**	–
SA current tax		
Current year	**–**	–
Deferred tax		
Current year	**–**	–
Direct taxation charge per the income statement	**–**	–
11.2 Tax rate reconciliation		
Profit before taxation (amount used as the denominator in the tax rate reconciliation)	**1 497**	1 602

R million	Company 2010	2009
11. Direct taxation *continued*		
11.2 Tax rate reconciliation *continued*		
	%	%
Total taxation charge for the year as a percentage of profit before taxation	**0,0**	0,0
Effective rate of taxation	**0,0**	0,0
Secondary tax on companies	**0,0**	0,0
Capital gains tax	**0,0**	0,0
Dividend income	**129,2**	28,2
Disallowable expenses	**(101,2)**	(0,2)
Standard rate of South African taxation	**28,0**	28,0
12. Reconciliation between basic earnings and headline earnings		
Profit for the year (classic earnings) attributable to:	**1 497**	1 602
Preference shareholders	**(36)**	(52)
Basic earnings attributable to ordinary shareholders	**1 461**	1 550
Adjusted for:		
Other capital items	**–**	–
Headline earnings	**1 461**	1 550
13. Ordinary and preference dividends		
13.1 Ordinary dividends		
Final dividend number 18 of 100 cents per ordinary share (2009: 105 cents)	**804**	844
Interim dividend number 19 of 85 cents per ordinary share (2009: 85 cents)	**684**	684
Total ordinary dividends paid during the year	**1 488**	1 528
Interim dividend number 19 of 85 cents per ordinary share (2009: 85 cents)	**684**	684
Final dividend number 20 of 100 cents per ordinary share (2009: 100 cents)	**804**	804
Total ordinary dividends relating to income for the year	**1 488**	1 488

Final dividend number 20 of 100 cents per ordinary share was approved by the board on 22 November 2010. No provision has been made for these dividends and their related STC in the financial statements for the year ended 30 September 2010.

R million	Company 2010	2009
13. Ordinary and preference dividends *continued*		
13.2 Preference dividends		
Final preference dividend number 10 of 367 cents per preference share (2009: 551 cents)	**18**	28
Interim preference dividend number 11 of 355 cents per preference share (2009: 475 cents)	**18**	24
Total preference dividends paid during the year	**36**	52
Interim preference dividend number 11 of 355 cents per preference share (2009: 475 cents)	**18**	24
Final preference dividend number 12 of 336 cents per preference share (2009: 367 cents)	**17**	18
Total preference dividends relating to the year	**35**	42
Final preference dividend number 12 of 336 cents per preference share was approved by the board on 22 November 2010. No provision has been made for these dividends and their related STC in the financial statements for the year ended 30 September 2010.		
All dividends declared are out of revenue reserves and are subject to STC.		
14. Cash generated from operations		
Profit from operations	**1 497**	1 602
Adjusted for:		
Impairment of investment in Ellerine Holdings Limited	**5 403**	–
Impairment of investment in Theta Investments (Proprietary) Limited	**–**	29
	6 900	1 631
15. Direct taxation paid		
Direct taxation charged to the income statement	**–**	–
	–	–
16. Cash and cash equivalents		
Short term deposits and cash	**28**	1
	28	1

17. Unutilised facilities

African Bank Investments Limited does not have any unutilised credit facilities.

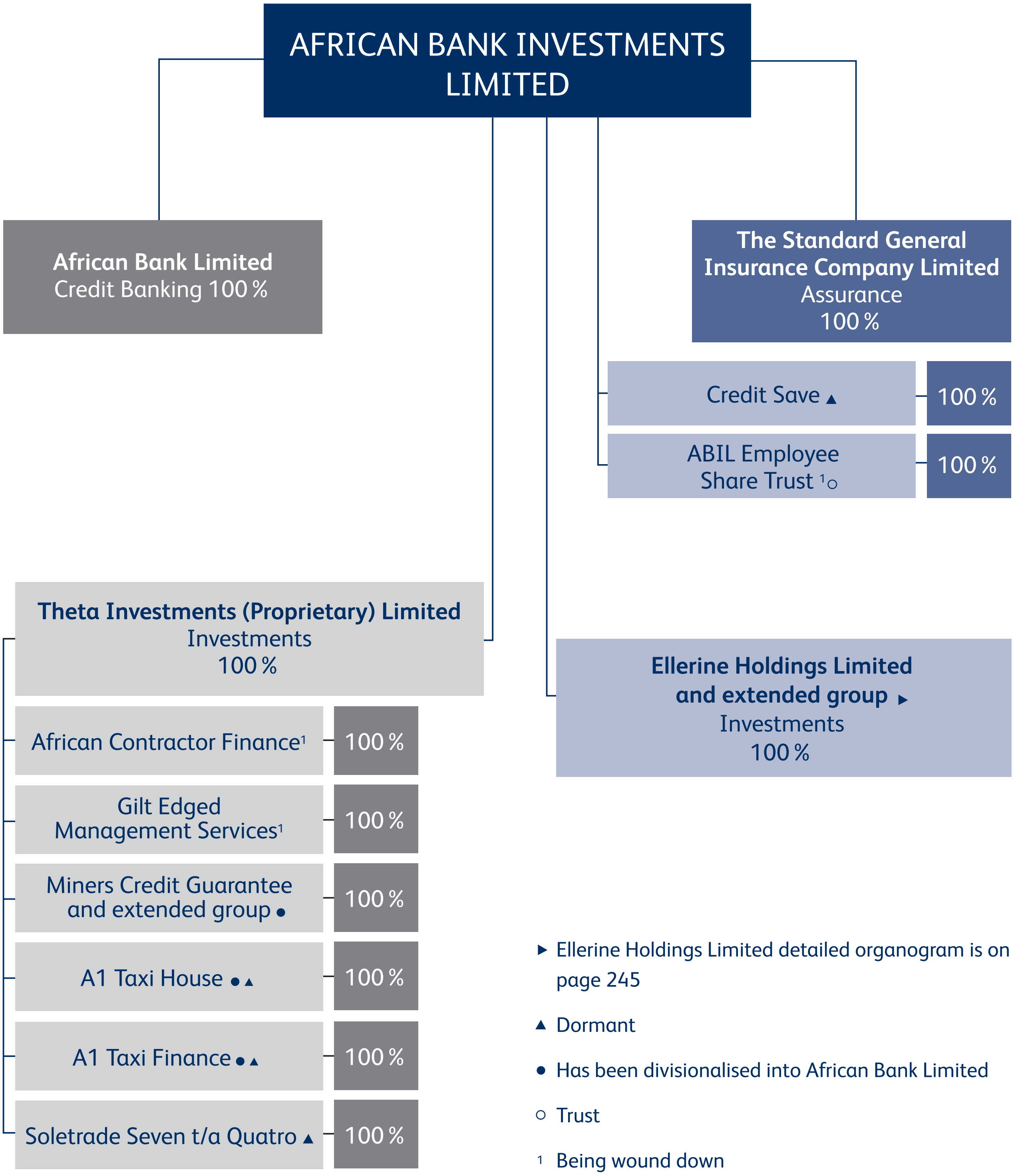
18. Related party information

African Bank Investments Limited holds 100% of *(inter alia)* African Bank Limited, Theta Investments (Pty) Limited and The Standard General Insurance Company Limited. Details of investment in subsidiaries/controlled entities are disclosed in appendix B on page 246. For details on loans to/from the company, refer note 4.

Director-related transactions

There were no material transactions with directors other than interests in share capital and emoluments as disclosed in the directors' report, note 10, and the remuneration report on pages 108 to 118 respectively.

Group structure and profile



ELLERINE HOLDINGS LIMITED

- **Ellerine Retail Limited** – Retail Holding company – 100 %
  - 100 % Ellerine Trading (Pty) Limited ▲
  - 100 % Ellerine Retail (Botswana) (Pty) Limited
  - 100 % Relyant Life Assurance Company Limited
  - 100 % Ellerine Management Services (Pty) Limited ▲
  - 100 % Ellerine TM (Pty) Limited ▲
  - 100 % Ellerine Personal Finance (Pty) Limited ▲
  - 100 % Ellerine Credit Finance (Pty) Limited ▲
  - 100 % Ellerine Retail (Namibia) (Pty) Limited
  - 100 % Relyant Retail (Swaziland) (Pty) Limited
  - 100 % Geen & Richards (Swaziland) (Pty) Limited
  - **Relyant Insurance Company Limited** – Insurance – 100 %
    - Prefsure (Botswana) Limited – Insurance – 100 %
- **Ellerine Services (Proprietary) Limited** ▲ – Investments – 100 %
  - Ellerine Furnishers (Namibia) (Pty) Limited – 100 %
  - Customer Protection Insurance Company (Namibia) (Pty) Limited – 100 %
- **Customer Protection Insurance Company Limited** – Insurance – 100 %
- Ellerine Properties (Pty) Limited – 100 %
- Ellerine Furnishers (Botswana) (Pty) Limited – 100 %
- Ellerine Furnishers (Lesotho) (Pty) Limited – 100 %
- Ellerine Furnishers (Swaziland) (Pty) Limited – 100 %
- Ellerine Furnishers (Zambia) (Pty) Limited – 100 %
- Hedgeley Investments (Pty) Limited – 100 %
- Ellerine Properties (Flagstaff) (Pty) Limited – 100 %
- Ellerine Properties (Giyani) (Pty) Limited – 100 %
- Ellerine Properties (Idutywa) (Pty) Limited – 100 %
- Ellerine Estates (Swaziland) (Pty) Limited – 100 %
- Ellerine Properties (Botswana) (Pty) Limited – 100 %
- Town Talk Furnishers (Bushbuckridge) (Pty) Limited – 100 %
- **Ellerine Furnishers (Pty) Limited** # – Retail Company – 100 %
  - Ellerines Development (Butterworth) (Pty) Limited – 100 %
  - Ellerines Development (Engcobo) (Pty) Limited – 100 %
  - Ellerines Development (Umtata) (Pty) Limited – 100 %

▲ Non-trading – dormant

Financial Services Provider

Investment in subsidiaries/controlled entities

	Type of business	Issued share capital 2010 R million	Issued share capital 2009 R million	Effective percentage held 2010 %	Effective percentage held 2009 %	Investment (at cost and impairments) 2010 R million	Investment (at cost and impairments) 2009 R million	Loans 2010 R million	Loans 2009 R million
Direct holdings by African Bank Investments Limited:									
African Bank Limited	Credit bank	**121**	121	**100**	100	**6 942**	1 539	**–**	51
Theta Investments (Pty) Limited	Investments	**–**	–	**100**	100	**64**	64	**–**	–
Theta Investments (Pty) Limited – impairment						**(29)**	(29)		
Goodbye Property (Pty) Limited	Dormant	**–**	–	**100**	100	**–**	–	**–**	–
Credit Indemnity Property (Pty) Limited	Dormant	**–**	–	**100**	100	**–**	–	**–**	–
Standard General Insurance Company Limited – cost	Assurance	**5**	5	**100**	100	**539**	539	**–**	–
Standard General Insurance Company Limited – impairment						**(338)**	(338)		
Creditsave (Pty) Limited	Dormant	**–**	–	**100**	100	**8**	8	**–**	–
ABIL Employee Share Trust – cost	Share trust	**–**	–	**100**	100	**200**	200	**–**	–
ABIL Employee Share Trust – impairment						**(200)**	(200)		
Ellerine Holdings Limited	Retail	**6**	6	**100**	100	**9 164**	9 139	**–**	–
Ellerine Holdings Limited – impairment						**(5 403)**	–		
		132	132			**10 947**	10 922	**–**	51

All the above subsidiaries are incorporated in the Republic of South Africa.

Shareholders' information

Dividend declaration

	Ordinary shares	Preference shares
Share code	ABL	ABLP
ISIN	ZAE000030060	ZAE000065215
Dividend number	20	12
Dividends per share (cash dividends)	100 cents	336 cents
Declaration date	Monday, 22 November 2010	Monday, 22 November 2010
Last date to trade cum-dividend	Thursday, 9 December 2010	Thursday, 9 December 2010
Shares commence trading ex-dividend	Friday, 10 December 2010	Friday, 10 December 2010
Record date	Friday, 17 December 2010	Friday, 17 December 2010
Dividend payment date	Monday, 20 December 2010	Monday, 20 December 2010

Shareholders' diary

Event	Date
Financial year end	30 September
Annual General Meeting	25 January 2011
First quarter trading update	7 February 2011
Interim results	23 May 2011
Third quarter trading update	4 August 2011
Annual results	21 November 2011

Credit rating

Moody's Investors Service maintained African Bank's credit rating on 19 April 2010 with a stable outlook.

	Short term	Long term
National scale rating	Prime – 1.za	A1.za
Global scale rating	P – 2	Baa2

Shareholders' information *continued*

Listing information

Listings exchange	JSE Limited
Sector	General financial
Sub-sector	Consumer finance
Share codes Ordinary shares Preference shares	 JSE: ABL Reuters: ABLJ.J JSE: ABLP Reuters: ABLPp.J
ISIN codes Ordinary shares Preference shares	 ZAE000030060 ZAE000065215
Bond codes	ABL5 ABL6 ABL7 ABL8A ABL8B ABL9 ABL10A ABL10B ABL11A ABL11B ABL C01 (commercial paper) ABLI 01 (inflation linked) ABLI 02 (inflation linked) ABLI 03 (inflation linked) ABLS1 (subordinated) ABLS2A (subordinated) ABLS2B (subordinated)
ADR programme ADR symbol Conversion ratio	Level 1 AFRVY One ADR is equivalent to five ordinary shares

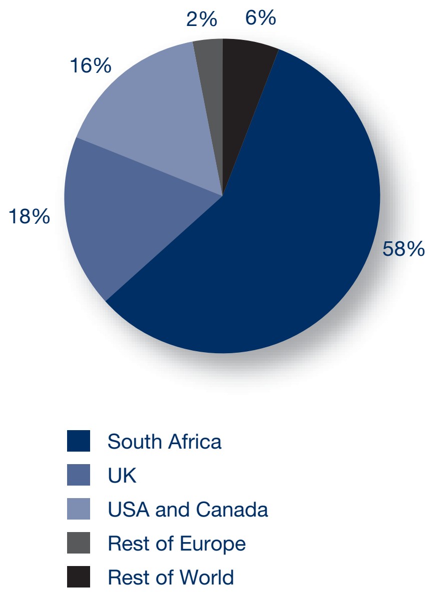
Share statistics

		12 months to 30 September				
		2010	2009	2008	2007	2006
Traded price (per share)						
Close	cents	**3 585**	2 950	2 520	3 131	2 210
High	cents	**3 728**	3 174	3 718	3 510	3 430
Low	cents	**2 768**	1 940	2 196	2 110	1 910
Market capitalisation	R million	**28 830**	23 723	20 265	15 590	11 004
Value of shares traded	R million	**27 452**	24 507	26 027	15 945	14 632
Value traded as % of market capitalisation	%	**95**	103	128	102	133
Volume of shares traded	millions	**868**	936	930	541	556
Volume traded as % of number in issue	%	**108**	116	116	109	112
Price/Earnings ratio	times	**16,1**	15,0	8,8	13,2	10,1
Dividend yield	%	**5,2**	6,4	9,3	6,9	6,8
Earnings yield	%	**6,2**	6,7	11,3	7,6	9,9
Price-to-book ratio	times	**2,3**	1,9	1,7	6,3	5,0
Average number of shares in issue	millions	**804**	804	718	497	497
Shares issued/(repurchased)	millions			306,3#		(0,5)*
Number of shareholders		**12 550**	11 019	13 766	11 114	9 772*

ABIL acquired the EHL group in January 2008. The consideration was settled by means of a fresh issue of 294,7 million shares. Another 11,6 million shares were issued in terms of the EHL BEE programme.

* *ABIL made an odd-lot offer to shareholders with fewer than 100 shares in March 2006 which resulted in the reduction in the number of shareholders.*

Geographical representation of shareholders



Shareholders' profile

Top fund managers holding/managing ABIL shares

Manager	Holding	%
Public Investment Corporation (PIC)	106 736 173	13,3
Investec Asset Management	78 905 170	9,8
JP Morgan Asset Management	71 582 769	8,9
STANLIB Asset Management	42 483 878	5,3
FIL Limited/FMR LLC	41 770 402	5,2
Eyomhlaba Investment Holdings	38 910 072	4,8
BlackRock Inc	33 997 819	4,2
Coronation Fund Managers	31 260 376	3,9
Mondrian Investment Partners	29 403 089	3,6
Sanlam Investment Management	24 573 603	3,1
Hlumisa Investment Holdings Limited	18 668 908	2,3
The Vanguard Group Inc	14 440 035	1,8
Government Singapore Investment Corp	13 925 523	1,7
Legg Mason Inc	12 878 644	1,6
Wood C	10 074 533	1,3
Abax Investments	10 019 242	1,3
Dimensional Fund Advisors	9 394 732	1,2
RMB Securities	8 261 434	1,0
Metropolitan Asset Managers	6 578 939	0,8
Directors' holdings *(including shares held indirectly through ABIL's BEE programmes)*	41 305 357	5,1

Top beneficial holders

Beneficial owner	Holding	%
Government Employees Pension Fund (PIC)	123 168 852	15,3
ABIL's BEE programmes*	57 578 980	7,2
Liberty Life Association of Africa	32 148 629	4,0
Ishares MSCI Emerging Markets Index Fund	18 784 141	2,3
Leon Kirkinis	16 500 000	2,1
Investec Value Fund	15 279 522	1,9
Fidelity Funds	14 827 893	1,8
Gordon Schachat	12 000 000	1,5
Eskom Pension Fund	11 176 686	1,4
Vanguard Emerging Markets Stock Fund	10 770 369	1,3
***ABIL's BEE programmes**		
Eyomhlaba Investment Holdings Limited	38 910 072	4,8
Hlumisa Investment Holdings Limited	18 668 908	2,3

Analysis of ordinary shareholders

for the year ended 30 September 2010

	Number of holders	% of total shareholders	Number of shares	% of total issued share capital
Range				
1 – 999	6 163	49,11	2 157 432	0,3
1 000 – 9 999	4 994	39,79	13 070 870	1,6
10 000 – 99 999	937	7,47	26 967 263	3,4
100 000 – more	456	3,63	761 979 635	94,8
Total	12 550	100,00	804 175 200	100,0
Shareholder spread				
Non-public	10	0,08	32 907 835	4,1
Directors	8	0,06	31 369 814	3,9
Development trust	1	0,01	1 060 606	0,1
Share trust	1	0,01	477 415	0,1
Public	12 540	99,92	771 267 365	95,9
Total	12 550	100,00	804 175 200	100,0
Distribution of shareholders				
Individuals	9 798		40 060 170	5,0
Banks	131		218 444 038	27,2
Pension/Provident funds	240		172 199 062	21,4
Growth funds/Unit trusts	547		192 703 183	24,0
Investment companies	2		57 578 980	7,2
Nominees and trusts	1 365		35 788 144	4,5
Limited companies	16		6 712 245	0,8
Insurance companies	52		62 557 177	7,8
Private companies	218		12 893 343	1,6
Medical aid schemes	20		2 342 145	0,3
Other corporate bodies	41		1 591 982	0,2
ABIL employee share trust	1		477 415	0,1
Close corporations	119		827 316	0,1
Total	12 550		804 175 200	100,0

Analysis of preference shareholders

for the year ended 30 September 2010

	Number of holders	% of total shareholders	Number of shares	% of total issued share capital
Range				
1 – 999	535	40,1	243 587	4,9
1 000 – 9 999	715	53,6	1 816 680	36,3
10 000 – 99 999	77	5,8	1 847 575	37,0
100 000 – more	6	0,5	1 092 158	21,8
Total	1 333	100,0	5 000 000	100,0
Shareholder spread				
Non-public	1	0,1	10 000	0,2
Directors	1	0,1	10 000	0,2
Public	1 332	99,9	4 990 000	99,8
Total	1 333	100,0	5 000 000	100,0
Distribution of shareholders				
Individuals	971	72,8	1 939 948	38,8
Growth funds/Unit trusts	28	2,1	790 817	15,8
Nominees and trusts	256	19,2	986 151	19,7
Insurance companies	3	0,2	311 500	6,2
Limited companies	3	0,2	13 332	0,3
Close corporations	13	1,0	301 908	6,0
Private companies	45	3,4	580 417	11,6
Other corp bodies	14	1,1	75 927	1,5
Totals	1 333	100,0	5 000 000	100,0
Top beneficial shareholders				
Umbhaba Estates (Pty) Limited			248 740	5,0
Hollard Insurance Company Limited			246 000	4,9
Winburn Investments cc			203 980	4,1
Coronation Preference Share Fund CI			149 968	3,0
SBSA ITF Grindrod Diver Preference Shares			143 470	2,9
Platinum/The Waterford Family Trust			100 000	2,0
Van Tonder #2			96 050	1,9
Plath			80 408	1,6
Polaris Hedge Fund			80 000	1,6
Wanckel			72 000	1,4
Stanlib Dynamic Return Fund			70 000	1,4
Old Mutual Foundation Trust			63 884	1,3
Liberty Life Association of Africa Limited			55 000	1,1
SBSA ITF NGI Managed Fund			53 724	1,1
Demcon (Cape) cc CK19 87002412/23			50 000	1,0

African Bank Investments Limited
(Registration number 1946/021193/06)
(Incorporated in the Republic of South Africa)
(Registered bank controlling company)
Ordinary share code: ABL ISIN : ZAE000030060
Preference share code: ABLP ISIN : ZAE000065215
(ABIL or the company)

Notice of Annual General Meeting

Notice is hereby given that the 64th annual general meeting of the shareholders of the company will be held on 25 January 2011, at 11h00 at African Bank Limited, 59 16th Road, Halfway House, Midrand, for the following business:

1. To receive and consider the annual financial statements for the year ended 30 September 2010.
2. To consider all and any matters of the company which, in terms of the company's Articles of Association, do not constitute special business of the company.
3. To consider and, if deemed fit, to pass with or without modification, the following ordinary and special resolutions:
4. **Ordinary resolution 1**

   4.1 RESOLVED THAT the resolutions regarding the resignation and appointment of each of the directors referred to in paragraphs 4.2 to 4.5 are moved as separate and stand-alone resolutions in respect of each such director. The *curricula vitarum* for these directors appear at the end of this notice.

   4.2 RESOLVED THAT

   Mutle Constantine Mogase who retires in accordance with the company's Articles of Association and being eligible, offers himself for re-election, be re-elected as director of the company with immediate effect.

   4.3 RESOLVED THAT

   Gordon Schachat who retires in accordance with the company's Articles of Association and being eligible, offers himself for re-election, be re-elected as director of the company with immediate effect.

   4.4 RESOLVED THAT

   Thamsanqa Mthunzi Sokutu who retires in accordance with the company's Articles of Association and being eligible, offers himself for re-election, be re-elected as director of the company with immediate effect.

   4.5 RESOLVED THAT

   Antonio Fourie who retires in accordance with the company's Articles of Association and being eligible, offers himself for re-election, be re-elected as director of the company with immediate effect.

5. **Ordinary resolution 2**

   RESOLVED THAT

   5.1 Deloitte & Touche be re-appointed as auditors of the company;

   5.2 Mgcinisihlalo Jordan be appointed as the designated auditor to hold office for the ensuing year; and

   5.3 the directors be authorised to determine the remuneration of the auditors for the ensuing year.

6. **Ordinary resolution 3**

   RESOLVED THAT, as contemplated in the King Report on Governance for South Africa and the King Code of Governance Principles (King III) which requires that the remuneration policy of the company be tabled to shareholders for a non-binding advisory vote, the shareholders approve the remuneration policy of the company as annexed to this notice.

7. **Special resolution 1**

   RESOLVED THAT the remuneration payable to non-executive directors for their services as directors for the financial year ending 30 September 2011 (the '2011 financial year') will be as indicated in the table below as adjusted thereafter to take account of inflation which adjustment shall only be applicable until a change to such remuneration is approved at a subsequent shareholders' meeting.

Emoluments payable to non-executive directors Rands	**2010 financial year**	2011 financial year
Chairman's fees inclusive of board and committee fees	**1 274 875**	1 376 865
Non-executive directors	**184 450**	199 206
Chairman of the audit committee	**184 450**	199 206
Audit committee members	**92 225**	99 603
Chairman of the risk and capital management committee	**184 450**	199 206
Risk and capital management committee members	**92 225**	99 603
Chairman of the remuneration and transformation committee	**130 200**	140 616
Remuneration and transformation committee members	**65 100**	70 308
Chairman of the directors affairs committee	**130 200**	140 616
Directors affairs committee members	**65 100**	70 308

8. **Reason for and effect of special resolution 1**

   8.1 In terms of King III, it is best practice for non-executive directors' remuneration to be approved by shareholders. The Companies Act 71 of 2008, as amended (the 2008 Companies Act), which is currently anticipated to come into operation on 1 April 2011, requires such approval to be by special resolution.

   8.2 The reason for special resolution number 1 is to request shareholders to approve the remuneration payable to non-executive directors for the 2011 financial year and thereafter until the shareholders are again approached for subsequent approvals.

   8.3 The effect of special resolution number 1 will be that the remuneration of non-executive directors as contained in special resolution 1 will be approved.

9. **Ordinary resolution 4**

   RESOLVED THAT, the unissued non-redeemable, non-cumulative, non-participating preference shares (the preference shares) in the authorised share capital of the company, be and are hereby placed under the control of the directors of the company who are authorised to allot and issue the preference shares at their discretion until the next annual general meeting of the company, subject to the provisions of Companies Act, No. 61 of 1973, as amended or replaced, (the Companies Act) and the Listings Requirements of the JSE Limited (the JSE) and any other relevant authority whose approval is required in law.

10. **Special resolution 2**

    RESOLVED THAT, as a general approval contemplated in sections 85 to 89 of the Companies Act, the acquisitions by the company, and/or any subsidiary of the company, from time to time of the issued ordinary shares of the company, upon such terms and conditions and in such amounts as the directors of the company may from time to time determine, be and is hereby authorised, but subject to the Articles of Association of the company, the provisions of the Companies Act and the Listings Requirements of the JSE, when applicable, and provided that:

    10.1 this authority shall be valid until only the next annual general meeting of the company or 15 months from the date of the annual general meeting at which this special resolution is passed, whichever period is shorter;

10.2 the repurchase of shares being effected through the main order book operated by the trading system of the JSE and being done without any prior understanding or arrangement between the company and the counterparty (reported trades are prohibited);

10.3 the aggregate percentage of issued shares in the company which the company together with any of its subsidiaries may acquire during any one financial year shall not exceed 3 % of the company's issued ordinary share capital from the date of the grant of this general authority;

10.4 when the company, together with its subsidiaries, has cumulatively repurchased 3 % of the initial number of the relevant class of securities an announcement will be made;

10.5 subject always to the limitation set out in 10.3 above, the aggregate percentage of issued shares in the company which the company's subsidiaries may hold as treasury stock, at any time, shall not exceed 10 % of the company's issued share capital for each class of shares at the relevant times and no voting rights attached to those shares may be exercised while those shares are held by such subsidiaries;

10.6 repurchases must not be made at a price greater than 10 % above the weighted average of the market value for the shares for the 5 (five) business days immediately preceding the date on which the transaction is effected or, if the company's shares have not traded in such 5 business day period, the JSE should be consulted for a ruling;

10.7 at any point in time, the company may only appoint one agent to effect any repurchases on its behalf;

10.8 no repurchase may take place during prohibited periods stipulated by the Listings Requirements of the JSE unless the company has in place a repurchase programme where the dates and quantities of shares to be traded during the relevant period are fixed and not subject to any variation and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period; and

10.9 any acquisition shall be subject to:-

10.9.1 the Companies Act;

10.9.2 the Listings Requirements of the JSE and any other applicable stock exchange rules, as may be amended from time to time; and

10.9.3 any other relevant authority whose approval is required by law.

11. **Reason for and effect of special resolution 2 and statement required in terms of paragraph 11.26 of the Listings Requirements of the JSE**

11.1 The reason for special resolution 2 is to grant the directors of the company the general authority to contract the company and/or any of its subsidiaries to acquire shares in the company, should the directors consider it appropriate in the circumstances.

11.2 The effect of special resolution 2 is that the directors will be granted the general authority to contract the company and/or any of its subsidiaries to acquire shares in the company, should the directors consider it appropriate in the circumstances and should the company comply with the relevant statutes and authority applicable thereto.

11.3 At the date of this notice, the board of directors have no definite intention of repurchasing shares, other than in relation to hedging the group's exposure to the ABIL share price under its long term incentive programme. It is proposed and the directors believe it to be in the best interest of the company that shareholders pass special resolution 2 which will give the directors the authority to repurchase a maximum of 3 % of the company's issued share capital in any one financial year.

11.4 The directors shall not make any payment in whatever form to acquire any shares issued by the company if, after the directors have considered the effects of any repurchases, there are reasonable grounds for believing that:

11.4.1 the company and the group will, at any time during the period of 12 months after the date of the repurchase, be unable in the ordinary course of business to repay their debts as they become due;

11.4.2 the assets of the company and the group, fairly valued according to International Financial Reporting Standards and in accordance with the accounting policies used in the latest audited annual financial statements of the company and the group, will, at any time during the period of 12 months after the date of the repurchase, be less than their liabilities;

11.4.3 the share capital and reserves of the company and the group will not be adequate for ordinary business purposes for a period of 12 months after the date of the repurchase; and

11.4.4 the working capital of the company and the group will not be adequate for ordinary business purposes for a period of 12 months after the date of the repurchase.

11.5 Further, before entering the market to proceed with any general repurchase, the company will first ensure that written confirmation is given by the company's sponsor to the JSE regarding the adequacy of the company's and the group's working capital.

11.6 Finally, after the effective date of the 2008 Companies Act, the directors shall not make any payment in whatever form to acquire shares unless it is satisfied the relevant requirements of section 46 of the 2008 Companies Act have been fulfilled.

11.7 Since the method of acquisition and the number of shares to be acquired are still to be determined by the board of directors in the future, the board of directors shall only exercise the authority hereby granted to it if, within the board's discretion, circumstances should merit such exercise and provided that, on the date of the acquisition of the shares and taking into account the effect thereof, the company will be able to comply with the requirements of 11.4.1 to 11.4.4 above. (After the effective date of the 2008 Companies Act, there must also be compliance with 11.6 above.)

11.8 For the purposes of considering special resolution 2 and in compliance with Rule 11.26 of the Listings Requirements of the JSE, the information listed below has been included in the 2010 annual report of the company to which this notice is attached, at the pages of such report indicated below:-

11.8.1 directors and management (pages 90 – 93);

11.8.2 major shareholders (page 250);

11.8.3 material changes (page 141);

11.8.4 directors' interests in securities (page 143);

11.8.5 share capital of the company (page 140); and

11.8.6 litigation statement (page 145).

11.9 The directors whose names appear on pages 90 –93 of the annual report, collectively and individually accept full responsibility for the accuracy of the information contained in this special resolution and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the information referred to in this special resolution 2 contains all information required by law and the Listings Requirements of the JSE.

12. **Voting and proxies**

All shareholders of the company are entitled to attend and speak at the annual general meeting. All holders of ordinary shares will be entitled to vote at the annual general meeting or any adjournment thereof. Any person present and entitled to vote on a show of hands as a shareholder or as a proxy or as a representative of a body corporate shall, on a show of hands, have only one vote, irrespective of the number of shares he holds or represents. A shareholder entitled to attend and speak at a meeting is entitled to appoint one or more proxies to attend and speak at such meeting in such shareholder's stead. A shareholder entitled to attend, speak and vote at a meeting is entitled to appoint one or more proxies to attend, speak and vote or abstain from voting in such shareholder's stead.

A proxy need not be a shareholder. A form of proxy is attached for completion by any certificated or "own-name" registered dematerialised shareholder who is unable to attend in person. Should any shareholder require further copies of the forms of proxy, please contact Link Market Services SA (Proprietary) Limited (whose contact details appear on the notes to the proxy form).

Completed forms of proxy must be lodged with Link Market Services (Proprietary) Limited by no later than 11h00 on Friday, 21 January 2011.

Holders of dematerialised shares, other than "own-name" registered dematerialised shareholders, must inform their Central Securities Depository Participant (CSDP) or broker of their intention to attend the annual general meeting and obtain the necessary authorisation from their CSDP or broker to attend the annual general meeting or, alternatively, provide their CSDP or broker with their voting instructions should they not be able to attend the annual general meeting in person.

In terms of the Listings Requirements of the JSE, shares in the company held by any ABIL group share trust or scheme will not have their votes at the annual general meeting taken into account for the purposes of the resolutions proposed.

An ordinary or a special resolution put to the vote shall be decided on a show of hands unless, before or on the declaration of the results of the show of hands, a poll is demanded by the chairman of the annual general meeting or any person entitled to vote at the annual general meeting.

Any person present and entitled to vote on a show of hands as a shareholder or as a proxy or as a representative of a body corporate shall, on a show of hands, have only one vote, irrespective of the number of shares he holds or represents.

On a poll, a shareholder shall be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value of the shares held by such shareholder bears to the aggregate amount of the nominal value of all ordinary shares and all preference shares issued by the company.

By order of the board

African Bank Investments Limited

Yashmita Mistry
Company Secretary

9 December 2010

Registered office

59 16th Road
Midrand
1685

Private Bag X170
Midrand
1685

Directors' curricula vitarum

Mutle Constantine Mogase	Independent non-executive chairman
Date appointed	12 March 2007
Business address	Vantage Capital, 1st Floor, 3 Melrose Boulevard, Melrose Arch, Johannesburg
Qualifications	BCom (UCT), Executive Development Programme, Graduate Diploma in Corporate Governance
Nationality	South African
Directorships	Non-executive chairman of African Bank Investments Limited and African Bank Limited; Non-executive director of Air Liquide, ECI Africa Consulting (Pty) Limited and JP Morgan Advisory Board; Executive chairman of Vantage Capital Group; and executive director of Vantage Capital Investments (Pty) Limited.
Profile	Mutle has been an independent non-executive director of African Bank Investments Limited (ABIL) and African Bank Limited (African Bank) since 2007 and currently serves as the non-executive chairman of ABIL and African Bank. Mutle was a joint founder of MMR Equity Capital, which merged with Vantage Capital in 2001. He is currently the executive chairman of Vantage Capital Group. Vantage Capital is an investment and financial services group. The group also manages a private equity fund with committed capital of R225 million sourced from the IDC, The FMO (a Dutch Development Bank), the Transnet Retirement Fund, Transnet Pension Fund and the Eskom Pension and Provident Fund. Mutle has also been a key member of the team that developed the Financial Services Charter and has also been appointed to the Charter Council. He was chairman of the Micro Finance Regulatory Council (MFRC) and it was during his tenure that the National Credit Act (NCA) was developed.

Gordon Schachat	Executive deputy chairman
Date appointed	1 July 1995
Business address	59 16th Road, Halfway House, Midrand,1685
Nationality	South African
Directorships	Deputy executive chairman of ABIL, African Bank and Ellerine Holdings Limited; Non-executive director of Motifprops 26 (Pty) Limited, Trakprops 4 (Pty) Limited, Xtraprops 208 (Pty) Limited and Saringwe Art (Pty) Limited.
Profile	Gordon was one of the original founders and architects of the ABIL group in partnership with Leon Kirkinis, the current CEO. His business career spans nine years with the Schachat housing group, thereafter 13 years in the field of private equity and investment banking which, in partnership with the Hollard Group in 1995, culminated in the listing of the Boabab Investment Trust, the forerunner of the current ABIL group.

Thamsanqa Mthunzi Sokutu	Executive director
Date appointed	19 May 2003
Business address	59 16th Road, Midrand, 1685
Qualifications	BSc (Honours); MSc
Nationality	South African
Directorships	Executive director of ABIL; African Bank and Ellerine Holdings Limited; Non-executive director of Eyomhlaba Investment Holdings Limited, South African National Biodiversity Institute and Masake (Pty) Limited.
Profile	Thamsanqa (Tami) Sokutu holds a MSc degree (Plant Systematics and advanced Ecology, UCT, 1991), a certificate in Environmental Management: Theory and Practice, (UCT, 1993) and a certificate in Senior Executive Programme, (Wits and Harvard Business Schools, 1999). He has also completed a course on Finance for non-Finance Managers at Wits Business School (2003). He has vast experience in environmental management and environmental policy related disciplines, having been the regional head of environmental policy desk of the ANC in Transkei (1990 to 1992) and later head of the ANC national environmental desk (1994), where he played a pivotal role in laying the ground for the ANC environmental policies in preparation for the new government in 1994. Tami Sokutu joined African Bank in September 2002, his political experience and general leadership and managerial skills earned him appointment as Director. He is Executive Director responsible for ABIL's group risk functions covering both African Bank and EHL businesses.

Antonio Fourie (Toni)	Executive director
Date appointed	21 October 2003
Business address	14A Charles Crescent, Eastgate, Extension 4, Sandton
Qualifications	BCom
Nationality	South African
Directorships	Executive director of ABIL and African Bank; chief executive of Ellerine Holdings Limited
Profile	Toni, who has had extensive previous experience in retail operations and has been instrumental in repositioning African Bank's distribution footprint, branding and customer service propositions, is the chief executive of Ellerines. Toni's initial engagement with ABIL was in the capacity of executive director of innovation, business optimisation and group strategy and more recently sales, marketing, distribution, human resources, credit card and group strategy.

Annexure

Remuneration policy of African Bank Investments Limited

Introduction

As a business that engages in the supply of goods and services to satisfy peoples personal needs, human capital is the most important asset required in carrying out this objective in a differentiated way. As a dominant player in the unsecured credit market, the attraction and retention of appropriate skills is an area that requires continuous focus at the highest level of the organisation. In this regard, remuneration is one of the key drivers of aligning behaviour of human capital to the strategic intent of the group. The importance of having a remuneration philosophy that is balanced so as to achieve long term sustainable organisational objectives rather than being driven by short term profit and executive gains has been amplified by the global financial crisis of the past eighteen months.

Remuneration governance

The board has a sub-committee, the group remuneration and transformation committee (Remco), which comprises three non-executive directors, two of whom are independent. This committee is tasked with assisting the board in formulating and monitoring the implementation of the group's transformation and remuneration policies. Remco has the following responsibilities, amongst others, with regard to remuneration:

- Reviewing and approving the overall incentive pools for each financial year, in accordance with the group's approved incentive policy and schemes, taking into account the changing competitive landscape.
- Determining and recommending to the board of directors for approval, the basic packages and incentive allocations for executive directors and members of the group executive committee and the allocation between short term and long term incentives.
- Reviewing and recommending to the board of directors for approval, the remuneration of non-executive directors based on recommendations from the executive directors.

Remuneration philosophy and policies

The group continues to strive for sustainable long term growth and to this end a greater portion of management and executive remuneration is put "at risk" against the delivery of key long term objectives and is linked to the performance of the group over a period of years rather than being dependent on a single year's results or performance. No share options or shares are issued to employees or directors. There are three components to remuneration which is determined along the following basis:

Basic remuneration and employee benefits

The basic remuneration comprises fixed guaranteed salaries for all permanent employees and variable incentives paid to collections and sales staff. Permanent employees are compensated according to market related benchmarks, which are assessed on an ongoing basis with some employees on a total guaranteed package basis whilst others are on cash packages, with certain statutory contributions to pension, provident, group life and healthcare schemes being made. All non-managerial staff in the EHL group are entitled to a guaranteed 13th cheque.

Short term incentive payments

Approximately 65% of the total incentive pool is paid by way of short term incentives based on annual performance of individual staff members, management and executive directors. These incentives encompass the variable pay paid to African Bank sales staff based on sales targets, collections staff based on collections target achievement and other performance targets, annual performance bonus to all support services staff, management and executive directors. Sales commission paid to EHL staff currently do not form part of the incentive pool because sales commissions are an integral part of remuneration for sales staff in the retail industry.

The short term bonus will be a smaller component of total incentives for senior management, executives and executive directors and is not expected to exceed 40% of the total incentive payment to this group. There are no future service conditions attached to the payment of short term incentives.

Long term incentive plans (LTIP)

The LTIP is a cash-settled, share appreciation scheme, modelled on the performance of ABIL shares which is awarded to employees generally at management level and higher. Qualifying participants are awarded a certain value of LTIPs each year, unitised into R10 units, with the instrument structured as follows:

- Each LTIP unit, plus an additional 100% (2009 and prior: 50%) gearing achieved through a notional loan, is synthetically "invested" into ABIL shares. i.e. R20 (2009: R15) is "notionally invested" into ABIL shares. The entry price is set at the ABIL volume-weighted average price (VWAP) for the calendar month of issue of the LTIPs, being September of each year. The settlement value is determined with reference to the VWAP for the month of vesting.
- Interest is accrued on the R10 (2009: R5) notional loan on a semi-annual basis and the dividends paid on the synthetic ABIL shares (grossed up at the corporate tax rate) are applied to reduce the loan balance. The interest rate charged on the notional loan is market-related.
- The value of the LTIP, from time to time, is the market value of the synthetic ABIL shares, less the remaining balance on the notional loan after accruing interest and notional dividends.
- The LTIP vests annually in four equal tranches. Employees will be given the ability as from this year to roll over a tranche into the following year or years, which must be done prior to each vesting period. Any LTIP rolled over will be subject to the same forfeiture rules in the event the employee resigns or is dismissed prior to the new vesting date.
- The LTIP is paid out at market value, based on the ABIL VWAP for the calendar month of maturity. Should the individual resign or be dismissed, the unvested LTIPs will be forfeited and cancelled.
- Each year a new LTIP will be created which will run parallel to existing LTIPs resulting in a maximum of four separate LTIPs running concurrently.

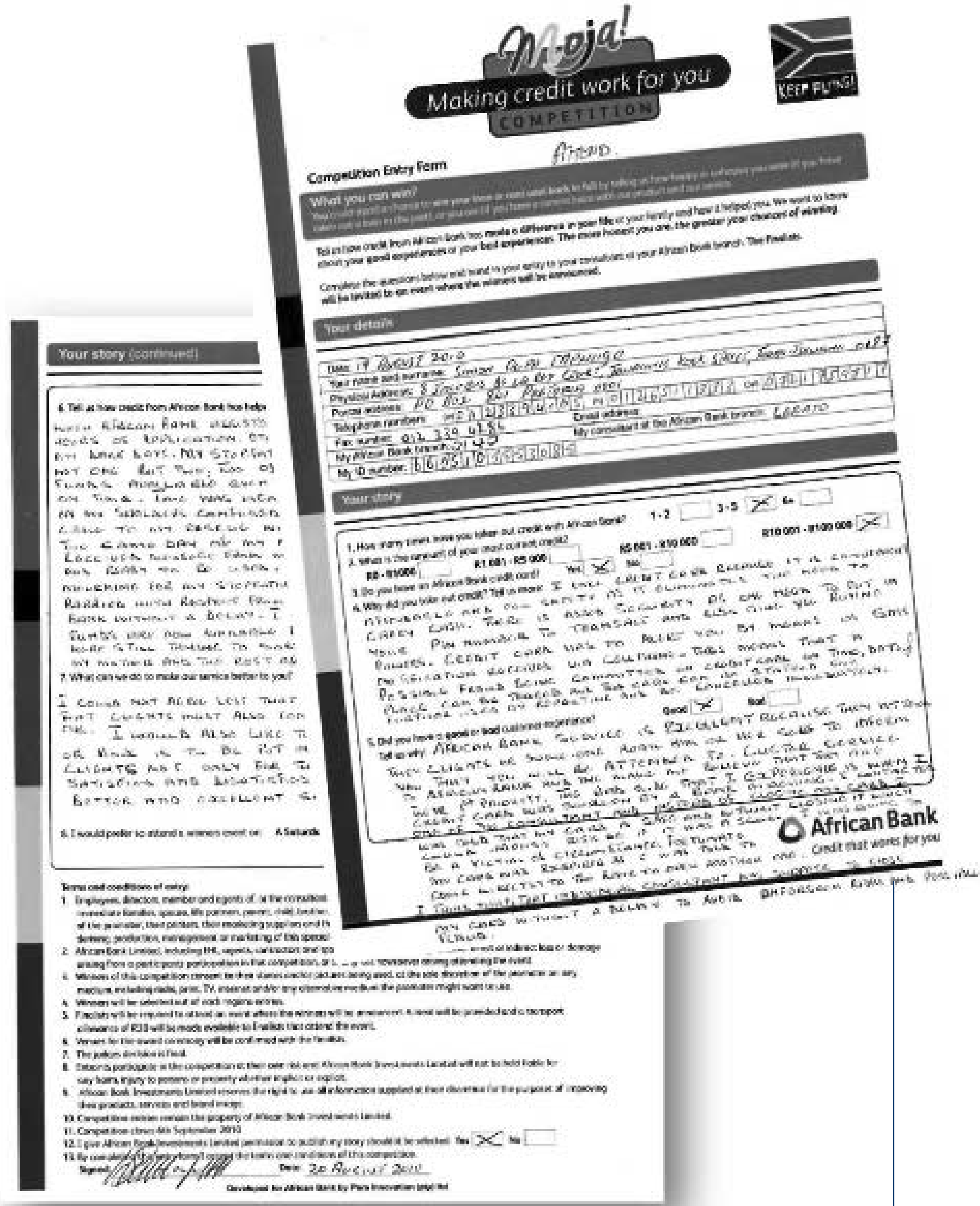
A greater portion of the incentives for the executives are granted through LTIPs so as to ensure that their performance is balanced more towards a longer term sustainable performance of the group.

Non-executive directors fees

Non-executive directors fees are benchmarked against the market every three years having regard to the nature of the business, complexity, etc. Annual increases outside of this adjustment are in line with market.

Conclusion

The board, through Remco, applies the above policies having regard to the markets in which the group operates and improving them where necessary to achieve the group's objectives.



"Only one bank that came to my rescue when I am in need of money "African Bank". The same day of application within two hours I received message from my cell phone that the funds are ready and ready to be used. I was having mixed emotion: mourning for my stepfather and also happy that he will be buried with respect from the funds I received from African Bank without a delay."

Simon Oupa Mphugo

African Bank Investments Limited
(Registration number 1946/021193/06)
(Incorporated in the Republic of South Africa)
(Registered bank controlling company)
Ordinary share code: ABL ISIN : ZAE000030060
Preference share code: ABLP ISIN : ZAE000065215
(ABIL or the company)

Form of proxy

I/We

(name in BLOCK LETTERS)
of

(address in BLOCK LETTERS)
Telephone Work ( ) Telephone Home ( )

hereby appoint *(see note 2 overleaf)*:
1. or failing him/her
2. or failing him/her,
3. the chairman of the annual general meeting of shareholders,
as my/our proxy to act for me/us at the annual general meeting and at each adjournment or postponement thereof in respect of all, or, if not all, the following lesser number, of the ordinary shares and/or the preference shares registered in my/our name *(see note 3 overleaf)*:

My/our proxy (if I am/we are an ordinary shareholder) is instructed to vote for and/or against the following resolutions, with or without modification, and/or abstain from voting in respect of the above number of ABIL shares as follows:

		For	Against	Abstain
Ordinary resolution number 1	Re-election of directors:			
	1. Mutle Constantine Mogase			
	2. Gordon Schachat			
	3. Thamsanqa Mthunzi Sokutu			
	4. Antonio Fourie			
Ordinary resolution 2	– The re-appointment of auditors			
Ordinary resolution 3	– Non-binding advisory vote in respect of the company's remuneration policy			
Special resolution 1	– Remuneration payable to directors			
Ordinary resolution 4	– General authority for issue of preference shares			
Special resolution 2	– General authority for share repurchases			

(Tick whichever is applicable. If no directions are given, the proxy will be entitled to vote or to abstain from voting, as that proxy deems fit.)

Signed at on 2011

Signature

Assisted by (where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder/s of ABIL) to attend and speak and, where such shareholder is an ordinary shareholder, vote in place of that shareholder at the annual general meeting of shareholders. Please read the notes on the reverse side hereof.

Instructions on who may use this proxy form:

1. This proxy form is for use:
   1.1 in respect of the annual general meeting of the company to be held on 25 January 2011 at African Bank Limited, 59 16th Road, Midrand at 11h00
   1.2 only by ABIL shareholders holding certificated shares and shareholders who have dematerialised their shares and who have elected "own-name" registration.
2. ABIL shareholders who have already dematerialised their shares through a Central Securities Depository Participant (CSDP) or broker must not complete this form of proxy and must provide their CSDP or broker with their voting instructions, except for shareholders who have elected own-name registration in the sub-register through a CSDP or broker, which shareholders must complete this form of proxy and lodge it with their CSDP or broker in terms of the custody agreement entered into between them and their CSDP or broker. Holders of dematerialised shares wishing to attend the annual general meeting must inform their CSDP or broker of such intention and request their CSDP or broker to issue them with the necessary authorisation to attend.

Notes:

1. **While preference shareholders are entitled to attend and speak at the annual general meeting, either in person or represented by proxy, preference shareholders shall not be entitled to vote, either in person or by proxy, at the annual general meeting. Accordingly any aspect of this proxy form regarding voting on any other resolution does not apply to the preference shareholders. If any preference shareholder completes any part of the voting instructions below, those instructions will not apply and will be disregarded.**
2. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided, with or without deleting "the chairman of the annual general meeting of shareholders", but any such deletion must be initialled by the shareholder. The person whose name stands first on the form of proxy and who is present at the annual general meeting of shareholders will be entitled to act as proxy to the exclusion of those whose names follow.
3. A shareholder who wishes to appoint more than one proxy must complete a separate form of proxy for each proxy such shareholder wishes to appoint. Any shareholder who requires further copies of the forms of proxy should contact Link Market Services SA (Proprietary) Limited. Where more than one proxy is appointed by a shareholder, each such proxy must be appointed only in respect of a specified number of all of the shares held by such shareholder in the company and the aggregate of all such specified number of shares in respect of which proxies are appointed by such shareholder must not exceed the aggregate number of shares held by such shareholder. Where such aggregate number of shares is exceeded, any of the proxy forms causing such result may be excluded at the annual general meeting.
4. An ordinary shareholder's voting instructions to the proxy must be indicated by the insertion of the relevant number of shares in respect of which such proxy is appointed in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all of the ordinary shareholder's votes exercisable thereat, but subject to the following. An ordinary shareholder is not obliged to use all the votes exercisable by the shareholder, but the total of the votes cast by the shareholder or his/her proxy/ies and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder.
5. Forms of proxy must be lodged with, or posted to the offices of, the company's transfer secretaries, Link Market Services SA (Proprietary) Ltd, to be received by no later than 11h00 on Friday, 21 January 2011.
6. The completion and lodging of this form of proxy by shareholders holding certificated shares and shareholders who have dematerialised their shares and who have elected "own-name" registration will not preclude such shareholders from attending the annual general meeting of shareholders and speaking and (in the case of ordinary shareholders) voting in person thereat to the exclusion of any proxy appointed in terms thereof. Shareholders who have dematerialised their shares and who wish to attend the annual general meeting must instruct their CSDP or broker to issue them with the necessary authority to attend.
7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative or other legal capacity (such as power of attorney or other written authority) must be attached to this form of proxy.
8. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.

Contact details of Link Market Services South Africa (Proprietary) Limited
the company's transfer secretaries

11 Diagonal Street	PO Box 4844
Johannesburg	Johannesburg
2001	2000

Corporate information

Board of directors

MC Mogase (Chairman), G Schachat (Deputy Chairman)*, L Kirkinis (CEO)*, N Adams, A Fourie*, DB Gibbon, N Nalliah*, MEK Nkeli, S Sithole, TM Sokutu*, RJ Symmonds, A Tugendhaft, DF Woollam*

*Executive

Company secretary: Y Mistry

African Bank Investments Limited

(Incorporated in the Republic of South Africa)

(Registered bank controlling company)
(Registration number 1946/021193/06)
(Ordinary share code: ABL) (ISIN: ZAE000030060)
(Preference share code: ABLP) (ISIN: ZAE000065215)

Share transfer secretaries

Link Market Services SA (Pty) Limited
11 Diagonal Street, Johannesburg, 2001
PO Box 4844, Johannesburg, 2000.
Telephone: +27 11 630 0800
Telefax: +27 86 674 4381

Registered office

59 16th Road
Midrand, 1685

Postal address

Private Bag X170
Halfway House, 1685

Telephone number

Switchboard : +27 11 256 9000

Investor relations and shareholder details

Lydia du Plessis : +27 11 564 6991
Leeanne Goliath : +27 11 564 7068
Email: investor.relations@africanbank.co.za

Complaints and fraud

Fraud:

Hotline : 0800 20 20 18
Email address : abfraudethics@africanbank.co.za
Telefax : +27 11 207 3811

Complaints:

Call Centre number : 0861 111 011

Company's websites

www.abil.co.za
www.africanbank.co.za
www.beares.co.za
www.geenrichards.co.za
www.furniturecity.co.za
www.wetherlys.co.za
www.dialabed.co.za

Electronic communications

Shareholders may now elect to receive communications (annual reports, interim reports and other company communications) electronically, provided that they have internet access and a valid email address. To obtain more information, and to register for this service, shareholders should log on to www.abil.co.za. To register, shareholders will need their shareholder reference number, which is set out on their share certificate or monthly share statement. If you have any questions about this service, please contact ABIL's investor relations department.

Disclaimer

Certain statements made in this document are forward-looking. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by the forward-looking statements. Words such as expect, anticipate, estimate, target, predict, believe and other similar expressions, and future or conditional verbs such as will, should, would, and could are intended to identify such forward-looking statements. Readers should not rely solely on the forward-looking statements. These statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from any expected future results in forward-looking statements.

For more information please visit our website at
www.abil.co.za