African Bank

We are you

Integrated Report 2017

AFRICAN BANK HOLDINGS LIMITED

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OUR APPROACH TO REPORTING

ABOUT THIS REPORT

This is the second integrated report of the African Bank Holdings Limited Group, incorporating our wholly owned subsidiaries African Bank Limited and African Insurance Group Limited, collectively 'the Group' or 'the Bank'. We believe that by reporting in an integrated manner we can provide our stakeholders with the information that they need to make informed decisions about our business. The aim of this report is also to demonstrate how African Bank has and will create value for its stakeholders.

SCOPE, BOUNDARY AND FRAMEWORKS

The scope of this report, which covers the period 1 October 2016 to 30 September 2017, includes the performance of all Group operations, as included in the financial reporting boundaries and as determined by the International Financial Reporting Standards (IFRS). These have not undergone any significant change to their size, or change in structure or ownership during the year under review. In addition, internal and external factors that can substantially influence our business have been considered. Where material, their real and potential impacts are covered in this report.

While this is the second trading financial period of the Group, our first trading period only covered the financial period from 4 April 2016 to 30 September 2016. As a result, we provide aligned financial statement comparatives for the six-month period April to September. We have enhanced our reporting to improve our disclosure and meet our commitment to transparency and look forward to being able to provide our stakeholders with full year comparative information on our operating results in our 2018 integrated report.

To ensure comparability, all significant information is reported on a like-for-like basis and there are no restatements of the information included in this report.

REPORTING SUITE

Our integrated report for 2017 is available in print from investor.relations@africanbank.co.za

Available online in pdf format at www.africanbank.co.za:

- Our integrated report for 2017
- Group consolidated annual financial statements for 2017
- Annual financial statements of African Bank Limited for 2017
- Our investor presentation for 2017
- Our Basel III Pillar 3 annual report for 2017

HOW WE PREPARED OUR REPORT

We use the International Integrated Reporting Council's (IIRC) integrated reporting <IR> framework to guide us in structuring our report, showing the connectivity between material information, our strategy, governance, performance and prospects and how our strategy affects and is affected by financial, human, social and relationship and environmental issues.

OUR INTEGRATED REPORTING:

- **complies** with the South African Companies Act 71 of 2008 and the JSE Listings Requirements
- **explains** the King IV governance principles African Bank has applied that are relevant to us and which we are confident are assisting us in achieving an ethical culture, good performance, effective control and legitimacy.

Our annual financial statements:

- **comply** with International Financial Reporting Standards (IFRS)
- are **audited** by PricewaterhouseCoopers Inc. Their unqualified audit report is available in our annual financial statements.

BOARD APPROVAL

5 The African Bank Board acknowledges its responsibility for ensuring the integrity of our integrated reporting. We confirm that we have collectively reviewed the preparation of the report and its contents and have obtained input from various internal and external service providers.

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

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

Louis von Zeuner Chairman	Brian Riley Chief Executive Officer	Gustav Raubenheimer Chief Financial Officer
Basani Maluleke Group Executive: Operations	Sybille McCloghrie	Sydney Mhlarhi
Louisa Stephens	Peter Temple	Frans Truter

The Board unanimously approved our integrated reporting for 2017 on 29 November 2017.

ASSURANCE

The annual financial statements, which comply with International Financial Reporting Standards (IFRS), were audited by PricewaterhouseCoopers Inc. Their unqualified report is available in our online annual financial statements (**https://www.africanbank.co.za/en/home/investors/corporate/financial-reporting/**) or at the Company's registered office at 59 16th Road, Midrand, 1685.

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

26 Our combined assurance model (see pages 26 to 27), which includes the assurance over our external reporting process, is continually reviewed to ensure it enables an effective control environment and supports the integrity of information used for internal decision-making, strategy development and planning.

FORWARD-LOOKING STATEMENTS

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

GIVE US YOUR FEEDBACK

We would welcome your feedback on our reporting for 2017 and any suggestions you may have in terms of what you would like to see incorporated in our report for 2018. To do so please contact Markus Borner (**investor.relations@africanbank.co.za** or 011 564 7495).

NAVIGATION ICONS

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KING IV REFERENCE	7
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PHYSICAL INFRASTRUCTURE	
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INTELLECTUAL RESOURCES	
HUMAN RESOURCES	

PERFORMANCE AGAINST OUR STRATEGIC SCORECARD

		30 SEPTEMBER 2016[1]	30 SEPTEMBER 2017	TARGET 2021	PERFORMANCE AGAINST TARGET	FOR MORE INFORMATION
FINANCIAL TARGETS	Return on equity (RoE)	6.7%[2]	9.0%	>15%	Up	See page 36
	Funding diversification (retail deposits)	< 1%	2%	>25%	Up	See pages 14 and 48 and 49
	Non-interest revenue	< R1 million	R19 million	>R300 million	Up	See pages 35 and 36
	Credit loss ratio	13.2%	12.7%	<13%	Above target	See pages 38 and 40
	Strengthen our balance sheet (CET1)	30.5%	30%	> 27%	Above target	See page 06
CUSTOMER TARGETS	Customer NPS®	15	35	> 40	Up	See page 10
	Grow our customer base	1.25 million	1.16 million	>2.5 million	Below target	See page 10
PEOPLE TARGETS	People engagement survey score	43%	48%	>35%	Above target	See page 10

[1] The 2016 results are for the six months ended 30 September 2016
[2] Excludes write-off for goodwill


Customer Service
1
2
3
4

OUR STRATEGY IN ACTION

Our strategy is implemented against set targets and measured through a series of lead and lag key performance indicators that align with the performance aspirations of the Group. The performance of each person responsible for aspects of our strategy is recorded on their individual scorecards and it influences the variable part of their remuneration. See the remuneration report on page 73.

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OUR VALUES

Our values that seek to bring a greater degree of *humanity* to our banking

TRANSPARENCY

INNOVATION

COLLABORATION

EMPATHY

PROFIT CONSCIOUS

OUR MISSION

To be a successful retail bank which offers a wide range of products and services to the consumers of South Africa.

We seek to provide value —more than consumers expect of us. We promise to live our purpose: ***Humanity through banking*** in all that we do, and we are confident that we can, because ***... we are you***

OUR STRATEGY

OUR CULTURE

Position as *'Humanity through banking'*; *'We are you'*

Offer more value than expected

Diversify product offering to become a retail bank

Widen customer base

Broaden channels to market

Partner where it makes sense

Strengthen balance sheet to improve competitiveness

OUR CUSTOMERS

OUR PILLARS

Governance and compliance

People

Process and technology

TARGET 2021

- Return on equity **> 15%**
- People engagement survey **> 35%**
- Customer NPS® **> 40**
- Customer satisfaction survey **> 80%**
- Grow customer base **1.25 million to > 2.5 million**
- Diversification of revenue **Non-interest > R300 million**
- Diversify funding (retail deposits) **> 25%**
- Credit loss ratio **< 13%**

OUR STRATEGY IN ACTION CONTINUED

03 The section that follows reports on our progress towards achieving our strategy, and the scorecard on page 03 shows the progress we have made against the high level initial targets and key metrics we set ourselves to achieve by 2021. In many cases we have either achieved these targets or have already made excellent progress.

ACHIEVED

MADE GOOD PROGRESS

DIDN'T ACHIEVE

Strategy	Activities required to achieve the strategies	Progress	Where you will find information on our progress
Position as *Humanity through banking*			
	Implement the NPS® and customer experience index	▲	See pages 3 and 10
	Marketing and advertising campaigns	▲	See page 51
	Product development	▲	See page 47
	CSI projects initiated by people and funded by African Bank	▲	See page 63
	Rewriting of all scripts in the contact centre	▲	See page 47
	Customer Service Committee chaired by the CEO	▲	See page 10
Offer more value than expected			
	Extra value loans	▲	See page 50
	Credit Direct	▲	See pages 47, 50 and 51
	Funeral product benefits	▲	See page 50
	Market leading retail deposits	▲	See pages 47 and 50
Diversify product offering			
	Rate for risk lending	▲	See pages 40 and 50
	Grow retail deposits	▲	See pages 3 and 50
	Partner to create extra value and innovative products	▲	See pages 11 and 50
	Transactional banking product	▲	See pages 11, 52 and 55
Widen the customer base			
	Increase channels/distribution footprint	▲	See pages 46, 47, 54 and 55
	Improve product offering (credit/insurance/investments/transactional)	▲	See pages 47, 50 and 51
	Improve marketing and build brand	▲	See pages 12 and 51
	Develop 'rate for risk' products	▲	See page 47
Broaden channels			
	Develop the digital channel	▲	See pages 11, 46, 47 and 53
	Enter outsourcing arrangements	▲	See page 52
	Establish partnership agreements	▲	See pages 11, 45 and 50
	Establish Credit Direct channel	▲	See page 47
Partner where it makes sense			
	Deliver extra value loans	▲	See page 50
	Develop partnerships for IT platforms	▲	See page 52
	Establish cell captive for non-core product	▲	See page 45

Strategy	Activities required to achieve the strategies	Progress	Where you will find information on our progress
Strengthen balance sheet			
	ICAAP in place		See page 20
	Liability management programme		See page 42
	Cost reduction programme		See page 43
	Cell captive reinsurance structure concluded and implemented		See page 45
	Build retail deposit base		See pages 46 and 47
	Capital allocation model		See pages 36 and 44
	Cost of financing allocation		See page 44
	Transfer pricing		See page 37
Governance and compliance			
	Implement revised risk management framework		See page 18
	Data governance project to align with BCBS regulation number 239		See page 11
	Conduct risk self-assessment		See pages 18, 20-23
	Enhance and implement the cyber risk plan		See page 54
	Strengthening Board committees and subcommittees		See pages 9, 67-69
	IT strategy plan developed		See pages 52 - 55
People			
	People engagement survey achievements		See pages 03 and 10
	Review of competencies of sales people, in anticipation of transactional banking		See page 57
	Leadership masterclass development		See page 57
	Talent mapping for the organisation		See page 57
	Proposed incentive scheme		See page 75
	Improving employee value proposition		See pages 56 and 57
	Upskill programme		See page 57
	Employee equity targets countrywide		See page 58
Process and technology			
	Implement IT strategy		See pages 52-55
	Create a simplified low cost operating platform		See page 52
	Use existing assets to grow the business		See page 53
	Introduce IT partners		See page 52
	Grow IT capabilities		See pages 52 and 53
	Roll out the paperless project		See page 52

LEADERSHIP REVIEW

CHAIRMAN'S REVIEW

When I reported to you last year, in our first integrated report, a very different new African Bank was already emerging, following the curatorship and its impact. We had a robust governance framework in place, headed up by a Board with a dynamic mix of youth and experience. The Board had recently approved a 1 strategic plan intended to secure the Group's future. 4 The approval of this plan gave our management team 7 the go ahead to develop new products, new channels to market, and a transactional banking offering. The process of turning the Bank around and then scaling up the business, following the period of curatorship, had begun.

Eighteen months into the new business we have made significant progress with the execution of and delivery on our new strategy.

A philosophy that forms an important part of our strategy is that of partnering with best of breed partners that can enhance our customer value proposition. We were also able to begin implementing partner projects in 2016 and made significant strides during 2017.

We still have a lot to do to build trust, restore our reputation and win the hearts and minds of South Africa's consumers. Their growing acceptance of our new value proposition should allow us to achieve the scale and volume we aspire to. 10 See Brian Riley's Chief Executive Officer's review on pages 10 34 to 13 and the performance section on pages 34 to 65 for details of our progress.

The sample of customers we surveyed before we launched the 'new' African Bank, indicated that they had retained goodwill towards the African Bank brand as a bank with which they would do business. This encouraged us to retain the brand. I have been pleased to discover that there is still good interest in the business of African Bank in the broader community, and that prominent members of the business community want us to succeed. I am certain that over time this goodwill towards the Bank will translate into business for us from the community outside of our current target customer base.

While I don't underestimate what lies ahead for us and what still needs to be done before the Bank has turned the corner and met the conditions of its banking licence, I must compliment Brian and his management team on a job well done. I would also like to recognise the loyalty shown by our employees who remained with us through very difficult times, as well as the new people we have been able to attract.

OUR APPROACH TO SUSTAINABILITY THROUGH GOOD GOVERNANCE

African Bank has an important role to play in South Africa. It is a wonderful challenge for our Board and senior management to lead the Bank at this stage of its development. I believe that the values we committed ourselves to are already helping us to achieve our purpose of *Humanity through banking* and to create 3 value for all our stakeholders.

However, we need to, and frequently do, remind ourselves of why things previously went wrong and to be cautious to ensure we do not make the same mistakes. We must not be 10 tempted to grow at the expense of quality. See page 10 of the Chief Executive Officer's review for information on our progress in this regard. The Board-approved enterprise-wide risk management methodology and philosophy, together with the Board's approach to risk appetite and risk tolerances, provide the necessary checks and balances, as does our approach to combined assurance. We constantly revisit our risk appetite and risk modelling to ensure it is relevant and resilient, particularly when it comes to stress testing. I would like to recognise the Board's Risk and Capital Management 4 Committee, the Chief Risk Officer and Group Executive 8 Credit for the excellent work they have done to ensure we 11 have robust and effective risk governance processes in place. Details of our approach to the management of risk and 18 combined assurance can be found on pages 18 to 29 of this report.

OPERATING ENVIRONMENT

We regularly review the relevance of our strategy. This is particularly important against the background of the heavily regulated environment, uncertain socio-political environment and the struggling economy we are operating in, which present us with many challenges. When new legislation and regulations are introduced we will continue to review our strategy to ensure it is still 10 valid. See page 10 of the CEO's review for the impact of legislation on our loan book and the CFO's review for its impact on our balance sheet.

Our competitors, who also face the same challenging business environment, have progressed while we addressed legacy issues. However, we have an opportunity to create a new diversified bank using the latest technology without the hindrance of legacy systems in our greenfield operations such as transactional banking.

THE WAY FORWARD

The banking industry is evolving. We need to be nimble and creative to ensure that we are able to deliver an optimal value proposition for our existing customers and those who we set out to attract. This requires new skills and a new approach. We are fortunate that the skills we have attracted to our Board are relevant to our transformation process. Their knowledge, insight and experience contribute immensely to the role the Board plays in African Bank.

Circumstances have dictated that our Board, which is deeply committed to ensuring the Bank is successful, has a much more hands on role than is usual and I am most grateful for the long hours and hard work they invest in making African Bank a success.

7 Our environment has evolved to the point where we need specialists, not traditional bankers. How we work with customer data nowadays, through analytics, modelling, stress testing and future planning, has become a science. We are very fortunate that we have been able to attract the right people to take the business forward at both operational and strategic levels.

We advised the market on 19 October 2017 that Brian Riley will be standing down as Chief Executive Officer on 31 March 2018. We will, however, be able to continue leveraging Brian's considerable experience as a seasoned banker, as he has accepted the Board's invitation to remain on the Board as a non-executive director. Fortunately, our succession planning had already identified a potential successor to Brian, and an induction process has been under way in recent months.

Ignatius Sehoole, who was appointed to our Board while the Bank was still in curatorship, resigned from the Board on 16 October 2017. He made a substantial contribution to our efforts to achieve ethical and effective leadership during a critical period for the Bank, both as Chairman of the Risk Committee and as a member of the Audit and Compliance Committee.

The Board, in considering succession needs, has determined that we will require additional skill sets in both our Board and management team and will be expanding both to include these new skills.

7 We will continue to ensure we employ the right calibre of individuals, with passion for the financial services industry, and an understanding of the realities of South Africa's current economic environment, to help us achieve our strategy.

Exciting opportunities lie ahead for African Bank. My thanks go to the Board, management and our employees for the outstanding contribution you have made to our achievements in the year under review and I look forward to working with you to exploit these opportunities and create value for all our stakeholders.

Louis von Zeuner
Independent non-executive Chairman

African Bank has an important role to play in South Africa that is both a privilege and a great opportunity. It is a wonderful challenge for our Board and senior management to lead the Bank at this stage of its development.

The heavily regulated, uncertain socio-political environment and the struggling economy we are operating in present us with many challenges.

The banking industry is entering a new phase. We need to be nimble and creative to ensure we are able to deliver an optimal value proposition.

CHIEF EXECUTIVE OFFICER'S REVIEW

INTRODUCTION

As I reflect on my time as Chief Executive Officer designate back in 2015, I can clearly recall the mood of all associated with the Company in curatorship. There was a feeling of 'hope', not just among the employees, but also the debt investors and prospective shareholders – hope that a deal could be concluded; hope that the Company could recover. It permeated communications across the Company. It was a permanent screensaver on all computers and was on the lips of all those people brave enough to stay with the Company during those tough times.

We soon removed all reference to 'hope' and replaced it with a plan. You won't find much allusion to 'hope' in the passageways of African Bank today. There is a level of pride, optimism and commitment to the mission, strategy, values and the success factors that we have set ourselves. The level of understanding of where we are going and how we are going to get there is reflected in our staff engagement score, which, at 48%, is one of the highest in the country. If one adds semi-engaged to the score, it sits at 83%. These scores follow our restructure, which resulted in voluntary retirement and severance packages being accepted by in excess of 500 employees. This confirms that even if difficult decisions have to be made, how they are communicated and implemented will be considered a positive outcome for an organisation.

My reference to the people of African Bank at the start of my review is not a random choice. I am firmly of the belief that unless you have engaged people of quality, the best of plans will not succeed.

We are fortunate to have an excellent executive team, who in turn continue to improve and grow their respective teams. While we are implementing our strategy, we are also strengthening our skill sets. Our recruitment policy has changed to ensure we bring in people stronger than the ones we lose. This may cost a little more over time, but we are convinced that the benefits will far exceed the additional expense.

Given the above, it comes as no surprise that African Bank is a different company to the one that entered curatorship in August 2014. It is also no surprise that we have made enormous improvements to the operations of the business and, to date, have exceeded the financial expectations of all of our stakeholders.

Our returns are improving and we are looking more attractive to investors with every set of results. We have made headway on all of our success factors much sooner than expected. In addition to exceeding the engagement target, our Net Promoter Score® is already just short of the ambitious target we set ourselves for 2021 and we have made good progress with all our other targets, except for growing our customer base which, in its entirety, has been self-inflicted due to changes in credit policy. (See our performance against our scorecard on page 03 of this report.)

03

The tightening of our credit policy, in line with our risk appetite and changing legislation, understandably led us into a lower risk environment. The result has been the intentional reduction of our customer base as we exited certain high-risk segments, lengthened our lending periods and increased exposure to lower-risk customers. This has the effect of steadily improving the quality of our income statement and balance sheet. We expect our customer numbers to not only recover, but to start increasing when we launch our transactional banking product in 2018 and as we lend into the new customer base.

DELIVERING ON THE STRATEGY

We have excelled in the past 18 months in a number of areas. The management of credit, collections and improving data quality stand out. The credit models, which have gone through a rigorous validation process, together with our exceptional collection record and high accounting standards, provide confidence in financial predictability. We now have all our data in one place, as opposed to the various data warehouses that existed previously. Whilst the quality of our data is not yet what we need it to be, our improving data input and will provide us with a rich source of information, particularly when we move into the transactional space.

We have made excellent progress in inculcating our values and establishing a culture that will enable the achievement of our mission and our strategy, by putting the customer at the centre of our world and delivering a customer experience that will be a marketplace differentiator. To drive this effort, I took on the mantle of customer experience champion for the Group and, as one would expect, executive sponsorship has yielded the necessary impetus, although there is still much to do.

The one value I thought we might have difficulty gaining traction with was innovation, but this has not been the case. The entries to the innovation awards programme we introduced this year were of such a high standard that we could present R1.5 million nett in prizes to the top four entries.

We look forward to reaping the benefit of applying these innovations and continuing 46 with the programme in the next financial year. See page 46 of the operating review for details of our award-winning innovations.

The ability to implement the new strategy was initially hampered by the need to look back and fix a number of fundamental problems. This included a substantial investment into stabilising our legacy systems, bringing software licences up to date and addressing outdated networks. Thankfully, we were also able to concurrently invest in the diversification of our business. A 'Big Data' investment, the transactional project, incorporating an omni-channel approach to customer interaction as well as a complete overhaul of 'digital', were initiated. The first phase of transactional banking has been completed and signed off by the various governing bodies. The front-end and integration is progressing well and we are expecting to launch to the market in 2018.

Particularly pleasing is the Retail Deposit growth. Depositors are finding our offerings sufficiently compelling, which is to some degree evidence of our recovering brand. This has kick-started the journey to diversify the funding base.

In addition, we made the tough decision to right-size the cost base, particularly concentrating on the Branch Network. The voluntary severance and retirement packages were generous and resulted in 506 people exiting the Company. All costs associated with the exercise were expensed in the 2017 financial year. To believe there were no effects on business as a result of this exercise would be naive, but the situation was carefully managed and business recovered sooner than expected.

Amongst the many highlights was the finalisation of our partnership with MMI Holdings Limited. This exciting joint venture to lend into the MMI customer base as well as introduce a full suite of advice-based insurance products into the African Bank network will add new revenue streams for both partners. Creating embedded value will take time, but we are pleased that future profit pools have been identified and plans created to access them. This combination of "capital light" non-interest revenue growth from insurance business and alternative lower risk lending will strengthen the balance sheet and provide sustainability. Our branch re-engineering and modernisation provides branded space for MMI consultants; there were 50 101 consultants operating in our branches at 30 September 2017. (See page 50 of the operating review for more details of our partnership with MMI.) This number will be ramped up in the new calendar year.

Whilst loans to lower risk clients remains the main driver of profits for now, the transition to a transactional bank is evidenced across the business. Skill sets have been acquired either permanently or through co-sourcing and outsourcing arrangements where it is deemed appropriate to complement our current skills base, specifically to address the demands that will accompany our changing business. In addition to the change in recruitment policy, training programmes have been developed to take cognisance of the type of business we have to upskill for in the future.

I am firmly of the belief that unless you have engaged people of quality, the best of plans will not succeed.

We have excelled in the past 18 months in a number of areas. The management of credit, collections and improving data quality stand out.

We have made enormous improvements to the operations of the business and, to date, have exceeded the financial expectations of all of our stakeholders.

LOOKING AHEAD

The periodic problems experienced in the financial system globally have resulted in the banking world becoming risk averse, safety first and, in my opinion, over-regulated. I wonder if this is the right approach. I am concerned that if we continue along these lines, we do so at the risk of stifling economic growth. In addition, the current level of regulation requires a substantial investment of time and resources which, in our case, given the Bank's history, is understandably more than the norm. I believe we are reaching a tipping point in the regulatory world and if we continue to push the boundaries of regulation, it will become an inhibitor as opposed to being the important safety net and oversight role it has been to date. We need to ensure that we find the right balance between capital, liquidity, risk, compliance and enabling growth that will ensure the all-important health of the banking industry whilst allowing sufficient flexibility for the industry to help grow the ailing economy.

That said, we are a business that, for a short period, is not reliant on a growing economy. The loan business is improving through the introduction of new channels and partnerships. The brand is recovering, aided by a creative campaign featuring 'Zinzi' who portrays the role of a consumer ambassador discovering that African Bank is evolving through its various product offerings and asking consumers to 'ask around and come around'.

Very occasionally in business, one finds a silver bullet. Most successful businesses simply exceed the expectations of their customers and that's exactly how we see things at African Bank. Our offerings will include great functionality, competitive price and, in particular, the customer experiences will be memorable. This is how we plan to differentiate the Company through a number of channels, each of which will be interoperable (omni-channel). Our three channels, being Branch, Credit Direct and Transactional Banking, are at various stages of maturity. We are convinced that by offering customers a choice of where and how they bank, at affordable pricing, there is a sizeable market for African Bank to capture in the years to come. We will be entering the transactional market at a similar time to other new entrants, that I have no doubt will be strong competitors, but we are confident that our offering will be of significance to our target market. As customers morph to different channels, our channel model is flexible enough to cater for that inevitability without it being a drain on costs.

We recognise that our maturing liabilities need to be fully refinanced over time and to achieve this consistently necessitates a performance and demonstration that we can be a sustainable diversified business, well positioned to offer acceptable returns.

To ensure that we provide our wholesale funders with the information they need to make informed decisions regarding our business, we brief them regularly. We also behave as if we are a listed entity (bonds are listed, but shares are privately held), reporting to investors and funders through a transparent presentation of both our interim and year-end results followed by traditional roadshows to funders, credit analysts and other parties interested in our progress.

IN CLOSING

As I prepare to stand down from the role of CEO and move into a more sedate, but no less important position on the Board, I am delighted to have prepared the right successor to whom the "baton" can be passed. I am confident that my successor, who will be announced by the Board in the new year, will be able to build on the solid foundation laid by the executive team and fulfil the ambition articulated in the mission and strategy.

My sincere thanks go to the African Bank team for their significant commitment and also to our Chairman and the Board for their support and guidance throughout the year.

Brian Riley
Chief Executive Officer


African Bank

OUR BUSINESS

WHAT WE DO

AFRICAN BANK FROM 4 APRIL 2016

The leadership of African Bank has two distinct and overlapping mandates. The first is to fulfil the requirements of the base case as laid out in the offer information memorandum and offer documents to debt holders in the Bank.

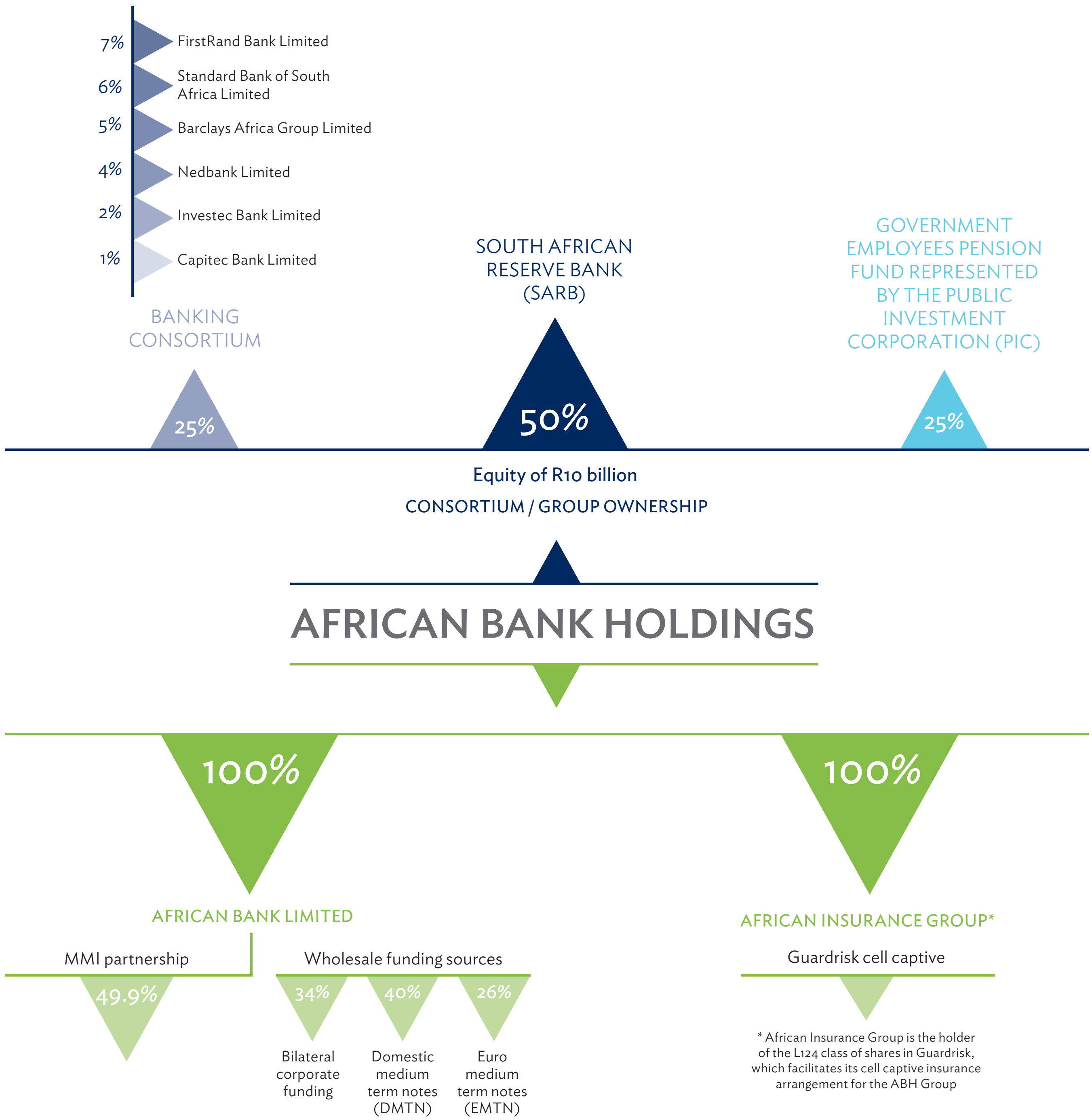
The base case requires African Bank to develop and implement a strategy that will enable it to continue as an unsecured lender, applying greatly improved underwriting criteria and ultimately repaying the new debt instruments as they become due, commencing in April 2018. (See the risk
18 and opportunities section on pages 18 to 24 and the Chief
34 Financial Officer's review on page 34 for information on our performance in this connection)

The second mandate is to seek out the most viable path for a longer-term sustainable future that does not depend solely on a single unsecured lending product offering. The African Bank that will emerge during 2019 - 2021 will offer a diversified range of products and services that will compete on the basis of innovation, creating customer value and socially responsible banking.

The transition from the present single-product business to a diversified financial services business will require a major digital transformation, internally and in its channels
10 to market. (See the Chief Executive Officer's review on
46 pages 10 to 12 and the operating review on pages 46 to 65 for information on our progress in this regard.) The Bank's people will require upskilling to ensure excellent customer experience. Our marketing will create increasing visibility, and through innovation we will deliver desirable products for
51 potential customers in its target market. (See pages 51 to 54 for information on our progress in this regard.)

This revised business model will have to generate a successful business that will ultimately attract potential shareholders from South Africa or further afield. To build and maintain a fresh reputation, African Bank's communication with shareholders, stakeholders and potential funders and investors will continue to be transparent and proactive.
60 (See page 60 for details of our stakeholders, their concerns and our response to these concerns.)

AFRICAN BANK HOLDINGS STRUCTURE



BUSINESS MODEL: HOW WE CREATE VALUE

STRATEGIC OBJECTIVES AND PILLARS	LIVING OUR VALUES	INPUTS
STRENTHEN OUR BALANCE SHEET TO IMPROVE OUR COMPETITIVENESS	PROFIT CONSCIOUS	**FINANCIAL RESOURCES** • Well-capitalised balance sheet • R8 322 million in capital and reserves • Conservative liquidity and solvency levels established • R12 684 million in cash and cash equivalents • Limited retail banking deposit base • CET1 capital adequacy of 30.5% • Credit loss ratio of 13.2% R in capital and reserves R8 322 million
PILLAR: PROCESS AND TECHNOLOGY BROADEN CHANNELS TO MARKET	COLLABORATION AND INNOVATION	**INFRASTRUCTURAL RESOURCES** • 388 branches • Investment in legacy IT systems and infrastructure IT@2020 investment strategy for growth including digitalisation strategy 388 branches
DIVERSIFY PRODUCT OFFERING TO BECOME A RETAIL BANK OFFER MORE VALUE THAN EXPECTED. PARTNER WHERE IT MAKES SENSE **PILLAR: GOVERNANCE AND COMPLIANCE**	COLLABORATION, PROFIT CONSCIOUS AND INNOVATION	**INTELLECTUAL RESOURCES** • Brand and reputation in market • Transactional and digital banking expertise • Specialised unsecured lending expertise and new products • Strategy to introduce products through partnering • Governance policies, procedures and processes and compliance procedures and processes Introduced insurance products through partnering
HUMANITY THROUGH BANKING *WE ARE YOU* OFFER MORE VALUE THAN EXPECTED	TRANSPARENCY AND EMPATHY	**SOCIAL AND RELATIONSHIP RESOURCES** • Effective stakeholder relationships • Commitment to *Humanity through banking* • R9.4 million invested in corporate social investment programme with focus on empowering people through education • Focus on procurement from black-owned businesses R9.4 million invested in corporate social investment
PILLAR: PEOPLE *HUMANITY THROUGH BANKING* *WE ARE YOU*	INNOVATION COLLABORATION AND EMPATHY	**HUMAN RESOURCES** • 4 075 permanent employees • Effective, experienced leaders • Skills gap analysis to identify development needs • R15.4 million invested in training and development during 2016 4 075 permanent employees
PILLAR: PROCESS AND TECHNOLOGY *HUMANITY THROUGH BANKING* *WE ARE YOU*	INNOVATION, PROFIT CONSCIOUS	**ENVIRONMENTAL RESOURCES** • Environmental policy in place • Initiatives to reduce carbon footprint • Efforts to reduce paper usage and to recycle paper

OUTCOMES	TRADE-OFFS AND ACTIONS TO ENHANCE OUTCOMES
▸ 75% Increase in headline earnings ▸ Enhanced value for customers and shareholders	
▸ R9 108 million in capital and reserves	▸ R15.8 billion buy-back of liabilities reduced negative interest margin by R2.4 billion to 2022
▸ The tightening of credit policy moved us into a lower risk environment	▸ **Trade-off:** Tightening of credit criteria in line with risk appetite and legislation reduced the number of loans we could approve by approximately 25% but improved the quality of our balance sheet
▸ R10 148 million in cash and cash equivalents (including excess RSA sovereign investment)	
▸ 148% Improvement in retail deposit book	
▸ CET1 capital at 30.0%	
▸ Credit loss ratio of 12.7%	
▸ Branch network upgraded and repositioned to ensure optimal location of its 388 branches ▸ Branch of the future to provide more customer-focused solution piloted	▸ Branch of the future rolled out
▸ Stabilised, refreshed and revamped existing IT systems ▸ Enhanced website ▸ Progress with digitalisation of solutions	▸ Investment ongoing ▸ Omni-channel journey ▸ Introduction of customer-centric paperless process for Internet and e-mail enabled customers
▸ Customer NPS® improved from 15 in September 2017 to 35 by year-end (a greater than 100% improvement) as a result of customer-centric strategy and customer-focused leadership	
▸ Phase 1 of our transactional banking is live	▸ Full service transactional banking will go live in mid 2018, will offer new services to our existing customers and attract new customers
▸ Credit Direct delivered	▸ Development of innovative Call Me Back button generated R212 million in credit disbursements in six months
▸ Market leading investment products achieve 148% improvement in retail deposit book resulting in improvement in funding diversification	
▸ Adopted King IV principles	▸ Value-adding discounts negotiated for loan customers ▸ Partnering further where it makes sense
▸ Value-add for customers through access to specialist advice on long-term financial risk and life style products, wills and financial wellness ▸ Met all legal and regulatory requirements ▸ Compliance with the terms of our banking licence ▸ Outcome for governance and compliance	▸ Substantial investment of time and resources in ensuring compliance with regulations
▸ Employee engagement at 48% is one of the highest in the country ▸ Regular and transparent communication with our shareholders and investors on our performance ▸ Customer NPS® improved from 27 in March 2017 to 35 by year-end (30% improvement) – 2021 target to be at 40	
▸ Contact centre scripts in customer's preferred language and communication style ▸ Queuing system that prioritises the disabled and the elderly ▸ Unique funeral policy that allows customers to choose any beneficiaries they want, not necessarily family members ▸ All our policies available in plain language	▸ Omni-channel offering will make banking simple, understandable and accessible to all
▸ The education of 168 200 children benefited from our investment in 2017 (14% increase year-on-year)	
▸ Business accelerator initiative for SMMEs in place for year ahead	
▸ 3 348 employees	▸ **Trade-off:** As part of process of right-sizing our cost base and our branch network 506 employees left us during the year under review
▸ Hiring people that are stronger than the ones we lose	
▸ Leadership share their expertise through leadership masterclasses	
▸ Branch and contact centre employees upskilled to provide customer-focused full service retail banking	▸ Provided our branch employees with mobile phones so we can be in contact with them and also gave them smart new uniforms ▸ Our recruitment policy has changed to ensure we bring in people stronger than the ones we lose
▸ Recycled 50% of the waste generated by our head office and contact centre	▸ Paperless projects improved operational efficiencies and reduced costs
▸ Recycled or donated old equipment and ensured new IT equipment is energy efficient	
▸ Implementing a paperless process	

OUR RISK GOVERNANCE AND COMPLIANCE

OUR RISKS AND MATERIAL ISSUES

Our effective management of risks and opportunities plays a key role in our ability to achieve our strategic objectives and create value for our stakeholders.

The aim of the African Bank Group's approach to the governance of risk and opportunities is to ensure that adequate and effective strategies, policies, procedures and processes are in place to address the nature and complexity of the risks and opportunities inherent in our business activities.

In line with legislative requirements and the recommendations of King IV the African Bank Group's Board has ultimate responsibility for the operations and financial soundness of the Group, which includes risk and opportunity management and the establishing of a culture of risk management that ensures the proactive and effective management of risk, the 4 sustainability of the business and the creation of stakeholder value.

The Board delegates oversight responsibility for the quality, integrity and reliability of risk management in the Group to the Risk and Capital Management Committee (RCMCom), whose roles and responsibilities are set out in a Board-approved charter. The committee reports to the Board on risk and opportunity management in the Group every quarter. The committee also assists the Board with the identification and monitoring of key risk areas and key performance areas. The committee is provided with quarterly reporting on business unit risk exposures and reports from Internal Audit on the effectiveness of the risk management function. The committee also considers external factors that could impact 4 on, or provide opportunities for African Bank, such as social, competitive, economic, political, regulatory, legislative and environmental factors, when identifying and monitoring key risk areas. The Board reviews risk management policy and process annually and the risk appetite as necessary, but at least annually. All of the directors individually assess the Group's top five risks that concern them. The risks identified by this process are mapped to the risk register and risks not previously included are added to the register.

Our Board-approved ERM framework aligns our strategies, process, people, technology and knowledge with the purpose of evaluating and managing the challenges we face in protecting and creating stakeholder value.

Our internal risk measurement system is closely integrated into the day-to-day risk management process of the Group and its output forms an integral part of the process of monitoring and controlling the Group's risk profile.
The Banks Act requirement that an independent risk management function is responsible for the design and implementation of the Group's risk management framework 11 is met through Chief Risk Officer and the Group ERM function. The Board and the RCMCom, whose members are all independent non-executive directors have oversight of the risk management function. Internal Audit provide assurance on the effectiveness of our risk management processes 25 (see page 25)

OUR APPROACH TO RISK APPETITE AND RISK TOLERANCES

Enterprise Risk Management is responsible for overseeing the day-to-day development of our risk appetite and the setting and monitoring of our risk tolerances. Risk appetite plays a critical role in deciding on acceptable levels of risk in the Group and is the basis upon which risk-related decisions are made. The Group's risk appetite is defined by our risk appetite policy and risk appetite framework, which are aligned with our business strategy and within which the risks in our risk universe are managed. Our risk appetite statements are designed to ensure that the African Bank Group includes the risk factors in any major strategic or tactical decision and the compatibility of a course of action with our risk appetite is always considered.

OUR ENTERPRISE-WIDE VIEW OF RISK

Our enterprise-wide ERM methodology and philosophy ensures adequate and effective risk management and that the following core principles are met:

- clear assignment of responsibilities and accountabilities
- common enterprise-wide risk management framework and process
- identification of uncertain future events that may influence the achievement of business plans and strategic objectives
- integration of risk management activities throughout the Company and across its value chains

The ERM process is an interactive and continuous five stage process, which is integrated into the Group strategic and business processes.

GROUP ERM PROCESS

Identification
Defining and recording all risks in a consistent manner

Assessment
Considering/ quantifying risks in the context of the risk appetite

Management
Ongoing treatment of the identified risks

Monitoring
Continuous recording, reviewing and reporting of risks, losses and the effectiveness of treatments

Modification
Alter approach as business and risk environment changes

OUR THREE LINES OF DEFENCE MODEL

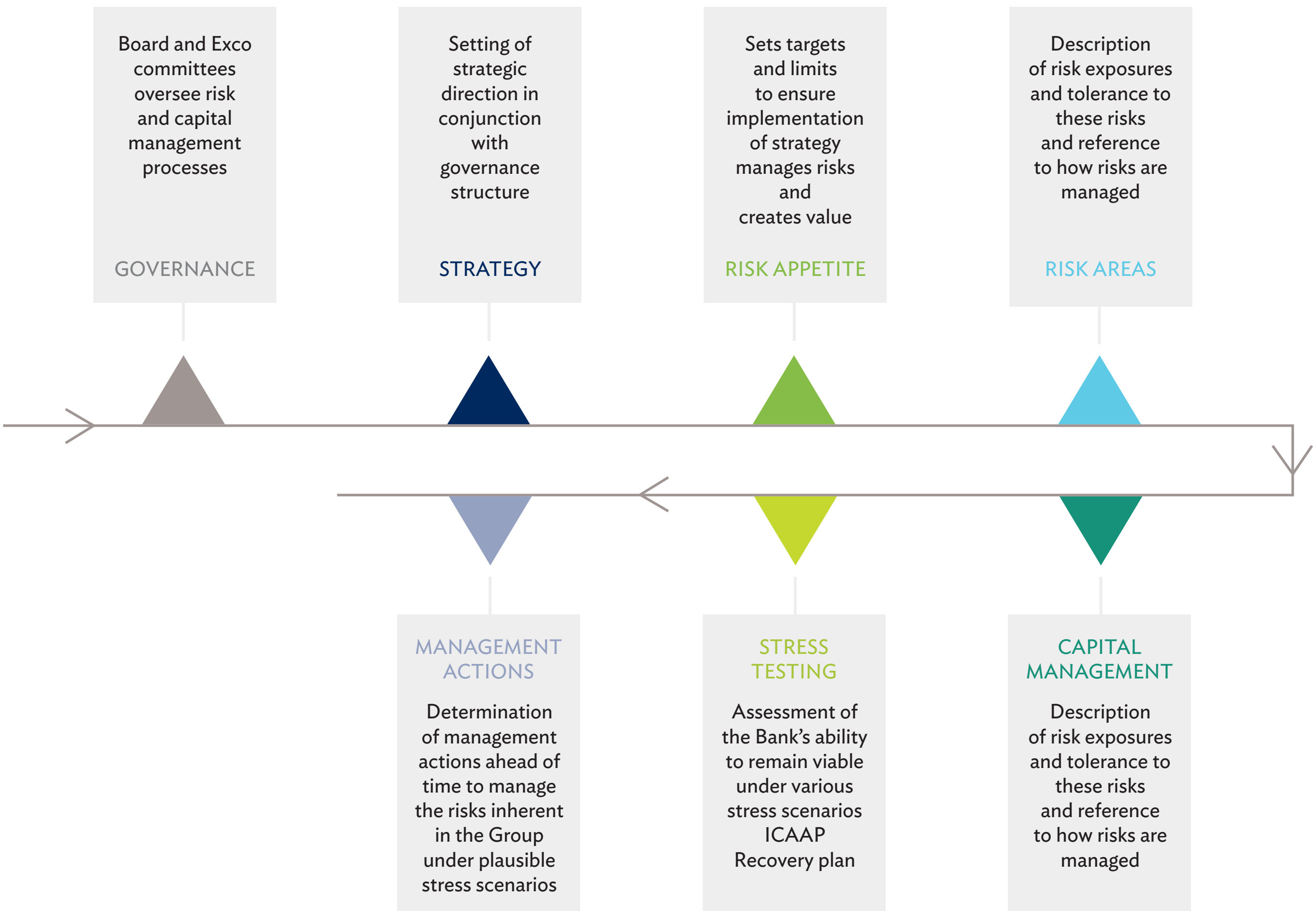
STRATEGY	RISK GOVERNANCE USING THREE LINES OF DEFENCE		
Formulate Group business strategy	First line of defence	Chief Executive Officer, Board and its subcommittees, as well as client-facing business units Responsible and accountable for ensuring African Bank has and maintains an effective transparent risk management process	EXECUTIVE COMMITTEE MANAGEMENT COMMITTEES Collections, Credit, Sales and Marketing People, IT Steerco, Insurance and Investments
Monitor Group risk relative to strategy	Second line of defence	Chief Risk Officer and the Group Risk function Responsible and accountable for developing a culture of monitoring performance and compliance throughout the Group	EXECUTIVE RISK COMMITTEE
Approve risk appetite policy and ERM framework Approve strategy and oversight of its implementation	Third line of defence	The Board, internal and external assurance providers Provide oversight to ensure the effective governance and performance of African Bank	AFRICAN BANK BOARD OF DIRECTORS BOARD COMMITTEES* RISK AND CAPITAL MANAGEMENT; Audit and Compliance; Directors' Affairs and Governance Remuneration; Sustainability, Ethics and Transformation Subcommittees: Asset and Liability Committee (ALCO); Model Risk Committee (MRC) ASSURANCE: Internal Audit and External Audit

64 *See page 64 for membership of the Board and its committees

THE EMBEDDING OF STRESS TESTING IN THE AFRICAN BANK GROUP'S RISK MANAGEMENT GOVERNANCE FRAMEWORK

The Group uses stress testing as a risk management tool designed to identify and quantify the potential adverse financial and operational conditions that could impact on capital, liquidity, RoE and risk appetite limits. Stress testing is performed as part of the overall annual internal capital adequacy assessment progress (ICAAP), as described in the diagram below and elaborated on in the Managing our balance 24 sheet from a capital adequacy perspective section on page 24 of this report. African Bank's stress testing process is further strengthened through risk-specific stress testing.

ICAAP FRAMEWORK AND STRESS TESTING




How can I help you?
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OUR TOP STRATEGIC RISKS AND RELATED MATERIAL MATTERS

AFRICAN BANK'S TOP STRATEGIC RISKS

11 Linking strategy and risk is key to integrated thinking and the creation and protection of stakeholder value over the short, medium and long term. During 2017 we reviewed and modified where necessary, our risk universe and key risk indicators to ensure they remain relevant in our ever-changing business context and the achievement of our business strategy. As the execution of the strategy gains traction and the Bank becomes a successful retail bank offering a wide range of products and services to South African customers, the risk universe is expected to be refined and further developed, resulting in a dynamic view of the comprehensive risk landscape. The Board and the RCMCom follow the enterprise risk management framework in identifying and classifying material risks and issues. Our materiality determination process is also an integral part of our efforts to embed integrated thinking in African Bank and to identify the issues that form the basis of our internal and external reporting.

Strategy	Potential risks and opportunities	Material issues	Our response to our risks, opportunities and material issues
Diversifying product offering to become a retail bank Broaden channels to market Partner where it makes sense Widen our customer base Position as *'Humanity through banking'; 'We are you'*	Failure to deliver on business, products and channel diversification	Our ability to provide new business, products and channels that appeal to our target market.	We have evaluated and developed new products and channels and are in the process of implementing these to broaden and grow the customer base and create additional income streams ensuring African Bank is not solely dependent on existing lending products. We are acutely aware of the need for these products and channels to appeal to our target market and achieve our strategy of *Humanity through banking*. We have made good progress with the diversification of our product offering and becoming a customer-focused retail bank.
Strengthen the balance sheet to improve competitiveness	Credit risk management and prediction	The transformation and repositioning of African Bank as a new entity that has little resemblance to its past Introduction of new impairments, affordability and profitability models and processes	Early risk indicators and a decreasing credit impairment charge show that credit policy changes have resulted in the Bank achieving a better client risk profile and reducing the number of missed payments, reducing its resultant impairment losses. Expected credit losses are well provided for and the Bank is strongly capitalised. Credit scoring and provisioning models have been validated and are being actively monitored.
	The margin impact of fluctuating interest rates on assets and liabilities	The impact of the rapidly changing South African political and economic environment on our business	This risk is monitored by the ALCO and the portfolio interest rate sensitivity is hedged appropriately within a low risk appetite.
	Unable to access sufficient capital	Access to capital	We are raising our profile in the retail deposit market and diversifying our funding profile by providing investment products to the retail market, while at the same time exploring funding opportunities with the institutional market. We understand the need for the Bank to demonstrate the sustainability and long-term viability and profitability in order to gain the confidence of both wholesale investors and retail depositors.

Strategy	Potential risks and opportunities	Material issues	Our response to our risks, opportunities and material issues
Position as *'Humanity through banking'; 'We are you'* Offer more value than expected Widen customer base	Customer lack of confidence in the brand Need to gain trust	Repositioning African Bank around *Humanity through banking* and gaining traction in the higher Living Standards Measure (LSM) bands as well as with the investor community Establishing a sustainable position in South Africa's financial sector	We have engaged in various initiatives to communicate effectively with our existing and targeted customers including rebranding African Bank in our external and internal and communication channels. Through co-ordinated communication initiatives we are addressing the concerns of our stakeholders and repositioning the Bank around the strategy of *Humanity through banking*. The NPS® and customer satisfaction performance targets are the way we measure our success against these objectives.
Strengthen balance sheet to improve competitiveness Diversifying product offering to become a retail bank Channels to market Widen customer base	Failure to meet financial targets	The impact of the South African economy on our ability to meet targets	We have incorporated these factors into our integrated strategic planning, financial forecasting and budgeting process with full Board engagement and sign-off. We proactively measure ourselves against the budget, and investigate variances and amend the budget and targets appropriately based on the changing macro-dynamics.
	The inability of the Bank to meet its financial obligations leading to it being unable to pay its creditors and disburse new loans	Lack of credit risk appetite for African Bank by the local funding market when required against the backdrop of a fragile South African economy	Liquidity risk over an extended time horizon is monitored and managed through Group ALCO and reported to the RCMCom in the context of strengthening and right sizing the balance sheet.
Diversifying product offering to become a retail bank	Not meeting our compliance commitments	Compliance with the regulatory environment and the potential for reputational risk	Continual actions are taken to ensure compliance. The Bank has been granted an extension by the Financial Services Board with regard to our few remaining employees who still need to become FAIS compliant.
Broaden channels to market Widen customer base	Legacy systems and outdated networks Disparate data silos and data quality issues	A new IT approach to enable the provision of critical digital services and stable operations Poor data integrity leading to potential incompleteness and inaccuracy of transmitted data and related risks	We have addressed legacy system shortcomings in the existing branch-based lending business. The data warehouse project has been developed and approved and is in the process of being implemented. African Bank is also in the process of developing and implementing the requirements of the Basel Committee on Banking Supervision, regulation 239 (BCBS239 – Principles for effective risk data aggregation and reporting also known as RDARR, see page 69). The implementation of this standard will further address data quality issues.
Diversify product offering to become a retail bank Position as *'Humanity through banking'; 'We are you'*	Failure to meet our employment equity targets	The failure to deliver on our employment equity targets would hamper our ability to grow, our banking licence and the next level of operation including our listing	We have ensured that all new recruitment policies are in accordance with our employment equity targets.

MANAGING OUR BALANCE SHEET FROM A CAPITAL ADEQUACY PERSPECTIVE

The Group manages its capital adequacy from a regulatory capital adequacy and an internal or economic capital perspective as part of the annual internal capital adequacy or ICAAP process. We target the higher of our regulatory and economic capital requirements, including a stress testing buffer set annually as part of the ICAAP process, in setting our capital adequacy risk appetite. This risk appetite is expressed as a Core Equity Tier 1 (CET1)/Tier 1 and total capital adequacy ratio. For more information regarding the application of stress testing in the stress testing framework, see the stress testing framework on page 20 of this report.

The Group targets the same ratio for CET1 and Tier 1, as it has not issued additional Tier 1 capital to date. It targets a 27% CET1/Tier 1 and a 33.5% total capital adequacy ratio at the African Bank level.

The Group monitors its actual capital adequacy against forecast and evaluates new business proposals incorporating the capital impact to continually assess potential adequacy risks. A lower capital adequacy target ratio of 31% is deemed appropriate for the Group as a result of a significant portion of Tier 2 capital issues by the Bank not qualifying at the Group level. For information on African Bank's capital adequacy please refer to page 44 of the financial review in this report.

The Group discloses further information in respect of its regulatory capital ratios in conjunction with related risk and liquidity information as part of its quarterly Basel Pillar 3 reporting process. Comprehensive Basel Pillar 3 reports are issued for our full year and interim results, while abridged reports are issued quarterly.

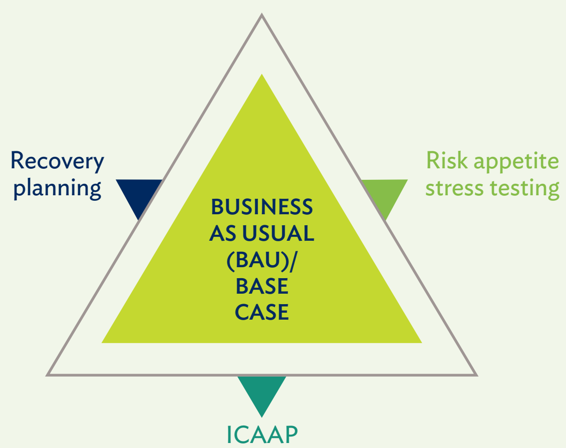
For ICAAP purposes the Group assesses its available financial resources, or economic capital, against its internally calculated economic capital requirements (based on a 99.9% confidence interval and one-year time horizon) to determine whether African Bank has adequate capital to provide protection against the risks to which it is exposed. This process acknowledges that certain risks are apparent in the organisation and allocates capital accordingly to address those risks. The risk assessment is performed in the context of the overall risk assessment as per the enterprise risk management framework as described in this report. Our ICAAP gives rise to formally adopted targets at Board level that inform our decisions around the levels of capital appropriate for us to hold. The decisions we make from the perspective of managing our balance sheet are informed by a Board-approved financial forecast, forecast and targeted capital adequacy levels, supplemented by the Group-wide ICAAP.

OUR STRESS TESTING PROCESSES

The following diagram shows the stress testing process implemented by the Group in order to satisfy our internal requirement for stress testing as well as the regulatory requirement.

ICAAP and recovery planning are annual processes that take place following the finalisation of the three-year financial plan. Risk appetite and stress testing is a more regular process focused on specific risks. Our current operating environment is a very dynamic one, which from a recovery plan perspective requires us to develop several different stress scenarios to address a range of possibilities and which will continue to change as the business develops.

Stress scenarios on risk appetite limits and targets



ASSURANCE

INTERNAL AUDIT

The Head of Internal Audit, Nelan Govender CA(SA), who was appointed to his position on 1 February 2016, is appropriately qualified for the position he holds. His functional reporting line is to the Chairman of the Audit and Compliance Committee (Auditcom). He also has unfettered access to the Chairman of the Board and the chairs of the remaining Board committees. His administrative reporting line is directly to the Chief Executive Officer.

The Auditcom oversees the Head of Internal Audit's performance assessment. His remuneration package, and those of the other senior Group assurance providers, are reviewed by the Remuneration Committee.

THE INTERNAL AUDIT FUNCTION

The Internal Audit function is governed by an Auditcom and Board-approved Internal Audit charter from which it derives its mandate and conducts its activities in accordance with Internal Audit standards.

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

A risk-based Internal Audit plan for the year ahead is approved annually by the Auditcom and its progress is tracked to completion. The plan is also reviewed regularly to ensure that it remains relevant, given changes in the business and operating environments of African Bank. Any changes to the plan are approved by the Auditcom.

Progress with planned Internal Audit initiatives planned for the 2017 financial year

Internal Audit reports to each Auditcom meeting. The report includes a review of audits concluded in the previous quarter and their outcomes, including management comment.

The resolution of adverse findings is the responsibility of the executive; they are tracked by Internal Audit and reported to the Auditcom until their satisfactory conclusion.

Management is aware of these adverse audit findings and has instituted proactive measures to address issues such as establishing a Group Risk Executive Committee (mandated to deal with remediation and proactive treatment of risks) under the directive of the Risk function; updating the policy/procedure and implementing comprehensive IT transformation for the present and future state of the business.

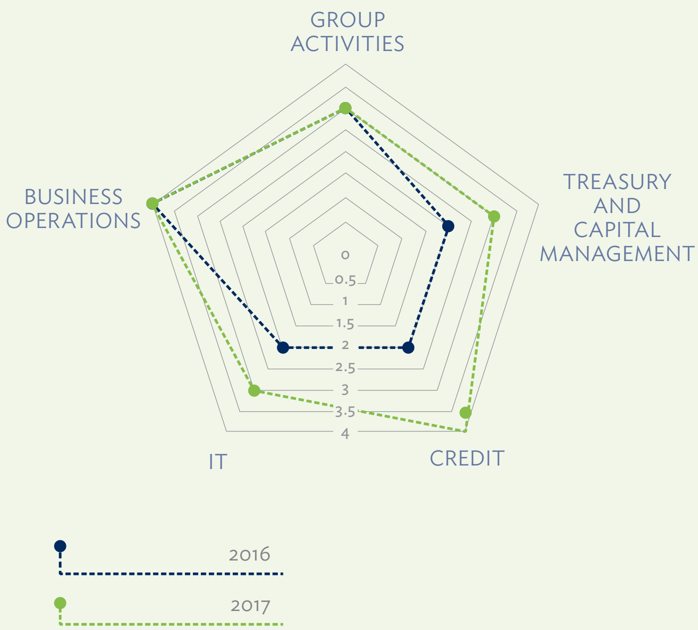
The Head of Internal Audit is solely responsible for the function, scope of work and quality of delivery of African Bank's Internal Audit. The provision of certain specialist internal audit functions by KPMG has allowed our Internal Audit function to augment and strengthen its competencies in key areas. Internal Audit has embarked on a three-year programme to improve its internal skills and competencies and to ensure that our Internal Audit team members have the appropriate professional qualifications. Following the progress made during FY 2016 and FY 2017 with our programme to augment our Internal Audit skills and resources the Group's Internal Audit function has the requisite skills and resources necessary to execute the Internal Audit plan.

The plan executed for FY 2017 was a risk-based plan, which included rolling out proactive assurance and continuous auditing within the Group which:

- improved the depth and coverage within Internal Audit
- aligned its activities with the Group's risk and strategic objectives
- improved the control conscious behaviour within the Group
- enhanced real-time reporting and resolution of findings.

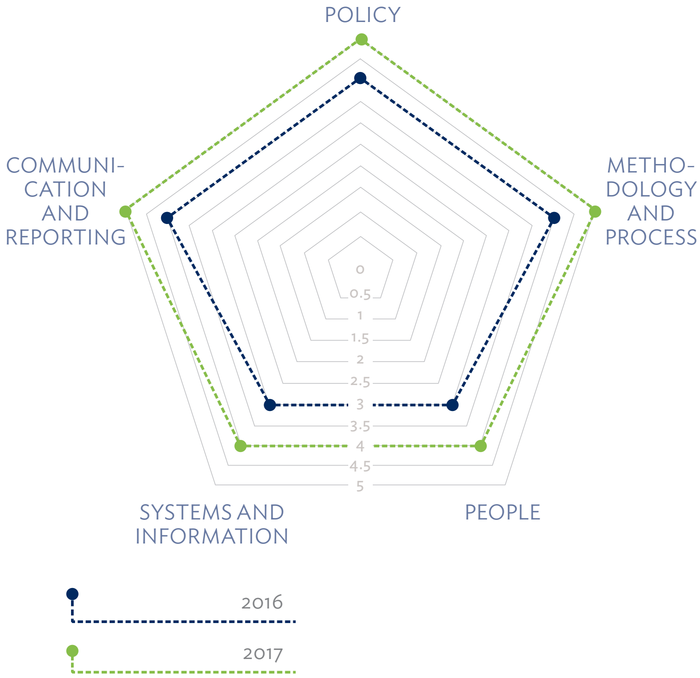
INTERNAL AUDIT AREAS FUNCTIONAL MATURITY ASSESSMENT

There has been a gradual maturing of the assurance activities required by the Board for the key focus areas depicted below:



SUB-PROCESS FUNCTIONAL MATURITY ASSESSMENT

This has been enabled by the maturing of our Internal Audit toolbox, key drivers, disciplines and activities depicted below:



The initiatives Internal Audit has planned for the 2018 financial year

Some key initiatives Internal Audit will be undertaking in FY 2018 to ensure the provision of high quality risk-based advisory and assurance services aligned to the Group's top strategic and operational objectives are:

- programme and proactive assurance on Group strategic transformational activities
- advanced, continuous and more proactive data analytics
- ongoing execution of its professional development plan.

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

- credit
- treasury (including capital management)
- information technology.

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

COMBINED ASSURANCE

The objective of our combined assurance approach is to assure the Auditcom that significant areas of risk within the Group are adequately addressed and that suitable controls exist to mitigate these risks.

The approach we have adopted is that of an integrated planning and reporting process, achieved through the alignment of the activities of the separate functions.

We have established a combined assurance forum that meets quarterly and provides for communication and discussion between our internal and external assurance providers. Forum membership includes the:

- Chief Risk Officer (Chairman)
- Chief Financial Officer
- Chief Information Officer
- Heads of Group:
  - Enterprise Risk
  - Operational Risk
  - Legal
  - Internal Audit
- Group Compliance Officer
- External auditor

The Bank has developed a combined assurance matrix that incorporates the Group's top risk, strategic/transformation programme, sustainability and any other matters considered of significance by the Auditcom. This matrix details assurance coverage and risk assessment.

THE ROLE OF INTERNAL AUDIT IN COMBINED ASSURANCE

Internal Audit is represented on the combined assurance forum and reports to the Auditcom on combined assurance matters. It is the primary driver of the implementation of the combined assurance approach within the Group.
It co-ordinates its work with other assurance providers, including the external auditors, to provide the Auditcom with comfort on the design and effectiveness of the control environment in the three lines of defence.

Combined assurance model

Maturity of function will determine the level and extent of reliance placed

Currently in place:

Progress with combined assurance initiatives planned for the 2017 financial year

Planned initiatives	Progress
Fully embed our combined assurance model and processes	Made good progress
Embed our business assurance councils	Partially completed – to be enhanced as there is functional need with the growth in the organisation
Evolve and advance our reporting in terms of the combined assurance matrix	Completed – dynamic approach to facilitate agility in reporting as and when changes occur
Combined assurance deep dive on specific risks emanating from business transformation activities and emerging risks as requested by the Auditcom	Completed as and when requested by stakeholders

The combined assurance for the 2018 financial year

The combined assurance model and reporting will be further embedded within the organisation to ensure assurance activities and reporting are holistic and extensive, given assurance needs and risks faced by the organisation.

COMPLIANCE

Our Board has a zero-tolerance appetite for risks that arise from regulatory non-compliance. It is committed to complying with the letter and spirit of the law, regulation, supervisory requirements, policies and relevant codes at all times. We do not view compliance as an activity in isolation and therefore have ensured it is aligned with the Group's overall strategic objectives. We also recognise that compliance requirements in the South African financial services industry continue to expand.

An independent compliance office has been established to address the Board's approach to compliance as well as the requirements of the Banks Act. Saber Patel, the Group Compliance Officer, is a holder of the CPrac (SA) compliance practitioner qualification conferred by the Compliance Institute Southern Africa. He has a BComm degree, as well as a post graduate diploma in compliance. He is therefore appropriately qualified for his role.

The Group Compliance Officer is accountable to the Board and the Auditcom. He also has unfettered access to the Board Chairman, the Auditcom Chairman and the chairs of the remaining Board committees. His administrative reporting line is directly to the Chief Executive Officer.

The key reason for establishing a compliance function is to mitigate regulatory risk, the potential for attendant regulatory fines and the possibility of reputational risk. To achieve this, mitigation controls, procedures and ongoing training aimed at establishing a culture of compliance in the Group have been implemented.

The Auditcom is responsible for ensuring that the Group's compliance universe has been documented, which prioritises legislation and regulation on a risk-based approach to ensure that the efforts of the compliance office are prioritised for the high-risk areas.

The Auditcom receives a report from the Group Compliance Officer at all its meetings. Should a matter of non-compliance or of significant compliance risk arise the Auditcom will report it to the Board and manages the remedial action to resolution.

Progress that the compliance office made with initiatives planned to promote and strengthen the Group's compliance during the 2017 financial year

Planned initiatives	Progress
Enhance the existing compliance training and awareness programmes and where necessary implement the programmes	In view of the significance of compliance and the related consequence for non-compliance, executives need to ensure that employees know, understand and can apply the various compliance requirements while performing their duties. As a result, training initiatives focused on the NCA, FICA, *conflict of interest*, among others, have been implemented. These programmes are compulsory for all African Bankers as the learning will ensure awareness of the Acts and their requirements
Enhance the Group's relationships with regulators that have been identified as Group stakeholders	• The office is the senior point of contact between African Bank's divisions and the regulators • We lead the relationship with the regulators in respect of compliance risk matters • Facilitate and co-ordinate regulatory onsite visits • Co-ordinate and collate the submission of comments on draft legislation with potential compliance obligations • Facilitate responses to regulatory requests for information

The compliance initiatives we have planned for the 2018 financial year

The Compliance department will increase its monitoring, which is an extensive examination of compliance-related business activities. It enables management and the Board of Directors to discharge their duty of ensuring that business activities are conducted in compliance with relevant regulatory requirements. The main role players in the compliance monitoring process are management, the Compliance Officer, compliance champions and compliance regulators.
The Compliance Officer will use tools to monitor compliance, with the main process followed being to conduct adequacy and effectiveness reviews.

ANTI-MONEY LAUNDERING

The Group has established an anti-money laundering (AML) function in terms of the requirements of the Financial Intelligence Centre Act (FICA), 2001 (as amended) (the Act). The Board of Directors has approved all critical AML policies, including the core AML policy and risk framework, and these are being implemented.

The AML function is led by the Head of Anti-money Laundering, Advocate Lawrence Muravha, who is appropriately qualified for his role. He reports to the Chief Risk Officer and has unfettered access to the Board Chairman and the chairs of the Board committees. The Auditcom receives reports from the AML office at all its meetings.

The AML office assists the Group to comply with the provisions of the FIC Act and is responsible for submitting all the reports it requires to the Financial Intelligence Centre (FIC), which has an obligation to combat money laundering activities and the financing of terrorism and related activities.

The AML Officer is reviewing the internal rules of the Bank which are to be replaced by a new AML/countering financial terrorism (CFT) compliance risk management programme to be approved by the Board of Directors.

The Group has an AML/CFT system in place to enable our compliance with customer risk assessment and reporting obligations. The Group's AML/CFT system has been independently tested by a third-party agency to ensure it meets the best international standards. Further enhancement of the AML system is conducted regularly to ensure that the controls we have implemented are adequate to mitigate AML/CFT risks.

Progress made by the AML office with initiatives planned to promote and strengthen the Group's AML compliance during the 2017 financial year

Planned initiatives	Progress
Implement a Know Your Customer (KYC) module across all our front-end systems	KYC module signed off by all relevant stakeholders and implemented accordingly
Integrate and/or establish systems and processes to ensure AML compliance as new services and/or product offerings are introduced by the Group	AML processes have been developed, including the assessment of new services and products in line with applicable AML requirements
Enhance existing AML competence in the Group and introduce an annual e-learning and assessment process for all Group employees	Annual AML refresher training has been completed for the Group
Enhance the ongoing monitoring of AML compliance by business units	AML ongoing monitoring by assurance providers such as internal/external Audit and Group Compliance has been rolled out successfully

The compliance initiatives we have planned for the 2018 financial year

Planned initiatives
Implementation of the Financial Intelligence Centre Act no 1 of 2017, with special focus on the: • migration from a rule-based regime to a risk-based approach methodology • reviewing of current AML policies, processes and systems in line with the new FIC Amendment Act. • conduct AML risk assessment and the update of the compliance risk management programme of the Bank • update core banking systems in line with new customer due diligence requirements, including simplified due diligence, ongoing due diligence and enhanced due diligence for each customer segment • update of AML training materials
Participate in industry-related forums, the forthcoming country evaluation by the Financial Action Task Force and contribute to the safeguarding of the financial system relating to money laundering and terrorist financing

AFRICAN BANK'S LEADERSHIP

OUR BOARD OF DIRECTORS

1

Louis von Zeuner (56)

Independent non-executive director

BCom (Economics)
Chairman Directors' Affairs and Governance (DAG) Committee
Appointed June 2015

Louis von Zeuner, Chairman of the Board, completed 32 years' service at Absa, during which time he acted in various key executive roles and served as deputy group chief executive officer from 2009 until his retirement on 31 December 2012. He has extensive business experience, including experience in audit, risk and capital matters, particularly in the financial sector. He has been an Independent and Non-Executive Director of MMI Holdings Limited since 2014 and serves on various other boards.

4

Basani Maluleke (40)

Executive director

BCom, LLB, MBA (Kellogg)
Appointed July 2015

Basani Maluleke qualified as an attorney at Edward Nathan Sonnenbergs, whereafter she joined the corporate finance team at FirstRand Bank, RMB, where she was a member of the teams that pioneered the structuring and implementation of BEE ownership transactions for JSE-listed companies. She subsequently joined the FNB Division as the Head of Private Clients. Basani has accumulated over 10 years of financial services experience in the areas of corporate finance, banking and private equity.

Basani is an admitted attorney of the High Court. She is also a fellow of the African Leadership Initiative and the Aspen Global Leadership Network.

She joined the executive team as Group Executive Head, Operations in July 2017.

7

Sydney Mhlarhi (44)

Independent non-executive director

BComm, BAcc, CA(SA)
Diploma in Financial Markets and Instruments (UJ)
Appointed July 2016

Sydney Mhlarhi is a founding member and director of Tamela Holdings Proprietary Limited, a black-owned investment holding and advisory company, which commenced business in 2008. Prior to founding Tamela, Sydney was a founder member and Chief Investment Officer of Makalani Holdings, a mezzanine financer which listed on the JSE in 2005. He held various corporate roles in the Standard Corporate and Investment Bank from 1998-2004, after completing his accountancy articles at Ernst and Young in 1997.

2

Brian Riley (60)

Executive Director

Advanced Executive Programme diploma (Unisa), Advanced Management Programme at Harvard Business School, USA
Appointed June 2015

Brian Riley joined FirstRand Bank, WesBank Division in 1988 and retired in 2013 as its Chief Executive Officer and a member of the Strategic Executive Committee of FirstRand, which was responsible for the formulation and execution of the FirstRand strategy. In his seven-year tenure as CEO of WesBank, he oversaw a significant growth period. Prior to Wesbank, Brian undertook various roles in the UK, including positions held at Lloyds and Scottish Finance Group, the Provident Financial Group and Clerical Medical and General Assurance Company.

He was appointed Group Chief Executive Officer in April 2016.

5

Sybille McCloghrie (60)

Independent non-executive director

BCom cum laude, BCom (Hons) (Unisa), MBA (Heriot-Watt University Edinburgh)
Associate Diploma of the Institute of Bankers in South Africa
Chairman of the Remuneration Committee (Remcom)
Appointed July 2015

Sybille McCloghrie has been the Chief Executive Officer of Symelation Holdings Proprietary Limited, a technology-based company serving, among others, financial institutions as well as providing accessible business solutions to small, medium and micro-sized enterprises, with a specific focus on enterprise development. Prior to this, she was responsible for the commercialisation and international expansion of Tilos Proprietary Limited, operating in software product development and consultancy. From 1989 to 2001 she worked in various executive roles in service delivery and business development at FirstRand Bank, AECI Information Services, Electronic Data Systems and IBM Global Services.

8

Peter Temple (45)

Independent non-executive director

BBusSc (Actuarial), Fellow of Actuarial Society of South Africa (FASSA), Fellow of Institute of Actuaries (UK)
Chairman Model Risk Committee
Appointed April 2016

Peter Temple holds a BBusSc (Actuarial) from the University of Cape Town, is a fellow of the Institute of Actuaries and is the immediate past president of the Actuarial Society of South Africa. He brings a wealth of business acumen and professional skills experience to the Board of Directors and its Board risk governance structures. He is the Regional Director of General Reinsurance (a Berkshire Hathaway company) responsible for the Life/Health business for UK, Ireland and South Africa.

3

Gustav Raubenheimer (47)

Executive Director

BCom, BCom (Hons), CA(SA)
Appointed July 2015

Gustav Raubenheimer began his career as an articled clerk at Deloitte & Touche, spending periods at FirstRand Bank, FNB Division at FNB's Corporate Bank, Nedbank's Credit Lab as well as Absa's Retail and Commercial division. He joined African Bank in 2012 as the Credit Executive where he was responsible for managing credit risk, provisions for bad debt as well as pricing. On joining, he was instrumental in identifying and alerting management to the deteriorating performance of the loan book which ultimately led to African Bank being placed in curatorship. As a seasoned banker and chartered accountant, he contributes banking, financial and analytical skills.

He was appointed Group Chief Financial Officer in July 2015.

6

Ignatius Sehoole (57)

Independent non-executive director

BCom, BCompt (Hons), CA(SA)
Chairman of the Risk and Capital Management Committee (RCMCom)
Appointed July 2015

Ignatius Sehoole qualified as a chartered accountant in 1991. Since 2013, he has served as a non-executive director on the boards of various companies, and held several of these directorships for a number of years. He was Group Executive of Business Risk Management at MTN Group from 2010 to 2013. Prior to that, he was the Deputy Chief Executive Officer of PricewaterhouseCoopers Southern Africa. From 2000 to 2009 he was the Executive President of the South African Institute of Chartered Accountants.

He resigned from the Board on 16 October 2017.

9

Louisa Stephens (41)

Independent non-executive director

CD(SA), CA(SA), BBusSc (Finance)
Chairman of the RCMCom and ALCO and Sustainability, Ethics and Transformation committees (Setcom)
Appointed July 2015

Louisa Stephens holds a BCom (Honours) degree from the University of Johannesburg and a BBusSc degree from the University of Cape Town. She qualified as a chartered accountant in 2009, having served her articles at KPMG and as a chartered director in 2017. Louisa worked as a transactor and credit analyst in structured finance at FirstRand Bank, RMB Division. She has occupied various key positions at the National Empowerment Fund, Circle Capital Ventures, Sasol Group Finance and Nozala Investments.

10

Frans Truter (62)

Independent non-executive director

BComm (Hons), CA(SA), AMP. (Oxford)
Chairman Audit and Compliance Committee (Auditcom)
Appointed August 2015

Frans Truter served as the Chief Financial Officer of Momentum Group Limited from 1988 to 2004. Thereafter he served as the Director of Strategic Investments for Momentum Group. He has been an independent and non-executive director of MMI Holdings Limited since 2010 and serves on various other boards.

AFRICAN BANK'S LEADERSHIP CONTINUED

AFRICAN BANK'S MANAGEMENT TEAM

OUR EXECUTIVE COMMITTEE

1

Brian Riley (60)
Chief Executive Officer

Advanced Executive Programme diploma (UNISA), Advanced Management Programme at Harvard Business School (USA)
Appointed June 2015
(Joined May 2015)

2

Gustav Raubenheimer (47)
Chief Financial Officer

BCom, BCom (Hons), CA(SA)
Appointed July 2015
(Joined October 2012)

3

Basani Maluleke (40)
Group Executive: Operations

BCom, LLB, MBA (Kellogg)
Appointed July 2017
(Joined July 2017)

4

Gavin Jones (53)
Executive: Funding and Liability Management, Treasury

BA LLB (UCT), H Dip Tax (Wits)
Appointed March 2016
(Joined May 2009)

5

Vere Millican (40)
Group Executive: Credit

NDip in Management
BSc (Hons) in Banking and International Finance
Appointed October 2015
(Joined April 2013)

6

Lindiwe Miyambu (45)
Group Executive: Human Capital

Bachelor of Education (National University of Lesotho)
Certificate in Labour Relations
Post-graduate Diploma in Labour Relations
Appointed November 2015
(Joined September 2010)

7

Mellony Ramalho (44)
Group Executive: Sales and Branch Network

Industrial Psychology (Unisa)
IMM Marketing Management Diploma (Damelin)
MAP Certificate (Wits)
MBA (Educor Milpark)
Appointed May 2016
(Joined February 2016)

8

George Roussos (50)
Group Executive: Digital and Transactional Banking

BCom (Wits), BAcc (Wits), CA(SA)
Appointed March 2013
(Joined July 1998)

9

Piet Swanepoel (55)
Chief Risk Officer

BCom (Marketing Management) (Pretoria)
Advanced Management Programme (Templeton College, Oxford University)
Appointed July 2015
(Joined June 2014)

10

Hendus Venter (46)
Chief Information Officer

BCom (Law) (North West)
BCom (Hons) Economics, International Finance (cum laude) (North West)
Global Executive Development Programme (GIBS)
AMP (INSEAD, France)
Postgraduate diploma (Information Sciences and Knowledge Management) (cum laude) (Stellenbosch)
Appointed September 2015
(Joined August 2015)

OUR PERFORMANCE

FINANCIAL REVIEW

African Bank's headline earnings for the second half of the year under review increased 75% on the comparable period in 2016.

Operating profit before tax for the second half of the year is up 67% on the comparable period in 2016

Credit risk favourable despite macroeconomic pressures

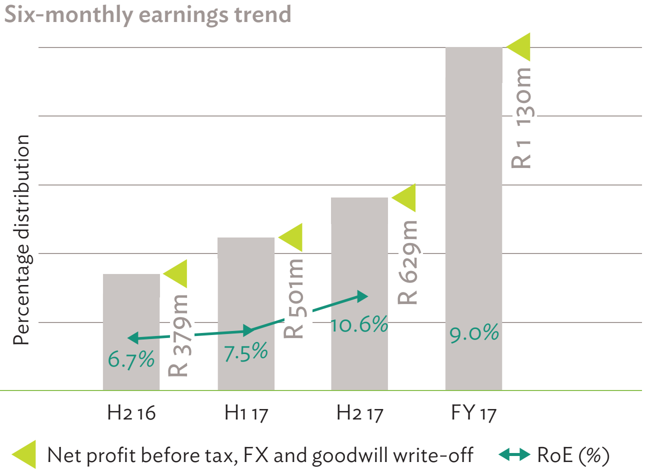
Cost to income ratio of 31%

Pressure on the advances book

Debt buy-backs lead to an improved financial position

The twelve-month period ended September 2017 was the new African Bank's first full financial year after buying the advances and other assets from Residual Debt Services Limited under curatorship (previously known as African Bank) on 4 April 2016. We are therefore able to compare the financial performance of the Company over 18 months, or three sets of six-monthly results. The improved earnings trajectory is especially noticeable when comparing H2 2016 against H2 2017. Most notable is the operating profit before tax, which increased by 66%. This is after adjusting for the write-off of goodwill which was taken in H2 2016.

Six-monthly earnings trend



The changes in the profitability of our business can be clearly seen in the return on (average) advances (RoA) analysis. RoA increased from 0.4% (excluding the goodwill write-off) to 2.8%, again comparing H2 2017 to H2 2016. As shown on the graph alongside.

A key driver of this improvement is an increase in insurance profit (2.0% of advances to 5.1% of advances) and a reduction in impairments (13.2% of advances to 11.7%).

Insurance profit was significantly lower in H2 2016 due to the incurred but not reported (IBNR) which had to be established out of profits to the value of R440 million, whereas the Guardrisk cell captive is now well established and insurance risk well provided for, resulting in increased profitability.

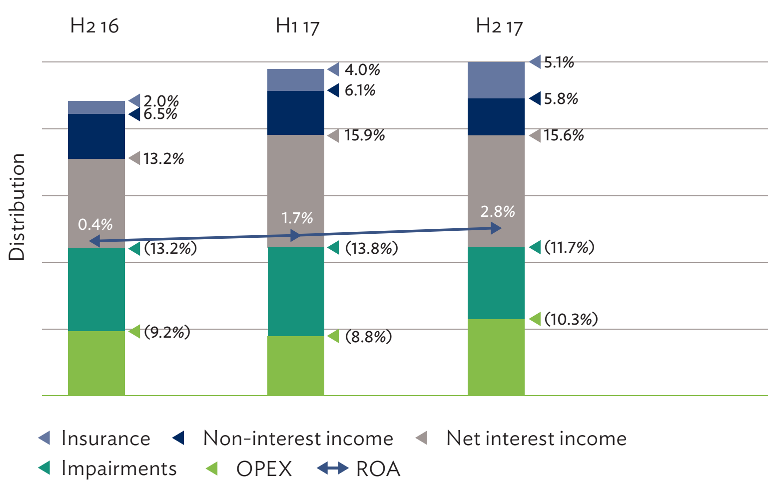
Impairments have reduced below the long-term target of 13.0% to 11.7% in H2 2017 and 12.7% for FY 2017. This is the result of a continued strong performance in the Collections department, as well as regular credit policy reviews, which reduced our risk experience despite a macroeconomic environment which is not conducive to growth and continues to put pressure on consumers.

Net interest income increased from 13.2% to 15.6% of advances due to the favourable impact on the net cost of surplus funding brought about by the various debt buy-backs.

Operational expenditure did increase, as a result of the voluntary severance package (VSP) programme we concluded during the financial year, as well as an increased investment into transactional banking. We expect to see the benefit of the rationalisation in 2018.

Our non-interest income has reduced as a result of the reduced risk appetite which also resulted in a lower number of larger new loan disbursements, as explained further on in this review. As non-interest income is largely fixed at a loan level, a lower number of loans results in lower non-interest income. This impact was compounded by the decision to cut back on short-term loans of less than six months from September 2016.

Return on average advances analysis



The acquired advances book was recognised at fair value per IAS 39 on 4 April 2016. This accounting standard further requires the return on such a book to be reflected on a yield-to-maturity basis, including the impact of anticipated credit losses. The resultant income statement only reflects impairments on the advances originated since 4 April 2016 plus any unanticipated impairments on the acquired book. This treatment makes African Bank's income statement difficult to compare to any other set of bank financials. The discussion above, as well as any further analysis, will be based on the adjusted operating results. To enhance the reader's understanding, the following table reflects the income statement as published, in conjunction with a normalised income statement, as if the acquired book was originated and not acquired, i.e. not accounted for on a yield-to-maturity basis.

Comparison of IFRS reported results to adjusted results

	FY 2017		
R million	IFRS	Adjusted results	Difference adjusted results
Interest income on advances	5 700	6 228	528
Non-interest income*	1 526	2 118	592
Total income	**7 226**	**8 346**	**1 120**
Credit impairment charge	(2 448)	(3 568)	(1 120)
Interest after impairment	**4 778**	**4 778**	–
Other interest income	819	819	–
Interest expense and similar charges	(2 741)	(2 706)	35
Net interest income	**2 856**	**2 891**	**35**
Operating expenditure	(2 607)	(2607)	–
Indirect tax	(56)	(56)	–
Gain due to liability management	16	16	–
Insurance income	639	886	247
Dividends received	303	–	–
Operating profit	**848**	**1 130**	**282**
Foreign exchange losses on net open position	–	(35)	(35)
Taxation	(62)	(309)	(247)
Net profit after taxation	**786**	**786**	

* Non-interest income includes collection fees in respect of the RDS book collection by African Bank amounting to R720 million on an IFRS and an adjusted basis.

Operating profit before tax increased by 67%. This is after adjusting for the write-off of goodwill which was taken in H2 2016.

Although still noticeably lower than our competitors, RoE has increased from 6.7% (excluding the goodwill write-off) in H2 2016 to 10.6% in H2 2017, with a FY 2017 RoE of 9.0%. Suppressing African Bank's RoE is its high cost of funds, high capital levels, excess liquidity and investments into new ventures.

The results per IFRS include the impairment charge on the acquired book, which was anticipated when this book was valued on 4 April 2016, as part of interest and non-interest income. The foreign exchange loss on the net open position is reflected separately from interest expense and other charges in the adjusted results. African Bank's foreign liabilities are economically hedged, through a combination of swaps and investments into foreign currency assets. As the yields on the foreign currency hedging assets are typically less than the interest paid on the liabilities, a net long current position is required to hedge all future cash flows. This net long position amounted to US$28 million and CHF19 million as at 30 September 2017, resulting in some short-term foreign exchange volatility. A comparative income statement across the three six-monthly periods from 4 April 2016 to 30 September 2017 is provided below.

Adjusted results – six-monthly comparison

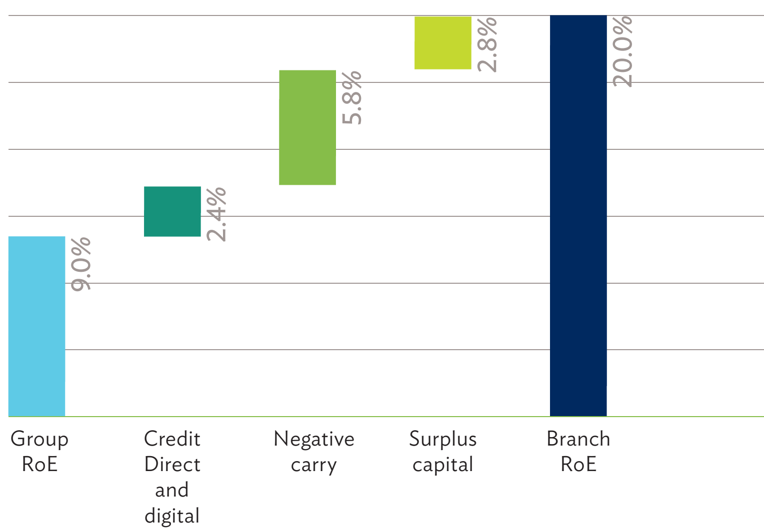
	Prior year	Current year			
R million	H2 2016 September 2016	H1 2017 March 2017	H2 2017 September 2017	FY 2017	H2 2017 vs H2 2016
Interest income on advances	3 264	3 211	3 017	6 228	(247)
Non-interest income	1 114	1 088	1 030	2 118	(84)
Total income on advances	**4 378**	**4 299**	**4 047**	**8 346**	**(331)**
Credit impairment charge	(1 893)	(1 963)	(1 605)	(3 568)	288
Interest after impairment	**2 485**	**2 336**	**2 442**	**4 778**	**(43)**
Other interest income	642	439	380	819	(252)
Interest expense and similar charges	(1 809)	(1 416)	(1 290)	(2 705)	519
Net interest income	1 318	1 359	1 532	2 891	214
Operating expenditure	(1 223)	(1 217)	(1 390)	(2 507)	(167)
Indirect taxation	(44)	(39)	(17)	(56)	27
Gain due to liability management	251	10	6	16	(245)
Insurance income	77	388	498	886	421
Operating profit	**379**	**501**	**629**	**1 130**	**250**
Foreign exchange losses on net open position	–	(49)	14	(35)	14
Taxation	(110)	(137)	(172)	(309)	(62)
Net profit after taxation	**269**	**315**	**471**	**786**	**202**
Return on equity (%)	6.7%	7.5%	10.6%	9.0%	3.9%

Although still noticeably lower than our competitors, RoE has increased from 6.7% (excluding the goodwill write-off) in H2 2016 to 10.6% in H2 2017, with a FY 2017 RoE of 9.0%. Suppressing African Bank's RoE is its high cost of funds, high capital levels, excess liquidity and investments into new ventures.

CORE BRANCH BUSINESS RETURNING ABOVE TARGET RoE

The traditional branch business, capitalised at a target CET1 ratio of 27%, without the negative carry as a result of excess liquidity, reported a RoE of 20% above the target cost of equity of 15%. Several structural and new business pressures on expenses have reduced the branch RoE to 9.0% for FY 2017. Investments into Credit Direct and the digital channel reduced RoE by a further 2.4%. Surplus capital over and above the target CET1 ratio of 27.0% reduced RoE by another 2.8%. (The negative carry as a result of excess cash is significant (5.8%) in terms of its negative impact on RoE).

FY 2017 – Return on equity drivers analysis



The table below provides more granularity regarding the profitability of the various strategic focus areas within African Bank. The profitability of Credit Direct is expected to improve as the directly fulfilled sales increase. Transactional banking is accounted for in the digital business unit and will initially continue to reflect the expense of the upfront expenses as the business is established. The negative drag within Corporate is expected to be reduced by further balance sheet optimisation

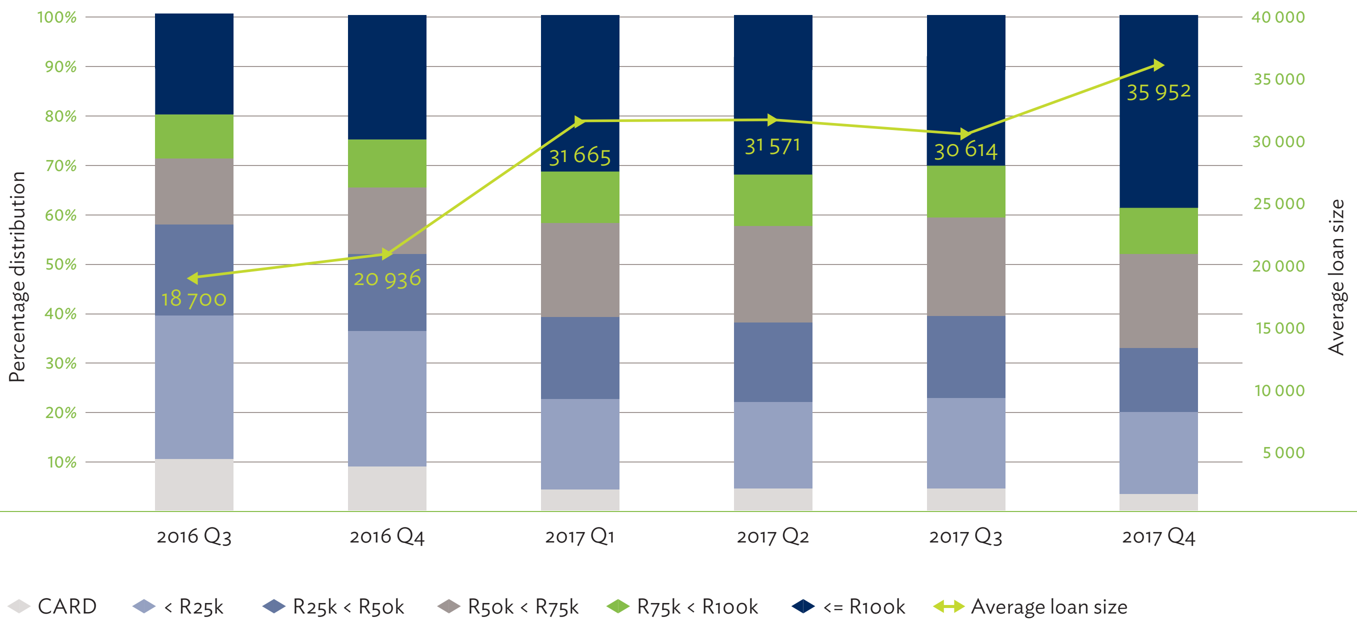
R million	Branch network	Credit Direct	Digital	Corporate	Total
Interest income in advances	6 169	59	–	–	6 228
Non-interest income	1 391	9	–	718	2 118
Total income on advances	**7 560**	**68**	–	**718**	**8 346**
Credit impairment charge	(3 542)	(26)	–	–	(3 568)
Interest after impairment	**4 018**	**42**	–	**718**	**4 778**
Other interest income	536	7	–	276	819
Interest expense and similar charges	(1 822)	(29)	–	(855)	(2 706)
Net interest income	**2 731**	**21**	–	**139**	**2 891**
Operating expenditure	(1 609)	(105)	(164)	(729)	(2 607)
Indirect tax	(48)	(2)	(4)	(3)	(56)
Gain due to liability management	–	–	–	16	16
Insurance income	862	24	–	–	886
Operating profit	**1 937**	**(63)**	**(168)**	**(577)**	**1 130**
Foreign exchange losses on net open position	–	–	–	(35)	(35)
Taxation	(542)	18	47	169	(309)
Net profit after taxation	**1 395**	**(45)**	**(121)**	**(443)**	**786**

CREDIT RISK IMPROVED DESPITE MACROECONOMIC PRESSURES

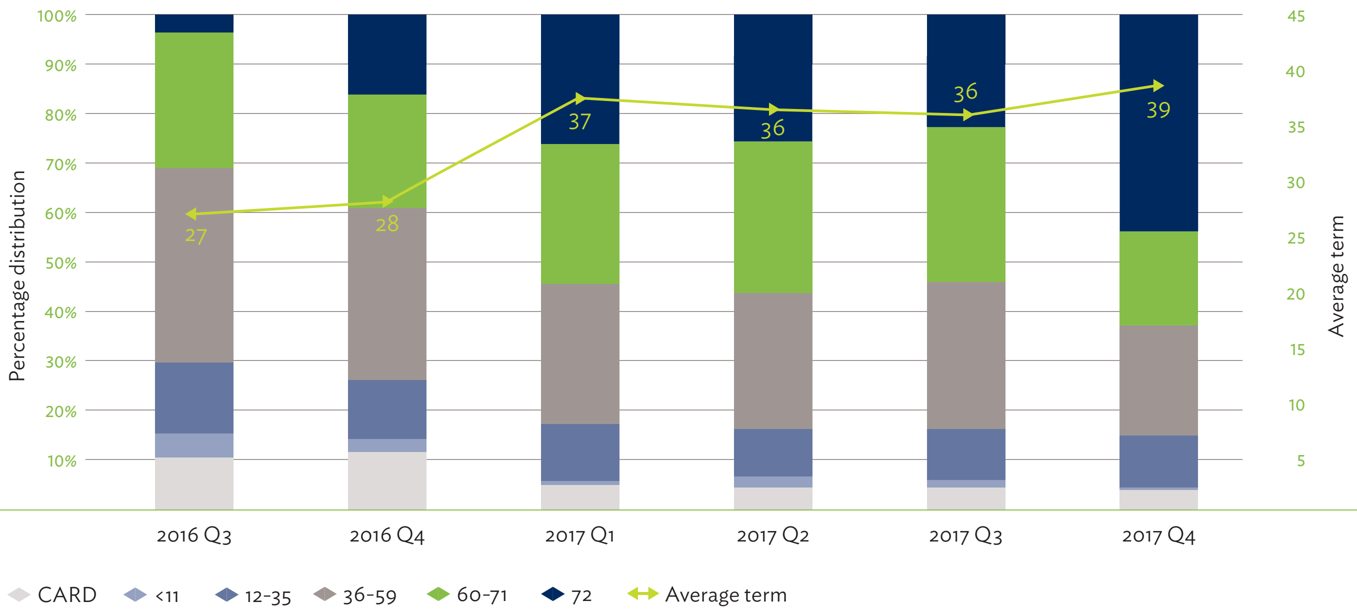
Credit risk expertise is at the heart of a lending business. Our Credit team continually improves the technology and intellectual property they use for the underwriting and pricing of new lending. As mentioned in the previous reporting period, we implemented a reduced risk appetite during September 2016, which was incorporated into a new refined scorecard in August 2017.

The reduced risk appetite implies that we are lending more to low risk clients. As a result, the average loan size has increased to R35 952 and the average contractual term has increased to 39 months.

Loan size disbursements



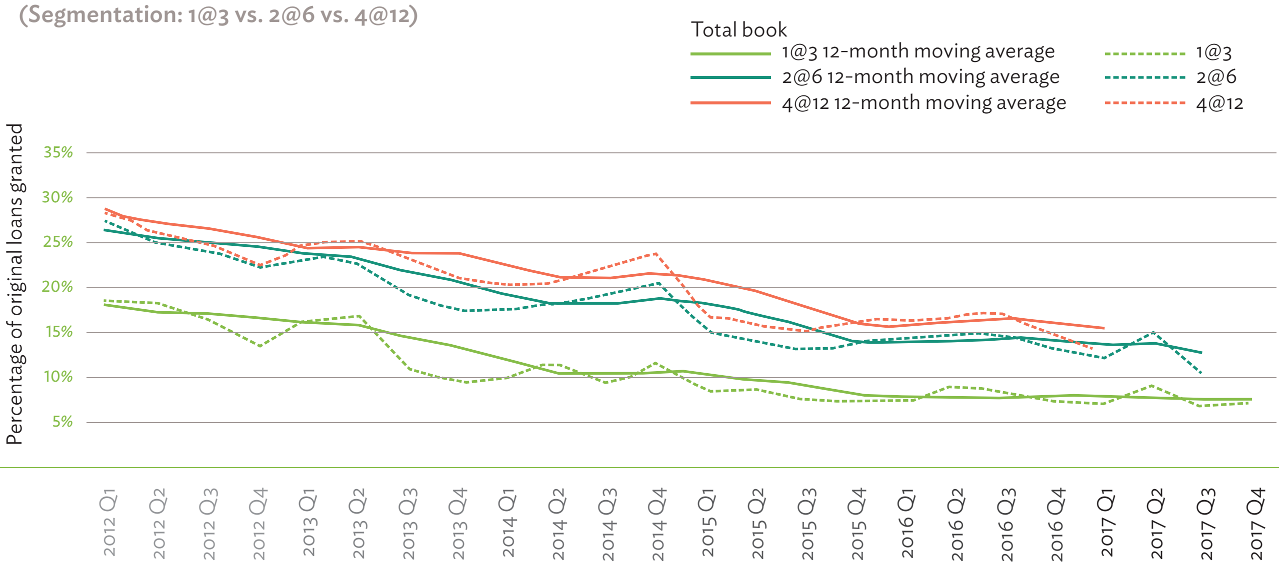
Term distribution




Get more
when you INVEST with us
Get more than just a
Funeral Cover
or just an
Investment Account
How can I help you

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

Quarterly early risk emergence trends (total book)
(Segmentation: 1@3 vs. 2@6 vs. 4@12)

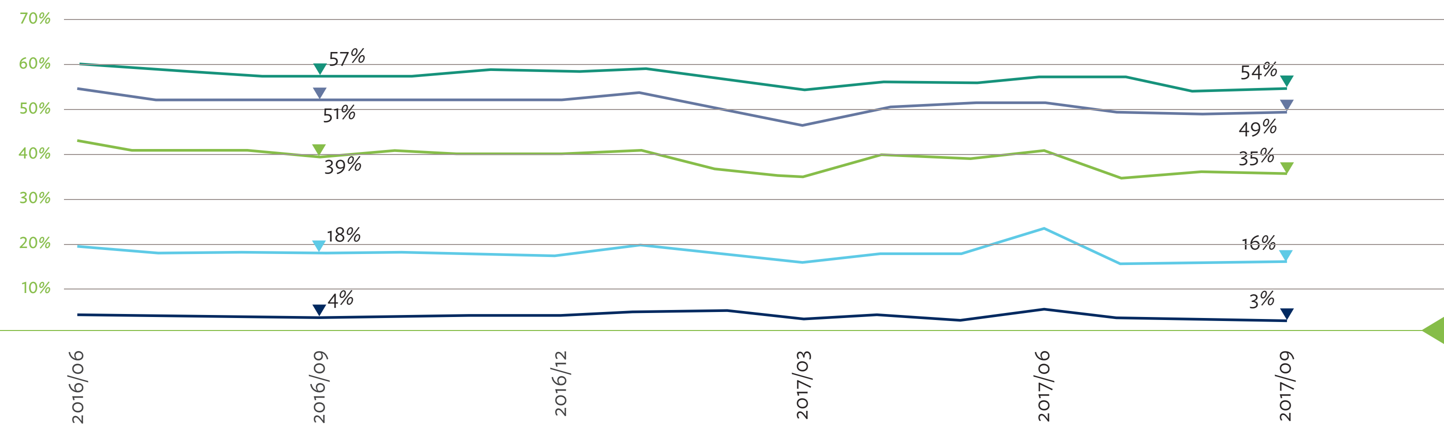


Note: The last data for all early risk indicators is based on one month of results and not a full quarter

As can be seen in the graph, more recent origination tranches continue to reflect lower risk. It is also apparent that the current risk experience is approximately half of what was apparent in the Q1 2012 origination tranche.

Further evidence of improved credit risk can be seen in the credit loss ratio improving to 11.7% for H2 2017 compared to 13.2% in H2 2016. The full year ratio of 12.7% is within our stated long-term target of below 13%. The improving impairment charge is driven by improved forward roll rates, which are apparent in all of the contractual delinquency (CD) buckets, when compared with those of a year ago. We expect the early risk emergence trends to stabilise at the current levels.

Contractual delinquency forward roll rate (balance)



Improved roll rates contributed to a better delinquency profile.

A new segmentation applied in our impairment calculations identified the population that had not made any payment for the last five months as having a very high loss given default (LGD) of 84%. We therefore decided to write off this population, over and above the existing policy to write off the population that had not made any payment for six months or more, from the current reporting period. This increased write-off of gross advances by R614 million and reduced balance sheet impairments by R515 million resulting in a net charge to the income statement of R99 million. The current portfolio CD proportion increased marginally between H1 and H2 2017. Early arrears (CDs 1 to 3) decreased gradually in every reporting period.

The written-off book has increased to R13.4 billion of gross advances to which zero value is attributed on African Bank's balance sheet, being fully provided for.

The following two tables give an overview of the total book by arrears bucket and the provisioning levels by each bucket.

Book split and size

Arrears bucket	FY 2016	H1 2017	FY 2017
CD 0	54%	52%	53%
CD 1-3	15%	14%	13%
CD 4+	31%	34%	34%
Total book (Rm)	27 638	28 135	26 513
Written-off book (Rm)	10 437	12 271	13 384

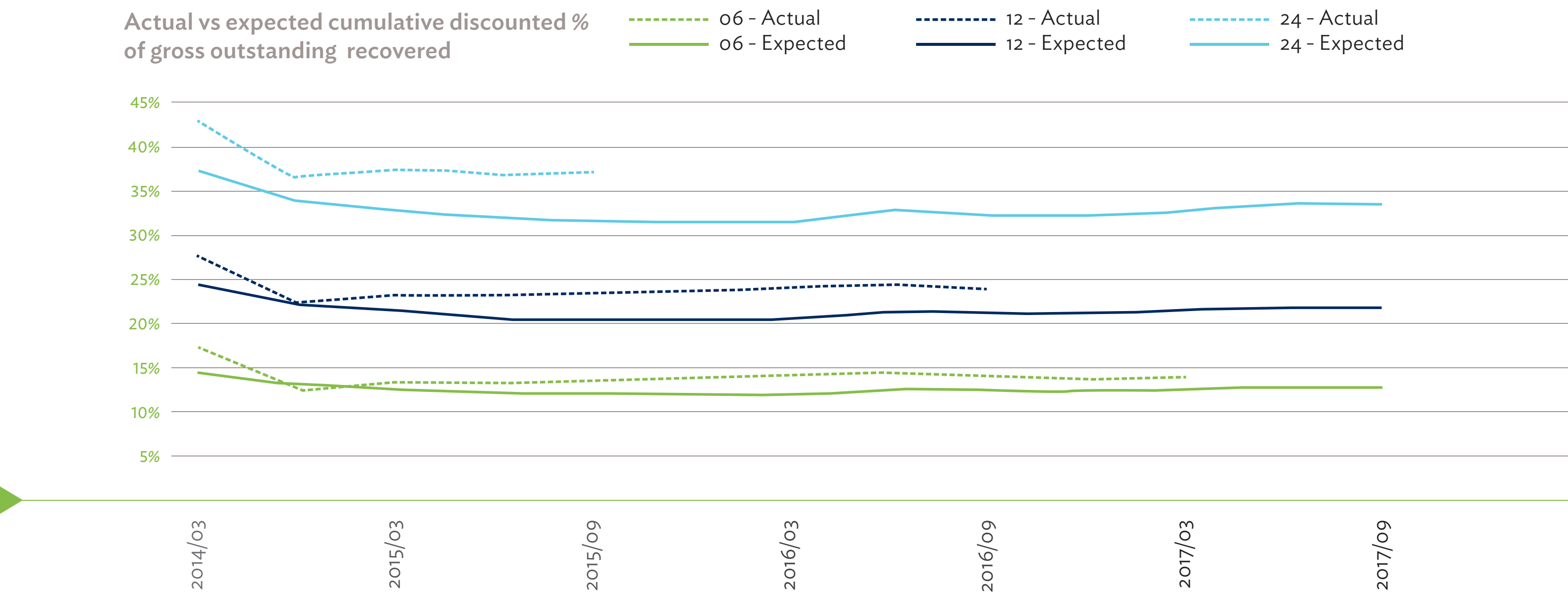
Coverage ratios per CD category remained constant across the last three reporting periods, despite more conservative write-offs.

Coverage by contractual delinquency bucket

Arrears bucket	FY 2016	H1 2017	FY 2017
CD 0	5%	5%	5%
CD 1-3	35%	35%	36%
CD 4+	63%	67%	65%
Total book	27%	30%	29%

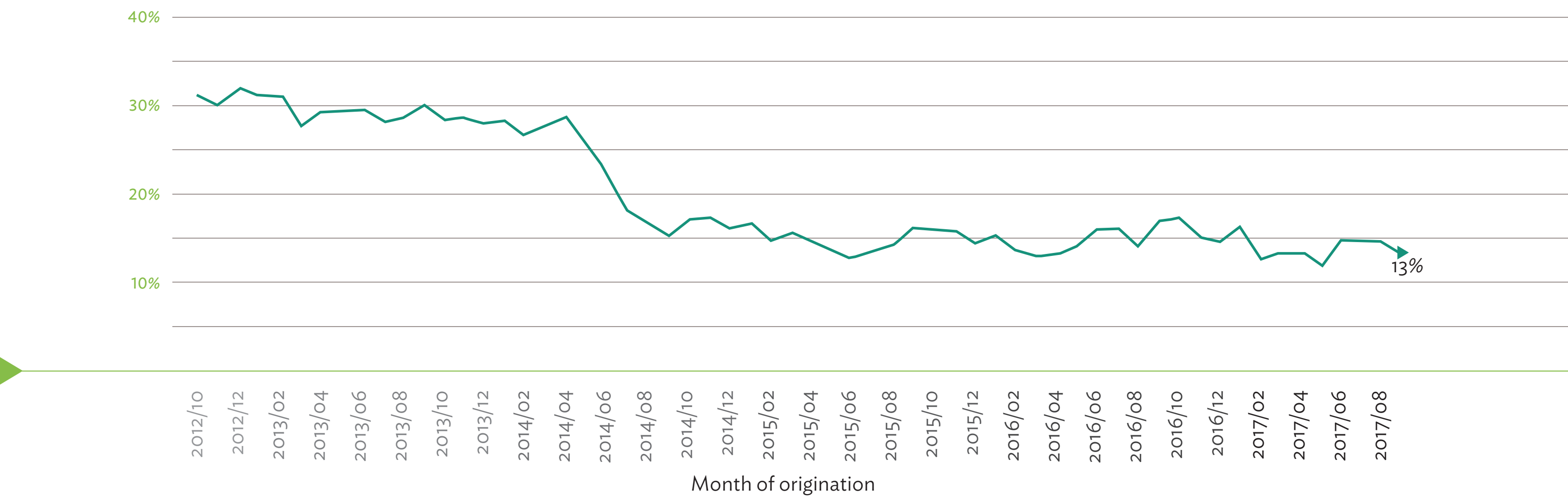
We are satisfied that our impairments are adequate as they are benchmarked against our competitors, and the models that we apply are back tested. The table below reflects the result of back testing our current models over various points in time. Actual cash is represented by the dotted lines, which are consistently higher than the solid lines, indicating that we received more cash than the projected cash on which our impairment models are based. It should be noted that both these calculations are on a discounted basis, in line with IFRS compliant provisioning policy.

Actual vs expected cumulative discounted % of gross outstanding recovered



The improved credit experience is not the result of arrears performance distorted by restructuring, as African Bank's arrears status is not influenced by restructuring. Restructuring of an account by reducing a customer's repayment will actually increase the customer's contractual delinquency status and remaining loan term. African Bank's delinquency profile is not distorted by disbursing new loans to customers in arrears. Settlement re-advances (SRAs) are only provided to customers in good standing and the instance of that practice has reduced drastically since curatorship. The graph below shows the proportion of gross disbursements used to settle existing debt.

Proportion of gross disbursements used to settle existing debt



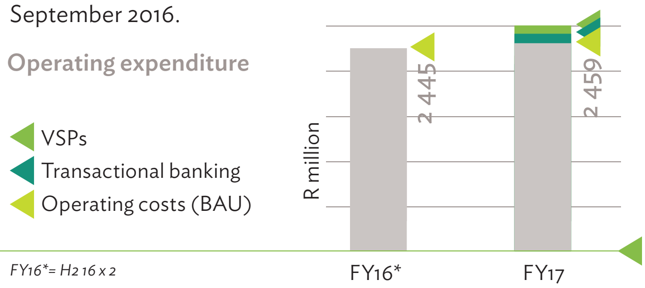
A COST-TO-INCOME RATIO OF 31% WAS ACHIEVED

We continue to evaluate our expense base and identify opportunities for cost reduction while, at the same time, investing in strategic opportunities. During the year under review:

- our branch infrastructure increased to 388, through the opening of 11 new branches, the closing of nine existing branches and the relocation of a further eight branches. In all R40 million was spent this year on re-vamping and updating our branches
- expenditure on the development of our transactional banking functionality reached R101 million this year, of which R34 million was capitalised
- R67 million was spent during the year on VSPs. We expect savings in terms of salaries to exceed this amount during the 2018 financial year. As a result, our total number of permanent employees was reduced from 4 075 as at 30 September 2016 to 3 348 as at 30 September 2017.

By excluding the investment into transactional banking and the cost of the VSPs, it is possible to calculate a business as usual cost. This was R2 459 million for the twelve months to September 2017, which is less than 1% higher than our annualised operational expenditure for the six months to September 2016.

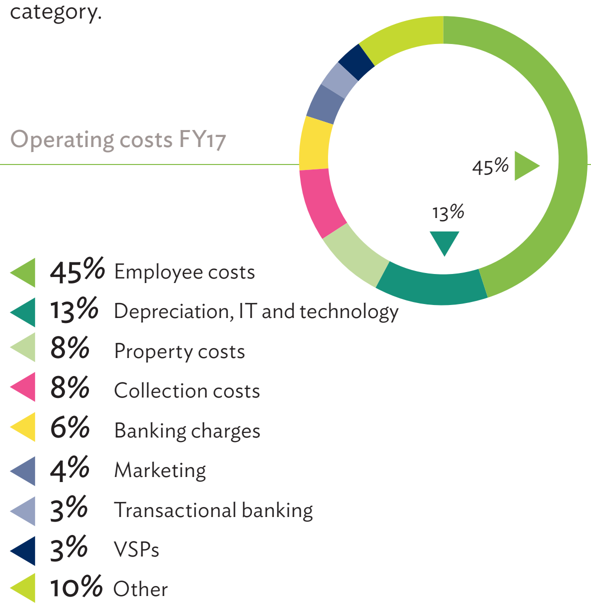
Operating expenditure



FY16= H2 16 x 2*

Employee costs make up 45% of our 2017 costs, with information technology being the next highest operating expenditure category.

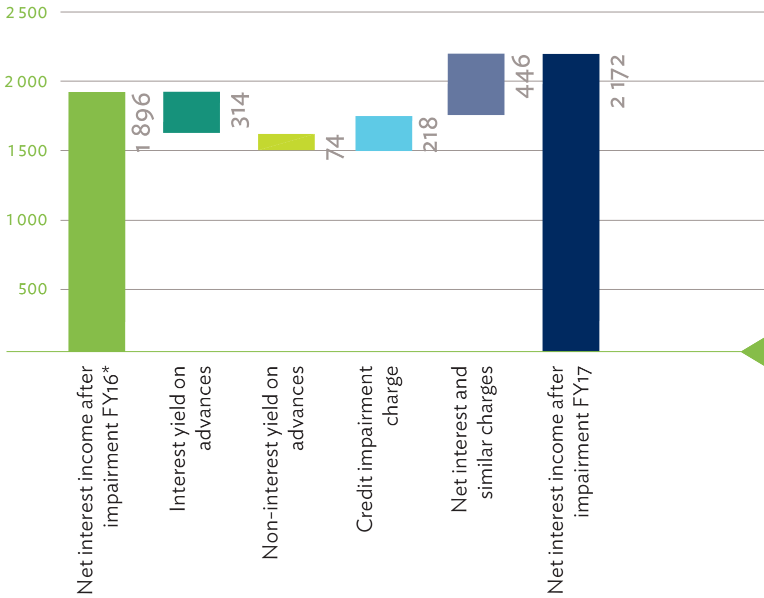
Operating costs FY17



ADVANCES DECLINED YEAR-ON-YEAR

Although our risk-adjusted income increased year-on-year, this is the result of lower impairments and reduced financing charges. Both interest and non-interest income reduced as a result of declining advances.

Risk-adjusted income comparison
R(m)



FY16= H2 16 x 2*

Gross advances declined from R27.6 billion in September 2016 to R26.5 billion in September 2017. R614 million of this reduction was the result of our change to a more conservative write-off policy, described earlier, while the remainder of the decline is the result of disbursements being down 9% year-on-year. The negative economic environment puts pressure on consumers' affordability and reduces their appetite for credit. Our conservative risk appetite, and price caps on credit-life insurance introduced on 9 August 2017 by the NCR, placed further restrictions on sales.

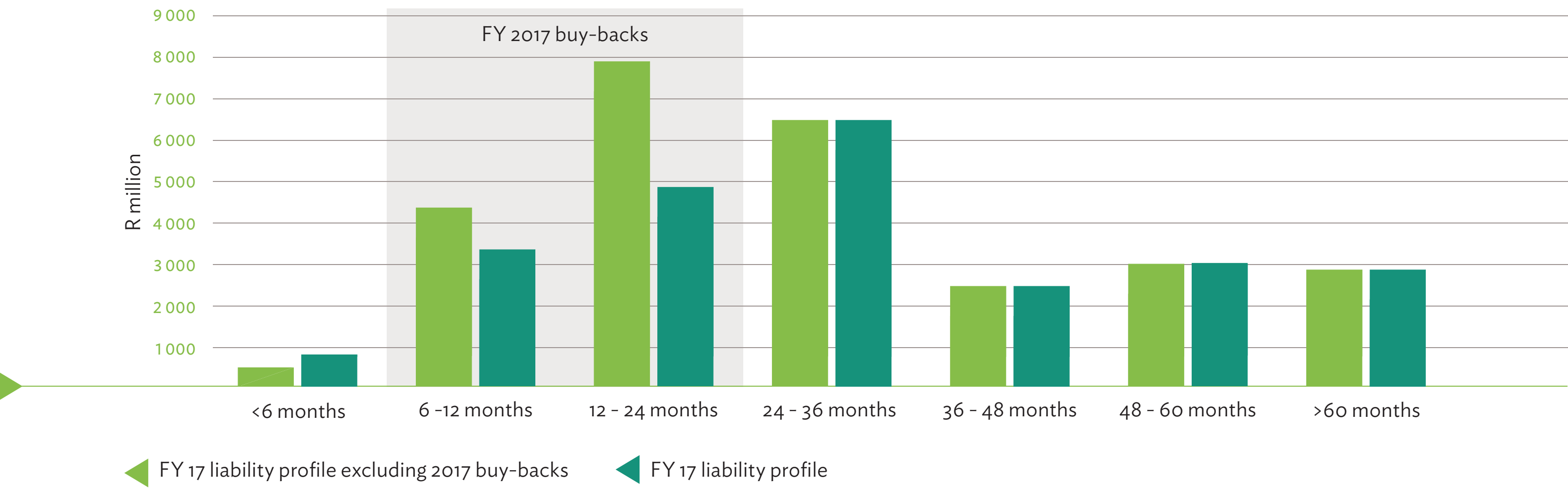
Credit Direct is African Bank's channel to sell loans to customers directly and without the necessity to go to a branch. Sales through this channel increased 142% to R298million. We expect further growth in this channel in the next financial year.

In addition, we started to disburse loans to MMI customers as part of our recently announced joint venture between MMI and African Bank. This initiative is expected to lead to additional sales in the 2018 financial year and thereafter.

DEBT BUY-BACKS LEAD TO AN IMPROVED FINANCIAL POSITION

African Bank bought back R4.1 billion of debt during FY 2017 over and above the R11.7 billion we bought back during FY 2016. These transactions not only led to a significant benefit in terms of profitability through a significant reduction in the negative carry cost, but also reduced the amount of early maturities as can be seen in the graph below.

Maturity profile – Funding liabilities



Foreign liabilities are hedged with a combination of swaps, term deposits and South African sovereign foreign currency denominated bonds. Current available cash at R10.1 billion is sufficient to cover all our maturities until September 2019. We are confident that against the backdrop of steadily improving results, a growing retail deposit base and further strategic funding initiatives, African Bank will be able to address its liquidity needs after September 2019 at a sustainable cost of funding.

African Bank offers attractive investment products to the public and we have been successful in increasing our retail deposits from R144 million as at September 2016 to R357 million as at September 2017.

CAPITAL ADEQUACY

African Bank and the Group remain well capitalised, notwithstanding the recent downgrades of the South African sovereign rating and the resultant downgrade of the South African financial institutions, which impacted our capital adequacy levels negatively by 4-5% through a larger risk-weighted asset requirement as more comprehensively explained in the Basel Pillar III disclosures published together with this integrated report. The Group has modified its cash investment strategy and invested significantly more cash in lower risk weighted sovereign exposures in order to mitigate the impact of the sovereign and financial institutions downgrade. The impact of the buy-backs and the decreasing advances book has reduced risk-weighted assets, while the profits have added to capital; both factors thereby adding to the positive impact on regulatory capital adequacy.

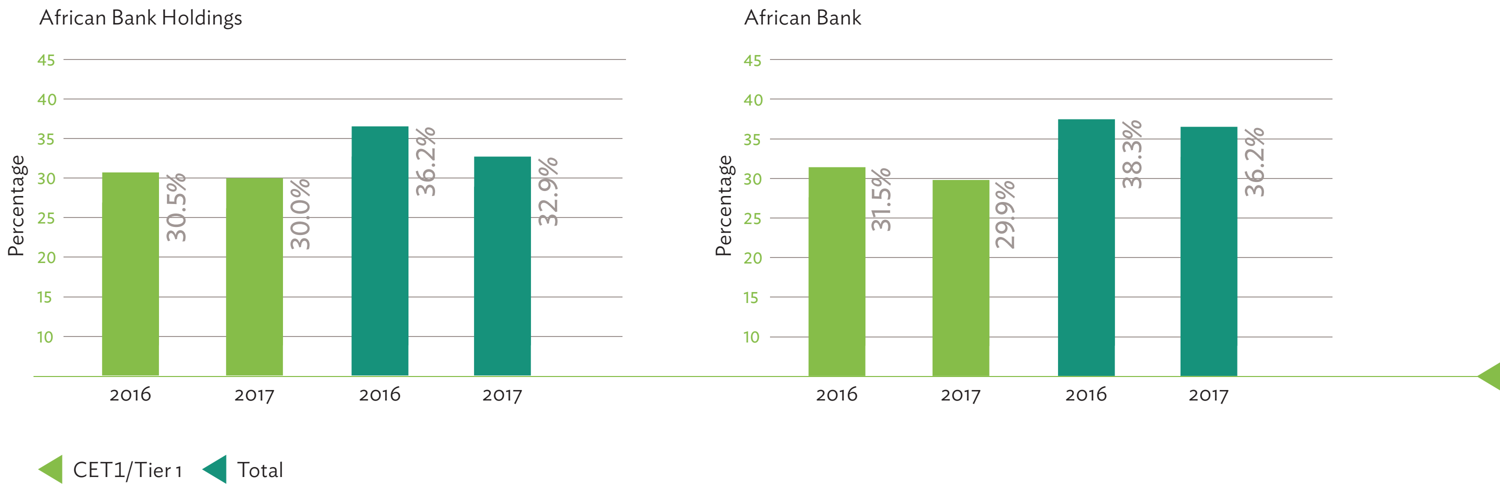
The Group reported a CET1/Tier 1 ratio of 30% and 29.9% at Bank level, and a total Tier ratio of 32.9% and 36.2%, at a Group and Bank level, respectively.

The actual capital adequacy ratios in excess of internal benchmarks position the Group well for the anticipated impact of IFRS 9 , which is expected to range between R500 million and R1 000 million.

The Group completed the development of the IFRS 9 compliant models which have been approved by the Model Risk Committee. A range is provided as some model matters, including tax implications are still being finalised by the industry. This range presents unaudited numbers and is based on African Bank's business as at 30 September 2017. The acquired book from Residual Debt Services (RDS) comprised 37.4% of the total book at year-end.

African Bank has to implement IFRS 9 in its 2019 financial statements. The book acquired from RDS would have been paid down substantially by then. This will also have an impact on the final number.

Capital adequacy ratio



FOCUS ON INSURANCE

African Bank has a cell captive agreement with Guardrisk, whereby insurance products sold by the Group are managed in the insurance cell captive. In accordance with IFRS the insurance cell captive is not consolidated; however, as the holder of the shares in the cell captive, African Insurance Group Limited is contractually obliged to invest additional capital in the cell to adhere to insurance capital adequacy requirements. Accordingly, InsureCo recognises the investment in the cell captive as an investment in insurance products and any surplus capital profits in the cell captive in excess of minimum capital adequacy requirements accrues to African Insurance Group Limited. For purposes of the adjusted results the pre-tax profit of the cell is included in pre-tax profits for the Group (see page 35).

On 9 August 2017 the NCR implemented a cap on the premiums that can be charged for credit life insurance to R4.50 per month per R1 000. The effect of this is that the claims ratio, expressed as a percentage of claims divided by insurance premiums, is expected to increase from the current level of 33% to approximately 40% over time as a result of decreasing premiums. This also resulted in a further reduction in African Bank's risk appetite, causing a positive shift in terms of the risk of new bookings, although at lower volumes. The increased power of the new scorecard largely eliminated the negative impact on sales as a result of the new pricing regulations. The Group expects a net yield reduction of 0.5% - 1.0% as a result of the insurance caps.

African Bank and MMI started their collaboration on selling MMI insurance products in African Bank branches as of 10 July 2017. MMI agents were in 101 African Bank branches as at 30 September 2017 and they had sold insurance products with an annual premium equivalent of R5 million by that date. African Bank stands to earn rent for the space in the branches as well as a profit share. Since the deployment of MMI agents in the branches is being phased in the impact on the 2017 financials was negligible, but we are confident that this will become a more meaningful number from 2018 and thereafter.

In locations where no MMI representatives are present, African Bank continues to sell its own funeral policies. As at 30 September 2017 financial year, 33 621 funeral policies were in force that contributed R15 million in pre-tax profit to the Group for the year.

The cell captive is well provided for with an IBNR reserve of R449 million and is well capitalised at R650 million, as at 30 September 2017.

OUTLOOK

We still have a considerable road to travel to reach our profitability target of 15% RoE. African Bank's future is going to depend on continued effective and conservative risk and balance sheet management as well as investing in new initiatives such as transactional banking and the MMI partnership. The Group closed the period well capitalised and highly liquid. Investment in developing our information technology infrastructure and new ventures such as transactional banking will be carefully managed using the Group's capital allocation guidelines. The Group will continue to operate within its risk tolerance levels and prudent impairment provisioning practices.

We remain concerned about the outlook for the local economy and the still pending risk of further credit rating downgrades given the current political and policy uncertainty, as well as the lack of economic growth prospects and the risk of recessionary conditions. While volatility of the Rand exchange rate remains the order of the day, an easing of inflation rates in the new term is a positive expectation.

Our customers are going to remain under pressure in the short term and we are going to have to be innovative in providing value-added products to a select group of customers that meet our risk tolerance criteria and generate the required returns for the business.

Gustav Raubenheimer
Chief Financial Officer

REVIEW OF OUR OPERATIONS

In this section of our integrated report we provide you with information on how we are creating value for our stakeholders by employing our operational infrastructure as well as our intellectual and human capital to implement our strategy. We also illustrate the progress we have made towards achieving our strategic objectives of:

- *Humanity through banking*
- offering more value than expected
- diversifying our product offering to become a retail bank
- widening our customer base
- broadening our channels to market
- partnering where it makes sense.

African Bank created a new Operations business unit in 2017 to bring together our sales channels, marketing and collections functions. The establishment of the unit has increased collaboration, leveraged economies of scale, increased our focus on customer experience and created opportunities for greater career mobility for our people.

ENABLING ENGAGEMENT

African Bank's sales channels enable our customers to engage with us:

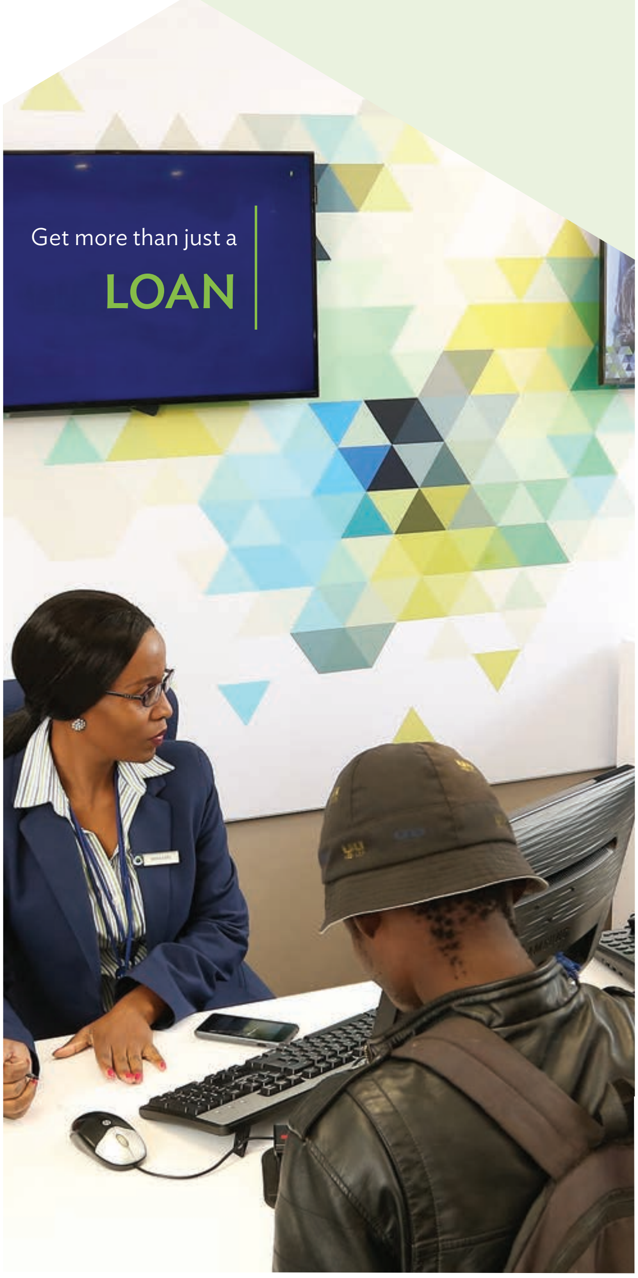
Face-to-face through our branch network, which is our primary sales channel

Voice-to-voice through our Credit Direct channel

Digitally through our digital channel

Once we launch our Omni-channel in 2018 our customers will be able to engage with us seamlessly and conveniently across all three channels. Omni will enable interoperability among the three channels making it possible for customers to begin a transaction in a digital channel and complete it through Credit Direct (voice-to-voice) and/or at a branch (face-to-face).

Not only has a new look and feel been applied to our branches, but our branch teams also have smart new uniforms.



A key driver of traffic to our sales channels is marketing. In the 2017 financial year, our marketing activities have predominantly been focused on highlighting our progress in diversifying our product range, modernising our branches and delivering value to our customers. This was implemented through our ask around come around campaign which is described in more detail below.

MODERNISING AND REPOSITIONING OUR BRANCH NETWORK

To meet our strategic objective of widening our customer base, we decided to evaluate the extent to which our branches are appropriately located to be convenient for our existing customers and to attract additional footfall from new customers. Applying geo-mapping and market propensity analysis, we relocated eight of our branches, opened 11 new branches and closed nine branches during the 2017 financial year. In addition, we refurbished 100 branches, the majority of which were in our old look and feel. We currently operate from 388 branches. In the 2018 financial year, we will continue to rely on our geo- mapping and market propensity analysis to locate our branches so as to drive convenience and foot traffic. The modernization of our branches is also an ongoing process.

To modernise our branches, we introduced two branch of the future concepts, a full suite version and an updated version. Our full suite branch of the future comprises in-branch Wi-Fi for our customers; a self-service desk with tablets for our customers to use as well as tablets that our branch teams will use to assist customers; and a queuing system that prioritises disabled and older customers. The updated branch of the future is similar to the full suite version but has not been equipped with tablets.

We have installed digital bulletin boards in the full suite version of the branch of the future concept. These boards will be used both inside and outside the branch and will enable us to create niche targeted marketing material for specific branches in different market segments and to indicate a customer's position in the queue. They can also be used to stream live information to our branch teams and for training purposes before and after banking hours.

Feedback from a survey that we conducted to test our branch of the future concept indicates that 96% of respondents love the new branch design and we scored between 90% and 98% on the overall branch experience. Very encouraging results.

A CONTACT CENTRE WITH A DIFFERENCE

No longer does the African Bank sales contact centre only canvass customers offering them loans, it now enables customers to canvass us for loans. This is significant because customers who canvass us for loans have a higher propensity for taking up loans than customers whom we canvass for loans. This in turn enables our contact centre to generate more sales off a lower volume of calls to people who contact African Bank through our digital sales channel.

In June 2017, we launched the Call Me Back function on our website. In August, we made certain changes to our credit model. The impact of these changes, combined with some operational changes, resulted in an increase of 170% on the average sales through our digital channel in the fourth quarter of our financial year, compared to the third quarter. Furthermore, the loan sizes through that channel increased from an average of R25 000 to R44 000 per loan.

The contact centre's target is to respond to the Call Me Back within 10 minutes. By introducing certain process efficiencies we made it possible for consultants to respond within 10 minutes to 98% of Call Me Backs. The centre has also extended its operating hours to process calls made after normal business hours. All sales generated through this contact centre are fulfilled through our branch network.

We also launched an investment-specific contact centre during 2017 to serve customers contacting us via the Call Me Back function. From 1 October 2017, we were able to process all investment-related queries, online through our digital channel, supported by the contact centre. Customers are not required to fulfil through the branch network.

BUILDING CREDIT DIRECT FOR VOICE-TO-VOICE SALES

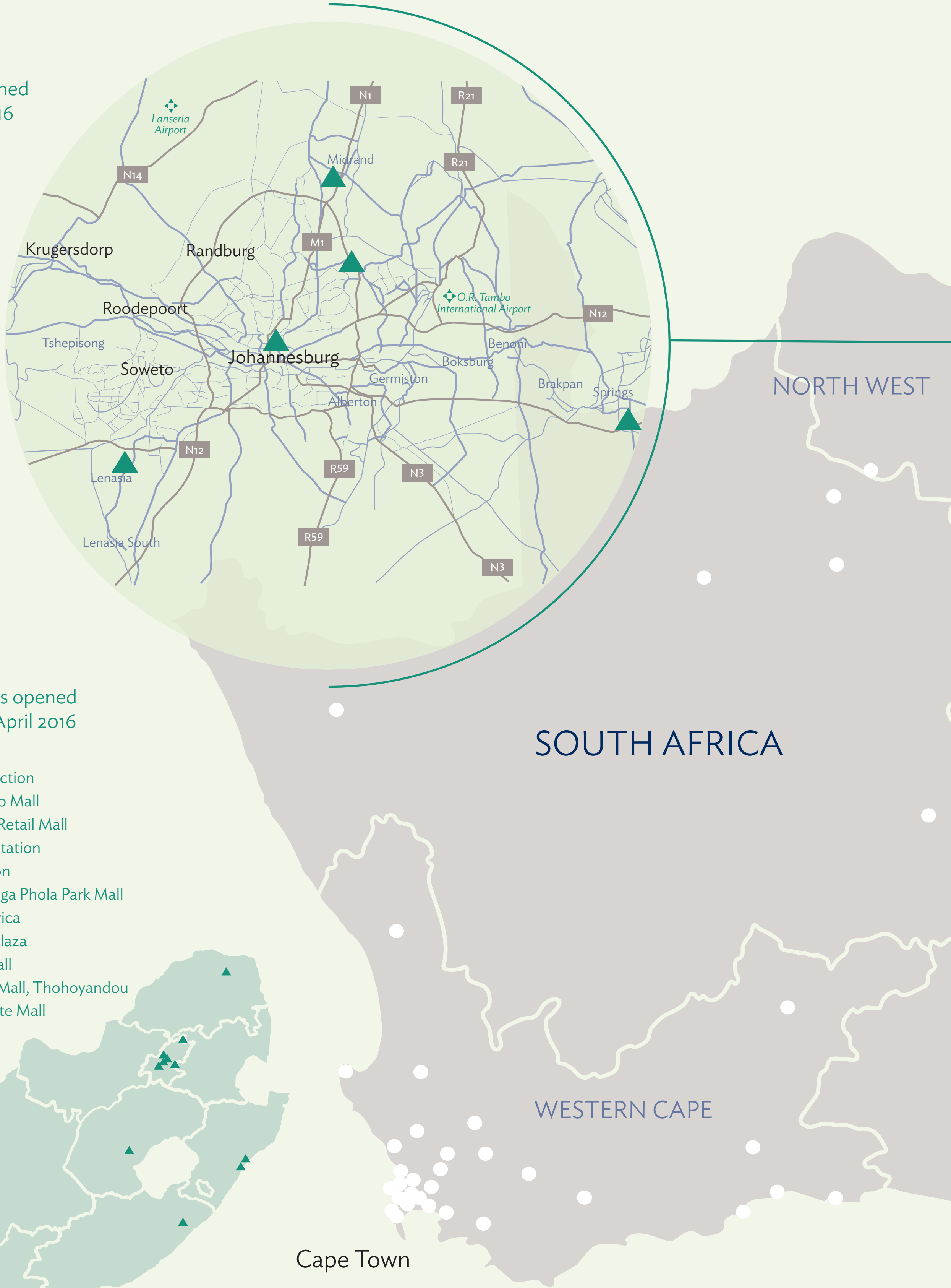
Increasingly, customers are looking for convenient, safe and easy to use banking channels. They want the ability to transact online, with the option to complete the transaction through a contact centre and/or at a branch. Accordingly, in 2015, we took the strategic decision to build a new sales channel called Credit Direct, which houses African Bank's capability to originate and fulfil sales through a combination of digital and contact centre functionality.

In developing Credit Direct, we have leveraged our existing contact centre capabilities, invested in the development of our digital capability and equipped our contact centre teams with behavioural training to enable them to have sales conversations that enhance the customers' experience.

We are continually developing and refining our Credit Direct model to increase efficiency, lower our client acquisition costs, access more affluent customers and improve the customer experience, with a view to accelerating growth and increasing profitability. We believe that our investment in Credit Direct will in due course create a compelling value proposition for customers and a competitive advantage for African Bank.

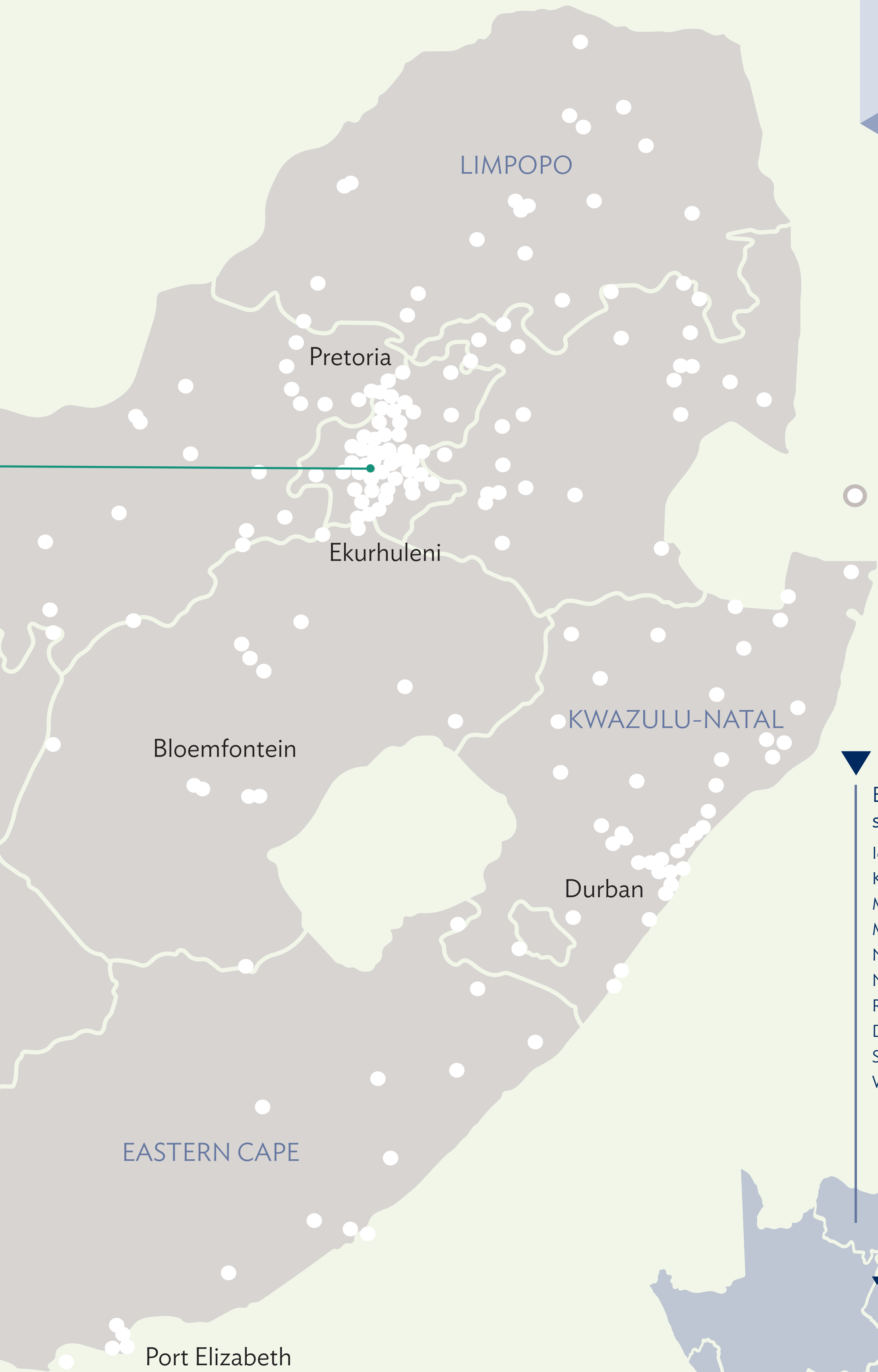
MAP OF ALL AFRICAN BANK BRANCHES

GAUTENG -
Branches opened
since April 2016



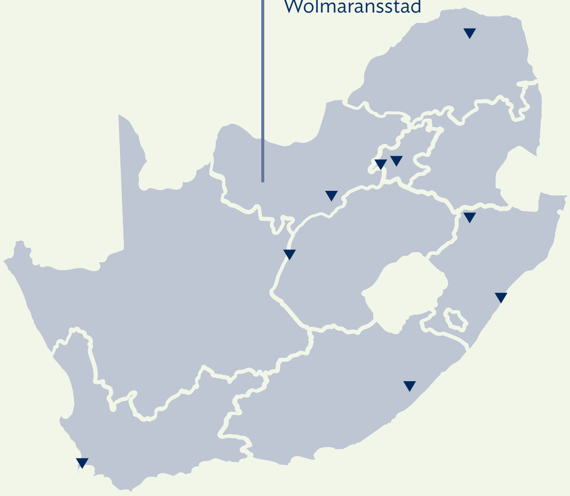
Branches opened
since 4 April 2016

- Alex Mall
- Ballito Junction
- Botshabelo Mall
- Cornubia Retail Mall
- Gautrain Station
- Park Station
- Kwamhlanga Phola Park Mall
- Mall of Africa
- Mthatha Plaza
- Springs Mall
- Thavhani Mall, Thohoyandou
- Trade Route Mall



Branches closed since 4 April 2016

- Idutywa Market Square
- Kimberley Market Square
- Mazizakkhele Carletonville
- Mitchells Plain Plaza
- Newcastle Theku Place
- Nzhelele Limpopo
- Redefine Towers Aliwest
- Durban
- Soweto Bara Mall
- Wolmaransstad



VALUE-ADDING OFFERINGS FOR OUR CUSTOMERS

Achieving *Humanity through banking* includes offering more value than our customers expect. We continually explore additional ways we can add more value to what we offer our customers.

The loan that offers more than you expect

Our customers apply for credit to meet a need they have. Our research indicates there is a common thread to these needs, such as fashion, home improvements and life events, weddings and funerals. We have identified a range of retail partners with whom we have negotiated deals for our customers. To add immediate value to their loans, when our customers shop with these partners, they receive an increase in the value of their loans, so they can afford more. Our value offerings with Edcon and Hi-Fi Corp have allowed us to create campaigns that relate to our customers' needs by giving them more value for their money.

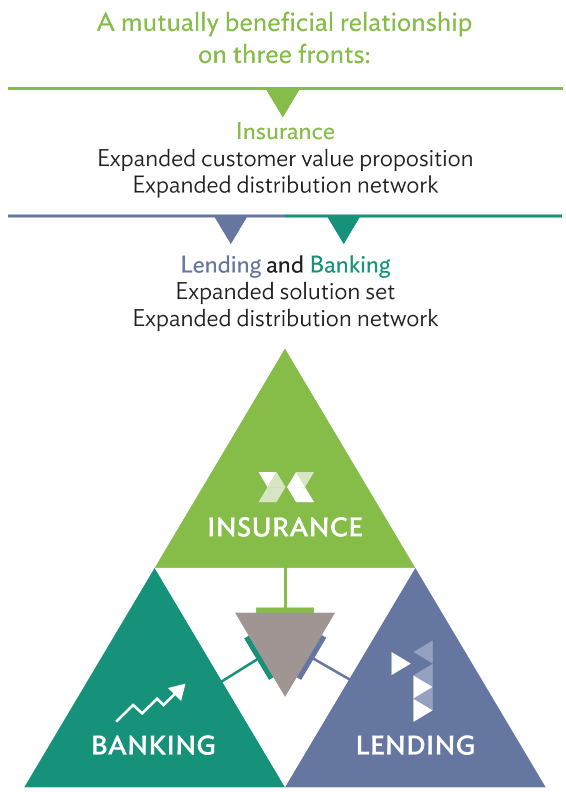
We have also added further value to our customers by offering them affordable mobile phone and SIM card solutions that are available through our branches.

Market leading investment products

During the financial year we introduced our range of investment products, which includes a tax-free savings product, a fixed deposit, a notice deposit and an accumulator product. Our very competitive investment rates have attracted customers from a wide range of LSM groups. See the strategic 34 scorecard on page 34.

PARTNERING WHERE IT MAKES SENSE AND WIDENING OUR CUSTOMER BASE

African Bank entered into a joint venture with the MMI Holdings Group, primarily to broaden the range of insurance products that we could make available to our customers as well as to broaden our customer base by offering African Bank products to the MMI client base.



INSURANCE PARTNERSHIP

We decided to begin the implementation of our partnership with MMI by focusing on the insurance component. Since July, we have rolled out an insurance joint venture with Metropolitan in 101 of our branches in four provinces. We have dual-branded our branches with Metropolitan and appointed over 190 Metropolitan consultants to work in those branches. This initial rollout has been scheduled to coincide with the busy year-end trading period. We have started seeing an increase in new business volumes and we are targeting in force premiums of at least R1 billion over five years.

Our insurance partnership has made it possible for us to add advice-based Metropolitan products to our insurance offering, which started with the introduction of our innovative funeral policy in 2016, which has been purchased by over 50 000 of our customers. The Metropolitan range of products includes solutions that help customers meet their lifestyle goals, such as providing for the future education needs of their children. Access to insurance cover can protect customers' financial wellness. The type of policies sold in our branches are risk-based products, including retirement, funeral and long-term investments. The Metropolitan consultants are able to assist our customers with drawing up their wills, which also contributes to their financial wellness.

By financial year-end, the Metropolitan consultants operating in our branches had become a welcome value-add to our customers.

LENDING JOINT VENTURE

We started the lending component of our partnership with MMI in October, through a joint venture structure.
The primary intention of the lending joint venture is to leverage African Bank's lending expertise to make personal loans available to the MMI client base of approximately four million clients. In so doing, African Bank will diversify its customer base, MMI clients will gain access to a new product set and both MMI and African Bank will create value for their respective shareholders.

The joint venture will be co-funded by both MMI and African Bank and all profits will be shared equally. MMI and African Bank joint venture interests are 50.1% and 49.9%, respectively.

MARKETING

African Bank has undergone significant changes over the last two years to implement its strategic intent of becoming a successful retail bank. In 2017, we launched our ask around, come around campaign which comprises a consumer champion named Zinzi, who takes the public on a journey of learning more about African Bank. Zinzi highlights various aspects of African Bank's value proposition and invites the public to investigate these for themselves by visiting the African Bank website or visiting our branches. Like us, Zinzi is confident that if the public asks around about African Bank, then they will come around to banking with us.

Given the importance of financial education in South Africa and increasing customer awareness of cybercrime, we have created video blogs where Zinzi shares insights on financial wellness and protecting ourselves against cybercrime.
These vlogs are very closely aligned to our brand promise of *Humanity through banking.*

The Zinzi campaign targets more affluent customers, particularly through marketing our attractive investment products, which attract market leading interest rates. Since launching Zinzi, we have had an increase in our savings and investments product and raised brand awareness with the upper LSM 7 – 9. This is an indication that our marketing is gaining traction in appropriately positioning the Bank and in building trust with a diverse customer base.

The Zinzi campaign has deliberately focused on building trust with the public, which is particularly important ahead of the launch of our transactional banking product in 2018.

CREATING BUSINESS VALUE THROUGH TECHNOLOGY AND PROCESSES

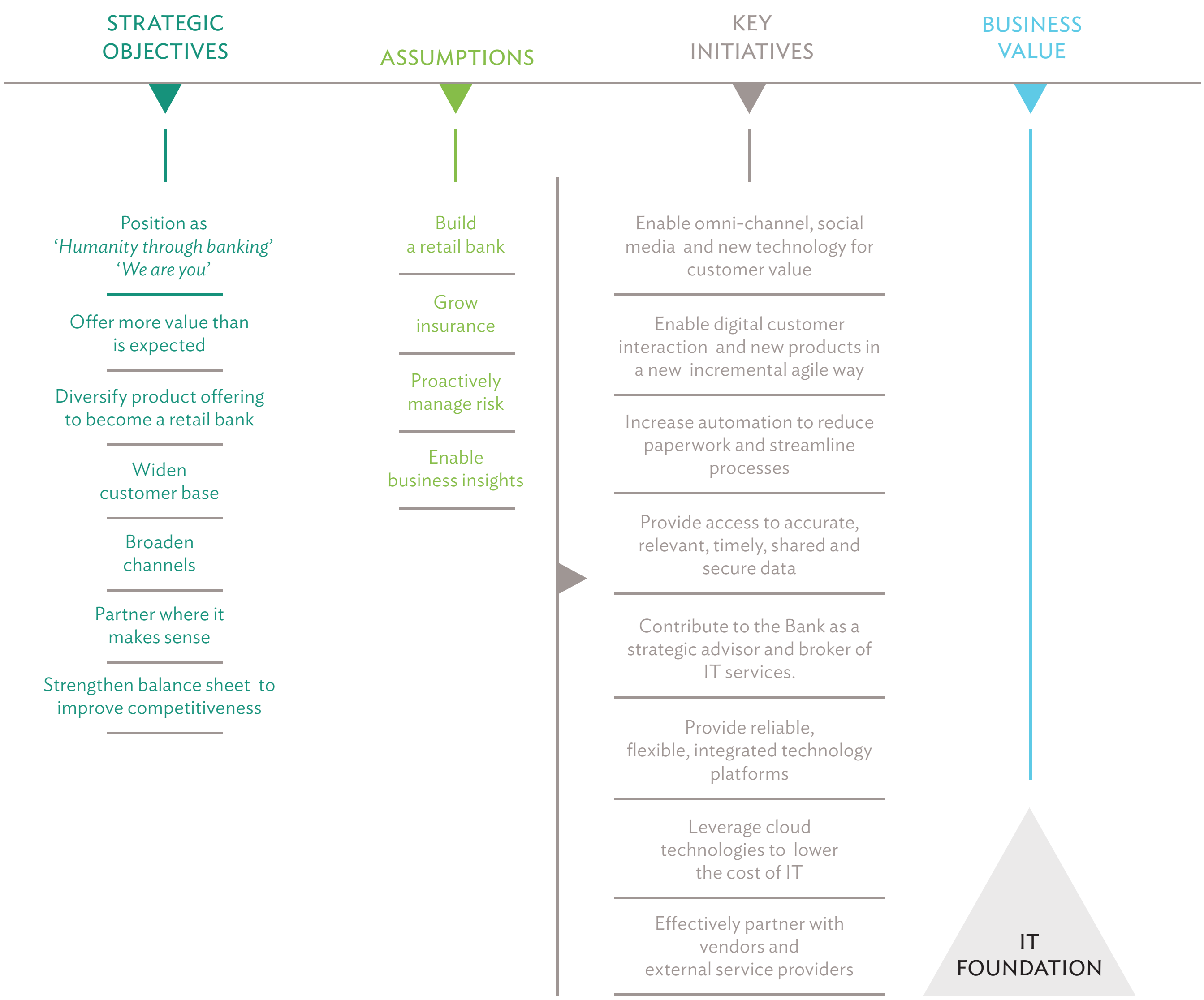
The main aim of African Bank's investment in technology is to provide our customers with innovative solutions and create business value through technology modernisation. During the year under review our investments included key architectural and purchasing decisions that will ensure that the Bank stays nimble and adaptable.

Our strategy of open financial systems, remaining asset light and reducing capital expenditure by leveraging 'as a service' models enhances value and reduces total cost of ownership wherever possible. It also allows for increased scalability and optimised licensing. Our investments in stability and licence renewal have been used as opportunities to add value.

TOWARDS 2020

The Bank has a three-year IT investment underpinned by the @2020 IT approach, which covers governance and stability, a significant concern in the previous reporting period, growth, transformation and modernisation. The overall three-year investment budget is between R500 million and R700 million. The context to this investment is a severe historic underinvestment in systems which required urgent action to create appropriate IT foundations for business value enablement.

There is a clear link between the Bank's strategic objectives and its IT focus, as indicated in the infographic below.



Our system investments can be categorised into three key areas:

TRANSFORM AND MODERNISE CURRENT FOCUS	Core network upgrade	Enterprise application monitoring	Cyber security resilience programme	Agile infrastructure	Digital transformation	Strategic low cost core banking platform
GROW GOOD PROGRESS	Accelerated innovation	Improved project selection (demand management)	Improved project execution	Technology partnerships	Technology service management	Skills development
IT GOVERNANCE, STABILISATION COMPLETE	IT risk management	IT security	IT governance	Systems stability and performance	Leadership and people plan	

CYBER SECURITY

As do all businesses, African Bank faces a constant challenge in preserving the confidentiality, integrity and availability of its information assets against a broad range of external and internal threats. There has been an explosion in both the frequency and severity of cyber-attacks. African Bank has given a great deal of thought to the leadership decisions it may need to make in this type of crisis situation. This approach has served the organisation well in our identification, assessment and responsiveness to global cyber security threats during 2017.

We have made several key and innovative cyber security investments in technology and employees in line with the African Bank security strategy. We are now much better equipped to secure and protect key information access, achieve adherence to the main ISO standards, and maintain a defendable, risk management-based security posture in the face of a constantly changing regulatory, customer, and threat environment.

We continue to enhance our implementation of a solid, business-aligned @2020 cyber security strategy that will:

- provide the Bank with optimal returns on its investment in information security spend
- protect the Bank from relevant threats and reduce risk
- demonstrate a proactive posture to safeguarding our critical assets
- elevate security from an operational function to a strategic business enabler.

GOING FORWARD

We will continue to focus on providing appropriate client-centred technology innovations to our chosen markets in 2018. Growing our people and leadership remains a key priority of our technology strategy. We plan to leverage our innovations in transactional banking and digital services to provide more value than our clients expect and grow our goal of being the banking partner of choice.

THE WAY FORWARD: OUR OMNI-CHANNEL JOURNEY

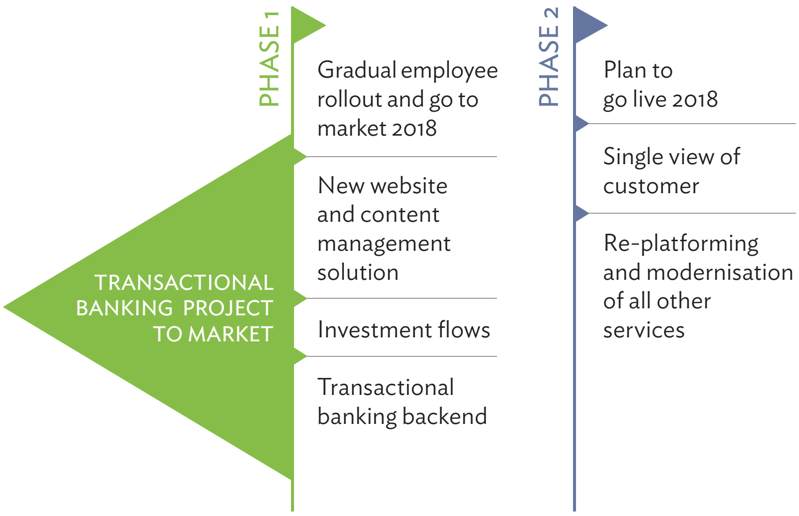
Ambitious and exciting, our omni-channel journey touches every customer-related interface and interaction, both internal and external. Not only is this a new way of working, with the customer experience at the centre of it all, but it's a new way of designing.
Our investment in this project will put the Bank in an enviable position as a disruptor.

KEY PROJECTS

Two key projects supporting technology transformation and modernisation in progress are:

- Transactional banking
- Omni-channel.

The first phase of the transactional banking project went live in mid 2017, delivering key functionality:



We plan to leverage our innovations in transactional banking and digital services to provide much more value than our clients expect and grow our ambition of being the banking partner of choice.

ENSURING OUR PEOPLE CAN DELIVER *HUMANITY THROUGH BANKING*

During 2016 our focus in terms of our people was on changing the culture of the Bank to one underpinned by our five values and inculcating a customer-focused ethic. While our culture change is still a work in progress we are moving in the right direction. Our employees are taking our Board-approved Code of Ethics very seriously and have developed an awareness of how important it is for us to establish an ethical culture. Reporting of any suspicion of unethical behaviour is becoming entrenched and our whistle-blowing line has been well used this year. Our Ethics Committee, which is chaired by our Chief Executive Officer, reports to
1 our Board's Sustainability, Ethics and Transformation
2 Committee (Setcom) on the progress we are making with establishing an ethical culture and the results of our
13 no tolerance approach to unethical behaviour.

One of the first steps we took to align our employees' behaviour with our commitment to delivering *Humanity through banking* was to remove all sales incentives and improve our employee value proposition. We recognise our employees' achievements through our All Stars recognition programme.

We need to treat our employees the way we want them to treat our customers. At the same time as we upgraded the look and feel in our branches we upgraded the look and feel in our head office and provided our employees with some great enabling spaces.

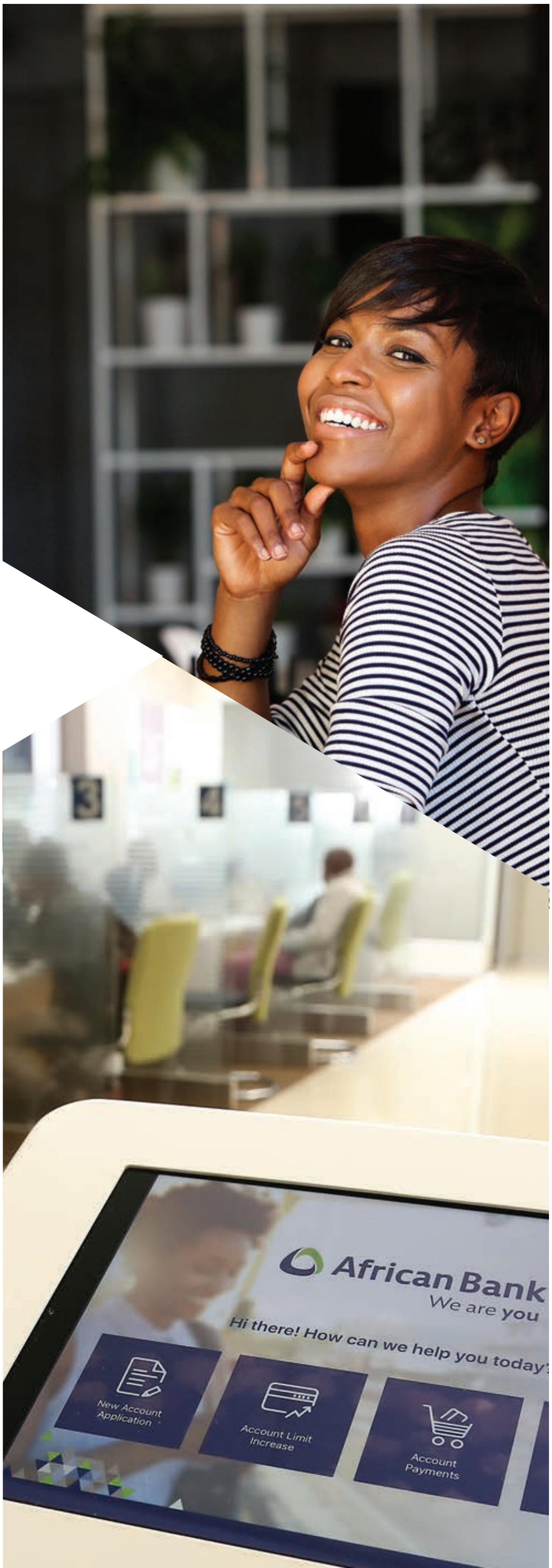
EMPLOYEE BENEFITS

Our employee benefits include:

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

We identified that some of our employees need help in finding a way to own their own homes. We partnered with an organisation that helps them work out how they can qualify for a home loan and access the government's finance-linked individual subsidy programme.

We don't only look for ways to add value to our customers, we also look for ways to add value to our employees. Among other benefits we provide a shuttle service and subsidised meals.



Health and wellness

In addition to the regular health and wellness days held on our premises we also provide our employees with information on a range of health aspects. The services of a general practitioner are available to our employees once a week and they also have access to the ICAS employee well-being programme. We'll be adding a gym to our facilities in the near future.

Enabling our branch teams

We have enabled our branch teams by giving our branch employees mobile phones, which will be loaded with an African Bank communication app to enable us to be in contact with them. They also have smart new uniforms to go with the new look and feel of their branches.

Upskilling our employees to equip them for customer-focused full service retail banking

Our employees need a very different set of skills to provide the customer-focused full service retail banking we will be offering in our branches and other sales channels. Having completed a skills audit using an international skills assessment programme designed specifically for the banking industry we gained an understanding of our skills gaps. Every area of the Bank developed a learning plan spanning an 18-month period to address the skills gaps in their area, prioritising the skills they need to address in the short term and also trying to find a balance between technical and behavioural skills, which are key to delivering our strategy of *Humanity through banking*.

We partnered with the Contact Centre School, which specialises in training contact centre consultants. The school provided us with training specifically designed to meet our training needs. The new employees we hired to work in our contact centre all have a tertiary education qualification. Trainees spend four weeks on behaviour-focused product training, followed by a week during which they are re-integrated into the contact centre before starting work as consultants.

To take advantage of the skills we have in the organisation and to help us stretch our limited people development budget we used our own people to deliver leadership masterclasses on topics on which they are experts. The content of our leadership masterclasses was driven by our people who asked for help with a range of topics.

During the year under review the BANKSETA assisted us by funding some external training for our people.

In 2018 we will be developing a new training centre on our Midrand premises, which will include a resource centre.

OUR INVESTMENT IN UPSKILLING OUR EMPLOYEES

Training spend	R11.8 million
Average spend per employee	R3 050
Internal training sessions	9 810
External training sessions	721
Percentage of the employees we trained designated groups	95
Percentage of our bursaries awarded to designated groups	92

Providing career opportunities

The employees joining our contact centre as consultants will also have the opportunity to explore other opportunities in the Bank in future.

PERFORMANCE MANAGEMENT

All our employees receive annual performance reviews. Our Chief Executive Officer's performance contract is aligned to the strategic and performance objectives of the Group. The contracts of Executive Committee members are aligned to those of the Chief Executive Officer, as well as their business unit key results areas (KRAs). These performance contracts are entered into at the beginning of each financial year. A milestone assessment of performance takes place at mid-year, with the final assessment taking place at the financial year-end. Performance scores are taken into consideration when decisions are made regarding annual salary increases and the awarding of short- and long-term incentives. The Directors' Affairs and Governance Committee approves the KRAs and remuneration packages of the Chief Executive Officer and the Chief Financial Officer.

9

We conduct an annual leadership and value survey during which leaders are rated by their direct reports and subordinates on their performance against their KRAs and employees are rated on their application of the Company values by managers and their peers.

EMPLOYMENT EQUITY

The members of our Employment Equity Committee who were elected by their business areas received training in their role this year. During the year under review they conducted an audit of the Bank's current human capital policies, procedures and practices. Following the audit they made recommendations that were presented to the Executive Committee who approved their recommendations, which are currently being implemented. The recommendations included changes to the recruitment policy including the recruitment and promotion of all senior and critical and scarce skills non-employment equity candidates being subject to consultation with and approval by the Employment Equity Committee, the Human Capital Executive and the Chief Executive Officer. The Setcom reviews the Company's employment equity plans and monitors its performance 13 against these plans.

3 442

Total workforce

3 348

Permanent employees

EMPLOYEE STATISTICS AS AT 30 SEPTEMBER 2017

Permanent employees	3 348
Temporary employees (contractors, seasonal, casual, temporary)	94
Total number of employees	3 442
Percentage of employees who are permanent	97.3
Percentage of employees who are black	89.6
Percentage of employees who are female	66.7
Percentage of employees who are members of a trade union	53.6
Employee voluntary turnover (excludes VSPs and VRPs) percentage	15.0

PEOPLE DIVERSITY

Top management (Board level) as at 30 September 2017

Percentage who are white	60
Percentage who are black	40
Percentage who are female	30

Senior and middle management as at 30 September 2017

Percentage who are black	54.3
Percentage who are white	45.7
Percentage who are female	39.5

Skilled technical, semi-skilled and unskilled employees as at 30 September 2017

Percentage who are black	94.4
Percentage who are white	5.6
Percentage who are female	69.8

RELATIONSHIPS

Engaging to build relationships that will allow us to demonstrate *We are you* and that we are committed to offering *Humanity through banking* are key to achieving our Board-approved strategy's stakeholder inclusive approach. 16

MEASURING OUR RELATIONSHIPS

The relationships we are able to survey and measure are our relationships with our customers and employees. We measure our progress with building our customer relationships through our customer Net Promoter Score® (NPS®). Our NPS® has improved from 15 at year-end in 2016 to 35 at 30 September 2017, a pleasing 133% improvement year-on-year. (The NPS® is an index ranging from —100 to 100 that measures the willingness of customers to recommend a company's products or services to others. It is used as a proxy for gauging customers' overall satisfaction with a company's product or services and level of loyalty to the brand.) The NPS® score we wish to achieve by 2021 is >40. We will also be able to provide you with our Customer Experience Index results in 2018.

In our year-end employee engagement 48% of our employees indicated that they are fully engaged compared to the financial services sector average engagement level of around 30%.

By getting closer to our customers we have learnt that they prefer to be addressed informally and in their own language. Wherever possible we speak to people in their language of choice and in an informal manner. The feedback to this approach has been very positive.

We are also implementing a system to monitor Treating Customers Fairly, which will track, control and re-engineer our process and encompass the customer experience.

We measure our relationship with our employees through our people engagement survey. By year-end the survey of our employees' engagement levels showed that 45% of our employees are fully engaged, which is a 5% improvement year-on-year. As this survey took place shortly after the voluntary retirement and voluntary severance process, following which 506 employees left African Bank, the result is likely to have been affected by the impact on morale of this process.

To improve employee engagement and leverage the diverse views of our people, we include our employees in the changes taking place in the Bank. We ask them to test new developments before they go live with our customers and give us feedback on their experience. This is an important data gathering exercise that enables us to improve customer experience.

To include our employees in the changes taking place in the Bank we ask them to test new developments before they go live with our customers and give us feedback on their experience.

ADDRESSING STAKEHOLDER CONCERNS

We wish to create value through our relationships with our stakeholders by recognising their concerns and responding to them. The table below sets out the stakeholders' concerns we have identified and our response to these concerns.

Our stakeholders	Their concerns	Our response to their concerns
Regulators		
	• Compliance • Effective governance • Stability • SARB's dual role as regulator and shareholder	• Regular reporting to the South African Reserve Bank (SARB) on our compliance with the terms of our banking licence and the stability of our business and the effectiveness of our governance practices • Compliance with applicable laws and regulations and meeting the reporting requirements of the various regulators including the Financial Services Board (FSB), the Nation Credit Regulator (NCR), Department: Trade and Industry (dti), National Treasury and the JSE
Investors		
Equity investors Debt investors/financiers	• Balance sheet performance • Profitability • Delivery on our strategy • Appropriate risk provisioning • Competitor sensitivity • Exit strategy • Liquidity management • Service	• Regular reporting on our performance keeps these stakeholders updated on the state of our balance sheet, our profitability and delivery on our strategy, as does our reporting on our risk management • Stock Exchange News Service (SENS) announcements to keep them updated on our performance or interest rate results on our listed debt
Customers		
	• Fair terms • Trust and reputation • *Humanity through banking* • Ease of doing business • Transactional, branch, technology capability • Pricing to future customers • Exceptional customer service • Ability to seamlessly choose channel	• Our Board-approved Treating Customers Fairly policy is in place and our values are aimed at ensuring our customers receive fair terms and that trust in the Bank and its reputation are earned • Our client-centric approach to products and service levels is aligned to our brand purpose of *Humanity through banking* • We have invested in updating our legacy systems and networks and are making good progress with the introduction of a digital transactional omni-channel bank, which will uplift service levels and customer experience • Our much improved NPS® score indicates that our customers are much happier with our service to them. We believe our commitment to provide customer-focused service and value-adding product offering will help us to continue improving our service levels • Our investment products are providing our customers with a very competitive rate on their investments

Our stakeholders	Their concerns	Our response to their concerns
Our people		
	• Job security • Career development • Training and development to match new business requirements • Fair remuneration and incentives • Long-term incentives	• The restructuring of our workforce has been completed. A recent employee survey following our restructuring indicated that 48% of our employees are fully engaged, which is a good indicator of the morale in our business (see page 59) 59 • The changes taking place in our business provide opportunities for career development. We are investing in upskilling and developing our employees to prepare them for work in our changing business. (see page 57) 57 • Previously Bank employees earned incentives on sales, which is no longer the case. Our Board-approved Group remuneration policy is intended to achieve fair and responsible remuneration practices that create long-term value for all our stakeholders
Communities		
	• Easy access to loans • *Humanity through banking* • Fair repayment terms • Accessible banking • Community investment	• Our Board-approved Treating Customers Fairly policy is in place and our values are aimed at ensuring our customers receive fair terms and that trust in the Bank and its reputation are earned • The rollout of our digital transactional banking offer will make full service banking easily accessible to community members (see page 52) 52 • Through our CSI investment in education and sport we hope the children of our communities will have the opportunity to flourish (see page 62) 62 • Our investment in enterprise and supplier development will contribute to the sustainability of SMMEs in the community (see page 63) 63
Our suppliers and business partners		
	• Business continuity • Mutual benefit and profitability	• Our value-adding business strategy depends on us partnering where it makes sense to build mutually beneficial and profitable partnerships. During the year under review we have made good progress in this regard (see pages 50 to 51) 50 • Our suppliers are an important part of our business and it is to our mutual benefit to negotiate terms from which both parties benefit • In the year ahead we will be contributing to the development of our historically disadvantaged suppliers
Associations and industry and professional bodies		
	• Inclusive economy • Good corporate citizenship from banks • Conducive banking environment	• African Bank's commitment to *Humanity through banking* and offering more value than expected are both intended to ensure good corporate citizenship and provide a conducive banking environment (see page 56 of our Review of operations) 56
Media and the public		
	• Rebuild our reputation • Social positioning	• We communicate with external stakeholders via clear and transparent reporting on a bi-annual basis thereby living out our value of transparency • Our communication via the formal media and informally via the social media are equally important

WE ARE YOU AT WORK

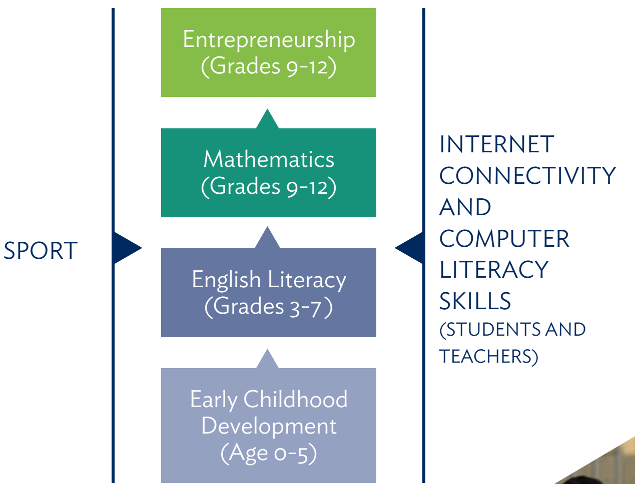
At African Bank we believe that the most effective way to address the social and economic needs of South Africa is by empowering its people through education. To do the best we can to achieve this the African Bank Development Trust funds education and sports projects with measurable outcomes. The Board's Setcom ensures the adequate formulation and implementation of policies and practices that govern African Bank's efforts towards good corporate citizenship and oversees its performance in this regard. 13

While our budget remained the same this year at R9 370 000, we managed to increase the number of children who benefited from our investment from 147 006 in 2016 to 168 200 in 2017, a 14% increase year-on-year.

Our programme, which benefits all the provinces of South Africa, addresses:

- sport
- entrepreneurship
- mathematics
- English literacy
- early childhood development
- mentorship.

Programme overview



EARLY CHILDHOOD DEVELOPMENT

Our early childhood development programme works with crèches in historically disadvantaged communities and rural areas. It provides training to the owners of crèches and primary school carers that helps them achieve the South African Qualifications Authority's (SAQA) Level 4 Early childhood development practitioner's accreditation and create teaching material. The programme assesses the learning environment provided by the crèches and the children in their care and also helps their owners register their crèches with the appropriate authorities. In addition, parents are trained in communication, nutrition and home teaching in workshops that also encourage parents to play with their children and to be aware of any special needs they may have.

The programme also identifies at-risk children and makes regular home visits to try and improve the home environment.

Through two NGOs the programme is currently reaching Eastern Cape, Gauteng and Western Cape and the Bank is providing training to owners and teachers of crèches, reaching 100 educators across 28 centres.

PROMOTING ENGLISH LITERACY

The English literacy programmes we fund target disadvantaged schools with extremely low English literacy rates, assisting teachers in the instruction of English to Grades 2 to 6 learners. The programme uses audio-visual material to help teachers bring energy and creativity to learning English. In 2016 the programme achieved an average improvement of 23% in the word recognition of learners.

Previously we focused on teachers and have changed our approach to work more with the children as well as to take a more technology-enabled approach, leveraging tablets as learning aids. This allows for direct engagement as well as for some IT literacy as well.

ADVANCING MATHS LEARNING

Our maths advancement programme provides after-school maths tuition for learners in schools where the maths aggregate is mostly below 20%. Extra maths lessons are provided every day after school to children in Grades 8 to 11 at 16 schools, catering for 120 children per school, 30 children per class. Lessons are after school every day. The aim of this programme is to improve the average maths grade in these schools by 20%.

The programme's success is reflected in a 24% improvement in the Grade 8 participants' maths marks. In 2016 one of the programme's beneficiaries achieved 99% in his Grade 10 maths exam and two Grade 6 learners whose pre-assessment scores were lower than 20% achieved 80% at year-end.

DEVELOPING ENTREPRENEURIAL SKILLS

Our entrepreneurship programme teaches business administration skills to high school learners through the practical simulation of managing a business such as running a food garden for profit or refurbishing old computers for resale. Acquiring these skills is invaluable to children who struggle to find employment and will need to become entrepreneurs to earn a living.

PROVIDING INTERNET CONNECTIVITY AND COMPUTER LITERACY

The programme provides Internet connectivity for three years to schools in Gauteng and KwaZulu-Natal. It also closes the digital divide by providing both teachers and learners with basic computer skills and teaches them how to use the Internet to access new, fun teaching materials.

SPORTS DEVELOPMENT

Our sports programmes, which take place after school, incorporate life skills training with cricket, football and netball coaching. To participate in the programme learners must achieve at school. Programme participants have the opportunity to play in a community league and in matches against private schools. This exposure resulted in four of our players receiving full bursaries to good schools in 2016, with others going on to play in provincial teams and being awarded sports bursaries.

VOLUNTEERS AT WORK

African Bank's executive team and employees from our Midrand office participate in our community-based projects.

Employees are able to participate in two different types of initiatives; the Community champions awards, which are driven by the Trust and our corporate social investment (CSI) team; and staff-owned initiatives, which are employee driven.

Staff-owned initiatives

Our employees participate in our social investment programme by identifying projects within their communities that they would like to support.

Community champions awards

The Community champions awards are designed to encourage our employees to nominate projects they will personally support and promote. Our provincial CSI committees oversee and provide governance for all the selected projects, decide on the appropriateness of projects, review their performance and also assess which projects should be supported. Nominated projects judged likely to have the most impact are selected for funding by the Bank. A total of 45 projects out of the 154 submitted for consideration were chosen to be executed across the country in 2017.

ENTERPRISE AND SUPPLIER DEVELOPMENT

African Bank plans to run a business accelerator initiative for small, medium and micro enterprises (SMMEs) in the new financial year with the aim of helping participants grow their businesses. We will be providing initial funding of R500 000 for this venture. The initiative will include a facility with workstations, Wi-Fi facilities and a coffee bar, which will be available to companies selected to participate, who will be drawn from our suppliers.

Members of African Bank's management team will provide mentoring and the SMMEs will also receive 12 days of training in the African Bank training centre every year.

MANAGEMENT OF ENVIRONMENTAL RESOURCES

Our Board-approved sustainability policy governs our approach to the environment.

African Bank recognises that the interdependence between economic activity, ecosystems and natural resources presents risks and opportunities. While we are not an intensive user of natural resources, our activities do have an impact on natural resources that we monitor and are taking action to limit as part of our commitment to being a good corporate citizen. Our Setcom is the governance body that oversees the implementation of our sustainability policy.

13

Our main impact on the environment is through the greenhouse gases (GHGs) produced by our use of electricity generated through the use of fossil fuels and the diesel and petrol we consume. In the year under review we have been able to achieve a significant reduction in our GHG emissions through our various energy-saving initiatives.

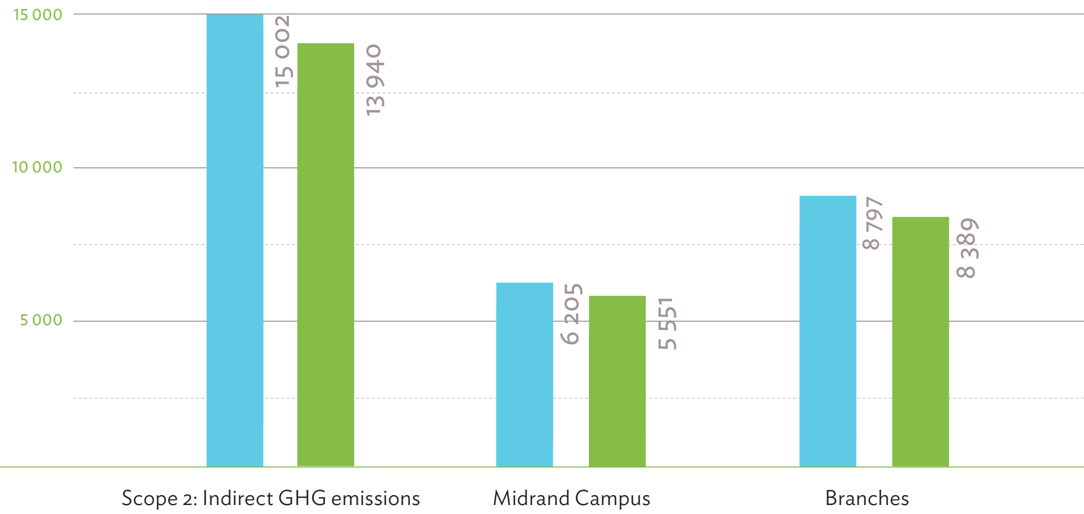
HIGHLIGHTS

Reduction in our total CO_2 emissions year-on-year **6%**

Reduction in waste generation at our Midrand Campus of **49%**

A small increase in refrigerants at head office is due to the replacement of air-conditioner gas with zero ozone depletion potential options

GHG for Scope 2 emissions (indirect GHG emissions from purchased electricity)



Our GHG figures reported per protocol

Scope per GHG protocol	FY 2017 metric tonnes	FY 2016 metric tonnes Annualised	% change Year-on-year
Scope 1: Direct GHG emissions (from sources that are owned or controlled by ABH)	824	572	44
Refrigerants: Midrand Campus	654	327	100
Stationary fuels (generators)	1	33	(97)
Mobile fuels (Company-owned vehicles)	169	212	(20)
Scope 2: Indirect GHG emissions (from purchased electricity)	13 940	15 002	(7)
Midrand Campus	5 551	6 205	(11)
Branches	8 389	8 797	(5)
Scope 3: Other indirect emissions (from sources not owned or controlled by ABH)	476	577	(18)
Waste in Midrand Campus operations	39	76	(49)
Staff vehicles reimbursed	148	137	8
Business flights	243	319	(24)
Car rental	27	19	42
Total CO_2 emissions	**15 240**	**16 151**	**(6)**

CARBON FOOTPRINT

The GHG emission data was prepared in accordance with the National Greenhouse Gas Protocol.

ENERGY EFFICIENCY

Over 80% of our carbon footprint is from electricity consumption. We succeeded in reducing our consumption through our:

- building management system
- rolling out LED globes
- occupancy sensors in common areas
- replacing old air-conditioners with more efficient, chlorine-free refrigerants with zero ozone depletion potential
- installation of additional power meters to ensure accurate energy consumption.

While the 65% reduction in electricity consumption we have achieved this year due to these measures is significant, we will continue to look for more efficiencies.

WATER CONSERVATION

African Bank is not an intensive water consumer but we live in a water-scarce region and have considered our environment and the recent drought conditions.

To reduce our reliance on municipal water we:

- installed three new boreholes at our Midrand Campus, which significantly reduced our reliance on municipal water
- rolled out water efficient technology which included:
  - sensor taps in bathrooms
  - reducing the use of water by flushing mechanisms in toilets from 10 litres to 5 litres per flush
- installed a building management system to monitor leaks and which automatically shuts off the water supply to a floor where a leak is detected
- continually look for new opportunities
- are currently investigating water harvesting and grey water harvesting.

WASTE MANAGEMENT

Our focus for this past year was on improving the accuracy of our waste data and understanding the type of waste we generate. We are also investigating ways of reducing our waste generation. We currently recycle 50% of our waste at our head office and contact centre.

GREEN IT

To reduce our IT carbon footprint, we have introduced paperless banking options for our customers. We recycle, repurpose or donate electronic equipment we no longer need or use.

We are focusing on purchasing electronic equipment with a longer lifespan and lower energy requirement, as well as actively promoting conscious usage of equipment. For example, we are introducing printing limits for employees.

To reduce our IT carbon footprint, we have introduced paperless banking options for our customers. We recycle, repurpose or donate electronic equipment we no longer need or use.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REVIEW

The Board is committed to ensuring, as the fundamental corporate governance principle for the Group, that it maintains adequate and effective processes in place that:

- are consistent with the nature, complexity and risk inherent in the Group's business activities
- respond to changes in the environment in which the Group operates.

It recognises that sound corporate governance and ethical business practice is the foundation upon which the trust of all stakeholders is built.

Our Board-approved governance framework (the framework) applies to all the businesses in the ABH Group. It incorporates the Board's commitment to sound corporate governance and ethical business practices, which we believe is the foundation on which we can build the trust of our stakeholders. In developing the framework the Board took into account the requirements of the King Code of Governance Principles, King IV, the Companies Act, 71 of 2008 (as amended), the Banks Act, 94 of 1990 (as amended) and other relevant legislation and/or regulations and best practice.

Our strategy is supported by our governance framework, which we continually review to ensure it supports effective decision-making, provides robust controls and is aligned to evolving local and global best practice.

Our Board welcomes the latest update of the King Code of Governance Principles, King IV, which was introduced to South Africa in late 2016. Its outcomes-driven approach to corporate governance corresponds with the Group's commitment to consistent improvement and value creation.

6 2 15 The ABH Board is ultimately responsible for providing strategic direction leading to ensuring sustainable Group business and the effective processes of:

- corporate governance
- ethical behaviour within the Group business activities with all stakeholders
- compliance
- internal controls
- risk management
- the ongoing assessment of capital requirements and the maintenance of adequate capital.

The Board's members are professional people with an appropriately broad mix of skills to effectively constitute its various committees. One third of the non-executive directors retire annually by rotation. Prior to recommending their re-election to the shareholders, the Board considers the directors due for re-election and ensures that they are available to continue to serve.

The Chairman conducts an annual assessment with each director. Following this assessment succession needs and development and/or training needs are determined.

A structured induction programme is in place for new directors. Continued specialist training and exposure to industry matters, and those specific to the Group, are undertaken during the course of the year.

The Board considers a succession plan annually in November (commencing November 2017), which focuses on Board membership and the competencies required in its committees.

9 The Chairman of the Board is an independent non-executive director. An annual performance assessment of the Chairman is undertaken in November (commencing November 2017) when the Board also considers the election of a chairman for the forthcoming year.

8 The Chief Executive Officer (CEO) is appointed by the Board on contract. The CEO's contract is for an indefinite period, which may be terminated by the Group or the CEO by mutual agreement, with a minimum notice period of three months.

9 A Board-approved delegation of authority is in place, which together with the duties and authorities which form part of the Board charter, delineate the CEO's authority.

The CEO's key performance metrics for the forthcoming financial year, which are aligned to the key performance objectives of the Group, are approved by the Board annually and the CEO's performance in terms of these objectives is assessed at financial year-end.

The executive team comprises professionals with the banking industry skills and experience necessary to ensure the sustainability of the Group's existing business and the successful implementation of its strategic initiatives.

The individual executive's performance metrics are aligned to the operational and strategic requirements for their business units and ultimately the metrics of the CEO.

69 (continued on page 69)

OUR GOVERNANCE STRUCTURE

BOARD GOVERNANCE STRUCTURE

SHAREHOLDERS AND OTHER STAKEHOLDERS

COMPANY SECRETARY

BOARD OF DIRECTORS

BOARD COMMITTEES

- Group Risk and Capital Management (RCMCom)
- Group Audit and Compliance (Auditcom)
- Group Directors' Affairs and Governance (DAG)
- Group Remuneration (Remcom)
- Group Sustainability, Ethics and Transformation (Setcom)

Under Group Risk and Capital Management (RCMCom):

- Asset and Liability Management ALCO
- Model Risk Committee MRC

MANAGEMENT GOVERNANCE STRUCTURE

EXECUTIVE COMMITTEE

- IT Steering Committee
- Collections Committee
- Risk Committee
- Credit Committee
- Sales and Marketing Committee
- People Committee

Second group:

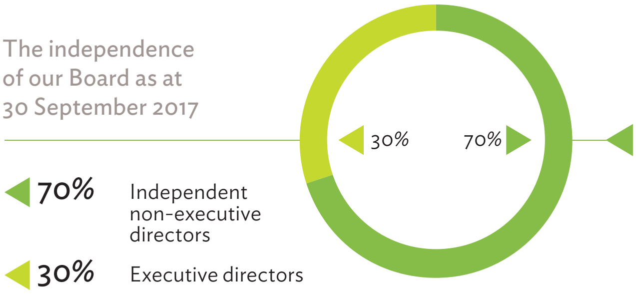
- Group Internal Audit
- Group Compliance

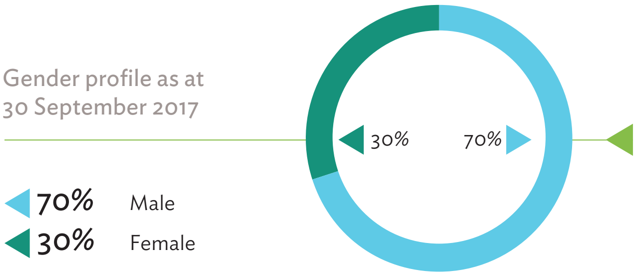
OUR BOARD AND COMMITTEES

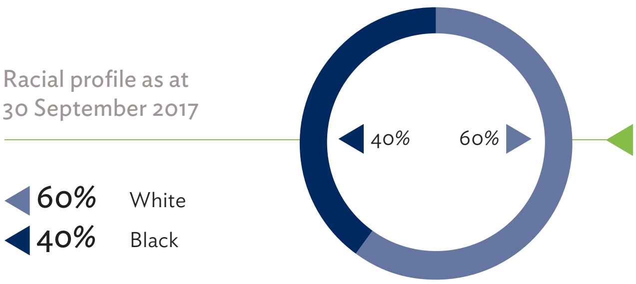
Certain directors attend meetings of committees of which they are not members, where they are invited by the Chairman, in circumstances where their input on matters before that meeting or on any specific matter is required.

		Attendance at meetings								
Name and status of director	Date appointed	Board	Committees							
		(Nine meetings were held during the year)	Auditcom (Nine meetings were held during the year)	Remcom (Three meetings were held during the year)	Setcom (Four meetings were held during the year)	RCMCom (Six meetings were held during the year)	ALCO (11 meetings were held during the year)	MRC (10 meetings were held during the year)	DAG (Three meetings were held during the year)
Independent non-executive directors									
Louis von Zeuner Chairman and Chairman of the DAG	June 2015	9	—	—	—	—	—	—	3
Basani Maluleke[1]	July 2015	8	—	2/2	3	6	—	—	3
Sybille McCloghrie[2] Chairman of Remcom	July 2015	9	—	3	4	6	—	—	—
Sydney Mhlarhi[3]	July 2016	6	6/8	—	—	—	—	—	—
Ignatius Sehoole[5] Chairman of RCMCom	July 2015	9	9	—	—	6	—	—	2
Louisa Stephens Chairman of RCMCom, Setcom and ALCO committees	July 2015	9	9	—	4	—	11	—	3
Peter Temple Chairman Model Risk Committee (MRC)	April 2016	9	—	—	—	4	—	10	—
Frans Truter Chairman of Auditcom	August 2015	8	9	3	—	—	—	—	2
Executive directors[4]									
Brian Riley Chief Executive Officer	June 2015	7	7	3	4	6	—	—	2
Gustav Raubenheimer Chief Financial Officer	July 2015	9	8	3[1]	4	6	—	—	—

1 Basani Maluleke resigned, as Chairman of Remcom and her membership of DAG when she joined the management team in July 2017 and became an executive director of the Bank
2 Sybille McCloghrie was appointed Chairman of Remcom as of 3 July 2017
3 Sydney Mhlarhi appointed to Auditcom on 11 October 2016
4 The executive directors are in attendance at all relevant Board committee meetings
5 Resigned on 16 October 2017







An executive succession plan is presented to the Board annually for consideration and approval.

This corporate governance review includes our assessment, against the King IV principles applicable to our business, of the outcomes our approach to corporate governance has achieved. We recognise that this is the first step on our King IV journey and will be spending time in 2018 further analysing our practices to support the various principles and outcomes in terms of King IV will be enhanced in 2018. This analysis may well result in a change in our practices to support our application of the principles.

An independent assessment of African Bank's King IV readiness was conducted in 2017. The outcome was that overall we are successfully applying the King IV principles. There is, however, room for improvement in terms of achieving an appropriate balance of knowledge, skills, experience, diversity and independence in our Board. Our Chairman has discussed in his review our plans for addressing this (see page 08). It was also recommended that we ensure that the Board evaluates its own performance and that of its committees, its Chair and its individual members to support continued improvement in its performance and effectiveness. These assessments were conducted post year-end.

Consistent with King IV's apply and explain approach to disclosure the Group considers and applies the principles of corporate governance that are relevant to it.

An analysis of the independence of our Board, together with racial and gender profiles, is to be found on page 69 of this report.

COMPANY SECRETARY

THE ABH Group Company Secretary, Bruce William Unser, who was appointed in October 2015, assists the Board as a whole and the directors individually with guidance as to how their responsibilities should be properly discharged in the best interests of the Group and its stakeholders. The Company Secretary facilitates the induction and training for new directors and ongoing Board training and development.

The Board is satisfied that the Company Secretary is competent, suitably qualified, experienced and has the requisite skills knowledge and experience to discharge his duties effectively.

GOVERNANCE OF ETHICS

The Board has established the foundations to ensure that there is an ethical underpinning to all of its activities and interactions with all of its stakeholders. The Setcom acts as the custodian of ethics for the Board. For information on our application of our Board-approved Group Code of Ethics during the year under review see page 56 of this report.

INTEREST OF DIRECTORS AND OFFICERS IN TRANSACTIONS

Mr LL von Zeuner is a non-executive director of MMI Group Limited (MMI).

Mr FJC Truter is a non-executive director and has a direct interest as a shareholder in MMI.

African Insurance Group Limited, a wholly owned subsidiary of African Bank Holdings Limited, is the holder of one L124 ordinary share in Guardrisk Life Limited, an MMI Group company, to facilitate its insurance cell captive arrangement (the cell captive arrangement). During the year African Bank Holdings Limited entered into a relationship agreement with MMI relating to a joint venture comprising a lending, insurance and transactional banking arrangement (the MMI JV).

The Board previously approved a strategy which would enhance the Bank's customer value proposition and which included a strong partnership with an insurer. The executive was mandated to engage with potential parties and identified MMI as their preferred partner, from those that they had considered.

In arriving at a decision on its partner, the Board has ensured compliance with the requirements of section 75 of the Act in its deliberations.

It is comfortable that appropriate governance processes were put into place to ensure that only its non-conflicted directors were party to the discussion relating to the cell captive arrangement and MMI JV.

The interested directors recused themselves from meetings or agenda items where any discussion or consideration of the cell captive arrangement and the MMI JV took place and, in terms of the governance process introduced, are obliged to recuse themselves whenever the matters are discussed.

An independent committee comprising Peter Temple (chairman), Ignatius Sehoole and Louisa Stephens, was established to consider and approve potential JV partners, and subsequently to approve the structure and implementation of the JV agreement. The Board maintained a strict system of Chinese walls with regard to the circulation of Board documents and information relating to the selection process until the process was concluded.

Other than the disclosures above, the directors confirm that no material contracts were entered into in which directors and officers of the Group and the separate company had an interest and which significantly affect 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.

BOARD AND COMMITTEE ACTIVITIES

The Board's progress on the initiatives it planned to address in the year under review

Initiative	Progress
Oversee the implementation and further development of the strategic plan	
Further embed the governance processes	
Act on matters identified as shortcomings in the governance process, in the Board assessment process	
Embed the ICAAP process to ensure effective capital allocation	
Ensure ongoing focus on the internal and external drivers influencing the Group's risk profile	
Enhancement of the Group IT strategy to take cognisance of anticipated further strategic initiatives	
Ensure alignment of the internal management and board negotiating to external reporting	
Implementation of the King IV Report on Corporate Governance of South Africa 2016 (King IV) and alignment of the Group's business practices thereto	

ACHIEVED

PARTIALLY ACHIEVED

NOT ACHIEVED

RISK AND CAPITAL MANAGEMENT COMMITTEE (RCMCOM)

The objective and mandate of the Committee and its subcommittees (ALCO AND MRC) are to assist the Board in discharging responsibilities in terms of the management of risk, capital and compliance across the Group.

RCMCom reviewed the annual ICAAP and the recovery plan and the ERM framework; approved the buy-back of liabilities; reviewed the cyber risk plan and the Bank's Risk Data Aggregation and Risk Reporting (RDARR) programme.

In 2018 the Committee will be addressing the risks facing the changing business with a specific focus on transactional banking.

Ignatius Sehoole resigned as Chairman of the Committee on 16 October 2017.


team
work

REMUNERATION REPORT

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

We are pleased to present our remuneration report for the 2017 financial year.

Our Remuneration Committee (Remcom) assists the Board in fulfilling its obligations by monitoring and making recommendations regarding African Bank's remuneration policies and practices. It is mandated by the Board to ensure our remuneration philosophy and policy are aligned with the Group strategy and values, and the interests of its stakeholders. It also ensures that our remuneration philosophy, policy and practices attract and retain top talent. The committee's terms of reference are available from the Company Secretary.

During the year under review the committee reviewed remuneration policies and practices to ensure appropriate alignment with the market; reviewed the employee value proposition and initiatives related to it and ensured alignment
14 with King IV, and specifically to King IV, Principle 14.

The committee meets a minimum of three times a year, with the Chief Executive Officer attending by invitation. The committee Chairman reports back to the Board on the activities of the committee. The minutes of the committee meetings are circulated to all directors.

See meeting and membership summary below:

Members	Appointed	Meetings attended (Three meetings were held during the year)
Basani Maluleke* (Chairman until 3 July 2017)	July 2015	3
Sybille McCloghrie (Chairman after 3 July 2017)	July 2015	3
Frans Truter	July 2015	3

* Resigned due to appointment as an executive on 3 July 2017

OUR PHILOSOPHY

Our remuneration philosophy leverages our Board-approved remuneration framework, for which our Remcom is responsible. The framework and our supporting remuneration policy are designed to balance long-term and short-term behaviour.

Our aim is to attract, motivate, engage and retain the talent required to achieve our desired business objectives and balance employee and stakeholders' interest. We are conscious of upholding principles related to fair, transparent (at policy level while maintaining the privacy of the individual) and responsible remuneration, as well as adopting policies and practices which create value for the Bank over the long term.


African Bank

OUR REMUNERATION FRAMEWORK AND POLICY

Our remuneration framework and policy are designed to embed performance behaviour throughout the business. Our measurement and incentivisation of the right short- and long-term behaviours is coupled with a strong retention strategy focused on rewarding achievers.

Employee remuneration is linked to individual performance. Employees are measured by the results they achieve relative to agreed performance outputs and indicators, retention of talent and key employees, the value of the contribution the job makes to the business, based on comparable jobs within the Bank and market and the achievement of team and organisational strategic objectives.

Our use of key results areas (KRAs) allows us to transparently track performance. The KRAs of our Chief Executive Officer and our Executive team, which are aligned with the achievement of our strategic objectives (see page 05), measure the contribution each individual has made towards the achievement of our strategic scorecard 2021 targets (see page 03), which include financial, customer experience and people targets.

FINANCIAL TARGETS

- RoE
- Funding diversification
- Non-interest income
- Credit loss ratio
- Strengthen our balance sheet (CET1)

CUSTOMER TARGETS

- Customer NPS®
- Grow our customer base

PEOPLE TARGETS

- People engagement score

OPERATIONS

- Implement credit direct channel
- Commence transactional banking implementation

PROGRESS MADE

PROGRESS NOT MADE

TARGET ACHIEVED

ABOVE TARGET

Long-and short-term incentive pool

Rm	NPBT	Incentive (short-and long-term)
Budget	779	136
Stretch target (NPBT plus 20%)	935	167

The incentive pool is utilised to fund the short- and long-term incentive awards, and is made available for distribution once the Group financial results have been approved by the Board.

In the 2017 financial year, the Group achieved the stretch target and a total incentive pool of R167 million was approved by the Remcom. Of this, R158 million will be distributed to those participating in the scheme.

STRUCTURE OF THE AWARDS

The incentive

Incentive awards are made in terms of the short-term incentive scheme, or as a combination of both short- and long-term incentives in terms of the respective schemes.

Awards made to senior employees have a greater weighting towards long term.

Our remuneration framework and policy are designed to embed performance behaviour throughout the business.

REMUNERATION STRUCTURE

The Group remuneration structure, its components and the alignment of remuneration to market, are referenced to information subscribed to from a prominent independent consultant.

The components of Group remuneration are:

- total guaranteed package
- short-term incentives
- long-term incentives.

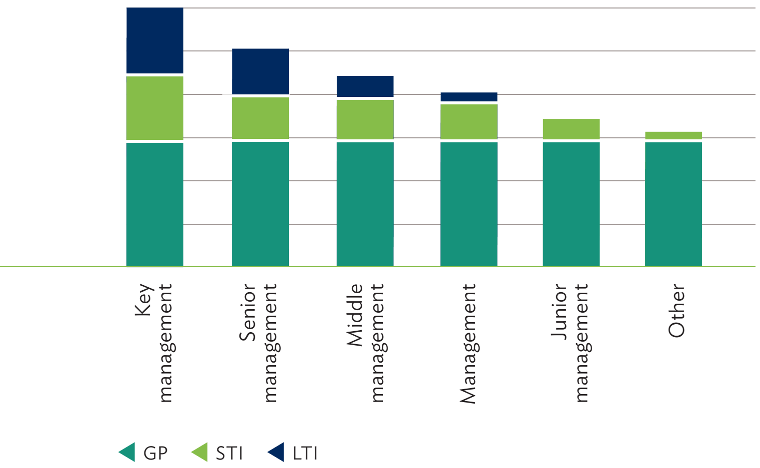
Total guaranteed package

The total guaranteed package comprises all guaranteed money paid to an individual employee, including all fixed forms of pay received by the employee, such as a thirteenth cheque, travel allowance, Company contribution to retirement benefits, death benefits and disability benefits.

Incentives

Incentives form a larger portion of the overall remuneration in critical roles, but are strictly performance-based and are paid only if personal performance criteria and the hurdles set by the Board for Bank performance are achieved.

Earnings mix, assuming target performance across employee levels



Company performance hurdles and the incentive pool in respect thereof are approved by the Remcom for the financial year ahead.

Performance hurdles were set for the 2017 financial year, based on the Group net profit before tax (NPBT), after providing for the incentive pool.

Short-term incentives

A portion of short-term incentive awards, in excess of R750 000, is deferred, at middle management and senior middle management level. This deferred portion becomes payable in two tranches over a 12-month period. At senior and executive management level, the deferred portion is payable in three tranches over an 18-month period, and relates to the portion of the short-term incentive in excess of R2 000 000.

Long-term incentives

A portion of an employee's incentive award at middle, senior middle, senior and executive management levels is awarded in terms of the long-term incentive scheme.

Awards are made based on a valuation of African Bank, calculated on the present value of future cash flows, generated using a discount rate audited by the external auditors as part of their assurance audit.

Long-term incentives become payable in three equal tranches, 12 months, 24 months and 36 months after award date and are subject to performance conditions other than at an executive management level where payments are only made after 36 months, payments to executive management vests in three equal tranches, 12 months, 24 months and 36 months after award date and are subject to performance conditions.

In the event that Group NPBT for the financial year immediately preceding the due date decreases, then the payment will be reduced by 2% for every 1% that NPBT reduces.

The rules of the short-term and long-term incentive schemes make provision for forfeiture and clawback of deferred short- and long-term incentives prior to or at payment.

THE DISTRIBUTION OF INCENTIVES AWARDED IN THE FINANCIAL YEAR WAS

Short-term incentives of Total Pool	**74.5%**
Executive management	17.2%
Senior middle and senior management	26.1%
Middle management	17.2%
Management	23.9%
Other employees	15.6%
Long-term incentives of Total Pool	**25.5%**
Executive management	50.2%
Senior middle and senior management	40.9%
Middle management	8.9%

Employees in middle and upper middle management are given the option of converting part of their short-term incentive into the long-term incentive scheme, the converted portion being subject to the rules of the scheme.

Employees are able to retain any tranche of their long-term incentives beyond the payment date of the last tranche for that award. In such circumstances, settlement of the award is made at the valuation rating at that time.

IMPLEMENTATION

PRESCRIBED OFFICERS' REMUNERATION

Name	Title	Basic salary R	Retirement, medical aid and other R	Allowances R	Short-term incentives R	Total 2017 R	Total 2016 (six months) R
GC Jones	Group Executive: Treasury and Balance Sheet Management	2 669 278	434 534	12 000	1 763 644	4 879 456	2 327 040
VH Millican	Group Executive: Credit	2 551 964	283 552	12 000	1 611 205	4 458 721	3 127 415
LC Miyambu	Group Executive: Human Capital	2 562 494	313 324	275 418	1 780 377	4 913 613	2 343 053
ML Ramalho	Group Executive: Sales and Branch Network	2 079 591	231 066	14 200	617 500	2 942 357	1 544 613
AM Ramosedi	Group Executive: Sales and Marketing	2 139 850	734 140	—	1 473 078	4 347 068	2 164 029
G Roussos	Chief Executive: Core Operations	3 096 005	394 429	144 098	2 054 283	5 688 815	2 579 574
PC Swanepoel	Chief Risk Officer	2 717 468	370 564	—	1 706 834	4 794 866	2 248 456
HB Venter	Chief Information Officer	2 410 189	425 327	24 219	1 694 398	4 554 133	2 134 416

EXECUTIVE DIRECTORS' REMUNERATION

Name	Title	Basic salary	Retirement, medical aid and other	Allowances	Short-term incentives	Total 2017	Total 2016 (six months)
B Maluleke*	Group Executive: Head Operations	627 750	147 250	3 000	—	778 000	—
B Riley	Chief Executive Officer	4 153 500	—	29 000	4 875 000	9 057 500	1 935 002
G Raubenheimer	Chief Financial Officer	3 388 869	419 406	24 000	2 302 963	6 135 238	2 879 407

* From 3 July

NON-EXECUTIVE DIRECTORS' REMUNERATION

	2017 Group R	2016 Group (six months) R
LL von Zeuner (Chairman)	984 323	400 000
B Maluleke*	293 368*	262 500*
SL McCloghrie	613 610	200 000
SK Mhlarhi	474 576	62 500
IS Sehoole	683 384	262 500
L Stephens	656 137	250 000
PJ Temple	375 815	125 000
FJ Truter	723 663	287 500
Total	4 804 876	1 850 000

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

SUSTAINABILITY, ETHICS AND TRANSFORMATION COMMITTEE REPORT

The responsibilities of the Sustainability, Ethics and Transformation Committee (Setcom) are set out in section 72(4) of the Companies Act, 71 of 2008 (as amended). It assists the Board in fulfilling its obligations, in particular with regard to the application of King IV and the Broad-based Black Economic Empowerment (B-BBEE) Act (as amended).

In summary, the committee's responsibilities include:

- monitoring and oversight of ethics
- reviewing and monitoring issues and matters relevant to legislation and practice in relation to the environment, health, public safety and well-being of the Group's customers, stakeholder relations and good corporate citizenship
- reporting regarding these activities and topics to the Board
- assisting the Board in fulfilling its obligations as set out above
- monitoring that the Group remains a socially committed and responsible corporate citizen
- ensuring adequate formulation and implementation of policies and practices
- annually reporting to stakeholders on matters relevant to the Setcom.

The committee met four times during the year under review and the membership

Members	Appointed	Meetings attended
Louisa Stephens (Chairman)	July 2015	4
Basani Maluleke*	July 2015	3
Sybille McCloghrie	July 2015	4

* Resigned due to her appointment as an executive on 3 July 2017

TERMS OF REFERENCE

The Setcom's mandate is set out in its Board-approved charter, which is aligned to the Group's statutory obligations and other responsibilities, as assigned by the Board.

2 ETHICS

African Bank takes ethics very seriously and has put several interlocking structures in place to ensure that it is well addressed.

An onsite Ethics Office at the Midrand campus manages any ethics-related issues either raised formally on a walk-in basis or through the whistle-blower line. The Group Executive Ethics Committee has been established and is chaired by the Chief Executive Officer. This committee is responsible for managing, monitoring and ensuring that ethics and whistle-blower activity across the Group is responded to efficiently and effectively.

The implementation of the Group's Board-approved Code of Ethics is the responsibility of the Ethics Office, which reports to the Group Executive Ethics Committee and ultimately, any material or pervasive issues are reported to the Setcom.

An anonymous whistle-blowing line, managed by an independent third party, enables all stakeholders to report matters of concern anonymously. Reports on whistle-blowing information are provided on an ongoing basis to the relevant business units for consideration and action. Their status is then reported back to the Ethics Office which manages them through to resolution.

During the year under review no material or pervasive ethics issues were reported to Setcom.

3 TRANSFORMATION

African Bank is truly committed to creating and maintaining an inclusive workplace based on shared values. This is through the creation, facilitation and development of an organisation that fosters equality for all South Africans. We are currently a Level 4 B-BBEE Contributor and are actively working towards maintaining and improving our score. Our goal is to be a Level 3 B-BBEE Contributor.

Our equity ownership, employment equity and management control are currently impacted by the recovery plan implemented while under curatorship, during which there was a limited amount of control over these items. In readiness for the future, our response to these areas includes mentorships, new key recruits and the training and coaching of the right people for identified positions. We expect the Bank's investment and effort in this area to start reflecting in the coming financial year.

16 CUSTOMER RELATIONSHIPS

The Customer Service Committee, chaired by the Chief Executive Officer, monitors and addresses:

- customer service levels
- Treating Customers Fairly
- plain English documentation
- protection of personal information
- advertising and marketing.

The success we have had with our NPS® score is an excellent indication of our customer service levels (see our performance
03 against our strategic scorecard on page 03 of the integrated
51 report and information on our marketing on page 51 of the operating review).

The Bank also continues to perform well with regard to the six Treating Customers Fairly outcomes.

CORPORATE SOCIAL INVESTMENT

The committee monitored and reviewed African Bank's performance in terms of its corporate social investment which benefited an increased number of children this year (see the
62 *We are you* at work section of the integrated report on page 62 for information on what the programme achieved in FY 2017).

ENVIRONMENT

A pleasing reduction in greenhouse gas emissions (GHG) was achieved by the Group in FY 2017. The committee oversaw the development of an effective environmental management plan and the metrics that would enable Group reporting on the plan during the year under review. In addition, a sustainability officer was appointed to implement the plan who has already made good progress.

Louisa Stephens
Chairman
Sustainability, Ethics and Transformation Committee

AUDIT AND COMPLIANCE COMMITTEE REPORT

This report is provided by the Group's Audit and Compliance Committee (Auditcom) for the financial year ended 30 September 2017.

The members of the Auditcom are appointed by the Board, as required by the Banks Act, which takes precedence over the Companies Act. In terms of the Committee Charter only independent non-executive directors are eligible to serve on the Auditcom.

The Auditcom oversees the financial reporting and internal control processes and compliance for the Group in terms of its charter. It reviews the significant findings of the external and internal auditors and Group Compliance office (see 28 page 28 of the integrated report) and monitors the progress reports for corrective actions required to rectify reported control shortcomings. The committee also has oversight over compliance and anti-money laundering governance and processes.

The Board performs an annual review of the Auditcom's compliance with its charter responsibilities, governance and best practice. The members of the Auditcom annually self-assess their individual performance as committee members and that of the committee as a whole. They also assess the performance of the internal and external auditors.

COMPOSITION

A brief profile of each of the members of the Auditcom can be 31 viewed on page 31 of the integrated report.

Members	Appointed	Meetings attended (Eight meetings were held during the year)
Frans Truter (Chairman)	August 2015	8
Sydney Mhlarhi	July 2016	5
Ignatius Sehoole*	July 2015	7
Louisa Stephens	July 2015	8

* Resigned 16 October 2017

Key members of management attend meetings of the Auditcom by invitation.

FUNCTIONS OF THE AUDITCOM

The Auditcom's functions are outlined in its charter, which is available from the Company Secretary. These include statutory duties in terms of the Banks Act relating to auditor independence and to assisting the Board in its evaluation of the adequacy and efficiency of internal control systems, accounting practices, information systems and auditing practices applied by the Group in the day-to-day management of its business.

This is achieved by:

FINANCIAL CONTROL, ACCOUNTING AND REPORTING

- Reviewing and recommending to the Board for approval the:
  - integrated report
  - unaudited interim results
  - audited financial results
  - annual financial statements
- Evaluating the appropriateness, adequacy and efficacy of accounting policies
- Discussing and resolving any significant or unusual accounting matters
- Reviewing the effectiveness and efficiency of tax reporting and compliance
- Satisfying itself of the expertise, resources, experience and skills of the Finance function and Chief Financial Officer

EXTERNAL AUDIT

- Assessing the independence of the external auditors
- Recommending external auditors to shareholders for appointment in compliance with the Companies Act and Banks Act
- Reviewing and approving the external audit plan and external auditors' fee
- Determining the nature, extent and fees paid to external auditors for non-audit services

INTERNAL AUDIT

- Reviewing and approving the Internal Audit plan
- Monitoring and satisfying itself as to the effectiveness of the Internal Audit function
- Reviewing Internal Audit's findings on the adequacy and effectiveness of the Group's internal control systems and information systems
- Reviewing Internal Audit's findings on the adequacy and reliability of management information
- Reporting Internal Audit's findings to the Board

COMPLIANCE

- Monitoring and satisfying itself as to the effectiveness of the Group Compliance function, including but not limited to the oversight and assurance provided in respect of the Banks Act, and market conduct regulations
- Reviewing Group Compliance's findings on the effectiveness of the Group's regulatory controls

The Auditcom does not assume the functions of management.

EXECUTION OF FUNCTIONS

The committee has executed its duties and responsibilities during the financial year under review in accordance with its mandate. This relates to the Group's accounting, internal auditing, internal control and financial reporting practices.

15 ANNUAL FINANCIAL STATEMENTS

The Auditcom has:

- considered the annual financial statements with the external auditors, the Chief Executive Officer and the Group Financial Officer, and reviewed the appropriateness of significant judgements and accounting policies.

The Auditcom recommended the annual financial statements and integrated report to the Board for approval.

EXTERNAL AUDITOR'S INDEPENDENCE AND FEES

Pricewaterhouse Coopers (Pwc) is the incumbent external auditors and has been since curatorship which was a condition of our banking licence. This mandated period expired at the end of September 2017.

The Auditcom is satisfied with the independence of the external auditor, PwC. This is in accordance with section 94(8) of the Companies Act. This includes consideration of the auditor's previous appointments and other engagements or
15 other work undertaken.

The Auditcom issued a closed tender for the FY2018 external audit to ensure a focused and efficient process. PwC was not excluded from this process and, following the tender process, was awarded the external audit for the Group for the three-year period from 2018, subject to annual reviews.

INDEPENDENCE OF INTERNAL AUDITOR

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

The Auditcom critically reviewed the co-sourcing arrangement the Group has with KPMG for its Internal Audit function. It also had a number of follow-up meetings with KPMG as part of this review. KPMG has undertaken to provide information to the Group on the status of their business on an ongoing basis. We have decided to continue with our outsourcing arrangement with KPMG. We will, however, continually review the relationship and have plans in place to institute an alternative arrangement in the event that it becomes necessary for us to terminate our relationship with KPMG.

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

APPROPRIATENESS OF THE EXPERTISE AND EXPERIENCE OF THE CHIEF FINANCIAL OFFICER

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

EFFECTIVENESS OF INTERNAL CONTROLS

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

African Bank's combined assurance model and related assurance from the various assurance providers is managed through a three lines of defence model.

The underlying principle of the assessment was to assess internal controls against three primary objectives:

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

The assessment indicated that controls had improved since the previous assessment in May 2016.

SOLVENCY, LIQUIDITY AND GOING CONCERN

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

KEY AUDIT MATTERS AS REPORTED BY THE EXTERNAL AUDITORS

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

- impairment of originated loans and advances
- accounting for the acquired advances book post acquisition

More detail on the key audit matters is reflected in the audit report of PwC in the annual financial statements.

IN CONCLUSION

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

We were able to make good progress with the initiatives planned for the 2017 financial year, including monitoring the progress the Group has made with the adoption of the new IFRS accounting standards.

Frans Truter
Chairman
Group Audit and Compliance Committee

29 November 2017

NOTICE OF ANNUAL GENERAL MEETING

FOR THE YEAR ENDED 30 SEPTEMBER 2017

African Bank Holdings Limited
(Incorporated in the Republic of South Africa)
(Registered bank controlling company)
(Registration number 2014/176855/06)

Registered office
59 16th Road, Midrand, 1685

Share transfer secretaries
African Bank Limited
59 16th Road, Midrand, 1685
Private Bag X170, Halfway House, 1685
Telephone: + 27 (0) 11 256 9000
BUnser@africanbank.co.za

Investor relations and financial media contact details
Markus Borner
Telephone: +27 (0) 11 564 7495
Email: investor.relations@africanbank.co.za
Louise Brugman
Telephone: +27 (0) 11 787 3015

Notice is hereby given that the second annual general meeting (the AGM) of the shareholders of ABH for the year ended 30 September 2017 will be held on Friday, 23 February 2018 at 08:30 in the Egoli Boardroom, African Bank, 59 16th Road, Midrand, Johannesburg.

AGENDA:

1. ANNUAL FINANCIAL STATEMENTS

To present to the shareholders the Company's annual financial statements (which statements include the directors' report, the Auditcom/Audit and Compliance Committee report and report of the external auditors), as approved by the Board, for the year ended 30 September 2017.

Copies of the Integrated Annual report and the Annual Financial Statements are included with this notice;

2. SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE

The Social, Ethics and Transformation Committee report is set out in the integrated report, pages 79 to 80, in terms of regulation 43 (5)(c) of the Regulations to the Companies Act 71 of 2008 as amended (the Act).

To consider and, if deemed fit, to pass with or without modification, the ordinary and special resolutions of shareholders set out hereunder in the manner required by the Companies Act.

3. ADVISORY ENDORSEMENT OF THE REMUNERATION POLICY

3.1 To endorse, through a non-binding advisory vote:

- the Group's remuneration philosophy and the principles around its remuneration policy and practice

3.2 the remuneration policy (excluding the remuneration of the non-executive directors and the members of Board committees for their services as directors and members of committees).

3.3 The implementation of the Group remuneration policy: copy of which is set out in the integrated annual report on pages 73 to 78.

The essence of this vote is to enable the shareholders to express their views on the remuneration philosophy and policy adopted and on their implementation.
Shareholders are accordingly requested to consider the Company's remuneration policy.

4. ELECTION OF DIRECTORS

The directors proposed for re-election, retire by rotation, and being eligible and having been recommended by the Board, offer themselves for re-election.

The biographies of the directors are set out in the Integrated Annual Report, page 31.

4.1 Ordinary resolution 1 – Election of SK Mhlarhi

RESOLVED THAT Sydney Knox Mhlarhi, who retires by rotation and, being eligible, offers himself for re-election, be re-elected as a director of the Company with immediate effect.

Percentage of voting rights required to pass this resolution: 50% plus one vote of the voting rights exercised.

4.2 Ordinary resolution 2 – Election of PJ Temple

RESOLVED THAT Peter John Temple, who retires by rotation and, being eligible, offers himself for re-election, be re-elected as a director of the Company with immediate effect.

Percentage of voting rights required to pass this resolution: 50% plus one vote of the voting rights exercised.

5. ORDINARY RESOLUTION 3 – REAPPOINTMENT OF THE AUDITORS

RESOLVED THAT PricewaterhouseCoopers Inc. be reappointed as auditors of the Company for the financial year ended 30 September 2018.

Percentage of voting rights required to pass this resolution: 50% plus one vote of the voting rights exercised.

6. SPECIAL RESOLUTION 1 – REMUNERATION OF NON-EXECUTIVE DIRECTORS

RESOLVED THAT, as a special resolution, in terms of section 66(9) of the Companies Act, 71 of 2008, (as amended), non-executive director remuneration, due to the applicable directors for services rendered by them in their capacities as such be paid as follows with effect from 23 February 2018.

The purpose of this resolution is to approve the fees to be paid to non-executive directors, for their service as directors of the Company, with effect from 23 February 2018.

Percentage of voting rights required to pass this resolution: 75% of the voting rights exercised.

REMUNERATION OF NON-EXECUTIVE DIRECTORS

	2017	2018
Board		
Chairperson	1 001 000	1 200 000
Member	250 100	290 000
Audit and Compliance Committee		
Chairperson	220 000	240 000
Member	60 000	96 000
Risk and Capital Management Committee		
Chairperson	220 000	240 000
Member	60 000	96 000
Remuneration Committee		
Chairperson	150 000	200 000
Member	50 000	60 000
Social, Ethics and Transformation Committee		
Chairperson	150 000	150 000
Member	50 000	60 000
Directors' Affairs and Governance Committee		
Chairperson	Board Chair	Board Chair
Member	50 000	60 000

The 2017 fees paid are based on a retainer and an attendance fee. The comparative figure aggregates the two components of the fee, on the assumption that all meetings have been attended.

IT Committee		
Chairperson*		120 000
Asset and Liability Management Committee		
Chairperson	120 000	120 000
Model Risk Committee		
Chairperson*	120 000	120 000

** Maximum annual fee based on monthly meetings at R10 000 per meeting*

Directors attending board committee meetings by invitation at the request of the Board		
Per meeting	12 500	12 500
Directors' fees for ad hoc meetings		
Attendance – per hour:		
Audit and Compliance Committee	3 000	3 750
Risk and Capital Management Committee	3 000	3 750
All other Board committees	3 000	3 000
Directors' fees for ad hoc work		
Per hour	3 000	3 000

7. ORDINARY RESOLUTION 4 – DIRECTORS' AUTHORITY TO IMPLEMENT SPECIAL AND ORDINARY RESOLUTIONS

RESOLVED THAT, each and every director of the Company and the Company Secretary be and is hereby authorised to do all such things and sign all such documents as may be necessary for or incidental to the implementation of the resolutions passed at this meeting.

Percentage of voting rights required to pass this resolution: 50% plus one vote of the voting rights exercised.

8. GENERAL INFORMATION

Voting and proxies

Voting will be by way of a poll and every shareholder of the Company present in person or represented by proxy shall have one vote for every share held in the Company by such shareholder.

Proof of identification required

In compliance with section 63 of the Act, kindly note that meeting participants (including proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Forms of identification include valid identity documents, drivers' licences and passports.

Summary of shareholder rights

In compliance with the provisions of section 58(8)(b)(i) of the Act, a summary of the rights of a shareholder to be represented by proxy, as set out in section 58 of the Act, is set out immediately below:

- A shareholder entitled to attend and vote at the meeting may appoint any individual (or two or more individuals) as a proxy or as proxies to attend, participate in and vote at the meeting in the place of the shareholder. A proxy need not be a shareholder of the Company.
- A proxy appointment must be in writing, dated and signed by the shareholder appointing a proxy, and, subject to the rights of a shareholder to revoke such appointment (as set out below), remains valid only until the end of the meeting.
- A proxy may delegate the proxy's authority to act on behalf of a shareholder to another person, subject to any restrictions set out in the instrument appointing the proxy.
- The appointment of a proxy is suspended at any time and to the extent that the shareholder who appointed such proxy chooses to act directly and in person in the exercise of any rights as a shareholder.

The appointment of a proxy is revocable by the shareholder in question cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and to the company. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of (a) the date stated in the revocation instrument, if any; and (b) the date on which the revocation instrument is delivered to the company as required in the first sentence of this paragraph.

If the instrument appointing the proxy or proxies has been delivered to the Company, as long as that appointment remains in effect, any notice that is required by the Act or the Company's MOI to be delivered by the company to the shareholder must be delivered by the company to:
(a) the shareholder, or (b) the proxy or proxies, if the shareholder has (i) directed the Company to do so in writing; and (ii) paid any reasonable fee charged by the Company for doing so.

Attention is also drawn to the notes to the form of proxy. Proxies must be delivered to the Company's registered office: 59 16th Road, Midrand, 1685 no later than 09h00 on Wednesday, 21 February 2018.

9. DIRECTIONS FOR OBTAINING A COPY OF FINANCIAL STATEMENTS

The audited financial statements of the Company have been sent to shareholders, together with this notice. Further copies of or electronic access to the financial statements can be made at the African Bank website (**https://www.africanbank.co.za/en/home/investors/corporate/financial-reporting/**)

By order of the Board

African Bank Holdings Limited

Bruce William Unser
Company Secretary
29 November 2017

FORM OF PROXY

FOR THE SECOND ANNUAL GENERAL MEETING (AGM) TO BE HELD ON IN THE EGOLI BOARDROOM AT 08:30 ON FRIDAY, 23 FEBRUARY 2018 AFRICAN BANK, 59 16TH ROAD MIDRAND JOHANNESBURG

I/We ______________________________ (name in BLOCK LETTERS)

of ______________________________ (address in BLOCK LETTERS)

Telephone Work (____) ______________ Telephone Home (____) ______________

hereby appoint (see note 2 overleaf): ______________________________

1. ______________________________ or failing him/her

2. ______________________________ or failing him/her,

3. the chairman of the AGM,
as my/our proxy to act for me/us at the AGM and at each adjournment or postponement thereof in respect of all, or, if not all, the following lesser number__________, of the ordinary shares and/or the preference shares registered in my/our name (see notes 3 and 4 overleaf):

My/our proxy (if I am/we are an ordinary shareholder) is instructed to vote for and/or against the following resolutions, with or without modification, and/or abstain from voting in respect of the above number of ABH shares as follows:

	For	Against	Abstain
Advisory endorsement of remuneration policy **3.1** The Group's remuneration philosophy and the principles.			
3.2 The remuneration policy and practice			
3.3 The implementation of the Group remuneration policy: a copy of which is set out in the integrated annual report on pages 72 to 78			
Ordinary resolution 1 – The election of S Mhlarhi as a director			
Ordinary resolution 2 – The election of PJ Temple as a director			
Ordinary resolution 3 – The reappointment of auditors			
Special resolution 1 – Remuneration payable to non-executive directors			
Ordinary resolution 4 – Directors' authority to implement special and ordinary resolutions			

(Tick whichever is applicable. If no directions are given, the proxy will be entitled to vote or to abstain from voting, as that proxy deems fit.)

Signed at ______________________ on ______________________ 2018

Signature ______________________________

Assisted by (where applicable) ______________________________

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder/s of ABH) to attend, participate in and, where such shareholder is an ordinary shareholder (but subject to note 1 overleaf), vote in place of that shareholder at the AGM.

PLEASE READ THE NOTES OVERLEAF.

FORM OF PROXY CONTINUED

Instructions on who may use this proxy form:

- This proxy form is for use:
  - in respect of the AGM of the Company to be held on Friday, 23 February 2018 at African Bank Limited, 59 16th Road, Midrand

Notes:

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided, with or without deleting "the chairman of the AGM ", but any such deletion must be initialled by the shareholder. The person whose name stands first on the form of proxy and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow.
2. 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 the Company Secretary. Where more than one proxy is appointed by a shareholder, each such proxy must be appointed only in respect of a specified number of all of the shares held by such shareholder in the Company and the aggregate of all such specified number of shares in respect of which proxies are appointed by such shareholder must not exceed the aggregate number of shares held by such shareholder. Where such aggregate number of shares is exceeded, any of the proxy forms causing such result may be excluded at the AGM.
3. A shareholder's voting instructions to the proxy must be indicated by the insertion of the relevant number of shares in respect of which such proxy is appointed in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the AGM as he/she deems fit in respect of all of the shareholder's votes exercisable thereat, but subject to the following. A shareholder is not obliged to use all the votes exercisable by the shareholder, but the total of the votes cast by the shareholder or his/her proxy/ies and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder.
4. Documentary evidence establishing the authority of a person signing this form of proxy in a representative or other legal capacity (such as power of attorney or other written authority) must be attached to this form of proxy unless previously recorded by the Company Secretary or waived by the chairperson of the AGM if he is reasonably satisfied that the right of the representative to participate and vote has been reasonably verified.
5. Any alteration or correction made to this proxy form must be initialled by the signatory/ies, but any such alteration or correction will only be validly made if it is accepted by the chairperson.
6. The chairperson of the AGM may reject or accept any form of proxy which is completed and/or submitted other than in accordance with these instructions and notes, provided that the chairperson is satisfied as to the manner in which a shareholder wishes to vote.
7. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the company.
8. A proxy may delegate his/her authority to act on behalf of the shareholder, to another person.
9. Forms of proxy must be lodged with, or posted to the offices of the company's transfer secretaries, African Bank Limited, 59-16th Road, Midrand, to be received by no later than 09h00 on Wednesday, 21 February 2018.

SUMMARY OF SHAREHOLDERS RIGHTS IN RESPECT OF PROXY APPOINTMENTS AS CONTAINED IN SECTION 58 OF THE 2008 COMPANIES ACT

- The shareholder may appoint an individual as a proxy, including an individual who is not a shareholder of the company, to participate in and speak and vote at the shareholders meeting on behalf of the shareholder.
- The shareholder may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder.
- The proxy form must be dated and signed by the shareholder appointing the proxy.
- An appointed proxy may delegate his/her authority to act on the shareholder's behalf to another person, subject to any restrictions set out in the proxy form.
- The proxy form must be delivered to the transfer secretaries of the company, namely African Bank Limited, before the proxy exercises any of the shareholder's rights at the shareholders meeting.
- Irrespective of the form of instrument used to appoint a proxy:
  - the appointment of the proxy is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder;
  - the appointment is revocable unless the proxy appointment expressly states otherwise;
  - if the appointment of the proxy is revocable, a shareholder may revoke the proxy appointment by (1) cancelling it in writing, or making a later inconsistent appointment of a proxy; and (2) delivering a copy of the revocation instrument to the proxy and to the company.
- The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the relevant shareholder as of the later of:
  - the date stated in the revocation instrument, if any; or
  - the date on which the revocation instrument was delivered to the company and the proxy as aforesaid.
- If the instrument appointing a proxy or proxies has been delivered to the company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the company's MOI to be delivered by the company to the shareholder must be delivered by the company to:
  - the shareholder; or
  - the proxy or proxies (if the shareholder has in writing directed the company to do so and has paid any reasonable fees charged by the company for doing so).
- A proxy is entitled to exercise, or abstain from exercising, any voting rights of the shareholder without direction, except to the extent that the instrument appointing the proxy provides otherwise.
- The appointment of the proxy utilising the proxy form attached to the AGM notice remains valid only until the end of the AGM or any adjournment or postponement thereof.

Contact details of African Bank Limited -
Transfer secretaries
59 16th Road,
Midrand
1685

Private Bag X170
Halfway House
1685

GLOSSARY OF ACRONYMS AND TERMS

ABH	African Bank Holdings Limited
ABL	African Bank Limited
ABIL	African Bank Insurance Group Limited
AGM	Annual General Meeting
ALCO	Asset and Liability Management Committee
AML	Anti-money laundering
Auditcom	Audit and Compliance Committee
Banks Act	Banks Act, 94 of 1990 (as amended)
BANKSETA	Banking Sectorial Education and Training
Banking Association	Banking Association of South Africa
BBBEE	Broad-Based Black Economic Empowerment
BCBS	Basel Committee on Banking Supervision
BU	Business Unit
CCMA	Commission for Conciliation, Mediation and Arbitration
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
Companies Act	Companies Act, 71 of 2008 (as amended)
CPI	Consumer Price Index
CRO	Chief Risk Officer
CSI	Corporate social investment
DAG	Directors' Affairs and Governance Committee
DMTN	Domestic Medium Term Note
DTI	Department of Trade and Industry
EMTN	Industry Euro Medium Term Note
ERM	Enterprise Risk Management
EVP	Employee Value Proposition
EXCO	Executive Committee
FAIS	Financial Advisory and Intermediary Services Act 2002 (as amended)
FICA	Financial Intelligence Centre Act, 38 of 2001 (as amended)
FSB	Financial Services Board
GDP	Gross Domestic Product
GEPF	Government Employees Pension Fund
Guardrisk	Guardrisk Life Limited
HDSA	Historically Disadvantaged South Africans
IAS	International Accounting Standards
IBNR	Incurred but not reported
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
<IR>	The International <IR> Reporting Framework
IT	Information Technology
JSE	Johannesburg Stock Exchange
King IV	King IV Report on Corporate Governance
KPA	Key Performance Area
KPMG	KPMG Services Proprietary Limited
KRA	Key Results Area
KYC	Know Your Customer
LSM	Living Standards Measure
MMA	Month Moving Averages
NCA	National Credit Act, 34 of 2005 (as amended)
NPS	Net Promoter Score®
OIM	Offer Information Memorandum
PIC	Public Investment Corporation
PwC	Pricewaterhouse Coopers Inc.
RA	Risk Appetite
RCMCom	Risk and Capital Management Committee
RDS	Residual Debt Services Limited
Remcom	Remuneration Committee
RoA	Return on Assets
RoE	Return on Equity
SABRIC	South African Banking Risk Information Centre
SARB	South African Reserve Bank
SENS	Stock Exchange News Services
Setcom	Sustainability, Ethics and Transformation Committee
VRP	Voluntary retirement package
VSP	Voluntary severance package

CORPORATE INFORMATION

BOARD OF DIRECTORS

LL von Zeuner (Chairman), B Riley (CEO)*, G Raubenheimer (CFO)*, B Maluleke*, SL McCloghrie, SK Mhlarhi, L Stephens, PJ Temple, FJC Truter

* Executive

COMPANY SECRETARY

BW Unser

AFRICAN BANK HOLDINGS LIMITED

(Incorporated in the Republic of South Africa)
(Registered bank controlling company)
(Registration number 2014/176855/06)

REGISTERED OFFICE

59 16th Road
Midrand
1685

SHARE TRANSFER SECRETARIES

African Bank Limited
59 16th Road, Midrand, 1685
Private Bag X170, Halfway House, 1685
Telephone: + 27 (0) 11 256 9000
BUnser@africanbank.co.za

INVESTOR RELATIONS AND FINANCIAL MEDIA CONTACT DETAILS

Markus Borner
Telephone: +27 (0) 11 564 7495
Email: investor.relations@africanbank.co.za
Louise Brugman
Telephone: +27 (0) 11 787 3015

WEBSITE

www.africanbank.co.za

COMPLAINTS AND FRAUD

African Bank ethics toll-free line:
0800 20 20 18
African Bank ethics
email address: abfraudethics@africanbank.co.za
African Bank call centre number:
0861 111 011

www.africanbank.co.za