African Bank
INVESTMENTS LIMITED

Integrated Report
for the year ended 30 September 2013

African Bank
INVESTMENTS LIMITED

HOW TO GET THE MOST FROM OUR INTEGRATED REPORT

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Marilyn Budow at +27 11 256 9743, or greenabil@africanbank.co.za for sustainability related queries.

Scope and boundary

About our report

Our integrated report is published annually and presents an overview of the activities, practices and performance of African Bank Investments Limited (ABIL) for the 12-month financial year from 1 October 2012 to 30 September 2013. The report offers financial and non-financial information to enable our stakeholders to make an informed decision about their future engagement with us, and which addresses all the material issues pertaining to the business. The information has been selected to cater for the interests of stakeholders who require a broad, contextual overview of the present and future performance and direction of the ABIL group. Stakeholders with more in-depth requirements in terms of any section of the report are invited to contact ABIL directly or visit our websites for further information.

Scope of our report

The 2013 integrated report covers relevant aspects of all the South African operations of the ABIL group, which include the following two major business units:

African Bank Investments Limited (ABIL)

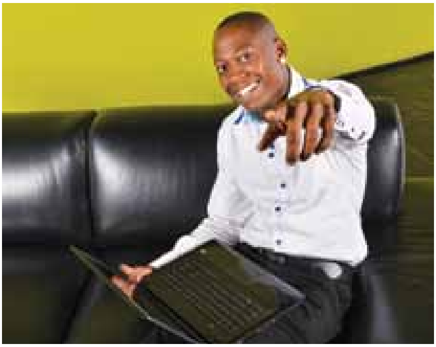
Banking unit	
African Bank Limited Standard General Insurance Company Limited (Stangen)	Ellerine Holdings Limited (EHL) EHL and its subsidiaries (EHL group) **Subsidiaries** Ellerine Furnishers Proprietary Limited (Ellerine Furnishers) Relyant Insurance Company Limited (Relyant Insurance) Relyant Life Assurance Company Limited (Relyant Life)

Stangen is included in the Banking unit as its activities are closely related to those of African Bank. As a result, the outcome of these business activities is measured as one entity.

The foreign operations of the Ellerine Holdings Limited (EHL) group are not material in the context of the ABIL group and these operations have been excluded from the scope of this report. There has been no change in the scope and boundary of this report relative to previous reports. There have been minor changes to the structure of the report, but all data remains consistent and comparable.

Although ABIL has communicated its intent to accelerate the disposal of the furniture retail business, the EHL group is included in this report. There have been no other significant changes in size, structure or ownership during the current reporting period other than through organic growth of operations. Investors should note that ABIL has announced a R5,5 billion rights issue, which will be concluded early in the 2014 financial year. The number of stores and branches opened and closed was at a level similar to previous years.

There have been restatements of financial information provided in earlier reports and these have been indicated in the relevant sections.



How to use and obtain our report

This integrated report forms part of, and should be read in conjunction with, a suite of reports available online at www.abil.co.za. The suite consists of the following:

Element	Print	Online
Full integrated report (including a summary of the governance, sustainability and risk reports), full remuneration report and annual financial statements	✓	✓
Governance report (full)	–	✓
Sustainability report (full)	–	✓
Risk report (full)	–	✓
Remuneration report (full)	–	✓
Annual financial statements	–	✓
Notice of annual general meeting	✓	✓

Frameworks and assurance

The following reporting principles and requirements were applied for this report:

- International Financial Reporting Standards (IFRS)
- King Report on Corporate Governance for South Africa (King III)
- Global Reporting Initiative's (GRI) sustainability reporting guidelines
- South African Companies Act, 71 of 2008, as amended
- JSE Listings Requirements

We have also studied the Consultation Draft of the International IR Framework (April 2013) in the compilation of the report. As recommended by the International Integrated Reporting Council (IIRC), we have considered the six capitals in our reporting for 2013.

Scope and boundary continued

The ABIL board and its subcommittees have reviewed the report and have satisfied themselves of the materiality, accuracy and balance of disclosures in this report. In addition, internal audit services were used to verify the accuracy of non-financial data in the sustainable development section. The following aspects were assured by external service providers:

Element	External assurance provider
Annual financial statements and related financial information	Deloitte & Touche
Broad-based Black Economic Empowerment scorecard	National Empowerment Rating Agency (NERA)
Sustainable development reporting alignment with AccountAbility's AA1000AS	Integrated Reporting and Assurance Services (IRAS)
Carbon disclosure report	Global Carbon Exchange

Approval of the integrated report

The board acknowledges its responsibility to ensure the integrity of this report. The directors confirm that they have collectively assessed the content of the integrated report and believe it addresses the material issues and is a fair representation of the integrated performance of the group. Therefore, the board has approved the 2013 integrated report for publication in December 2013.

Mutle Mogase
Chairman

Leon Kirkinis
Chief executive officer

saying “**yes**” is our goal

ABIL in perspective

CONTENTS

Group profile

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

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

ABIL reports on two business units, the Banking unit, consisting of the operations of African Bank and Stangen, and the Retail unit, consisting of the furniture retail and insurance activities.

R59 billion
advances book

2,7 million
credit customers

5 230
employees

514
outlets

African Bank

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

ehl
ellerine holdings limited

R4 billion
of furniture sales

7 844
employees

1 040
retail stores

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

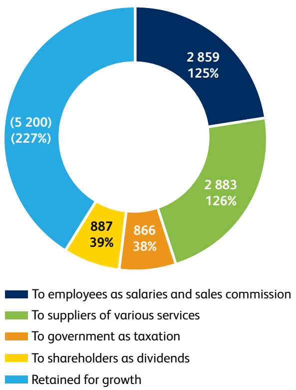
Dominance is defined as the largest advance base, customer base and distribution presence in our target market

Our aim
is to be the **dominant** provider of **risk-based financial services** to the **South African market**

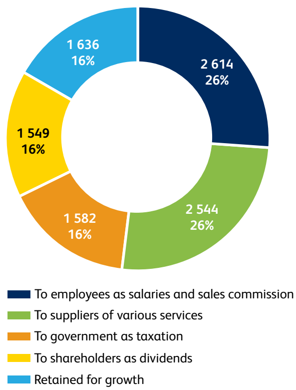
Risk-based financial services include credit, credit-led insurance and credit-led products to bridge cash flow mismatches

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

R2,3 billion of value added by ABIL in 2013 (Rm)



R9,9 billion of value added by ABIL in 2012 (Rm)

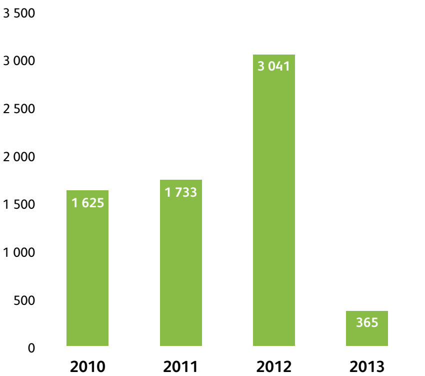


2013 performance overview

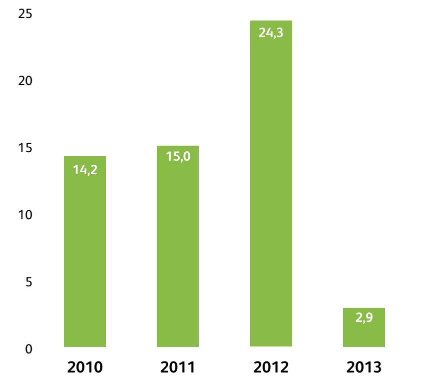
Financial perspective

- Return on equity of 2,9% (2012: 24,3%)
- Headline earnings declined by 88% to R365 million (2012: R3,0 billion)
- Headline earnings per share declined by 88% to 45,1 cents (2012: 378,2 cents)
- Gross advances grew by 11% to R59 billion (2012: R53 billion)
- Ordinary dividends per share declined by 85% to 30,0 cents (2012: 195 cents)
- Economic loss of R1,5 billion (2012: economic profit of R1,2 billion)

Headline earnings (Rm)



Return on equity (%)



Once-off impacts on results

- A change in the loan impairment provisioning methodology
- A change in accounting policy to account for insurance incurred but not reported claims (IBNR) claims on balance sheet
- Write-off of goodwill
- Changes to write-off policy
- Charge for long term share incentive scheme
- Increase in credit IBNR portfolio provision

Remedial actions to improve future profitability

- Lower offer rates, smaller loan sizes for higher-risk customers and increased risk-based pricing to improve yield/risk relationship
- Further enhancements to group collection activities
- Increasing provisions for credit losses
- Strengthening of the capital base
- Strategic review of Retail unit and decision to dispose of EHL

What sets us apart

The 2013 financial year has been particularly challenging for ABIL. Internal and investor expectations were not met and management and employees have had to review, adapt, modify and change certain practices and business processes. These changes have addressed shortcomings in the business model and have resulted in better quality new business, delivering returns more in line with shareholder expectations. This, together with the successful execution of the rights issue after year end and higher provisioning, have strengthened the operating and financial core of the business for the future. The changes resulted.

ABIL's core competencies in unsecured lending across credit underwriting, sales and collections have been strengthened to take into account the tougher economic environment. Consequential lessons learnt have been incorporated into the changes made. We believe that these will benefit the organisation as it navigates through the next few years on its journey to restoring shareholder returns.

Focus on core competence of unsecured lending

ABIL's focus on unsecured lending provides for a business model that avoids unnecessary complexity and allows for innovation through the continuous gathering and analysis of data. The unsecured lending customer is the focal point of ABIL's product offerings and marketing efforts, and this focus is not obscured by the demands of other activities conducted by other financial institutions and credit providers. ABIL assumes a level of credit risk and seeks to mitigate to the extent achievable, other financial risks, such as interest rate, foreign exchange, tax and liquidity risks. The experience and expertise of ABIL's management team in the business of unsecured lending strengthens ABIL's ability to focus on this segment of the credit market. The majority of this management team has been working for ABIL for a number of years and, accordingly, has experience in managing the business through the credit cycles.

Leading market position in unsecured lending

ABIL's market share is calculated by the group on the basis of the published South African Reserve Bank (SARB) BA 900 data of the unsecured bank-provided personal loans market and the credit card market in South Africa and was 30,8% and 9,3% respectively, as at 30 September 2013. ABIL has the scale and technical expertise to remain a pioneer in opening up new market segments within the unsecured lending market. Since 1998, ABIL has been one of the leaders in the development of the unsecured lending market in South Africa. In the 2013 financial year, more than 70% of the average monthly disbursements were to clients that had previously been ABIL customers. This illustrates the strong customer loyalty ABIL has.

National, diverse distribution network

ABIL has in excess of 1 500 distribution outlets covering rural and urban markets across all regions of South Africa. The network includes standalone African Bank branches, and African Bank branches and kiosks located within the Retail unit stores. This physical distribution network is further supplemented by electronic distribution through web-based internet sites and mobile phone applications which provide ABIL's customers with convenient 24/7 access.

What sets us apart continued

Growth industry

ABIL operates in the high-growth end of the South African consumer credit market where improvements to living standards have been most rapid. According to the South African Audience Research Foundation (SAARF), consumers moving up from the lowest income groups to middle income groups increased the percentage of the population in middle income groups (LSM groups 5 – 8) from 36,9% of the population in 2001 to 59,8% of the population in 2012. As living standards increase in lower-income groups and new customers enter into the credit market, the company believes that ABIL's experience, scale, existing product platform and understanding of the industry will allow us to profitably capitalise on this growth.

Advanced risk assessment, pricing and credit scoring processes

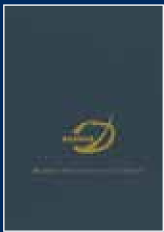
ABIL uses an advanced, proprietary credit scoring system which is applied to assess the creditworthiness of individual customers. This system has evolved over many years and facilitates credit decisions per customer as well as the expeditious/rapid transfer of loan funds to a customer's bank account within a short period of time. ABIL's centralised credit underwriting allows for consistent credit assessment and enables timely adjustments for changes in the economic and market environments. Our experience in credit scoring has also led to the implementation of scoring models in other aspects of the business, notably collections activities, which has led to substantial gains in efficiencies and targeted collections practices.

Cost and investment discipline

ABIL views the interplay between risk, cost efficiency and the weighted costs of capital as fundamental to its pricing strategy and ability to provide value to customers. In this regard, striving to manage and maintain its relatively low cost structure (measured as a percentage of total assets and total income) as compared to industry norms is a priority. ABIL focuses on cost discipline while continuing to invest appropriately in targeted areas for growth and efficiency.

Our history

1993
Formation of Theta Securities



1994
Formation of an investment trust with Hollard Holdings

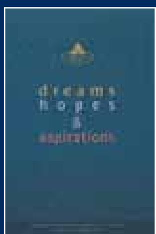
1995
Transmuted listing of Baobab Solid Growth Limited

1997
Baobab acquires controlling interest in Altfin, King and Unity. Name changed to Theta Group Limited

1993 2002

1998
Acquisition of African Bank Limited

The Boland book acquired for R1,7 billion



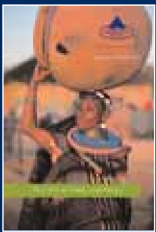
1999
Theta Group Limited name changed to African Bank Investments Limited

Acquisition of Stangen

2001
ABIL offers its first retail debit order product

Government payroll deductions closed to all credit providers

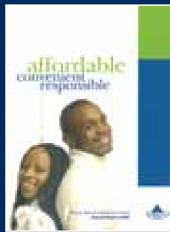
2002
Demise of Unifer and Saambou. ABIL acquires the R2,8 billion Saambou personal loans book



2003
ABIL achieves investment grade credit rating

2005
Eyomhlaba, ABIL's first R600 million black equity ownership programme, announced

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



2006
African Bank launches its first credit card

Advances of R7,7 billion

2003 → 2013

2008
ABIL acquires the EHL group for R9,1 billion

The credit card portfolio reaches R1 billion

ABIL launches its second BEE programme, Hlumisa

2010
Ellerines financial services integrated into African Bank

Credit card portfolio reaches R3 billion

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

2012
African Bank issues its first Swiss bond

One of the founding members, Gordon Schachat, retires

ABIL wins 2012 The Banker Bank of the Year Award

2013
Advances reach R59 billion

ABIL announces a R5,5 billion rights offer, underwritten by Goldman Sachs International and sub-underwritten by the International Finance Corporation (IFC), part of the World Bank Group

Our values

We pledge to live by these values

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

Empathy
This means understanding our customers and responding to them with sensitivity and compassion. Doing all that we can to meet the needs of all good faith customers. To do so we first need to deal with our people with openness, empathy and understanding in order to better support them in the fulfilment of their needs and their roles.

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

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

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

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

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

Our stakeholders

Our philosophy

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

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

Our engagement

Ongoing and meaningful engagement with stakeholders is a key aspect of our strategy execution process. Clear objectives are set for how and why we engage with each stakeholder.

Our stakeholders continued

Our people

Engagement method	Frequency	Stakeholders' issues
Comms Café (a bi-weekly electronic newsletter)	Bi-weekly	▶ More opportunities/ platforms for discussion
Screen savers and electronic pop-ups	Ongoing	▶ Recognise talent, create opportunities for internal advancement
Specialist emails from CEO	Ongoing	▶ Interdepartmental interaction
Employee, customer and brand roadshows	Annual – 23 for 2013	▶ More operational empowerment
Intranet	Ongoing	▶ Embrace social media
Employee engagement surveys	Bi-annual	▶ Fair and equitable treatment
Electronic magazines	Quarterly	▶ Being kept informed
Social media	Ongoing	▶ Best, better deal on employee benefits
Meetings	Ongoing	▶ Be there for me in tough times
Presentations	Ongoing	
Conferences and annual awards	Annual	
Workshops	Ad hoc	
African Bank radio	Ongoing	
Internal blog	Ongoing	
E-learning and leadership programmes	Ongoing	
Employee wellbeing programme	Ongoing	
Financial care centre	Ongoing	
Careers desk	Ongoing	
Special communications campaigns	Ad hoc	

Our customers

Engagement method	Frequency	Stakeholders' issues
Employee, customer and brand roadshows	Annual – 23 for 2013	▶ New products such as savings and funeral products, student loans, vehicle finance and home loans
Focus groups	Specific projects	▶ Changing our credit card benefits
Consumer Advocate's Office	Ongoing	▶ ATMs
Store and branch network	Ongoing	▶ SMME finance
Social media	Ongoing	▶ Loyalty rewards
Marketing and advertising activities	Ongoing	▶ Quicker approvals and query resolutions
Call centres	Average 16 million calls per annum	▶ Collections
Mobile applications	Ongoing	▶ Loan usage
Websites for each brand	Ongoing	
Mobi site	Ongoing	
Store visits	Ongoing	
Mystery shopping	Ongoing	
Money matters – customer education	Ongoing	
Branch service index	Annual	
inseconds campaign	Ongoing	
Telephonic interviews	Ad hoc	
Customer surveys	6 per annum	

Our capital providers

Engagement method	Frequency	Stakeholders' issues
Local and international investor roadshows and funding roadshows/conferences	10 in 2013 4 per annum	▶ Management credibility ▶ Regulatory development
Results presentations	Ongoing	▶ Asset quality
Meetings	4 per annum	▶ Funding/liquidity
Conference calls	Ad hoc	▶ The sustainability of the business model
Investor days	Ongoing	▶ Expected returns
SENS	Ongoing	
Website and social media	Ongoing	
E-mail notifications	Ongoing	
Webcasts	4 per annum	

Our stakeholders continued

Suppliers

Engagement method	Frequency	Stakeholders' issues
Meetings and group breakfast Workshops Supplier conferences Green procurement policy Scorecard	Ongoing Ad hoc Annually Ongoing In pilot stage	▶ Payments ▶ B-BBEE compliance ▶ Support ▶ Green efficiency ▶ Statutory compliance

Regulators

Engagement method	Frequency	Stakeholders' issues
Meetings Prudential visits Submissions Statutory reporting Industry-level engagements Board meetings	Ad hoc Quarterly Monthly and ongoing Ad hoc	▶ Prudential regulation ▶ State of the unsecured lending industry ▶ Level of credit life insurance pricing ▶ Affordability tests – reducing overindebtedness without curbing access to credit

Communities

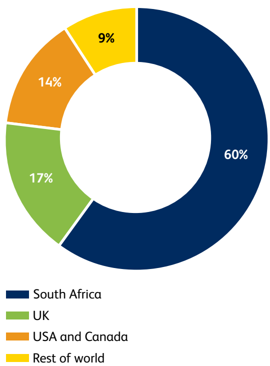
Engagement method	Frequency	Stakeholders' issues
Meetings Workshops Website CSI projects	Ongoing Ongoing Ongoing Ongoing	▶ Financial support ▶ Corporate responsibility


ehl

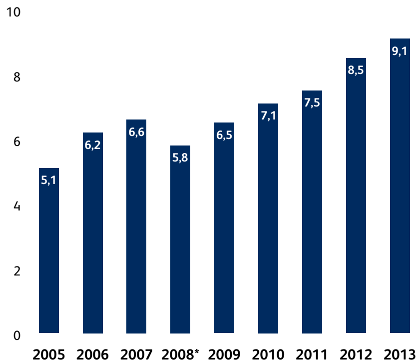
Shareholders' profile

Top shareholders/managers of ABIL shares as at 30 September 2013	Holding	%
Government Employees Pension Fund (PIC)	97 398 837	11,94
JP Morgan Asset Management	60 746 295	7,45
Stanlib Asset Management	60 548 391	7,42
Coronation Asset Management	49 556 092	6,07
Eyomhlaba Investment Holdings	48 501 465	5,95
Genesis Investment Management	43 060 357	5,28

ABIL shareholders by geography (%)



ABIL empowerment shareholding (%)

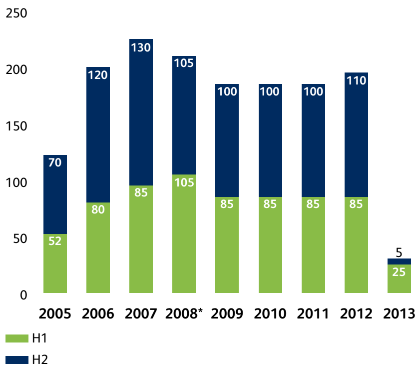


** Acquisition of Ellerine Holdings Limited.*

Shareholder spread	Shares	%
1 – 999	7 118	46,68
1 000 – 9 999	6 343	41,59
10 000 – 99 999	1 267	8,31
100 000 – more	522	3,42

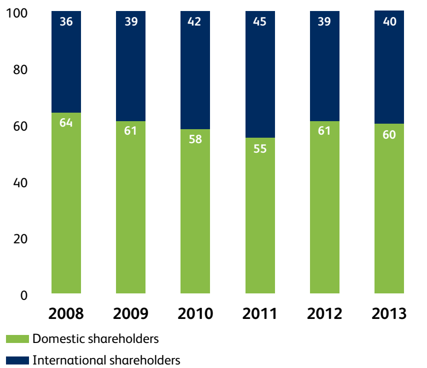
Shareholder split	Shares	%
Non-public	154 152 184	18,9
Directors	29 989 184	3,7
Development trust	1 060 606	0,1
Shares in excess of 10% of issued capital	123 102 534	15,1
Public	661 659 215	81,1

Ordinary dividends per share (cents)



* *Acquisition of Ellerine Holdings Limited.*

ABIL shareholder profile (%)



Five-year highlights

		2013	2012**	2011**
Key shareholder ratios				
(Loss)/profit for the year	R million	**(4 199)**	3 090	1 765
Basic (loss)/earnings attributable to ordinary shareholders	R million	**(4 287)**	3 029	1 733
Basic (loss)/earnings per share	cents	**(528,9)**	376,7	215,6
Headline earnings	R million	**365**	3 041	1 733
Headline earnings per share	cents	**45,1**	378,2	215,6
Number of ordinary shares in issue (net of treasury shares)	million	**815,8**	804,2	803,7
Weighted average number of ordinary shares in issue	million	**810,5**	804,0	803,7
Diluted number of ordinary shares in issue	million		n/a	803,8
Number of preference shares in issue	million	**13,5**	13,5	8
Economic profit/(loss)	R million	**(1 522)**	1 230	54
Net asset value per ordinary share	cents	**1 063**	1 634	1 468
Return on assets	%	**0,5**	5,3	*4,8*
Return on equity	%	**2,9**	24,3	15,0
Dividends per share				
Total ordinary dividends	cents	**30**	195	185
Dividend cover	times	**1,5**	1,8	1,2
Payout ratio	%	**67,1**	56,9	85,8
Total preference share dividends	cents	**630**	668	620
Performance ratios (per RoE model)* **				
Total income yield on average advances	%	**33,0**	34,1	*35,4*
Credit impairment charge to average advances	%	**15,5**	10,1	*10,1*
Cost-to-income ratio	%	**17,2**	18,2	*19,4*
Cost to average advances	%	**5,7**	6,2	6,9
Assets and credit quality ratios				
Gross advances	R million	**59 373**	52 897	40 002
Total non-performing loans (NPLs)	R million	**16 708**	15 221	11 035
Total impairment provisions	R million	**11 143**	10 210	7 536
NPLs to gross advances	%	**28,1**	28,8	27,6
Total impairment provisions to gross advances	%	**18,8**	19,3	18,8
NPL coverage	%	**63,6**	64,9	67,9
Bad debt write-offs to average gross advances	%	**14,6**	5,8	8,6
Capital ratios (Basel II capital)				
ABIL capital adequacy	%	**23,2**	*29,4*	*30,9*
African Bank capital adequacy	%	**24,0**	*29,0*	*30,4*

* *2009 information is presented as previously published.*

** *2010 – 2012 information is restated with exception of amounts shown in italic print which are presented as previously published.*

*** *2011, 2012 and 2013 – exclude non-South African financial services.*

2010**	2009*	
1 677	1 855	Profit attributable to ordinary and preference shareholders
1 641	1 803	Profit for the period-preference dividends paid in the period
204,2	224,3	Profit attributable to ordinary shareholders/weighted number of ordinary shares in issue
1 625	1 810	Basic earnings attributable to ordinary shareholders-goodwill impairments-capital profits or losses of non-recurring nature
202,2	225,2	Headline earnings/weighted average number of ordinary shares in issue
803,7	803,7	Number of ordinary shares issued-shares held by the group classified as treasury shares
803,7	803,7	Ordinary shares in issue + [(new ordinary shares issued – ordinary shares cancelled treasury shares) x (number of days in issue/365)]
803,8	803,8	Weighted number of ordinary shares in issue + dilution per IAS 33 *Earnings Per Share*
5	5	Number of preference shares issued/ordinary dividends per share for the period
(85)	(95)	Headline earnings-(estimated cost of equity % x average ordinary shareholders' equity)
1 437	1 515	Ordinary shareholders' equity/number of ordinary shares in issue (net of treasury shares)
5,1	5,7	Headline earnings/average total assets
14,2	15,2	Headline earnings/average shareholders' equity
185	185	Total ordinary dividends declared relating to the financial year
1,1	1,2	Headlines earnings per share (adjusted for BEE charge)/ordinary dividends per share for the period
91,5	82,2	Total ordinary divided per share/headline earnings per share
691	842	Total preference share dividends per share declared relating to the financial year
38,3	41,7	(Interest income + gross assurance income + non-interest income)/average gross advances
9,9	10,6	Charge for credit losses/average gross advances
23,0	22,7	Operating expenses/(interest income + gross assurance income + non-interest income)
8,8	9,6	Operating expenses/average gross advances
29 334	25 178	Total outstanding advances at the end of the period excluding the partially written-off book
9 103	8 250	Outstanding balance of loans that have more than three cumulative instalments in arrears excluding partially written-off book
6 540	5 661	Balance of all impairment provisions raised against advances
31,0	32,8	Non-performing loans/gross advances
22,3	22,5	Total impairment provisions/gross advances
71,6	68,6	Total impairment provisions/NPLs
9,9	7,6	Net bad debts written off/average gross advances
32,2	37,9	Group qualifying capital/group assets at risk
28,9	30,1	(Tier 1 capital + tier 2 capital)/risk-weighted assets as per Banks Act requirements

Business overview

CONTENTS

we are committed

The key macro risks and material issues for ABIL constitute those matters that have the potential to affect the group's ability to create value over the short, medium and long term. These issues have been reviewed as part of ABIL's annual risk and strategic review, which has incorporated an external review of the international banking industry trends, local regulations, risks and trends, as well as the extensive media coverage of ABIL's performance during the year. Stakeholder engagement issues and feedback elements were also consolidated into a list of prioritised issues, which were ranked according to their potential impact and likelihood of occurrence.

The summary below reflects the key macro risks and material issues for ABIL during 2013 and in the short to medium term going forward.

Key macro risks

1. The strategic positioning of the business for sustainable long term growth, both in terms of the structure of the business model and in terms of the customer value proposition and product offering.
2. Maintaining capital and funding levels which are appropriate for ABIL's growth aspirations.
3. Potential regulatory changes and ABIL's capacity to adopt and absorb the changes.
4. Economic environment and impact on ABIL in terms of a low growth, high delinquency outlook.
5. Ability of the retailer to grow despite credit curtailment.

Material issues for ABIL's long term sustainability and prosperity

How do we grow and what are our risks?	Why is it important?	Where to read more about this
1. Leading the positioning of responsible unsecured lending in the context of the broader industry	Unsecured lending is generally perceived negatively by market commentators as well as regulators, yet it has a significant role to play in increasing access to credit.	
2. Structuring our business for long term sustainable performance and delivering value to our customers	As the unsecured credit market evolves and competition intensifies, we need to expand our business model to continue meeting the needs of all stakeholders while staying true to our core beliefs and values. Our value proposition and product offering to customers must evolve to remain attractive and competitive.	Refer to strategic review and financial review
3. Growing our people	Our vision will only become a reality through the continued commitment, energy and passion of our people, and their engagement and development is therefore central to the execution of our vision.	Refer to the web-based sustainability report
4. Maintaining a sound capital and funding foundation	To safeguard operations and stakeholders' interests, and achieve growth objectives and shareholder returns, adequate capital and funding levels must be maintained.	Refer to strategic review, financial review and web-based risk report
5. Positioning the business for regulatory developments	To maintain proactive engagement with regulators and participate in regulatory debates to shape the industry and market. To adapt the business model early to ensure minimal disruption and ample opportunity.	Refer to strategic review
6. Maintaining good corporate citizenship	Our vision is to improve the lives of ordinary South Africans and help develop our country through our core activities. This also means being a responsible citizen in terms of the utilisation and protection of resources, be they human, natural or financial, and giving back to society in terms of our social responsibilities.	Refer to the web-based sustainability report

Operating context continued

Industry context: unsecured lending

The sustainability of the banking sector in South Africa relies to a great extent on its ability to attract and include almost 20% of the population which was regarded as unbanked in 2012. Whereas more than nine million people were introduced to the formal banking sector over the past 10 years, it remains a challenge and is critical to the country's continued development and growth.

One of the most important vehicles for inclusion has been the implementation of the National Credit Act (NCA) in 2007, which transformed the micro lending sector into an attractively structured new industry. The NCA offered protection and information mechanisms in favour of the customer, while creating a favourable regulatory framework for the industry and increasing the rate that a lender could charge on unsecured loans. It also formalised additional fees that significantly increased the overall returns earned on unsecured loans.

Unsecured loans or unsecured credit constitutes funds that are loaned without backing of assets or any other form of security and include traditional credit facilities such as overdrafts, credit cards and short term credit.

The initial response from the market to the new offering was slow and banks were particularly risk averse after the financial crisis in 2007/08. Growth began to accelerate in 2010 as consumer confidence improved and more banks started showing greater interest in entering the industry. Formal employment increased and the stringent borrowing criteria applied by the banks for secured lending channelled more customers from a wider spectrum towards unsecured lending, whereas the unsecured offering was initially aimed at the unbanked sector of the population which constituted mostly low-income earners. Over time, these loans have, been accessed by the full spread of income segments. With minimal growth in secured lending facilities such as mortgages and vehicle asset finance, many South Africans have been applying for unsecured lending.

As a result, unsecured lending has seen a significant increase over the years. According to the National Credit Regulator (NCR), the national unsecured gross debtors book has quadrupled from R40,9 billion in the fourth quarter of 2007 to R168,0 billion in the second quarter of 2013 (at a compounded annualised growth rate of 32%). Unsecured lending's share of all new consumer credit granted increased from approximately 7,8% in the fourth quarter of 2007 to approximately 20,1% in the second quarter of 2013 according to the Consumer Credit Market Report published by the NCR.

In a market characterised by slow economic growth, building inflationary pressure, low interest rates, increasing unemployment, higher levels of household debt, a low national savings rate and increased reliance on unsecured credit, the South African Reserve Bank raised concerns about the rate at which unsecured lending was rising. Parallel to this, there has been a continued deterioration in the quality of non-performing loans.

affordable, “**hassle-free**” credit

Growth in unsecured lending has slowed, and is likely to continue to slow in the short to medium term, but remains positive. Most lenders have become more conservative and cautious in an environment of high scrutiny by the media, investors and analysts. The increasing awareness of the need for responsible, transparent and ethical lending supports the objective of the NCA, which is to promote a fair, transparent, responsible and accessible credit market, while protecting consumers.

As living standards increase in lower income groups and new customers enter the credit market, the group believes that ABIL’s experience, scale, existing product platform and understanding and knowledge of the industry will allow it to capitalise on this growth.

Despite this prevailing negative sentiment around unsecured lending, ABIL believes that it has a significant role to play in developing the South African economy and improving people’s lives. The relatively low percentage of South African banked customers who currently have formal credit, the relatively low ratio proportion of unsecured lending to secured lending within the formal credit segment, and the recent trend for higher-income customers access unsecured lendings, all indicate that opportunity still exists to grow the unsecured credit market, albeit on a more responsible, measured and gradual basis than has been the case in recent years. The group believes that a specialised provider such as ABIL is well placed to take advantage of opportunities in this market, while operating within its risk parameters.

Strategy in 2013

ABIL's aim is to be the dominant provider of risk-based financial services to the South African market. The group seeks to expand within its chosen markets by continuing to grow its business to a larger scale and to offer a more competitive proposition to its customers.

In order to realise this scale, the group strives to build the largest advances book, client base and distribution presence within ABIL's target market through the provision of unsecured credit and various credit-led products.

ABIL's key strategic initiatives for 2013 and the progress achieved are set out below:

ABIL strategy summary

- Maintain a foundation of financial strength
- Improve the yield/risk relationship
- Focus on risk-based financial services
- Enhance collection activities
- Deliver value to customers
- Maintain superior human capital
- Focus on optimising business efficiency and lowering costs

Strategic initiative	Progress in 2013
Maintain a foundation of financial strength	ABIL continually focuses on strengthening its capital base, developing new and alternative funding strategies and geographically diversifying its funding sources, in order to achieve a balance between distributing attractive dividends and retaining earnings to support growth. ABIL maintains a conservative approach to capital and liquidity management, which includes maintaining appropriate capital adequacy levels, prudent liquidity management targeted to maintain a net positive liquidity gap across all periods, and a cautious dividend policy that conserves sufficient capital for growth. The success of this approach is reflected by the consistently available funding and overall reductions in the cost of funding over the past few financial years. The industry and ABIL-specific pressures experienced in 2013 severely tested the funding and capital model. While ABIL did repair the balance sheet with the rights offer after year end, the business model was resilient to the pressures of 2013. During 2013, ABIL announced a R5,5 billion rights issue to strengthen its capital base. The group also diversified its sources of funding and funder base further, as discussed in the capital management section of the web-based risk report and letter to stakeholders.

Strategic initiative	Progress in 2013
Improve the yield/risk relationship	The Banking unit's scoring models were adjusted to optimise the yield/risk relationship during financial year 2013 in order to enhance risk-adjusted returns. ABIL implemented a range of loan size and pricing changes to reduce exposure in less profitable market segments and shift the risk profile to lower risk. ABIL implemented a significantly improved proposition for low-risk customers, including new products and distribution options aimed at increasing the number and overall proportion of low-risk customers. At the same time, loan sizes were reduced for medium and higher-risk customers, which ABIL estimates will affect approximately 40% of customers. As a result of these changes, these customers will receive smaller loans, over shorter terms and with lower instalments. These changes have shown early positive results, with the total income yield stabilising and increasing from 32,8% in the first half of the 2013 financial year to 33,0% for the full year. This is the first time that the incoming yield has increased since the first price reductions were introduced in the 2005 financial year. The group expects that these changes will improve African Bank's return on assets in the medium term.
Focus on risk-based financial services	The board of directors believes that ABIL has implemented the majority of its envisaged strategic initiatives with regard to the EHL group. Over the past five years, ABIL has made extensive changes to the business model of the Retail unit to transform it into a profitable standalone business. The financial services business was transferred to African Bank and the price of credit was reduced substantially. In the past three years, more than 500 of the Retail unit's approximately 1 000 stores have been refurbished, resited or replaced. The stock profile and product quality have been improved, and a state-of-the-art regional retailing distribution and logistics infrastructure has been established. The business has also been substantially simplified and, as a result, efficiencies in the Retail unit have improved: the number of employees decreased and approximately 300 unprofitable stores were closed, resulting in an approximately 21% reduction of the total square metres. A standalone product-based retail business does not fit the current strategic requirements of ABIL's risk-based financial services business model. Therefore, ABIL has decided to dispose of the furniture retail business. ABIL is actively reviewing various options designed to accomplish this in an appropriate and timely manner that will optimise the strategic outcomes for both ABIL and EHL.

Strategy in 2013 continued

Strategic initiative	Progress in 2013
Enhance collection activities	ABIL continuously improves recoveries and enhances profitability through investment in and refinement of its collections activities. ABIL has enhanced its collections activities in a flexible and sustainable manner by dedicating a certain amount of African Bank branch and Retail unit store working hours to such activities. The call centre has been enlarged, bringing the total capacity to some 1 300 employees. As a result of such initiatives, collection ratios continue to improve from the lows experienced in December 2012 and January 2013. However, collection activities have not yet achieved the same levels as the 2012 financial year, primarily as a result of less early settlement of debt by other credit providers and because of pressure on the disposable income of consumers. Also see the "Collect with CARE" campaign on page 33 (in this section).
Deliver value to customers	ABIL seeks to deliver market-leading customer value and this objective largely drives ABIL's activities. ABIL has traditionally focused on providing existing customers with better value, while ensuring greater access to distribution points and convenience for existing and new customers. However, the acquisition of EHL, along with steadily increasing levels of competition in the unsecured credit market, the benefits of rapid technological innovation, and the evolution of the needs and expectations of ABIL's customers have prompted the group to further develop its existing strategy with respect to its customers. This process includes product innovation, substantially increasing distribution capabilities and channels. During 2013, ABIL brought new products to market and introduced improvements to its current product offering. These include, among others: ▶ Launching a Platinum card which provides a unique proposition of credit, savings and insurance facilities; ▶ Launching a funeral product; ▶ Enhancing the credit life product and claims processes to enable faster resolution of claims; ▶ Launching certain retail savings and investments products at the beginning of the financial year; ▶ Launching products such as "Change your term", which extends a customer's current loan term to reduce instalment sizes, and "Choose your break", which is designed to encourage and reward good repayment behaviour, offering a one-month payment break of the customer's choice on condition that loan repayments are up to date; ▶ Expanding the vehicle finance product; ▶ Launching a pilot programme that provides loans to non-South African customers; and ▶ Adding new store formats, furniture emporiums and stores-within-stores at the Retail unit that create attractive shopping environments for customers while optimising the footprint.

Strategic initiative	Progress in 2013
Maintain superior human capital	ABIL places value on engagement with its employees and believes that its long term growth and success is strongly dependent on its ability to develop and retain a dedicated and motivated workforce. ABIL's strategy in this regard is to build an organisation that will continue to innovate and create value for all its stakeholders by enabling its employees to understand and contribute fully to its vision.
Focus on optimising business efficiency and lowering costs	ABIL regards a low-cost structure as a key competitive strength and business imperative. ABIL's strong growth and increased distribution network gave rise to a substantial increase in expenses during the 2012 financial year. As a result, there was a renewed focus on improving efficiencies and returning ABIL to its historical track record of low annual cost growth. In 2013, operating expenses, excluding the LTIP hedge, increased by 7,6%, despite carrying R100 million in duplicate costs in the Retail unit and adding 300 additional employees to bolster the call centre. Cost to average advances reduced to 5,7% from 6,2% in the 2012 financial year.

The application of certain of the strategic objectives into the practical execution of the business is demonstrated through the "Collect with CARE" campaign launched in 2013.

"Collect with CARE" campaign

As pressure increases on the disposable income of households and the threat of retrenchment or reduced employment becomes a reality for many people, a growing number of South Africans are falling deeper into debt. This in turn, is increasing the risk of financial institutions that have advanced loans to financially distressed customers.

One of a number of measures ABIL has introduced to strengthen its ability to recover debt has been to improve the effectiveness of its collections capacity. In the past year, the group has increased the size of its call centre, automated its calling system and refined its ability to contact its customers, understand their circumstances and advise them on a plan to reduce and renegotiate their delinquent debts, or attend debt counselling. In May 2013, the collections platform, Tallyman, was redesigned to reflect a client level view of customer obligations to facilitate the customer centric approach that is being implemented. These actions are contributing to improved efficiency, which translates into better collection ratios.

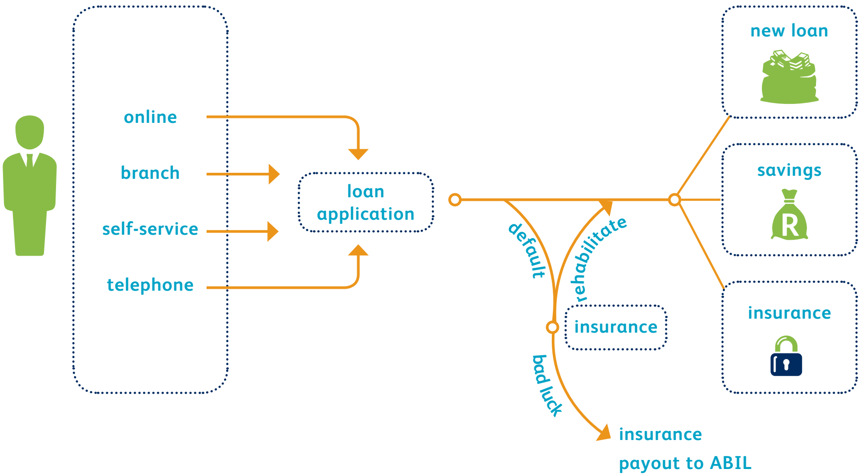
Underlying these measures is the recognition that compassion is an important element in the collection process – and good for business.

ABIL call centre employees work according to the mantra "Collect with CARE (Collect, Advise, Rehabilitate and Empathise)" and we have also introduced a "How Can We Help You?" campaign aimed at assisting customers. Among the supportive measures introduced this year have been:

- A dedicated campaign to assist customers to reschedule their loans;
- An insurance call centre to identify customers who qualify for credit life insurance;
- An increased focus on virtual and self-service channels in which customers can either select their choice of non-telephonic communication or make their own payment arrangements;

- The introduction of communication in Zulu and Xhosa in addition to English; and
- Customer service satisfaction ratings.

The collections process is a key element of the ABIL business model:



Customers who default on their loans are being rehabilitated through a restructuring of the loan by ensuring that the repayments are affordable having regard to the latest financial circumstance. Clients who successfully pay off their loans are targeted with retention offerings which include access to further loans, savings packages and insurance, for example to cover vehicle repairs and funerals.

Strategic direction in 2014 and beyond

ABIL has revisited its strategic direction as part of the review of the business during the latter part of 2013. The strategic initiatives discussed in the preceding section are relevant, but will be modified and supplemented where necessary in future.

ABIL business model and its place in the South African financial economy

ABIL's strategic initiatives for the short to medium term are depicted in the table below. Fundamental to these initiatives is reconfirming the group's mission of driving a developmental finance objective whereby we seek to improve people's lives through responsible credit. This dictates that the group focuses more on providing access to finance that assists people in growing their assets, be it human or physical, and less on consumptive finance.

Strategic direction 2014 and beyond

Confirming ABIL's developmental finance and financial services focus, providing access to credit and curbing excess

	Regulatory developments	Strengthen the core	Developing the "New"	Retail unit disposal
Twin Peaks	**Market conduct** Treating customers fairly Promoting access vs excess Affordability guidelines Credit life insurance	**Operational imperatives** Calibrate risk/reward to product offering Review the limited exposure to higher-risk groups Develop product offering for customer life cycle Size business appropriately on cost per loan basis Prioritise strategic choices	**New products** Expanding insurance products Savings and investments	Implement remaining strategic initiatives Finalise the disposal and strategic repositioning
Twin Peaks	**Prudential regulation** Basel III (Banks) SAM (Insurers)	**Growth in customers** Card, including Platinum card Prime loan Rehabilitation initiative	**New channels** Expanding virtual channels EHL – use as expanded channel Other retail channels Vehicle finance and dealerships	
	Customer rehabilitation Emolument attachment orders Debt counselling and voluntary mediation Credit life insurance			

Strategic direction in 2014 and beyond continued

Regulatory developments

Strong regulatory oversight, as well as regulatory developments that grow the industry and provide for a more mature and responsible market, are positive for credit providers and consumers alike. ABIL has a track record of adapting to regulatory changes in a way that creates a competitive advantage for the group. It achieves this through proactive engagement and active involvement in the regulatory development processes, and by adapting its business model and product offering at an early stage to ensure minimum disruption and ample opportunity when the regulation is implemented.

The group views the current regulatory developments positively and engages with regulators to ensure that the appropriate balance is struck between access to credit and appropriate returns to make this industry attractive to participants. ABIL is actively positioning its business to comply and take advantage of the opportunities that these developments will present.

Strengthen the core

A key focus for the next year is to fine-tune the group's existing customer value proposition and product offering, with specific emphasis on further balancing the risk/reward relationship and the developmental focus in its customer risk mix. The group's current risk mix is skewed towards low and medium-low-risk customers, yet it has to remain relevant to all customers. The challenge is to provide products and pricing to higher-risk customers that will make the proposition attractive to the customers and ABIL, while steering away from consumptive finance, which may be promoted through smaller loan sizes.

The group will also continue the development of the customer life cycle journey, designed to provide customers with the appropriate range of credit, savings and insurance products for each stage of their lives.

Growing the customer base has been a challenge and various initiatives have been implemented to widen the target market to higher LSM groups in addition to ABIL's core customers. These initiatives include the further development of the credit card product range, including the new Platinum card offering and the launch of the new Prime loan product, as well as new branches in upmarket shopping centres. Specialised rehabilitation efforts to prevent customers from defaulting and to assist them in returning to sustainable repayment trends should also support this process.

A number of initiatives were undertaken in the 2013 financial year, to review and enhance the rehabilitative role that the credit life products offered by the insurance entities in the group play in the overall value proposition. Credit life not only acts as collateralised security to the bank in managing its credit risk for certain events of default; it also acts as a mechanism to assist customers to re-enter the credit market should they default due to unexpected insurable events. In addition to death claims paid, more than 60 000 loan customers were assisted with retrenchment and disability claims, which serviced their full outstanding debt balances. Claims handling processes were reviewed to support customers in expeditious settlements, and awareness of the role that credit life plays was promoted through the use of radio campaigns in different African languages.

we keep investors **informed**

Developing the "New"

ABIL is fairly advanced in the development of a range of new products and expanding its available channels in order to provide attractive growth opportunities in the short to medium term. In response to the needs expressed by customers, two additional standalone insurance products were developed and deployed on a pilot basis during the past financial year. A personal accident and a unique death and disability product, specifically aimed at providing protection from violent crime events, were launched after surveys indicated the extent of vulnerability experienced by certain segments of our customer base. The funeral products designed for various customer segments have also been well received, with average monthly sales volumes reaching 12 000 in October/November 2013, bearing testimony to the value ascribed to the service proposition this offers.

ABIL will expand its credit proposition through a variety of alternative distribution outlets, including improved access through 200 vehicle dealerships, with the interface to extend to approximately 3 500 vehicle dealerships.

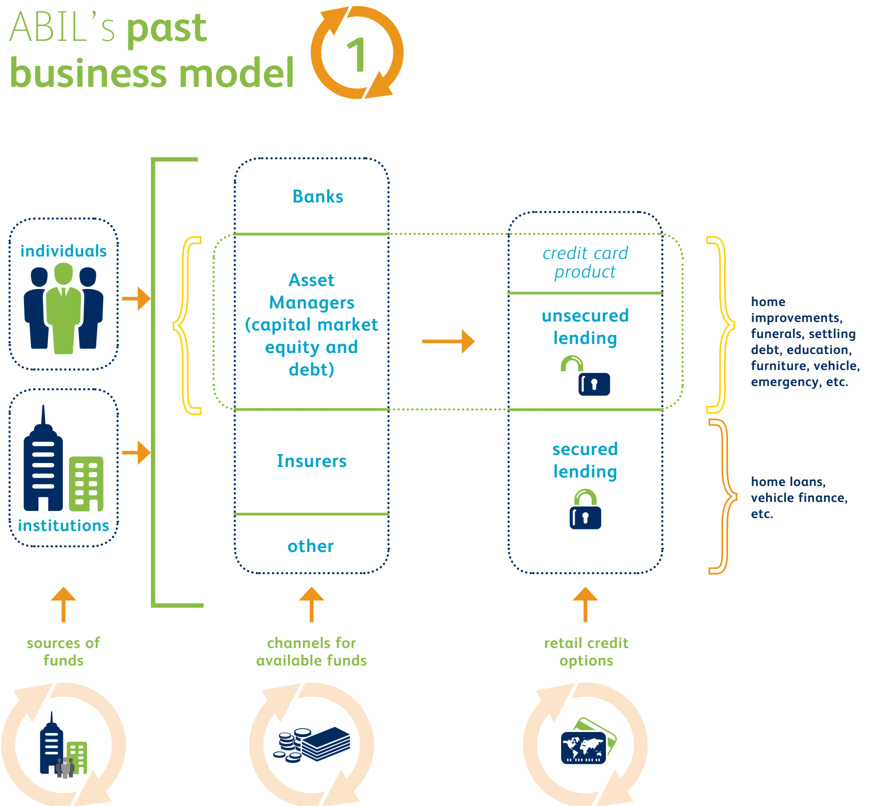
Disposal of the Retail unit

ABIL announced in August 2013 that, for strategic reasons, the group has decided to dispose of the furniture retail business. The group is actively reviewing various options designed to fulfil this in an appropriate and timely manner that will optimise the strategic outcomes for both ABIL and EHL.

The group has received various expressions of interest in all or part of the Retail unit in a variety of combinations, including and excluding the rights to provide credit within the Retail unit's stores. ABIL is in the process of reviewing alternatives and the competitive implications thereof and should be in a position to provide further clarity during the 2014 calendar year.

ABIL business model

The traditional role of banks, asset managers, insurers and others is to act as a safe haven for the savings and investments of individuals and institutions and to provide an appropriate risk-adjusted return to those savers, and in the case of insurers, protection against unforeseen events. They do this by investing those savings and investments in appropriate assets which, in the case of the retail lending market, can be broken down into unsecured lending, including personal loans, overdrafts and credit cards, and secured lending comprising home loans and vehicle finance. This is represented in the diagram below.

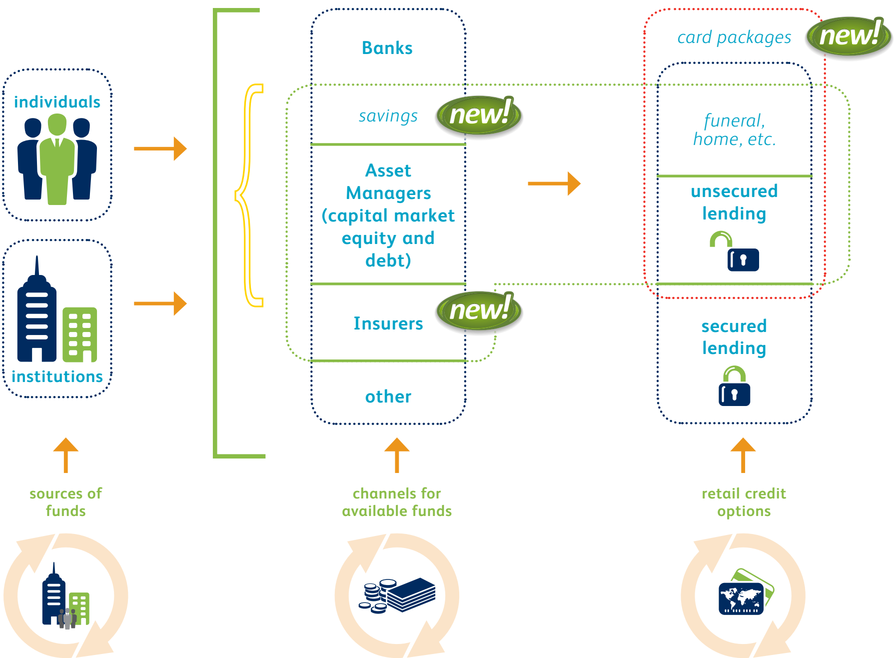


The traditional ABIL business model is based on channelling the savings and investments placed primarily with asset managers into providing unsecured loans for its customers, currently totalling 2,7 million.
This business model provides access to credit for a large part of the South African population that traditionally did not have such access. It has grown to a meaningful customer base for a sizeable organisation, with an advances book totalling almost R60 billion as at 30 September 2013. The primary use of unsecured loans by

ABIL's customer base has traditionally been and continues to be centred around home improvements, education and meeting unexpected needs, including medical and funeral expenses. In return, ABIL provides adequate and historically higher returns for those asset managers who invest in ABIL's equity and debt issues.

While ABIL at its core remains an unsecured lending business, it has now also branched out into insurance and deposit taking. The insurance offering outside of the traditional credit life insurance for unsecured lending is centred on funeral insurance and represents a move into the role typically provided to customers by traditional insurance houses. The move into deposit taking presents a move into the role typically provided by banks to retail customers. While both these product sets are additional offerings provided, they represent ABIL actively meeting the developing needs of its customer base. In the longer term, we believe in providing a viable, cost-effective alternative to traditional products that also provide for the investment needs of customers. This is represented in the diagram below:

ABIL's future business model 2



The NCA largely achieved its objectives of formalising the unsecured lending market, consolidating and attracting bigger players. This in turn challenged ABIL's core competitive position and offering.

Faced with commoditisation in its core business, ABIL strategically repositioned itself over the past three years in the following ways:

- Improved access;
- Transition from a sales to a service focus; and
- Transforming our product offering.

Improving access entailed supplementing ABIL's retail outlets from traditional concentrations around transport nodes and urban and semi-urban areas into malls, changing the look and feel to a more aspirational and quality perception, and moving from a purely physical proposition also include virtual access. To support and enable improved physical and virtual access, the group invested in our interface – training service employees and expanding operating hours.

ABIL has traditionally had a strong sales competency which proved successful in its target market. Moving from pure sales to a sales, service and knowledge-oriented group has required some restructuring and several change management and training interventions.

The ABIL product offering is being transformed from a credit-led offering to one that supports individuals in managing the events of their lives. From being loan-focused, the group now addresses a wider credit need, which includes insurance products. New products launched in the past 18 months include a range of retail savings products, funeral products and vehicle financing in order to complement its hour existing product offering. The Banking unit has also recently extended its banking distribution network to include a range of web-based and mobile distribution channels.

The ABIL business model has effectively moved from a niche player profile to a broader-spectrum competitor to traditional banks.

The traditional retail banking model is based on individuals or institutions depositing their savings in a bank, stock exchange/asset manager, insurance or other. In turn, these deposits fund loans and credit facilities, which customers use to acquire assets.

In the past ABIL has focused predominantly on supplying shorter term loans to customers for home improvements, vehicle repairs, emergencies, education, etc. These loans were based on a wholesale funding model, where the group sourced funds from a broad base of large financial institutions and asset managers in local and offshore markets. Funding ranges from bilateral agreements with domestic funders to well-established listed bond programmes in the domestic and international bond markets. In addition, African Bank enjoys significant relationships with global development finance institutions, which have provided unsecured subordinated funding.

Going forward, in addition to its predominantly wholesale-funded model, ABIL will also derive funding from savings and deposits derived from its retail bank offering.

ABIL and the six capitals

The six capitals form the basis of ABIL's ability to create value in the short, medium and long term and relate directly to the key elements of the group's strategy. The following table summarises the inputs and outputs per capital according to ABIL's business model.

The six capitals are:

- Financial capital
- Manufactured capital
- Intellectual capital
- Human capital
- Social and relationship capital
- Natural capital

Capitals	How does this relate to our material issues?	Where to read more
Financial capital		
▶ R5,5 billion rights offer announced ▶ *Pro forma* capital adequacy of 33,4% after the rights offer ▶ R55 billion in funding, 19% international ▶ Positive net liquidity gap across all periods As a banking institution, ABIL maintains a strong focus on capital adequacy and sufficient funding to deliver sustainable growth and safeguard the business through different points in the credit cycle.	▶ Positioning the business for regulatory developments ▶ Maintaining a sound capital and funding foundation ▶ Structuring our business for long term sustainable performance and delivering value to our customers	Refer to the capital management section in the web-based risk report, the funding section in the letter to stakeholders and the financial review
Manufactured capital		
▶ Over 1 500 banking and retail distribution points throughout South Africa ▶ 77 stores in neighbouring countries (including Botswana, Lesotho, Namibia, Swaziland and Zambia) ▶ African Bank also operates a 1 300-strong call centre These physical retail outlets and banks allow customers direct access to ABIL's products and services during extended operating hours. This substantial physical distribution network is further supplemented by electronic distribution through web-based internet sites and mobile phone applications which provide ABIL's customers with convenient 24/7 access.	▶ Structuring our business for long term sustainable performance and delivering value to our customers ▶ Positioning the business for regulatory developments	Refer to the strategic discussion in the Business Overview section for more information on ABIL's distribution strategies.

ABIL and the six capitals continued

Capitals	How does this relate to our material issues?	Where to read more
In the past three years, a significant number of the Banking unit's branches have been relocated to shopping malls and refurbished to provide an attractive environment for customers. In the Retail unit, more than 500 stores have been refurbished, resited or replaced. The stock profile and product quality have been improved, and a state-of-the-art regional retailing distribution and logistics infrastructure has been established to improve customer service and stock availability. African Bank's call centre is critical for customer acquisition, customer management and collections. The group views this capability as a key competitive advantage.		
Intellectual capital		
▶ Six EHL brands: Ellerines, Beares, Furniture City, Dial-a-Bed, Geen & Richards and Wetherlys ▶ African Bank is the leader in the unsecured lending market in South Africa. According to the SARB, ABIL's market share of the unsecured bank-provided personal loans market and the credit card market in South Africa as at 30 September 2013 was 30% and 9% respectively. The EHL group offers a range of furniture, appliances and soft furnishings through its six brands, each offering a selection of products specifically designed to suit the needs of the market segment that the particular brand targets. Product ranges are supplemented with selected imported products, which provide differentiation from competitors.	▶ Growing our people ▶ Structuring our business for long term sustainable performance and delivering value to our customers ▶ Positioning the business for regulatory developments	Refer to the web-based sustainability report

Capitals	How does this relate to our material issues?	Where to read more
ABIL's advanced, proprietary credit scoring system has evolved over many years and allows for rapid credit decisions and transfer of loan funds to a customer's bank account. Centralised credit underwriting allows for consistent credit assessment and enables timely adjustments for changes in the economic and market environments. Scoring models have been applied to many aspects of its business, notably its collections activities, which has led to substantial gains in efficiencies and in targeted collections practices.		
Human capital		
▶ ABIL employed 13 074 permanent employees (13 643 including contractors/temps) during 2013, of whom 40 % were in the Banking unit and 60 % in the Retail unit ▶ Skills spend of R28 million for 2013 ▶ Roadshows are held each year engaging with more than 5 000 African Bank employees, as well as smaller groups of customers ▶ Approximately 56 % of African Bank and 28 % of EHL employees are unionised ABIL's performance is dependent on the talents and efforts of its personnel as well as its ability to attract new employees. ABIL places value on engagement with its employees and believes that its long term growth and success is strongly dependent on its ability to develop and retain a dedicated and motivated workforce. Strong and increasing participation in bi-annual employee surveys demonstrates the commitment of ABIL's employees.	▶ Structuring our business for long term sustainable performance and delivering value to our customers ▶ Positioning the business for regulatory developments	Refer to the sustainability report on the ABIL website for further information on our human resources practices.

ABIL and the six capitals continued

Capitals	How does this relate to our material issues?	Where to read more
Likewise, in the EHL group, the BEYONDERS Campaign, which was designed to mobilise and energise the workforce, engaged with 277 employees in 2013. The roadshows provide an opportunity for the various executive teams to engage with ABIL employees in person. Recent employee initiatives include the launch of interest-free study loans, a financial planning tool, employee loans, credit cards, funeral coverage, balanced life and diversity workshops, and health risk assessments. The group also utilises a variety of social media platforms to engage with its employees, including Facebook, Twitter and various blogs. Promoting and maintaining a harmonious relationship with its employees and fostering good relations with its unions are core objectives of ABIL. The group believes that it maintains a constructive and effective working relationship with the trade unions that are represented within ABIL.		
Social and relationship capital		
▶ ABIL has been included in the JSE socially responsible investment (SRI) index for the past 10 years and was also included in the Dow Jones sustainability index (DJSI) during the past year ▶ ABIL's stakeholders include our people, customers, capital providers, suppliers, regulators and communities ▶ The Banking unit B-BBEE level is 3 and the Retail unit B-BBEE level is 4 The group recognises that it does not operate in a vacuum and is therefore cognisant of the environment within which it operates and its direct and indirect impact on its stakeholders, thereby informing how it conducts its business. The group strives to maintain proactive engagement with its relevant stakeholder groups to manage expectations and reputational risks, as well as align ABIL's objectives with those of its stakeholders.	▶ Leading the positioning of responsible unsecured lending in the context of the broader industry ▶ Structuring our business for long term sustainable performance and delivering value to our customers ▶ Maintaining good corporate citizenship ▶ Positioning the business for regulatory developments	For more information see stakeholder engagement in the strategic section and the social section of the sustainability report.

Capitals	How does this relate to our material issues?	Where to read more
Natural capital		
▶ ABIL is classified as a low to medium emitter of greenhouse gasses ▶ During 2013, it participated in the carbon disclosure project for the third year and has set reduction targets for energy, water, paper and general waste in all operations ▶ The group's carbon footprint for 2013 was 119 323 metric tonnes, with electricity usage being the highest contributor	▶ Structuring our business for long term sustainable performance and delivering value to our customers ▶ Maintaining good corporate citizenship	Please refer to the environmental section and the social section of the sustainability report on ABIL's website for more information on ABIL's efforts with regards to preserving the environment.

Accountability

CONTENTS

Financial statistics

Financial and operational statistics

as at and for the financial year ended 30 September 2013

		2013	Restated 2012
Selected shareholder statistics			
Headline earnings	R million	**365**	3 041
Headline earnings per share	cents	**45,1**	378,2
Number of ordinary shares in issue (net of treasury shares)	million	**815,8**	804,2
Weighted number of ordinary shares in issue	million	**810,5**	804,0
Number of preference shares in issue	million	**13,5**	13,5
Average ordinary shareholders' equity	R million	**12 581**	12 491
Segmental contribution to headline earnings			
Banking unit	R million	**654**	2 875
Retail unit	R million	**(284)**	249
Net asset value per ordinary share	cents	**1 063**	1 634
Tangible net asset value per ordinary share	cents	**863**	782
Economic returns			
ABIL			
Average total assets	R million	**69 463**	57 548
Return on equity	%	**2,9**	24,3
Return on tangible equity	%	**6,8**	50,0
Return on assets	%	**0,5**	5,3
Gearing	times	**5,5**	4,6
Economic (loss)/profit	R million	**(1 522)**	1 230
Banking unit			
Average total assets	R million	**65 310**	53 275
Average ordinary shareholders' equity	R million	**10 222**	10 020
Return on equity	%	**6,4**	28,7
Return on tangible equity	%	**9,5**	47,8
Return on assets	%	**1,0**	5,4
Retail unit			
Return on equity	%	**(10,1)**	9,2
Return on tangible equity	%	**(38,0)**	52,5
Return on sales	%	**(7,0)**	5,2
Dividends			
Dividends per ordinary share		**30**	195
Interim paid	cents	**25**	85
Final declared	cents	**5**	110
Dividend cover	times	**1,5**	1,8
Dividend payout ratio	%	**67,1**	56,9
Dividends per preference share	cents	**630**	668
Interim paid	cents	**322**	341
Final declared	cents	**308**	327

		2013	Restated 2012
Capital adequacy			
ABIL capital adequacy*			
Risk-weighted assets	R million	**47 819**	42 042
Total capital adequacy ratio (including unappropriated profit)	%	**23,2**	29,4
Tier 1	%	**15,1**	21,4
Tier 2	%	**8,1**	8,0
African Bank capital adequacy*			
Risk-weighted assets	R million	**46 533**	40 550
Total capital adequacy ratio (including unappropriated profits)	%	**24,0**	29,0
Tier 1	%	**15,7**	20,3
Tier 2	%	**8,3**	8,7
Operational statistics			
Banking unit			
Average gross advances	R million	**58 640**	47 662
Income yield	%	**33,0**	34,1
Cost-to-income ratio	%	**17,2**	18,2
Total risk charge	%	**18,2**	11,9
Credit impairment charge to average advances	%	**15,5**	10,1
Claims paid to average advances	%	**2,7**	1,8
Cost to average advances	%	**5,7**	6,2
Average interest-bearing liabilities	R million	**52 321**	41 000
Cost of funds	%	**8,6**	9,2
Distribution points		**514**	637
Number of employees		**5 230**	5 182
Retail unit			
Merchandise sales	R million	**4 034**	4 792
Merchandise cash sales	R million	**1 592**	1 788
Merchandise credit sales	R million	**2 442**	3 004
Non-furniture credit sales	R million	**2 722**	3 561
Credit merchandise sales % of total merchandise sales	%	**60,5**	62,7
(Decrease)/increase in comparable sales	%	**(12,4)**	4,7
Gross operating costs to sales	%	**82,4**	65,4
Gross margin	%	**43,9**	44,5
Operating margin	%	**(8,5)**	7,0
Stock turn	times	**2,9**	3,2
Number of stores		**1 040**	1 041
South Africa		**963**	964
Foreign		**77**	77
Retail trading area	1 000 m²	**640**	673
Number of employees		**7 950**	9 248
Merchandise sales/store	R 000	**3 879**	4 605
Merchandise sales/m^2	Rand	**6 104**	6 972
Merchandise sales/employee	R 000	**507**	518

* *Capital adequacy figures are not restated and are as reported in 2012.*

Board of directors

Directors of ABIL

Mutle Constantine Mogase (49)

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

Directorships: Non-executive chairman of African Bank Investments Limited and African Bank Limited. Non-executive director of Kwikspace Modular Buildings Proprietary Limited, ECI Africa Consulting Proprietary Limited, JP Morgan advisory board, Global Pact Trading 125 Proprietary Limited, Business Venture Investments No 1041 Proprietary Limited, Air Liquide Proprietary Limited advisory board, Fluxrab Investments No 192 Proprietary Limited, Fluxrab Investments No 200 (Proprietary) Limited and Fluxrab Investments No 72 Proprietary Limited. Executive chairman of Vantage Capital Group Proprietary Limited.

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

Leonidas (Leon) Kirkinis (54)

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

Directorships: Executive director of African Bank Investments Limited, African Bank Limited and executive chairman of Ellerine Holdings Limited. Executive director of UPbeatprops 167 Proprietary Limited, Helios Air Charters Proprietary Limited, Octavia Investments Proprietary Limited and Snowy Owl Properties 284 Proprietary Limited.

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

Antonio (Toni) Fourie (53)

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

Directorships: Executive director of African Bank Investments Limited and African Bank Limited. Chief executive officer of Ellerine Holdings Limited and executive director of other subsidiary companies.

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

Thamsanqa Mthunzi (Tami) Sokutu (50)

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

Directorships: Executive director of African Bank Investments Limited, African Bank Limited, Ellerine Holdings Limited and Alpha King Capital Limited. Non-executive director of Eyomhlaba. Chairman of Masake Proprietary Limited.

Tami is the executive director responsible for the ABIL group risk function covering both the African Bank and Ellerine Holdings Limited businesses. Before taking over responsibility for ABIL group risk, he was managing director of African Bank's retail business. Tami is currently on extended leave due to health reasons, although he remains a member of the board.

Nithiananthan (Nithia) Nalliah (54)

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

Directorships: Executive director of African Bank Investments Limited, African Bank Limited, Standard General Insurance Company Limited, ABIL companies, Stazione Properties Proprietary Limited, Highly Commended Investments 801 Proprietary Limited, Magnolia Ridge Properties 272 Proprietary Limited and Alpha King Capital Limited. Non-executive director of Eyomhlaba and Hlumisa.

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

Nicholas (Nic) Adams (54)

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

Directorships: Non-executive director of African Bank Investments Limited, African Bank Limited, MKP Management Holdings Proprietary Limited, Swanvest 203 Proprietary Limited, Findlay's Properties No 5 Proprietary Limited, Uplands College NPO and Uplands College Properties Proprietary Limited. Executive director of TukTuk Investments Proprietary Limited, Walter H Adams Kimberley Proprietary Limited, Portion 14 of portion 60 Buffelsfontein CC and Sailing Sometime CC.

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

Morris Mthombeni (39)

Position: Independent non-executive director
Qualifications: BProc, LLB, BJuris, MBA (Finance)
Appointed to the board: 16 September 2013

Directorships: Non-executive director of African Bank Investments Limited, African Bank Limited, Public Affairs Research (a non-profit organisation) and Vilakazi Street Kapital Proprietary Limited. Executive director of Inno-Phemba Investments Proprietary Limited and PEN (a non-profit organisation).

Morris has more than 21 years' experience in insurance-based financial services, including previously as CEO of Momentum Investments Limited. He has 15 years' experience at executive level and has served on the boards of a number of Momentum Investments Limited's subsidiaries. Morris is currently studying towards a doctorate in board leadership at the Gordon Institute of Business Science.

Board of directors continued

Robert John (Johnny) Symmonds (54)

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

Directorships: Non-executive director of African Bank Investments Limited, African Bank Limited, the ABIL Group insurance companies, PtyProps211 Proprietary Limited, Helm Underwriting Management Services (SA) Proprietary Limited, BrightRock Proprietary Limited, Leppard and Associates Proprietary Limited, Cape Finance Corporation Limited, HCV Underwriting Managers Proprietary Limited, Consort Technical Underwriting Managers Proprietary Limited, Cast Arena Trade and Invest 87 Proprietary Limited, Gatewin Holdings Limited, Phaphama Entrepreneurs Proprietary Limited, New Africa Holdings Proprietary Limited and Phaphama Investments Proprietary Limited. Executive director of LomHold Proprietary Limited and its subsidiaries.

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

Advocate Mojankunyane Florence (Mojanku) Gumbi (55)

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

Directorships: Non-executive director of African Bank Investments Limited, African Bank Limited, Standard General Insurance Company Limited, Relyant Life Assurance Company Limited, Relyant Insurance Company Limited and Customer Protection Insurance Company Limited. Executive director of Mojanku Gumbi Advisory Services Proprietary Limited.

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

Nomalizo Beryl (Ntombi) Langa-Royds (51)

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

Directorships: Non-executive director of African Bank Investments Limited, African Bank Limited, PPC Limited and Mpact Limited. Executive director of Faranani Investments Proprietary Limited and executive member of Nthake Consultants CC.

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

Jacobus Dorotheus Maria Gerardus (Jack) Koolen (53)

Dutch citizen with residence in South Africa since 1983

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

Directorships: Non-executive director of African Bank Investments Limited, African Bank Limited, Ellerine Holdings Limited and Retailcorp Brands South Africa Proprietary Limited. Executive director of Reflact Advisory Services Proprietary Limited.

Jack is an independent adviser. In addition, he has lectured, on a part-time basis, at the Gordon Institute of Business Studies in the areas of strategy, competitiveness and choice, integrating insights from competitive strategy, logic systems and behavioural economics.

Jack has held non-executive board positions in the private sector (Edcon: 2001 – 2007) and in NGOs (CityYear since inception until 2008; CIDA University advisory board from inception until 2007), and was a member of the SA Health Ministerial Advisory Committee on Financial Reform (2009). He has worked as an independent adviser since September 2008, closely associated with the Monitor Group in the Middle East, and regularly advises the government on a variety of issues. Mr Koolen has recently worked on issues of healthcare and education reform, crime reduction strategies, nutrition policy, and economic growth strategies. He has advised the Presidency (monitoring and evaluation), and the Gauteng Province on economic growth challenges, as well as working with several private sector clients (mining, healthcare, retail, banking, as well as the chairman of Eskom) in South Africa, in addition to serving customers based in Switzerland, the UK and Saudi Arabia.

focusing on **our people**

Letter to stakeholders (chairman and CEO)

The 2013 financial year was a particularly tough one for the ABIL group. Economic conditions in South Africa continued to be challenging, characterised by lower consumer confidence, pressure on disposable incomes higher levels of indebtedness and labour market unrest in certain industries. These conditions led to lower demand for credit products and durable merchandise, lower collections and concomitantly increasing arrears. The poor 2013 results were also the result of a portfolio of lower quality loans originated during 2012, prior to the implementation of substantial risk reduction measures discussed below.

In our third quarter trading update in August 2012, we highlighted the signs of emerging risks and accordingly took certain pre-emptive risk reduction measures. For example, approval rates decreased from 75% in June 2011 to 70% a year later. The events of the past year have proven that we did not act boldly enough at the time. As a result, we had to make a number of negative announcements, which has led to a perceived loss of credibility. However, the experiences of this year provided valuable lessons for the future.

Accordingly, ABIL management took further decisive and material steps during the latter part of 2013 to address the group's performance and future prospects, including:

- Improving the yield/risk relationship through lower offer rates, smaller loan sizes for higher-risk customers and more sophisticated risk-based pricing;
- Further enhancements to collection activities;
- Significantly increasing provisions for credit losses;
- Increasing the level of write-offs; and
- Material actions to strengthen the capital base through a R5,5 billion rights offer.

ABIL also undertook a review of the strategic fit of the Retail unit which resulted in the intention to dispose of EHL and strategically repositioning the business into a larger retail group.

The 2013 financial results were largely impacted by the trading conditions described above, as well as a range of exceptional non-cash items, including:

- A change in the loan impairment provisioning methodology;
- A change in accounting policy to account for the IBNR claims on the balance sheet;
- The write-off of goodwill;
- Changes to the write-off policy;
- A charge in the LTIP; and
- An increase in the credit IBNR portfolio provision.

The changes in the loan impairment provisioning methodology and accounting policy for the insurance IBNR resulted in a restatement of the comparative numbers. The opening retained earnings and statement of financial position for the 2012 financial year were restated.

The positive results stemming from the increase in the impairment provision coverage, the improvement in the remaining quality of impaired loans, the business changes already implemented, as well as the strategic focus for 2014 and beyond, will create a solid foundation for improved results in the future. The continuation of the economic headwinds in the short to medium term will provide challenges which we recognise and accommodate in setting our targets.

Incwadi eya kubababambiqhaza (usihlalo no-CEO)

Unyaka wezimali ka-2013 bekungunyaka onzima kakhulu eqenjini le-ABIL. Izimo zomnotho eNingizimu Afrika ziye zaqhubeka nokuba nezinnselele, abathengi bengenasiqiniseko ngawo, kunengcindezi ezimalini ezisetshenziswayo, izikweletu zisemazingeni aphezulu kukhona nokungazinzi ezimakethe zomsebenzi ezimbonini ezithize. Lezi zimo ziholela emfunekweni ephansi yemikhiqizo yezikweletu kanye nempahla yesikhathi eside, ukuqoqwa kwezikweletu okuphansi obekuhambisana nokukhula kwazo. Imiphumela emibi ka-2013 nayo yayiwumphumela wephothifoliyo yezimalimboleko eziseqophelweni eliphansi okwaqala ngonyaka ka-2012, ngaphambi kokuqalisa ukusebenza kwezindlela ezinkulu zokunciphisa izingozi okuxoxwe ngazo ngezansi.

Kukwata yethu yesithathu ekufakeni ulwazi olusha lokuhweba ngo-Agasti 2012, sagqamisa izimpawu zezingozi ezazifufusa nezindlela zokunciphisa ingozi ezithathiwe zokuvimbela ngenxa yalokhu. Amazinga emvume ehla esuka ku-75% ngoJuni 2011 aya ku-70% ngemuva konyaka. Izehlakalo zangonyaka odlule zikufakazele ukuthi asenzanga ngesibindi ngokwanele ngaleso sikhathi. Ngenxa yalokhu, kwadingeka ukuthi senze izimemezelo eziningana ezimbi osekuholele ekulahlekeni kokwethembeka okubonakalayo. Kodwa-ke, okwenzeke kulo nyaka kusinikeze izifundo ezibalulekile zesikhathi esizayo.

Ngakho-ke, abaphathi be-ABIL bathatha izinyathelo ezinye ezibalulekile nezinkulu engxenyeni yokuphela kuka-2013 ukubhekana nokusebenza kweqembu kanye nemibono yesikhathi esizayo kubandakanya:

- Ukwenza ngcono isivuno/ubudlelwano bengozi ngokusebenzisa amazinga anikezelwayo aphansi, ubukhulu bezimalimboleko obuncane kumakhasimende ayingozi kakhulu kanye namanani entengo ancike engozini ayindida kakhulu;
- Ukuqhubeka nokwenza ngcono imisebenzi yokuqoqa;
- Ukuhlinzekelwa okukhulu kakhulu kokulahleka kwezikweletu;
- Ukwandisa izinga lokwesulwa; kanye
- Izenzo ezinkulu zokuqinisa isizinda semali yokwenza umsebenzi ngomnikelo wamalungelo ka-R5,5 bhiliyoni.

I-ABIL futhi yenza ukubukezwa kokufaneleka kwesu leyunithi Yokuthengisa okwaholela enhlosweni yokuchithwa kwe-EHL kanye nokuhlela kabusha ibhizinisi ngokwesu yaba yiqembu lokuthengisa elikhulu.

Imiphumela yonyaka ka-2013 yayibe nomthelela kakhulu ovela ezimeni zokuhweba ezichazwe ngenhla kanjalo nanjengohlelo lwezinto ezingesiwona ukheshe ezahlukile kakhulu, kubandakanya:

- Uguquko endleleni yokuhlinzeka ngemalimboleko eyonakele;
- Uguquko enqubeni mgomo yokuphathwa kwamabhuku ezimali ukuze kuchazwe ngezicelo zomshuwalense Ezitholakele Kodwa azangabikwa esitatimendeni sezimali ezilahlekile nezizuziwe;
- Ezesuliwe ngesihle;
- Izinguquko kunqubomgomo yokwesula;
- Inhlawulo ku-LTIP; kanye
- Nokukhula ekuhlinzekeni kwephothifoliyo ye-IBNR yesikweletu.

Izinguquko ezisendleleni yokuhlinzeka ngezimalimboleko eyonakele kanye nenqubomgomo yamabhuku ezimali yomshuwalense we-IBNR okuholele ekuqinisekisweni kwezinombolo ezikahle. Izinzuzo ezigciniwe zokuvula kanye nesitatimende sesimo sezimali zonyaka wezimali ka-2012 ziphindiwe.

Imiphumela emihle ebangelwe wukukhula ekukhavweni kokuhlinzeka okonakele, ukwenza ngcono eqophelweni elisele lezimalimboleko ezonakele, nezinguquko zamabhizinisi esezivele zisetshenzisiwe kanjalo nokugxila kwesu lika-2014 nangale kwawo, kuzokwenza isisekelo esiqinile semiphumela eyenziwe ngcono esikhathini esizayo. Ukuqhubeka kwemimoya yomnotho esikhathini esifushane ukuya kwesiphakathi nendawo sizoba nezinselele esizibonayo nesizifakile ekubekeni izinhloso zethu.

Financial performance

Headline earnings and headline earnings per share decreased by 88% to R365 million (2012: R3,0 billion) and 45,1 cents (2012: 378,2 cents), respectively. A final ordinary dividend per share of 5 cents (2012: 110 cents) was declared, bringing the total ordinary dividend for the year to 30 cents per share (2012: 195 cents).

Emerging trends in better-quality business written in 2013

The group reduced its exposure to riskier customer segments during the course of the 2013 financial year and significantly curtailed its credit risk appetite further from June 2013, resulting in a reduction and re-pricing of new business in the riskier segments of its customer base. This has had an expected negative impact on the volume of new business written, with the relatively positive impact of the new business still being masked by the risk emergence of business written pre financial year 2013. The group believes that the steps taken to restore the yield/risk relationship will result in improved profitability of the business over the medium to longer term. The positive emerging risk trends are more fully discussed in detail in the asset quality section of the financial review section.

Rights offer

After a thorough review, ABIL's board of directors concluded that the group's capital base needed to be strengthened in anticipation of the new Basel III phased capital requirements and to provide additional confidence with regard to the various factors discussed above. The group further believes that it is appropriate to increase the capital buffer available by raising capital through the rights offer to absorb credit losses at the levels currently being experienced, and to strengthen proactively the capital base, all of which will provide ABIL with the financial flexibility it needs to support its business growth prospects.

The board of directors also approved an increase in the target capital ranges with effect from 1 January 2014, after the anticipated successful conclusion of the rights issue in December 2013.

	Target capital adequacy ranges	
%	**2013**	2014 onwards
Tier 1 capital ratio	**19 – 20**	>20
Total capital ratio	**26 – 27**	>30

The size of the rights issue was set at R5,5 billion and was completed during December 2013. This resulted in a *pro forma* tier 1 capital adequacy ratio of 25,5% as at 30 September 2013.

Disposal of the Retail unit

During the financial year, ABIL announced its decision to dispose of the furniture retail business. Various options are being actively reviewed for an optimal outcome for both ABIL and EHL. Further clarity and guidance will be provided during the course of 2014 in terms of the deal structure and timelines.

Incwadi eya kubabambiqhaza (usihlalo no-CEO)

Ukwenza kwezezimali

Izinzuzo ezibalulekile kanye nezinzuzo ezibalulekile ngesheya ngalinye ezehle ngo-88 % ukufika kuzigidi ezingu-R365 (2012: amabhiliyoni angu-R3,0) namasenti angu-45,1 (2012: amasenti angu-378,2). Kushiwo inhlukaniselwano yokugcina ejwayelekile yamasenti ama-5 ngesheya ngalinye (2012: amasenti ayi-110), yenza inhlukaniselwano isiyonke ejwayelekile onyakeni ukufika kumasenti angama-30 ngesheya ngalinye (2012: amasenti angu-195).

Izinto ezenzekayo ezivelayo ebhizinisini leqophelo eliphezulu elingcono zibhalwe ngonyaka ka-2013

Iqembu lehlise ukubekeka kwalo engozini ezingxenyeni zamakhasimende ayingozana ekuhambeni konyaka wezimali ka-2013 futhi nokuqhubeka nokunciphisa kakhulu ukulangazelela kwayo ingozi yesikweletu ukusuka ngoJuni 2013 kanye nokufaka amanani entengo amasha ebhizinisi elisha ezingxenyeni eziyizingozana zesizinda samakhasimende abo. Lokhu kube nomthelela omubi obulindelekile kuvolumu yamabhizinisi omusha obhaliwe, nomthelela omuhle okahle wamabhizinisi amasha avaliwe ngokuvela kwengozi yebhizinisi obhalwe ngaphambi konyaka wezimali ka-2013. Iqembu likholelwa wukuthi izinyathelo ezithathiwe zizobuyisela isivuno/ubudlelwano bengozi kuzoholela enzuzweni engcono yebhizinisi esikhathini esiphakathi nendawo ukuya kweside. Imikhuba yengozi emihle efufusayo kuxoxwa ngayo ngokuphelele kunikezwa imininingwane egcwele engxenyeni yeqophelo lempahla yengxenye yokubukezwa kwezezimali.

Umnikelo wamalungelo

Ngemuva kokubukezisiswa, ibhodi labaqondisi le-ABIL laphetha ngokuthi isizinda semali yeqembu yokwenza umsebenzi kudingeka iqiniswe kucatshangelwa izidingo zemali yokwenza umsebenzi enezigaba ezi-III zeSizinda esisha kanye nokuhlinzeka ukuzethemba okwengeziwe maqondana nezinto ezahlukene okuxoxwe ngazo ngenhla. Iqembu liyaqhubeka nokukholelwa ukuthi kufanele ukukhulisa isivimbo semali yokwenza umsebenzi ngokuyikhuphula ngokusebenzisa umnikelo wamalungelo ukuthi athathe ukulahlekelwa kuzikweletu emazingeni akhona njengamanje, nokuthi kuqiniswe ngokuhambela phambili isizinda semali yokwenza umsebenzi, konke okuzohlinzeka i-ABIL ngezinguquko kwezezimali ekudingayo ukweseka imibono yayo yokukhula.

Ibhodi yabaqondisi nayo ikuvumile ukukhula ezinhlelweni zemali yokwenza umsebenzi ezihlosiwe ezizoqala ukusebenza kusukela ngomhla ka-1 Januwari 2014, ngemuva kwesiphetho esiyimpumelelo esicatshangwayo sodaba lwamalungelo ngoDisemba 2013.

%	Izinhlelo zokwamukeleka kwemali yokwenza umsebenzi ohlosiwe 2013	2014 ukuya phambili
Izinga loku-1 lengxenye yemali yokwenza umsebenzi	**19 – 20**	>20
Ingxenye yemali yokwenza umsebenzi isiyonke	**26 – 27**	>30

Ubukhulu bodaba lwamalungelo lwabekwa kumabhiliyoni angu-R5,5 lwase luqedwa ngoDisemba 2013. Lokhu kwaholela ohlotsheni lwezinga 1 ingxenye yokwamukeleka kwemali yokwenza umsebenzi ebhaliwe ka-25,5 % ngomhla ka-30 Septhemba 2013.

Ukuchithwa kweyunithi Yokuthengisa

Ngesikhathi sonyaka wezimali, i-ABIL yamemezela isinqumo sayo sokuchitha ibhizinisi lokuthengisa ifenisha. Izinto okungakhethwa kuzo ezahlukene zihlolwa ngenkuthalo ukuze kutholakale umphumela omuhle kakhulu we-ABIL ne-EHL. Okunye ukucacisa kanye nokuqondiswa kuzohlinzekwa ekuhambeni kuka-2014 ngokohlelo lwesivumelwano kanye nohlelo lwezikhathi ezibekiwe.

Dividends and dividend cover

ABIL has declared a final gross cash dividend of 5 cents (4,25 cents net of dividend withholding tax) per ordinary share, resulting in a total dividend for the year ended 30 September 2013 of 30 cents per ordinary share (2012: 195 cents).

The rights offer shares that are applied for in the rights offer will not participate in the dividend.

Given the group's capital requirements and growth aspirations, the group is of the view that ABIL should be able to maintain a dividend cover of 2,5 to 3,5 times headline earnings over the forthcoming financial years.

The group has declared a final gross cash preference share dividend of 308 cents per share (261,80 cents net of dividend withholding tax), resulting in a total dividend for the year ended 30 September 2013 of 630 cents per share (2012: 668 cents).

Directorate

Samuel (Sam) Sithole, a non-executive director of ABIL and African Bank, resigned from the boards of both due to a potential conflict of interest that may arise between the businesses carried on within the ABIL group and the investments of Brait, of which he is also a director. Sam's resignation was effective 16 September 2013. The ABIL board expresses their gratitude to Sam for his contribution to the group since his appointment in 2009, and in particular for the role he played as chairman of the group audit committee and as a member of the directors' affairs committee.

On 16 September 2013, the board appointed Morris Mthombeni as an independent non-executive director of ABIL and African Bank. He has also been appointed to the group audit committee. Tami Sokutu, an executive director of ABIL and group chief risk officer, has been granted an extended period of leave due to health reasons.

The resignation of Sam and the appointment of Morris to the board have necessitated changes to the membership of the group audit committee, which now comprises Johnny Symmonds, Morris Mthombeni and Nicholas Adams as members. Johnny Symmonds has assumed interim chairmanship of the group audit committee, as his current non-ABIL related commitments do not allow him to assume this role permanently.

Appreciation

This has been an extraordinary year – most importantly, there have been many lessons learnt and significant steps taken to establish a sound footing from which the group can grow. Therefore, we would like to extend our heartfelt gratitude to our stakeholders for their support throughout this tough and challenging year. To the board and its members, thank you for your advice, support and commitment during this year. To our people, we thank each and every one of you who constitute this business. These are the people who every day demonstrate the belief of what this business is truly about. To the regulators, thank you for the candid and constructive engagements.

To our funders, your support has been true testament to the honest and frank relationships we enjoy. Our appreciation goes to our shareholders: thank you for your support, patience and belief in our vision and what we stand for. We look forward to more prosperous years under your patronage.

Lastly, we extend our appreciation to our customers, who are an integral part of this business. Thank you for your support and for affording us the opportunity to impact your lives positively as we constantly enhance our value proposition.

Incwadi eya kubabambiqhaza (usihlalo no-CEO)

Izinhlukaniselwano kanye nekhava yezinhlukaniselwano

I-ABIL imemezele inhlukaniselwano ephelele yokugcina yamasenti ama-5 (amasenti angu-4,25 imali esele enhlukaniselwaneni kubanjwa intela) ngesheya elijwayelekile ngalinye, okuholela enhlukaniselwaneni isiyonke yonyaka ophele ngomhla ka-30 Septhemba 2013 yamasenti angama-30 ngesheya elijwayelekile ngalinye (2012: amasenti angu-195).

Amasheya omnikelo wamalungelo asetshenzisiwe omnikelo wamalungelo angeke ahlanganyele enhlukaniselwaneni.

Uma ubheke izidingo zemali yokwenza umsebenzi yeqembu kanye nezifiso zokukhula, iqembu linomqondo wokuthi i-ABIL kufanele ikwazi ukugcina ikhava yenhlukaniselwano yezikhathi eziwu-2,5 ukuya ku-3,5 izinzuzo ezibalulekile eminyakeni yezimali ezayo.

Iqembu limemezele inhlukaniselwano yesheya elithandwayo likakheshe usuwonke wokugcina wamasenti awu-308 ngesheya ngalinye (amasenti angu-261,80 inhlukaniselwano esele kubanjwa intela), okuholela enhlukaniselwaneni isiyonke yonyaka ophele ngomhla ka-30 Septhemba 2013 yamasenti awu-630 ngesheya ngalinye (2012: amasenti angu-668).

Umnyango womqondisi

USamuel (Sam) Sithole, umqondisi ongeyiso isikhulu se-ABIL kanye ne-African Bank, wesulile kumabhodi e-ABIL kanye ne-African Bank ngenxa yokushayisana kothando obekungaba khona phakathi kwamabhizinisi enziwe eqenjini le-ABIL kanye nokutshalwa kwezimali zeBrait, nayo angumqondisi wayo. Ukwesula kuka-Sam kwaqala ukusebenza ngomhla ka-16 Septhemba 2013. Ibhodi le-ABIL liyabonga ku-Sam ngokufaka kwakhe isandla eqenjini kusukela ekuqokweni kwakhe ngonyaka ka-2009, ikakhulukazi ngeqhaza alibambile njengosihlalo wekomiti lokucwaninga amabhuku eqembu nanjengelungu lekomiti lezindaba zabaqondisi.

Ngomhla ka-16 Septhemba 2013, ibhodi yaqoka uMorris Mthombeni njengomqondisi ongeyiso isikhulu ozimele we-ABIL ne-African Bank. Naye futhi uqokelwe ekomitini leqembu lokucwaninga amabhuku. UTami Sokutu, umqondisi oyisikhulu we-ABIL noyisisebenzi wezingozi ophethe weqembu, unikwe isikhathi selivu eseluliwe ngenxa yezizathu zempilo.

Ukwesula kuka-Sam nokuqokelwa kuka-Morris kubhodi kwenze ukuthi kudingeke izinguquko ebulungwini bekomiti leqembu labacwaningi mabhuku, manje eselino-Johnny Symmonds noMorris Mthombeni kanye no-Nicholas Adams njengamalungu. U-Johnny Symmonds ube ngusihlalo wesikhashana wekomiti leqembu labacwaningimabhuku, njengoba izibopho zakhe ezingaphathelene ne-ABIL zanjengamanje zingamvumeli ukuthi athathe leli qhaza unomphelo.

Ukubonga

Lona bekuwunyaka ongajwayelekile kakhulu – okubaluleke kakhulu, wukuthi bewunezifundo ezifundiwe eziningi kanye nezinyathelo ezibalulekile ezithathiwe zokwenza isizinda esibonakalayo iqembu elingakhula lisuka kuso. Ngakho-ke, singathanda ukwedlulisa ukubonga kwethu kubabambiqhaza bethu ngokuseseka kwabo kulo nyaka wonke obunzima futhi unezinselele. Ibhodi kanye namalungu alo, bayabonga ngezeluleko zenu, ukubeseka kanye nokuzinikela kulo nyaka. Kubantu bethu, sibonga umuntu nomuntu owakhe leli bhizinisi. Yilaba bantu abakhombisa inkolelo yokuthi ngempela leli bhizinisi limayelana nani zonke izinsuku. Kubalawuli, siyabonga ngokubandakanyeka kwenu okubonakalayo nokwakhayo.

Kubaxhasi bethu abasixhase ngezimali, usizo lwenu lube wubufakazi beqiniso lokwethembeka kanye nobudlelwano obuvulelekile esibuthokozelayo. Ukubonga kwethu sikusa kubanikazi bamasheya: siyabonga ngokuseseka kwenu, ukubekezela nenkolelo embonweni wethu nakulokho esikholelwa yikho. Sibheke iminyaka eminingi enenqubekela phambili ngokwesekwa yini.

Okokugcina, sedlulisela ukubonga kwethu kumakhasimende ethu ayingxenye ebalulekile yaleli bhizinisi. Siyabonga ngokuseseka kwenu nokusinika ithuba lokuthi sibe nomthelela omuhle ezimpilweni zenu njengoba njalo sithuthukisa isiphakamiso sezinga lethu.

Looking ahead

The South African economy and operating environment in which both the credit and retail businesses operate continue to prove challenging, with little respite expected in the next financial year. ABIL's response to address these challenges is beginning to produce the desired results and should provide a solid foundation for a recovery into the latter part of the 2014 financial year and beyond, barring significant additional economic headwinds.

The actions taken by ABIL during the 2013 financial year are expected to position the group positively for sustainable returns over the medium to longer term. The revised conservative write-off criteria of impaired loans will provide the potential for higher recoveries in future years, while the higher capital adequacy, NPL coverage and enhanced asset quality ratios will strengthened the balance sheet. The completed rights offer will strengthen ABIL and African Bank's capital adequacy ratios and provide a foundation to grow advances, while comfortably meeting the changing regulatory requirements in terms of Basel III. The risk reduction measures implemented by the group and the increased focus on collections gradually have begun to improve collection success rates, and the growth in new NPLs has started to slow, which bodes well for an improvement in asset quality going forward.

ABIL remains confident of its ability to entrench its position as the market leader in a larger, more competitive and rapidly-changing unsecured credit market. The steps undertaken during the 2013 calendar year have positioned the group to take advantage of significant future opportunities.

The forecast financial information referred to above has not been reviewed and reported on by the company's auditors.

On behalf of the board

Mutle Mogase
Chairman

Leon Kirkinis
Chief executive officer

Incwadi eya kubabambiqhaza (usihlalo no-CEO)

Ukubheka phambili

Umnotho waseNingizimu Afrika kanye nendawo yokusebenzela lapho okusebenzela khona kokubili amabhizinisi ezikweletu nawokuthengisa kuqhubeka nokuba nezinselele, kanye nenselele encane elindelekile onyakeni wezimali olandelayo. Impendulo ye-ABIL yokubhekana nalezi zinselele iqala ukukhiqiza imiphumela efunekayo futhi kufanele ihlinzeke ngesisekelo esiqinile sokubuyisela esimeni engxenyeni yakamuva yonyaka wezimali ka-2014 nangale kwawo, ivimbela izivunguvungu zomnotho ezengezayo ezinkulu.

Izenzo ezithathwe yi-ABIL ngesikhathi sonyaka wezimali ka-2013 kulindeleke ukuthi ziqondise iqembu kahle ezimbuyiselweni eziqhubekayo esikhathini esiphakathi nendawo ukuya esikhathini eside. Izinto zokunquma ukwesulwa ngokwendabuko okubukeziwe kwezimalimboleko ezonakele kuzohlinzeka ukwenzeka kokubiyiselwa esimeni okuphezulu eminyakeni yesikhathi esizayo, lapho ukwamukeleka kwemali yokwenza umsebenzi ephezulu, ukukhavwa kwe-NPL kanye nezingxenye zeqophelo lokuthuthukisa impahla lizoqinisa isitatimende sezimali ezingenayo nezilahlekile. Umnikelo wamalungelo uzoqinisa izingxenye zokwamukeleka kwemali yokwenza umsebenzi ye-ABIL kanye ne-African Bank futhi kuhlinzeke isisekelo sokukhula lapho kuhlangabezana ngokukhululeka kahle nezidingo ezishintshayo ezilawulayo ngokwe-Basel III. Izindlela zokwehlisa ingozi ezasetshenziswa yiqembu kanye nokugxila okukhulile ngokuqoqwa kancane kuqalile ukwenza ngcono amazinga empumelelo yokuqoqa, kanye nokukhula kwama-NPL amasha sekuqalile ukuhamba kancane, okuhlala kahle ekwenziweni ngcono eqophelweni lempahla lapho kuqhutshekwa kuyiwa phambili.

I-ABIL isalokhu inokuzethemba ngesimo sayo njengomholi wemakethe ezimakethe yezikweletu ezingavikelekile, ezinkulu nezinokuncintisana okukhulu neshintsha ngesivinini. Izinyathelo ezithathwe ngonyaka wekhalenda ka-2013 zibeke iqembu ekutheni likwazi ukusebenzisa ngendlela amathuba abalulekile esikhathi esizayo.

Ulwazi lwezimali olucatshangelwayo olushiwo ngenhla alukabukezwa bese lubikwa ngabacwaningimabhuku benkampani.

Egameni lebhodi

Mutle Mogase
Usihlalo

Leon Kirkinis
Umsebenzi oyisikhulu esiphethe

Financial review

The 2013 financial results were negatively impacted by the trading conditions and exacerbated by non-cash items, including:

- A change in the loan impairment provisioning methodology;
- A change in accounting policy to account for the IBNR on balance sheet;
- The write-off of goodwill;
- Changes to the write-off policy;
- A charge for the long term share incentive programme (LTIP); and
- An increase in the credit IBNR portfolio provision.

The changes in the loan impairment provisioning methodology and accounting policy for the insurance IBNR resulted in a restatement of the comparative numbers. The opening retained earnings and statement of financial position for the 2012 financial year were restated.

Financial performance

Headline earnings and headline earnings per share decreased by 88 % to R365 million (2012: R3,0 billion) and 45,1 cents (2012: 378,2 cents) respectively. ABIL's return on equity decreased to 2,9 % for the 2013 financial year (2012: 24,3 %) and return on average tangible equity decreased to 6,8 % (2012: 50,0 %). The group generated an economic loss of R1,5 billion (2012: economic profit of R1,2 billion) after a charge for the cost of equity. A final ordinary dividend per share of 5 cents (2012: 110 cents) was declared, bringing the total ordinary dividend for the year to 30 cents per share (2012: 195 cents).

The Banking unit produced a return on equity of 6,4 % (2012: 28,7 %) and a return on average tangible equity of 9,5 % (2012: 47,8 %). Headline earnings reduced by 77 % to R654 million (2012: R2,9 billion) and generated an economic loss of R879 million (2012: economic profit R1,4 billion). The Bank was negatively impacted by lower disbursements and advances growth, as well as deteriorating asset quality, with commensurate higher credit impairment charges and credit life insurance claims. Positive features of the Banking unit's results included interest yields that have begun to stabilise, low operating cost growth (excluding the charge for the incentive scheme), cost of funds that continues to decline as a percentage of advances, and cash generated from operations which increased to R11,0 billion from R9,6 billion in the 2012 financial year.

The Retail unit generated a headline earnings loss of R284 million (2012: profit of R249 million). This result was driven by a significant decline in sales due to a difficult economic environment and exacerbated by a severe cutback in credit granted, while carrying approximately R100 million in once-off duplicate supply chain costs. The results were further impacted by a few accounting adjustments, as discussed in the overview section. Positive features of the results included low operating cost growth despite the duplicate costs, lower inventory levels and firm margins, notwithstanding the loss of volume-based discounts. The Retail unit generated a negative return on sales of 7,0 % (2012: positive 5,2 %), a negative return on equity of 10,1 % (2012: positive 9,2 %) and a negative return on average tangible equity of 38,0 % (2012: positive 52,5 %). The unit generated an economic loss of R706 million (2012: R141 million).

Emerging trends in better-quality business written in 2013

The group reduced its exposure to riskier customer segments during the course of the 2013 financial year and significantly curtailed its credit risk appetite from June 2013, resulting in a reduction and re-pricing of new business in the riskier segments of its customer base. This has had an expected negative impact on the volume of new business written, with the relatively positive impact of the new business still being masked by the risk emergence of business written before the 2013 financial year. The group believes that the steps taken to restore the yield/risk relationship will result in improved profitability of the business over the medium to longer term. The positive emerging risk trends are discussed more fully in the asset quality section of this report.

The impact of changes in provisioning methodology and accounting policies

The 2013 financial year results have been impacted by operational factors, non-recurring items and by provisioning methodology and accounting policy changes. These adjustments are discussed below, with a focus on their financial impact in 2013 and prior financial years.

LTIP hedge

The significant drop in the ABIL share price, from 3 305 cents as at 30 September 2012 to 1 670 cents as at 30 September 2013, brought about an additional fair value charge for the LTIP of R241 million before tax.

Change in the loan impairment provisioning methodology

Under the NCA, once a credit agreement goes into arrears, a credit provider is not allowed to raise interest, fees and charges in excess of the total outstanding amount of the balance determined at the time that the account goes into arrears. ABIL has applied this requirement consistently across all its portfolios when defaulting loans reach the *in duplum* threshold (threshold loans) and thus no interest, fees or charges have been raised on customer accounts on these threshold loans.

The group determines impairment provisions on a portfolio basis. Portfolios are disaggregated, based on loan groups and terms. For the purposes of calculating the impairment provisions against the non-performing and written-off loans, accounting standard IAS 39 does not have an alternative treatment for situations where no interest and fees are permitted to be charged and requires the application of the effective interest rate of the loans at origination for purposes of the present value calculation. ABIL historically applied a weighted average effective interest rate to calculate the present value of impaired loans, taking into consideration the fact that no interest or fees are being charged on threshold loans, which resulted in a lower discount rate. Given the growth in threshold loans over time, the difference between the two provisioning methodologies has cumulatively become significant for the 2013 financial year. The group has therefore changed its provisioning methodology to discount all forecast cash flows at the original effective interest rates. The change in methodology has also resulted in a restatement of the financial information for prior reporting periods.

Change to insurance claims IBNR accounting policy

The value of IBNR insurance claims is offset against future income in the calculation of the statutory reserve. The calculation of the statutory reserve gives rise to a negative reserve (i.e. asset), which is the value of future insurance premiums after an allowance for unexpired insurance risk. ABIL does not recognise this statutory reserve on its balance sheet.

IFRS do not require the IBNR on credit life claims to be shown as a liability on the balance sheet. However, ABIL believes that it is a fairer presentation of the financial position of the group if the IBNR on credit life claims is accounted for on the balance sheet and considers it conservative and prudent, having regard to the fact that these are monthly policies, to account for these claims on the balance sheet. Accordingly, the accounting policy has been amended and the financial information for prior reporting periods has been restated.

Change to the write-off policy of NPLs

ABIL has revised its write-off policy by making two changes in September 2013, in order to ensure that the NPLs carried into the 2014 financial year and beyond are of an improved quality. ABIL has reduced the criteria for write-off from 17 months of non-payment to 12 months of non-payment. This change has resulted in an additional write-off of R1,3 billion during the year. In addition, ABIL has identified certain NPLs within the furniture credit portfolios and accelerated the write-off of these NPLs, amounting to another R1,7 billion.

Additional credit IBNR raised

Over and above the increased impairment provisioning discussed above, ABIL has increased its credit IBNR reserves on its performing loans by an additional amount of R429 million, given the recent higher default rates and losses emanating from the portfolio, bringing the total credit IBNR to R585 million as at 30 September 2013. Of this amount, R129 million was raised during the year, with an additional R300 million raised at year end.

Impairment of goodwill

IAS 36 *Impairment of Assets* requires goodwill to be tested for impairment annually. IAS 36 further requires that this assessment be based on the business units' recoverable amount, considering the most recent cash flow projections and excluding any changes that management will implement in the future to improve the performance of the business units.

In accordance with IAS 36, the company has determined that the carrying value of the goodwill related to the Ellerines acquisition exceeds the recoverable amount, principally as a consequence of the lower profitability in the 2013 financial year. As a result, ABIL impaired goodwill of R4,0 billion in African Bank and R641 million in the Retail unit during this financial year.

The impairment of goodwill for accounting purposes has no impact on regulatory capital, as goodwill is deducted from core equity tier 1 capital.

For a reconciliation of the financial impact of these changes, please refer to the table below.

Income statement impact of exceptional adjustments in 2013 (post tax)

Adjustment R million	**September 2013**	September 2012	Prior years
LTIP hedge	**(174)**	–	–
Goodwill impairment	**(4 641)**	–	–
Change in the loan impairment provisioning methodology	**(608)**	255	(1 213)
Change to insurance IBNR accounting policy	**(190)**	32	(239)
Additional credit IBNR reserves raised	**(216)**		

Condensed consolidated segmental income statement

for the financial year ended 30 September 2013

R million	% change	30 September 2013 (Audited) ABIL group	Banking unit	Retail unit	Consolidation adjustments
Gross margin on retail business	(17)	1 770	–	1 770	–
Interest income on advances	21	11 964	11 859	105	–
Insurance income	27	4 862	4 426	436	–
Non-interest income	1	3 337	3 058	384	(105)
Income from operations	14	21 933	19 343	2 695	(105)
Credit impairment charge	89	(9 155)	(9 096)	(59)	
Credit life insurance claims	86	(1 609)	(1 585)	(1)	(23)
Risk-adjusted income from operations	(17)	11 169	8 662	2 635	(128)
Product insurance claims	(8)	(55)	–	(55)	–
Other interest and investment income	79	393	378	71	(56)
Interest expense	24	(4 564)	(4 509)	(105)	50
Operating costs	12	(6 124)	(3 331)	(2 929)	136
Indirect taxation: VAT	>100	(168)	(160)	–	(8)
Profit from operations	(85)	651	1 040	(383)	(6)
Capital items	>100	(4 641)	(4 000)	(39)	(602)
(Loss)/profit before taxation	(>100)	(3 990)	(2 960)	(422)	(608)
Direct taxation: STC	(100)	–	–	–	–
Direct taxation: Normal	(83)	(209)	(304)	94	1
(Loss)/profit for the year	(>100)	(4 199)	(3 264)	(328)	(607)
Reconciliation of headline earnings					
(Loss)/profit for the year (basic earnings)	(>100)	(4 199)	(3 264)	(328)	(607)
Preference shareholders	44	(88)	(88)	–	–
Basic (loss)/earnings attributable to ordinary shareholders	(>100)	(4 287)	(3 352)	(328)	(607)
Adjustment for non-headline items:	>100	4 652	4 006	44	602
Gross*	>100	4 656	4 008	46	602
Tax thereon	(20)	(4)	(2)	(2)	–
Headline earnings	(88)	365	654	(284)	(5)
Earnings per share (cents)					
Basic (loss)/earnings per share	(>100)	(528,9)			
Headline earnings per share	(88)	45,1			

Intersegment revenues included in income from operations are for the Retail unit only and amount to R105 million (2012: R206 million).

* *Non-headline items include impairment of goodwill R4 641 million and loss on disposal of property and equipment R15 million (2012: impairment of trademarks R6 million and loss on disposal of property and equipment R11 million).*

	30 September 2012 (Restated)		
ABIL group	Banking unit	Retail unit	Consolidation adjustments
2 134	–	2 134	–
9 919	9 823	96	–
3 828	3 401	427	–
3 291	3 018	479	(206)
19 172	16 242	3 136	(206)
(4 842)	(4 815)	(27)	–
(867)	(862)	6	(11)
13 463	10 565	3 115	(217)
(60)	–	(60)	–
219	324	74	(179)
(3 680)	(3 771)	(84)	175
(5 467)	(2 957)	(2 727)	217
(72)	(72)	–	–
4 403	4 089	318	(4)
(6)	–	(6)	–
4 397	4 089	312	(4)
(82)	(2)	–	(80)
(1 225)	(1 154)	(72)	1
3 090	2 933	240	(83)
3 090	2 933	240	(83)
(61)	(61)	–	–
3 029	2 872	240	(83)
12	3	9	–
17	4	13	–
(5)	(1)	(4)	–
3 041	2 875	249	(83)
376,7			
378,2			

Condensed consolidated segmental statement of financial position

as at 30 September 2013

R million	% change	30 September 2013 (Audited) ABIL group	Banking unit	Retail unit	Consolidation adjustments
Assets					
Short term deposits and cash	9	3 091	3 770	173	(852)
Statutory assets – bank and insurance	21	5 233	4 384	729	120
Inventories	(16)	731	–	731	–
Other assets	>100	3 894	3 676	181	37
Other assets – intragroup	–	–	651	121	(772)
Taxation	34	520	490	30	–
Net advances	13	50 276	49 910	366	–
Deferred tax asset	30	1 012	279	730	3
Property and equipment	12	1 077	453	636	(12)
Intangible assets	(8)	801	131	670	–
Goodwill	(85)	831	–	716	115
Total assets	8	67 466	63 744	5 083	(1 361)
Liabilities and equity					
Short term funding	75	8 034	7 513	521	–
Short term funding – intragroup	–	–	121	493	(614)
Other liabilities	20	2 996	1 506	1 529	(39)
Other liabilities – intragroup	–	–	33	49	(82)
Taxation	(68)	7	1	6	–
Deferred tax liability	(8)	199	11	188	–
Bonds and other long term funding	13	42 065	41 990	75	–
Subordinated bonds	14	4 361	4 361	–	–
Total liabilities	19	57 662	55 536	2 861	(735)
Ordinary shareholders' equity	(34)	8 674	7 078	2 222	(626)
Preference shareholders' equity	–	1 130	1 130	–	–
Total equity (capital and reserves)	(31)	9 804	8 208	2 222	(626)
Total liabilities and equity	8	67 466	63 744	5 083	(1 361)

30 September 2012 (Restated)			
ABIL group	Banking unit	Retail unit	Consolidation adjustments
2 845	3 169	92	(416)
4 322	3 533	605	184
871	–	871	–
1 535	1 196	411	(72)
–	526	184	(710)
389	362	27	–
44 683	44 800	363	(480)
780	325	453	2
965	491	480	(6)
870	136	734	–
5 472	4 000	755	717
62 732	58 538	4 975	(781)
4 587	4 111	476	–
–	184	459	(643)
2 488	1 292	1 748	(552)
–	66	–	(66)
21	–	15	6
216	7	216	(7)
37 320	37 300	20	–
3 831	3 831	–	–
48 463	46 791	2 934	(1 262)
13 139	10 617	2 041	481
1 130	1 130	–	–
14 269	11 747	2 041	481
62 732	58 538	4 975	(781)

Condensed consolidated statement of comprehensive income

for the financial year ended 30 September 2013

R million	% change	Audited 2013	Restated 2012
(Loss)/profit for the year	(>100)	**(4 199)**	3 090
Other comprehensive income comprising items that are or may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	(>100)	**9**	(4)
Movement in cash flow hedge reserve	(>100)	**609**	(200)
IFRS 2 reserve transactions (employee incentives)	(>100)	**3**	(7)
Total other comprehensive income/(loss) for the year, net of tax	(>100)	**621**	(211)
Total comprehensive (loss)/income for the year	(>100)	**(3 578)**	2 879

Condensed consolidated statement of changes in equity

for the financial year ended 30 September 2013

R million	Ordinary shares: Share capital and premium	Ordinary shares: Distri-butable reserves	Ordinary shares: Share-based payment reserve	Ordinary shares: Other	Ordinary shares: Ordinary share-holders' equity	Preference share capital and premium	Total
Balance at 30 September 2011 (Restated)	9 151	2 812	81	(249)	11 795	719	12 514
Dividends paid	–	(1 488)	–	–	(1 488)	(61)	(1 549)
Issue of preference shares	–	–	–	–	–	411	411
Profit on group employees acquiring ABIL share trust shares less dividend received	–	3	–	–	3	–	3
Shares purchased into the ABIL employee share trust less share issued to employees (cost)	–	–	–	11	11	–	11
Transfer from share-based payment reserve	–	77	(77)	–	–	–	–
Transfer to insurance contingency reserve	–	(4)	–	4	–	–	–
Total comprehensive income for the year	–	3 029	(7)	(204)	2 818	61	2 879
Balance at 30 September 2012 (Restated)	9 151	4 429	(3)	(438)	13 139	1 130	14 269
Dividends paid	**–**	**(799)**	**–**	**–**	**(799)**	**(88)**	**(887)**
Shares issued in terms of the scrip distribution	**289**	**(289)**	**–**	**–**	**–**	**–**	**–**
Transfer from insurance contingency reserve	**–**	**9**	**–**	**(9)**	**–**	**–**	**–**
Total comprehensive loss for the year	**–**	**(4 287)**	**3**	**618**	**(3 666)**	**88**	**(3 578)**
Balance at 30 September 2013 (Audited)	**9 440**	**(937)**	**–**	**171**	**8 674**	**1 130**	**9 804**

Note

Number of ordinary shares at 30 September 2013	Total	Weighted
Number of shares in issue at the beginning of the year	**804 175 200**	**804 175 200**
Shares issued during the year	**11 636 339**	**6 367 602**
	815 811 539	**810 542 802**

Condensed consolidated statement of cash flows

for the financial year ended 30 September 2013

R million	Audited 2013	Restated 2012
Cash generated from operations	11 024	9 558
Cash received from lending and insurance activities and cash reserves	24 377	21 917
Recoveries on advances previously written off	380	300
Cash paid to funders, employees, suppliers and insurance beneficiaries	(13 733)	(12 659)
Increase in gross advances	(14 913)	(16 274)
Decrease/(increase) in working capital	1 171	(327)
Decrease in inventories	140	14
Decrease/(increase) in other assets	695	(421)
Increase in other liabilities	336	80
Indirect and direct taxation paid	(1 011)	(1 486)
Cash inflow from equity accounted incentive transactions	–	14
Cash outflow from operating activities	(3 729)	(8 515)
Cash outflow from investing activities	(1 004)	(1 304)
Acquisition of property and equipment (to maintain operations)	(285)	(456)
Acquisition of intangible assets (to maintain operations)	(54)	(112)
Disposal of property and equipment	61	31
Other investing activities	(726)	(767)
Cash inflow from financing activities	5 164	10 487
Cash inflow from funding activities	6 051	11 625
Issue of preference shares	–	411
Preference shareholders' payments and transactions	(88)	(61)
Ordinary shareholders' payments and transactions	(799)	(1 488)
Increase in cash and cash equivalents	431	668
Cash and cash equivalents at the beginning of the year	4 035	3 367
Cash and cash equivalents at the end of the year	4 466	4 035
Made up as follows:		
Short term deposits and cash	3 091	2 845
Statutory cash reserves – insurance	1 375	1 190
	4 466	4 035

Financial returns

Return on equity

ABIL reported a lower return on equity of 2,9 % for the financial year 2013 (2012: 24,3 %). Return on tangible equity (i.e. excluding goodwill and intangible assets) was 6,8 %. Return on assets was 0,5 % and this was geared 5,5 times to achieve the reported RoE.

The Banking unit produced a return on assets of 1,0 % and a return on equity of 6,4 %, relative to 5,4 % and 28,7 % respectively in the prior year. Return on tangible assets was 1,1 % and return on tangible equity 9,5 %. The Retail unit's return on equity and tangible equity declined from a positive 9,2 % to a negative 10,1 % and from a positive 52,5 % to a negative 38,0 % for the 2012 and 2013 financial years, respectively.

Banking unit – return on assets and return on equity

for the financial year ended 30 September 2013 (ratios relative to average gross advances)		Basis point change	2013	Restated 2012
Average gross advances	R million		**58 640**	47 662
Average shareholders' equity	R million		**10 222**	10 020
Income ratios				
Interest income on advances	%	(39)	**20,2**	20,6
Assurance income	%	41	**7,5**	7,1
Non-interest income	%	(>100)	**5,2**	6,3
Total income yield	%	(>100)	**33,0**	34,1
Expense ratios				
Credit impairment charge	%	(>100)	**(15,5)**	(10,1)
Credit life insurance claims	%	(89)	**(2,7)**	(1,8)
Operating costs	%	52	**(5,7)**	(6,2)
Interest expense	%	17	**(7,2)**	(7,4)
Taxation	%	>100	**(0,8)**	(2,6)
Total charges	%	(>100)	**(31,9)**	(28,0)
Return on advances	%	(>100)	**1,1**	6,0
Average gross advances/average total assets	%	33	**89,8**	89,5
Return on assets (RoA)	%	(>100)	**1,0**	5,4
Gearing	times	>100	**6,4**	5,3
Return on equity (RoE)	%	(>100)	**6,4**	28,7

Retail unit – return on sales model

for the financial year ended 30 September 2013 (ratios relative to sales)		Basis point change	2013	Restated 2012
Merchandise sales	R million		**4 034**	4 792
Merchandise sales	%		**100,0**	100,0
Cost of sales	%	(> 100)	**(56,1)**	(55,5)
Gross margin	%	(60)	**43,9**	44,5
Interest, assurance and non-interest income	%	>100	**20,3**	16,6
Credit impairment charge	%	(90)	**(1,5)**	(0,6)
Claims paid and operating costs	%	(>100)	**(71,2)**	(53,5)
Operating margin	%	(>100)	**(8,5)**	7,0
Net return on sales	%	(>100)	**(7,0)**	5,2

Economic profit

The Banking unit produced an economic loss of R879 million and the Retail unit generated an economic loss of R706 million in the 2013 financial year. These, combined with group consolidation adjustments, resulted in the ABIL group generating an economic loss of R1,5 billion in the 2013 financial year, relative to an economic profit of R1,2 billion for the 2012 financial year.

The cost of equity is revised periodically in order to take into account the impact of changes in the cost of funding and the risk premium. For the 2013 financial year, the cost of equity increased to 15,0% from 14,5% in the 2012 financial year.

Economic profit model

	Average ordinary share-holders' equity Rm	Return on equity %	Cost of equity %	Headline earnings Rm	Charge for the cost of equity Rm	Economic profit/ (loss) Rm
for the financial year ended 30 September 2013						
Banking unit	**10 222**	**6,4**	**15,0**	**654**	**(1 533)**	**(879)**
Banking unit – excluding goodwill	**6 889**	**9,5**	**15,0**	**654**	**(1 033)**	**(379)**
Goodwill	**3 333**	**n/a**	**15,0**	**–**	**(500)**	**(500)**
Retail unit	**2 810**	**(10,1)**	**15,0**	**(284)**	**(421)**	**(706)**
Retail unit – excluding goodwill	**2 193**	**(13,0)**	**15,0**	**(284)**	**(329)**	**(614)**
Goodwill arising on acquisition – equity component	**617**	**n/a**	**15,0**	**–**	**(93)**	**(93)**
Consolidation adjustments	**(451)**	**–**	**15,0**	**(5)**	**68**	**63**
ABIL group	**12 581**	**2,9**	**15,0**	**365**	**(1 887)**	**(1 522)**
for the year ended 30 September 2012 (Restated)						
Banking unit	10 020	28,7	14,5	2 875	(1 453)	1 422
Banking unit – excluding goodwill	6 020	47,8	14,5	2 875	(873)	2 002
Goodwill	4 000	n/a	14,5	–	(580)	(580)
Retail unit	2 693	9,2	14,5	249	(390)	(141)
Retail unit – excluding goodwill	1 976	12,6	14,5	249	(287)	(38)
Goodwill arising on acquisition – equity component	717	n/a	14,5	–	(104)	(104)
STC and consolidation adjustments	(222)	–	14,5	(83)	32	(51)
ABIL group	12 491	24,3	14,5	3 041	(1 811)	1 230

Key loan book statistics (Banking unit only)

as at and for the financial year ended 30 September 2013

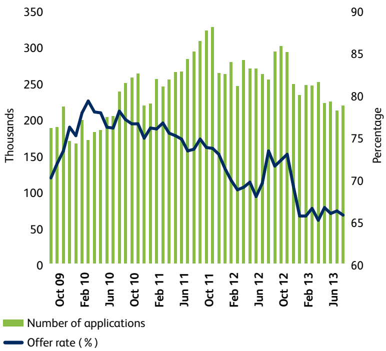
		% change	2013	Restated 2012
New business volumes				
Total disbursements	R million	(13)	**22 688**	25 978
Personal loans	R million	(11)	**16 525**	18 493
Furniture credit	R million	(15)	**3 855**	4 559
Credit cards	R million	(21)	**2 307**	2 925
Number of new loans and cards sold	000	(15)	**1 799**	2 116
Personal loans	000	(15)	**1 189**	1 391
Furniture credit	000	(12)	**370**	423
Credit cards	000	(21)	**240**	302
Offer rates**	%		**68**	71
Statistics based on current sales – African Bank only				
Average net loan size*	Rand	4	**13 182**	12 650
Average gross loan size	Rand	8	**19 429**	17 969
Average term	Months	6	**51**	48
Average instalment	Rand	12	**999**	894
Average card limit	Rand	(1)	**9 623**	9 693
Advances statistics				
Gross advances	R million	11	**58 960**	52 984
Traditional African Bank advances	R million	17	**43 494**	37 028
EHL furniture credit advances	R million	(15)	**7 315**	8 656
Credit card advances	R million	12	**8 151**	7 300
Average gross advances	R million	23	**58 640**	47 662
Partially written-off book	R million	(20)	**1 321**	1 659
Number of loans (excluding card)	000	1	**3 367**	3 320
Number of cards in issue	000	7	**959**	899
Customer statistics				
Number of customers	000	2	**2 668**	2 620
Number of new customers	000	(16)	**479**	573
Credit quality statistics				
NPLs to gross advances	%		**28,2**	28,6
NPL coverage	%		**66,6**	67,0

* *Net loan size includes external debt settlements but excludes any internal settlements.*

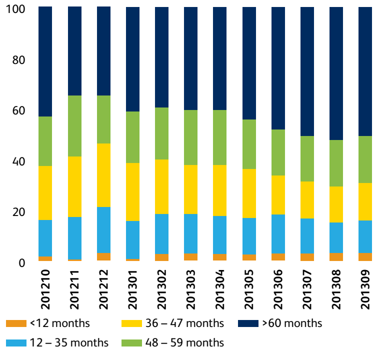
** *Average for 12 months.*

Disbursement features

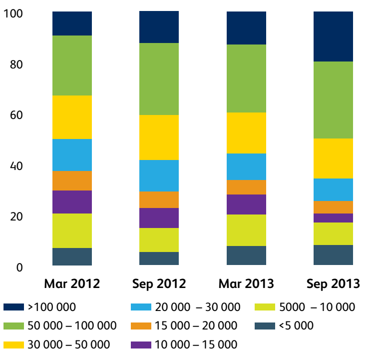
Loan applications



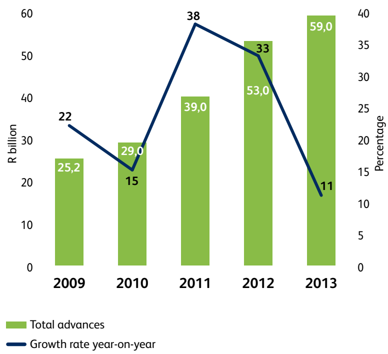
Monthly disbursements by term (%)



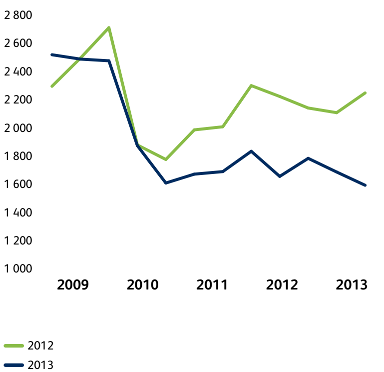
Loan size distribution (%)



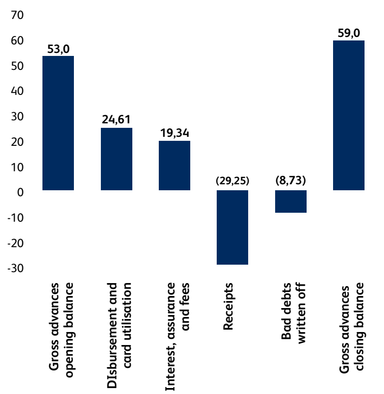
Advances growth



Disbursement growth curtailed (Rm)



Advances growth waterfall (Rbn)



New business volumes and advances

Disbursements decreased by 13% to R22,7 billion for the 2013 financial year from R26,0 billion for the comparative period. African Bank loan disbursements decreased by 11% and credit card disbursements decreased by 21%, while furniture-related credit disbursements declined by 15% over the comparative period.

Disbursements have been reducing across all channels during the 2013 financial year, both in terms of the number of loans and the value disbursed. The decline in disbursements was a function of both supply and demand dynamics. Customers' appetite for credit has moderated, as evidenced by the number of applications, which has reduced to 3,0 million, relative to 3,3 million applications for the 2012 financial year. Application rejections were higher, due to deterioration in affordability, as well as the significant further reductions in risk exposure that ABIL implemented during the year. This impacted negatively on offer rates, which declined to 68% from 71% for 2012.

The number of loans disbursed in the 2013 financial year decreased by 15% to 1,8 million from 2,1 million in the comparable period, while the average net loan size increased by 4% to R13 182 (R12 650 for the comparative period). The average term for the 2013 financial year was 51 months, relative to 48 months for the comparable period. The increase in average loan size and term was as a result of a change in the mix to lower-risk customers with larger loans. The Bank did not increase loan size and term in the 2013 financial year.

Gross advances growth in the Banking unit continued to slow, growing by 11% to R59,0 billion as at 30 September 2013, relative to R53,0 billion as at 30 September 2012. This growth was as a result of new business volumes and longer term loans replacing shorter term, maturing loans. Fewer early settlements by other credit providers also had a positive impact, but this was negated by a R10,2 billion write-off during the period. African Bank's loan advances grew by 17% to R43,5 billion, while the credit card book increased by 12% to R8,2 billion, through a combination of new cards issued and R1,9 billion in card utilisation. Furniture credit advances decreased by 15% to R7,3 billion, largely as a result of significant write-offs.

Financial activities in the Retail unit

Credit in the non-South African EHL stores is managed and accounted for separately from the African Bank advances book. Gross advances in the 77 non-South African furniture stores increased by 5% to R431 million as at 30 September 2013 (30 September 2012: R409 million).

Credit income

Credit income, consisting of interest income on advances, assurance income and non-interest income, was 19% higher than the previous financial year at R19,3 billion. The growth was fuelled by the average gross advances growth of 23%, as well as the slower reduction in yield than in previous years. The income yield reduced from 34,1% in the 2012 financial year to 33,0% in the 2013 financial year.

Interest income on advances

Interest income on advances increased by 21% to R11,9 billion for the 2013 financial year, from R9,8 billion in the comparative period. The interest yield in the form of gross interest income as a percentage of average gross advances decreased marginally to 20,2%, relative to 20,6% in the comparative period. The interest yield has begun to stabilise, supported by the price increases implemented during the 2012 financial year.

However, the price increases were, , negated in this period by the higher level of NPLs on which interest and fees were suspended, as well as by the influence of the final *in duplum* adjustment that was implemented in the 2013 financial year, on cards issued prior to 21 August 2011. The latter had a non-recurring R140 million or 24 basis points impact on the yield for the period.

Assurance income

Assurance income increased by 30% to R4,4 billion for the 2013 financial year, from R3,4 billion in the comparative period. Assurance income increased marginally as a percentage of average gross advances to 7,5% from 7,1% in the 2012 financial year, as a result of price increases in 2012.

Credit quality

Non-interest income

Non-interest or fee income remained stable at R3,0 billion for the 2013 financial year. Fee income as a percentage of average gross advances decreased to 5,2% from 6,3% in the previous financial year.

The negative impact on fee income was as a result of the change in sales mix, which was more favourable to consolidation loans on which initiation fees are not raised, as well as the suspension on the larger NPL portfolio.

Performing loans increased by 12% to R42,3 billion as at 30 September 2013, from R37,8 billion as at 30 September 2012, while NPLs increased by 10% to R16,6 billion as at 30 September 2013, from R15,2 billion as at 30 September 2012, registering lower growth than performing loans as a result of R10,2 billion in write-offs. NPLs represented 28,2% of gross advances, compared to 28,6% as at 30 September 2012.

Collections during the 2013 financial year were difficult, which put significant strain on the recovery of NPLs and maintaining adequate provision coverage for NPLs. A contributing factor was the reduced settlements from third parties, which were R1,1 billion lower than the previous year. The lower collections translated into a significantly higher credit impairment charge for the period. Collections activities to stem the flow of performing loans to NPLs have been increased by dedicating a certain amount of African Bank branch and furniture store working hours to collections. The call centre was bolstered, bringing the total capacity to approximately 1 300 agents. These initiatives should benefit collections over the short to medium term.

The credit impairment charge increased by 89% to R9,1 billion for the 2013 financial year, from R4,8 billion in the comparative period. The charge as a percentage of the average gross advances book increased to 15,5% from 10,1% in the comparable period. The higher credit impairment charge reflected the very difficult collections conditions, a change in provisioning policy which added R844 million in impairment provisions in the 2013 financial year and changes in the write-off policy, which resulted in an additional R3,0 billion in write-offs. As a result of credit quality trends and weak economic conditions, the portfolio provision was increased by R429 million to R585 million over the period. The change in the provisioning policy initially increased NPL coverage to 72%, while the additional write-offs after the change in the write-off policy reduced coverage to 66,6%. The coverage as published in the 2012 financial year was 60,0%, and was increased by the retrospective adjustments as a result of the changes discussed above to 67,0%.

Credit life insurance claims in the 2013 financial year increased by 84% to R1,6 billion, from R862 million for the comparative period. The increase in claims paid relates to an increase in retrospective claims as a result of the group adopting a broader definition of retrenchment, as well as raising an insurance IBNR provision of R241 million. Credit life claims paid as a percentage of average gross advances was 2,7% for the 2013 financial year, compared to 1,8% for the comparable period. The claims ratio is expected to increase gradually over the medium term as the group broadens the range of insurable events for its customers, which should reduce the credit impairment charge over time.

Total impairment provisions increased by 9% to R11,1 billion for the 2013 financial year, relative to R10,2 billion for the comparative period.

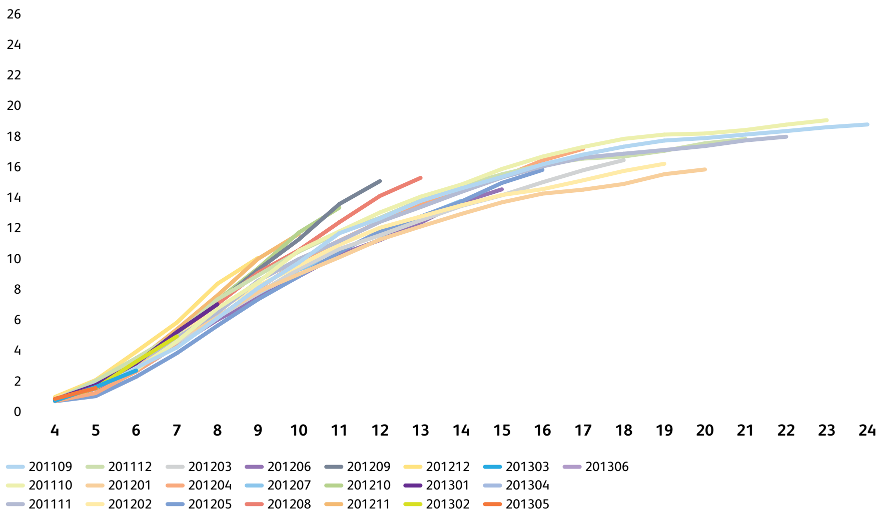
Gross bad debts written off for the 2013 financial year were R10,2 billion (2012: R5,0 billion), a function of the higher advances base, deteriorating collections performance and changes to the write-off policy. The combination of an R822 million reduction in the written-off portfolio, as a result of the change in the impairment provisioning methodology and the increase in write-offs on which no extra valuation is recognised, resulted in the written-off portfolio being valued at R1,3 billion or 6,3 cents in the rand as at 30 September 2013, versus R1,7 billion or 13,7 cents as at 30 September 2012.

Credit quality in the furniture book deteriorated significantly during the year. The credit impairment charge in this portfolio increased from 18,5% of the book to 31,8%. As a result, coverage in this book was increased from 58,9% in 2012 (64,0% restated) to 75,2%, notwithstanding R3,6 billion of write-offs in this book. This has improved substantially the quality of the remaining furniture credit book.

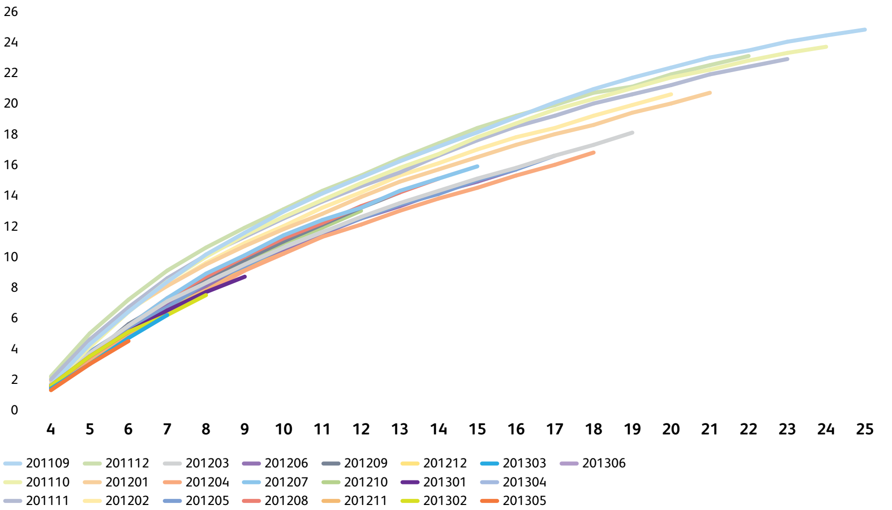
Segmental credit quality

		12 months to September 2013			12 months to September 2012		
		Personal loans	**Credit card**	**Furniture credit**	Personal loans	Credit card	Furniture credit
Disbursements	R million	**16 525**	**2 307**	**3 855**	18 493	2 925	4 559
Advances	R million	**43 494**	**8 151**	**7 315**	37 028	7 300	8 656
NPL %	%	**29,9**	**21,9**	**25,0**	29,2	19,6	33,5
NPL coverage %	%	**66,4**	**59,5**	**75,2**	69,3	56,1	64,0
Bad debt charge	%	**12,3**	**13,8**	**31,8**	7,1	14,8	18,5

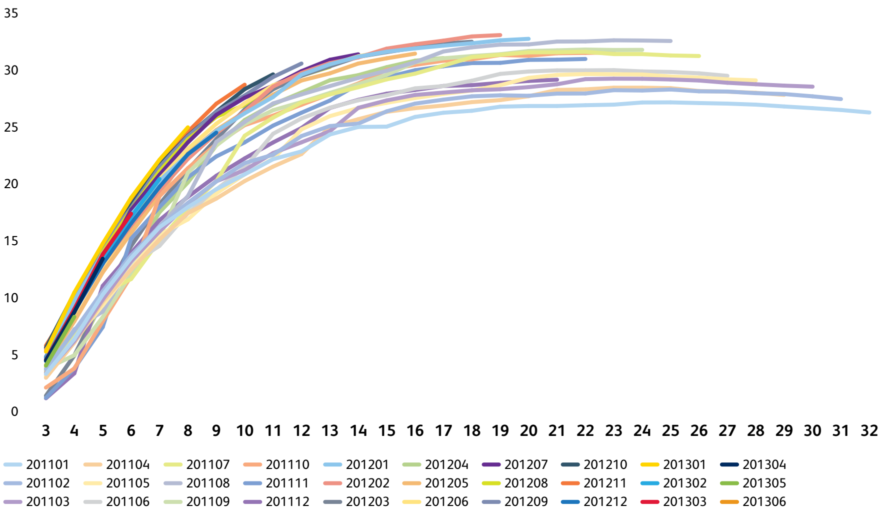
Vintage graph – African Bank (More than three cumulative missed instalments)



Vintage graph – Credit card (More than three cumulative missed instalments)



Vintage graph – Furniture credit (More than three cumulative missed instalments)



Banking unit credit quality analysis
as at 30 September 2013

R million	2013	Restated 2012	As published 2012
Breakdown of gross advances			
Performing loans	**42 338**	37 824	37 824
Non-performing loans (NPLs)	**16 622**	15 160	15 160
Gross advances	**58 960**	52 984	52 984
Partially written-off book	**1 321**	1 659	2 143
Deferred administration fees	**195**	(18)	(18)
Gross advances including the written-off book	**60 476**	54 625	55 109
Breakdown of impairment provisions and credit life reserves			
Impairment provisions	**10 566**	9 825	8 979
Balance at the beginning of the period	**9 825**	7 453	6 643
Impairment provisions raised	**9 470**	5 103	5 458
Bad debts written off (gross)	**(10 229)**	(4 984)	(4 984)
Bad debts rehabilitated	**1 500**	2 253	1 862
Credit life reserves	**512**	339	112
Impairment provisions and credit life reserves	**11 078**	10 164	9 091
Income statement charges			
Credit impairment charge	**9 096**	4 815	5 170
Impairment provisions raised	**9 470**	5 103	5 458
Bad debts recovered	**(374)**	(288)	(288)
Credit life insurance claims	**1 585**	862	918
Ratios			
NPLs as a % of gross advances	**28,2**	28,6	28,6
Impairment provisions and credit life reserves as a % of NPLs (NPL coverage)	**66,6**	67,0	60,0
Impairment provisions as a % of NPLs	**63,6**	64,8	59,2
Credit life reserves as a % of NPLs	**3,1**	2,2	0,7
Impairment provisions as a % of gross advances	**18,8**	19,2	17,2
Total risk charge as a % of gross advances	**18,2**	11,9	12,8
Credit impairment charge	**15,5**	10,1	10,8
Credit life insurance claims as a % of average advances	**2,7**	1,8	1,9
Net bad debts written off as a % of average gross advances	**14,9**	5,7	6,6
Gross bad debts written off as a % of average gross advances	**17,4**	10,5	10,5
Bad debts rehabilitated as a % of average gross advances	**(2,6)**	(4,7)	(3,9)
Written-off valuation (cents in the rand)	**6,3c**	13,7c	17,6c

Operating costs

Operating costs of the Banking unit increased by 13% to R3,3 billion for the 2013 financial year. The increase was mainly attributable to the Banking unit's R205 million extraordinary FR charge as a result of the long term incentive scheme, caused by the significant drop in the share price in the 2013 financial year. Excluding the charge, the Banking unit operating expenses increased by 6% for the year.

Banking unit operating costs

for the financial year ended 30 September 2013 R million	% change	2013	2012
Employee costs	12	**1 240**	1 109
Employee costs – long term incentive charge	>100	**292**	79
Value share	(15)	**537**	633
Bank charges	7	**280**	262
Property and lease expenses	17	**155**	133
Depreciation on property and equipment	10	**110**	100
Amortisation of intangible assets	75	**42**	24
Other expenses	41	**188**	133
Communication costs	(4)	**117**	122
Direct collection costs	(6)	**87**	93
Information technology costs	14	**65**	57
Advertising and marketing costs	49	**64**	43
Printing, stationery and courier costs	(15)	**58**	68
Subtotal	13	**3 235**	2 856
Card transaction costs*	(5)	**96**	101
Total operating cost	13	**3 331**	2 957

* *Card transaction costs are recovered from customers, with the recovery shown in other income*

Merchandise sales

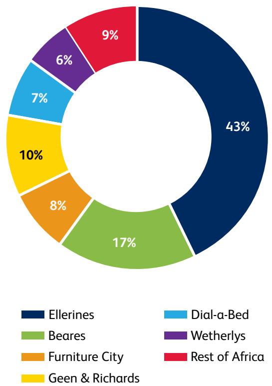
Furniture sales slowed rapidly during the 2013 financial year, due to continued pressure on consumers' disposable income and ABIL applying more stringent credit granting criteria to better manage the yield/risk relationship. Deflation in durable goods for most of the year under review also contributed to declining sales.

Merchandise sales declined by 16% to R4,0 billion from R4,8 billion in the previous year, while comparable sales per square metre reduced by 12%. Cash sales declined by 11% and credit sales by 19% over the financial year, which decreased credit sales as a percentage of total merchandise sales to R60,5% from 62,7%. The credit sales mix in the second half of the 2013 financial year was substantially lower than the first half, as credit extension was cut back further, resulting in lower approvals and smaller loan sizes at increased pricing, which ABIL introduced as part of its strategic initiative to improve the quality of the furniture credit.

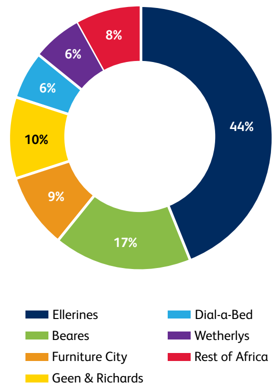
The merchandise sales compression was evident across all brands, particularly brands that are more susceptible to reductions in credit offers, where ABIL's decision to improve the yield/risk by curbing credit offer sizes and terms had a marked impact on sales growth.

Financial review continued

Merchandise sales by brand 2013 (%)

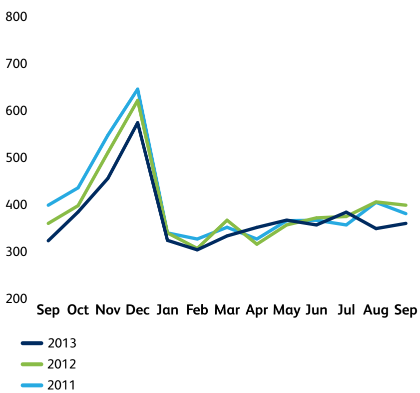


Merchandise sales by brand 2012 (%)



Credit sales % by brand (Rbn)

Sales of merchandise trending lower (Rm)



Brand analysis

		Ellerines	Beares	Furniture City	Geen & Richards	Dial-a-Bed	Wetherlys	Rest of Africa	Total
Distribution									
Number of stores		563	198	35	80	60	27	77	**1 040**
Number of new stores opened[1]		27	21	4	3	3	2	3	**63**
Number of stores closed[1]		35	12	4	1	4	5	3	**64**
Percentage change in number of stores	%	(1)	5	–	3	(2)	(10)	–	**–**
Retail trading area	m^2	289 764	128 536	53 043	59 862	17 990	39 701	50 658	**639 554**
Percentage change in m^2	%	(5)	–	(9)	(5)	4	(19)	(1)	**(5)**
Average store size	m^2	515	649	1 516	748	300	1 470	658	**615**
Merchandise sales									
Merchandise sales	R million	1 788	670	308	414	263	227	364	**4 034**
Contribution per brand	%	43	17	8	10	7	6	9	**100**
Merchandise sales growth	%	(15)	(16)	(25)	(19)	(12)	(22)	(9)	**(16)**
Merchandise sales/m^2 growth[2]	%	(10)	(16)	(20)	(17)	(6)	(17)	(10)	**(12)**
Credit merchandise sales mix	%	84	57	48	47	4	–	57	**61**
Number of employees[3]		3 251	1 297	383	521	184	325	813	**6 774**

[1] *During the past 12 months.*

[2] *Based on a 12-month rolling average.*

[3] *Excludes 1 176 employees employed at central departments.*

Gross margin on retail business

Gross margin in the retail business decreased by 17% to R1,8 billion for the financial year 2013 relative to R2,1 billion in the comparative period. This was mainly due to a decline in merchandise sales. Gross margin as a percentage of merchandise sales reduced to 43,9% from 44,5% in financial year 2012. Protecting the gross margin over the last year was particularly challenging in an environment where lower purchases negatively impacted volume rebates from suppliers, which reduced the margin.

Supply chain, logistics and distribution

The centralised logistics and distribution network was completed in the first half of this financial year, and the benefits thereof are now beginning to be realised. Stock management and cost benefits have materialised in line with expectations at the beginning of the project. Customers have benefited from the improved logistics and distribution network as a result of the centralised quality control, more rapid response and stock availability in the network. The duplicated costs carried during the rollout of the network declined as organisational structures and staff levels were made redundant, the remaining old warehouses were shut down and leases of fleets expired.

Inventory

The closing level of net inventory declined to R731 million from R871 million in financial 2012, in line with reduced merchandise sales. Stock turn was 2,9 times relative to 3,2 times in the comparable year. The implementation of the distribution centres has had a positive impact on inventory levels. Coupled with the reduced level of inventory, the profile of stock in terms of phased out and discontinued items has also improved markedly, which will continue to have a positive impact on the level of markdowns. Damages and shrinkage will also reduce as a consequence of the centralised network.

Footprint optimisation

Effective space management continues to be one of the Retail unit's areas of focus. This has been achieved through the reduction of non-productive space, more efficient use of existing space and the rollout of smaller stores and store-within-stores concepts. Total square metres reduced in financial year 2013 from 673 460 m^2 to 639 554 m^2.

Operating costs

Operating costs in the Retail unit increased by 7% to R2,9 billion for the 2013 financial year, notwithstanding the approximately R100 million duplicate logistics costs. The Retail unit was also affected by an additional fair value charge for the long term incentive scheme, as a result of the change in the ABIL share price, adding R36 million to operating costs. Excluding these two charges, the Retail unit operating costs increased by 2% for the financial year 2013. The ongoing high level of increase in fuel costs created challenges during the 2013 financial year, some of which was offset by the benefit of the centralised distribution capability. Property and lease expenses increased despite reduced retail square metres, as a result of substantial increases in utilities, rates and taxes and the additional rental costs for the new distribution centres. Cost reduction measures were implemented across the business and these included reducing headcount among others. The total number of staff has reduced to 7 950 in financial year 2013 from 9 248 in the comparable period.

Retail unit operating costs

for the financial year ended 30 September R million	% change	**2013**	2012
Staff costs	(9)	**1 272**	1 405
Staff costs-long term incentive charge	>100	**50**	17
Advertising and marketing costs	(15)	**101**	119
Bank charges	(8)	**35**	38
Communication costs	(15)	**57**	67
Delivery and logistic costs	38	**334**	242
Depreciation and amortisation of intangibles	28	**223**	174
Direct collection costs	>100	**3**	1
IT costs	10	**149**	136
Other costs	42	**237**	167
Printing, stationery and courier costs	(3)	**34**	35
Property and lease expenses	13	**836**	742
Operating costs before value share	6	**3 331**	3 143
Value share*	(3)	**(402)**	(416)
Total operating costs	7	**2 929**	2 727

* *Note that a portion of the value share is reflected under "non-interest income" on the income statement.*

Funding

ABIL, through African Bank as the funding entity, has a diversified funding base that primarily targets long term wholesale funding sourced from a broad base of financial institutions and asset managers in the local and offshore markets. Funding ranges from bilateral agreements with domestic funders to well-established listed bond programmes in the domestic and international bond markets.

Total funding at 30 September 2013 was R54,5 billion, 19 % higher than the funding base of R45,7 billion at 30 September 2012. The funding composition, classified according to the term at point of origination, is presented in the table below:

Funding composition

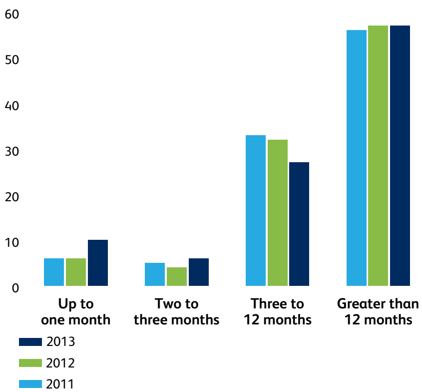
(based on term at origination) as at 30 September 2013

R million	% change	2013	2012
Short term funding (<12 months)	75	**8 034**	4 587
Demand deposits	>100	**3 017**	709
Fixed and notice deposits	20	**4 026**	3 357
NCDs	90	**991**	521
Long term funding (>12 months)	13	**46 426**	41 151
Unsecured listed bonds (listed on JSE)	45	**14 399**	9 933
Unsecured listed bonds (listed on foreign stock exchange)	42	**10 164**	7 159
Other long term funding	(13)	**17 502**	20 228
Subordinated bonds, debentures and loans	14	**4 361**	3 831
Total funding	19	**54 460**	45 738

During the year there has been a shift from bilateral treasury desk funding to domestic medium term note (DMTN) and European medium term note (EMTN) bond funding on the back of greater domestic and international market bond issuances. Treasury desk funding reduced from 56 % of total funding as at 30 September 2012 to 48 % as at 30 September 2013. A total of R7,6 billion of DMTN bonds were issued in the 2013 financial year, including R2,6 billion inflation-linked bonds, R4,5 billion variable rate bonds with terms ranging from two to seven years, and R500 million in short term corporate paper issues with a six-month maturity, increasing the DMTN proportion of total funding from 28 % as at 30 September 2012, to 33 % as at 30 September 2013. The EMTN proportion of total funding has increased from 16 % as at 30 September 2012, to 19 % as at 30 September 2013, primarily as a result of the issuance of a CHF125 million Swiss franc bond under the EMTN programme, with a four-year tenure, at lower rates than the first Swiss franc issuance in July 2012.

The graph below represents the maturity profile of the total group funding as at 30 September 2011, 2012 and 2013. As at 30 September 2013, 43% of the total funding matures within one year.

Funding maturity profile in percentages



This is in line with the maturity percentages of 43% and 44% for the prior years as at 30 September 2012 and 30 September 2011 respectively. The "up to one month" maturity category as at 30 September 2013 is inflated by the collateral received from swap counterparties, totalling R2,2 billion or 4% of funding.

The collateral balance primarily represents cash collateral received from swap counterparties on hedging trades related to foreign currency EMTN bonds and has arisen on the back of the South African currency weakness during 2013.

The cost of funds reduced from 9,2% in the 2012 financial year to 8,6% for the 2013 financial year as more expensive funding issued in prior years matured. While the cost of funds raised in the most immediate six months has trended higher, the impact on the funding cost for 2014 will depend on the extent to which this trend continues, counterbalanced by the maturities and replacement of long term expensive debt that matures in this period.

In an effort to diversify the group's funding base, retail savings and investment products were launched in October 2012. To date, the portfolio is relatively small. The savings products are expected to gain traction through the establishment of a branch distribution platform and further retail savings initiatives in the 2014 financial year.

Credit rating

In March 2013, Moody's downgraded African Bank's global senior debt and deposit ratings by one notch to Baa3/Prime-3, from Baa2/Prime-2. Concurrently, African Bank's local national scale issuer ratings were also adjusted to A2.za/P-1.za from A1.za/P-1.za.

In July 2013, Moody's affirmed African Bank's ratings, but changed the outlook from stable to negative on African Bank's Baa3 long term global scale senior debt and deposit ratings.

Rating	
Global long term	Baa3
Global short term	P-3
National long term	A2.za
National short term	Prime-1.za
Outlook	Negative

Capital risk governance is applied through the group capital management forum, and reported to the group risk and capital management committee. During the 2013 financial year, a capital subcommittee of the board was constituted that deals with strategic capital issues, which ultimately culminated in the R5,5 billion rights issue.

Capital adequacy is constantly monitored on a current to three-year view, based on group and Banking unit's financial forecasts, to ensure that the business is adequately capitalised to achieve its objectives.

The group also strives to optimise the capital structure within the internal and regulatory requirements and holds the higher of regulatory or internal capital requirements as determined by Basel III pillar 2 and measured in ABIL's internal capital adequacy assessment process (ICAAP).

Basel III

Historically, the SARB has set more stringent capital adequacy requirements for South African banks than the international norm, which helped protect South Africa's banks during the recent global economic and financial crisis. However, a complex and rapidly evolving regulatory environment reinforces the need for more vigorous capital management and planning. Basel III, which introduces higher-quality capital requirements, was implemented in South Africa by the SARB with effect from 1 January 2013, with various phases and transitional arrangements becoming effective each year through to 31 December 2018.

ABIL endeavours to maintain a conservative approach to capital and liquidity management, which includes maintaining appropriate capital adequacy and liquidity levels. Prudent capital and liquidity management measures include targeting a net positive liquidity gap across all periods, and a cautious dividend policy that conserves sufficient capital for growth. The receipt of the rights offer proceeds in December 2013 will ensure that these objectives are met.

Background to the rights offer

The board of directors and executive management reached the conclusion that ABIL's capital base needed to be strengthened in anticipation of the new Basel III phased capital requirements and to provide additional confidence to funders with regard to the various factors discussed above. The board of directors further believes it is appropriate to increase the buffer available by raising capital through the rights offer to absorb credit losses at the levels currently being experienced, and to strengthen proactively the capital base, all of which will provide ABIL with the financial flexibility it needs to support the business's growth prospects.

With that in mind, the board of directors also approved an increase in the target capital ranges with effect from 1 January 2014, after the anticipated successful conclusion of the rights issue in December 2013.

Target capital adequacy ranges

%	2013	2014 onwards
Tier 1 capital ratio	19 – 20	>20
Total capital ratio	26 – 27	>30

In particular, the company is seeking to achieve the following objectives through the rights offer:

Supplement the existing capital base with high-quality capital
In order to strengthen ABIL's balance sheet and to ensure a robust financial position for the coming years, the board of directors has decided to raise equity through a rights offer of R5,2 billion after the deduction of any commissions, fees and expenses. The proceeds of the capital raised will serve to improve the group and African Bank's Basel III capital ratios, particularly the common equity tier 1 ratio, which is expected to provide additional support and confidence to ABIL and African Bank's funders.

ABIL's capital adequacy of 23,2% as at 30 September 2013 was lower than the 29,4% reported as at 30 September 2012, with a negative growth in retained profits lower than risk-weighted asset (RWA) growth. When incorporating the changes in the loan impairment provisioning methodologies and bad debt write-off policies and the proposed R5,2 billion capital raise, on a *pro forma* basis, ABIL's tier 1 ratio and total capital ratio are envisaged to be 25,5% and 33,4% respectively.

Provide additional capital protection against any deterioration of the South African economy
ABIL is seeking to ensure that it has a higher level of capital to withstand greater risks through economic cycles such as that currently being experienced. The sector within which ABIL operates has a higher risk profile than sectors that target higher income groups. This is due to the fact that lower to middle income groups have less capacity to deal with unanticipated financial emergencies and additional demands on disposable income. The current economic climate and consequent credit risk is such that it is at levels that are higher than normal, as ABIL's recent financial results have demonstrated. Corrective measures that have been implemented to reduce ABIL's credit risk to more acceptable levels have already started to show encouraging signs.

Support loan book growth
The group's loan book has grown at a compounded annual growth rate of 32,5% over the six financial years since the implementation of the NCA in 2007. The group believes that the socio-economic structure of South Africa lends itself to significant profitable growth opportunities in the South African unsecured credit market, which the group is positioning itself to pursue. NCR data indicates that participants in the unsecured lending market have more recently reduced their exposure to unsecured lending. This presents further opportunities for growth. Therefore, the group believes the capital raised will provide an opportunity for ABIL to capture a share of that growth over the longer term, subject to such business meeting the group's risk appetite.

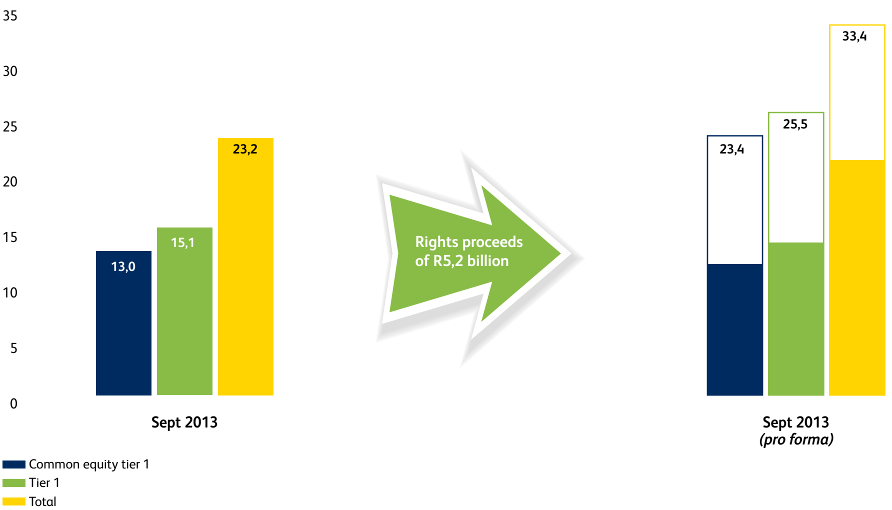
Analysis of capital adequacy as at 30 September 2013 and *pro forma* impact of rights issue

Capital adequacy ratios	ABIL		African Bank	
%	**September 2013**	September 2012	**September 2013**	September 2012
Core equity tier 1	**13,0**	17,0	**15,7**	18,6
Total tier 1	**15,1**	21,4	**15,7**	20,3
Tier 2	**8,1**	8,0	**8,3**	8,7
Total CaR	**23,2**	29,4	**24,0**	29,0

* *Capital adequacy figures are not restated and are as reported in 2012.*

The *pro forma* impact of the rights issue after expenses is a capital injection of core equity of R5,2 billion, which has the following impacts on capital adequacy:

ABIL *pro forma* impact of rights offering **Capital adequacy ratio** (%)

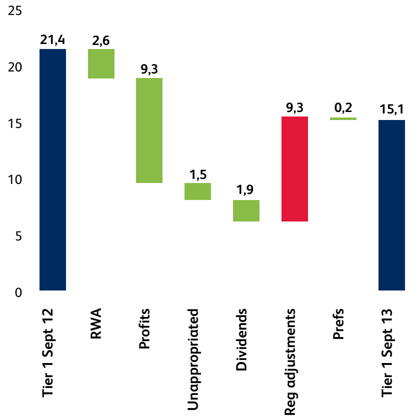


The following graph shows the development of the group's tier 1 capital ratios as at 30 September 2013. A more detailed analysis of capital adequacy is given in the web-based risk report.

Capital adequacy was impacted by the following:

- The net impact of growth in RWA offset by RWA optimisation strategies;
- Cumulative impact of impairments and goodwill charged through the income statement;
- Reducing unappropriated profits from R724 million in September 2012 to zero;
- Total dividend paid of R887 million;
- Removing the impairment relating to the goodwill; and
- Preference shares haircut of 10% relating to the Basel III grandfathering principle.

ABIL tier 1 ratio (%)



Abridged sustainability report

CONTENTS

Our commitment

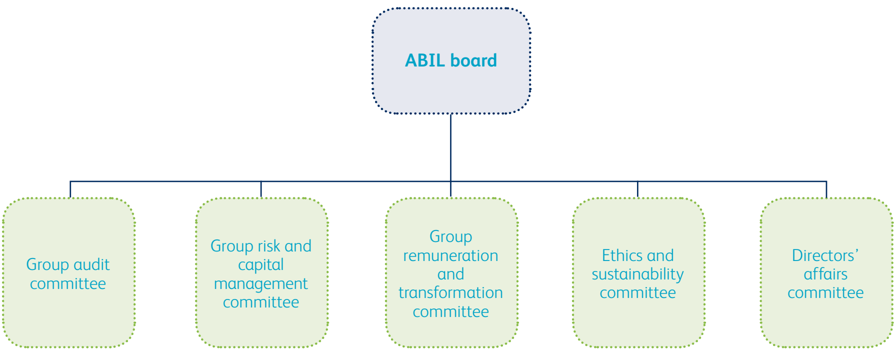
It is ABIL's aim to continuously improve value creation for shareholders and customers, while creating an atmosphere for employees in which they can thrive and provide outstanding service to customers.

ABIL's sustainability management approach

The sustainability priorities are agreed by the sustainability committee, which is a subcommittee of the board. Implementation is coordinated by both business units, and the priorities are agreed by the committee on the recommendation of the executive director of group sustainability. Each business unit reports its sustainability performance to ABIL on an annual basis.

Governance

Sustainability reporting is the responsibility of the ethics and sustainability committee, which assists management in the formulation and implementation of policies, principles and practices to foster the sustainable growth of the group. Sustainable growth shall encompass a business model that creates value consistent with the long term preservation and enhancement of financial, environmental and social capital.



Awards and recognition

The Ombudsman for Banking Services

African Bank has won the Ombudsman for Banking Services award for excellence in complaints handling in Category B for the last six years. (This category is for all banks, excluding the four major banks which compete in Category A.)

Certificate of excellence in reporting

Sustainability Data Transparency Index (SDTI) awarded ABIL for providing sufficient quantitative data to allow for useful comparable analysis in the Banking sector, coming first in this category, and in the top 10 overall.

BANKSETA awards

African Bank won the award for domestic captive, a category honouring a company that offers in-house training, for its Monyetla Work Readiness Programme.

The Banking unit won the special commendation award from the BANKSETA for best practice in skills development for the third year in a row.

Innovation award

A second EHL distribution facility in Port Elizabeth, constructed by Growth Point Properties, has won the South African Property Owners Association's (SAPOA) innovative excellence award in industrial property development.

Ernst & Young excellence in financial reporting

ABIL is proud to have again received an excellent rating for disclosure in its 2012 integrated report.

JSE SRI and Dow Jones Sustainability Index (DJSI)

ABIL was included in the JSE's Socially Responsible Investment (SRI) Index for the tenth consecutive year, and was also included in the Dow Jones Sustainability Index (DJSI) in 2013. This attests to our commitment as a group to responsible business practices.

Human capital

Our approach

One of the group's core objectives is to promote and maintain a harmonious relationship with its employees, create a working environment that is conducive for employees to learn, grow and perform, and to foster good relations with the unions.

ABIL promotes and respects freedom of association and employee rights in terms of the constitution and current labour legislation of South Africa, and is committed to fair treatment and non-discriminatory work practices.

As a group, we need to attract, develop and retain the best talent at all levels of the business. Therefore, we need to recruit, manage performance, train, develop and promote from within each business unit.

Most of the information in this section is presented at a business unit level, which comprises the Banking unit and the Retail unit. The business units have different requirements for dealing with employees and customers. The report covers all operations of the Banking unit and the South African operations of the Retail unit.

Banking unit

Workforce movement, composition and turnover

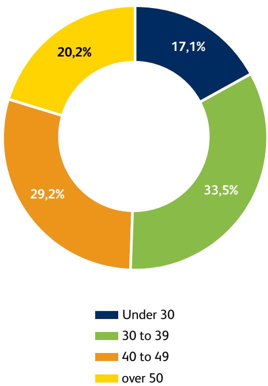
Within the Banking unit, the increase in number of employees is largely as a result of the expansion in the call centres, and is detailed below:

	2013	2012	2011	2010	2009
Opening balance	**5 182**	4 978	3 935	3 476	3 426
Employee gains	**1 026**	1 317	1 790	1 049	586
Less: attrition	**(978)**	(1 113)	(747)	(590)	(536)
Resignations	**(663)**	(842)	(540)	(372)	(352)
Retrenchments	**–**	–	(13)	(62)	(8)
Dismissals (misconduct)	**(228)**	(191)	(110)	(85)	(36)
Deaths (not work-related)	**(17)**	(28)	(15)	(27)	(32)
Other*	**(70)**	(52)	(69)	(44)	(108)
Closing balance	**5 230**	5 182	4 978	3 935	3 476
Temporary employees	**463**	442	439	216	169
Total employees	**5 693**	5 624	5 417	4 151	3 645

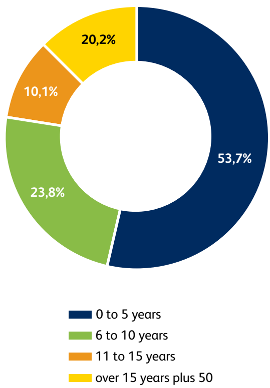
* *Other refers to emigration, abscondment and mutual terminations.*

Of the 5 230 permanent employees in the Banking unit, 65% are female and 35% male. Of employees below the age of 40 years, 80% are male and are considered to comprise a reasonably young workforce, with the majority of employees in the sales and call centre environments. This correlates to 70% of employees having tenure with the Banking unit of between 0 and 5 years.

Age analysis (%)

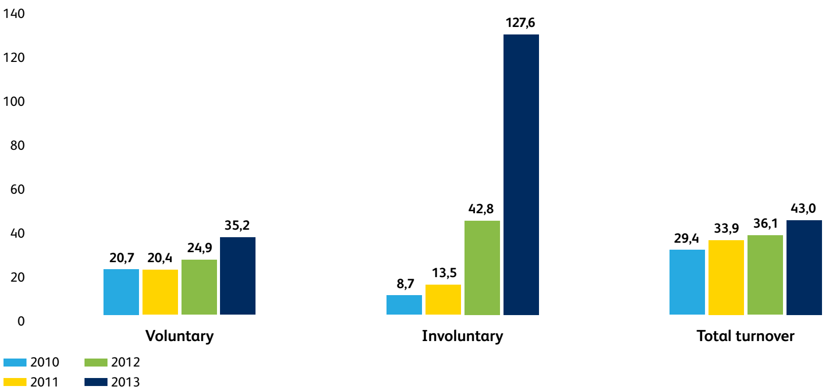


Tenure with company (%)



At year end, the Banking unit had a total of 5 230 permanent employees, an increase of 1% relative to 2012 (5 182).

Employee turnover (%)



Involuntary turnover refers to employees whose service has been terminated by the Banking unit.

During the 2013 financial year under review, the Banking unit received 89 referrals to the CCMA, an increase of 15% over last year, of which 7% were in favour of the employee. The number of employees dismissed and terminated increased to 259, in comparison to 129 last year, due to the Banking unit's zero-tolerance stance on fraud or any type of misconduct.

Employee satisfaction

For the past two years, the Banking unit has undertaken an employee engagement survey to determine the levels of engagement of employees with African Bank.

Health, safety and wellbeing

The Banking unit strives to ensure legal compliance with all relevant health and safety requirements.

In recognition of our responsibility as an employer in terms of the Act, we have instituted the following:

- Emergency and fire evacuation policy and procedures;
- A comprehensive employee wellbeing programme;
- Fully trained first-aid officers;
- Regular safety and first-aid training for employees;
- Annual independent health and safety compliance audits; and
- Future initiatives – to place all relevant policies and procedures on the intranet.

The incident rate has improved since the last financial year, with an almost 50% reduction in health and safety-related incidents. The Banking unit strives for continuous improvement and, to ensure this, has set specific objectives and targets.

The number of workplace injuries in the Banking unit is as follows:

	2013	2012	2011	2010	2009
Number of injuries	**17**	11	20	14	32
Lost time (hours)	**456**	336	540	224	296
Lost time (days)	**57**	42	67,5	28	37
Injury rate	**1,6%**	1,1%	2,0%	1,8%	4,6%
Work-related fatalities	**–**	–	–	–	–

All injuries were minor and mostly back or ankle/foot-related.

Study assistance programmes

The Banking unit is passionate about people development. This business sponsors deserving employees to further their academic studies through bursaries and interest-free study loans. Ninety-four employees benefited during the 2013 financial year.

Summary of skills statistics for 2013	**2013**	2012	2011
Investment in employee training and development*	**R21,7 million**	R21,0 million	R9,7 million
Proportion of the above focused on black employees**	**R20,0 million**	R19,3 million	R19,3 million
Training and development interventions	**54 186**	26 553	14 242
Employees trained on learnerships	**453**	240	224
Number of employees who received leadership training ***	**1 952**	936	515
Learners attending BANKSETA programmes	**42**	20	83
Talent development programme participants	**All**	144	13

* *Including the compulsory 1% skills levy.*

** *African, Coloured and Indian people.*

*** *New launch leadership programme: 1 887 and new manager programme: 65.*

Retail unit

Workforce movement, composition and turnover

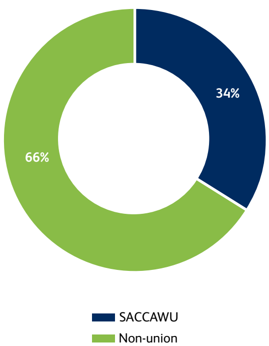
The breakdown of total employees of the Retail unit is as follows:

	2013	2012	2011	2010
Opening balance	**9 248**	10 303	9 439	13 454
Employee gains	**2 413**	2 527	2 099	2 283
Less: attrition	**(3 711)**	(3 582)	(3 788)	(3 745)
Resignations	**(2 837)**	(2 393)	(2 171)	(2 636)
Retrenchments	**(242)**	(537)	(819)	(327)
Dismissals (misconduct)	**(448)**	(491)	(583)	(536)
Deaths (not work-related)	**(64)**	(73)	(97)	(104)
Other*	**(119)**	(88)	(118)	(142)
Total employees*	**7 950**	9 248	10 303	11 992

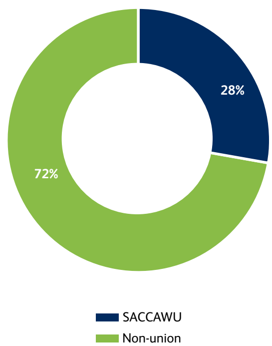
* *Total number of employees in RSA and foreign operations.*

During the 2013 financial year under review, EHL received 179 dispute referrals to the CCMA, an increase from 103 in 2012, of which 8% were in favour of the employee.

Union membership 2013 (%)



Union membership 2012 (%)



Health, safety and wellbeing

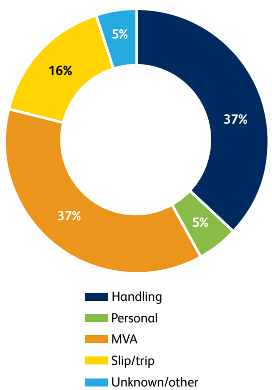
Accidents are reported in accordance with section 24 of the Occupational Health and Safety Act (OHSA). All employees are encouraged to report near-miss incidents.

Accident statistics	**2013[1]**	2012	2011	2010
Lost hours	**1 371**	1 541	658	770
Lost days[2]	**171,4**	192,6	82,3	96,3
Number of work-related fatalities	**–**	–	2	–
Number of work-related diseases	**–**	–	–	–
Number of work-related injuries	**19**	32	34	40

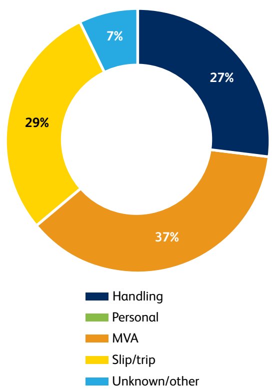
[1] *Figures are reported from October 2012 to August 2013, while 2011 and 2012 results are reported for a full financial year.*
[2] *Calculated on an eight-hour working day.*

The increase in the total lost hours between 2010/2011 and 2012/2013 can be attributed to the nature of the incidents where employees have been booked off for longer periods of time. The majority of these incidents are due to injuries as a result of motor vehicle accidents (MVA) and handling accidents, while the majority of lost time is attributed to MVAs, followed by slip/trip and handling.

Injury cause (%)



Lost time cause (%)



Skills development and talent management

In the Retail unit, 53 individuals were identified as top talent from the middle and senior management levels. These individuals were paired with senior executives as their mentors. The equity breakdown of these 53 individuals is 75 % from the designated group, 49 % black and 47 % female. The programme is formally known as Leaders for Tomorrow.

Regular get-togethers were held with prominent business leaders, from CEOs to motivational speakers, sharing their success stories and leadership advice.

During the year, 158 people participated in three learnerships pitched at NQF levels 4 to 5, which were sponsored by the Wholesale and Retail SETA. In addition, the W&R SETA also sponsored an international leadership development programme (ILDP) for one learner and a regional management development programme for 15 learners.

Summary of skills statistics	**2013**	2012	2011
Investment in employee training and development*	**R6,3 million**	R12,0 million	R9,3 million
Proportion of the above focused on black employees**	**R5,4 million**	R9,2 million	n/a
Number of training and development interventions	**15 725**	14 404	9 478
Employees currently on learnerships	**71**	222	161
Employees receiving leadership training	**72**	175	51
Learners currently on a Wholesale & Retail SETA programme	**103**	312	282
Employees currently on a talent development programme	**57**	41	56

* *Excluding the compulsory 1% skills levy.*

** *African, Coloured and Indian people.*

Human rights

The group is committed to a policy of fair dealing and integrity in conducting our business. This commitment is actively endorsed by the board, and is based on a fundamental belief that business should be conducted honestly, fairly and legally. We expect all employees to share the commitment to these high moral, ethical and legal standards.

Social capital

Our approach

Our vision will only become a reality through the continued commitment, energy and passion of our people. Therefore, their engagement and development is central to the execution of our vision. ABIL continues its commitment to deliver economic, social and employee development through enforcing policies that drive transformation beyond mere compliance to focus on sustainable development.

ABIL believes that small businesses play a vital role in creating jobs and wealth in the economy. It is for this reason that the group supports small and medium enterprises (SMEs) through the Banking unit's supply chain, by channelling business towards these companies to help them be financially independent, and through granting customers personal credit to use towards starting or supporting their small businesses.

From 2014 onwards, the procurement action plan to launch reporting and measurement of the achievements of the Banking and Retail units' suppliers will be incorporated into ABIL's sustainability reporting.

Most of the information in this section is presented at a business unit level, which comprises the Banking unit and the Retail unit. The business units have different requirements for dealing with employees and customers. The report covers all operations of the Banking unit and the South African operations of the Retail unit.

The scorecards detailed in this capital are measured on the previous year's audited numbers.

Economic value added statement

R million	2013	2012*
Value added		
Income from operations	**21 933**	19 172
Insurance claims	**(1 664)**	(972)
Credit impairment charge	**(9 155)**	(4 842)
Risk-adjusted income from operations	**11 114**	13 403
Other interest and investment income	**393**	219
Interest expense	**(4 564)**	(3 680)
Capital items and loss on sale of assets	**(4 656)**	(17)
Total value added	**2 287**	9 925
Value allocated		
Employees and directors	**2 859**	2 614
Suppliers of various services	**2 875**	2 544
Provide shareholders with cash dividends	**887**	1 549
Government (direct taxes, STC, VAT and RSC)	**866**	1 582
Retention for growth	**(5 200)**	1 636
Depreciation and amortisation	**375**	298
Deferred taxation	**(489)**	(203)
(Loss)/profit for the year (net of dividends paid)	**(5 086)**	1 541
Total value allocated	**2 287**	9 925

* *Restated figures for 2012.*

Banking unit

Developmental scorecard

The Banking unit improved its B-BBEE status dramatically, achieving level 3 status under the Financial Services Charter (FSC) compared with a level 4 (2011) and a level 6 (2010) under the CoGP codes. While there has been significant and consistent improvement on the empowerment scores, we continually strive to further improve.

Retail unit

Developmental scorecard

The Retail unit achieved a level 5 accreditation for both 2012 and 2011. While there was no improvement in the B-BBEE accreditation level, the Retail unit is pursuing a level 4 accreditation in 2013.

Natural capital

Our approach

ABIL was included in the JSE's Socially Responsible Investment (SRI) Index 2013 for the tenth consecutive year, and the Dow Jones Sustainability Index (DJSI). This attests to our commitment to contribute to the development of responsible business practices in South Africa.

All the data in the Carbon Disclosure Project (CDP) refers to the 2012 financial year, as the analysis and assurance is done on a retrospective basis.

As a good corporate citizen, ABIL complies with the King III recommendations on environmental sustainability. The group has a direct environmental impact due to the use of natural resources within the business operation. ABIL has voluntarily participated in the CDP report for the past three years. Through this voluntary reporting system, we have identified all possible sources of consumption and related greenhouse gas (GHG) emissions and used this information to compile a greenhouse gas inventory that reflects approximately 90% of the group. The measured inventory has allowed us to implement actions to reduce the impact on the environment, monitor and measure progress closely, identify opportunities to reduce consumption and save costs, as well as consider environmental sustainability when making business decisions.

Environmental strategy

There have been difficulties along our greening journey. However, since 2011, the year of inception, ABIL has:

- Developed a group wide environmental policy with reduction targets;
- Developed a green procurement policy;
- Participated in the CDP for the past three years;
- Established formal environmental committees at board level;
- Integrated environmental sustainability training into the induction programmes;
- Run successful environmental education and awareness campaigns for employees;
- Invested in energy-saving equipment;
- Implemented measures and processes to collect emissions data; and
- Developed a supplier questionnaire for both merchandise and non-merchandise, to determine the green efficiency level of suppliers.

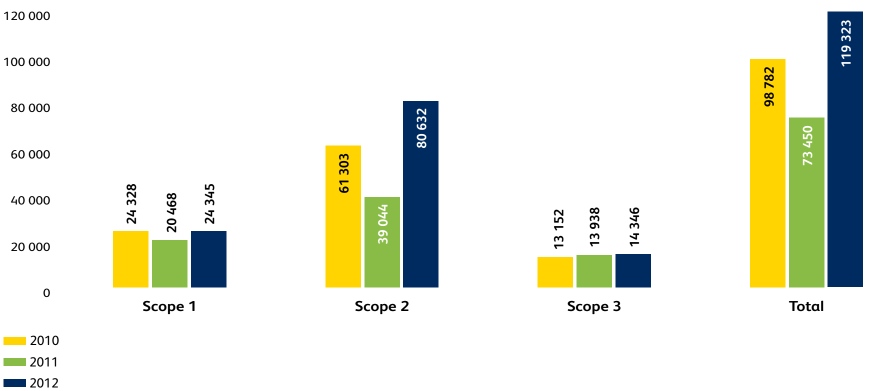
However, this is a journey, and the group is committed to making the necessary changes.

Reporting, monitoring and measuring ABIL's carbon footprint

The carbon disclosure programme is a key area of reporting on environmental sustainability and through this channel and others, ABIL publishes environmental sustainability and carbon footprint data. ABIL's Scope 1, 2 and 3 emissions were verified by the group's internal audit team, as well as Global Carbon Exchange, an independent third party. Please refer to the assurance certificate in the web-based sustainability report. ABIL adopts the operational control method when compiling the GHG inventory.

The carbon footprint for the reported period 1 October 2011 to 30 September 2012 (2012 financial year) was 119 323 metric tonnes of carbon dioxide equivalent (CO_2e). Emissions are broken down as follows:

ABIL carbon emissions (tonnes)



For full details of ABIL's sustainability initiatives, including training programmes, B-BBEE performance, supplier development, community projects and environmental measurements, please see the full sustainability report on www.abil.co.za. The full report also contains independent third-party assurance statements by Iras and Global Carbon Exchange.

Abridged corporate governance report

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Ethical leadership and corporate citizenship

The board of directors and senior management are committed to the highest standards of corporate governance and strive to the highest moral and ethical business standards, as well as sound and transparent business practices. ABIL embraces the principles of good corporate governance in order to ensure that an ethical foundation exists which promotes, *inter alia*:

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

Application of King III

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

For the 2013 financial year, the group has complied with all aspects of the Code, except that non-executive directors' fees are fixed. The fixed-fee basis works more efficiently for the group, because a performance appraisal system is in place to deal with non-attendance at meetings.

ABIL board of directors and committees

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

Group audit committee	Group risk and capital management committee	Group remuneration and transformation committee	Ethics and sustainability committee	Directors' affairs committee
Assists the board of directors in discharging its duties relating to the safeguarding of assets, accounting systems and practices, the integrity of internal financial control processes and integrated reporting and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.	The quality, integrity and reliability of risk management of ABIL is delegated to ABIL's group risk and capital management committee.	The role of the group remuneration and transformation committee is to support and advise the board of directors, by ensuring that employees of ABIL are appropriately and equitably compensated for their services to the group and motivated to perform to the best of their abilities, in the interests of all stakeholders.	This committee assists management in the formulation and implementation of policies, principles and practices to foster the sustainable growth of the group. Sustainable growth encompasses a business model that creates value consistent with the long term preservation and enhancement of financial, environmental and social capital.	This committee assists the board in its determination and evaluation of the adequacy, efficiency and appropriateness of the corporate governance structure and practices of ABIL.

The board of directors

The board of directors takes decisions on a majority basis. Therefore, no one person has unfettered powers of decision-making.

The board is responsible for determining the group's strategic direction and the control of the group. It provides effective and responsible leadership and exercises integrity and judgement in directing the group, with a view to achieving continuing prosperity for the group and its stakeholders.

Board of directors and committee membership as at 30 September 2013

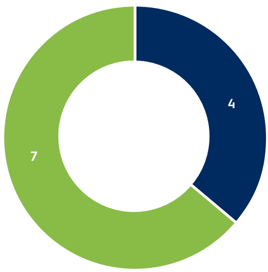
Board of directors and committees	Directors/members
ABIL/African Bank board of directors	Mutle Mogase (chairperson), Ntombi Langa-Royds, Mojanku Gumbi, Johnny Symmonds, Jack Koolen, Nic Adams, Morris Mthombeni, Leon Kirkinis, Nithia Nalliah, Toni Fourie and Tami Sokutu
Group audit committee (GAC)	Johnny Symmonds[1] (acting chairperson), Nic Adams and Morris Mthombeni
Group risk and capital management committee (GRCMC)	Nic Adams (chairperson), Johnny Symmonds, Mojanku Gumbi and Jack Koolen
Group remuneration and transformation committee (GRTC)	Ntombi Langa-Royds (chairperson), Mutle Mogase and Mojanku Gumbi
Ethics and sustainability committee (ESC)	Ntombi Langa-Royds (chairperson), Mutle Mogase and Jack Koolen
Directors' affairs committee (DAC)	Mutle Mogase (chairperson), Mojanku Gumbi, Ntombi Langa-Royds, Johnny Symmonds and Nic Adams

[1] *With effect 16 September 2013, Sam Sithole resigned as a director of the ABIL board. Johnny Symmonds assumed interim chairpersonship of the group audit committee. Morris Mthombeni joined the board of directors and was also appointed to the group audit committee.*

Composition of the board of directors

The board consists of 11 directors, classified as independent non-executive directors and executive directors. The independence of non-executive directors is contingent upon an evaluation as prescribed by King III. The group has an appointed chief executive officer (who is an executive director) and separate people (each of whom is an independent non-executive director) who act as chairpersons of the board and the various committees, as set out in the table above. The group has an executive financial director, currently Nithia Nalliah. The group audit committee considers and satisfies itself of the appropriateness of the expertise and experience of the financial director, on an annual basis.

Board composition



Independent non-executives (7)
Mutle Mogase
Mojanku Gumbi
Nic Adams
Johnny Symmonds
Jack Koolen
Ntombi Langa-Royds
Morris Mthombeni

Executives (4)
Leon Kirkinis
Toni Fourie
Nithia Nalliah
Tami Sokutu

Board meetings and attendance

The board met 11 times during the year and details of the directors' attendance at the board and committee meetings are reflected in the table below:

Name	Board	GAC	GRCMC	GRTC	DAC	ESC
Number of meetings held	11	4	4	4	4	3
Independent non-executive directors						
Mutle Mogase	11[1]	n/a	n/a	4	4[1]	3
Nic Adams	10	4	4[1]	n/a	4	n/a
Sam Sithole[3]	8	3[1]	n/a	n/a	4	n/a
Ntombi Langa-Royds	9	n/a	n/a	4[1]	4	3[1]
Mojanku Gumbi	9	n/a	4	4	4	n/a
Johnny Symmonds	8	4[1]	4	n/a	n/a	n/a
Jack Koolen	8	n/a	2	n/a	n/a	2
Morris Mthombeni[4]	1	1				
Executive directors						
Leon Kirkinis	11	4[2]	4[2]	4[2]	4[2]	4[2]
Nithia Nalliah	11	4[2]	4[2]	n/a	n/a	n/a
Toni Fourie	10	4[2]	4[2]	4[2]	n/a	4[2]
Tami Sokutu	8	3[2]	3[2]	n/a	n/a	3[2]

[1] *Denotes chairperson.*

[2] *Denotes standing attendee/invitee.*

[3] *Sam Sithole resigned with effect 16 September 2013.*

[4] *Morris Mthombeni was appointed on 16 September 2013.*

For further details of the group's application of the King III principles, and statements concerning *inter alia* the company secretary, board evaluations, training, appointment and committee reports, please see the full corporate governance report on www.abil.co.za.


LOVE

Abridged risk report

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ABIL risk management overview

The ABIL risk management strategy is to embed a risk culture and support business units within the group. The key focus is to ensure that business units operate within risk parameters which will lead to sustainable business and enhanced risk management practices. The structure is supported by three pillars, namely: competence, collaboration and independence.

In the 2013 financial year, the customer value proposition was enhanced by offering new products such as short term insurance (funeral) and investments which introduced additional operational and compliance risk. These products are aimed at providing a diversified income stream, lowering the cost of funding and attracting a more diversified customer base. The group risk function has been broadened with regard to systems and people in order to focus on key areas, such as risk and non-compliance with regulatory requirements. This function has been particularly critical in fraud mitigation this year, given the notably high levels of fraud, in order to assist with early detection and timeous resolution.

ABIL risk management core principles

The group risk management approach is an approved enterprise-wide risk management methodology and philosophy to ensure adequate and effective risk management. In addition, the methodology also provides regulatory principles and a risk management approach that ensures the following core principles are met:

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

Risk management objective

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

The ABIL risk management life cycle

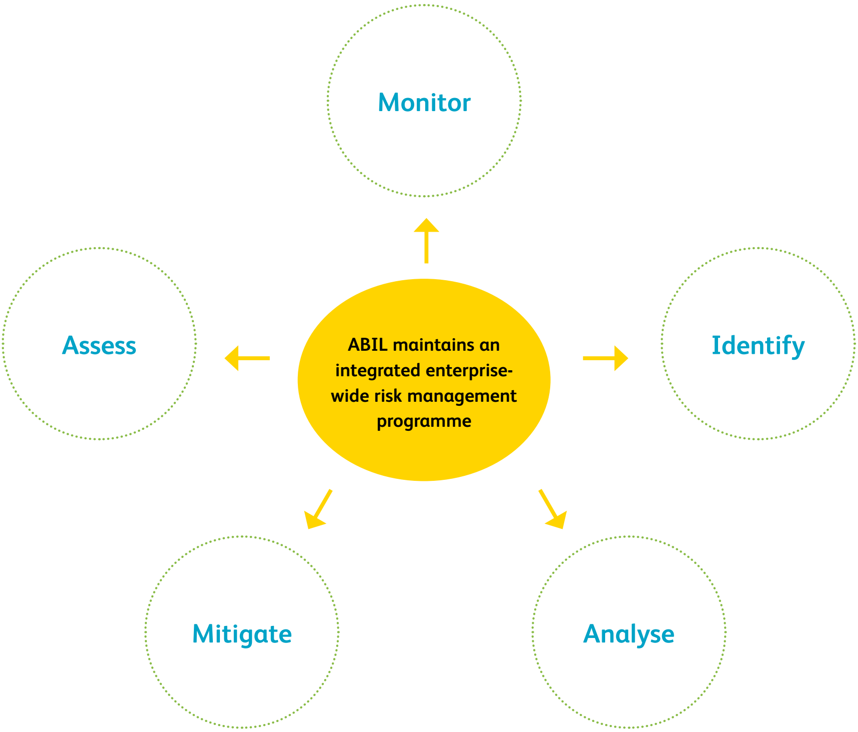
Independent board committees (group audit, group risk and capital management, group remuneration and transformation, director's affairs, ethics and sustainability)

Risk management function cooperation in all key operations throughout the group

Fraud risk management through an independent forensic department

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

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



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

Risk universe and supporting structures

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

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

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

Three levels of defence as applied throughout the group

Business environment and internal control factors

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

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

Summary of high-level risks

Risk	Mitigation	Further detail
R1. Economic environment The group's growth and profitability are inextricably linked to the prosperity of the South African economy and its participants. Inflation, levels of indebtedness and unemployment are key indicators of increasing vulnerability in our targeted market segments.	ABIL consistently tracks leading market indicators for early warning signs of financial distress in the segments of the market that it targets, with the aim of adjusting its underwriting and affordability criteria accordingly. Weakness in South Africa's economy and increase in unemployment has historically had and will likely continue to have an adverse impact on ABIL's credit quality. These factors are taken into account in setting financial plans.	Strategic review
R2. Competitive landscape The implementation of the NCA in 2007 formalised the unsecured lending market in South Africa and, as a result, brought about significant changes in this market. It opened doors to the major South African banks, which have greater financial and other resources. In addition, there are non-bank credit providers that compete in the unsecured lending market.	ABIL has improved its own competitiveness through: ▶ Active future target market segmentation; ▶ A substantial distribution expansion programme; ▶ A range of new and innovative products; and ▶ A new front end that has improved service to customers.	What sets us apart? Strategic review

Risk	Mitigation	Further detail
R3. Our people The long term success of any organisation is predominantly dependent on the quality and retention of employees and their commitment and passion for the business. The failure to retain skilled employees or to keep them motivated may lead to increased costs and deteriorating performance. The considerable increase in competition recently, as well as the substantial growth in our business, has made recruitment, retention and employee satisfaction a top priority for ABIL.	A number of strategies are implemented to mitigate this risk, including an appropriate suite of reward and benefit structures for existing employees and ongoing refinement of an attractive employee value proposition. At ABIL, we spend a significant amount of time and energy in dialogue with our people.	Our stakeholders ABIL and the six capitals Employee section in the web-based sustainability report
R4. Growing our customer base ABIL's strategy is to improve continually its customer value proposition by translating scale and critical mass into greater customer value. To achieve and maintain the scale, we have to continue to broaden our customer base in our chosen market segment.	While attracting new clients remains core in growing the customer base, the group has also placed emphasis on customer retention and customer rehabilitation as part of its sustainability strategy. Focusing on new customers and growing customer numbers is necessary, but not sufficient without focusing on customer retention. The group's scorecards now also include customer retention as one of the key areas of focus.	What sets us apart? Our stakeholders Strategic direction in 2014 and beyond Strategic review
R5. Scalability of the business The group has ambitions of growth that entail the diversifying of its income stream and funding. It is therefore critical that all aspects of the business grow at the same pace to ensure the success of the business model.	The group has identified various products (insurance products and investments) and initiatives that are key to the diversification; a more refined customer segmentation; a redefined customer value proposition; the operating model.	ABIL business model Strategic review

Risk	Mitigation	Further detail
R6. Credit risk Key to the success of the business is the effective management of the group's credit exposures. The ongoing development of the group's underwriting models is dependent on the effective monitoring of credit risk metrics and trends, as these inform the continual changes necessary to calibrate the models correctly and to incorporate the effect of new risks as they emerge.	This monitoring takes place at two levels – operational and tactical. The operational monitoring takes place online each day to ensure that the processing of applications is efficient and no processing discrepancies are left unattended. For purposes of the tactical level of monitoring, each business unit compiles an extensive monthly operations credit pack which is reviewed by the operational credit committee. This information then forms the basis of a monthly strategic credit committee review and decision process which, in turn, reports its findings to the group risk committee on a quarterly basis.	What sets us apart? Financial review Credit risk section in the web-based risk report
R7. Capital, liquidity and funding risk ABIL has to maintain adequate capital levels to safeguard its operations and stakeholders against risk and to allow it to grow. ABIL is exposed to liquidity risk arising from the need to finance its ongoing operations and growth. If the group is unable to obtain sufficient funding due to capital market conditions, the group may not be able to raise sufficient funds to achieve expected growth, fund acquisitions or meet the group's ongoing financing needs.	The group has a specialised capital management team as part of its balance sheet management function. Capital adequacy is constantly monitored on a current to three-year view to ensure that the business is adequately capitalised to achieve its objectives, taking into account its risk appetite and regulatory requirements. The group maintains significant capital buffers and takes into account growth, stakeholder requirements, internal capital requirements and developing legislation, most notably Basel III and the insurance solvency and assessment management (SAM) framework currently being developed in determining its capital management strategy. The group has an experienced treasury team which is responsible for managing the funding requirements of the group and managing liquidity and asset liability mismatch risk. It operates within a framework of strict risk mitigation parameters approved by the board.	ABIL business model Financial review Capital, liquidity and funding management section in the web-based risk report

Risk	Mitigation	Further detail
R8. Managing costs As the business experienced significant growth in the last few years, costs also increased. There is a deliberate focus on cutting costs in appropriate areas of the business, while investing in areas where it is necessary.	Substantial focus has been brought to bear on rightsizing the cost base of the business and introducing efficiencies after the rapid expansion of the distribution network. A cost committee has been set up to oversee budgetary processes, cost monitoring and all cost-intensive projects.	Financial review
R9. The proposed disposal of EHL As the group intends to dispose of the standalone furniture and appliances business, EHL, various options of the deal structure are being actively explored. There is no assurance that ABIL will dispose of EHL on favourable or acceptable economic terms. Furthermore, if and when a transaction is entered into, it may be subject to regulatory conditions.	ABIL is engaged in discussions with several parties regarding the disposal of the Retail unit. In the interim, ABIL will continue to extract value from the Retail unit, by ensuring the business is run as efficiently as possible.	Strategy in 2014 and beyond Letter to stakeholders
R10. Information technology risk Uninterrupted and efficient availability of information technology services has become indispensable and forms an integral part of the daily operations and strategy execution of the group.	A regular assessment is undertaken to ensure alignment between the strategy and long term business needs of the group and the ability of the information technology capacity to provide a cost-effective execution thereof. System capacity is regularly assessed and upgraded. Required people skills are regularly assessed. During the year, the group made considerable investment in its IT environment to increase redundancy and availability, and to have the right resources to provide the business with expected levels of service.	IT risk section in the web-based risk report

Risk	Mitigation	Further detail
R11. Regulation Non-compliance with existing regulation and lack of awareness of regulatory developments may have a severe impact on the reputation and viability of the organisation.	ABIL accepts and adopts a rigorous approach to all its regulatory responsibilities to ensure that we have the necessary rigour around our approach and implementation. Compliance risks are managed through internal policies and processes, which include risk management, legal, compliance and other technical requirements relevant to the business. ABIL has ongoing engagement with the relevant authorities to try to understand ahead of time what the possible specific interventions could be and to prepare for readiness in order to minimise the effect of additional and amended laws and regulations.	Regulatory risk section in the web-based risk report Material issues Strategic review Letter to stakeholders
R12. Reputational risk Failure of the group to continually consider its impact on society and its responsibility as a corporate citizen may lead to reputational risk and missed opportunities for the organisation to contribute to the growth of the economy while helping to better people's lives.	ABIL's vision is to have a positive impact on our society. The group continuously evaluates its impact across all spheres and it will use all resources, including financial resources, at its disposal to influence the positive development of South Africa.	Letter to stakeholders Material issues Strategic review

For the group's full risk management report including details of logistics and distribution, information technology, financial and regulatory risks, please see the full risk report on www.abil.co.za.

Remuneration report

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Introduction and report objectives

This report aims to provide stakeholders with insight into and an understanding of the remuneration philosophy and policies that are adopted and applied across the group. It is important to note that the group comprises a Banking/financial services business unit and a furniture and appliance Retail business unit and as such, the remuneration philosophies and policies are distinct for each business unit. Remuneration comprises normal monthly salary, other benefits, company contributions to retirement funds, bonuses and incentives paid to employees and executive directors as well as fees paid to non-executive directors. This report also provides full details with regard to the basis of determination of the group's total incentive pool.

The current challenging economic environment has highlighted the need for a remuneration scheme that balances the need to adequately reward employees and the interests of shareholders.

Unfortunately, the two business units and, consequently, the group has not delivered the financial returns expected by the board and shareholders during the 2013 financial year. Consequently, the ABIL share price declined significantly, which resulted in a decrease in the long term incentive scheme payments and values for employees. This has had the effect of more closely aligning the interests of the employees/management with that of shareholders.

The only payments that have been made on the long term incentive schemes relate to previously awarded amounts for which tranches had vested during the current financial year.

The short term incentive scheme, which takes the form of sales and collections incentives, has also decreased significantly. There are no discretionary performance bonuses payable for 2013 financial performance, to executive directors, executives, management, save for the operationally based incentives paid to sales and collections staff during the course of the year.

The current year has also shown that it is not sustainable to have a long term incentive scheme that does not retain some value in the face of a decrease in the share price. This gives rise to risks relating to employee morale, motivation and retention. Therefore, new remuneration incentive schemes are being proposed to shareholders to replace the current schemes. The salient terms of the new short term and long term incentive schemes, together with a proposal for the substitution of the existing long term incentive plan (LTIP) by election with the new forfeitable share plan, is set out below.

Salient terms of the proposed new share incentive plans

It is important to note that draft terms as set out below could be subject to change between the date of finalisation of this report and the posting of the notice of annual general meeting. Further, it could be subject to change based on shareholder feedback at the annual general meeting at which this will be put to the shareholders for approval. This would only become effective in financial year 2014, once approved by shareholders.

1. Introduction and purpose

In line with local and global best practice, African Bank Investments Limited (ABIL or the company) intends to adopt two new share incentive plans (collectively the share incentive plans), namely a conditional share plan (CSP) for executive directors, executives and senior management of the group (CSP qualifying employees) and a forfeitable share plan (FSP) which will be open to any full-time employee who is invited by the group remuneration and transformation committee (the group remco). Non-executive directors of the company are not eligible to participate in the share incentive plans. Both the FSP and CSP will be equity-settled through the purchase of ABIL ordinary shares on the open market specifically for this purpose.

The existing long term incentive plan (LTIP) is to be discontinued with effect from 1 October 2013, in that no LTIPs have or will be issued as of that date.

The current LTIP has a few key disadvantages, namely:

- There are no criteria for the vesting of the awards, other than the requirement that the employee be in the employ of the ABIL group on vesting date, save for retirement;
- The LTIP is rigid in that it forces encashment on vesting date or certain predetermined dates thereafter, thus not allowing the participant the freedom of choice to hold and/or dispose of the ABIL shares at their election post vesting;
- It has an element of gearing which ranges between 100% and 200% of the annual LTIP award, depending on the seniority of the participant. The repayment of this notional gearing is limited to the value of the LTIP and therefore the participant cannot lose more than their LTIP award, while the group could suffer greater losses on its hedge;
- In order to hedge the cost to the employer companies of the LTIP awards, which values are linked to the price of an ABIL ordinary share, the employer companies hedge their exposure through total return equity swaps;
- The significant drop in the price of ABIL ordinary shares has resulted in ABIL incurring costs relating to the loss on the hedge beyond its liability to its employees through the gearing; and
- It has been opened to employees at junior management level who are not risk takers in the business, but are exposed to the vagaries of the movement in the ABIL share price through the LTIP.

The salient features of the share incentive plans are detailed below.

2. Participants

As set out above, the CSP will be aimed at CSP qualifying employees, while participation in the FSP is open to a potentially wider group, being any full-time employee who is invited to participate in the FSP by the group remco (FSP qualifying employees).

The reason for this distinction is that the FSP also covers attraction and retention awards which may apply to employees other than CSP qualifying employees. However, participation in the CSP is restricted to CSP qualifying employees only. References below to qualifying employees shall mean CSP qualifying employees in relation to the CSP and FSP qualifying employees in relation to the FSP. Qualifying employees who have been awarded the right to participate in either or both of the share incentive plans, and who have accepted such award, are referred to below as participants.

3. Nature of instruments

3.1 The FSP

3.1.1 Under the FSP, participants will become owners of shares (forfeitable shares) on the settlement date pertaining to such award (which date will be shortly after the award is made) and will immediately benefit from dividends and have shareholder voting rights in respect of the forfeitable shares.

3.1.2 Participants shall not be entitled to dispose of or encumber the forfeitable shares prior to the vesting date and the forfeitable shares shall further be subject to forfeiture if employment is terminated prior to the relevant vesting date(s).

3.1.3 Awards of forfeitable shares may comprise:

3.1.3.1 awards subject to continued employment over a specified period for the purpose of attraction or retention (retention awards); and/or

3.1.3.2 awards that have been determined based on the automatic deferral of a portion of the cash short term incentive and its immediate conversion into forfeitable shares (bonus awards) and would only apply to the excess over a certain amount of the incentive as determined annually by the group remco. This threshold for compulsory deferral has currently been set by the group remco for the 2014 financial year at 100% of annual guaranteed total cost to company package (CTC), and may be amended to any other threshold by the group remco at any time without requiring the further consent of the shareholders of the company.

3.1.4 Retention awards will be subject to a minimum vesting period of three years from the date of the award.

3.1.5 Bonus awards shall vest in two equal tranches on the first and second anniversary of the award date.

3.2 The CSP

3.2.1 Awards under the CSP (performance awards) will be subject to the satisfaction of performance criteria (performance conditions) determined separately for the Ellerines Retail business unit (EHL) and the Banking business unit.

3.2.2 The performance conditions for EHL have three distinct measurements, being the average annual amounts over the performance period in relation to each of the following:

3.2.2.1 return on sales (RoS) in relation to the Retail business unit;

3.2.2.2 headline earnings in relation to the Retail business unit; and

3.2.2.3 the total return on advances relating to credit originated through the Ellerines channel.

3.2.3 The performance conditions for the Banking business unit is the measure of average return on assets (excluding goodwill) (hereinafter referred to as return on tangible assets or RoTA) over a three-year period, aligned with the financial years of the company (performance period).

3.2.4 Participants will become the owners of shares (conditional shares) on the vesting date subject to the satisfaction of the performance conditions, provided the participant remains in the employment of the group until the vesting date.

3.2.5 The vesting date will be the later of the third anniversary of the award date and confirmation by the group remco that the performance conditions have been met.

3.2.6 Participants will only benefit from dividends and have shareholder voting rights in respect of conditional shares after the vesting date in respect of such conditional shares.

4. Basis of awards and award levels

4.1 In line with the requirements of King III and best practice requirements of regular, annual awards (which are made on a consistent basis to ensure long term shareholder value creation), performance awards and bonus awards will be made under the share incentive plans on an annual basis. Retention awards will be made on an ad hoc basis, as and when a retention need arises.

4.2 Performance awards and bonus awards will be determined on the following basis:

4.2.1 the short term incentive (STI) and long term incentive (LTI) pool (collectively referred to as the incentive pools) will exclude all sales commissions and monthly or quarterly incentives paid to operational staff where such incentives are based on targets e.g. sales, collections; new customers; missed instalments, etc;

4.2.2 the incentive pool:

4.2.2.1 for the Banking business unit will be determined to be between 10 and 15% of the effective pre-tax targeted headline earnings (headline earnings), having regard to the annual target as approved by the group remco. The incentive pool for the Banking business unit would become effective once 80%, or such higher percentage as determined by the group remco each year, of the target is achieved, at which level the incentive pool for the Banking business unit would be 10% of headline earnings; and

4.2.2.2 for EHL shall be between approximately 33% and 125% of the aggregate of the cost to company packages of all participants, depending on performance ratings and level of achievement of targets,

provided that there will be a graduated increase in the incentive pools as a greater percentage of the target is achieved or exceeded, with the maximum of the respective incentive pools being applicable where the target has been exceeded by 10% or more;

4.2.3 the targets will be based on budgets approved by the board of directors of ABIL and would be set separately for EHL and the Banking business unit;

4.2.4 the EHL incentive would be applicable depending on the extent of the achievement of the three items listed below:

4.2.4.1 budgeted return on sales (RoS) in relation to the Retail business unit;

4.2.4.2 achieving a minimum of 95% of budgeted headline earnings in relation to the Retail business unit; and

4.2.4.3 budgeted return on advances relating to credit originated through the Ellerines channel.

4.3 Award levels for performance awards will be set by reference to the qualifying employee's salary, function, job grade, individual and business unit performance and market practice. The award levels will be determined by the group remco for all ABIL executives each time that awards are granted, by taking into account the particular circumstances at that time. In respect of other participants, excluding the executives of ABIL, the award levels will be determined by the ABIL executives and approved by the group remco.

4.4 Annual allocations will be benchmarked, take into account performance rating of the individual and set at a market-related level of remuneration, while considering the overall affordability thereof to the employer company.

4.5 Retention awards, which would be made in exceptional circumstances to retain key talent, would be limited to a maximum of a multiple of one times the individual's CTC for each 12 months of contracted retention.

5. Performance conditions for vesting

5.1 Performance conditions will be determined by the group remco for each annual award of performance awards at the relevant time and, where considered necessary, in consultation with shareholders. Performance conditions will be required to be fulfilled during the performance period. Separate performance conditions for vesting will be set for each of EHL and the Banking business unit.

5.2 The intended performance condition for the Banking business unit for the first performance award under the CSP is a predetermined RoTA over a three-year period from the commencement of the financial year in which the award is actually made to the end of the third financial year.

5.3 The performance condition for vesting for EHL would be the achievement of the minimum hurdles in relation to the three distinct targets as approved by the board or such other basis as the group remco may approve at the time of the grant of the LTIs.

5.4 In line with King III, vesting will occur on a sliding scale increasing as the actual performance condition gets closer to or exceeds the pre-agreed target performance condition. In line with corporate governance principles, performance conditions will not be retested if they are not met at the end of the performance period, and to the extent that they are not satisfied, performance awards will lapse.

5.5 The threshold performance target for the Banking business unit will be determined based on the average return on tangible equity (RoTE) over the three-year period, which shall be calculated by determining the average RoTA over the three-year period and multiplying same by a fixed gearing of five times. (In other words if the average RoTA is 3%, the average RoTE will be 15%.) The maximum vesting would be limited to 175% of the award if the average RoTE over the three-year period to date of vesting exceeds 25%. The vesting will be linear between the minimum RoTE and the maximum threshold RoTE, at which the vesting of 175% of the award becomes effective, provided that, regardless of the actual percentage of the RoTE, there will be no vesting whatsoever unless the average RoTE for the three-year period exceeds the cost of equity over such three-year period, as determined objectively in respect of such period by an independent expert as may be required by group remco.

5.6 The group remco is of the opinion that RoTA as opposed to RoTE is more appropriate and relevant because, save for a few executives, the remaining participants in the CSP would not have any control or influence over the level of gearing. The level of gearing will be further limited in terms of the minimum regulatory capital required to be held from time to time, which again is beyond the control of the participants, and therefore it is not appropriate to use the return on equity ratio.

6. Settlement of shares

6.1 The rules of the share incentive plans will only allow for settlement of shares through the purchase of shares on the open market. In order to hedge the company's exposure to movements in the share price prior to vesting, use would be made of a share incentive trust to hedge the exposure under the CSP.

6.2 New shares would not be issued for the purposes of the share incentive plans, neither would treasury shares held by any subsidiary company in the group be used in relation to the share incentive plans. Consequently, there will not be a dilution to shareholders that would otherwise arise from such fresh issue or use of treasury shares.

7. Dilution limits and adjustments

7.1 The maximum aggregate number of shares which may at any time either be held by the share incentive trust for purposes of the share incentive plans or be capable of being forfeited back to the share incentive trust in terms of the share incentive plans shall never exceed 45 million shares (the overall limit)

7.2 The group remco will adjust the overall limit (without the prior approval of shareholders in a general meeting), to take account of any subdivision or consolidation of the shares. Such adjustment should give a participant entitlement to the same proportion of equity capital of the company as that to which he was previously entitled prior to such subdivision or consolidation of shares.

7.3 The maximum number of shares which may be allocated to a single qualifying employee in respect of all unvested awards under the share incentive plans may not exceed five million shares (the individual limit). The group remco shall be entitled to adjust the individual limit to take account of any capitalisation issue, special dividend, rights issue or reduction of shares. Such adjustment should give a participant entitlement to the same proportion of equity capital of the company as that to which he was previously entitled prior to such capitalisation issue, special dividend, rights issue or reduction of shares.

7.4 The auditors, or any other independent advisor acceptable to the JSE, shall confirm, if required, to the JSE in writing that any adjustments made to the overall limit or the individual limit in terms of paragraphs 7.2 or 7.3 above have been properly calculated on a reasonable and equitable basis, in accordance with the rules of the share incentive plans. Any adjustments must be reported on in the company's financial statements in the year during which the adjustment is made. The issue of shares as consideration for an acquisition, and the issue of shares or a vendor consideration placing will not be regarded as a circumstance that requires any adjustment to the overall limit or the individual limit.

7.5 Allocated shares which do not finally vest with participants, for example as a result of forfeiture in terms of the rules of the FSP, will revert back to the share incentive trust.

8. Consideration

Participants will not be obliged to pay any consideration in relation to the receipt of or settlement of an award of conditional shares or forfeitable shares (other than in relation to securities transfer tax and income tax pertaining to the transfer of such shares to such participant).

9. Termination of employment

Participants whose employment with the group is terminated as a result of:

9.1 resignation or dismissal on grounds of misconduct, proven poor performance or proven dishonest or fraudulent conduct will be classified as "bad leavers" and will forfeit all unvested forfeitable shares and conditional shares;

9.2 death, retirement, retrenchment, ill-health, disability, injury or the employer company ceasing to be part of the group will be classified as "good leavers" and a portion of the award will vest. In the event of death, the percentage of the award that shall vest immediately will be based on the achievement of the performance conditions determined on a simple average basis up to the date of death, with full discretion granted to the group remco to determine if a greater or lesser portion should vest having regard to the position occupied and the contribution made by the deceased employee while in the group's employ. In all other cases, the normal vesting rules and timelines, as if the individual remained in employment within the group for the full period to vesting date, shall apply.

10. Change of control

In the event of a change of control of the company occurring before the vesting date, a portion of the award will vest. This portion will be calculated by reference to the number of complete months served since the award date over the total months of the vesting period, and in the case of performance awards, the extent to which the performance conditions have been met.

The portion of the award which does not vest as a result of the change of control will continue to be subject to the terms of the award, unless the group remco determines otherwise, in which event the group remco will make such adjustments to the awards or convert awards in the company into awards in respect of shares in one or more other companies provided that participants are placed in a substantially similar economic position.

Awards will not vest as a consequence of an internal reconstruction or similar event which does not result in a change of control as defined in the rules. In this case, the group remco shall make such adjustment to the number of awards or convert awards into awards in respect of shares in one or more other companies, provided that participants are placed in a substantially similar economic position.

11. Variation in share capital

In the event of a variation in share capital such as a capitalisation issue, subdivision of shares, consolidation of shares, liquidation for the purpose of reorganisation, special dividend, the shares ceasing to be listed on an exchange or any other event affecting the share capital of the company, participants shall continue to participate in the share incentive plans. However, the group remco will be entitled to make such adjustment to the award or take such other action as may be necessary to place participants in a substantially similar economic position.

In the event of a liquidation of the company, otherwise than for the purposes of a reorganisation, all the awards will lapse.

12. Amendments

Subject to the provisions of the JSE Listings Requirements, the group remco may amend the rules of the share incentive plans from time to time as it sees fit, provided that such amendments do not negatively affect the rights of participants under existing awards.

13. Substitution of LTIPs into allocation under the FSP

The company has all the downside risk in the event of any further reduction in the price of an ABIL ordinary share while the LTIP participant cannot lose more than the value of their LTIP at any point in time. This loss is as a result of the level of gearing that the LTIP carries, with the higher the gearing, the greater the loss when the ABIL share price drops, while the participants derives the gain when the share price increases.

The company is desirous of limiting any further financial loss that the company may suffer due to its hedging position of the LTIPs and will therefore make an offer to all participants to partially reduce the level of gearing for all LTIPs still in issue, on an equitable basis. This would have the effect of providing the company with certainty with regard to its total liability, which would be determined on the date that the participants elect the substitution into the allocation under the FSP. The basis of the reduction of gearing would take in consideration the loss that employees in the LTIP scheme should suffer as a result of the drop in the ABIL share price, but would seek to reduce both the upside and downside inherent in the existing LTIP scheme due to the level of gearing being between 100% and 200% of the award value.

Subject to the approval by the ABIL shareholders at the forthcoming annual general meeting, employees who have existing LTIPs will be made an equitable offer to either retain their existing LTIPs through to their normal vesting dates, or elect to substitute their existing LTIP rights with allocations under the FSP. Where substitution is elected, the awards under the FSP will vest equally over three years, being 30 September in 2014, 2015 and 2016. The last tranche of the LTIPs that were granted in 2012 would vest on 30 September 2017 and therefore, there would be one-year acceleration on vesting if substitution is elected.

The benefit to the company of the substitution proposal is that the cost will be fixed at the date of election and such cost will be amortised over the three year vesting period. The employee will benefit in that the equivalent value will be settled through ABIL ordinary shares and there will be no gearing once substitution is elected.

Financial highlights

The highlights below summarise the financial performance of the group and gives context to remuneration for the year. Overall, the group had a very difficult year and failed to achieve its targets. Headline earnings declined by 88 % resulting in an economic loss, after a notional charge for cost of equity, of R1,5 billion for the year.

Metric	Original target	Revised target*	Actual performance
Return on equity	>21 %	N/A	2,9 %
Merchandise sales growth	>3 %	(15) to (8) %	(15,8) %
Return on sales	5,6 – 5,8 %	Between (2,5) and 0 %	(7) %
Advances growth (Banking unit)	>23 %	18 – 22 %	11 %

* *The target was revised and published in the interim results announcement on 20 May 2013.*

Significant changes in remuneration policy and structure from the prior year

There were no significant changes in the remuneration policy and structure from the prior year. There are significant planned changes proposed in the remuneration policy and structure as set out above.

Governance of remuneration

The group remco, is a board committee which comprises three independent non-executive directors. This committee is tasked with assisting the board in formulating and monitoring the implementation of the group's transformation and remuneration policies. The group's policies are applicable to all subsidiaries, including the foreign subsidiaries in Ellerines. Details of the directors comprising this committee and its activities are disclosed in the corporate governance report of the integrated report. The full report is also available on www.abil.co.za.

The board has delegated certain responsibilities and powers to the committee in its charter, which include the following:

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

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

Remuneration advisors

The group continues to utilise the services of independent consulting companies which specialise in remuneration and compensation as and when required, to assist with benchmarking of employee and executive directors' remuneration and non-executive directors fees. During the current financial year two independent consulting firms were used to assist in devising the proposed new incentive schemes.

Remuneration philosophy

The group is acutely aware of its dependence on appropriately qualified, trained and experienced employees to achieve its goals. The rapid evolution of technology and increasing competition gives customers more choice with regard to their preferred service provider and the manner in which they choose to acquire goods and services. As a result, there is no tolerance for organisations that provide mediocre service. Furthermore, the demand for scarce skills is exacerbated by increased competition and regulation in the unsecured credit, retail and insurance industries, especially having regard to no or low levels of growth in secured lending.

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

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

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

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

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

Remuneration policy

Introduction and changes

There are a few material changes to the remuneration policy since the remuneration policy was endorsed by shareholders at the previous annual general meeting (AGM) held in February 2013. The material changes, after taking into account the feedback from shareholders and market developments and practice, relate to:

- The adoption of new long and short term incentive plans;
- More differentiation between those persons who are risk takers and others in the business;
- Aligning long term incentive vesting periods to the requirements of King III;
- The introduction of equity settled long term incentives as opposed to cash settled;
- Performance vesting criteria for long term incentives; and
- The introduction of a retention plan in exceptional circumstances for the retention of key talent.

The conversion of the existing long term incentive plan (LTIP) into the new forfeiture share plan (FSP) being a once off, is dealt with separately and as such is not addressed in this remuneration policy.

These changes have been made to align the incentive policies to current market practice, improve the transparency of ABIL's policies and processes and to ensure that the remuneration policy continues to reflect ABIL's response to the continuing evolution of remuneration governance requirements both within South Africa and globally. The group is cognisant of best market practice both within the sectors that it operates and generally, the applicable legislation as well as the need to adhere to codes of good remuneration and governance practice.

ABIL is a dominant and significant player in both the unsecured credit market within South Africa and a major retailer of furniture and appliances both within South Africa and neighbouring countries. It is unquestionable that human capital is the most important asset required to carrying out the group's objectives in a differentiated way whilst achieving its strategic objectives as approved by its board of directors.

The remuneration policy, which differentiates between the Ellerines Retail business unit and the Banking business unit, has been approved by the group remco. It covers the remuneration payable during the 2014 financial year and incentives that may be awarded in respect of the performance for the 2014 financial year.

Objective and philosophy

The remuneration policy is aligned to focus on and achieve the following:

- Encourage sustainable long-term performance of the group;
- Attract, retain, motivate and reward employees appropriately on a fair and just basis;
- Align performance with the strategic direction and vision of the business and the interests of stakeholders in a manner that is conducive to risk taking but does not encourage excess risk-taking by key decision-makers;
- Key performance areas for executives using an integrated approach taking into account risk management, financial metrics, sustainability, and strategic objectives of the group; and
- Recognising and encouraging exceptional performance, both on an individual level as well as on an operating company/group level.

Remuneration is assessed holistically by taking into account all financial, non-financial, direct and indirect rewards paid or granted to employees. Incentives are based on individual and group performance in relation to the targets approved by the board and no incentives are paid without the completion of performance assessments in a financial year.

Components of total remuneration

Remuneration within the group comprises of the following component parts:

Basic remuneration and employee benefits

This comprises fixed salaries for all permanent employees and variable incentives paid to sales and collections staff. Permanent employees are compensated according to market-related benchmarks, which are assessed on an ongoing basis with some employees on a total cost to company package, while others are on basic packages, with certain statutory contributions to pension, provident, group life and healthcare schemes being made by both employer and employee. All employees are obliged to belong to a retirement scheme and they are also provided with group life cover.

It is a condition of employment in the group, excluding the Ellerines group, that all employees belong to a recognised medical scheme. In the Ellerines group, it is currently compulsory for all employees from middle management and above to belong to a medical scheme. Subsidies are paid to staff in the Banking business unit to assist them in belonging to a medical scheme, which subsidy is revised annually having regard to increases in contributions by the various medical schemes.

All non-managerial employees in the Ellerines group are entitled to an annual bonus equivalent to one month's salary, regardless of the performance of the Ellerines group or the ABIL group.

Performance incentives, award and vesting criteria

In the past, performance incentives were dependent on the group producing an economic profit, which is determined as the group headline earnings after a notional charge for the cost of equity.

The group remco and the board, having regard to market norms, is of the view that for the Banking business unit, it would be more appropriate to base the awarding of incentives on headline earnings, but take the average return on assets excluding goodwill (return on tangible assets or RoTA) for the purposes of determining the quantum of the award that ultimately vests in the individual. This is also in line with current best practice.

The incentive pool will take into account the two different and distinct businesses, being Ellerine Holdings Retail business unit and the Banking business unit. The Retail business unit would be measured on three distinct aspects, being an annual return on sales (RoS), headline earnings and finally the return on advances, all of which are based on targets as approved by the board. The Banking business unit incentive pool would be based on the annual target headline earnings based on board approved budget.

Banking business unit

The total incentive pool for short and long term incentives would be between 10% and 15% of the pre-tax equivalent of the Banking unit headline earnings for the given financial year. The minimum of 10% would be effective once 80% of the board approved target (or such higher percentage as may be approved by the board from year to year) is achieved with the 15% being effective if the target is exceeded, with a linear increase between the two ranges. The incentive pool prior to the 2014 financial year was limited to 22,5% of pre-tax economic profit.

The award to individual employees and executives will be determined having regard to the individual's performance as assessed for the year, the level of seniority, the individuals contribution to the team, the department/business unit's performance, the operating company's performance and ultimately the performance of the group.

In addition to the award criteria for long term incentives, there will be performance vesting criteria under the CSP. This is addressed in more detail under the LTIs below.

Retail business unit

The incentive for the Ellerines executive committee (EHL exco) members will be based on the three distinct targets, which are RoS, headline earnings and the return on assets relating to the credit business originated by African Bank through the Ellerines channel. The incentives for the EHL exco members will range from between 33% and 125% of guaranteed annual package (CTC) if the hurdles are achieved, but subject to individual performance ratings. The amount of the pool will be calculated on the CTC of all qualifying participating employees and no bonuses will be payable to persons who achieve a performance rating of below 3. The table below shows the hurdles and the percentage of CTC that will be payable depending on actual results against board approved targets.

Ellerines Retail business unit

Key performance indicators	Target	% of CTC for performance rating 3 to 3.99	% of CTC for performance rate 4+	Target	% of CTC for performance rating 3 to 3.99	% of CTC for performance rating 4+
Hurdle for headline earnings as a % of target	>95%	16,70	25,00	>108	45,80	66,70
Hurdle for return on sales	Budget RoS	12,50	16,70	Budget RoS +1%	25	33
Hurdle for return on assets (RoA) for credit business	Budget RoA	4,20	8,30	>5% RoA	16,70	25,00
		33,30	50,00		87,50	125,00
Incentive pool size for EHL exco members (Rm)		9	12,5		22	31,5

The vesting criteria for EHL will be the achievement of the minimum hurdles in relation to the three distinct targets as approved by the board or such other basis as the group remco may approve at the time of the grant of the LTIs.

Short term incentives (STIs) and deferral

The STI pool is determined, by group exco from the total incentive pool each year and is subject to approval by group remco. The STIs exclude the sales and collections commissions that are paid to staff on a monthly or other basis, which are based on individual periodic performance targets. These commissions are viewed as part of the employee's salary and, as such, not part of the group performance incentive.

The maximum STI payable in a financial year to an individual is 150% of their annual guaranteed basic package.

STIs in excess of 100% of CTC are to be automatically deferred for all executives into the new forfeitable share plan (FSP) that is being implemented and these will vest equally over two years, with the only requirement being that the employee is in the employ of the group at the time of vesting. Settlement of the FSP will be through ABIL ordinary shares which will be purchased on the open market specifically for this purpose.

Long term incentives (LTIs)

Conditional share plan

The existing LTIP is to be discontinued with effective from 1 October 2013 in that no new awards are to be made under the existing LTIP, subject to approval of the new share incentive plans being tabled.

The new LTI plan will be applicable for all executives and senior managers, being those individuals who are risk takers and/or play critical roles that have a direct impact on the group's performance. It is a conditional share plan (CSP) whereby an award will be made annually from the total incentive pool. The award is then subject to vesting in a single tranche at the end of the third anniversary, subject to the achievement of the predetermined performance criteria.

The maximum LTI award in any one financial year to an individual is limited to 200% of their annual guaranteed basic package. The LTI will be equity settled through the purchase of ABIL ordinary shares on the open market specifically for this purpose.

Deferred bonus scheme

All LTI awards to persons other than executives and senior managers will be through a deferred bonus scheme into the FSP, whereby the LTI award will vest in equal tranches over a three-year period from award date. The only requirement for vesting of the FSP awards would be that the employee is in the employ of the group on each vesting date. Payment of the deferred bonus on vesting would not be linked to the ABIL share price or the group's financial performance, but would be equal to the initial award amount but paid over three years.

Performance vesting conditions for CSP

The vesting of LTIs for executives and senior managers would be subject to the satisfaction of performance conditions, measured over a three-year performance period. This performance condition is the attainment by the group of a certain predetermined simple average return on assets excluding goodwill (RoTA) over the three-year performance period. This RoTA would be determined at the time of the award, on a basis such that the average return on tangible equity over the three year period to vesting would exceed the average cost of equity for the period. The performance condition would have a threshold and target with linear vesting between these levels, with vesting being set at 50% when the threshold performance is achieved and 175% of the award if the target performance is achieved or exceeded. This performance hurdle will not be reset during the three-year period up to vesting.

The vesting criteria for EHL participants would be the achievement of the minimum hurdles in relation to the three distinct targets as approved by the board or such other basis as the group remco may approve at the time of the grant of the LTIs.

Attraction and retention awards

The importance of attracting and retaining key talent and critical skills in a highly competitive environment necessitates the implementation of an attraction and retention scheme apart from the STI and LTI. Any attraction or retention awards granted to individuals would be taken into account in making LTI awards and vice versa, to the extent such individual qualifies to participate in any STI and LTI. The LTI awards are really intended to be retention awards, due to the fact that they only vest if the employee is in the employ of the group on vesting date.

All awards made on attraction would not form part of the year's incentive pool, in order to avoid the situation where no attraction awards may be made to potential new employees due to the group not achieving targets and thus not having an incentive pool in such a year.

Retention awards will be made on an exceptional basis where it is deemed necessary by group remco to provide retention awards in order to retain key talent and critical skills in the group. It is envisaged that this would not result in more than 50 individuals within the group, and none of them are or will be group executives.

The retention would be in the form of a combination of cash and ABIL ordinary shares and or the ABIL BEE companies' shares. The cash component would be limited to 40% of the total award and is payable at the commencement of the retention period. This payment is conditional in that it is fully refundable to the group in the event that the employee resigns or is dismissed prior to the completion of the full retention period. The equity component would be awarded through the FSP to the employee on signature of the retention agreement and vest at the end of the retention period. Should the employee resign or be dismissed prior to the end of the retention period, no portion of the equity would vest in the individual.

The retention award would not exceed 100% of the individual employees CTC for each year of retention e.g. for a three-year retention the maximum permissible award would be 300% of the employees annual CTC, excluding incentives.

Tabulated summary

				FSP		CSP
Details	**Hurdle for incentive pool**	**Total pool**	**STI**	**Retention**	**STI deferral**	**LTI**
Minimum hurdle rate of approved target headline earnings (subject to annual review)	>80%					
Pre-tax headline earnings		10% to 15%				
Maximum STI award			150% of CTC			
Hurdle for deferral of STI into FSP					>100% of CTC	
Maximum retention award per year of retention				100% of CTC		
Maximum cash component of retention award				40%		
Minimum equity component of retention award				60%		
Number of years to vesting date				3 to 5	in years 1 and 2	end of year 3
Maximum LTI award						200% of CTC
Performance criteria for vesting average over three years			in employ	in employ	in employ	RoTA*

This is the minimum hurdle which the remuneration committee could in any year increase but not decrease.

* *Simple average return of assets excluding goodwill.*

Non-executive directors

The fees payable to non-executive directors are benchmarked against the market, using independent specialist consultants, having regard to the nature of the business, complexity, skills needed, qualifications, experience, time demanded from the individual, regulatory and business environment, etc. The last such review was carried out for the determination of the fees payable in financial 2012 and is next planned to be carried out for fees payable in financial year 2015.

Annual increases outside of these benchmarking exercises are generally at or slightly higher than that granted to the executive directors of ABIL. No increases have been proposed for the 2014 financial year, which is in line with the group exco members' basic salaries not being increased for the 2014 financial year, in light of the group's financial performance.

The fees paid to non-executive directors are not based on attendance of meetings as the board is satisfied that the board performance evaluation, used by the directors' affairs committee, is more appropriate to deal with performance issues than an attendance fee. No additional fees are paid to non-executive directors for unscheduled meetings, of which there have been many during the 2013 calendar year.

No bonuses, retirement benefits or incentives are paid or awarded to non-executive directors.

Remuneration structures

Review of remuneration process and structure

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

Increases during the 2013 financial year

Employees, excluding the ABIL executives, whose performance met job requirements were granted increases of between 6,5 % and 8,75 % per annum on CTC. Employees who were outstanding performers were granted an additional 1 % increase. The increases are based on a sliding scale, with the higher increases for employees who earn the least. In addition, the medical aid subsidy for employees in the Banking business unit was increased to R700 per month for employees up to supervisor level.

Material downward adjustments

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

Remuneration components

Remuneration includes the following significant components:

Component	Summary
Basic remuneration Basic remuneration comprises fixed monthly salaries for all permanent employees.	Permanent employees are compensated according to market-related benchmarks, which are assessed on an ongoing basis (with some employees on a CTC basis, while others are on cash packages), with certain statutory contributions to retirement funds, group life and healthcare schemes being made by the company.
Sign-on bonuses Sign-on bonuses are paid to attract specialised skills and to compensate new employees for loss of benefits from their immediate previous employers.	The amounts paid as sign-on bonuses are at the discretion of the respective member of the group executive committee and are conditional upon certain contractual minimum service periods to the group, depending on the quantum of the sign-on bonus.
Retention bonuses Retention bonuses are paid to retain key skills in the group.	The amounts paid as retention bonuses are at the discretion of the respective member of the group executive committee and are conditional upon certain contractual minimum service periods to the group.
Severance payments Severance cash payments are made to employees on early termination of contracts or employment either through retrenchment or mutual termination.	This does not apply to executive directors or members of the group executive committee, as there are no fixed term service contracts or guaranteed period of employment. Retrenchment payments are determined in terms of The Basic Conditions of Employment Act, whereas mutual termination payments are negotiated having regard to the skills, period of service, resignation or termination, etc. of the individual.
Guaranteed bonuses Guaranteed bonuses are paid to employees whose contracts contain a clause covering the payment of an annual bonus.	Certain Ellerines employees are entitled to guaranteed 13th cheques regardless of the group's or individual's performance. In certain limited circumstances in recruiting employees, African Bank will guarantee bonuses of those employees for a fixed period of time.

Component	Summary
Short and long term incentives Incentive payments are compensations paid to employees whose performance is at or above expectation considering their basic remuneration, and their contribution towards the creation of sustainable shareholder value. This currently includes sales commission paid to Ellerines sales employees and incentives paid to African Bank sales and collections employees.	The incentive structures are designed to encourage and reward superior performance at all levels of the organisation, but are more focused at the management and executive level. The main principles of the structure are: ▶ While the Banking unit and Ellerines are treated as two separate business units operationally for the purposes of determining economic profit, which is the group's measure of shareholder value creation and incentives for operational and managerial employees, the criteria for determining the incentive pool is different for each business unit. The Banking unit's incentive pool is based on a percentage of economic profit, while Ellerines' is based on performance against budget for headline earnings and return on sales. The group exco's incentive pool is based on group economic profit, but subject to various other targets, as determined by the board, being achieved at a group level; ▶ Economic profit is defined as the headline earnings of the business for any given year less a notional charge for the cost of equity for ordinary shareholder funds. The notional charge for the cost of equity is calculated and based on the average ordinary shareholder funds multiplied by cost of equity, having considered the risk premium attributable to ABIL's business. This cost of equity percentage is tested and adjusted, if necessary, after polling a pool of analysts and major shareholders; ▶ The actual percentage of the group's economic profit that becomes available for payment as incentives is determined annually by remco, within the maximum percentage as determined by the board on an annual basis. The maximum was set at 22,5% for the periods up to the end of the 2013 financial year; and ▶ An element of discretion is allowed on an exceptional basis to award short and long term incentives to employees, where an operational unit within the two business units achieved its internal target, although the business unit may have not achieved its target. This is to promote the retention of key employees through the economic cycles. Incentives are paid on achievement of operational targets for operational employees, while management incentives are based on achievement of operational targets and overall performance of the business unit and the group.

Component	Summary
Short and long term incentives *continued*	The achievement of the group's internal targets is of paramount importance in the determination of whether the group executives qualify for any cash bonuses. This includes financial and non-financial targets. There are currently no vesting conditions for long term incentives other than the requirement that the individual remain in the employ of the group at vesting date. This is proposed to be changed commencing from the 2014 financial year, for incentives granted from a future date. In addition, the vesting of long term incentives had historically commenced one year from date of grant and this is also proposed to be changed prospectively to full vesting at a single point at the end of three years from award date, subject to vesting performance criteria.
Benefits Benefits assist with the economic security of employees. Employee benefits comprise pension and provident funds, group life and disability cover and company-owned vehicles for certain employees	Benefits are value, other than salaries, that are provided to employees in return for their contribution to the organisation. The group has various pension and provident funds which are defined contribution funds, with benefits determined based on contributions and the accumulated growth on the investments within the funds. Membership of a retirement benefit fund is compulsory for all permanent employees, who have a choice between group and labour union retirement funds. The employer contribution ranges between 6,5% and 13,0%, with each of the funds having a minimum contribution level. Group life and disability cover is provided to employees in terms of a scheme for which a separate contribution is made by the employee. The group life cover for permanent employees is set at a compulsory minimum of three times with employees having the option to increase their individual cover to a maximum of seven times the annual fixed package. Membership of a medical scheme of the employees' choice has been made compulsory in African Bank, but in Ellerines it is currently compulsory for middle management and higher levels. Company-owned vehicles are provided to those employees in the group whose job requires regular and necessary business travel. These vehicles are provided on the basis that all costs relating to the running of the vehicles are borne by the group, with the employee being taxed on the fringe benefit value thereof.

Short term incentive payments

The short term incentives include:

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

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

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

Deferred bonus

From the 2012 financial year onwards, participants who would have qualified for LTIP awards of R100 000 or less are given deferred bonuses. These deferred bonuses vest equally over three years commencing 12 months from the date of award. If the employee resigns prior to the vesting date, all unvested portions of the bonus are forfeit.

Long term incentives

The current long term incentive plan (LTIP) aims to encourage and reward superior long term shareholder value creation.

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

The long term incentive plan

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

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- Each LTIP award, plus an additional gearing of between 100% and 200%, depending on the individual's level in the group (2012: between 100% and 200%), achieved through a notional non-recourse loan, is synthetically invested into ABIL shares. The entry price is set at the ABIL volume-weighted average price (VWAP) for the three months to end November of each year (for LTIP 2009 and 2010 the calendar month of issue, being September, was utilised). The settlement value is determined with reference to the VWAP for the similar three-month period ending November (for LTIP 2009 and 2010 the VWAP for the month of vesting).
- Interest is accrued on the notional loan on a semi-annual basis and the dividends paid on the synthetic ABIL shares (grossed up at the corporate tax rate) are applied to reduce the loan balance. The interest rate charged on the notional loan is market-related, having regard to the risk-free rate in the market and the risk premium relevant to a similar investment.
- The value of the LTIP, from time to time, is the market value of the synthetic ABIL shares, less the remaining balance on the notional loan after accruing interest and notional dividends.
- The LTIP vests annually on 30 September, and is paid out after the end of November at market value, based on the ABIL VWAP for the three months ending 30 November (for LTIP 2009 and 2010 the calendar month of vesting), over five tranches equivalent to 15% in the first year, 20% from second to fourth years and 25% in the fifth year (2012 and 2011: five tranches as above, 2010 and prior: four equal tranches). Should the individual resign or be dismissed, his or her unvested LTIPs will be forfeited and cancelled.
- Commencing with the LTIP 2010 and going forward, individuals have been given the ability to roll over a tranche into the following year or years, which must be done prior to each vesting period. These may not be rolled beyond the last vesting date in terms of the LTIP tranche issued. The forfeiture rules apply equally to any tranche that may have been rolled over to the following year.
- Each year a new LTIP is created which runs parallel to the existing LTIPs, resulting in a maximum of five separate LTIPs running concurrently.

Actual payments by component

ABIL group	2013 Number of employees	2013 Amount R million	2012 Number of employees	2012 Amount R million
Fixed payments		**2 103**		1 981
Variable payments		**415**		633
Guaranteed bonuses	**7 425**	**41**	8 488	41
Sign-on bonuses	**17**	**9**	19	4
Retention bonuses	**3**	**2**		
Severance payments	**351**	**20**	556	17

Exposure to existing long term incentive schemes

LTIP liability

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

Changes in market value of LTIPs outstanding

R million	LTIP 2009	LTIP 2010	LTIP 2011	LTIP 2012
LTIPs outstanding as at 30/9/2013	41,7	65,9	146,4	135,8
Additions during the year (awards made during the year after 30/9/2012)	0,0	0,0	0,0	12,0
Change in value during the year	(15,0)	(45,9)	(166,1)	(139,9)
Amount paid during the year	(17,8)	(16,0)	(15,8)	0,0
Forfeitures	(0,8)	(1,7)	3,6	(1,3)
LTIPs outstanding as at 30/9/2013*	8,2	2,3	(31,8)	6,7

* *This represents all tranches that are outstanding and have not been paid or vested at 30 September 2013.*

Value at grant date of outstanding LTIPs (remaining tranches)	14,1	37,8	119,1	147,3
Current gain (loss) on outstanding tranches	(5,9)	(35,5)	(150,9)	(140,6)

As shown in the table above, the LTIPs have lost value compared to the value at grant date. This is consistent with the expectation that the long term incentive scheme loses value as the share price decreases, but is exacerbated by the level of gearing attached to the LTIP. The remco has determined that gearing is not appropriate for an incentive scheme and it should rather have performance vesting criteria. This is proposed for the new long term incentive scheme for 2014 and beyond.

2013 incentive pool allocations

The incentive pool is set at a percentage of the economic profit and also dependent on whether the targets for the year have been achieved. Owing to the fact that the group incurred an economic loss and did not meet any of its targets, there is no incentive pool for the 2013 financial year. No bonuses were paid to staff in the group, other than sales and collections operational incentives. The sales and collections operational incentives will no longer form part of the incentive pool in order to ensure that payment from the incentive pool is entirely restricted to the business unit and/or group's performance.

Executive directors' and prescribed officers' remuneration

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

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

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

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

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

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Executive directors

	L Kirkinis		T Fourie		T Sokutu		N Nalliah		G Schachat		Total	
R'000	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Salary	**1 966**	1 966	**3 587**	3 589	**3 151**	3 085	**2 976**	2 978	**–**	1 800	**11 679**	13 418
Contributions[1]	**218**	218	**443**	441	**350**	348	**344**	342	**–**	200	**1 355**	1 551
Travel allowance	**–**	–	**400**	400	**–**	–	**120**	120	**–**	–	**520**	520
Total cost to company package	**2 184**	2 184	**4 430**	4 430	**3 501**	3 433	**3 440**	3 440	**–**	2 000	**13 555**	15 487
Other benefits[3]	**–**	–	**6**	–	**–**	4	**–**	8	**–**	–	**6**	12
Annual cash incentive[4]	**–**	–	**–**	900	**–**	700	**–**	975	**–**	2 550	**–**	5 125
Initial value of LTIP awarded[5]	**–**	–	**–**	3 250	**–**	3 000	**–**	4 250	**–**	–	**–**	10 500
Total remuneration	**2 184**	2 184	**4 436**	8 580	**3 501**	7 137	**3 440**	8 673	**–**	4 550	**13 561**	31 124

Prescribed officers

	C Chemel		G Roussos		J de Ridder[6]		S Kahanovitz[2]		Total	
R'000	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Salary	**3 053**	3 054	**2 384**	2 377	**194**	1 821	**887**	2 663	**6 518**	9 915
Contributions[1]	**345**	343	**277**	276	**30**	209	**99**	295	**751**	1 122
Travel allowance	**48**	48	**111**	111	**–**	70	**–**	–	**159**	230
Total cost to company package	**3 446**	3 445	**2 772**	2 764	**224**	2 100	**986**	2 958	**7 428**	11 267
Leave pay[2]	**–**	–	**–**	–	**–**	–	**188**	–	**188**	–
Other benefits[3]	**–**	–	**6**	–	**–**	–	**–**	8	**6**	8
Annual cash incentive[4]	**–**	950	**–**	850	**–**	–	**–**	750	**–**	2 550
Initial value of LTIP awarded[5]	**–**	4 000	**–**	4 500	**–**	–	**–**	2 750	**–**	11 250
Total remuneration	**3 446**	8 395	**2 778**	8 114	**224**	2 100	**1 174**	6 466	**7 622**	25 075

1 *Contributions to retirement funds.*
2 *Steve Kahanovitz resigned with effect from 31 January 2013. The balance of leave not taken was paid to him.*
3 *Other benefits consist of long service awards and subsistence allowances for international travel.*
4 *The annual cash incentives relate to performance in the respective financial year and are approved by remco and paid in November subsequent to the respective financial year.*
5 *Award in the form of LTIP payable over five years.*
6 *Johan de Ridder passed away in November 2012.*

Future remuneration

The executive directors and prescribed officers have not received an increase to their annual cost to company package for the 2013 and 2014 financial years.

The remuneration of executive directors will vary in future regarding the variable performance components, such as cash bonuses and LTI awards that may be granted each year. In respect of the LTIPs awarded in the past financial years, the actual amounts that may be paid to the executive directors for the LTIPs will vary depending on the performance of the ABIL share price and level of gearing.

Share options and converted options

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

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LTIP scheme

The allocations to executive directors and prescribed officers for the year ended 30 September 2013, together with movements in their LTIP portfolios, are reflected in the table below.

LTIPs awarded to executive directors and prescribed officers

	for the year ended 30 September 2013					
R'000	Value as at 1 Oct 2012	2013 LTIPs awarded (note 1)	LTIPs forfeited (note 5)	Change in value of LTIPs	LTIPs vested and payable (note 2)	Value as at 30 Sep 2013
Executive directors						
Leon Kirkinis (Chief executive officer)	3 322	–	–	(3 322)	–	–
Toni Fourie	8 222	–	–	(7 779)	(392)	51
Tami Sokutu	5 951	–	–	(5 664)	(243)	44
Nithia Nalliah (Chief financial officer)	10 867	–	–	(9 069)	(1 665)	133
Prescribed officers						
Charles Chemel	11 133	–	–	(10 714)	(314)	105
George Roussos	12 767	–	–	(10 743)	(1 839)	185
Johan de Ridder	2 224	–	–	(395)	(1 829)	–
Steven Kahanovitz	8 262	–	(8 262)	–	–	–
Total	**62 748**	**–**	**(8 262)**	**(47 686)**	**(6 282)**	**518**

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

Notes

1. There are no 2013 LTIP awards for the year ended 30 September 2013.
2. This includes the LTIPs vested on 30 September 2013 which were paid in October 2013.
3. The 2012 LTIP awards relate to performance for the year ended 30 September 2012, and were approved by the board (based on remco's recommendations) on 15 November 2012.
4. This includes the LTIPs that vested on 30 September 2012 and paid in October 2012.
5. Steven Kahanovitz resigned with effect from 31 January 2013 and forfeited his LTIPs.

Business unit executive committee remuneration

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

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

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

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

	2013		2012	
	Number of payments	**Amount R'000**	Number of payments	Amount R'000
Annual cash incentive	**–**	**–**	20	12 453
Initial value of LTIP award	**–**	**–**	20	37 640
Sign-on bonus	**4**	**5 177**	–	–
Guaranteed bonus	**1**	**1 000**	–	–

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Non-executive directors' remuneration

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

The fees payable to non-executive directors have been approved by shareholders in terms of section 66(8) and (9) of the Companies Act and in line with King III, during the annual general meeting in February 2013. The amounts approved by shareholders for non-executive directors' fees are as follows:

R'000	2013	2012
Chairman's fees inclusive of board and committee fees	**1 549**	1 475
Non-executive director	**225**	214
Chairman of the audit committee	**225**	214
Audit committee members	**112**	107
Chairman of the risk and capital management committee	**225**	214
Risk and capital management committee members	**112**	107
Chairman of the remuneration and transformation committee	**158**	150
Remuneration and transformation committee members	**79**	75
Chairman of the directors' affairs committee	**158**	150
Directors' affairs committee members	**79**	75
Chairman of the social and ethics committee	**158**	150
Social and ethics committee member	**79**	75

The fee for chairman of the directors' affairs committee was not payable to the chairman of the board, but was paid to another non-executive director during the period for which such other director chaired this committee.

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

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

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

R'000	ABIL board	ABIL board committees	Subsidiary boards and committees	**2013 Total**	2012 Total
Current directors					
MC Mogase[1]	387	–	1 162	**1 549**	1 475
N Adams	56	104	480	**641**	610
N Langa-Royds	56	98	464	**618**	589
M Gumbi	56	86	542	**684**	626
J Koolen	56	52	435	**543**	428
J Symmonds	56	60	446	**561**	538
M Mthombeni	4	2	22	**28**	–
Past directors					
S Sithole[2]	52	71	369	**492**	503
Total	714	473	3 919	**4 775**	4 769

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

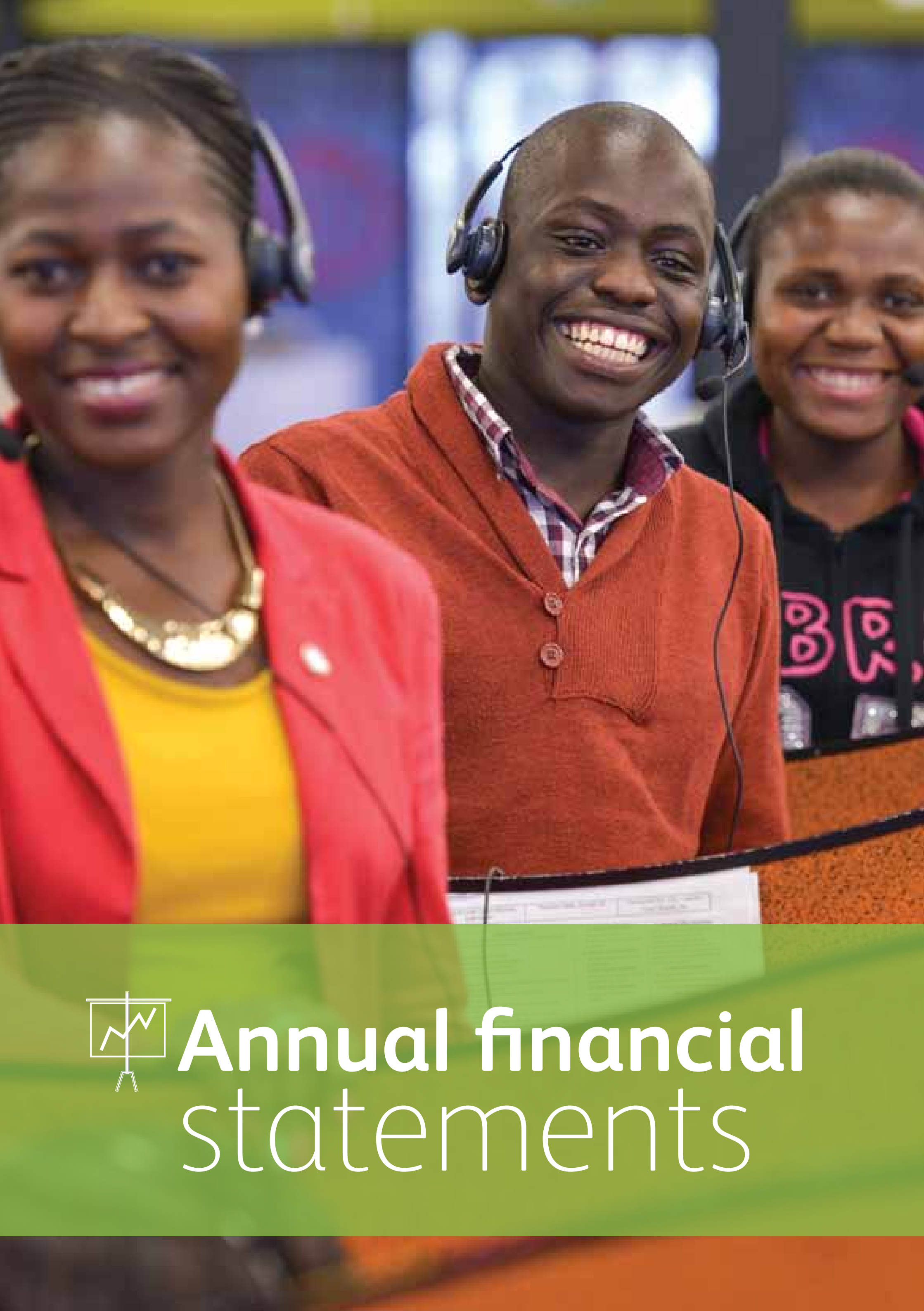
[2] *Sam Sithole resigned with effect from 16 September 2013.*

Future remuneration

There are no increases in non-executive directors' fees proposed for the 2014 financial year.

Directors' interest in shares of ABIL

The company does not have any shareholding requirements or targets for executive or non-executive directors. The schedule with the current shareholding of directors is set out in the directors' report.



Annual financial statements

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These financial statements were prepared under the supervision of the chief financial officer, Nithia Nalliah CA(SA), and have been audited in compliance with the applicable requirements of the Companies Act, 71 of 2008.

Published December 2013.

Registration number: 1946/021193/06

Financial definitions

ABIL or the group	ABIL together with its subsidiaries.
African Bank	African Bank Limited (Registration number 1975/002526/06), the wholly owned banking subsidiary of the company, a registered bank under the Banks Act and a public company incorporated in accordance with the laws of South Africa.
ABIL shareholders or shareholders	The registered holders of ABIL shares.
All-in tax rate (%)	The all-in tax rate is the income statement taxation charge (i.e. both direct and indirect taxation) expressed as a percentage of profit before any taxation.
ALCO	The assets and liabilities committee.
Average gross advances	Calculated as the sum of the month-end gross advances (excluding the partially written off book) for the period, divided by the number of months in the period.
Average net loan size	Total principal amount of new loans advanced (excluding any internal settlements) divided by the number of new loans advanced.
Average ordinary shareholders' equity	Calculated by adding the month-end shareholders' equity for each month in the period divided by the number of months in that period.
Average total assets	Calculated as the sum of the month-end total assets for the period, divided by the number of months in the period.
Bad debts to advances ratio (%)	The bad debts to advances ratio is calculated by expressing the charge for bad and doubtful advances as a percentage of average gross advances.
Banks Act	The Banks Act, no.94 of 1990 (as amended).
Banking unit	While African Bank and Stangen are separated for regulatory purposes, the two entities are largely managed and reported on as a single business unit, collectively, the ''Banking unit''.
Basel or Basel III	A set of minimum global standards for banks issued by the Basel Committee on Banking Supervision (BCBS) in December 2010 and revised in July 2011, which includes, among others, changes to capital requirements and the introduction of a leverage ratio and liquidity standards.
Basel Capital Accord	The Basel Capital Accord (Basel 2,5) of the Bank for International Settlements is an improved capital adequacy framework accomplished by closely aligning banks' capital requirements with enhanced modern risk management practices and sophisticated risk assessment capabilities. Basel 2,5 became effective for all South African banks on 1 January 2012.

Basic earnings attributable to ordinary shareholders	Profit for the period less dividends on non-redeemable, non-cumulative, non-participating preference shares declared during the reporting period.
Basic earnings per share (cents)	Basic earnings per share are calculated by dividing basic earnings attributable to ordinary shareholders by the weighted number of ordinary shares in issue during the period.
Board of directors or board	The present board of directors of the company, further details of whom appear in the section entitled ''Additional information'' and Annexure 9 in this integrated report.
Capital adequacy ratio (%)	The capital adequacy of banks and banking groups is measured in terms of the requirements of the Banks Act and regulations thereto. The ratio is calculated by dividing the sum of Tier 1 and Tier 2 capital by the total risk weighted assets.
Cash and cash equivalents	Cash and cash equivalents comprise cash on hand, deposits held on call with banks, investments in money market instruments and cash reserves held by the insurance companies.
Cash flow hedge	A risk management technique used to insulate financial results from exposure to variability in cash flows that is attributable to a particular risk associated with an asset or liability that could affect profit or loss or a highly probable forecast transaction that could affect profit or loss.
Cash-generating unit	A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.
Companies Act	The Companies Act, no.71 of 2008 (as amended).
Company	African Bank Investments Limited (Registration number 1946/021193/06), a registered bank controlling company under the Banks Act and a public company incorporated in accordance with the laws of South Africa.
Comparable sales growth (%)	Comparable sales growth is measured using 12 months' average sales over 12 months' average square metres of trading space.
Cost of funds	Interest expense as a percentage of average interest bearing liabilities.
Cost to average advances	Operating costs as a percentage of average gross advances.
Cost to income ratio	Operating costs as a percentage of income from operations.
Deferred taxation assets	Deferred taxation assets are the amounts of income taxation recoverable in future years in respect of deductible temporary differences arising from differences between the taxation and accounting treatment of transactions and the carry forward of unused taxation losses.

Financial definitions continued

Diluted basic earnings per share (cents)	Diluted basic earnings per share are calculated by dividing basic earnings attributable to ordinary shareholders by the diluted number of ordinary shares in issue during the period.
Diluted headline earnings per share (cents)	Diluted headline earnings per share are calculated by dividing headline earnings by the diluted number of ordinary shares in issue during the period.
Diluted number of shares in issue	The diluted number of shares in issue is the weighted number of ordinary shares in issue adjusted for the impact of dilution as defined by IAS 33.
Directors	The directors of the company, being both non-executive and executive directors.
Direct taxation	Direct taxation includes normal South African and foreign jurisdiction taxation on income, capital gains tax (CGT) and secondary tax on companies (STC).
Dividend cover	Headline earnings per share divided by total dividend per ordinary share.
Dividend payout ratio	Total ordinary dividend divided by headline earnings.
DMTN	Domestic medium term note.
Earnings per share	Earnings attributable to ABIL ordinary shareholders divided by the weighted number of ordinary shares in issue during the period.
Economic profit	Reported headline earnings less a charge for an imputed cost of capital (based on shareholder funds multiplied by the estimated average cost of equity for ABIL), resulting in a measure of shareholder value creation.
Effective tax rate (%)	The effective tax rate is the direct taxation charge per the income statement expressed as a percentage of profit before taxation.
EHL	Ellerine Holdings Limited (Registration number 1968/013402/06), a public company incorporated with limited liability in accordance with the company laws of South Africa, being a wholly owned direct subsidiary of the company.
EHL group	EHL and its subsidiaries.
EMTN	Euro medium term note.
EUR	Euro (€)
Eyomhlaba	Eyomhlaba Investment Holdings (RF) Limited (Registration number 2005/005827/06), a public company incorporated with limited liability in accordance with the company laws of South Africa, ABIL's first BEE programme.

Financial year	ABIL's accounting period ended 30 September for the relevant 12-month period.
Gearing or gearing ratio	The average total assets divided by the average ordinary shareholders' equity, indicating the extent to which ABIL uses debt to fund the assets.
Gross margin	Total revenue from the sales of merchandise, less cost of sales, divided by the total revenue from the sales of merchandise for the period.
Headline earnings	The guidance given on headline earnings as issued by SAICA in circular 3/2012 of June 2012 has been used for the purposes of definition and calculation. Headline earnings consist of basic earnings attributable to ordinary shareholders broadly adjusted for impairments, capital profits and losses and taxation relating thereto.
Headline earnings per share	Headline earnings divided by the weighted number of ordinary shares in issue during the period.
Hlumisa	Hlumisa Investment Holdings (RF) Limited (Registration number 2008/008839/06) a public company incorporated with limited liability in accordance with the company laws of South Africa, ABIL's second BEE programme.
IAS	International Accounting Standards.
IASB	International Accounting Standards Board.
IBNR	Incurred but not reported.
IFRIC	IFRS Interpretations Committee of the IASB.
IFRS	International Financial Reporting Standards, as adopted by the IASB, and interpretations issued by the IFRIC.
IMF	International Monetary Fund.
Income from operations	The sum of gross margin on retail business, interest income on advances, assurance income and non-interest income.
Income yield	Credit income, consisting of interest income, assurance income and non-interest income, as a percentage of average gross advances.
Indirect taxation	Value-added tax (VAT) and other taxes, levies and duties paid to government, excluding direct taxation.
Interest bearing liabilities	Comprised of subordinated bonds/debentures, bonds and other long term and short term funding.

Financial definitions continued

Interest yield	Interest income as a percentage of average gross advances.
IT	Information technology.
JIBAR	Johannesburg Interbank Agreed Rate.
JSE	The securities exchange operated by the JSE Limited.
JSE Limited	JSE Limited (Registration number 2005/022939/06), a public company registered and incorporated with limited liability in accordance with the company laws of South Africa.
Merchandise sales/employee	Merchandise sales divided by the number of employees.
Merchandise sales/m^2	Merchandise sales divided by the retail trading area (m^2).
Merchandise sales/store	Merchandise sales divided by the number of stores.
National Credit Act (NCA)	The National Credit Act (Act No 34 of 2005) became fully operational on 1 June 2007. Subject to certain defined exceptions it regulates all arm's-length credit agreements that are made or have an effect within the Republic of South Africa and it replaced the Usury Act (Act No 73 of 1968) (including the Exemption Notices published by the Minister of Trade and Industry in terms of section 15A), the Credit Agreements Act (Act No 75 of 1980) and the Integration of Usury Laws Act (Act No 57 of 1996).
NCR	National Credit Regulator
Net asset value per share	Ordinary shareholders' equity divided by the number of ordinary shares in issue (net of treasury shares) at the end of the period.
Net written premium	Written premium less deductions for commissions and ceded reinsurance.
Non-performing loans	Loans that have more than three cumulative instalments in arrears.
NPL coverage	Total impairment provisions (including ceded credit life reserves) divided by non-performing loans.
Operating margin	The profit from the EHL group operations, excluding the interest expense, divided by the sale of merchandise for the period.
Perpetual preference shares	Perpetual preference shares are non-redeemable, non-cumulative and non-participating preference shares which carry a dividend as a fixed percentage of the prime overdraft lending rate.
Rand or R	South African rand.
Regulations relating to banks	Regulations relating to banks published in Government Gazette No. 35950 of 12 December 2012.

Regulatory capital	The three ''tiers'' of regulatory capital provided for by Basel III, namely (i) common equity tier 1 capital, (ii) additional tier 1 capital, and (iii) tier 2 capital.
Rehabilitated loans	Where a loan or receivable which has previously been written off as bad, starts generating cash repayments at a certain minimum level to that required of loans and receivables that are on balance sheet, such previously written-off loan is brought back onto the balance sheet with an appropriate allowance for impairment.
Remco	Group remuneration and transformation committee.
Repo rate	The discount rate at which a central bank repurchases government securities from the commercial banks.
Retail unit	The businesses and operations of the EHL group.
RoA or return on assets	Headline earnings as a percentage of average total assets.
RoE or return on equity	Headline earnings as a percentage of average ordinary shareholders' equity. Alternatively, return on equity is equal to return on assets multiplied by the gearing ratio.
Risk-weighted assets	Risk-weighted assets are determined by applying risk weights to balance sheet assets and off balance sheet assets and commitments according to the relative credit risk of the counterparty. The risk weightings are stipulated under the Regulations relating to banks.
Sales	Sales constitute the aggregate of the amount disbursed in a period. In the case of the credit card products, sales represent the aggregate value of credit limits granted in respect of credit cards issued during the period.
Sale of merchandise	Sale of merchandise is defined as the consideration received or receivable from the sale of goods and services, net of discounts, excluding value-added tax, insurance and other revenue.
SA or South Africa	The Republic of South Africa.
South African Benchmark Overnight Rate (SABOR)	Volume-weighted average of interbank funding at a rate other than the current repo rate and the 20 highest rates paid by banks on their overnight and call deposits, plus a 5% weight for funding through foreign exchange swaps.
SARB Act	The Reserve Bank Act, no.90 of 1989 (as amended).
Stangen	The Standard General Insurance Company Limited (Registration number 1946/029011/06), a public company incorporated with limited liability in accordance with the company laws of South Africa and operating under a long-term insurance licence, being a wholly owned direct subsidiary of the company;

Financial definitions continued

Statutory assets – bank and insurance	Statutory assets – bank and insurance comprises cash reserves and prudential liquid assets placed with the South African Reserve Bank, together with insurance prudential cash reserves as required by the Financial Services Board.
Stock turn	Stock turn is calculated by dividing the rolling annual cost of sales by the average inventory of the preceding 12 months.
Tangible net asset value per ABIL share	Ordinary shareholders' equity (excluding goodwill and intangible assets) divided by the number of ordinary shares in issue (net of treasury shares) at the end of the period.
Tier 1 capital or common equity tier 1 capital	Tier 1 capital for the purposes of the capital regulations.
Tier 2 capital or secondary tier 2 capital	Tier 2 capital for the purposes of the capital regulations.
Total capital adequacy ratio	Regulatory capital divided by the total risk-weighted assets.
Total expected recoverable	The number of contractual instalments on a loan multiplied by the total monthly instalment, including insurance and service fees.
Total qualifying capital	The aggregate of regulatory capital at the relevant time.
Weighted number of shares in issue	The weighted number of shares in issue is calculated as the number of ordinary shares in issue at the beginning of the year, increased by ordinary shares issued during the period, reduced by ordinary shares cancelled or bought back during the period, further reduced by treasury shares as a result of share transactions in the ABIL employee share trust, weighted on a time basis for the period in which they have participated in the income of the group.
Written-off book	Advances which are in arrears for an extended period of time (and are partially uncollectable) are written off against the impairment allowance account for NPLs and are carried at their recoverable amount.

Acronyms and abbreviations

ABIL	African Bank Investments Limited
AGM	Annual general meeting
ALCO	Asset and liability committee
ASSA	Actuarial Society of South Africa
Basel	Basel Capital Accord
BEE	Black Economic Empowerment
CAGR	Compound annual growth rate
CAR	Capital adequacy requirement
CFD	Contract for difference
CGT	Capital gains taxation
CGU	Cash-generating unit
CIPC	Companies and Intellectual Properties Commission
CSI	Corporate social investment
DEG	Deutsche Investitions-und
DTI	Department of Trade and Industry
DPS	Dividend per share
Ellerines/EHL	Ellerine Holdings Limited group of companies
EPS	Earnings per share
EU	European Union
FEC	Forward Exchange Contract
FICA	Financial Intelligence Centre Act
FIFO	First-in, first-out
FSB	Financial Services Board
FSV	Financial Soundness Valuation
GAAP	Generally Accepted Accounting Practice
GBP	Pound sterling (£)
HEPS	Headline earnings per share
IAR	Incurred and reported
ICAAP	Internal capital adequacy assessment process
IFC	International Finance Corporation
ISA	International Standards on Auditing
ISDA	Institute of Swap Dealers Association
NACA	Nominal annual compounded annually
NACM	Nominal annual compounded monthly
NACQ	Nominal annual compounded quarterly
NACS	Nominal annual compounded semi-annually
OTC	Over the counter
SAM	Solvency and Assessment Management

Five-year summarised consolidated statement of financial position

as at 30 September 2013

R million	Four-year compound growth %	2013	Restated 2012	Restated 2011	Restated 2010	2009*
Assets						
Short term deposits, cash and statutory assets	14	**8 324**	7 167	5 731	4 966	4 876
Inventories	(4)	**731**	871	885	851	859
Other assets and taxation	50	**5 426**	2 704	2 102	1 427	1 074
Net advances	25	**50 276**	44 683	33 414	24 428	20 486
Property and equipment	16	**1 077**	965	745	601	586
Intangible assets	(3)	**801**	870	868	855	906
Goodwill	(38)	**831**	5 472	5 472	5 472	5 472
Total assets	18	**67 466**	62 732	49 217	38 600	34 259
Liabilities and equity						
Short term money market funding	27	**8 034**	4 587	1 666	1 038	3 108
Other liabilities and taxation	16	**3 202**	2 725	2 590	2 425	1 745
Bonds and other long term funding	30	**42 065**	37 320	29 672	20 877	14 705
Subordinated bonds/debentures	21	**4 361**	3 831	2 775	2 226	2 044
Total liabilities	28	**57 662**	48 463	36 703	26 566	21 602
Ordinary shareholders' equity	(8)	**8 674**	13 139	11 795	11 551	12 174
Preference shareholders' equity	24	**1 130**	1 130	719	483	483
Total equity (capital and reserves)	(6)	**9 804**	14 269	12 514	12 034	12 657
Total liabilities and equity	18	**67 466**	62 732	49 217	38 600	34 259

* *2009 information is presented as previously reported.*

Five-year summarised consolidated income statement
for the year ended 30 September 2013

R million	Four-year compound growth %	2013	Restated 2012	Restated 2011	Restated 2010	2009*
Gross margin on retail business	(0,3)	**1 770**	2 134	2 083	1 974	1 791
Interest income on advances	22	**11 964**	9 919	7 308	5 950	5 437
Insurance income	17	**4 862**	3 828	2 962	2 309	2 565
Non-interest income	10	**3 337**	3 291	2 930	2 491	2 251
Income from operations	16	**21 933**	19 172	15 283	12 724	12 044
Credit impairment charge	38	**(9 155)**	(4 842)	(4 349)	(2 959)	(2 511)
Credit life insurance claims	37	**(1 609)**	(867)	(701)	(729)	(462)
Risk-adjusted income from operations	5	**11 169**	13 463	10 233	9 036	9 071
Product insurance claims	26	**(55)**	(60)	(68)	(83)	(22)
Other interest and investment income	2	**393**	219	339	390	367
Interest expense	23	**(4 564)**	(3 680)	(2 850)	(2 383)	(2 025)
Operating costs	8	**(6 124)**	(5 467)	(4 931)	(4 481)	(4 576)
Indirect taxation: VAT	75	**(168)**	(72)	(67)	(20)	(18)
Profit from operations	(31)	**651**	4 403	2 656	2 459	2 797
Capital items	(>100)	**(4 641)**	(6)	1	34	(7)
(Loss)/profit before taxation	(>100)	**(3 990)**	4 397	2 657	2 493	2 790
Direct taxation: normal and STC	(31)	**(209)**	(1 307)	(892)	(816)	(935)
(Loss)/profit after taxation	(>100)	**(4 199)**	3 090	1 765	1 677	1 855
Per share statistics						
Basic earnings per share (cents)	(>100)	**(528,9)**	376,7	215,6	204,2	224,3
Headline earnings per share (cents)	(33)	**45,1**	378,2	215,6	202,2	225,2
Weighted number of shares in issue (million)	0,2	**810,5**	804,0	803,7	803,7	803,7

* *2009 information is presented as previously reported.*

Currency-adjusted consolidated statement of financial position

as at 30 September 2013

	Rand		US dollar	
R million	**2013**	Restated 2012	**2013**	Restated 2012
Assets				
Short term deposits and cash	**3 091**	2 845	**306**	341
Statutory assets – bank and insurance	**5 233**	4 322	**518**	520
Inventories	**731**	871	**72**	105
Other assets	**3 894**	1 535	**385**	184
Taxation	**520**	389	**51**	47
Net advances	**50 276**	44 683	**4 973**	5 371
Deferred tax asset	**1 012**	780	**100**	93
Property and equipment	**1 077**	965	**107**	116
Intangible assets	**801**	870	**79**	105
Goodwill	**831**	5 472	**82**	658
Total assets	**67 466**	62 732	**6 673**	7 540
Liabilities and equity				
Short term funding	**8 034**	4 587	**795**	552
Other liabilities	**2 996**	2 488	**296**	299
Taxation	**7**	21	**1**	3
Deferred tax liability	**199**	216	**20**	26
Bonds and other long term funding	**42 065**	37 320	**4 160**	4 485
Subordinated bonds/debentures	**4 361**	3 831	**431**	460
Total liabilities	**57 662**	48 463	**5 703**	5 825
Ordinary shareholders' equity	**8 674**	13 139	**858**	1 579
Preference shareholders' equity	**1 130**	1 130	**112**	136
Total equity (capital and reserves)	**9 804**	14 269	**970**	1 715
Total liabilities and equity	**67 466**	62 732	**6 673**	7 540
Rates used for currency conversion				
Year end rate	**1,00**	1,00	**10,11**	8,32

Currency adjusted consolidated income statement

for the year ended 30 September 2013

	Rand		US dollar	
R million	2013	Restated 2012	2013	Restated 2012
Gross margin on retail business	**1 770**	2 134	**191**	219
Interest income on advances	**11 964**	9 919	**1 289**	1 229
Insurance income	**4 862**	3 828	**524**	474
Non-interest income	**3 337**	3 291	**360**	408
Income from operations	**21 933**	19 172	**2 363**	2 331
Credit impairment charge	**(9 155)**	(4 842)	**(987)**	(600)
Credit life insurance claims	**(1 609)**	(867)	**(173)**	(107)
Risk-adjusted income from operations	**11 169**	13 463	**1 204**	1 623
Product insurance claims	**(55)**	(60)	**(6)**	(7)
Other interest and investment income	**393**	219	**42**	27
Interest expense	**(4 564)**	(3 680)	**(492)**	(456)
Operating costs	**(6 124)**	(5 467)	**(660)**	(677)
Indirect taxation: VAT	**(168)**	(72)	**(18)**	(9)
Profit from operations	**651**	4 403	**71**	500
Capital items	**(4 641)**	(6)	**(500)**	(1)
(Loss)/profit before taxation	**(3 990)**	4 397	**(429)**	499
Direct taxation: normal and STC	**(209)**	(1 194)	**(23)**	(148)
(Loss)/profit for the year	**(4 199)**	3 203	**(452)**	352
Per share statistics				
Basic (loss)/earnings per share (cents)	**(528,9)**	376,7	**(57,0)**	46,7
Headline earnings per share (cents)	**45,1**	378,2	**4,9**	46,9
Weighted number of shares in issue (million)	**810,5**	804,0	**804,0**	804,0
Reconciliation of headline earnings				
Basic (loss)/earnings attributable to ordinary shareholders	**(4 287)**	3 029	**(462)**	375
Adjustment for:				
Non-headline items	**4 656**	17	**502**	2
Tax thereon	**(4)**	(5)	**(1)**	(1)
Headline earnings	**365**	3 041	**39**	377
Rate used for currency conversion				
Average rate	**1,00**	1,00	**9,28**	8,07

Certificate from the company secretary

In accordance with the provisions of section 88 (2)(e) of the Companies Act, I certify that, in respect of the year ended 30 September 2013, the company has lodged, with the Commissioner of the Companies and Intellectual Property Commission, all returns and notices prescribed by the Act and that all such returns and notices are true, correct and up to date.

LM Goliath
Company secretary

Midrand
6 December 2013

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements of African Bank Investments Limited, comprising the statement of financial position at 30 September 2013, the income statement, the statement of comprehensive income, the statement of changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act.

The directors' responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal controls aimed at reducing the risk of errors or losses in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with International Financial Reporting Standards and the Companies Act.

Approval of the annual financial statements

The annual financial statements set out on pages 156 to 325 were approved by the board of directors and signed on its behalf by:

MC Mogase
Chairman

L Kirkinis
Chief executive officer

Midrand
6 December 2013

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AFRICAN BANK INVESTMENTS LIMITED

We have audited the consolidated and separate annual financial statements of African Bank Investments Limited set out on pages 182 to 322 which comprise the consolidated and separate statements of financial position as at 30 September 2013, the consolidated and separate income statements, the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies and for such internal control as the directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of African Bank Investments Limited as at 30 September 2013, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 30 September 2013, we have read the directors' report, the audit committee's report and the certificate from the company secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche
Registered Auditors

Per Mgcinisihlalo Jordan
Partner

6 December 2013

Audit committee report

The audit committee presents its report for the financial year ended 30 September 2013 as required by section 94(7)(f) of the Companies Act. The audit committee has been constituted in accordance with applicable legislation and regulations.

Purpose of the audit committee

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

Membership and attendance

The audit committee consists of three members who are all independent non-executive directors. The committee meets at least four times per financial and calendar year.

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

Functions of the audit committee

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

- Reviewing and approving the group external audit plan including the proposed audit scope, approach to group risk activities and the audit fee;
- Confirming the independence of the auditors, Deloitte & Touche;
- Reviewing external audit reports;
- Assessing the nature and extent of non-audit services;
- evaluating the role, independence and effectiveness of the internal audit function;
- Approving the appointment or dismissal, if applicable, of the head of internal audit;
- Approving the internal audit charter and internal audit plan;
- Reviewing the accounting policies adopted by the group and all proposed changes in accounting policies and practices;
- Reviewed the interim and annual financial statements to confirm the financial statements are prepared in accordance with International Financial Reporting Standards, the Companies Act and the Listings Requirements of the JSE Limited;
- Reviewing the group compliance plan and assessing the procedures for identifying the regulatory risks;
- Reviewing the legal matters that could have a significant impact on the group's financial statements; and
- Assess the qualifications, expertise and experience of the chief financial officer.

Attendance by auditors and executive directors

The internal and external auditors attended and reported at all meetings of the audit committee. The executive directors were also invited to all meetings.

Independence of external auditors

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

Expertise and experience of financial director

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

Internal financial controls, accounting practices and group annual financial statements

Based on the work of the group's assurance providers, nothing has come to the attention of the committee which indicates that the group's system of internal financial controls and accounting practices, in all material respects, does not provide a basis for reliable annual financial statements.

The committee is satisfied that the group and company annual financial statements are in compliance, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards, and recommended the financial statements for approval by the board.

Johnny Symmonds
Chairman: Group audit committee

Midrand
6 December 2013

Directors' report

The directors present their report to shareholders, together with the audited annual financial statements of the company and the group for the financial year ended 30 September 2013.

Nature of the business and principal subsidiaries

ABIL is a publicly quoted bank-controlling company, in terms of the Banks Act, listed on the JSE Limited, which operates businesses within the Republic of South Africa and in the neighbouring countries of Zambia, Botswana, Lesotho, Namibia and Swaziland. The two main areas in which the group operates are the underwriting of unsecured credit risk through the provision of personal loans to predominantly the formally employed emerging market, which is confined to the Republic of South Africa, and the retailing of furniture and appliances for cash and credit both within and outside the Republic of South Africa. ABIL was founded on the development of the unsecured credit market with the intention of growing the market by making credit available to the majority of the South African citizens who were historically denied credit. It has achieved this through a significant distribution base throughout South Africa, predicated on self-developed dynamic credit scoring models and efficient collection methods. ABIL has the following principal operating subsidiaries, with a full list of subsidiaries being disclosed in Appendix A.

- African Bank Limited is registered as a bank under the Banks Act and is the main operating company, carrying on the business of providing unsecured personal loans to both the formally and informally employed South African residents through its own branches and the Ellerines Group branches within South Africa.
- Ellerine Holdings Limited, through its main operating subsidiary, Ellerine Furnishers (Proprietary) Limited is engaged in the business of retailing furniture and appliances for cash and on credit to the markets spanning all LSMs. The credit for sales within South Africa is provided by African Bank.
- The Standard General Insurance Company Limited is registered as a life insurance company under the Long-term Insurance Act, and provides credit life products to customers of African Bank Limited.
- Relyant Insurance Company Limited is registered as a short-term insurance company under the Short-term Insurance Act, and is primarily engaged in the sale of optional insurance on goods purchased by customers on credit from Ellerine Furnishers.
- Relyant Life Assurance Company Limited is registered as a life insurance company under the Long-term Insurance Act, and provides funeral insurance products and insurance of credit life products to customers of African Bank Limited and Ellerine Furnishers (Proprietary) Limited.

Share capital

Ordinary shares

At 30 September 2013 the authorised share capital was at 2 000 000 000 shares of 2,5 cents each. In September 2013 the company's authorised share capital was increased by 1 000 000 000 shares.

On 18 December 2012 ABIL issued 6 056 918 shares *in lieu* of a cash dividend and a further 5 579 421 shares were issued by ABIL on 18 June 2013 *in lieu* of a cash dividend. No shares were issued during the previous year. At 30 September 2013, the issued ordinary share capital totalled 815 811 539 (2012: 804 175 200) shares of 2,5 cents each representing R20,4 million (2012: R20,1 million). There were no shares repurchased during the current financial year (2012: Nil).

Preference shares

The authorised preference share capital remains unchanged at 20 000 000 shares of 1 cent each. No preference shares were issued during the year (2012: 5 480 778 shares).

The issued preference share capital at 30 September 2013 totalled 13 523 029 (2012: 13 523 029) shares of 1 cent each representing R135 230 (2012: R135 230).

Holding company

ABIL does not have a holding company.

ABIL shares held by subsidiary companies

As at 30 September 2013 there are no shares held by subsidiary companies.

Borrowing powers

In terms of the memorandum of incorporation, the group has unlimited borrowing powers. The group obtains its funding primarily through the DMTN programme by the issue of corporate bonds which trade on the Bond Exchange of South Africa. The total funding approved by the board of directors in terms of the DMTN programme is R25 billion (2012: R15 billion). The capital outstanding to third parties in terms of the DMTN programme at 30 September 2013 is R17,5 billion (2012: R12,8 billion).

During two previous financial years, the board of directors approved and listed on the London Stock Exchange, a EMTN programme amounting to USD2 billion, further USD4 billion was approved during the current financial year. The capital outstanding on the EMTN programme at 30 September 2013 is R7,5 billion (2012: R6,4 billion).

During the year under review, African Bank Limited issued bonds (listed on the Swiss Stock Exchange) in terms of the EMTN programme amounting to CHF125 million which has been swapped into local currency equating to R1 164 million.

The total borrowings of the group at 30 September 2013 are R54,5 billion (2012: R45,7 billion). Full details of the borrowings are shown in notes 13, 16 and 17 to the annual financial statements.

Going concern

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

Post-balance sheet events

On 5 August 2013 ABIL announced an intention to issue shares in a rights offer of up to R4 billion. This was later increased up to R5,5 billion and opened on 18 November 2013 and closed on 6 December 2013. The final terms of the rights offer was an issue of 685 281 693 new ABIL ordinary shares at a subscription price of 800 cents each.

The company's board of directors and executive management were of the opinion that ABIL's capital base needed to be strengthened in anticipation of the new Basel III phased capital requirements and to provide additional confidence to funders. The board of directors further believed it was appropriate to increase the buffer available by raising capital through the rights offer to absorb credit losses, and to proactively strengthen the capital base, all of which will provide ABIL with the financial flexibility it needs to support its business' growth prospects.

In particular, the company objectives for the rights offer were to:

- Supplement the existing capital base with high quality capital;
- Provide additional capital protection against any deterioration of the South African economy;
- Support loan book growth; and
- Provide a fair and transparent market solution to raise capital.

Major capital expenditures

The group made total additions to its intangible assets and property and equipment of R339 million (2012: R568 million) during the past financial year.

Regulatory approval

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

Dividends to ordinary shareholders

On 8 November 2013, the board of directors approved a final gross cash dividend for the 2013 financial year of 5 cents per ordinary share.

	2013 cents	2012 cents
Ordinary dividends		
Interim, paid on 18 June 2013 to shareholders registered on 14 June 2013	**25**	85
Final, payable on 9 December 2013 to shareholders registered on 6 December 2013	**5**	110
Total	**30**	195

Dividends to preference shareholders

On 8 November 2013, the board of directors approved a final gross cash preference dividend of 308 cents per preference share in respect of the second half of the 2013 financial year.

	2013 cents	2012 cents
Preference dividends		
Interim, paid on 18 June 2013 to shareholders registered on 14 June 2013	**322**	341
Final, payable on 9 December 2013 to shareholders registered on 6 December 2013	**308**	327
Total	**630**	668

All dividends have been declared out of profits available for distribution and do not carry any STC credits.

Directors and changes in directors

In accordance with clause 13 of the company's memorandum of incorporation one-third of the directors shall retire at each annual general meeting on a rotational basis as determined under the said clause. Retiring directors are eligible for re-election. The following directors were re-elected at the annual general meeting held on 5 February 2013:

- Leonidas Kirkinis (executive director)
- Nithiananthan Nalliah (executive director)
- Nicholas Adams (non-executive director)
- Samuel Sithole (non-executive director)

Morris Mthombeni was appointed as an independent non-executive director of ABIL and African Bank and Samuel Sithole, independent non-executive director of ABIL and African Bank resigned from these boards, both appointment and resignation effective 16 September 2013.

ABIL board of directors

- Mutle Constantine Mogase (independent non-executive chairman)
- Leonidas Kirkinis (chief executive officer)
- Nithiananthan Nalliah (chief financial officer)
- Antonio Fourie (executive director)
- Thamsanqa Mthunzi Sokutu (executive director)
- Jacobus Koolen (independent non-executive director)
- Mojankunyane Gumbi (independent non-executive director)
- Nicholas Adams (independent non-executive director)
- Ntombi Langa-Royds (independent non-executive director)
- Robert John Symmonds (independent non-executive director)
- Morris Mthombeni (independent non-executive director)

Company secretary and registered office

The group company secretary is Leeanne Goliath. Her business address is 59 16th Road, Midrand, 1685, and her postal address is Private Bag X170, Halfway House, 1685.

Directors' interest in shares

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

There has been no material change in the interest of directors in the ordinary and preference issued share capital of the company between 30 September 2013 and the date of this report. However, their interests may be impacted post the completion of the rights issue.

Interest of directors of the company, directly and indirectly, in the ordinary shares of ABIL

Name	Notes	2013 Direct	2013 Indirect	2013 Total	2012 Direct	2012 Indirect	2012 Total
Current executive directors							
Leon Kirkinis (CEO)		**3 043 624**	**13 688 251**	**16 731 875**	3 000 000	13 500 000	16 500 000
Toni Fourie		**–**	**304 405**	**304 405**	–	300 042	300 042
Nithia Nalliah	3	**–**	**2 541 731**	**2 541 731**	–	2 284 238	2 284 238
Tami Sokutu	4	**–**	**5 929 430**	**5 929 430**	–	5 420 381	5 420 381
Subtotal		**3 043 624**	**22 463 817**	**25 507 441**	3 000 000	21 504 661	24 504 661
Non-executive directors							
Mutle Mogase (Non-executive chairman)	5	**–**	**3 168 852**	**3 168 852**	–	2 901 263	2 901 263
Nic Adams		**2 000**	**1 308 792**	**1 310 792**	2 000	1 265 783	1 267 783
Johnny Symmonds		**2 099**	**–**	**2 099**	2 000	–	2 000
Subtotal		**4 099**	**4 477 644**	**4 481 743**	4 000	4 167 046	4 171 046
Total		**3 047 723**	**26 941 461**	**29 989 184**	3 004 000	25 671 707	28 675 707
Past directors							
Gordon Schachat	7	**–**	**–**	**–**	3 000 000	9 000 000	12 000 000
Sam Sithole	6, 8	**–**	**1 024 839**	**1 024 839**	–	947 742	947 742
Subtotal		**–**	**1 024 839**	**1 024 839**	–	9 947 742	12 947 742
Total ordinary shares		**3 047 723**	**27 966 300**	**31 014 023**	6 004 000	35 619 449	41 623 449

Note 1: Eyomhlaba owns 48 501 465 (2012: 43 826 465) ordinary shares in ABIL which is 5,9% (2012: 5,5%) of ABIL's issued ordinary share capital. The directors' holding in ABIL has changed to the percentages shown in notes 3 to 6 as a result of the acquisition by Eyomhlaba of 4 675 000 ABIL ordinary shares during the year.

Note 2: Hlumisa owns 25 840 808 (2012: 23 782 808) ordinary shares in ABIL which is 3,2% (2012: 3%) of ABIL's issued ordinary share capital. The directors' indirect holding in ABIL has changed to the percentages shown in notes 3 to 6 as a result of the acquisition by Hlumisa of 2 058 000 ABIL ordinary shares during the year.

Note 3: Nithia Nalliah has a 4,9% (2012: 4,86%) interest in Eyomhlaba and a 0,6% (2012: 0,64%) interest in Hlumisa.

Note 4: Tami Sokutu has a 9,9% (2012: 9,95%) interest in Eyomhlaba and a 4,4% (2012: 4,45%) interest in Hlumisa.

Note 5: Mutle Mogase has a 4,9% (2012: 4,9%) interest in Eyomhlaba and a 3,1% (2012: 3,16%) interest in Hlumisa.

Note 6: Sam Sithole has a 0,7% (2012: 0,71%) interest in Eyomhlaba and a 2,6% (2012: 2,68%) interest in Hlumisa.

Note 7: Gordon Schachat, executive deputy chairman of ABIL, African Bank Limited and Ellerine Holdings Limited, retired from these boards with effect from 30 September 2012.

Note 8: Sam Sithole, a non-executive director of ABIL and African Bank Limited resigned from these boards with effect from 16 September 2013.

The current and past directors stated above do not have any interest in the preference shares of ABIL.

Remuneration and employee incentive participation schemes

Details in respect of directors' remuneration and the group's long term incentive plans are fully disclosed in the remuneration report.

Interest of directors and officers in transactions

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

Special resolutions by ABIL

At the annual general meeting held on 5 February 2013, African Bank Investments Limited shareholders passed the following special resolutions:

Special resolution 1 – remuneration of non-executive directors

The approval of the remuneration payable to non-executive directors for their services as directors for the year ended 30 September 2013.

Special resolution 2 – adoption of a revised MOI

Adoption of the MOI that has been revised to harmonise it with the requirements of the Companies Act and the JSE Listings Requirements.

Special resolution 3 – general authority to provide financial assistance to related or interrelated companies and corporations

To the extent required, to authorise ABIL to provide direct or indirect financial assistance to any of its subsidiaries and/or any other company that is related or interrelated to ABIL in accordance with section 44 or section 45 of the Companies Act.

Special resolution 4 – specific authority to provide financial assistance to BEE companies

To provide ABIL with a specific authority to provide additional financial assistance to either or both of Eyomhlaba and Hlumisa should ABIL believe that this will assist ABIL towards furthering or achieving its Black Economic Empowerment objectives.

Special resolution 5 – general repurchases

To enable the company or any of its subsidiaries, by way of general authority from shareholders, to repurchase the issued securities of the company, subject to the MOI of the company, the provisions of the Companies Act and the JSE Listings Requirements, when applicable.

At the general meeting held on 16 September 2013, African Bank Investments Limited shareholders passed the following special resolutions:

Special resolution 1 – increase of authorised share capital – further ordinary shares

To increase the number of ordinary shares in the authorised share capital of the company in order to create sufficient authorised ordinary shares in the authorised share capital of the company for the purpose of implementing the rights offer and any other issues of shares that may be undertaken by the company.

Special resolution 2 – amendments to the memorandum of incorporation

To obtain approval from the shareholders of the company for the amendment to the memorandum of incorporation of the company to give effect to the change in authorised share capital recorded in special resolution number 1 above.

Special resolution 3 – approval in terms of sections 41(1) and 41(3) of the Companies Act for the issue of further ordinary shares

To authorise directors of the company to issue additional ordinary shares in the authorised but unissued share capital of the company pursuant to the rights offer and to issue any ordinary shares to any underwriter of the rights offer.

Special resolution 4 – specific authority to provide financial assistance to BEE companies

To enable ABIL to provide additional financial assistance to either or both of Eyomhlaba and Hlumisa should the board believe that this will assist in achieving or protecting ABIL's Black Economic Empowerment objectives, whether such assistance is through the acquisition of preference shares from existing external funders of the BEE companies, the granting of guarantees or other securities or any other financial assistance of any form whatsoever.

Special resolutions by principal subsidiaries

The following special resolutions were passed by principal subsidiaries of the company:

- The approval of remuneration payable to non-executive directors for their services as directors for the year ended 30 September 2013.
- Granting the general approval to provide financial assistance to other ABIL Group companies under section 45 of the Companies Act.
- Adoption of a revised MOI for African Bank Limited and Ellerines Holdings Limited with the requirements of the Companies Act.
- The conversion of unissued authorised preference shares to ordinary shares of African Bank Limited.
- Authority to place the authorised but unissued ordinary share capital of African Bank Limited and Ellerine Holdings Limited under the control of the directors to enable the directors to issue additional shares if necessary.

Litigation statement

In terms of section 11.26 of the Listings Requirements of the JSE, the directors are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the group's financial position.

Subsequent to the reporting date African Bank reached a settlement with the National Credit Regulator in respect of the proposed fine referred to by the National Credit Tribunal. African Bank agreed to pay settlement amount of R20 million as full and final settlement.

Acquisitions, disposals/terminations and pre-emptive rights

Various dormant subsidiaries were placed under voluntary liquidation during the financial year, details of which are listed in Appendix A.

Insurance and directors' and officers' indemnity

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

Auditors

Deloitte & Touche has expressed its willingness to continue as auditors and resolutions proposing its reappointment and authorising the board to set its remuneration will be submitted at the forthcoming annual general meeting.

JSE Listings Requirements

African Bank Investments Limited and its directors have, during the 12-month period ended 30 September 2013 and to the date of this report, complied with all listings requirements and every disclosure requirement for continued listing on the JSE as imposed by the JSE Limited during the period.

Other information

In accordance with the Companies Act and the JSE Listings Requirements, the directors are required to bring certain additional information to the attention of shareholders in the directors' report. Information on names of directors and the King III compliance statement are in the corporate governance report.

Consolidated statement of financial position

as at 30 September 2013

R million	Notes	2013	Restated* 2012	Restated♦ 2011
Assets				
Short term deposits and cash	5	**3 091**	2 845	2 956
Statutory assets – bank and insurance	6	**5 233**	4 322	2 775
Inventories	7	**731**	871	885
Other assets	8	**3 894**	1 535	1 114
Taxation		**520**	389	510
Net advances	9	**50 276**	44 683	33 414
Deferred tax asset	10	**1 012**	780	478
Policyholders' investments		**–**	–	1
Property and equipment	11	**1 077**	965	745
Intangible assets	12	**801**	870	868
Goodwill	12	**831**	5 472	5 472
Total assets		**67 466**	62 732	49 218
Liabilities and equity				
Short term funding	13	**8 034**	4 587	1 666
Other liabilities	14	**2 996**	2 488	2 344
Taxation		**7**	21	17
Deferred tax liability	10	**199**	216	229
Life fund reserve	15	**–**	–	1
Bonds and other long term funding	16	**42 065**	37 320	29 672
Subordinated bonds, debentures and loans	17	**4 361**	3 831	2 775
Total liabilities		**57 662**	48 463	36 704
Ordinary share capital	18	**20**	20	20
Ordinary share premium	18	**9 420**	9 131	9 131
Reserves	19	**(766)**	3 988	2 644
Ordinary shareholders' equity		**8 674**	13 139	11 795
Preference shareholders' equity	20	**1 130**	1 130	719
Total equity (capital and reserves)		**9 804**	14 269	12 514
Total liabilities and equity		**67 466**	62 732	49 218

* *Comparatives have been restated as per note 53.*

♦ *The figures that have been restated for the statement of financial position as at 30 September 2011 are recorded in note 53.10.*

Consolidated income statement

for the year ended 30 September 2013

R million	Notes	2013	Restated* 2012
Gross margin on retail business	21	**1 770**	2 134
Interest income on advances	22	**11 964**	9 919
Insurance income	23	**4 862**	3 828
Non-interest income	24	**3 337**	3 291
Income from operations		**21 933**	19 172
Credit impairment charge	25	**(9 155)**	(4 842)
Credit life insurance claims	23	**(1 609)**	(867)
Risk-adjusted income from operations		**11 169**	13 463
Product insurance claims	23	**(55)**	(60)
Other interest and investment income	22	**393**	219
Interest expense	26	**(4 564)**	(3 680)
Operating costs	27	**(6 124)**	(5 467)
Indirect taxation: VAT	28	**(168)**	(72)
Profit from operations		**651**	4 403
Capital items	29	**(4 641)**	(6)
(Loss)/profit before taxation		**(3 990)**	4 397
Direct taxation: STC	28	**–**	(82)
Direct taxation: normal	28	**(209)**	(1 225)
(Loss)/profit for the year	30	**(4 199)**	3 090
(Loss)/earnings per share (cents)			
– Basic		**(528,9)**	376,7

* *Comparatives have been restated as per note 53.*

Consolidated statement of other comprehensive income

for the year ended 30 September 2013

R million	Notes	2013	Restated* 2012
(Loss)/profit for the year	30	**(4 199)**	3 090
Other comprehensive income comprising items that are or may subsequently be reclassified to profit or loss			
Exchange differences on translating foreign operations		**9**	(4)
Movement in cash flow hedge reserve		**609**	(200)
IFRS 2 reserve transactions (employee incentives)		**3**	(7)
Other comprehensive income/(loss) for the year, net of tax		**621**	(211)
Total comprehensive (loss)/income for the year		**(3 578)**	2 879

* *Comparatives have been restated as per note 53.*

Consolidated statement of changes in equity

for the year ended 30 September 2013

R million	Notes	Ordinary share capital and premium	Retained earnings	Share-based payments reserve
Balance at 30 September 2011 (restated)*		9 151	2 812	81
Dividends paid	32	–	(1 488)	–
Issue of preference shares	42	–	–	–
Profit on group employees acquiring ABIL share trust shares less dividends received	33	–	3	–
Shares purchased into the ABIL employee share trust less shares issued to employees (cost)	33	–	–	–
Transfer from share-based payment reserve to retained earnings		–	77	(77)
Transfer from insurance contingency reserve to retained earnings		–	(4)	–
Total comprehensive income for the year		–	3 029	(7)
Balance at 30 September 2012 (restated)*	18, 19, 20	9 151	4 429	(3)
Dividends paid	32	**–**	**(799)**	**–**
Shares issued in terms of the scrip distribution	18	**289**	**(289)**	**–**
Transfer from insurance contingency reserve to retained earnings		**–**	**9**	**–**
Total comprehensive income for the year		**–**	**(4 287)**	**3**
Balance at 30 September 2013	18, 19, 20	**9 440**	**(937)**	**–**

* *Comparatives have been restated as per note 53.*

Cash flow hedging reserve	Insurance contingency reserve	Foreign currency translation reserve	Treasury shares	Ordinary shareholders' equity	Preference shareholders' equity	Total
(229)	5	(14)	(11)	11 795	719	12 514
–	–	–		(1 488)	(61)	(1 549)
–	–	–	–	–	411	411
–	–	–	–	3	–	3
–	–	–	11	11	–	11
–	–	–	–	–	–	–
–	4	–	–	–	–	–
(200)	–	(4)	–	2 818	61	2 879
(429)	9	(18)	–	13 139	1 130	14 269
–	**–**	**–**	**–**	**(799)**	**(88)**	**(887)**
–	**–**	**–**	**–**	**–**	**–**	**–**
–	**(9)**	**–**	**–**	**–**	**–**	**–**
609	**–**	**9**	**–**	**(3 666)**	**88**	**(3 578)**
180	**–**	**(9)**	**–**	**8 674**	**1 130**	**9 804**

Consolidated statement of cash flows

for the year ended 30 September 2013

R million	Notes	2013	Restated* 2012
Cash generated from operations	34	**11 024**	9 558
Cash received from lending and insurance activities, sale of merchandise and cash reserves	35	**24 377**	21 917
Recoveries on advances previously written off	25	**380**	300
Cash paid to funders, employees, suppliers and insurance beneficiaries	36	**(13 733)**	(12 659)
Increase in gross advances	37	**(14 913)**	(16 274)
Decrease/(increase) in working capital		**1 171**	(327)
Decrease/(increase) in other assets		**695**	(421)
Decrease in inventories		**140**	14
Increase in other liabilities		**336**	80
Indirect and direct taxation paid	38	**(1 011)**	(1 486)
Cash inflow from equity accounted incentive transactions	39	**–**	14
Cash outflow from operating activities		**(3 729)**	(8 515)
Cash outflow from investing activities		**(1 004)**	(1 304)
Acquisition of property and equipment (to maintain operations)		**(285)**	(456)
Acquisition of intangible assets (to maintain operations)		**(54)**	(112)
Disposal of property and equipment		**61**	31
Other investing activities	40	**(726)**	(767)
Cash inflow from financing activities		**5 164**	10 487
Cash inflow from funding activities	41	**6 051**	11 625
Issue of preference shares	42	**–**	411
Preference shareholders' payments and transactions	32	**(88)**	(61)
Ordinary shareholders' payments and transactions	32	**(799)**	(1 488)
Increase in cash and cash equivalents		**431**	668
Cash and cash equivalents at the beginning of the year		**4 035**	3 367
Cash and cash equivalents at the end of the year	43	**4 466**	4 035

** Comparatives have been restated as per note 53.*

Notes to the consolidated annual financial statements

for the year ended 30 September 2013

1. General information

African Bank Investments Limited (ABIL) is a listed company incorporated in the Republic of South Africa. The company is the ultimate holding company for African Bank Limited, The Standard and General Insurance Company Limited and Ellerine Holdings Limited group as well as for a number of non-trading entities.

The principal activities of the group are disclosed in the directors' report. The registered office and principal places of business are disclosed on the inside back cover of the integrated report.

2. Adoption of new standards and interpretations effective for the current and future financial years

2.1 New and revised IFRSs with no material effect on the consolidated financial statements

The following new and revised standards, amendments to standards and interpretations have been applied in the current year. The application of these new and revised standards and interpretations has not had any material effect on the amounts reported for the current and prior years.

IFRS/IFRIC	Title and details
IAS 1	**Presentation of Financial Statements** Presentation of items of other comprehensive income. This amendment was issued to eliminate inconsistencies in the presentation of items in the statement of other comprehensive income. The amendment requires an entity to group the items of other comprehensive income on the basis of whether the amounts will subsequently be reclassified to profit or loss or not.
IAS 12	**Income Taxes** IAS 12 requires that deferred tax assets are measured based on whether the entity expects to recover the carrying amount of the asset through use or through sale. This assessment of the method of recovery may be difficult to assess for investment property measured using the fair value model. The amendment provides a practical solution by introducing a presumption that the carrying amount of such investment property will normally be recovered through sale.
Annual improvements	**Annual improvements project** The annual improvements project's aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. The group has early adopted the amendments to IAS 1 (effective for periods beginning on or after 1 January 2013) related to the IASB Annual Improvements 2009 – 2011 Cycle.

2.2 New and revised IFRSs in issue but not yet effective

The group has not applied the following new and revised IFRSs that have been issued but not yet effective:

IFRS/IFRIC	Title and details	Expected impact
IFRS effective for periods beginning on or after 1 January 2013		
IFRIC 20	**Stripping Costs in the Production Phase of a Surface Mine** The interpretation deals with waste removal costs that are incurred in surface mining activity during the production phase of a mine and considers when and how to account separately for benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.	The interpretation is not applicable to the group.
IFRS 1	**First-time Adoption of International Financial Reporting Standards** Amendments add an exception to the retrospective application of IFRSs to require that the first-time adopters apply the requirements of IFRS 9 and IAS 20 prospectively to government loans existing at the date of transition to IFRSs.	The statement is not applicable to the group.
IFRS 7	**Financial Instruments: Disclosures** Amendments related to the enhancement of disclosure about offsetting of financial assets and financial liabilities. The amendments do not change the current offsetting model in IAS 32, which requires an entity to offset a financial asset and financial liability in the statement of financial position only when the entity currently has a legally enforceable right to set off and intends either to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously. The amendments clarify the offset requirements as well as the requirements towards the disclosure of the financial instruments that are offset.	The group will comply with the standard and will ensure that the offset requirements are applied correctly when the standard becomes effective.

IFRS/IFRIC	Title and details	Expected impact
IFRS 10	**Consolidated Financial Statements** IFRS 10 establishes a new control model for determining which entities should be consolidated. The standard also provides guidance on how to apply the principle of control to specific situations in order to identify whether an investor controls an investee. IFRS 10 supersedes a portion of IAS 27 *Separate and Consolidated Financial Statements* and SIC 12 *Consolidation – Special Purpose Entities*. Amendments to the transition guidance of IFRS 10 limit the requirements to provide adjusted comparative information.	The group is in the process of assessing the impact that IFRS 10 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 10.
IFRS 11	**Joint Arrangements** The standard supersedes IAS 31 *Joint Ventures* and aims to improve on IAS 31 by establishing accounting principles that are applicable to all joint arrangements. The standard distinguishes between two types of joint arrangements: joint operations and joint ventures. The accounting for joint operations remains unchanged from IAS 31 and all joint ventures should be equity accounted in the financial statements of the venture. Amendments to the transition guidance of IFRS 10 limit the requirements to provide adjusted comparative information.	The standard is not expected to have any impact on the group given that there are no joint ventures or joint arrangements at present.
IFRS 12	**Disclosure of Interests in Other Entities** The standard aims to provide consistent disclosure requirements for subsidiaries, joint arrangements, associates and structured entities. IFRS 12 requires disclosure of information that will enable users to evaluate the nature of the risks associated with the interest and the effect of the interest on the financial position, performance and cash flows of the reporting entity. Amendments to the transition guidance of IFRS 10 limit the requirements to provide adjusted comparative information.	This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact of the revised disclosure is not expected to be significant.

IFRS/IFRIC	Title and details	Expected impact
IFRS 13	**Fair Value Measurement** IFRS 13 was issued in order to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that currently exist under the different IFRSs that require or permit fair value measurement. It provides a fair value hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.	The group is in the process of assessing the impact that IFRS 13 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 13.
IAS 19	**Employee Benefits** The main changes include the removal of the corridor approach, which allowed entities the option to defer the recognition of actuarial gains and losses on defined benefit plans. The revised standard requires that all remeasurements arising from defined benefit plans be presented in other comprehensive income. It also enhances disclosure requirements for defined benefits plans.	This amendment will not have an impact on the group, as the group does not have any defined benefit plans.
IAS 27	**Consolidated and Separate Financial Statements** IAS 27 removes the accounting and disclosure requirements for consolidated financial statements as a result of the issue of IFRS 10 and IFRS 12, which establish new consolidation and disclosure standards. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	The group will comply with the standard and will ensure that the offset requirements are applied correctly when the standard becomes effective.
IAS 28	**Investments in Associates and Joint ventures** IAS 28 *Investments in Associates and Joint Ventures (amended)* supersedes IAS 28 *Investments in Associates* as a result of the issue of IFRS 11 and IFRS 12. The new IAS 28 prescribes the accounting for investment in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The disclosure requirements relating to these investments are now contained in IFRS 12.	This amendment will have no impact on the group, as the group does not have any investments in associates and joint ventures at present.
Annual improvements	**Annual improvements project** Annual improvements 2009 – 2011 cycles. Amendments affected IAS 16, IAS 32, and IAS 34.	These amendments are not expected to have a significant impact on the group.

IFRS/IFRIC	Title and details	Expected impact
IFRS effective for periods beginning on or after 1 January 2014		
IFRS 10	**Consolidated Financial Statements** IFRS 10 exception to the principle that all subsidiaries must be consolidated. Entities meeting the definition of "investment entities" must be accounted for at fair value under IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*.	The group is in the process of assessing the impact that IFRS 10 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 10.
IFRS 12	**Disclosure of Interest in Other Entities** Amendments applicable to investment entities	The group is in the process of assessing the impact that IFRS 10 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 10.
IAS 27	**Consolidated and separate financial statements** Requirement to account for interests in "investment entities" at fair value under IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*, in the separate financial statements of a parent.	The group is in the process of assessing the impact that IFRS 10 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 10.
IAS 32	**Financial Instruments: Classification and Measurement** The amendments do not change the current offsetting model in IAS 32, which requires an entity to offset a financial asset and financial liability in the statement of financial position only when the entity currently has a legally enforceable right to set off and intends either to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously. The amendments are made to clarify the application principles on the offset requirements for the financial assets and financial liabilities.	The group will comply with the standard and will ensure that the offset requirements are applied correctly when the standard becomes effective.

IFRS/IFRIC	Title and details	Expected impact
IAS 36	**Impairment of Assets** Amendments arising from recoverable amount disclosures for non-financial assets. The amendments clarify the disclosure requirements in respect of fair value less costs of disposal. Two further disclosure requirements were added: ▶ Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal. ▶ Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendment harmonises disclosure requirements between value-in-use and fair value less costs of disposal.	The group will comply with the standard and will ensure that the appropriate disclosure is provided.
IAS 39	**Financial Instruments: Recognition and Measurement** Amendments for novations of derivatives. The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument.	The group will comply with the standard and will ensure that the appropriate disclosure is provided.
IFRIC 21	**Levies** This interpretation provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 and those where the timing and amount of the levies are certain. The interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. Guidance provided indicates that the liability is recognised progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.	The group will comply with the standard and will ensure that the appropriate disclosure is provided.

IFRS/IFRIC	Title and details	Expected impact
IFRS effective for periods beginning on or after 1 January 2015		
IFRS 7	**Financial Instruments: Disclosures** Amendments require specific disclosure about the initial application of IFRS 9. The group will reconsider the classification of its financial assets into financial assets at amortised cost or fair value when the standard becomes effective. The amendments defer the effective date of IFRS 9 from periods beginning on or after 1 January 2013 to periods beginning on or after 1 January 2015. The amendments to IFRS 7 require additional disclosures on transition from IAS 39 to IFRS 9. The new transitional disclosures include, but are not limited to: Changes in the classifications of financial assets and financial liabilities, showing separately: (a) the changes in the carrying amounts on the basis of their measurement categories in accordance with IAS 39 (i.e. not resulting from a change in measurement attribute on transition to IFRS 9); and (b) the changes in the carrying amounts arising from a change in measurement attribute, such as from amortised cost to fair value, on transition to IFRS 9.	The group will comply with the standard and will ensure that the appropriate disclosure is provided. Also effective when IFRS 9 is first applied.

IFRS/IFRIC	Title and details	Expected impact
	The following four financial assets and financial liabilities have been reclassified so that they are measured at amortised cost as a result of the transition to IFRS 9: (a) The fair value of the financial assets or financial liabilities at the end of the reporting period. (b) The fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified. (c) The effective interest rate determined on the date of reclassification. (d) The interest income or expense recognised. Implementation guidance has been added to IFRS 7, which illustrates how the quantitative disclosures might be made.	
IFRS 9	**Financial Instruments: Classification and Measurement** This standard is part of the IASB's three-part project intended to ultimately replace current IAS 39: *Recognition and Measurement of Financial Instruments*. This phase deals with classification and measurement of financial assets. The main features of this new standard require that classification be based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The standard also requires that a financial asset be initially measured at fair value through profit and loss and plus, in the case of a financial asset not at fair value through profit and loss, particular transaction costs and then subsequently be measured at amortised cost or fair value.	The group will comply with the standard and will reconsider the classification of its financial assets into financial assets at amortised cost or fair value when the standard becomes effective.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about income, expenses and the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates, judgements and assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

A change in accounting estimates is defined as an adjustment to the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

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

The following are the critical judgements and key estimation uncertainties that management have made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

3.1 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the company is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The company uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

The main assumptions and estimates which management considers when applying valuation techniques are:

- The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates;
- Selecting an appropriate discount rate for the instrument. Management bases the determination of this rate on its assessment of what a market participant would regard as an appropriate risk premium for the instrument over the appropriate risk-free rate; and
- Judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

3.2 Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair value less cost to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that certain key assumptions may change, which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

The company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill, tangible and intangible assets are inherently uncertain and could materially change over time.

3.2.1 Goodwill and trademarks impairment

When assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (cash-generating units). Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units.

The process of identifying and evaluating goodwill and trademark impairment is inherently uncertain because it requires significant management judgement in making a series of estimations, the results of which are highly sensitive to the assumptions used. The review of goodwill and trademark impairment represents management's best estimate of the factors below.

The future cash flows of the cash-generating units are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long term pattern of sustainable cash flows thereafter. Historical forecasts are subsequently compared to the actual past performance and verifiable economic data; however, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects at the time of the assessment.

The discount rate used to discount the future expected cash flows is linked to the group's average cost of capital. The cost of capital and cost of equity is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate and a premium to reflect the inherent risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions outside of management's control and are therefore established on the basis of significant management judgement and are subject to uncertainty.

If the present value of the projected cash flows is less than the carrying value of the underlying net assets (including trademarks, brands and goodwill), an impairment charge is recorded in profit or loss. This calculation requires the exercise of significant judgement by management, if the estimates prove to be incorrect or performance does not meet expectations, which affects the amount and timing of future cash flows, then goodwill and trademarks may become impaired in future periods.

3.2.2 Impairment of advances

Advances impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the reporting date. Management is required to exercise judgement in making assumptions and estimations when calculating advances impairment allowances on both individually and collectively assessed loans and advances.

The group regularly reviews its advances to assess for impairment. Impairment allowances are established to recognise incurred impairment losses in its advances. In determining whether impairment has occurred at the reporting date the group considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows. Where this is the case, the impairment loss is the difference between the carrying value of the advance and the present value of the estimated future cash flows discounted at the advance's original effective interest rate, determined on a portfolio basis.

Impairment allowances are calculated using models which take into account factors such as the loan group, term of the loan, length of time that the customers' accounts have been in arrears, historical loss rates, probability of default and credit quality of the advances. The determination of these allowances requires the exercise of considerable judgement by management involving matters such as local economic conditions and outlook. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to change in future periods.

Estimates are subject to estimation uncertainty, in part because the assessments are done on the portfolio basis as it is not practicable to identify losses on an individual loan basis because of the large volume of loans in the portfolio.

In addition, the use of statistically assessed historical information is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the reporting date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio are not fully reflected in the statistical models. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment allowances derived solely from historical loss experience.

This key area of judgement is subject to uncertainty and is highly sensitive to factors such as investment in collection infrastructure, loan portfolio growth, product mix, unemployment rates, loan product features, economic conditions, the level of market interest rates, level of customer indebtedness, account management policies and practices, changes in laws and regulations, inflation outlook and other factors that can affect customer payment patterns.

The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience.

3.2.3 Impairment of other receivables and held-to-maturity investments

The group assesses its other receivables and held-to-maturity investments for impairment on a regular basis. In determining whether an impairment loss should be recorded in profit or loss, the company makes judgements as to whether there is observable data indicating a decrease in the estimated future cash flows from these financial assets.

The impairment for other receivables and held-to-maturity investments is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

3.3 Provisions

By their nature, various assumptions are applied in arriving at the carrying value of provisions that are recognised in terms of the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Where the provision relates to a legal matter, management relies on input from the group's legal external and internal counsel in assessing the probability of matters of a significant nature.

3.4 Insurance liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is one of the areas where use of estimates and judgements is required. There are several sources of uncertainty that need to be considered in the estimate of the liability that the group will ultimately pay for such claims.

3.4.1 Long-term insurance contracts

The determination of the liabilities under long-term insurance contracts is dependent on the estimates made by the group. Policyholders' liabilities under long-term insurance contracts comprise the claims reported, assessed but not settled at the reporting date, the claims related to the events which might have taken place on or before the reporting date but were not communicated to the insurer on the reporting date, as well as the estimates of the net present value of future claims and benefits under existing contracts, offset by probable future premiums to be received and/or paid (net of expected service costs).

The liability for long-term insurance contracts is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. At inception of the contract, the group determines assumptions in relation to future death, disabilities, voluntary terminations, investment returns and administration expenses. Subsequently, new estimates are developed at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered to reflect the latest estimates. Insurance contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, expenses, lapses, discount rates and taxes.

Process used to decide on assumptions and changes in assumptions:

- Mortality and morbidity rates

  Assumptions are based on standard industry and national tables, according to the type of contract written and the country/area in which the insured person resides. They reflect recent historical experience and are adjusted when appropriate to reflect the group's own experiences. An appropriate, but not excessive, prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.

  An increase in rates will lead to a larger number of claims (and claims could occur sooner than anticipated), which will reduce profits for shareholders.

  Investigations into mortality experience are performed annually for all classes of business. The period of investigation extends over at least the latest three full years. The results of the investigation are used to set the valuation assumptions, which are applied as an adjustment to the respective base table.

  In setting the assumptions, provision is made for the expected increase in AIDS-related claims. Allowance for AIDS-related deaths is made in the base mortality rates at rates consistent with the requirements of APN 105 issued by the Actuarial Society of South Africa (ASSA).

For contracts insuring survivorship, an allowance is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies.

The incidence of disability claims is derived from the risk premium rates determined from annual investigations. The incidence rates are reviewed on an annual basis, based on the medical claims experience. The adjusted rates are intended to reflect future expected experience.

- Lapse rates
  The lapse rate assumptions are based on the most recent experience as well as on expected future trends. The actual lapse rates are compared to the previously projected rates annually and the assumptions are adjusted if necessary. The lapsing rates are analysed by product type and policy duration.

- Expenses
  An expense analysis is performed on the actual expenses incurred in the financial year preceding the reporting date. The budgets approved by the relevant board are also used to determine future expense per policy.

- Discount rates
  The discount rate reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability in question.

- Tax
  It has been assumed that current tax legislation and rates continue unaltered.

3.4.2 Short-term insurance contracts

Short-term insurance provides benefits under short-term policies offered to customers as product protection cover policies, insuring the property against accidental damage, destruction or theft at the place of residence.

The determination of the liabilities under short-term insurance contracts is dependent on certain estimates made by the group. Policyholders' liabilities under short-term insurance contracts comprise provisions for unearned premiums, provisions for unexpired risk, liabilities for claims reported, assessed but not settled at the reporting date and the claims related to the events which might have taken place on or before the reporting date but were not communicated to the insurer on the reporting date.

Unearned premiums represent in respect of policies where premiums are paid in advance, the amount of premium income deferred by the company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the statement of financial position date. At each reporting date an assessment is made of whether the provisions for unearned premiums are adequate. A separate provision can be made, based on information available at the reporting date, for any estimated future underwriting losses relating to unexpired risks (unexpired risk provision). Outstanding claims represent the company's estimate of the cost of settlement of claims that have occurred and were reported by the reporting date, but that have not yet been finally settled. There is also considerable uncertainty concerning the eventual outcome of claims that have occurred but had not yet been reported to the insurer by the reporting date. The IBNR provision relates to these events.

3.4.3 Process used to decide on assumptions and changes in assumptions

Insurance risks are unpredictable and the group recognises that it is not always possible to forecast, with absolute precision, future claims payable under existing insurance contracts. Over time, the group has developed a methodology that is aimed at establishing insurance provisions that have an above-average likelihood of being adequate to settle all its insurance obligations.

(i) Outstanding claims

Claims provisions are determined based upon previous claims experience, knowledge of events, the terms and conditions of the relevant policies and on the interpretation of circumstances. Each notified claim is assessed on a separate case-by-case basis with due regard to the specific circumstances, information available from the insured and past experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of claims payments trends, the levels of unpaid claims, legislative changes, judicial decisions and economic conditions. The group employs individuals experienced in claims handling and rigorously applies standardised policies and procedures to claims assessment.

The ultimate cost of reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Therefore, case estimates are reviewed regularly and updated when new information becomes available.

The provision for outstanding claims is initially estimated at a gross level. A separate calculation is carried out to estimate reinsurance recoveries.

(ii) Claims incurred but not reported (IBNR)

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling the claims already notified to the group, where information about the claim event is available. Where possible, the group adopts multiple techniques to estimate the required level of provisions. This assists in developing a greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The appropriate estimation technique is selected, taking into account the characteristics of the various portfolios and the extent of the developments in each reporting period.

(iii) Unearned premium provision

The group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is released as the risk covered by the contract expires. Most of the group's insurance contracts have an evenly spread risk profile. Therefore, the unearned premium provision is released evenly over the period of insurance using a time-proportion basis.

(iv) Unexpired risk provision

If the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premiums provision in relation to those policies, after deduction of any deferred commission expenses, management assesses the need for an unexpired risks provision.

The need for an unexpired risk provision is assessed on the basis of information available at the reporting date. Claims events occurring after the statement of financial position date in relation to the unexpired period of policies in force at that time are not taken into account in assessing the need for an unexpired risk provision.

Management will base the assessment on the expected outcome of those contracts, including the available evidence of claims experience on similar contracts in the past year, as adjusted for known differences, events not expected to recur, and the normal level of seasonal claims.

3.5 Current and deferred taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation in the different tax jurisdictions in which the group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax is provided for on the fair value adjustments of assets based on the expected manner of recovery, i.e. sale or use. This manner of recovery affects the rate used to determine the deferred tax liability or asset.

The group recognises the net future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the company to realise the deferred tax assets recorded at the end of the reporting period could be impacted.

3.6 Offsetting financial assets and liabilities

The group offsets certain financial assets and liabilities, when it has a legal right to offset such financial instruments and there is an intention to settle these financial instruments on a net basis. When determining whether it is appropriate to offset financial assets and liabilities, the following judgement is applied:

- In the absence of a contractual agreement that provides for offsetting, the group applies the common-law principles when determining whether there is a legally enforceable right to offset. The application of these common-law principles are subject to a significant degree of interpretation. In these instances, where necessary, legal advice is obtained to ensure that the application of the common-law principles is correctly applied within the ambit of the law. Using the legal advice obtained, management assesses whether there is a legal right to offset accounts.
- When determining whether there is an intention to settle a financial asset and financial liability, management evaluates the underlying terms of the contract to identify whether there is a legal right to offset which could also indicate the group's intention to settle on a net basis. In addition, management considers whether there is past practice which indicates that amounts have been offset. Management also evaluates whether the customers' accounts are managed on a net basis, which would support the view that there is an intention to settle on a net basis.

4. Significant accounting policies

The significant accounting policies set out below have been applied in the preparation and presentation of the African Bank Investments Limited (ABIL) Group and company annual financial statements in dealing with items that are considered material by the ABIL Group during this reporting period.

4.1 Statement of compliance

The group and company annual financial statements are prepared in accordance with, and comply with, the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), interpretations issued by the IFRS Interpretations Committee (IFRIC) of the IASB, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act (Act 71 of 2008).

4.2 Basis of preparation

The group and company financial statements have been prepared in accordance with the going-concern principle and using a historical cost basis, except where specifically indicated otherwise in the accounting policies.

The group statement of financial position is presented in order of liquidity with the exception of certain long term liabilities which reflect the original time frame and intention of the instrument entered into. Reference to the current maturities of these financial liabilities is disclosed in the notes and in the analysis of financial assets and liabilities. The accounting policies and their application are consistent with the previous year except where specifically stated otherwise.

Functional and presentation currency

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

The group and company financial statements are presented in South African rand, which is the group's functional currency. All monetary information and figures have been rounded to the nearest million rand (R million), unless otherwise stated.

4.3 Basis of consolidation

The group financial statements incorporate the financial statements of the company and the entities controlled by the company (its subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the group takes into consideration potential voting rights that are currently exercisable, as well as the ability in practice to control another entity when no other party has the power to govern such entity. Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the group.

All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

Subsidiaries and special purpose entities

The group annual financial statements incorporate the annual financial statements of the company, its subsidiaries, the ABIL employee share trust, the Ellerine Holdings share incentive trust and the Relyant share option trust. For this purpose, subsidiaries are companies over which the group, either directly or indirectly, has the power to govern the financial and operating policies so as to obtain the benefits from their activities.

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

Eyomhlaba Investment Holdings (RF) Limited and Hlumisa Investment Holdings (RF) Limited, both special purpose vehicles created to facilitate ABIL's Broad-based Black Economic Empowerment programme, are not consolidated into the ABIL Group, due to the fact that ABIL has no control over these entities, nor does it have an interest in the economic risks and rewards associated with these entities.

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

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

Business combinations

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purposes of providing a return in the form of dividends, lower costs or other economic benefits to the acquirer.

Business combinations are accounted for using the acquisition method as at acquisition date. The cost of a business combination is measured as the aggregate of the fair values (at the acquisition date) of assets obtained, liabilities incurred or assumed and equity instruments issued (plus all costs relating to the issue of such equity instruments) by the group in exchange for control of the acquiree.

Transaction costs for any business combination prior to 1 October 2009 are capitalised as part of the consideration transferred. Transaction costs incurred on a business combination on or after 1 October 2009 are recognised in profit or loss as and when they are incurred.

The excess of the consideration transferred over the fair value of the identified assets acquired and the liabilities assumed is recorded as goodwill and accounted for in terms of the accounting policy for goodwill.

Where the cost of the acquisition includes any asset or liability resulting from a contingent consideration arrangement, that asset or liability is measured at the acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (refer below). All other subsequent changes in the fair value of a contingent consideration classified as an asset or liability are accounted for in accordance with the relevant IFRSs.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations*, are recognised at their fair value at the date of acquisition, except:

- Deferred taxation asset or liabilities, which are measured in accordance with IAS 12 *Income Taxes*;
- Liabilities or assets related to employee benefit arrangements, which are recognised and measured in accordance with IAS 19 *Employee Benefits*;
- Liabilities or equity instruments that relate to replacement, by the group, of an acquiree's share-based payment awards, which are measured in accordance with IFRS 2 *Share-based Payments*; and
- Assets that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised at fair value less costs to sell.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the group reports provisional amounts for the items for which the accounting is incomplete. Where provisional amounts were reported, these are adjusted during the measurement period (refer to the next page). Additional assets or liabilities are recognised to reflect any new information about the facts and circumstances that existed at the date of acquisition, which, if known, would have affected the amounts recognised on that date.

The measurement period is the period from the date of acquisition to the date the group receives complete information about facts and circumstances that existed at the acquisition date. The measurement period is subject to a maximum of one year after the acquisition date.

Common control transactions

Common control transactions, in which ABIL is the ultimate parent entity both before and after the transaction, are accounted for at book value in ABIL's financial statements with no gain or loss recognised in profit or loss.

4.4 Assets and liabilities

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

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

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

Liabilities are recognised if it is probable that the settlement of the obligation will result in an outflow of resources, embodying economic benefits, and the settlement amount can be measured reliably.

4.5 Intangible assets

4.5.1 Goodwill

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

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The carrying amount of goodwill is assessed annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

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

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

Where the group reorganises its reporting structure in a manner that changes the composition of the cash-generating unit to which goodwill has been allocated, the goodwill is reallocated in a manner that best reflects the goodwill associated with the reorganised cash-generating units.

4.5.2 Trademarks

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

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

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

The useful lives of all trademarks are assessed on an annual basis, or more frequently when any indication of impairment exists. Any adjustments, where applicable, are made on a prospective basis. Trademarks are carried at cost less any accumulated amortisation and any impairment losses.

4.5.3 Software

Software consists of purchased and internally developed software. Software acquired by the group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the group is able to demonstrate its intention and ability to complete the development and use the software in the manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs where applicable, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date that it is available for use. The estimated useful life of software is between two and five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

4.6 Property and equipment

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

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

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

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

Information technology equipment	Two to five years
Office furniture and equipment	Three to six years
Motor vehicles	Four to five years
Leasehold improvements and capitalised leased assets	Over the shorter of the lease term or its useful life
Buildings (owner-occupied)	Useful life (limited to 50 years)
Distribution centres	Over the shorter of the lease term or useful life of individual assets

Land is not depreciated.

All gains or losses arising on the disposal or scrapping of property and equipment are recognised in profit or loss in the period of disposal or scrapping. Repairs and maintenance are charged to profit or loss when the expenditure is incurred.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

4.7 Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for the intended use and capitalised borrowing costs.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

4.8 Impairment of non-financial assets

The carrying amounts of the group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment and when an indicator for impairment exists. Intangible assets that are subject to amortisation and other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher amount of an asset's fair value less cost to sell and value in use. Fair value less cost to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (cash-generating units). Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed.

In respect of other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.9 Assets held for sale or held for distribution

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale or held for distribution if it is highly probable that they will be recovered primarily through a sale or distribution rather than through continuing use. This condition is regarded as met only when the sale or distribution is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale or distribution which should be expected to qualify for recognition as a completed sale or distribution within 12 months from the date of classification.

Immediately before classification as held for sale or held for distribution, the assets, or components of a disposal group, are remeasured in accordance with the group's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less estimated cost to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, or employee benefit assets which continue to be measured in accordance with the group's applicable accounting policies. Impairment losses on initial classification as held for sale or held for distribution and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss. Once classified as held for sale or held for distribution, intangible assets and property, plant and equipment are no longer amortised or depreciated.

4.10 Inventories

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

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

4.11 Financial instruments

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

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

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

Financial assets are classified into the following categories:

- Financial assets at fair value through profit or loss;
- Held-to-maturity investments;
- Loans and receivables; and
- Available-for-sale financial assets.

Financial liabilities are classified into the following categories:

- Financial liabilities at fair value through profit or loss; and
- Financial liabilities at amortised cost.

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

4.11.1 Initial recognition

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

4.11.2 Initial measurement

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

4.11.3 Subsequent measurement

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

Financial assets and financial liabilities at fair value through profit or loss

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

A financial asset or financial liability is classified as held for trading if:

- It has been acquired or incurred principally for the purpose of selling or repurchasing in the near term; or
- On initial recognition it is a part of an identified portfolio of identifiable financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

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

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

Held-to-maturity financial assets

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

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

Loans and receivables

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

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

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

These advances arise when the group provides money, goods or services directly to a debtor with no intention to trade the receivable. Loans and advances originated by African Bank (whether in African Bank or Ellerine Group South African branches) are in the form of personal unsecured loans that are either paid back in fixed equal instalments or in the case of credit cards are revolving credit facilities. Loans and advances originated outside South Africa by the furniture retailer for the purchase of furniture and appliances are secured over the items sold.

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

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

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

Partially written-off advances

Advances which are in arrears for an extended period of time (and are partially uncollectible), are written off against the impairment allowance account for non-performing loans and are carried at their recoverable amount. The recoverable amount is determined by discounting the estimated future cash flows at the original effective interest rate.

The estimate of the cash flows is performed on a portfolio basis as opposed to a loan basis, as these advances exhibit similar credit characteristics.

Rehabilitated loans

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are intended to be held for an undefined period of time, which may be sold in response to the need for liquidity or changes in interest rates, exchange rates or equity prices. Interest income on these assets is recognised as part of interest income, based on the asset's original effective interest rate. Gains and losses arising from changes in fair value are recognised in other comprehensive income, until the asset is disposed of or it is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Interest income is excluded from the fair value gains and losses which are recognised in other comprehensive income.

Financial liabilities at amortised cost

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

4.11.3.1 Effective interest rate method

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

4.11.3.2 Fair value

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

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

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

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for a financial asset or liability with similar terms and conditions.

4.11.4 Impairment of financial instruments

4.11.4.1 Assets carried at amortised cost

The group assesses at each reporting date whether there is objective evidence that an asset or group of assets is impaired.

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

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

- Significant financial difficulty of the issuer or debtor.
- A breach of contract, such as a default or delinquency in the payment of interest or principal.
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.
- It becoming probable that the borrower is over-indebted.
- Indication that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying less than the minimum monthly amount); or
  - national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers or adverse changes in industry conditions that affect the borrowers in the group).

When portfolio (collective) assessment of impairment is used, financial assets are grouped on the basis of similar credit characteristics which indicate the borrower's ability to pay in accordance with the contractually agreed terms.

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

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

If the recoverable amount of the advance is estimated to be less than the carrying amount, the carrying amount of the advance is reduced to its recoverable amount by raising an impairment provision (through the use of a separate allowance account), which is recognised as an expense in profit or loss. Loans are written off, either partially or in full, when there is no realistic prospect of full or partial recovery. A write-off is effected against the allowance account.

In order to provide for latent losses in a group of loans that have not yet been identified as specifically impaired, impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods. Groups of loans and advances are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows.

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

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

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to ongoing review to determine whether they are considered to be impaired or past due.

4.11.4.2 Available-for-sale financial assets

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but on or before the reporting date, that have a negative impact on the future cash flows of the asset. In addition, an available-for-sale financial asset is considered to be impaired if a significant or prolonged decline in fair value of the instrument below its cost has occurred. In that instance, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from other comprehensive income to profit or loss. If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for available-for-sale financial instruments.

4.11.5 Derecognition of financial instruments

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

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

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

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

4.11.6 Derivative financial instruments

The group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risks, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps.

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contracts are not measured at fair value through profit or loss.

4.11.7 Hedge accounting

The group designates certain financial instruments as hedging instruments, which includes derivatives and non-derivatives (in respect of foreign currency risk), as either fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Hedging relationships recognised by the group are of two types:

- Fair value hedge – a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss; or
- Cash flow hedge – a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, and could affect profit or loss.

4.11.7.1 Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the remeasurement of both the derivative and the hedged item are recognised in profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same profit or loss category as the related hedged item. Any ineffectiveness is also recognised in the same profit or loss category as the related hedged item.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued.

4.11.7.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in the statement of changes in equity. The gain or loss relating to any ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are transferred to profit or loss in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects profit or loss in the case of a financial asset or a financial liability. If the forecast transaction is no longer expected to occur, the cumulative gains or losses that were recognised in equity are immediately transferred to profit or loss.

4.11.8 Offsetting

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

4.12 Borrowings

Borrowings are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost and interest is recognised over the period of the borrowing using the effective interest rate method.

Non-participating preference shares, which do not carry a mandatory coupon, are not redeemable on a specific date, or at the occurrence of a contingent future event at the option of the shareholder and where the dividend payments are discretionary, are classified as equity. Dividends on such preference shares are accounted for in the statement of changes in equity.

4.13 Cash and cash equivalents

Short term deposits and cash comprise fixed and notice deposits as well as call and current accounts with financial institutions.

For purposes of the statement of financial position, South African Reserve Bank cash requirements and prudential liquid assets, together with insurance prudential cash reserves required by the Financial Services Board, are not disclosed as short term deposits and cash but rather as "statutory assets – bank and insurance".

For the purposes of the statement of cash flows, cash and cash equivalents comprise short term deposits and cash, and cash reserves held by the insurance companies.

4.14 Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. Contracts under which the group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

Insurance contracts are classified into two main categories, depending on the type of insurance risk exposure. Short term insurance benefits are provided under short term insurance policies which cover goods and appliances purchased on credit by the policyholders from group subsidiaries. Long term insurance benefits are provided under the credit life insurance policies sold by the long term insurance subsidiaries of the group in terms of which customers are covered for death, temporary and permanent disability, retrenchment and short term benefits. Benefits range from payment of instalments to settling the total indebtedness to the group provided the insured event takes place while the insurance policy is in force. The group also provides funeral cover which provides benefits on death of the policyholder or a family member of the policyholder. Insurance policies are lapsed if the premiums are in arrears for more than a predetermined period of time, and after due notice is served on the policyholder.

4.14.1 Short term insurance

Short term insurance provides benefits under short term insurance policies offered to the customers as product protection cover policies, insuring the property against the accidental damage, destruction or theft at/from the place of the insured's residence. Short term insurance contracts issued by the group are personal insurance contracts, consisting of insurance provided to individuals and their personal property.

Recognition and measurement

4.14.1.1 Gross written premiums

Gross premiums exclude value-added tax. Premiums are accounted for as income when the risk related to the insurance policy incepts and are spread over the period for which the premium relates having regard to the risk period of the contract. All premiums are shown before deduction of commission payable to intermediaries.

4.14.1.2 Provision for unearned premiums

The provision for unearned premiums represents the portion of the current period's premiums that relate to risk periods extending into the future. An unearned premium provision is created at the commencement of each insurance contract where premiums are received in advance and is then released as earned. The unearned premiums are calculated using a straight-line basis.

4.14.1.3 Provision for unexpired risk

Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims, as well as claims handling fees and related administrative costs. This liability adequacy test is performed annually to ensure the adequacy of short term insurance liabilities.

4.14.1.4 Provision for claims

Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled on the reporting date, less amounts already paid. Claims and loss adjustment expenses are charged to the income statement as and when incurred, based on the estimated liability for compensation owed to contract holders. Claims provisions are not discounted for the time value of money, due to the expected short duration to settlement.

4.14.1.5 Provisions for claims incurred but not reported

Provision is also made for claims arising from insured events that occurred on or before the reporting date but which had not been reported to the group at that date (IBNR provision). The IBNR provision comprises the group's estimate of the undiscounted cost of settling all claims incurred but not reported at the statement of financial position date and related claims handling expenses. The short term insurance provision is calculated as percentage of net written premium.

4.14.1.6 Salvage reimbursements

Some insurance contracts permit the group to sell property acquired in settling a claim (i.e. salvage). Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims. The allowance is the amount that can reasonably be recovered from the disposal of the asset net of cost of disposal.

4.14.2 Long term insurance

Long term insurance contracts insure events associated with human life over a long duration. Long term insurance contracts underwritten mainly consist of death, temporary and permanent disability and retrenchment policies.

Insurance liabilities related to the long term insurance contracts are measured at every reporting date, in accordance with the provisions of the Long-term Insurance Act, and in line with the requirements of the Standards of Actuarial Practice (SAP) and Advisory Practice Notes (APN) issued by the Actuarial Society of South Africa.

The following SAPs are of relevance to the long term insurance liability calculations:

- SAP 104: Calculation of the value of assets, liabilities and capital adequacy requirement of long-term insurers (October 2012)
- APN 105: Minimum requirements for deriving AIDS extra mortality rates (June 2012)
- APN 106: Actuaries and long-term insurance in South Africa (October 2012)

These Standards of Actuarial Practice and Advisory Practice Notes are available on the website of the Actuarial Society of South Africa (www.actuarialsociety.co.za).

Recognition and measurement

4.14.2.1 Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contracts liabilities. Long term insurance liability is valued in terms of the financial soundness valuation (FSV) basis. Under the FSV basis, a liability is determined as the sum of the current estimate of the expected discounted value of all the benefit payments and the future administration expenses that are directly related to the contract, less the current estimate of the expected discounted value of the contractual premiums.

The liability is based on assumptions as to mortality, morbidity, lapse rates and maintenance expenses that are established at the time of valuing the contract at each reporting date. Margins for adverse deviations are included in the assumptions.

Assumptions used for valuing policyholder liabilities are based on best estimates of future experiences, guided by recent past experience and increased by margins prescribed by the Actuarial Society of South Africa for prudence.

If the liability adequacy test shows that the carrying amount of the insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in profit or loss.

The group does not recognise negative reserves (i.e. an asset) that may arise if future insurance premium income is taken into account after allowance for unexpired risk. The statutory actuary sets a discretionary margin, allowed for in terms of PGN 104, such that it is equal to the elimination of the overall negative reserves (i.e. an asset) for insurance contracts.

4.14.2.2 Provisions for claims

Provision is made on a prudent basis for the estimated final cost of all claims to the extent that they had not been settled by the reporting date. Claims and loss adjustment expenses are charged to the income statement as and when incurred based on the estimated liability for compensation owed to contract holders. Claims provisions are not discounted.

4.14.2.3 Provisions for claims incurred but not reported

Provision is made for the claims incurred on or prior to the end of the reporting period, but not reported until after that date.

4.15 Provisions

Provisions represent liabilities of uncertain timing or amount and are measured at the expenditure or cash outflow required to settle the present obligation.

Provisions are recognised when the group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

4.15.1 Onerous contracts

The present obligations arising under any onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits that are expected to be derived by the group under such contract.

4.15.2 Restructuring

A restructuring provision is recognised when the group has:

- Developed a detailed formal plan to carry out any restructuring, and
- Raised a valid expectation in those that are or will be affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by such restructuring.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and not costs associated with the ongoing activities of the entity.

Future operating costs or losses are not provided for.

4.15.3 Liabilities under extended warranties

The group sells extended warranty non-insurance products to customers on a voluntary basis. Provisions for warranty costs are recognised at the date of sale of the relevant products, at the estimated future expenditure required to settle the group's obligation under such extended warranty contract. The estimated future expenditure is determined with reference to claims notified and past claims experience in relation to the extended warranty products.

4.16 Equity

Equity is the residual interest in the assets of the group after deducting all liabilities of the group.

All transactions relating to the acquisition and sale or issue of shares in the company, together with their associated costs, are accounted for in equity.

Ordinary and preference share capital are separately disclosed on the statement of financial position and statement of changes in equity.

4.16.1 Share capital and share premium

Shares issued by the company are recorded at the value of the proceeds received less the external costs directly attributable to the issue of the shares. In line with the requirements of the Banks Act, only par value shares are issued by the company. Where shares are issued for consideration other than in cash under a business combination in terms of IFRS 3, the value at which the issued shares are recorded is the market value of the company's shares at the date of issue.

4.16.2 Treasury shares

Where the company or any other member of the group purchases the company's equity share capital, such shares are classified as treasury shares and the par value of these treasury shares is deducted from the share capital, whereas the remainder of the cost price is deducted from the share premium until the treasury shares are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

Treasury shares are deducted from the issued and weighted average number of shares on consolidation. All dividends received on treasury shares are eliminated on consolidation. The group does not recognise any gains or losses through profit or loss when its own shares are repurchased.

4.16.3 Dividends

Dividends to equity holders are recognised as a liability in the period in which they are declared and are accounted for as movement in reserves in the statement of changes in equity. Dividends declared after the statement of financial position date are not recognised but are disclosed in the dividends note.

4.17 Revenue

Revenue comprises income from sale of merchandise, interest income, assurance premium income and non-interest income excluding value-added tax.

4.17.1 Sale of merchandise

Sale of merchandise is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of discounts and value-added tax, and excluding any interest or related charges.

Revenue from the sale of merchandise is recognised when all the following conditions have been satisfied:

- The significant risks and rewards of ownership in the goods have been transferred to the buyer.
- The group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the group.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

4.17.2 Interest income

Interest income is accrued on a yield to maturity basis by reference to the principal outstanding and the interest rate applicable. Where the group advances interest-free loans, the interest income is accrued on a yield to maturity basis using an imputed interest rate, taking into account the risk rating of the customers to whom these loans are granted.

In instances where a loan is in arrears for greater than six months, an assessment is made regarding the recoverability of the loan or group of loans and if necessary, based on available evidence at that date, the accrual of interest from that date is partially or fully suspended and not recognised in profit or loss until recovery is highly likely or actually recovered.

4.17.3 Rendering of services

When the transaction involves the rendering of services and the outcome can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the entity.
- The stage of completion of the transaction at the reporting date can be measured reliably.
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

4.17.3.1 Non-interest income

Non-interest income consists primarily of administration fees on loans and advances, delivery charges, extended warranty fees, club fees as well as any other sundry income.

4.17.3.2 Administration fees

Administration fees charged consist of two components:

- Origination fees on loans granted

  These fees are charged upfront, are capitalised into the loan, and are primarily based on the cost of granting the loan to the individual. In accordance with IAS 18 *Revenue*, these origination fees are considered an integral part of the loan agreement and are therefore recognised as an integral part of the effective interest rate and are accounted for over the shorter of the original contractual term and the actual term of the loan using the effective interest rate method. The deferred portion of the fees is recorded in the statement of financial position as a provision for deferred administration fees. The group does not defer any related operating costs, as these are all internal costs which are not directly attributable to individual transactions and as such are primarily absorbed infrastructure costs.

- Monthly service fees

  These are fees which form an integral part of the effective interest rate and are charged to the customers on a monthly basis. These fees are recognised as part of the effective interest rate over the shorter of the original contractual term and the actual term of the loans and receivables. Beyond the original contractual term of the loan, the fee is recognised in profit or loss as it is charged to the customer on a monthly basis.

  While both these components are regarded as integral parts of the effective interest rate, they are not accounted for as interest income, but as non-interest income.

4.17.3.3 Delivery charges

Delivery charges are recognised as income at the date the goods are delivered to the customer.

4.17.3.4 Club fees

The club fees are recognised over the term of the membership to the club for which such fees relate.

4.17.3.5 Extended warranty fees

The extended warranty fees are recognised at the date the goods are delivered to the customer. At the same time a provision is recognised for the future unexpired warranty periods.

4.18 Cost of sales

When inventories are sold, the carrying amount in respect of such inventory is recognised as part of cost of sales. Any write-down of inventories to estimated net realisable value and all losses of inventories or reversals of previous write-downs or losses are recognised in cost of sales in the period in which the write-down, loss or reversal occurs.

4.19 Taxation

4.19.1 Indirect taxation

Indirect taxation in the form of non-claimable value-added tax (VAT) on expenses is disclosed as indirect taxation in profit or loss and not as part of the taxation charge. The non-claimable VAT on the cost of acquisition of fixed assets is amortised over the useful lives of the fixed assets and is included in depreciation in profit or loss. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

4.19.2 Direct taxation

Direct taxation in profit or loss consists of South African and foreign jurisdiction corporate income tax, inclusive of capital gains tax (CGT) (currently payable, prior year adjustments and deferred) as well as foreign jurisdiction withholding taxes and secondary tax on companies (STC) (currently payable and deferred).

4.19.2.1 Current and withholding taxation

Current taxation is the expected taxation payable to tax authorities in the various jurisdictions in which the group operates based on the taxable income, inclusive of capital gains and repatriated income, for the year, using taxation rates enacted or substantially enacted at the statement of financial position date, and any adjustment to taxation payable in respect of previous years. Taxable income is determined by adjusting the profit before taxation for items which are non-taxable or disallowed in terms of tax legislation.

Taxation in respect of South African life assurance companies is determined using the four-fund method applicable to life insurance companies in terms of the Income Tax Act.

Current tax is charged or credited to profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the tax is also dealt with in equity.

4.19.2.2 Deferred taxation

Deferred taxation is provided on temporary differences using the balance sheet liability method. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation base. However, deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit or loss, nor taxable income. The amount of deferred taxation provided is based on the taxation rates and laws enacted or substantially enacted at the statement of financial position date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxation is charged or credited in profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the deferred taxation is also dealt with in equity.

The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

The deferred taxation related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in profit or loss together with the deferred gain or loss.

Deferred tax assets are recognised on the tax effects of income tax losses available for carry forward, if the group considers it probable that future taxable income will be available against which the unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

4.19.2.3 STC

STC on dividends, net of STC credits earned, is provided for and expensed through profit or loss in the period in which the dividend paid is accounted for. STC is payable only on dividends as defined in the Income Tax Act. STC was replaced by a dividend withholding tax with effect from 1 April 2012.

4.20 Share-based payments

Share-based payment transactions of the group primarily relate to the group's long term incentive scheme for employees. In addition, any issue of new ordinary shares pursuant to the creation of the group's Black Economic Empowerment programme is also treated as a share-based transaction.

4.20.1 Share-based payments under the group's long term incentive plan (LTIP) for employees

The group has a cash-settled share appreciation rights scheme, in terms of which employees receive units based on an initial value of an ABIL listed share, and receive on the maturity date the market value of the units based primarily on the ABIL share price. This instrument qualifies as share-based payments under IFRS 2 *Share-based Payments*.

The share appreciation rights instruments have a predetermined vesting profile, which results in a lapsing of the instrument if the employee resigns or is dismissed before the vesting date. In accordance with IFRS 2, where the equity instruments do not vest until the employee has completed a specified period of service, it is assumed that the services rendered by the employee, as consideration for those equity instruments, will be received in the future over the vesting period.

In the case of the share appreciation rights scheme, the fair value of the amount payable to the employees is recognised as an expense in profit or loss, with a corresponding increase in liabilities, over the vesting period of the instrument on a straight-line basis. The fair value of the liability is remeasured at each reporting date until settled and any changes in the fair value of the liability are recognised as employment costs in profit or loss. No amount is recognised for services received in part, if part of the share appreciation rights granted does not vest because of a failure to satisfy a vesting condition.

4.20.2 Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at measurement date using standard option pricing or share appreciation rights valuation models. The valuation technique is consistent with generally accepted valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable and willing market participants would consider in setting the price of the equity instruments.

4.20.3 ABIL Broad-based Black Economic Empowerment (B-BBEE) share ownership programme

Transactions in which equity instruments are issued directly or indirectly to historically disadvantaged individuals at below fair value are accounted for as share-based payments. Where the transaction is subject to the inclusion of service conditions, the expense is recognised over the period of the service conditions, with a corresponding increase in equity. Where the transaction is not subject to any service conditions, the group recognises the expense in full at grant date, with a corresponding increase in equity.

4.21 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets, that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.22 Leases

Leases are classified as finance leases or operating leases at the inception of the lease.

Leased assets are classified as operating leases where the lessor effectively retains the risks and benefits of ownership. Obligations incurred under operating leases are recognised in profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the term of the lease.

Finance leases are recognised as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments at the date of acquisition. The lease payments are allocated between the liability and interest to achieve a constant interest rate on the liability outstanding. The interest is recognised in profit or loss over the lease period. The property or equipment acquired is depreciated over the useful life of the asset, unless it is probable that the group will not take ownership of the asset, in which case it is depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

4.23 Translation of foreign currencies

4.23.1 Foreign currency transactions and balances

A foreign currency transaction is recorded, on initial recognition in South African rand (the functional currency), by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each statement of financial position date, foreign currency monetary items are translated using the closing rate. Foreign exchange gains and losses arising on the settlement of monetary items, or on translating monetary items at rates different from those at which they were translated on initial recognition during the reporting period or in previous annual financial statements, are recognised in profit or loss in the period in which they arise.

Cash flows arising from transactions in a foreign currency are recorded in the functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

4.23.2 Net investment in a non-South African operation

The results and financial position of a non-South African operation are translated into the functional currency, being South African rand, using the following procedures:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate of exchange at the date of that statement of financial position;
- Income and expenses are translated at the average exchange rates for the year; and
- All resulting exchange differences are recognised as a separate component of equity.

Foreign exchange differences arising on an item that forms part of a net investment in a non-South African operation are recognised initially in other comprehensive income and in the foreign currency translation reserve.

On the disposal of a non-South African operation, any cumulative gains or losses that remain deferred in equity are recognised in profit or loss at the time at which the profit or loss on disposal of the foreign operation is recognised.

4.24 Employee benefits

4.24.1 Post employment benefits

4.24.1.1 Defined contribution plans

Defined contribution plans have been established for eligible employees of the group, with the assets held in separate trustee-administered funds. The group pays contributions on a mandatory, contractual or voluntary basis as determined in terms of the rules of each benefit fund. The group has no further legal or constructive obligations to pay any further contributions or benefits once the fixed contributions have been paid to the funds.

Contributions in respect of defined contribution plans are recognised as an expense in profit or loss as they are incurred.

4.24.1.2 Defined benefit plans

Gains or losses on the curtailment or settlement of defined benefit plans are recognised when it can be demonstrated that there is a commitment to curtailment or settlement.

4.24.1.3 Post retirement healthcare benefit

Post retirement healthcare benefits are provided by certain subsidiaries to qualifying employees and retired employees in terms of certain employment contracts. The entitlement to these benefits is usually based on the employee remaining in service up to the retirement age.

The healthcare benefit costs are determined through annual actuarial valuations by independent consulting actuaries using the projected unit credit method. Such gains or losses are recognised over the expected remaining working lives of the participating members. Adjustments are made annually through profit or loss for provisions held for members who have already retired. Actuarial gains or losses are recognised in full in the period in which they occur.

4.24.2 Short term benefits

Short term benefits consist of salaries, compensated absences (such as paid annual and sick leave), bonuses and non-monetary benefits such as medical aid contributions.

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus plans or accumulated leave if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

4.25 Contingent liabilities and commitments

4.25.1 Contingent liabilities

A contingent liability is disclosed when:

- A possible obligation arises from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the group; or
- The group has a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources will be required to settle such obligation, or the amount of the obligation cannot be measured with sufficient reliability.

4.25.2 Commitments

Items are classified as commitments where the group has committed itself at the reporting date to future significant transactions or the acquisition of assets for material amounts.

4.26 Segment reporting

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

4.27 Comparative figures

Where necessary, comparative figures within notes have been restated to conform to changes in presentation in the current year and to enhance disclosure of certain items.

R million	2013	2012
5. Short term deposits and cash*		
Fixed deposits	**1 081**	1 342
Call deposits	**1 951**	1 340
Current accounts	**59**	163
	3 091	2 845

* *Comparatives have been restated as per note 53.*

Call deposits bear interest at rates varying from 4,61% and 4,78% NACM. Money on call deposits constitute amounts which can be withdrawn on demand.

Fixed deposits consist of deposits with interest rates varying from 5% to 6,73% NACQ and NACA, as well as various deposits with SA banks bearing interest at market related rates. Money on fixed deposits constitute amounts which can be withdrawn in 31 days or less.

Current accounts are floating interest rate assets with interest rates generally linked to prime.

R million	2013	2012
6. Statutory assets – bank and insurance		
Treasury bills and debentures: SA Reserve Bank	**2 564**	2 079
Cash deposits with the SA Reserve Bank	**1 294**	1 053
Insurance prudential cash reserves	**1 375**	1 190
	5 233	4 322

Included above are assets pledged with the South African Reserve Bank, in terms of the Banks Act to the value of R3 858 million (2012: R3 132 million). The amount required to be pledged is calculated with reference to total funds due to depositors who include holders of all funding instruments issued by African Bank from time to time.

Treasury bills and debentures have interest rates varying from 4,88% to 5,10% NACQ. There is no interest earned on the cash deposits with SARB.

Insurance prudential cash reserves: fixed cash deposits are held at various SA banks with the interest rates varying from 4,7% p.a. to 5,9% p.a. and maturity dates varying from one week to six months.

The market value of the treasury bills and debentures is R2 616 million (2012: R3 132 million). These assets are not available for day-to-day operations.

R million	2013	2012
7. Inventories		
Merchandise and finished goods	**734**	876
Provision for stock obsolescence	**(3)**	(5)
	731	871

R million	2013	2012
8. Other assets*		
Prepayments	**102**	81
Collateral deposits	**–**	225
Derivative financial instruments	**3 529**	969
Equity derivatives	**–**	3
Currency derivatives	**2 923**	595
Interest rate derivatives	**606**	371
Security deposit	**120**	–
Sundry receivables	**143**	260
	3 894	1 535

* *Comparatives have been restated as per note 53.*

Collateral deposits are credit support amounts paid by the group in terms of ISDA Master Agreement and Credit Support Annex between African Bank and various counterparties of Rnil (2012: R225 million). The ISDA Master Agreement is related to the hedge instruments purchased to facilitate the group's funding. These deposits bear interest at the Safex rate. The amounts related to margin deposits are repayable on termination of the contract.

The group uses currency swaps and interest rate swaps to mitigate against changes in cash flows of certain variable rate debt. The group applies hedge accounting for its non-trading interest rate risk in major currencies by analysing expected cash flows. The objective is to mitigate against changes in future interest cash flows resulting from the impact in changes in market interest rate and reborrowing of current balances.

The group uses currency swaps to mitigate against the changes in cash flows arising from changes in foreign currency rates where the debt is denominated in a currency other than the functional currency.

The equity swaps are OTC agreements the group enters into in order to mitigate against changes in cash flows related to certain share-based payments.

In June 2013 ABIL provided financial assistance to Eyomhlaba and Hlumisa (the BEE companies) in a form of a cash deposit amounting to R120 million. In the event of the default conditions being met the preference shareholders of the BEE companies have a right to exercise a put option by selling to ABIL some of the preference shares in the BEE companies at their original cost including accrued dividends, amounting to R120 million.

The default conditions are determined as the earlier of the following:

- The failure to make any scheduled payment by the BEE companies to the preference shareholders on the scheduled date; or
- The date on which the asset cover (as defined in the memoranda of incorporation of the BEE companies) decreases to two times or below.

In the event of the put option being exercised, preference shares held by ABIL will be subordinated to the preference shareholders.

R million	2013	2012
9. Net advances*		
Gross advances including partially written-off book	**60 712**	54 572
Deferred administration fees	**195**	(18)
Gross advances after deferred administration fees	**60 907**	54 554
Impairment provisions	**(10 631)**	(9 871)
Net advances	**50 276**	44 683
Analysis of gross advances by book		
Lending books	**59 373**	52 897
African Bank loans	**43 494**	37 028
Credit card	**8 151**	7 300
Ellerine Group South African stores	**7 315**	8 176
Ellerine Group – foreign	**413**	393
Partially written-off book	**1 339**	1 675
Total gross advances including partially written-off book	**60 712**	54 572
Balance of impairment provisions at the beginning of the year	**9 871**	7 498
Impairment provisions raised (refer note 25)	**9 533**	5 137
Bad debts written off against the impairment provisions	**(10 275)**	(5 026)
Bad debts rehabilitated	**1 502**	2 262
Balance of impairment provisions at the end of the year	**10 631**	9 871

* *Comparatives have been restated as per note 53.*

9. Net advances continued

During the year, the group rehabilitated onto the balance sheet R1 502 million (2012: R2 262 million) of loans previously written off. The policy regarding rehabilitation of written-off loans requires such loans to be performing above minimum criteria, with a regular payment profile, before they qualify for reinstatement onto the balance sheet, together with the appropriate impairment provisions. Partially written-off advances are reinstated at their net recoverable value determined on a discounted cash flow basis.

The impairment provision for gross advances is classified into two categories i.e. specific impairments and portfolio impairments (IBNR). The specific impairments provision of R10 040 million (2012: R9 709 million) is in respect of the non-performing loan book, while the portfolio impairments provision of R591 million (2012: R162 million) is in respect of the performing loan book. The portfolio provision covers losses actually incurred but not yet reported in relation to clients who may have already suffered stress in making contractual payments, but such information has not been formally conveyed to the group.

The gross amount owing on the partially written-off book is R21 billion (2012: R12,3 billion).

9.1 Credit risk

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the group. The group's primary focus is the underwriting of unsecured loans and accordingly, credit risk features as a dominant financial risk within the group. The credit risk management framework setting out the policies and procedures applied by the group is set out in the risk management review indicated in the accountability section of this integrated annual report.

The group continually monitors the performance of each loan. Where payments are missed, the loan repayment period might be extended to ensure repayment of all required instalments. In other circumstances the group may be required under law to renegotiate a loan. However, these loans remain either past due or impaired and therefore the group does not provide a separate analysis of renegotiated items in terms of IFRS 7.

IFRS 7 requires disclosure of the fair value of collateral for those items considered impaired. The group takes collateral only in very limited circumstances (for example within the Ellerines business unit where the credit has been granted by Ellerines as opposed to African Bank). The collateral predominantly takes the form of non-financial assets, being the furniture and appliances sold on credit, the nature of which renders it impracticable to determine their fair value.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the group's maximum exposure to credit risk.

9. Net advances continued

9.1.1 Credit risk exposure

Analysis of credit quality

R million	African Bank loans	Credit card	Ellerines SA	Ellerines foreign	Total
30 September 2013					
Financial assets that are neither past due nor impaired					
Advances	26 289	5 315	4 317	211	36 132
Low risk	11 121	2 075	1 014	80	14 290
Medium risk	10 764	1 587	2 222	64	14 637
High risk	4 404	1 653	1 081	67	7 205
Financial assets that are past due but not yet impaired	4 201	1 050	1 166	116	6 533
Financial assets that are impaired	5 225	823	593	27	6 668
Carrying amount	13 004	1 786	1 832	86	16 708
Provision for impairment	(7 779)	(963)	(1 239)	(59)	(10 040)
Partially written-off advances					1 339
Total credit exposure	35 715	7 188	6 076	354	50 672
Deferred administration fees					195
Incurred but not reported provision					(591)
Net advances	35 715	7 188	6 076	354	50 276
Reconciliation of allowance account					
Balance at the beginning of the year	7 171	737	1 761	40	9 709
Bad debts charge net of recoveries	5 201	914	2 926	63	9 104
Bad debt (write-offs)/ rehabilitations	(4 593)	(688)	(3 448)	(44)	(8 773)
Balance at the end of the year	7 779	963	1 239	59	10 040

	Up to three months	Three months to six months	Six months to nine months	Greater than nine months	Total
Ageing of financial assets that are past due but not impaired	6 506	14	6	7	6 533

9. Net advances continued

9.1.1 Credit risk exposure continued

Analysis of credit quality continued

R million	African Bank loans	Credit card	Ellerines SA	Ellerines foreign	Total
30 September 2012					
Financial assets that are neither past due nor impaired					
Advances	23 463	5 065	4 235	233	32 996
Low risk	13 294	2 359	1 389	70	17 112
Medium risk	8 043	1 506	1 891	70	11 510
High risk	2 126	1 200	955	93	4 374
Financial assets that are past due but not yet impaired	2 740	804	1 038	99	4 681
Financial assets that are impaired	3 654	694	1 142	21	5 511
Carrying amount	10 825	1 431	2 903	61	15 220
Provision for impairment	(7 171)	(737)	(1 761)	(40)	(9 709)
Partially written-off advances					1 675
Total credit exposure	29 857	6 563	6 415	353	44 863
Deferred administration fees					(18)
Incurred but not reported provision					(162)
Net advances	29 857	6 563	6 415	353	44 683
Reconciliation of allowance account					
Balance at the beginning of the year	5 941	361	1 035	40	7 377
Bad debts charge net of recoveries	2 504	807	1 752	33	5 096
Bad debt (write-offs)/ rehabilitations	(1 274)	(431)	(1 026)	(33)	(2 764)
Balance at the end of the year	7 171	737	1 761	40	9 709

	Up to three months	Three months to six months	Six months to nine months	Greater than nine months	Total
Ageing of financial assets that are past due but not impaired	4 663	9	5	4	4 681

R million	Opening balance	Recognised in profit and loss (refer note 28.2)	Recognised in other comprehensive income	Closing balance
10. Deferred tax asset/liability*				
2013				
Temporary differences				
Deferred administration fees	**(20)**	**(60)**	**–**	**(80)**
Unearned club fees	**–**	**42**	**–**	**42**
Deferred expenses	**–**	**(63)**	**–**	**(63)**
Incentive schemes	**47**	**42**	**(1)**	**88**
Deferred tax on hedge accounting (swaps)	**212**	**–**	**(260)**	**(48)**
Portfolio impairment for credit losses	**137**	**28**	**–**	**165**
Accelerated capital allowances	**13**	**(4)**	**–**	**9**
Capital gains tax losses	**1**	**–**	**–**	**1**
Other provisions	**77**	**17**	**–**	**94**
Insurance IBNR provision	**9**	**(20)**	**–**	**(11)**
Instalment sale debtors allowance	**(22)**	**(3)**	**–**	**(25)**
Trademarks	**(191)**	**20**	**–**	**(171)**
Other	**(21)**	**4**	**–**	**(17)**
Total	**242**	**3**	**(261)**	**(16)**
Unused tax losses and credits				
Estimated tax losses	**322**	**486**	**21**	**829**
Total	**564**	**489**	**(240)**	**813**
2012				
Temporary differences				
Deferred administration fees	18	(38)	–	(20)
Incentive schemes	41	3	3	47
Deferred tax on hedge accounting (swaps)	105	–	107	212
Portfolio impairment for credit losses	155	(18)	–	137
Accelerated capital allowances	12	1	–	13
Capital gains tax losses	1	–	–	1
Secondary tax on companies	2	(2)	–	–
Other provisions	82	(5)	–	77
Insurance IBNR provision	13	(4)	–	9
Instalment sale debtors allowance	(164)	142	–	(22)
Trademarks	(213)	22	–	(191)
Other	(19)	(2)	–	(21)
Total	33	99	110	242

* *Comparatives have been restated as per note 53.*

R million	Opening balance	Recognised in profit and loss (refer note 28.2)	Recognised in other comprehensive income	Closing balance
10. Deferred tax asset/liability continued				
Unused tax losses and credits				
Estimated tax losses (Ellerine Group)	218	104	–	322
Total	251	203	110	564

The deferred tax asset in Ellerine Furnishers (Proprietary) Ltd arises on temporary differences, most specifically an assessed loss. The directors have tested the deferred tax asset recognised for recoverability in terms of IAS 12. Taking into account the normal operations and new initiatives of the Ellerine Group, the deferred tax asset is recoverable in the next five financial years.

As part of the new initiatives, the directors have prepared a forecast in terms of which Ellerine Furnishers will continue to incur a trading loss before taxation for the financial year 2014 growing the deferred taxation asset relating to the assessed loss. The turnaround strategy supporting the recognition of this asset makes certain key assumptions which the board has considered and believes to be reasonable in the circumstances.

The principal assumptions are summarised as follows:

- Restructuring of certain brands and the closure of loss making stores
- Restructuring the insurance entities.
- Introduction of additional revenue streams. The board has considered the business plans supporting these new ventures and confirms that the amounts noted as future revenues are both reasonable and broadly achievable.
- Continued cost control
- More fully exploiting the national branch network to increase the profitability for the ABIL group which would result in an increased value share or profit in Ellerine Furnishers.

	2013	2012
The deferred tax above is disclosed as follows		
Deferred tax asset	**1 012**	780
Deferred tax liability	**(199)**	(216)
	813	564
Unrecognised deferred tax assets		
Deferred tax assets not recognised at reporting date:		
Estimated tax losses	**25**	16
Temporary differences	**6**	3
	31	19

The unrecognised deferred tax asset above relates to the Ellerine Holdings Limited foreign subsidiaries.

* *Comparatives have been restated as per note 53.*

R million	Cost 2013	Accumulated depreciation 2013	Carrying value 2013	Cost 2012	Accumulated depreciation 2012	Carrying value 2012
11. Property and equipment*						
Furniture	**652**	**(345)**	**307**	576	(265)	311
Information technology equipment	**555**	**(411)**	**144**	517	(336)	181
Office equipment	**246**	**(146)**	**100**	274	(123)	151
Motor vehicles	**33**	**(25)**	**8**	34	(21)	13
Carve-outs and kiosks	**4**	**(3)**	**1**	4	(2)	2
Leasehold improvements	**359**	**(235)**	**124**	332	(194)	138
Distribution centres	**252**	**(25)**	**227**	–	–	–
Land and buildings (investment properties)	**1**	**–**	**1**	1	–	1
Land and buildings (owner-occupied)	**193**	**(28)**	**165**	193	(25)	168
Total	**2 295**	**(1 218)**	**1 077**	1 931	(966)	965

* *Comparatives have been restated as per note 53.*

The carrying amounts of property and equipment at 30 September 2013 for the group are reconciled as follows:

	Carrying value at beginning of year	Transfers	Additions	Depreciation (refer note 27)	Disposals and write-offs	Carrying value at end of year
11.1 Reconciliation of the carrying amounts of property and equipment						
2013						
Furniture	**311**	**–**	**104**	**(80)**	**(28)**	**307**
Information technology equipment	**181**	**–**	**40**	**(75)**	**(2)**	**144**
Office equipment	**151**	**–**	**8**	**(23)**	**(36)**	**100**
Motor vehicles	**13**	**–**	**1**	**(4)**	**(2)**	**8**
Carve-outs and kiosks	**2**	**–**	**–**	**(1)**	**–**	**1**
Leasehold improvements	**138**	**–**	**35**	**(41)**	**(8)**	**124**
Distribution centres	**–**	**155**	**97**	**(25)**	**–**	**227**
Land and buildings (investment properties)	**1**	**–**	**–**	**–**	**–**	**1**
Land and buildings (owner-occupied)	**168**	**–**	**–**	**(3)**	**–**	**165**
Total	**965**	**155**	**285**	**(252)**	**(76)**	**1 077**

11. Property and equipment continued

11.1 Reconciliation of the carrying amounts of property and equipment

R million	Carrying value at beginning of year	Transfers	Additions	Depreciation (refer note 27)	Disposals and write-offs	Carrying value at end of year
2012						
Furniture	218	24	141	(62)	(10)	311
Information technology equipment	147	1	104	(67)	(4)	181
Office equipment	47	–	135	(17)	(14)	151
Motor vehicles	17	–	4	(3)	(5)	13
Carve-outs and kiosks	2	–	1	(1)	–	2
Leasehold improvements	132	–	54	(41)	(7)	138
Land and buildings (investment properties)	3	–	–	–	(2)	1
Land and buildings (owner-occupied)	179	(25)	17	(3)	–	168
Total	745	–	456	(194)	(42)	965

* *Comparatives have been restated as per note 53.*

Assets with a cost of R165 million, but with a carrying value of R76 million were either disposed of, written off or permanently removed from the fixed assets register during the current financial year. There are also assets in the construction phase with a value of R49 million (2012: R140 million) that are included in fixed assets, but on which depreciation has not yet been charged.

The group has committed capital expenditure of R12 million (2012: R43 million) and authorised, but not yet contracted for, capital commitments of R215 million (2012: R221 million) as at 30 September 2013.

The group has elected not to use the fair value of owner-occupied property as the deemed cost as at 1 October 2004 (the transition date) and accordingly will continue to use the original cost of the asset and to depreciate it in accordance with IAS 16 *Property, Plant and Equipment*.

R million	Cost 2013	Accumulated amortisation and impairment 2013	Carrying value 2013	Cost 2012	Accumulated amortisation and impairment 2012	Carrying value 2012
12. Intangible assets*						
Goodwill	**5 472**	**(4 641)**	**831**	5 472	–	5 472
Software	**405**	**(215)**	**190**	351	(164)	187
Trademarks	**1 026**	**(415)**	**611**	1 026	(343)	683
Total	**6 903**	**(5 271)**	**1 632**	6 849	(507)	6 342

The carrying amounts of intangible assets at 30 September 2013 for the group are reconciled as follows:

R million	Carrying value at beginning of year	Additions	Amortisation (refer note 27)	Impairment	Carrying value at end of year
12.1 Reconciliation of the carrying amounts of intangible assets					
2013					
Goodwill	**5 472**	**–**	**–**	**(4 641)**	**831**
Computer software	**187**	**54**	**(51)**	**–**	**190**
Trademarks	**683**	**–**	**(72)**	**–**	**611**
Total	**6 342**	**54**	**(123)**	**(4 641)**	**1 632**
2012					
Goodwill	5 472	–	–	–	5 472
Software	107	112	(32)	–	187
Trademarks	761	–	(72)	(6)	683
Total	6 340	112	(104)	(6)	6 342

* *Comparatives have been restated as per note 53.*

R million	2013	2012
12. Intangible assets continued		
12.2 Trademarks per brand		
Cost	**1 043**	1 043
Market position 1 – Ellerines, Town Talk, FurnCity and Savells/Fairdeal	**710**	710
Market position 2 – Beares, Lubners	**174**	174
Market position 3 – Furniture City	**16**	16
Market position 4 – Geen & Richards	**64**	64
Dial-a-Bed and Mattress Factory	**20**	20
Wetherlys and Osiers	**47**	47
Rainbow Loans	**12**	12
Amortisation	**(415)**	(343)
Market position 1 – Ellerines, Town Talk, FurnCity and Savells/Fairdeal	**(298)**	(245)
Market position 2 – Beares, Lubners	**(66)**	(54)
Market position 3 – Furniture City	**(6)**	(5)
Market position 4 – Geen & Richards	**(20)**	(17)
Dial-a-Bed and Mattress Factory	**(8)**	(7)
Wetherlys	**(16)**	(14)
Rainbow Loans	**(1)**	(1)
Impairment	**(17)**	(17)
Mattress factory	**(2)**	(2)
Osiers	**(4)**	(4)
Rainbow Loans	**(11)**	(11)
Net carrying value	**611**	683
Reconciliation of carrying value		
Movements during the year:		
Balance at the beginning of the year	**683**	761
Amortisation	**(72)**	(72)
Impairment	**–**	(6)
Balance at the end of the year	**611**	683

	Balance at beginning of the year	Amortisation	Impairment	Balance at the end of the year
12. Intangible assets continued				
12.3 Reconciliation of the trademarks per brand				
2013				
Ellerines	**259**	**(18)**	**–**	**241**
Town Talk	**106**	**(18)**	**–**	**88**
FurnCity	**76**	**(13)**	**–**	**63**
Savells/Fairdeal	**24**	**(5)**	**–**	**19**
Beares	**90**	**(6)**	**–**	**84**
Lubners	**30**	**(5)**	**–**	**25**
Furniture City	**11**	**(1)**	**–**	**10**
Geen & Richards	**47**	**(3)**	**–**	**44**
Dial-a-Bed	**11**	**(1)**	**–**	**10**
Mattress Factory	**–**	**–**	**–**	**–**
Wetherlys	**29**	**(2)**	**–**	**27**
Osiers	**–**	**–**	**–**	**–**
	683	**(72)**	**–**	**611**
2012				
Ellerines	276	(17)	–	259
Town Talk	124	(18)	–	106
FurnCity	89	(13)	–	76
Savells/Fairdeal	29	(5)	–	24
Beares	96	(6)	–	90
Lubners	35	(5)	–	30
Furniture City	12	(1)	–	11
Geen & Richards	50	(3)	–	47
Dial-a-Bed	12	(1)	–	11
Mattress Factory	2	–	(2)	–
Wetherlys	32	(3)	–	29
Osiers	4	–	(4)	–
	761	(72)	(6)	683

Trademarks represent registered rights to the exclusive use of certain trademarks and brand names and have been stated at the fair value as determined by external trademark valuation specialists on acquisition of Ellerines, using the royalty relief method.

R million	2013	2012
12.4 Goodwill		
Cost at beginning of the year	**5 472**	5 472
Impairment	**(4 641)**	–
Carrying value at the end of the year	**831**	5 472

R million	2013	2012
12. Intangible assets continued		
12.5 Goodwill allocation per brand		
African Bank	–	4 000
Market position 1 – Ellerines, Town Talk, FurnCity and Savells/Fairdeal	587	784
Market position 2 – Beares, Lubners	103	137
Market position 3 – Furniture City	–	32
Market position 4 – Geen & Richards	–	290
Dial-a-Bed and Mattress Factory	49	98
Wetherlys and Osiers	–	39
Rest of Africa	92	92
Net carrying value of goodwill	831	5 472

Goodwill represents the excess of the purchase consideration over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition purchased as part of a business combination. Factors that contributed to the recognition of goodwill within the total cost of acquisition include the value of the control premium and the potential to market new loan products through a significantly increased number of stores. The fair value of these intangibles could not be individually measured.

Goodwill is tested for impairment in accordance with the group's accounting policies.

12.6 Goodwill impairment testing

The group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period for African Bank Limited and four-year period for Ellerine Group.

Goodwill attributable to Ellerine Group:

- Cash flows beyond the four-year period are extrapolated using an estimated growth rate of 4,5 % for the Ellerine Group cash-generating units. The growth rate does not exceed the long term average growth rate for the relevant market.
- A discount rate of between 12,5 % and 14,39 % (2012: 11,4 % and 12,9 %) was used for impairment testing of Ellerine Group goodwill. The discount rate reflects Ellerine Group brands weighted average cost of capital.

Goodwill attributable to African Bank Limited:

- Cash flows beyond the three-year period are extrapolated using an estimated growth rate of 6 % for African Bank. The growth rate does not exceed the long term average growth rate for the relevant market.
- A discount rate of 15 % (2012: 14,5 %) was used for impairment testing of African Bank's goodwill. The discount rate reflects African Bank's current cost of equity.

When assessing the potential impairment of the goodwill in African Bank and Ellerines the value in use of the two business units is estimated. This is based on an estimate of the future cash flows to be derived from the business units. Due to the lower profitability/losses in the current year at African Bank and Ellerines as well as the current challenging economic conditions, the estimated future cash flow projections are significantly lower than the prior years. IAS 36 – Impairment of Assets requires the estimate of cash flows to exclude the impact of restructurings or actions to improve/enhance the business units' performance. As a consequence, the future cash flow projections did not support the total carrying value of the goodwill and the entire R4 billion goodwill at African Bank was impaired and R641 million of the Ellerines goodwill was impaired.

R million	2013	2012
13. Short term funding		
Call deposits	**3 017**	709
Fixed and notice deposits	**4 026**	3 357
Negotiable certificates of deposit	**991**	521
	8 034	4 587

Call deposits consist of demand deposits received from various counterparties. Demand deposits bear interest varying from 3,25% to 5,75% (2012: 3,25% to 4,75%) NACM.

Fixed and notice deposits consist of term deposits received from various counterparties. The interest rates applicable to the deposits vary from 5,4% to 6,8% (2012: 5,00% to 6,50%) NACQ, NACS, and NACA.

Negotiable certificates of deposits have zero coupon value with effective interest rates varying from 5,33% to 6,40% (2012: 5,93% to 6,35%) NACS and NACA.

R million	2013	2012
14. Other liabilities*		
Trade creditors	**353**	451
Advances with credit balances	**48**	43
Liabilities to employees as a result of incentive transactions	**31**	50
Insurance liabilities	**997**	802
Liability for cash-settled LTIPs	**18**	154
Derivative financial instruments	**538**	524
Equity derivatives	**266**	–
Interest rate derivatives	**272**	524
Shareholders for odd-lot offer	**13**	13
Shareholders for dividends	**14**	13
Leave pay accruals	**98**	90
Provision for straight-lining of leases	**138**	98
Sundry creditors and accruals	**748**	250
	2 996	2 488

* *Comparatives have been restated as per note 53.*

The group uses currency swaps and interest rate swaps to mitigate against changes in cash flows of foreign currency debt and certain variable rate debt. The group applies hedge accounting for its non-trading interest rate risk in major currencies by analysing expected cash flows on a group basis. The objective is to mitigate against changes in future interest cash flows resulting from the impact in changes in market interest rates and exchange rates.

The group uses currency swaps to mitigate against the changes in cash flows arising from changes in foreign currency rates where the debt is denominated in a currency other than the functional currency.

The equity swaps are OTC agreements the group enters into in order to mitigate against changes in cash flows related to certain share-based payments.

R million	2013	2012
14.1 Insurance liabilities		
Notified claims	**73**	138
Claims incurred but not reported	**587**	323
Unearned premiums	**337**	341
	997	802
14.2 Movement in insurance liabilities		
14.2.1 Reconciliation of insurance liabilities		
Notified claims	**138**	62
Claims incurred but not reported	**323**	185
Unearned premium provision	**341**	375
Total at the beginning of the year	**802**	622
Cash paid for claims settled during the year	**(326)**	(336)
Increase in liabilities arising from current year claims	**399**	253
Movement in unearned premium provision	**(4)**	156
Increase in liabilities arising from prior year underprovision	**126**	107
Total at the end of the year	**997**	802

15. Life fund reserve

	2013	2012
Movements in the fund during the year:		
Balance at the beginning of the year	**–**	1
Transfer to the income statement (refer note 23.1)	**–**	(1)
Balance at the end of the year	**–**	–

The life fund at 30 September 2013 equals the amount of the statutory actuarial valuation of the liability to parties outside the group according to the assurance policies and contracts in force at that date. The statutory basis of valuation of the life fund has been conducted in accordance with applicable Actuarial Society of South Africa Professional Guidance Notes.

16. Bonds and other long term funding

	2013	2012
Unsecured listed bonds (listed on JSE)	**14 399**	9 933
Unsecured listed bonds (listed on foreign stock exchanges)	**10 164**	7 159
Other long term funding	**17 502**	20 228
Total bonds and other long term funding	**42 065**	37 320

Bonds and other long term funding with a nominal value of R15,4 billion (2012: R15 billion) are payable within the next 12 months.

R million	Face value 2013	Interest capitalised 2013
16. Bonds and other long term funding continued		
16.1 Unsecured listed bonds		
ABLC07 bonds with an original face value of R500 million, issued on 15 August 2012, were redeemed on 15 February 2013. Interest was calculated and paid quarterly at the three-month JIBAR rate plus 0,4%.	–	–
ABLC09 bonds with an original face value of R400 million, issued on 19 August 2013, are redeemable on 19 February 2014. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 0,70%.	400	3
ABLC10 bonds with an original face value of R100 million, issued on 19 August 2013, are redeemable on 19 February 2014. Interest is calculated and payable semi-annually at a fixed coupon rate of 5,867%.	100	1
ABL7 bonds with an original face value of R1 billion, issued on 18 February 2008, were redeemed on 18 February 2013. Interest was calculated and paid semi-annually at a coupon rate of 11,85%*.	–	–
ABLI01 bonds with an original nominal value of R149 million, issued on 24 April 2008, were redeemed on 31 March 2013. They were issued as a replica of the R189 inflation-linked bond and at issue the inflation-adjusted face value was R246 million. Interest was calculated and paid semi-annually at a fixed coupon rate of 6,25% adjusted by the inflation index.	–	–
ABL8A bonds with an original face value of R725 million, issued on 19 September 2008, were redeemed on 19 September 2013. Interest was calculated and paid semi-annually at a coupon rate of 13,00%*.	–	–
ABL8B bonds with an original face value of R525 million, issued on 19 September 2008, were redeemed on 19 September 2013. Interest was calculated and paid quarterly at the three-month JIBAR rate plus 3,00%*.	–	–
ABLI02 bonds with an original face value of R2 020 million, issued on 8 May 2009, are redeemable on 8 May 2014. Interest is calculated and payable semi-annually at a fixed coupon rate of 8,00% adjusted by the inflation index.	2 020	641
ABL10A bonds with an original face value of R500 million, issued on 15 March 2010, are redeemable on 15 March 2015. Interest is calculated and payable semi-annually at a fixed coupon rate of 11,50%*.	450	2
ABL10B bonds with an original face value of R500 million, issued on 15 March 2010, are redeemable on 15 March 2015. Interest is calculated and paid quarterly at the three-month JIBAR rate plus 3,15%.	500	2

Unamortised discount 2013	Net liability 2013	Face value 2012	Interest capitalised 2012	Unamortised discount 2012	Net liability 2012
–	**–**	500	4	–	504
–	**403**	–	–	–	–
–	**101**	–	–	–	–
–	**–**	821	12	–	833
–	**–**	268	6	–	274
–	**–**	632	3	(1)	634
–	**–**	433	1	–	434
–	**2 661**	2 020	502	–	2 522
(1)	**451**	450	2	(2)	450
–	**502**	500	2	–	502

R million	Face value 2013	Interest capitalised 2013
16. Bonds and other long term funding continued		
16.1 Unsecured listed bonds continued		
ABLI03 bonds with an original face value of R750 million, issued on 15 March 2010, are redeemable on 15 March 2015. Interest is calculated and payable semi-annually at a fixed coupon rate of 5,10% adjusted by the inflation index.	750	165
ABL11A bonds with an original face value of R525 million, issued on 29 September 2010, are redeemable on 29 September 2014. Interest is calculated and payable semi-annually at a coupon rate of 9,50%.	525	–
ABL11B bonds with an original face value of R475 million, issued on 29 September 2010, are redeemable on 29 September 2014. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 2,50%*.	380	–
ABL12B bonds with an original face value of R1 000 million, issued on 8 March 2011, are redeemable on 8 March 2015. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 2,40%.	1 000	5
ABL13 bonds with an original face value of R278 million, issued on 11 October 2011, are redeemable on 11 October 2016. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 2,50%.	278	5
ABL14 bonds with an original face value of R709 million, issued on 9 October 2012, are redeemable on 9 October 2015. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 2,00%.	709	12
ABL15 bonds with an original face value of R191 million, issued on 9 October 2012, are redeemable on 9 October 2017. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 2,64%.	191	3
ABL16 bonds with an original face value of R800 million, issued on 25 March 2013, are redeemable on 25 March 2016. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 1,99%.	800	1
ABL17 bonds with an original face value of R1 000 million, issued on 21 June 2013, are redeemable on 21 June 2016. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 2,75%.	1 000	2

Unamortised discount 2013	Net liability 2013	Face value 2012	Interest capitalised 2012	Unamortised discount 2012	Net liability 2012
–	**915**	750	118	–	868
–	**525**	525	25	–	550
–	**380**	380	8	–	388
(1)	**1 004**	1 000	4	(1)	1 003
–	**283**	278	5	–	283
(1)	**720**	–	–	–	–
–	**194**	–	–	–	–
(1)	**800**	–	–	–	–
–	**1 002**	–	–	–	–

R million	Face value 2013	Interest capitalised 2013
16. Bonds and other long term funding continued		
16.1 Unsecured listed bonds continued		
ABL18 bonds with an original face value of R510 million, issued on 25 September 2013, are redeemable on 25 September 2015. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 2,85%.	510	–
ABL19 bonds with an original face value of R490 million, issued on 25 September 2013, are redeemable on 25 September 2018. Interest is calculated and payable quarterly at the three-month JIBAR rate plus 4,00%.	490	–
ABLI04 bonds with an original face value of R652 million, issued on 11 October 2011, are redeemable on 11 October 2016. Interest is calculated and payable semi-annually at a fixed coupon rate of 4,00% adjusted by the inflation index.	652	97
ABLI05 bonds with an original face value of R800 million, issued on 18 February 2013, are redeemable on 18 February 2018. A second tranche, with an original face value of R1 200 million, was issued on 25 March 2013. Interest is calculated and payable semi-annually at a fixed coupon rate of 3,20% adjusted by the inflation index.	2 000	93
ABLI06 bonds with an original face value of R600 million, issued on 19 July 2013, are redeemable on 19 July 2020. Interest is calculated and payable semi-annually at a fixed coupon rate of 5,75% adjusted by the inflation index.	600	16
Total	**13 355**	**1 048**

The current face value is lower than the original face value as a result of early redemptions.

Unamortised discount 2013	Net liability 2013	Face value 2012	Interest capitalised 2012	Unamortised discount 2012	Net liability 2012
–	**510**	–	–	–	–
–	**490**	–	–	–	–
–	**749**	652	36	–	688
–	**2 093**	–	–	–	–
–	**616**	–	–	–	–
(4)	**14 399**	9 209	728	(4)	9 933

R million	Face value 2013	Interest capitalised 2013	Foreign currency translation 2013
16. Bonds and other long term funding continued			
16.2 Unsecured listed bonds on foreign stock exchange			
ABLSJ15 bonds with an original face value of USD300 million, issued on 15 June 2011, are redeemable on 15 June 2016. The second tranche, with an original face value of USD50 million, was issued on 2 March 2012. Interest is calculated and payable semi-annually at a coupon rate of 6,0% USD.	**2 413**	**56**	**1 109**
ABLSJ16 bonds with an original face value of USD350 million, issued on 24 February 2012, are redeemable on 24 February 2017. Interest is calculated and payable semi-annually at a coupon rate of 8,125% USD.	**2 703**	**16**	**826**
ABLSJ17 bonds with an original face value of CHF150 million, issued on the 24 July 2012, are redeemable on 24 July 2015. Interest is calculated and payable semi-annually at a coupon rate of 4,76% CHF.	**1 263**	**12**	**407**
ABLSJ17 bonds with an original face value of CHF125 million, issued on 9 November 2012, are redeemable on 9 November 2015. Interest is calculated and payable semi-annually at a coupon rate of 4,01% CHF.	**1 164**	**46**	**228**
Total	**7 543**	**130**	**2 570**

R million	Face value 2013	Interest capitalised 2013	Foreign currency translation 2013
16.3 Other long term funding			
Promissory notes	**10 253**	**161**	**–**
Fixed deposits	**6 782**	**121**	**110**
Other long term funding	**75**	**–**	**–**
Total	**17 110**	**282**	**110**

The promissory notes consist of zero coupons, quarterly coupons and semi-annual coupons, with the rates varying from 5,83% to 11,80% NACQ, NACS and NACA. These notes have various maturities, ranging from 1 October 2013 to 27 March 2019. Promissory notes with a nominal value of R6 359 million (2012: R6 358 million) are payable within the next 12 months.

The fixed deposits consist of zero coupons, quarterly coupons and semi-annual coupons, with interest rates varying from 5,50% to 13,06% NACQ, NACS and NACA. These fixed deposits have various maturities, ranging from 11 October 2013 to 1 November 2017. Fixed deposits with a nominal value of R4 780 million (2012: R5 113 million) are payable within the next 12 months.

	Unamortised discount 2013	Net liability 2013	Face value 2012	Interest capitalised 2012	Foreign currency translation 2012	Unamortised discount 2012	Net liability 2012
	(42)	**3 536**	2 413	42	503	(43)	2 915
	(19)	**3 526**	2 703	20	211	(19)	2 915
	(10)	**1 672**	1 253	12	64	–	1 329
	(8)	**1 430**	–	–	–	–	–
	(79)	**10 164**	6 369	74	778	(62)	7 159

	Net liability 2013	Face value 2012	Interest capitalised 2012	Foreign currency translation 2012	Net liability 2012
	10 414	11 459	154	–	11 613
	7 013	8 396	150	49	8 595
	75	20	–	–	20
	17 502	19 875	304	49	20 228

R million

17. Subordinated bonds, debentures and loans

Subordinated bonds (ABLS2 A) with an original face value of R520 million, issued on 13 July 2009, are redeemable on 13 July 2016. Interest is calculated and payable semi-annually at a fixed rate of 15,50%.

Subordinated bonds (ABLS2 B) with an original face value of R480 million, issued on 13 July 2009, are redeemable on 13 July 2016. Interest is calculated at the three-month JIBAR plus 6,3% and payable quarterly.

Subordinated bonds (ABLS3) with a face value of R515 million, issued on 31 March 2011, are redeemable on 2 April 2018, Interest is calculated at the three-month JIBAR plus 4,0% and payable quarterly.

Subordinated bonds (ABLS4) with a face value of R300 million, issued on 29 March 2012, are redeemable on 29 March 2019. Interest is calculated at the three-month JIBAR rate plus 4,50% and payable quarterly.

ABLS5 subordinated bonds with an original face value of R325 million, issued on 29 June 2012, are redeemable on or after 29 June 2019, but no later than 29 June 2024. A second tranche, with an original face value of R542 million, was issued on 8 August 2012, and the third tranche with an original face value of R500 million was issued on 25 March 2013. Interest is calculated and payable quarterly at the three-month JIBAR plus 4,99%.

Subordinated bonds (ABLSI 01) with a face value of R133 million, issued on 29 June 2012, are redeemable on 29 June 2019 but not later than 29 June 2024. Interest is calculated at a fixed coupon rate of 4,50% adjusted by the inflation index and payable semi-annually.

Subordinated debentures with a face value of R200 million, issued on 6 August 2008, are redeemable on or after 6 August 2015, but not later than 6 August 2020. These debentures are zero coupon, with interest being calculated at the three-month JIBAR plus 5% and capitalised quarterly. On 6 August 2015 the rate resets to the three-month JIBAR plus 7,5%.

Subordinated debentures with a face value of R25 million, issued on 2 April 2009, are redeemable on or after 2 April 2016, but not later than 2 April 2021. These debentures are zero coupon, with interest being calculated at the three-month JIBAR plus 5% and capitalised quarterly. On 2 April 2016 the rate resets to the three-month JIBAR plus 7,5%.

International Finance Corporation (IFC) subordinated Tier II capital qualifying loan with a face value of R350 million, issued on 12 January 2009, are redeemable on or after 15 December 2015, but not later than 15 December 2020. Interest for the initial seven-year non-callable period translates into three-month JIBAR plus 3,65% and payable quarterly. On 15 December 2015 the rate resets to the three-month JIBAR plus a market determined spread with the same payment intervals.

Proparco subordinated Tier II capital qualifying loan with a face value of R100 million, issued on 28 August 2009, is redeemable on 15 September 2016. Interest is calculated at the three-month JIBAR plus 5,775% and payable quarterly.

DEG subordinated Tier II capital qualifying loan with a face value of R150 million, issued on 27 October 2009, is redeemable on 15 September 2016. Interest is calculated at the three-month JIBAR plus 5,375% and payable quarterly.

	Face value 2013	Interest capitalised 2013	Unamortised discount 2013	Net liability 2013	Face value 2012	Interest capitalised 2012	Unamortised discount 2012	Net liability 2012
	520	17	–	537	520	18	–	538
	480	12	–	492	480	12	–	492
	515	–	–	515	515	12	–	527
	300	–	–	300	300	8	–	308
	1 367	–	(1)	1 366	867	–	–	867
	133	13	–	146	133	2	–	135
	200	165	–	365	200	130	–	330
	25	16	–	41	25	12	–	37
	350	1	(2)	349	350	1	(3)	348
	100	–	(1)	99	100	–	(1)	99
	150	2	(1)	151	150	2	(2)	150
	4 140	226	(5)	4 361	3 640	197	(6)	3 831

	2013 Number of shares	2013 R million	2012 Number of shares	2012 R million
18. Ordinary share capital and premium				
Authorised				
Ordinary shares of 2,5 cents each	**2 000 000 000**	**50**	1 000 000 000	25
Issued				
Ordinary shares at par value of 2,5 cents each	**815 811 539**	**20**	804 175 200	20
Ordinary share premium		**9 420**		9 131
		9 440		9 151

Unissued shares

The directors have no general authority to issue any of the unissued ordinary share capital. The directors have the authority to contract ABIL or any subsidiary to acquire shares not exceeding 3% of the issued ordinary share capital.

Shares issued during the current and previous years

On 18 December 2012 ABIL issued 6 056 918 ordinary shares *in lieu* of a cash dividend. A further 5 579 421 ordinary shares were issued by ABIL on 18 June 2013 *in lieu* of a cash dividend.

No shares were issued during the 2012 financial year.

R million	2013	2012
19. Reserves*		
Reserves comprise the following:		
Retained earnings	**(937)**	4 429
Share-based payments reserve	**–**	(3)
Cash flow hedging reserve	**180**	(429)
Insurance contingency reserve	**–**	9
Foreign currency translation reserve	**(9)**	(18)
	(766)	3 988

* *Comparatives have been restated as per note 53.*

	2013 Number of shares	2013 R million	2012 Number of shares	2012 R million
20. Preference shareholders' equity				
Authorised				
Preference shares of 1 cent each	**20 000 000**	**–**	20 000 000	–
Issued				
Preference shares at par value of 1 cent each	**13 523 029**	**–**	13 523 029	–
Preference share premium		**1 130**		1 130
		1 130		1 130

13 523 029 non-redeemable, non-cumulative, non-participating preference shares with a par value of R0,01 are in issue. Five million shares were issued on 23 March 2005 at a premium of R99,99 per share and share issue expenses of R17 million were offset against the preference share premium. A further 3 042 251 were issued during the 2011 financial year and 5 480 778 shares were issued during the 2012 financial year. ABIL issued an additional 5 480 778 non-redeemable, non-cumulative, non-participating preference shares with a par value of R0,01 each on 23 March 2012. The shares were issued at a premium of R76,13 per share and share issue expenses of R6 million were offset against the preference share premium. These shares rank *pari passu* with the 8 042 251 preference shares already in issue.

ABIL will not declare an ordinary dividend unless a preference dividend has been declared. Preference dividends will be calculated at 69 % of the daily average prime overdraft rate which prevailed in respect of the period for which the dividend is calculated.

Shares issued during the year

No preference shares were issued during the current year.

R million	2013	2012
21. Gross margin on retail business		
Sale of merchandise	**4 034**	4 792
Cost of sales	**(2 264)**	(2 658)
	1 770	2 134
22. Interest and investment income		
Interest income on advances	**11 964**	9 919
Other interest and investment income	**393**	219
Interest received on cash reserves	**373**	202
Dividends received on statutory assets	**20**	17
	12 357	10 138

R million	2013	2012
23. Insurance income and expenses*		
23.1 Insurance income		
Insurance premiums	**4 862**	3 827
Transferred from the life fund (refer note 15)	**–**	1
	4 862	3 828
23.2 Insurance benefits and claims		
Credit life insurance claims	**(1 609)**	(867)
Product insurance claims	**(55)**	(60)
	(1 664)	(927)
24. Non-interest income		
Loan origination fees	**834**	812
Service fees	**1 601**	1 529
Club fees	**99**	78
Credit card fees	**615**	664
Delivery charges	**167**	184
Other	**21**	24
	3 337	3 291

In accordance with IAS 18 *Revenue*, loan origination and monthly service fees are considered an integral part of the loan agreement, and accordingly are amortised to the income statement over the contractual life of the loan using the effective interest rate method, with the unamortised portion of the fees recorded as deferred administration fees.

R million	2013	2012
25. Credit impairment charge*		
Increase in impairment provisions (refer note 9)	**9 533**	5 137
Loss on repossessions	**2**	5
Recoveries on advances previously written off	**(380)**	(300)
	9 155	4 842
26. Interest expense*		
Subordinated debt	**456**	339
Unsecured listed bonds	**1 816**	1 442
Unsecured long term loans	**1 353**	1 307
Secured long term loans	**7**	1
Demand deposits	**61**	14
Fixed and notice deposits	**215**	30
Negotiable certificates of deposit	**23**	35
Interest on short term facilities	**54**	41
Loss arising from derivatives designated as hedging instruments in cash flow hedges (reclassified from equity to profit or loss)	**534**	450
Other interest	**45**	21
	4 564	3 680

* *Comparatives have been restated as per note 53.*

R million	2013	2012
27. Operating costs*		
Advertising and marketing	**165**	162
Amortisation of intangible assets (refer note 12)	**123**	104
Auditors' remuneration	**16**	18
Audit fees – current year	**16**	17
Fees for other services	**–**	1
Bank charges	**315**	300
Card transactions	**96**	101
Collection costs	**90**	94
Depreciation on property and equipment (refer note 11)	**252**	194
Information technology	**204**	193
Loss on disposal of property and equipment	**15**	11
Motor vehicles	**285**	197
Operating lease premiums	**935**	832
Leasehold fixed property	**824**	740
Motor vehicles	**49**	45
Computers and other equipment	**62**	47
Printing, stationery and courier costs	**92**	103
Professional fees	**126**	48
Legal fees	**9**	5
Management fees	**8**	11
Consultants and other professional fees	**109**	32
Property expenses	**175**	136
Employee costs	**2 854**	2 610
Basic remuneration	**2 084**	2 065
Bonuses and incentives	**235**	158
Charge for share-based incentives	**341**	96
Commissions paid to sales agents	**175**	270
Executive directors' remuneration (paid by subsidiaries)♦		
Basic remuneration	**14**	15
Bonuses	**5**	6
Non-executive directors' remuneration♦	**5**	5
Fees paid by subsidiaries	**4**	4
Fees paid by holding company	**1**	1
Telephone, fax and other communication costs	**174**	189
Other expenses	**202**	170
	6 124	5 467

* *Comparatives have been restated as per note 53.*

♦ *The full details of the individual directors' remuneration are included in the remuneration report. The audited sections of the remuneration report are indicated as "audited" in the remuneration report. Refer to pages 125 to 151.*

R million	2013	2012
28. Indirect and direct taxation*		
Indirect charge per the income statement	**168**	72
Direct taxation charge per the income statement: STC	**–**	82
Direct taxation charge per the income statement:	**209**	1 225
SA normal taxation	**190**	1 227
Withholding taxation	**15**	1
Foreign taxation – normal	**4**	(3)
Total taxation charge per the income statement	**377**	1 379
All-in tax rate (calculated as the total taxation charge per the income statement expressed as a percentage of net income before any indirect and direct taxation) (%)	**(9,9)**	30,9
28.1 Indirect taxation		
Value-added tax (VAT)	**168**	72
Indirect taxation charge per the income statement	**168**	72
28.2 Direct taxation		
Secondary tax on companies (STC)		
Current year	**–**	80
Deferred tax	**–**	2
Withholding taxes	**15**	1
Current tax – SA		
Current year	**675**	1 426
Prior years' underprovision	**–**	8
Current tax – foreign		
Current year	**8**	1
Prior years' overprovision	**–**	(8)
Deferred tax – SA		
Current year	**(292)**	(197)
Prior years' overprovision of deferred tax asset	**(193)**	(10)
Deferred tax – foreign		
Current year	**(4)**	4
Direct taxation charge per the income statement	**209**	1 307
28.3 Income tax recognised in other comprehensive income		
Cash flow hedging – share-based payments	**1**	3
Cash flow hedging – interest rate and currency swaps	**239**	107
Total tax recognised in other comprehensive income	**240**	110

** Comparatives have been restated as per note 53.*

R million	2013	2012
28. Indirect and direct taxation continued		
28.4 Tax rate reconciliation	**(3 990)**	4 397
	%	%
Total taxation charge (direct and indirect) for the year as a percentage of the above	**(9,4)**	31,4
Indirect taxation: value-added tax	**4,2**	(1,6)
Effective rate of taxation	**(5,2)**	29,7
Secondary tax on companies	**–**	(1,9)
Withholding taxes	**0,4**	–
Capital gain tax	**0,1**	–
Capital items	**32,5**	–
Non-taxable income	**(0,3)**	0,3
Disallowable expenses	**0,3**	(0,2)
Other (including prior year tax adjustments)	**0,2**	0,1
Standard rate of South African taxation	**28,0**	28,0
29. Capital items		
Impairment of trademarks	**–**	(6)
Impairment of goodwill	**(4 641)**	–
	(4 641)	(6)
30. Earnings per ordinary share*		
30.1 Reconciliation between basic earnings and headline earnings		
(Loss)/profit for the year (basic earnings)	**(4 199)**	3 090
Preference dividends paid	**(88)**	(61)
Basic (loss)/earnings attributable to ordinary shareholders	**(4 287)**	3 029
Adjusted for non-headline earnings:		
Gross	**4 656**	17
Impairment of trademarks	**–**	6
Impairment of goodwill	**4 641**	–
Loss on disposal of fixed assets	**15**	11
Tax thereon	**(4)**	(5)
Tax on loss on disposal of fixed assets	**(4)**	(3)
Tax on impairment of trademarks	**–**	(2)
Headline earnings	**365**	3 041
30.2 Earnings per ordinary share		
Headline earnings per ordinary share (cents)	**45,1**	378,2
Basic (loss)/earnings per ordinary share (cents)	**(528,9)**	376,7

* *Comparatives have been restated as per note 53.*

Million	2013 Total number of shares in issue	2013 Weighted number of shares in issue	2012 Total number of shares in issue	2012 Weighted number of shares in issue
31. Number of ordinary shares				
Number of ordinary shares in issue at the end of the year	**815,8**	**810,5**	804,2	804,2
Treasury shares on hand	**–**	**–**	–	(0,2)
	815,8	**810,5**	804,2	804,0

R million	2013	2012
32. Ordinary and preference dividends		
32.1 Ordinary dividends		
Final dividend number 24 of 110 cents per ordinary share (2012: 100 cents)	**692**	804
Interim dividend number 25 of 25 cents per ordinary share (2012: 85 cents)	**107**	684
Total ordinary dividends paid during the year	**799**	1 488
Interim dividend number 25 of 25 cents per ordinary share (2012: 85 cents)	**107**	684
Final dividend number 26 of 5 cents per ordinary share (2012: 110 cents)	**41**	885
Total ordinary dividends relating to income for the year	**148**	1 569

Final dividend number 26 of 5 cents per ordinary share was approved by the board on 8 November 2013. No provision has been made for these dividends in the financial statements for the year ended 30 September 2013.

R million	2013	2012
32. Ordinary and preference dividends continued		
32.2 Preference dividends		
Final preference dividend number 16 of 327 cents per preference share (2012: 310 cents)	**44**	24
Interim preference dividend number 17 of 322 cents per preference share (2012: 341 cents)	**44**	37
Total preference dividends paid during the year	**88**	61
Interim preference dividend number 17 of 322 cents per preference share (2012: 341 cents)	**44**	37
Final preference dividend number 18 of 308 cents per preference share (2012: 327 cents)	**42**	44
Total preference dividends relating to the year	**86**	81

Preference dividend number 18 of 308 cents per preference share was approved by the board on 8 November 2013. No provision has been made for these dividends in the financial statements for the year ended 30 September 2013.

All dividends declared are out of revenue reserves.

	2013		2012	
	Number of shares (million)	R million	Number of shares (million)	R million
33. ABIL employee share trust transactions				
Profit on group employees acquiring ABIL employee share trust shares	**–**	**–**	n/a	3
Shares issued to employees from the ABIL employee share trust	**–**	**–**	0,1	11
Total movement in equity attributable to ABIL employee share trust	**–**	**–**	n/a	14

R million	2013	2012
34. Cash generated from operations*		
Profit from operations	**651**	4 403
Adjusted for:		
Indirect taxation	**168**	72
Decrease in deferred administration fees	**(213)**	(132)
Increase in impairment provisions	**9 533**	5 137
Depreciation on property and equipment	**252**	194
Amortisation of intangible assets	**123**	104
Share-based payment charge	**4**	(10)
Hedge variation margin and fee	**257**	29
Movement in cash flow hedge	**–**	(279)
Losses on disposal of fixed assets	**15**	11
Foreign exchange translation	**9**	(4)
Incentive accruals	**(39)**	79
Movement in insurance IBNR provision	**264**	(45)
Transfer from life fund in respect of third-party policies	**–**	(1)
	11 024	9 558
35. Cash received from lending and insurance activities, sale of merchandise and cash reserves		
Sale of merchandise (refer note 21)	**4 034**	4 792
Interest and investment income (refer note 22)	**12 357**	10 138
Insurance income received (refer note 23)	**4 862**	3 828
Non-interest income (refer note 24)	**3 337**	3 291
Non-cash items included in the above	**(213)**	(132)
	24 377	21 917
36. Cash paid to funders, employees, suppliers and insurance beneficiaries*		
Interest expense (refer note 26)	**(4 564)**	(3 680)
Basic remuneration, bonuses and incentives to staff and directors (refer note 27)	**(2 684)**	(2 344)
Commissions paid to sales agents (refer note 27)	**(175)**	(270)
Bank charges (refer note 27)	**(315)**	(300)
Operating lease premiums (refer note 27)	**(935)**	(832)
Cost of merchandise sold (refer note 21)	**(2 264)**	(2 658)
Other cash operating costs	**(1 396)**	(1 648)
Insurance benefits and claims paid	**(1 400)**	(927)
	(13 733)	(12 659)

* *Comparatives have been restated as per note 53.*

R million	2013	2012
37. Increase in gross advances*		
Opening balance of gross advances	**54 572**	41 062
Less: Closing balance of gross advances	**(60 712)**	(54 572)
Movement in gross advances	**(6 140)**	(13 510)
Less: Bad debts written off (refer note 9)	**(10 275)**	(5 026)
Add: Bad debts rehabilitated (refer note 9)	**1 502**	2 262
	(14 913)	(16 274)
38. Indirect and direct taxation paid*		
Decrease in tax liability	**(14)**	6
Increase in prepaid tax	**(131)**	118
Indirect and direct taxation charged to the income statement	**(377)**	(1 379)
Deferred tax portion of amount charged to the income statement (refer note 10)	**(489)**	(203)
Income tax accounted for in equity	**–**	(28)
	(1 011)	(1 486)
39. Cash inflow from equity accounted transactions		
Cash inflow as a result of shares issued to employees from the ABIL Employee Share Trust (refer note 33)	**–**	11
Cash inflow as a result of profit on group employees acquiring ABIL Employee Share Trust shares	**–**	3
	–	14
40. Other investing activities		
Increase in statutory assets (excluding insurance statutory cash reserves)	**(726)**	(768)
Decrease in policyholders' funds	**–**	1
	(726)	(767)
41. Cash inflow from funding activities		
Funding raised	**14 231**	17 181
Bonds	**8 214**	6 619
Subordinated bonds	**500**	1 300
Other treasury funding	**5 517**	9 262
Funding redeemed	**(8 180)**	(5 556)
Bonds	**(2 785)**	(2 730)
Other treasury funding	**(5 395)**	(2 826)
	6 051	11 625

* *Comparatives have been restated as per note 53.*

R million	2013	2012
42. Preference shareholders transaction		
Share capital issued by the company	–	426
Accrued interest	–	(9)
Share issue costs related to the above	–	(6)
	–	411
43. Cash and cash equivalents*		
Short term deposits and cash	**3 091**	2 845
Statutory cash reserves – insurance (refer note 6)	**1 375**	1 190
	4 466	4 035

44. Segment information*

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance.

Information reported to the group's chief operating decision-maker for the purpose of resources allocation and assessment of segment performance is more specifically focused on the category of each type of service provided.

The Banking unit segment provides credit and insurance through African Bank Limited and The Standard General Insurance Company Limited.

The Retail unit segment retails furniture, appliances and related services through Ellerine Furnishers (Proprietary) Limited, Relyant Insurance Company Limited and Relyant Life Assurance Company Limited.

	Segment income from operations		Segment interest expense		Segment (loss)/profit after taxation	
R million	2013	2012	2013	2012	2013	2012
44.1 Segment revenue and results						
Banking unit	**19 343**	16 242	**4 509**	3 771	**(3 264)**	2 933
Retail unit	**2 695**	3 136	**105**	84	**(328)**	240
Total	**22 038**	19 378	**4 614**	3 855	**(3 592)**	3 173
Group and consolidation adjustments	**(105)**	(206)	**(50)**	(175)	**(607)**	(83)
ABIL Group	**21 933**	19 172	**4 564**	3 680	**(4 199)**	3 090

* *Comparatives have been restated as per note 53.*

	Segment assets		Segment liabilities	
	2013	2012	**2013**	2012
44. Segment information continued				
44.2 Segment assets and liabilities				
Banking unit	**63 744**	58 538	**55 536**	46 791
Retail unit	**5 083**	4 975	**2 861**	2 934
Total	**68 827**	63 513	**58 397**	49 725
Group and consolidation adjustments	**(1 361)**	(781)	**(735)**	(1 262)
ABIL Group	**67 466**	62 732	**57 662**	48 463

Transactions between segments are priced at market related rates.

For the purpose of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to the operating segments using the same method used for monthly internal reporting purposes. Consequently, the allocation above will not necessarily reconcile to the individual segments' statements of financial position. However, the group totals of each of the items above do reconcile to the group statement of financial position.

	Depreciation and amortisation		Material non-cash items other than depreciation and amortisation (Impairment provision)		Additions to non-current assets	
R million	**2013**	2012	**2013**	2012	**2013**	2012
44.3 Other segment information						
Banking unit	**152**	124	**9 470**	5 103	**117**	246
Retail unit	**223**	174	**63**	34	**228**	326
Total	**375**	298	**9 533**	5 137	**345**	572
Group and consolidation adjustment	**–**	–	**–**	–	**(6)**	(4)
ABIL Group	**375**	298	**9 533**	5 137	**339**	568

45. Risk management*

The group has an established risk management framework that is designed to identify, assess, measure and manage exposure to risk.

The following key elements of the group risk management framework are disclosed in the accountability section of the integrated report:

- ABIL risk management philosophy and culture
- Risk management objectives
- Roles and responsibilities assignment regarding risk management, risk governance structure
- Operational risk management
- Capital management and risk

This section provides information on risk management which is integral to the group annual financial statements.

45.1 Credit risk

All loans by African Bank are granted in the Republic of South Africa as unsecured loans or unsecured credit facilities.

The group manages its exposure to credit losses by assessing affordability of repayment of the loan, customers' risk profile, employment status and stability, etc and prices such credit appropriately. Collection of instalments is done by way of cash repayments in store, electronic debit order payments directly from customers' bank accounts and payroll deductions. All arrear accounts are actively managed on an ongoing basis from the day after the account goes into arrears, using various methods which include deferred arrangements and legal collections to minimise the arrear loan book. Further details can be found in the risk management report on ABIL's website www.abil.co.za.

The group is exposed to credit risk in terms of interest rate swaps that the group has entered into with various other South African banks to the value of approximately R3 529 million (2012: R1 413 million).

The group maintains cash and cash equivalents and short term investments with various financial institutions and in this regard it is the group's policy to limit its exposure to any one financial institution. Deposits are placed only with South African banks, and foreign banks which have a permanent presence within South Africa.

Ellerine Holdings Limited's foreign subsidiaries maintain their cash and cash equivalents and short term investments with various financial institutions. Deposits are placed only with the banks within their respective countries and limited to the major banks.

Credit risk is the risk of loss arising out of the failure of counterparties to meet their financial and contractual obligations when due. Credit risk comprises counterparty risk, settlement risk and concentration risk. These risk types are defined as follows:

Counterparty risk

Counterparty risk is the risk of credit loss to the group as a result of the failure by a counterparty to meet its financial/or contractual obligations to the group as they fall due.

Settlement risk

Settlement risk is a risk of loss to the group from settling a transaction where value is exchanged, but where the group may not receive all or part of the counter value.

* *Comparatives have been restated as per note 53.*

45. Risk management continued

45.1 Credit risk continued

Credit concentration risk

Credit concentration risk is the risk of loss to the group as a result of excessive build-up of exposure to a specific counterparty or counterparty group, an industry, market, product, financial instrument or type of security, a country or geography, or a maturity. This concentration typically exists where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in their ability to meet contractual obligations being similarly affected by changes in economic or other conditions.

Further information regarding credit risk management can be found in note 9 of group annual financial statements.

45.2 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Market risk may be caused by movements in market variables such as equity, bond and commodities prices, currency exchange rates, interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.

Market risk management is delegated by the board to the ALCO which has the management responsibility for the assets' risk profiles and the related investment decisions.

45.2.1 Interest rate risk management

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group has significant fair value interest rate risk arising from its fixed rate advances portfolio. In order to mitigate this risk, the group seeks to achieve funding that is at a similarly fixed rate. This not only reduces the fair value interest rate exposure but also achieves a fixed cost of lending for the group.

It is not always feasible to issue fixed rate funding and therefore the group makes use of derivative instruments in order to reduce the cash flow risk arising from changes in interest rates. In terms of the treasury mini-manual the bank is required to maintain a risk sensitivity limit of 1,75 % of the group headline earnings given a 200 basis point shift in applicable interest rates. The hedges transacted by the Bank are in response to this limit. Where possible, the group designates these derivatives as effective cash flow hedges. This accounting treatment results in an economically represented income statement but does create accounting volatility within equity.

The group is exposed to interest rate risk associated with the effects of fluctuations in the prevailing levels of market rates on their financial positions and cash flows. The table overleaf summarises the subsidiaries' exposure to interest rate risk through grouping assets and liabilities into repricing categories, determined to be the earlier of the contractual repricing date or maturity.

R million	Up to one month	Exceeds one month but not more than three months
45. Risk management continued		
45.2 Market risk continued		
45.2.1 Interest rate risk management continued		
2013		
Assets		
Short term deposits and cash	3 041	–
Statutory assets – bank and insurance	2 228	1 310
Inventories	–	–
Other assets and taxation	135	27
Net advances	8 105	2 168
Deferred tax asset	–	–
Property and equipment	–	–
Intangible assets	–	–
Goodwill	–	–
Total assets	13 509	3 505
Liabilities and equity		
Short term funding	4 377	2 249
Other liabilities and taxation	126	460
Liabilities under insurance contracts	–	–
Deferred tax liability	–	–
Bonds and other long term funding	8 967	20 489
Subordinated bonds, debentures and loans	556	3 268
Shareholders' equity	–	–
Total liabilities and equity	14 026	26 466
On-balance sheet interest sensitivity	(517)	(22 961)

Exceeds three months but not more than 12 months	Exceeds 12 months but not more than 24 months	Exceeds 24 months but not more than 36 months	Greater than 36 months	Non-interest sensitive items	Non-financial instruments	Total
–	–	–	–	50	–	3 091
401	–	–	–	1 294	–	5 233
–	–	–	–	–	731	731
362	580	1 254	1 224	180	652	4 414
9 324	10 707	8 024	11 948	–	–	50 276
–	–	–	–	–	1 012	1 012
–	–	–	–	–	1 077	1 077
–	–	–	–	–	801	801
–	–	–	–	–	831	831
10 087	11 287	9 278	13 172	1 524	5 104	67 466
1 408	–	–	–	–	–	8 034
74	166	142	103	360	575	2 006
–	–	–	–	660	337	997
–	–	–	–	–	199	199
2 133	2 926	2 331	5 219	–	–	42 065
–	–	537	–	–	–	4 361
–	–	–	–	–	9 804	9 804
3 615	3 092	3 010	5 322	1 020	10 915	67 466
6 472	8 195	6 268	7 850	504	(5 811)	–

R million	Up to one month	Greater than one to three months
45. Risk management continued		
45.2 Market risk continued		
45.2.1 Interest rate risk management continued		
2012		
Assets		
Short term deposits and cash	2 383	378
Statutory assets – bank and insurance	2 047	972
Inventories	–	–
Other assets and taxation	1 114	–
Net advances	8 042	2 074
Deferred tax asset	–	–
Property and equipment	–	–
Intangible assets	–	–
Goodwill	–	–
Total assets	13 586	3 424
Liabilities and equity		
Short term funding	1 690	1 255
Other liabilities and taxation	340	–
Liabilities under insurance contracts	–	–
Deferred tax liability	–	–
Bonds and other long term funding	8 016	13 976
Subordinated bonds, debentures and loans	1 363	1 931
Shareholders' equity	–	–
Total liabilities and equity	11 409	17 162
On-balance sheet interest sensitivity	2 177	(13 738)

Greater than three to 12 months	Greater than 12 to 24 months	Greater than 24 to 36 months	Greater than 36 months	Non-interest sensitive items	Non-financial instruments	Total
–	–	–	–	84	–	2 845
–	–	–	250	1 053	–	4 322
–	–	–	–	–	871	871
–	–	–	–	86	724	1 924
5 704	11 276	8 483	9 104	–	–	44 683
–	–	–	–	–	780	780
–	–	–	–	–	965	965
–	–	–	–	–	870	870
–	–	–	–	–	5 472	5 472
5 704	11 276	8 483	9 354	1 223	9 682	62 732
1 625	–	–	–	17	–	4 587
–	–	–	–	67	1 300	1 707
–	–	–	–	339	463	802
–	–	–	–	–	216	216
5 999	628	1 175	7 526	–	–	37 320
–	–	–	537	–	–	3 831
–	–	–	–	–	14 269	14 269
7 624	628	1 175	8 063	423	16 248	62 732
(1 670)	10 648	7 308	1 041	800	–	

45. Risk management continued

45.2 Market risks continued

45.2.1 Interest rate risk management continued

Sensitivity analysis based on 100 basis point increase in interest rates

IFRS 7 requires that a sensitivity analysis be provided for changes in interest rates. The sensitivity analysis below has been determined based on exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Given the extent of the risk and the current risk mitigants, a more sophisticated (e.g. value-at-risk) analysis is not considered necessary.

The sensitivity analysis below is based on an increase in rates. Given the linear structure of the group's portfolio, a 100 basis point increase in interest rates would result in a corresponding net decrease of R27 million (2012: increase R51 million) in net income before tax and a R27 million decrease (2012: R62 million) in equity (pre-tax).

R million	Carrying value at year end	Amount exposed to market risk
2013		
Financial assets		
CPI linked swaps	586	3 746
Interest rate swaps	20	1 509
Statutory assets – banking	3 859	2 565
Statutory assets – insurance	1 375	850
Credit card advances	7 188	8 151
Cash and equivalents	3 030	1 949
Cash and equivalents	57	57
Other assets	120	120
Total financial assets	16 235	18 947
Financial liabilities		
Bonds	14 399	3 120
Promissory notes	10 414	7 021
Fixed deposits	11 039	5 172
Interest rate swaps	243	6 896
CPI linked swaps	29	2 027
Short term funding	4 622	216
Subordinated bonds, debentures and loans	4 361	1 666
Secured long term funding	75	75
Total financial liabilities	45 182	26 193
Net effect on profit and loss and other comprehensive income		

*** Numbers are less than R1 million.*

Index to which interest rate is linked	Profit or (loss) impact Pre-tax	Profit or (loss) impact Post tax	Other comprehensive income impact Pre-tax	Other comprehensive income impact Post tax
CPI	–	–	37	27
JIBAR	–	–	15	11
JIBAR	26	19	–	–
Prime	9	6	–	–
REPO	102	73	–	–
JIBAR	19	14	–	–
Prime	**	**	–	–
Prime	**	**	–	–
	156	112	52	38
CPI/JIBAR	(31)	(22)	–	–
JIBAR	(70)	(50)	–	–
JIBAR	(52)	(37)	–	–
JIBAR	–	–	(69)	(50)
CPI	–	–	(10)	(7)
JIBAR	(12)	(9)	–	–
JIBAR	(18)	(13)	–	–
Prime	**	**	–	–
	(183)	(131)	(79)	(57)
	(27)	(19)	(27)	(19)

R million	Carrying value at year end	Amount exposed to market risk
45. Risk management continued		
45.2 Market risks continued		
45.2.1 Interest rate risk management continued		
2012		
CPI linked swaps	371	3 310
Interest rate swaps	–	516
Statutory assets – insurance	1 190	789
Statutory assets – banking	3 132	2 079
Credit card advances	6 563	7 300
Cash and equivalents	2 937	1 539
Cash and equivalents	92	92
Other assets	225	225
Total financial assets	14 510	15 850
Financial liabilities		
Bonds	9 933	*
Promissory notes	11 613	6 800
Fixed deposits	11 659	3 312
Interest rate swaps	515	9 292
CPI linked swaps	9	682
Short term funding	1 873	1 097
Subordinated bonds, debentures and loans	3 831	*
Secured long term funding	20	20
Total financial liabilities	39 453	21 203
Net effect on profit and loss and other comprehensive income		

* *There is no exposure to market risk as the principal amounts are fully hedged against changes in the interest rate.*

Index to which interest rate is linked	Profit or (loss) impact		Other comprehensive income impact	
	Pre-tax	Post tax	Pre-tax	Post tax
CPI/JIBAR	–	–	33	24
JIBAR	–	–	5	4
Prime	8	6	–	–
JIBAR	21	15	–	–
REPO	115	83	–	–
JIBAR	16	12	–	–
Prime	1	1	–	–
JIBAR	2	1	–	–
	163	118	38	28
CPI/JIBAR	–	–	–	–
JIBAR	(68)	(49)	–	–
JIBAR	(33)	(24)	–	–
JIBAR	–	–	(93)	(67)
CPI/JIBAR	–	–	(7)	(5)
JIBAR	(11)	(8)	–	–
JIBAR	–	–	–	–
Prime	–	–	–	–
	(112)	(81)	(100)	(72)
	51	37	(62)	(44)

45. Risk management continued

45.2 Market risks continued

45.2.2 Foreign currency risk management

Foreign currency risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Currency risk in the banking operations arises as a result of foreign currency denominated borrowings. The Bank's primary risk objective is to protect its net earnings against the impact of adverse exchange rate movements. Hedging of currency exposures is achieved through the use of approved derivative instruments transacted with approved financial institutions.

The Bank uses cross-currency swaps to hedge its foreign currency risk. The principal terms of these swaps are substantially similar to those of the hedged items with regard to maturity dates, interest reset dates, nominal values, and amortisation profile. Where possible, the company designates these derivatives as effective cash flow hedges. This accounting treatment results in an economically represented income statement but does not create accounting volatility within equity.

The group has foreign currency exposure within the Ellerines business unit in respect of business conducted by subsidiaries in Botswana and Zambia, as well as the import of merchandise.

The group undertakes a limited number of transactions, in respect of the Ellerines trading requirements, that are denominated in a foreign currency. The group's policy in respect of all foreign exchange transactions is for forward cover to be taken out for all such transaction. These transactions are economically hedged, but IAS 39 hedge accounting is not applied in Ellerines.

The Ellerines business unit adopts a prudent approach to forward cover. In this regard, at 30 September 2013, all forward-exchange contracts related to specific items appearing in the balance sheet and all significant foreign trade exposures were fully covered. The writing of option contracts is prohibited, thus currency options are only purchased as a cost-effective alternative to forward exchange contracts.

45. Risk management continued

45.2 Market risks continued

45.2.2 Foreign currency risk management continued

Details of derivative instruments denominated in foreign currency are presented below.

	2013		2012	
	Foreign currency million	Rand at fair value R million	Foreign currency million	Rand at fair value R million
Assets				
USD (FEC)	**4**	**46**	7	62
EUR (FEC)	**–**	**–**	0,4	6
Liabilities				
USD (bonds and fixed deposits)	**(735)**	**(7 416)**	(735)	(6 123)
CHF (bonds)	**(275)**	**(3 102)**	(150)	(1 329)
Net liabilities	**(1 006)**	**(10 472)**	(878)	(7 384)
Effect of foreign currency derivatives	**1 006**	**10 472**	878	7 384
Net open position	**–**	**–**	–	–

All forward-cover contracts (for Ellerines) mature within 12 months following the reporting date. Analysis of the cash flows related to the foreign currency swaps (for African Bank) can be found in note 45.2.3 of the group annual financial statements.

Sensitivity analysis based on 10% increase in exchange rates

IFRS 7 requires that a sensitivity analysis be provided for changes in foreign exchange rates. The sensitivity analyses overleaf have been determined based on the exposure to exchange rates for both derivative and non-derivative instruments (foreign trade creditors) at the balance sheet date. The analysis is prepared assuming the amount at the balance sheet date was outstanding for the whole year. Given the policy applied by management, a 10% sensitivity adjustment is applied so as to ensure compliance with the strategy and that there are no open foreign exchange or rate exposures.

R million	Carrying value at year end	Amount exposed to market risk
45. Risk management continued		
45.2 Market risks continued		
45.2.2 Foreign currency risk management continued		
2013		
Financial assets		
Cross-currency swaps (USD)	**2 294**	**5 357**
Cross-currency swaps (CHF)	**629**	**2 427**
Forward exchange cover contracts	**–**	**46**
Total financial assets	**2 923**	**7 830**
Financial liabilities		
Foreign denominated bonds (USD)	**7 062**	**7 062**
Foreign denominated bonds (CHF)	**3 102**	**3 102**
Fixed deposits (USD)	**354**	**354**
Total financial liabilities	**10 518**	**10 518**
Net effect on profit or loss		
2012		
Financial assets		
Cross-currency swaps (USD)	565	5 357
Cross-currency swaps (CHF)	30	1 263
Forward exchange cover contracts	68	68
Total financial assets	663	6 688
Financial liabilities		
Foreign denominated bonds (USD)	5 830	5 830
Foreign denominated bonds (CHF)	1 329	1 329
Fixed deposits	293	293
Total financial liabilities	7 452	7 452
Net effect on profit or loss and other comprehensive income		

Currency	Profit or (loss) impact Pre-tax	Profit or (loss) impact Post tax	Other comprehensive income impact Pre-tax	Other comprehensive income impact Post tax
USD	**–**	**–**	**536**	**386**
CHF	**–**	**–**	**243**	**175**
USD/Euro	**5**	**4**	**–**	**–**
	5	**4**	**779**	**561**
USD	**–**	**–**	**(706)**	**(508)**
CHF	**–**	**–**	**(35)**	**(25)**
USD	**–**	**–**	**(310)**	**(223)**
	–	**–**	**(1 051)**	**(756)**
	5	**4**	**(272)**	**(195)**
USD	–	–	536	386
CHF	–	–	126	91
USD/Euro	7	5	–	–
	7	5	662	477
USD	–	–	(583)	(420)
CHF	–	–	(133)	(96)
USD	–	–	(29)	(21)
	–	–	(745)	(537)
	7	5	(83)	(60)

45. Risk management continued

45.2 Market risks continued

45.2.3 Interest rate and currency risk hedging

In terms of the group's interest rate hedging strategy, it has entered into a number of interest rate and cross-currency swap agreements that convert the variable cash flows on an identified underlying financial liability into the fixed cash flows. The derivative instruments that relate to interest rate hedging convert the floating rate of interest paid on an identified underlying financial liability into a fixed rate. The cross-currency swaps entered into by the group ensure a conversion of the floating interest rate cash flows denominated in foreign currency into the fixed interest cash flows denominated in South African rand. The cross-currency swaps also fix the rate at which the final capital repayments on bonds denominated in foreign currency will be made. This enables the group to mitigate the cash flow risk arising from the change in interest rates and foreign currency fluctuations on the issued variable rate liabilities (denominated in South African rand or foreign currency). In terms of IAS 39, these swaps have been documented and designated as effective cash flow hedges. The hedged risk is either quarterly resetting JIBAR or the effect of changes in CPI and currency movements and the derivative instruments are settled on a net basis at each cash flow date.

The fair value of the derivative instruments is determined using accepted valuation methodologies and the applicable market rate on the date of valuation. The average interest rate is based on the outstanding balances at the end of the financial year.

The table below illustrates the outstanding notional values of each of the hedges, the weighted average fixed interest rate and the full fair value of the derivative (including accrued interest) as at year end. The hedges have also been segmented based on their contractual maturity.

Cash flow hedges – interest rate

R million	Average contracted interest rate	Hedged amount	Fair value asset	Fair value liability
2013				
Less than one year	**11,12%**	**8 011**	**586**	**(48)**
One year or more but less than two years	**9,15%**	**2 530**	**–**	**(115)**
Two years or more but less than five years	**8,10%**	**2 871**	**20**	**(82)**
Five years and greater	**11,21%**	**793**	**–**	**(27)**
Net carrying amount		**14 205**	**606**	**(272)**
2012				
Less than one year	7,85%	3 182	61	(32)
One year or more but less than two years	10,82%	4 389	221	(63)
Two years or more but less than five years	9,50%	5 580	89	(370)
Five years and greater	12,00%	648	–	(59)
Net carrying amount		13 799	371	(524)

45. Risk management continued

45.2 Market risks continued

45.2.3 Interest rate and currency risk hedging continued

Cash flow hedges – currency

R million	Average contracted rate	Hedged amount	Fair value asset	Fair value liability
2013				
Less than one year	**10,12%**	**241**	**109**	**–**
One year or more but less than two years	**11,69%**	**1 263**	**428**	**–**
Two years or more but less than five years	**12,68%**	**2 413**	**1 234**	**–**
Five years and greater	**12,05%**	**3 867**	**1 152**	**–**
Net carrying amount		**7 784**	**2 923**	**–**
2012				
Less than one year	10,12%	241	41	–
Two years or more but less than five years	12,63%	6 379	554	–
Net carrying amount		6 620	595	–

In terms of the IAS 39 hedge accounting requirements, the change in fair value of the hedging instrument found to be effective will be recognised in the statement of changes in equity in the hedging reserve. Complete ineffectiveness will be recognised directly in profit or loss for the period where the hedge effectiveness exceeds the 80% to 125% threshold.

Given the hedging methodology applied, only the fair value adjustment on the derivative is recognised in equity and any interest accrual on the derivative is recognised in interest expense, therefore no amounts (other than ineffectiveness) are transferred out of equity into income statement directly. The hedging reserve will reduce to zero in line with the pull-to-par effect on the swap.

R million	2013	2012
Interest rate hedging reserve reconciliation		
Balance at beginning of year	**429**	229
	(848)	279
Net fair value losses during the year	**3 206**	1 269
Amounts released to profit or loss before tax – interest expense and similar charges	**(534)**	(450)
Fair value gain in derivative assets	**(3 209)**	(649)
Fair value (gain)/loss in derivative liabilities	**(311)**	109
Tax effect	**239**	(79)
Deferred tax recognised in equity	**239**	(107)
Income tax recognised in equity	**–**	28
Balance at end of year	**(180)**	429

45. Risk management continued

45.2 Market risks continued

45.2.4 Other price risk management

In terms of the group's long term share incentive plan, the group is exposed to changes in its underlying share price as a result of the IFRS 2 charge. In order to hedge this risk, the group has entered into a series of total return equity swaps with a rated financial institution. In terms of this hedge, the group is covered from changes in its own equity price. This enables the group to mitigate the cash flow risk arising when the LTIPs given to employees vest and are paid. In terms of IAS 39, these swaps have been documented and designated as effective cash flow hedges.

The fair value of the derivative instruments is determined using accepted valuation methodologies and the applicable market rate on the date of valuation.

The hedge is constructed so as to mirror the expected vesting of the LTIP options.

In terms of the IAS 39 hedge accounting requirements, the change in fair value of the hedging instrument which is found to be effective will be recognised in the statement of changes in equity in the hedging reserve. Complete ineffectiveness will be recognised directly in profit or loss for the period where the hedge effectiveness is outside the 80% to 125% threshold.

The group ceased hedge accounting for the LTIP scheme during the year as the hedge was not expected to be highly effective going forward.

The forecast timing of the release of net cash flows from the hedging reserve into profit or loss at the reporting date is as follows:

Cash flow hedges – equity instruments

R million	Hedged amount	Fair value asset	Fair value liability
2013			
Less than one year	–	–	–
One to two years	–	–	–
Exceeding two years but less than five years	–	–	–
Net carrying amount	–	–	–
2012			
Less than one year	94	–	–
One to two years	14	–	–
Exceeding two years but less than five years	10	–	–
Net carrying amount	118	–	–

45. Risk management continued

45.2 Market risks continued

45.2.4 Other price risk management continued

The table below represents the reconciliation of the LTIP hedging reserve.

Hedging reserve reconciliation

R million	2013	2012
Balance at beginning of year	**3**	(81)
Amounts recognised directly in other comprehensive income before tax	**(4)**	10
Amount transferred to retained earnings	**–**	77
Tax effect	**1**	(3)
Balance at end of year	**–**	3

The amounts transferred to profit and loss are recognised as part of operating expenses.

45.3 Liquidity risk

Liquidity risk arises when the group is unable to maintain or generate sufficient cash resources to meet its payment obligations as and when they fall due, or can only do so on materially disadvantageous terms. This inability to maintain or generate sufficient cash resources occurs when counterparties who provide the group with funding withdraw or do not roll-over that funding, or as a result of a general disruption in asset markets that renders normally liquid assets illiquid.

Liquidity risk is defined as the risk that the group will encounter difficulty in meeting obligations associated with financial liabilities.

The group risk and capital committee, through the group ALCO, has set limits and benchmarks in order to manage liquidity risk to the appropriate levels. These policies have been described in the risk management review included in the accountability section of this integrated annual report.

The following tables analyse the group's financial assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

The matching and controlled mismatching of the maturities and interest rates of financial assets and liabilities are fundamental to the management of risk within the group. It is unusual for bank and bank-controlling companies ever to be completely matched since the credit originated is often of uncertain actual term in relation to contractual term and of different types e.g. credit and revolving facility. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of financial assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the group and its exposure to changes in interest rates.

R million	Up to one month	Exceeds one month but not more than three months
45. Risk management continued		
45.3 Liquidity risk continued		
Assets and liabilities maturities as at 30 September 2013		
Assets		
Short term deposits and cash	3 091	–
Statutory assets – bank and insurance	2 228	1 310
Inventories	–	–
Other assets and taxation	192	129
Net advances	1 422	2 895
Deferred tax asset	–	–
Property and equipment	–	–
Intangible assets	–	–
Goodwill	–	–
Total assets	6 933	4 334
Liabilities and equity		
Short term funding	4 275	1 941
Other liabilities and taxation	486	460
Liabilities under insurance contracts	597	–
Deferred tax liability	–	–
Bonds and other long term funding	1 318	1 106
Subordinated bonds/debentures and loans	–	–
Shareholders' equity	–	–
Total liabilities and equity	6 676	3 507
Net liquidity gap	257	827

	Exceeds three months but not more than 12 months	Exceeds 12 months but not more than 24 months	Exceeds 24 months but not more than 36 months	Greater than 36 months	Non-financial instruments	Total
	–	–	–	–	–	3 091
	401	–	–	1 294	–	5 233
	–	–	–	–	731	731
	362	580	1 254	1 224	673	4 414
	12 607	13 381	8 024	11 947	–	50 276
	–	–	–	–	1 012	1 012
	–	–	–	–	1 077	1 077
	–	–	–	–	801	801
	–	–	–	–	831	831
	13 370	13 961	9 278	14 465	5 125	67 466
	1 818	–	–	–	–	8 034
	74	166	142	103	575	2 006
	–	–	–	–	400	997
	–	–	–	–	199	199
	12 983	9 643	7 043	9 972	–	42 065
	–	–	1 628	2 733	–	4 361
	–	–	–	–	9 804	9 804
	14 875	9 809	8 813	12 808	10 978	67 466
	(1 505)	4 152	465	1 657	(5 853)	–

45. Risk management continued

45.3 Liquidity risk continued

Assets and liabilities maturities as at 30 September 2012

R million	Up to one month	Exceeds one month but not more than three months
Assets		
Short term deposits and cash	2 467	378
Statutory assets – bank and insurance	2 047	972
Inventories	–	–
Other assets and taxation	150	8
Net advances	1 488	2 850
Deferred tax asset	–	–
Property and equipment	–	–
Intangible assets	–	–
Goodwill	–	–
Total assets	6 152	4 208
Liabilities and equity		
Short term funding	1 652	1 240
Other liabilities and taxation	430	2
Liabilities under insurance contracts	401	–
Deferred tax liability	–	–
Bonds and other long term funding	1 040	809
Subordinated bonds/debentures and loans	–	–
Shareholders' equity	–	–
Total liabilities and equity	3 523	2 051
Net liquidity gap	2 629	2 157

Exceeds three months but not more than 12 months	Exceeds 12 months but not more than 24 months	Exceeds 24 months but not more than 36 months	Greater than 36 months	Non-financial instruments	Total
–	–	–	–	–	2 845
–	–	–	1 303	–	4 322
–	–	–	–	871	871
61	905	–	–	800	1 924
9 207	13 551	8 483	9 104	–	44 683
–	–	–	–	780	780
–	–	–	–	965	965
–	–	–	–	870	870
–	–	–	–	5 472	5 472
9 268	14 456	8 483	10 407	9 758	62 732
1 695	–	–	–	–	4 587
36	489	–	–	750	1 707
–	–	–	–	401	802
–	–	–	–	216	216
13 097	6 089	7 226	9 059	–	37 320
–	–	–	3 831	–	3 831
–	–	–	–	14 269	14 269
14 828	6 578	7 226	12 890	15 636	62 732
(5 560)	7 878	1 257	(2 483)	(5 878)	–

45. Risk management continued

45.3 Liquidity risk continued

The following table represents the group's undiscounted contractual cash flows of liabilities per remaining maturity and includes all cash outflows related to the principal amount, as well as future payments. Thus the analysis of cash flows will not agree directly with the balance on the statement of financial position. The analysis is based on the earliest date on which the group can be required to pay and is not necessarily the date at which the group is expected to pay. Where an effective hedging relationship exists, the net cash fixed flows per hedged item have been disclosed.

R million	Up to one month	Exceeds one month but not more than six months
2013		
Financial liabilities		
Promissory notes	**951**	**3 554**
Fixed deposits	**678**	**3 552**
Demand deposits	**3 912**	**3 306**
Bank overdraft and call loans	**362**	**19**
Other liabilities (excluding liabilities under insurance contracts)	**405**	**–**
Liabilities under insurance contracts	**597**	**–**
Derivative instruments	**12**	**62**
Subordinated bonds and debentures	**14**	**164**
Bonds and other long term funding (excluding promissory notes and fixed deposits)	**37**	**1 381**
Total liabilities	**6 968**	**12 038**
2012		
Financial liabilities		
Promissory notes	573	1 847
Fixed deposits	436	2 726
Demand deposits	1 362	2 799
Bank overdraft and call loans	476	–
Other liabilities (excluding liabilities under insurance contracts)	444	–
Liabilities under insurance contracts	401	–
Derivative instruments	–	2
Subordinated bonds and debentures	14	126
Bonds and other long term funding (excluding promissory notes and fixed deposits)	24	2 036
Total liabilities	3 730	9 536

Exceeds six months but not more than 12 months	Exceeds 12 months but not more than 24 months	Exceeds 24 months but not more than five years	Greater than five years	Total
3 472	**3 521**	**865**	**213**	**12 576**
1 608	**2 049**	**649**	**–**	**8 536**
424	**–**	**–**	**–**	**7 642**
19	**–**	**–**	**–**	**400**
–	**–**	**–**	**–**	**405**
–	**–**	**–**	**–**	**597**
53	**114**	**297**	**–**	**538**
188	**846**	**2 534**	**1 965**	**5 711**
4 046	**6 102**	**15 167**	**669**	**27 402**
9 810	**12 632**	**19 512**	**2 847**	**63 807**
4 825	1 861	3 566	–	12 672
2 275	735	3 003	–	9 175
183	–	–	–	4 344
–	–	–	–	476
–	–	–	–	444
–	–	–	–	401
33	60	369	60	524
161	298	2 346	2 105	5 050
2 013	4 525	12 844	–	21 442
9 490	7 479	22 128	2 165	54 528

45. Risk management continued

45.4 Fair value estimations

45.4.1 Valuation techniques applied for the purpose of measuring fair value

The fair value of financial assets and liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions, and traded on active liquid markets, are determined with reference to quoted market prices (includes redeemable notes, bills of exchange, debentures and perpetual notes).

The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices from observable current market transactions and dealer quotes for similar instruments.

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

45.4.2 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

R million	Level 1	Level 2	Level 3	Total
2013				
Assets				
Financial assets				
Derivative instruments	–	3 529	–	3 529
Liabilities				
Financial liabilities				
Derivative instruments	266	272	–	538

45. Risk management continued

45.4 Fair value estimations continued

45.4.2 Fair value measurements recognised in the statement of financial position

R million	Level 1	Level 2	Level 3	Total
2012				
Assets				
Financial assets				
Derivative instruments	–	969	–	969
Liabilities				
Financial liabilities				
Derivative financial instruments	–	524	–	524

There were no transfers between Level 1 and Level 2 during the period.

45.5 Insurance risk

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and unpredictable.

Long term insurance risk applies to long term insurance operations housed in the Banking as well as the Retail units. Short term insurance risk is applicable to short term insurance operations housed in the Retail unit only.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning , the principal risk that the group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities.

The group has developed its insurance underwriting strategy by ensuring its product cover a sufficiently large population of risks to reduce the variability of the expected outcome.

45. Risk management continued

45.5 Insurance risk continued

The group underwrites risks that natural persons and other entities wish to transfer to an insurer. Such risks include the perils around physical loss or damage to goods, death, disability and loss of employment that may give rise to an insured event. As such the group is exposed to uncertainty surrounding the timing and severity of claims under insurance contracts. The principal risk is that the frequency and/or severity of the claims are greater than expected. Insurance events are, by their nature, random and the actual number and size of events during any one year may vary from those estimated and experienced in prior periods. The product features of insurance contracts that have an effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below:

- Death and disability – provides indemnity for death and disability to the insured by settling the amount due to the group or a number of instalments depending on permanent or temporary nature of disability.
- Physical loss of goods – provides indemnity for losses sustained through theft, accidental loss or other similar acts.
- Damage to goods – provides indemnity for damages to items insured.
- Loss of employment or short time cover – provides indemnity for losses on group credit exposure in relation to unemployment due to retrenchment, no fault dismissal or short time due to temporary reduction in the number of hours of employment.
- Funeral cover – provides limited cover in event of death.

Benefits are primarily paid to settle the outstanding debt owing by the customer to the group or repair/replace the item sold or in the case of funeral cover, pay out a fixed amount in the event of death of the insured.

The group does not reinsure any of the insured risks.

45.5.1 Long term insurance risk

The statutory actuary and independent advisors provide independent oversight of compliance with group's risk management policies and procedures and the effectiveness of the group's insurance risk management process.

Insurance risks arise due to the uncertainty of the timing and amount of future cash flows under insurance contracts. For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or widespread changes in lifestyle. For contracts where survival is the insured risk, the most significant factor is continued improvement in social condition and medical assistance that would increase longevity. At present these risks do not vary significantly in relation to the location of the risk insured by the group. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

As the major part of long term insurance contracts of the group is underwritten under the group credit life policies, the risks related to frequency and severity of claims (including concentration risk) are managed by insurance entities in conjunction with credit risk management done by the lending entities within the group.

Experience investigations are conducted on all insurance risks over a number of years to identify trends and the reasons for deviations in experience. The results of these analyses are used as an input into the assumptions-setting process for expected future experiences used in measuring policyholders' liabilities.

The management of insurance risk is essentially the management of deviations of actual experience from the assumed best estimate of future experience. On the published reporting basis, in addition to the technical provisions for future claims, compulsory and discretionary margins are added to the best estimate assumption. Future earnings are thus expected to arise from the release of these margins. The risk is that these earnings are less than expected due to adverse actual experience.

45. Risk management continued

45.5 Insurance risk continued

45.5.1 Long term insurance risk

Expense risk is the risk of loss arising due to expenses incurred in the administration of policies being higher than expected. Allowance is made for expected future expenses on the measurement of policyholders' liabilities. These expected expenses are dependent on estimates of the number of in-force and new business policies. As a result, the risk of expense loss arises due to expenses increasing by more than expected and the number of in-force and new business policies being less than expected.

The group manages the risk by regularly monitoring actual expenses against budgeted expenses, managing persistency and implementing cost control measures.

The statutory actuary provides oversight of the group's insurance business' risk in that he is required to:

- Report at least annually on the financial soundness of the long term insurance companies within the group;
- Set the policy for assumptions used to provide best estimates plus compulsory and discretionary margins, as described in the accounting policies;
- Oversee the setting of these assumptions; and
- Report on the actuarial soundness of premium rates in use for new business and the profitability of the business, taking into consideration the reasonable benefit expectations of policyholders and the associated insurance and market risks.

In addition, all new products and premium rates are approved through the product approval process and signed off by the statutory actuary.

The tables below present the concentration of insured benefits across five bands of insured benefits per individual insured:

Credit life insurance

Profile for amounts at risk for individual policies

	2013			2012		
Sum assured	R million	Number of policies	Sum assured %	R million	Number of policies	Sum assured %
R0 – R1 000	**65**	**202 478**	**0,12**	59	238 751	0,13
R1 001 – R5 000	**3 381**	**1 050 045**	**5,98**	3 218	979 923	7,01
R5 001 – R 10 000	**7 909**	**1 082 260**	**13,99**	7 909	1 090 772	17,23
R10 001 – R 50 000	**26 802**	**1 330 298**	**47,42**	23 922	1 222 751	52,11
R50 001 and above	**18 363**	**224 530**	**32,49**	10 797	141 159	23,52
Total	**56 520**	**3 889 611**	**100,00**	45 905	3 673 356	100,00

45. Risk management continued

45.5 Insurance risk continued

Funeral insurance

Profile for amounts at risk for individual

	2013			2012		
Sum assured	R million	Number of policies	Sun assured %	R million	Number of policies	Sum assured %
R1 000 – R5 000	**1 318**	**348 767**	**69,74**	972	286 978	91,53
R5 001 – R10 000	**211**	**21 096**	**11,16**	31	3 092	2,92
R10 001 – R 15 000	**361**	**16 910**	**19,10**	59	3 126	5,56
Total	**1 890**	**386 773**	**100,00**	1 062	293 196	100,00

The preceding tables show that the sums assured are spread over many lives and individuals and that the exposure to individual lives has been managed appropriately. Given the large number of assured lives and individuals, the random fluctuations of mortality and other claims are expected to be small. The larger the portfolio of uncorrelated insurance risks, the smaller the relative variability around the expected outcome becomes.

The actuarial value of policyholder liabilities is determined based on the financial soundness valuation (FSV) method as detailed in Professional Guidance Note (PGN) 104 issued by the Actuarial Society of South Africa (ASSA). The FSV basis is a prospective, discounted cash flow basis calculated as the difference between the present value of future benefit payments and expenses and the present value of future premiums. Compulsory margins are added to allow for risk and uncertainty, based on the requirements of PGN 104.

As at 30 September 2013 the compulsory margins were as follows:

Assumptions	Margin
Interest	0,25% absolute increase
Inflation	10% increase
Mortality	7,5% increase
Disability	10% increase
Retrenchment	20% increase
Expenses	10% increase
Lapses	25% increase

In addition to the above compulsory margins, discretionary margins may be added to protect against future possible adverse experiences.

For liabilities under long term insurance contracts, the changes in actuarial assumptions will not cause a change to the amount of liability, unless the change is severe enough to trigger a liability adequacy test adjustment. No additional losses arose in either 2013 or 2012, based on the results of the liability adequacy test. No sensitivity analysis is provided as the adequacy liability test is not sensitive to any reasonable change in assumption used. The change is considered to be reasonable if it is less than 100%. The liability is assessed as non-sensitive as no reasonable change leads to recognition of additional liability for the group.

The liability related to incurred but not reported losses is calculated in aggregate on a monthly development and claim origin basis. Future development of claims is assumed to be the same as the past pattern of claims development as evidenced in the observed historic data on claims development. The claim rate as a function of sum assured was used to calculate IBNR liability. The claim rate was determined using the most recent experience investigation.

45. Risk management continued

45.5 Insurance risk continued

Assumptions used in calculation of IBNR liability

Peril	2013 IBNR liability R million	2012 IBNR liability R million
Death	**143**	85
Permanent disability	**13**	8
Temporary disability	**3**	1
Retrenchment	**385**	190
Other	**6**	5
Total	**550**	289

Sensitivity of IBNR liability to changes in assumptions

		Change in IBNR liability R million	
Variable	Change in variable	2013	2012
Death	10%	**14**	9
Permanent disability	10%	**1**	1
Temporary disability	10%	**–**	–
Retrenchment	10%	**39**	19
Other	10%	**1**	1

45.5.2 Short term insurance risk

The group writes mainly product protection policies under the short term insurance licence which provide goods cover against accidental damage or destruction at the place of the insured's residence as well as cover against theft from the place of residence.

The key risks associated with this product are underwriting risk and claims experience risk (including the variable incidence of natural disaster). Property is subject to a number of risks, including theft, fire etc. Claim-inducing perils such as storms, floods, subsidence, fires, explosions and rising crime levels will occur on a regional basis, meaning that the group has to manage its geographical risk dispersion very carefully.

Insurance risk is managed primarily through sensible pricing, product design, appropriate investment strategy and rating.

Property claims are analysed separately for catastrophe-related claims. Non-catastrophe-related claims can be estimated with greater reliability and the group estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts.

The group limits its exposure to short term insurance risk through an underwriting strategy and limits, and through adopting appropriate risk assessment techniques. The group aims to diversify the pool of insured perils through writing a balanced portfolio of insurance risk over a large geographical area. Premiums for each category of insured items are priced using statistical techniques which identify risk factors through correlations identified in past loss experiences.

45. Risk management continued

45.5 Insurance risk continued

The tables below present the concentration of insured benefits across five bands of insured benefits per individual policy:

Product protection cover

Profile for amounts at risk for individuals

	2013			2012		
Sum assured	R million	Number of policies	Sum assured %	R million	Number of policies	Sum assured %
R0 – R1 000	**7**	**15 667**	**0,14**	7	12 697	0,15
R1 001 – R5 000	**1 308**	**382 009**	**26,47**	1 396	416 899	29,46
R5 001 – R10 000	**1 642**	**227 217**	**33,23**	1 606	223 213	33,90
R10 001 – R50 000	**1 931**	**115 898**	**39,08**	1 682	101 395	35,50
R50 001 and above	**53**	**873**	**1,07**	47	776	0,99
Total	**4 941**	**741 664**	**100,00**	4 738	754 980	100,00

The tables above show that the sums insured are spread over many individuals and that the exposure to individual policies has been managed appropriately. Given the large number of policyholders, the random fluctuations of variables affecting the insurance liabilities are expected to be small. The larger the portfolio of uncorrelated insurance risks, the smaller the relative variability around the expected outcome becomes.

The net claim ratio for the group, which is important in monitoring insurance risk, has developed as follows:

Year	2013	2012	2011	2010	2009
Claims ratio (%)	**25**	19	21	18	12

Claims are analysed separately for long-tail and short-tail claims. Short-tail claims can be estimated with greater reliability and the group estimation process reflects all the factors that influence the amount and timing of cash flows related to these claims. The shorter settlement period for these claims allows the group to achieve a higher degree of certainty about the estimated costs of claims, and relatively lower levels of IBNR are held at year end. The longer time needed to assess the emergence of a long-tail claim makes the estimation process more uncertain for such claims. The uncertain nature of the costs of this type of claim causes greater uncertainty in the estimates, hence the higher level of IBNR. Where possible, the group adopts multiple techniques to estimate the required level of IBNR. The most appropriate estimation technique is selected taking into account all relevant information.

For claims that have not been reported to the group by the reporting date, the provision is calculated as a percentage of net premiums written.

45. Risk management continued

45.5 Insurance risk continued

The table below shows the assumptions used in the calculation of the IBNR liability and the liability's sensitivity to the change in variables:

	2013	2012
Net premiums written (R million)	**556**	403
IBNR %	**6,65**	8,43
IBNR liability (R million)	**37**	34

Change in liability (R million)

Variable	Change in variable	2013	2012
Net written premiums (R million)	10 %	**4**	3
IBNR %	1 %	**6**	4

46. Unutilised facilities

The group has available unutilised facilities of R252 million (2012: R615 million) which were available at 30 September 2013. The total unsecured unutilised credit facilities granted to African Bank credit card holders as at 30 September 2013 was R793 million (2012: R723 million).

47. Analysis of financial assets and liabilities*

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the financial assets and financial liabilities in the balance sheet per class and category of financial instrument to which they are assigned. An estimate of the fair value per class of the financial instrument is also provided.

* *Comparatives have been restated as per note 53.*

47. Analysis of financial assets and liabilities continued

47.1 Analysis of financial assets

R million	Notes	Loans and receivables	Held-to-maturity financial instruments	Financial instruments at fair value through profit or loss	Non-financial instruments	Total
2013						
Assets						
Short term deposits and cash	5	3 091	–	–	–	3 091
Statutory assets – bank and insurance	6	2 669	2 564	–	–	5 233
Inventories	7	–	–	–	731	731
Other assets (excluding assets under insurance contracts)	8	234	–	–	131	365
Derivative instruments	8	–	–	3 529	–	3 529
Taxation receivable		–	–	–	520	520
Net advances	9	50 276	–	–	–	50 276
Deferred tax asset	10	–	–	–	1 012	1 012
Property and equipment	11	–	–	–	1 077	1 077
Intangible assets	12	–	–	–	801	801
Goodwill	12	–	–	–	831	831
Total assets		56 270	2 564	3 529	5 103	67 466
Fair value		58 023	2 616	3 529	–	–

47. Analysis of financial assets and liabilities continued

47.1 Analysis of financial assets continued

R million	Notes	Loans and receivables	Held-to-maturity financial instruments	Financial instruments at fair value through profit or loss	Non-financial instruments	Total
2012						
Assets						
Short term deposits and cash	5	2 845	–	–	–	2 845
Statutory assets – bank and insurance	6	2 243	2 079	–	–	4 322
Inventories	7	–	–	–	871	871
Other assets (excluding assets under insurance contracts)	8	301	–	–	265	566
Derivative instruments	8	–	–	969	–	969
Taxation receivable		–	–	–	389	389
Net advances	9	44 683	–	–	–	44 683
Deferred tax asset	10	–	–	–	780	780
Property and equipment	11	–	–	–	965	965
Intangible assets	12	–	–	–	870	870
Goodwill	12	–	–	–	5 472	5 472
Total assets		50 072	2 079	969	9 612	62 732
Fair value		52 292	2 079	969	–	–

Income statement effect of financial instruments by category

R million	2013	2012
Interest income recognised – loans and receivables	**12 187**	9 926
Interest income recognised – held-to-maturity investments	**150**	195
	12 337	10 121
Included in the above is interest income earned on impaired financial assets – advances	**1 553**	1 227

47 Analysis of financial assets and liabilities continued

47.2 Analysis of financial liabilities

R million	Notes	Liabilities held at amortised cost	Liabilities at fair value	Non-financial instruments	Total
2013					
Liabilities					
Short term funding	13	**8 034**	**–**	**–**	**8 034**
Other liabilities (excluding liabilities under insurance contracts)	14	**588**	**–**	**873**	**1 461**
Liabilities under insurance contracts		**–**	**–**	**997**	**997**
Derivative instruments	14	**–**	**538**	**–**	**538**
Taxation payable		**–**	**–**	**7**	**7**
Deferred tax liability	10	**–**	**–**	**199**	**199**
Bonds and other long term funding	16	**42 065**	**–**	**–**	**42 065**
Subordinated bonds/debentures and loans	17	**4 361**	**–**	**–**	**4 361**
Total liabilities		**55 048**	**538**	**2 076**	**57 662**
Fair value		**56 922**	**538**		
2012					
Liabilities					
Short term funding	13	4 587	–	–	4 587
Other liabilities (excluding liabilities under insurance contracts)	14	275	–	887	1 162
Liabilities under insurance contracts		–	–	802	802
Derivative instruments	14	–	524	–	524
Taxation payable		–	–	21	21
Deferred tax liability	10	–	–	216	216
Bonds and other long term funding	16	37 320	–	–	37 320
Subordinated bonds/debentures and loans	17	3 831	–	–	3 831
Total liabilities		46 013	524	1 926	48 463
Fair value		49 208	524		

Income statement effect of financial instruments by category

R million	2013	2012
Interest expense recognised for financial liabilities at amortised cost	**4 030**	3 230
Interest expense recognised for financial liabilities at fair value	**534**	450
Total	**4 564**	3 680

48. Capital management and regulatory impact on risk and risk assessment

48.1 Banking operations

Specific information on capital management related to the banking operations can be found in the accountability section of the integrated annual report.

48.2 Insurance operations

The group's insurance operations are subject to regulatory requirements that prescribe the type, quality and the level of maximum concentration of investments, and the level of assets to be maintained in local currency to meet insurance liabilities.

The group monitors specific risks on a regular basis through the group risk monitoring framework.

ABIL Group's capital management philosophy is to maximise the return on shareholder's capital within an appropriate risk framework. The group maintains internal financial analysis models to assess its capital requirements. The models are used for the following purposes:

- Calculating internal capital requirements.
- Allocating capital to individual lines of business.
- Determining the underwriting margins needed to achieve the group's required return on risk-adjusted capital at a business unit and line of business level.
- Evaluating the group's reinsurance policy.

The following risks are incorporated into the internal capital management model:

- Market risk
- Underwriting risk
- Reserve risk
- Credit risk
- Operational and other risks

The actual solvency level for Stangen, RLA and RIC is 450 %, 208 % and 198 % respectively. This is above the FSB interim requirement under the SAM initiative.

The group's board of directors have targeted a solvency level of 150 %. The margin over the internal solvency requirement is needed for the following reasons:

- As a buffer over regulatory capital requirements.
- To fund new business growth.

49. Contingent liabilities

The group has deposits with The Standard Bank of South Africa Limited (SBSA) for electronic funds transfer (EFT) and electricity guarantees totalling R6 million (2012: R6 million).

An indemnity of R0,7 million was issued to SBSA on 29 June 2006 to cover a guarantee made to VISA in respect of credit card transactions (2012: R0,7 million).

African Bank has issued a demand guarantee to the South African Insurance Association in favour of Ellerine Furnishers (Pty) Ltd totalling R61 million (2012: Rnil).

One of the group's insurance subsidiaries, Stangen, has not provided for outstanding level life claims amounting to R125 million (2012: R125 million) as, after extensive efforts, the beneficiaries could not be traced. The amount is made up of 27 433 policies, whereof the bulk of the events occurred between five and 10 years ago. In the financial year 2008 an outside party was tasked to trace the next of kin of all unclaimed level life policies and this exercise resulted in R5,7 million (under 1 178 policies) being paid to beneficiaries. The probability of any claims being subsequently made is, from prior experience and based on the result of the exercise by the third party, extremely low. Should any claims be made they will be taken as losses in the relevant period.

Gilt Edged Management Services (Pty) Limited (GEMS), a subsidiary of the group via Theta Investments (Pty) Limited, has a contingent liability to clients, as a result of a court order issued in 2004, to pay reparations to clients who might have been prejudiced by actions of the company between 1999 and 2002. The terms of the court order require each client to sign an acceptance and waiver form before the settlement can be made. In terms of the court order the maximum amount of potential reparations was R60,1 million, of which in excess of R40,0 million was paid by the end of September 2006. Subsequent to September 2006, a marginal amount of R0,2 million of reparations was paid to GEMS clients.

GEMS has a remaining contingent liability of R19,9 million for these reparations.

The group has a contingent exposure to legal claims of R2,3 million (2012: R1,3 million).

R million	2013	2012
50. Commitments		
50.1 Operating lease commitments		
Payable within one year	**795**	714
Property	**724**	663
Equipment	**34**	25
Motor vehicles	**37**	26
Payable between one and five years	**1 838**	1 806
Property	**1 726**	1 729
Equipment	**55**	33
Motor vehicles	**57**	44
Payable after five years (property)	**476**	625
Total operating lease commitments	**3 109**	3 145

50.2 Long term incentive plan (LTIP) commitments

The liability for the LTIPs issued in October 2009, October 2010, October 2011 and November 2012 has been included in other liabilities (refer note 14). Refer to the remuneration report for a full analysis of the LTIP scheme.

51. Retirement and post retirement benefits

The group contributes to defined contribution pension funds and defined contribution provident funds. These funds are registered under the Pension Funds Act, 1956.

The schemes are funded by both member and company contributions, which are charged to the income statement as they are incurred.

51.1 Pension and provident fund benefits

Subsidiary companies contribute to separate pension and provident funds which are governed by the Pension Funds Act, 1956, and are in the nature of defined contribution plans. These funds are managed by employer- and employee-elected trustees. Separate administrators are contracted to run the fund on a day-to-day basis. An independent consultant has also been appointed to the fund to oversee the operations and provide professional advice to the trustees.

The schemes are funded by both member and company contributions, which are charged to the income statement as they are incurred.

The defined contribution schemes are exempt from regular actuarial valuations as no actuarial shortfall is anticipated.

The funds cover the eligible employees other than those employees who opt to be or are required by legislation to be members of various industry funds. Employees may choose which fund they wish to belong to. All eligible employees are members of the funds.

The contributions made during the period amounted to R231 million (2012: R226 million).

51.2 Post retirement medical benefits

Certain subsidiaries in the group subscribe to third-party medical aid societies and the group provides certain post retirement benefits by subsidising a portion of the medical aid contribution of retired members. The liability in respect of post retirement medical benefits, which has been fully provided for and included in provisions, amounts to R9 million (2012: R10 million).

52. Related party information

52.1 Relationship between holding company and subsidiaries

African Bank Investments Limited holds 100% of *inter alia* African Bank Limited, Ellerine Holdings Limited and The Standard General Insurance Company Limited (Stangen). Details of investments in subsidiaries/controlled entities are disclosed in appendix B. All group subsidiaries were wholly owned at 30 September 2013.

52.2 Related party balances and transactions

African Bank Investments Limited (ABIL) has entered into financial services transactions with its subsidiaries.

R million	**2013**	2012
Loan owing by ABIL to ABL	**1 314**	235

The highest balance during the year of the loan between African Bank Limited and African Bank Investments Limited was R1 314 million (2012: R235 million). The loan is unsecured, interest-free and repayable by 30 November 2014.

53. Restatement and reclassification of comparatives

The following changes have resulted in restatement and reclassification of comparatives for the 2012 financial year.

53.1 Reclassification of software to intangible assets

Software was previously disclosed as part of property and equipment. In accordance with IFRS and group accounting policies, software should have been classified as intangible assets. Reclassifications of intangible assets had no impact on the group's cash flow from investing activities.

The effect of the change is shown below:

Statement of financial position

R million	As previously reported	Impact of above	As currently reported
Property and equipment	1 152	(187)	965
Intangible assets	683	187	870
Total	1 835	–	1 835

53.2 Classification of collateral deposits

Certain collateral deposits were previously disclosed as part of cash and cash equivalents. In accordance with IFRS and group accounting policies, such deposits should have been classified as part of other assets.

The effect of the change is shown below:

Statement of financial position

R million	As previously reported	Impact of above	As currently reported
Short term deposits and cash	3 070	(225)	2 845
Other assets	1 310	225	1 535
Total	4 380	–	4 380

Statement of cash flows

R million	As previously reported	Impact of above	As currently reported
Cash outflow from operating activities	(8 532)	17	(8 515)
Cash and cash equivalents at the beginning of the year	3 609	(242)	3 367
Cash and cash equivalents at the end of the year	4 260	(225)	4 035

53. Restatement and reclassification of comparatives continued

53.3 Disclosure of insurance liabilities along with associated disclosable risks

Insurance liabilities were previously disclosed as part of other liabilities in the notes to the group annual financial statements. In terms of IFRS 4, separate disclosure is provided for liabilities under insurance contracts in all the relevant notes. The additional information on the insurance risks has been disclosed in detail in note 45.5.

53.4 Disclosure of interest income/expense related to derivative instruments

Net interest expense related to the derivative financial assets and liabilities designated as hedging instruments was previously disclosed as part of interest paid on underlying hedged items in note 26 to the group annual financial statements. In terms of IFRS 7, such interest expense is now disclosed separately.

The effect of the change is shown below:

Interest expense

R million	As previously reported	Impact of above	As currently reported
Subordinated debt	337	2	339
Unsecured listed bonds	1 672	(230)	1 442
Unsecured long term loans	1 326	(19)	1 307
Secured long term loans	1	–	1
Demand deposits	14	–	14
Fixed and notice deposits	155	(125)	30
Negotiable certificates of deposit	35	–	35
Interest on short term facilities	61	(20)	41
Loss arising from derivatives designated as hedging instruments in cash flow hedges (reclassified from equity to profit or loss)	–	450	450
Other interest	79	(58)	21
Total	3 680	–	3 680

53.5 Disclosure regarding hedging reserves reconciliations

The amounts related to the cash flow hedges that were reclassified from equity to profit or loss were previously not disclosed separately in the notes 45.2.3. In terms of IFRS 7, such amounts are disclosed separately.

53.6 Additional disclosure regarding the forecast timing of net cash flows from the LTIP cash flow hedging reserve

The forecast timing of the release of the net cash flows from the IFRS 2 hedging reserve to profit or loss was not disclosed previously. The IFRS 2 hedging reserve was derecognised from the 2013 financial year, however relevant information related to the 2012 financial year is provided in note 45.2.4.

53. Restatement and reclassification of comparatives continued

53.7 Change in the loan impairment provisioning methodology

In terms of the NCA, once a credit agreement goes into arrears, a credit provider is not permitted to raise interest, fees and charges in excess of the total outstanding amount determined at the time that the arrears first occurred and the account remained in arrears. ABIL has applied this requirement consistently across all its portfolios when defaulting loans reach the *in duplum* threshold (threshold loans).

For the purposes of calculating the impairment provisions against the non-performing and written-off loans on a portfolio basis, accounting standard IAS 39 does not have an alternative treatment for situations where no interest and fees are permitted to be charged and requires the application of the effective interest rate of the loans determined at origination, for purposes of the present value calculation. ABIL historically applied a lower weighted average effective interest rate to calculate the present value of impaired loans, taking into consideration the fact that no interest or fees are permitted to or being charged on threshold loans. As a result of the growth in threshold loans over time, the difference between the two provisioning methodologies has cumulatively become material for financial year 2013. The group has therefore changed its provisioning methodology to discount all forecast cash flows at the original effective interest rates.

The effect of the change is shown below:

Income statement	R million
Decrease in credit impairment charge	(355)
Increase in normal tax	100
Increase in profit after tax	(255)
Increase in basic earnings per share (cents)	31,7

Statement of financial position R million	Impact of above
Decrease in net advances	(1 330)
Increase in current tax asset	371
Increase in deferred tax asset	2
Decrease in retained earnings	957

53.8 Change in the accounting policy regarding recognition of the insurance IBNR policy

Credit life insurance policies are taken up by African Bank customers when an African Bank loan is sold. These policies cover African Bank customers for various risks, such as retrenchment, death and disability. These policies are monthly premium paying policies and if a customer defaults on their African Bank loan instalment they also default on the insurance premium.

The accounting standards do not require the IBNR on credit life claims to be provided within policyholder liabilities if IBNR is offset against future income in the calculation of statutory reserves. The calculation of statutory reserves gives rise to a negative reserve (i.e. asset) which is the value of future insurance premiums after allowance for unexpired insurance risk. In terms of ABIL accounting policy, the insurance subsidiaries have not recognised this asset which amounted to approximately R1,8 billion at 30 September 2013.

ABIL is of the view that it is a fairer presentation of the financial position of the group if the IBNR on credit life claims is accrued in the period in which they are incurred and accounted for as policyholder liabilities. The accounting policy has accordingly been changed.

53. Restatement and reclassification of comparatives continued

53.8 Change in the accounting policy regarding recognition of the insurance IBNR policy continued

The effect of the change is shown below:

Income statement	2012 R million
Decrease in credit life insurance claims	(45)
Increase in normal tax	13
Increase in profit after tax	(32)
Increase in basic earnings per share (cents)	4,0

Statement of financial position	
Decrease in current tax liability	80
Increase in other liabilities	(287)
Decrease in retained earnings	207

The effect of the change on 2013 figures is shown below:

Income statement	
Increase in credit life insurance claims	264
Decrease in normal tax	(74)
Decrease in profit after tax	190
Decrease in basic earnings per share (cents)	(23,5)

Statement of financial position	
Decrease in current tax liability	154
Increase in other liabilities	(550)
Decrease in retained earnings	396

53.9 Financial instruments disclosure

The following notes have been restated due to reclassifications and corrections of errors as follows:

- Note 45 Risk management
  The amounts for 2012 have been restated in accordance with reclassifications and restatements as noted in note 53.1, 53.2, 53.3, 53.7 and 53.8.

- Note 45.2.1 Interest rate risk management
  Certain items that were recorded as non-interest sensitive items have been reclassified to non-financial instruments. The maturity analysis has been further broken down for the period beyond 12 months in order to give the user additional information.

53. Restatement and reclassification of comparatives continued

53.9 Financial instruments disclosure continued

- Note 45.2.1 Sensitivity analysis – interest rate risk management

  In addition to the change in the carrying amount for credit card advances due to the change in loan impairment provisioning methodology (refer note 53.7), the amount exposed to market risk has been changed to reflect the full amount owing on the credit card advances.

- Note 45.2.2 Sensitivity analysis – foreign currency risk management

  Foreign exchange creditors have been removed from this table as these were erroneously included.

- Note 45.3 Liquidity risk

  The maturity analysis has been further broken down for the period beyond 12 months in order to give the user additional information.

- Note 47 Analysis of financial assets and liabilities

  Other assets (R66 million) which was previously included in non-financial instruments have been reclassified to loans and receivables.

  Other liabilities (R275 million) which was previously included in non-financial instruments have been reclassified to liabilities held at amortised cost.

53.10 Classes of items reclassified in 2011 statement of financial position as a result of the restatement and reclassifications

R million	As previously reported 2011	Restated 2011	Reclassifications/ Restatements
Assets			
Short term deposits and cash	3 198	2 956	(242)
Statutory assets – bank and insurance	2 775	2 775	–
Inventories	885	885	–
Other assets	872	1 114	242
Taxation	13	510	497
Net advances	35 099	33 414	(1 685)
Gross advances	41 937	41 062	(875)
Deferred administration fees	(150)	(150)	–
Impairment provisions	(6 688)	(7 498)	(810)
Deferred tax asset	465	478	13
Policyholders' investments	1	1	–
Property and equipment	852	745	(107)
Intangible assets	761	868	107
Goodwill	5 472	5 472	–
Total assets	50 393	49 218	(1 175)

53. Restatement and reclassification of comparatives continued

53.10 Classes of items reclassified in 2011 statement of financial position as a result of the restatement and reclassifications continued

R million	As previously reported 2011	Restated 2011	Reclassifications/ Restatements
Liabilities and equity			
Short term funding	1 666	1 666	–
Other liabilities	2 013	2 344	331
Taxation	72	17	(55)
Deferred tax liability	229	229	–
Life fund reserve	1	1	–
Bonds and other long term funding	29 672	29 672	–
Subordinated bonds, debentures and loans	2 775	2 775	–
Total liabilities	36 428	36 704	276
Ordinary share capital	20	20	–
Ordinary share premium	9 131	9 131	–
Reserves	4 095	2 644	(1 451)
Ordinary shareholders' equity	13 246	11 795	(1 451)
Preference shareholders' equity	719	719	–
Total equity (capital and reserve)	13 965	12 514	(1 451)
Total liabilities and equity	50 393	49 218	(1 175)

54. Events after reporting date

- Subsequent to the reporting date, African Bank reached a settlement with the National Credit Regulator in respect of the proposed fine referred to the National Credit Tribunal. African Bank has agreed to pay a settlement amount of R20 million as a full and final settlement. This has been taken into account in the results for the year ended 30 September 2013.
- ABIL announced an issue of ordinary shares in a rights offer amounting to 685 281 693 new ABIL ordinary shares at a subscription price of 800 cents. For more details refer to the Directors' report.

Company statement of financial position

as at 30 September 2013

R million	Notes	2013	2012
Assets			
Short term deposits and cash	2	**35**	7
Other assets	3	**125**	–
Deferred tax asset		**1**	1
Investments in subsidiaries	4	**12 040**	12 225
Total assets		**12 201**	12 233
Liabilities and equity			
Loan from group company	5	**1 314**	235
Other liabilities	6	**29**	28
Total liabilities		**1 343**	263
Ordinary share capital	7	**20**	20
Ordinary share premium	7	**9 420**	9 131
Reserves	8	**288**	1 689
Ordinary shareholders' equity		**9 728**	10 840
Preference shareholders' equity	9	**1 130**	1 130
Total equity (capital and reserves)		**10 858**	11 970
Total liabilities and equity		**12 201**	12 233

Company income statement

for the year ended 30 September 2013

R million	Notes	2013	2012
Dividends received	10	**1 227**	1 390
Interest received		**2**	–
Total income		**1 229**	1 390
Reversal of impairment loss	11	**338**	–
Operating costs	12	**(7)**	(9)
Impairment of investment in subsidiaries	11	**(1 784)**	–
Indirect tax		**(1)**	–
(Loss)/profit before taxation		**(225)**	1 381
Taxation: STC	13	**–**	(80)
Taxation: SA normal tax	13	**–**	–
(Loss)/profit for the year		**(225)**	1 301
Earnings per share (cents)			
Basic		**(38,6)**	154,2

Company statement of comprehensive income

for the year ended 30 September 2013

R million	2013	2012
(Loss)/profit for the year	**(225)**	1 381
Other comprehensive income	**–**	–
Total comprehensive (loss)/income	**(225)**	1 301

Company statement of changes in equity

for the year ended 30 September 2013

R million	Notes	Ordinary share capital and premium	Retained earnings	Preference share capital and premium	Total
Balance at 30 September 2011	7, 8, 9	9 151	1 937	719	11 807
Issue of preference shares	9	–	–	411	411
Dividends paid		–	(1 488)	(61)	(1 549)
Total comprehensive income for the year		–	1 240	61	1 301
Balance at 30 September 2012	7, 8, 9	9 151	1 689	1 130	11 970
Shares issued in terms of the scrip distribution	7	**289**	**(289)**	**–**	**–**
Dividends paid		**–**	**(799)**	**(88)**	**(887)**
Total comprehensive loss for the year		**–**	**(313)**	**88**	**(225)**
Balance at 30 September 2013	7 ,8, 9	**9 440**	**288**	**1 130**	**10 858**

Company statement of cash flows

for the year ended 30 September 2013

R million	Notes	2013	2012
Cash generated from operating activities	16	**1 222**	1 381
Decrease in working capital		**(124)**	(1)
Increase in other assets		**(125)**	–
Increase in other liabilities		**1**	(1)
Direct and indirect taxation paid	17	**(1)**	(80)
Cash flow from operating activities		**1 097**	1 300
Cash outflow from investing activities		**(1 261)**	(411)
Increase in investment in subsidiaries		**(1 261)**	(411)
Cash inflow/(outflow) from financing activities		**192**	(903)
Increase in loans from subsidiaries		**1 079**	235
Issue of preference shares		**–**	411
Dividends paid to preference shareholders		**(88)**	(61)
Dividends paid to ordinary shareholders		**(799)**	(1 488)
Increase/(decrease) in cash and cash equivalents		**28**	(14)
Cash and cash equivalents at the beginning of the year		**7**	21
Cash and cash equivalents at the end of the year	19	**35**	7

Notes to the company annual financial statements
for the year ended 30 September 2013

1. Principal accounting policies

The annual financial statements of African Bank Investments Limited are prepared according to the same principles used in preparing the ABIL group annual financial statements. These accounting policies appear in note 4 of the group annual financial statements.

R million	2013	2012
2. Short term deposits and cash		
Call and current accounts	**35**	7
3. Other assets		
Deferred costs	**5**	–
Security deposit	**120**	–
	125	–

Security deposit represents an amount paid to Rand Merchant Bank under the put option, cession and pledge agreements entered into by African Bank Investments Limited, preference shareholders of Hlumisa Investment Holdings (RF) Limited, Eyomhlaba Investment Holdings (RF) Limited and the BEE companies. The deposit bears interest at the top call deposit rate as quoted by FirstRand Bank Limited. The deposit is pledged in terms of the put option agreements.

R million	2013	2012
4. Investments in subsidiaries		
Unlisted shares		
Shares at cost less impairments	**12 040**	12 225

See appendix B for information relating to subsidiaries.

R million	2013	2012
5. Loan from group company		
Loan from group company	**1 314**	235

The loan from African Bank Limited is unsecured, interest-free and repayable by 30 November 2014.

R million	2013	2012
6. Other liabilities		
Sundry creditors and accruals	**3**	3
Shareholders for odd-lot offer	**13**	13
Shareholders for unclaimed dividends	**13**	12
	29	28

	2013 Number of shares	2013 R million	2012 Number of shares	2012 R million
7. Ordinary share capital and premium				
Authorised				
Ordinary shares of 2,5 cents each	**2 000 000 000**	**50**	1 000 000 000	25
Issued				
Ordinary shares at par value of 2,5 cents each	**815 811 539**	**20**	804 175 200	20
Ordinary share premium		**9 420**		9 131
		9 440		9 151

Unissued shares

The directors have no authority until the date of the next annual general meeting to issue any of the unissued share capital. The directors have the authority to contract African Bank Investments Limited or any subsidiary to acquire shares not exceeding 3% of the issued share capital.

Shares issued during the year

On 18 December 2012, ABIL issued 6 056 918 shares *in lieu* of a cash dividend. A further 5 579 421 shares were issued by ABIL on 18 June 2013 *in lieu* of a cash dividend.

Shares issued during the previous year

No shares were issued during the 2012 financial year

R million	2013	2012
8. Reserves		
Reserves comprise the following:		
Retained earnings	**288**	1 689
Total reserves	**288**	1 689

	2013 Number of shares	2013 R million	2012 Number of shares	2012 R million
9. Preference shareholders' equity				
Authorised				
Preference shares of 1 cent each	**20 000 000**	**–**	20 000 000	–
Issued				
Preference shares at par value of 1 cent each	**13 523 029**	**–**	13 523 029	–
Preference share premium		**1 130**		1 130
		1 130		1 130

13 523 029 non-redeemable, non-cumulative, non-participating preference shares with a par value of R0,01 are in issue. Five million shares were issued on 23 March 2005 at a premium of R99,99 per share and share issue expenses of R17 million were offset against the preference share premium. A further 3 042 251 were issued during the 2011 financial year and 5 480 778 shares were issued in the 2012 financial year. The shares were issued at a premium of R76,13 per share and share issue expenses of R6 million were offset against the preference share premium. These shares rank *pari passu* with the 8 042 251 preference shares already in issue.

ABIL is not permitted to declare an ordinary dividend unless a preference dividend has been declared. Preference dividends will be calculated at 69% of the daily average prime overdraft rate which prevailed in respect of the period for which the dividend is calculated.

Shares issued during the year

No preference shares were issued in the current financial year.

R million	2013	2012
10. Non-interest income		
Dividends received from subsidiary companies	**1 227**	1 390
11. Impairment loss		
	(1 784)	–
Impairment of investment in Theta Investments (Proprietary) Limited	**(21)**	–
Impairment of investment in Ellerine Holdings Limited	**(1 763)**	–
Reversal of impairment loss related to The Standard General Insurance Company Limited	**338**	–
	(1 446)	–

R million	2013	2012
12. Operating costs		
Auditors' remuneration	2	3
Audit fees – current year	2	3
Non-executive directors' remuneration	1	1
Other expenses	4	5
	7	9
13. Taxation		
Direct taxation charge per the income statement: STC	–	80
13.1 Direct taxation		
Secondary tax on companies (STC)		
Current year	–	80
SA normal tax		
Current year	–	–
Deferred tax		
Current year	–	–
Direct taxation charge per the income statement	–	80
13.2 Tax rate reconciliation		
(Loss)/profit before taxation (amount used as the denominator in the tax rate reconciliation)	(225)	1 381
	%	%
Total taxation charge for the year as a percentage of profit before taxation	–	5,8
Effective rate of taxation	–	5,8
Secondary tax on companies	–	(5,8)
Deferred tax adjustment as a result of the reduction in statutory tax rate	–	–
Dividend income	(152,7)	28,2
Disallowable expenses	222,9	(0,2)
Exempt income	(42,2)	–
Standard rate of South African taxation	28,0	28,0

R million	2013	2012
14. Reconciliation between basic earnings and headline earnings		
Reconciliation between basic (loss)/earnings and headline earnings		
Basic (loss)/earnings ((loss)/profit for the year) attributable to:	**(225)**	1 301
Preference shareholders	**88**	61
Ordinary shareholders	**(313)**	1 240
Basic (loss)/earnings attributable to ordinary shareholders	**(313)**	1 240
Adjusted for:		
Impairment loss	**1 446**	–
Headline earnings	**1 133**	1 240
15. Ordinary and preference dividends		
15.1 Ordinary dividends		
Final dividend number 24 of 110 cents per ordinary share (2012: 100 cents)	**692**	804
Interim dividend number 25 of 25 cents per ordinary share (2012: 85 cents)	**107**	684
Total ordinary dividends declared during the year	**799**	1 488
Interim dividend number 25 of 25 cents per ordinary share (2012: 85 cents)	**107**	684
Final dividend number 26 of 5 cents per ordinary share (2012: 110 cents)	**41**	885
Total ordinary dividends relating to income for the year	**148**	1 569
Final dividend number 26 of 5 cents per ordinary share was approved by the board on 8 November 2013. No provision has been made for these dividends in the financial statements for the year ended 30 September 2013.		
15.2 Preference dividends		
Final preference dividend number 16 of 327 cents per preference share (2012: 310 cents)	**44**	24
Interim preference dividend number 17 of 322 cents per preference share (2012: 341 cents)	**44**	37
Total preference dividends paid during the year	**88**	61
Interim preference dividend number 17 of 322 cents per preference share (2012: 341 cents)	**44**	37
Final preference dividend number 18 of 308 cents per preference share (2012: 327 cents)	**42**	44
Total preference dividends relating to the year	**86**	81

Preference dividend number 18 of 308 cents per preference share was approved by the board on 8 November 2013. No provision has been made for these dividends in the financial statements for the year ended 30 September 2013.

All dividends declared are out of revenue reserves and do not carry any STC credits.

R million		2013	2012
16.	**Cash generated from operations**		
	(Loss)/profit from operations (before direct and indirect taxation)	**(224)**	1 381
	Adjusted for:		
	Reversal of impairment in The Standard General Insurance Company Limited	**(338)**	–
	Impairment of investment in subsidiaries	**1 784**	–
		1 222	1 381
17.	**Direct and indirect taxation paid**		
	Direct and indirect taxation charged to the income statement	**1**	80
18.	**Preference shareholders' transaction**		
	Share capital issued by the company	**–**	426
	Accrued dividend	**–**	(9)
	Share issue costs related to the above	**–**	(6)
		–	411
19.	**Cash and cash equivalents**		
	Short term deposits and cash	**35**	7

		2013		2012	
R million		Total number of shares in issue	Weighted number of shares in issue	Total number of shares in issue	Weighted number of shares in issue
20.	**Number of ordinary shares**				
	Number of ordinary shares in issue at the end of the year	**815,8**	**810,5**	804,2	804,2
	Treasury shares on hand	**–**	**–**	–	(0,2)
		815,8	**810,5**	804,2	804,0

21. Facility unutilised

African Bank Investments Limited has R186 million unutilised credit facilities, provided by African Bank Limited.

22. Related party information

African Bank Investments Limited holds 100% of *inter alia* African Bank Limited, Ellerine Holdings Limited, Theta Investments (Pty) Limited and The Standard General Insurance Company Limited. Details of investment in subsidiaries/controlled entities are disclosed in appendix B.

Director-related transactions

There were no material transactions with directors other than interests in share capital and emoluments as disclosed in the directors' report, note 9 and the remuneration report.

23. Risk management

The company's risk management policies and procedures are consistent with those of the group. For the detailed group risk management policies and procedures please refer to the accountability section of this integrated annual report.

R million	Up to one month	Non-interest sensitive items	Non-financial instruments	Total
23.1 Interest rate risk management				
2013				
Assets				
Short term deposits and cash	–	35	–	35
Other assets and taxation	120	5	1	126
Investments in subsidiaries	–	–	12 040	12 040
Total assets	120	40	12 041	12 201
Liabilities and equity				
Loan from group company	–	(1 314)	–	(1 314)
Other liabilities	–	(29)	–	(29)
Shareholders' equity	–	–	(10 858)	(10 858)
Total liabilities and equity	–	(1 343)	(10 858)	(12 201)
On-balance sheet interest sensitivity	120	(1 303)	1 183	–

R million	Up to one month	Non-interest sensitive items	Non-financial instruments	Total
23. Risk management continued				
23.1 Interest rate risk management continued				
2012				
Assets				
Short term deposits and cash	–	7	–	7
Other assets and taxation	–	1	–	1
Investments in subsidiaries	–	–	12 225	12 225
Total assets	–	8	12 225	12 233
Loan from group company	–	(235)	–	(235)
Other liabilities	–	(28)	–	(28)
Shareholders' equity	–	–	(11 970)	(11 970)
Total liabilities and equity	–	(263)	(11 970)	(12 233)
On-balance sheet interest sensitivity	–	(255)	255	–

Sensitivity analysis based on 100 basis point increase in interest rates

IFRS 7 requires that a sensitivity analysis be provided for changes in interest rates. The sensitivity analysis below has been determined based on exposure to interest rates at the balance sheet date. A 100 basis point increase is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Given the extent of the risk and the current risk mitigants, a more sophisticated (e.g. value-at-risk) analysis is not considered necessary.

The sensitivity analysis below is based on an increase in rates. Given the linear structure of the group's portfolio, a 100 basis point increase in interest rates would result in a corresponding net increase of R0,1 million (2012: Rnil) in net income before tax.

R million	Carrying value at year end	Amount exposed to market risk	Index to which interest rate is linked	Income statement impact		Equity impact	
				Pre-tax	Post tax	Pre-tax	Post tax
2013							
Financial assets							
Other assets	**120**	**120**	**Prime**	**0,1**	**0,1**	**–**	**–**
Total financial assets	**120**	**120**		**0,1**	**0,1**	**–**	**–**
Net effect on profit and loss and equity				**0,1**	**0,1**	**–**	**–**

23. Risk management continued

23.2 Foreign currency risk management

The company is not exposed to foreign currency risk.

23.3 Other price risk management

The company is not exposed to price risk.

23.4 Liquidity risk management

The tables below analyse the company's financial assets and liabilities into relevant maturity groupings, based on the remaining period at balance sheet date to the contractual maturity date.

R million	Up to one month	Exceeds one month but not more than three months	Exceeds three months but not more than 12 months	Exceeds 12 months but not more than 24 months	Non-financial instruments	Total
Assets and liabilities maturities 2013						
Short term deposits and cash	35	–	–	–	–	35
Other assets and taxation	120	5	–	1	–	126
Investments in subsidiaries	–	–	–	–	12 040	12 040
Total assets	155	5	–	1	12 040	12 201
Loan from group company	–	–	–	(1 314)	–	(1 314)
Other liabilities	(29)	–	–	–	–	(29)
Shareholders' equity			–	–	(10 858)	(10 858)
Total liabilities and equity	(29)	–	–	(1 314)	(10 858)	(12 201)
Net liquidity gap	126	5	–	(1 313)	1 182	–

23. Risk management continued

Assets and liabilities maturities

R million	Up to one month	Exceeds one month but not more than three months	Exceeds three months but not more than 12 months	Exceeds 12 months but not more than 24 months	Non-financial instruments	Total
2012						
Short term deposits and cash	7	–	–	–	–	7
Other assets and taxation	–	–	–	1	–	1
Investments in subsidiaries	–	–	–	–	12 225	12 225
Total assets	7	–	–	1	12 225	12 233
Loan from group company	–	–	(235)	–	–	(235)
Other liabilities	(28)	–	–	–	–	(28)
Shareholders' equity			–	–	(11 970)	(11 970)
Total liabilities and equity	(28)	–	(235)	–	(11 970)	(12 233)
Net liquidity gap	(21)	–	(235)	1	255	–

23.5 Fair value estimations

The company has no assets or liabilities carried at fair value.

24. Analysis of financial assets and liabilities

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the financial assets and financial liabilities in the balance sheet per class and category of financial instruments to which they are assigned.

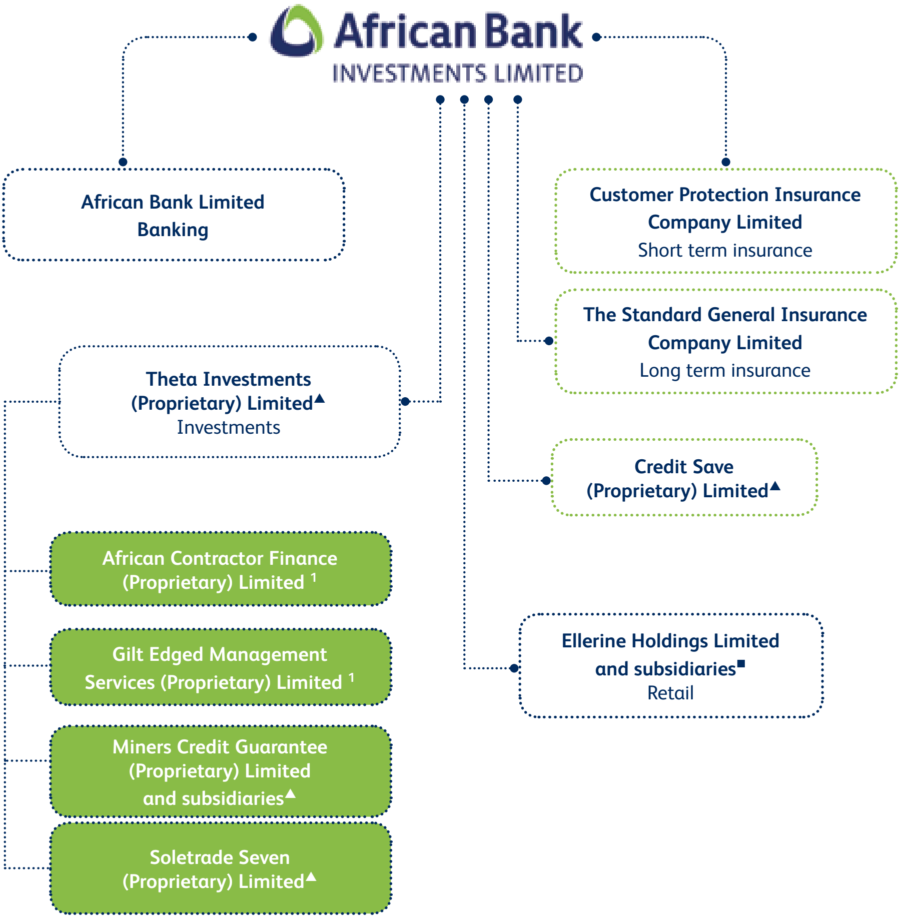
R million	Loans and receivables	Non-financial instruments	Total
24. Analysis of financial assets and liabilities			
24.1 Analysis of financial assets			
2013			
Short term deposits and cash	**35**	**–**	**35**
Other assets	**125**	**1**	**126**
Investments in subsidiaries	**–**	**12 040**	**12 040**
Total assets	**160**	**12 041**	**12 201**
Fair value	**160**	**12 041**	**12 201**
2012			
Short term deposits and cash	7	–	7
Other assets	–	1	1
Investments in subsidiaries	–	12 225	12 225
Total assets	7	12 226	12 233
Fair value	7	12 226	12 233

24.2 Analysis of financial liabilities

R million	Amortised cost	Non-financial instruments	Total
2013			
Loan from group companies	**1 314**	**–**	**1 314**
Other liabilities	**29**	**–**	**29**
Shareholders' equity	**–**	**10 858**	**10 858**
Total liabilities	**1 343**	**10 858**	**12 201**
Fair value	**1 343**	**10 858**	**12 201**
2012			
Loan from group companies	235	–	235
Other liabilities	28	–	28
Shareholders' equity	–	–	11 970
Total liabilities	263	–	12 233
Fair value	263	–	12 233

Appendix A

Group structure and profile



[1] Being wound down

▲ Dormant

■ Ellerine Holdings Limited detailed organogram is on the following page

All entities are wholly owned

Group structure and profile continued

ehl ellerine holdings limited

- Ellerine Furnishers Proprietary Limited
- Ellerine Personal Finance Proprietary Limited[1]
- Ellerine Credit Finance Proprietary Limited[1]
- Ellerine Trading Proprietary Limited[1]
- Ellerine Services Proprietary Limited Investments[1]
- Ellerines Furnishers (Botswana) (Proprietary) Limited
- Ellerine Furnishers (Lesotho) (Proprietary) Limited
- Ellerines Furnishers (Swazi) (Proprietary) Limited
- Ellerine Furnishers (Zambia) Limited
- Ellerine Retail (Namibia) (Proprietary) Limited
- Relyant Retail (Swaziland) (Proprietary) Limited
- Ellerine Furnishers (Namibia) (Proprietary) Limited
- Customer Protection Insurance Company (Namibia) (Proprietary) Limited
- Ellerine Retail (Botswana) (Proprietary) Limited

- Ellerine Retail Limited Retail Holding Company
- Relyant Life Assurance Company Limited
- Ellerine Management Services Proprietary Limited[1]
- Ellerine TM Proprietary Limited[1]
- Geen & Richards (Swaziland) (Proprietary) Limited[1]
- Relyant Insurance Company Limited[1]
- Prefsure (Botswana) Limited Insurance

- Ellerine Properties Proprietary Limited[1]
- Hedgeley Investments Proprietary Limited[1]
- Riotone Proprietary Limited
- Ellerine Properties (Botswana) (Proprietary) Limited
- Wetherlys (UK) Limited

[1] Non-trading – dormant

All entities are wholly owned

Appendix B

Investment in subsidiaries/controlled entities

		Issued share capital		Effective percentage held		Investment (at cost and impairments)		Loans	
	Type of business	2013 R million	2012 R million	2013 %	2012 %	2013 R million	2012 R million	2013 R million	2012 R million
Direct holding by African Bank Investments Limited:									
African Bank Limited	Banking	**121**	121	**100**	100	**8 970**	8 220	**(1 314)**	(235)
Theta Investments (Pty) Limited	Investment holding entity	**–**	–	**100**	100	**64**	64	**–**	–
Theta Investments (Pty) Limited – impairment		**–**	–	**–**	–	**(50)**	(29)		–
The Standard General Insurance Company Limited – cost	Long term insurance	**5**	5	**100**	100	**539**	539	**–**	–
The Standard General Insurance Company Limited – impairment		**–**	–	**–**	–	**–**	(338)	**–**	–
Customer Protection Insurance Company Limited	Short term insurance	**10**	–	**100**	–	**10**	–	**–**	–
Creditsave (Pty) Limited	Dormant	**–**	–	**100**	100	**8**	8	**–**	–
Ellerine Holdings Limited	Retail	**6**	6	**100**	100	**9 664**	9 164	**–**	–
Ellerine Holdings Limited – impairment		**–**	–	**–**	–	**(7 165)**	(5 403)	**–**	–
		142	132			**12 040**	12 225	**(1 314)**	(235)

All subsidiaries are incorporated in the Republic of South Africa.

Notes

Corporate information

Board of directors

Non-executive: MC Mogase (Chairman), N Adams, Advocate MF Gumbi, JDMG Koolen#, NB Langa-Royds, M Mthombeni, RJ Symmonds
Executive: L Kirkinis (CEO), A Fourie, N Nalliah, TM Sokutu
Dutch

Company secretary: L Goliath

African Bank Investments Limited

(Incorporated in the Republic of South Africa)
(Registered bank controlling company)
(Registration number 1946/021193/06)
(Ordinary share code: ABL) (ISIN: ZAE000030060)
(Preference share code: ABLP) (ISIN: ZAE000065215)

Share transfer secretaries

Link Market Services South Africa (Pty) Ltd
13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein
PO Box 4844, Johannesburg, 2000
Telephone +27 11 713 0800
Telefax: +27 86 674 4381

Registered office

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Private Bag X170, Midrand, South Africa, 1685

Investor relations

	Nandi Rodolo	Chiquita Schram
Telephone:	+27 11 564 7297	+27 11 256 9523

Email: investor.relations@africanbank.co.za

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Fraud:

African Bank ethics toll-free line:	0800 633 633
African Bank ethics e-mail address:	abfraudethics@africanbank.co.za
African Bank ethics telefax:	+27 11 207 3811
EHL ethics toll-free line (South Africa & Namibia)	0800 118 444
EHL ethics toll-free line (Botswana)	0800 600 828
EHL ethics toll-free line (Swaziland, Zambia & Lesotho)	+27 11 678 0822
EHL ethics e-mail address	alertline@emps.co.za

Complaints:

Call centre number	0861 111 011

B-BBEE share trading service +27 11 321 5535

Company websites

www.abil.co.za
www.ellerines.co.za
www.geenrichards.co.za
www.wetherlys.co.za
www.hlumisainvestments.co.za
www.africanbank.co.za
www.beares.co.za
www.furniturecity.co.za
www.dialabed.co.za
www.eyomhlaba.co.za

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For more information please visit our website at
http://www.abil.co.za