IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the base prospectus attached to this electronic transmission (the "**Base Prospectus**") and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Base Prospectus. In accessing the attached Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access. You acknowledge that you will not forward this electronic transmission or the attached Base Prospectus to any other person.

Confirmation of Your Representation: By accessing this Base Prospectus you are deemed to have agreed with Goldman Sachs International (the "**Arranger**" and, together with Rand Merchant Bank, Deutsche Bank, Standard Chartered Bank, Credit Suisse and UBS Investment Bank, the "**Dealers**") and African Bank Limited (the "**Issuer**") that (i) you have understood and agree to the terms set out herein, (ii) you are not a U.S. person (within the meaning of Regulation S of the United States Securities Act 1933, as amended (the "**Securities Act**")), and are not acting for the account or benefit of any U.S. person, and that the electronic mail address you have given to us is not located in the United States, its territories and possessions, (iii) you consent to delivery by electronic transmission, (iv) you will not transmit the attached Base Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Arranger and the Dealers, and (v) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the Notes.

You are reminded that the attached Base Prospectus has been delivered to you on the basis that you are a person into whose possession this Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Base Prospectus, electronically or otherwise, to any other person and in particular to any U.S. person or to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable securities laws of other jurisdictions.

Restrictions: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

ANY NOTES TO BE ISSUED HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, SUBJECT TO CERTAIN EXCEPTIONS, IN THE UNITED STATES OR TO U.S. PERSONS.

THE ATTACHED BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. DISTRIBUTION OR REPRODUCTION OF THE ATTACHED BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED, AND WILL NOT BE ABLE, TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

Under no circumstances shall this Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which such offer, solicitation or sale would be unlawful.

This Base Prospectus is not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of this Base Prospectus is only being made to those persons falling within Article 19(5) or Article 49(2)(a) to (e) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or to other persons to whom this Base Prospectus may otherwise be distributed without contravention of sections 21 or 238 of the Financial Services and Markets Act 2000, or any person to whom it may otherwise lawfully be made. This communication is being directed only at persons having professional experience in matters relating to investments and any investment or investment activity to which this communication relates will be engaged in only with such persons. No other person should rely on it.

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Arranger or the Dealers, any person who controls any of the Arranger or the Dealers, the Issuer, any director, officer, employee or agent of any of them, or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from any of the Arranger or the Dealers.

AFRICAN BANK LIMITED

(Registration number1975/002526/06)
(incorporated with limited liability in the Republic of South Africa)

U.S.$1,000,000,000

Euro Medium Term Note Programme

Under the Euro Medium Term Note Programme described in this Base Prospectus (the "**Programme**"), African Bank Limited ("**African Bank**", the "**Company**", the "**Bank**" or the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "**Notes**", which expression shall include Senior Notes and Subordinated Notes). The aggregate principal amount of Notes outstanding will not at any time exceed U.S.$1,000,000,000 (or its equivalent in other currencies).

This Base Prospectus has been approved by the Financial Services Authority (the "**FSA**") in its capacity as competent authority for the purposes of Directive 2003/17/EC (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purposes of giving information with regard to the issue of the Notes described in this Base Prospectus for the period of 12 months from the date of this Base Prospectus. Application has been made for such Notes to be admitted to the official list (the "**Official List**") of the FSA and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's regulated market (the "**Market**"). References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by a competent authority, stock exchange and/or quotation system or that they will be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer. The relevant Final Terms (the "**Final Terms**") in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Market (or any other stock exchange or quotation system). Notes may also be issued that are not traded on any exchange.

Investing in the Notes involves substantial risks. Prospective investors should have regard to the risks described under the section captioned "Risk Factors" in this Base Prospectus.

The Notes of each Tranche (each a "**Tranche**") issued under the Programme will be in registered form and will be represented by registered certificates (each a "**Certificate**", one Certificate being issued in respect of each Noteholder's entire holding of Notes of one Tranche) and may be represented by a Global Certificate (as defined below) and Certificates may, and Global Certificates will, be deposited on the relevant issue date either with (a) a common depositary (the "**Common Depositary**") on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") or (b) such other clearing system as shall be agreed between the Issuer and the relevant Dealers (as defined herein). The provisions governing the exchange of interests in the Global Certificates for individual Certificates in certain limited circumstances are described in "*Summary of Provisions relating to the Notes while in Global Form*".

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area (the "**EEA**") or offered to the public in a Member State of the EEA in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum specified denomination (each a "**Specified Denomination**") shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes). Further, in the case of any Notes offered to prospective investors in the Republic of South Africa ("**South Africa**"), the Specified Denomination shall not be less than R100,000 (or its equivalent in any other currency as at the date of the issue of the relevant Notes) or such higher amount as may be prescribed from to time in accordance with the procedures of the South African Companies Act 1973, as amended or repealed or re-enacted in its entirety from time to time (the "**SA Companies Act**").

Tranches of Notes to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States and, subject to certain exceptions, may not be offered, sold, pledged or otherwise transferred in the United States or to US persons. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Base Prospectus, see "*Subscription and Sale*".

This Base Prospectus should be read and construed together with any amendment or supplement hereto. Further, in relation to any Series of Notes, this Base Prospectus should be read and construed together with the relevant Final Terms.

As described further in this Base Prospectus, the prior written approval of the Exchange Control Department ("**ExCon**") of the South African Reserve Bank (the "**SARB**") will be required for each Tranche of Notes issued under this Programme**.**

Arranger

Goldman Sachs International

Dealers

Goldman Sachs International

Rand Merchant Bank

Deutsche Bank AG, London Branch

Standard Chartered Bank

Credit Suisse

UBS Investment Bank

The date of this Base Prospectus is 2 July 2010

This Base Prospectus comprises a base prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and its subsidiaries (if any) (the "**Group**") and the Notes which, according to the particular nature of the Issuer and of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Group.

The Issuer accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arranger or any Dealer (each as defined in "*Key Features of the Programme*").

Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale, or delivery of any Note shall, under any circumstances, create any implication that the information contained in this Base Prospectus is accurate subsequent to the date hereof or that there has been no change in the affairs of the Issuer or the Group since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Group since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

In the case of any Notes which are to be admitted to trading on a regulated market within the EEA or offered to the public in a Member State of the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the Notes).

The distribution of this Base Prospectus and any Final Terms and the offering, sale or delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer, the Arranger and the Dealers to inform themselves about and to observe any such restriction. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Base Prospectus and any Final Terms and other offering material relating to the Notes, see "Subscription and Sale". In particular, the Notes have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Notes may not be offered or sold within the United States or to U.S. persons. Notes may be offered and sold outside the United States in reliance on Regulation S.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Arranger or the Dealers to subscribe for, or purchase, any Notes. The Arranger and the Dealers have not separately verified the information contained herein. None of the Arranger or the Dealers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Base Prospectus. Neither this Base Prospectus nor any Final Terms nor any financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger or the Dealers that any recipient of this Base Prospectus or any Final Terms or any financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and any Final Terms and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arranger or the Dealers undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Base Prospectus and any Final Terms nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Arranger or the Dealers.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) in the relevant Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons

acting on behalf of a Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States in compliance with Regulation S under the Securities Act and the admission of the Notes to the Official List and to trading on the Market. The Issuer, the Arranger and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person. Distribution of this Base Prospectus by any non-U.S. person outside the United States or to any other person within the United States, other than those persons, if any, retained to advise such non-U.S. person, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than those persons, if any, retained to advise such non-U.S. person is prohibited.

NOTICE TO SOUTH AFRICAN INVESTORS

The Notes may not be and, accordingly, are not being offered or sold to the public in South Africa. Accordingly, any offer of Notes will not be an "offer to the public" as defined in section 142 of the SA Companies Act and this Base Prospectus does not, nor is it intended to, constitute a prospectus prepared and registered under the SA Companies Act. Further, in the case of any Notes offered to prospective investors in South Africa, the Specified Denomination shall not be less than R100,000 (or its equivalent in any other currency as at the date of the issue of the relevant Notes) or such higher amount as may be prescribed from to time in accordance with the procedures of the SA Companies Act.

NOTICE TO UK INVESTORS

This Base Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (iii) persons falling within Article 49(2)(a) to (d) ("**high net worth companies, unincorporated associations, etc.**") of the Order (all such persons together being referred to as "**relevant persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe for, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Base Prospectus or any of its contents.

NOTICE TO EEA INVESTORS

This Base Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Notes in any Member State of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by the Final Terms in relation to the offer of those Notes may only do so (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

CONTENTS

RISK FACTORS

An investment in the Notes involves a high degree of risk. Prospective investors should carefully read and review this entire Base Prospectus and in particular should consider all the risks inherent in making such an investment, including the risk factors set out below, before making a decision to invest. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes that could have a significant or material adverse effect on its business, results of operations, financial condition and prospects and/or the repayment of principal and interest under the Notes to the Noteholders.

*Words and expressions defined in the terms and conditions of the Notes (the "**Conditions**") or elsewhere in this Base Prospectus have the same meanings in this section. This Base Prospectus contains forward-looking statements that involve risks and uncertainties. African Bank's actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Base Prospectus. See "Cautionary Note Regarding Forward-Looking Statements".*

Risks Relating to South Africa

Investing in emerging market countries carries economic risks

Investing in an emerging market country such as South Africa carries economic risks. These risks include economic instability, including destabilising effects from global economic instability, that may affect South Africa's economic position. Economic instability in South Africa in the past and in other emerging market countries has been caused by many different factors, including the following:

- general economic and business conditions;
- high interest rates;
- changes in exchange rates;
- high levels of inflation;
- exchange controls;
- wage and price controls;
- foreign currency reserves;
- changes in economic or tax policies;
- the imposition of trade barriers;
- changes in investor confidence; and
- perceived or actual security issues and political changes.

Any of these factors, as well as volatility in the markets for securities similar to the Notes, may adversely affect the value or liquidity of the Notes. See "*Overview of South Africa and the South African Economy*".

Recent volatility in the international capital markets and the global economy may have an impact on African Bank's business and financial condition and the South African economy as a whole

Although South Africa's exchange control regulations (the "Exchange Control Regulations") (discussed below) and well-regulated financial services sector have largely shielded South African banks from direct exposure to the recent global financial crisis, the South African economy remains vulnerable to external shocks, including volatility in the global economy. This volatility, together with potential changes to the global regulatory environment for banks, may impact the international interbank and capital markets, and result in reduced liquidity and an increase in the cost of funding for banks. Any impact on liquidity in South Africa has historically increased, and may in the future increase, the cost of funding for South African borrowers, including African Bank. While African Bank manages its access to funding closely, restricted access to funding could also result in a lower growth in the volume of new loans made by African Bank.

The deterioration in global growth prospects has negatively affected fixed inward investment into South Africa, as well as export growth. A significant decline in the economic growth of any of South Africa's major trading partners, such as the European Union, could have a material adverse impact on South Africa's balance of trade and adversely affect South Africa's economic growth. The European Union is South Africa's largest export market. A decline in demand for imports from the European Union could have a material adverse effect on South African exports and its economic growth.

African Bank's business and operations are dependant on the South African economy and are affected by conditions in the South African economy that are outside of its control, such as interest rates, inflation rates, sovereign credit ratings, economic uncertainty, changes in laws (including laws relating to taxation) and national and international political circumstances. Any event adversely affecting South Africa generally, such as adverse shifts in interest rates or foreign exchange rates and changes in South African Government (the "**Government**") policies could adversely affect African Bank's business, results of operations, financial condition and prospects.

Capital flows to and from South Africa are limited by exchange controls

South African law provides for Exchange Control Regulations that restrict the export of capital from South Africa without approval from the SARB. These regulations limit the extent to which African Bank can borrow funds from non-South African sources for use in South Africa. While African Bank determines and proposes its own borrowing needs, it is the SARB that ultimately approves the total amount that African Bank may borrow from non-South African sources. In 1995, the Government began relaxing certain Exchange Control Regulations and has recently stated that it intends to continue this gradual relaxation, as evidenced by proposed reforms contained in the Government's Medium Term Budget Policy Statement, released on 27 October 2009, which are intended to lower the cost of doing business in South Africa, as well as certain further relaxations of controls announced by the Minister of Finance during his budget speech on 17 February 2010. The extent to which the Government may further relax such exchange controls cannot be predicted with certainty. Further relaxation or immediate elimination of current exchange controls may precipitate a change in the capital flows to and from South Africa. If the net result of this were to cause large Rand-denominated capital outflows, this could adversely affect South Africa's economy through possible depreciation of the Rand or an increase in interest rates.

HIV/ AIDS poses risks to African Bank in terms of lost productivity and increased costs

Statistics South Africa has estimated that by the middle of 2009, 5.2 million or 10.6 per cent. of the South African population was living with HIV. The socio-economic impact of this pandemic on South Africa is and will continue to be significant. The incidence of HIV/AIDS in South Africa will likely lead to increasing absenteeism, increasing deaths from AIDS-related illnesses, increasing medical and other costs and decreasing productivity. It may also contribute to other human resources challenges, such as difficulty in recruiting and retaining employees. The potential impact of HIV/AIDS on African Bank's operations and financial condition will be determined by a variety of factors, the incidence of HIV infection amongst African Bank's employees, the progressive impact of HIV/AIDS on infected employees' health and productivity and the medical and other costs associated with infection. African Bank estimates that approximately 10 per cent. of its workforce may be infected by HIV, although African Bank can give no assurances as to the accuracy of this percentage. While it is not possible to determine with certainty African Bank's costs of managing HIV/AIDS or the impact that HIV/AIDS may have on African Bank in general, the incidence of HIV/AIDS amongst African Bank's workforce could adversely impact its business, results of operations, financial condition and prospects.

Risks Related to African Bank's Business

Commercial and market risks could have an adverse effect on the financial condition and reputation of the Issuer

The Issuer, as with other banks in South Africa and elsewhere, is exposed to commercial and market risks in its ordinary course of business, the most significant of which are geographic concentration risk, credit risk, liquidity risk and operational risk. Geographic concentration risk relates to risks specific to a geographical location. Credit risk is the risk of loss due to non-performance of a counterparty in respect of any financial or performance obligation due to deterioration in the financial status of the counterparty. Liquidity risk is the inability to discharge funding or trading obligations as and when they fall due at market related prices. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Whilst the Issuer believes that it has implemented appropriate policies, systems and processes to control and mitigate these risks, investors should note that any failure to control these risks adequately could have an adverse effect on the financial condition and reputation of the Issuer (see "*Risk Management*" below).

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List.

The Issuer is exposed to geographic concentration risk

The Issuer's business is exclusively focused on the South African markets and therefore faces a geographic concentration risk. Any adverse changes affecting the South African economy are likely to have an adverse impact on the Issuer's loan portfolio and, as a result, on its financial condition and results of its operations.

The Issuer is exposed to credit risk

The Issuer's business is subject to inherent risks regarding borrower credit quality and the recoverability of loans and amounts due from counterparties. Changes in the credit quality of the Issuer's borrowers and counterparties or arising from systemic risk in the financial systems could reduce the value of the Issuer's assets, and require increased provisions for bad and doubtful debts. In addition, given that the Issuer provides loans to its customers on an unsecured basis, market turmoil, economic recession and increasing unemployment coupled with declining consumer spending could materially adversely affect the liquidity, business and/or financial conditions of the Issuer's customers, which could in turn further increase the Issuer's non-performing loans. The Issuer has established credit quality management policies and actively monitors credit exposure on an on-going basis to mitigate such risks. See "*Description of African Bank Limited - Risk Management*" below.

The Issuer is exposed to liquidity risk

The Issuer, to a greater degree than other large banks in South Africa, is reliant on wholesale funding as opposed to retail deposits, given that the Issuer does not conduct itself as a retail bank. The Issuer's ability to access wholesale funding sources on favourable economic terms is dependent on a variety of factors, including a number of factors outside its control, such as liquidity constraints applicable across the economy on a systemic basis, general market conditions and confidence in the South African banking system as a whole.

The recent dislocation in the capital markets and credit conditions globally and, to a lesser extent, the impact of such conditions within South Africa has led to the most severe examination of the banking system's capacity to absorb sudden significant changes in the funding and liquidity environment in recent history, and has had an impact on the global economy. Individual institutions have faced varying degrees of stress. Should the Issuer be unable to continue to source a sustainable funding profile which can absorb these sudden shocks, the Issuer's ability to fund its financial obligations at a competitive cost, or at all, could be adversely affected.

Although the Issuer believes that its level of access to domestic and international interbank and capital markets and its liquidity risk management policy allow and will continue to allow the Issuer to meet its short-term and long-term liquidity needs, any maturity mismatches may have a material adverse effect on its financial condition and results of operations. Furthermore, there can be no assurance that the Issuer will be successful in obtaining additional sources of funds on acceptable terms or at all.

The Issuer is exposed to operational risk

The Issuer's business is subject to operational risk, and losses can result from inadequate or failed internal processes, documentation, people, systems, fraud, equipment failures, natural disasters or the failure of external systems, including those of the Issuer's suppliers and counterparties. The Issuer's systems, processes and internal controls are designed to ensure that the operational risks associated with its activities are appropriately monitored and controlled. In addition, business resumption and disaster recovery processes have been implemented to mitigate operational risks inherent in the Issuer's business.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List.

The Issuer's risk management policies and procedures may not have identified or anticipated all potential risk exposures

The Issuer has devoted significant resources to developing its risk management policies and procedures, particularly in connection with credit, liquidity and operational risks, and expects to continue to do so in the future. Nonetheless, its risk management techniques may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of the Issuer's methods of managing risk are based upon its use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be greater than historical measures indicate. Other risk management methods depend upon evaluation of information regarding the markets in which the Issuer operates, its clients or other matters that are publicly available or otherwise accessible by the Issuer. This information may not be accurate in all cases, complete, up-to-date or properly evaluated. Any failure arising out of the Issuer's risk management techniques may have an adverse effect on its results of operations and financial condition.

The Issuer may be unable to recruit, retain and motivate key personnel

The Issuer's performance is dependent on the talents and efforts of key personnel, some of whom may have been employed by the Issuer for a substantial period of time and have helped develop the business. The Issuer's continued ability to compete effectively and further develop its business also depends on its ability to attract new employees. In relation to the development and training of new staff, the Issuer is reliant on the continued development of the educational sector within South Africa, including access to facilities and educational programmes by its future employees. The Issuer has a policy directed towards the attraction and retention of existing and new employees and equipping them with appropriate skills.

Terrorist acts and other acts of war could have a negative impact on the business

Terrorist acts, and other acts of war or hostility and responses to those acts, may create economic and political uncertainties, which could have a negative impact on South Africa, and international economic conditions generally, and more specifically on the business and results of operations of the Issuer in ways that cannot be predicted.

The Issuer operates in a highly regulated environment, and is exposed to regulatory risks

The Issuer, being a registered bank, operates in a highly regulated environment. The Issuer is subject to capital adequacy guidelines adopted by the SARB and Basel II and any successors thereto, which provide for a minimum ratio of capital to risk-adjusted assets. Any failure by the Issuer to maintain its ratios may result in action taken in respect of the Issuer which may in turn impact on its ability to fulfil its obligations under the Notes.

The nature and impact of future changes in laws, regulations and regulatory policies are not predictable and are beyond the Issuer's control, and changes in such laws, regulations and regulatory policies may have an adverse effect on the Issuer's financial condition and results of operations.

Political, social and economic risks in South Africa or regionally may have an adverse effect on the Issuer's operations

The Issuer's operations are concentrated in South Africa with all of its revenues deriving from operations in South Africa. Operations in this market are subject to various risks which need to be assessed in comparison to jurisdictions elsewhere. These include political, social and economic risks specific to South Africa, such as general economic volatility, recession, inflationary pressure, exchange rate risks and exchange controls, which could affect an investment in the Notes. The existence of such factors may have an impact on South Africa and the results of the Issuer in ways that cannot be predicted.

Increased competition may have an adverse effect

The Issuer is subject to competition from other banks and non-banking financial institutions (including retailers offering their customers credit to assist their purchases) operating in South Africa, including competitors that may have greater financial and other resources. Many of these banks and other financial institutions operating in the Issuer's markets compete for substantially the same customers as the Issuer. Competition may increase the Issuer's principal market and may have an adverse effect on its financial condition and results of operations.

The Issuer is exposed to risk relating to the integration of Ellerines

Strategic risk is the risk associated with the Issuer's future business plans and strategies. Although strategically, the integration of the financial services activities of Ellerines Holdings Limited ("**Ellerines**") into the Issuer's business has gained significant momentum, the integration plan in place is complex and involves substantial reorganisation. Execution of the integration requires management resources previously devoted to the Issuer's business and the retention of appropriately skilled staff. Although it is expected that following such integration, the Issuer will be in a position to provide a broader range of products to a much wider segment of the domestic market, which in turn will have a positive effect on its medium term growth objectives, the benefits of the integration or acquisition may not be realised by the Issuer when expected or to the extent anticipated.

Risks Related to the Structure of a Particular Issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

The Notes may be subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when African Bank may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

African Bank may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index-Linked Interest Notes and Dual Currency Notes are subject to additional market risks

African Bank may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or to other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies that may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;

- payment of principal or interest may occur at a different time or in a different currency than expected;
- the amount of principal payable at redemption may be less than the principal amount of such Notes or even zero;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly Paid Notes are subject to additional risks

African Bank may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable Rate Notes with a multiplier or other leverage factor are subject to increased volatility

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes are subject to increased volatility

Inverse floating rate notes ("**Inverse Floating Rate Notes**") have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes are subject to additional risks

Fixed/Floating Rate Notes may bear interest at a rate that African Bank may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. African Bank's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then-prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If African Bank converts from a floating rate to a fixed rate, the fixed rate may be lower than then-prevailing rates on its Notes.

Notes issued at a substantial discount or premium are subject to increased volatility

The market values of securities issued at a substantial discount or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The Notes may be redeemed prior to their final maturity date for tax or other reasons

In the event that African Bank would be obliged to increase the amounts payable in respect of any Tranche due to certain changes affecting taxation in South Africa or any authority thereof, it may redeem all but not some of the outstanding Notes of such Tranche in accordance with the Conditions.

Further, if the proceeds of any Subordinated Notes on their issue would constitute secondary capital under the South African Banks Act 1990 (the "**Banks Act**") and, as a result of any changes affecting the calculation of capital in terms or pursuant to the Banks Act such proceeds no longer constitute secondary capital, then African Bank may redeem all but not some of the affected Notes of the relevant Tranche in accordance with the Conditions.

The Notes contain provisions that permit African Bank to amend the Conditions without the consent of all Noteholders

The Notes contain provisions regarding acceleration and voting on amendments, modifications, changes and waivers, which are commonly referred to as "collective action clauses". Under these provisions, certain key provisions of the Notes may be amended, including the maturity date, interest rate and other payment terms, with the consent of the holders of 75 per cent. of the aggregate principal amount of the outstanding Notes. See "*Terms and Conditions of the Notes – Meetings of Noteholders and Modification*".

Risks Related to the Notes Generally

Set out below is a brief description of certain risks relating to the Notes generally.

The EU Savings Directive may result in withholding tax on the Notes

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Luxembourg and Austria may instead apply a withholding system during a transitional period in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other counties). Belgium also applied the withholding system prior to 1 January 2010, but has recently elected to switch to an exchange of information system with effect from that date.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to an individual or certain other residual entities resident in one of those territories.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or an amount in respect of, tax were to be withheld from that payment, neither African Bank nor any Paying Agent or Transfer Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on a payment made by a Paying Agent or Transfer Agent, African Bank will be required to maintain a Paying Agent and a Transfer Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the EU Savings Directive.

On 13 November 2008, the European Commission published a detailed proposal for amendments to the EU Savings Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made to the EU Savings Directive, they may amend or broaden the scope of the requirements described above.

Change of law may adversely affect the Notes

The Conditions are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

Definitive Certificates will not be issued in integral multiples of less than €50,000

In relation to any issue of Notes that has a denomination consisting of the minimum Specified Denomination of €50,000 plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €50,000 (or its equivalent) that are not integral multiples of €50,000 (or its equivalent). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Certificate in respect of such holding (should definitive Certificates be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Risks relating to the Subordinated Notes

Notes may be subordinated to most of the Issuer's liabilities

The payment obligations of the Issuer under the Subordinated Notes will rank behind unsubordinated Notes. In the event of the dissolution of the Issuer or if the Issuer is placed into liquidation or wound up, the claims of the persons entitled to be paid amounts due in respect of the Subordinated Notes will be subordinated to all other claims in respect of any other indebtedness of the Issuer except for other Subordinated Indebtedness (as defined in the Conditions). Accordingly, in any such event no amount shall be eligible for set-off or shall be payable to any or all of the persons entitled to be paid amounts due in respect of the Subordinated Notes in respect of the obligations of the Issuer thereunder until all other indebtedness of the Issuer which is admissible in any such dissolution, insolvency or winding-up (other than Subordinated Indebtedness) has been paid or discharged in full.

No limitation on issuing securities

There is no restriction on the amount of securities or indebtedness which the Issuer may issue or incur which rank senior to or *pari passu* with any Subordinated Notes. The issue of any such securities or indebtedness may reduce the amount recoverable by holders of Subordinated Notes on either a winding-up, liquidation or administration of the Issuer.

Proceeds of Subordinated Notes may constitute secondary capital

The proceeds of a Note may constitute secondary capital for the Issuer if it complies with the requirements relating thereto contained in the "Regulations Relating to Banks" promulgated under section 90 of the Banks Act which implements Basel II in South Africa (the "**Regulations Relating to Banks**"). Under the laws of South Africa, the direct or indirect acquisition of a Note by a bank or controlling company (all as defined in the Banks Act) or by a non-bank subsidiary of a bank or controlling company, will result in an impairment to the capital of the bank or controlling company in question, in an amount determined in accordance with and subject to the regulations relating to banks.

Further, when a Note is issued, the proceeds of which constitute secondary capital for the Issuer, it may be redeemed before maturity only at the option of the Issuer and only with the prior written approval of the South African Registrar of Banks (the "**Registrar of Banks**") under the Regulations Relating to Banks.

Risks Related to the Market Generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

There has been no prior market for the Notes and African Bank cannot assure investors that an active, stable or liquid secondary market for the Notes will develop

Prior to the issue of Notes under the Programme, there has been no established trading market for the Notes. As a result, African Bank cannot predict whether an active trading market will develop. Even after Notes are issued, if a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes. Consequently, there can be no assurance that holders of the Notes will be able to resell their Notes at or above the applicable Issue Price.

The Notes may be subject to exchange rate risks and exchange controls

African Bank will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Fixed rate notes are subject to interest rate risks

An investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (ii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Because Global Certificates will be held by or on behalf of Euroclear and Clearstream, Luxembourg investors will have to rely on their procedures for transfer, payment and communication with the Issuer

The Notes may be represented by one or more Global Certificates which will be deposited with the Common Depositary.

Except in the circumstances described in the relevant Global Certificate, investors will not be entitled to receive Certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificates. While the Notes are represented by one or more Global Certificates, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Notes are represented by one or more Global Certificates the Issuer will discharge its payment obligations under the Notes by making payments to the Common Depositary for distribution to their account holders. A holder of a beneficial interest in a Global Certificate must rely on the procedures of Euroclear, Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificates.

Holders of beneficial interests in the Global Certificates will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear, Clearstream, Luxembourg to appoint appropriate proxies.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to a tranche of Notes. The ratings may not reflect the potential impact of all risks related to structure, market factors, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be suspended, revised or withdrawn by the rating agency at any time.

The Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained in this Base Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the Investor's Currency;
- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The trading market for debt securities may be volatile and may be adversely impacted by many events

The market for the Notes is influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates in the United States and European and other industrialised countries. There can be no assurance that events in South Africa, the United States, Europe or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of Notes or that economic and market conditions will not have any other adverse effect.

Investments in emerging markets are subject to greater risk than investments in more developed markets

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

KEY FEATURES OF THE PROGRAMME

This overview should be read as an introduction to, and is qualified in its entirety by reference to, the more extensive information contained elsewhere in this Base Prospectus. This overview may not contain all the information that prospective investors should consider before deciding to invest in the Notes. Accordingly, any decision by a prospective investor to invest in the Notes should be based on a consideration of this Base Prospectus as a whole. Prospective investors should read this entire Base Prospectus carefully, including the financial statements and related notes and the information set out under the heading "Risk Factors".

Issuer:	African Bank Limited.
Description:	Euro Medium Term Note Programme.
Initial Programme Amount:	Up to U.S.$1,000,000,000 (or its equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time.
Arranger:	Goldman Sachs International.
Dealers:	Goldman Sachs International, Rand Merchant Bank (a division of First Rand Bank Limited, London Branch), Deutsche Bank AG (London Branch), Standard Chartered Bank, Credit Suisse and UBS Investment Bank. The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches of Notes or in respect of the whole Programme. References in this Base Prospectus to "**Permanent Dealers**" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "**Dealers**" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches of Notes.
Fiscal Agent, Transfer Agent and Calculation Agent:	Citibank N.A., London Branch.
Registrar:	Citigroup Global Markets Deutschland AG.
Method of Issue:	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may comprise one or more tranches of Notes (each, a "**Tranche**") issued on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the denominations, issue date, issue price, first payment of interest and principal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Final Terms.

Issue Price:	Notes may be issued at any price and either on a fully or partly paid basis, as specified in the Final Terms. The price and amount of the Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions. Partly Paid Notes (as defined in the Conditions) may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes:	The Notes will be in registered form. The Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Notes of one Series. Certificates representing Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "Global Certificates".
Clearing Systems:	Euroclear and Clearstream, Luxembourg or as otherwise specified in the relevant Final Terms.
Currencies:	Notes may be denominated in U.S. Dollars, Euros or in any other currency or currencies, subject to compliance with all relevant laws, regulations, directives and central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated if so specified in the relevant Final Terms.
Maturities:	Subject to compliance with all relevant laws, regulations, directives and/or central bank requirements, any maturity.
Specified Denomination:	Definitive Certificates will be in such denominations (each a "**Specified Denomination**") as may be specified in the relevant Final Terms. In the case of any Notes which are to be admitted to trading on a regulated market, or offered to the public, within the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the Notes). Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise would constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") will have a minimum denomination of £100,000 (or its equivalent in another currency).
Fixed Rate Notes:	Fixed Rate Notes (as defined in the Conditions) will bear fixed interest payable in arrears on the date or dates in each year specified in the relevant

Final Terms.

Floating Rate Notes: Floating Rate Notes (as defined in the Conditions) will bear interest determined separately for each Series as follows:

(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant specified currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or

(ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin.

Interest Periods will be specified in the relevant Final Terms.

Zero Coupon Notes: Zero Coupon Notes (as defined in the Conditions) may be issued at their principal amount or at a discount to it and will not bear interest.

Dual Currency Notes: Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes (as defined in the Conditions) will be made in such currencies, and based on such rates of exchange, as may be specified in the relevant Final Terms.

Index-Linked Notes: Payments of principal in respect of Index-Linked Redemption Notes (as defined in the Conditions) or of interest in respect of Index-Linked Interest Notes (as defined in the Conditions) will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms.

Interest Periods and Interest Rates: The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.

Redemption: The relevant Final Terms will specify the basis for calculating the redemption amounts payable. Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise would constitute a contravention of section 19 of the FSMA will have a minimum redemption amount of £100,000 (or its equivalent in the relevant currency).

Redemption by Instalments:	The Final Terms issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Other Notes:	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, Partly Paid Notes and any other type of Note that the Issuer, the Fiscal Agent and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms and a supplementary prospectus (if applicable).
Optional Redemption:	The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
Tax Redemption:	Except as described in "*Optional Redemption*" above and "*Redemption for Regulatory Reasons*" below and subject to, as described in "Redemption" above, early redemption will only be permitted for tax reasons as described in Condition 6(c) (*Redemption for Taxation Reasons*).
Redemption for Regulatory Reasons:	Except as described in "*Optional Redemption*" and "*Tax Redemption*" above and subject to, as described in "*Redemption*" above, early redemption of Subordinated Notes in whole (but not in part) is permitted at the option of the Issuer if a Regulatory Event occurs and while it is continuing as described in Condition 6(d) (*Redemption for Regulatory Reasons*) if so specified in the relevant Final Terms.
Status of the Senior Notes:	Subject as set out in "*Negative Pledge*" below, the Senior Notes are unsecured obligations of the Issuer which rank *pari passu* and without any preference among themselves and, subject as aforesaid, with all other unsecured and unsubordinated indebtedness of the Issuer, present and future.
Status of the Subordinated Notes:	The Subordinated Notes are direct, unconditional, subordinated and unsecured obligations of the Issuer which rank *pari passu* and without any preference among themselves and, subject as aforesaid, with all other unsecured and subordinated indebtedness of the Issuer, present and future. Subject to applicable law, in the event of the dissolution of the Issuer or if the Issuer is placed into liquidation or wound up, the claims of the persons entitled to be paid amounts due in respect of the Subordinated Notes shall be subordinated to all other claims in respect of any other indebtedness of the Issuer except for other

	Subordinated Indebtedness (as defined in the Conditions). Accordingly, in any such event no amount shall be eligible for set-off or shall be payable to any or all of the persons entitled to be paid amounts due in respect of the Subordinated Notes in respect of the obligations of the Issuer thereunder until all other indebtedness of the Issuer which is admissible in any such dissolution, insolvency or winding-up (other than Subordinated Indebtedness) has been paid or discharged in full.
Negative Pledge:	The Senior Notes will have the benefit of a negative pledge as described in Condition 4 (*Negative Pledge*).
Cross-Acceleration:	The Notes contain a cross-acceleration provision in respect of Borrowed Money (as defined in Condition 10 (*Events of Default*) and including for this purpose any assumption, guarantee or indemnity in respect of Borrowed Money) or a failure by the Issuer or any Material Subsidiary to pay when due, or within any applicable grace period, any Borrowed Money.
Ratings:	Tranches of Notes may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Final Terms. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Taxation:	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of South Africa, unless the withholding is required by law. In that event, the Issuer will (subject to the exceptions in Condition 8 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by and construed in accordance with English law, except that, in relation to Subordinated Notes, Conditions 3(b) (*Status – Subordinated Notes*) and 10(b) (*Events of Default – Subordinated Notes*) shall be governed by and construed in accordance with the laws of South Africa.
Enforcement of Notes in Global Form:	In the case of Global Certificates, individual investors' rights against the Issuer will be governed by a deed of covenant dated on or around 2 July 2010 (the "**Deed of Covenant**"), a copy of which will be available for inspection at the specified office of the Fiscal Agent.
Listing and Trading:	Applications have been made for the Notes to be admitted during the period of twelve months after the date hereof to listing on the Official List of the FSA and to trading on the Market or as

	otherwise specified in the relevant Final Terms and references to listing shall be construed accordingly. As specified in the relevant Final Terms, a Series of Notes may be unlisted.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the EEA, the United Kingdom, South Africa, the Republic of Italy and Japan, see "*Subscription and Sale*".
Risk Factors:	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations under the Notes are discussed under "*Risk Factors*" above.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Base Prospectus are not historical facts but constitute "forward-looking statements". This Base Prospectus contains certain forward-looking statements in various sections, including, without limitation, under the headings *"Risk Factors"* and *"Description of African Bank Limited*". African Bank may from time to time make written or oral forward-looking statements in reports to its shareholder, holders of debt securities and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of African Bank's plans, objectives or goals, including those related to its strategy, products and services;
- statements of future economic performance and financial position and results of operations;
- statements of assumptions underlying such statements; and
- any other statements other than statements of historical fact.

Forward-looking statements that may be made by African Bank from time to time (but that are not included in this Base Prospectus) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

Words such as *"aim"*, *"anticipates"*, *"believes"*, *"continue"*, *"could"*, *"estimates"*, *"expects"*, *"forecast"*, *"guidance"*, *"intends"*, *"may"*, *"plans"*, *"potential"*, *"predict"*, *"project"*, *"targets"*, *"will"*, *"would"*, and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Additional factors that could cause actual results, performances or achievements to differ materially include, but are not limited to, those discussed under the heading "*Risk Factors*". This list of important factors is not exhaustive. Forward-looking statements speak only as of the date of this Base Prospectus. When relying on forward-looking statements, prospective investors should carefully consider the aforementioned factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which African Bank operates. Such forward-looking statements speak only as at the date on which they are made and are not subject to any continuing obligations under any guidelines issued by the London Stock Exchange. Accordingly, except as required by applicable law, rule or regulation, African Bank:

- expressly disclaims any obligation or undertaking to publicly update or revise any forward-looking statements in this Base Prospectus to reflect any change in its expectations or any change in events, conditions or circumstances on which these forward-looking statements are based; and
- does not undertake any obligation to update or revise any of them, whether as a result of new information or future events or otherwise,

provided that the Issuer will update this Base Prospectus as required by, and in accordance with, the Prospectus Rules, Listing Rules and Disclosure and Transparency Rules of the Financial Services Authority. African Bank does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Fiscal and calendar years

The Issuer's financial year ends on 30 September. In this Base Prospectus, in order to distinguish between financial years and calendar years, the following conventions are adopted: (i) calendar years are referred to as "calendar year [YEAR]" or simply "[YEAR]" and (ii) the Issuer's financial year is referred to as the "year ended or year ending 30 September [YEAR]" or as "Financial Year [YEAR]". For example, the 12 month period ended 30 September 2009 is referred to as Financial Year 2009.

Presentation of Financial Information

This Base Prospectus contains audited financial statements for the Issuer as at, and for Financial Years 2009 and 2008, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board and unaudited financial statements as at, and for the six months ended 31 March 2010 and 2009 which have been prepared in accordance with International Accounting Standards No. 34, *Interim Financial Reporting* ("**IAS 34"**). The Group's financial statements are presented in Rand which is the Group's functional currency.

Currency

In this Base Prospectus, the following currency terms are used:

- "**South African Rand**", "**Rand**", "**R**" or "**ZAR**" refers to the lawful currency of South Africa;
- "**$**," "**U.S. Dollar**," "**USD**" or "**U.S.$**" refers to the lawful currency of the United States;
- "**£**", "**Pounds**" or "**British Pounds**" refers to the lawful currency of the United Kingdom;
- "**€**", "**Euro**" or "**EUR**" refers to the currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended;
- "**AUD**" or "**Australian Dollars**" refers to the legal currency of Australia; and
- "**JPY**," "**Japanese Yen**," "**Yen**" or "**¥**" refers to the legal currency of Japan.

Exchange Rates

The table below sets out, for the periods and dates indicated, certain information regarding the exchange rate between the Rand and the U.S. Dollar, based on the exchange rate quoted by Bloomberg. Fluctuations in the exchange rates between the Rand and the U.S. Dollar in the past are not necessarily indicative of fluctuations that may occur in the future. The rates may differ from the actual rates used in the preparation of the Issuer's audited financial statements and interim unaudited financial statements and other financial information appearing in this Base Prospectus. The Issuer makes no representation that the Rand or U.S. Dollar amounts referred to in this Base Prospectus have been, could have been or in the future could be converted to Rand or U.S. Dollars at any particular rate, or at all. On 29 June 2010, the official exchange rate quoted by Bloomberg was R7.6788 to $1.

	High(1)	Low(2)	Period average(3)	Period end(4)
		(Rand per U.S. Dollar)		
Month ended				
June 2010 (through to 29 June)	7.8181	7.5053	7.6531	7.6788
31 May 2010	7.9563	7.4103	7.6525	7.6325
30 April 2010	7.4837	7.2288	7.3388	7.3889
31 March 2010	7.6420	7.2850	7.4059	7.2850
28 February 2010	7.8005	7.4751	7.6735	7.7154
31 January 2010	7.6359	7.2855	7.4583	7.6262
31 December 2009	7.7317	7.3000	7.4928	7.3980
30 November 2009	7.9653	7.3312	7.5054	7.4046
31 October 2009	7.8739	7.2365	7.4600	7.8150
30 September 2009	7.6444	7.3162	7.4703	7.5098
31 August 2009	8.1650	7.7527	7.9458	7.7527
31 July 2009	8.2623	7.7210	7.9466	7.7610
30 June 2009	8.2138	7.7140	8.0343	7.7140
31 May 2009	8.7115	7.9386	8.3437	7.9860
30 April 2009	9.3604	8.4942	8.9589	8.5274
31 March 2009	10.6448	9.3442	9.9390	9.5026
28 February 2009	10.2688	9.5695	9.9712	10.1165
Year ended 31 December				
2008	11.5650	6.7363	8.2702	9.5250
2007	7.5035	6.4986	7.0508	6.8625
2006	7.8787	5.9590	6.7705	7.0060
2005	6.9200	5.6538	6.3663	6.3235
2004	7.3850	5.6175	6.4327	5.6650

(1) The highest daily average of the exchange rates recorded on each business day of the relevant month or year as applicable.
(2) The lowest daily average of the exchange rates recorded on each business day of the relevant month or year as applicable.
(3) The average exchange rate for each relevant month or year as applicable calculated using the daily average exchange rate.
(4) The average daily exchange rate on the last business day of each relevant month or year as applicable.

Rounding

Rounding adjustments have been made in calculating some of the financial information included in this Base Prospectus. As a result, numerical figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

Market Data

The Issuer has obtained certain statistical and market information that is presented in "*Risk Factors*", "*Overview of South Africa and the South African Economy*" and "*Description of African Bank Limited*" in this Base Prospectus from the following third-party sources:

- the Government;
- the SARB; and
- Statistics South Africa.

The Issuer takes responsibility for the accurate reproduction of such information and, as far as the Issuer is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Prospective investors should note that the Issuer's estimates are based on such third-party information. None of the Issuer, the Arranger or the Dealers has independently verified the figures, market data or other information on which third parties have based their studies.

SUPPLEMENTARY PROSPECTUS

If at any time the Issuer shall be required to prepare a supplementary prospectus pursuant to section 87G of the FSMA, the Issuer will prepare and make available an appropriate amendment or supplement to this Base Prospectus or a further Base Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Market, shall constitute a supplementary prospectus as required by the UK Listing Authority and section 87G of the FSMA.

The Issuer has given an undertaking to the Arranger and the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or material inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment of any Notes and whose inclusion in, or removal from, this Base Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Notes, then the Issuer shall prepare an amendment or supplement to this Base Prospectus or publish a replacement Base Prospectus for use in connection with any subsequent offering of the Notes and shall supply to the Arranger and each Dealer such number of copies of such supplement hereto as the Arranger or Dealer may reasonably request.

USE OF PROCEEDS

The net proceeds from the issue of each Tranche of Notes will be used by African Bank for its general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the relevant Final Terms.

CAPITALISATION AND INDEBTEDNESS

The following table sets out African Bank's historical capitalisation as at 31 March 2010 and 30 September 2009. Prospective investors should read this information in conjunction with "*Use of Proceeds*" and the Issuer's audited financial statements and interim unaudited financial statements and the Notes thereto included elsewhere in this Base Prospectus. Save as disclosed below, there has been no material change in the capitalisation and indebtedness of African Bank since 31 March 2010.

	31 March 2010	**30 September 2009**
	Unaudited	***Audited***
	(in Rand millions)	
Ordinary shareholder's equity	3,315	3,217
Total equity (capital and reserves)	**3,315**	**3,217**
Subordinated bonds	2,210	2,044
Bonds and other long-term funding	18,567	14,695
Short-term funding	1,749	1,700
Amounts owing to holding company and fellow subsidiaries	453	399
Amounts owing to subsidiary companies	0	0
Other liabilities	640	528
Taxation	72	42
Total liabilities	**23,691**	**19,408**
Total Liabilities and equity	**27,006**	**22,625**
Less cash funds available	(5,066)	(3,484)
Total liabilities and equity less cash funds	**21,940**	**19,141**

SELECTED FINANCIAL AND OTHER INFORMATION

The selected income statements, balance sheets, statements of changes in equity and cash flow statements as at and for Financial Years 2009 and 2008 and as at and for the six months ended 31 March 2010 and 2009 of the Issuer were prepared in accordance with IFRS and have been derived from, and are qualified in their entirety by reference to, the Issuer's audited financial statements and interim unaudited financial statements, respectively, which are included elsewhere in this Base Prospectus.

Balance Sheet

	As at 31 March		**As at 30 September**	
	2010	**2009**	**2009**	**2008**
	Unaudited		***Audited***	
	(in Rand millions)			
Assets				
Short-term deposits and cash	5,066	1,325	3,484	2,848
Statutory assets	1,315	1,007	1,048	822
Other assets	114	30	100	20
Net advances	19,090	15,532	16,755	13,204
Deferred tax asset	91	92	57	74
Amounts owing by holding company and fellow subsidiaries	1,008	227	865	29
Investments in subsidiaries	-	-	-	20
Property and equipment	322	255	316	231
Total assets	**27,006**	**18,468**	**22,625**	**17,248**
Liabilities and Equity				
Short-term funding	1,749	2,930	1,700	3,000
Other liabilities and taxation	712	465	570	418
Bonds and other long-term funding	18,567	11,051	14,695	10,318
Subordinated bonds and loan	2,210	874	2,044	511
Amounts owing to fellow subsidiaries	453	401	399	518
Amounts owing to subsidiary companies	-	-	-	20
Total liabilities	**23,691**	**15,721**	**19,408**	**14,785**
Share capital	121	121	121	121
Share premium	1,402	1,402	1,402	1,402
Reserves	1,792	1,224	1,694	940
Ordinary shareholder's equity	3,315	2,747	3,217	2,463
Total equity (capital and reserves)	**3,315**	**2,747**	**3,217**	**2,463**
Total liabilities and equity	**27,006**	**18,468**	**22,625**	**17,248**

Income Statement

	For the six months ended 31 March		For the year ended 30 September	
	2010	2009	2009	2008
	Unaudited		*Audited*	
	(in Rand millions)			
Revenue	**3.577**	**2,931**	**6,164**	**4,812**
Interest income on advances	2,451	2,021	4,244	3,323
Non-interest income	926	772	1,608	1,251
Income from operations	**3,377**	**2,793**	**5,852**	**4,574**
Charge for bad and doubtful advances	(1,145)	(909)	(1,929)	(1,361)
Risk-adjusted income from operations	**2,232**	**1,884**	**3,923**	**3,213**
Other interest income	200	138	312	238
Interest expense	(1,080)	(849)	(1,848)	(1,175)
Operating costs	(743)	(668)	(1,314)	(1,201)
Indirect taxation: VAT	(11)	(8)	(15)	(52)
Profit from operations	**598**	**497**	**1,058**	**1,023**
Capital items	15	-	-	-
Profit before taxation	**613**	**497**	**1,058**	**1,023**
Direct taxation: STC	(22)	1	2	(48)
Direct taxation: SA normal	(170)	(140)	(299)	(288)
Profit attributable to ordinary shareholder	**421**	**358**	**761**	**687**

Statement of changes in equity

	For the year ended 30 September 2009					
	Audited					
	(in Rand millions)					
	Share capital	**Share premium**	**Distributable reserves**	**Share-based payment reserve**	**Cashflow hedging reserve**	**Total**
Balance at 30 September 2007	**121**	**1,402**	**937**	**(119)**	**-**	**2,341**
Profit attributable to ordinary shareholder	-	-	687	-	-	**687**
Dividend paid	-	-	(530)	-	-	**(530)**
Movement in cashflow hedging reserve	-	-	-	-	(14)	**(14)**
IFRS 2 reserve transactions: employee incentives	-	-	-	(21)	-	**(21)**
Balance at 30 September 2008	**121**	**1,402**	**1,094**	**(140)**	**(14)**	**2,463**
Profit attributable to ordinary shareholder	-	-	761	-	-	**761**
Movement in cashflow hedging reserve	-	-	-	-	(18)	**(18)**
IFRS 2 reserve transactions: employee incentives	-	-	-	11	-	**11**
Balance at 30 September 2009	**121**	**1,402**	**1,855**	**(129)**	**(32)**	**3,217**

Statement of changes in equity

	For the six months ended 31 March 2010					
	Unaudited					
	(in Rand millions)					
	Share capital	**Share premium**	**Distributable reserves**	**Share-based payment reserve**	**Cashflow hedging reserve**	**Total**
Balance at 30 September 2008	**121**	**1,402**	**1,094**	**(140)**	**(14)**	**2,463**
Profit attributable to ordinary shareholder	-	-	358	-	-	**358**
Movement in cashflow hedging reserve	-	-	-	-	(77)	**(77)**
IFRS 2 reserve transactions: employee incentives	-	-	-	3	-	**3**
Balance at 31 March 2009	**121**	**1,402**	**1,452**	**(137)**	**(91)**	**2,747**
Profit attributable to ordinary shareholder	-	-	403	-	-	**403**
Movement in cashflow hedging reserve	-	-	-	-	59	**59**
IFRS 2 reserve transactions: employee incentives	-	-	-	8	-	**8**
Balance at 30 September 2009	**121**	**1,402**	**1,855**	**(129)**	**(32)**	**3,217**
Profit attributable to ordinary shareholder	-	-	421	-	-	**421**
Dividend paid	-	-	(250)	-	-	**(250)**
Movement in cashflow hedging reserve	-	-	-	-	(86)	**(86)**
IFRS 2 reserve transactions: employee incentives	-	-	-	13	-	**13**
Balance at 31 March 2010	**121**	**1,402**	**2,026**	**(116)**	**(118)**	**3,315**

Cash Flow Statement

	For the six months ended 31 March		For the year ended 30 September	
	2010	**2009**	**2009**	**2008**
	Unaudited		***Audited***	
	(in Rand millions)			
Cash generated from operations	1,873	1,458	3,236	2,493
Increase in gross advances	(3,586)	(3,282)	(5,559)	(5,823)
Decrease / (increase) in working capital	34	55	(55)	(48)
Indirect and direct taxation paid	(207)	(218)	(257)	(377)
Cash outflow from operating activities	(1,886)	(1,987)	(2,635)	(3,755)
Cash outflow from investing activities	(369)	(562)	(1,339)	(287)
Cash inflow from financing activities	3,837	1,026	4,610	5,090
Increase/ (decrease) in cash and cash equivalents	**1,582**	**(1,523)**	**636**	**1,048**
Cash and cash equivalents at the beginning of the period	**3,484**	**2,848**	**2,848**	**1,800**
Cash and cash equivalents at the end of the period	**5,066**	**1,325**	**3,484**	**2,848**

DESCRIPTION OF AFRICAN BANK LIMITED

OVERVIEW

African Bank Limited (registration number 1975/002526/06) ("**African Bank**" or the "**Issuer**" or the "**Bank**") is a bank registered under the Banks Act and is a wholly-owned subsidiary of African Bank Investments Limited (registration number 1946/021193/06) ("**ABIL**"), a bank holding public company listed on the JSE Limited (the "**JSE**"). Both African Bank and ABIL are subject to the regulation of the Registrar of Banks and the Bank Supervision Department of the SARB.

African Bank holds a full banking licence granted by the SARB and is authorised as a financial services provider in South Africa by the Financial Services Board of South Africa (the "**FSB**"). The Bank is a member of the Banking Association in South Africa and a registered credit provider under the authority of a licence issued by the National Credit Regulator in South Africa.

African Bank is the sixth largest bank and the largest unsecured loan provider in South Africa. As at 30 September 2009, the Bank had total assets of R22.6 billion (compared to R17.2 billion as at 30 September 2008) and as at 31 March 2010 the Bank had total assets of R27.0 billion (compared to R18.5 billion as at 31 March 2009). The Bank provides short to medium term unsecured loans to individuals and operates through 419 branches across South Africa. As at 30 September 2009, African Bank provided services to 1.8 million customers, employed 3,500 members of staff and had a gross advances book of R21.0 billion. The gross advances book grew to R23.8 billion as at 31 March 2010, servicing 1.9 million customers through 405 branches and serviced by 3,600 members of staff. Personal loans granted by African Bank are used predominantly for incremental housing, education, emergencies and debt consolidation purposes.

Standard General Insurance Company Limited (registration number 1948/029011/06) ("**Stangen**") is also a wholly-owned subsidiary of ABIL and is registered in South Africa as a long-term insurance company with a licence to market credit insurance products. 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 "**African Bank Business Unit**"). Stangen provides credit life insurance cover in relation to loans originated exclusively by African Bank. The key financial relationship between African Bank and Stangen is the commission that is paid by Stangen to African Bank as an intermediary in respect of the brokering of Stangen's insurance products to African Bank's customer base.

On 21 January 2008, ABIL acquired Ellerines Holdings Limited (registration number 1968/013402/06) ("**Ellerines**"), an established furniture and appliance retailer. Ellerines operates a number of well known retail brands through approximately 1,030 stores, including the Ellerines brand itself, and, amongst, others, "Beares" and "Furniture City". As at 30 September 2009 and 31 March 2010, Ellerines had approximately 1.3 million active credit accounts. The combination of the African Bank Business Unit and Ellerines under a single ownership structure has enhanced the opportunities for ABIL to operate in a wider target market, create a greater distribution footprint and enable the Bank to offer more competitive product pricing to its customers.

African Bank has its registered office and headquarters at 59 16th Road, Midrand, 1685, South Africa, telephone number: +27 11 256 9000; fax number: +27 11 256 9306.

HISTORY

African Bank was incorporated in South Africa on 31 July 1975 as a limited liability company under South African law. The Bank was originally incorporated under the name "The African Bank of South Africa Limited" and was subsequently renamed "The African Bank Limited" on 20 February 1978. The Bank thereafter changed its name from "The African Bank Limited" to "African Bank Limited" on 2 November 1999.

Prior to 1998, African Bank operated for 24 years as a small commercial bank with its roots in, and concentrating on, the historically disadvantaged market in South Africa. Following its acquisition by

JSE-listed Theta Group Limited (ABIL's former name) in 1998, African Bank was merged with King Finance Corporation Limited, Unity Financial Services Limited and Alternative Finance Limited, three loan finance companies owned by Theta Group Limited. At that time, non-core assets and certain former business activities of African Bank were disposed of, including the Bank's retail deposit taking and transaction banking activities. Only business activities relevant and complementary to the core business of providing unsecured loans to individuals were retained.

In December 1999, Theta Group Limited was renamed "African Bank Investments Limited".

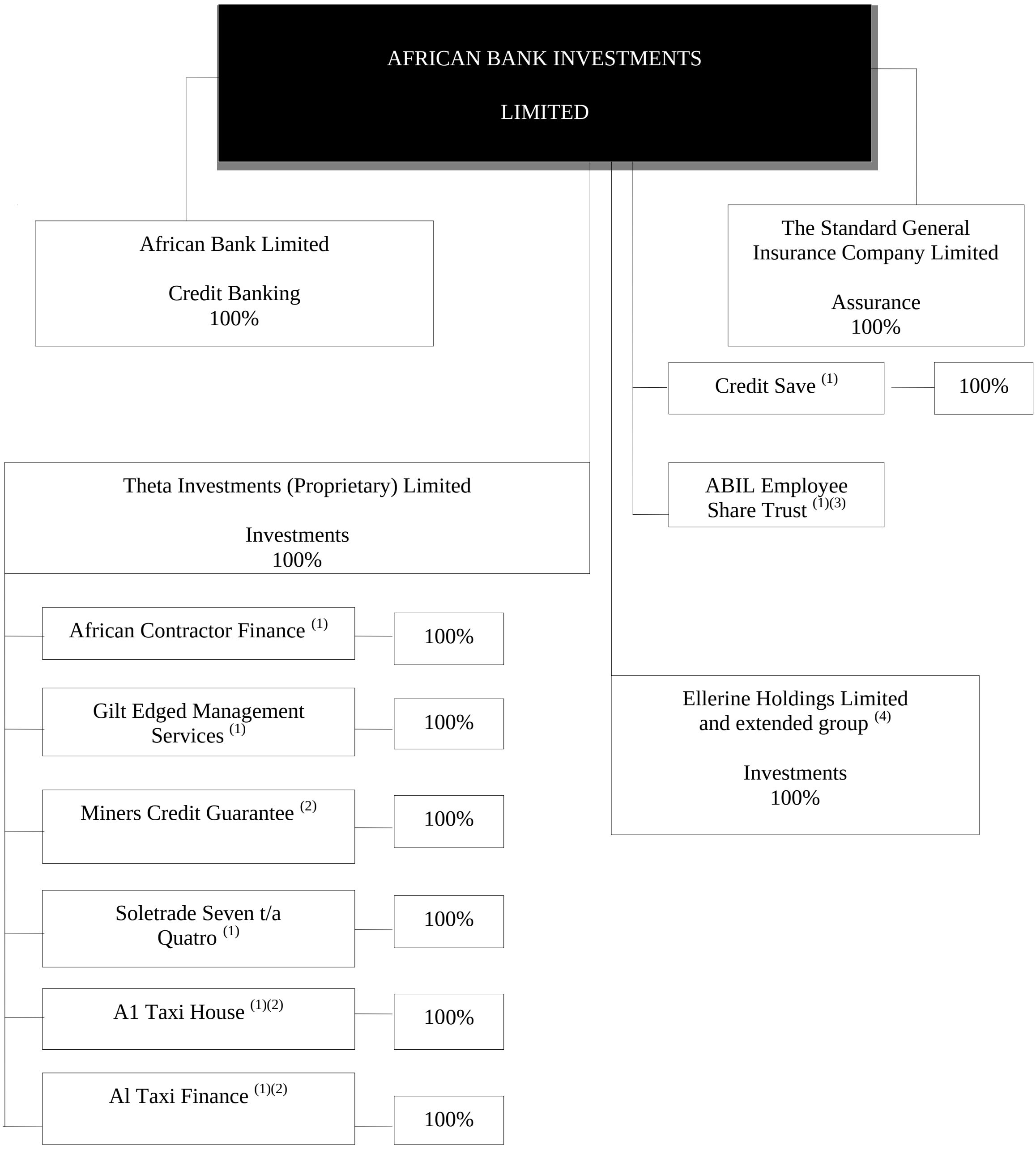
CORPORATE STRUCTURE

ABIL Share capital and ownership

As at the date of this Prospectus, ABIL has 804,175,200 issued ordinary shares and 5,000,000 non-participating, non-cumulative, non-redeemable preference shares. The table below sets out ABIL's largest ordinary shareholders as at 26 March 2010:

Name	Holding	Percentage
Public Investment Corporation	105,362,186	13.1
Investec Asset Management	97,626,930	12.1
STANLIB Asset Management	63,736,765	7.9
ABIL's Black Economic Empowerment programmes	53,819,582	6.7
JP Morgan Asset Management	51,269,940	6.4
Directors, Management & Staff	41,237,811	5.1
BlackRock Incorporated	32,978,508	4.1
Mondrian Investments Partners	29,296,424	3.6
FIL Limited/FMR LLC	27,792,742	3.5
Coronation Fund Managers	22,717,398	2.8
Sanlam Investment Management	19,313,310	2.4
Old Mutual Asset Managers	15,809,997	2
Scottish Widows Investment Partnership	11,796,636	1.5
The Vanguard Group Incorporated	11,044,166	1.4
Wood C	10,074,533	1.3
Dimensional Fund Advisors	9,841,137	1.2
RMB Securities	9,513,769	1.2
Morgan Stanley Investment Management	7,459,172	0.9
Metropolitan Asset Managers	6,929,070	0.9
Total	**627,620,076**	**78.1**

The following chart sets out the corporate structure of ABIL and its subsidiaries (the "**ABIL Group**") as at the date of this Prospectus:



(1) Dormant.

(2) Has been divisionalised into African Bank Limited.

(3) Trust.

(4) The main operating subsidiary (100% owned) of Ellerines is Ellerine Furnishers (Proprietary) Limited.

STRATEGY

African Bank's strategic objective, which is aligned to that of its holding company ABIL, is to expand within its chosen markets by growing its business to significant scale and translating the resultant efficiencies into greater value for its customers.

In order to achieve this objective, the Bank has identified several key areas of strategic focus.

Maintain a foundation of financial strength

African Bank has consistently applied a conservative approach to its capital and liquidity position in order to ensure the long term sustainability of its operating activities. This approach has included maintaining capital levels significantly in excess of regulatory requirements, liquidity buffers to off-set short term liabilities and a positive asset/liability mismatch (i.e. the average maturity of liabilities exceeding the average maturity of assets).

In addition to these factors, the Bank is also actively pursuing further diversification of its funding base, both in terms of counterparty and instrument type, as well as strengthening existing relationships with its funders through ongoing dialogue and transparent disclosure.

Maintain and develop an appropriate skills base

In order to ensure that African Bank maximises the opportunities for growth in the unsecured credit market generally, and the opportunities arising from the acquisition of Ellerines in particular, the Bank has recruited key staff across all areas of its business over the past two years, with new external appointments made at an executive level in the Bank's information technology, human capital and treasury departments, and internal promotions in the Bank's sales, credit and collections departments.

Grow the customer base through product and service innovation

A key aspect of ABIL's growth strategy in recent years has been to offer its customers a better value proposition through lower priced and greater utility unsecured loan products. The resultant growth in the Bank's customers has enabled significant cost efficiencies which, in turn, have been passed back to customers in the form of lower priced, longer term loans, thereby enabling further growth in customer numbers. It is the Bank's intention to also apply this strategy across the financial services activities of Ellerines in the short to medium term.

A further key strategy of African Bank has been the segmentation of its customers into a greater number of risk bands to ensure that the Bank is able to construct product and price offers that are appropriate to specific customer groups. This strategy aims to remove as much cross subsidisation between customers with different risk profiles as possible, and has enabled the Bank to maintain a well diversified loan portfolio. African Bank's latest extensive scorecard update and re-segmentation exercise was brought into operation in August 2009, and took into consideration both the significant change in the macro-economic environment and the Bank's portfolio mix.

Integrate the financial services activities of Ellerines into African Bank

The strategic rationale underpinning the acquisition of Ellerines in 2008 was to add to the critical mass in African Bank's traditional customer base while opening up new areas for growth. Key to the achievement of this objective is the integration of the financial services activities of the two businesses. In Financial Year 2009 and the six months ended 31 March 2010, significant progress was made towards this end. Following the completion of the pilot phase of the integration initiative, the African Bank front end credit origination platform was implemented across all Ellerines branded stores, with the balance of Ellerines' stores expected to be completed before the end of Financial Year 2010. Once this process is complete, it is expected that African Bank will be in a position to provide a broader range of products to a much wider segment of the domestic market.

The second part of the integration of the financial services activities of Ellerines requires the transfer to African Bank of Ellerines' existing debtors' book which arose from credit granted by Ellerines prior to

African Bank's origination process being fully implemented. The ownership of the Ellerines' existing debtors' book is expected to be transferred to African Bank prior to the end of Financial Year 2010. See "*Risk Management - Strategic Risk - Credit Integration*".

BUSINESS OF AFRICAN BANK

Introduction

African Bank's business comprises the provision of short to medium term, unsecured loans to individuals. The Bank operates through 405 branches across South Africa. Personal loans granted by African Bank are used predominantly for housing, education and debt consolidation purposes. The Bank's credit granting process involves extensive credit scoring, risk assessment and affordability calculation processes. As at 30 September 2009, the Bank had approximately 1.8 million customers. As at 31 March 2010, the Bank had approximately 1.9 million customers, reflecting a 3 per cent. increase from 30 September 2009.

Personal Loans

African Bank provides short to medium term unsecured loans to individuals in South Africa. The eligibility criteria for African Bank's loans require individuals to be formally employed and to have a bank account in South Africa. The Bank's loan products are typically term facilities, having maturities of between six and 72 months with fixed, equal monthly repayments. For the Financial Year 2009, the average loan term was approximately 33 months (the same as in Financial Year 2008) and the average loan size was R6,700 (compared to R7,000 for Financial Year 2008). For the six months ended 31 March 2010 the average loan term was approximately 40 months (compared to 32 months for the six months ended 31 March 2009) and the average loan size was R7,322 (compared to R6,790 for the six months ended 31 March 2009).

The following table sets out information pertaining to new loans and credit cards during Financial Year 2009 and 2008, including for the six months ended 31 March 2010 and 2009:

	For the six months ended 31 March		**For the year ended 30 September**	
	2010	**2009**	**2009**	**2008**
Sales (being value of new loans and credit cards granted) (*R million*)	5,802	5,260	9,701	9,713
Number of new loans and credit cards (*thousands*)	792	775	1,444	1, 386
Average loan size (*Rand*)	7,322	6,790	6,719	7,010
Average term (*months*)	40	32	33	33
Loan approval rate (*percentage*)	73	71	69	65
Number of new customers (*thousands*)	154	206	377	350

Credit Cards

To complement the Bank's unsecured loan products, African Bank offers a variety of credit card products to its customers. Each credit card is treated by the Bank as a revolving credit facility and is cross-sold primarily to existing low-risk customers of the Bank.

The Bank experienced a significant increase in credit card sales and credit card advances during Financial Year 2009. Credit card sales during Financial Year 2009 increased by 51 per cent., to R984 million (compared to credit card sales of R653 million during Financial Year 2008). In the same period, the number of new credit cards issued increased by 12 per cent. These sales, together with improved utilisation on the cards, translated into a 75 per cent. growth in credit card advances, to R1.9 billion (compared to credit card advances of approximately R1.1 billion during Financial Year 2008). During the six months ended 31 March 2010, African Bank generated credit card sales of R644 million (compared to credit card sales of R534 million during the six months ended 31 March 2009). In the same period, the number of new credit cards issued decreased by 5 per cent. These sales, together with improved utilisation on the credit cards, translated into a 51 per cent. growth in credit card advances, to R2,342 billion (compared to total credit card advances of approximately R1,555 billion as at 31 March 2009).

The following table sets out a summary of African Bank's credit card portfolio for both Financial Year 2009 and 2008, including for the six months ended 31 March 2010 and 2009:

	For the six months ended 31 March		**For the year ended 30 September**	
	2010	**2009**	**2009**	**2008**
Disbursements (*R millions*)	644	534	984	653
Credit card loan portfolio (*R millions*)	2,342	1,555	1,888	1,080
Number of new cards issued (*thousands*)	83	87	160	143
Total number of cards in issue (*thousands*)	446	377	405	300
Average limit across all cards (*Rand*)	5,129	4,166	4,354	4,021

Credit life insurance

Credit life insurance is sold by Stangen, a registered long term insurer, to African Bank's customers on an exclusive basis. The product sold by Stangen covers a customer's outstanding credit obligation on the Bank's loans to that customer for the duration of the loans, in the event of that customer's death, disability or retrenchment (essentially a form of dismissal or redundancy where the employee is dismissed as a result of the economic or other requirements of the employer and through no fault of the employee). The underwriting risk in the insurance portfolio is retained by Stangen, and is not reinsured.

LOAN PORTFOLIO

African Bank has only one category of advances product, being unsecured loans. As at 30 September 2009, African Bank's total gross advances to customers amounted to R21.0 billion, compared to R16.0 billion as at 30 September 2008, an increase of approximately 31 per cent. As at 31 March 2010, African Bank's total gross advances to customers amounted to R23.8 billion, compared to gross advances of R18.8 billion as at 31 March 2009.

Credit impairments for loans and advances

Credit impairment provisions for loans and advances have increased by 49 per cent. from R2.8 billion in Financial Year 2008 to R4.2 billion in Financial Year 2009 against a background of a growth in loans and advances of 31 per cent. in Financial Year 2009. As at 31 March 2010, the credit impairment provisions for loans and advances were R4.7 billion, an increase of 44 per cent. from R3.3 billion as at 31 March 2009, with the growth in loans and advances being 27 per cent. over this period. The table below sets out the credit impairments for loans and advances for Financial Year 2009 and 2008, including for the six months ended 31 March 2010 and 2009:

	31 March 2010	31 March 2009	30 September 2009	30 September 2008
	(Rand millions)			
Gross advances				
Performing	15,383	13,540	13,843	11,651
Non-performing	7,398	4,988	6,381	4175
Gross advances	**22,781**	**18,528**	**20,224**	**15,826**
Written off book at net realisable value	1,043	280	777	280
Deferred administration fees	(50)	(24)	(7)	(64)
Gross advances, including written off book at net realisable value	**23,774**	**18,784**	**20,994**	**16,042**
Impairment provisions and credit life reserves				
Balance at the beginning of the period	4,239	2,838	2,838	1,892
Impairment provisions raised	1,191	994	2,065	1,553
Bad debts written off (gross)	(1,580)	(976)	(2,252)	(1,265)
Bad debts rehabilitated	817	396	1,588	658
Acquisition of impairment provisions	17	-	-	-
Total impairment provisions	**4,684**	**3,252**	**4,239**	**2,838**

Income statement charges	For the six months ended 31 March 2010	For the six months ended 31 March 2009	For the year ended 30 September 2009	For the year ended 30 September 2008
	Unaudited		*Audited*	
	(Rand millions)			
Impairment provisions raised	1,191	994	2,065	1,553
Bad debts recovered	(46)	(85)	(136)	(192)
Charge for bad and doubtful advances	**1,145**	**909**	**1,929**	**1,361**

Ratios				
NPLs as a percentage of gross advances (excluding the written off book)	32.5	26.9	31.6	26.4
Total impairment provisions as a percentage of NPLs (excluding the written off book)	63.3	65.2	66.4	68.0
Total impairment provisions as a percentage of gross advances	20.6	17.6	21.0	17.9
Income statement charge for bad debts as a percentage of average gross advances	10.6	10.4	10.4	10.1
Gross bad debts written off as a percentage of average gross advances	14.6	11.1	12.1	9.4
Bad debts rehabilitated as a percentage of average gross advances	(7.5)	(4.5)	(8.5)	(4.9)
Net bad debt written off as a % of average advances	7.0	6.6	3.6	4.5
NPLs as a % of gross advances (including the written off book)	35.5	28.0	34.1	27.8
Total impairment provisions as a % of NPLs (NPL coverage including written off book)	55.5	61.7	59.2	64.4

Asset quality

Non-performing loans ("**NPLs**") are defined as loans and advances that have more than three cumulative instalments in arrears. Once a loan is classified as an NPL, a provision is made for such NPL in the Bank's accounts. A loan is written off as a bad debt for accounting purposes when amounts are due and unpaid for a period of more than twelve cumulative months. Despite the fact that such loans are recorded as bad debts for accounting purposes, they are still followed up for collection. Of the loans that are classified as NPLs, the Bank has historically recovered approximately 40 per cent. of the amounts outstanding on such loans.

During Financial Year 2009, NPLs increased by 53 per cent. to R6.381 billion (compared to R4.175 billion in Financial Year 2008). As a percentage of advances, NPLs increased from 26.4 per cent. as at 30 September 2008 to 31.6 per cent. as at 30 September 2009. As at 31 March 2010, the NPLs increased by 48.3 per cent. to R7.398 billion (compared to R4.988 billion as at 31 March 2009) which, as a percentage of advances as at 31 March 2010, constituted 32.5 per cent., an increase from 26.9 per cent. as at 31 March 2009.

African Bank complies with the IAS39 Financial Instruments: Recognition and Measurement, which requires that all impaired loans are carried at the net present value of the expected future cash flows of these loans, discounted at the original effective rate of the loans. African Bank projects future cash flows for all NPLs and determines the present values of such future cash flows calculated at their original contractual rate. The Bank continuously assesses the effectiveness of such cashflow projections by back-testing the previous years' projections to assess their accuracy. Historically, these projections have exceeded 95 per cent. accuracy in each financial year.

In Financial Year 2009, and for the six month period ending 31 March 2010, African Bank's credit quality was affected by the weakening global economy and its adverse affects on certain economic sectors in South Africa, which included retail, manufacturing and mining. This economic weakening led to an increase in NPLs and resulted in a deterioration in the advances book, particularly in loans advanced in the period July to December 2008. During Financial Year 2009, R1.588 billion (compared to R658 million during Financial Year 2008) of rehabilitated loans were brought back onto the balance sheet (though they retained their NPL status) from the previously written-off portfolio (together with provisions), as collection strategies adopted by the Bank in relation to these previously written off loans began to yield results. For the six month period ending 31 March 2010, R817 million (compared to R396 million for the six months to 31 March 2009) of rehabilitated loans were brought back onto the balance sheet.

The NPL coverage ratio (being the total amount of provisions raised in relation to NPLs over the aggregate number of NPLs) declined to 66.4 per cent. in September 2009 (compared to 68.0 per cent. in September 2008). This coverage ratio is calculated on the total NPLs, which excludes R777 million previously written off bad debts now being recorded at their net realisable value and for which no impairment provision is made. As at 31 March 2010, the NPL coverage ratio was 63.3 per cent. (compared to 65.2 per cent. as at 31 March 2009). The lower NPL coverage ratio is primarily a result of the following three factors:

(i) the NPL portfolio contains a larger proportion of more recently defaulted loans and there is a greater prospect of recovery and future cash flows on these loans;

(ii) further improvements in collections strategies and, in particular, the implementation of refined collections scorecards, has resulted in improved collection rates on NPLs; and

(iii) the growing success in the recovery and rehabilitation of bad debts previously written off, has resulted in an increase in the expected future cash flows from these loans.

Ellerines Loan

A bridging loan was granted by African Bank to Ellerines during Financial Year 2009, of which R983 million was outstanding as at 31 March 2010. This bridging loan will be repaid out of the proceeds of the sale of the Ellerines debtors' book to African Bank. See "*Risk Management – Strategic Risk – Credit Integration*".

COMPETITION

Competitors

In South Africa, there are currently 13 registered banks with local control, six registered banks with foreign control, 14 branches of foreign banks, two mutual banks and 30 representative offices of foreign banks.

The largest competitor group to African Bank within the consumer credit market in South Africa comprises the various retailers who provide their customers with credit so as to facilitate the purchase of clothing, furniture and appliances. However, no single retailer has a leading share of this market, and, accordingly, no single retailer can be identified as a stand-alone key competitor of African Bank.

Banks that provide credit to their customers comprise the second largest group of African Bank's competitors. The following table sets out the respective market shares of African Bank and the largest banks in South Africa in relation to loans and advances to households as at 30 September 2009 and 31 March 2010:

Bank	**Loans and Advances** (*percentage*)	
	31 March 2010	**30 September 2009**
African Bank	29.09	26.92
ABSA Bank	18.07	18.35
Nedbank	14.12	12.62
Standard Bank	12.31	13.26
First National Bank	12.16	13.19
Capitec Bank	7.98	6.13
Investec Private Bank	5.04	8.18
Total	**98.77**	**98.65**

Source: SARB (BA 900 Submissions)

Competitive Strengths

The Bank believes that it has the following competitive strengths:

An experienced management team

The majority of the management team of the Bank has been working for the Bank for a number of years and, accordingly, the Bank's management team is very familiar with the strategic mission and operations of the Bank.

Advanced risk assessment and credit scoring processes

African Bank has an advanced, proprietary credit scoring system which it applies to rate its individual customers. This system has evolved over time and African Bank believes that its credit scoring system is one of its biggest competitive advantages. It has developed from a "one size fits all" model, to currently having in excess of 100 discrete risk bands. The credit scoring is conducted at the Bank's centralised head office (the "**Head Office**"), which ensures a consistent approach towards assessing the credit ratings of individual customers. Officers at African Bank's branches advise customers on loans and collate all necessary information, which is then sent to the Head Office for credit scoring. The Bank's sophisticated scoring system allows it to produce credit scoring for a customer and transfer loan funds to a customer's bank account within a very short period of time.

Barriers to Entry

The National Credit Act 2005 (the "**NCA**") removed the statutory barriers between the various credit markets in South Africa. As a result, the old (pre-NCA) separate silos of credit provision are falling away and the consumer credit market in South Africa is moving steadily towards becoming a single market. Although the NCA and other proposed legislation place an additional compliance burden on potential market participants, such legislation has also reduced the barriers to entry by allowing entities other than banks to compete with the mainstream banks in South Africa. Regulatory caps on fees and interest rates, together with increased competition to provide cheaper credit, have squeezed margins, and in such an environment, economies of scale and an effective distribution network have become increasingly important in the consumer credit market. However, whilst there are certain regulatory requirements that may constitute barriers to entry, the Bank's view is that its competitive advantage lies in its underwriting and collections expertise, which is unlikely to be replicated easily and quickly by any potential new competitor.

CAPITAL ADEQUACY

The Bank operates subject to regulatory capital requirements. The Banks Act requires African Bank to maintain a minimum level of capital. Based on the principles outlined in Basel II and with effect from 2008, the SARB determined that African Bank's total minimum required regulatory capital ratio should be 19.5 per cent., before taking into account the capital floor amount for operational risk (calculated as an equivalent 1.2 per cent.) and any buffer requirement as determined by the board of directors of African Bank (the "**Board**"). The Board considered a buffer of 1.0 per cent. above the SARB minimum level of capital requirement as appropriate, resulting in a minimum regulatory capital level applicable to African Bank of 21.7 per cent. The regulatory capital buffer is reviewed annually by the Board, having regard to the business environment of the Bank from time to time.

The following table sets out African Bank's actual capital position as at 31 March 2010, 31 March 2009, 30 September 2009 and 30 September 2008, employing the calculation methodology required by the SARB, and demonstrates that the Bank's actual capital position significantly exceeds the levels at which the SARB requires the Bank to hold capital:

	For the six months ended 31 March 2010	**For the six months ended 31 March 2009**	**For the year ended 30 September 2009**	**For the year ended 30 September 2008**
	Unaudited		***Audited***	
	(Rand millions)			
Total assets and commitments				
On-balance sheet assets	27,166	18,645	22,772	17,366
Off-balance sheet assets	1,248	323	1,241	493
Total	**28,414**	**18,968**	**24,013**	**17,859**
Risk-weighted assets	19,469	13,625	15,600	11,707
Total capital				
Tier 1	3,300	2,736	3,205	2,454
Tier 2 (subordinated bonds)	1,374	814	1,397	451
Tier 2 (other)	103	89	90	76
Total	**4,777**	**3,639**	**4,692**	**2,981**
Capital adequacy				
Tier 1	17.0%	20.1%	20.5%	21.0%
Tier 2 (subordinated bonds)	7.1%	6.0%	9.0%	3.9%
Tier 2 (other)	0.5%	0.7%	0.6%	0.6%
Total	**24.6%**	**26.7%**	**30.1%**	**25.5%**

In addition to the SARB capital adequacy minimum referred to above, African Bank uses an internally developed capital allocation and adequacy model. The Board has approved that the minimum regulatory capital level of African Bank shall, at all times, be the greater of the African Bank minimum regulatory capital requirement and the result of the internally developed model. The internally developed model has resulted in African Bank taking a much more cautious approach to capital adequacy ratios than the minimum levels required in terms of the regulatory requirements. As at 30 September 2009, the Bank's internally developed capital adequacy model, which employs a calculation methodology different to that imposed by the SARB, required the Bank to maintain a minimum capital adequacy level of 24.7 per cent., whereas it held 28.3 per cent. applying the same methodology. As at the 31 March 2010, the minimum capital adequacy ratio, in terms of this internally developed model, was 24.8 per cent. with 26.5 per cent. being held.

RISK MANAGEMENT

Risk Management Philosophy of the Bank

The effective management of risk is critical to the long term sustainability of African Bank and the identification and management of risk remains a high priority which underpins all of the Bank's business activities.

Risk in African Bank is managed on an ABIL Group basis. The risk management governance structures of the ABIL Group cascade down from ABIL's board to its subsidiaries, including African Bank.

Policies and procedures are agreed for the ABIL Group to ensure control over all the ABIL Group's risk exposures. ABIL Group's approach to risk management is based on governance processes and relies on both individual responsibility and collective oversight, supported by comprehensive reporting. Policies laid down by the ABIL Group are applied consistently across African Bank and the other companies within the ABIL Group.

African Bank's processes and procedures enable the Board to assess key risks facing the Bank. Existing controls are assessed on a regular basis and if necessary, adjusted. Thereafter, reports are generated and reviewed at regular intervals by the various sub-committees of the Board to enable effective monitoring of risk levels.

The Bank has completed the implementation of governance standards for all major risk types identified by it. All standards are applied consistently across the Bank and are approved by the Board and ABIL's board of directors, either through the Risk and Capital Management Committee (as defined below) or through the Audit Committee (as defined below), as appropriate.

Risk Governance Structure

Board of directors

The Board is ultimately responsible for the oversight of appropriate risk management and internal control mechanisms. The Board monitors the implementation of risk management strategies and objectives through various board and executive committees.

Sub-committee oversight

The Board, in discharging its risk management responsibilities, is supported by two sub-committees, the Audit Committee and the Risk and Capital Management Committee. These committees are the oversight bodies for the implementation of adequate and effective internal control mechanisms as well as efficient risk management frameworks. They also review the overall effectiveness of risk management structures and response strategies.

Management

Management of the Bank is responsible for the day-to-day implementation of adequate and effective internal control mechanisms. Strong senior management oversight forms the cornerstone of African Bank's effective operational management process. Certain members of senior management are responsible for overseeing the development and maintenance of a methodology to manage risk effectively in the Bank. This includes, amongst other things, an embedded risk management culture throughout the organisation, with management taking frontline responsibility for identifying, understanding and managing risk in pursuit of its strategy and aligning these with the overall business risk policy and approved risk tolerance levels.

Credit Risk

Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or performance obligation due to deterioration in the financial status of that counterparty. In the Bank's context, credit risk arises from advances to customers.

The provision of unsecured loan and credit card finance constitutes the core business of African Bank and, as a result, credit risk is the most significant risk type that African Bank is exposed to.

Accordingly, the Bank's core competencies of underwriting, pricing and collections are constantly assessed and developed in order to manage this risk effectively.

African Bank has, over a number of years, developed its own proprietary credit scoring and underwriting models that are used in assisting the Bank in making credit decisions on new commitments and in managing the portfolio of existing exposures. In this regard, African Bank conducts a three-dimensional credit scoring process to assess underwriting, which comprises of:

- attribute-based scoring, such as traditional credit bureau checks which produce a statistical score;

- operational scoring, based on the environment of the customer, such as their demographic and employment data; and

- behavioural scoring, based on repayment patterns relating to previous credit history as regards the customer.

The results of this credit scoring process are then collated at the Head Office to reach a final decision. This scoring system allows the Bank to produce credit scoring for a customer and transfer loan funds to a customer's bank account within a very short period of time. Customers who are assessed as high-risk are offered small loan amounts at a high interest rate over a short period.

The Bank's underwriting models are refined and reassessed regularly in order to segment the spectrum of risk at an ever more granular level. Key to this process is relevant and accurate data. The Bank has many years of accumulated historical information, at an individual loan level, in respect of both its active and historic customers, and at portfolio level, which it uses to both underwrite and price its loan products. The challenging economic climate that emerged in Financial Years 2008 and 2009 required analysis and management action by the Bank beyond the predictions and trends evident in the Bank's historical information. As a result, the Bank analysed portfolio diversification within the consumer credit industry and changed its underwriting policies in order to address the emerging risk trends proactively.

A significant aspect of African Bank's risk assessment is customer affordability. Accordingly, whilst the Bank endeavours to position itself as a business that maintains a high acceptance rate, it ensures that any loan offer fits within an acceptable level of affordability based on the customer's financial position and existing commitments. Given the inflationary pressures on food and transport costs in South Africa in particular, African Bank has made several recent changes to its affordability model to ensure that the Bank maintains customer affordability.

Product development and appropriate risk based pricing

There is an important interplay between the Bank's capacity to assume risk, the cost efficiency embedded within the Bank's underwriting process and their relationship with the Bank's weighted average cost of capital ("**WACC**"). These three components make up the building blocks of the Bank's pricing and product models. In developing its terms, size and pricing, the Bank considers the WACC, cost absorption and risks associated with a particular loan. As loan sizes increase, cost absorption improves whilst risk increases. Initially, for every unit increase, the rate of improvement in cost absorption outweighs the incremental increase in risk, until a tipping point is reached when the relationship inverts, such that the level of risk outweighs the cost benefits. Given that the level of risk will fluctuate according to changes in the amount of credit offered to African Bank's customers, the Bank endeavours to position its underwriting models conservatively in order to optimise its position with regard to the relationship between risk and return.

Effective monitoring of credit risk metrics and trends

Key to the ongoing development of African Bank's underwriting models is the effective monitoring of credit risk metrics and trends, as these inform the continual changes necessary to calibrate the underwriting models correctly and to incorporate the effect of new risks as they emerge. African Bank compiles an extensive monthly operations credit pack including refinement proposals based on the Bank's management's understanding of risk and volume sensitivities which is reviewed by its operational credit committee (the "**Operational Credit Committee**"). These proposals then form the basis of a monthly review by the strategic credit committee (the "**Strategic Credit Committee**"). The Strategic Credit Committee in turn reports its findings to the Risk and Capital Management Committee on a quarterly basis. The objective of these metrics is to provide the Bank with a substantive basis for the early identification of key trends and risks that enable timely modifications to the underwriting processes, ensuring that unexpected outcomes do not impact the business in an adverse way.

In terms of trends in the existing loan book, African Bank tracks credit vintages as a better and more immediate measure of portfolio risk than non-performing loan or arrears ratios. Credit vintage curves are analysed to track each month's new loans as a separate portfolio and plot the cumulative proportion of each portfolio by reference to the various levels of default, as measured by the number of missed instalments.

Credit vintage curves are produced for every product, term and risk group combination, on a 30, 60 and 90 days in arrears basis, to evaluate trends on a more granular basis, which may be missed at a portfolio level. Credit vintages are managed to perform within a defined risk band and any movements outside of the expected norms are analysed and, if appropriate, adjustments are made to the underwriting models.

Tracking debtor groups – total indebtedness

With the introduction of the NCA, all credit providers in South Africa are now obliged legally to load details of all loans granted onto credit bureaux and a national loans register, so that a comprehensive record of all debt obligations in South Africa can be maintained. With the permission of its customers, the Bank extracts quarterly snapshots of credit bureau data on its customers, which gives the Bank the ability to track the credit obligations of its customers over time. In addition, the analysis gives the Bank an important insight into the credit supply dynamics of different credit providers within the market.

Affordability management

A significant trend in customer earnings during 2009 has been the reduction in certain types of income, including in particular, commission and overtime income. Subtle changes in the form of reduced hours worked also became more prominent during 2009. Consequently, African Bank has adopted a more conservative approach to the recognition of variable income. In addition, the economic pressures in the mining, manufacturing and retail industries and certain sectors within the construction industry during 2009 have caused African Bank to monitor the sectors in which customers are employed more closely than in previous years. This reduced affordability translated into smaller loans and shorter loan terms for customers in these sectors during Financial Year 2009.

African Bank has continued to improve its affordability criteria by implementing more refined living expense thresholds, based on greater customer segmentation. Changes to pricing, loan sizes and loan terms have resulted in the average monthly instalment for new loans reducing from approximately R560 per month as at 30 September 2008 to R530 per month as at 30 September 2009. For the six months ended 31 March 2010 the average monthly instalment for new loans was approximately R582 per month compared to R514 per month for the six months ended 31 March 2009. This increase is as a result of a greater proportion of advances being made to lower risk clients who qualify for longer terms and larger loan sizes.

Collection trends and adequacy of provisions

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

African Bank is comfortable that its provisioning models accurately reflect the risk in its loan portfolios and forecast the future cash recoveries on non-performing loans. Provisioning levels are reviewed and tested against historical and projected cash flows received. For example, actual cash flows to 30 September 2009 were compared against the IAS 39 model prepared in August 2008 for African Bank. The modelled net present value ("**NPV**") of cash flow forecasts for both 2009 and 2008, were within 5 per cent. of the NPV of actual cash collected.

Liquidity Risk

Liquidity risk arises if the Bank has insufficient funds or marketable assets available to fulfil its current or future cash flow obligations. The nature of banking activities results in a continuous exposure to liquidity risk. However, African Bank approaches its capital management and funding strategies conservatively to ensure that the sustainability of the Bank's business is protected. During Financial Year 2009, African Bank increased its total funding liabilities by R4.6 billion (or 33 per cent.), to R18.4 billion (compared to R13.8 billion in Financial Year 2008), slightly ahead of the Bank's growth in advances during such period. The Bank's total cash reserves, including statutory liquid reserves, increased by 21 per cent. from R3.8 billion as at 30 September 2008 to R4.6 billion as at 30 September 2009. As at 31 March 2010 African Bank's total funding liabilities were R22.5 billion and its total cash reserves were R6.4 billion (compared to R14.9 billion and R2.4 billion, respectively, as at 31 March 2009).

The Bank placed particular emphasis on liquidity management during Financial Year 2009. At the beginning of 2009, there was a marked reduction in available liquidity in the financial market as investors became increasingly risk averse and favoured short term instruments. During the period, African Bank benefitted from its longstanding relationships with existing funders and a broadening of its sources of funding, which together with a stable credit rating resulted in the completion of a number of significant funding transactions. As a result, cash reserves in the Bank had improved to R4.6 billion as at 30 September 2009, and reliance on short term funding was reduced substantially. However, as a consequence of these strategies, average funding costs within the Bank rose by 80 basis points during Financial Year 2009. Cash reserves in the Bank further rose to R6.4 billion as at 31 March 2010 and, during the six months ended 31 March 2010, average funding costs decreased by 90 basis points.

Notwithstanding the substantial amount of new funding raised, African Bank successfully retained 85 per cent. of its maturing liabilities in Financial Year 2009, compared to a historical average of 75 per cent. The Bank primarily targets long-term wholesale funding sourced from a broad base of large institutions and asset managers.

Between 35 per cent. and 45 per cent. of the Bank's funding was historically targeted to be raised via the Domestic Programme (as defined in "*Description of Certain Indebtedness*"). Over the last eight years (including the most recent issue on 10 March 2010), the Bank has issued R13.72 billion of securities under the Domestic Programme, with maturities ranging from three to five years. Between 45 per cent. and 55 per cent. has been funded via the internal treasury division from a diverse range of institutional and money market investors on a day-to-day basis. African Bank does not rely on funding from the interbank market.

African Bank at all times seeks to maintain a positive liquidity gap for the forthcoming 24 months and also targets the average maturity of its liabilities to be twice the average maturity of its assets. The Bank targets liquid cash reserves to cover maturing liabilities for at least three months. The Bank aims to ensure that at any time no more than 20 per cent. of its total funding has a maturity of less than one year.

The funding composition of African Bank as at 31 March 2010, calculated at the point of origination, comprised of 8 per cent. short term funding (having a term of less than 12 months), 36 per cent. listed senior bonds, 10 per cent. subordinated bonds and 46 per cent. other long-term loans.

Despite the volatility in debt capital markets in recent years, African Bank has continued to fund its balance sheet growth with new funding (albeit at a slightly higher average price), whilst at the same time maintaining its conservative position on liquidity mismatches and cash buffers. The Bank raised R7.0 billion in new funding during Financial Year 2009, including R2.02 billion raised through a Consumer Price Index ("**CPI**") index linked bond and R1.0 billion raised through a subordinated bond issue. During the six months ended 31 March 2010, African Bank raised R1.75 billion in new funding through its Domestic Programme (as defined in "*Description of Certain Indebtedness*"), of which R0.75 billion was through the issue of a CPI index linked bond. The Bank carefully monitors its exposure to the variable rate of interest inherent in the CPI inflation rate under CPI index linked bonds, and has implemented appropriate measures to actively manage and potentially hedge this exposure over a reasonable period of time. In addition, longer duration funding obtained at floating rates is hedged by way of interest rate swaps so as to ensure that the funding exposures on the liability side of the balance sheet exceed the asset side of the balance sheet by an appropriate factor. African Bank continues to explore a number of new initiatives in order to expand its funding sources.

Given African Bank's strong reliance on wholesale institutional funding, it is important for African Bank to maintain an appropriate credit rating. Moody's long-term domestic credit rating of African Bank has steadily improved from "*BBB+*" in 2002 to the current rating of "*A1.za*" (which is equivalent to an "*A+*" rating). This trend has given African Bank access to a wider investor base and has contributed to the growth in the Bank's funding base over the last few years. In August 2008, for the first time Moody's assigned a global credit rating of "*Baa2*" (long-term) and "*P-2*" (short-term) and a Bank Financial Strength Rating ("**BFSR**") of "*D+*" to African Bank. The above mentioned ratings were confirmed by Moody's in September 2009 with a stable outlook, and again in March 2010. In its recent report, Moody's stated that the Bank's BFSR rating reflects its niche franchise as South Africa's biggest specialised unsecured credit provider with strong financial fundamentals. In addition, Moody's identified African Bank's efficient operational structure, strong credit risk management processes and debt collection capabilities as key to the Bank's success. African Bank will continue to place a high degree of importance and focus on ensuring that its credit ratings are maintained at the appropriate levels.

Strategic Risk

New Business

Towards the end of Financial Year 2009, the Bank renewed its focus on growing its customer base. It is expected that the integration of African Bank's credit services at the Ellerines branded stores, upon integration of Ellerines' financial services into the Bank, will contribute significantly towards improving the Bank's sales levels and portfolio diversification.

In addition to a formal annual review of the Bank's risk universe, the business environment is reviewed on an on-going basis to identify emerging risks so that the Bank can either take preventative action to avoid any perceived risks or seek to exploit any perceived opportunities that emerge.

Credit Integration

In light of the potential difficulties associated with the integration of Ellerines' loan book into African Bank's loan book and the amalgamation of the credit granting procedures of the two businesses, ABIL has decided that such credit integration process be dealt with by two separate strategic teams. The first team is responsible for the roll-out of African Bank's credit granting model in Ellerines stores (the Ellerines Credit Migration Project or the "**ECMP**") while the second team will concentrate on the transfer of Ellerines' existing loan book into the Bank (the Credit Integration Forum, or the "**CIF**"). Both of these teams consist of dedicated team members as well as executive steering committees.

The ECMP has been rolled out to all Ellerines', Dial-a-Bed and Furniture City branded stores and to the majority of the Geen & Richards and Beares stores (Dial-a-Bed, Furniture City, Geen & Richards and Beares all being other brands of Ellerines). The ECMP rollout is expected to be completed before the end of Financial Year 2010.

The acquisition by African Bank of Ellerines' existing debtors' book will take place in due course on an arms-length basis and on market-related terms and conditions. The timing of that acquisition process is also expected to take place prior to the end of Financial Year 2010.

Information technology risk

The Board believes that inappropriate deployment of technology or a lack of congruence between the Bank's information technology ("**IT**") and the business needs of the Bank could lead to ineffective and inefficient business processes and unnecessary costs. There is a significant level of demand on the Bank's IT resources to deliver technology solutions due to business growth as well as current system upgrades and replacements, credit integration and system conversions. The uninterrupted and efficient availability of IT services has become indispensable to the Bank and forms an integral part of the daily operations and strategy execution of the Bank. Accordingly, regular assessments are undertaken to ensure alignment between the strategy and the long-term business needs of the Bank, and the ability of the Bank's IT resources to meet those needs in a cost effective manner. The capacity of the Bank's IT systems is regularly assessed and upgraded where necessary to take advantage of efficiencies of scale and cost reductions. The skills required of the Bank's IT staff are regularly assessed to ensure that maximum efficiency standards are maintained. The Bank has made considerable investments into its IT environment to increase its capacity and availability, and furthermore to have the right resources to support the Bank's business with the necessary levels of service.

Business continuity and disaster recovery

Business continuity management at African Bank has improved the ability of all critical operations to manage unexpected business disruptions. The Bank regularly assesses the associated risks to eliminate downtime and improve recovery strategies. The Bank's business continuity plan relates to systems and IT, including disaster recovery. This strategy is reviewed annually and the infrastructure at the Bank's offsite disaster recovery centre in Randburg, Johannesburg, is tested quarterly. Generators and uninterrupted power supply capabilities at the Head Office and other key sites are designed to minimise disruptions from power outages.

African Bank has the ability to switch its main debtor's management system to run interchangeably between the Head Office and the Bank's offsite disaster recovery centre reducing potential downtime to less than 30 minutes should the need arise.

The Bank has appropriate insurance cover against business continuity events and disaster recovery.

Interest rate risk management

African Bank takes a neutral view of interest rate risk, as the Bank believes that it is unlikely to outperform the market in predicting interest rate movements in the long-term. Given that the loans offered by the Bank are largely at fixed rates of interest, the Bank raises funding primarily at fixed rates to match this profile. Any variable rate funding of a duration longer than 12 months is swapped into a fixed rate exposure by way of a directly matched interest rate derivative. This strategy has resulted in a steady funding cost for the Bank over the past few years. Nevertheless, the Bank is exposed to some interest rate fluctuations, notably in the Bank's credit card portfolio. The exposure on the variable rate risk on credit cards is analysed regularly and a portfolio hedge is implemented where appropriate. In aggregate, as at 30 September 2009, the credit card portfolio comprised 9 per cent. of the Bank's total loan portfolio. As at 31 March 2010 the credit card portfolio comprised 10 per cent. of African Bank's total loan portfolio.

Hedging and market risk

African Bank has no exposure to any other financial market risk, such as equity or commodity risk. The Bank invests its cash resources predominantly in the short-term interbank money markets, and limits are set for exposures to any bank based on capital base and stability of the relevant bank.

The only derivative contracts the Bank has entered into, relate to the hedging of the ABIL Group's long-term share based incentive scheme, by way of a contract for differences ("**CFD**") on the underlying ABIL share. This CFD exactly matches the profile of the long-term incentive plan exposure and the hedging of residual interest exposure as discussed under "*Interest rate risk management*" above.

The Bank does not undertake any speculative trading in derivatives.

EMPLOYEES

As at 31 March 2010, the Bank had 3,609 employees (compared to 3,476 employees as at 30 September 2009 and 3,426 employees as at 30 September 2008).

The Bank would be compromised in its ability to deliver value to its stakeholders, if its staff did not remain committed and trained to deliver effectively on the Bank's operational and strategic objectives. Therefore the Bank believes strongly in attracting and retaining suitably qualified staff and compensating them accordingly. African Bank strives to be an employer of choice within its sector and will continue to endeavour to build a suitable and sustainable culture and environment for its employees. The Bank's basic remuneration comprises fixed guaranteed salaries for all permanent employees and sales commissions paid to sales staff. Incentive payments are paid to employees whose performance is above expectation having regard to their basic remuneration, and for contributing towards the creation of sustainable shareholder value. The incentive structures are designed to encourage and reward superior performance at all levels of the organisation, but are more focused at the management and executive level. The integrated incentive structure covers both short-term cash incentives and a long-term incentive plan.

A significant number of the Bank's non-managerial employees are represented by trade unions. The Bank has not experienced any strikes or work stoppages and considers its employee relations to be excellent.

PROPERTY

As at 30 September 2009, the Bank held freehold title to land, property and equipment with a net book value of R316 million. This value increased marginally to R322 million as at 31 March 2010. The bulk of this amount relates to the ABIL Group head office in Midrand, Johannesburg.

INSURANCE

The Bank has a comprehensive insurance programme with cover for financial loss and computer crime, professional indemnity cover, directors' and officers' liability insurance, and assets and liabilities insurance. Included in the Bank's insurance is Bankers Blanket Bond cover, which is provided by Santam Limited and protects the Bank against being sued for financial loss by a customer. The Bank's claims history is low. The Bank conducts an annual benchmarking review of policy wordings, covers and limits, to ensure that the level of the Bank's risk mitigation is adequate in relation to the Bank's risk profile.

All cover is placed at the ABIL Group level to maximise economies of scale and to ensure that all business units are included.

INFORMATION TECHNOLOGY

IT is an integral part of the Bank's operations. The Bank continuously seeks to improve the operating features and security of its IT systems, in particular for new technologies to support and enhance its business strategies.

IT risk management within the Bank not only involves securing Bank information and systems, but also entails the application of risk management principles to ensure efficient, reliable and timely delivery of information. See "*Risk Management – Strategic Risk – Information Technology Risk*".

MANAGEMENT

Corporate Governance

The ABIL Group is committed to ensuring that its policies and practices reflect good corporate governance and comply with all regulatory requirements applicable to a South African listed banks. The directors of African Bank consider that adherence to its governance framework is fundamental in demonstrating that they are accountable to the Bank's shareholders and are responsible for overseeing the management of risk and the future direction of the Bank appropriately.

African Bank was in compliance with the principles and recommendations of the King Commission's Code of Corporate Governance of 2002 ("**King II**") in all material respects throughout Financial Year 2009. In September 2009, the King Commission released its revised Code on Corporate Governance ("**King III**") which came into effect on 1 March 2010. African Bank has, in any event, been in compliance with King III in all material respects before March 2010. In order to become compliant with King III, African Bank has particularly focussed on:

(i) the membership and resources of the Audit Committee, the charter of the Audit Committee and the roles and responsibilities of the Audit Committee;

(ii) the roles and responsibilities of the Risk and Capital Management Committee;

(iii) the role of the Remuneration and Transformation Committee in overseeing the establishment and implementation of remuneration policies in relation to executive and non-executive directors, other executive remuneration and, in general, the remuneration policy of the Bank;

(iv) the role of African Bank's internal audit department, its approach and plan;

(v) the effectiveness of the risk management processes within the Bank; and

(vi) IT governance and security.

Board of Directors

The Board, which is comprised of the same persons as the board of directors of ABIL, is ultimately accountable for the performance and affairs of African Bank. The Board is responsible for the oversight of controls, the long-term strategic objectives, shaping the values by which African Bank is managed and determining the risk parameters for the Bank's business. The Board regards good corporate governance as critical to the success of the Bank and is therefore committed to applying the principles of good governance, transparency, integrity, accountability and responsibility in all its dealings when acting on behalf of African Bank.

The Board has adopted a charter which defines the governance parameters within which it operates. This charter sets out specific responsibilities to be discharged by the Board collectively, as well the responsibilities of its individual members. The ABIL Group has an approved term limit policy in respect of the ABIL and African Bank board of directors which limits the chairman of the Board's service tenure to a maximum of ten years. The service tenure of non-executive directors is limited to a terms of six years which may be extended for a further two years.

The Board consists of 13 directors, classified as independent non-executive, non-executive and executive directors respectively. African Bank strives to ensure that the size, diversity and demographic representation of its Board make its management effective. African Bank is currently managed by six executive directors and seven non-executive directors (six of whom are deemed independent non-executive directors). The members of the Board as at the date of this Prospectus are listed below:

Name	Title	Director Since
Gordon Schachat	Deputy Chairman, Executive	1 July 1995
Leonidas Kirkinis	Managing Director, Executive Group Chief Executive Officer	1 July 1997
David Farring Woollam	Executive	1 November 2002
Antonio Fourie	Executive	21 October 2003
Thamasanqa Mthunzi Sokutu	Director - risk, compliance and sustainability Executive	19 May 2003
Nithiananthan Nalliah	Group Chief Financial Officer, Executive	5 May 2009
Mutle Constantine Mogase	Chairman, Independent Non-Executive	12 March 2007
David Braidwood Gibbon	Independent Non-Executive	1 June 2003
Nicholas Adams	Independent Non-Executive	1 February 2008
Samuel Sithole	Independent Non-Executive	21 May 2009
Robert John Symmonds	Independent Non-Executive	21 May 2009
Mpho Elizabeth Kolekile Nkeli	Independent Non-Executive	7 March 2008
Ashley Tugendhaft	Non-Executive	1 April 2003

The business address of the members of the Board is the Bank's registered address at 59, 16th Road, Midrand, 1685, South Africa. All of the directors of the Board are South African nationals, it being noted that Samuel Sithole holds Zimbabwean citizenship but has permanent residency in South Africa.

Further information in respect of the members of the Board is set out below:

Gordon Schachat (55)	Executive Deputy Chairman
Directorships	Executive director of ABIL, African Bank and Ellerines.
Profile	Mr Schachat was one of the original founders and architects of the ABIL Group in partnership with Leon Kirkinis, the current CEO. Mr Schachat's business career spans nine years with the Schachat housing group, thereafter 13 years in the field of private equity and investment banking which, in partnership with the Hollard Group in 1995, culminated in the listing of the Boabab Investment Trust, the forerunner of the current ABIL Group.
Leonidas Kirkinis (50)	
Qualifications	BComm, BAcc
Directorships	Executive director of ABIL, African Bank and Ellerines.
Profile	Mr Kirkinis, currently chief executive officer of ABIL and managing director of African Bank, founded ABIL (previously Theta Group Limited) in partnership with Mr Schachat. Mr Kirkinis guided ABIL through the various mergers, acquisitions and the operational establishment of the present day ABIL Group.
David Farring Woollam (43)	
Qualifications	CA(SA)
Directorships	Executive director of ABIL, African Bank and other ABIL Group subsidiary companies.
Profile	Mr Woollam joined ABIL as group financial director in November 2002 with responsibility for the ABIL Group finance, treasury and the investor relations functions within ABIL's operational structure. He served as Managing Director of African Bank from February 2008 to November 2009. He also served as financial director of BoE Limited from 1999 to 2002 after returning from London where he spent some 11 years working in the financial services industry.
Antonio Fourie (48)	
Qualifications	BComm
Directorships	Executive director of ABIL and African Bank. Chief Executive Officer of Ellerines and executive director of other subsidiary companies.

Profile	Mr Fourie, who has had extensive previous experience in retail operations and has been instrumental in repositioning African Bank's distribution footprint, branding and customer service propositions, is the chief executive of Ellerines. His initial engagement with the ABIL Group was in the capacity of executive director of the innovation, business optimisation and group strategy of ABIL. He was also involved in the sales, marketing, distribution, human resources and credit card strategy of ABIL.
Thamsanqa Mthunzi Sokutu (45)	
Qualifications	BSc (Honours), MSc
Directorship	Executive director of ABIL, African Bank and Ellerines. Non-executive director of Eyomhlaba Investment Holdings Limited. Non-executive director and chairman of Tourism Empowerment Council of South Africa, South African National Biodiversity Institute, Tourism Empowerment Counsil of SA and Masake (Proprietary) Limited.
Profile	Mr Sokutu is the executive director responsible for the ABIL Group risk functions covering both the African Bank and Ellerines businesses. Before taking over responsibility for ABIL Group Risk, he was managing director of the African Bank's retail business. He joined African Bank in 2002 after completing his contract as Director General in the National Department of Public Works.
Nithiananthan Nalliah (50)	
Qualifications	B. Compt(Hons), CTA (Unisa), P Grad Dip Tax Law (RAU), ACMA, CA(SA)
Directorships	Executive Director of ABIL, African Bank, ABIL Group companies, Stazione Properties Limited, Highly Commended Investments 801 (Proprietary) Limited, Magnolia Ridge Properties 272 (Proprietary) Limited. Non-executive director of Eyomhlaba Investment Holdings Limited, Hlumisa Investment Holdings Limited. Chief Executive of The Standard General Insurance Company Limited.
Profile	Mr Nalliah is currently the ABIL group Financial Director and an executive director of ABIL and African Bank. He joined ABIL in October 2006. Mr Nalliah was a senior partner at Deloitte prior to his joining the ABIL Group.
Mutle Constantine Mogase (43)	Non-Executive Chairman
Qualifications	BComm, Executive Development Programme, Graduate Diploma in Corporate Governance
Directorships	Non-executive chairman of ABIL and African Bank. Non-executive director of Air Liquide, Blue IQ Investments (Proprietary) Limited, Comcorp (Proprietary) Limited, ECI Africa Consulting (Proprietary) Limited, Eastern Platinum Limited, Incwala Resources (Propriestary) Limited, Datapro Group Limited, Spescom Limited, JP Morgan Advisory Board, Executive chairman of Vantage Capital Group and Executive director of Vantage Capital Investments (Proprietary) Limited.
Profile	Mr Mogase was a joint founder of MMR Equity Capital, which merged with Vantage Capital in 2001. He is currently the Executive Chairman of Vantage Capital Group. Vantage

	Capital is an investment and financial services group. The group also manages a private equity fund with committed capital of R225 million sourced from the IDC, The FMO (a Dutch Development Bank), the Transnet Retirement Fund, Transnet Pension Fund and the Eskom Pension and Provident Fund. He was chairman of the Micro Finance Regulatory Council (MFRC) and it was during his tenure that the NCA was developed.
David Braidwood Gibbon (66)	
Qualifications	CA(SA)
Directorships	Non-executive director of ABIL, African Bank, The Spar Group Limited, The Standard General Insurance Company Limited, Relyant Life Assurance Company Limited and Customer Protection Insurance Company Limited.
Profile	Before his retirement in 2003, Mr Gibbon was in public practice as an accountant and auditor and was a partner of Deloitte & Touché for 30 years. He held a number of senior positions in the firm and provided audit and related services to banking and financial services clients. Prior to leaving Deloitte & Touche, He was the national lead partner of debt origination and securitisation services in South Africa. He is currently the chairman of the ABIL Group Audit Committee.
Nicholas Adams (50)	
Qualifications	BComm. (Hons), CTA(UCT), ACMA
Directorships	Non-executive Director of ABIL, African Bank, MKP Holdings (Proprietary) Limited, Garden of Development Company (Proprietary) Limited, Swanvest (Proprietary) Limited, Findlay's Properties No.5 (Proprietary) Limited, Uplands College (Proprietary) Limited. Executive Director of TukTuk Investments (Proprietary) Limited and Walter H. Adams (Kimberley) Limited.
Profile	Mr Adams was a partner of Deloitte during 1988 to 1995. He was one of the Managing Shareholders of Baobab Solid Growth, the original ABIL. He was a non-executive director of ABIL during the period 1999 to 2003. 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. He is the chairman of the Risk and Capital Management Committee and a member of the Audit Committee.
Samuel Sithole (36)	
Qualifications	BComm, CA(SA), Bachelor of Accountancy (Honours) (University of Zimbabwe), Chartered Accountant registered with the Institutes of Chartered Accountants in Zimbabwe (ICAZ), England & Wales (ICAEW) and South Africa (SAICA), Advanced Diploma in Banking (University of Johannesburg).
Directorships	Non-executive director of ABIL and African Bank. Executive Director of Brait SA and its related subsidiary companies, Valucorp 154 CC, Proline Trading 102 (Proprietary) Limited, Celebration Church Johannesburg CC.

Profile Mr Sithole is currently the Group Financial Director of Brait SA. He was admitted as an audit partner with Deloitte Harare in March 2002 and also served on the firm's board and executive committee. He joined Deloitte's Financial Services Group (“**FIST**”) in Johannesburg as an audit partner in June 2004 and was promoted to the position of group leader of FIST Audit in June 2007. He was appointed as the Group Financial Director of Brait SA in June 2008.

Robert John Symmonds (50)

Qualifications BComm (Hons) (UTC), Strategic Banking Programme (IMD-Laussane), Executive Development Programme (GIMT), CA(SA).

Directorships Non-executive director of ABIL, African Bank, Leppard and associates, Umlimi Underwriting, Financial Management International, Heavy Commercial Vehicles, Professional Indemnity Mutual Solutions, Consort Technical Underwriters, Pinnafrica Limited, Cast Arena Trade and Invest 87 (Proprietary) Limited, The Standard General Insurance Company Limited, Relyant Life Assurance Company Limited, Relyant Insurance Company Limited and Customer Protection Insurance Company Limited. Managing Director Lombard Insurance Company Limited, Lombard Life, Lombard Insurance Limited, Lombard Trade Finance, Lombard Guarantee Services (Proprietary) Limited - registered in Botswana, Lombard Consolidated (Proprietary) Limited.

Profile Mr Symmonds is currently the Managing Director of Lombard Insurance Company Limited. He is responsible for the overall implementation of strategies developed in conjunction with the board.

Mpho Elizabeth Kolekile Nkeli (43)

Qualifications BSc Environmental Science, MAP (Wits), MBA (Gibs)

Directorships Non Executive director of ABIL and African Bank and non-executive chairman of Hlumisa Investment Holding Limited. Executive director of Alexander Forbes Risk and Insurance Services and Investment Solutions.

Profile Ms Nkeli has worked for a number of companies in marketing, communications, human resources and transformation positions for the past 15 years. She has also worked as development and disability consultant for almost three years. She is currently the Group Executive Director of human resources and transformation at Alexander Forbes. She is a past non-executive director of Ellerines and served on various board committees. She is currently the chairperson of the ABIL Group Remuneration & Transformation Committee.

Ashley Tugendhaft (60)

Qualifications BA, LLB

Directorships Non-executive director of ABIL African Bank; Imperial Holdings Limited, Pinnacle Technology Limited and Technology Holdings Limited.

Profile Mr Tugendhaft, a senior partner of the law firm Tugendhaft Wapnick Banchetti & Partners (“**TWB**”), joined the ABIL Group during May 2003. He has over 35 year’s legal experience, and specialises in all areas of commercial law, including listings, mergers and acquisitions, company law, banking law, stock exchange and exchange control.

Board Committees

ABIL has a unitary board structure, with the ABIL and African Bank board comprising the same directors. This governance structure ensures that the ABIL Group Committees (comprising the committees described and defined below) effectively deliberate, review and monitor the activities of African Bank.

The Board has established four permanent committees from amongst its members and has defined specific roles and responsibilities for them. The committees provide the Board with oversight and reports on their work at each Board meeting. The roles, responsibilities, duties and objectives of the committees are set out in the respective committee charters. In addition, the Operational Credit Committee and the Strategic Credit Committee are described under "*Risk Management – Credit Risk*" below.

The ABIL Group Audit Committee

The ABIL Group Audit Committee (the "**Audit Committee**") comprises four non-executive directors of the Board. The members are elected by the Board from amongst the non-executive directors in compliance with the Banks Act.

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 integrated reporting and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards for the ABIL Group.

The Audit Committee has an independent role with accountability both to the Board and to shareholders, but does not assume any management function.

The ABIL Group Risk and Capital Management Committee

The ABIL Group Risk and Capital Management Committee (the "**Risk and Capital Management Committee**") comprises four elected non-executive directors of the Board in compliance with the Banks Act.

The quality, integrity and reliability of risk management of the ABIL Group is delegated to the Risk and Capital Management Committee. The Risk and Capital Management Committee assists the Board in discharging its duties relating to the identification and monitoring of key risk areas and performance indicators of each company in the ABIL Group (including the Bank), relating to credit risk, interest and liquidity risk, internal capital adequacy assessment process ("**ICAAP**"), internal capital allocation, regulatory capital requirements, operational risk, information technology risk, legal and insurance risk, and sustainability risk.

The ABIL Group Remuneration and Transformation Committee

The ABIL Group Remuneration and Transformation Committee (the "**Remuneration and Transformation Committee**") comprises three non-executive directors of the Board. The role of the Remuneration and Transformation Committee, having regard to the law and the required standards of governance, is to support and advise the Board in fulfilling its responsibilities to shareholders, employees and other stakeholders by ensuring that employees of the ABIL Group (including the Bank), are appropriately and equitably compensated for their services (having regard to their performance) and are motivated to perform to the best of their abilities in the interests of all stakeholders.

The ABIL Group Directors Affairs Committee

The ABIL Group Directors Affairs Committee assists the Board in discharging its responsibility for ensuring the existence of adequate and effective corporate governance that is consistent with the nature, complexity and risks inherent in the Bank's business. This ensures a balance of power and authority, such that no one individual has unfettered powers of decision making.

Conflicts of Interest

The Board has adopted a number of principles for the purpose of regulating the conduct, ethics and operations of the Board, which are contained in the Board's charter. As part of this, Board members are obliged to manage all conflicts of interest to ensure that their position of trust and confidence may not be used to further their own interests. Directors are required to act in good faith, on an informed basis and in the best interests of African Bank. In this regard, all directors have access to the chairman of the Board and the chief executive officer of the ABIL Group in order to discuss potential conflicts. Directors are required to declare their interests in matters discussed at the Board meetings and to recuse themselves from discussions should there be a potential conflict of interest. There is no actual or potential conflict of interest between the duties of any of the members of the Board to the Issuer and their respective private interests or other duties.

DESCRIPTION OF CERTAIN INDEBTEDNESS

The following summary of certain provisions of the Issuer's indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents.

Domestic Medium Term Note Programme

On 10 September 2001, the Issuer established its ZAR3,500,000,000 Domestic Medium Term Note Programme (the "**Domestic Programme**") the programme limit of which has subsequently been increased to ZAR15,000,000,000. The following series of notes are currently outstanding under the Domestic Programme (collectively the ''**Domestic Programme Notes**''):

Launch date	Size at issue (ZAR)	Outstanding Principal Amounts	Coupon	Maturity
Aug-05 and Nov-06 and Mar-06	R800 million	R507 million	9,00%	Aug-10
Aug-06	R750 million	R598 million	9,70%	Aug-11
Jun-07	R1 050 million	R446 million	10,25%	Jun-12
Feb-08	R1 000 million	R821 million	11,85%	Feb-13
Aug-07	R300 million	R300 million	Variable	Aug-17
Jul-09	R520 million	R520 million	15,5%	Jul-16
Jul-09	R480 million	R480 million	Variable	Jul-16
Apr-08	R246 million(1)	R149 million	Inflation linked	Mar-13
May-09	R2,02 billion	R2,02 billion	Inflation linked	May-14
Sep-08	R725 million	R640 million	13%	Sep-13
Sep-08	R525 million	R440 million	Variable	Sep-13
Feb-09	R550 million	R524 million	Variable	Feb-12
Mar-10	R500 million	R500 million	11.50%	Mar-15
Mar-10	R500 million	R500 million	Variable	Mar-15
Mar-10	R750 million	R750 million	Inflation linked	Mar-15

(1) This represents the proceeds received on the issue of these notes which have a principal amount of R149.0 million.

The Domestic Programme documents contain representations, warranties and undertakings common to agreements of this type and include customary covenants (subject to certain agreed exceptions) that restrict the Issuer's ability to create or permit the creation of any encumbrances other than those permitted under the Domestic Programme. The Domestic Programme documents contain customary events of default, including, but not limited to, non-payment, breach of other obligations set out in the agreements, failure to obtain any necessary consent, license, approval or authorisation, cessation of the whole or a substantial part of the Issuer's business as well as certain insolvency and winding-up or related events.

Subordinated Debt raised from Development Finance Institutions ("DFIs")

During Financial Year 2009, African Bank raised an aggregate amount of R600 million in subordinated debt (in the form of long-term loans) from the International Finance Corporation ("**IFC**"), Société De Promotion Et De Participation Pour La Coopération Economique S.A. ("**Proparco**") and DEG - Deutsche Investitions-Und Entwicklungsgesellschaft Mbh ("**DEG**") on a non-syndicated basis.

The DFI term loan agreements constitute three separate bilateral agreements and contain representations and warranties and undertakings common to agreements of this type and counterparty and which are also common to each DFI agreement, to a large degree. The DFI term loan agreements include customary covenants, subject to certain agreed exceptions, that restrict the Issuer's ability to create or permit to the creation of any encumbrances. The agreements also contain customary events of default, including, but not limited to, non-payment, breach of other obligations set out in the agreement, defaults in other material contracts, cessation of the whole or a substantial part of its business, certain insolvency and winding-up or related events.

OVERVIEW OF SOUTH AFRICA AND THE SOUTH AFRICAN ECONOMY

*The below description is extracted from an exhibit to South Africa's annual report on Form 18-K (the "**Form 18-K**") for the Financial Year ended 31 March 2009 filed with the U.S. Securities and Exchange Commission on 7 December 2009 with respect to the Financial Year ended 31 March 2009, a prospectus supplement relating to a debt offering by South Africa filed with the U.S. Securities and Exchange Commission pursuant to rule 424(b)(3) on 27 August 2009 and the June 2009 Quarterly Bulletin of the South African Reserve Bank.*

*References in this section to Financial Years are to South Africa's Financial Year beginning 1 April and ending 31 March. For example, 2009 refers to the Financial Year beginning 1 April 2008 and ending 31 March 2009. Unless otherwise stated herein, references in this description to the 2009-2010 Budget are to the 2009-2010 National Budget as released in February 2009 and not as amended by the Medium Term Budget Policy Statement ("**MTBPS**") 2009 released on October 27, 2009. References to the 2009-2010 Consolidated Budget, which includes the 2009-2010 National Budget as part thereof, shall be construed accordingly. The Issuer assumes responsibility for the accurate extraction of information, but neither the Issuer, the Dealers nor the Arranger have verified the accuracy thereof or updated the information.*

Introduction

South Africa has been an established constitutional democracy since 1994, when it held its first fully democratic national elections. South Africa has the most developed economy in Sub-Saharan Africa, and accounts for one-third of the aggregate GDP of Sub-Saharan Africa. The South African economy is diverse and supported by a well developed legal system and a sophisticated financial system. The major strengths of the South African economy are its services and manufacturing sectors, its strong physical and economic infrastructure and its abundant natural resources, including gold, platinum, metals and coal.

South Africa is situated on the southern tip of the African continent, with the Atlantic Ocean to the west and the Indian Ocean to the east. The north of the country shares common borders with Namibia, Botswana and Zimbabwe and, to the northeast, the country shares a border with Mozambique. South Africa also shares common borders with the kingdoms of Lesotho and Swaziland. The total surface area of South Africa is approximately 1,219,090 square kilometres, with over 3,000 kilometres of coastline.

According to the mid-year population estimates of 2009, South Africa's population is estimated by Statistics South Africa to be approximately 49.3 million people, of which 25.5 million people, representing 52 per cent. of the population, are female. Approximately 79.3 per cent. were Black, 9.0 per cent. were Coloured, 2.6 per cent. were Indian/Asian and 9.1 per cent. were White.

South Africa's most recent phase of economic growth, which was its longest expansionary period on record, began in September 1999 and came to an end in the fourth quarter of 2008, when the economy experienced a seasonally adjusted and annualized contraction in real GDP for the quarter. Interruptions in electricity supply in 2008, together with a general cooling off of consumption by households, partly related to high debt levels, tighter interest rate policies and reduced consumer confidence, contributed to a loss of economic momentum, which was exacerbated by the global downturn. As a result, South Africa experienced further quarterly annualized contractions in real GDP and its first recession in 17 years, with real GDP contracting by an annualized 4.5 per cent. in the first half of calendar year 2009.

According to Statistics South Africa, South Africa's real GDP contracted at an annualised rate of 3.0 per cent. in the second quarter of 2009. The 2009 MTBPS South African real GDP growth projections estimate a contraction of 1.9 per cent. in 2009, 1.5 per cent. growth in 2010, and 3.2 per cent. growth in 2012. This period of economic contraction is likely to be characterized by rising unemployment, declining business profitability and the closure of some companies.

As in many other economies, the Government has taken steps to mitigate the impact of the global crisis on the economy through more expansionary fiscal and monetary policies and measures to support ailing industries. Healthy public finances and strong partnerships with business and labour have facilitated the Government's actions to reduce the impact of the crisis. Short-term initiatives included R6.1 billion set aside to assist distressed companies in combating the effect of the economic turmoil, and an additional R 2 billion being allocated to support rural development. The principal aim of these interventions is to assist labour intensive industries (including agriculture, clothing, manufacturing and services industries) in an attempt to preserve jobs.

The Government had, prior to the global crisis, embarked on an extensive infrastructure development programme, which has mitigated the impact of the global crisis on South Africa's economy although it could not fully offset the dramatic decline in external demand. In a continuation and expansion of its infrastructure development programme, infrastructure investments totaling R 872 billion between Financial Year 2010 and Financial Year 2012 are planned to stimulate growth and development and reduce bottlenecks in the economy. The investment will mainly be used to finance public transportation, roads and rail networks, provincial infrastructure projects as well as municipal infrastructure and bulk water systems. Gross fixed capital formation by the public sector increased from 5.9 per cent. of GDP in the second quarter of calendar year 2007 to 9.4 per cent. in the same period of calendar year 2009. In addition, the Government plans to shift resources to higher priorities, including job creation, education, health, rural development and fighting crime and corruption.

The contraction in GDP negatively impacted total employment, which declined by 5.3 per cent. in the third quarter of calendar year 2009 compared with the previous year. Job creation is expected to lag the return to economic growth. A declining inflation rate, coupled with deteriorating domestic economic conditions, prompted the Monetary Policy Committee of the SARB to lower interest rates by 500 basis points between December 2008 and August 2009. In September 2009, inflation was 6.1 per cent., remaining outside of the SARB's target range of 3-6 per cent. However, in October 2009, the CPI, for the first time in 31 months fell within the SARB's inflation target range at 5.9 per cent.

South Africa's response to the global downturn takes account of several factors including (i) slowing export demand is leading to a contraction of production and employment in certain sectors, (ii) the extent of the drop in global demand is such that it cannot easily be off-set in a relatively small economy such as South Africa's, (iii) a substantial infrastructure spending increase is already built into the Government's expenditure plans and (iv) it is costly to raise financing in the present circumstances as global capital markets strongly favor reserve currencies such as the U.S. dollar and the Euro. However, steps taken since 1996 to reduce public debt, and hence debt interest costs, have provided the required flexibility to manage the effects of the present downturn.

In February 2009, the Government, mindful of the deteriorating economic environment, and the need to bolster confidence, improve infrastructure and combat the negative impact of the slowdown, announced an expansionary budget ("**2009-2010 National Budget**"), which provided for a national government deficit of 3.8 per cent of GDP in Financial Year 2010. Concurrently, the borrowing requirement of the non-financial public sector was projected to rise to 7.5 per cent of the GDP, almost double its value in Financial Year 2009. While recently expansionary policies have been embraced by fiscal authorities in most parts of the world, South Africa was in a favourable position because it did not first need to design and gear up for new expenditure programmes, having already embarked on a much needed infrastructure drive that was gaining momentum.

The improvement in the trade deficit and in the negative balance on the services account (principally as a result of lower dividend payments to non-resident investors in South African equity securities) resulted in a narrowing of the deficit on the current account of the balance of payments from 7.8 per cent. of GDP for the third quarter to 5.8 per cent. of GDP for the fourth quarter. Notwithstanding this improvement, the current account deficit for 2008 as a whole edged slightly higher to 7.4 per cent. compared with 7.3 per cent. recorded in 2007. The deficit on the current account of the balance of payments deteriorated from 5.8 per cent. of GDP in the fourth quarter of 2008 to 7.0 per cent. in the first quarter of 2009. The deficit on the current account continued to be financed through savings from abroad amid less favourable conditions in world financial markets.

Tax reforms designed to decrease income tax rates while broadening the tax base have led to significant tax revenue growth in recent years, with general Government tax revenue increasing every year from Financial Year 1995 to Financial Year 2007. However, since peaking in Financial Year 2008, tax revenue has fallen, with the greatest declines in value added tax receipts, company taxes and trade taxes. The main budget revenue outcome of R 608.3 billion for Financial Year 2009 was R 17 billion lower than the original budget estimate of R 625.4 billion, and R 2.8 billion lower than the revised estimate of R 611.1 billion published in the 2009-2010 Budget.

However, tax revenue is expected to reach 26.2 per cent. of GDP by Financial Year 2013, driven by a recovery in household consumption and corporate profits, and supported by measures to broaden the tax base and improve tax compliance.

Prior to the economic downturn, strong revenue growth resulted in a rising tax-to-GDP ratio. The slowdown in economic activity has meant a significant reversal of cyclical revenue income and a widening of the budget deficit for Financial Year 2010. Over the next three years, the deficit is expected to recover along with the recovery in revenue and the economy. The Government continues to strike a balance between the sustainability of financing government priorities and the impact of the tax burden and changes in debt stock on economic activity. The budget deficit is expected to increase from 1.0 per cent. of GDP in Financial Year 2009 to 7.6 per cent. of GDP in Financial Year 2010. The deficit is projected to fall gradually after Financial Year 2010, resulting in an average budget deficit of 5.5 per cent. of GDP across Financial Years 2010, 2011 and 2012. The budget deficits is expected to be financed primarily through increased domestic and international borrowing.

Against this background, South Africa continues to address a legacy of great divisions within the population, largely along racial lines, which have taken a heavy toll on human development and the economy. These divisions are evidenced by the chronically high formal sector unemployment rate (which the official estimate puts at 23.6 per cent. as of June 2009) and the widely divergent nature of the economy, in which vast sections of the populace still suffer significant inadequacies in areas such as housing, sanitation, healthcare and education, while a minority enjoys the benefits associated with a highly developed society. The Government has expressed its firm intent to continue to address South Africa's social and developmental challenges within a consistent, growth-oriented fiscal and budgetary framework.

The economic challenges facing South Africa are to support the economy in a sustainable fashion through the economic downturn while continuing to meet the Government's commitments and spending priorities, which include broadening participation, increasing service delivery, minimizing the effects of the global recession, extending opportunities to all, strengthening industrial development and trade performance and accelerating the pace of job creation and employment. These challenges are planned to be met, in part, through sound tax policy and the stabilization of public spending within a fiscal framework that takes international and domestic risks into account.

Government and Political Parties

Under the Constitution, the executive authority of the Government is vested in the President, who serves as both Head of State and Head of Government. The President must be elected by a majority vote of the members of the National Assembly following which the President must resign his or her seat in the National Assembly. Thabo Mbeki of the African National Congress ("**ANC**") succeeded Nelson Mandela as President after the June 1999 elections and served as President following the 2004 elections until September 2008. On 20 September 2008, after the ANC announced its decision to recall President Thabo Mbeki from office, President Mbeki resigned and Cabinet member Kgalema Motlanthe was sworn in as president on 25 September 2008. On 9 May 2009, following the ANC's victory in the April 2009 national elections, Jacob Zuma was inaugurated as the fourth democratically elected President of South Africa, with Kgalema Motlanthe as his deputy. Although the newly-elected administration has repeatedly indicated that there will be no shift in economic policy, the impact of the change in administration on African Bank's business is uncertain.

Broad Based Black Economic Empowerment

Broad based black economic empowerment ("**BBBEE**") is a core tenet of the Government's initiative to address the economic exclusion of previously disadvantaged South Africans by encouraging the redistribution of wealth and opportunities to such persons. As part of this initiative, the Government enacted the Broad Based Black Economic Empowerment Act of 2003 ("**BBBEE Act**"), which became effective in April 2004. For purposes of the BBBEE Act, "black people" is a generic term which means Africans, coloureds and Indians. On 18 June 2008, the High Court of South Africa ordered that South African Chinese be included within the ambit of the BBBEE Act. The BBBEE Act aims to facilitate BBBEE by promoting economic transformation to allow meaningful participation by black people in the economy; changing the racial composition of ownership and management structures in enterprises; promoting investment programmes that lead to BBBEE; enabling access to economic activities, infrastructure and skills for black women and rural and local communities; increasing the extent in which workers, communities, cooperatives own and manage enterprises; and promoting access to finance for black economic empowerment.

The Department of Trade and Industry has, as empowered by the BBBEE Act, issued Codes of Good Practice ("**Codes**") on Black Economic Empowerment ("**BEE**"). The Codes, which were promulgated on 9 February 2007, must, as far as is reasonably possible, be applied by every organ of the Government and local government and every public entity in issuing licenses, implementing procurement policies, determining qualification criteria for the sale of state-owned enterprises and developing criteria for entering into public private partnerships. The Codes cover concepts such as the measurement of ownership and management control, preferential procurement, employment equity, skills development, enterprise development, residual (industry specific and corporate social investment initiatives), and also qualifying small enterprise sections. Other issues covered include fronting practices, specified verification issues relating to the complex structures, multinationals and state-owned/public entities. These Codes, which are subject to review by the Minister of Finance in 2017, are intended to encourage both public and private entities, through the issuing of licenses, concessions, sale of assets and preferential procurement, to implement appropriate BEE initiatives.

The BBBEE Act places a legal obligation on state agencies to contribute to BBBEE, including when developing and implementing their preferential procurement policies. The existing Preferential Procurement Policy Framework Act No. 5 of 2000 ("**PPPFA**") has had to be amended in order to align it with the BBBEE Act and the Codes. The draft amended PPPFA was gazetted for public comment on 20 August 2009. The draft PPPFA provides that all spheres of government must have a mechanism in place that would bring about categories of preference in contract allocation when procuring goods and services to advance previously disadvantaged individuals.

Land Reform

Land reform in South Africa is a complex issue, due both to the apartheid era's legacy of dispossessing black South Africans of their land and to current human development challenges. The Government seeks to, within the framework of the judicial process and the Constitution's protection of private property rights, facilitate the equitable transfer of land to South Africans who were previously dispossessed of their land as a result of the land dispossession policies of the previous regime in South Africa.

Mining Industry Reform

Mining in South Africa has historically been undertaken largely by the private sector. The most important mining houses in South Africa include Anglo American plc, De Beers Corporation, Anglovaal Mining Limited, BHP Billiton SA, Gold Fields Limited, Impala Platinum Holdings Limited, Xstrata plc and Rand Mines. These corporations, together with their affiliates, are responsible for the majority of the gold, diamond, uranium, zinc, lead, platinum, coal and silver production in South Africa.

As of June 2009, over 494,000 people were directly employed by the mining sector, of which over 169,000 were employed in the gold mining industry. As of December 2007, there were 1,515 registered mines and quarries in South Africa.

The Government enacted the Mineral and Petroleum Resources Development Act ("**MPRDA**") in 2002. The MPRDA recognizes the state's sovereignty and custodianship over the country's mineral resources. The MPRDA also provides for equitable access to mineral resources, expands opportunities for historically disadvantaged individuals, and promotes economic growth, employment and socio-economic welfare, and security of tenure. The function of processing and finalizing applications and monitoring the evaluations of rights under the MPRDA is entrusted to the Minister of Mineral Resources. In granting rights to historically disadvantaged individuals, the Minister's objective for Financial Year 2009 was to grant 27 such rights. The actual number of rights granted was 152. In the case of rights granted to women-led entities, the Minister granted 34 rights, far exceeding its original target of 18. By the end of March 2009, the Department of Mineral Resources had received 20,163 applications, of which 16,190 were accepted, 3,653 were rejected and 5,805 were issued. The success of the MPRDA is demonstrated by the fact that by mid-2008, employment figures in the industry reached the half million mark for the first time in many years and, whereas only one junior mining company existed at the time the MPRDA was passed, by mid-2008 there were 21 junior mining companies.

The Minister of Mineral Resources (formerly the Minister of Minerals and Energy) and representatives of certain mining companies and the National Union of Mineworkers developed the Broad Based Socio-Economic Empowerment Charter for the South African Mining Industry in October 2002 (the "**Mining Charter**"), as required in terms of the MPRDA.

The Mining Charter required that by August 2009, 40 per cent. of management should consist of historically disadvantaged individuals, and that, within the same timeframe, women should comprise 10 per cent. of the overall labour force in the mining industry.

The Mining Charter further mandates that 26 per cent. of industry assets be transferred to historically disadvantaged individuals by 2014. To ensure that substantive progress is made, the industry aimed to achieve 15 per cent. of this target by August 2009. As a result, several large BBBEE mining deals were concluded by various mining companies in the gold, platinum and coal sectors.

The Mining Charter is presently under review, as is required by its terms. The process is expected to be concluded by the end of Financial Year 2010.

The Department of Mineral Resources (formerly the Department of Minerals and Energy) has passed the MPRDA Amendment Act 2008 on 21 April 2009 which will come into effect on a date still to be determined by the President by proclamation in the Government gazette, including the extent to which the aims and targets of the MPRDA have been achieved thus far. The MPRDA Amendment Act brings about improvements to the MPRDA framework aimed at policy certainty as well as promoting investments in the mining sector. The MPRDA Amendment Act also deals with the challenges of implementing the MPRDA, and has, as its main objective, implementing technical improvements to the MPRDA to improve efficiency in the management of the country's mineral resources. The MPRDA Amendment Act also seeks to improve the handling of residual stockpiles and residue deposits. It also streamlines the process of getting ministerial approval for concessions, transfers and other grants aimed at promoting and protecting new entrants into the mining industry. In addition, the Government will evaluate the mining industry's performance in achieving the various targets set out in the Mining Charter.

On 29 April 2009, Codes of Good Practice for the South African Minerals Industry together with Housing and Living Standards for the Minerals Industry were gazetted.

Crime Prevention

Reduced levels of criminal violence are expected to continue to be important determinants of private sector confidence, foreign direct investment and sustainable economic growth in South Africa. The fight against crime has been identified as one of the five key priorities of the Government.

Crime prevention and internal security in South Africa are primarily the responsibility of the South African Police Service.

Reducing the levels of serious and violent crime remains a top priority of the Government. The budget allocation was R 31 billion in Financial Year 2006, R 34.6 billion in Financial Year 2007, R 38.7 billion in Financial Year 2008, and R44.4 billion in Financial Year 2009. The Financial Year 2010 budget allocation is R 49.4 billion and is expected to reach R 59.1 billion by Financial Year 2012.

To improve the capacity of the South African Police Service to perform its functions at ports of entry and exit, sector policing at station level and the 2010 FIFA World Cup, security personnel numbers have been increasing and are expected to reach 192,000 by March 2010, and approximately 201,000 by the end of March 2011. An additional 22,447 police personnel are planned to be recruited by Financial Year 2013, primarily to strengthen the detective services and crime intelligence. This would increase the number of police personnel from 185,313 at present to 207,760 in Financial Year 2013.

The fight against organised crime previously fell within the mandate of the Directorate of Special Operations ("**DSO**"), also known as the "Scorpions". In 2001, the DSO was established as a division of the National Prosecuting Authority in order to act as a multidisciplinary agency in the investigation and prosecution of organized crime and corruption. Their mandate was focused on the four strategic areas of organized crime, organized corruption, serious and complex financial crime, racketeering and money laundering.

International Relations

After becoming a republic in 1961, South Africa became increasingly politically isolated from other nations and subject to economic, cultural and political sanctions by the international community because of the apartheid system. With the transition to democracy, South Africa has re-established its links with the outside world.

South Africa was a founding member of the United Nations ("**UN**") in 1945. In 1994, it resumed its seat in the UN General Assembly, from which it had been prevented from participating since 1974. South Africa was elected as a non-permanent member of the UN Security Council for a two-year period, which ended on 31 December 2008.

South Africa is also a founding member of the World Trade Organization, the International Monetary Fund and the World Bank, and joined the World Bank's private investment arm, the International Finance Corporation, in 1957.

South Africa is a member, and the first chair, of the New Partnership for Africa's Development, a policy framework for Africa's development approved by several African leaders in 2001. South Africa promotes the interests of developing countries with regard to poverty reduction, debt relief and the democratisation of international relations through its work at the G-20, participation in the IMF and discussions with the Group of Eight Industrialised Countries (G-8) at their summits.

HIV and AIDS

The socio-economic impact of the HIV and AIDS epidemic on South Africa is significant and the Government has made the curtailment and treatment of this disease a high priority. This is part of the multi-pronged strategy to improve public health services which also includes hospital revitalization, increasing the numbers of public health workers and levels of remuneration of such workers, the introduction of new-generation child vaccines as well as improved infectious disease and tuberculosis control Programmes.

The strategic focus of the Department of Health is to strengthen HIV prevention and AIDS-related disease management and control, which remains one of the priorities of the National Government. A multi-sectoral strategic approach is adopted in dealing with the spread of HIV and mitigating the impact of AIDS-related morbidity and mortality. This approach is intended to ensure that all relevant stakeholders play an active role in combating HIV and AIDS.

Accordingly, during calendar 2007, the National Strategic Plan ("**NSP**") was launched. The NSP covers the period of 2007 to 2011. The plan consists of 18 high level goals and hundreds of sub-objectives. The broad groups of intervention are:

- prevention;
- treatment, care and support;
- research, monitoring and surveillance; and
- human rights and access to justice.

The NSP spells out clear, quantified targets and places a high priority on monitoring and evaluation. The primary goals are to reduce the rate of new HIV infections by 50 per cent. by 2011 and to mitigate the impact of AIDS on individuals, families and communities. It provides a package of treatment, care and support services, which include counseling and testing services, healthy lifestyle intervention and nutritional support in order to meets these targets.

HIV rates are declining due to prevention and an increase in treatment, which is primarily attributed to a recent increase in the number of facilities providing antiretroviral therapy. Statistics South Africa has estimated that by mid-year in 2009, 5.2 million or 10.6 per cent. of the population was living with HIV in South Africa. According to the National HIV and Syphilis Antenatal Sero-Prevalence Survey (2008), the Department of Health estimates that there were an estimated 5.3 million HIV positive people in South Africa.

By 2009, 96 per cent. of public health facilities offered voluntary counseling and testing services which is a marked improvement from the 64 per cent. of facilities offering these services in 2005.

The NSP states that the epidemics of tuberculosis and HIV are linked, with 50-80 per cent. of tuberculosis patients being HIV positive in Southern Africa. The high overall prevalence of HIV in South Africa has thus contributed to an increasing incidence of active tuberculosis, including multi drug resistant tuberculosis and extreme multi-drug resistant tuberculosis.

South African Economy

The South African economy accounts for a third of sub-Saharan Africa's GDP.

The South African economy varies widely, ranging from “first-world” levels of development to an informal sector typical of developing countries, and to urban shantytowns and subsistence agriculture. Inequality in the economy is a primary legacy of the apartheid era, in which Government expenditures were channelled to whites in preference to other racial groups. For example, as of 30 June 2009, unemployment among the economically active white population was 4.6 per cent., whereas the unemployment rate among the economically active blacks was 27.9 per cent. In the period from 1995-2008, there was a 52.8 per cent. rise in employment of blacks between the ages of 15 to 65 years, being the largest percentage increase of any racial group. There is a small but rapidly growing black middle class. Research indicates that the number of black middle class households has risen by 30 per cent. with their numbers increasing from 2 million to 2.6 million. Their collective spending power has increased from R 130 billion to R 180 billion. Nevertheless, the Government continues to seek measures to redress imbalances in the economy through various initiatives, including its policy of BBBEE.

GDP

After 40 quarters of uninterrupted economic growth, South Africa's real GDP contracted at a seasonally adjusted and annualized rate of 1.8 per cent. in the fourth quarter of 2008. In the first half of 2009, real GDP contracted further at an annualized rate of 4.5 per cent. This could be attributed to the sharp and synchronized decline in global economic activity during the second half of calendar year 2008, which continued into the first half of calendar year 2009. The 2009 MTBPS South African real GDP growth projections estimate a contraction of 1.9 per cent. in 2009, 1.5 per cent. growth in 2010, and 3.2 per cent. growth in 2012.

Prior to the current downturn, real GDP had increased at an annualized rate of about 4 per cent. from the final quarter of 1999 to the final quarter of 2007, the longest upward trend identified since the dating of business cycles began in 1945. This was notably higher than the growth rate of 3.1 per cent. registered in the upward phases from 1986 to 1989 and 3.7 per cent. registered from 1993 to 1996, but less than the growth rate of 5.3 per cent. attained in the upward phases from 1978 to 1981 and 6.4 per cent. from 1983 to 1984. Real growth ran out of steam in the first three quarters of 2008, falling below trend and signaling the onset of a downswing, which intensified as growth subsequently turned negative. On balance, the level of real GDP in the second quarter of 2009 shrank by 3 per cent. compared with its recent peak in the third quarter of 2008, reflecting the negative impact of the deep recession in the world economy.

A sectoral analysis shows that during the prolonged 1999 to 2007 upward trend, the growth in real GDP was widely spread among the main sectors, with the exception of the mining industry where production, on balance, rose very little. By contrast, real value added by the secondary and tertiary sectors increased at average annualized rates of 4.5 per cent. and 4.7 per cent., respectively. The onset of the current downward phase of the business cycle mainly manifested itself in declines in real value added by the manufacturing and commerce sectors, and in the further deterioration in mining production in the course of 2008. By the early months of 2009, the adverse impact of the recession was clearly evident as the declines in real value added became broad-based. Consequently, with the exception of construction, and community, social and personal services, all other sectors of the economy contracted in the first half of 2009 when compared with their counterparts in the second half of 2008.

The following table sets out nominal and real GDP and expenditures for the periods indicated:

	As of and for the year ended December 31,				As of and for the six-month period ended
	2005	2006	2007	2008	30 June 2009[(1)]
GDP Summary					
Nominal GDP (*Rand millions*) at market prices........	1,543,976	1,745,217	1,999,086	2,283,777	2,328,668
Real GDP (*Rand millions*) at 2000 prices	1,114,758	1,174,078	1,233,930	1,271,717	1,245,732
Real GDP Growth (percentages)..............................	5.0	5.3	5.1	3.1	(1.8)
Population (million)	47.4	48.0	48.6	49.1	49.5
Per Capita GDP (nominal)	32,604	36,381	41,173	46,507	47,050
Per Capita GDP (real)	23,540	24,475	25,414	25,897	25,170

(1) First half of 2009, seasonally adjusted and annualized.
Source: SARB and Statistics South Africa.

Principal Sectors of the Economy

The following table sets forth real gross value added (GVA) for the periods indicated:

Real Gross Value Added By Sector (at basic prices)

	For the year ended December 31,				
	2006	2007	2008	2009[(1)]	Contribution in 2009
			(Rand millions)		
Manufacturing...	191,234	199,785	202,116	177,957	15.6
Finance, insurance, real estate and business services.......................................	227,598	243,118	255,378	256,044	22.5
General government....................................	148,399	153,961	160,013	164,199	14.4
Wholesale and retail trade, catering and accommodation	165,804	174,479	175,436	171,299	15.1
Transport, storage and communication	116,232	122,705	127,552	128,270	11.3
Mining and quarrying..................................	68,591	68,570	64,145	58,472	5.1
Agriculture, forestry and fishing	27,493	28,283	33,592	34,988	3.1
Electricity, gas and water	24,926	25,683	25,376	24,748	2.2
Construction (contractors)...........................	35,494	41,552	47,322	51,802	4.6
Other producers and services (personal services)..	63,170	65,703	68,382	70,161	6.2
Gross value added at basic prices................	1,068,941	1,123,839	1,159,312	1,137,940	100.0

Mining and Quarrying

South Africa's mineral wealth is found in diverse geological formations, some of which are unique and very extensive by world standards. In terms of mining production, the most important of these formations is the Witwatersrand Basin in Gauteng, which yields approximately 93 per cent. of South Africa's gold output as well as much of its uranium, silver, pyrite and osmiridium. The Transvaal Supergroup, also in Gauteng Province, contains large deposits of manganese and iron ore and the Bushveld Complex of the Gauteng, Mpumalanga and North West provinces holds a large percentage of the world's reserves of a number of important minerals, including platinum-group metals, chromium, vanadium, nickel, copper, fluorspar and andalusite.

South Africa holds approximately 72.4 per cent. of the world's chrome ore reserves and 87.7 per cent. of the world's platinum-group metals reserves. South Africa's reserves of platinum, chromite and gold constitute an important global mineral source. The deposits of manganese ore in the Northern Cape are the largest proven reserve bases in the world, totalling approximately 4 billion tonnes. South Africa also has substantial reserves of other important industrial metals and minerals, including alumino-silicates, antimony, coal, fluorspar, lead, nickel, phosphates, titanium, uranium, vanadium, vermiculite, zinc and zirconium.

South Africa's total primary mineral sales increased by 15.4 per cent. to R 224.3 billion in calendar year 2007 compared to calendar year 2006 and increased again to a total of R 300.3 billion in calendar year 2008 compared to calendar year 2007.

As a result of its reserve base, South Africa is a large-scale mineral producer and to a large degree self-sufficient with respect to the supply of minerals. However, some minerals and mineral products need to be imported. The country is the leading world supplier, and contributes in excess of 30 per cent. of the world's total, of chrome ore, manganese, ferrochrome, platinum-group metals, titanium, vanadium, vermiculite and zirconium.

South Africa is the world's sixth largest producer of natural diamonds, measured in carats, after Russia, the Democratic Republic of Congo, Botswana, Australia and Canada. A high percentage of the country's production is of gem and near-gem quality.

During calendar year 2008, the mining sector directly employed 518,519 workers, an increase of 23,369 from the 495,150 employees in 2007. As of June 2009, the mining and quarrying sector directly employed 494,000 workers, a decrease from the number of employees employed in 2008. In calendar year 2008 approximately 53 different minerals were produced from 1,515 mines and quarries, of which 52 produced gold, 35 produced platinum-group minerals (“**PGMs**”), 100 produced coal and 394 produced diamonds.

South Africa's mineral industry is export-oriented. The South African mining industry is a leading exporter of vanadium, PGMs, gold, ferrochromium, chrome ore and manganese ore. Other important export commodities include ferro-manganese, fluorspar, coal and titanium minerals. Mineral export sales accounted for approximately 30.8 per cent. of total export revenues in calendar year 2008. The most important export destination for South Africa's primary minerals remained Europe with 79.3 per cent., while Pacific Rim countries exceeded all other destinations and accounted for 42.6 per cent. of the selected processed minerals.

The real value added by the mining sector declined in both calendar year 2006 and 2007, and contracted at a seasonally adjusted annualized rate of 11.6 per cent. in the first half of calendar year 2008, despite record high international commodity prices. The sizeable decline in real output by the mining sector occurred predominantly in the sub-sectors for platinum, gold and diamond mining. Production volumes were directly affected by rolling electricity blackouts and rationing in early calendar year 2008, which gave rise to a one week shutdown of mining operations in the first quarter of the calendar year. The mining sector was exposed to rising input costs, occasional flooding, industrial action and skills shortages, all of which were exacerbated by the demand for skilled labour arising from other capital projects, including those geared towards the 2010 FIFA World Cup. In addition, certain gold mines were subject to sporadic shutdowns due to safety audits.

The unadjusted real value added by the mining and quarrying industry for the second quarter of 2009 decreased by 9.5 per cent. compared to the second quarter of 2008, while the seasonally adjusted real value added by the mining and quarrying industry increased at an annualized rate of 5.5 per cent. during the second quarter of 2009 compared to the first quarter of 2009. The increase in the seasonally adjusted real value added by the mining and quarrying industry was mainly due to the increase reflected in the mining of other metal ores (including platinum) and other mining and quarrying (including diamonds).

By contrast, real value added by the coal mining industry advanced partly due to increased demand from Eskom's power stations to replenish severely depleted coal stockpiles. The coal mining industry is also less electricity intensive compared to other sub-sectors in the mining industry.

The gold sector has been declining steadily since calendar year 1994, mainly due to falling grades and the challenges of aging infrastructure in deep mines, a unique phenomenon for South African mines. In calendar year 2008 the electricity crisis was also blamed for the output reduction. In calendar year

2008, South Africa's gold production totaled 213 tons, a 16 per cent. decline when compared to the 254 tons produced in calendar year 2007. Solutions including new ways to mine the country's remaining gold are planned to be investigated. South Africa's PGMs (which include platinum, palladium, rhodium, ruthenium and osmium) production also decreased from 311 tons in calendar year 2007 to 276 in calendar year 2008, mainly due to the energy crisis in South Africa. The diamond industry was also affected severely by the global economic recession as demand for luxury goods decreased drastically. This prompted mining companies to reduce production severely and even close mines in late-2008 and early-2009. De Beers, the primary producer of rough diamonds in South Africa, cut production by 60 per cent.

Monetary and Financial System

The South African financial system consists of banks and non-bank financial institutions such as investment funds, portfolio management companies, securities investment firms, insurance companies, development funding institutions and pension funds.

South African Reserve Bank (SARB)

The SARB is the central bank of South Africa. The SARB's independence is enshrined in the Constitution and is subject only to acts of Parliament and to regular consultation with the Minister of Finance. The principal responsibilities of the SARB include: formulating and implementing monetary policy; issuing banknotes and coins; acting as banker to the Government; acting as a bank to banks licensed under the Banks Act 1990; providing facilities for the clearing and settlement of claims between banks; acting as custodian of the country's gold and other foreign reserves; acting as a lender of last resort; conducting open-market operations; supervising banks; supervising large primary co-operative banks, secondary and tertiary co-operative banks collecting, processing and interpreting economic statistics and related information; and formulating and implementing exchange rate policies in cooperation with the Minister of Finance and the National Treasury.

Unlike many other central banks, shares in the SARB are held privately, with none held by the Government.

Monetary Policy

The main objective of the SARB's monetary policy has been the pursuit of price stability. This policy forms part of broader macroeconomic policies of the Government by creating a stable financial environment and improving the standard of living of all inhabitants of the country. The SARB does not have fixed exchange rate targets and allows the Rand to float freely against international currencies.

Having reached a plateau at a level of 12 per cent. from early June to early December 2008, the repurchase rate was reduced by 50 basis points on 12 December 2008, and by a further 100 basis points each at four of the meetings of the Monetary Policy Committee ("**MPC**") that took place in the first half of 2009. The improved medium-term outlook for inflation and the widening output gap were a key motivation underlying the decisions taken during the MPC meetings. After leaving it unchanged in its July meeting, the MPC lowered the repurchase rate by 50 basis points to 7.0 per cent. in August 2009 and kept at that level in the ensuing three MPC meetings to November 2009. Although cost-push pressures in the economy continued to pose risks to the inflation outlook, the MPC decided to keep the monetary policy stance unchanged because the risks to the inflation outlook appeared to be fairly evenly balanced. The frequency of the meetings for most of 2009 changed from bi-monthly to monthly (excluding July 2009) in order to monitor and respond appropriately to the rapidly changing economic environment. However, in the MPC meeting held on 17 November 2009, the MPC, in its first meeting under the newly appointed Governor Gill Marcus, decided to revert back to its policy of meeting every alternate month, as the global economic environment appeared to have stabilized.

During the calendar year 2009, monetary policy has been faced with new challenges. For the first time since the introduction of the inflation-targeting framework in 2000, monetary policy had to be implemented in the context of a domestic recession against a backdrop of the severe synchronized downturn in the world economy. At the same time inflation remained well above the upper end of the inflation target range, and despite the downside pressures, targeted inflation was only moderating at a very slow rate. CPIX inflation (the year-on-year change in the headline CPI excluding mortgage interest cost) peaked at 13.6 per cent. in August 2008 and declined to 10.3 per cent. by December 2008. With the publication in March 2009 of the reweighed and rebased inflation measure, headline CPI inflation for all urban areas was adopted as the new inflation targeting measure, with the target range remaining at 3 per cent. to 6 per cent.

CPI measured 8.1 per cent. in January 2009, but increased to 8.6 per cent. in February 2009 and declined gradually thereafter. By August 2009, the year-on-year CPI inflation was 6.4 per cent.; in September 2009, it was 6.1 per cent. and in October 2009, the CPI, for the first time in 31 months fell within the SARB's inflation target range at 5.9 per cent.

In its role of implementing monetary policy, the SARB monitors and influences conditions in the South African money and credit markets and affects interest rates, growth in lending and growth of deposits. The SARB uses open-market operations to determine the amount of liquidity made available to banks on a weekly basis in repurchase transactions. The interest rate for such repurchase transactions is set by the SARB's Monetary Policy Committee ("**MPC**") and has a significant impact on all short-term interest rates in the economy. The monetary policy stance is decided at the bi-monthly meetings of the MPC. There exists, however, a continuous process of review that takes new information and developments into consideration.

Foreign Trade

South Africa's imports and exports (including gold) accounted for roughly 63.2 per cent. of GDP in calendar year 2008. South Africa's trade deficit narrowed from 2.0 per cent. in 2007 to 1.6 per cent. in 2008.

Exports

South Africa's exports have traditionally consisted largely of primary products, especially mining products, with gold, diamonds, platinum group metals, coal and iron exported in large quantities.

The value of South Africa's merchandise exports, which had experienced an upward trend between calendar year 1997 and 2002, decreased by 12.5 per cent. in calendar year 2003 before increasing again in the following years up to the second half of calendar year 2008. The upward trend was reversed in the fourth quarter of 2008 when the value of South Africa's merchandise exports declined by 6.3 per cent., after which it declined further by 19.8 per cent. and 6.3 per cent. in the first and second quarters of 2009, respectively. The increases in the value of merchandise exports were boosted by increased export volumes of 8.3 per cent. in calendar 2007 and 4.0 per cent. in 2008. For the first half of 2009, export volumes were sharply down from the levels recorded in 2008. This was mostly due to the weak economic activity experienced in the wake of the global financial crisis. Export prices, expressed in Rand, increased by 13.9 per cent. in calendar year 2007, 28.4 per cent. in calendar year 2008 and by a 2 per cent. in the first quarter of 2009.

For 2007 as a whole, net proceeds from gold exports increased by 12.5 per cent., although export volumes declined by 5.5 per cent. This is a result of a combination of difficult gold mining conditions limiting supply, strong price growth caused by dollar weakening and the associated increase in the global appetite to hedge investments in secure commodities.

Imports

Firm and sustained growth in domestic expenditure and high oil volumes contributed to the physical quantity of imports rising by a sizeable 11.1 per cent. in calendar year 2005, 20.6 per cent. in calendar year 2006 and a further 11 per cent. in calendar year 2007. Volumes increased further by almost 4 per cent. in the first half of 2008 as a result of ongoing infrastructural investment. Volumes started to decline in the last quarter of 2008. Subdued domestic demand conditions alongside weak business and consumer confidence levels gave rise to the third consecutive quarterly decline in the volume of merchandise imports in the second quarter of 2009. The contraction in the physical quantity of merchandise imports gained further momentum as various private-sector capital expenditure projects were postponed in view of the fall in global demand. Consistent with the slowdown in gross fixed capital formation, the imports, especially machinery and electrical equipment, and those of vehicles and transport equipment receded strongly in the second quarter of 2009. In addition, the imports of intermediate and consumer goods also tapered off. Overall, the volume of imported goods shrank for the third consecutive quarter, declining by 15.5 per cent. in the second quarter of 2009. Relative to gross domestic expenditure, the volume of merchandise imports decreased from 24.4 per cent. in the first quarter of 2009 to 21.4 per cent. in the second quarter, significantly lower than the most recent peak of 28.1 per cent. recorded in the third quarter of 2008. Over the same period, the strengthening of the exchange value of the Rand more than offset the moderate increase in the international price of crude oil and other import commodities, leading to a decline of 7 per cent. in the Rand price of merchandise imports. The value of imported goods accordingly dropped by 21.4 per cent. from R 643 billion in the first quarter of 2009 to R 505 billion in the second quarter.

Public Enterprises

The Government owns a number of public enterprises (otherwise known as state-owned entities). The Ministers under whose departments these enterprises fall act as the "Executive Authority" over these entities, taking up the role of shareholder on behalf of government. The Ministers that act as the Executive Authority include the Minister of Public Enterprises, the Minister of Communications, the Minister of Energy, the Minister of Transport and various other Ministers of the National Government. The relevant Executive Authority oversees the affairs of the public enterprise, including the appointment of board members, the entering into of shareholder compacts with the public enterprise, approving major transactions, and the monitoring of performance. The National Treasury is responsible for financial oversight over all the public enterprises, including the review of major transactions, funding requests and applications for guarantees.

The infrastructure investment programmes of the public enterprises, in addition to delivering infrastructure to enhance economic growth and alleviate poverty are a key component of the government stimulus package aimed at mitigating the effects of the global economic recession on the South African economy. Public enterprises are expected to invest a total of R 652.0 billion over the next five Financial Years in infrastructure.

Debt Record

On 1 September 1985, in response to a foreign currency liquidity crisis, South Africa prohibited repayments of certain foreign indebtedness to foreign creditors, while interest payments were made as they became due. Final settlement of affected indebtedness was agreed in 1993. Other than this situation, South Africa has not defaulted in the payment of principal or interest on any of its internal or external indebtedness since becoming a Republic in 1961.

THE BANKING SECTOR IN SOUTH AFRICA

The South African banking system is well developed and effectively regulated, comprising a central bank, several large, financially strong banks and investment institutions, and a number of smaller banks. Many foreign banks and investment institutions have also established operations in South Africa over the past decade. The Government is a subscriber to the International Monetary Fund ("**IMF**") and World Bank regulations and policies. South African banks are regulated by the Banking Supervision Department of the SARB and are required to comply with the Regulations Relating to Banks. South Africa is a member of the International Liaison Group of the Basel Committee.

The National Payment System Act 1998 was introduced to bring the South African financial settlement system in line with international practice and systematic risk management procedures. The Payment Association of South Africa, under the supervision of the SARB, has facilitated the introduction of payment clearing house agreements. It has also introduced agreements pertaining to settlement, clearing and netting agreements, and rules to create certainty and reduce systemic and other risks in interbank settlement. These developments have brought South Africa in line with international interbank settlement practice. Electronic banking facilities are extensive, with a nationwide network of automatic teller machines ("**ATMs**") and internet banking being available.

South Africa is considered to have a sophisticated financial system and banking sector which compares favourably with those of other industrialised countries.

Regulation

Financial regulation in South Africa is currently performed by several agencies. Financial regulation legislation in South Africa is increasingly following international best practice through the accords of international bodies such as the Bank of International Settlements ("**BIS**"), the International Organization of Securities Commissions ("**IOSCO**") and the International Association of Insurance Supervisors ("**IAIS**"). Banks in South Africa are governed by various acts and legislation, most significantly the Banks Act, which is primarily based on similar legislation in the United Kingdom, Australia and Canada.

As a result of the increasingly diversified business activities of South African banks and their central role in the provision of credit in the retail market, legislation aimed at protecting certain types of consumers has been enacted in South Africa. The NCA regulates, among others, the granting of consumer credit and advanced standards of consumer information and has made significant changes to the interest, costs and fees which retail banks and other credit providers may charge consumers in South Africa. The maximum prescribed interest rates which may be levied on credit agreements are set out in the regulations to the NCA. The NCA further stipulates a closed list of costs and fees which may be recovered under a credit agreement in addition to the capital amount and interest. These are an initiation fee, a monthly service fee, default administration costs and collection costs. Other charges which may be applicable are strictly regulated and may only be levied if specifically listed in the NCA, and to the extent permitted. The NCA also requires each credit provider to register with the National Credit Regulator. In addition, certain credit agreements which contain unlawful provisions in terms of the NCA could potentially be rendered *void ab initio*.

The South African Competition Commission launched an independent public enquiry into particular aspects of competition in retail banking and the national payment system in South Africa in August 2006 (the "**Enquiry**"). The broad focus of the Enquiry was on:

(a) ATM fees, customer allocation, penalty fees which may be charged for unpaid debit orders and other related issues;

(b) payment cards and interchange fees;

(c) the National Payment System; and

(d) pricing behaviour and market power.

In December 2008, the Enquiry panel published its full report. At the same time, the formation of an inter-governmental steering committee was announced. The steering committee is led by the National Treasury and will determine the official regulatory response to the Enquiry recommendations.

SARB

SARB is responsible for bank regulation and supervision in South Africa with the purpose of achieving a sound, efficient banking system in the interest of the depositors of banks and the economy as a whole. It performs this function through the Office of the Registrar of Banks which issues banking licences to institutions and monitors their activities under the applicable legislation. The Registrar of Banks has extensive regulatory and supervisory powers. Every bank is obliged to furnish certain prescribed returns to the Registrar of Banks in order to enable him to monitor compliance with the formal, prudential and other requirements imposed on banks by, *inter alia*, the Banks Act. Such regulations may be and are amended from time to time in order to provide for amendments and additions to the prescribed returns, and the frequency of submission thereof. The Registrar of Banks acts with relative autonomy in executing his duties, but has to report annually to the Minister of Finance, who in turn has to table this report in Parliament. The extent of supervision entails the establishment of certain capital and liquidity requirements and the continuous monitoring of bank's adherence to legal requirements and other guidelines. The performance of individual banks is also monitored on an ongoing basis against developments in the banking sector as a whole. If deemed necessary, inspectors can be appointed to inspect the affairs of any bank, or any institution or person not registered as a bank if there is reason to suspect that such an institution or person is carrying on the business of banking.

Currently the banking industry works within a three tiered framework, namely, the Banks Act, the Regulations Relating to Banks and circulars to the Banks Act. Effecting changes to the Banks Act requires Parliamentary approval and changes to the Regulations Relating to Banks require the approval of the Minister of Finance. The Steering Committee of the Accord Implementation Forum has proposed that the third tier be expanded to include guidance notes to detail agreed market practice. These guidance notes will not empower the regulator to create regulations but will provide for more flexibility in clarifying market practice within the confines of the Banks Act and regulations as agreed between market participants (*Accord Implementation Forum Steering Committee* Position Paper 63).

The prescriptions contained in Basel II necessitated a review of banking regulation in South Africa. In particular, certain provisions of the Banks Act were amended, with effect from 1 January 2008, as read with the Regulations Relating to Banks, in order, among other things, to provide for the issue by a bank of:

- specified "hybrid-debt instruments", substantially on the terms and conditions set out in Regulation 38(13) (as amended) of the Regulations Relating to Banks, and for the proceeds of the issue of such specified "hybrid-debt instruments" to qualify as Primary Share Capital;
- "hybrid-debt instruments", substantially on the terms and conditions set out in Regulation 38(14)(a) of the Regulations Relating to Banks, and for the proceeds of the issue of such "hybrid-debt instruments" to qualify as secondary capital;
- term debt instruments, substantially on the terms and conditions set out in Regulation 38(14)(b) of the Regulations Relating to Banks, and for the proceeds of the issue of such term debt instruments to qualify as secondary capital;
- debt instruments, substantially on the terms and conditions set out in Regulation 38(16) of the Regulations Relating to Banks, and for the proceeds of the issue of such debt instruments to qualify as Tertiary Capital.

The Issuer holds a full banking licence issued by the Registrar of Banks and is an authorised financial services provider licensed by the Registrar of Financial Services Providers.

The Banks Act, the Regulations Relating to Banks and the circulars issued by the Registrar of Banks set out the framework governing the formal relationship between South African banks and SARB. Pursuant to this legislation, the Issuer and representatives of the Registrar of Banks meet at regular bi-lateral meetings, annual trilateral meetings (with the Issuer's auditors) and annual prudential meetings. The Issuer also engages in regular "group discussions" with the Registrar of Banks to assess its performance against its peer group and it is subject to on-site reviews.

The Issuer's relationship with the Registrar of Banks is managed by a dedicated compliance department (which reports to the ABIL group risk officer) to ensure open, constructive and transparent lines of communication. Informal meetings, updates, trends and strategies are reported to the Registrar of Banks on a regular basis. The Issuer also employs a senior, independent compliance officer to ensure adherence to the applicable legislation.

The Issuer views its relationship with the Registrar of Banks as being of the utmost importance and it is committed to fostering sound banking principles for the industry as a whole. In this regard, the Issuer is a member of the Banking Association of South Africa whose role is to establish and maintain the best possible platform on which banking groups can conduct competitive, profitable and responsible banking.

EXCHANGE CONTROLS

The information below is not intended as legal advice and it does not purport to describe all the considerations that may be relevant to a prospective investor in the Notes. Prospective investors in the Notes who are non-South African residents or emigrants from the Common Monetary Area (as defined below) are urged to seek further professional advice with regard to the purchase of Notes.

Exchange controls restrict the export of capital from South Africa, Namibia and the Kingdoms of Swaziland and Lesotho (collectively the "**Common Monetary Area**"). These exchange controls are administered by ExCon and regulate transactions involving South African residents. The purpose of exchange controls is to mitigate the decline of foreign capital reserves in South Africa. The Issuer expects that South African exchange controls will continue to operate for the foreseeable future. The Government has, however, committed itself to relaxing exchange controls gradually and significant relaxation has occurred in recent years. It is the stated objective of the South African authorities to achieve equality of treatment between South African residents and non-South African residents in relation to inflows and outflows of capital. This gradual approach towards the abolition of exchange controls adopted by the Government is designed to allow the economy to adjust more smoothly to the removal of controls that have been in place for a considerable period of time.

African Bank has obtained the written approval from ExCon to borrow a maximum of US$1,000,000,000 in the foreign debt capital markets without the prior reference to ExCon which approval is valid for a period of one year (the first such approval period ending on 31 March 2011). The approval is granted conditional upon, amongst others, the Notes issued having a three, four or five year maturity period and the Issuer furnishing ExCon with details of the capital raised from, and the relevant interest or coupon payable on, any issue of Notes.

After 31 March 2011 no further Notes may be issued without further prior approval of ExCon. In regard to future applications, ExCon may seek to impose different or further conditions on the issue of each Tranche of Notes under the Programme, but this is not currently anticipated.

In addition, non-South African residents and/or their offshore subsidiaries may, without the prior written approval of ExCon, subscribe for or purchase any Note or beneficially hold or own any Note.

South African residents and their offshore subsidiaries may not subscribe for or purchase Notes without the prior approval of ExCon, with the exception of:

- South African Institutional Investors;
- South African authorised dealers in foreign exchange,

who may subscribe for or purchase Notes by utilising their pre-approved prudential offshore allowances or applicable prudential limits, as the case may be. Such Institutional Investors and authorised dealers are urged to seek further professional advice with regard to any such subscription or purchase.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms, which will be incorporated by reference into each Global Certificate, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Certificate(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the relevant Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on the Certificates relating to such Notes. All capitalised terms that are not defined in these terms and conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Certificates. References in these terms and conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are issued pursuant to an Agency Agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated on or around 2 July 2010 between the Issuer, Citibank N.A., London Branch as fiscal agent and transfer agent, and Citigroup Global Markets Deutschland AG as registrar and with the benefit of a Deed of Covenant (as amended or supplemented as at the Issue Date, the "**Deed of Covenant**") dated on or around 2 July 2010 executed by the Issuer in relation to the Notes. The fiscal agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent), the "**Registrar**", the "**Transfer Agents**" and the "**Calculation Agent(s)**", and which expressions include any successor fiscal agent, registrar, paying agent, transfer agent and calculation agent or additional agent appointed from time to time in connection with the Notes and, together, the "**Agent(s)**". References herein to the "Agents" are to the Registrar, the Fiscal Agent, the Paying Agents and the Transfer Agents and any references to an "Agent" is to any one of them.

The Noteholders are bound by, and deemed to have notice of, all of the provisions of the Agency Agreement and the Deed of Covenant applicable to them.

Capitalised terms have the meanings given to them in the relevant Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes. Defined terms used herein have the meanings set out in Condition 18 (*Definitions*) hereof.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents, the initial specified offices of which are set out in the Agency Agreement.

1. Form, Denomination and Title

The Notes are in registered form in the Specified Denomination(s) shown in the relevant Final Terms and may be held in holdings equal to any specified minimum amount and integral multiples equal to any specified increment (each, an "**Authorised Holding**"). In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes). All Notes shall have the same Specified Denomination.

This Note is a Senior Note or a Subordinated Note, as indicated in the relevant Final Terms. This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index-Linked Interest Note, an Index-Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the relevant Final Terms.

Notes are Certificates and, save as provided in Condition 2 (*Transfers of Notes*), each Certificate shall represent the entire holding of Notes by the same holder. Each Certificate will be numbered serially with an identifying number which will be recorded in the Register.

Title to the Notes shall pass by registration in the Register maintained by the Registrar in accordance with the provisions of the Agency Agreement. Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of the related Certificate, other than the endorsed form of transfer, and no Person shall be liable for so treating the holder.

2. Transfers of Notes

(a) **Transfer of Notes**: Subject to Conditions 2(e) (*Regulations Concerning Transfers and Registration*) and 2(f) (*Closed Periods*), Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the relevant Certificate representing such Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided*, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. In the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Notes to a Person who is already a holder of Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(b) **Exercise of Options or Partial Redemption**: In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a redemption of, some only of a holding of Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent.

(c) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Conditions 2(a) (*Transfer of Notes*) or (b) (*Exercise of Options or Partial Redemption*) shall be available for delivery within five business days of receipt of the request for exchange, form of transfer or Exercise Notice (as defined in Condition 6(f)(ii) (*Redemption at the Option of Noteholders – Exercise Notice*)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery (at the risk of such holder) and/or such insurance as it may specify. In this Condition 2(c), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business (including dealings in foreign currencies) in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) **Exchange and Transfer Free of Charge**: The exchange and transfer of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(e) **Regulations Concerning Transfers and Registration**: All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(f) **Closed Periods**: No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(e) (*Redemption at the Option of the Issuer*), (iii) after any such Note has been called for redemption by the Issuer pursuant to Condition 6(e) (*Redemption at the Option of the Issuer*) or (iv) during the period of seven days ending on (and including) any Record Date.

3. Status

(a) **Status of the Senior Notes**: The Senior Notes constitute direct, unconditional and (subject to Condition 4 (*Negative Pledge*)) unsecured obligations of the Issuer which will at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application and subject to Condition 4 (*Negative Pledge*), at all times rank at least *pari passu* with all other unsecured and unsubordinated indebtedness and other monetary obligations of the Issuer, present and future.

(b) **Status of the Subordinated Notes**: The Subordinated Notes constitute direct, unconditional, subordinated and unsecured obligations of the Issuer which will at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Subordinated Notes shall, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application and subject to Condition 4 (*Negative Pledge*), at all times rank at least *pari passu* with all other unsecured and subordinated indebtedness and other monetary obligations of the Issuer, present and future.

Subject to applicable law, in the event of the dissolution of the Issuer or if the Issuer is placed into liquidation or wound up, the claims of the Persons entitled to be paid amounts due in respect of the Subordinated Notes shall be subordinated to all other claims in respect of any other indebtedness of the Issuer except for other Subordinated Indebtedness (as defined below). Accordingly, in any such event no amount shall be eligible for set-off or shall be payable to any or all of the Persons entitled to be paid amounts due in respect of the Subordinated Notes in respect of the obligations of the Issuer thereunder until all other indebtedness of the Issuer which is admissible in any such dissolution, insolvency or winding-up (other than Subordinated Indebtedness) has been paid or discharged in full.

(c) **Capital Regulations and Additional Conditions**: In order for the proceeds of the issue of any Subordinated Notes to qualify as Secondary Capital, such Notes must comply with the applicable Capital Regulations (including the Additional Conditions (if any) prescribed by the Registrar of Banks in respect of a particular Tranche of Subordinated Notes). The Issuer will specify in the relevant Final Terms whether, in respect of any issue of Subordinated Notes, the proceeds thereof are intended to qualify as Secondary Capital. The Additional Conditions (if any) prescribed by the Registrar of Banks in respect of Subordinated Notes will, where necessary, be specified in the relevant Final Terms or in a supplement to the Base Prospectus.

4. Negative Pledge

This Condition 4 applies only to Senior Notes. So long as any Senior Notes remain outstanding, the Issuer will not create, or have outstanding any Security Interest upon any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness without at the same time or prior thereto according to the Senior Notes the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by

Extraordinary Resolution of the Noteholders, unless the provision of any such security is waived by an Extraordinary Resolution of the Noteholders.

5. Interest and Other Calculations

(a) **Interest on Fixed Rate Notes**: Each Fixed Rate Note bears interest on its outstanding principal amount from the Interest Commencement Date at the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h) (*Calculations*).

(b) **Interest on Floating Rate Notes and Index-Linked Interest Notes:**

(i) *Interest Payment Dates*: Each Floating Rate Note and each Index-Linked Interest Note bears interest on its outstanding principal amount from the Interest Commencement Date at the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h) (*Calculations*).

(ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, such date shall be adjusted in accordance with the relevant Business Day Convention.

(iii) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the relevant Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as the sum of the Margin and the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as a Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified in the relevant Final Terms;

(y) the Designated Maturity is a period specified in the relevant Final Terms; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Final Terms.

For the purposes of this sub-paragraph (A), "Floating Rate", "Floating Rate Option", "Designated Maturity" and "Reset Date" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LlBOR or Brussels time in the case of EURlBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the relevant Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the relevant Final Terms.

(y) If the Relevant Screen Page is not available or if sub-paragraph (x)(l) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.00 a.m. (London time, if the Reference Rate is LIBOR or Brussels time, if the Reference Rate is EURIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

(z) If paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at approximately 11.00 a.m. (London time, if the Reference Rate is LIBOR or Brussels time, if the Reference Rate is EURIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London interbank market or, if the Reference Rate is EURIBOR, the Euro-zone interbank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11.00 a.m. (London time, if the Reference Rate is LIBOR or Brussels time, if the Reference Rate is EURIBOR), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London interbank market or, if the Reference Rate is EURIBOR, the Euro-zone interbank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(iv) *Rate of Interest for Index-Linked Interest Notes*: The Rate of Interest in respect of Index-Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified in the relevant Final Terms and interest will accrue by reference to an Index or Formula as specified in the relevant Final Terms.

(c) **Zero Coupon Notes**: If the Redemption Amount of a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, or improperly withheld or refused, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield.

(d) **Dual Currency Notes**: In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a rate of exchange or a method of calculating a rate of exchange, the rate or amount of interest payable shall be determined in the manner specified in the relevant Final Terms.

(e) **Partly Paid Notes**: In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up principal amount of such Notes and otherwise as specified in the relevant Final Terms.

(f) **Accrual of Interest**: Interest shall cease to accrue on each Note from the due date for redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which event it shall continue to bear interest in accordance with Condition 5 (*Interest and Other Calculations*) (after as well as before judgement) at the Rate of Interest in the manner provided in this Condition 5 (*Interest and Other Calculations*) to the Relevant Date (as defined in Condition 8 (*Taxation*)).

(g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**

(i) If any Margin is specified in the relevant Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with

Condition 5(b) (*Interest on Floating Rate Notes and Index-Linked Interest Notes*) by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

(ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified in the relevant Final Terms, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries, as the case may be, of such currency.

(h) **Calculations**: The amount of interest payable in respect of each Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the relevant Final Terms, and the Day Count Fraction for such Interest Accrual Period, and rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose, a "**sub-unit**" means, in the case of any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of Euro, means one cent., provided that where an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts**: The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any other determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final

Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other competent authority so require, such exchange or other competent authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii) (*Business Day Convention*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10 (*Events of Default*), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) **Calculation Agent**: The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the relevant Final Terms and for so long as any Note is outstanding (as defined in the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. Redemption, Purchase and Options

(a) Redemption by Instalments and Final Redemption:

(i) *Final Redemption*: Unless previously redeemed, or purchased and cancelled, each Note will be finally redeemed on the Maturity Date specified in the relevant Final Terms at its Final Redemption Amount or, in the case of a Note falling within paragraph (ii) below, its final Instalment Amount.

(ii) *Redemption by Instalments*: Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified in the relevant Final Terms. The outstanding principal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the principal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(b) **Early Redemption:**

(i) Zero Coupon Notes:

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*) shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the relevant Final Terms.

(B) Subject to the provisions of sub-paragraph (C) below, the amortised face amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield set out in the relevant Final Terms (which, if none is shown in the relevant Final Terms, shall be such rate as would produce an amortised face amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually (the "**Amortised Face Amount**").

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*) is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgement) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(f) (*Accrual of Interest*).

Where such calculation is to be a made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the relevant Final Terms.

(ii) *Other Notes*: The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or Condition 6(d) (*Redemption for Regulatory Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*), shall be the Final Redemption Amount unless otherwise specified in the relevant Final Terms.

(c) **Redemption for Taxation Reasons**: The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if such Note is either a Floating Rate Note, an Index-Linked Note or a Dual Currency Note) or at any time (if such Note is neither a Floating Rate Note, an Index-Linked Note nor a Dual Currency Note), on giving not less than 15 nor more than 30 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b)(ii) (*Other Notes*)) (together with interest accrued to the date fixed for redemption), if a Tax Event occurs and is continuing, provided, however, that:

(i) where the Notes may be redeemed at any time, no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due or would not be entitled (or such entitlement is materially reduced) to claim a deduction in computing its taxation liabilities, or

(ii) where the Notes may be redeemed only on an Interest Payment Date, no such notice of redemption shall be given earlier than 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or would not be entitled (or such entitlement is materially reduced) to claim a deduction in computing its taxation liabilities.

Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent a certificate signed by two duly authorised officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal or tax advisers of recognised standing to the effect that a Tax Event has occurred.

(d) **Redemption for Regulatory Reasons**: If so specified in the relevant Final Terms, a Series of Subordinated Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if such Note is either a Floating Rate Note, an Index-Linked Note or a Dual Currency Note) or at any time (if such Note is neither a Floating Rate Note, an Index-Linked Note nor a Dual Currency Note), on giving not less than 15 nor more than 30 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b)(ii) (*Other Notes*)) (together with interest accrued to the date fixed for redemption), if a Regulatory Event occurs and is continuing.

Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent (i) a certificate signed by two duly authorised officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (ii) unless the Registrar of Banks has confirmed to the Issuer that the proceeds of the issue of the Relevant Notes are not eligible to qualify as Secondary Capital of the Issuer or the Controlling Company on a solo and/or a consolidated basis, an opinion of independent advisers of recognised standing to the effect that a Regulatory Event has occurred.

(e) **Redemption at the Option of the Issuer**: If Call Option is specified in the relevant Final Terms, the Issuer may (if this Note is a Subordinated Note, only with the prior written consent of the South African Registrar of Banks), on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified in the relevant Final Terms) redeem all or, if so provided, part of the Notes on any Optional Redemption Date (Call). Any such redemption of Notes shall be at their Optional Redemption Amount (Call) together with interest accrued (if any) to such date.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also specify the principal amount of Notes drawn and the holder(s) of such Notes to be redeemed, which shall have been drawn in such place and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(f) **Redemption at the Option of Noteholders**:

(i) *Put Option*: If Put Option is specified in the relevant Final Terms, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in the relevant Final Terms), redeem such Note on the Optional

Redemption Date(s) (Put) specified in the relevant Exercise Notice at its Optional Redemption Amount together (if applicable) with interest accrued (if any) to the date fixed for redemption.

(ii) *Exercise Notice*: In order to exercise the option contained in Condition 6(f)(i) (*Put Option*), the holder must, not less than 15 nor more than 30 days before the relevant Option Redemption Date (Put) deposit the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the relevant period. No Note or Certificate so deposited and option so exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(g) **Partly Paid Notes**: Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified in the relevant Final Terms.

(h) **Purchases**: The Issuer and any Subsidiary may at any time purchase Notes in the open market or otherwise at any price. Notes so purchased, while held by or on behalf of the Issuer or any Subsidiary, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating the quorum at any meeting of Noteholders or for the purposes of Conditions 10 (*Events of Default*) and 11(a) (*Meetings of Noteholders*).

(i) **Cancellation**: All Notes purchased by or on behalf of the Issuer or any Subsidiary may be surrendered for cancellation by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7. Payments

(a) **Principal and Interest:**

(i) *Principal*: Payments of principal (which for the purposes of this Condition 7(a) shall include final Instalment Amounts but not other Instalment Amounts) shall be made against presentation and surrender or, in the case of part payment of any sum due, endorsement, of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) *Interest*: Interest (which for the purpose of this Condition 7(a) shall include all Instalment Amounts other than final Instalment Amounts) shall be paid to the Person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Note shall be made in the relevant currency by cheque drawn on a Bank and mailed (at the holder's risk) to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(b) **Payments subject to fiscal laws**: All payments are subject in all cases to any applicable laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Appointment of Agents**: The Agents initially appointed by the Issuer and their respective specified offices are listed below. The Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right at any time to vary or terminate the appointment of any of the Agents and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Notes, (iii) a Transfer Agent in relation to Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) a Paying Agent having its specified offices in London so long as the Notes are admitted to the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's Regulated Market, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(d) **Non-Business Days**: If any date for payment in respect of any Note is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" in the relevant Final Terms and:

(i) (in the case of a payment in a currency other than Euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in Euro) which is a TARGET Business Day.

8. Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within South Africa or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note:

(a) to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with South Africa other than the mere holding of the Note; or

(b) presented or (if applicable) surrendered (or (if applicable) in respect of which the relevant Certificate is presented or (if applicable) surrendered) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting or, as the case may be, surrendering it for payment on such thirtieth day; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented or (if applicable) surrendered (or (if applicable) in respect of which the relevant Certificate is presented or (if applicable) surrendered) for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting or, as the case may be, surrendering the relevant Certificate to another Paying Agent in a Member State of the European Union.

If the Issuer becomes subject generally at any time to any taxing jurisdiction, authority or agency other than or in addition to South Africa, references in this Condition 8 and in Condition 6(c) (*Redemption for Taxation Reasons*) to South Africa shall be read and construed as references to South Africa and/or to such other jurisdiction, authority or agency.

9. Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. Events of Default

(a) **Senior Notes**: If any of the following events occurs, the holder of any Senior Note may by written notice addressed by the holder thereof to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, declare that such Senior Note is immediately due and repayable, whereupon the Early Redemption Amount of such Senior Note together with accrued interest to the date of redemption shall become immediately due and payable, unless such Event of Default shall have been remedied prior to the receipt of such notice by the Fiscal Agent:

(i) **Non-Payment**: default is made for more than five Business Days in the payment on the due date of principal or interest in respect of any of the Notes; or

(ii) **Breach of Other Obligations**: the Issuer does not perform or comply with any one or more of its other obligations under or in respect of the Notes and such default is incapable of remedy or is not remedied within 30 calendar days after written notice of such default addressed to the Issuer shall have been delivered to the Issuer or the Fiscal Agent at its specified office by any Noteholder; or

(iii) **Cross-Acceleration**: the Issuer or any Material Subsidiary defaults in the payment of the principal or interest or any obligations in respect of Borrowed Money (as defined below) of, or assumed, guaranteed or indemnified by, the Issuer or any Material Subsidiary when and as the same shall become due and payable (or, as the case may be, within any applicable grace period) or where notice has been given to the Issuer or any Material Subsidiary, as the case may be, of the default and if such default shall have continued for more than the notice period (if any) applicable thereto and the time for payment of such interest or principal has not been effectively extended or if any such obligations of, or assumed, guaranteed or indemnified by, the Issuer or any Material Subsidiary shall have become repayable before the due date thereof as a result of acceleration of maturity by reason of the occurrence of any event of default or the like (howsoever described) thereunder; or

(iv) **Authorisations and Consents**: any action, condition or thing including the obtaining of any consent, licence, approval or authorisation now or hereafter necessary to enable the Issuer to comply with its obligations under the Notes is not taken, fulfilled or done, or any such consent, licence, approval or authorisation, shall be revoked, modified, withdrawn or withheld or shall cease to remain in full force and effect resulting in (i) the Issuer being unable to perform any of its payment or other obligations under the terms of the Notes, (ii) the Issuer’s obligations under the Notes not being legally binding and enforceable, or (iii) the Notes not being admissible in evidence in the courts of South Africa; or

(v) **Insolvency and Winding-Up**: the Issuer or any Material Subsidiary (i) stops or threatens to stop payment of, or is insolvent or bankrupt or unable to, or admits to being unable to pay its debts (or any class of its debts) as they fall due, or is deemed by a court to be insolvent or bankrupt or unable to pay its debts (or any class of its debts); or (ii) is placed in liquidation, dissolved or is wound-up, whether provisionally or finally or is placed under judicial management, whether provisionally or finally or any process similar thereto, or an order is made or an effective resolution is passed for the winding-up, dissolution or liquidation of the

Issuer or any Material Subsidiary save for the purposes of a merger, amalgamation, consolidation, demerger, reconstruction or reorganisation or other similar arrangement within the ABIL Group on terms approved by Extraordinary Resolution of the Noteholders, or (iii) makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of or affecting all or any part of the debts of the Issuer, or any Material Subsidiary; or

(vi) **Security Enforced**: any mortgage, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Material Subsidiary in respect of Borrowed Money of the Issuer or any Material Subsidiary becomes enforceable and the holder thereof has taken any steps to enforce it unless such enforcement is discharged within 45 days or the Issuer is contesting such enforcement in good faith; or

(vii) **Cessation of Business**: the Issuer or any Material Subsidiary ceases or threatens to cease to carry on the whole or a substantial part of its business or disposes of the whole or a substantial part of its business or operations, other than in terms of a merger, amalgamation, consolidation, reconstruction or reorganisation within the ABIL Group on terms approved by Extraordinary Resolution of the Noteholders; or

(viii) **Nationalisation**: any step is taken by or under any authority with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or any of the Issuer or any Material Subsidiary or any of the securities issued by the Issuer or any Material Subsidiary or a material part of the assets of the Issuer or any Material Subsidiary; or

(ix) **Judicial Proceedings**: the Issuer or any Material Subsidiary initiates or consents to judicial proceedings relating to itself under any applicable compromise with creditors, liquidation, winding-up or insolvency or other similar laws or compromises, or attempts to compromise, with its creditors generally (or any significant class of creditors) or any meeting of creditors is convened by the Issuer or any Material Subsidiary to consider a proposal for an arrangement of compromise with its creditors generally (or any significant class of its creditors); or

(x) **Enforcement Proceedings**: proceedings, including, without limitation, distress, attachment, execution or other legal process, are initiated against the Issuer or any Material Subsidiary such that a Person takes possession of the whole or a material part of the undertaking or assets of any of them, or an execution or attachment or other process is levied, enforced upon, sued out or put in force against the whole or a material part of the undertaking or assets of any of them and such is not discharged, withdrawn or stayed within 30 calendar days; or

(xi) **Unlawfulness**: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes; or

(xii) **Analogous Events**: any event occurs which under the laws of South Africa has an analogous effect to any of the events referred to in paragraphs (v)-(x) above.

(b) **Subordinated Notes**: If any of the Events of Default set out in sub-paragraphs (i), (ii), (v), (vii) or (ix) above shall occur, the holder of any Subordinated Note may by written notice addressed by the holder thereof to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, declare that such Subordinated Note is immediately due and repayable, whereupon the Early Redemption Amount of such Subordinated Notes together with accrued interest to the date of redemption shall become immediately due and payable, unless such Event of Default shall have been remedied prior to the receipt of such notice by the Fiscal Agent, provided that no such action may be taken by a holder of a Subordinated Note if the Issuer withholds or refused to make any such payment in order to comply with any law or regulation of South Africa or to comply with any order of a court of competent jurisdiction.

11. Meetings of Noteholders and Modification

(a) **Meetings of Noteholders**: The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more Persons holding or representing a clear majority in aggregate principal amount of the Notes for the time being outstanding, or at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the principal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown in the relevant Final Terms, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (viii) to change the governing law of the Notes, in which case the necessary quorum shall be two or more Persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) **Modification**: The Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Agency Agreement shall only agree to any modification of the Agency Agreement (including any waiver or authorisation of any breach of proposed breach of or any failure to comply with, the Agency Agreement) which is of a formal, minor or technical nature, or is made to correct a manifest error, or which, in the opinion of such parties, could not reasonably be expected to be prejudicial to the interests of the Noteholders.

12. Replacement of Certificates

If a Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Certificate is subsequently presented for payment there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Certificate and otherwise as the Issuer may reasonably require). A mutilated or defaced Certificate must be surrendered before replacements will be issued.

13. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (so that, for the avoidance of doubt, references in the conditions of such notes to "**Issue Date**" shall be to the first issue date of the

Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "**Notes**" shall be construed accordingly.

14. Notices

The Issuer shall ensure that notices are duly published in a manner that complies with any other relevant rules of any stock exchange or other relevant authority on which the Notes are for the time being or by which they have for the time being admitted to trading. Any such notice shall be deemed to have been given on the date of such publication.

15. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

16. Contracts (Rights of Third Parties) Act 1999

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. Governing Law and Jurisdiction

(a) **Governing Law**: The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by, and shall be construed in accordance with, English law, except that Conditions 3(b) (*Status – Subordinated Notes*) and 10(b) (*Events of Default – Subordinated Notes*) shall be governed by and construed in accordance with the laws of South Africa.

(b) **Jurisdiction**: The courts of England have jurisdiction to settle any Disputes and accordingly any Proceedings may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the holders of the Notes only, and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) **Appropriate Forum**: The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Dispute, and agrees not to claim that any such court is not a convenient or appropriate forum.

(d) **Service of Process**: The Issuer appoints Law Debenture Corporate Services Limited of fifth floor, 100 Wood Street, London EC2V 7EX as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with

Condition 14 (*Notices*). Nothing shall affect the right of any Noteholder to serve process in any manner permitted by law.

(e) **Consent to Enforcement etc.:** The Issuer consents generally in respect of any Proceedings anywhere to the giving of any relief or the issue of any process in connection with those Proceedings including (without limitation) the making, enforcement or execution against any assets whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

18. Definitions

In these Conditions, the following expressions have the following meanings:

"**ABIL Group**" means African Bank Investments Limited and all its Subsidiaries.

"**Additional Conditions**" means, in relation to any issue of Notes, the proceeds of which are intended by the Issuer to qualify as Secondary Capital, such conditions (in addition to the conditions specified in the applicable Capital Regulations) as may be prescribed by the Registrar of Banks for the proceeds of the issue of such Notes to qualify as Secondary Capital pursuant to the approval granted by the Registrar of Banks for the issue of such Notes, as specified in the relevant Final Terms.

"**Authorised Holding**" has the meaning set out in Condition 1 (*Form, Denomination and Title*).

"**Banks Act**" means the South African Banks Act 1990.

"**Borrowed Money**" means any present or future borrowed money or other arrangement with the same commercial effect as borrowed money denominated or containing a right or requirement for any payment in respect thereof to be made in any currency and amounting in aggregate to not less than U.S.$10,000,000 (or its equivalent in other currencies).

"**Business Day**" means:

(i) in the case of a currency other than Euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of Euro, a TARGET Business Day; and/or

(iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred *provided, however, that*:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day that is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention.

"**Calculation Agent**" means Citibank N.A., London Branch, as Calculation Agent under the Agency Agreement or such other Calculation Agent(s) as may be appointed under the Agency Agreement from time to time either generally or in relation to a specific issue or Series of Notes.

"**Calculation Amount**" means the amount, if any, specified in the relevant Final Terms.

"**Capital Regulations**" means, at any time, any legislation, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in South Africa in relation to banks registered under the Banks Act and licensed to conduct the business of a bank in South Africa (including the Additional Conditions (if any)).

"**Certificate**" means a registered certificate representing the Notes.

"**Controlling Company**" means ABIL and/or any other company which is a "*controlling company*" in relation to the Issuer as contemplated by the Banks Act.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period of Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/365**" or "**Actual/Actual-ISDA**" is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 360;

(iv) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the relevant Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] - (D_2 - D_1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

if "**30E/360**" or "**Eurobond Basis**" is specified in the relevant Final Terms, the number of days in the Calculation Period divided by 360 , calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] - (D_2 - D_1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

(v) if "**30E/360 (ISDA)"** is specified in the relevant Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] - (D_2 - D_1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D1" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D2 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30; and

(vi) if "**Actual/Actual-ICMA**" is specified in the relevant Final Terms,

(1) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(2) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year.

"**Determination Date**" means the date specified as such in the relevant Final Terms or, if none is so specified, the Interest Payment Date.

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date.

"**Disputes**" means any disputes that may arise out of or in connection with any Notes (including any dispute relating to their existence, validity or termination or any non-contractual obligations arising out of or in connection with them).

"**Dual Currency Note**" means a Note specified as such in the relevant Final Terms.

"**Euro-zone**" means the region comprising member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Event of Default**" means any of the events specified in Condition 10(*Events of Default*).

"**Exercise Notice**" has the meaning given thereto in Condition 6(f)(ii) (*Redemption at the Option of Noteholders – Exercise Notice*).

"**Extraordinary Resolution**" has the meaning given thereto in the Agency Agreement.

"**Fixed Coupon Amount**" means the amount, if any, specified in the relevant Final Terms.

"**Fixed Interest Payment Date**" means the date, if any, specified in the relevant Final Terms.

"**Fixed Rate Note**" means a Note paying a fixed rate of interest.

"**Floating Rate Note**" means a Note paying a floating rate of interest.

“**Index-Linked Interest Note**” means a Note the interest in respect of which is linked to an index.

“**Index-Linked Redemption Note**” means a Note the redemption amount in respect of which is linked to an index.

“**Instalment Amount**” means the amount (if any) specified as such in the relevant Final Terms.

“**Instalment Date**” means the date (if any) specified as such in the relevant Final Terms.

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“**Interest Amount**” means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the relevant Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified in the relevant Final Terms as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“**Interest Commencement Date**” means the Issue Date or such other date as may be specified in the relevant Final Terms.

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor Euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is Euro.

“**Interest Payment Date**” means the first Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case).

“**Interest Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the First Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“**Interest Period Date**” means each Interest Payment Date unless otherwise specified in the relevant Final Terms.

“**ISDA Definitions**” means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the relevant Series (as specified in the relevant Final Terms)) as published by the

International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Final Terms.

"**Material Subsidiary**" means a Subsidiary which represents more than 10% of the total assets of the Issuer as reflected in the Issuer's most recent consolidated audited financial statements.

"**Noteholder**" and "**holder**" means the Person in whose name a Note is registered (or, in the case of a joint holding, the first named thereof).

"**outstanding**" has the meaning set out in the Agency Agreement.

"**Partly Paid Note**" means a Note specified as such in the relevant Final Terms.

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency provided, however, that:

(i) in relation to Euros, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(ii) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent.

"**Proceedings**" means any legal action or proceedings arising out of or in connection with any Notes.

"**Prospectus Directive**" means Directive 2003/71/EC.

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of this Note and that is either specified in the relevant Final Terms or calculated or determined in accordance with the provisions in the relevant Final Terms.

"**Record Date**" has the meaning given thereto in Condition 7(a)(ii) (*Principal and Interest – Interest*).

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London interbank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone interbank market, and, in the case of any other determination, four major banks in the market most closely connected with the Reference Rate, in each case selected by the Calculation Agent or as specified in the relevant Final Terms.

"**Reference Rate**" means the rate specified as such in the relevant Final Terms.

"**Register**" means the register maintained by the Registrar in accordance with the provisions of the Agency Agreement.

"**Registrar of Banks**" means the South African Registrar of Banks designated under section 4 of the Banks Act;

"**Regulatory Change**" means a change in, or amendment to, the Capital Regulations or any change in their application or in any official or generally published guidance or interpretation of the Capital Regulations, which change or amendment becomes, or would become, effective on or after the date of issue of the first Tranche of the relevant Series.

"**Regulatory Event**" means an event which is deemed to have occurred if, with respect to the Notes of any Series which qualify as Secondary Capital on the date of issue of the first Tranche of Notes of that Series, the proceeds of the issue of the Notes would, as a result of a Regulatory Change, no longer be eligible to qualify (save where such non-qualification arises only as a result of any applicable limitation on the amount of such capital) as Secondary Capital of the Issuer or its Controlling Company on a solo and/or a consolidated basis.

"**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation or, as the case may be, surrender of the relevant Certificate being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 (*Redemption, Purchase and Options*) or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 (*Interest and Other Calculations*) or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under Condition 8 (*Taxation*).

"**Relevant Financial Centre**" has the meaning specified in the relevant Final Terms.

"**Relevant Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are capable of being, quoted, listed or ordinarily dealt in or traded on any stock exchange or other recognised securities market.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

"**Relevant Time**" has the meaning specified in the relevant Final Terms.

"**Secondary Capital**" means "*secondary capital*" as defined in the Banks Act.

"**Security Interest**" means any mortgage, charge, lien, pledge or other security interest, excluding any such mortgage, charge, lien, pledge or other security interest arising out of statutory preferences or by operation of law.

"**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Date, Interest Commencement Date and/or Issue Price.

"**Specified Currency**" means the currency specified as such in the relevant Final Terms or, if none is specified, the currency in which the Notes are denominated.

"**Subordinated Indebtedness**" means any indebtedness of the Issuer, including any guarantee given by the Issuer, under which the right of payment of the Person(s) entitled thereto is, or is expressed to be, or is required by any present or future agreement of the Issuer to be, subordinated to the rights of all unsubordinated creditors of the Issuer in the event of the dissolution, winding-up or placing into liquidation of the Issuer.

"**Subsidiary**" has the meaning set out in Section 1(3) of the South African Companies Act 1973 or as the same may be replaced by Section 3 of the South African Companies Act 2008 (as amended from time to time).

"**TARGET Business Day**" means a day on which the TARGET system is operating.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto.

"**Tax Event**" means an event where, as a result of a Tax Law Change, (i) the Issuer has paid or will or would on the next Interest Payment Date be required to pay additional amounts as provided or referred to in Condition 8 (*Taxation*); or (ii) in respect of the Issuer's obligation to make any payment of interest on the next following Interest Payment Date or any subsequent Interest Payment Date, the Issuer would not be entitled to claim a deduction in computing its taxation liabilities in South Africa, or such entitlement is materially reduced, and in each case the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it (such reasonable measures to exclude any requirement to instigate litigation in respect of any decision of determination of the South African Revenue Service that any such interest does not constitute a tax deductible expense).

"**Tax Law Change**" means a change in, or amendment to, the laws or regulations of South Africa or any authority therein or thereof having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the issue of the first Tranche of Notes of the relevant Series.

"**Tranche**" means Notes which are identical in all respects (including as to listing).

"**Zero Coupon Note**" means a Note specified as such in the relevant Final Terms.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Notes

Upon the registration of Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relevant Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid. Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system as the holder of a Note represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be) for its share of each payment made by the Issuer to the holder of the underlying Notes and in relation to all other rights arising under the Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Certificate and such obligations will be discharged by payment to the holder of the underlying Notes in respect of each amount so paid.

Exchange

If the applicable Final Terms state that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system. Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(a) (*Transfer of Notes*) may only be made:

(i) in whole, but not in part, if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) in whole, or in part, with the Issuer's consent,

provided that, in the case of any transfer pursuant to (i) above, the Noteholder has given the relevant Registrar not less than 30 days' notice at its specified office of the Noteholder's intention to effect such transfer.

Conditions applicable to Global Certificates

The Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Base Prospectus. The following is a summary of certain of those provisions:

Payments

All payments in respect of Notes represented by a Global Certificate will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Certificate to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Certificate, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes.

Record Date

Each payment in respect of a Global Certificate will be made to the person shown as the Noteholder in the Register at the opening of business on the Clearing System Business Day before the due date for such payment (the "**Record Date**"), where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Certificate is being held is open for business.

Prescription

Claims against the Issuer in respect of Notes that are represented by a Global Certificate will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8 (*Taxation*)).

Meetings

The holder of the Notes represented by a Global Certificate shall (unless such Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Notes are entitled to one vote in respect of each Note comprising such Noteholder's holding, whether or not represented by a Global Certificate.

Cancellation

Cancellation of any Note represented by a Global Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by a reduction in the aggregate principal amount of the Certificates in the register of the Noteholders, whereupon the principal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Purchase

Notes represented by a Global Certificate may only be purchased by the Issuer or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

Issuer's Option

Any option provided to the Issuer in the Conditions of any Notes while such Notes are represented by a Global Certificate shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that the Issuer's option is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).

Noteholders' Option

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Global Certificate may be exercised by the holder of the Global Certificate by giving notice to the Fiscal Agent within the time limits relating to the deposit of Notes with a Paying Agent, the Registrar or any Transfer Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent or Transfer Agent, as the case may be, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and shall state the principal amount of Notes in respect of which the option is exercised and at the same time presenting to a Paying Agent acting on behalf of the Fiscal Agent, for notation or, in the case of the Global Certificate, for a reduction in the aggregate principal amount of the Certificate in the register of the Noteholders.

Notices

So long as any Notes are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Certificate.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Base Prospectus, but will be contained in the relevant Final Terms and thereby in the Global Certificates. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Certificate representing such Notes may be exchanged for an interest in Certificates. If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

TAXATION

The following summary of certain South African and European Union consequences of ownership of Notes is based upon laws, regulations, decrees, rulings, income tax conventions, administrative practice and judicial decisions in effect at the date of this Base Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set out herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Notes. This summary does not constitute a legal opinion or tax advice. In addition this summary does not purport to address all tax aspects that may be relevant to a holder of Notes. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of Notes, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Base Prospectus, and of any actual changes in applicable tax laws after such date.

South Africa

Withholding Tax

Under current taxation law in South Africa, all payments made under the Notes to resident and non-resident Noteholders will be made free of withholding or deduction for or on account of any taxes, duties, assessments or governmental charges in South Africa.

Securities Transfer Tax

No securities transfer tax is payable on the issue or transfer of the Notes in terms of the Securities Transfer Tax Act 2007.

Income Tax

Under current taxation law effective in South Africa, a “resident” (as defined in section 1 of the South African Income Tax Act 1962 (the “**Income Tax Act**”)) is subject to income tax on his/her world-wide income. Accordingly, all Noteholders who are tax resident in South Africa will generally be liable to pay income tax, subject to available deductions, allowances and exemptions, on any interest earned in relation to the Notes. Non-residents of South Africa are subject to income tax on all income derived from a South African source (subject to applicable double taxation treaties). Interest income is deemed to be derived from a South African source if it is derived from the utilisation or application in South Africa by any person of funds or credit obtained in terms of any form of “interest-bearing arrangement”. The Notes will constitute an “interest-bearing arrangement”. The place of utilisation or application of funds will, unless the contrary is proved, be deemed, in the case of a juristic person, to be that juristic person's place of effective management. The Issuer has its place of effective management in South Africa as at the date of this Base Prospectus. Accordingly, if the funds raised from the issue of any Tranche of Notes are applied by the Issuer in South Africa, the interest earned by a Noteholder will be deemed to be from a South African source and subject to South African income tax unless such interest income is exempt from South African income tax under section 10(1)(h) of the Income Tax Act (see below).

Under section 10(1)(h) of the Income Tax Act, interest received by or accruing to a Noteholder who, or which, is not a resident of South Africa during any year of assessment is exempt from income tax, unless that person:

(a) is a natural person who was physically present in South Africa for a period exceeding 183 days in aggregate during that year of assessment; or

(b) at any time during that year of assessment carried on business through a permanent establishment in South Africa.

If a Noteholder does not qualify for the exemption under section 10(1)(h) of the Income Tax Act exemption from or reduction of any South African tax liability may be available under an applicable double taxation agreement. Furthermore, certain entities may be exempt from income tax. Purchasers are advised to consult their own professional advisers as to whether the interest income earned on the

Notes will be exempt under section 10(1)(h) of the Income Tax Act or under an applicable double taxation agreement.

In terms of section 24J of the Income Tax Act, broadly speaking, any discount or premium to the principal amount of a Note is treated as part of the interest income on the Note. Interest income which accrues (or is deemed to accrue) to a Noteholder is deemed, in accordance with section 24J of the Income Tax Act, to accrue on a day-to-day basis until that Noteholder disposes of the Note or until maturity unless an election has been made by the Noteholder (if the Noteholder is entitled under Section 24J(9) of the Income Tax Act to make such election) to treat its Notes as trading stock on a mark-to-market basis. This day-to-day basis accrual is determined by calculating the yield to maturity (as defined in Section 24J) and applying this rate to the capital involved for the relevant tax period. The premium or discount is treated as interest for the purposes of the exemption under section 10(1)(h) of the Income Tax Act.

Capital Gains Tax

Capital gains and losses of residents of South Africa on the disposal of Notes are subject to capital gains tax unless the Notes are purchased for re-sale in the short term as part of a scheme of profit making, in which case the proceeds will be subject to income tax. Any discount or premium on acquisition which has already been treated as interest for income tax purposes under section 24J of the Income Tax Act will not be taken into account when determining any capital gain or loss. Under section 24J(4A) of the Income Tax Act a loss on disposal will, to the extent that it has previously been included in taxable income (as interest), be allowed as a deduction from the taxable income of the holder when it is incurred and accordingly will not give rise to a capital loss.

Capital gains tax under the Eighth Schedule to the Income Tax Act will not be levied in relation to Notes disposed of by a person who is not a resident of South Africa unless the Notes disposed of are attributable to a permanent establishment of that person through which a trade is carried on in South Africa during the relevant year of assessment.

Purchasers are advised to consult their own professional advisers as to whether a disposal of Notes will result in a liability to capital gains tax.

Definition of interest

The references to “interest” above mean “interest” as understood in South African tax law. The statements above do not take any account of any different definitions of “interest” or “principal” which may prevail under any other law or which may be created by the Terms and Conditions of the Notes or any related documentation.

European Union

EU Savings Directive

Under the EU Savings Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. Under such withholding system, tax will be deducted at rates rising over time to 35 per cent. unless the recipient of the payment elects instead for an exchange of information procedure. Belgium had previously operated a withholding system in relation to such payments, but has elected to apply the provision of information provisions that apply to the Member States (other than Austria and Luxembourg during the transitional period), with effect from 1 January 2010. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted or agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to, or collected by such a person for, an individual resident in, or certain limited types of entity established in, a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those countries and territories in relation to payments made by a person in a Member State to an individual resident in, or certain limited types of entity established in, one of those countries or territories.

On 13 November 2008, the European Commission published a proposal for amendments to the EU Savings Directive. The proposal included a number of suggested changes which, if implemented, would broaden the scope of the rules described above. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made to the Directive, they may amend or broaden the scope of the requirements described above.

Prospective investors in the Notes should consult their professional advisers if they have concerns about the potential impact of the EU Savings Directive.

SUBSCRIPTION AND SALE

Subject to the terms and on the conditions contained in a distribution agreement dated on or about 2 July 2010 (the "**Distribution Agreement**") between the Issuer, the Permanent Dealers and the Arranger, from time to time the Notes will be offered by the Issuer to the Permanent Dealers, and the Permanent Dealers may agree to purchase such Notes. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Distribution Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Distribution Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Certain of the Dealers and their respective affiliates have, in the past, performed investment banking and advisory services for, and provided credit facilities to, the Issuer for which they have received customary fees and expenses.

Each of the Dealers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer in the ordinary course of their respective businesses. The Issuer may apply all or part of the proceeds of any Notes issued pursuant to the Programme in repayment of all or part of any such credit facilities.

The Distribution Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche.

United States

The Notes have not been and will not be registered under the Securities Act, or any state securities laws, and, unless so registered, may not be offered or sold within the United States or to US persons except in certain transactions exempt from the registration requirements of the Securities Act. The Notes offered hereby are being offered and sold only to non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Distribution Agreement, it will not offer or sell Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering or the closing date of an identifiable tranche of which such Notes are a part, as determined and certified to the Fiscal Agent by such Dealer (or, in the case of an identifiable tranche of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of an identifiable tranche purchased by or through it, in which case the Fiscal Agent shall notify such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, US persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of Notes hereunder, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Public Offer Selling Restriction Under the Prospectus Directive

In relation to each Relevant Member State, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(i) if the Final Terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Final Terms, as applicable;

(ii) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(iii) at any time to any legal entity which has two or more of (a) an average of at least 250 employees during the last financial year; (b) a total balance sheet of more than €43,000,000 and (c) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(iv) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(v) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (ii) to (v) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

(i) in relation to any Notes which have a maturity of less than one year:

    (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business;

    (b) it has not offered or sold and will not offer or sell any Notes other than to persons:

(A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

(B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses;

where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

South Africa

In relation to South Africa, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it will not make an "offer to the public" (as such expression is defined in the SA Companies Act, and which expression includes any section of the public) of Notes (whether for subscription, purchase or sale) in South Africa. This Base Prospectus does not, nor is it intended to, constitute a base prospectus prepared and registered under the SA Companies Act. Accordingly:

(a) no offer of Notes will be made to any person in South Africa, or alternatively

(b) to the extent that any such offer is made, its minimum Specified Denomination shall be R100,000 or such higher amount as may be promulgated by notice in the Government Gazette of South Africa pursuant to Section 144(1)(b) of the SA Companies Act or Section 96(2)(a) of the South African Companies Act of 2008 once in force.

Republic of Italy

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge that the offer of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") (the Italian Securities and Exchange Commission) pursuant to Italian securities legislation and, accordingly, Notes may not be offered, sold or delivered, nor may copies of this Base Prospectus or any other document relating to the Notes be distributed in the Republic of Italy in a public offer at large (*offerta al pubblico*) within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of 24 February 1998, unless an exemption applies. Accordingly, in the Republic of Italy, the Notes:

(a) shall only be offered or sold to qualified investors (operatori qualificati), as defined in Article 2(1)(e) paragraphs of the Prospectus Directive, pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended ("**Financial Services Act**"); or

(b) shall only be offered or sold in circumstances which are exempted from the rules on public offer pursuant to Article 100 of the Financial Services Act and Article 34-ter, of CONSOB Regulation No. 11971 of 14 May 1999, as amended ("**Regulation No. 11971**").

Moreover, and subject to the foregoing, any offer, sale or delivery of the Notes or distribution of copies of this Base Prospectus or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**"), CONSOB Regulation No. 16190 of 29 October 2007 and any other applicable laws and regulations;

(ii) in compliance with any other applicable laws and regulations including any relevant notification or limitations which may be imposed by CONSOB or the Bank of Italy.

Provisions relating to the secondary market

Any investor purchasing the Notes should also note that in connection with the subsequent distribution of Notes (with a minimum denomination lower than €50,000 or its equivalent in another currency) in Italy, in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on solicitation applies under (a) and (b) above, the subsequent distribution of the Notes on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Notes being declared null and void and in the intermediaries transferring the Notes being liable for any damages suffered by potential purchasers.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended, the "**FIEA**") and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5 Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended)) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws, regulations and ministerial guidelines of Japan.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed (and each further Dealer appointed under the Programme will be required to agree) that it will comply with all relevant laws, regulations and directives in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes or publishes this Base Prospectus, any other offering material or any Final Terms (in all cases at its own expense) and neither the Issuer nor any other Dealer shall have responsibility therefor. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expenses.

SERVICE OF PROCESS AND ENFORCEMENT OF LIABILITIES

African Bank is a limited liability company incorporated in South Africa and the majority of its assets are currently located outside the United Kingdom. In addition, the majority of African Bank's directors and executive officers are residents of countries other than the United Kingdom. As a result, it may be impossible for Noteholders to:

- effect service of process within the United Kingdom upon African Bank or any of its directors or executive officers named in this Base Prospectus; or
- enforce, in the English courts, judgments obtained outside English courts against African Bank or any of African Bank's directors and executive officers named in this Base Prospectus.

In addition, it may be difficult for Noteholders to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon English laws.

Choice of law

In any proceedings for the enforcement of the obligations of the Issuer, the South African courts will generally give effect to the choice of foreign law as contemplated in the Notes as the governing law thereof.

Jurisdiction

Subject as set out below, the Company's irrevocable submission under the Notes to the jurisdiction of a foreign court is generally legal, valid, binding and enforceable under the laws of South Africa, and any judgment obtained in the foreign jurisdiction will be recognised and be enforceable by the courts of South Africa without the need for re-examination of the merits. The appointment by the Company of an agent within the jurisdiction of a foreign court to accept service of process in respect of the jurisdiction of the foreign courts is generally valid and binding on the Company.

Under South African law, a court will not accept a complete ouster of jurisdiction, although generally it recognises party autonomy and gives effect to choice of law provisions. However, jurisdiction remains within the purview of the court and a court may, in certain instances, assume jurisdiction provided there are sufficient jurisdictional connecting factors. South African courts may, in rare instances, choose not to give effect to a choice of jurisdiction clause, if, for example, such choice is contrary to public policy. Proceedings before a court of South Africa may be stayed if the subject of the proceedings is concurrently before any other court.

Recognition of foreign judgments

An authenticated judgment obtained in a court of competent jurisdiction other than South Africa will be recognised and enforced by ordinary action in accordance with procedures ordinarily applicable under South African law for the enforcement of foreign judgments; provided that the process is properly served, judgment was pronounced by a proper court of law, was final and conclusive (in the case of a judgment for money, on the face of it), has not become stale, and has not been obtained by fraud or in any manner opposed to natural justice or contrary to the international principles of due process and procedural fairness, the enforcement thereof is not contrary to South African public policy and the foreign court in question had jurisdiction and competence according to the applicable rules on conflict of laws. South African courts will not enforce foreign revenue or penal law and South African courts have, as a matter of public policy, generally not enforced awards for multiple or punitive damages.

Where obligations are to be performed in a jurisdiction outside South Africa they may not be enforceable under the laws of South Africa to the extent that such performance would be illegal or contrary to public policy under the laws of South Africa, or the foreign jurisdiction or to the extent that the law precludes South African courts from granting extra territorial orders.

Under the Recognition and Enforcement of Foreign Arbitral Awards Act 1977 (the "**Enforcement Act**"), any foreign arbitral award may, subject to the provisions of sections 3 and 4 thereof, be made an order of court by any court. Any such award which has been made an order of court pursuant to the provisions of the Enforcement Act may be enforced in the same manner as any judgment or order to the same effect (subject to the provisions of the Protection of Businesses Act 1978, which apply *mutatis mutandis* to foreign arbitral awards).

Effect of liquidation on civil proceedings

In general and subject to certain exceptions, civil proceedings (including arbitration proceedings) instituted by or against an insolvent entity are automatically stayed on the liquidation of the insolvent entity's estate until the appointment of a liquidator. A plaintiff/creditor wishing to continue with such proceedings against the insolvent entity must give notice of its intention to do so within a period of three weeks from the date of the first meeting of creditors, in accordance with the provisions of the Insolvency Act 1936, failing which the proceedings lapse. In circumstances where the court finds that there was a reasonable excuse for a failure to give the requisite notice, it has a discretion to allow a plaintiff/creditor to continue with proceedings on such conditions as it thinks fit. Execution against the insolvent entity's assets is similarly stayed.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non applicable provisions, is set out below:

Final Terms dated [•]

African Bank Limited

Issue of [Aggregate Principal Amount of Tranche] [Title of Notes]

under the U.S.$1,000,000,000

Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") set out in the Base Prospectus dated [•] 2010 [and the supplemental Base Prospectus dated [•]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from [address].

The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set out in the Prospectus dated [original date] [and the supplemental Prospectus dated [•]]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [•]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Prospectus dated [original date] [and the supplemental Prospectus dated [•]] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectuses dated [original date] and [current date] [and the supplemental Prospectuses dated [•] and [•]]. The Prospectuses [and the supplemental Prospectuses] are available for viewing at [address] [and] [website] and copies may be obtained from [address].

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub paragraphs. Italics denote guidance for completing the Final Terms.]

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

1.	Issuer:		African Bank Limited
2.	[(i)]	Series Number:	[•]
	[(ii)	Tranche Number:	[•]
	(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]		

3.	Specified Currency or Currencies:	[•]
4.	Aggregate Principal Amount of Notes:	
	[(i)] Series:	[•]
	[(ii) Tranche:	[•]]
5.	Issue Price:	[•] per cent. of the Aggregate Principal Amount of Notes [plus accrued interest from [insert date] (if applicable)]
6.	(i) Specified Denominations:	[•] *[In the case of any Notes which are to be admitted to trading on a regulated market, or offered to the public, within the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the Notes).]* *[Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise would constitute a contravention of section 19 of the FSMA will have a minimum denomination of £100,000 (or its equivalent in another currency).]*
	(ii) Calculation Amount:	*[If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor.]* *[Note: There must be a common factor in the case of two or more Specified Denominations]*
7.	(i) Issue Date:	[•]
	(ii) Interest Commencement Date:	[•]
8.	Maturity Date:	*[Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*
9.	Interest Basis:	[[•] per cent. Fixed Rate] [[*Specify reference rate*] +/– [•] per cent. Floating Rate] [Zero Coupon] [Index-Linked Interest] [Other (specify)] (further particulars specified below)

10.	Redemption/Payment Basis:	Redemption/Payment Basis: [Redemption at par] [Index-Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (specify)] *[(N.B. If the Final Redemption Amount is less than 100 per cent. of the nominal value, the Notes will constitute derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation No. 809/2004 will apply and the Issuer will prepare and publish a supplement to the Base Prospectus.)]*
11.	Change of Interest or Redemption/Payment Basis:	*[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
12.	Put/Call Options:	[Put Option] [Call Option] [(further particulars specified below)]
13.	[(i)] Status of the Notes:	[Senior] [Subordinated]
	[(ii)] [Date approval for issuance of Notes obtained:	[•] [and [•], respectively] *[(N.B. Only relevant where authorisation is required for the particular tranche of Notes)]*
	[(iii)] Secondary Capital:	[Not Applicable/Applicable – this Note is issued in respect of secondary capital as defined in the Banks Act. The direct or indirect acquisition of this Note by a bank or by a controlling company of a bank, as defined in the Banks Act, or by a non-banking subsidiary of a bank, will result in an impairment to the capital of the bank in question, in an amount determined in accordance with and subject to the regulations to the Banks Act.]
14.	Method of distribution:	[Syndicated/Non syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub paragraphs of this paragraph)*
	(i) Rate[(s)] of Interest:	[•] per cent. per annum [payable [annually/semi annually/quarterly/monthly/other (specify)] in arrear]
	(ii) Interest Payment Date(s):	[•] in each year [adjusted in accordance with [specify Business Day Convention and any

			applicable Business Centre(s) for the definition of "*Business Day*"]/not adjusted]
	(iii)	Fixed Coupon Amount[(s)]:	[•] per Calculation Amount
	(iv)	Broken Amount(s):	[[•] per Calculation Amount payable on the Interest Payment date falling [in/on] [[•]] [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]
	(v)	Day Count Fraction:	[30/360 / Actual/Actual (ICMA/ISDA) / other]
	(vi)	[Determination Dates:	[•] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))]
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
16.	Floating Rate Note Provisions:		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub paragraphs of this paragraph)*
	(i)	Interest Period(s):	[•]
	(ii)	Specified Interest Payment Dates:	[•]
	(iii)	First Interest Payment Date:	[•]
	(iv)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
	(v)	Business Centre(s):	[•]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (give details)]
	(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[•]
	(viii)	Screen Rate Determination:	
		– Reference Rate:	[•]
		– Interest Determination Date(s):	[•]
		– Relevant Screen Page:	[•]

	(ix)	ISDA Determination:	
		– Floating Rate Option:	[•]
		– Designated Maturity:	[•]
		– Reset Date:	[•]
	(x)	Margin(s):	[+/][•] per cent. per annum
	(xi)	Minimum Rate of Interest:	[•] per cent. per annum
	(xii)	Maximum Rate of Interest:	[•] per cent. per annum
	(xiii)	Day Count Fraction:	[•]
	(xiv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[•]
17.	Zero Coupon Note Provisions:		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub paragraphs of this paragraph)*
	(i)	Amortisation Yield:	[•] per cent. per annum
	(ii)	Any other formula/basis of determining amount payable:	[•]
18.	Index-Linked Interest Note/other variable linked interest Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub paragraphs of this paragraph)*
	(i)	Index/Formula/other variable:	*[give or annex details]*
	(ii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[•]
	(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[•]
	(iv)	Interest Determination Date(s):	[•]
	(v)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[•]
	(vi)	Interest Period(s):	[•]
	(vii)	Specified Interest Payment Dates:	[•]

(viii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
(ix)	Business Centre(s):	[•]
(x)	Minimum Rate of Interest:	[•] per cent. per annum
(xi)	Maximum Rate of Interest:	[•] per cent. per annum
(xii)	Day Count Fraction:	[•]

19.	Dual Currency Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub paragraphs of this paragraph)*
(i)	Rate of Exchange/method of calculating Rate of Exchange:	*[give details]*
(ii)	Party, if any, responsible for calculating the principal and/or interest due (if not the [Agent]):	[•]
(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[•]
(iv)	Person at whose option Specified Currency(ies) is/are payable:	[•]

PROVISIONS RELATING TO REDEMPTION

20.	Prior consent of Registrar of Banks for any redemption prior to Maturity Date:	[Applicable/Not Applicable]
21.	Call Option on Tax Event:	[Applicable/Not Applicable] *[for Subordinated Notes, only possible with the prior written approval of the Registrar of Banks]* *(If not applicable, delete the remaining sub paragraphs of this paragraph)*
(i)	Optional Redemption Date(s):	[•]
(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
(iii)	If redeemable in part:	
	(a) Minimum Redemption Amount:	[•] per Calculation Amount
	(b) Maximum Redemption Amount:	[•] per Calculation Amount

	(iv)	Notice period:	[•]
21.	Call Option:		[Applicable/Not Applicable] *[for Subordinated Notes, only possible with the prior written approval of the Registrar of Banks]* *(If not applicable, delete the remaining sub paragraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[•] per Calculation Amount
		(b) Maximum Redemption Amount:	[•] per Calculation Amount
	(iv)	Notice period:	[•]
22.	Put Option:		[Applicable/Not Applicable] *[for Senior Notes only. Not applicable to Subordinated Notes]* *(If not applicable, delete the remaining sub paragraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii)	Notice period:	[•]
23.	Final Redemption Amount of each Note:		[•] per Calculation Amount
	In cases where the Final Redemption Amount is Index-Linked or other variable linked:		*[If the Final Redemption Amount is linked to an underlying reference or security, the Notes will constitute derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation No. 809/2004 will apply and the Issuer will prepare and publish a supplement to the Prospectus which shall constitute a supplementary prospectus pursuant to Prospectus Rule 3-4 and Section 87G of the FSMA.]*
	(i)	Index/Formula/variable:	*[give or annex details]*
	(ii)	Party responsible for calculating the Final Redemption Amount (if not the [Agent]):	[•]

(iii)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[•]
(iv)	Determination Date(s):	[•]
(v)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/ or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[•]
(vi)	Payment Date:	[•]
(vii)	Minimum Final Redemption Amount:	[•] per Calculation Amount
(viii)	Maximum Final Redemption Amount:	[•] per Calculation Amount

24. Early Redemption Amount:

Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[•]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25.	Form of Notes:	Registered Notes Global Certificate exchangeable for individual Certificates in the limited circumstances specified in the Global Certificate
26.	Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/give details]. *[Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 15(ii), 16(v) and 18(ix) relate*]
27.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*]
28.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
29.	Other final terms:	[Not Applicable/*give details*] *(When adding any other final terms consideration*

		should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)

DISTRIBUTION

30. (i)	If syndicated	[Not Applicable/*give names*]
(ii)	Stablising Manager(s) (if any):	[Not Applicable/*give names*]
31.	If non syndicated, name of Dealer:	[Not Applicable/*give names*]
32.	TEFRA:	Not Applicable
33.	Additional selling restrictions:	[Not Applicable/*give details*]

[PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the [specify relevant regulated market] of the Notes described herein pursuant to the U.S.$1,000,000,000 Euro Medium Term Note Programme of African Bank Limited].

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[•] has been extracted from [•]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

By: ________________________________
Duly authorised

By: ________________________________
Duly authorised

PART B – OTHER INFORMATION

1. **LISTING**

(i)	Admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market*] with effect from [•]] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market*] with effect from [•].] [Not Applicable.]
(ii)	Estimate of total expenses related to admission to trading:	[•]

2. **RATINGS**

Ratings:	The Notes to be issued have been rated: [Moody's: [•]] [[Other]: [•]] (*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

3. [**INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]**

Need to include a description of any interests, including conflicting ones, that are material to the issue/ offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"So far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer".]

4. [**REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**]

[(i)	Reasons for the offer:	[•] (*See ["Use of Proceeds"] wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.*)]
[(ii)]	Estimated net proceeds:	[•] (*If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.*)
[(iii)]	Estimated total expenses:	[•] [Include breakdown of expenses.]

	(*Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.*)]

5. [***Fixed Rate Notes only* – YIELD**

Indication of yield:	[•]
	Calculated as [*includes details of method of calculation in summary form*] on the Issue Date.
	As set out above, yield is calculated as at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6. **[Index-Linked or other variable-linked Notes only – PERFORMANCE OF INDEX/FORMULA/ OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING]**

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.

*Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation (including, but not limited to, a description of any market disruption or settlement disruption events that affect the underlying and any adjustment rules with relation to events concerning the underlying).]**

[(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

The Issuer [intends to provide post-issuance information [*specify what information will be reported and where it can be obtained*] [does not intend to provide post-issuance information].*

7. [**Dual Currency Notes only – PERFORMANCE OF RATE[S] OF EXCHANGE**

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]

8. **OPERATIONAL INFORMATION**

ISIN:	[•]
Common Code:	[•]
Any clearing system(s) other than Euroclear Bank S.A./N.V., Clearstream Banking, *société anonyme* and the relevant identification number(s):	[Not Applicable/give name(s) and number(s) [and address(es)]]
Delivery:	Delivery [against/free of] payment
Names and addresses of initial Paying and Transfer Agent(s):	[•]
Names and addresses of additional Paying and Transfer Agent(s) (if any):	[•]

*** Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.**

GENERAL INFORMATION

1. **Listing**: The listing of the Notes on the Official List will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that each Tranche of the Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of one or more Certificates in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or about 2 July 2010. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions on the Market will normally be effected for delivery on the third working day after the day of the transaction. However, unlisted Notes may be issued pursuant to the Programme.

2. **Authorisations**: The Issuer has obtained all necessary consents, approvals and authorisations in connection with the establishment of the Programme. The establishment of the Programme was authorised by a resolution of the Board of Directors of the Issuer passed on 20 January 2010. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue of the Notes and the performance of its obligations under the Notes.

3. **Significant/Material Change**: There has been no material adverse change in the prospects of the Issuer since 30 September 2009 nor has there been any significant change in the financial or trading position of the Issuer since the date of its last published unaudited interim financials on 31 March 2010.

4. **Legal and Arbitration Proceedings**: The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or has had during the 12 months preceding the date of this Base Prospectus a significant effect on the financial position or profitability of the Issuer.

5. **Clearing Systems**: The Notes have been accepted for clearance through the Euroclear and/or Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The appropriate Common Code and/or the ISIN (and, where applicable, the identification number, together with any further appropriate information, for any other relevant clearing system) for each Series of Notes will be specified in the relevant Final Terms.

   The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the relevant Final Terms.

6. **Issue Price**: The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

7. **Documents Available**: For so long as Notes may be issued pursuant to this Base Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Issuer:

   (i) the Agency Agreement (which includes the forms of the Global Certificates and the Certificates);

   (ii) the Distribution Agreement;

   (iii) the Deed of Covenant;

   (iv) the constitutional documents of the Issuer;

(v) the financial statements of the Issuer at and for the two years ended 30 September 2009 and 2008 and the unaudited interim financial statements of the Issuer at and for the six months ended 31 March 2010 and 2009;

(vi) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the EEA nor offered in the EEA in circumstances where a Prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity); and

(vii) a copy of this Base Prospectus together with any Supplement to this Base Prospectus or further Prospectus.

This Base Prospectus and each Final Terms for Notes that are listed on the Official List and admitted to trading on the Market will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/prices-and-news/prices-news/home.htm.

8. **Financial Statements**: Copies of the Issuer's audited financial statements for Financial Years 2009 and 2008 and the interim unaudited financial statements for the six months ended 31 March 2010 and 2009 may be obtained, and copies of the Agency Agreement will be available for inspection, at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Notes is outstanding.

9. **Auditors**: The audited financial statements of the Issuer have been audited without qualification for the years ended 30 September 2009 and 2008 by Deloitte & Touche, independent auditors, The Woodlands, 20 Woodlands Drive, Woodmead 2196, South Africa. Deloitte & Touche has given, and not withdrawn, its written consent to the inclusion of its auditors' report in this Base Prospectus in the form and content in which it is included. For the purposes of Prospectus Rule 5.5.4R(2)(f), Deloitte & Touche has authorised the contents of its auditors' report referred to above as part of this Base Prospectus, has stated that it is responsible for that report and has declared that it has taken all reasonable care to ensure that the information contained in that report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

FINANCIAL STATEMENTS

Interim Financial Statements
31 March 2010

African Bank

NCR Reg. No. NCRCP5. An Authorised Financial Services Provider.
Reg No. 1975/002526/06

AFRICAN BANK LIMITED
INTERIM FINANCIAL STATEMENTS

CONTENTS

STATEMENT OF FINANCIAL POSITION
at 31 March 2010

	Unaudited March 2010 Rm	Unaudited March 2009 Rm	*Audited September 2009 Rm*
ASSETS			
Short-term deposits and cash	**5 066**	1 325	*3 484*
Statutory assets	**1 315**	1 007	*1 048*
Other assets	**114**	30	*100*
Net advances	**19 090**	15 532	*16 755*
Deferred tax asset	**91**	92	*57*
Loan to Ellerines (intergroup)	**983**	201	*840*
Amounts owing by holding company and fellow subsidiaries	**25**	26	*25*
Property and equipment	**322**	255	*316*
Total assets	**27 006**	18 468	*22 625*
LIABILITIES AND EQUITY			
Short-term funding	**1 749**	2 930	*1 700*
Other liabilities and taxation	**712**	465	*570*
Bonds and other long-term funding	**18 567**	11 051	*14 695*
Subordinated bonds and loans	**2 210**	874	*2 044*
Amounts owing to fellow subsidiaries	**453**	401	*399*
Total liabilities	**23 691**	15 721	*19 408*
Share capital	**121**	121	*121*
Share premium	**1 402**	1 402	*1 402*
Reserves	**1 792**	1 224	*1 694*
Ordinary shareholder's equity	**3 315**	2 747	*3 217*
Total equity (capital and reserves)	**3 315**	2 747	*3 217*
Total liabilities and equity	**27 006**	18 468	*22 625*

AFRICAN BANK LIMITED
INTERIM FINANCIAL STATEMENTS

INCOME STATEMENT
for the six months ended 31 March 2010

	Unaudited 6 months to March 2010 Rm	Unaudited 6 months to March 2009 Rm	*Audited 12 months to September 2009 Rm*
Revenue	**3 577**	2 931	*6 164*
Interest income on advances	**2 451**	2 021	*4 244*
Non-interest income	**926**	772	*1 608*
Income from operations	**3 377**	2 793	*5 852*
Charge for bad and doubtful advances	**(1 145)**	(909)	*(1 929)*
Risk-adjusted income from operations	**2 232**	1 884	*3 923*
Other interest income	**200**	138	*312*
Interest expense	**(1 080)**	(849)	*(1 848)*
Operating costs	**(743)**	(668)	*(1 314)*
Indirect taxation: VAT	**(11)**	(8)	*(15)*
Profit from operations	**598**	497	*1 058*
Capital items	**15**	-	-
Profit before taxation	**613**	497	*1 058*
Direct taxation: STC	**(22)**	1	*2*
Direct taxation: SA normal	**(170)**	(140)	*(299)*
Profit for the period	**421**	358	*761*

Being a wholly owned subsidiary of African Bank Investments Limited, the company does not present per share statistics.

STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 March 2010

	Unaudited 6 months to March 2010 Rm	Unaudited 6 months to March 2009 Rm	*Audited 12 months to September 2009 Rm*
Profit for the period	**421**	358	*761*
Other comprehensive income, after tax			
Movement in cash flow hedge reserve	**(86)**	(77)	*(18)*
IFRS 2 reserve transactions (employee incentives)	**13**	3	*11*
Other comprehensive income for the period	**(73)**	(74)	*(7)*
Total comprehensive income for the period	**348**	284	*754*

STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 March 2010

	Share capital Rm	**Share premium Rm**	**Distributable reserves Rm**	**Share-based payment reserve Rm**	**Cashflow hedging reserve Rm**	**Total Rm**
	121	1 402	1 094	(140)	(14)	2 463
Balance at 30 September 2008 (audited)	**121**	**1 402**	**1 094**	**(140)**	**(14)**	**2 463**
Total comprehensive income for the period	-	-	358	3	(77)	284
Balance at 31 March 2009 (unaudited)	**121**	**1 402**	**1 452**	**(137)**	**(91)**	**2 747**
Total comprehensive income for the period	-	-	403	8	59	470
Balance at 30 September 2009 (audited)	**121**	**1 402**	**1 855**	**(129)**	**(32)**	**3 217**
Total comprehensive income for the period	-	-	421	13	(86)	348
Dividend paid	-	-	(250)	-	-	(250)
Balance at 31 March 2010 (unaudited)	**121**	**1 402**	**2 026**	**(116)**	**(118)**	**3 315**

African Bank

CASH FLOW STATEMENT

for the six months ended 31 March 2010

	Unaudited 6 months to March 2010 Rm	Unaudited 6 months to March 2009 Rm	*Audited 12 months to September 2009 Rm*
Cash generated from operations	**1 873**	1 458	*3 236*
Cash received from lending activities and cash reserves	**3 620**	2 891	*6 107*
Recoveries on advances previously written off	**45**	85	*136*
Cash paid to funders, staff and suppliers	**(1 792)**	(1 518)	*(3 007)*
Increase in gross advances	**(3 586)**	(3 282)	*(5 559)*
Decrease / (increase) in working capital	**34**	55	*(55)*
Increase in other assets	**(14)**	(10)	*(80)*
Increase in other liabilities	**48**	65	*25*
Indirect and direct taxation paid	**(207)**	(218)	*(257)*
Cash outflow from operating activities	**(1 886)**	(1 987)	*(2 635)*
Cash outflow from investing activities	**(369)**	(562)	*(1 339)*
Acquisition of property and equipment (to maintain operations)	**(45)**	(62)	*(158)*
Disposal of investments in subsidiaries	**-**	20	*20*
Other investing activities	**(324)**	(520)	*(1 201)*
Cash inflow from financing activities	**3 837**	1 026	*4 610*
Cash inflow from funding activities	**4 087**	1 026	*4 610*
Ordinary shareholder payments and transactions	**(250)**	-	*-*
Increase / (decrease) in cash and cash equivalents	**1 582**	(1 523)	*636*
Cash and cash equivalents at the beginning of the period	**3 484**	2 848	*2 848*
Cash and cash equivalents at the end of the period	**5 066**	1 325	*3 484*

Annual Financial Statements
30 September 2009

AFRICAN BANK

NCR Reg. No. NCRCP5. An Authorised Financial Services Provider.
Reg No. 1975/002526/06.

AFRICAN BANK LIMITED
Registration number: 1975/002526/06
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2009

CONTENTS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation and fair presentation of the annual financial statements, comprising the balance sheet at 30 September 2009, the income statement, the statement of changes in equity and cash flow statement for the year then ended, the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

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

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

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

A directors' report has not been prepared as the company is a wholly owned subsidiary of African Bank Investments Limited, a company incorporated in the Republic of South Africa.

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

Approval of the annual financial statements

The annual financial statements were approved by the board of directors on 15 December 2009 and are signed on its behalf by:

MC Mogase
Chairman

DF Woollam
Director

Midrand

A signed copy of the annual financial statements is available for inspection at our registered office.

CERTIFICATE FROM THE COMPANY SECRETARY

In terms of section 268G(d) of the Companies Act 1973 as amended, I certify that for the year ended 30 September 2009, the company has lodged with the Registrar of Companies all such returns as are required by the Companies Act, and that all such returns are true, correct and up to date.

Y Mistry
Company Secretary

Midrand
15 December 2009

Deloitte.

Private Bag X6
Gallo Manor 2052
South Africa

Deloitte & Touche
Registered Auditors
Financial Services Team - FIST
Building 8
Deloitte Place
The Woodlands
Woodlands Drive
Woodmead Sandton
Docex 10 Johannesburg

Tel: +27 (0)11 806 5200
Fax: +27 (0)11 806 5222
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF AFRICAN BANK LIMITED

Report on the Financial Statements

We have audited the annual financial statements of African Bank Limited, which comprise the balance sheet as at 30 September 2009, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 4 to 49.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as at 30 September 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Deloitte & Touche

Deloitte & Touche
Per Mgcinisihlalo Jordan
Partner
15 December 2009

BALANCE SHEET
at 30 September 2009

	Notes	2009 Rm	2008 Rm
ASSETS			
Short-term deposits and cash	2	**3 484**	2 848
Statutory assets	3	**1 048**	822
Other assets	4	**100**	20
Net advances	5	**16 755**	13 204
Deferred tax asset	6	**57**	74
Amounts owing by holding company and fellow subsidiaries	7	**865**	29
Investments in subsidiaries	8	**-**	20
Property and equipment	9	**316**	231
Total assets		**22 625**	17 248
LIABILITIES AND EQUITY			
Short-term funding	10	**1 700**	3 000
Other liabilities	11	**528**	415
Taxation		**42**	3
Bonds and other long-term funding	12	**14 695**	10 318
Subordinated bonds and loans	13	**2 044**	511
Amounts owing to fellow subsidiaries	14	**399**	518
Amounts owing to subsidiary companies	15	**-**	20
Total liabilities		**19 408**	14 785
Share capital	16	**121**	121
Share premium		**1 402**	1 402
Reserves	17	**1 694**	940
Ordinary shareholder's equity		**3 217**	2 463
Total equity (capital and reserves)		**3 217**	2 463
Total liabilities and equity		**22 625**	17 248

INCOME STATEMENT
for the year ended 30 September 2009

	Notes	2009 Rm	2008 Rm
Revenue		**6 164**	4 812
Interest income on advances	18	**4 244**	3 323
Non-interest income	19	**1 608**	1 251
Income from operations		**5 852**	4 574
Charge for bad and doubtful advances	20	**(1 929)**	(1 361)
Risk-adjusted income from operations		**3 923**	3 213
Other interest income	18	**312**	238
Interest expense	21	**(1 848)**	(1 175)
Operating costs	22	**(1 314)**	(1 201)
Indirect taxation: VAT		**(15)**	(52)
Profit from operations		**1 058**	1 023
Impairment of investments in subsidiaries		**-**	-
Profit before taxation		**1 058**	1 023
Direct taxation: STC	23	**2**	(48)
Direct taxation: SA normal	23	**(299)**	(288)
Profit attributable to ordinary shareholder		**761**	687

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2009

	Share capital Rm	Share premium Rm	Distributable reserves Rm	Share-based payment reserve Rm	Cashflow hedging reserve Rm	Total Rm
	121	1 402	937	(119)	-	2 341
Balance at 30 September 2007	**121**	**1 402**	**937**	**(119)**	**-**	**2 341**
Profit attributable to ordinary shareholder	-	-	687	-	-	687
Dividend paid	-	-	(530)	-	-	(530)
Movement in cashflow hedging reserve	-	-	-	-	(14)	(14)
IFRS 2 reserve transactions: employee incentives	-	-	-	(21)	-	(21)
Balance at 30 September 2008 (note 17)	**121**	**1 402**	**1 094**	**(140)**	**(14)**	**2 463**
Profit attributable to ordinary shareholder	-	-	761	-	-	761
Movement in cashflow hedging reserve	-	-	-	-	(18)	(18)
IFRS 2 reserve transactions: employee incentives	-	-	-	11	-	11
Balance at 30 September 2009 (note 17)	**121**	**1 402**	**1 855**	**(129)**	**(32)**	**3 217**

CASH FLOW STATEMENT
for the year ended 30 September 2009

	Notes	2009 Rm	2008 Rm
Cash generated from operations	24	3 236	2 493
Cash received from lending activities and cash reserves	25	6 107	4 630
Recoveries on advances previously written off		136	192
Cash paid to clients, suppliers of funding, employees and agents	26	(3 007)	(2 329)
Increase in gross advances	27	(5 559)	(5 823)
Increase in working capital		(55)	(48)
(Increase) / decrease in other assets		(80)	25
Decrease / (increase) in other liabilities		25	(73)
Indirect and direct taxation paid	28	(257)	(377)
Cash outflow from operating activities		(2 635)	(3 755)
Cash outflow from investing activities		(1 339)	(287)
Acquisition of property and equipment (to maintain operations)		(158)	(99)
Disposal of investments in subsidiaries		20	28
Other investing activities	29	(1 201)	(216)
Cash inflow from financing activities		4 610	5 090
Cash inflow from funding activities	30	4 610	5 620
Dividends paid	31	-	(530)
Increase in cash and cash equivalents		636	1 048
Cash and cash equivalents at the beginning of the year		2 848	1 800
Cash and cash equivalents at the end of the year	32	3 484	2 848

1. Principal accounting policies

The principal accounting policies set out below have been applied in the preparation and presentation of the African Bank Limited (ABL) financial statements and have been applied consistently in dealing with items that are considered material by the company during this reporting period.

1.1 Basis of presentation

The financial statements are prepared on a going concern basis using accrual accounting. The going concern basis assumes that the company will continue in operation for the foreseeable future. Under accrual accounting the effects of transactions and other events are recognised when they occur (rather than when the cash is received) and are recorded in the accounting records of the periods to which they relate.
The annual financial statements are prepared in accordance with, and comply with, the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, and the requirements of the South African Companies Act 61 of 1973 (as amended).

The historical cost basis is followed, except for:

- certain financial assets and liabilities that are measured on a fair value basis, in terms of IAS 39 Financial Instruments: Recognition and Measurement;
- financial assets and liabilities held at fair value;
- liabilities for cash-settled share based payment arrangements,

which are on other bases as specifically stated in the notes to the financial statements.

The balance sheet is presented in order of liquidity with the exception of certain long-term liabilities which reflect the original timeframe and intention of the instrument entered into. Reference to the current maturities of these financial liabilities is disclosed in the balance sheet notes and in the analysis of financial assets and liabilities. The accounting policies are consistent with the previous year except where otherwise specifically stated. All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise stated.

1.2 Adoption of new standards and interpretations effective for the current financial year

The following new standard, amendment to standard and interpretation have been adopted during the current year.

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) and IFRS 7 Financial Instruments: Disclosures (IFRS 7) with regard to the Reclassification of Financial Assets.

The above amendment permitted the reclassification of financial assets retrospectively from 1 July 2008 provided that the decision to reclassify was made prior to 1 November 2008. All other reclassifications shall be effective from the date of reclassification. The company has not reclassified any financial assets in terms of the above amendment.

1.3 Use of estimates, judgements and assumptions

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

Estimates, judgements and assumptions made, predominantly relate to impairment provisions for loans and advances (note 5) and useful lives, residual values and depreciation methods for property and equipment (note 9). Other judgements made relate to classifying financial assets and liabilities into their relevant categories and in the determination of their fair value for measurement and disclosure purposes.

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

1. Principal accounting policies *(continued)*

1.4 Comparative figures

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

1.5 Assets and liabilities

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

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

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

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

1.6 Consolidation

1.6.1 Joint ventures

A joint venture is a contractual agreement between the company and another party to undertake an economic activity, which is subject to joint control, in which the company has a long-term interest. Joint control is where the strategic, financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control. Refer to appendix B on page 48 for details of the company's joint venture.

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

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

1.6.2 Investment in subsidiaries

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.

1.6.3 Segmental reporting

A business segment is defined as a distinguishable component of the company that is engaged in providing an individual product or service or a group of related products or services that is subject to the risks and rewards that are different from those of other business segments.

The company operates within a single market segment, namely the underwriting and provision of credit. Individual business units operating within this segment have been further disaggregated to highlight the key performance drivers of the business units.
Geographical segments are not disclosed, as the company has no operations outside South Africa.

1. Principal accounting policies *(continued)*

1.7 Property and equipment

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

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

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

Computer equipment and software	2 to 5 years
Office furniture and equipment	3 to 6 years
Motor vehicles	4 to 5 years
Leasehold improvements	over the shorter of the lease term or its useful life
Buildings (owner-occupied)	Useful life (limited to 50 years)
Land is not depreciated	

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

1.8 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 balance sheet, 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, property and equipment, deferred taxation, taxation payable and provisions.

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

Financial assets are classified into the following categories:

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables; and
- available-for-sale financial assets.

Financial liabilities are classified into the following categories:

- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

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

1. Principal accounting policies *(continued)*

1.8 Financial instruments *(continued)*

1.8.1 Initial recognition

Financial instruments are recognised on the balance sheet when the company becomes a party to the contractual provisions of a financial instrument.

1.8.2 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 the income statement.

1.8.3 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 company has elected, on the date of initial recognition, to designate as at fair value through profit or loss. Net gains and losses arising from financial instruments categorised as at fair value through profit or loss are determined inclusive of interest or dividend income.

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

  Financial assets and liabilities other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition to the extent it produces more relevant information because it 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 company's documented risk management or investment strategy, and information about the grouping is provided internally to management on that basis; or
  - eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
  - it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

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

- Held-to-maturity financial assets
  Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company 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.

1. Principal accounting policies *(continued)*

1.8 Financial instruments *(continued)*

1.8.3 Subsequent measurement *(continued)*

- 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 company as at fair value through profit or loss or available-for-sale.

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

  The majority of the company's advances are included in the loans and receivable category.

- Available-for-sale financial assets
  Available-for-sale financial assets are non derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to the need for liquidity or changes in interest rates, exchange rates or equity prices. Interest income on these assets is recognised as part of interest income, based on the asset's original effective interest rate. Gains and losses arising from changes in fair value are recognised directly in equity, until the asset is disposed of or it is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Interest income is excluded from the fair value gains and losses which are recognised in equity.

1.8.4 Effective interest rate method

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

1.8.5 Fair value

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

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

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

1.8.6 Derecognition of financial instruments

The company 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

1. Principal accounting policies *(continued)*

1.8 Financial instruments *(continued)*

1.8.6 Derecognition of financial instruments *(continued)*

- the company 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.

1.8.7 Offsetting

Financial assets and liabilities are offset and the net amount reported on the balance sheet where there is a legally enforceable right to set off the recognised amount and there is an intention 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 balance sheet.

1.9 Investments

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

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

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

1.10 Loans and advances and related impairment provisions

1.10.1 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money or services directly to a debtor with no intention to trade the receivable. All loans and advances are in the form of personal unsecured loans that are either paid back in fixed equal instalments or are revolving credit facilities, in the case of credit cards, with fixed equal instalments.

Advances are classified as loans and receivables and are measured at amortised cost using the effective interest rate method, less any impairment losses through the use of an allowance account whereby the amount of the losses are recognised in the income statement. 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 the income statement over the contractual life of the loan using the effective interest rate method.

1. Principal accounting policies *(continued)*

1.10 Loans and advances and related impairment provisions *(continued)*

1.10.1 Loans and advances *(continued)*

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

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

Cash collected on loans, which have previously been written off and which remain off balance sheet, is recognised in the income statement as bad debts recovered as and when the cash is received.

Loans and advances are disclosed net of deferred administration fees (consisting of origination fees and monthly service fees) and impairment provisions.

1.10.2 Impairment provisions

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

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in the payment of interest or principal;
- the lender, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower is over-indebted;
- indication that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    - adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying 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).

Where it is not possible to estimate the recoverable amount of an individual loan or advance, the company estimates the recoverable amount using portfolio statistics derived based on past performance of similar financial assets, taking into account collection measures 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.

1. Principal accounting policies *(continued)*

1.10 Loans and advances and related impairment provisions *(continued)*

1.10.2 Impairment provisions *(continued)*

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 the income statement. A write off is effected against the allowance account when the debtor is deemed to be partially or fully impaired and not recoverable.

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

In respect of loans that were previously written off, where the current cash collections are stable and expected to continue into the future, such loans are brought back onto the balance sheet at the net recoverable value by projecting and discounting future cash flows. The projected future cash flows are based on the historic recoveries of previously written off loans and advances which have subsequently been brought back onto the balance sheet in the past, after adjusting for current economic factors, collection procedures and trends. The cash collected on such loans must meet internally set criteria before they qualify to be brought back onto the balance sheet.

Impairment provisions raised during the year are charged to the income statement.

1.11 Derivative financial instruments and hedge accounting

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

The company 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 company, 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.

The method of recognising fair value gains or losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if so, the nature of the hedged item. The company is not party to any derivatives that are held for trading. When derivatives are designated in a hedging relationship, the company designates them as either:

- hedges of the fair value of recognised financial assets or liabilities or firm commitments (fair value hedges); or
- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedges).

Hedge accounting is applied to derivatives designated in this way provided certain criteria are met. The company documents, at the inception of the hedging relationship, the relationship between the hedged items and the hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships.

1. Principal accounting policies *(continued)*

1.11 Derivative financial instruments and hedge accounting *(continued)*

The company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging relationships are highly effective in offsetting changes in fair values or cash flows of hedged items.

1.11.1 Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the income statement. Fair value adjustments relating to the hedging instrument are allocated to the same income statement category as the related hedged item. Any ineffectiveness is also recognised in the same income statement category as the related hedged item.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued.

1.11.2 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 the income statement.

Amounts accumulated in equity are transferred to the income statement 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 the income statement 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 the income statement.

1.12 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 method.

1.13 Cash and cash equivalents

Short-term deposits and cash comprise fixed and notice deposits as well as call and current accounts with financial institutions in South Africa.

For purposes of the balance sheet, South African Reserve Bank cash requirements are not disclosed as short-term deposits and cash but rather as “statutory assets”.

For the purposes of the cash flow statement, cash and cash equivalents comprise short-term deposits and cash, net of bank overdrafts.

1.14 Provisions

Provisions represent liabilities of uncertain timing or amount and are measured at the expenditure or cash outflow required to settle the present obligation.

1. Principal accounting policies *(continued)*

1.14 Provisions *(continued)*

Provisions are recognised when the company has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

1.14.1 Provision for leave pay

The cost of providing employee benefits is accounted for in the period in which the benefits are earned by employees.

The expected cost of short-term accumulating compensated absences is recognised as an expense as the employees render services that give them the right to entitlement of such absence.

1.15 Equity

Equity is the residual interest in the assets of the company after deducting all liabilities of the company.

1.15.1 Share capital

Share capital issued by the company is recorded at the value of the proceeds received less the external costs directly attributable to the issue of the shares.

1.15.2 Dividends

Dividends to equity holders are recognised as a liability in the period in which they are declared and are accounted for in the statement of changes in equity. Dividends declared after the balance sheet date are disclosed in the dividends note.

1.16 Revenue recognition

Revenue comprises interest income and non-interest income.

1.16.1 Interest income

Interest income is accrued on a yield to maturity basis by reference to the principal outstanding and the interest rate applicable. In instances where a loan is in arrears for 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 suspended and not recognised in the income statement.

1.16.2 Non-interest income

Non-interest income consists primarily of administration fees on loans and advances, as well as any other sundry income. Administration fees charged consist of two components:

Origination fees on loans granted
These fees are charged upfront, capitalised into the loan and are primarily based on the cost of granting the loan to the individual. In accordance with IAS 18 - Revenue, these origination fees are considered an integral part of the loan agreement and therefore recognised as an integral part of the effective interest rate and are accounted for over the shorter of the original contractual term and the actual term of the loan using the effective interest rate method. The deferred portion of the fees is recorded in the balance sheet as a provision for deferred administration fees. The company does not defer any related operating costs, as these are all internal costs which are not directly attributable to individual transactions and as such are primarily absorbed infrastructure costs.

Monthly servicing fees
These are fees which form an integral part of the effective interest rate and are charged to 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

1. Principal accounting policies *(continued)*

1.16 Revenue recognition *(continued)*

1.16.2 Non-interest income *(continued)*

and the actual term of the loans. Beyond the original contractual term of the loan, the fee is recognised in the income statement as it is charged to the customer on a monthly basis.

While both these components are regarded as integral parts of the effective interest rate, they are not accounted for as interest income, but as non-interest income.

1.17 Taxation

1.17.1 Indirect taxation

Indirect taxation in the form of non-claimable value-added tax (VAT) on expenses is disclosed as indirect taxation in the income statement. 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 the income statement. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the balance sheet.

1.17.2 Direct taxation

Direct taxation in the income statement consists of South African corporate income tax, inclusive of capital gains tax (CGT) (currently payable, prior year adjustments and deferred) as well as secondary tax on companies (STC) (currently payable and deferred).

STC on dividends, net of STC credits earned, is provided for and expensed through the income statement in the period in which the dividend paid is accounted for. STC is payable only on dividends as defined in the Income Tax Act.

1.17.3 Current taxation

Current taxation is the expected taxation payable based on the taxable income, inclusive of capital gains, for the year, using taxation rates enacted or substantially enacted at the balance sheet 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.

Current tax is charged or credited to the income statement, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the tax is also dealt with in equity.

STC that arises from the distribution of dividends is recognised at the same time as the liability to pay the related dividend.

1.17.4 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 balance sheet date.

Deferred taxation is charged or credited in the income statement, 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 the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

1. Principal accounting policies *(continued)*

1.17 Taxation *(continued)*

1.17.4 Deferred taxation *(continued)*

The deferred taxation related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

1.18 Share-based payments

Share-based payment transactions of the company primarily relate to the company's long-term incentive scheme for employees.

1.18.1 Share-based payments under the company's long-term incentive programme (LTIP) for employees

The company has a cash-settled share appreciation rights scheme, in terms of which employees receive units based on an initial value of a listed share of the company's holding company, African Bank Investments Limited (ABIL), and receive on the maturity date the market value of the units based primarily on the ABIL share price. This instrument qualifies as share-based payments under IFRS 2 – Share-based payment.

The share appreciation rights instruments have a predetermined vesting profile, which results in a lapsing of the instrument if the employee resigns or is dismissed before the vesting date. In accordance with IFRS 2, where the equity instruments do not vest until the employee has completed a specified period of service, it is assumed that the services rendered by the employee, as consideration for those equity instruments, will be received in the future over the vesting period.

In the case of the share appreciation rights scheme, the fair value of the amount payable to the employees is recognised as an expense in profit or loss, with a corresponding increase in liabilities, over the vesting period of the instrument on a straight line basis. The fair value of the liability is re-measured at each reporting date until settled and any changes in the fair value of the liability are recognised as employment costs in the income statement. No amount is recognised for services received in part if the share appreciation rights granted do not vest because of a failure to satisfy a vesting condition.

1.18.2 Measurement of fair value of equity instruments granted

The equity instruments granted by the company are measured at fair value at measurement date using standard option pricing or share appreciation rights valuation models. The valuation technique is consistent with generally accepted valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable and willing market participants would consider in setting the price of the equity instruments.

1.19 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 the income statement in the period in which they are incurred.

1. Principal accounting policies *(continued)*

1.20 Leased assets

Leases are classified as finance leases or operating leases at the inception of the lease.

Leased assets are classified as operating leases where the lessor effectively retains the risks and benefits of ownership. Obligations incurred under operating leases are recognised in the income statement on a straight-line basis over the term of the relevant lease.

1.21 Retirement benefits

Defined contribution plans have been established for eligible employees of the company, with the assets held in separate trustee administered funds. The company pays contributions on a mandatory, contractual or voluntary basis as determined in terms of the rules of each benefit fund. The company has no further legal or constructive obligations to pay any further contributions once the fixed contributions have been paid to the funds.

Contributions in respect of defined contribution plans are recognised as an expense in profit or loss as they are incurred.

1.22 Contingent liabilities and commitments

1.22.1 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 company; or
- the company has a present obligation that arises from past events but it is not recognised because it is not probable that an outflow of resources will be required to settle such obligation or the amount of the obligation cannot be measured with sufficient reliability.

1.22.2 Commitments

Items are classified as commitments where the company has committed itself at the reporting date to future significant transactions or the acquisition of assets for material amounts.

	2009 Rm	2008 Rm

2 SHORT-TERM DEPOSITS AND CASH

Current accounts	**3 484**	2 848
	3 484	2 848

3 STATUTORY ASSETS

Treasury bills and government bonds with the South African Reserve Bank	**661**	550
Cash deposits with the South African Reserve Bank	**387**	272
	1 048	822

Market value of treasury bills and government bonds approximates the carrying value stated above.

4 OTHER ASSETS

Interest rate swaps	**41**	7
Sundry receivables	**59**	13
	100	20

5 NET ADVANCES

Total gross advances	**21 001**	16 106
Deferred fees	**(7)**	(64)
Gross advances	**20 994**	16 042
Impairment provision	**(4 239)**	(2 838)
Net advances	**16 755**	13 204

All loans are made to clients within the Republic of South Africa.

Analysis of gross advances by book

Lending books	**19 748**	15 235
Retail debit order	**16 063**	12 580
Payroll	**626**	552
Credit card	**1 888**	1 080
Miners Credit	**1 171**	1 023
Pay down books	**476**	591
Persal	**186**	198
Saambou PLB	**265**	308
Standard Bank JV	**25**	85
Partially written off (ML) advances	**777**	280
Total gross advances	**21 001**	16 106

Analysis of gross advances by type

Retail/debit order	**17 976**	13 745
Payroll	**1 983**	1 773
Saambou PLB	**265**	308
Partially written off (ML) advances	**777**	280
Total gross advances	**21 001**	16 106

Impairment provisions and reserves		
Balance of impairment provisions at the end of the year	**4 239**	2 838
Balance of impairment provisions at the beginning of the year	**2 838**	1 892
Impairment provisions raised (refer note 20)	**2 065**	1 553
Bad debts written off (gross)	**(2 252)**	(1 265)
Bad debts rehabilitated	**1 588**	658
Total impairment provisions and reserves	**4 239**	2 838

5 NET ADVANCES *(continued)*

5.1 CREDIT RISK

2009	**Retail debit order Rm**	**Payroll Rm**	**Credit card Rm**	**Miners credit Rm**	**Pay-down Rm**	**Total Rm**
Financial assets neither past due nor impaired	**8 648**	**299**	**1 254**	**692**	**9**	**10 902**
Low risk	**4 768**	**12**	**581**	**151**	**-**	**5 512**
Medium risk	**3 501**	**287**	**315**	**338**	**9**	**4 450**
High risk	**379**	**-**	**358**	**203**	**-**	**940**
Past due but not yet impaired	**2 335**	**130**	**234**	**185**	**58**	**2 942**
1 Instalment missed	**610**	**13**	**131**	**25**	**9**	**788**
2 Instalments missed	**950**	**66**	**57**	**60**	**31**	**1 164**
3 Instalments missed	**775**	**51**	**46**	**100**	**18**	**990**
Financial assets that are impaired	**1 784**	**81**	**187**	**76**	**170**	**2 298**
Carrying amount	**5 080**	**197**	**400**	**294**	**409**	**6 380**
Provision for impairment	**(3 296)**	**(116)**	**(213)**	**(218)**	**(239)**	**(4 082)**
Total credit exposure	**12 767**	**510**	**1 675**	**953**	**237**	**16 142**
Deferred fees						**(7)**
Incurred but not reported provision						**(157)**
Partially written off (ML) advances						**777**
Net advances						**16 755**
Reconciliation of allowance account						
Balance at the beginning of the year	**1 936**	**141**	**150**	**240**	**275**	**2 742**
Bad debt charge net of recoveries	**1 819**	**26**	**159**	**61**	**(61)**	**2 004**
Bad debt (write-offs) / rehabilitations	**(459)**	**(51)**	**(96)**	**(83)**	**25**	**(664)**
Balance at the end of the year	**3 296**	**116**	**213**	**218**	**239**	**4 082**

CREDIT RISK 2008	Retail debit order Rm	Payroll Rm	Credit card Rm	Miners credit Rm	Pay-down Rm	Total Rm
Financial assets neither past due nor impaired	7 624	229	701	593	10	9 157
Low risk	4 291	15	418	151	4	4 879
Medium risk	2 547	214	189	282	6	3 238
High risk	786	-	94	160	-	1 040
Past due but not yet impaired	1 928	135	170	160	101	2 494
1 Instalment missed	1 382	124	108	33	97	1 744
2 Instalments missed	293	6	38	12	2	351
3 Instalments missed	253	5	24	115	2	399
Financial assets that are impaired	1 092	47	59	30	205	1 433
Carrying amount	3 028	188	209	270	480	4 175
Provision for impairment	(1 936)	(141)	(150)	(240)	(275)	(2 742)
Total credit exposure	10 644	411	930	783	316	13 084
Deferred fees						(64)
Incurred but not reported provision						(96)
Partially written off (ML) advances						280
Net advances						13 204
Reconciliation of allowance account						
Balance at the beginning of the year	1 242	90	47	197	254	1 830
Bad debt charge net of recoveries	1 291	(16)	105	174	(35)	1 519
Bad debt (write-offs) / rehabilitations	(597)	67	(2)	(131)	56	(607)
Balance at the end of the year	1 936	141	150	240	275	2 742

5 NET ADVANCES *(continued)*

Impairment provisions are based on an incurred loss model per IAS 39 – Financial Instruments: recognition and measurement. Estimated future cash flows for loans and advances considered to be impaired are discounted using the original effective interest rate inherent in the loan, without an adjustment for the credit spread.

During the year, the company rehabilitated onto the balance sheet R1 588 million (2008: R658 million) of loans previously written off. These rehabilitated loans are treated as negative bad debts written off. The policy regarding rehabilitation of written off loans requires such loans to be performing, with a regular payment profile, before they qualify for reinstatement onto the balance sheet, together with appropriate impairment provisions.

	2009 Rm	2008 Rm
6 DEFERRED TAX ASSET		
Incurred but not reported (IBNR) provision	**24**	20
Provision for deferred fees	**(11)**	10
IFRS 2 provisions and hedge accounting	**29**	29
Other temporary differences	**15**	15
	57	74

The carrying amount of deferred taxation at 30 September 2009 is reconciled as follows:

	IBNR provision Rm	**Deferred fees provision Rm**	**IFRS 2 & cashflow hedge provision Rm**	**Other temporary differences Rm**	**Total Rm**	Total 2008 Rm
Balance at the beginning of the year	**20**	**10**	**29**	**15**	**74**	141
Movement through statement of changes in equity	**-**	**-**	**4**	**-**	**4**	11
Prior year adjustment	**-**	**-**	**-**	**-**	**-**	(2)
Income statement movement	**4**	**(21)**	**(4)**	**-**	**(21)**	(76)
Balance at the end of the year	**24**	**(11)**	**29**	**15**	**57**	74

	2009 Rm	2008 Rm
7 AMOUNTS OWING BY HOLDING COMPANY AND FELLOW SUBSIDIARIES		
African Bank Investments Limited	**-**	3
Gilt Edged Management Services (Pty) Limited (GEMS)	**23**	23
Ellerines Furnishers (Pty) Limited (EF)	**840**	-
Other	**2**	3
	865	29

These loans are unsecured and have no fixed terms of repayment. The facility granted to EF is limited to 25% of ABL's capital and has an interest rate of prime less 0.4%.

Subordination agreements

The loan to GEMS is interest free and has been subordinated in favour of those customers of GEMS who have a claim against GEMS as a result of the GEMS reparation court order (also see note 39).

	2009 Rm	2008 Rm
8 INVESTMENTS IN SUBSIDIARIES		
Shares and investments at cost	**-**	1 033
Less: Return of capital and cumulative impairments	**-**	(1 013)
	-	20

ABL no longer has any subsidiaries, the subsidiaries which it had were all dormant and have now been voluntarily liquidated.

9 PROPERTY AND EQUIPMENT

	Cost 2009 Rm	**Accumulated depreciation 2009 Rm**	**Carrying value 2009 Rm**	Cost 2008 Rm	Accumulated depreciation 2008 Rm	Carrying value 2008 Rm
Furniture	**60**	**43**	**17**	51	40	11
Computer equipment and software	**356**	**262**	**94**	312	240	72
Office equipment	**52**	**43**	**9**	47	37	10
Motor vehicles	**10**	**7**	**3**	9	5	4
Leasehold improvements	**126**	**90**	**36**	106	67	39
Land and buildings (owner-occupied)	**161**	**4**	**157**	97	2	95
Total	**765**	**449**	**316**	622	391	231

The carrying amounts of property and equipment at 30 September 2009 is reconciled as follows:

	Carrying value at beginning of year 2009 Rm	**Additions 2009 Rm**	**Depreciation 2009 Rm**	**Disposals and write-offs 2009 Rm**	**Carrying value at end of year 2009 Rm**
Furniture	**11**	**9**	**3**	**-**	**17**
Computer equipment and software	**72**	**58**	**36**	**-**	**94**
Office equipment	**10**	**5**	**6**	**-**	**9**
Motor vehicles	**4**	**1**	**2**	**-**	**3**
Leasehold improvements	**39**	**21**	**24**	**-**	**36**
Land and buildings (owner-occupied)	**95**	**64**	**2**	**-**	**157**
Total	**231**	**158**	**73**	**-**	**316**

Assets with a cost of R15 million, but with a carrying value R nil were either disposed of, written off or removed from the fixed asset register during the current financial year.

Details of land and buildings (owner-occupied)
Erf 136, Randjespark Extension 62, situated at 59 16th road, Midrand, measuring 35 259 square metres, acquired in July 2007. Erf 121 and 122, Randjespark extension 14, situated in 2nd street, Midrand, measuring 19 305 square metres, acquired in February 2007. Portion 387 of the farm Waterval, 5 IR, situated in 2nd street Randjespark extension 13, measuring 19 331 square metres, acquired in January 2009. The land and buildings are unencumbered.

	2009 Rm	2008 Rm
10 SHORT-TERM FUNDING		
Demand deposits	**285**	277
Fixed and notice deposits	**1 155**	1 839
Negotiable certificates of deposit	**260**	884
	1 700	3 000

Bonds and other long-term funding with a nominal amount of R6.28 billion (2008: R3.96 billion) are payable within the next 12 months. (Refer to note 1.1).

11 OTHER LIABILITIES

Advances with credit balances	**32**	28
Liability for cash settled LTIPs and converted options	**100**	86
Leave pay provision	**13**	13
Insurance premiums due to The Standard General Insurance Company Limited	**191**	163
Interest rate swaps	**85**	10
Sundry payables and accruals	**107**	115
	528	415

	2009 Rm	2008 Rm
12 BONDS AND OTHER LONG-TERM FUNDING		
12.1 Unsecured listed bonds	**6 381**	4 434
12.2 Unsecured long-term loans	**8 314**	5 884
	14 695	10 318

Also refer to additional disclosure under note 10.

12.1 Unsecured listed bonds

	Face value 2009 Rm	**Interest capitalised 2009 Rm**	**Unamortised discount 2009 Rm**	**Net liability 2009 Rm**	Net liability 2008 Rm
ABL4, ABL5, ABL6, ABL7, ABLI01, ABL8A, ABL8B, ABL9 and ABLI02 bonds listed on BESA.	**6 242**	**199**	**(7)**	**6 434**	4 485
Less: Held by fellow subsidiary	**(49)**	**-**	**(4)**	**(53)**	(51)
	6 193	**199**	**(11)**	**6 381**	4 434
ABL4 bonds with an original face value of R500 million (later R800 million as a result of further issues in 2006 totalling R300 million), are redeemable on 31 August 2010. Interest is calculated and payable semi-annually at a coupon rate of 9.00%. The current face value is lower than the original face value as a result of early redemptions.	**507**	**4**	**(1)**	**510**	603
ABL5 bonds with an original face value of R750 million, issued on 11 August 2006, are redeemable on 11 August 2011. Interest is calculated and payable semi-annually at a coupon rate of 9.70%. The current face value is lower than the original face value as a result of early redemptions.	**598**	**8**	**(1)**	**605**	605
ABL6 bonds with an original face value of R1.05 billion, issued on 18 June 2007, are redeemable on 18 June 2012. Interest is calculated and payable semi-annually at a coupon rate of 10.25%. The current face value is lower than the original face value as a result of early redemptions.	**446**	**13**	**(0)**	**459**	755
ABL7 bonds with an original face value of R1 billion, issued on 18 February 2008, are redeemable on 18 February 2013. Interest is calculated and payable semi-annually at a coupon rate of 11.85%.	**821**	**12**	**(2)**	**831**	1 011
ABLI01 bonds with an original nominal value of R149 million, issued on 24 April 2008, are redeemable on 31 March 2013. It was issued as a replica of the R189 inflation linked bond and at issue the inflation adjusted face value was R246 million. Interest is calculated and payable semi-annually at a fixed coupon rate of 6.25% adjusted by an inflation index.	**246**	**29**	**(1)**	**274**	259
ABL8A bonds with an original face value of R725 million, issued on 19 September 2008, are redeemable on 19 September 2013. Interest is calculated and payable semi-annually at a coupon rate of 13.0%.	**640**	**3**	**(2)**	**641**	725
ABL8B bonds with an original face value of R525 million, issued on 19 September 2008, are redeemable on 19 September 2013. Interest is calculated and payable quarterly at the 3 month JIBAR rate plus 3.0%.	**440**	**1**	**(0)**	**441**	527

12 BONDS AND OTHER LONG-TERM FUNDING *(continued)*

12.1 Unsecured listed bonds *(continued)*

	Face value 2009 Rm	Interest capitalised 2009 Rm	Unamortised discount 2009 Rm	Net liability 2009 Rm	Net liability 2008 Rm
ABL9 bonds with an original face value of R550 million, issued on 19 February 2009, are redeemable on 19 February 2012. Interest is calculated and payable quarterly at the 3 month JIBAR rate plus 3.3%.	**524**	**6**	**(0)**	**530**	-
ABLI02 bonds with an original face value of R2 020 million, issued on 8 May 2009, are redeemable on 8 May 2014. Interest is payable semi-annually and is calculated at CPI plus 8%.	**2 020**	**67**	**56**	**2 143**	-
Less: Held by fellow subsidiary	**(49)**	**-**	**(4)**	**(53)**	(51)
	6 193	**143**	**45**	**6 381**	4 434

12.2 Unsecured long-term loans

	Face value 2009 Rm	Interest capitalised 2009 Rm	Unamortised discount 2009 Rm	Net liability 2009 Rm	Net liability 2008 Rm
Promissory notes – long-term	**4 486**	**87**	**-**	**4 573**	2 952
Fixed deposits – long-term	**3 607**	**134**	**-**	**3 741**	2 905
Negotiable certificates of deposit – long-term	**-**	**-**	**-**	**-**	27
	8 093	**221**	**-**	**8 314**	5 884

Promissory notes consist of zero coupons, quarterly coupons and semi-annual coupons, with rates varying from 7.56% to 13.15% NACQ, NACS and NACA. These notes have various maturities, ranging from 2 October 2009 to 24 March 2014. Promissory notes with a nominal value of R3 118 million (2008: R1 741 million) are payable within the next 12 months.
The fixed deposits – long-term consists of zero coupons, monthly coupons, quarterly coupons and semi-annual coupons, with rates varying from 7.50% to 14.65% NACM, NACQ, NACS and NACA. These fixed deposits have various maturities, ranging from 2 October 2009 to 29 July 2013. Fixed deposits with a nominal value of R2 655 million (2008: R2 191 million) are payable within the next 12 months.
The negotiable certificates of deposit – long-term consisted of zero coupons with rates of 12.05% NACA. These negotiable certificates of deposit matured on 4 February 2009.

The company has unutilised credit facilities with Standard Bank of R70 million. The total unutilised credit facilities granted to credit card holders amount to R344 million (2008: R156 million).

13 SUBORDINATED BONDS AND LOANS

	Face value 2009 Rm	Interest capitalised 2009 Rm	Unamortised discount 2009 Rm	Net liability 2009 Rm	Net liability 2008 Rm
ABLS1 subordinated bonds issued on 8 August 2007, are redeemable on or after 8 August 2012, but no later than 8 August 2017. Interest up to 8 August 2012 is calculated at the 3 month JIBAR plus 1.6% payable quarterly. On 8 August 2012 the rate resets to the 3 month JIBAR plus 3.6% with the same payment intervals.	**300**	**4**	**(0)**	**304**	306
ABLS2A subordinated bonds issued on 13 July 2009, are redeemable on or after 13 July 2016. Interest is calculated at a fixed rate of 15.5% payable semi-annually.	**520**	**18**	**(1)**	**537**	-

13 SUBORDINATED BONDS AND LOANS *(continued)*

	Face value 2009 Rm	Interest capitalised 2009 Rm	Unamortised discount 2009 Rm	Net liability 2009 Rm	Net liability 2008 Rm
ABLS2B subordinated bonds issued on 13 July 2009, are redeemable on or after 13 July 2016. Interest is calculated at the 3 month JIBAR plus 6.3% payable quarterly.	**480**	**15**	**(0)**	**495**	-
Subordinated debentures 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 3 month JIBAR plus 5% and capitalised quarterly. On 6 August 2015 the rate resets to the 3 month JIBAR plus 7.5%.	**225**	**39**	**(0)**	**264**	205
International Finance Corporation (IFC) subordinated Tier II capital qualifying loan issued on 12 January 2009, redeemable on or after 15 December 2015, but no later than 15 December 2020. Interest for the initial 7 year non-callable period translates into 3 month JIBAR plus 3.7%.	**350**	**2**	**(6)**	**346**	-
Proparco subordinated Tier II capital qualifying loan issued on 28 April 2009, redeemable on or after 15 September 2016, but no later than 13 September 2021. Interest for the initial 7 year non-callable period translates into 3 month JIBAR plus 5.8%.	**100**	**-**	**(2)**	**98**	-
	1 975	**78**	**(9)**	**2 044**	511

14 AMOUNTS OWING TO FELLOW SUBSIDIARIES

	Rate	Type	Maturity	2009 Rm	2008 Rm
• The Standard General Insurance Company Ltd	6.75%	Call	On demand	**154**	246
• The Standard General Insurance Company Ltd	Per note 12	ABLI01 bonds	Per note 12	**38**	36
• The Standard General Insurance Company Ltd	Per note 12	ABL8A bonds	Per note 12	**8**	8
• The Standard General Insurance Company Ltd	Per note 12	ABL8B bonds	Per note 12	**7**	7
• Miners Credit Guarantee (Pty) Limited (MCG)	-	Loan	Not applicable	**1**	23
• Theta Investments (Pty) Limited (Theta)	-	Loan	Not applicable	**19**	46
• ABIL Employee Share Trust (the Trust)	-	Loan	Not applicable	**19**	19
• Other loans	-	Loan	Not applicable	**153**	133
				399	518

The rates reflected are as at 30 September 2009. The loans from MCG, Theta, the Trust and other loans are unsecured, interest free and have no fixed terms of repayment.

	2009 Rm	2008 Rm
15 AMOUNTS OWING TO SUBSIDIARY COMPANIES		
Loans to subsidiary companies	**-**	20
	-	20

These loans were paid in full as part of the voluntary liquidation of the subsidiaries (also see note 8).
See Annexure B for more information relating to subsidiaries and joint venture.

16 SHARE CAPITAL

	2009 Number of shares	**2009 Rm**	2008 Number of shares	2008 Rm
Authorised				
Ordinary shares of R1 each	**130 000 000**	**130**	130 000 000	130
Cumulative redeemable preference shares of R1 each	**3 750 000**	**4**	3 750 000	4
Issued				
Ordinary shares of R1 each	**121 251 502**	**121**	121 251 502	121
Cumulative redeemable preference shares of R1 each	**-**	**-**	-	-

The 8 748 498 (2008: 8 748 498) unissued ordinary shares and 3 750 000 (2008: 3 750 000) unissued preference shares remain under the unrestricted control of the directors, until the forthcoming annual general meeting.

	2009 Rm	2008 Rm
17 RESERVES		
Attributable income	**1 855**	1 094
Share-based payment reserve	**(129)**	(140)
Cashflow hedging reserve	**(32)**	(14)
	1 694	940
18 INTEREST INCOME		
Interest income on advances	**4 244**	3 323
Other interest income	**312**	238
	4 556	3 561
19 NON-INTEREST INCOME		
Loan origination fees	**387**	346
Collection charges and service fees	**961**	705
Credit card fees	**238**	162
Other income	**22**	38
	1 608	1 251

During the prior financial year the company changed its basis of accounting for service fees from being recognised monthly in the income statement on a straight line basis when charged, to being amortised to the income statement over the contractual life of the loan using the effective interest rate method, resulting in a constant yield to maturity for the loan. This was necessitated by the introduction of higher service fees (offset by lower interest rates) following the introduction of the National Credit Act in June 2007, which under the previous accounting basis would have resulted in a material deferral of income to the latter stages of the loan's term.
Furthermore, the accounting treatment for service fees is now consistent with that applied to origination fees which are also amortised using the effective interest method.
The application of the previous basis of accounting would have resulted in service fee income recognised in the income statement for the prior year being R180 million lower than reported, with this amount being deferred into future unrecognised income.

	2009 Rm	2008 Rm
20 CHARGE FOR BAD AND DOUBTFUL ADVANCES		
Increase in impairment provisions (refer note 5)	**2 065**	1 553
Less: Bad debts recovered	**(136)**	(192)
	1 929	1 361

	2009 Rm	2008 Rm
21 INTEREST EXPENSE		
Subordinated debt	**135**	44
Unsecured listed bonds	**634**	306
Unsecured long-term loans	**742**	579
Demand deposits	**63**	62
Fixed and notice deposits	**160**	129
Negotiable certificates of deposit	**81**	49
Other	**33**	6
	1 848	1 175

Interest expense other - relates predominantly to the net interest paid on the interest rate swaps.

	2009 Rm	2008 Rm
22 OPERATING COSTS		
Auditors' remuneration	**5**	4
Audit fees	**5**	4
Fees for other services	**-**	-
Bank charges	**175**	138
Depreciation on property and equipment (note 9)	**73**	62
Direct selling costs and commissions	**10**	11
Information technology costs	**29**	20
Professional fees	**21**	14
Legal fees	**2**	2
Consultants and other professional fees	**19**	12
Staff cost	**625**	619
Basic remuneration	**530**	488
Bonuses and incentives	**49**	68
Charge for share-based incentives	**46**	63
Operating lease premiums	**104**	90
Leasehold fixed property - external	**92**	81
Computers and other equipment	**12**	9
Directors' remuneration paid by company (see annexure A)	**23**	26
Non-executive directors - fees	**3**	2
Executive directors - basic remuneration	**11**	12
- bonuses	**9**	12
Telephone, fax and other communication costs	**66**	66
Other expenses	**183**	151
	1 314	1 201

	2009 Rm	2008 Rm
23 TAXATION		
Charge for the year:	**299**	288
SA normal taxation		
Current year	**278**	236
Prior year	**-**	(26)
Deferred taxation		
Current year	**21**	53
Prior year	**-**	23
Rate change	**-**	2
Secondary tax on companies	**(2)**	48
Taxation per income statement	**297**	336

	2009 Rm	2008 Rm

23 TAXATION *(continued)*

Tax rate reconciliation:

Profit before taxation	**1 058**	1 023
Total taxation per income statement	**297**	336

	%	%
Taxation charge for the year as a percentage of net income before taxation	**28.1**	32.8
Capital items	**(0.3)**	(0.3)
Secondary tax on companies	**0.2**	(4.6)
Rate change	**-**	(0.2)
Other	**-**	0.3
Standard rate of South African taxation	**28.0**	28.0

	2009 Rm	2008 Rm

24 CASH GENERATED FROM OPERATIONS

Profit from operations	**1 058**	1 023
Adjustments for:		
- Indirect taxation	**15**	52
- Decrease in provision for deferred administration fees	**(57)**	(182)
- Increase in impairment provisions	**2 065**	1 553
- Depreciation	**73**	62
- Normal and conversion option charges accounted for in equity	**-**	1
- Hedge variation margin	**16**	(22)
- Movement in share-based payment reserve accounted for in equity	**11**	(21)
- Movement in cashflow hedging reserve accounted for in equity	**(18)**	(14)
- Mark-to-market adjustment of option liability	**-**	(3)
- Incentive accruals	**73**	44
Cash generated from operations	**3 236**	2 493

25 CASH RECEIVED FROM LENDING ACTIVITIES AND CASH RESERVES

Interest income (refer note 18)	**4 556**	3 561
Non-interest income (refer note 19)	**1 608**	1 251
Movement in deferred administration fees provision	**(57)**	(182)
	6 107	4 630

26 CASH PAID TO CLIENTS, SUPPLIERS OF FUNDING, EMPLOYEES AND AGENTS

Interest expense (refer note 21)	**(1 848)**	(1 175)
Basic remuneration, bonuses and incentives to staff and executive directors (refer note22)	**(599)**	(580)
Direct selling costs and commissions (refer note 22)	**(10)**	(11)
Bank charges (refer note 22)	**(175)**	(138)
Other operating costs	**(375)**	(425)
	(3 007)	(2 329)

27 INCREASE IN GROSS ADVANCES

Opening balance of gross advances	**16 106**	10 890
Less: Closing balance of gross advances	**(21 001)**	(16 106)
Movement in gross advances	**(4 895)**	(5 216)
Less: Bad debts written off	**(664)**	(607)
	(5 559)	(5 823)

	2009 Rm	2008 Rm
28 INDIRECT AND DIRECT TAXATION PAID		
Increase / (decrease) in tax liability	**39**	(56)
Indirect and direct taxation charged to income statement	**(312)**	(388)
Deferred tax portion of amount charged to income statement	**21**	78
Taxation accounted for in equity as result of hedge transactions	**(5)**	(11)
	(257)	(377)
29 OTHER INVESTING ACTIVITIES		
Increase in statutory assets	**(226)**	(287)
(Increase) / decrease in group loans	**(975)**	71
	(1 201)	(216)
30 CASH INFLOW FROM FUNDING ACTIVITIES		
Funding raised	**7 017**	8 004
Bonds issued	**2 570**	2 443
Subordinated bonds and loans issued	**1 475**	200
Other treasury funding	**2 972**	5 361
Funding redeemed	**(2 407)**	(2 384)
Bonds	**(756)**	(617)
Subordinated bonds and loans	**-**	-
Other treasury funding	**(1 651)**	(1 767)
	4 610	5 620
31 DIVIDENDS PAID		
Dividends paid to shareholder	**-**	(530)
	-	(530)

Dividend paid of nil cents per share (2008: 437.1 cents per share).

	2009 Rm	2008 Rm
32 CASH AND CASH EQUIVALENTS		
Short-term deposits and cash	**3 484**	2 848
	3 484	2 848

33 FINANCIAL RISK

33.1 Interest rate risk

The company is exposed to interest rate risk associated with the effects of fluctuations in the prevailing levels of market rates on its financial positions and cash flows. The table below summarises the 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. Cash is included in the one month category.

2009	Up to one month Rm	One to three months Rm	Four to twelve months Rm	Beyond twelve months Rm	Non-interest sensitive items Rm	Total Rm
Assets						
Short-term deposits and cash	1 674	1 810	-	-	-	3 484
Statutory assets	512	536	-	-	-	1 048
Other assets	41	-	-	-	59	100
Net advances	477	1 262	4 216	10 800	-	16 755
Deferred tax asset	-	-	-	-	57	57
Amounts owing by holding company and fellow subsidiaries	840	-	-	-	25	865
Investments in subsidiaries	-	-	-	-	-	-
Property and equipment	-	-	-	-	316	316
Total assets	3 544	3 608	4 216	10 800	457	22 625
Liabilities and equity						
Short-term funding	676	465	559	-	-	1 700
Other liabilities	85	-	-	-	443	528
Taxation	-	-	-	-	42	42
Bonds and other long-term funding	3 373	4 606	3 344	3 372	-	14 695
Subordinated bonds and loans	521	983	18	522	-	2 044
Amounts owing to fellow subsidiaries	154	-	-	53	192	399
Amounts owing to subsidiary companies	-	-	-	-	-	-
Total liabilities	4 809	6 054	3 921	3 947	677	19 408
Ordinary shareholder's equity	-	-	-	-	3 217	3 217
Total equity (capital and reserves)	4 809	6 054	3 921	3 947	3 894	22 625
On balance sheet interest sensitivity	(1 265)	(2 446)	295	6 853	(3 437)	-

33 FINANCIAL RISK *(continued)*

33.1 Interest rate risk *(continued)*

2008	Up to one month Rm	One to three months Rm	Four to twelve months Rm	Beyond twelve months Rm	Non-interest sensitive items Rm	Total Rm
Assets						
Short-term deposits and cash	1 895	953	-	-	-	2 848
Statutory assets	332	125	23	70	272	822
Other assets	7	-	-	-	13	20
Net advances	496	1 004	3 090	8 614	-	13 204
Deferred tax asset	-	-	-	-	74	74
Amounts owing by holding company and fellow subsidiaries	-	-	-	-	29	29
Investments in subsidiaries	-	-	-	-	20	20
Property and equipment	-	-	-	-	231	231
Total assets	2 730	2 082	3 113	8 684	639	17 248
Liabilities and equity						
Short-term funding	725	827	1 436	12	-	3 000
Other liabilities	10	-	-	-	405	415
Taxation	-	-	-	-	3	3
Bonds and other long-term funding	532	492	3 194	6 100	-	10 318
Subordinated bonds and loans	-	11	-	500	-	511
Amounts owing to fellow subsidiaries	247	-	-	51	220	518
Amounts owing to subsidiary companies	-	-	-	-	20	20
Total liabilities	1 514	1 330	4 630	6 663	648	14 785
Ordinary shareholder's equity	-	-	-	-	2 463	2 463
Total equity (capital and reserves)	1 514	1 330	4 630	6 663	3 111	17 248
On balance sheet interest sensitivity	1 216	752	(1 517)	2 021	(2 472)	-

33 FINANCIAL RISK *(continued)*

33.2 Liquidity risk

Assets and liability maturities as at 30 September 2009

2009	Up to one month Rm	One to three months Rm	Four to twelve months Rm	Beyond twelve months Rm	Total Rm
Assets					
Short-term deposits and cash	1 674	1 810	-	-	3 484
Statutory assets	512	536	-	-	1 048
Other assets	-	58	-	42	100
Net advances	477	1 262	4 216	10 800	16 755
Deferred tax asset	-	-	-	57	57
Amounts owing by holding company and fellow subsidiaries	-	-	840	25	865
Investments in subsidiaries	-	-	-	-	-
Property and equipment	-	-	-	316	316
Total assets	**2 663**	**3 666**	**5 056**	**11 240**	**22 625**
Liabilities and equity					
Short-term funding	676	465	559	-	1 700
Other liabilities	445	1	30	52	528
Taxation	42	-	-	-	42
Bonds and other long-term funding	431	717	5 451	8 096	14 695
Subordinated bonds and loans	15	10	18	2 001	2 044
Amounts owing to fellow subsidiaries	279	-	-	120	399
Amounts owing to subsidiary companies	-	-	-	-	-
Total liabilities	**1 888**	**1 193**	**6 058**	**10 269**	**19 408**
Ordinary shareholder funds	-	-	-	3 217	3 217
Total liabilities and equity	**1 888**	**1 193**	**6 058**	**13 486**	**22 625**
Net liquidity gap	**775**	**2 473**	**(1 002)**	**(2 246)**	**-**

The table above analyses the company's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. Cash is included in the one month category.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the company. It is unusual for banks ever to be completely matched since the business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of 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 company and its exposure to changes in interest rates.

33 FINANCIAL RISK *(continued)*

33.2 Liquidity risk *(continued)*

Assets and liability maturities as at 30 September 2008

2008	Up to one month Rm	One to three months Rm	Four to twelve months Rm	Beyond twelve months Rm	Total Rm
Assets					
Short-term deposits and cash	1 895	953	-	-	2 848
Statutory assets	604	125	23	70	822
Other assets	7	13	-	-	20
Net advances	496	1 004	3 090	8 614	13 204
Deferred tax asset	-	-	-	74	74
Amounts owing by holding company and fellow subsidiaries	-	-	-	29	29
Investments in subsidiaries	-	-	-	20	20
Property and equipment	-	-	-	231	231
Total assets	3 002	2 095	3 113	9 038	17 248
Liabilities and equity					
Short-term funding	725	827	1 436	12	3 000
Other liabilities	415	-	-	-	415
Taxation	-	-	3	-	3
Bonds and other long-term funding	532	492	3 194	6 100	10 318
Subordinated bonds and loans	-	11	-	500	511
Amounts owing to fellow subsidiaries	247	-	-	271	518
Amounts owing to subsidiary companies	-	-	-	20	20
Total liabilities	1 919	1 330	4 633	6 903	14 785
Ordinary shareholder funds	-	-	-	2 463	2 463
Total liabilities and equity	1 919	1 330	4 633	9 366	17 248
Net liquidity gap	1 083	765	(1 520)	(328)	-

33.3 Credit risk

All loans granted by the bank are granted to individuals in the Republic of South Africa.

The company 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 electronic debit order payments directly from customer bank accounts and payroll deductions. All arrear accounts are actively managed on an ongoing basis from the day after the account goes into arrears using various methods which include deferred arrangements and legal collections to minimise the arrear loan book.
Further disclosure has been provided under note 5.1.
The company maintains cash and cash equivalents and short term investments with various financial institutions and in this regard it is company policy to limit its exposure to any one financial institution. Deposits are placed only with South African banks and limited to the big five banks within South Africa.
The company is exposed to credit risk in terms of interest rate swaps that the company has entered into with various other South African banks to the value of approximately R32 million.

33 FINANCIAL RISK *(continued)*

33.4 Currency risk

The company has no foreign currency positions.

33.5 Capital adequacy risk

Capital adequacy risk is the risk that the bank will not have sufficient reserves to meet adverse variations in collections as compared with that which has already been assumed within the impairment provisions and reserves. Capital adequacy is measured by expressing capital as a percentage of risk-weighted assets. The Banks Act, 94 of 1990, specifies the minimum capital holding required in relation to risk-weighted assets.

Refer to the table below for the capital adequacy requirements and comparatives as at 30 September 2009.

	Balances		Weighting	Risk weighted balances	
	2009 Rm	2008 Rm	**%**	**2009 Rm**	2008 Rm
Cash, central banks and government securities	**1 070**	851	**-**	**-**	-
Interbank placements	**3 492**	2 890	**20**	**698**	578
All other assets	**18 211**	13 645	**50 – 150**	**14 726**	11 129
Total on-balance sheet assets	**22 773**	17 386		**15 424**	11 707
Off-balance sheet items	**1 241**	493	**0 – 100**	**-**	-
Total average assets	**24 014**	17 879		**15 424**	11 707
Required capital: 20.5% (2008: 20.5%)				**3 210**	2 297
Capital available					
Primary (Tier 1)					
Share capital				**121**	121
Primary reserves (less allowable deductions)				**3 084**	2 333
Total				**3 205**	2 454
Secondary (Tier 2)					
Subordinated debt instruments				**2 044**	511
General provisions net of impairments				**90**	76
Non-qualifying capital reserves				**(647)**	(60)
Total				**1 487**	527
Total qualifying capital and unimpaired reserve funds				**4 692**	2 981
Total capital to risk weighted assets				%	%
Primary				**20.5**	21.0
Secondary				**9.6**	4.5
Total				**30.1**	25.5

34 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies on pages 8 to 20 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 financial instrument has also been provided.

34 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES *(continued)*

34.1 Analysis of financial assets

2009 **Assets**	**Advances** **Rm**	**Statutory assets & cash** **Rm**	**Inter company** **Rm**	**Other** **Rm**	**Non-financial instruments** **Rm**	**Total** **Rm**
Short-term deposits and cash	**-**	**3 484**	**-**	**-**	**-**	**3 484**
Statutory assets	**-**	**1 048**	**-**	**-**	**-**	**1 048**
Derivative instruments	**-**	**-**	**-**	**41**	**-**	**41**
Other assets	**-**	**-**	**-**	**59**	**-**	**59**
Net advances	**16 755**	**-**	**-**	**-**	**-**	**16 755**
Deferred tax asset	**-**	**-**	**-**	**-**	**57**	**57**
Amounts owing by holding company and fellow subsidiaries	**-**	**-**	**865**	**-**	**-**	**865**
Investments in subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**
Property and equipment	**-**	**-**	**-**	**-**	**316**	**316**
	16 755	**4 532**	**865**	**100**	**373**	**22 625**

Fair value	**16 071**	**4 435**	**865**	**100**
Quoted price (level I)	**-**	**4 435**	**-**	**-**
Quoted price (level II)	**-**	**-**	**-**	**41**
Quoted price (level III)	**16 071**	**-**	**865**	**59**

Categories of financial instruments						
Fair value						
Derivatives designated as cash flow hedging instruments	**-**	**-**	**-**	**41**	**-**	**41**
Amortised cost						
Held-to-maturity statutory assets	**-**	**1 048**	**-**	**-**	**-**	**1 048**
Loans and receivables	**16 755**	**3 484**	**865**	**59**	**-**	**21 163**
Non-financial instruments	**-**	**-**	**-**	**-**	**373**	**373**
	16 755	**4 532**	**865**	**100**	**373**	**22 625**

2008 **Assets**	Advances Rm	Statutory assets & cash Rm	Inter company Rm	Other Rm	Non-financial instruments Rm	Total Rm
Short-term deposits and cash	-	2 848	-	-	-	2 848
Statutory assets	-	822	-	-	-	822
Derivative instruments	-	-	-	7	-	7
Other assets	-	-	-	13	-	13
Net advances	13 204	-	-	-	-	13 204
Deferred tax asset	-	-	-	-	74	74
Amounts owning by holding company and fellow subsidiaries	-	-	29	-	-	29
Investments in subsidiaries and joint venture	-	-	-	-	20	20
Property and equipment	-	-	-	-	231	231
	13 204	3 670	29	20	325	17 248

Fair value	13 537	3 668	29	20
Quoted price (level I)	-	3 668	-	-
Quoted price (level II)	-	-	-	7
Quoted price (level III)	13 537	-	29	13

34 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES *(continued)*

34.1 Analysis of financial assets *(continued)*

Categories of financial instruments

2008	Advances Rm	Statutory assets & cash Rm	Inter company Rm	Other Rm	Non-financial instruments Rm	Total Rm
Fair value						
Derivatives designated as cash flow hedging instruments	-	-	-	7	-	7
Amortised cost						
Held-to-maturity statutory assets	-	550	-	-	-	550
Loans and receivables	13 204	3 120	29	13	-	16 366
Non-financial instruments	-	-	-	-	325	325
	13 204	3 670	29	20	325	17 248

Income statement effect of financial instruments by category

	2009 Rm	2008 Rm
Interest income recognised – loans and receivables	**4 495**	3 514
Interest income recognised – held-to-maturity assets	**61**	47
	4 556	3 561

34.2 Analysis of financial liabilities

	Amortised cost funding		**Fair value**	**Other**		
2009	**Listed funding Rm**	**Unlisted funding Rm**	**Other Rm**	**Equity & reserves Rm**	**Non-financial instruments Rm**	**Total Rm**
Ordinary shareholder’s equity	**-**	**-**	**-**	**3 217**	**-**	**3 217**
Liabilities						
Short-term funding	**-**	**1 700**	**-**	**-**	**-**	**1 700**
Derivative instruments	**-**	**-**	**85**	**-**	**-**	**85**
Other liabilities	**-**	**235**	**-**	**-**	**208**	**443**
Taxation	**-**	**-**	**-**	**-**	**42**	**42**
Bonds and other long-term funding	**6 381**	**8 314**	**-**	**-**	**-**	**14 695**
Subordinated bonds and loans	**1 336**	**708**	**-**	**-**	**-**	**2 044**
Amounts owing to fellow subsidiaries	**53**	**346**	**-**	**-**	**-**	**399**
Amounts owing to subsidiary companies	**-**	**-**	**-**	**-**	**-**	**-**
	7 770	**11 303**	**85**	**3 217**	**250**	**22 625**
Fair value	**7 833**	**11 504**	**85**			

34 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES *(continued)*

34.2 Analysis of financial liabilities *(continued)*

	Amortised cost funding		Fair value	Other		
2008	Listed funding Rm	Unlisted funding Rm	Other Rm	Equity & reserves Rm	Non-financial instruments Rm	Total Rm
Ordinary shareholder's equity	-	-	-	2 463	-	2 463
Liabilities						
Short-term funding	-	3 000	-	-	-	3 000
Other liabilities	-	203	-	-	202	405
Taxation	-	-	-	-	3	3
Derivative instruments	-	-	10	-	-	10
Bonds and other long-term funding	4 434	5 884	-	-	-	10 318
Subordinated bonds and loans	306	205	-	-	-	511
Amounts owing to fellow subsidiaries	51	467	-	-	-	518
Amounts owing to subsidiary companies	-	20	-	-	-	20
	4 791	9 779	10	2 463	205	17 248
Fair value	4 728	9 617	10			

Income statement effect of financial instruments by category

	2009 Rm	2008 Rm
Financial liabilities at amortised cost – interest expense	**1 833**	1 152

35 INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company has significant fair value interest rate risk arising from its fixed rate advances portfolio. In order to mitigate this risk, the company seeks to achieve funding that is similarly fixed rate. This not only reduces the fair value interest rate exposure but also achieves a fixed cost of lending for the company.

The interest rate risk management policies and procedures have been described in detail in the risk management review report of the group annual financial statements of the holding company, African Bank Investments Limited.

It is not always feasible to issue fixed rate funding and therefore the company makes use of derivative instruments in order to reduce cash flow risk arising from changes in interest rates. In terms of the treasury mini-manual the bank is required to maintain a risk sensitivity limit of 1.75% given a 200bp shift in applicable interest rates. The hedges transacted are in response to this limit. Where possible, the company designates these derivatives as effective cash flow hedges. This accounting treatment results in an economically represented income statement but does create accounting volatility within equity.

Sensitivity analysis based on a 100bp increase in rates
IFRS 7 Financial Instruments: Disclosures requires that a sensitivity analysis be provided for changes in interest rates. The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivatives at the balance sheet date. For floating rate liabilities, the analyses 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 changes 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.

35 INTEREST RATE RISK MANAGEMENT *(continued)*

The sensitivity analysis below is based on an increase in rates. Given the linear structure of the company's portfolio, a 100bp decrease in interest rates would result in a corresponding net decrease of R22 million (2008: R16 million) in net income and a R23 million (2008: R51 million) in equity.

2009 Financial assets	Carrying value Rm	Amount exposed to market risk Rm	Index to which rate is linked Rm	Income statement impact (pre-tax) Rm	Equity impact (pre-tax) Rm
Interest rate swaps	21	1 121	JIBAR	-	6
CPI linked swaps	20	246	CPI	-	9
Cash and cash equivalents	3 484	3 484	JIBAR	35	-
	3 525	4 851		35	15
Financial liabilities					
Subordinated bonds and loans	708	264	JIBAR	5	-
Promissory notes	4 573	902	JIBAR	9	-
Fixed deposits	4 896	400	JIBAR	4	-
Interest rate swaps	85	4 850	JIBAR	(5)	(8)
	10 262	6 416		13	(8)
Net effect on income statement and equity				22	23

2008 Financial assets	Carrying value Rm	Amount exposed to market risk Rm	Index to which rate is linked Rm	Income statement impact (pre-tax) Rm	Equity impact (pre-tax) Rm
Interest rate swaps	1	675	JIBAR	-	10
CPI linked swaps	6	260	CPI	-	11
Cash and cash equivalents	2 848	2 848	JIBAR	28	-
	2 855	3 783		28	21
Financial liabilities					
Subordinated bonds and loans	205	205	JIBAR	2	-
Promissory notes	2 952	485	JIBAR	5	-
Fixed deposits	4 744	496	JIBAR	5	-
Interest rate swaps	10	1 587	JIBAR	-	(30)
	7 911	2 773		12	(30)
Net effect on income statement and equity				16	51

Liquidity risk management
Liquidity risk is defined as the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities.

The following table represents the company's undiscounted cash flows of liabilities per remaining maturity and includes all cash outflows related to the principal amounts as well as future payments. The analysis is based on the earliest date on which the company can be required to pay and is not necessarily the date at which the company is expected to pay.

Where an effective hedging relationship exists, the net cash fixed flows per hedged item have been disclosed.
The analysis of cash flows will not agree directly with the balances on the balance sheet and therefore an analysis of carrying values has been provided.

36 LIQUIDITY ANALYSIS *(continued)*

2009 **Financial liabilities**	**Carrying amount Rm**	**< 1 month Rm**	**1 to 3 months Rm**	**4 to 12 months Rm**	**Beyond 12 months Rm**	**Total Rm**
Demand deposits	**286**	**286**	**-**	**-**	**-**	**286**
Derivative instruments	**85**	**-**	**2**	**1**	**82**	**85**
Promissory notes	**4 574**	**174**	**1 177**	**2 078**	**1 419**	**4 848**
Fixed deposits	**4 895**	**547**	**1 544**	**1 979**	**1 215**	**5 285**
Negotiable certificates of deposit	**260**	**119**	**144**	**-**	**-**	**263**
Other liabilities	**235**	**235**	**-**	**-**	**-**	**235**
Bonds and debentures	**8 424**	**33**	**401**	**928**	**11 721**	**13 083**
Amounts owing to fellow subsidiaries	**399**	**346**	**-**	**-**	**106**	**452**
Amounts owing to subsidiary companies	**-**	**-**	**-**	**-**	**-**	**-**
	19 158	**1 740**	**3 268**	**4 986**	**14 543**	**24 537**
2008						
Financial liabilities						
Demand deposits	277	277	-	-	-	277
Derivative instruments	10	-	-	-	10	10
Promissory notes	2 952	215	320	1 525	1 254	3 314
Fixed deposits	4 744	741	848	2 600	792	4 981
Negotiable certificates of deposit	911	-	181	778	-	959
Other liabilities	203	203	-	-	-	203
Bonds and debentures	4 945	-	61	460	7 418	7 939
Amounts owing to fellow subsidiaries	518	467	1	4	104	576
Amounts owing to subsidiary companies	20	20	-	-	-	20
	14 580	1 923	1 411	5 367	9 578	18 279

37 INTEREST RATE RISK HEDGING

In terms of the company’s interest rate hedging strategy, it has entered into a number of interest rate swap agreements that convert floating rate of interest paid on an identified underlying financial liability into a fixed rate. This enables the company to mitigate the cash flow risk arising from the change in interest rates on the issued variable rate liabilities. In terms of IAS 39 Financial Instruments: Recognition and Measurement these swaps have been documented and designated as effective cash flow hedges. The hedged risk is either quarterly resetting JIBAR or the effect of changes in CPI and the derivative instruments are settled on a net basis at each cash flow date.
The fair value of the derivative instruments is determined using accepted valuation methodologies and the applicable market rate on date of valuation. The average interest rate is based on the outstanding balances at the end of the financial year. 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.

2009 **Cash flow hedges**	**Average contracted %**	**Hedged amount Rm**	**Fair value asset Rm**	**Fair value liability Rm**
Less than 1 year	**9.54%**	**2 553**	**-**	**(34)**
1 to 2 years	**8.58%**	**646**	**-**	**(12)**
2 to 5 years	**9.23%**	**2 320**	**23**	**(39)**
Greater than 5 years	**8.39%**	**698**	**18**	**-**
		6 217	**41**	**(85)**
2008				
Less than 1 year	11.40%	375	1	-
1 to 2 years	11.26%	891	-	(4)
2 to 5 years	10.46%	1 145	6	(6)
		2 411	7	(10)

37 INTEREST RATE RISK HEDGING *(continued)*

In terms of the IAS 39 hedge accounting requirements, the change in fair value of the hedging instrument found to be effective will be recognised in the statement of changes in the hedging reserve (equity). Complete ineffectiveness will be recognised directly in profit or loss for the period where the hedge effectiveness exceeds the 80% to 125% threshold. To the extent that the change in fair value of the hedged item is over-effective (i.e. greater than 100%) but still within the 80% to 125% threshold the amount of over-effectiveness will be recognised in profit and loss. To the extent that the relationship is under-effective (but within the threshold) the full amount of the change will be recognised in equity. All hedges in the current period were found to be effective.

Given the hedging methodology applied, only the fair value adjustment on the derivative is recognised in equity and any interest accrual on the derivative is recognised in interest expense, therefore no amounts (other than ineffectiveness) are transferred out of equity into income statement directly. The hedging reserve will reduce to zero in line with the pull to par effect on the swap.

Interest rate hedging reserve reconciliation	2009 Rm	2008 Rm
Balance at beginning of year	**14**	-
Losses recognised in equity	**42**	20
Tax effect	**(6)**	(6)
Amount recognised in profit or loss	**(18)**	-
Balance at end of year	**32**	14

38 INCENTIVE PAYMENTS – HEDGING OF EXPOSURE FROM THE AFRICAN BANK INVESTMENTS LIMITED SHARE PRICE MOVEMENTS

In terms of the company's long-term incentive plan (LTIP), the ultimate liability is directly impacted by the ABIL share price at predefined dates. During June 2006 a decision was taken to hedge the exposure under the LTIP (and remaining converted options) with regard to ABIL share price movements to avoid volatility in the company's earnings due to movements in the ABIL share price. A total return equity swap (TRES) was entered into during July 2006 with a third party in terms of which the liability of the company will be calculated on a fixed share price per ABIL share. The financial effects of the hedge entered into is that any increase in the ABIL share price above the hedge price results in the company receiving the gain from the third party in terms of the TRES whilst any decrease in the ABIL share price will result in the company paying the third party the difference between the hedge price and market price. These differences are determined on specific dates in terms of the hedge to match the company's liability in terms of the LTIP. In terms of IAS 39 Financial Instruments: Recognition and Measurement these swaps have been documented and designated effective cash flow hedges.

The fair value of the derivative instruments is determined using accepted valuation methodologies and the applicable market rate on date of valuation. The hedge is constructed so as to mirror the expected vesting of the LTIPs.

In terms of 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 hedging reserve (equity). Complete ineffectiveness will be recognised in profit or loss for the period where the hedge effectiveness exceeds the 80% to 125% threshold. To the extent that the change in the fair value of the hedged item is over-effective (i.e. greater than 100%) but still within the 80% to 125% threshold the amount of over-effectiveness will be recognised in profit and loss. To the extent that the relationship is under-effective (but within the threshold) the full amount of the change will be recognised in equity. All hedges in the current period were found to be effective.

The table below represents the reconciliation of the LTIP hedging reserve.

LTIP hedging reserve reconciliation	2009 Rm	2008 Rm
Balance at beginning of year	**140**	119
Loss / (gain) on hedging instrument recognised in equity	**(15)**	27
Amount transferred to profit and loss	**-**	(1)
Tax effect	**4**	(5)
Balance at end of year	**129**	140

39 CONTINGENT LIABILITIES AT YEAR END

The company has cash deposits with Standard Bank for EFT, encashment facilities, Visa facilities, electricity and deposit guarantees totalling R20 million (2008: R20 million). The company has a contingent exposure to legal claims of R0.5 million (2008: R0.7 million). The company has a contingent liability for unclaimed reparation claims of R20 million relating to clients of its GEMS division (also see note 7).

40 OPERATING LEASE COMMITMENTS

		2009 Rm	2008 Rm
Payable within one year	- Property	**54**	64
	- Computers and other equipment	**-**	1
		54	65
Payable between one and five years	- Property	**57**	52
	- Computers and other equipment	**-**	-
		57	52
		111	117

41 CAPITAL COMMITMENTS

The company has no authorised or contracted capital commitments at year end.

42 RETIREMENT AND POST RETIREMENT BENEFITS

It is compulsory for all permanent staff to belong to the company provident fund. Membership of the company pension fund is voluntary. The funds are governed by the Pension Funds Act, 1956. The funds are in the nature of defined contribution plans where the retirement benefits are determined with reference to actual contributions to the funds. No actuarial valuation has been done for this reason. The company makes contributions towards the fund, based on a total cost to company package.

The company has no obligation to provide medical aid benefits or post-retirement benefits to employees or pensioners.

43 RELATED PARTY INFORMATION

Relationship between the company, its holding company and its fellow subsidiaries

The company's holding company, African Bank Investments Limited, holds 100% of (inter alia) African Bank Limited (the company), 100% of Ellerine Holdings Limited (Ellerines), Theta Investments (Proprietary) Limited (Theta) and The Standard General Insurance Company Limited (Stangen). The company no longer has any subsidiaries as they were dormant and have now been voluntarily liquidated. See additional disclosure in Annexure B.

Related party transactions

The company has entered into financial services transactions with its holding company, subsidiaries and fellow subsidiaries. Transactions between the company and Stangen as well as between the company and the SBSA JV were in the ordinary course of business on market related terms and conditions similar to those arranged with third parties. In the case of Stangen these transactions involve commission received by the company to the value of R14 million (2008: R11 million), on premiums collected by the company on behalf of Stangen. In the case of the SBSA JV these transactions involve mainly the recovery of selling and operating costs to the value of R26 million (2008: R50 million). During the current year the SBSA JV repaid the funding it had received from ABL to the value of R60 million. There were no material transactions with directors other than emoluments as disclosed in note 22. See annexures B and C for additional related party disclosure.

44 INTEREST IN JOINT VENTURE

The company has a 40% interest in a joint venture, entered into with The Standard Bank of South Africa Limited (SBSA), which provides products and services in the credit banking industry.

Neither the company nor the joint venture has incurred any contingent liability or capital commitment in respect of the joint venture as at year-end.

In 2007, SBSA served the company notice that it will terminate the joint venture. The joint venture ceased selling new loans with effect from 1 June 2007, but will continue to operate and serve its clients, where after the joint venture loan book will run down over time, with the partners sharing costs and revenues in existing ratios. The company does not expect that the winding down of the joint venture will negatively affect the attainment of its short and medium term objectives.

Amounts included in the company's results which relate to the joint venture:

	2009 Rm	2008 Rm
Current assets	**-**	75
Long-term assets	**14**	50
Current liabilities	**-**	1
Long-term liabilities	**-**	60
Income	**15**	68
Expenses	**25**	78

These amounts are before elimination of intra-company transactions and balances.

45 KEY ASSUMPTIONS CONCERNING THE FUTURE AND SOURCES OF ESTIMATION UNCERTAINTY

Assumptions have been made concerning the future or other sources of estimation uncertainty relating to the valuation of non-performing loan impairments.

46 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

At the date of authorisation of these annual financial statements, the following relevant new standards, interpretations and amendments were in issue but not yet effective for the company.

- IFRIC 15 Agreements for the construction of real estate (effective 1 January 2009)
- IFRIC 17 Distribution of non-cash assets to owners (effective 1 July 2009)
- IFRIC 18 Transfers of assets from customer (effective 1 July 2009)
- IFRS 1 Full-cost oil and gas assets (effective 1 January 2009)
- IFRS 2 Group cash-settled share-based payment transactions (effective 1 January 2010)
- IFRS 1 and IAS 27 (revised) Cost of an investment in a subsidiary, jointly controlled entity or associate (effective 1 January 2010)
- IFRS 2 (amended) Vesting conditions and cancellations (effective 1 January 2009)
- IFRS 3 and IAS 27 (revised) Revision to IFRS 3 Business combinations and IAS 27 Consolidated and separate financial statements (effective 1 July 2009)
- IFRS 7 Financial instruments: Disclosures (effective 1 January 2009)
- IFRS 8 Operating segments (effective 1 January 2009)
- IAS 1 (revised) Presentation of financial statements (effective 1 January 2009)
- IAS 23 (amended) Borrowing costs (effective 1 January 2009)
- IAS 32 (amended) Financial instruments puttable at fair value (effective 1 January 2009)
- IAS 32 (amended) Classifications of rights issues (effective 1 January 2009)
- IAS 39 (amended) Eligible hedged items (effective 1 July 2009)

The company will comply with the above standards, interpretations and amendments to existing standards for their annual reports for periods that begin on or after the effective dates.

47 SUBSEQUENT EVENTS

On 19 November 2009 the company increased the value of its domestic medium term note programme (DMTN) from R10 billion to R15 billion. This is the programme under which the company raises funding by issuing bonds.

On 23 November 2009 Dave Woollam, the managing director of the company, made a personal decision to step aside from this position in order to focus on a specialist portfolio of functions within the ABIL group. Accordingly, Leon Kirkinis resumed his previous position as CEO of both ABL and ABIL. Dave Woollam remains an executive director of the company.

Subsequent to year-end, ABL acquired the advances book of the SBSA JV at its net carrying value of R33.5 million. The agreement giving effect to this sale was signed by the respective parties on 26 November 2009.

48 PRE-EMPTIVE RIGHTS

The company had sold, during 2006, its Commercial Vehicle Finance division to SA Taxi Finance (Pty) Limited and has a pre-emptive right and an option to repurchase the business or the entire issued equity shares of SA Taxi Finance (Pty) Limited under certain circumstances over a six year period at a market related price which is to be determined at such time. The pre-emptive right and option expires on 31 December 2011. No value has been ascribed to this option at 30 September 2009.

49 ACRONYMS AND ABBREVIATIONS

The following acronyms and abbreviations have been used in these financial statements.

ABIL	African Bank Investments Limited
BESA	Bond Exchange of South Africa
CGT	Capital gains taxation
EF	Ellerines Furnishers (Pty) Ltd
DMTN	Domestic medium term note programme
GAAP	Generally Accepted Accounting Practice
GEMS	Gilt Edged Management Services (Pty) Ltd
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
JIBAR	Johannesburg interbank agreed rate
NACA	Nominal annual compounded annually
NACM	Nominal annual compounded monthly
NACQ	Nominal annual compounded quarterly
NACS	Nominal annual compounded semi-annually
Remco	Group remuneration committee (ABIL)
R million	Millions of rand
Tier 1	Primary capital
Tier 2	Secondary capital
Tier 3	Tertiary capital

AFRICAN BANK LIMITED
(Registration number 1975/002526/06)
ANNEXURE A: DIRECTORS' REMUNERATION
for the year ended 30 September 2009

Basic remuneration, benefits and bonuses paid to executive directors

All amounts in R000	Date appointed to board	2009 Cash package	2009 Retirement, medical contributions and other	2009 Total cost to company package	2009 Annual cash bonus (note 1)	2009 Total	2008 Cash package	2008 Retirement, medical contributions and other	2008 Total cost to company package	2008 Annual cash bonus (note 2)	2008 Total
Gordon Schachat	01/07/1995	1 830	170	2 000	1 200	3 200	1 860	140	2 000	2 000	4 000
Leon Kirkinis	01/07/1997	1 998	191	2 189	1 500	3 689	2 031	158	2 189	2 500	4 689
Toni Fourie (note 5)	21/10/2003	-	-	-	-	-	2 648	234	2 882	1 500	4 382
Tami Sokutu	19/05/2003	2 593	403	2 996	900	3 896	2 282	171	2 453	1 088	3 541
Dave Woollam	01/11/2002	2 967	314	3 281	1 200	4 481	2 682	206	2 888	1 550	4 438
Nithia Nalliah (note 6)	21/05/2009	753	139	892	1 000	1 892	-	-	-	-	-
		10 141	1 217	11 358	5 800	17 158	11 503	909	12 412	8 638	21 050

LTIPs allocated to executive directors

All amounts in R000	2009 Value as at 1 Oct 2008	2009 LTIP award	2009 Change in value of LTIPs	2009 LTIPs vested and payable (note 3)	2009 Value as at 30 Sep 2009	2008 Value as at 1 Oct 2007	2008 LTIP award	2008 Change in value of LTIPs	2008 LTIPs vested and payable (note 4)	2008 Value as at 30 Sep 2008
Toni Fourie (note 5)	-	-	-	-	-	10 758	2 805	(1 442)	(3 385)	8 736
Tami Sokutu	4 898	1 550	1 230	(2 506)	5 172	6 284	1 700	(1 296)	(1 790)	4 898
Dave Woollam	7 631	2 300	1 902	(4 033)	7 800	9 438	2 900	(1 886)	(2 821)	7 631
Nithia Nalliah (note 6)	3 175	1 900	389	(1 058)	4 406	-	-	-	-	-
	15 704	5 750	3 521	(7 597)	17 378	26 480	7 405	(4 624)	(7 996)	21 265

Note 1. These performance incentives relate to the financial year ended 30 September 2009 and were approved by the board (based on Remco's recommendations) on 23 November 2009. The cash bonuses were paid at the end of November 2009 and will be expensed in full, in terms of IFRS, in the 2010 financial year.
Note 2. These performance incentives relate to the financial year ended 30 September 2008 and were approved by the board (after Remco approval) on 6 November 2008. The cash bonuses were paid at the end of November 2008 and were expensed in full, in terms of IFRS, in the 2009 financial year.
Note 3. This includes the LTIPs that vested on 30 September 2009 which were paid in October 2009.
Note 4. This vested on 30 September 2008 and was paid in October 2008.
Note 5. Toni Fourie was paid by Ellerines for the whole of the current financial year and by African Bank for the prior financial year.
Note 6. Nithia Nalliah, the executive financial director became a director in May 2009 and consequently his remuneration was not included in the schedule for the prior year.

Non-executive directors' remuneration

All amounts in R000	Date appointed to board	Fees for services as directors 2009	2008	Notes
Ashley Mabogoane	01/12/1999	**440**	736	**1**
Mutle Mogase	12/03/2007	**589**	186	**2**
Nic Adams	01/02/2008	**364**	144	
Dave Gibbon	01/06/2003	**300**	215	
Bahle Goba	06/06/2003	**115**	152	**3**
Mpho Nkeli	07/03/2008	**225**	89	
Ramani Naidoo	19/05/2003	**-**	75	
Sam Sithole	21/05/2009	**85**	-	**4**
Brian Steele	19/05/2003	**189**	183	**3**
Gunter Steffens	19/05/2003	**-**	158	
Johnny Symmonds	21/05/2009	**85**	-	**4**
Daniel Tembe	01/01/2000	**-**	52	
Oshy Tugendhaft	01/04/2003	**341**	233	
		2 733	2 223	

The non-executive directors are paid fees based on a fixed retainer for their responsibilities and duties as board members as well as additional fees for participation in the various subcommittees of the Board.

Notes

1. Ashley Mabogoane resigned as chairman of the board on 1 April 2009.
2. Mutle Mogase appointed as chairman on 1 April 2009.
3. Bahle Goba and Brian Steele resigned from the board on 21 May 2009.
4. Sam Sithole and Johnny Symmonds were appointed to the board on 21 May 2009.

During the previous financial year, Nic Adams and Mpho Nkeli were appointed as independent non-executive directors. Ramani Naidoo resigned on 31 January 2008 whilst Daniel Tembe and Gunter Steffens retired from the board on 31 January 2008 and 31 May 2008, respectively.

AFRICAN BANK LIMITED
(Registration number 1975/002526/06)

ANNEXURE B: INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURE

for the year ended 30 September 2009

		Type of Business	Issued share capital 2009 Rm	Issued share capital 2008 Rm	Effective percentage held 2009 %	Effective percentage held 2008 %	Investment 2009 Rm	Investment 2008 Rm	Loans From 2009 Rm	Loans From 2008 Rm
Alternative Finance Limited	- cost	Dormant	**-**	-	**-**	-	**-**	345	**-**	-
(note 1)	- impairment						**-**	(318)		
	- capital returned						**-**	(27)		
King Finance Corporation Limited	- cost	Dormant	**-**	-	**-**	-	**-**	206	**-**	-
(note 1)	- impairment						**-**	(205)		
	- capital returned						**-**	(1)		
Unity Financial Services Limited	- cost	Dormant	**-**	-	**-**	-	**-**	69	**-**	-
(note 1)	- impairment						**-**	(69)		
Teba Credit (Pty) Limited	- cost	Dormant	**-**	-	**-**	-	**-**	406	**-**	(20)
(note 1)	- impairment							(178)		
	- capital returned						**-**	(208)		
Information Technology Connections (Pty) Limited	- cost	Dormant	**-**	-	**-**	100	**-**	4	**-**	-
(note 1)	- impairment						**-**	(4)		
Standard Bank Joint Venture		Credit Banking	**-**	-	**40**	40	**-**	-	**-**	-
							-	20	**-**	(20)

All subsidiaries are incorporated in the Republic of South Africa.
Note 1: These entities were voluntarily liquidated during the year.

AFRICAN BANK LIMITED
(Registration number 1975/002526/06)
ANNEXURE C: RELATED PARTY TRANSACTIONS
for the year ended 30 September 2009

AMOUNTS OWING BY HOLDING COMPANY AND FELLOW SUBSIDIARIES

	TRANSACTIONS			BALANCES				
Related party	Transaction type	**2009 Rm**	2008 Rm	Intercompany type	Rate	Repayment terms	**2009 Rm**	2008 Rm
African Bank Investments Ltd	Dividend paid	**-**	530	Loan	0.00%	None	**-**	3
Gilt Edged Management Services (Pty) Ltd		**-**	-	Loan	0.00%	None	**23**	23
Ellerines Furnishers (Pty) Ltd	Interest received	**21**	-	Loan	Prime - 0.4%	On Demand	**840**	-
Other		**-**	-	Loan	0.00%	None	**2**	3
Total		**21**	530				**865**	29

AMOUNTS OWING TO FELLOW SUBSIDIARIES

	TRANSACTIONS			BALANCES				
Related party	Transaction type	**2009 Rm**	2008 Rm	Intercompany type	Rate	Repayment terms	**2009 Rm**	2008 Rm
The Standard General Insurance Co. Ltd	Interest paid	**23**	36	Call	6.75%	On demand	**154**	246
The Standard General Insurance Co. Ltd	Interest paid	**4**	3	ABLI01 Bonds	Per note 12	3 March 2013	**38**	36
The Standard General Insurance Co. Ltd	Interest paid	**1**	-	ABL8A Bonds	Per note 12	19 September 2013	**8**	8
The Standard General Insurance Co. Ltd	Interest paid	**1**	-	ABL8B Bonds	Per note 12	19 September 2013	**7**	7
The Standard General Insurance Co. Ltd	Interest paid	**4**	-	ABL9 Bonds		Redeemed	**-**	-
The Standard General Insurance Co. Ltd	Cost recoveries	**(2)**	(1)					
Miners Credit Guarantee (Pty) Ltd	Interest paid	**-**	-	Call	0.00%	On demand	**1**	24
Theta Investments (Pty) Ltd				Loan	0.00%	None	**19**	46
ABIL Employee Share Trust	Employee incentives	**-**	5	Loan	0.00%	None	**19**	19
Creditsave (Pty) Ltd				Loan	0.00%	None	**21**	52
Gilt Edged Management Services (Pty) Ltd		**-**	-	Loan	0.00%	None	**64**	64
African Contractor Finance Corporation (Pty) Ltd				Loan	0.00%	None	**15**	15
African Bank Investments Limited				Call	0.00%	On demand	**52**	-
M Financial Services (Pty) Ltd		**-**	-	Loan	0.00%	None	**1**	1
Total		**31**	43				**399**	518

AFRICAN BANK

Annual Financial Statements

30 September 2008

AFRICAN BANK

NCR Reg. No. NCRCP5. An Authorised Financial Services Provider.
Reg No. 1975/002526/06.

AFRICAN BANK LIMITED
Registration number: 1975/002526/06
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2008

CONTENTS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation and fair presentation of the annual financial statements, comprising the balance sheet at 30 September 2008, the income statement, the statement of changes in equity and cash flow statement for the year then ended, the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

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

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

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

A directors' report has not been prepared as the company is a wholly owned subsidiary of African Bank Investments Limited, a company incorporated in the Republic of South Africa.

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

Approval of the annual financial statements

The annual financial statements were approved by the board of directors on 5 December 2008 and are signed on its behalf by:

AS Mabogoane
Chairman

DF Woollam
Managing Director

Midrand

CERTIFICATE FROM THE COMPANY SECRETARY

In terms of section 268G(d) of the Companies Act 1973 as amended, I certify that for the year ended 30 September 2008, the company has lodged with the Registrar of Companies all such returns as are required by the Companies Act, and that all such returns are true, correct and up to date.

C Brighten
Company Secretary

Midrand
5 December 2008

Deloitte.

Private Bag X6
Gallo Manor 2052
South Africa

Deloitte & Touche
Registered Auditors
Financial Services Team - FIST
Building 8
Deloitte Place
The Woodlands
Woodlands Drive
Woodmead Sandton
Docex 10 Johannesburg

Tel: +27 (0)11 806 5200
Fax: +27 (0)11 806 5222
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF AFRICAN BANK LIMITED

Report on the Financial Statements

We have audited the annual financial statements of African Bank Limited, which comprise the balance sheet as at 30 September 2008, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 4 to 48.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as at 30 September 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Deloitte & Touche

Deloitte & Touche
Per G M Pinnock
Partner
5 December 2008

BALANCE SHEET
at 30 September 2008

	Notes	2008 Rm	2007 Rm
ASSETS			
Short-term deposits and cash	2	**2 848**	1 800
Statutory assets	3	**822**	535
Other assets	4	**20**	45
Net advances	5	**13 204**	8 752
Deferred tax asset	6	**74**	141
Amounts owing by holding company and fellow subsidiaries	7	**29**	27
Investments in subsidiaries and joint venture	8	**20**	48
Property and equipment	9	**231**	194
Total assets		**17 248**	11 542
LIABILITIES AND EQUITY			
Short-term funding	10	**3 000**	808
Other liabilities	11	**415**	469
Taxation		**3**	59
Bonds and other long-term funding	12	**10 318**	7 095
Subordinated bonds	13	**511**	305
Amounts owing to fellow subsidiaries	14	**518**	417
Amounts owing to subsidiary companies	15	**20**	48
Total liabilities		**14 785**	9 201
Share capital	16	**121**	121
Share premium		**1 402**	1 402
Reserves	17	**940**	818
Ordinary shareholder’s equity		**2 463**	2 341
Total equity (capital and reserves)		**2 463**	2 341
Total liabilities and equity		**17 248**	11 542

INCOME STATEMENT

for the year ended 30 September 2008

	Notes	2008 Rm	2007 Rm
Revenue		**4 812**	4 240
Interest income on advances	18	**3 323**	3 098
Non-interest income	19	**1 251**	998
Total revenue		**4 574**	4 096
Charge for bad and doubtful advances	20	**(1 361)**	(823)
Risk-adjusted revenue		**3 213**	3 273
Other interest income	18	**238**	144
Interest expense	21	**(1 175)**	(652)
Operating costs	22	**(1 201)**	(1 081)
Indirect taxation: VAT		**(52)**	(37)
Profit from operations		**1 023**	1 647
Impairment of investments in subsidiaries		**-**	(318)
Profit before taxation		**1 023**	1 329
Direct taxation: STC	23	**(48)**	(44)
Direct taxation: SA normal	23	**(288)**	(393)
Profit attributable to ordinary shareholder		**687**	892

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2008

	Share capital Rm	Share premium Rm	Distributable reserves Rm	Share-based payment reserve Rm	Cashflow hedging reserve Rm	Total Rm
	121	1 402	849	(126)	-	2 246
Balance at 30 September 2006	**121**	**1 402**	**849**	**(126)**	**-**	**2 246**
Profit attributable to ordinary shareholder	-	-	892	-	-	892
Dividend paid	-	-	(804)	-	-	(804)
IFRS 2 reserve transactions: employee incentives	-	-	-	7	-	7
Balance at 30 September 2007	**121**	**1 402**	**937**	**(119)**	**-**	**2 341**
Profit attributable to ordinary shareholder	-	-	687	-	-	687
Dividend paid	-	-	(530)	-	-	(530)
Movement in cashflow hedging reserve	-	-	-	-	(14)	(14)
IFRS 2 reserve transactions: employee incentives	-	-	-	(21)	-	(21)
Balance at 30 September 2008	**121**	**1 402**	**1 094**	**(140)**	**(14)**	**2 463**

CASH FLOW STATEMENT

for the year ended 30 September 2008

	Notes	2008 Rm	2007 Rm
Cash generated from operations	24	2 493	2 972
Cash received from lending activities and cash reserves	25	4 630	4 258
Recoveries on advances previously written off		192	193
Cash paid to clients, suppliers of funding, employees and agents	26	(2 329)	(1 479)
Increase in gross advances	27	(5 823)	(3 713)
Increase in working capital		(48)	(169)
Decrease / (increase) in other assets		25	(35)
Decrease in other liabilities		(73)	(134)
Indirect and direct taxation paid	28	(377)	(487)
Cash outflow from operating activities		(3 755)	(1 397)
Cash outflow from investing activities		(287)	(442)
Acquisition of property and equipment (to maintain operations)		(99)	(171)
Disposal of investments in subsidiaries		28	208
Other investing activities	29	(216)	(479)
Cash inflow from financing activities		5 090	2 581
Cash inflow from funding activities	30	5 620	3 385
Dividends paid	31	(530)	(804)
Increase in cash and cash equivalents		1 048	742
Cash and cash equivalents at the beginning of the year		1 800	1 058
Cash and cash equivalents at the end of the year	32	2 848	1 800

Comparative figures have been reclassified to conform with changes in presentation in the current year.

1. Principal accounting policies

The principal accounting policies applied in the preparation and presentation of the annual financial statements are set out below and, with the exception of the basis of recognising monthly servicing fees (refer note 1.17.2), have been applied consistently by the company during this reporting period.

1.1 Underlying assumptions

The annual financial statements are prepared on the going concern basis using accrual accounting. The historical cost basis is followed, except for certain financial assets and liabilities, measured on a fair value basis, in terms of IAS 39 Financial Instruments: Recognition and Measurement or in terms of International Financial Reporting Standards. Under accrual accounting the effects of transactions and other events are recognised when they occur (rather than when the cash is received) and are recorded in the accounting records of the periods to which they relate. The going concern basis assumes that the company is a going concern and will continue in operation for the foreseeable future.

1.2 Basis of presentation

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, and the requirements of the South African Companies Act 61 of 1973, as amended. The balance sheet is presented in order of liquidity with the exception of certain long-term liabilities which reflect the original timeframe and intention of the instrument entered into. Reference to the current maturities of these financial liabilities is disclosed in the balance sheet notes and in the analysis of financial assets and liabilities. These accounting policies are consistent with the previous year except where otherwise specifically stated. All monetary information and figures presented in these financial statements are stated in millions of rand (R million), unless otherwise stated.

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

The following standards and amendments to standards have been adopted during the current year:
- IFRS 7 Financial Instruments: Disclosures, effective for years commencing on or after 1 January 2007;
- Amendments to IAS 1 Presentation of Financial Statements – Capital disclosures, effective for years commencing on or after 1 January 2007.

The adoption of IFRS 7 has resulted in increased disclosure relating to financial instruments, but has had no impact on the reported profits or financial position of the company. In accordance with the transitional requirements of the standards, the company has provided full comparative information. The amendment to IAS 1 requires that the company discloses its objectives, policies and processes followed in managing capital.

1.4 Use of estimates, judgements and assumptions

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

Estimates, judgements and assumptions made, predominantly relate to impairment provisions for loans and advances (note 5), and residual values, useful lives and depreciation methods for property and equipment (note 9). Other judgements made relate to classifying financial assets and liabilities into their relevant categories and in the determination of their fair value for measurement and disclosure purposes.

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

1.5 Comparative figures

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. Details of such reclassifications have been indicated and explained in the relevant note.

1. Principal accounting policies *(continued)*

1.6 Assets and liabilities

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

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

1.6.1 Recognition of assets and liabilities

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

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

1.6.2 Derecognition of assets and liabilities

Assets or parts thereof are derecognised, when the contractual rights to receive the cash flows have been transferred or have expired, or when substantially all the risks and rewards of ownership have passed, on disposal or when no future economic benefits are expected from their use.

Liabilities are derecognised when the relevant obligation has either been discharged, cancelled or has expired.

Additional derecognition criteria applicable to financial assets and financial liabilities are set out in the financial instruments note below.

1.7 Consolidation

1.7.1 Joint ventures

A joint venture is a contractual agreement between the company and another party to undertake an economic activity, which is subject to joint control, in which the company has a long-term interest. Joint control is where the strategic, financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control. Refer to annexure B on page 47 for details of the company's joint venture.

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

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

1.7.2 Investment in subsidiaries

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.

1.7.3 Segmental reporting

A segment is a distinguishable component of the company engaged in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments. The company's only segmentation is based on the company's internal reporting format to management.

1. Principal accounting policies *(continued)*

1.7 Consolidation *(continued)*

1.7.3 Segmental reporting *(continued)*

The company operates within a single market segment, namely the underwriting and provision of credit. Individual business units operating within this segment have been further disaggregated to highlight the key performance drivers of the business units.
Geographical segments are not disclosed, as the company has no operations outside South Africa.

1.8 Property and equipment

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

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

The company does not hold any investment properties.

Depreciation is charged to the income statement on a straight-line basis and is calculated to reduce the original costs to the expected residual values over the estimated useful lives. Useful lives and residual values are assessed on an annual basis. Useful lives have been determined to be as follows:

Furniture	6 years
Computer equipment and software	2 to 3 years
Office equipment	3 to 6 years
Motor vehicles	4 to 5 years
Leasehold improvements	Over the shorter of the lease term or its useful life
Buildings (owner-occupied)	Useful life (limited to 50 years)
Land is not depreciated	

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

1.9 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 balance sheet, 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, property and equipment, deferred taxation, taxation payable, 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 specified categories:
- financial assets at fair value through profit or loss,
- held-to-maturity investments,
- loans and receivables, and
- available-for-sale financial assets.

1. Principal accounting policies *(continued)*

1.9 Financial instruments *(continued)*

Financial liabilities are classified as either:

- financial liabilities at fair value through profit or loss or
- other financial liabilities.

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

1.9.1 Initial recognition

Financial instruments are recognised on the balance sheet when the company becomes a party to the contractual provisions of a financial instrument.

1.9.2 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 the income statement.

1.9.3 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 company has elected, on the date of initial recognition, to designate as fair value through profit or loss. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Net gains and losses arising from financial instruments categorized as at fair value through profit or loss are determined inclusive of interest or dividend income.

  An investment is classified as held for trading if:

  - it has been acquired principally for the purpose of selling in the near future; or
  - it is part of an identified portfolio of financial instruments that the company manages together and has a recent actual pattern of short-term profit-taking; or
  - it is a derivative that is not designated and effective as a hedging instrument.

  An investment other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

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

- Other financial liabilities

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

1. Principal accounting policies *(continued)*

1.9 Financial instruments *(continued)*

1.9.3 Subsequent measurement *(continued)*

- 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 company 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 company as at fair value through profit or loss or available-for-sale.

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

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

- Available-for-sale financial assets

  Available-for-sale financial assets are measured at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the investment 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.

1.9.4 Effective interest rate method

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

1.9.5 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. Directly attributable transaction costs are included in the initial fair value of financial assets and financial liabilities, other than those at fair value through profit or loss.

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

1. Principal accounting policies *(continued)*

1.9 Financial instruments *(continued)*

1.9.6 Derecognition of financial instruments

The company 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 and only when:

- the contractual rights to the cash flows arising from the financial asset have expired; 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 flow of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients.

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 has expired.

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

1.9.7 Offsetting

Financial assets and liabilities are offset and the net amount reported on the balance sheet where, and only where, there is a legally enforceable right to set off the recognised amount and there is an intention 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 balance sheet.

1.10 Investments

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

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

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

1.11 Loans and advances and related impairment provisions

1.11.1 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money or services directly to a debtor with no intention to trade the receivable. All loans and advances are in the form of personal unsecured loans that are either paid back in fixed equal instalments or are revolving credit facilities.

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

1. Principal accounting policies *(continued)*

1.11 Loans and advances and related impairment provisions *(continued)*

1.11.1 Loans and advances *(continued)*

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

Loans previously written off which subsequently result in certain minimum cash flows being received are rehabilitated onto the balance sheet in the advances portfolio. Rehabilitation of a previously written off loan means the recognition of the loan on the balance sheet at amortised cost together with an allowance account once it meets the definition of an asset and certain performance criteria.

Cash collected on loans which have previously been written off, but which do not meet the qualifying criteria for rehabilitation back onto the balance sheet, is recognised in the income statement as bad debts recovered as and when the cash is received.

Loans and receivables are disclosed net of deferred administration fees (consisting of origination fees and monthly service fees) and impairment provisions.

1.11.2 Impairment provisions

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

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

- significant financial difficulty of the borrower;
- a breach of contract, such as default or delinquency in interest or principle payments;
- 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;
- observable data 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 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).

Where it is not possible to estimate the recoverable amount of an individual advance, the company estimates the recoverable amount using portfolio statistics derived based on past performance of similar financial assets.

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.

In determining the impairment provision, the estimated projected future cash flows on loans and advances that have been previously written off and are deemed likely to rehabilitate in the foreseeable future are taken into account, which has the effect of reducing the provision. The projected future cash flows are based on the historic recoveries of previously rehabilitated loans and advances, after adjusting for current economic factors and trends.

1. Principal accounting policies *(continued)*

1.11 Loans and advances and related impairment provisions *(continued)*

1.11.2 Impairment provisions *(continued)*

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 the income statement. A write off is effected against the allowance account when the debtor is deemed to be fully impaired and not recoverable.

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

The impairment provisions raised during the year, less recoveries of advances previously written off, are charged to the income statement.

1.12 Derivative financial instruments and hedge accounting

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The company initially recognises derivative financial instruments in the balance sheet at fair value. Derivatives are subsequently re-measured at their fair value with all movements in fair value recognised in the income statement, unless it is a designated and effective hedging instrument.

The company 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 and loss of the company, and as a policy will not enter into derivatives for speculative reasons. In this regard, the only derivative financial instruments the company has entered into have been to hedge the market risk associated with certain floating rate financial instruments (interest rate swaps to hedge against adverse interest rate movements) and the company's equity-based long-term incentive plans.

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

The method of recognising fair value gains or losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if so, the nature of the hedged item. When derivatives are designated in a hedging relationship, the company designates them as either:

- hedges of the fair value of recognised financial assets or liabilities or firm commitments (fair value hedges); and
- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedges).

Hedge accounting is applied to derivatives designated in this way provided certain criteria are met. The company documents, at the inception of the hedging relationship, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships.

The company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging relationships are highly effective in offsetting changes in fair values or cash flows of hedged items.

1. Principal accounting policies *(continued)*

1.12 Derivative financial instruments and hedge accounting *(continued)*

1.12.1 Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the income statement. Fair value adjustments relating to the hedging instrument are allocated to the same income statement category as the related hedged item. Any ineffectiveness is also recognised in the same income statement category as the related hedged item.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued.

1.12.2 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 ineffective part of any gain or loss is recognised immediately in the income statement.

Amounts accumulated in equity are transferred to the income statement 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 effects the income statement 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 recognised in equity are immediately transferred to the income statement.

1.13 Borrowings

Borrowings are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

1.14 Cash

1.14.1 Short-term deposits and cash

Short-term deposits and cash comprises fixed and notice deposits as well as call and current accounts with financial institutions in South Africa.

For purposes of the balance sheet, South African Reserve Bank cash requirements and prudential liquid assets, are not disclosed as short-term deposits and cash but rather as “statutory assets”.

1.14.2 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise short-term deposits and cash, net of bank overdrafts.

1.15 Provisions

Provisions represent liabilities of uncertain timing or amount and are measured at the expenditure or cash outflow required to settle the present obligation.

1. Principal accounting policies *(continued)*

1.15 Provisions *(continued)*

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

1.15.1 Provision for leave pay

The cost of providing employee benefits is accounted for in the period in which the benefits are earned by the employees.

The expected cost of short-term accumulating compensated absences is recognised as an expense as the employees render services that give them the right to entitlement of such absence.

1.16 Equity

Equity is the residual interest in the assets of the company after deducting all liabilities of the company.

1.16.1 Share capital

Share capital issued by the company is recorded at the value of the proceeds received less the external costs directly attributable to the issue of shares.

1.16.2 Dividends

Dividends to the equity holder are recognised as a liability in the period in which they are declared and are accounted for in the statement of changes in equity. Dividends declared after balance sheet date are disclosed in the dividends note.

1.17 Revenue recognition

Revenue comprises interest income and non-interest income.

1.17.1 Interest income

Interest income is accrued on a yield-to-maturity basis by reference to the principal outstanding and the interest rate applicable. In certain 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 the accrual of interest is not recognised in the income statement.

1.17.2 Non-interest income

Non-interest income consists primarily of administration fees on loans and advances, as well as any other sundry income the company earns. Administration fees charged consist of two components:

Origination fees on loans granted
These fees are charged upfront, are capitalised into the loan, and are primarily based on the cost of granting the loan to the individual. In accordance with IAS 18 – Revenue, these origination fees are considered an integral part of the loan agreement and therefore recognised as an integral part of the effective interest rate and are accounted for over the shorter of the original contractual term and the actual term of the loan using the effective interest rate method. The deferred portion of the fees is recorded in the balance sheet as a provision for deferred administration fees. The company 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.

1. Principal accounting policies *(continued)*

1.17 Revenue recognition *(continued)*

1.17.2 Non-interest income *(continued)*

Monthly servicing fees
These are fees which form an integral part of the effective interest rate and are charged to the customer on a monthly basis. These fees are recognised as part of the effective interest rate over the shorter of the original contractual term or the actual term of the loans and receivables. Beyond the original contractual term of the loan, the fees are recognised in the income statement as they are charged to the customer on a monthly basis. In prior years, this was not recognised as part of the effective interest rate but was accounted for in the income statement on a monthly basis as and when it was charged to the customers.
The effect of this change is disclosed in note 19.

1.18 Taxation

1.18.1 Indirect taxation

Indirect taxation in the form of non-claimable value-added tax (VAT) is disclosed as indirect taxation in the income statement.

1.18.2 Direct taxation

Direct taxation in the income statement consists of South African corporate income tax inclusive of capital gains tax (CGT) (currently payable, prior year adjustments and deferred) as well as secondary tax on companies (STC) (currently payable and deferred).

STC on dividends, net of STC credits earned, is expensed through the income statement in the period in which the dividend paid is accounted for.

1.18.3 Current taxation

Current taxation is the expected taxation payable based on the taxable income, inclusive of capital gains, for the year, using taxation rates enacted or substantially enacted at the balance sheet 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.

Current tax is charged or credited to the income statement, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the tax is also dealt with in equity.

STC that arises from the distribution of dividends is recognised at the same time as the liability to pay the related dividend.

1.18.4 Deferred taxation

Deferred income 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 income tax 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 taxation rates and laws enacted or substantially enacted at the balance sheet date.

Deferred tax is charged or credited in the income statement, 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 tax is also dealt with in equity.

The effect on deferred taxation of any changes in taxation rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

1. Principal accounting policies *(continued)*

1.18 Taxation *(continued)*

1.18.4 Deferred taxation *(continued)*

The deferred tax related to fair value re-measurement of cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

Deferred tax assets are recognised if the company 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 balance sheet 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.

Deferred tax liabilities are generally recognised for all taxable temporary differences.

1.19 Share-based payments

Share-based payment transactions of the company primarily relate to the company's long-term incentive plan for employees.

1.19.1 Share-based payments under the company's long-term incentive programme (LTIP) for employees

The company's holding company (African Bank Investments Limited) previously issued options on the ABIL listed ordinary shares as part of the company's long-term incentive plan for employees. In 2005, the issuance of share options was ceased and existing options were either converted to a cash-settled alternative or remained in force.

The company subsequently introduced a cash-settled share appreciation scheme, to replace the share option scheme, in which employees receive units based on an initial value of ABIL listed shares, and receive on the maturity date the market value of the units based primarily on the ABIL share price.

Both these instruments qualify as share-based payments under IFRS 2 – Share-based Payment.

The share options and share appreciation rights instruments have a pre-determined 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 options (equity-settled), the grant date fair value of the share option is amortised to the income statement over the vesting period of the instrument. In the case of the share appreciation rights scheme, the fair value of the liability is recognised in profit or loss over the vesting period of the instrument on a straight line basis. The fair value of the liability is measured at each reporting date until settled and any changes in the fair value of the liability are recognised in profit or loss.

1.19.2 Measurement of fair value of equity instruments granted

The equity instruments granted by the company are measured at fair value at measurement date using standard option pricing or share appreciation rights valuation models. The valuation technique is consistent with generally accepted valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable and willing market participants would consider in setting the price of the equity instruments.

1.19.3 Conversion of equity-settled to a cash-settled instrument

Certain equity-settled instruments (share options) were converted into cash-settled instruments during the 2005 financial year. The company recognises as a minimum, a charge for the services received, measured at the grant date fair value of the equity instrument, unless the converted equity instruments do not vest due to a failure to meet a

1. Principal accounting policies *(continued)*

1.19 Share-based payments *(continued)*

1.19.3 Conversion of equity-settled to a cash-settled instrument *(continued)*

vesting condition.

The conversion (modification) was done at the fair value of the equity-settled instrument on the modification date. Since the converted instrument is now a cash-settled instrument, any change in the fair value of the liability in respect of the cash-settled instrument since the conversion date is recognised in profit or loss over the remaining vesting period of the instrument.

1.20 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 as an expense in the income statement in the period in which they are incurred.

1.21 Leased assets

Leases are classified as finance leases or operating leases at the inception of the lease.

Leased assets are classified as operating leases where the lessor effectively retains the risks and benefits of ownership. Obligations incurred under operating leases are recognised in the income statement on a straight-line basis over the term of the relevant lease.

1.22 Retirement benefits

Defined contribution plans have been established for eligible employees of the company, with the assets held in separate trustee administered funds. The company pays contributions on a mandatory, contractual or voluntary basis. The company has no further obligation once the contributions have been paid to the funds.

Contributions in respect of defined-contribution plans are recognised as an expense in profit or loss as incurred. The company does not have any obligation for post retirement benefits.

1.23 Contingent liabilities and commitments

1.23.1 Contingent liabilities

A contingent liability is disclosed when:

- a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the company; or
- the company has a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources will be required to settle such obligation or the amount of the obligation cannot be measured with sufficient reliability.

1.23.2 Commitments

Items are classified as commitments where the company has committed itself at the reporting date to future transactions or the acquisition of assets.

		2008 Rm	2007 Rm
2	**SHORT-TERM DEPOSITS AND CASH**		
	Current accounts	**2 848**	1 800
		2 848	1 800
3	**STATUTORY ASSETS**		
	Listed at carrying value:		
	Treasury bills and government bonds with the South African Reserve Bank	**550**	362
	Cash deposits with the South African Reserve Bank	**272**	173
		822	535

Market value of treasury bills and government bonds approximates the carrying value stated above.

		2008 Rm	2007 Rm
4	**OTHER ASSETS**		
	Variation margin on hedge	**-**	36
	Sundry receivables	**20**	9
		20	45
5	**NET ADVANCES**		
	Gross advances	**15 826**	10 890
	Deferred fees	**(64)**	(246)
	Impairment provision	**(2 558)**	(1 892)
	Net advances	**13 204**	8 752

All loans are made to clients within the Republic of South Africa.

Analysis of gross advances by book

	2008 Rm	2007 Rm
Lending books	**15 235**	10 101
Retail debit order	**12 580**	8 248
Payroll	**552**	462
Credit card	**1 080**	466
Miners Credit	**1 023**	925
Pay down books	**591**	789
Persal	**198**	195
Saambou PLB	**308**	338
Standard Bank JV	**85**	256
Total gross advances	**15 826**	10 890

Analysis of gross advances by type

	2008 Rm	2007 Rm
Retail/debit order	**13 745**	8 970
Payroll	**1 773**	1 582
Saambou PLB	**308**	338
Total gross advances	**15 826**	10 890

Impairment provisions and reserves

	2008 Rm	2007 Rm
Balance of impairment provisions at the end of the year	**2 558**	1 892
Balance of impairment provisions at the beginning of the year	**1 892**	1 425
Impairment provisions raised (refer note 20)	**1 553**	1 016
Bad debts written off against the impairment provisions	**(887)**	(549)
Total impairment provisions and reserves	**2 558**	1 892

5 NET ADVANCES *(continued)*

5.1 CREDIT RISK 2008	**Retail debit order Rm**	**Payroll Rm**	**Credit card Rm**	**Miners credit Rm**	**Pay-down Rm**	**Total Rm**
Financial assets neither past due nor impaired	**7 624**	**229**	**701**	**593**	**10**	**9 157**
Low risk	**4 291**	**15**	**418**	**151**	**4**	**4 879**
Medium risk	**2 547**	**214**	**189**	**282**	**6**	**3 238**
High risk	**786**	**-**	**94**	**160**	**-**	**1 040**
Past due but not yet impaired	**1 928**	**135**	**170**	**160**	**101**	**2 494**
1 Instalment missed	**1 382**	**124**	**108**	**33**	**97**	**1 744**
2 Instalments missed	**293**	**6**	**38**	**12**	**2**	**351**
3 Instalments missed	**253**	**5**	**24**	**115**	**2**	**399**
Financial assets that are impaired	**1 281**	**95**	**59**	**45**	**233**	**1 713**
Carrying amount	**3 028**	**188**	**209**	**270**	**480**	**4 175**
Provision for impairment	**(1 747)**	**(93)**	**(150)**	**(225)**	**(247)**	**(2 462)**
Total credit exposure	**10 833**	**459**	**930**	**798**	**344**	**13 364**
Deferred fees						**(64)**
Incurred but not reported provision						**(96)**
Net advances						**13 204**
Reconciliation of allowance account						
Balance at the beginning of the year	**1 242**	**90**	**47**	**197**	**254**	**1 830**
Bad debt charge net of recoveries	**1 291**	**(16)**	**105**	**174**	**(35)**	**1 519**
Bad debt (write-offs) / rehabilitations	**(786)**	**19**	**(2)**	**(146)**	**28**	**(887)**
Balance at the end of the year	**1 747**	**93**	**150**	**225**	**247**	**2 462**

CREDIT RISK 2007	**Retail debit order Rm**	**Payroll Rm**	**Credit card Rm**	**Miners credit Rm**	**Pay-down Rm**	**Total Rm**
Financial assets neither past due nor impaired	4 802	189	341	485	112	5 930
Low risk	2 604	2	151	89	44	2 890
Medium risk	1 636	187	96	243	65	2 227
High risk	562	-	94	153	3	812
Past due but not yet impaired	1 458	102	63	145	188	1 956
1 Instalment missed	1 028	93	24	22	160	1 327
2 Instalments missed	218	5	23	15	14	275
3 Instalments missed	212	4	16	108	14	354
Financial assets that are impaired	746	82	15	97	235	1 175
Carrying amount	1 988	172	62	294	489	3 005
Provision for impairment	(1 242)	(90)	(47)	(197)	(254)	(1 830)
Total credit exposure	7 006	373	419	727	535	9 060
Deferred fees						(246)
Incurred but not reported provision						(62)
Net advances						8 752
Reconciliation of allowance account						
Balance at the beginning of the year	954	87	1	131	208	1 381
Bad debt charge net of recoveries	953	(29)	46	93	(65)	998
Bad debt (write-offs) / rehabilitations	(665)	32	-	(27)	111	(549)
Balance at the end of the year	1 242	90	47	197	254	1 830

5 NET ADVANCES *(continued)*

Impairment provisions are based on an incurred loss model per IAS 39 – Financial Instruments: recognition and measurement. Estimated future cash flows for loans and advances considered to be impaired are discounted using the original effective interest rate inherent in the loan, without an adjustment for the credit spread.

During the year, the company rehabilitated onto the balance sheet R378 million (2007: R405 million) of loans previously written off. These rehabilitated loans are treated as negative bad debts written off. The policy regarding rehabilitation of written off loans requires such loans to be performing, with a regular payment profile, before they qualify for reinstatement onto the balance sheet, together with appropriate impairment provisions.

	2008 Rm	2007 Rm
6 DEFERRED TAX ASSET		
Incurred but not reported (IBNR) provision	**20**	13
Provision for deferred fees	**10**	71
IFRS 2 provisions and hedge accounting	**29**	44
Other temporary differences	**15**	13
	74	141

The carrying amount of deferred taxation at 30 September 2008 is reconciled as follows:

	IBNR provision Rm	**Deferred fees provision Rm**	**IFRS 2 & cashflow hedge provision Rm**	**Other temporary differences Rm**	**Total Rm**	Total 2007 Rm
Balance at the beginning of the year	**13**	**71**	**44**	**13**	**141**	155
Movement through statement of changes in equity	**-**	**-**	**11**	**-**	**11**	-
Rate change adjustment	**-**	**(2)**	**-**	**-**	**(2)**	-
Income statement movement	**7**	**(59)**	**(26)**	**2**	**(76)**	(14)
Balance at the end of the year	**20**	**10**	**29**	**15**	**74**	141

	2008 Rm	2007 Rm
7 AMOUNTS OWING BY HOLDING COMPANY AND FELLOW SUBSIDIARIES		
African Bank Investments Limited	**3**	-
Gilt Edged Management Services (Pty) Limited (GEMS)	**23**	23
Other	**3**	4
	29	27

These loans are unsecured, interest free and have no fixed terms of repayment.

Subordination agreements
The loan to GEMS has been subordinated in favour of those customers of GEMS who have a claim against GEMS as a result of the GEMS reparation court order (also see note 39).
Included under "Other" is a loan to A1 Taxi Finance (Pty) Ltd which has been subordinated in favour of its creditors until such time that its assets, fairly valued, exceed its liabilities.

8 INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURE		
Shares and investments at cost	**1 033**	1 033
Less: Return of capital	**(236)**	(208)
Less: Cumulative impairments	**(777)**	(777)
	20	48

9 PROPERTY AND EQUIPMENT

	Cost 2008 Rm	**Accumulated depreciation 2008 Rm**	**Carrying value 2008 Rm**	Cost 2007 Rm	Accumulated depreciation 2007 Rm	Carrying value 2007 Rm
Furniture	**51**	**40**	**11**	46	36	10
Computer equipment and software	**312**	**240**	**72**	256	212	44
Office equipment	**47**	**37**	**10**	38	34	4
Motor vehicles	**9**	**5**	**4**	8	4	4
Leasehold improvements	**106**	**67**	**39**	83	48	35
Land and buildings (owner-occupied)	**97**	**2**	**95**	97	-	97
Total	**622**	**391**	**231**	528	334	194

The carrying amounts of property and equipment at 30 September 2008 is reconciled as follows:

	Carrying value at beginning of year 2008 Rm	**Additions 2008 Rm**	**Depreciation 2008 Rm**	**Disposals and write-offs 2008 Rm**	**Carrying value at end of year 2008 Rm**
Furniture	**10**	**5**	**4**	**-**	**11**
Computer equipment and software	**44**	**60**	**32**	**-**	**72**
Office equipment	**4**	**9**	**3**	**-**	**10**
Motor vehicles	**4**	**2**	**2**	**-**	**4**
Leasehold improvements	**35**	**23**	**19**	**-**	**39**
Land and buildings (owner-occupied)	**97**	**-**	**2**	**-**	**95**
Total	**194**	**99**	**62**	**-**	**231**

Assets with a cost of R5 million, but with a carrying value R nil were either disposed of or written off during the current financial year.

Details of land and buildings (owner-occupied)

Erf 136, Randjespark Extension 62, situated at 59 16th road, Midrand, measuring 35 259 square metres, acquired in July 2007. Erf 121 and 122, Randjespark extension 14, situated at 5 2nd street, Midrand, measuring 19 280 square metres, acquired in February 2007. The land and buildings are unencumbered.

	2008 Rm	2007 Rm
10 SHORT-TERM FUNDING		
Demand deposits	**277**	17
Fixed and notice deposits	**1 839**	594
Negotiable certificates of deposit	**884**	197
	3 000	808

Bonds and other long-term funding with a nominal amount of R3.96 billion (2007: R2.81 billion) are payable within the next 12 months. (Refer to note 1.1).

	2008 Rm	2007 Rm
11 OTHER LIABILITIES		
Advances with credit balances	**28**	58
Liability for cash settled LTIPs	**76**	74
Liability for cash settled converted options	**10**	112
Leave pay provision	**13**	13
Insurance premiums due to Stangen	**163**	97
Sundry payables and accruals	**125**	115
	415	469

	2008 Rm	2007 Rm
12 BONDS AND OTHER LONG-TERM FUNDING		
12.1 Unsecured listed bonds	**4 434**	2 588
12.2 Unsecured long-term loans	**5 884**	4 507
	10 318	7 095

12.1 Unsecured listed bonds

	Face value 2008 Rm	**Interest capitalised 2008 Rm**	**Unamortised discount 2008 Rm**	**Net liability 2008 Rm**	Net liability 2007 Rm
ABL4, ABL5, ABL6, ABL7, ABLI01, ABL8A and ABL8B bonds listed on BESA.	**4 428**	**68**	**(11)**	**4 485**	2 639
Less: Held by fellow subsidiary	**(51)**	**-**	**-**	**(51)**	(51)
	4 377	**68**	**(11)**	**4 434**	2 588
ABL4 bonds with an original face value of R500 million, later R800 million as a result of further issues in 2006, are redeemable on 31 August 2010. Interest is calculated and payable semi-annually at a coupon rate of 9.00%. The current face value is lower than the original face value as a result of early redemptions.	**600**	**5**	**(2)**	**603**	801
ABL5 bonds with an original face value of R750 million, issued on 11 August 2006, are redeemable on 11 August 2011. Interest is calculated and payable semi-annually at a coupon rate of 9.70%. The current face value is lower than the original face value as a result of early redemptions.	**598**	**8**	**(1)**	**605**	758
ABL6 bonds with an original face value of R1.05 billion, issued on 18 June 2007, are redeemable on 18 June 2012. Interest is calculated and payable semi-annually at a coupon rate of 10.25%. The current face value is lower than the original face value as a result of early redemptions.	**734**	**22**	**(1)**	**755**	1 080
ABL7 bonds with an original face value of R1 billion, issued on 18 February 2008, are redeemable on 18 February 2013. Interest is calculated and payable semi-annually at a coupon rate of 11.85%.	**1 000**	**14**	**(3)**	**1 011**	-
ABLI01 bonds with an original nominal value of R149 million, issued on 24 April 2008, are redeemable on 31 March 2013. It was issued as a replica of the R189 inflation linked bond and at issue the inflation adjusted face value was R246 million. Interest is calculated and payable semi-annually at a fixed coupon rate of 6.25% adjusted by an inflation index.	**246**	**14**	**(1)**	**259**	-
ABL8A bonds with an original face value of R725 million, issued on 19 September 2008, are redeemable on 19 September 2013. Interest is calculated and payable semi-annually at a coupon rate of 13.0%.	**725**	**3**	**(3)**	**725**	-
ABL8B bonds with an original face value of R525 million, issued on 19 September 2008, are redeemable on 19 September 2013. Interest is calculated and payable quarterly at the 3 month JIBAR rate plus 3.0%.	**525**	**2**	**-**	**527**	-
Less: Held by fellow subsidiary	**(51)**	**-**	**-**	**(51)**	(51)
	4 377	**68**	**(11)**	**4 434**	2 588

12 BONDS AND OTHER LONG-TERM FUNDING *(continued)*

12.2 Unsecured long-term loans

	Face value 2008 Rm	Interest capitalised 2008 Rm	Unamortised discount 2008 Rm	Net liability 2008 Rm	Net liability 2007 Rm
Promissory notes – long-term	**2 867**	**85**	**-**	**2 952**	1 350
Fixed deposits – long-term	**2 783**	**122**	**-**	**2 905**	2 389
Negotiable certificates of deposit – long-term	**25**	**2**	**-**	**27**	768
	5 675	**209**	**-**	**5 884**	4 507

Promissory notes consist of zero coupons, quarterly coupons and semi-annual coupons, with rates varying from 8.41% to 14.10% NACQ, NACS and NACA. These notes have various maturities, ranging from 2 October 2008 to 13 May 2011. Promissory notes with a nominal value of R1 741 million (2007: R484 million) are payable within the next 12 months.

The fixed deposits – long-term consists of zero coupons, monthly coupons, quarterly coupons and semi-annual coupons, with rates varying from 7.33% to 14.65% NACM, NACQ, NACS and NACA. These fixed deposits have various maturities, ranging from 8 October 2008 to 29 July 2013. Fixed deposits with a nominal value of R2 191 million (2007: R1 595 million) are payable within the next 12 months.

The negotiable certificates of deposit – long-term consist of zero coupons with rates of 12.05% NACA. These negotiable certificates of deposit mature on 4 February 2009. Negotiable certificates of deposit with a nominal value of R25 million (2007: R730 million) are payable within the next 12 months.

The company has unutilised credit facilities with Standard Bank of R18 million.

13 SUBORDINATED BONDS

	Face value 2008 Rm	Interest capitalised 2008 Rm	Unamortised discount 2008 Rm	Net liability 2008 Rm	Net liability 2007 Rm
Subordinated bonds	**300**	**6**	**-**	**306**	305
Subordinated debentures	**200**	**5**	**-**	**205**	-
	500	**11**	**-**	**511**	305

Subordinated bonds (ABLS1) with a R300 million face value, issued on 8 August 2007, are redeemable on or after 8 August 2012, but no later than 8 August 2017. Interest up to 8 August 2012 is calculated at the 3 month JIBAR plus 1.6% and payable quarterly. On 8 August 2012 the rate resets to the 3 month JIBAR plus 3.6% with the same payment intervals.
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 3 month JIBAR plus 5% and capitalised quarterly. On 6 August 2015 the rate resets to the 3 month JIBAR plus 7.5%.

14 AMOUNTS OWING TO FELLOW SUBSIDIARIES

	Rate	Type	Maturity	2008 Rm	2007 Rm
• The Standard General Insurance Company Ltd	11.95%	Call	On demand	**246**	151
• The Standard General Insurance Company Ltd	Per note 12	ABL4 bonds	Per note 12	**-**	19
• The Standard General Insurance Company Ltd	Per note 12	ABL5 bonds	Per note 12	**-**	32
• The Standard General Insurance Company Ltd	Per note 12	ABLI01 bonds	Per note 12	**36**	-
• The Standard General Insurance Company Ltd	Per note 12	ABL8A bonds	Per note 12	**8**	-
• The Standard General Insurance Company Ltd	Per note 12	ABL8B bonds	Per note 12	**7**	-
• Miners Credit Guarantee (Pty) Limited (MCG)	-	Loan	Not applicable	**23**	22
• Theta Investments (Pty) Limited (Theta)	-	Loan	Not applicable	**46**	49
• ABIL Employee Share Trust (the Trust)	-	Loan	Not applicable	**19**	10
• Other loans	-	Loan	Not applicable	**133**	134
				518	417

14 AMOUNTS OWING TO FELLOW SUBSIDIARIES *(continued)*

The rates reflected are as at 30 September 2008. The loans from MCG, Theta, the Trust and other loans are unsecured interest free and have no fixed terms of repayment.

	2008 Rm	2007 Rm
15 AMOUNTS OWING TO SUBSIDIARY COMPANIES		
Loans to subsidiary companies	**20**	48
	20	48

These loans are interest free and have no fixed terms of repayment.
See Annexure B for more information relating to subsidiaries and joint venture.

16 SHARE CAPITAL

	2008 Number of shares	**2008 Rm**	2007 Number of shares	2007 Rm
Authorised				
Ordinary shares of R1 each	**130 000 000**	**130**	130 000 000	130
Cumulative redeemable preference shares of R1 each	**3 750 000**	**4**	3 750 000	4
Issued				
Ordinary shares of R1 each	**121 251 503**	**121**	121 251 503	121
Cumulative redeemable preference shares of R1 each	**-**	**-**	-	-

The 8 748 497 (2007: 8 748 497) unissued ordinary shares and 3 750 000 (2007: 3 750 000) unissued preference shares remain under the unrestricted control of the directors, until the forthcoming annual general meeting.

	2008 Rm	2007 Rm
17 RESERVES		
Attributable income	**1 094**	937
Share-based payment reserve	**(140)**	(119)
Cashflow hedging reserve	**(14)**	-
	940	818
18 INTEREST INCOME		
Interest income on advances	**3 323**	3 098
Interest received on cash reserves	**238**	144
	3 561	3 242
19 NON-INTEREST INCOME		
Loan origination fees	**346**	276
Collection charges and service fees	**705**	303
Credit card fees	**162**	94
Other income	**38**	42
Dividends received	**-**	283
	1 251	998

During the current financial year the company changed its basis of accounting for service fees from being recognised monthly in the income statement on a straight line basis when charged, to being amortised to the income statement over the contractual life of the loan using the effective interest rate method, resulting in a constant yield to maturity for the loan. This was necessitated by the introduction of higher service fees (offset by lower interest rates) following the introduction of the National Credit Act in June 2007, which under the previous accounting basis would have resulted in a material deferral of income to the latter stages of the loan's term.
Furthermore, the accounting treatment for service fees is now consistent with that applied to origination fees which are

19 NON-INTEREST INCOME *(continued)*

also amortised using the effective interest method.

The application of the previous basis of accounting would have resulted in service fee income recognised in the income statement for the current year being R180 million lower than reported, with this amount being deferred into future unrecognised income.

	2008 Rm	2007 Rm
20 CHARGE FOR BAD AND DOUBTFUL ADVANCES		
Increase in impairment provisions (refer note 5)	**1 553**	1 016
Less: Bad debts recovered	**(192)**	(193)
	1 361	823
21 INTEREST EXPENSE		
Subordinated bonds	**44**	11
Unsecured listed bonds	**306**	260
Unsecured long-term loans	**579**	243
Demand deposits	**62**	13
Fixed and notice deposits	**129**	61
Negotiable certificates of deposit	**49**	44
Other	**6**	20
	1 175	652
22 OPERATING COSTS		
Auditors' remuneration	**4**	4
Audit fees	**4**	4
Fees for other services	**-**	-
Bank charges	**138**	128
Depreciation on property and equipment (note 9)	**62**	44
Direct selling costs and commissions	**11**	91
Information technology costs	**20**	22
Professional fees	**14**	22
Legal fees	**2**	10
Consultants and other professional fees	**12**	12
Staff cost	**619**	506
Basic remuneration	**488**	380
Bonuses and incentives	**68**	59
Charge for share-based incentives	**63**	67
Operating lease premiums	**90**	84
Leasehold fixed property - external	**81**	69
Computers and other equipment	**9**	15
Directors' remuneration paid by company (see annexure A)	**26**	23
Non-executive directors - fees	**2**	2
Executive directors - basic remuneration	**12**	10
- bonuses	**12**	11
Telephone, fax and other communication costs	**66**	57
Other expenses	**151**	100
	1 201	1 081

	2008 Rm	2007 Rm
23 TAXATION		
Charge for the year:	**288**	393
SA normal taxation		
Current year	**236**	380
Prior year	**(26)**	(1)
Deferred taxation		
Current year	**53**	18
Prior year	**23**	(4)
Rate change	**2**	-
Secondary tax on companies	**48**	44
Taxation per income statement	**336**	437
Tax rate reconciliation:		
Profit before taxation	**1 023**	1 329
Total taxation per income statement	**336**	437
	%	%
Taxation charge for the year as a percentage of net income before taxation	**32.8**	32.9
Dividend income	**-**	(21.3)
Impairments and other capital items	**(0.3)**	22.0
Secondary tax on companies	**(4.6)**	(3.3)
Rate change	**(0.2)**	-
Other	**0.3**	(1.3)
Standard rate of South African taxation	**28.0**	29.0

	2008 Rm	2007 Rm
24 CASH GENERATED FROM OPERATIONS		
Profit from operations	**1 023**	1 647
Adjustments for:		
- Indirect taxation	**52**	37
- (Decrease) / increase in provision for deferred administration fees	**(182)**	18
- Increase in impairment provisions	**1 553**	1 016
- Depreciation	**62**	44
- Normal and conversion option charges accounted for in equity	**1**	5
- Hedge variation margin and fee accounted for in equity	**(22)**	28
- Movement in share-based payment reserve accounted for in equity	**(21)**	7
- Movement in cashflow hedging reserve accounted for in equity	**(14)**	-
- Mark-to-market adjustment of option liability	**(3)**	84
- Incentive accruals	**44**	86
Cash generated from operations	**2 493**	2 972

Comparative figures have been reclassified to conform with changes in presentation in the current year.

	2008 Rm	2007 Rm
25 CASH RECEIVED FROM LENDING ACTIVITIES AND CASH RESERVES		
Interest income (refer note 18)	**3 561**	3 242
Non-interest income (refer note 19)	**1 251**	998
Movement in deferred administration fees provision	**(182)**	18
	4 630	4 258

		2008 Rm	2007 Rm
26	**CASH PAID TO CLIENTS, SUPPLIERS OF FUNDING, EMPLOYEES AND AGENTS**		
	Interest expense (refer note 21)	**(1 175)**	(652)
	Staff costs (refer note 22)	**(622)**	(506)
	Direct selling costs (refer note 22)	**(11)**	(91)
	Bank charges (refer note 22)	**(138)**	(128)
	Other operating costs	**(383)**	(102)
		(2 329)	(1 479)
27	**INCREASE IN GROSS ADVANCES**		
	Opening balance of gross advances	**10 890**	7 726
	Less: Closing balance of gross advances	**(15 826)**	(10 890)
	Movement in gross advances	**(4 936)**	(3 164)
	Less: Bad debts written off	**(887)**	(549)
		(5 823)	(3 713)
28	**INDIRECT AND DIRECT TAXATION PAID**		
	Decrease in tax liability	**(56)**	(27)
	Indirect and direct taxation charged to income statement	**(388)**	(474)
	Deferred tax portion of amount charged to income statement	**78**	14
	Taxation accounted for in equity as result of hedge transactions	**(11)**	-
		(377)	(487)
29	**OTHER INVESTING ACTIVITIES**		
	Increase in statutory assets	**(287)**	(174)
	Decrease / (increase) in group loans	**71**	(305)
		(216)	(479)
30	**CASH INFLOW FROM FUNDING ACTIVITIES**		
	Funding raised	**8 004**	5 138
	Bonds issued	**2 443**	1 050
	Subordinated bonds issued	**200**	300
	Other treasury funding	**5 361**	3 788
	Funding redeemed	**(2 384)**	(1 753)
	Bonds	**(617)**	(909)
	Subordinated debentures	**-**	(200)
	Other treasury funding	**(1 767)**	(644)
		5 620	3 385
31	**DIVIDENDS PAID**		
	Dividends paid to shareholder	**(530)**	(804)
		(530)	(804)

Dividend paid of 437.1 cents per share (2007: 663.1 cents per share).

		2008 Rm	2007 Rm
32	**CASH AND CASH EQUIVALENTS**		
	Short-term deposits and cash	**2 848**	1 800
		2 848	1 800

33 FINANCIAL RISK

33.1 Interest rate risk

The company is exposed to interest rate risk associated with the effects of fluctuations in the prevailing levels of market rates on its financial positions and cash flows. The table below summarises the 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. Cash is included in the one month category.

2008	Up to one month Rm	One to three months Rm	Four to twelve months Rm	Beyond twelve months Rm	Non-interest sensitive items Rm	Total Rm
Assets						
Short-term deposits and cash	1 895	953	-	-	-	2 848
Statutory assets	332	125	23	70	272	822
Other assets	6	-	-	-	14	20
Net advances	496	1 004	3 090	8 614	-	13 204
Deferred tax asset	-	-	-	-	74	74
Amounts owing by holding company and fellow subsidiaries	-	-	-	-	29	29
Investments in subsidiaries and joint venture	-	-	-	-	20	20
Property and equipment	-	-	-	-	231	231
Total assets	**2 729**	**2 082**	**3 113**	**8 684**	**640**	**17 248**
Liabilities and equity						
Short-term funding	725	827	1 436	12	-	3 000
Other liabilities	10	-	-	-	405	415
Taxation	-	-	-	-	3	3
Bonds and other long-term funding	532	492	3 194	6 100	-	10 318
Subordinated bonds	-	11	-	500	-	511
Amounts owing to fellow subsidiaries	247	-	-	51	220	518
Amounts owing to subsidiary companies	-	-	-	-	20	20
Total liabilities	**1 514**	**1 330**	**4 630**	**6 663**	**648**	**14 785**
Ordinary shareholder's equity	-	-	-	-	2 463	2 463
Total equity (capital and reserves)	**1 514**	**1 330**	**4 630**	**6 663**	**3 111**	**17 248**
On balance sheet interest sensitivity	**1 215**	**752**	**(1 517)**	**2 021**	**(2 471)**	**-**

33 FINANCIAL RISK *(continued)*

33.1 Interest rate risk *(continued)*

2007	Up to one month Rm	One to three months Rm	Four to twelve months Rm	Beyond twelve months Rm	Non-interest sensitive items Rm	Total Rm
Assets						
Short-term deposits and cash	1 800	-	-	-	-	1 800
Statutory assets	85	159	23	95	173	535
Other assets	-	-	-	-	45	45
Net advances	441	772	1 989	5 550	-	8 752
Deferred tax asset	-	-	-	-	141	141
Amounts owing by holding company and fellow subsidiaries	-	-	-	-	27	27
Investments in subsidiaries and joint venture	-	-	-	-	48	48
Property and equipment	-	-	-	-	194	194
Total assets	2 326	931	2 012	5 645	628	11 542
Liabilities and equity						
Short-term funding	104	344	360	-	-	808
Other liabilities	-	-	-	-	469	469
Taxation	-	-	-	-	59	59
Bonds and other long-term funding	194	235	2 545	4 121	-	7 095
Subordinated bonds	-	5	-	300	-	305
Amounts owing to fellow subsidiaries	151	-	1	51	214	417
Amounts owing to subsidiary companies	-	-	-	-	48	48
Total liabilities	449	584	2 906	4 472	790	9 201
Ordinary shareholder funds	-	-	-	-	2 341	2 341
Total liabilities and equity	449	584	2 906	4 472	3 131	11 542
On balance sheet interest sensitivity	1 877	347	(894)	1 173	(2 503)	-

33 FINANCIAL RISK *(continued)*

33.2 Liquidity risk

Assets and liability maturities as at 30 September 2008

2008	Up to one month Rm	One to three months Rm	Four to twelve months Rm	Beyond twelve months Rm	Total Rm
Assets					
Short-term deposits and cash	1 895	953	-	-	2 848
Statutory assets	604	125	23	70	822
Other assets	6	14	-	-	20
Net advances	496	1 004	3 090	8 614	13 204
Deferred tax asset	-	-	-	74	74
Amounts owing by holding company and fellow subsidiaries	-	-	-	29	29
Investments in subsidiaries and joint venture	-	-	-	20	20
Property and equipment	-	-	-	231	231
Total assets	**3 001**	**2 096**	**3 113**	**9 038**	**17 248**
Liabilities and equity					
Short-term funding	725	827	1 436	12	3 000
Other liabilities	415	-	-	-	415
Taxation	-	-	3	-	3
Bonds and other long-term funding	532	492	3 194	6 100	10 318
Subordinated bonds	-	11	-	500	511
Amounts owing to fellow subsidiaries	247	-	-	271	518
Amounts owing to subsidiary companies	-	-	-	20	20
Total liabilities	**1 919**	**1 330**	**4 633**	**6 903**	**14 785**
Ordinary shareholder funds	-	-	-	2 463	2 463
Total liabilities and equity	**1 919**	**1 330**	**4 633**	**9 366**	**17 248**
Net liquidity gap	**1 082**	**766**	**(1 520)**	**(328)**	**-**

The table above analyses the company's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. Cash is included in the one month category.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the company. It is unusual for banks ever to be completely matched since the business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of 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 company and its exposure to changes in interest rates.

33 FINANCIAL RISK *(continued)*

33.2 Liquidity risk *(continued)*

Assets and liability maturities as at 30 September 2007

2007	Up to one month Rm	One to three months Rm	Four to twelve months Rm	Beyond twelve months Rm	Total Rm
Assets					
Short-term deposits and cash	1 800	-	-	-	1 800
Statutory assets	258	159	23	95	535
Other assets	-	45	-	-	45
Net advances	441	772	1 989	5 550	8 752
Deferred taxation	-	-	-	141	141
Amounts owing by holding company and fellow subsidiaries	-	-	-	27	27
Investments in subsidiaries and joint venture	-	-	-	48	48
Property and equipment	-	-	-	194	194
Total assets	2 499	976	2 012	6 055	11 542
Liabilities and equity					
Short-term funding	104	344	360	-	808
Other liabilities	469	-	-	-	469
Taxation	59	-	-	-	59
Bonds and other long-term funding	194	235	2 545	4 121	7 095
Subordinated bonds	-	5	-	300	305
Amounts owing to fellow subsidiaries	298	-	1	118	417
Amounts owing to subsidiary companies	-	-	-	48	48
Total liabilities	1 124	584	2 906	4 587	9 201
Ordinary shareholder funds	-	-	-	2 341	2 341
Total liabilities and equity	1 124	584	2 906	6 928	11 542
Net liquidity gap	1 375	392	(894)	(873)	-

33.3 Credit risk

All loans granted by the bank are granted to individuals in the Republic of South Africa.

The company 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 electronic debit order payments directly from customer bank accounts and payroll deductions. All arrear accounts are actively managed on an ongoing basis from the day after the account goes into arrears using various methods which include deferred arrangements and legal collections to minimise the arrear loan book.

Further disclosure has been provided under note 5.1.

The company is exposed to credit risk in terms of interest rate swaps that the company has entered into with various other South African banks to the value of approximately R39 million.

33 FINANCIAL RISK *(continued)*

33.3 Credit risk *(continued)*

The company maintains cash and cash equivalents and short term investments with various financial institutions and in this regard it is company policy to limit its exposure to any one financial institution. Deposits are placed only with South African banks and limited to the big five banks within South Africa.

33.4 Currency risk

The company has no foreign currency positions.

33.5 Capital adequacy risk

Capital adequacy risk is the risk that the bank will not have sufficient reserves to meet adverse variations in collections as compared with that which has already been assumed within the impairment provisions and reserves. Capital adequacy is measured by expressing capital as a percentage of risk-weighted assets. The Banks Act, 94 of 1990, specifies the minimum capital holding required in relation to risk-weighted assets.

Refer to the table below for the capital adequacy requirements and comparatives as at 30 September 2008.

	Balances		**Weighting**	**Risk weighted balances**	
	2008 Rm	2007 Rm	**%**	**2008 Rm**	2007 Rm
Cash, central banks and government securities	**851**	675	**-**	-	-
Interbank placements	**2 890**	1 819	**20**	**578**	364
All other assets	**13 645**	9 013	**50 – 150**	**11 129**	9 013
Total on-balance sheet assets	**17 386**	11 507		**11 707**	9 377
Off-balance sheet items	**493**	144	**0 – 100**	**-**	128
Total average assets	**17 879**	11 651		**11 707**	9 505
Required capital: 20.5% (2007: 10%)				**2 297**	950
Capital available					
Primary (Tier 1)					
Share capital				**121**	121
Primary reserves (less allowable deductions)				**2 333**	2 220
Total				**2 454**	2 341
Secondary (Tier 2)					
Subordinated debt instruments				**511**	305
General provisions net of impairments				**76**	48
Non-qualifying capital reserves				**(60)**	-
Total				**527**	353
Total qualifying capital and unimpaired reserve funds				**2 981**	2 694
Total capital to risk weighted assets				%	%
Primary				**21.0**	24.6
Secondary				**4.5**	3.7
Total				**25.5**	28.4

34 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies on pages 8 to 20 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 financial instrument has also been provided.

34.1 Analysis of financial assets

2008 Assets	**Advances Rm**	**Statutory assets & cash Rm**	**Inter company Rm**	**Other Rm**	**Non-financial instruments Rm**	**Total Rm**
Short-term deposits and cash	**-**	**2 848**	**-**	**-**	**-**	**2 848**
Statutory assets	**-**	**822**	**-**	**-**	**-**	**822**
Derivative instruments	**-**	**-**	**-**	**7**	**-**	**7**
Other assets	**-**	**-**	**-**	**13**	**-**	**13**
Net advances	**13 204**	**-**	**-**	**-**	**-**	**13 204**
Deferred tax asset	**-**	**-**	**-**	**-**	**74**	**74**
Amounts owning by holding company and fellow subsidiaries	**-**	**-**	**29**	**-**	**-**	**29**
Investments in subsidiaries and joint venture	**-**	**-**	**-**	**-**	**20**	**20**
Property and equipment	**-**	**-**	**-**	**-**	**231**	**231**
	13 204	**3 670**	**29**	**20**	**325**	**17 248**
Fair value	**13 537**	**3 668**	**29**	**20**		
Categories of financial instruments						
Fair value						
Derivatives designated as cash flow hedging instruments	**-**	**-**	**-**	**7**	**-**	**7**
Amortised cost						
Held-to-maturity statutory assets	**-**	**550**	**-**	**-**	**-**	**550**
Loans and receivables	**13 204**	**3 120**	**29**	**13**	**-**	**16 366**
Non-financial instruments	**-**	**-**	**-**	**-**	**325**	**325**
	13 204	**3 670**	**29**	**20**	**325**	**17 248**

2007 Assets	**Advances Rm**	**Statutory assets & cash Rm**	**Inter company Rm**	**Other Rm**	**Non-financial instruments Rm**	**Total Rm**
Short-term deposits and cash	-	1 800	-	-	-	1 800
Statutory assets	-	535	-	-	-	535
Derivative instruments	-	-	-	-	-	-
Other assets	-	-	-	45	-	45
Net advances	8 752	-	-	-	-	8 752
Deferred tax asset	-	-	-	-	141	141
Amounts owing by holding company and fellow subsidiaries	-	-	27	-	-	27
Investments in subsidiaries and joint venture	-	-	-	-	48	48
Property and equipment	-	-	-	-	194	194
	8 752	2 335	27	45	383	11 542
Fair value	8 980	2 334	27	45		

34 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES *(continued)*

34.1 Analysis of financial assets *(continued)*

Categories of financial instruments

2007	Advances Rm	Statutory assets & cash Rm	Inter company Rm	Other Rm	Non-financial instruments Rm	Total Rm
Fair value						
Derivatives designated as cash flow hedging instruments	-	-	-	-	-	-
Amortised cost						
Held-to-maturity statutory assets	-	362	-	-	-	362
Loans and receivables	8 752	1 973	27	45	-	10 797
Non-financial instruments	-	-	-	-	383	383
	8 752	2 335	27	45	383	11 542

Income statement effect of financial instruments by category

	2008 Rm	2007 Rm
Interest income recognised – loans and receivables	3 514	3 216
Interest income recognised – held-to-maturity assets	47	26
	3 561	3 242

34.2 Analysis of financial liabilities

2008	Amortised cost funding		Fair value	Other		
	Listed funding Rm	**Unlisted funding Rm**	**Other Rm**	**Equity & reserves Rm**	**Non-financial instruments Rm**	**Total Rm**
Ordinary shareholder's equity	**-**	**-**	**-**	**2 463**	**-**	**2 463**
Liabilities						
Short-term funding	**-**	**3 000**	**-**	**-**	**-**	**3 000**
Other liabilities	**-**	**203**	**-**	**-**	**202**	**405**
Taxation	**-**	**-**	**-**	**-**	**3**	**3**
Derivative instruments	**-**	**-**	**10**	**-**	**-**	**10**
Bonds and other long-term funding	**4 434**	**5 884**	**-**	**-**	**-**	**10 318**
Subordinated bonds	**306**	**205**	**-**	**-**	**-**	**511**
Amounts owing to fellow subsidiaries	**-**	**518**	**-**	**-**	**-**	**518**
Amounts owing to subsidiary companies	**-**	**20**	**-**	**-**	**-**	**20**
	4 740	**9 830**	**10**	**2 463**	**205**	**17 248**
Fair value	**4 676**	**9 669**	**10**			

34 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES *(continued)*

34.2 Analysis of financial liabilities *(continued)*

2007	Amortised cost funding		Fair value	Other		
	Listed funding Rm	Unlisted funding Rm	Other Rm	Equity & reserves Rm	Non-financial instruments Rm	Total Rm
Ordinary shareholder's equity	-	-	-	2 341	-	2 341
Liabilities						
Short-term funding	-	808	-	-	-	808
Other liabilities	-	167	-	-	302	469
Taxation	-	-	-	-	59	59
Derivative instruments	-	-	-	-	-	-
Bonds and other long-term funding	2 588	4 507	-	-	-	7 095
Subordinated bonds	305	-	-	-	-	305
Amounts owing to fellow subsidiaries	-	417	-	-	-	417
Amounts owing to subsidiary companies	-	48	-	-	-	48
	2 893	5 947	-	2 341	361	11 542
Fair value	2 513	5 839	-			

Income statement effect of financial instruments by category

	2008 Rm	2007 Rm
Financial liabilities at amortised cost – interest expense	**1 152**	632

35 INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company has significant fair value interest rate risk arising from its fixed rate advances portfolio. In order to mitigate this risk, the company seeks to achieve funding that is similarly fixed rate. This not only reduces the fair value interest rate exposure but also achieves a fixed cost of lending for the company.

The interest rate risk management policies and procedures have been described in detail in the risk management review report of the group annual financial statements of the holding company, African Bank Investments Limited.

It is not always feasible to issue fixed rate funding and therefore the company makes use of derivative instruments in order to reduce cash flow risk arising from changes in interest rates. In terms of the treasury mini-manual the bank is required to maintain a risk sensitivity limit of 1.75% given a 200bp shift in applicable interest rates. The hedges transacted are in response to this limit. Where possible, the company designates these derivatives as effective cash flow hedges. This accounting treatment results in an economically represented income statement but does create accounting volatility within equity.

Sensitivity analysis based on a 100bp increase in rates
IFRS 7 Financial Instruments: Disclosures requires that a sensitivity analysis be provided for changes in interest rates. The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivatives at the balance sheet date. For floating rate liabilities, the analyses 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 changes 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.

35 INTEREST RATE RISK MANAGEMENT *(continued)*

The sensitivity analysis below is based on an increase in rates. Given the linear structure of the company's portfolio, a 100bp decrease in interest rates would result in a corresponding net decrease of R16 million (2007: R1 million) in net income and a R51 million (2007: Rnil) in equity. The prior year sensitivity analysis was calculated after taking into account the duration of the financial instruments and therefore is not comparable to that required by IFRS 7.

2008 **Financial assets**	**Carrying value Rm**	**Amount exposed to market risk Rm**	**Index to which rate is linked Rm**	**Income statement impact (pre-tax) Rm**	**Equity impact (pre-tax) Rm**
Interest rate swaps	**1**	**675**	**JIBAR**	**-**	**10**
CPI linked swaps	**6**	**260**	**CPI**	**-**	**11**
Cash and cash equivalents	**2 848**	**2 848**	**JIBAR**	**28**	**-**
	2 855	**3 783**		**28**	**21**
Financial liabilities					
Subordinated bonds	**205**	**205**	**JIBAR**	**2**	**-**
Promissory notes	**2 952**	**485**	**JIBAR**	**5**	**-**
Fixed deposits	**4 744**	**496**	**JIBAR**	**5**	**-**
Interest rate swaps	**10**	**1 587**	**JIBAR**	**-**	**(30)**
	7 911	**2 773**		**12**	**(30)**
Net effect on income statement and equity				**16**	**51**

2007 **Financial assets**	**Carrying value Rm**	**Amount exposed to market risk Rm**	**Index to which rate is linked Rm**	**Income statement impact (pre-tax) Rm**	**Equity impact (pre-tax) Rm**
Cash and cash equivalents	1 800	1 800	JIBAR	18	-
	1 800	1 800		18	-
Financial liabilities					
Subordinated bonds	305	305	JIBAR	3	-
Promissory notes	1 350	848	JIBAR	8	-
Fixed deposits	2 389	598	JIBAR	6	-
	4 044	1 751		17	-
Net effect on income statement and equity				1	-

36 LIQUIDITY ANALYSIS

Liquidity risk management
Liquidity risk is defined as the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities.

The following table represents the company's undiscounted cash flows of liabilities per remaining maturity and includes all cash outflows related to the principal amounts as well as future payments. The analysis is based on the earliest date on which the company can be required to pay and is not necessarily the date at which the company is expected to pay.

Where an effective hedging relationship exists, the net cash fixed flows per hedged item have been disclosed.

The analysis of cash flows will not agree directly with the balances on the balance sheet and therefore an analysis of carrying values has been provided.

36 LIQUIDITY ANALYSIS *(continued)*

2008 Financial liabilities	**Carrying amount Rm**	**< 1 month Rm**	**1 to 3 months Rm**	**4 to 12 months Rm**	**Beyond 12 months Rm**	**Total Rm**
Demand deposits	**277**	**277**	**-**	**-**	**-**	**277**
Promissory notes	**2 952**	**215**	**320**	**1 525**	**1 254**	**3 314**
Fixed deposits	**4 744**	**741**	**848**	**2 600**	**792**	**4 981**
Negotiable certificates of deposit	**911**	**-**	**181**	**778**	**-**	**959**
Other liabilities	**203**	**203**	**-**	**-**	**-**	**203**
Bonds and debentures	**4 945**	**-**	**61**	**460**	**7 418**	**7 939**
Amounts owing to fellow subsidiaries	**518**	**467**	**1**	**4**	**104**	**576**
Amounts owing to subsidiary companies	**20**	**20**	**-**	**-**	**-**	**20**
	14 570	**1 923**	**1 411**	**5 367**	**9 568**	**18 269**
2007						
Financial liabilities						
Demand deposits	18	18	-	-	-	18
Promissory notes	1 350	51	55	477	976	1 559
Fixed deposits	2 983	115	355	1 910	768	3 148
Negotiable certificates of deposit	965	113	159	736	-	1 008
Other liabilities	167	167	-	-	-	167
Bonds and debentures	2 893	-	59	201	3 597	3 857
Amounts owing to fellow subsidiaries	417	365	2	4	84	455
Amounts owing to subsidiary companies	48	48	-	-	-	48
	8 841	877	630	3 328	5 425	10 260

37 INTEREST RATE RISK HEDGING

In terms of the company's interest rate hedging strategy, it has entered into a number of interest rate swap agreements that convert floating rate of interest paid on an identified underlying financial liability into a fixed rate. This enables the company to mitigate the cash flow risk arising from the change in interest rates on the issued variable rate liabilities. In terms of IAS 39 Financial Instruments: Recognition and Measurement these swaps have been documented and designated as effective cash flow hedges. The hedged risk is either quarterly resetting JIBAR or the effect of changes in CPI and the derivative instruments are settled on a net basis at each cash flow date.

The fair value of the derivative instruments is determined using accepted valuation methodologies and the applicable market rate on date of valuation. The average interest rate is based on the outstanding balances at the end of the financial year.

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. There were no interest rate hedges in 2007.

2008 Cash flow hedges	**Average contracted %**	**Hedged amount Rm**	**Fair value asset Rm**	**Fair value liability Rm**
Less than 1 year	11.40%	375	1	-
1 to 2 years	11.26%	891	-	(4)
2 to 5 years	10.46%	1 145	6	(6)
		2 411	7	(10)

37 INTEREST RATE RISK HEDGING *(continued)*

In terms of the IAS 39 hedge accounting requirements, the change in fair value of the hedging instrument found to be effective will be recognised in the statement of changes in the hedging reserve (equity). Complete ineffectiveness will be recognised directly in profit or loss for the period where the hedge effectiveness exceeds the 80% to 125% threshold. To the extent that the change in fair value of the hedged item is over-effective (i.e. greater than 100%) but still within the 80% to 125% threshold the amount of over-effectiveness will be recognised in P&L. To the extent that the relationship is under-effective (but within the threshold) the full amount of the change will be recognised in equity. All hedges in the current period were found to be effective.

Given the hedging methodology applied, only the fair value adjustment on the derivative is recognised in equity and any interest accrual on the derivative is recognised in interest expense, therefore no amounts (other than ineffectiveness) are transferred out of equity into income statement directly. The hedging reserve will reduce to zero in line with the pull to par effect on the swap.

Interest rate hedging reserve reconciliation	**2008 Rm**	2007 Rm
Balance at beginning of year	**-**	-
Losses recognised in equity	**20**	-
Tax effect	**(6)**	-
Amount recognised in profit or loss	**-**	-
Balance at end of year	**14**	-

38 INCENTIVE PAYMENTS – HEDGING OF EXPOSURE FROM THE AFRICAN BANK INVESTMENTS LIMITED SHARE PRICE MOVEMENTS

In terms of the company's long-term incentive plan (LTIP), the ultimate liability is directly impacted by the ABIL share price at predefined dates. During June 2006 a decision was taken to hedge the exposure under the LTIP (and remaining converted options) with regard to ABIL share price movements to avoid volatility in the company's earnings due to movements in the ABIL share price. A total return equity swap (TRES) was entered into during July 2006 with a third party in terms of which the liability of the company will be calculated on a fixed share price per ABIL share. The financial effects of the hedge entered into is that any increase in the ABIL share price above the hedge price results in the company receiving the gain from the third party in terms of the TRES whilst any decrease in the ABIL share price will result in the company paying the third party the difference between the hedge price and market price. These differences are determined on specific dates in terms of the hedge to match the company's liability in terms of the LTIP. In terms of IAS 39 Financial Instruments: Recognition and Measurement these swaps have been documented and designated effective cash flow hedges.

The fair value of the derivative instruments is determined using accepted valuation methodologies and the applicable market rate on date of valuation. The hedge is constructed so as to mirror the expected vesting of the LTIPs.

In terms of 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 hedging reserve (equity). Complete ineffectiveness will be recognised in profit or loss for the period where the hedge effectiveness exceeds the 80% to 125% threshold. To the extent that the change in the fair value of the hedged item is over-effective (i.e. greater than 100%) but still within the 80% to 125% threshold the amount of over-effectiveness will be recognised in profit and loss. To the extent that the relationship is under-effective (but within the threshold) the full amount of the change will be recognised in equity. All hedges in the current period were found to be effective.

The table below represents the reconciliation of the LTIP hedging reserve.

LTIP hedging reserve reconciliation	**2008 Rm**	2007 Rm
Balance at beginning of year	**119**	127
Loss / (gain) on hedging instrument recognised in equity	**27**	(3)
Amount transferred to profit and loss	**(1)**	(5)
Tax effect	**(5)**	-
Balance at end of year	**140**	119

The amounts transferred to profit and loss are recognised as part of operating expenses.

39 CONTINGENT LIABILITIES AT YEAR END

The company has cash deposits with Standard Bank for EFT, encashment facilities, Visa facilities, electricity and deposit guarantees totalling R20 million (2007: R20 million). The company has a contingent exposure to legal claims of R0.7 million (2007: R0.6 million). The company has a contingent liability for unclaimed reparation claims of R20 million relating to clients of its GEMS division (also see note 7).

40 OPERATING LEASE COMMITMENTS

		2008 Rm	2007 Rm
Payable within one year	- Property	**64**	44
	- Computers and other equipment	**1**	1
		65	45
Payable between one and five years	- Property	**52**	55
	- Computers and other equipment	**-**	1
		52	56
		117	101

41 CAPITAL COMMITMENTS

The company has no authorised or contracted capital commitments at year end.

42 RETIREMENT AND POST RETIREMENT BENEFITS

It is compulsory for all permanent staff to belong to the company provident fund. Membership of the company pension fund is voluntary. The funds are governed by the Pension Funds Act, 1956. The funds are in the nature of defined contribution plans where the retirement benefits are determined with reference to actual contributions to the funds. No actuarial valuation has been done for this reason. The company makes contributions towards the fund, based on a total cost to company package.

The company has no obligation to provide medical aid benefits or post-retirement benefits to employees or pensioners.

43 RELATED PARTY INFORMATION

Relationship between the company, its holding company and its fellow subsidiaries

The company's holding company, African Bank Investments Limited, holds 100% of (inter alia) African Bank Limited (the company), 100% of Ellerine Holdings Limited (Ellerines), Theta Investments (Proprietary) Limited (Theta) and The Standard General Insurance Company Limited (Stangen). Details of the company's subsidiaries are disclosed in Annexure B.

Related party transactions

The company has entered into financial services transactions with its holding company, subsidiaries and fellow subsidiaries. Transactions between the company and Stangen as well as between the company and the SBSA JV were in the ordinary course of business on market related terms and conditions similar to those arranged with third parties. In the case of Stangen these transactions involve commission received by the company to the value of R11 million (2007: R7 million), on premiums collected by the company on behalf of Stangen. In the case of the SBSA JV these transactions involve mainly the recovery of selling and operating costs to the value of R50 million (2007: R73 million). The company also funded the SBSA JV (in its funding ratio of 53%) to the value of R60 million (2007: R291 million). The company earns 13% per annum (NACM) on this funding and it is repayable on demand after SBSA JV steering committee approval. There were no material transactions with directors other than emoluments as disclosed in note 22. See annexures B and C for additional related party disclosure.

AFRICAN BANK

44 INTEREST IN JOINT VENTURE

The company has a 40% interest in a joint venture, entered into with The Standard Bank of South Africa Limited (SBSA), which provides products and services in the credit banking industry.

Neither the company nor the joint venture has incurred any contingent liability or capital commitment in respect of the joint venture as at year-end.

In 2007, SBSA served the company notice that it will terminate the joint venture. The joint venture ceased selling new loans with effect from 1 June 2007, but will continue to operate and serve its clients, whereafter the joint venture loan book will run down over time, with the partners sharing costs and revenues in existing ratios. The company does not expect that the winding down of the joint venture will negatively affect the attainment of its short and medium term objectives.

Amounts included in the company's results which relate to the joint venture:

	2008 Rm	2007 Rm
Current assets	**75**	203
Long-term assets	**50**	205
Current liabilities	**1**	40
Long-term liabilities	**60**	291
Income	**68**	180
Expenses	**78**	148

These amounts are before elimination of intra-company transactions and balances.

45 KEY ASSUMPTIONS CONCERNING THE FUTURE AND SOURCES OF ESTIMATION UNCERTAINTY

Assumptions have been made concerning the future or other sources of estimation uncertainty relating to the valuation of non-performing loan impairments.

46 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

At the date of authorisation of these annual financial statements, the following relevant new standards, interpretations and amendments were in issue but not yet effective for the company:

- IFRS 8 Operating segments (effective 1 January 2009).
- IFRIC 13 Customer loyalty programmes – the interpretation clarifies the applications of IAS 18 Revenue to customer loyalty programmes (effective 1 July 2008).
- Amendment to IFRS 2 Share-based payments – the amendments relate to vesting conditions and cancellations (effective 1 January 2009).
- Amendment to IFRS 3 Business combinations – revision on applying the acquisition method and consequential amendments to IAS 27 Consolidated and separate financial statements and IAS 28 Investments in associates (effective 1 July 2009.
- Amendments to IAS 1 Presentation of the financial statements – a comprehensive revision of the standard including requiring a statement of comprehensive income and changing the titles of some of the financial statements (effective 1 January 2009).
- Amendment to IAS 39 Financial instruments: Recognition and measurement – clarification on hedge accounting for inflation in a financial hedged item and one-sided risk in a hedged item (effective 1 January 2009).

The company will comply with the above standards, interpretations and amendments to existing standards for their annual reports for periods that begin on or after the effective dates.

47 SUBSEQUENT EVENTS

There have been no material subsequent events between the financial year end and the date of this report.

48 PRE-EMPTIVE RIGHTS

The company had sold, during 2006, its Commercial Vehicle Finance division to SA Taxi Finance (Pty) Limited and has a pre-emptive right and an option to repurchase the business or the entire issued equity shares of SA Taxi Finance (Pty) Limited under certain circumstances over a six year period at a market related price which is to be determined at such time. The pre-emptive right and option expires on 31 December 2011. No value has been ascribed to this option at 30 September 2008.

49 ACRONYMS AND ABBREVIATIONS

The following acronyms and abbreviations have been used in these financial statements.

ABIL	African Bank Investments Limited
BESA	Bond Exchange of South Africa
CGT	Capital gains taxation
GAAP	Generally Accepted Accounting Practice
GEMS	Gilt Edged Management Services (Pty) Ltd
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
JIBAR	Johannesburg interbank agreed rate
NACA	Nominal annual compounded annually
NACM	Nominal annual compounded monthly
NACQ	Nominal annual compounded quarterly
NACS	Nominal annual compounded semi-annually
Remco	Group remuneration committee (ABIL)
R million	Millions of rand
Tier 1	Primary capital
Tier 2	Secondary capital
Tier 3	Tertiary capital

AFRICAN BANK LIMITED
(Registration number 1975/002526/06)
ANNEXURE A: DIRECTORS' REMUNERATION
for the year ended 30 September 2008

Basic remuneration, benefits and bonuses paid to executive directors

	2008						2007				
All amounts in R000	**Date appointed to board**	**Cash package**	**Retirement, medical contributions and other**	**Total cost to company package**	**Annual cash bonus (note 1)**	**Total**	**Cash package**	**Retirement, medical contributions and other**	**Total cost to company package**	**Annual cash bonus (note 2)**	**Total**
Gordon Schachat	01/07/1995	**1 860**	**140**	**2 000**	**2 000**	**4 000**	1 890	110	2 000	3 000	5 000
Leon Kirkinis	01/07/1997	**2 031**	**158**	**2 189**	**2 500**	**4 689**	2 064	120	2 184	3 500	5 684
Toni Fourie	21/10/2003	**2 648**	**234**	**2 882**	**1 500**	**4 382**	2 041	216	2 257	2 000	4 257
Tami Sokutu	19/05/2003	**2 282**	**171**	**2 453**	**1 088**	**3 541**	1 833	135	1 968	1 450	3 418
Dave Woollam (note 3)	01/11/2002	**2 682**	**206**	**2 888**	**1 550**	**4 438**	1 583	143	1 726	1 600	3 326
		11 503	**909**	**12 412**	**8 638**	**21 050**	9 411	724	10 135	11 550	21 685

LTIPs allocated to executive directors

	2008					2007				
All amounts in R000	**Value as at 1 Oct 2007**	**2008 LTIP award**	**Change in value of LTIPs**	**LTIPs vested and payable (note 4)**	**Value as at 30 Sep 2008**	**Value as at 1 Oct 2006**	**2007 LTIP award**	**Change in value of LTIPs**	**LTIPs vested and payable (note 5)**	**Value as at 30 Sep 2007**
Toni Fourie	**10 758**	**2 805**	**(1 442)**	**(3 385)**	**8 736**	6 228	3 300	3 921	(2 691)	10 758
Tami Sokutu	**6 284**	**1 700**	**(1 296)**	**(1 790)**	**4 898**	3 159	2 000	2 496	(1 371)	6 284
David Woollam	**9 438**	**2 900**	**(1 886)**	**(2 821)**	**7 631**	5 184	2 500	4 072	(2 318)	9 438
	26 480	**7 405**	**(4 624)**	**(7 996)**	**21 265**	14 571	7 800	10 489	(6 380)	26 480

Note 1. These performance incentives relate to the financial year ended 30 September 2008 and were approved by the board (based on Remco's recommendations) on 6 November 2008. The cash bonuses were paid at the end of November 2008 and will be expensed in full, in terms of IFRS, in the 2009 financial year.
Note 2. These performance incentives relate to the financial year ended 30 September 2007 and were approved by the board (after Remco approval) on 8 November 2007. The cash bonses were paid at the end of November 2007 and were expensed in full, in terms of IFRS, in the 2008 financial year.
Note 3. Dave Woollam took a three month sabbatical during the previous financial year.
Note 4. This includes the LTIPs that vested on 30 September 2008 which were paid in October 2008.
Note 5. This vested on 30 September 2007 and was paid in October 2007.

ANNEXURE A: DIRECTORS' REMUNERATION *(continued)*

for the year ended 30 September 2008

Non-executive directors' remuneration

All amounts in R000	Date appointed to board	Fees for services as directors 2008	2007
Ashley Mabogoane	01/12/1999	**736**	678
Nic Adams	01/02/2008	**144**	-
Dave Gibbon	01/06/2003	**215**	198
Bahle Goba	06/06/2003	**152**	140
Mutle Mogase	12/03/2007	**186**	82
Mpho Nkeli	07/03/2008	**89**	-
Ramani Naidoo	19/05/2003	**75**	206
Brian Steele	19/05/2003	**183**	169
Guenter Steffens	19/05/2003	**158**	219
Daniel Tembe	01/01/2000	**52**	144
Oshy Tugendhaft	01/04/2003	**233**	215
		2 223	2 051

The non-executive directors are paid fees based on a fixed retainer for their responsibilities and duties as board members as well as additional fees for participation in the various subcommittees of the Board.

During the current financial year, Nic Adams and Mpho Nkeli were appointed as independent non-executive directors. Ramani Naidoo resigned on 31 January 2008 whilst Daniel Tembe and Guenter Steffens retired from the board on 31 January 2008 and 31 May 2008, respectively.

AFRICAN BANK LIMITED
(Registration number 1975/002526/06)
ANNEXURE B: INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURE
for the year ended 30 September 2008

		Type of Business	Issued share capital 2008 Rm	Issued share capital 2007 Rm	Effective percentage held 2008 %	Effective percentage held 2007 %	Investment 2008 Rm	Investment 2007 Rm	Loans From 2008 Rm	Loans From 2007 Rm
Alternative Finance Limited	- cost	Dormant	**-**	27	**-**	100	**345**	345	**-**	(27)
(note 1)	- impairment						**(318)**	(318)		
	- capital returned						**(27)**	-		
King Finance Corporation Limited	- cost	Dormant	**-**	1	**-**	100	**206**	206	**-**	(1)
(note 1)	- impairment						**(205)**	(205)		
	- capital returned						**(1)**	-		
Unity Financial Services Limited	- cost	Dormant	**-**	-	**100**	100	**69**	69	**-**	-
	- impairment						**(69)**	(69)		
Teba Credit (Pty) Limited	- cost	Dormant	**20**	20	**100**	100	**406**	406	**(20)**	(20)
	- impairment						**(178)**	(178)		
	- capital returned						**(208)**	(208)		
Information Technology Connections (Pty) Limited	- cost	Dormant	**-**	-	**100**	100	**4**	4	**-**	-
	- impairment						**(4)**	(4)		
Liberal Holdings Share-block (Pty) Limited	- cost	Dormant	**-**	-	**-**	100	**-**	3	**-**	-
(note 1)	- impairment						**-**	(3)		
Standard Bank Joint Venture		Credit Banking	**-**	-	**40**	40	**-**	-	**-**	-
							20	48	**(20)**	(48)

All subsidiaries are incorporated in the Republic of South Africa.
Note 1: These entities were liquidated during the year.

ANNEXURE C: RELATED PARTY TRANSACTIONS

for the year ended 30 September 2008

AMOUNTS OWING BY HOLDING COMPANY AND FELLOW SUBSIDIARIES

	TRANSACTIONS			BALANCES				
Related party	Transaction type	**2008 Rm**	2007 Rm	Intercompany type	Rate	Repayment terms	**2008 Rm**	2007 Rm
African Bank Investments Ltd	Dividend paid	**530**	804	Loan	0.00%	None	**3**	-
Gilt Edged Management Services (Pty) Ltd		**-**	-	Loan	0.00%	None	**23**	23
Unlimited Deals (Pty) Ltd		**-**	-	Loan	0.00%	None	**2**	3
A1 Taxi Finance (Pty) Ltd		**-**	-	Loan	0.00%	None	**1**	1
Total		**530**	804				**29**	27

AMOUNTS OWING TO FELLOW SUBSIDIARIES

	TRANSACTIONS			BALANCES				
Related party	Transaction type	**2008 Rm**	2007 Rm	Intercompany type	Rate	Repayment terms	**2008 Rm**	2007 Rm
The Standard General Insurance Co. Ltd	Interest paid	**36**	17	Call	11.95%	On demand	**246**	151
The Standard General Insurance Co. Ltd	Interest paid	**-**	2	ABL4 Bonds	Per note 12	31 August 2010	**-**	19
The Standard General Insurance Co. Ltd	Interest paid	**-**	3	ABL5 Bonds	Per note 12	11 August 2011	**-**	32
The Standard General Insurance Co. Ltd	Interest paid	**3**	-	ABLI01 Bonds	Per note 12	3 March 2013	**36**	-
The Standard General Insurance Co. Ltd	Interest paid	**-**	-	ABL8A Bonds	Per note 12	19 September 2013	**8**	-
The Standard General Insurance Co. Ltd	Interest paid	**-**	-	ABL8B Bonds	Per note 12	19 September 2013	**7**	-
The Standard General Insurance Co. Ltd	Cost recoveries	**(1)**	(1)					
Miners Credit Guarantee (Pty) Ltd	Interest paid	**-**	-	Call	0.00%	On demand	**24**	24
Theta Investments (Pty) Ltd				Loan	0.00%	None	**46**	49
ABIL Employee Share Trust	Employee incentives	**5**	4	Loan	0.00%	None	**19**	10
Creditsave (Pty) Ltd	Rental paid	**-**	(2)	Loan	0.00%	None	**52**	53
Gilt Edged Management Services (Pty) Ltd		**-**	-	Loan	0.00%	None	**64**	64
African Contractor Finance Corporation (Pty) Ltd				Loan	0.00%	None	**15**	15
M Financial Services (Pty) Ltd		**-**	-	Loan	0.00%	None	**1**	-
Total		**43**	23				**518**	417

PRINCIPAL OFFICE OF THE ISSUER
African Bank Limited
(Registration number 1975/002526/06)
59, 16th Street
Midrand, 1685
South Africa

ARRANGER
Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB
United Kingdom

DEALERS

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB
United Kingdom

Rand Merchant Bank
(A division of First Rand Bank Limited
(London Branch))
20 Gracechurch Street
London EC3V 0BG
United Kingdom

Standard Chartered Bank
One Basinghall Avenue
London EC2V 5DD
United Kingdom

Credit Suisse
One Cabot Square
London E14 4QJ
United Kingdom

UBS Investment Bank
100 Liverpool Street
London EC2M 2RH
United Kingdom

FISCAL AGENT, TRANSFER AGENT AND CALCULATION AGENT
Citibank N.A., London Branch
14th Floor
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

REGISTRAR
Citigroup Global Markets Deutschland AG
5th Floor Reuterweg 16
Frankfurt 60323
Germany

LEGAL ADVISERS TO THE ISSUER

As to English law
Berwin Leighton Paisner LLP
Adelaide House
London Bridge
London EC4R 9HA
United Kingdom

As to South African law
Prinsloo, Tindle & Andropoulos Inc.
First floor, 17 Fricker Road
Illovo Boulevard
Johannesburg
South Africa

LEGAL ADVISERS TO THE ARRANGER AND THE DEALERS

As to English law
Latham & Watkins (London) LLP
99 Bishopsgate
London EC2M 3XF
United Kingdom

As to South African law
Bowman Gilfillan Inc.
165 West Street
Sandton, 2146
South Africa

AUDITORS OF THE ISSUER
Deloitte & Touche
The Woodlands
20 Woodlands Drive
Woodmead, 2196
South Africa