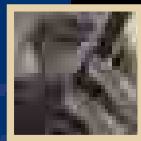
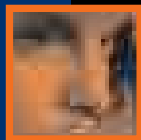
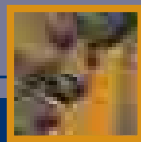




**AFRICAN BANK INVESTMENTS LIMITED**



Annual Report  
2001



# OUR MISSION

IS TO CREATE CHOICE,  
OPPORTUNITY AND GROWTH THROUGH  
THE PROVISION OF CREDIT.

## THE FOUR-PILLAR VALUE SYSTEM OF OUR BUSINESS IS:

- ▶ ACCESS TO HASSLE-FREE AND RESPONSIBLE CREDIT;
- ▶ BELIEF IN THE INDIVIDUAL;
- ▶ PERSONAL GROWTH; AND
- ▶ PEACE OF MIND.

## CONTENTS

Group structure and profile	Page 2
Our history	Page 4
Performance against key objectives	Page 6
Members of the ABIL board	Page 8
Twelve-month review in international currencies	Page 10
Three-year history	Page 12
JSE Securities Exchange performance	Page 13
Letter to stakeholders	Page 14
Management discussion	Page 22
Divisional reports	Page 40
• African Bank	Page 40
• Stangen	Page 46
• Theta Investments	Page 48
Corporate citizenship	Page 54
Employee report	Page 58
Risk review	Page 62
Corporate governance	Page 74
Directors' responsibility	Page 80
Certificate from the company secretary	Page 80
Annual financial statements – contents	Page 81
Notice of annual general meeting	Page 130
Management details	Page 134
Form of proxy	Page 135
Corporate information	ibc

# — GROUP STRUCTURE —

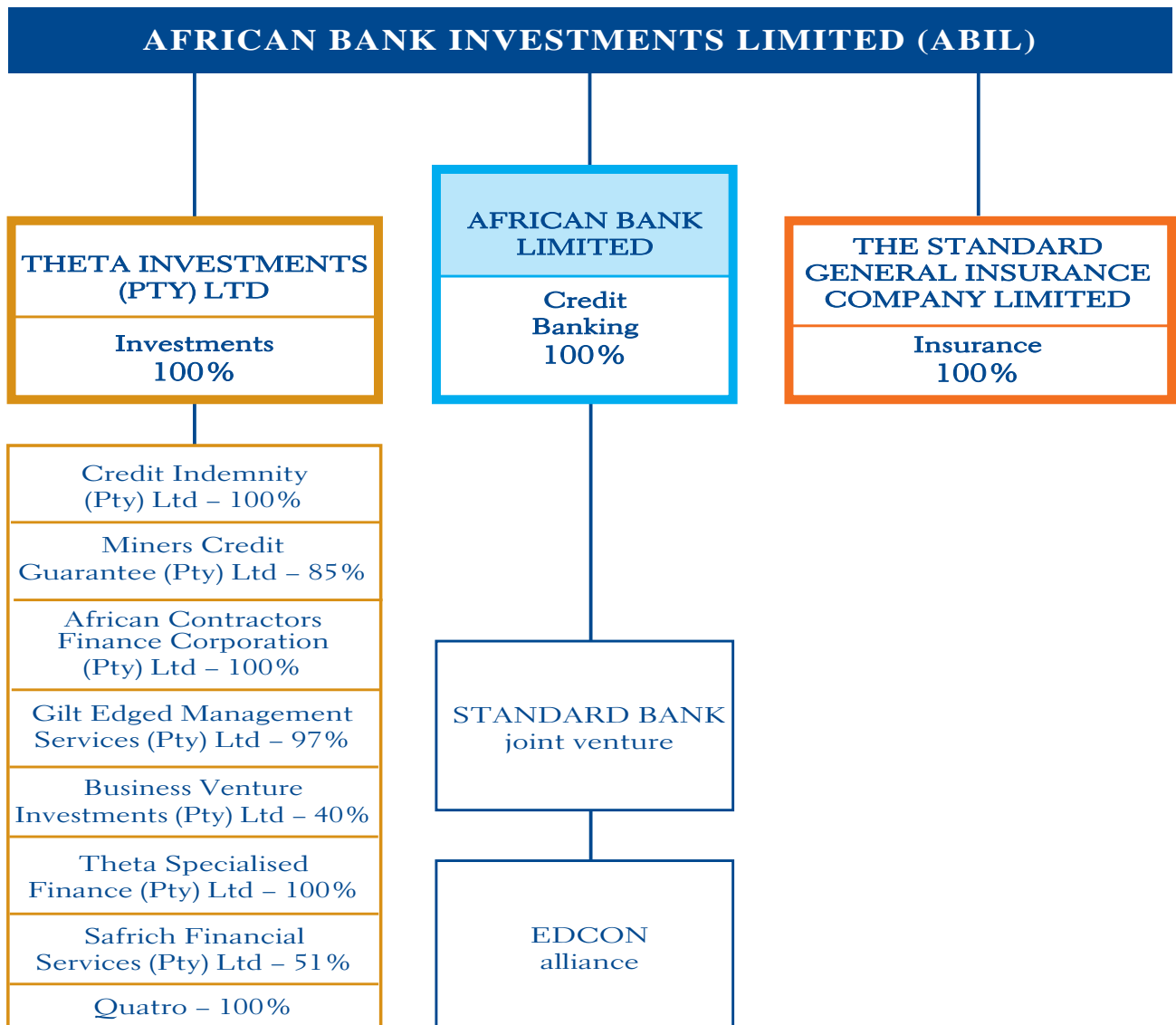
## AND PROFILE

African Bank Investments Limited (“ABIL”) is a public company listed on the JSE Securities Exchange South Africa (“JSE”).

ABIL is a holding company to three subsidiaries involved in the provision and underwriting of unsecured term finance. African Bank Limited is the country’s largest credit bank. It is the market leader in the provision of unsecured term finance to the formally employed population of South Africa, who have traditionally been underserved in their credit needs. The Standard General Insurance Company Limited (“Stangen”) provides life assurance products exclusively for African Bank clients. Theta Investments (Proprietary) Limited (“Theta Investments”) is ABIL’s investment operation, whose key objective is to unlock models that extend credit to ABIL’s target market.



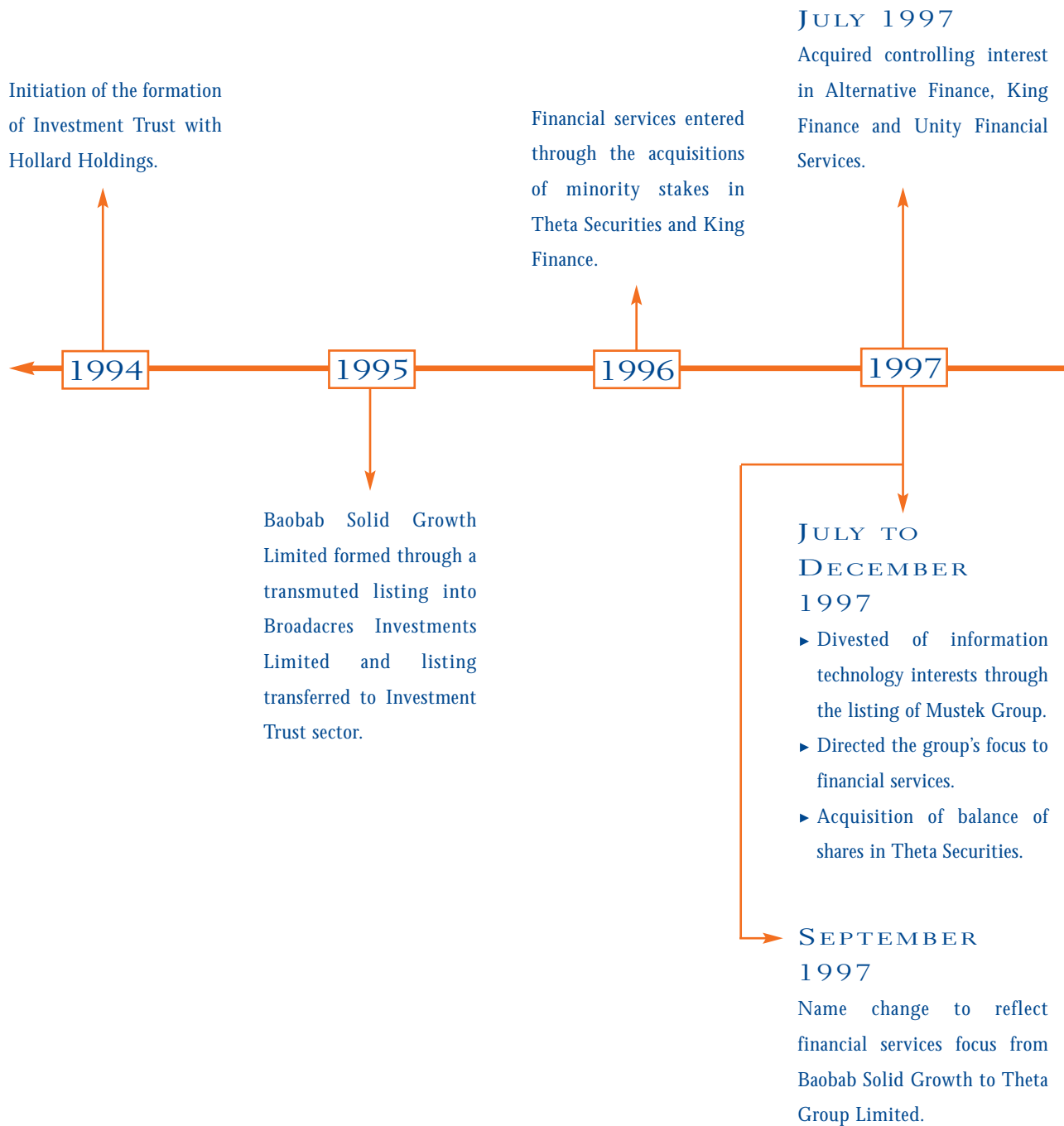
▶ ▶ GROUP STRUCTURE AND PROFILE ▶ ▶



\* Excludes dormant and property companies

\* Refer Annexure E (page 129) for full company details

## OUR HISTORY





► ► FEATURES OF 2001 ► ►

OCTOBER 1998

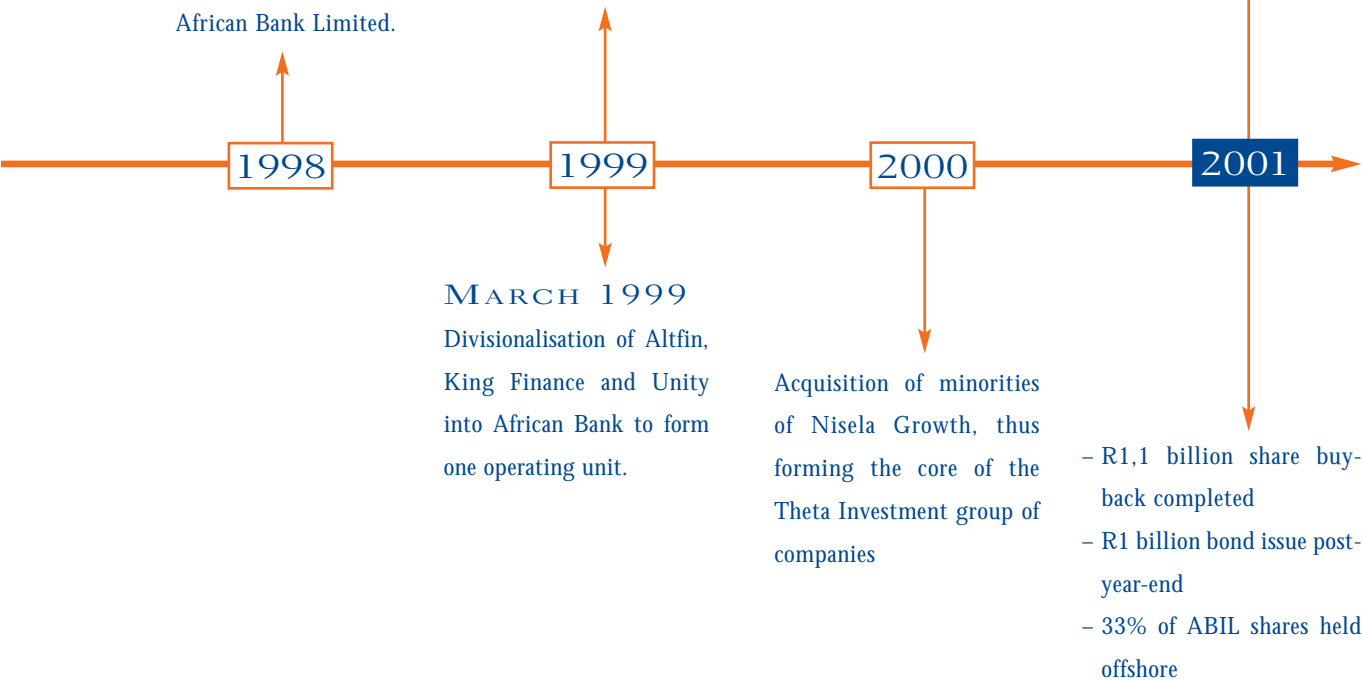
- Acquisition of 100% of African Bank Limited enabling Theta Group Limited to become a bank controlling company.
- Acquisition of the minorities of Alternative Finance, King Finance and Unity Financial Services, to form the core of African Bank Limited.

DECEMBER 1999

Name changed from Theta Group Limited to African Bank Investments Limited ("ABIL") enabling the transition to a brand-driven company, aligned to its market and African Bank brand.

2001

ABIL became a market leader in the provision of unsecured credit with 1,3 million clients and net operating income exceeding R1,1 billion. Formation of the African Bank Foundation.



# — PERFORMANCE AGAINST —

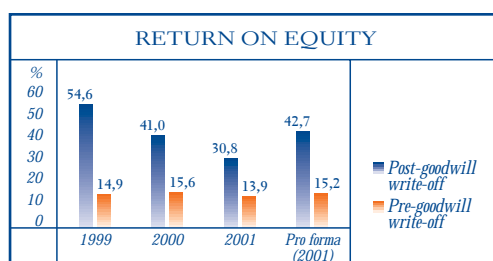
## KEY OBJECTIVES

### Criteria

### Comment

Return on equity after goodwill

Objective for 2005: 35%



ROE for the year was 30,8% compared to 41,0% for the prior year, mainly due to the excess capital held by the group during the year. The specific share buyback in June 2001 decreased the capital by R1,1 billion. If the buyback had occurred at the beginning of the year it would have boosted the ROE to 42,7% for the year.

Capital adequacy

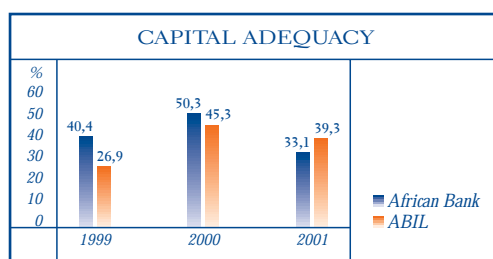
Objective for 2005:

Equity to assets:

ABIL – 25%

Capital adequacy: African

Bank – 20%



The group undertook to focus on its capital structure to enhance returns on equity, as a result of which it implemented a specific share buyback and has begun to restructure its capital in the past financial year. Subsequent to year-end, a corporate bond of R1 billion was issued to reduce the cost of funding.



▶ ▶ PERFORMANCE AGAINST ▶ ▶  
KEY OBJECTIVES

Criteria	Comment					
<p><b>Risk-adjusted return and product innovation</b></p> <p><b>Objective for 2005:</b></p> <ul style="list-style-type: none"><li>- 20% of advances in high-yielding new credit models/products</li><li>- 70% in core advances</li><li>- No more than 10% in underperforming models/products</li></ul>	<p style="text-align: center;"><b>RISK-ADJUSTED RETURN AND PRODUCT INNOVATION</b></p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td style="text-align: center;">10%</td><td style="text-align: center;">20%</td></tr><tr><td style="text-align: center;">0%</td><td style="text-align: center;">70%</td></tr></table>	10%	20%	0%	70%	<ul style="list-style-type: none"><li>- Products and models in the high-yielding 20% include the retail products, Standard Bank joint venture and African Contractors Finance Corporation.</li><li>- Payroll portfolios make up the largest portion of the 70% core business. Efficiency, good operational management and scale ensure superior profitability in these portfolios.</li><li>- The 10% underperforming sector includes Safrich, Quatro and the retail Catch-all products. These products/models will either be adapted to improve profitability or be phased out.</li></ul>
10%	20%					
0%	70%					

# MEMBERS OF ABIL BOARD

## EXECUTIVE MEMBERS

### Gordon Schachat (49)

Position:

Deputy Chairman (Executive)

Date appointed:

1 July 1995

Other major directorships:

Chairman of Theta Investments (Pty) Ltd

African Bank Limited

The Standard General Insurance Company Limited

### Leon Kirkinis (42)

Position:

Group Chief Executive Officer

Qualifications:

BCom (Hons), BAcc, CA(SA)

Date appointed:

1 July 1997

Other major directorships:

Theta Investments (Pty) Ltd

The Standard General Insurance Company Limited

Managing Director of African Bank Limited

## NON-EXECUTIVE MEMBERS

### Ashley Mabogoane (43)

Position:

Non-Executive Chairman

Qualifications:

Diploma in Business Management (EE)

Date appointed:

1 December 1999

Other major directorships:

Chairman of African Bank Limited

CEO of Fabvest Investment Holdings Limited

Chairman of Tsogo Sun Holdings (Pty) Ltd

Tsogo Investment Holdings (Pty) Ltd

National Cereal Holdings (Genfoods)

Macsteel Holdings (Pty) Ltd

Nosmas Investment Holdings BV

Fumex Capital Limited

International Investment Corporation

Gerber Goldschmidt Group (SA) (Pty) Ltd

Amalgamated Appliance Holdings Limited

### Daniel Tembe (49)

Position:

Non-Executive Director

Qualifications:

MSc Financial Economics

Date appointed:

1 January 2000

Other major directorships:

African Bank Limited

Non-Executive Chairman of Mozambique

Investment Company

Non-Executive Chairman of Cornastone

Mozambique, Lda

### Steven Levitt (47)

Position:

Non-Executive Director

Qualifications:

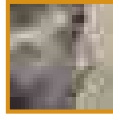
CA(SA)

Date appointed:

14 February 2000

Other major directorships:

African Bank Limited



► ► MEMBERS OF ABIL BOARD ► ►

**Jacob Kekane (50)**

Position:

Non-Executive Director

Qualifications:

BA, MA, DPhil

Date appointed:

14 February 2000

Other major directorships:

African Bank Limited

**Bheki Shongwe (46)**

Position:

Non-Executive Director

Qualifications:

BA(Econ), MBA, ACIS, FCIMB, LDP

Date appointed:

14 February 2000

Other major directorships:

African Bank Limited

Primedia Limited

Highveld Steel and Vanadium Corporation Ltd

Super Fleet (Pty) Ltd

Kaizer Chiefs (Pty) Ltd

Executive Director of PEU Investment Group (Pty) Ltd

**Johnny Symmonds (42)**

Position:

Non-Executive Director

Qualifications:

BCom (Hons), CA(SA)

Date appointed:

14 February 2000

Other major directorships:

African Bank Limited

Group Managing Director of Mercantile

Lisbon Bank Holdings

Hollard Holdings (Pty) Ltd

**Nic Adams (42)**

Position:

Non-Executive Director

Qualifications:

BCom (Hons), CA(SA) ACMA

Date appointed:

14 February 2000

Other major directorships:

African Bank Limited

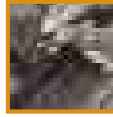
Managing shareholder of TTI (Pty) Ltd

# TWELVE-MONTH REVIEW IN INTERNATIONAL CURRENCIES

## CURRENCY ADJUSTED CONSOLIDATED BALANCE SHEET

At 30 September 2001

'000	R 2001	R 2000	\$ 2001	\$ 2000	£ 2001	£ 2000	€ 2001	€ 2000
<b>ASSETS</b>								
Fixed assets	179 509	96 660	19 923	16 083	13 651	9 774	21 865	15 198
Investment in associates	7 133	28 705	792	4 776	542	2 902	869	4 513
Goodwill	25 846	–	2 869	–	1 965	–	3 148	–
Deferred tax asset	45 553	49 998	5 056	8 319	3 464	5 055	5 548	7 861
Net advances	4 242 681	3 979 766	470 886	662 191	322 637	402 403	516 770	625 749
Other assets	199 050	112 332	22 091	18 691	15 139	11 358	24 245	17 662
Taxation	21 490	20 888	2 385	3 476	1 634	2 112	2 618	3 284
Liquid assets	280 913	236 984	31 178	39 432	21 362	23 962	34 216	37 262
Short-term deposits and cash	373 504	1 246 979	41 454	207 484	28 403	126 085	45 494	196 066
<b>Total assets</b>	<b>5 375 679</b>	<b>5 772 312</b>	<b>596 635</b>	<b>960 452</b>	<b>408 797</b>	<b>583 651</b>	<b>654 773</b>	<b>907 595</b>
<b>EQUITY AND LIABILITIES</b>								
<b>Liabilities</b>								
Life fund	107 958	69 644	11 982	11 588	8 210	7 042	13 150	10 950
Loans and debentures	929 858	1 282 167	103 203	213 339	70 712	129 643	113 259	201 599
Deferred tax liability	12 282	186 875	1 363	31 094	934	18 895	1 496	29 383
Liabilities to depositors	1 305 815	642 688	144 930	106 936	99 302	64 984	159 052	101 052
Other liabilities	273 725	307 190	30 380	51 113	20 816	31 061	33 340	48 300
Taxation	400 022	123 647	44 398	20 574	30 420	12 502	48 724	19 441
Bank overdraft	49 267	33 258	5 468	5 534	3 747	3 363	6 001	5 229
<b>Total liabilities</b>	<b>3 078 927</b>	<b>2 645 469</b>	<b>341 724</b>	<b>440 178</b>	<b>234 141</b>	<b>267 490</b>	<b>375 022</b>	<b>415 954</b>
<b>CAPITAL AND RESERVES</b>								
Share capital	12 858	15 570	1 427	2 591	978	1 574	1 566	2 448
Share premium	–	946 829	–	157 542	–	95 736	–	148 872
Reserves	2 041 653	1 593 452	226 599	265 133	155 259	161 117	248 679	250 543
Shareholders' funds	2 054 511	2 555 851	228 026	425 266	156 237	258 427	250 245	401 863
Minority interest	58 774	64 651	6 523	10 758	4 471	6 537	7 159	10 165
Secondary capital	183 467	506 341	20 363	84 250	13 952	51 197	22 347	79 613
<b>Total capital and reserves</b>	<b>2 296 752</b>	<b>3 126 843</b>	<b>254 912</b>	<b>520 274</b>	<b>174 656</b>	<b>316 161</b>	<b>279 751</b>	<b>491 641</b>
<b>Total equity and liabilities</b>	<b>5 375 679</b>	<b>5 772 312</b>	<b>596 636</b>	<b>960 452</b>	<b>408 797</b>	<b>583 651</b>	<b>654 773</b>	<b>907 595</b>
Rates used for currency conversion								
Year-end rate	1,00	1,00	9,01	6,01	13,15	9,89	8,21	6,36



▶ ▶ TWELVE-MONTH REVIEW IN ▶ ▶  
INTERNATIONAL CURRENCIES

**CURRENCY ADJUSTED CONSOLIDATED INCOME STATEMENT**

For the year ended 30 September 2001

'000	R 2001	R 2000	\$ 2001	\$ 2000	£ 2001	£ 2000	€ 2001	€ 2000
<b>REVENUE</b>								
Interest income	1 855 060	1 852 770	233 341	282 434	161 731	181 289	262 385	293 160
Interest expense	(331 464)	(440 514)	(41 694)	(67 152)	(28 898)	(43 103)	(46 883)	(69 702)
Net interest	1 523 596	1 412 256	191 647	215 282	132 833	138 186	215 502	223 458
Charge for bad and doubtful advances	(6 063)	(289 479)	(763)	(44 128)	(529)	(28 325)	(858)	(45 804)
Net interest income after provisions	1 517 533	1 122 777	190 884	171 154	132 304	109 861	214 644	177 654
Net assurance income	225 711	346 637	28 391	52 841	19 678	33 918	31 925	54 848
Non-interest income	234 036	252 349	29 438	38 468	20 404	24 692	33 103	39 929
<b>INCOME FROM OPERATIONS</b>	1 977 280	1 721 763	248 713	262 463	172 386	168 471	279 672	272 431
Operating costs	(843 060)	(634 360)	(106 045)	(96 701)	(73 501)	(62 070)	(119 245)	(100 373)
<b>NET INCOME FROM OPERATIONS</b>	1 134 220	1 087 403	142 668	165 762	98 885	106 401	160 427	172 058
Share of associate companies' attributable income	3 614	16 147	455	2 461	315	1 580	511	2 555
<b>NET INCOME BEFORE TAXATION</b>	1 137 834	1 103 550	143 123	168 223	99 200	107 981	160 938	174 613
Indirect taxation: Value added tax	(31 183)	(30 304)	(3 922)	(4 620)	(2 719)	(2 965)	(4 411)	(4 795)
Taxation	(342 509)	(313 605)	(43 083)	(47 806)	(29 861)	(30 685)	(48 445)	(49 621)
<b>NET INCOME AFTER TAXATION</b>	764 142	759 641	96 118	115 797	66 620	74 331	108 082	120 197
Minority interest	(13 074)	(36 457)	(1 645)	(5 557)	(1 140)	(3 567)	(1 849)	(5 769)
<b>NET INCOME FOR THE YEAR</b>	751 068	723 184	94 473	110 240	65 480	70 764	106 233	114 428
Headline earnings per share	130,1	121,9	16,4	18,6	11,3	11,9	18,4	19,3
Earnings per share	128,0	122,8	16,1	18,7	11,2	12,0	18,1	19,4
Rates used for currency conversion								
Average rate	1,00	1,00	7,95	6,56	11,47	10,22	7,07	6,32

# FINANCIAL STATISTICS

## THREE-YEAR HISTORY

Year ended 30 September	2001	2000	1999
<b>EARNINGS AND DIVIDENDS</b>			
Headline earnings (Rm)	762,9	718,0	532,2
Attributable earnings (Rm)	751,1	723,2	527,3
Headline earnings per share (cents)	130,1	121,9	96,7
Attributable earnings per share (cents)	128,1	122,8	95,9
Dividends per share (cents)	25,0	–	–
Dividend cover (times)	5,1	–	–
<b>RETURNS</b>			
Return on average equity (pre-goodwill write-off) (%)	13,9	15,6	14,9
Return on average equity (post-goodwill write-off) (%)	30,8	41,0	54,6
Return on average assets (%)	13,9	14,9	14,5
Non-interest income as % of operating income <sup>1</sup>	23,2	29,5	29,8
<b>ASSETS</b>			
Total assets (Rm)	5 376	5 772	4 550
Net asset value per share (cents)	410,9	420,8	222,7
<b>ADVANCES</b>			
Total gross advances (Rm)	4 669	4 633	3 672
Advances growth (%)	0,8	26,2	67,0
Provisions and insurance reserves as % of advances	12,4	17,3	11,2
Credit losses as % of advances <sup>2</sup>	4,5	4,6	3,3
Non-performing advances to total advances (%) <sup>3</sup>	7,4	15,1	–
Risk adjusted margin (%) <sup>4</sup>	48,0	48,1	55,6
<b>PRODUCTIVITY</b>			
Cost-to-income ratio (%)	42,5	31,3	26,6
Permanent staff complement			
– African Bank <sup>5</sup>	2 019	1 549	n/a
– Other	1 416	947	n/a
<b>GEARING RATIO</b>			
Equity to assets – ABIL group (%)	39,3	45,4	26,9
Capital adequacy – African Bank (%)	33,1	50,3	40,4
Funding costs as % of average interest-bearing liabilities	13,3	15,8	18,6
<b>SHARES IN ISSUE (000)</b>			
At period end	514 298	622 784	550 114
Weighted average	586 473	589 030	550 114
<b>TAXATION</b>			
Effective tax rate (%)	30,3	29,7	30,3

1. Non-interest income: For example, administration fees and assurance income.

2. Credit losses: Excluding credit losses relating to BoE (R44 million in 2000 and R74 million in 2001).

3. NPLs: Capital at risk of loans in arrears >90 days.

4. Risk adjusted margin: Interest income plus non-interest income less net credit losses divided by total advances.

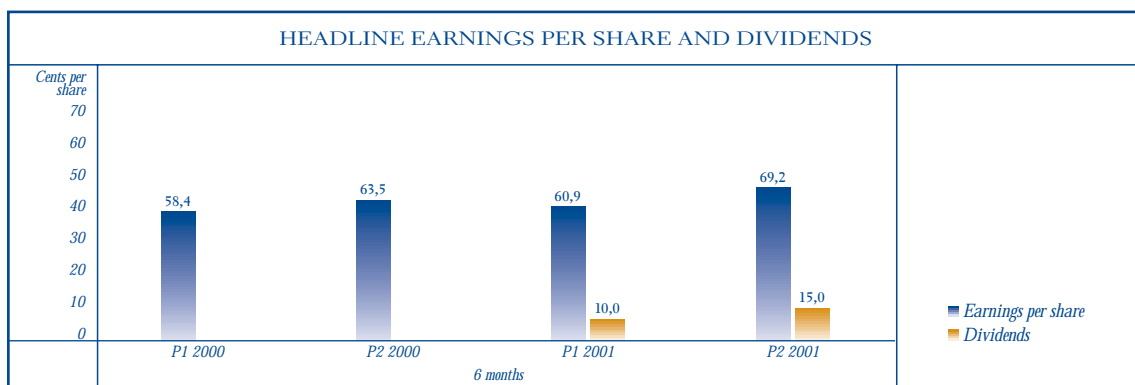
5. As a result of post year-end retrenchments the number of staff declined to 1 766.

# — JSE SECURITIES EXCHANGE —

## PERFORMANCE

	30-09-2001	30-09-2000	30-09-1999
Traded prices (cents per share)			
– closing price	779	650	965
– high	965	1 620	2 460
– low	460	565	965
Market capitalisation (Rm)	4 006,3	4 048,0	5 308,6
Value of shares traded (Rm) *	3 175,4	4 544,0	3 403,9
Value traded as % of market capitalisation (%)	79,3	112,3	64,1
Volume of shares traded ('000) *	417 060	397 509	187 604
Volume traded as % of number of shares in issue (%)	71,1	67,5	34,1
Price earning ratio	6,1	5,3	10,1
Dividend yield (%)	3,2	–	–
Earnings yield (%)	16,4	18,9	9,9
JSE Actuaries Bank Index	13 083	12 946	10 595
Year-end market price/book	1,9	1,5	4,3
Average number of shares in issue (net of treasury shares) ('000)	586 473	589 030	550 141

\* Excluding specific buyback of R1,1 billion.



## LENGOLO LE YANG HO BA NANG LE SEABO

### SEPHEO

Ha a ne a tshetleha puo kopanong ya bo-25 ya Mokgatlo wa Babusisi ba Dibanka tse Bohareng ka Phato 2001 Afrika Borwa, Mopresidente Thabo Mbeki o itse, “Ha re bua ka tsosoloso ya Afrika, re bua ka ho fedisa bofuma le kgaello ya ntshetsopele khontinenteng ya rona, mme kahoo he, re bua ka kaho ya bophelo bo betere bakeng sa batho ka kakaretso Afrika Borwa, haholoholo ba fumanehileng, ekasita le ho totobatswa ha boikgantsho ba rona jwalo ka batho, ba nang le setso le tjebahalo tse hlahosang botho ba rona.”

Puong e ka mora eo, Mopresidente Mbeki o tshwaela tjena, “Ho thehwa ha African Union le Tshwarisano e Ntjha bakeng sa Ntshetsopele ya Afrika ho tlile ka nako e ntjha ya menyetla e metjha ya dikgonahalo le ditshepo tse ntjha bakeng sa ma-Afrika. Matsapa ana a bea motheo wa Afrika e atlehileng e tlang ho ba ka nqane ho bofuma, mafu, kgaello ya ntshetsopele le ho se be le tshupo. Katleho ya matsapa ana e itshetlehile tshwarisanong e sebetsang ka katleho e pakeng tsa mmuso le batho, ka tshbedisano ya mokga wa poraevete le tshwarisano ya sebele le ditjhaba tse tswetseng pele tseo le tsona di nang le ditabatabelo tse molemo bakeng sa Afrika.”

Re dumela hore mesebetsi ena eo re e qalang e na le bokgoni ba ho tliša botsitso dipolotiking le moruong wa kontinente, mme di tla thea le menyetla bakeng sa batho bohle ba Afrika. Hape re maemong a ikemetseng a le mang a ho sebedisa menyetla eo bakeng sa ho fihlela pono ya rona.

Sehlopha se motlolo ka diphetho tse kgolo tseo re di fihletseng mabapi le hona ho latelang:

- Khampani e fane ka dikadimo tsa ditjhelete tse ka etsang dimilijone tse 1,3 bathong ba bangata bao pele ba neng ba sa fuwe ditshebeletso tsa ditlhoko tsa bona tsa mekitlane.
- African Contractors Finance, eo e leng khampani e ka tlasa Theta Investments, e sebetsang haholo ka ho fana mekitlane Dikgwebong Tse Nyenyane le

## LETTER TO STAKEHOLDERS

### THE GOAL

In addressing the 25th meeting of the Association of Central Bank Governors in South Africa in August 2001, President Thabo Mbeki said, “When we speak of an African renaissance, we speak of ending poverty and underdevelopment on our continent and, therefore, the building of a better life for the ordinary people of South Africa, especially the poor, and the assertion of our pride as human beings, with a culture and identity that define our personality.”

## BUILDING A BETTER LIFE FOR THE ORDINARY PEOPLE OF SOUTH AFRICA

In a later address, President Mbeki noted, “The establishment of the African Union and the new partnership for Africa’s development have come at a new time of new possibilities and new hopes for the African people. These initiatives are laying the groundwork for a prosperous Africa that will triumph over poverty, disease, underdevelopment and despair. Their success is dependent on an effective partnership between Government and people, with the co-operation of the private sector and a true partnership with the developed nations that also have Africa’s interests at heart.”

We believe these initiatives hold the potential to stabilise the political and economic environment on the continent and create opportunities for all Africans. We are also uniquely positioned to capitalise on those opportunities to achieve our own vision.

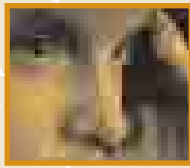
Tse Mahareng (SME), ya thusa boradikonteraka ba 348 ba ntseng ba hlahella hore ba ahe matlo le dikolo tse 50 000, mme ya ntlafatsa mesebetsi ya setjhaba selemong se fetileng.

- ▶ Ho bile le kgatelopele e bonahalang phetolong ya sebopeho sa basebetsi ba rona hore ho be le boemedi ba batho bohle ba Afrika Borwa. Hantlente sehlopheng sa tsamaiso, persente ya batho bao ba neng ba tingwa menyetla pejana (PDI) e ile ya eketseha ho tloha ho 7,7% ka 2000 ho ya ho 37% ka 2001.
- ▶ African Bank Foundation e itlamme ho kenya diranta tse dimiliyone tse 4,7 peletsong e etswang kgahisanong hore ho tle ho ntshetswe pele diprojeke.

## PHETHISO

Diphepetso tse ileng tsa tjamelana le ho hlopha ke African Bank Investments Limited (ABIL) dilemong tse pedi tse fetileng e ne e le dithuto tsa selelekela sehlopheng sena sa dikhampani. Nakong eo, sehlopha sena sa dikhampani se entse kgatelopele e babatsehlang ho aheng kgwebo ya kadimisano ya ditjhelete e tsebang moo e lebisitseng teng, e kgannwang le letshwao-thekiso, e nang le sepheo sa ho ba banka e etelletseng pele ya mekitlane Afrika Borwa. Sepheo sa sehlopha sena sa dikhampani bakeng sa dikgwedi tse 12 ho tloha ka la 30 Lwetse 2001 ka ho hlakileng se bontsha kgatelopele ena.

- ▶ Phaello pele ho hulwa lekgetho e bile ka nngane ho R1 100 million.
- ▶ Karolo ya tsa ditefelo tsa khampani (Corporate payroll portfolio) jwale e se e le e kgolo ka ho fetisisa ka hara sehlopha sena sa dikhampani, mme sena se bontsha kamohelo e eketsehlang ya African Bank jwalo ka molekane ya kgethlang mokgeng wa poraevete
- ▶ Karolo ya dikadimo tsa ditjhelete (loan portfolio) ka tlasa botsamaisi e ile ya nyoloha ka R4 669 million



The group is proud of some major achievements of its own in this regard:

- ▶ The company has provided 1,3 million loans to many people who have previously been underserved in their credit needs.
- ▶ African Contractors Finance, a Theta Investments subsidiary specialising in the provision

of credit to the SMME market, assisted 348 emerging contractors to build some 50 000 houses and schools, and upgrade public works during the past year.

- ▶ Significant progress was made in transforming our staff composition to be more representative of the South African population. In the management team specifically, the percentage of previously disadvantaged individuals (PDI) increased from 7,7% in 2000 to 37% in 2001.
- ▶ The African Bank Foundation committed R4,7 million during the year to social investment in development projects.

## PERFORMANCE

The challenges faced and overcome by ABIL in the past two years were salutary lessons for the group. In that time, the group has made excellent progress in building a focused, brand-driven retail credit franchise, aimed at becoming South Africa's leading credit bank. Group results for the 12 months to 30 September 2001 clearly reflect this progress.

- ▶ Profit before tax exceeded R1 100 million

- ▶ Taolo ya kgwebo ya khamphani (corporate governance) e ile ya ntlafatswa ka boto e matlafaditsweng e tataisang batsamaisi
- ▶ Sehlopha sa tsamaiso se ile sa matlafatswa le ho feta ka ho hirwa ha batho ba nang le boiphihlelo maemong a ka sehloohong
- ▶ Peeletso e kgolo haholo bathong le mekgweng ya tshebetso e se e bea ditholwana ka tsamaiso e ntlafaditsweng ya mekitlane le maemo a tlase a dipehelo tse ikgethang
- ▶ Ho ile ha phatlalatswa tefo ya pele-pele ya phaello ya 25c seabo ka seng ka 2001, mme leano la tefo ya diphaello ya sehlopha sena sa dikhampani e behwa semmuso raporotong ena
- ▶ Ho reka hape diabo (buyback) hara selemo ho ile ha thusa ABIL ho fihlella kuno e phahameng ka diabo le ho fokotsa tjhelete e ka sehloohong ya tlatsetso
- ▶ African Bank e bile ya pele ho saena tumellano e matla ka ho bonahalang le mmuso ho kopanya dikadimo tse teng ha jwale tsa Persal, mme e iphumanela seabo mmarakeng mokgeng ona tshebetsona ena ya kopanya. Mmaraka ona e sa ntse e le mokga o hohelang, ha ho hlokomelwa botsitso le ho tiiseha ha wona.

Re beile metheo bakeng sa kgolo e sa fetofetoheng ya mokgatlo ekasita le moya o tswelang pele wa ho theha dikgwebo.

## N TLHAKEMO YA RONA

Re dumela ka matla hore khastama e nngwe le e nngwe e fapane, mme e na le ditlhoko tse fapaneng tse etsang hore e be le dikgetho tse fapaneng.

Ntlhakemo ya rona ya tshebetso e totobetse. Re hlwaya menyetla ya mekitlane e ka tlising phaello, re sebedisa dimmotlolo tsa ho bea diporeisi tse fetolwang ho ya ka kotsi e ka hlahang, mme re netefatsa hore ho ba le tshebeliso e tswelang pele ya dikhasetama ya maemo a hodimo.

- ▶ The corporate payroll portfolio is now the biggest in the group, reflecting increasing acceptance of African Bank as a preferred partner in the private sector
- ▶ Loan portfolio under management of R4 669 million
- ▶ Corporate governance was enhanced with a restructured board to guide management
- ▶ The management team was further strengthened with the appointment of experienced people in key positions
- ▶ The substantial investment in people and systems is bearing fruit in improved credit management and lower levels of specific provisions
- ▶ A maiden dividend of 25 cents per share was declared for 2001 and the group's dividend policy is formalised in this report
- ▶ Share buybacks during the year have assisted ABIL to achieve a higher return on equity while reducing excess capital
- ▶ African Bank was the first to sign a significantly stronger agreement with government to consolidate existing Persal loans, gaining market share in this sector during the consolidation process. This market remains an attractive sector, given its inherent stability and increased certainty.

We have laid the foundations for consistent, organic growth and a continuing spirit of entrepreneurship.

## OUR APPROACH

We firmly believe every customer is an individual, with unique needs that determine individual choices.



▶ ▶ LETTER TO STAKEHOLDERS ▶ ▶

Re tsepamisetsa ho mebaraka eo re ikgethetseng yona, re tobile ho ba ketapele ya bohlokwahlokwa ya bongata le ya mmara mokgeng ka mong.

Re karolo ya bohlokwahloko ya tshebetso ya phumantsho ya matla a moruo le ho thehwa ha mesebetsi, ka hare, ka tshebediso ya ditshebetso le ditlwaelo tse teng ha jwale hore re be mohiri ya kgethwang ke bongata, ka mokgwa oo re sebetsang ka ona, ka menyetla ya dikadimo tsa ditjhelete e etsang hore ba neng ba tingwa menyetla pele ba kgone ho ntlafatsa boleng ba maphelo a bona ka seriti; mme le kante, ka mesebetsi ya African Bank Foundation mmoho le mananeo a yona a semmuso a peeletso e sebetsang ka katleho le e nang le sepheo ya setjhaba.

Re inehetse ka tjehesheho ntshehetsopeleng e ka dulang e tswela pele ya moruo bathong ka bobona ekasita le ho thehwang ha menyetla ya kgolo bakeng sa dimilione tsa ma-Afrika Borwa, ka ho nehelana phihlelo e nang le boikarabelo ya dikadimo tsa ditjhelete.

Ho ba le lerato le lehlo ke yona ntho eo re e tadimang bathong ba rona – motswako o matla wa bokgoni ba kelello le tumelo e sa fetofetoheng ponong eo re e ahang. Batho bana ba tswa mokgeng o mong le o mong wa setjhaba sa Afrika Borwa, mme re etsa kgetlo e tlang e lebisitseng dipheong tsa rona tse hodimo-dimo moo basebetsi ba emetsweng ka botlalo. Hara selemo, re ile ra hohela batho ba sehlotshwana ba hodileng ho tswa dihlopheng tse sa emelwang ka ho lekaneng mme ditshwaelo tsa bona di se di qadile ho bonahala ho haola le kgwebo ya rona.

**DIPHEPHETSO LE MENYETLA**  
Maemo a tlhodiiso indasetering ya rona a tswela pele ho nyoloha a sa kgaotse. Ka ho tshwanetseng, ke tlameho hore re boloke ketapele ya rona mebarakang ya rona ya bohlokwahlokwa, ha re ntse re sebedisa ka botlalo menyetla e hlolwang ke bokgoni ba rona bo itshwanelang bo le bong ba ho fetofetoha ho tsamaisana le mebaraka e fetohang.

Our operational approach is straightforward. We identify profitable credit opportunities, apply risk-adjusted pricing models, and ensure superior customer service to continually reduce voluntary attrition rates.

We concentrate on our chosen markets, aiming for critical mass and market leadership in each sector.

We are an integral part of the process of economic empowerment and job creation: internally through the processes and practices in place to become a preferred employer; operationally, through credit facilities that enable disadvantaged people to improve their quality of life with dignity; and externally through the activities of the African Bank Foundation and its formal programme of effective and purposeful social investment.

We are passionately committed to sustainable economic development of individuals and the creation of growth opportunities for millions of South Africans, by providing responsible access to credit.

This passion is what we look for in our people – the powerful combination of intellectual capability and an unwavering belief in the vision we are creating. These individuals come from every sector of South African society and we are making steady progress towards our goals of a truly representative workforce. During the year, we attracted a number of senior people from underrepresented groups and their input is already becoming evident throughout our business.

Ho kopangwa ho ntseng ho tswela pele ha mokga wa ka hara naha wa ho banka ho hloka tsepamiso e kgolwanyane, mefuta e tswetseng pele le ho feta ya dihlahiswa ekasita le dipeeletso tse bohlaale kahong ya popeotheo ya batho le ya setekgeniki. Tekanyetso ya karolo ya setjhaba sa rona e sa ntseng e haella ditshebeletso ho ka fihlella menyetla e nang le boikarabelo ya ho fumantshwa dikadimo tsa ditjhelete e dula e ntse e le kgolo haholo. Leha ho le jwalo, mekga e hlodisanang e tla susumetsa moya o itseng wa thekiso ya dintho mebarakeng ena ya kgolo.

Kahoo he, phepetso ya rona ke ya ho dula re itlhomme ka pele tshetsoeng ena ha re ntse re atolosa meedi ya mmara, ho tea mohlala, ka ho tloha mokgweng wa mosebetsi wa semmuso ho ya mokgweng wa ho itshebeta. Dikatoso tsena di itshetlehile bokgoning ba rona ba ho akanya phallo e ka behwang ya tjhelete, ho netefatsa ho behwa ha diporeisi ho fetolwang ho tsamaisana le dikotsi tse ka hlahang, ekasita le ho tsamaisa dikotsi tse atisang ho tshwana di le ding feela tsa phumantsho ya dikadimo tsa ditjhelete.

Theta Investments, khampani e ka tlasa rona ya banka ya dipeeletso, e boetse ya bontsha bopaki ka katoloso ya mebaraka ya yona hara selemo sena, ka diphaello tse ka batlang di nyolohela ho R124,5 dimilijone. Kgolo e matla ka ho ikgethang e ile ya rekotwa ke lekalana la yona, mme hona ho ne ho lebisitswe ho faneng ka ditjhelete ho dikgwebo tse nyenyane le tse mahareng (small and medium – SME) mekgeng e ka sehloohong e jwalo ka mokga wa kago.

Dikgeo tse sebopehong sa tsa phumantsho ya dikadimo tsa ditjhelete Afrika Borwa se tswela pele ho fana ka menyetla ya bohlokwa. Katleho ya rona e tswelang pele e tla itshetleha ho bokgoni ba rona ba ho phethahatsa ditlhoko tsena, ka tsela e nang le phaello, le e nang le boikarabelo.

#### **BOIQAPLE LE TSHEBETSO KA TSHWARISANO**

ABIL e ikahetse setumo bakeng sa boiqapelo, mme sena hape ke motheo wa bohlokwahlokwana wa setso sa

#### **CHALLENGES AND OPPORTUNITIES**

The level of competition in our industry continues to increase unabated. Accordingly, it is imperative that we sustain market leadership in our core markets, while taking full advantage of the opportunities created by our unique ability to adapt to changing markets.

Continued consolidation in the domestic banking sector demands greater focus, more sophisticated product lines and smarter investment in building our human and technological infrastructure. The proportion of our society that is still underserved in access to responsible credit remains vast. However, competitive forces will dictate an element of commoditisation in these growth markets.

Our challenge, therefore, is to remain at the forefront of this process while extending the boundaries of the market through, for example, moving from the formally employed to the self-employed. These extensions depend on our ability to assess determinable cash flows, ensure risk-adjusted pricing and manage often unique credit risks.

Theta Investments, our investment subsidiary, has again proven its market-extension capabilities during the year, with attributable profit rising to R124,5 million. Particularly strong growth was recorded by its subsidiary focused on providing finance to small, medium and micro enterprises (SMME) in key sectors such as construction.



## ▶ ▶ LETTER TO STAKEHOLDERS ▶ ▶

rona. Sena se matlafatswa ke setso sa bohwebi le takatso ya tshwebisano ya tshwarisano mmarakeng o tswelang pele ho rarahana le ho ba o mahlahlaha. Diqetong tsohle tsa rona tse ka sehloohong tsa kgwebo, re ipotsa dipotso ka mahlale a tlwaelo mme re batle ditharollo tse nang le boiqapelo ho fihlella pono ya rona.

Jwalo ka bopulamadiboho, re atisa ho kena metsing a so kang a lekwa ka lere, mme ka tlwaelo re leka diqeto tsa rona. Empa re tataiswa ke maikemisetso a rona le ho kgothaletswa ke dikatleho tsa rona. Dilemong tse sa tswa feta, sehlopha se ile sa ba pulamadiboho ho thehweng ha mokga wa semmuso wa dibanka tse kgothwane, ha hlahiswa marangrang a maholohadi a tsa ditjhelete tsa kgwebisano a beke le beke ho mokga wa thekiso o seng wa semmuso, mme ha hlahiswa dimmotlolo tsa ho kengwa ha dintlha (scores) indasetering ya dibanka ho indaseteri ya mmara o se nang tshireletso, ho sebediswa matshwao a dikotsi tse ka hlahang a motho ka boyena bakeng sa ho hlwaya boiphihlelo bo tshwanetseng.

Moya wa tshebetso ka tshwarisano o kenyeletsa basebetsi ba rona bao kaofela ha bona ba bang le seabo kgolong ya rona jwalo ka beng ba diabo. Re na le tumelo ya hore sena se theha kgahleho e tshwanang e matla le ho feta ekasita le ho tiisa boinehelo ho pono ya rona bo phatlalletseng sehlopha kaofela.

Selekane sa rona le Standard Bank of South Africa Ltd. le Edcon Group di emetse dipihlelo tsa bohlokwa ntshetsopeleng ya rona, mme e matlafatsa menyetla ya kgolo ekasita le ho hlahisa sebaka se setjha bakeng sa boiqapelo bo botjha, haholoholo ka tshwebiso ya tsebo e ikgethang le theknoloji mmotlolong wa rona wa kgwebo.

### BOINEHELO HO SETJHABA

African Bank Foundation e ile ya thakgolwa semmuso ka Phato 2001. Ke motjha o nang le maikemisetso oo ka ona sehlopha sa rona se tlang ho lebisana peletso ya rona setjhabeng mesebetsing e

South Africa's structural credit gaps continue to offer material opportunities. Our ongoing success will rest on our ability to meet these needs, profitably and responsibly.

### INNOVATION AND PARTNERSHIP

ABIL has developed a reputation for innovation, which is also a cornerstone of our culture. This is enhanced by a culture of entrepreneurship and a desire for partnerships in an increasingly complex and dynamic market. In all our key business decisions, we question conventional wisdoms and seek innovative solutions to achieve our vision.

As pioneers, we often enter uncharted waters, and this invariably tests our resolve. But we are guided by our mission and encouraged by our successes. In recent years, the group pioneered the establishment of the formal micro banking sector, developed the largest network of weekly trade finance to the informal retail sector and introduced scored credit models in the banking industry to the non-securitised market, using individual risk characteristics to determine appropriate exposure.

The spirit of partnership includes our employees who all have the opportunity to participate in our growth as shareholders. We believe this creates an even stronger common interest and reinforces the group-wide commitment to our vision.

Our alliances with the Standard Bank of South Africa Limited and the Edcon Group represent important milestones in our development, enhancing growth

bonahalang ya ntshetsopele. Sehlopha se tla aba karolo e bonahalang ya diphaello tsa pele ho lekgetho ho Foundation selemo ka seng. Ho tsamaisana le setso sa rona sa boiqapelo bo botjha, mananeo a tshhetswang ke Fondation a qoba lerato la kgwebo ho batho le bontshwang neng le neng feela hara sebaka, empa ho e na le hoo re tsepamisetsa ho ditshebetso tsa tshwarisano tse tlang ho tadimana le ditlhoko le tse dintho tse tlang pele-pele tsa baahi. Raporoto ya Foundation e hlahella leqepheng la 54.

#### SETATEMENTE SE TLETSENG BOLENG Kananelo

Ketapele le sebete tse bontshitsweng ke mo-ofisiri, wa rona ya ka Sehloong wa Phethahatso, le sehlopha sa tsamaiso le batho bohle ba rona selemong se neng se le boima haholo ke bopaki ba boinehelo le lerato le leholo le ka hare-hare sehlopheng sa rona. Bokgoni ba batho ka bobona e ba diphetapheti tse matla dihlopheng, mme dibopeho tse matlafaditsweng tsa bolaodi di ile tsa etsa hore tsepamisetso e phahameng

opportunities and presenting new scope for innovation, particularly through the application of specialised knowledge and technology to our business model.

#### COMMITMENT TO COMMUNITY

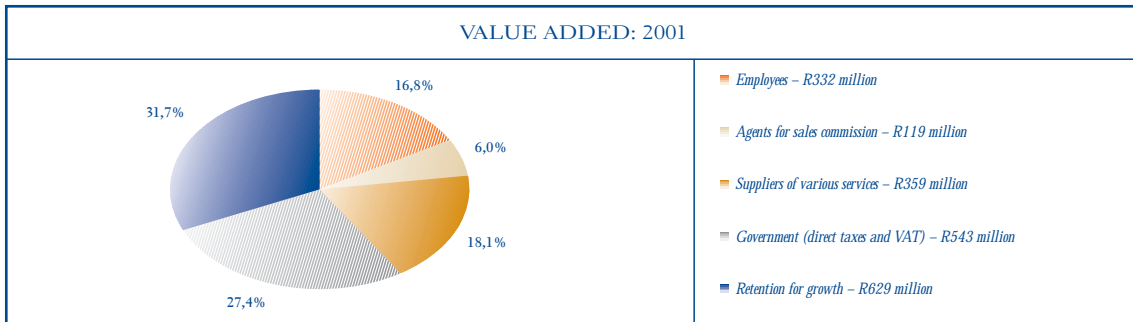
The African Bank Foundation was formally launched in August 2001. It is the dedicated vehicle through which our group will direct our social investment in sound development initiatives. The group will allocate a meaningful portion of pre-tax profits to the Foundation each year. In keeping with our culture of innovation, the programmes supported by the Foundation avoid ad hoc corporate philanthropy, focusing instead on partnerships that address civil society's needs and priorities. The Foundation's report appears on page 54.

#### VALUE ADDED STATEMENT

	2001 R million	Change %	2000 R million
<b>VALUE ADDED</b>			
Net interest income	1 524	8	1 412
Bad debt charge	(6)	(98)	(289)
Margin on lending	1 518	35	1 123
Non-margin-related income	234	(5)	247
Assurance income	226	(35)	347
Capital profits and income from associates	4	(80)	20
	<b>1 982</b>	<b>14</b>	<b>1 737</b>
<b>VALUE ALLOCATED</b>			
Employees	332	32	251
Agents for sales commission	119	72	69
Suppliers of various services	359	22	295
Government (direct taxes and VAT)	543	95	279
Retention for growth	629	(25)	843
- Depreciation and amortisation	34	79	19
- Deferred taxation	(169)	(360)	65
- Outside shareholder interest	13	(64)	36
- Attributable income	751	4	723



▶ ▶ LETTER TO STAKEHOLDERS ▶ ▶



e kgone ho lebiswa mebarakeng ya rona ya bohlokwahlokwa, mme sephetho sa rona se bontsha melemo ya boinehelo bona.

Hara selemo sena, Mong F Titi o ile a itokolla jwalo ka molaodi wa phethahatso mme Benghadi G Routledge, N Sowazi le G Snelgar ba ile ba itokolla jwalo ka balaodi bao e seng ba phethahatso ka mora diphetoho ho sebopeho sa beng ba diabo sa ABIL. Re leboha bahlomphehi bana bakeng sa nyehelo ya bona e bonahalang nakong eo ba neng ba le ofising, haholoholo Geoff Snelgar le ba Hollard Group bakeng sa seabo sa bona mehatong ya ho qala ntshetsopele ya sehlopha sa rona.

Ke rata ho leboha boto ya rona bakeng sa maikemisetso le ditlhahiso sa bona tse molemo selemong kaofela. Lebitsong la boto le sehlopha sa tsamaiso, ke leboha bohle ba nang le seabo ho rona ho tswa botebong ba pelo – beng ba diabo, basebetsi, batshwarisani ba kopanelo mmoho le ditlaente – bakeng sa tumelo e tswelang pele bokgoning ba rona ba ho hola le ho aha borui bakeng sa bohle.

Ashley Mabogoane  
Modulasetulo

APPRECIATION

The leadership and courage displayed by our chief executive, his management team and all our people during a testing year are testament to the dedication and passion that permeates the group. Individual abilities became powerful multipliers in teams, strengthened management structures enabled heightened focus on our core markets, and our results reflect the benefits of this commitment.

During the year, Messrs G Routledge, N Sowazi and G Snelgar resigned as non-executive directors following changes in ABIL's shareholding structure. Mr F Titi resigned as executive director. We thank these gentlemen for their significant contribution while in office and, more specifically, Geoff Snelgar and the Hollard Group for their role in the formative stages of the group's development.

I would like to thank our board members for their dedication and valuable input throughout 2001. On behalf of the board and management team, I also sincerely thank all our stakeholders – shareholders, employees, partners and clients – for their continued belief in our ability to grow and create wealth for all.

Ashley Mabogoane  
Chairman

# — MANAGEMENT —

## DISCUSSION

### INTRODUCTION AND FORWARD-LOOKING INFORMATION

This discussion is intended to further the reader's understanding of the consolidated financial condition and results of operations of African Bank Investments Limited ("ABIL") and its subsidiaries. It should be read in conjunction with the company's historical financial statements included in this annual report.

The group is a leading provider of personal credit banking products in South Africa.

The group offers its products primarily through its credit bank subsidiary African Bank, and through other subsidiaries in the Theta group of companies. The products are offered to a broad spectrum of customers within South Africa who have no access to traditional credit facilities. The group does not engage in corporate banking business, other than in the African Contractors Finance business.

The group also provides assurance products in support of the credit loan business exclusively for African Bank through its 100% assurance subsidiary Stangen.

The primary factors affecting the profitability of the group credit lending business are:

- ▶ growth in the number of customer accounts and outstanding loan balances;
- ▶ net interest margin on loans;
- ▶ fee revenue;
- ▶ credit quality (delinquencies and credit losses);
- ▶ operating expenses; and
- ▶ account servicing efficiency.

Factors affecting the profitability of the credit assurance business are:

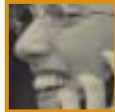
- ▶ mortality rates; and
- ▶ retrenchment rates.

The group generates revenue primarily through finance charges on outstanding loans, through fees paid by customers related to new loan activity and from the sale of various credit life assurance products (credit life, disability and retrenchment cover) which complement the various credit products. In addition, the company earns interest revenue on its investments held for liquidity purposes. The group's primary expenses are:

- ▶ the cost of funding assets;
- ▶ credit losses and provisions for credit losses;
- ▶ operating expenses including salaries and employee benefits;
- ▶ advertising and marketing costs;
- ▶ data processing and communication costs; and
- ▶ taxes.

### Forward-looking information

Certain statements in this annual report are forward-looking statements. Forward-looking statements include expressions of "belief", "anticipation" or "expectations" of management, statements as to industry trends or future results of operations of the group, and other statements that are not historical fact. Forward-looking statements are based on certain assumptions by management and are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. These risks and uncertainties include, but are not limited to, competition, delinquencies, credit losses, vendor relationships, funding costs and



► ► MANAGEMENT DISCUSSION ► ►

availability, general economic conditions, government policy and regulations, risk related to growth, product development, acquisitions, operations and litigation.

### Overview

Headline earnings for the year ended 30 September 2001 was R762,9 million (2000: R718,0 million), representing an increase of 6,3%. Headline earnings per share (HEPS) for 2001 was 130,1 cents (2000: 121,9 cents), an increase of 6,7%.

The group bought back 20,2% of its shares in June 2001 for R1 100 million, which had the effect of reducing attributable earnings by approximately R20 million, and enhancing EPS by 4,2 cents.

Return on equity (ROE) for 2001 was 30,8% compared to 41,0% for the prior year. If the buyback had occurred at the beginning of the year it would have boosted ROE to 42,7% for the year.

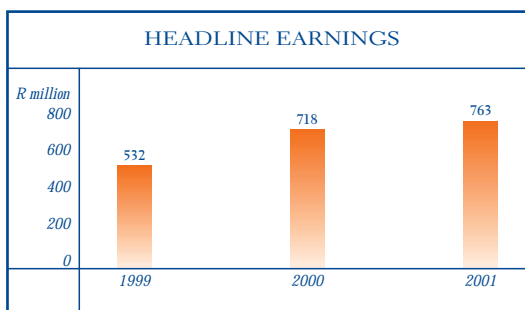
Return on average assets (ROA) was 13,9%, as against 14,9% in 2000. The group follows a policy of carrying excess capital in low-yielding money market assets. If the buyback had been effective for the full period under review, ROA would have been 15,1% for the year.

In difficult trading conditions during the past year, these results vindicate the group's decision not to stray from its focus on its core business of providing unsecured credit.

The underlying positive drivers of performance for the group during 2001 were:

- growth in the retail and corporate payroll advances at African Bank, which offset the decline in the Personal loan book, and have contributed to a more diversified, stable and profitable loan book;
- more effective credit management at African Bank which reduced bad debt write-offs and provisions; and
- organic growth in the loan books of Theta Investments' subsidiaries, which increased the profit contribution from this part of the ABIL group.

Performance overall was negatively affected by increased costs.



As a result of the first two drivers above, African Bank increased its attributable earnings by 20,2% to R424,5 million. Restructuring during the year has improved the responsiveness of the business to client needs, while cost cutting implemented post-year-end will be felt in 2002.

Offsetting this picture somewhat, group assurer Stangen saw attributable earnings decline by 21,1% for the full year to R206,4 million as a result of lower sales. However, results in the second half of the year improved compared with the first half mainly as the result of lower claims and increasing sales.

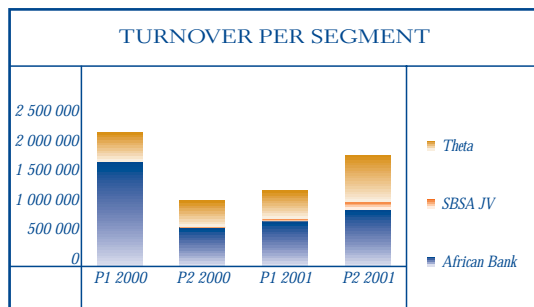
Theta Investments' attributable profit grew to R124,5 million (2000: R104,4 million) on the back of strong organic growth in its subsidiaries.

The group has adopted a conservative dividend policy of maintaining a five times dividend cover. In terms of this policy, a maiden annual dividend of 25 cents per share has been declared.

### OPERATIONAL PERFORMANCE

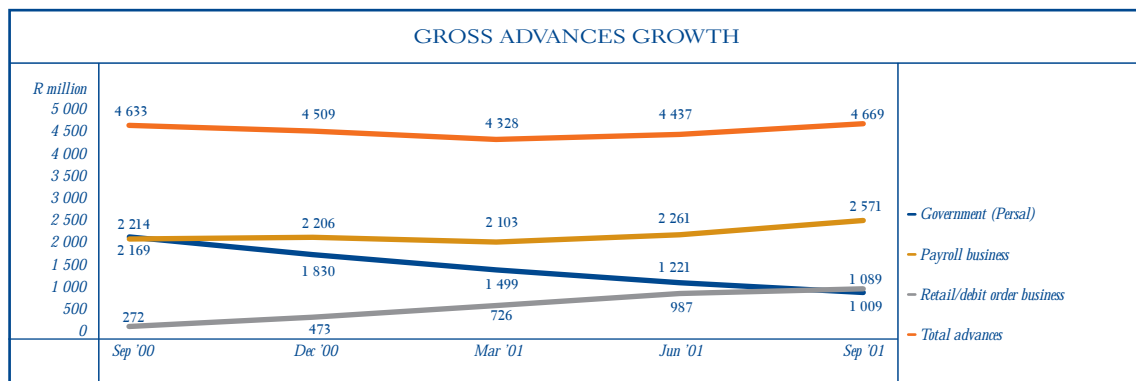
**Turnover and advances growth**  
As predicted by management at the end of financial 2000, advances outstanding decreased in the first part of the year and then resumed growth in the third quarter, closing 0,8% up at R4 669 million, for the year ended 30 September 2001. During the year, African Bank in particular focused its efforts on a smaller shorter-term loan offering to its customer base to reduce risk and enhance profitability. In the latter part of the financial year, turnover was marginally aided by the Persal consolidation process. The principal debt for so-called "consolidation Persal advances" to the end of September 2001 amounted to

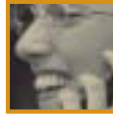
R155 million, boosting the Persal portfolio of loans to R987 million at year-end.



As illustrated in the graph above, the turnover has recovered from the lows following the Persal decision, to the levels prior to this decision. The recovery can mostly be attributed to the growth achieved in the retail/debit order product in African Bank, which currently comprises approximately 50% of the bank's monthly turnover and impressive growth in the corporate payroll and Theta Investments.

The growth in the advances in the second half of the year is very satisfying in the light of tough trading conditions. Particularly satisfying is the controlled advances growth in the private corporate payroll and the debit order business in the last six months.





► ► MANAGEMENT DISCUSSION ► ►

GROSS ADVANCES AS AT 30 SEPTEMBER 2001

ADVANCES IN R'000	% growth year on year	September 2001	March 2000	September 2000	Number of active loans (2001) <sup>4</sup> R'000	Average balance per loan (2001) R	Average term per loan (2001) <sup>5</sup> Months
<b>AFRICAN BANK LIMITED</b>	(7)	3 726 587	3 612 085	4 023 859	851 001	4 443	
Government (Persal) – historic <sup>1</sup>	(63)	783 953	1 421 554	2 106 798	269 234	2 912	–
Government (Persal) – consolidated <sup>1</sup>	100	154 983	–	–	10 220	15 165	44
Parastatals and Post Office <sup>1</sup>	(44)	211 034	286 859	376 495	60 445	3 491	28
Transitional Local Council (TLC) <sup>1</sup>	(25)	188 306	182 970	250 724	35 148	5 358	31
Private sector, corporate <sup>1</sup>	37	1 703 977	1 314 123	1 248 161	246 061	6 925	30
Retail/debit order	1 406	623 382	384 860	41 390	196 905	3 166	16
Standard Bank joint venture (53%)	20 846	60 952	21 719	291	32 988	3 486	15
<b>SAFRICH</b>	(59)	69 709	132 329	170 917	22 756	3 063	
Persal <sup>1</sup>	(55)	47 891	77 588	107 219	14 156	3 383	2
Corporate <sup>1</sup>	(66)	21 818	54 741	63 698	8 600	2 537	†
<b>THETA INVESTMENTS</b>	99 <sup>6</sup>	872 335	584 074	437 995	431 576	2 021	
Credit Indemnity	55	195 811	159 827	126 103	169 169	1 157	4
Miners Credit Guarantee <sup>2</sup>	192	241 341	99 639	82 778	172 162	1 402	16
Gilt Edged Management Services	54	225 882	164 850	146 784	89 897	2 513	29
African Contractors Finance	159	206 941	157 401	79 881	348	594 658	7
Quatro	(4)	2 360	2 357	2 449	†	†	–
<b>TOTAL</b>		<b>4 668 631</b>	<b>4 328 488</b>	<b>4 632 771</b>	<b>1 305 333</b>	<b>3 618</b>	
Government (Persal)	(55)	986 827	1 499 142	2 214 017	293 610	3 361	
Payroll business	20	2 592 358	2 103 182	2 168 640	612 313	4 234	
Retail/debit order business	425	880 145	566 406	167 784	399 062	2 341	
SMME business	154	209 301	159 758	82 330	348	594 658	
		<b>4 668 631</b>	<b>4 328 488</b>	<b>4 632 771</b>	<b>1 305 333</b>	<b>3 618</b>	

1. These represent personal loans to the individuals employed in these sectors and not advances to these institutions.

2. The accounting practice for the MCG portfolio was changed after March 2001. The portfolio of joint ventures was previously equity accounted and is now proportionally consolidated.

3. After adjusting for the MCG portfolio, the Theta portfolio grew by 77%.

4. All loans with zero balances have been removed from the loans register at the end of 2001. This reduced the total number of loans on the loans register by 683 308.

5. Average term of new business written during September to November 2001.

† Information not available

Theta Investments grew its advances, including Safrich, strongly to R942 million, as compared to R609 million last year.

Safrich sold off its corporate payroll book and the remaining Persal book is likely to be sold subsequent to year-end.

Credit Indemnity increased its market share and advances book through an increased distribution network and should enjoy further growth off this new base.

Miners Credit Guarantee, focused on the employees in the mining industry, increased its market share by very successful alliances with Teba Bank and other players in this market. The conversion from short-term lender to medium-term lender increased the book substantially.

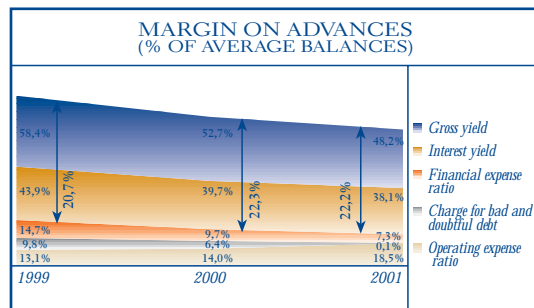
African Contractors Finance advances also reached scale and for the first time exceeded R200 million.

### RISK-ADJUSTED REVENUE AND RETURN ON THE LOAN ADVANCES PORTFOLIO

Rather than seeking advances growth for its own sake, the group focuses on managing the risk-adjusted portfolio yield, defined as the overall margin on the advances portfolio less net credit losses. This is the main ratio reflecting efficiency in assuming and managing credit risk.

The risk-adjusted margin on the advances book indicates that, while the gross yield (being interest, insurance and fees) achieved on the book has declined

over the past few years as expected, the risk-adjusted yield has remained constant. In addition, as the major component of gross yield, the interest yield generated on the products sold in the group has reduced by only 1,7% since September 2000.

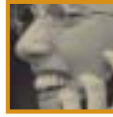


While the credit loss charge has come down to historically low levels in 2001 as a result of factors explained below, it is anticipated that there will be an increase in the next financial year. Any resultant contraction in the risk adjusted yield will be countered by steps taken to reduce costs, as well as the expected increases in new higher yielding business income.

### EFFECTIVE CREDIT MANAGEMENT

One of the major focus areas of the past year was greater collection efficiencies on the arrears book. This, together with normalisation of Persal and the uploading of the outstanding loan books on the government payroll, has reduced specific provisions over the past year to R273 million from R448 million in 2000.

Most importantly, actual credit losses have declined over time and have settled at around 4,5% of average gross advances, excluding the BoE book for which the



► ► MANAGEMENT DISCUSSION ► ►

CHARGE FOR BAD AND DOUBTFUL DEBT

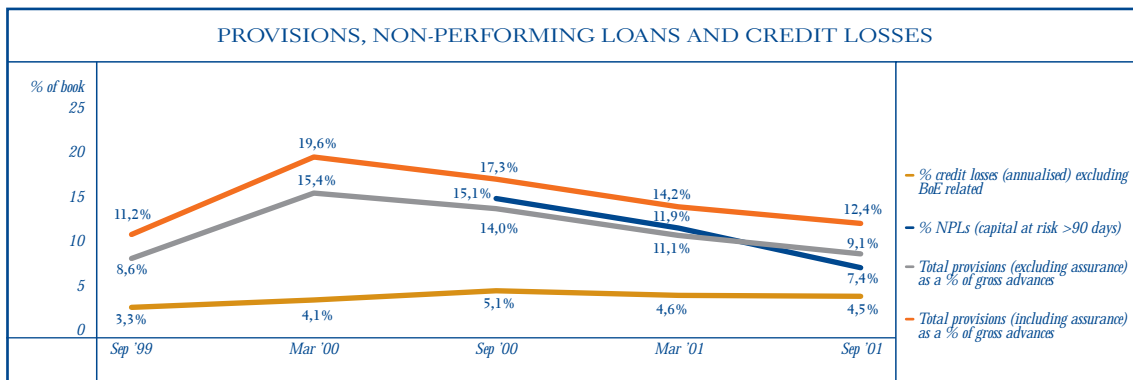
R'000	Total	Specific provision and write-offs	General provision
African Bank	(64 398)	(172)	(64 226)
Persal	(176 214)	(102 091)	(74 123)
Private sector and retail	111 816	101 919	9 897
Theta Investments	108 151	100 050	8 101
Safrich	21 164	22 413	(1 249)
Other	86 987	77 637	9 350
<b>Total charge</b>	<b>43 753</b>	<b>99 878</b>	<b>(56 125)</b>
Bad debt recoveries	(37 690)		
Charge per income statement	6 063		
Balance of provisions at year-end	425 950	273 375	152 575

group received payment in 2000 to take on the risk (6,2% including the BoE book).

The charge for bad and doubtful debt was substantially reduced to R6,1 million (2000: R289,5 million) over the past 12 months. The major contributors to the charge for bad and doubtful debt in the income statement, by portfolio, include:

► Persal provisions reduced by a total of

R176,2 million. This was made up of a reduction of R102,1 million in specific provisions as the loans were uploaded onto the Persal system and became performing again; and an automatic reduction in general provisions of R51,4 million as a result of the natural run-off of the Persal book during the year. A further R22,7 million of general provisions was released by reducing general provisions for this portfolio from 5% to 2,5%, as a result of lower risk



Credit losses are defined as amounts written off as bad debt. Non-performing loans are defined as capital at risk for arrears >90 days.

on this book arising from the new comprehensive agreement reached with government. At year-end, provisions and insurance reserves on Persal loans stood at 9,2%.

► More effective collection methodologies employed

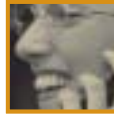
by the bank in relation to corporate payroll arrangements, and debit order recoveries on client bank accounts, limited the charge for bad and doubtful debts for the remaining African Bank book to R111,8 million. This process also increased

#### TOTAL PROVISIONS

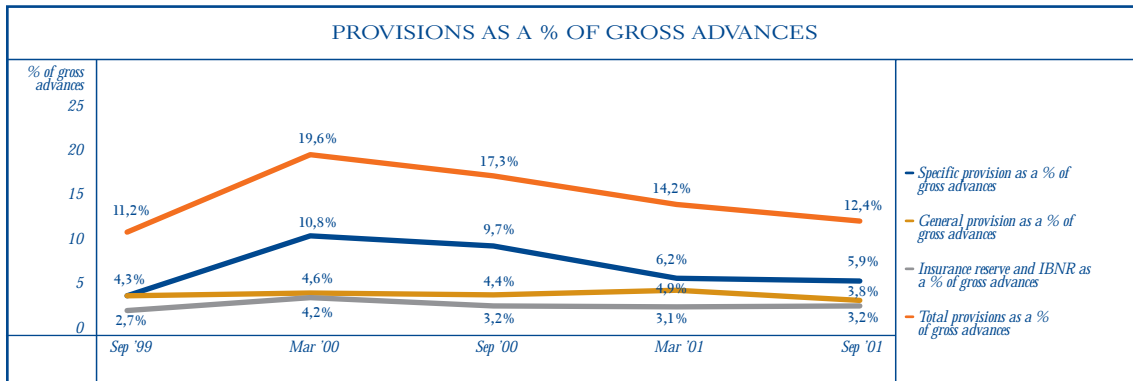
Six-monthly periods ending:

	September 1999	March 2000	September 2000	March 2001	September 2001
<b>TOTAL PROVISIONS ('000)</b>					
Total provisions and insurance reserves as % of growth advances	11,2	19,6	17,3	14,2	12,4
Total provisions as % of gross advances	8,6	15,4	14,1	11,1	9,1
<b>CHARGE FOR BAD AND DOUBTFUL ADVANCES</b>					
<b>SPECIFIC PROVISION</b>					
Balance at the end of the period	156 628	520 269	448 448	268 626	273 375
Balance at the beginning of the period	21 196	156 628	520 269	448 448	268 626
Net increase/(decrease) in the provisions	257 927	220 367	94 747	(7 346)	107 224
Cash received for release of guarantee		259 000			
Correction – CI unearned finance charges		(16 691)	(5 253)		
Acquisition of subsidiary					3 200
Amounts written off against the provisions (BoE related)			(44 000)	(74 000)	
Amounts written off against provisions	(122 495)	(99 035)	(117 315)	(98 476)	(105 675)
<b>GENERAL PROVISION</b>					
Balance at the end of the period	157 944	221 840	204 557	212 715	152 575
Balance at the beginning of the period	79 198	157 944	221 840	204 557	212 685
Acquisition of subsidiary			874		4 143
Increase/(decrease) in provisions	78 746	63 896	(18 157)	8 128	(64 253)
Total increase in provisions	336 673	284 263	76 590	782	42 971
Less recovery of amounts previously written off	(35 815)	(13 131)	(36 299)	(16 073)	(21 617)
<b>TOTAL CHARGE TO INCOME STATEMENT</b>	<b>300 858</b>	<b>271 132</b>	<b>40 291</b>	<b>(15 291)</b>	<b>21 354</b>
Total provisions	314 572	742 109	653 035	481 341	425 950
Write-offs (annualised) excluding BoE related (%)	3,3	4,1	5,1	4,6	4,5
Write-offs (annualised) including BoE related (%)	3,3	4,1	7,0	8,0	6,2
% NPLs (capital at risk >90 days) (%)			15,1	11,9	7,4

Specific provisions are currently at historical low levels. This reduction was achieved through a strong focus on credit management. As the new portfolios gain critical mass, it is expected that NPLs and therefore specific provisions would increase.



► ► MANAGEMENT DISCUSSION ► ►



operating costs due to the higher processing and transaction costs.

- The charge for bad and doubtful debt in the Theta Investments group of companies, including Safrich, was R108 million, increasing total provisions from 10,8% of book in financial 2000 to 12,1% in 2001.

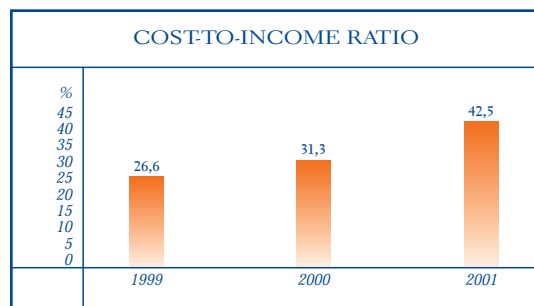
The group has always been conservative in its provisioning policies, because of its exposure to the unsecured lending market. It has historically created general provisions equivalent to its anticipated write-offs as well as creating specific provisions on all accounts in arrears of a non-technical nature. However, experience has shown that actual write-offs are far less than the specific provisions. In addition, non-performing loans (NPLs) as a percentage of portfolio have reduced at a more rapid rate than provisions, from 15,1% in September 2000 to 7,4% in September 2001, which is disclosed for the first time in these results. While there is comfort in having excess provisions, it is also inefficient.

The group has therefore decided to move to a more dynamic model of provisioning, replacing the current static model. The result of this is that the level of

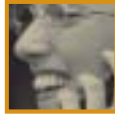
general provisions in African Bank has been reduced from 5% to 3% on the non-Persal payroll portfolios, and on the retail portfolios, from 8% to 4%. These provisions will continue to be adjusted depending on the actual risk experience and will become most aligned with banking norms over time. With total provisions including assurance reserves of 12,4%, the group is satisfied that it is not only adequately covered against all foreseeable risks but also has a sufficient buffer against the unknown.

### Operational efficiency

The cost-to-income ratio of the company has risen substantially to 42,5% in 2001 as the various businesses were merged into African Bank, as changes to the Persal system came into effect and as the bank changed its







► ► MANAGEMENT DISCUSSION ► ►

developed, corporate bonds have become an attractive option. Issuing a corporate bond served to diversify African Bank's funding sources and allowed efficient matching of assets and liabilities.

The bank raised the first tranche of R1 billion in October 2001. The additional capital raised will allow the bank to continue to grow its advances book and be better positioned to capitalise on future opportunities for expansion and growth.

The equity-to-assets ratio for the ABIL group was 39,3% and the capital adequacy ratio for African Bank was 33,1% at 30 September 2001. The group envisages bringing these ratios down to 25% for ABIL and 20% for African Bank respectively over the medium term.

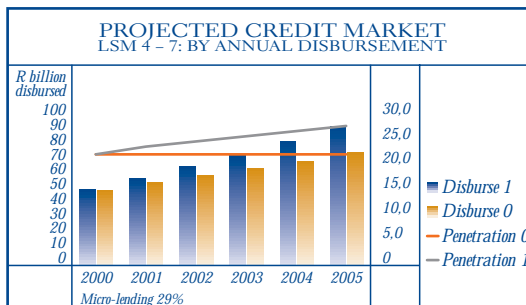
### Size of the market

Of obvious importance to ABIL, and a key concern for shareholders, is the potential size of the market it will service in the future. Given its importance and the frequent questions asked in this regard, the findings of the group's latest research are related below.

ABIL has considered different projections of the potential market size going forward into 2005. Rather than the traditional approach of extrapolation from the present supply of credit numbers, these projections must be driven from an estimation of the effective demand, that is the ability of targeted consumers to afford credit repayments out of their regular incomes on a sustainable basis. This approach recognises that loans are simply another claim on consumer wallets, through the repayment profile of the loans, and hence the potential future market is driven by:

- the number of consumers;
- the size of the average 'wallet' or disposable income, which is shaped by overall economic growth, average wage/salary inflation and taxation; and
- the proportion of wallet/disposable income which can be applied to service debt.

Using this approach, ABIL has built a forecasting model which projects the variables above, using LSM segmentation to project the target consumer market of ABIL (LSM4-7). The results are shown in the graph below and indicate that, despite overall slow economic growth and demographic factors such as the impact of Aids, the potential disposable income of LSM 4 - 7 consumers which can prudently be applied to repay debt will increase from R49 billion in 2000 to R73 billion in 2005, assuming average credit usage levels remain constant as shown by the flat line. This implies a baseline annual increase of 10,5%. If credit penetration levels increase as more consumers in the sub-population have access to credit as shown by the rising line, then the rise in market potential is more dramatic to R90 billion in 2005. Hence there remains considerable overall growth potential in the market, and it is the objective of ABIL companies to further increase its share within targeted credit niches of the market.



## Strategic process

The micro-lending market has entered a new era of opportunities and risks, and, recognising the fact, the group initiated a strategic review process during the year. This process aimed to develop a sound strategy platform for the medium to long-term future of the bank and group to 2005. The process involved extensive consultation with local financial industry players and included ABIL executives visiting and exchanging information with credit institutions in international markets. This has added perspective to local developments, and it has become increasingly clear that SA micro-lending is essentially one segment of the broader credit sector in an emerging market. As a result, a scenario planning process was followed which sought to construct future environmental scenarios and enable different strategic responses to be evaluated.

Having considered possible options as responses to these environmental scenarios, the group has refined its focus areas on key differentiators in the coming years. These will be:

### ► Focus on credit competence

The ability to manage bad debt to targeted levels to optimise risk/return is key to survival in this industry and this is seen as the group's core competency.

### ► Brand

The financial services industry is generally perceived by clients as a risky purchasing area and brand is used as one of the major risk mitigators in such circumstances. It is therefore important to build brand equity, as it provides a competitive

edge against competitors with a lesser profile. An independent research company is used to measure brand awareness amongst the group's target market. The latest results showed that African Bank was rated fourth after three of the major retail banks. This was a giant leap for African Bank, as a study conducted in July 1999 showed only a 0,06% awareness level. The brand will continue to be the market leader in credit banking.

### ► Distribution

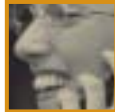
A high touch environment is an important attribute in the choice of a service provider. As part of its commitment to superior service, ABIL has a very significant distribution system of branches, mobile consultants and joint ventures, which delivers widespread distribution and easy access at acceptable cost to its clients, and this will be maintained into the future.

### ► Competition, growth and efficiency

The group believes that, with increased competition and the growing sophistication of its target markets, margins will decline over time, although history has shown that the declines occur more slowly than anticipated. ABIL's response to this reality is to continue to pursue unexplored markets through Theta Investments, while ensuring that its cost platform in the core businesses is low enough to remain competitive.

### ► Service, client acquisition and retention

The more commoditised a product becomes, the more important service levels become as a key differentiator to the client. Although the products at the end of the market in which the group operates are far from being commoditised, it believes that it is never too soon to focus on service delivery as a



## ► ► MANAGEMENT DISCUSSION ► ►

competitive advantage. The decentralisation at African Bank is an example of the group's continuous focus on improving service to its clients. It has implemented measurement systems and processes to monitor innovation and efficiency increases from the client's perspective. The service levels are tracked regularly to gauge improvements and declines.

Several projects and products are under way to improve client acquisition and retention. The progress and effects of these will be discussed in future reports.

### KEY ENVIRONMENTAL ISSUES

#### Persal

In June 2000, the Government announced that it would terminate all insurance and discretionary loan deductions from the Government Payroll System ("Persal"). The loans industry immediately engaged in negotiations with the Government to explore ways in which the objectives of the Government could be met without threatening the business of the service providers.

The negotiations culminated in African Bank becoming, through active engagement, the first lender to sign an agreement between Government and loan providers in June 2001. This allowed for the consolidation of existing loans from a central loans register and signalled a normalisation in the collection situation on the state payroll book. African Bank has, in the ensuing months, been successful in consolidating a significant number of state employees who required consolidation of their loans and wrote R155 million in principle debt between July and

September 2001. Of these new loans, just over 40% were consolidations of existing African Bank loans and 60% were consolidations of loans of competitors. On average, employees consolidated three existing loans into one new loan.

Historically, this has been a sector that experienced less volatility than other sectors of the economy, which tends to reduce the risk of large-scale retrenchments. The new agreement with the Government offers several risk mitigators that enhance the attractiveness of the consolidation business, offsetting a gross interest yield that is lower than before. These include:

- a formal agreement with Government with fixed parameters;
- a Central Loans Register, which will impose strict affordability controls; and
- employees are not permitted to cancel their payroll deduction without written permission from the lender, which further mitigates any risk of default.

A decision whether new business would be allowed on the Persal system should be announced in the first half of calendar 2002.

#### The impact of HIV/Aids

Understanding and addressing the potential impact of the HIV/Aids epidemic in South Africa is an important strategic issue for the ABIL group. The lack of adequate research continues to hamper efforts to accurately predict the impact of the pandemic on the economy and ABIL target market.

Based on best available demographic projections, it is estimated that approximately 18% of the potential

customer base will be infected with HIV by 2005. The extent to which this impacts directly on African Bank will depend on the extent to which the employed population declines, as sick and dying workers are replaced by others in the workforce who may be eligible for credit. At present, it is more likely that the impact on our market will be felt through lower economic growth than directly through Aids deaths.

The direct impact of Aids-related deaths in the ABIL group is borne by Stangen, which insures African Bank's lending book with a linked credit or term life insurance policy. The impact on Stangen claims arising from deaths which were likely to have been Aids-related has not been significant to date, although the causes of death are being closely monitored, and actuarial modelling has been done to assess the potential increased exposure out to 2005. This modelling suggests that the impact on risk exposure is manageable.

The impact arising from the effect of HIV/Aids on the workforce may be felt through increased indirect costs, including absenteeism due to illness or funeral attendance, lost skills, training and recruitment costs, reduced work performance and lower productivity. While there has been an increase in the proportion of bank staff dying from natural causes during the past year, from three in 2000 to eleven (three staff members died in the Ellispark soccer disaster) in 2001, this has to date been limited to junior levels of the bank where replacement of staff is easier. Of course, prevention is a vital part of mitigating the impact of HIV/Aids on individual staff members and the bank. Extensive HIV/Aids awareness education has been, and will continue to be, undertaken via all the company

communication channels – ABTV and ABMag. A comprehensive policy to deal with Aids-related issues for staff has been developed by African Bank Human Resources department, which includes free counselling and the introduction of voluntary testing for staff. Succession planning will also consider the impact of Aids on the future skills base.

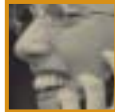
An ABIL-level task team, headed by an executive and reporting to the CEO and Board, has been established to monitor and manage the impact of HIV/Aids on the organisation.

### Regulatory and policy issues

Policy debates on issues ranging from interest rate capping to the pricing of credit life assurance are ongoing. ABIL believes that market forces and competition will establish interest rates at levels commensurate with the risk in that market. Based on continuous discussions with regulatory bodies, the group believes that it would not be unduly affected by disruptions in market forces if interest rate caps were to be implemented.

Discussions are also taking place surrounding the pricing of credit life assurance. These discussions include issues related to:

- ▶ The treatment of credit life premiums as margin enhancers for the lender on Usury Act compliant loans. ABIL's involvement in this end of the market is not significant and the issues surrounding the pricing are not material to the group.
- ▶ The second debate on credit life assurance revolves around the collection of assurance premiums through single premium policies that are



## ► ► MANAGEMENT DISCUSSION ► ►

capitalised and therefore incur greater interest costs. This debate is relevant to longer-term policies only and, in this regard, Stangen changed the way it treats longer-term loans, specifically Persal consolidation loans. The company generally issues single premium policies payable at inception of the policy. As a market first, and to assist clients, the product has been changed for longer-term loans to one where a portion of the premium is collected upfront and the remainder on a monthly basis over the life of the policy. This reduces the total collectable by decreasing the interest charges.

The group will continue to actively participate in debates and interaction with governmental and industry bodies which may directly or indirectly impact on its business ventures.

### STRATE

The dematerialisation period applicable to ABIL commenced on 24 September 2001 with trading for electronic settlement on 15 October 2001, after which no paper scrip will be accepted for settlement of trades. We urge shareholders to dematerialise their shares as soon as possible.

### LOOKING AHEAD

The events of the past year have proven, yet again, that in uncertain economic conditions, profitable business growth is achieved by maintaining a disciplined focus on the core credit competency. The result of this focus will continue to be seen in 2002 in the form of smaller loan sizes, shorter loan terms and vigorous arrears management.

We believe the operational achievements, coupled with the strategic decisions taken during the past two financial years, have prepared the business for a new cycle of sustainable growth in the coming years.

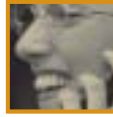
Going forward, challenges and focus areas for the coming year will be:

- further entrenchment of the group's market leadership in the unsecured lending sector
  - reduction in the overall level of costs
  - continued attention to credit control
- in order to accelerate earnings per share growth and further enhance return on equity.

Notwithstanding the present macro-economic uncertainty, ABIL continues to view the next year with cautious optimism.

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STATEMENT OF AVERAGE
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**BALANCES, INCOME, EXPENSE AND YIELDS**  
 YEAR ENDED 30 SEPTEMBER 2001

R'000	Closing balance	Weighted average balance	2001 Income/ expense	Yield/ rate (%)
<b>ASSETS</b>				
Advances	4 668 631	4 551 621	1 731 875	38,0
Interest-earning cash and other assets	546 536	1 098 935	123 185	11,2
Total interest-earning assets	5 247 318	5 650 556	1 855 060	32,8
Non-interest-bearing Reserve Bank funds	75 730	55 172		
Provision for bad debt	(425 950)	(580 890)		
Other assets	510 732	388 083		
Total assets	5 375 679	5 512 922		
<b>LIABILITIES AND EQUITY</b>				
Total interest-bearing liabilities	2 473 991	2 496 120	331 464	13,3
Life fund reserves	107 958	88 801		
Other liabilities	668 163	301 133		
Deferred tax	12 282	150 109		
Total liabilities	3 262 394	3 036 163		
Equity	2 113 285	2 476 759		
Total liabilities and equity	5 375 679	5 512 922		
Goodwill write-off		3 003 415	3 003 415	
Equity prior to goodwill write-off		5 480 174	4 655 740	
Earnings before outside shareholders' equity		764 142	706 432	
Return on average assets (%)		13,9	15,1	
ROE (%)		30,8	42,7	
ROE (pre-goodwill write-off) (%)		13,9	15,2	
Net interest on total earning assets			1 523 596	27,0
<b>ADVANCES PORTFOLIO YIELD</b>				
Interest			1 731 875	38,0
Administration			234 036	5,1
Total charge of credit			1 965 911	43,2
Assurance			225 711	5,0
Gross yield on advances book			2 191 622	48,2
Net credit loss			6 063	0,1
Risk-adjusted revenue			2 185 559	48,0
Interest paid			331 464	7,3
Risk-adjusted revenue after interest paid			1 854 095	40,7
Operating costs			843 060	18,5
Net yield			1 011 035	22,2

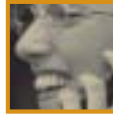


► ► MANAGEMENT DISCUSSION ► ►

2000				1999			
Closing balance	Weighted average balance	Income/expense	Yield/rate (%)	Closing balance	Weighted average balance	Income/expense	Yield/rate (%)
4 632 771	4 540 443	1 800 512	39,7	3 671 791	3 061 797	1 342 780	43,9
1 415 041	577 158	74 202	12,9	779 573	786 379	152 638	19,4
6 138 678	5 201 666	1 874 714	36,0	4 451 364	3 848 175	1 495 418	38,9
68 922	84 065						
(653 005)	(575 970)			(314 572)	(267 279)		
308 583	462 096			413 323	167 627		
5 772 312	5 087 792			4 550 115	3 748 524		
2 464 454	2 781 241	440 514	15,8	2 860 298	2 413 043	449 646	18,6
69 644	83 780			97 918	53 859		
430 837	223 898			260 473	234 390		
186 875	144 337			106 476	51 531		
3 151 810	3 233 256			3 325 165	2 752 822		
2 620 502	1 854 536			1 224 950	995 701		
5 772 312	5 087 792			4 550 115	3 748 524		
	3 003 415				2 663 261		
	4 857 951				3 658 962		
	759 641				543 909		
	14,9				14,5		
	41,0				54,6		
	15,6				14,9		
		1 412 256	27,2			1 045 772	27,2
		1 778 568	39,2			1 342 780	43,9
		252 349	5,6			213 859	7,0
		2 030 917	44,8			1 556 639	50,9
		346 637	7,6			230 152	7,5
		2 377 554	52,4			1 786 791	58,4
		289 479	6,4			300 858	9,8
		2 088 075	46,0			1 485 933	48,5
		440 514	9,7			449 646	14,7
		1 647 561	36,3			1 036 287	33,8
		634 360	14,0			402 228	13,1
		1 013 201	22,3			634 059	20,7

## YIELDS RELATING TO THE SEPTEMBER 2001 ADVANCES

	Weighted average gross advances		Interest gross yield		Gross yield (interest, administration and net insurance)		Risk-adjusted yield (pre-cost of funds)	
	R'000	R'000	%	R'000	%	R'000	%	
<b>AFRICAN BANK LIMITED</b>	3 737 697	1 224 814	32,8	1 620 079	43,3	1 684 477	45,1	
Persal	1 460 234	459 765	31,5	438 488	30,0	614 702	42,1	
Parastatals	267 293	73 502	27,5	76 491	28,6	86 768	32,5	
Transitional Local Council (TLC)	192 262	61 352	31,9	86 589	45,0	92 073	47,9	
Corporate and mining	1 453 792	402 962	27,7	566 870	39,0	538 078	37,0	
Retail	339 180	216 166	63,7	429 712	126,7	336 184	99,1	
Standard Bank joint venture (53%)	24 935	11 067	44,4	21 928	87,9	16 672	66,9	
<b>SAFRICH</b>	131 897	59 506	45,1	59 912	45,4	38 748	29,4	
<b>THETA INVESTMENTS</b>	682 027	447 555	131,2	511 631	150,0	424 644	124,5	
Credit Indemnity	165 868	210 829	127,1	210 829	127,1	168 305	101,5	
Miners Credit Guarantee	188 678	153 492	81,4	166 834	88,4	152 515	80,8	
Gilt Edged Management Services	171 973	57 277	33,3	83 760	48,7	74 618	43,4	
African Contractors Finance	153 092	25 957	17,0	43 280	28,3	23 129	15,1	
Theta Specialised Finance	-	-	-	1 054	-	1 054	-	
Quatro	2 417	-	0,0	5 874	243,0	5 023	207,8	
Bad debt recovered						37 690	0,8	
<b>TOTAL</b>	4 551 621	1 731 875	38,0	2 191 622	48,2	2 185 559	48,0	



## — PROVISIONS, NPLS AND — CREDIT LOSSES RELATING TO THE SEPTEMBER 2001 ADVANCES

Specific provisions %	General provisions %	Total provisions %	Credit losses as % of average book %	Insurance reserve %	Insurance claims %	Total provisions including insurance reserve %	NPLs %
5,5	2,9	8,4	5,9	3,8	1,8	12,2	6,7
3,0	2,4	5,4	2,8	3,8	1,8	9,2	5,1
5,4	2,8	8,3	4,6	3,8	1,8	12,1	9,3
5,7	2,8	8,6	6,1	3,8	1,8	12,4	11,8
6,5	2,7	9,3	8,5	3,8	1,8	13,1	8,6
6,6	4,1	10,7	8,5	3,8	1,8	14,5	2,0
2,7	2,9	5,6	7,6	3,8	1,8	9,3	2,2
13,4	5,7	19,0	15,8	4,6	4,4	23,6	16,5
6,9	4,6	11,5	5,5	0,7	1,1	12,2	9,4
7,7	6,3	14,1	18,9	0,0	0,0	14,1	14,1
5,3	4,7	9,9	2,9	0,8	3,2	10,7	7,8
4,6	7,5	12,1	0,2	1,7	0,9	13,8	4,6
9,7	0,0	9,7	0,0	0,0	0,0	9,7	12,3
N/A	0,0	67,5	26,3	0,0	0,0	67,5	0,0
5,9	3,3	9,1	6,1	3,2	1,7	12,4	7,4



YOUR CREDIT BANK

DIVISIONAL REPORT
AFRICAN BANK LIMITED

BACKGROUND

African Bank Limited is a registered bank governed by the Bank's Act No 94 of 1990. African Bank adheres to the code of conduct of the Banking Council of South Africa, and is a member of and abides by the rules and regulations of the Micro Finance Regulatory Council ("MFRC").

African Bank is the country's largest credit bank and supplies short-term, unsecured credit to historically disadvantaged individuals. Independent research indicates that personal loans granted by African Bank are mostly used for housing (30%) and education (32%). The credit-granting process involves credit scoring and risk assessment, affordability calculations and some forms of semi-securing through employer agreements.

African Bank has been at the forefront of lending and building a branded presence in its market. It uses fixed branded branches, in-house (not brokers) mobile sales consultants, and telephonic channels to reach its clients. It operates through its own branded distribution network of 234 branches and regional sales offices throughout South Africa. In addition, African Bank has a joint venture with Standard Bank and an alliance with the Edcon Group.

Product types

African Bank is a cash-free operation with disbursements and collections taking place electronically. Loan amounts are transferred to the client's bank account and are almost exclusively repaid through

one of the following mechanisms:

- Payroll deduction;
Debit order facility.

Payroll loans are classified into three categories, namely standard, gold and platinum. The categories reflect the level of risk associated with lending to a specific company's employees. The products are primarily offered by mobile consultants visiting clients at their place of employment. The terms of payroll loans vary from six to 36 months, and the amounts available range from R1 000 to R20 000. Interest rates vary according to the level of risk associated with specific products.

Table with 2 columns: Metric (Number of loans, Turnover - year (Rm), Average size of new loan (R)) and Value (851 001, 1 648, 5 686)

Retail loans are based on credit scoring and payments secured through debit orders from the client's bank account. These loans are sold through the mobile and branded service points. The term of the debit order loans vary from six to 36 months, and the amounts available range from R1 000 to R8 000.

JOINT VENTURES AND ALLIANCES

The Standard Bank of South Africa Limited ("Standard Bank")

African Bank has a joint venture agreement with The Standard Bank of South Africa Limited to further develop African Bank's business. The joint venture is

# KE THABILE HAHOLO (I AM VERY HAPPY)



This tiny village in the heart of the KwaZulu-Natal midlands faces the same challenges as most rural communities in South Africa, with housing being one of the most serious.

Gloria Mkhize says, "I am thrilled at the opportunity to live in town, close to work. I can now spend the money I used to spend on transport on food."

**"I CAN NOW SPEND THE MONEY I USED TO SPEND ON TRANSPORT ON FOOD."** "African Bank staff had great attitude and explained everything in detail. They never

Through the efforts of the local municipality, municipal workers were able to access Government grants for housing. Disappointingly, the grants were not enough to complete these houses and workers approached several banks for "top-up" funds. The banks all declined. But African Bank did not. After concluding an agreement with the Greytown municipality for salary deductions, the bank was able to grant the loans, changing the lives of many people.

looked down on me," says Khonzeni.

A single mother says, "I thank the good Lord and African Bank for the conditions in which I live. My children can study at night now."

Another happy client says that African Bank went out of its way to assist and treated them with respect. Overall, the reaction was, "Ke thabile haholo."

co-funded (47:53) with profits allocated on a 60:40 basis (ie Standard Bank 47% and African Bank 53%).

In terms of the joint venture, African Bank's loan products are sold to Standard Bank's E-plan customers through Standard Bank's branch network. A key benefit of the relationship, from African Bank's perspective, is that it provides African Bank with access to Standard Bank's extensive customer base.

#### **Edcon Group**

To further expand African Bank's distribution network, African Bank has concluded an alliance with the Edcon Group. As a result, African Bank products are currently sold in branches of Edgars, Sales House and Jet countrywide.

#### **REVIEW OF THE PAST YEAR**

African Bank increased its attributable earnings by 20,2% to R424,5 million, mainly as a result of a reduction in NPLs and the additional income earned from the 7,5% fee Stangen pays to African Bank as an origination fee.

#### **Advances**

African Bank succeeded in the past year in its stated intention of reducing its dependence on Persal-related business. Total advances at R3 727 million were 7% lower than the comparable figure for 2000 as a result of the more than R1 300 million reduction in the Persal book in this period. However, this effectively masked the growth of R582 million in the retail portfolio and the R456 million growth in the

corporate payroll business. The corporate payroll book has overtaken Persal during the year as the largest book in the African Bank portfolio. The Persal portfolio currently represents 21,1% of group advances, as compared to 47,8% in the prior financial period. This underlines the extent to which the group has developed a more diversified and hence sustainable long-term lending model during 2001. The Standard Bank joint venture also started performing in line with expectations.

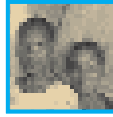
#### **Provisions and bad debts**

The signing of the agreement with Government regarding payroll deductions through the Persal system has brought increased stability to this portion of the portfolio. Uploading existing loans has translated into a significant reduction of R102 million in the specific provisions held against these arrears. This reduction, combined with vastly improved collections efficiencies, enabled African Bank to reduce total specific provisions by R204 million. Bad debts of R222 million were written off during the year.

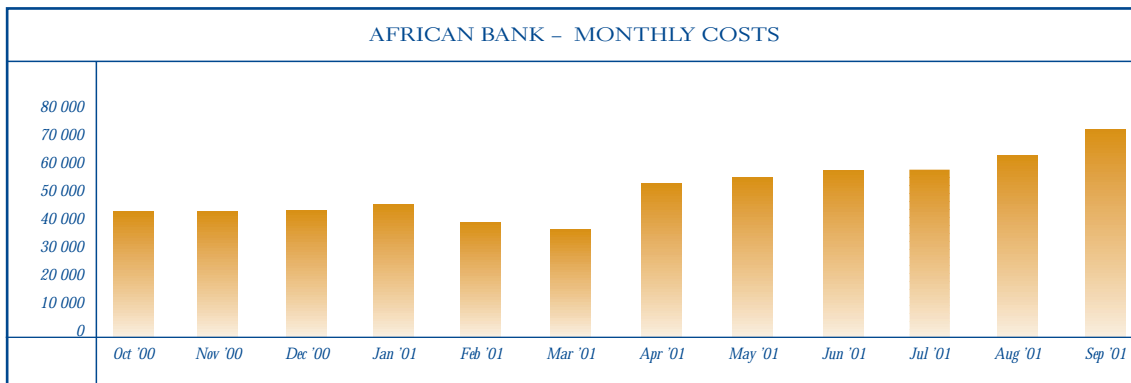
#### **Operating costs**

African Bank's operating expenses increased from R504 million (2000) to R632 million (2001), an increase of 25%. The reasons for this significant increase in costs were almost exclusively related to the changing business model and projects undertaken to create the foundation for growth in future years. These included:

- ▶ The expansion and revamp of the existing footprint totalled R25 million. The extent of the



▶ ▶ DIVISIONAL REPORT ▶ ▶  
AFRICAN BANK LIMITED



revamp can be seen in the table on page 45. This expansion and revamp will continue in the coming year, albeit at a slower rate.

- ▶ Changing the sales force from a partial external broker model to an exclusive in-house model, which provides greater control over the behaviour and service ethic of the sales force. This generated R9 million in additional costs.
- ▶ The new retail model is costlier to maintain. Additional costs include credit bureau charges for credit scoring, bank charges for debit order deductions, charges for collections and a greater number of retail collection agents, among others. Operating costs related to these activities totalled R40 million. Although these costs will continue, scale benefits are expected to reduce the impact in future.
- ▶ Additional once-off IT costs added another R25 million to the costs in relation to the previous year. Excluding these items, the balance of the costs increased by 5% over the year.

A low-cost base is a major advantage in an environment of increased competition. African Bank,

therefore, announced a major cost-cutting exercise in September 2001, as part of its restructuring and re-engineering of its business model. The specific cost savings include:

- ▶ A reduction in the marketing budget to levels prior to this year's national advertising campaign. Marketing expenditure will be more targeted to regional campaigns.
- ▶ Information technology costs will be reduced by outsourcing maintenance and infrastructure activities. African Bank also incurred significant once-off costs in 2001, as discussed previously, which will not be incurred in 2002.
- ▶ The process of decentralisation of certain functions to the regions, as discussed below, has necessitated a duplication of people at the central office and regional offices over the past year. This first phase of the restructuring process has now been completed, which has resulted in a reduction of staff of approximately 253 people (12% of total staff complement). A restructuring provision of R12,2 million (pre-tax) was made in 2001.

It is expected that these cost reductions will reduce the annual expenditure at the bank.

### Decentralisation of African Bank

As part of enhancing its customer service proposition, African Bank undertook a major restructuring over the past year. The move, which involved decentralising and devolving key functions to regional teams and is contrary to the traditional banking approach, started with a complete restructuring and upskilling of the bank's regional offices and branches and reflect a shift in decision-making and management to regional management teams. This was designed to take the decision-making process closer to clients and entailed moving some of African Bank's best people into the regional structure to focus on delivering a better product to clients in a shorter space of time.

Important strategic functions such as macro-strategy, credit and risk management, the management of the balance sheet, the brand and quality control remain at the central office. However, the devolved regional structures have become more directly accountable for client service, product marketing, payroll arrears management and collections and profitability.

### Funding

African Bank raised R1 billion in medium-term notes to fund growth in the coming year. The details of the programme are discussed in the risk review on page 62.

### Distribution network

African Bank has always regarded its distribution network as a key differentiator and competitive advantage. It therefore focused attention during the past year on rebranding and relocating its distribution network to areas of high visibility. The changes in its distribution footprint over time are illustrated in the table.

### New initiatives

Various new and enhanced products are scheduled to be launched in the first half of 2002. These products and the initiatives which have already been launched to improve the service level to clients, are expected to have a positive effect on sales. Scoring models will be developed further in the next year, to include behavioural aspects and the bank will also focus on more targeted credit underwriting.

### Prospects

The events of the past year have proven, yet again, that in uncertain economic conditions, the way to grow the business profitably is by extending smaller loans, over shorter periods and to manage arrears vigorously. The economic outlook for 2002 is one of low growth and associated retrenchments, which increases the risk to the lending business. Prudent management of this risk will ensure that, while advances growth is on an upward trajectory, the rate of growth will be tightly controlled. Shorter loan terms should increase profitability. African Bank should benefit from the solid foundation which has been set over the past 18 months in terms of skills, systems, distribution networks and cost cutting.



► ► DIVISIONAL REPORT ► ►  
AFRICAN BANK LIMITED

THE REVAMP AND EXPANSION OF THE AFRICAN BANK FOOTPRINT

<b>BRANCHES (AS AT 30 JUNE 1999)</b>	Branch numbers
African Bank	15
Alternative Finance	67
King Finance	44
Unity Financial Services	135
<b>Total</b>	<b>261</b>

<b>BRANCHES</b>	30 September 2000	30 September 2001
Business units	8	6
Branded service points	141	151
Entrepreneurial service points *	156	29
Mobile sales office	12	36
Mine office/kiosk	0	12
<b>Total</b>	<b>317</b>	<b>234</b>

\* The Licensee concept was changed in 2001 to a more formal infrastructure concept. One hundred and twenty-five of the previous licences were disengaged as a result.

<b>BRANDED SERVICE POINTS (BRANCHES)</b>	30 September 2000	30 September 2001
Old	141	45
Revamped	0	33
Relocated	0	48
New	0	25
Trading	141	151

<b>ENTREPRENEURIAL SERVICE POINT (LICENCEES)</b>	30 September 2000	30 September 2001
Old	156	17
Revamped	0	1
Relocated	0	6
New	0	5
Trading	156	29



# Standard | General

## — DIVISIONAL REPORT — THE STANDARD GENERAL INSURANCE COMPANY LIMITED (“STANGEN”)

### BACKGROUND

Stangen is the entity in the ABIL group through which all credit life insurance initiatives are conducted. Stangen is registered as a long-term insurance company and has a licence to market credit life and level life policies. Stangen products are sold exclusively through African Bank’s national distribution structures.

As security for loans granted by African Bank to its customers, credit life policies sold by Stangen to these customers are ceded to African Bank. Clients have the option to substitute their own credit life policies as security, as long as the substitute policies carry equivalent benefits to the Stangen policies.

Credit life policies cover the obligations of policyholders in the event of death, permanent and/or temporary disability and retrenchment. The benefits payable include:

- ▶ Death – full outstanding capital balance of loan as at date of death;
- ▶ Retrenchment – the monthly instalment for six months and, if still unemployed, the full outstanding balance of the loan;
- ▶ Permanent disability – full outstanding capital balance of loan as at date of disability; and
- ▶ Temporary disability – the monthly instalment while temporarily disabled.

The level life policy covers the policyholder in the event of death, following which the policy will pay to a nominated beneficiary an amount equivalent to the original cash amount of the loan to which the policy is

linked, subject to a maximum of R10 000. A portion of the credit life risk is reinsured on a profit-share basis with Capital Alliance Life Limited.

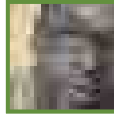
### REVIEW OF THE PAST YEAR

Stangen continues to underwrite all credit and level life policies sold by the distribution network of African Bank.

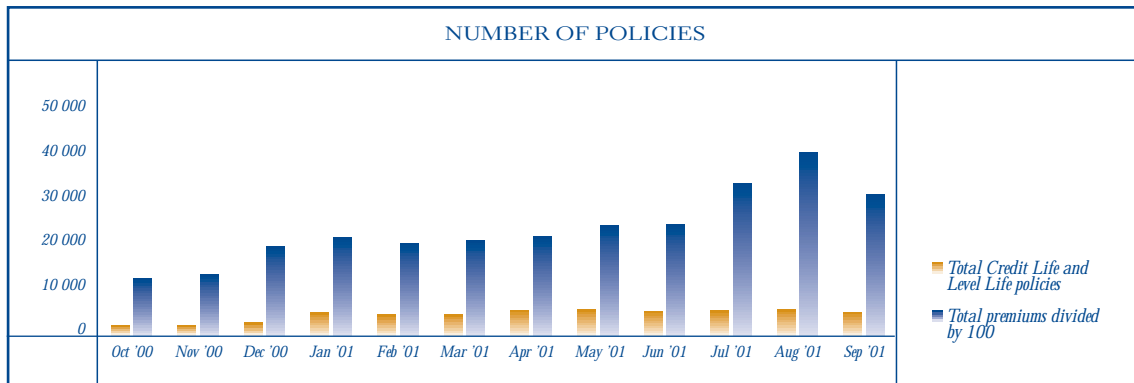
Stangen’s premium turnover, to a large extent, follows the fortunes of African Bank. Given the sales pressure experienced by African Bank in the review period where turnover reduced from R2 323 million in 2000 to R1 648 million in 2001, Stangen’s comparative premium turnover decreased by 31%. This, together with the origination commission paid to African Bank for the first time this year, resulted in a decrease in attributable earnings of 21,1% compared to the prior year. Results in the second half of the year improved compared to the first half, mainly as a result of lower claims and increased sales.

Claims ratios are running at acceptable levels and are expected to remain within the pricing parameters of the products sold.

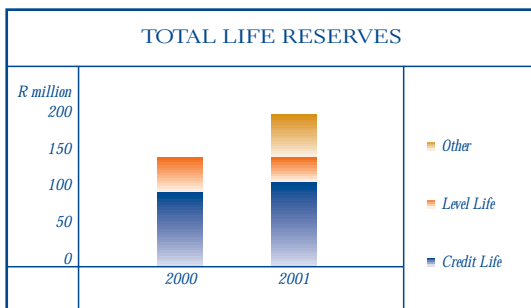
There has been much debate about the level of rates charged by insurance companies relating to credit life products. The rates charged by Stangen are actuarially derived, based on benefits, exclusions and current claims ratios. These rates are continually monitored and evaluated against current and expected trends and will be revised whenever these trends indicate that action is required.



▶ ▶ DIVISIONAL REPORT ▶ ▶  
STANGEN



As a result of improved and more efficient collection and recovery processes adopted by African Bank in the first six months of the year, the provision for claims recognised but not paid, was increased significantly. This provision has decreased over the latter six months of the year as a result of a decline in the incidence of claims, as well as the additional resource allocated within Stangen to process and pay these claims.



*Note: The sharp increase in August 2001 was a result of the launch of a new linked endowment product, that required a once-off reserve adjustment against capital invested. Thereafter the reserve increases as the income accrues.*

## PROSPECTS

Stangen has stabilised its position in the market. Having addressed the many macro and micro-issues, Stangen can look forward to a period of positive growth. Premium turnovers are predicted to grow steadily in the 2002 financial year. No major deviation is expected in the claims trend.

The number of policyholders is expected to near one million during the new financial year. Stangen will continue to act as a service provider to its exclusive customer, African Bank Limited.

The credit and level life policies sold by Stangen do not carry any exclusions for Aids, unless pre-existing and not disclosed at inception. Due to the short- to medium-term nature of Stangen's products, and coupled with the significant advancements being made in medical treatment for Aids, no extraordinary financial effect on the company's future results is expected due to this epidemic.



# THE TA

## — DIVISIONAL REPORT — THETA INVESTMENTS (PTY) LTD

### BACKGROUND

Theta Investments is ABIL's investment operation. Its key objective is to unlock models that extend credit to ABIL's target market. The following operations fall under the Theta umbrella: Miners Credit Guarantee, Credit Indemnity, Gilt Edged Management Services, African Contractors Finance Corporation, Business Venture Investments, Quatro Trading, Theta Specialised Finance and Safrich Financial Services. For ease of reading, the activities of each of these businesses will be discussed as part of their review of the past year.

### REVIEW OF THE PAST YEAR

The review period has been an exciting and challenging year for Theta Investments. In essence, its major challenge was and remains its ability to transform quick profit generators into long-term business propositions.

Gaps in the market which can facilitate short-term, super-normal profits can be identified with relative ease. It is difficult, however, to convert these entrepreneurial endeavours into sustainable businesses. This challenge has dynamics for both Theta Investments and its subsidiary companies. It has driven Theta to transform from a passive private equity investor into a more operational entity. Close co-operation is required with partners to ensure that sustainable entities are created. This has entailed strategic planning, proactive succession planning and drive to ensure excellence at all levels. Theta

Investments has therefore fulfilled its initial mandate of successfully incubating smaller businesses which are pioneering different credit models, and during the year ahead, the appropriate structure and mandate for Theta for the next phase of growth will be considered.

Theta Investments' operating subsidiaries experienced a year of strong organic growth, with attributable earnings 19,3% higher at R124,5 million based on loan portfolio growth. The comparative number for 2000 also includes the contribution from companies which have either been moved into African Bank or discontinued. Excluding these companies, Theta Investments grew by 41% over the past year. The best performing subsidiaries were Miners Credit Guarantee and Credit Indemnity which are now sizeable businesses in their own right. In addition, in line with the purpose of Theta Investments, which is to incubate new profitable lending models, investments were made in new ventures during the year, and focus has been given to growing existing entities that have not yet reached scale, in particular African Contractors Finance.

**Miners Credit Guarantee (Pty) Limited ("MCG") – 85% held**  
MCG has been providing unsecured credit to gold and platinum mining sector workforces since 1993. MCG's focus is on two main credit solutions:

- ▶ MCG Retail offers credit guarantees to individuals for retail purchases in outlets near mines and hostels;
- ▶ MCG Credit offers unsecured, payroll-based loans to mineworkers at outlets on or near mines.

## THE CASH FLOW CONUNDRUM



Motseki Matthews Pelea of MMP Projects says, “My company builds residential and commercial properties. We have been in business since 1987, through some of

**“TRADITIONAL BANKS WERE SIMPLY NOT INTERESTED IN HELPING US.”**

the most difficult times in the property market.

Cash flow is often a problem in our business, because our money is tied up in the previous development. Sometimes we have to wait for six to eight weeks for payment before we can start a new project.

“Traditional banks were simply not interested in helping us, because they were not used to our particular risk profile.

“Then I saw an advertisement for African Bank and that’s how I found African Contractors Finance Corporation.

They were fantastic and I am very happy. Most of the people I dealt with were involved in construction in one way or another and understood the nature of my business. It is money well spent.

“With African Bank behind me, I can now commit myself to a new project as the current one nears completion.”

This was a year of major consolidation for MCG. The joint venture relationship between MCG and Teba Bank (Teba Credit) was restructured to ensure shareholder alignment. MCG shifted its product mix from a largely short-term emphasis to a medium/long-term focus. This negatively impacted short-term profitability, but has facilitated significant book building and, hence, future annuity revenue streams. This business has undergone enormous growth in the past three years. While growth pains are unavoidable, appropriate steps have been taken to make this business more robust. The group is confident that MCG will continue to grow in 2002.

#### MCG including a share in Teba Credit

Number of loans	172 162
Number of branches/outlets	256
Turnover – year (Rm)	460
Average size of new loan (R)	2 000

#### Credit Indemnity (Pty) Ltd (“CI”) – 100% held

CI is the largest and oldest provider of short-term, unsecured credit in South Africa. It advances cash to qualifying borrowers and is repaid cash monthly. Its average loan term is four months. CI uses character-based scoring techniques to assess its customers. CI does not rely on payroll deductions, debit orders or any other form of security.

The benefit of CI’s national branch rollout over the past 36 months, from 12 to 93 branches, is clearly

reflected in 2001’s strong performance. Volumes have grown by 34% over the past 12 months, with only a marginal increase of 1,2% in the provisions for doubtful debts in the debtors book. The business is well positioned for strong growth.

Number of loans	169 169
Number of branches/outlets	93
Turnover – year (Rm)	579
Average size of new loan (R)	1 210

#### Gilt Edged Management Services (Pty) Ltd (“GEMS”) – 97% held

GEMS provides unsecured, medium-term, payroll-based loans to formally employed people via strong shop floor-level relationships with selected trade unions and other groups. Products provided include loans, savings, funeral schemes, cell phones, computers and other products suitable for the market.

GEMS has grown both its book and profitability substantially during 2001. However, its dependence on certain membership bases remains a concern and hence a business risk. Efforts to diversify this risk have been intensified during the second half of 2001.

Number of loans	89 897
Number of branches/outlets	11
Turnover – year (Rm)	181
Average size of new loan (R)	4 405



► ► DIVISIONAL REPORT ► ►  
THETA INVESTMENTS LIMITED

**African Contractors Finance Corporation (Pty) Ltd**  
(“ACFC”) – 100% held

As part of a drive into small, medium and micro-enterprise finance, Theta Investments has also expanded its portfolio to provide development and empowerment finance to emerging contractors, operating mainly in the construction sector. In essence, the aim is to ensure contractors have sufficient working capital and support to complete projects on time, on budget and to specification. ACFC is currently involved in close to 350 projects, having provided approximately R600 million in loans to September 2001. Around 70% of ACFC’s business comprises housing, originating mostly from projects awarded by provincial housing boards. The remaining 30% involves public works, such as building schools, prisons and hostel upgrades, road building and repairs.

The process also entails providing a mentor for the duration of the project. The mentor assists with cash flow management as well as buying and negotiating better rates with suppliers to ensure that the project is both profitable and successful.

Theta Investments purchased this business from African Bank as the book became more material and the risk profile required specific focus. The concept was sound and the demand for the product was strong but the business model had not been perfected. The business has been aggressively overhauled in 2001. The restructure, coupled with strong demand, has placed pressure on ACFC’s committed team. While the

learning curve in this business has been steep, resulting in provisions for doubtful debts amounting to approximately R20 million or 10% of the outstanding book, the company is confident that the newly-constituted management team is strong enough to create a sustainable, high growth business. Accordingly, prospects for 2002 are viewed optimistically. This business is directly in line with Government’s commitment to bolster small businesses and is therefore viewed as a key thrust in the organisation.

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Number of loans	348
Number of branches/outlets	5
Turnover – year (Rm)	485
Average size of new loan (R)	594 658

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**Business Venture Investments**  
(“BVI”) – 40% held

BVI specialises in information technology solutions to the credit and debt recovery industry. BVI is a dominant player in:

- risk management consultancy;
- current book management;
- pre-delinquent debt collection; and
- legal collections.

BVI is South Africa’s largest call centre-driven collections business. We believe BVI’s unique software is key to its positioning in this market.

Growth in volumes, more effective collection strategies and significant software development were

the main contributors to BVI's strong growth in net income after tax in this year. BVI should continue to show good growth in 2002.

#### Quatro Trading (“Quatro”) – 100% held

Quatro provides weekly trade finance to the informal sector, specifically to spaza/tuck shops and general dealers. Quatro Trading comprises a network of approximately 250 franchisees, located in major wholesalers such as Metro and Makro throughout southern Africa. Its franchisees provide over R300 million in short-term credit per annum. Quatro currently has some 10 000 spazas on its books and the largest network of informal traders in the country. Quatro's network offers unique access to this hard-to-reach group of consumers and retailers.

In line with developing this informal market, Quatro provides short-term insurance and life cover to spaza owners.

Quatro has had a disappointing year. The purchases of spaza shop owners decreased by 15% in the current year, which resulted in a decrease of R1,3 million or 20% in franchises' income. These decreases were caused by, amongst others, harsh trading conditions, overambitious expansion plans and a lack of stringent management control. Post-year-end, 33% of the business was sold to a team of owner-managers. This business has significant potential which has not been unlocked yet. The company is confident that the new partners have the talent and drive to unlock this potential.

#### Theta Specialised Finance (Pty) Ltd (“TSF”) – 100% held

Acting as principal, TSF endeavours to acquire semi-performing and non-performing advances books that are likely to produce satisfactory risk-adjusted returns.

This operation started in January 2001. To date, books with a face value of R192 million have been purchased. Whilst it is early days, initial indications are encouraging. As there is strong intellect driving this entity, this venture could prove to be a catalyst for other balance sheet-type activities. TSF is cautiously optimistic about 2002 performance.

#### Safrich Financial Services (Pty) Ltd (“Safrich”) – 51% held

Safrich provides unsecured payroll-based term loans to formally employed people in the public and private sector.

Number of loans	22 756
Number of branches/outlets	3
Turnover – year (Rm)	26
Average size of new loan (R)	480

Due to changes in market conditions, the company has altered its course. Safrich sold its corporate book and is finalising the sale of its Persal book. Safrich will be left with a profitable mining book and some smaller interests. Safrich's future format will be clarified in the new year.



► ► DIVISIONAL REPORT ► ►  
THETA INVESTMENTS LIMITED

### PROSPECTS

It is pleasing that talented people with ambition, intellect and the right attitude are being attracted to the group, which strives to create a winning, 'can-do' culture. This is a challenging, but rewarding, task. Theta Investments' focus on investing in specialised lending operations positions the company as the preferred home for such opportunities. While there are drawbacks to intense focus in a specialised area, the benefits are compelling. Theta continues to unlock new markets and partner entrepreneurial people in leveraging these opportunities. Despite the challenges and complexities both from a macro and micro-perspective, it is confident the formula will continue to ensure that above-average returns are produced on a sustainable basis.

It was a challenging, but successful, year and the company expects that 2001's momentum will be carried through and intensified in 2002.

## — CORPORATE — CITIZENSHIP

The African Bank Foundation was launched at the Market Theatre on 21 August 2001. The Foundation is the vehicle through which African Bank and its major associates direct a formulated and co-ordinated programme of social investment to sound development initiatives.

In finding meaningful solutions to the socio-economic needs of our society, private/public partnerships become the necessary route to accelerating this process. The need for the business community to recognise and identify programmes through carefully thought out, planned and well-resourced community investment programmes, that should yield meaningful and measurable results on a growing and sustainable basis, should be encouraged. Development at grassroots level should be nurtured and strengthened to produce the role models of future generations.

The group will annually invest a meaningful portion of profits into the African Bank Foundation to enable the foundation to identify and support programmes in line with both government and civil society's needs and priorities.

The foundation has already formed partnerships with several groups, some highlighted here:

### THE AFRICAN BANK MARKET THEATRE

The Market Theatre symbolises everything that is truly South African. Having gone through its own tribulations over the years, it is today the epitome of the arts world, with social development as its primary concern.

### Market Theatre laboratory

The Market Theatre laboratory runs needs-driven outreach programmes which have become the cultural

life force for marginalised communities in Gauteng. Its long-term aim is to run programmes in all nine provinces.

“Broken dreams – Aids and child abuse education” educates marginalised primary and secondary school children about Aids and child abuse. The aim of the project is to teach, raise awareness and inform children and teachers about available resources where they can seek help.

### Drama school

The Market Theatre drama school is specifically designed to cater for talented young students unable to attend formal institutions for academic and financial reasons. The aim of this two-year course is to equip students with skills to make them employable in the entertainment industry locally and internationally.

### Photography workshop

Photography is one of the few occupations that can be mastered without a formal educational background. It creates opportunities to provide a living wage with minimum training and capital investment.

Long-term plans include:

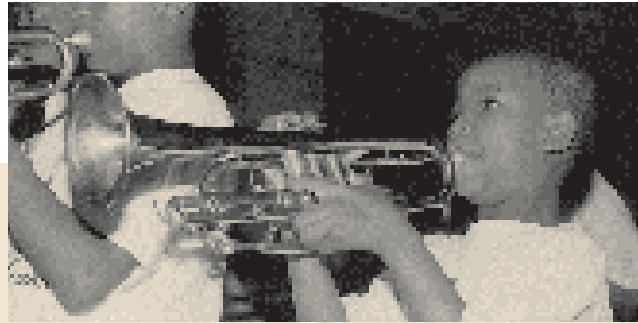
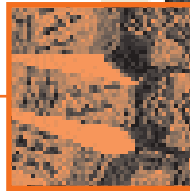
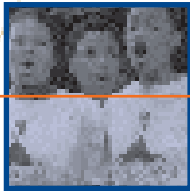
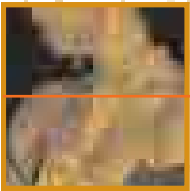
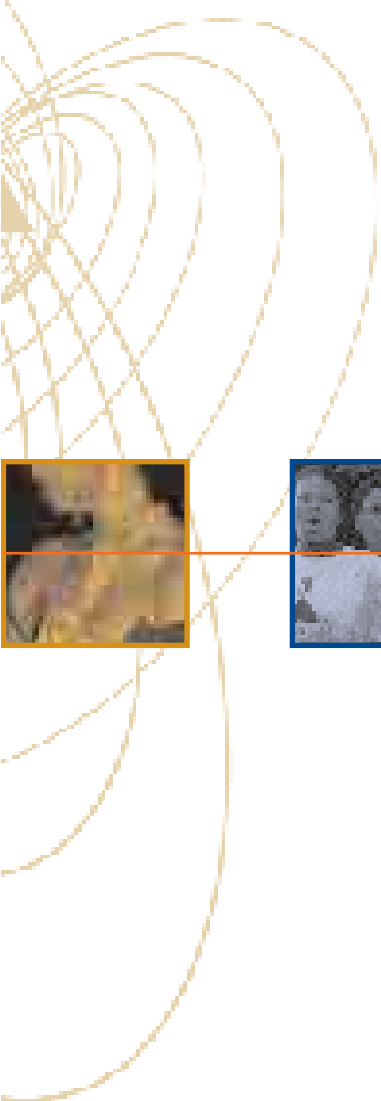
- ▶ Due to growing demand for this course, establishment of satellite-teaching centres in various communities is in place.
- ▶ Creating opportunities for employment and further development, internship programmes are organised.
- ▶ Some interns/students will be further trained in the specific field of the theatre photography.

### KHUMBULA ZULU CRAFT

African Bank has a partnership with non-profit organisation Khumbula Zulu Craft, established by the Siyazisiza Trust. This organisation is dedicated to job



▶ ▶ CORPORATE CITIZENSHIP ▶ ▶



1. One of the scenes at the launch of the African Bank Foundation.
2. Students at the photographic workshop in action. Creating opportunities for further development and employment.

creation, entrepreneurial development and skills training through arts and crafts, mainly from rural areas.

The development of the craft industry is a potentially powerful means of job creation to thousands of rural communities.

This KwaZulu-Natal-based organisation specifically focused on developing and equipping home-based indigenous crafters to produce marketable and competitive products.

Khumbula Zulu Craft provides several services such as:

- ▶ product development and design training
- ▶ market identification
- ▶ small business management skills
- ▶ environmental awareness workshops

This is important, as most products are from indigenous plants and crafters use mostly natural resources.

## CIDA CITY CAMPUS

Investing in education is crucial to create a productive and competitive workforce. CIDA is a business school, offering courses in commerce, leadership management and technology.

CIDA City Campus was established to address the unique needs of disadvantaged students by making tertiary education accessible to all. The fees charged are R350 for the first year and R1 100 per annum for years two, three and four. High-quality education is made accessible and affordable through the use of technology and top-class lectures. Students are exposed to informative business materials and lecturers/specialists from different educational fields,

non-government organisations and corporates. In addition, students benefit from the experience of running campus activities, enabling the institution to operate cost effectively. The campus catered for 1 180 students during 2001.

CIDA students are also involved in implementing the African Bank Money School “Reach a Million Campaign” which trains students in personal money management. During their October school break, they conduct training workshops in their respective previous high schools and communities.

CIDA is registered and accredited and has relationships with the University of Pretoria Business School, the University of Rhodes, Wits Technikon, the South African Institute of Management and several international universities.

The African Bank Foundation is striving to live up to its dream of changing the country through education.

## AFRICAN BANK MONEY SCHOOL

As part of its education drive for clients and staff, African Bank launched the Money School in 2001. The school is a life skills enrichment programme for individuals and family units, developed to redress debt trapping, encourage a savings culture and good personal money management practices. The programme covers topics such as how to control expenditure, to consider other forms of income, how interest rates work, how to draw up and implement a budget and how and why to save. The training is provided free. It is an interactive process, assisted by books, videos and practical exercises. The school has trained over 16 000 individuals since February 2001.



▶ ▶ CORPORATE CITIZENSHIP ▶ ▶

1



2



3



1. I am well-informed. Kids have enjoyed and understood the “Broken dreams – Aids and Child Abuse Education” drama at their school.
2. Energy flows throughout the CIDA campus.
3. Gail Johnson (seated) – a guest at CIDA City Campus is seen telling youth about her experiences in adopting and living with a child who was HIV positive, and the subsequent experiences Nkosi had at his school.

# EMPLOYEE

## REPORT

This is an overview of employee practices at ABIL's largest subsidiary, African Bank. Theta subsidiaries follow their own practices.

The Human Capital and Transformation Division at African Bank's primary focus is the alignment of its people strategies to overall business strategies, and the transformation of the company from a demographic, cultural and focus point of view. Over the last year, the division has focused on four broad strategies.

### RECRUITMENT AND RETENTION

This was a vital area of focus for African Bank in the past year and will continue to be a key focus area over the next financial year. As the bank's brand identity has grown in the marketplace, it has become somewhat easier to attract skills in all disciplines into the company. The effect has been twofold:

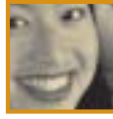
- ▶ Better skilled employees, particularly at senior levels and in key positions, have been able to attract better skills into their respective divisions. A total of 896 new employees were recruited.

- ▶ Poorly skilled and non-performing individuals not able to adapt to a more highly-pressured environment have been eased out.

The company has focused very intently on attracting the correct skills while ensuring that demographically, and from a gender point of view, we improve radically.

A graduate recruitment programme, targeting five major universities in South Africa, has been installed to ensure we secure the best and brightest on the market, literally even before they reach the market. Continued effort and focus will go into this programme as we strive to ensure the bank is recognised by employees and prospective employees as "an employer of choice".

Retention of excellent people in a market abounding with choice remains a huge challenge. Apart from very competitive salaries and benefits, and a share option scheme for all employees, the company has recently piloted an African Bank alumni programme to facilitate retention and networking.



▶ ▶ EMPLOYEE REPORT ▶ ▶

TWO-YEAR SUMMARY OF EMPLOYEE STATISTICS (AFRICAN BANK ONLY)

		%	2001	2000	%
Total number of employees			2 019	1 549	
<b>Staff turnover</b>					
Total employees at beginning of year			1 549	1 304	
Recruitment			896	524	
			2 445	1 828	
Resignations		10,6	(258)	(235)	12,8
Death			(11)	(3)	
Dismissals			(51)	(33)	
Retirements			–	–	
Retrenchments			(106)	(8)	
Total employees at end of the year			2 019	1 549	
Retrenchments post-year-end		12,5	253	–	–
Total post-retrenchment			1 766	1 549	
Gender split					
Female	DEMOGRAPHICS ↑	49,8	1 005	682	44,0
Male		50,2	1 014	867	56,0
			2 019	1 549	
Non-management level split by gender					
Female	DEMOGRAPHICS ↑	55,4	916	633	48,1
Male		44,6	738	682	51,9
			1 654	1 315	
Management level split by gender					
Female	DEMOGRAPHICS ↑	24,4	89	49	20,9
Male		75,6	276	185	79,1
			365	234	
Demographic split					
PDI's	DEMOGRAPHICS ↑	66,3	1 339	925	59,7
White male		33,7	680	624	40,3
			2 019	1 549	
Non-management level split by demographics					
PDI's	DEMOGRAPHICS ↑	72,8	1 204	907	69,0
White male		27,2	450	408	31,0
			1 654	1 315	
Management level split by demographics					
PDI's	DEMOGRAPHICS ↑	37,0	135	18	7,7
White male		63,0	230	216	92,3
			365	234	
Age distribution of workforce at year-end					
Under 30 years	COMPANY GETTING YOUNGER	38,6	780	539	34,8
30 – 39		42,4	857	686	44,3
40 – 49		14,3	288	236	15,2
Over 50		4,7	94	88	5,7
			2 019	1 549	

25% of the company's top 100 performers are PDI's.

## TRAINING AND DEVELOPMENT

A great deal of effort has gone into the training and development of people at all levels. African Bank currently has many skilled individuals with competencies in a variety of fields, such as information technology, law, banking, marketing, accounting, operations, human resources, risk management, auditing and others.

At entry level, and at customer-facing levels, “project upskill” was launched this year to significantly increase the skills levels of staff who interact directly with customers. This has been successful with 565 staff members trained to date and it will be rolled out into the group in the new financial year. Phase I of the project covered topics such as products, credit policy, compliance and IT skills. Phase II will cover client service, selling, presentation skills and brand equity.

Within the ranks of junior and middle management, some challenges remain given the phenomenal rate of growth of the bank over the last 18 months. Two new programmes were rolled out over the last financial year and both have yielded good returns on skills upliftment:

- ▶ Fast-tracking management programme – 30 people trained
- ▶ Management advancement programme – 30 people trained

Within the African Bank learning academy, 42 different internal and external courses, from business skills to soft skills, are currently being offered.

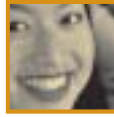
The training and development programme is helping to roll out a new breed of enthusiastic, skilled and passionate staff to the benefit of the bank’s customers.

## COMPENSATION, BENEFITS AND INCENTIVES

African Bank has several initiatives to ensure it attracts and retains the services of the best employees. These include:

- ▶ Designing and implementing a company-wide incentive scheme for employees at all levels to motivate and directly influence the behaviour of individuals, teams, business units and the entire organisation.
- ▶ A share option scheme for all employees, irrespective of level, was successfully implemented in March 2001, with the aim of instilling a sense of ownership among all employees.
- ▶ The implementation of a performance management system, which measures an individual’s performance against predetermined criteria or key result areas and rewards the individual accordingly.

The company has also adopted a performance methodology similar to that developed by Jack Welch, previously CEO of General Electric. It is called the 20-70-10 rule. The 20% are the top



▶ ▶ EMPLOYEE REPORT ▶ ▶

performers, who will be remunerated and incentivised accordingly. The 70% is the vital core without whom the business could not function operationally, all of whom have the potential to be in the top 20%. The bottom 10% will be disengaged from the company on a continuous basis to maintain the vitality of this growing organisation.

- ▶ The implementation of a broad-banding approach to salary levels, ensuring equity both internally and externally to the company, while still allowing a great deal of flexibility.

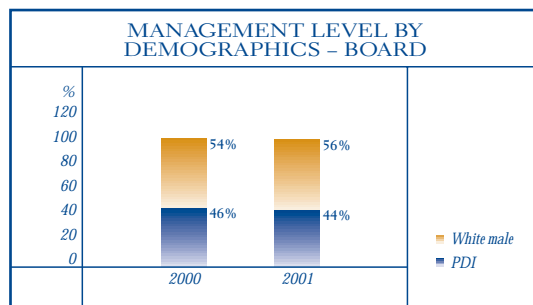
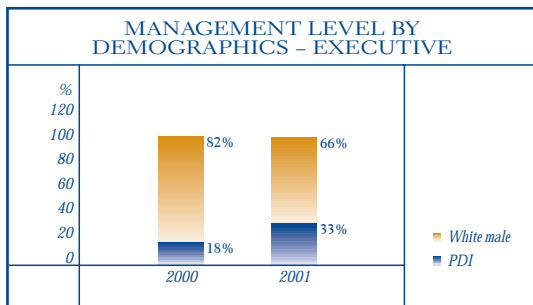
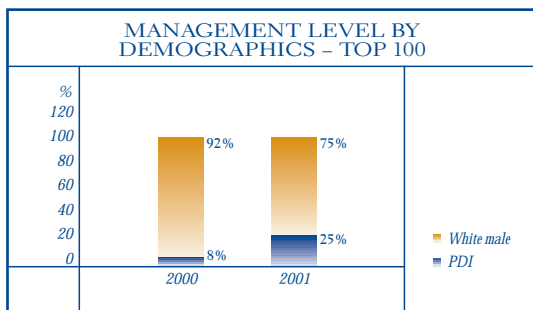
The aim of compensation, benefits and incentives within African Bank is to adopt a holistic approach

that will be able to bridge the gap between organisational objectives and goals and employee aspirations and expectations.

TRANSFORMATION,  
EMPLOYMENT EQUITY  
AND DIVERSITY

The company faces significant challenges in this regard. At entry and junior to middle levels of staff, African Bank is extremely well positioned and very competitive with 73% PDI staff and 55% female. At the senior levels of staff, and at executive level, good progress has been made with the percentage of PDI managerial staff increasing from 8% in 2000 to 37% in 2001, but the company will continue to act vigorously in these areas. Disappointingly, sufficient progress has not been made (2001: 24%) in promoting and appointing female candidates into positions of significance.

The draft employment equity plan has been finalised and submitted to the Department of Labour. The consultation process followed in preparing the plan ensured that the company has widespread acceptance and inclusivity around the plan.



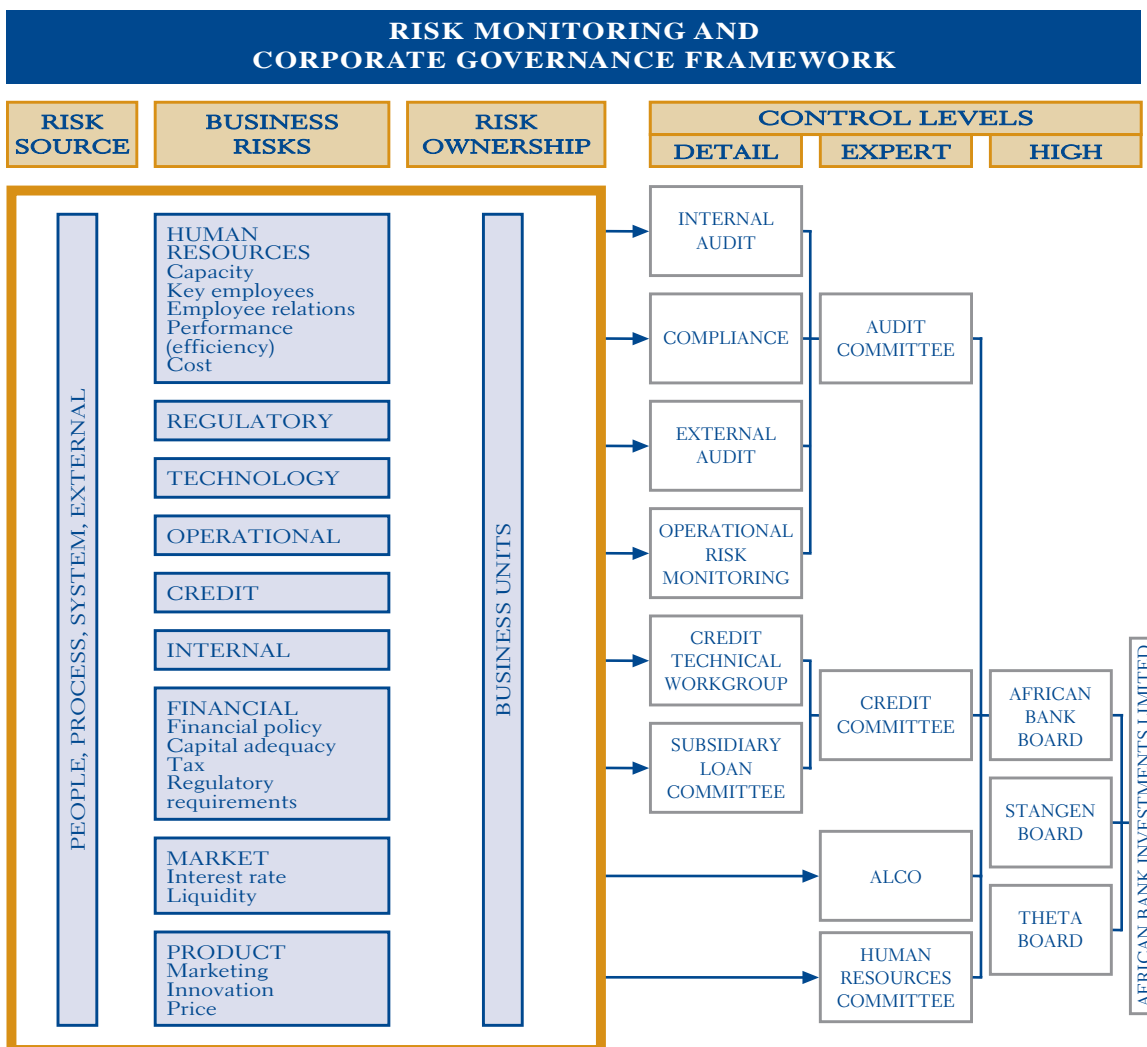
# — RISK — REVIEW

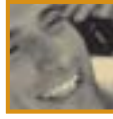
## OPERATIONAL RISK MANAGEMENT

While it is accepted that due to ever-present uncertainty, risk is inherent in the business and can never be fully eliminated, the bank endeavours to minimise its operational risk by ensuring that the appropriate infrastructure, controls, systems,

and trained and competent people are in place throughout the bank.

The risk management process involves a series of integrated processes and controls which follow a logical sequence as depicted in the following diagram:





## ► ► RISK REVIEW ► ►

Operational risk profiles of each division are compiled by analysing the potential losses that may arise from failed processes, people, systems or external influences. Losses might have a direct monetary or reputational impact.

The likelihood or probability of each risk and its possible impact is rated to determine the ranking of the various risks. The residual risk is then determined after taking into account the effectiveness of existing controls. If the risk is not adequately mitigated, additional controls with defined action plans are designed to ensure risks are reduced to an acceptable level. Risks are prioritised in terms of potential impact and the major risks are most actively managed.

Line functions are the primary identifiers and monitors of risk. The Internal Audit, Forensic and Compliance functions all play a role to provide the necessary assurance that stated controls and additional controls are maintained and/or implemented.

The proposed amendment to the Basel Accord (for implementation in 2005) has identified various approaches that could be followed to quantify and allocate capital for operational risk purposes. The different approaches are being analysed to determine the most appropriate methodology for the bank. The identification and establishment of a comprehensive loss database has begun.

### Compliance

The compliance department was established in January 2001 and significant progress has been made with identifying the various statutory and regulatory

requirements pertaining to the activities of the bank and compilation of a compliance manual.

The department operates under a compliance policy approved by the board. While the department forms part of the risk division for administrative purposes, the compliance officer has unrestricted access to the CEO and chairman of the audit committee. Compliance champions have been identified in the various divisions who will assist with the implementation and monitoring of compliance manuals, with specific reference to the activities of the respective divisions.

### CREDIT RISK CONTROL AT AFRICAN BANK

#### Credit policy and loans processing

African Bank offers two primary products, payroll and debit order/retail loans. Payroll loans are governed by a credit policy containing various credit policy rules, which are controlled via a combination of systems and manual controls. Debit order/retail loans are governed by a credit policy which is controlled primarily through systems and which relies, as its main risk tool, on a series of scorecards which have been developed to provide appropriate term and value offerings, dependent on the individual borrower risk and the collection method.

Key controls in processing loans and adherence to policy include:

- systems affordability calculations;
- systems controls of individual exposure and corporate/employer (payroll products only) exposure limits;

- ▶ employment confirmation (Persal employees);
- ▶ system controls on re-advances or new loans for delinquent debtors;
- ▶ systems designed to prevent clients in arrears, or fraud-linked applications, being processed;
- ▶ electronic disbursement of accounts, ie no cash is handled;
- ▶ fraud and quality control checks, both manual and electronic; and
- ▶ segregation of duties through system user profiles to reduce fraud.

The bank maintains the allowance for credit losses at a level estimated to be adequate to:

- absorb credit losses;
- net of recoveries; and
- inherent in the existing loan portfolio.

As part of the quantitative evaluation of the allowance for credit losses, the company segregates loans by portfolio type. The quantitative factors the company uses to establish portfolio level reserves are:

- ▶ historical delinquencies
- ▶ historical credit loss rates
- ▶ customer characteristics
- ▶ reasons for arrears

In evaluating the need to establish additional allowances on a pool or portfolio, the bank considers qualitative factors, including general economic conditions, trends in loan portfolio volume and seasoning, geographic concentrations, and recent modifications to loan review and underwriting

procedures. The company manages its business activities to optimise risk-adjusted returns. It therefore compares actual credit loss performance against estimated credit losses, and may modify its loan loss allowance evaluation model accordingly.

In addition to provision for credit losses, the life fund in the insurance business also supports the asset quality. The nature of the insurance cover offered by Stangen is support for the credit loans (credit life, disability and retrenchment cover). Therefore, in the event of certain happenings (death and retrenchment), the total balance of the credit loan will be settled. In the event of the loan being fully paid, the defined liability will be credited to the insurance income. In the event the credit loan becomes delinquent, the cover provided lapses and the life fund liability will be credited to insurance income.

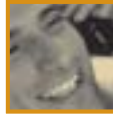
## Debtor administration

This involves receipting payments, maintenance of debtor accounts, actioning and maintenance of debit order strikes and processing of refunds.

The receipting activities include the processing of manual and electronic data interchange (“EDI”) payments and schedules received from employers as well as the electronic processing of debit order payment files received from various banks.

Controls in this environment include:

- ▶ automated reconciliation processes of payment batches;



## ► ► RISK REVIEW ► ►

- back valuing time limits controlled via user profiles for receipts processing;
- value limits on refunds controlled via user profiles; and
- various EDI pre-upload validation checks.

Debit order products are mainly offered to clients who have accounts with banks where enhanced debit order functionality is available. The enhanced debit order functionality generally provides more flexibility in terms of the timing of debit order strikes allowing for a hanging functionality which retrieves instalments when a deposit is made after due date. The enhanced debit order also allows for partial recoveries of instalments in certain instances.

### **Collections**

Collections are functionally specialised into two divisions:

#### *Employer collections*

The Employer Collections Division manages the recovery of monthly payments from employers with whom African Bank has an agreement. This function has been decentralised to the various regions. This should improve communications between the bank and employer which will enhance the accuracy of information and speed to resolve queries. The process of collection involves the monitoring of payments due from an employer and once payment has been received, reconciling all arrear accounts with the employer and establishing the reason for

non-payment. Once the reason for non-payment by a particular employee has been established, the account is flagged with the reason code. Where the reason flag requires provisioning, the provision is automatically raised.

#### *Retail collections*

The Retail Collections Division manages the remote and personal collections processes.

Remote collections involve telephonic or mail contact with a delinquent borrower to obtain an undertaking to pay or resume payment. Telephonic campaigns are planned and executed through an outbound call centre with the use of specific collections software acquired by African Bank. African Bank also has the authority, through its loan agreement, to automatically debit the customer's bank account should African Bank's collection methodology not be successful.

Personal collections involve outsourcing the collection process or delinquent debtors who fail to honour their commitments to pay or who are untraceable. The collection process of these debtors is outsourced to various debt collection and legal collection agents for tracing and legal action.

### **CREDIT RISK CONTROL AT THETA INVESTMENT SUBSIDIARIES**

(Subsidiaries are funded by African Bank. This exposure is managed by the subsidiary loan committee.)

## African Contractors Finance Corporation

### *Credit policy and debtors administration*

The nature of the African Contractors Finance Corporation (Pty) Limited (“ACFC”) book is different to the business of other companies in the ABIL stable, in that the individual loans are of higher value. The security for each loan is the project being financed, and each loan consists of multiple advances.

ACFC does not have a standard product. Parameters are predetermined and products are tailor-made for every loan approved. ACFC project managers, will, based on their assessment of the viability of the project, and the ability of the contractor, present the project to the Credit Committee.

The Credit Committee evaluates each project, accuracy of tender prices and cash flow forecast, the contractor, as well as the legal and financial implications of financing the project. Extensive analysis is performed to stress test various scenarios. If accepted, the risk assessment will determine the fee structure, and other requirements, such as ensuring experienced project support is made available for the project.

Ongoing management involves the continued evaluation of the project being financed, quantification of value in the ground, determining additional amounts available in the project that can be advanced, and ensuring amounts due to the contractor are paid directly to ACFC. All loans are also partly guaranteed by either Khula or the NHBRC.

Employers pay directly to ACFC based on the work certified by professional engineers. The project managers manage the process so that the work financed is of a quality that will be certified by the engineers. Once certified, collection of payment in terms of these certificates is closely monitored and controlled. Payment is made directly to ACFC via EFT or cheque.

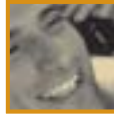
The company maintains the allowance for credit losses based on a project-by-project basis. Each project is evaluated in terms of its exposure to ACFC. The exposure is calculated as the outstanding balance plus additional obligation costs, less value directly recoverable in the project, less credit guarantee insurance due. Due to the specific on-hands management of each and every project, general provisions are not considered necessary.

## Credit Indemnity

### *Credit policy and debtors administration*

Credit Indemnity offers unsecured character-based short-term loans. The loans are paid out in cash and all collections are via cash payments directly to one of its 93 branches, direct deposit or payment through the post.

Credit Indemnity operates on an internally developed (Visual Basic and Sequel) debtors management system which manages the full client life-cycle from application through to delinquency. In order to best manage risk all branches are linked via a wide area network and the system operates in real-time with payouts and collections being monitored per branch on an hourly basis. The client is assessed using a dual



## ► ► RISK REVIEW ► ►

scoring matrix (internal score and credit bureau score). The bureau score is utilised to determine the client's behaviour towards credit. A loan is processed within one hour and once approved, the funds are disbursed to client immediately in cash. The client's repayments are actively monitored and accounts are followed up within five days of due date should no payment have been received. The client's handling of his/her credit facility with the company is monitored using behavioural scoring.

### MCG

#### *Credit policy and loans processing*

MCG is primarily focused on the advancing of loans into the gold and platinum sector. The Teba Secure Data Net (TSDN) system is the electronic mechanism that houses the predetermined credit policy governing the vetting process – probably best described as the mining loans register. This credit policy consists of an industry scorecard taking cognisance of:

- affordability
- an individual's credit exposure
- deferred pay restrictions
- electronic disbursement

The interface to the TSDN system is linked to the front office system which affords real-time communication into its central data system. Key factors of the system are:

- Limited access through user profiles to limit fraud
- Optimisation of product offered to client
- Independent audit trail for comparison to TSDN reports
- Allows for electronic or cash disbursement

- Quick turnaround time approximately five minutes from vetting to disbursement

Further risk mitigation is required due to the exposure to a homogeneous work environment. To this end loans are covered by purchasing credit life cover from the insurer as opposed to “self-insuring” the risk. This cover is granted without qualification and covers death and retrenchment.

#### *Debtor administration*

All loans are electronically vetted. The system communicates real-time with the TSDN system.

This allows for an automatic reconciliation process with the TSDN system, which supports early identification and rectification of anomalies. Repayments are by way of enhanced debit order against the clients' Teba Savings Account.

#### *Collections*

Collections are receipted daily due to the nature of the pay cycles (anniversary) on the mines. These receipts are updated daily thus ensuring reliable vetting and affordability criteria at the front desk.

Payments entering the 60-day arrears are flagged and require a personal visit from one of the arrears management team members. This method of personal interaction with clients has proved to be very successful given the number of resumed payments. This personal interaction with clients is in line with MCG's strategy to move towards interpersonal character-based lending,

which has proved to be a significant risk-mitigating factor in similar lending models.

Delinquent debtors who fail to honour their commitments are handed over for collection to the wholly owned collections company Dard Credit Management (“DCM”), which not only specialises in mining-related collections, but also closely administers and audits payments due from attorney firms that manage the affairs of clients whom they have assisted in being placed under administration.

## **GEMS**

### *Credit policy*

GEMS' strategic focus is to gain access to the payroll loan market via relationships with trade unions. The approach is to work with dominant unions in selected industries. The selection of industries to focus on is a combination of consideration of the risks associated with the industry sector and the market opportunities.

Once a relationship has been established with a union, employers are approached via the local union leadership. If they accept the GEMS product, the employer is approached for permission to process payroll debits against members' salaries. Emphasis is placed on this relationship as it very often reduce the risk associated with a loan scheme over time.

Individual clients are qualified in terms of standard credit criteria which focus on affordability,

confirmation of employment and documentary compliance. The loan processing system has logical checks on ID numbers, and bank account details, and prevents pay-out to individuals that are not within the age parameters set, or where they have existing loans that are delinquent.

Provisions are made for losses that, although not specifically identified, are inherently part of the loan portfolio. The provisions are made at a level which the directors believe provide a conservative/prudent estimate of the possible losses. In addition, where a specific problem with a loan in respect of non-payment has been identified, a full provision is made if no payment has been received on the loan for 90 days.

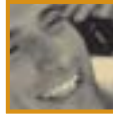
## **Debtors administration and collections**

### **Submission of stop orders**

Stop orders are submitted to employers on a monthly basis within the time period stipulated by the employer. The system generates a monthly stop order report. This is either sent electronically, or with a physical schedule together with the stop order, to the employer for processing. Approximately 50% of the stop orders submitted each month are electronic, which reduces the risk of manual errors. Receipt of stop orders is confirmed with employers.

### *Receipting*

For each scheme an expected payment date is diarised and collections officers follow up with the employer



► ► RISK REVIEW ► ►

regarding payment. In most cases payments are made via direct transfer, or deposited into a GEMS account.

Discrepancies are followed up immediately with the employer. These can arise due to death or retrenchment of the client or due to administrative errors. All discrepancies are monitored closely and appropriate action is implemented.

INTERNAL, FINANCIAL AND OPERATING CONTROLS

The respective boards of directors of the entities within the group acknowledge their ultimate responsibility for the group's systems of internal, financial and operating controls and monitoring its effectiveness. These systems are designed to provide reasonable assurance against material misstatement and loss. The identification of risks and the detailed design, implementation and monitoring of adequate systems of internal, financial and operating controls to manage such risks is delegated to senior executive management and reviewed regularly by the Audit

Committee and by various executives and boards of directors on their behalf.

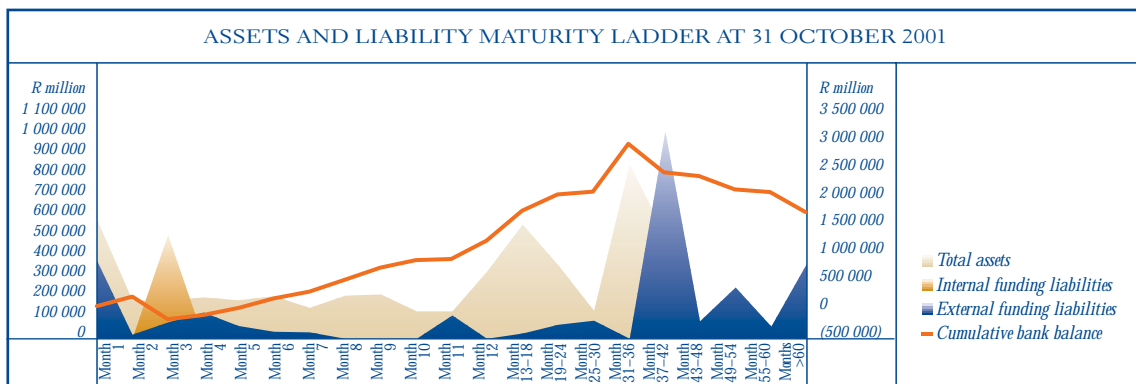
FUNDING

Treasury is the custodian of the surplus funds, borrowings and bank accounts of African Bank, Stangen and Theta Investments. It has as its main objective the prudent management of the assets and liabilities of the group, in a manner which optimises net interest margin, with due consideration to underlying risks and guidelines set by the Asset and Liability Committee ("ALCO").

LIQUIDITY RISK MANAGEMENT

Definition of liquidity risk

Liquidity risk represents the bank's potential inability to meet its obligations to depositors or borrowers with committed facilities when required, due to insufficient liquid funds. The risk arises from the difference between the timing of the repayment profile of the bank's advances and the maturity structure of the deposits.



### *Management of liquidity risk*

The bank has historically adopted a very conservative approach to funding its advances book.

The advances book has an average duration of 11 months, whereas the funding of these advances has a longer maturity profile (duration – 23 months). This strategy has stood the bank in good stead over certain difficult times (the curatorship of smaller banks, as well as Y2K and closure of payroll deduction for government employees). The total exposure to short-term funds is managed in order to maintain a strategic surplus buffer of R200 million at all times to accommodate any ad hoc cash flow requirements.

The graph on page 69 depicts the maturity profile of the bank's advances compared to its funding base. The projected instalments from the loan advances, in the short and medium term, far exceed the corresponding funding liabilities which mature in the same time periods. This is indicative of the conservative funding strategy adopted by the bank.

The African Bank Treasury Division, under the direction of ALCO, manages liquidity risk daily. The liquidity risk is quantified through the Asset Liability Management process by simulating future cash flow projections. Factors considered include market fluctuations and production levels.

The following preventative measures have been implemented and are monitored by ALCO:

#### ► **Adequate cash buffer**

African Bank funds a small percentage of its advances in the short term and always maintains adequate cash reserves to fund any requirements.

#### ► **Core deposit protection**

The majority of African Bank's deposit base are corporate depositors. The bank maintains close relationships with these depositors and aims to structure transactions which are beneficial to both the bank and the depositors.

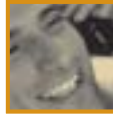
#### ► **Diversification of funding commitments**

The bank sources its funding predominantly from institutional investors. Undue concentrations in funding sources increase liquidity risk. To ensure the adequate diversification of deposits, the level of reliance on particular funding sources is managed, both at a depositor level and by instrument type.

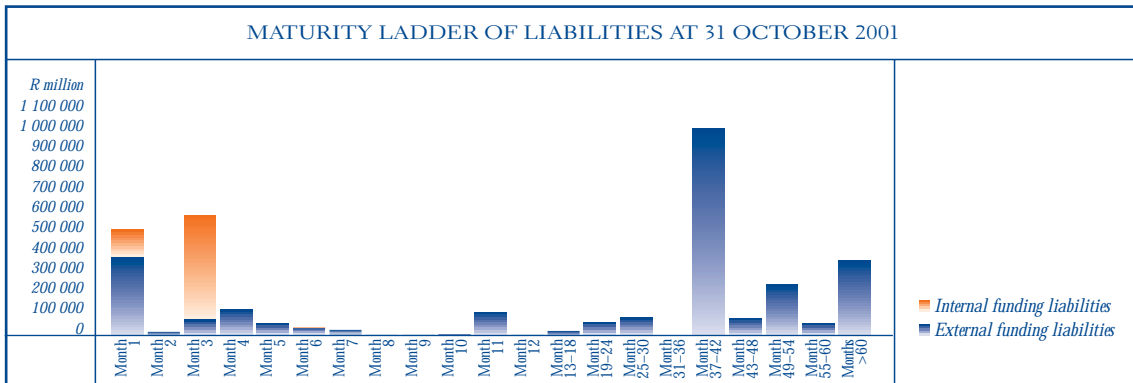
#### ► **Establishment of DMTN programme**

The bank launched a R3,5 billion Domestic Medium Term Note (DMTN) programme in August 2001.

The purpose of this programme is to entrench the bank's strategy in funding the business with proceeds from institutional investors while creating a mechanism where African Bank debt can be traded in a liquid secondary market. The bank launched its first issue of R1 billion under this programme



► ► RISK REVIEW ► ►



subsequent to year-end, and it is envisaged that African Bank will access the Bond Exchange for future funding on an annual basis. The bond was issued at a yield of 255 basis points above the Government R150 bond, being an all-in rate of 12,61%. ABL1, as it is called, has proven to be fairly liquid and the spread at which it was trading (November 2001) above the R150s has reduced to 240 basis points.

► **Standby facilities**

The bank has access to committed standby facilities of R850 million which are adequate to more than cover any liquidity issues which could arise and which, to date, remain unutilised.

The above graph depicts the maturity profile of the bank's funding liabilities. This includes funding received from Stangen (internal funding liabilities) and these liabilities are controlled by ABIL and will only be repaid once all third-party obligations have been met.

**INTEREST RATE RISK MANAGEMENT**

*Definition of interest rate risk*

Interest rate risk is the potential adverse impact on earnings and economic value due to changes in interest rates. The main source of interest rate risk is repricing mismatch risk. This arises when there are mismatches or gaps in the amount of assets and liabilities that mature or reprice in different periods, primarily due to customers' different term preferences.

Together with liquidity risk, the interest rate risk is managed through simulation techniques using interest rate forecasts and the current repricing structure of the balance sheet as a base.

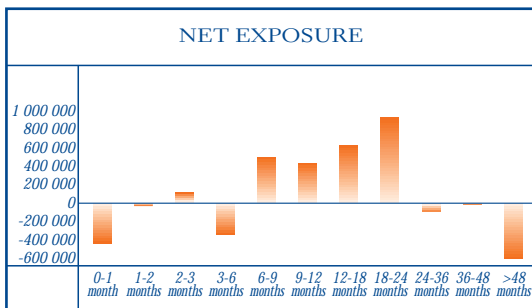
*Management of interest rate risk*

Interest rate risk is evaluated on a monthly basis by ALCO.

The bank effectively runs a naturally hedged position in that it makes advances on a fixed-rate basis and sources its funding predominantly with a longer-term profile and at a fixed rate.

The total bank exposure is summarised in the form of an interest rate repricing graph depicted below. This graph summarises the repricing profile of the bank's assets and liabilities at 30 September 2001.

The graph can be used as the basis for the assessment of the sensitivity of the bank's earnings to interest rate movements. Interest rate risk is not hedged with derivative instruments and their use requires the specific prior authorisation by ALCO.

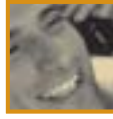


## CAPITAL ADEQUACY

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.

African Bank operates in a regulated environment where it is required to maintain minimum levels of capital and reserve balances. The bank's capital adequacy ratio at 30 September 2001, was 33,1%, and ABIL's equity-to-assets ratio was 39,3% compared to the regulatory requirement of 8%. (With effect from 1 October 2001, South African banks will be required to maintain minimum capital levels of 10% of risk-weighted assets.) The bank is, therefore, well placed for anticipated growth in the years ahead.

The bank's capital position as at year-end is illustrated in the following table:



► ► RISK REVIEW ► ►

## CAPITAL ADEQUACY OF AFRICAN BANK LIMITED

30 September 2001	Average balances		Weighting %	Risk-weighted balances	
	2001 R'000	2000 R'000		2001 R'000	2000 R'000
Cash, central banks and Government securities	228 270	291 167	–	–	–
Interbank placements	142 624	640 854	20	28 525	128 169
All other assets	4 020 693	4 237 958	100	4 020 693	4 237 958
<b>Total on balance sheet assets</b>	<b>4 391 587</b>	<b>5 169 970</b>		<b>4 049 218</b>	<b>4 366 127</b>
Off-balance sheet items	190 860	122 630	0 – 100	186 629	118 399
<b>Total average assets</b>	<b>4 582 447</b>	<b>5 292 600</b>		<b>4 235 847</b>	<b>4 484 526</b>
Required capital (8%)				338 868	358 762
<b>Capital available</b>					
<b>Primary (tier 1)</b>					
Share capital and premium				121 252	121 251
Primary reserves				931 048	1 602 914
<b>Total</b>				<b>1 052 300</b>	<b>1 724 165</b>
<b>Secondary (tier 2)</b>					
Subordinated debt instruments				357 090	500 000
General provisions net of impairments				83 778	133 554
Non-qualifying capital reserves				(47 411)	(100 000)
<b>Total</b>				<b>393 457</b>	<b>533 554</b>
<b>Total qualifying capital and unimpaired reserve funds</b>				<b>1 445 757</b>	<b>2 257 719</b>
<b>Total capital-to-risk-weighted assets</b>				<b>%</b>	<b>%</b>
Primary				24,84	38,45
Secondary				9,29	11,89
<b>Total</b>				<b>34,13</b>	<b>50,34</b>
<i>Add: Profit for 2001 appropriated to primary reserves (R612 217)</i>				3,83	–
<i>Less: Effect of required capital carried on investments in dormant subsidiaries (R619 393)</i>				(4,84)	(6,11)
				<b>33,12</b>	<b>44,23</b>

# — CORPORATE —

## GOVERNANCE

The board subscribes to the practice of quality corporate governance and is committed to business integrity, transparency and professionalism in all its activities to ensure that all the entities within the group are managed ethically and responsibly to enhance the value of its business for the benefit of all stakeholders. Its approach to corporate governance is consistent with the contents of the King Report on Corporate Governance in South Africa, published in November 1994. Given that the Banks Act and related regulations prescribe certain governance principles, eg constitution of the Audit Committee, the bank already complies with many of the draft proposals as contained in the revised code, but will nevertheless endeavour to conform as soon as possible after the implementation of King II, to any additional requirements contained in the code.

The developments regarding the revised code, which are expected to become effective in March 2002, are closely followed and any further requirements will continue to be of focus to the board. The board has already decided to establish a board nominations and governance committee to assist the board in selecting new directors and to give effect to the additional obligations as recommended in the revised draft code. This committee will become operative in the new financial year.

Effective corporate governance is based on a combination of self-regulation and compliance with the regulatory environment.

### BOARD OF DIRECTORS

The board members of ABIL and its subsidiaries (executive and non-executive) including the members of the various board subcommittees, are depicted in the table.

The current ABIL board includes two executive directors and seven non-executive directors. An additional two executive directors serve on the African Bank board. Both boards met seven times during the year under review.

Apart from scheduled quarterly meetings, another three special meetings were held to, inter alia, foster better interaction between the board and executive management regarding the strategic direction and planning of the group, and to perform a self-assessment of its performance.

The members of the board contribute a wide range of experience relevant to the particular business of the group. The board is increasing its level of regular interaction with the executive and day-to-day management, enabling directors to infuse their considerable experience, professional knowledge and knowledge of the target market, into an appropriate strategic direction.

This interaction enables the board to ensure an optimal balance between the enthusiasm to improve performance and increase shareholder value, and ensuring that the principles of good corporate governance are not sacrificed.



## MEMBERSHIP OF THE BOARD AND SUB-COMMITTEES

Name	Description		Boards				Sub-committees			
			African Bank Invest-ments Ltd	African Bank Ltd	Theta	Stangen	Audit	HR	ALCO	Credit
A S Mabogoane	Non-executive	Chairman – ABIL and African Bank	▲	▲						
G Schachat *	Executive	Deputy Chairman – ABIL and African Bank Chairman – Theta	▲	▲	▲	▲				
L Kirkinis	Executive	CEO ABIL and Managing Director – African Bank	▲	▲	▲	▲	▲	▲	▲	▲
N Adams	Non-executive	Chairman – Audit Committee	▲	▲			▲			
J J Kekane	Non-executive	Chairman – HR Committee	▲	▲				▲		
S A Levitt	Non-executive	Chairman – ALCO and Credit Committee	▲	▲			▲		▲	▲
B J T Shongwe	Non-executive		▲	▲				▲		
R J Symmonds	Non-executive		▲	▲			▲			
D F G Tembe (Moz)	Non-executive		▲	▲						
J de Ridder	Executive			▲						
A G Herselman	Executive			▲		▲				▲
V R Filter **	Alternate			▲	▲	▲		▲	▲	▲
D P Marais ***	Alternate			▲		▲		▲	▲	▲
M P Mendelowitz	Executive	CEO – Theta			▲		▲			
J M Jawno	Executive				▲					
J R Georgiou	Executive	CEO – Stangen			▲	▲	▲			
B Gildenhuis	Non-executive	Chairman – Stangen				▲				
A S Birrel	Non-executive					▲				
I M Kirk	Non-executive					▲				
D Lew	Member						▲			▲
V Ramsingh	Member							▲		
D Porteous	Alternate				▲					▲
E Coetzer	Member						▲	▲	▲	▲
G Roussos	Member								▲	
W Erasmus	Member								▲	
P Kritzingner	Ex officio						▲			
G Rowe	Ex officio						▲			
W Young	Ex officio						▲			
G Davias	Secretary		▲	▲	▲	▲	▲	▲	▲	▲

*Shaded areas: Members*

\* Alternate to L Kirkinis on the ABIL HR Committee

\*\* Alternate to J de Ridder on the African Bank board

\*\*\* Alternate to A Herselman on the African Bank board

The board determines the direction of the group by setting the long-term strategic objectives, shaping the values by which the organisation is managed, determining risk parameters and approving budgets. The monitoring of management performance is effected via regular formal and informal communication with the CEO, executives and internal and external audit reports.

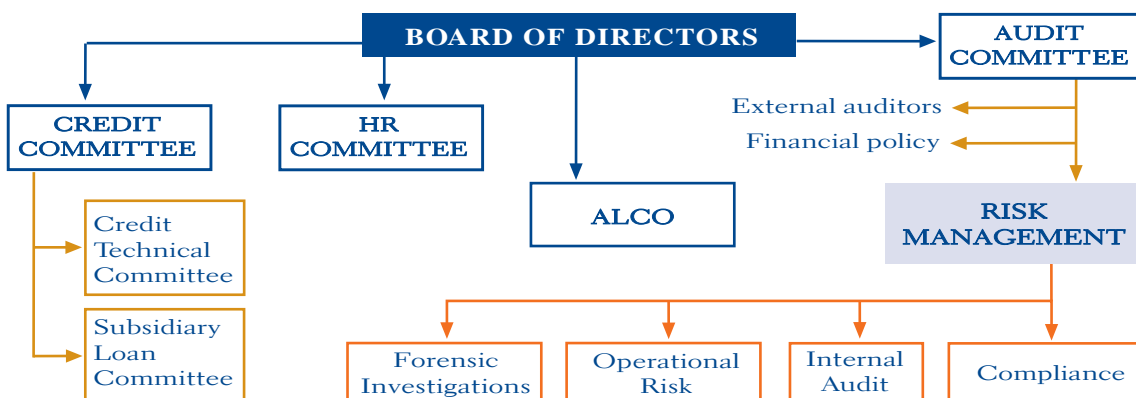
According to its articles of association, directors are to retire every three years. However, if eligible, they may be re-elected. The reader is referred to page 84 of the directors' report for information on retiring directors.

The following committees operate within African Bank. Non-executive directors are closely involved with these committees. The audit and ALCO committees have, during the year under review, increased its scope to also include the group companies.

## AUDIT COMMITTEE

The Audit Committee consists of three non-executive and two executive directors and is chaired by a non-executive director.

The internal and external auditors and compliance officer have unrestricted access to the Audit Committee, which ensures that their independence is in no way impaired. Meetings are held quarterly and are attended by the external and internal auditors, the compliance officer and appropriate members of executive management, including those involved in risk management, operations and finance. As part of its duty to assist the board in fulfilling its responsibilities, the Audit Committee's primary role is to instil financial discipline to minimise possibilities of fraud and misconduct. It also plays a key role in protecting the interests of investors and monitoring the component parts of the audit and compliance process.





The Audit Committee functions under the powers and authority delegated to it by the board to:

- ▶ review and recommend amendments to financial policy, internal audits, forensic investigations and ad hoc projects;
- ▶ review the draft interim and annual financial statements of ABIL and the subsidiaries;
- ▶ review and recommend changes to the statutory audit;
- ▶ monitor the system of internal control;
- ▶ monitor compliance with good corporate governance and all relevant legislation; and
- ▶ monitor compliance with applicable laws and regulations.

## HUMAN RESOURCES COMMITTEE

The Human Resources Committee consists of two non-executive and two executive directors and is chaired by a non-executive director. It meets quarterly. The head of human resources is a committee member.

The Human Resources Committee's specific terms of reference include direct authority for, or consideration of and recommendations to the board on matters relating to:

- ▶ general staff policy, remuneration, performance management, staff development and bonuses;
- ▶ remuneration and fees for directors and executives, including executive recruitment;
- ▶ service contracts, including the African Bank Group pension and retirement fund benefits; and

- ▶ providing guidance and monitoring the organisation's transformation processes.

According to current practice, full disclosure of directors' remuneration is contained in the table on page 85 to the financial statements. The remuneration of non-executive directors will be reviewed in the new financial year to be commensurate with their increased responsibilities as recommended in the revised King Code of Conduct and to ensure that directors have sufficient time to attend to board matters.

## CREDIT COMMITTEE

While the majority of the members of the Credit Committee are executive members of management, it is chaired by a non-executive director and meets monthly.

Credit risk is governed by the credit and collections policy as approved by the Credit Committee. The Credit Committee is also responsible for monitoring the implementation of the policy, adherence to credit limits, avoidance of excessive employer, industry and sector exposure, policies regarding the approval of employers for payroll deduction purposes and adequacy of provisions for the inherent risk of losses in the loan book, specifically where recovery is considered doubtful.

The Credit Committee also has final approval of loans to other subsidiaries of the African Bank Group. The Subsidiary Loan Committee regularly reviews the credit performance and adequacy of provisions of these

subsidiaries and recommends facilities to the Credit Committee for approval. The Credit Committee also ensures that large exposures are being maintained within the internal prudential (in relation to African Bank's capital) and regulatory requirements.

#### ASSET AND LIABILITY COMMITTEE (“ALCO”)

##### Definition of ALM

The responsibility for management of both the bank's liquidity and interest rate risks specifically rests with ALCO, with the daily ALCO and ALM function championed within the Treasury Division of the bank, while working closely with Finance and other operating divisions.

A non-executive director chairs ALCO. African Bank does not deal in foreign exchange and does not take any market risk. The primary risks, monitored and managed in this committee, are therefore liquidity risk, interest rate risk and solvency risk.

Advanced systems are used to perform traditional gap analysis to determine the impact on net interest income by simulating various interest rate scenarios based on different asset growth assumptions and various interest rate forecasts. These scenarios are also stress tested.

The ability of African Bank to meet its obligations towards loan payouts, maturing deposits and funding the needs of the operations of Theta subsidiaries is fundamental to the sustainability of its business.

African Bank places a high premium on the management and monitoring of monthly updates of cash flow forecasts, maintenance of an adequate pool of marketable securities, avoidance of depositor concentration, maintenance of liquidity contingency plans and maintaining a minimum level of overnight surplus cash.

#### CORPORATE SECRETARIAT

All directors have access to the services of the Company secretary, who is responsible for ensuring that board procedures are followed. All directors are entitled to seek independent professional legal advice with respect to any affairs of ABIL at the African Bank Group's expense.

#### COMMUNICATION

The group subscribes to the principle of transparent, timely, balanced, relevant and understandable communication, focused on substance, not form, with all relevant parties.

Communication covers both financial and non-financial aspects of the business to assist in creating an informed stakeholder population. Detailed reports of the various aspects influencing the business, both directly and indirectly, are communicated to stakeholders, eg market standards, reputation, individual attitudes of stakeholders, pressure groups and political opinion. Our staff is kept informed through ABtv – our television channel, ABmag – our internal magazine and Abnet – our intranet.



#### CODE OF ETHICS

African Bank's code of ethics commits it to the highest standard of integrity, behaviour and ethics in dealing with all its stakeholders. Staff at all levels participated in drawing up the code, which reflects its diversity and unique culture. Staff are expected to observe their ethical obligation in such a way as to carry on business through fair commercial competitive practices.

#### CODE OF BANKING PRACTICE

As a member of the Banking Council of South Africa, the bank is committed to maintaining the standards of fairness set out in the Code of Banking Practice.

#### MICRO FINANCE REGULATORY COUNCIL ("MFRC")

Where applicable, various subsidiaries of the group are members of the MFRC, which allows it to write loans under the Exemption Notice to the Usury Act No 73 of 1968. Being a member requires that lending practices are audited by external auditors to ensure that it adheres to the rules of the MFRC.

African Bank is committed to a continuous process of liaising with the MFRC, to benefit from its guidance in the implementation of its requirements during the transitional phase of the industry from an unregulated to a regulated environment.



— DIRECTORS' —  
RESPONSIBILITY

The directors are responsible for the integrity of the financial statements and related information included in this annual report.

For the board to discharge its responsibilities, management has developed, and continues to maintain, a system of internal financial control. The board has ultimate responsibility for this system of internal control and reviews the effectiveness of its operation, primarily through the group audit committee and other risk-monitoring committees and functions.

The internal controls include risk-based systems of accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the group's written policies and procedures. These controls are implemented by trained, skilled staff with clearly defined lines of accountability and an appropriate segregation of duties. The controls are monitored by management and include a comprehensive reporting system operating within strict deadlines and an appropriate control framework. As part of the system of internal financial control the internal audit function conducts operational, financial and specific audits and co-ordinates audit coverage with the external auditors.

The external auditors are responsible for reporting on the financial statements.

The financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and incorporate responsible disclosures in line with the accounting philosophy of the group. The financial statements are based on appropriate accounting policies applied and supported by reasonable and prudent judgments and estimates. The directors believe that the group will be a going concern in the year ahead. For this reason they continue to adopt the going-concern basis in preparing the group annual financial statements.

These financial statements, set out on pages 83 to 129, have been approved by the board of directors and are signed on its behalf by:

A Mabogoane  
*Chairman*

L Kirkinis  
*Chief Executive Officer*

Midrand  
21 November 2001

— CERTIFICATE —  
BY THE COMPANY SECRETARY

In terms of section 268G(d) of the Companies Act, 1973, as amended, I certify that, to the best of my knowledge and belief, the company has lodged with the Registrar of Companies for the financial year ended 30 September 2001 all such returns as are required of a public company in terms of the Companies Act, and that all such returns are true, correct and up to date.

G Davias  
*Company Secretary*

Midrand  
21 November 2001



# FINANCIAL STATEMENTS

## CONTENTS

Report of the independent auditors	82	20. Interest expense	109
Directors' report	83	21. Charge for bad and doubtful advances	109
Shareholders' information	88	22. Net assurance income	110
Shareholders' diary	90	23. Non-interest income	110
Balance sheet	91	24. Operating costs	111
Income statement	92	25. Taxation	112
Statement of changes in equity	93	26. Reconciliation between earnings and headline earnings per share	113
Cash flow statement	94	27. Cash generated from operations	113
Notes to the annual financial statements	95	28. (Increase)/decrease in income earning assets	114
1. Accounting policies	95	29. (Decrease)/increase in deposits, liabilities and other provisions	114
2. Fixed assets	98	30. Acquisition of subsidiaries	114
3. Investment in subsidiaries	99	31. Additional holdings in subsidiaries acquired	115
4. Investment in associates	100	32. Associates becoming joint ventures	115
5. Net goodwill asset	100	33. Cash and cash equivalents	115
6. Deferred tax asset/liability	101	34. Financial risk	116
7. Net advances	102	35. Contingent liabilities at year-end	120
8. Other assets	103	36. Operating lease commitments	120
9. Liquid assets	104	37. Retirement and post-retirement benefits	121
10. Short-term deposits and cash	104	38. Related party information	121
11. Life fund	104	Appendix A – Investment in subsidiaries	122
12. Loans and debentures	105	Appendix B – Investment in associates	123
13. Liabilities to depositors	107	Appendix C – Business segmental analysis	125
14. Other liabilities	107	Appendix D – Interest in joint venture	128
15. Share capital	108	Appendix E – Corporate structure	129
16. Share premium	108		
17. Reserves	108		
18. Secondary capital	108		
19. Interest income	109		





# — DIRECTORS' —

## REPORT

Your directors present their report together with the audited annual financial statements for the twelve months ended 30 September 2001.

### NATURE OF THE BUSINESS

African Bank Investments Limited ("ABIL") is a bank controlling company, focusing on the provision of credit and related products to underserved sectors of emerging markets.

The core business of term lending and credit banking is conducted through African Bank Limited, a wholly owned subsidiary. ABIL's wholly owned investment vehicle, Theta Investments (Pty) Limited, invests in future growth areas within the target market of ABIL. The group's insurance business is conducted through ABIL's wholly owned subsidiary Standard General Insurance Company ("Stangen").

### SHARE CAPITAL

At 30 September 2001, the issued share capital totalled 514 298 421 (2000: 622 783 987) shares of 2,5 cents each representing R12,9 million (2000: R15,6 million).

During the period under review the company bought back and cancelled 108 485 566 ordinary shares of a par value of 2,5 cents each for a total consideration of R949,2 million.

Some of the share buyback expenses amounting to R0,3 million were written off against the share premium account reducing the account balance to nil (2000: R946,8 million).

### ABIL SHARES HELD BY SUBSIDIARY COMPANIES

During the year, ABIL's subsidiary Stangen acquired 17 142 857 ABIL shares totalling R150 million in terms of a specific authority given by shareholders in June 2001. These shares were still on hand at the year-end. The ABIL Employee Share Trust held 10 105 000 ABIL shares at the year-end with an original cost of R82,4 million.

### POST-BALANCE SHEET EVENTS

The only significant post-balance sheet events since the group's financial year-end 30 September 2001 were the declaration of a final dividend for the 2001 financial year of 15 cents per ordinary share and on 17 October 2001, African Bank Limited issued R1 billion in bonds. The bonds were issued at a coupon rate of 12,5% with a maturity date of 28 February 2005.

### MAJOR CAPITAL EXPENDITURES

No single material acquisition of a capital nature was made during the year. However, the group did make acquisitions in fixed assets totalling R121 million during the past financial year, with computer equipment, software and leasehold improvements making up the bulk of this amount.

### REGULATORY APPROVAL

As at the date of this directors' report, the following regulatory approvals from the South African Reserve Bank were still outstanding:

- Application in terms of section 54 to transfer the business conducted by the African Bank Development Finance Division of African Bank to African Contractors Finance Corporation, a wholly owned subsidiary of Theta Investments. The group financial results will not require adjustment should this approval not be obtained.
- Section 52 applications in terms of which:
  - African Contractors Finance Corporation acquires 100% of Dedela Securities (Proprietary) Limited,
  - Miners Credit Guarantee, a subsidiary of Theta Investments, acquires 100% of two subsidiaries; Dart Credit Management (Proprietary) Limited and National Tracing (Proprietary) Limited.



AFRICAN BANK INVESTMENTS LIMITED

— DIRECTORS' —  
REPORT

DIVIDENDS	2001 Cents	2000 Cents
<b>ORDINARY DIVIDENDS</b>		
Interim, paid on 29 June 2001 to shareholders registered on 1 June 2001	10,0	Nil
Final, payable on 18 December 2001 to shareholders registered on 7 December 2001	15,0	Nil
	25,0	Nil

**DIRECTORS** Date appointed/resigned  
(if in the current year)

**GROUP EXECUTIVES**

L Kirkinis  
G Schachat

**NON-EXECUTIVES**

N Adams  
J Kekane  
S Levitt  
A Mabogoane (Chairman)  
B Shongwe  
R Symmonds  
D Tembe

**RESIGNATIONS**

F Titi	1 June 2001
N Sowazi	4 September 2001
G Routledge	8 October 2001
G Snelgar	8 October 2001

**ROTATION OF DIRECTORS**

In terms of Article 13 of the company's Articles of Association one-third of the directors shall retire at each annual general meeting on a rotational basis as determined in this Article. Retiring directors are eligible for re-election. The following directors, who are due to retire at the next annual general meeting, are available for re-election:

L Kirkinis  
N Adams  
D Tembe

**SECRETARY**

The group Company Secretary is G Davias.



INTEREST OF THE CURRENT DIRECTORS IN THE SHARE CAPITAL OF THE COMPANY AND DIRECTORS' REMUNERATION

	ABIL shares at 21 November 2001	% holding	ABIL shares at 17 November 2000	% holding	Executive remuneration: annual cost to company	Options offered to executive directors <sup>2</sup>
<b>EXECUTIVE</b>						
L Kirkinis	9 074 533	1,76	9 074 533	1,46	307 596	3 000 000
G Schachat	10 074 734	1,96	10 074 734	1,62	307 596	3 000 000
<b>NON-EXECUTIVE</b>						
N Adams	2 322 300	0,45	3 308 800	0,53	–	–
J Kekane	2 000	–	–	–	–	–
S Levitt	–	–	–	–	508 633 <sup>1</sup>	–
A Mabogoane	4 000	–	–	–	–	–
B Shongwe	2 000	–	–	–	–	–
R Symmonds	2 000	–	–	–	–	–
D Tembe	2 000	–	–	–	–	–
<b>TOTAL SHARES IN ISSUE</b>	<b>514 298 421</b>	<b>–</b>	<b>622 783 987</b>	<b>–</b>	<b>–</b>	<b>–</b>

*None of the directors of ABIL have non-beneficial interests in ABIL ordinary shares.*

*1. Salary and bonuses earned while an executive director.*

*2. Share options were issued at a strike price of R5,61. Shareholders approved the creation of the ABIL Employee Share Participation Scheme at the annual general meeting held in February 2001. All the executive directors converted onto the new scheme.*

SHARE OPTIONS

A total of 33 384 690 and 930 429 options have been granted to and accepted by directors and staff in terms of the ABIL Employee Share Participation Scheme and Baobab Solid Growth Share Option Scheme respectively. At the date of this report, this represents 6,7% of the number of shares in issue. In terms of the schemes, a total of 15% may be granted.

THE ABIL EMPLOYEE SHARE PARTICIPATION SCHEME

Accounting treatment: The share trust may acquire the required number of shares to be issued to employees in the market or ABIL may issue a fresh issue to the trust. At 30 September 2001, the Trust had a balance of 10 105 000 ABIL shares on hand. The Trust's accounts are consolidated into the group results and these shares on hand at the year-end are treated as treasury shares and are disclosed as such in the statement of changes in equity. All the shares had been acquired in the market.

THE BAOBAB SOLID GROWTH SHARE OPTION SCHEME

Accounting treatment: As this scheme has not acquired or been issued any ABIL shares, there are no figures to consolidate into the group accounts. When employees are entitled to take delivery and have exercised according to the rules of the scheme, shares will be delivered to the employees.

In February 2001, the shareholders approved a new share option scheme, as explained above. Employees who accepted share options under the new scheme then forfeited their options under the Baobab Solid Growth Share Option Scheme, and thus the bulk of the options lapsed during the financial year.



# DIRECTORS' REPORT

Below is a table detailing the movements to the scheme

	Total	Options not vested and		Options vested and	
		exercised	not exercised	exercised	not exercised
<b>ABIL EMPLOYEE SHARE PARTICIPATION SCHEME</b>					
Balance of options granted on 1 October 2000	Nil	-	-	-	-
Options offered to employees during the year	38 490 390	-	-	-	-
Options not accepted by employees	(3 364 579)	-	-	-	-
Options offered and accepted during the year	35 125 811 <sup>1</sup>	7 308 854	27 816 957	-	-
Options vested	-	(18 115)	(490 720)	18 115	490 720
Options exercised and taken delivery of	(248 866) <sup>2</sup>	-	-	-	(248 866)
Options lapsed	(1 492 255)	-	(1 492 255)	-	-
Balance of options granted at 30 September 2001	33 384 690 <sup>3</sup>	7 290 739	25 833 982	18 115	241 854
Balance of ABIL shares held at 30 September 2001	(10 105 000)				
Options in excess of ABIL shares held	23 279 690				
<b>BAOBAB SOLID GROWTH SHARE OPTION SCHEME</b>					
Balance of options granted on 1 October 2000	32 552 746	-	32 552 746	-	-
Options offered to employees during the year	-	-	-	-	-
Options not accepted by employees	-	-	-	-	-
Options offered and accepted during the year	-	-	-	-	-
Options lapsed/cancelled	(31 622 317)	-	(31 622 317)	-	-
Options vested	-	-	(189 771)	-	189 771
Options exercised and taken delivery of	-	-	-	-	-
Balance of options granted at 30 September 2001	930 429 <sup>4</sup>	-	740 658	-	189 771

At year-end, had ABIL acquired ABIL shares in the market to deliver to option holders that were in the money, the equity loss would have amounted to R73,3 million. However, the inflow of cash upon the exercise of such shares would amount to R82,4 million and thus no contingent liability exists at year-end relative to the share option scheme.

1. The strike prices of the shares offered and accepted during the year is made-up as follows:

33 980 498 share options at 561 cents

1 111 501 share options at 737 cents

33 812 share options at 884 cents

2. The share options which have been exercised, vested and taken delivery of by the employee had the following strike prices:

248 866 shares at 561 cents

3. The strike price of the share options balance granted under the ABIL Employee Share Participation Scheme as at 30 September 2001 is as follows:

32 239 377 options shares at 561 cents

1 111 501 options shares at 737 cents

33 812 options shares at 884 cents

4. The strike price of the share options balance granted under the Baobab Solid Growth Share Option Scheme is as follows:

569 314 options shares at 802 cents

341 115 options shares at 1 250 cents

20 000 options shares at 1 430 cents



#### HOLDING COMPANY

ABIL does not have a holding company. In June 2001, ABIL acquired its shares from BoE in terms of a specific share buyback and now no longer has a shareholder of reference.

#### SUBSIDIARIES

The interest of the company in the aggregate net income and losses after taxation (before intergroup dividends) of subsidiaries is:

	2001 R'000	2000 R'000
Net income	766 686	726 728
Losses	(12 783)	(4 412)
	<b>753 903</b>	<b>722 316</b>

#### INTEREST OF DIRECTORS AND OFFICERS

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

#### SPECIAL RESOLUTIONS

African Bank Investments Limited passed the following special resolutions on 12 February 2001 and 18 June 2001:

- that the directors be given general authority to buy back the company's shares;
- in terms of s89 of the Companies Act, a subsidiary of ABIL repurchase 17 142 857 ABIL shares; and
- in terms of s85 of the Companies Act, ABIL repurchase and cancel 108 485 566 of its own shares.

#### LITIGATION STATEMENT

At the date of this directors' report no material incidences of litigation existed against the group.

#### ACQUISITIONS AND DISPOSALS

No interests were disposed of during the financial year ending 30 September 2001. The following interests were acquired:

#### THETA INVESTMENTS (PTY) LTD

- Acquired an additional 8,5% in Gilt Edge Management Services (Pty) Ltd – now 97% holding.
- African Contractors Finance Corporation (Pty) Ltd (formerly Theta Investments Management Company), a wholly owned subsidiary of Theta Investments, acquired 100% of Dedela Securities (Pty) Ltd.

#### ABIL

- An additional payment of R26 million was made to the former shareholders of Theta Investments (Pty) Ltd in terms of a renegotiated purchase agreement.



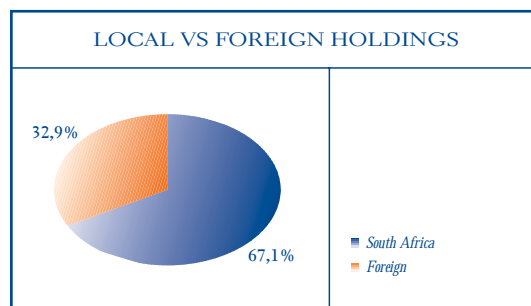
AFRICAN BANK INVESTMENTS LIMITED

SHAREHOLDERS' INFORMATION

AS AT 30 SEPTEMBER 2001

	Number of holders	% of holders	Number of shares	% of issued capital
<b>LOCAL VERSUS FOREIGN SHAREHOLDERS</b>				
South African	168	0,6	168 972 034	32,9
Foreign	29 683	99,4	345 326 387	67,1
<b>CATEGORY</b>				
Individuals	29 485	98,8	21 529 922	4,2
Limited companies	13	-	24 976 682	4,9
Banks	1	-	1 000	-
Nominee companies or trusts	191	0,7	455 103 055	88,4
Pension/provident funds	3	-	722 181	0,1
Insurance companies	2	-	2 958	-
Growth funds/unit trusts	10	-	12 379	-
Pty companies (Edms)	80	0,3	759 908	0,2
Close corporations (Bk)	18	0,1	20 694	-
Staff share trust	1	-	10	-
Trustee of a trust	29	0,1	11 132 939	2,2
Other corporate bodies	6	-	20 350	-
Investment companies	12	-	16 343	-
<b>TOTAL</b>	<b>29 851</b>	<b>100,0</b>	<b>514 298 421</b>	<b>100,0</b>
<b>NOMINEES (1% AND ABOVE)</b>				
Standard Bank Nominees			252 725 012	41
Nedcor Bank Nominees Limited			85 548 380	1
<b>PUBLIC VERSUS NON-PUBLIC SHAREHOLDERS</b>				
Public	29 836	99,9	473 948 276	92,2
Non-public	15	0,1	40 350 145	7,8
<b>TOTAL</b>	<b>29 851</b>	<b>100,0</b>	<b>514 298 421</b>	<b>100,0</b>
<i>Of the non-public shareholders, 12 were directors of ABIL and its subsidiaries representing 28 652 353 ABIL shares.</i>				
<b>NOMINEE DISCLOSURE</b>				
Pursuant to the provisions of section 140A of the Companies Act of 1973, the following beneficial shareholding exceeding 2% in aggregate, as at 30 September 2001, were disclosed by the above nominee companies or established from enquiries.				
Coronation Fund Managers			68 391 160	13,3
Schroder Investment Management			43 228 020	8,4
Directors, management			31 549 138	6,1
Sanlam Investment Managers			25 290 145	4,9
Capital Group (LA)			24 946 800	4,8
Investec Asset Management			21 229 503	4,1
FirstRand Group and its subsidiaries			21 220 598	4,1
Standard Bank and its nominees			17 831 986	3,5
Deutsche Securities (SA)			17 536 664	3,4
The Standard General Insurance Company			17 142 857	3,3
Liberty Life Asset Management			16 569 678	3,2
Prudential (SA)			11 355 843	2,2
Investec Securities			11 086 944	2,2

	Number of holders	% of holders	Number of shares	% of issued capital
<b>HOLDING</b>				
1 – 1 000 shares	29 230	97,9	1 275 860	0,3
1 001 – 5 000 shares	388	1,3	879 853	0,2
5 001 – 10 000 shares	62	0,2	471 252	–
10 001 – 50 000 shares	90	0,3	1 949 697	0,4
50 001 – 100 000 shares	26	0,1	1 887 567	0,4
100 001 – 1 000 000 shares	32	0,1	12 339 521	2,4
1 000 001 and over	23	0,1	495 494 671	96,3
<b>TOTAL</b>	<b>29 851</b>	<b>100,0</b>	<b>514 298 421</b>	<b>100,0</b>





AFRICAN BANK INVESTMENTS LIMITED

— SHAREHOLDERS' —  
DIARY

Financial year-end	30 September
Last date to trade cum-dividend	7 December 2001
Shares commence trading ex-dividend	10 December 2001
Record date	14 December 2001
Dividend – declaration	21 November 2001
– payment	18 December 2001
Annual general meeting	6 February 2002

Registered business and postal address:

59 16th Road  
Midrand  
1685

Private Bag X170  
Midrand  
1685

# BALANCE SHEET

AS AT 30 SEPTEMBER 2001

	Notes	GROUP		COMPANY	
		Audited 2001 R'000	Audited 2000 R'000	Audited 2001 R'000	Audited 2000 R'000
<b>ASSETS</b>					
Fixed assets	2	179 509	96 660	-	-
Investment in subsidiaries	3	-	-	1 595 302	1 569 990
Investment in associates	4	7 133	28 705	-	-
Goodwill	5	25 846	-	-	-
Deferred tax asset	6	45 553	49 998	-	-
Net advances	7	4 242 681	3 979 766	-	-
Other assets	8	199 050	112 332	1 622	8 057
Taxation		21 490	20 888	-	-
Liquid assets	9	280 913	236 984	-	-
Short-term deposits and cash	10	373 504	1 246 979	2 583	26 071
<b>TOTAL ASSETS</b>		<b>5 375 679</b>	<b>5 772 312</b>	<b>1 599 507</b>	<b>1 604 118</b>
<b>EQUITY AND LIABILITIES</b>					
<b>LIABILITIES</b>					
Life fund	11	107 958	69 644	-	-
Loans and debentures	12	929 858	1 282 167	-	-
Deferred tax liability	6	12 282	186 875	-	-
Liabilities to depositors	13	1 305 815	642 688	-	-
Other liabilities	14	273 725	307 190	12 661	10 283
Taxation		400 022	123 647	797	2 969
Bank overdraft		49 267	33 258	-	-
<b>TOTAL LIABILITIES</b>		<b>3 078 927</b>	<b>2 645 469</b>	<b>13 458</b>	<b>13 252</b>
<b>CAPITAL AND RESERVES</b>					
Share capital	15	12 858	15 570	12 858	15 570
Share premium	16	-	946 829	-	946 829
Reserves	17	2 041 653	1 593 452	1 573 191	628 467
Shareholders' funds		2 054 511	2 555 851	1 586 049	1 590 866
Minority interest		58 774	64 651	-	-
Secondary capital	18	183 467	506 341	-	-
<b>TOTAL CAPITAL AND RESERVES</b>		<b>2 296 752</b>	<b>3 126 843</b>	<b>1 586 049</b>	<b>1 590 866</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>5 375 679</b>	<b>5 772 312</b>	<b>1 599 507</b>	<b>1 604 118</b>



AFRICAN BANK INVESTMENTS LIMITED

INCOME  
STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2001

	Notes	GROUP		COMPANY	
		Audited 2001 R'000	Audited 2000 R'000	Audited 2001 R'000	Audited 2000 R'000
<b>REVENUE</b>					
Interest income	19	1 855 060	1 852 770	2 666	23 917
Interest expense	20	(331 464)	(440 514)	-	(9 381)
Net interest		1 523 596	1 412 256	2 666	14 536
Charge for bad and doubtful advances	21	(6 063)	(289 479)	-	-
Net interest income after provisions		1 517 533	1 122 777	2 666	14 536
Net assurance income	22	225 711	346 637	-	-
Non-interest income	23	234 036	252 349	1 000 000	225 000
<b>INCOME FROM OPERATIONS</b>					
Operating costs	24	(843 060)	(634 360)	(4 707)	(10 699)
<b>NET INCOME FROM OPERATIONS</b>					
Share of associate companies' attributable income	4	3 614	16 147	-	-
<b>NET INCOME BEFORE TAXATION</b>					
Indirect taxation: Value added tax		(31 183)	(30 304)	-	-
Taxation	25	(342 509)	(313 605)	(794)	(2 969)
<b>NET INCOME AFTER TAXATION</b>					
Minority interest		(13 074)	(36 457)	-	-
<b>NET INCOME FOR THE YEAR</b>					
		Cents	Cents		
HEADLINE EARNINGS PER SHARE	26	130,1	121,9		
EARNINGS PER SHARE	26	128,1	122,8		
FULLY DILUTED EARNINGS PER SHARE	26	126,4	- <sup>1</sup>		
FULLY DILUTED HEADLINE EARNINGS PER SHARE	26	128,4	- <sup>1</sup>		

1. No dilutionary effect as the share options were priced out of the money.

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2001

	GROUP					
	Share capital R'000	Share premium R'000	Non- distributable reserves R'000	Distributable reserves R'000	Treasury shares R'000	Total R'000
Balance at 1 October 1999	13 753	301 199	111 421	760 135	-	1 186 508
Share capital and premium received on allotment and issue of shares	1 817	987 731	-	-	-	989 548
Share issue expenses written off	-	(2 655)	-	-	-	(2 655)
Goodwill written off on acquisition of subsidiaries	-	(339 446)	-	-	-	(339 446)
Discount arising on acquisition of subsidiaries	-	-	4 515	-	-	4 515
Release of rebranding non-distributable reserve	-	-	(5 803)	-	-	(5 803)
Transfer from non-distributable reserves to distributable reserves:						
Surplus realised	-	-	(6 373)	6 373	-	-
Net income for the year	-	-	-	723 184	-	723 184
Balance at 1 October 2000	15 570	946 829	103 760	1 489 692	-	2 555 851
Dividends paid	-	-	-	(49 717)	-	(49 717)
Reduction of reserves as a result of share buyback and related costs	(2 712)	(946 829)	(4 181)	-	-	(953 722)
Acquisition of ABIL treasury shares by subsidiaries and employee share trust	-	-	-	-	(232 989)	(232 989)
Loss incurred by subsidiaries on group employees acquiring ABIL share trust shares	-	-	-	-	(607)	(607)
Release of rebranding non-distributable reserve	-	-	(19 323)	-	-	(19 323)
Discount arising on acquisition of subsidiaries and investments	-	-	3 950	-	-	3 950
Transfer from non-distributable reserves to distributable reserves:						
Surplus realised	-	-	(2 493)	2 493	-	-
Net income for the year	-	-	-	751 068	-	751 068
<b>BALANCE AT 30 SEPTEMBER 2001</b>	<b>12 858</b>	<b>-</b>	<b>81 713</b>	<b>2 193 536</b>	<b>(233 596)</b>	<b>2 054 511</b>
	COMPANY					
	Share capital R'000	Share premium R'000	Non- distributable reserves R'000	Distributable reserves R'000	Treasury shares R'000	Total R'000
Balance at 1 October 1999	13 753	301 199	79 121	323 478	-	717 551
Share capital and premium received on allotment and issue of shares	1 817	987 731	-	-	-	989 548
Share issue expenses written off	-	(2 655)	-	-	-	(2 655)
Goodwill written off on acquisition of subsidiaries	-	(339 446)	-	-	-	(339 446)
Net income for the year	-	-	-	-	225 868	225 868
Balance at 1 October 2000	15 570	946 829	79 121	549 346	-	1 590 866
Dividends paid	-	-	-	(49 717)	-	(49 717)
Reduction of reserves as a result of share buyback and related costs	(2 712)	(946 829)	(4 181)	-	-	(953 722)
Surplus on disposal of investment commitment	-	-	-	1 457	-	1 457
Net income for the year	-	-	-	-	997 165	997 165
<b>BALANCE AT 30 SEPTEMBER 2001</b>	<b>12 858</b>	<b>-</b>	<b>76 397</b>	<b>1 496 794</b>	<b>-</b>	<b>1 586 049</b>



AFRICAN BANK INVESTMENTS LIMITED

**CASH FLOW**  
STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2001

	Notes	GROUP		COMPANY	
		Audited 2001 R'000	Audited 2000 R'000	Audited 2001 R'000	Audited 2000 R'000
<b>CASH GENERATED FROM OPERATIONS</b>	27	<b>952 092</b>	<b>1 396 020</b>	<b>997 959</b>	<b>234 219</b>
(Increase)/decrease in income earning assets	28	(114 169)	(892 194)	6 435	(5 042)
(Decrease)/increase in deposits, liabilities and other provisions	29	(79 628)	(269 552)	3 419	1 801
<b>CASH FROM OPERATING FUNDS</b>		<b>(193 797)</b>	<b>(1 161 746)</b>	<b>9 854</b>	<b>(3 241)</b>
<b>NORMAL TAXATION PAID</b>		<b>(227 611)</b>	<b>(162 541)</b>	<b>(2 966)</b>	<b>-</b>
Proceeds on disposal of investments and fixed assets		-	118 146	-	11 123
Proceeds on disposal of subsidiary		-	-	-	3 502
Acquisition of subsidiaries	30	(1 129)	(59 199)	-	(8 000)
Acquisition of fixed assets		(121 230)	(77 201)	-	-
Disposal of fixed assets		3 887	-	-	-
Loans granted to/acquisition of associates		(1 000)	(12 142)	-	-
Additional holdings in subsidiaries acquired	31	(39 552)	(102 677)	(60 317)	(1 024 276)
Associates becoming joint ventures	32	3 079	-	-	-
Rebranding cost incurred		(27 604)	(8 290)	-	-
Amounts advanced by subsidiaries		-	-	35 005	55 485
<b>CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		<b>(183 549)</b>	<b>(141 363)</b>	<b>(25 312)</b>	<b>(962 166)</b>
Shares (repurchased)/issued by the company		(1 187 318)	747 448	(953 722)	757 259
Shares issued to outside shareholders		-	36 000	-	-
Dividends paid		(49 301)	-	(49 301)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(1 236 619)</b>	<b>783 448</b>	<b>(1 003 023)</b>	<b>757 259</b>
Net (decrease)/increase in cash and cash equivalents		(889 484)	713 818	(23 488)	26 071
Cash and cash equivalents at beginning of year		1 213 721	499 903	26 071	-
<b>CASH AND EQUIVALENTS AT END OF YEAR</b>	33	<b>324 237</b>	<b>1 213 721</b>	<b>2 583</b>	<b>26 071</b>



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2001

## 1. ACCOUNTING POLICIES

The annual financial statements of the company and group are prepared on an historical cost basis, in conformity with Statements of Generally Accepted Accounting Practice and the Companies Act of 1973. The following principal accounting policies have been consistently applied, except as otherwise indicated.

### 1.1 CONSOLIDATION

The group annual financial statements incorporate the annual financial statements of the company and its subsidiaries. The operating results of the subsidiaries are included from the effective dates of acquisition and up to the effective dates of disposal. All significant inter-company transactions and balances have been eliminated. Premiums arising on the acquisition of subsidiaries and any excess of the net assets of a subsidiary over the cost of acquisition are treated in terms of the group's accounting policy for goodwill.

### 1.2 GOODWILL

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and amortised on a systematic basis following an assessment of the foreseeable life of the asset, subject to a maximum of 20 years.

The carrying amount of goodwill is reviewed annually and written down for permanent impairment where it is considered necessary.

Negative goodwill, which represents the excess of the group's interest in the fair value of the identifiable assets and liabilities acquired over the cost of acquisition, is eliminated proportionately against the fair values of the non-monetary assets acquired. Any amount in excess of the fair values of the non-monetary assets acquired is treated as negative goodwill and amortised on a systematic basis over the foreseeable life of the negative goodwill, subject to a maximum of 20 years.

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

The above represents a change in the accounting policy during the current financial year and has been applied prospectively. This change was not applied retrospectively as the goodwill write-offs had previously been written off against the share premium and sanctioned by law.

### 1.3 JOINT VENTURES

A joint venture is a contractual agreement between the group and another party to undertake an economic activity, which is subject to agreed sharing of control, in which the group has a long-term interest.

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

A proportional share of intra-group transactions and balances are eliminated. The results of the joint venture are included from the effective date of acquisition and up to the effective date of its disposal.

### 1.4 ASSOCIATES

Associates are those enterprises in which the group holds an equity interest and over which it has the ability to exercise significant influence and which are neither subsidiaries, nor joint ventures.

Investments in associated companies are accounted for in the group financial statements using the equity method, for the duration that significant influence is exercised by the group.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2001

Equity accounted income, which is included in the respective carrying values of the investments, represents the group's proportionate share of the associates' attributable income after accounting for dividends payable by those associates.

The post-acquisition share of attributable income of associates is included in the consolidated income statement.

Provision is made when there has been a permanent impairment in the carrying value of an interest in an associate. Where the equity method results in the group's proportion of an associate's losses being greater than or equal to the carrying value of the associate, the associate is carried at nil or at a nominal amount. Additional losses are only provided to the extent that the group has incurred obligations or made payments on behalf of the associate to satisfy the associate's obligations.

## 1.5 INVESTMENTS

Investments include debt securities which management intends to hold until maturity. Debt securities are stated at cost as adjusted for the amortisation of premiums and discounts on purchases over the period to maturity. Interest earned on investment securities is reported as interest income. A reduction in market value is not taken into account, unless it is considered to be permanent.

## 1.6 PROVISION FOR DOUBTFUL ADVANCES

Advances are disclosed net of specific and general provisions which, in the opinion of the directors, are required. Specific provisions are made against identified doubtful advances. General provisions are maintained to cover potential losses, which although not specifically identified, may be present in the advances portfolio.

Advances, which are deemed uncollectable, are written off against the relative provision for doubtful debt. Both the specific and general provisions raised during the year less recoveries of advances previously written off, are charged to the income statement.

## 1.7 FIXED ASSETS

Fixed assets are stated at original cost less accumulated depreciation. Major improvements to buildings are capitalised. Fixed assets other than land and buildings are depreciated on a straight-line basis over their expected useful lives.

Land and buildings are not depreciated and are carried at cost less any permanent diminutions in value.

The estimated useful lives are as follows:

Furniture	- 6 years
Computer equipment and software	- 3 years
Office equipment	- 3 years
Motor vehicles	- 4 years
Leasehold improvements	- over the shorter of the lease term or its useful life

The carrying amounts of fixed assets are written down to their estimated recoverable amounts, where the estimated recoverable amount is lower than the carrying value.

Repairs and maintenance are charged to the income statement when the expenditure is incurred.

## 1.8 DEFERRED TAXATION

Deferred taxation is provided using the balance sheet liability method on all temporary differences between the carry amounts for financial reporting purposes and the amounts used for taxation purposes. Prevailing tax rates at balance sheet date are used to determine deferred taxation.

Taxation losses expected to be available for utilisation against future taxable income are set off against the deferred taxation liability within the same legal taxation unit. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised.

**1.9 REVENUE RECOGNITION**

Interest income is accrued on a time basis by reference to the principal outstanding and the interest rate applicable. Interest not received is provided for in the specific provision for doubtful advances.

**1.10 PREMIUM INCOME**

Premiums are accounted for when they become due and payable. Premium income is disclosed net of reinsurance premiums.

**1.11 CLAIMS AND POLICYHOLDERS' BENEFITS**

Provision is made for the estimated cost of claims outstanding at the end of the year, including those incurred but not reported at that date.

Policyholders' benefits are disclosed net of the reinsurance recoveries.

**1.12 BORROWING COSTS**

Borrowing costs are recognised as an expense in the period in which they are incurred.

**1.13 LEASED ASSETS**

Leased assets are classified as operating leases where the benefits and risks of ownership are effectively retained by the lessor. Obligations incurred under operating leases are charged to the income statement and disclosed under operating expenses.

**1.14 RETIREMENT BENEFITS**

Contributions to retirement benefit funds are charged to income as incurred.

**1.15 SEGMENTAL REPORTING**

The group is structured into the following main business segments: namely banking, assurance, investment operations and other activities, which are the basis on which the group reports its primary segmental information.

Geographical segments are not disclosed, as the group has no operations outside South Africa.

**1.16 CASH AND CASH EQUIVALENTS**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, and investments in money market instruments, net of bank overdrafts.

**1.17 COMPARATIVE FIGURES**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.



AFRICAN BANK INVESTMENTS LIMITED

NOTES TO THE  
ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2001

	GROUP						
	Cost/ valuation 2001 R'000	Accumulated depreciation 2001 R'000	Carrying value 2001 R'000	Cost/ valuation 2000 R'000	Accumulated depreciation 2000 R'000	Carrying value 2000 R'000	
	<b>2. FIXED ASSETS</b>						
	Furniture	23 442	(6 945)	16 497	20 015	(4 658)	15 357
Computer equipment and software	110 929	(33 626)	77 303	46 439	(15 204)	31 235	
Office equipment	14 946	(6 870)	8 076	11 864	(5 762)	6 102	
Motor vehicles	4 615	(1 496)	3 119	3 424	(1 185)	2 239	
Leasehold improvements	28 060	(2 991)	25 069	-	-	-	
Land and buildings	49 445	-	49 445	41 727	-	41 727	
	<b>231 437</b>	<b>(51 928)</b>	<b>179 509</b>	<b>123 469</b>	<b>(26 809)</b>	<b>96 660</b>	

The carrying amounts of fixed assets at 30 September 2001 for the group are reconciled as follows:

	Carrying value at beginning of year R'000	On acquisition of subsidiaries R'000	Additions R'000	Depreciation R'000	Disposals and write-offs R'000	Carrying value at end of year R'000
Furniture	15 357	20	8 076	(3 554)	(3 402)	16 497
Computer equipment and software	31 235	18	69 851	(20 660)	(3 141)	77 303
Office equipment	6 102	-	5 552	(2 984)	(594)	8 076
Motor vehicles	2 239	40	1 973	(840)	(293)	3 119
Leasehold improvements	-	-	28 060	(2 991)	-	25 069
Land and buildings	41 727	-	7 718	-	-	49 445
	<b>96 660</b>	<b>78</b>	<b>121 230</b>	<b>(31 029)</b>	<b>(7 430)</b>	<b>179 509</b>

*Certain of the assets have been pledged as security (refer note 12.3).*

	GROUP		COMPANY	
	2001 R'000	2000 R'000	2001 R'000	2000 R'000
<b>2. FIXED ASSETS (continued)</b>				
Land and buildings comprise:				
Erf 136, Rantjespark Extension 62, situated at 59 16th Road, Midrand, measuring 35 259 square metres.				
At cost – 2000	36 562	36 562		
Additions at cost – 2001	7 718	–		
Section 1 and 2 of lot 52, Rosebank, situated at 9 Arnold Road, Rosebank, measuring 752 square metres.				
At cost – 1994	1 433	1 433		
Additions at cost – 1995	205	205		
– 1997	2 375	2 375		
– 1998	1 500	1 500		
– 1999	1 880	1 880		
Provision for permanent diminution in value	(2 228)	(2 228)		
	49 445	41 727		
<b>CAPITAL COMMITMENTS</b>				
Authorised and contracted for	33 947	–		
Authorised and not contracted for	3 250	–		
<b>TOTAL</b>	<b>37 197</b>	<b>–</b>		

Of the total amount authorised and contracted for, R10,9 million will be financed from external sources with the balance being funded internally.

	GROUP		COMPANY	
	2001 R'000	2000 R'000	2001 R'000	2000 R'000
<b>3. INVESTMENT IN SUBSIDIARIES</b>				
Shares at cost	–	–	1 636 364	1 576 046
Indebtedness to the company	–	–	6 985	55 600
	–	–	1 643 349	1 631 646
Indebtedness by the company	–	–	(48 047)	(61 656)
	–	–	1 595 302	1 569 990

See Appendix A for information relating to subsidiaries.



NOTES TO THE  
ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2001

	GROUP		COMPANY	
	2001 R'000	2000 R'000	2001 R'000	2000 R'000
<b>4. INVESTMENT IN ASSOCIATES</b>				
<b>MOVEMENT FOR THE YEAR</b>				
Carrying value at the beginning of the year	28 705	45 900	-	11 123
Movements for the year				
- Share of attributable income	3 614	16 147	-	-
- Additions at cost, less goodwill written off	-	2 558	-	-
- Acquired upon acquisition of subsidiary	-	10 000	-	-
- Associates becoming subsidiaries	-	(16 008)	-	-
- Associates becoming joint ventures	(26 186)	-	-	-
- Disposal of associate	-	(7 290)	-	(11 123)
- Increase/(decrease) in loans to associates	1 000	(22 602)	-	-
Carrying value at the end of the year	7 133	28 705	-	-
<b>INVESTMENT IN ASSOCIATES COMPRISES THE FOLLOWING</b>				
Cost	2 558	12 558	-	-
Share in distributable reserves	3 575	16 147	-	-
Loans to associates	1 000	-	-	-
Carrying value at the end of the year	7 133	28 705	-	-
<i>See Appendix B for information relating to associates.</i>				
<b>5. NET GOODWILL ASSET</b>				
<b>COST</b>				
At the beginning of the year	-	-		
Arising on acquisition of a subsidiaries	29 070	-		
At the end of the year	29 070	-		
<b>AMORTISATION</b>				
At the beginning of the year	-	-		
Charge for the year	3 224	-		
At the end of the year	3 224	-		
<b>CARRYING AMOUNT AT THE END OF THE YEAR</b>	<b>25 846</b>	<b>-</b>		

	GROUP	
	2001 R'000	2000 R'000
<b>6. DEFERRED TAX ASSET/LIABILITY</b>		
<b>DEFERRED TAX ANALYSIS</b>		
<i>Deferred tax liability</i>		
Assurance income	12 244	186 875
Other	38	-
	12 282	186 875
<i>Deferred tax assets</i>		
General provision for credit losses	32 352	46 025
Estimated tax losses	1 118	589
Other provisions	12 083	3 384
	45 553	49 998
<b>NET ASSET/(LIABILITY) AT THE END OF THE YEAR</b>	<b>33 271</b>	<b>(136 877)</b>
<b>DEFERRED TAX RECONCILIATION</b>		
Balance at the beginning of the year	(136 877)	(67 386)
Acquisition of subsidiaries	992	(3 632)
Taxable temporary differences	(16 966)	(76 767)
Deductible temporary differences	186 122	10 908
Net asset/(liability) balance at the end of the year	33 271	(136 877)



NOTES TO THE  
ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2001

	GROUP	
	2001 R'000	2000 R'000
<b>7. NET ADVANCES</b>		
Gross advances	4 668 631	4 632 771
Doubtful debt provisions (specific and general – see note 21)	(425 950)	(653 005)
Advances net of doubtful debt provisions	4 242 681	3 979 766
Advances totalling R480 million (2000: R980,1 million) have been pledged as security for long-term loans (refer note 12).		
<b>ECONOMIC SECTOR EXPOSURES WITHIN THE ADVANCES PORTFOLIO</b>		
Agricultural, hunting, forestry and fishing	66 511	40 892
Mining and quarrying	552 372	252 432
Manufacturing	835 122	226 639
Electricity, gas and water supply	4 351	452 951
Construction	89 095	306 480
Wholesale and retail trade	415 732	224 851
Transport, storage and communication	319 508	201 064
Financial, insurance, real estate, business services	208 028	11 673
Community, social, personal services	852 145	2 241 682
Private households and extraterritorial organisations	1 325 767	674 107
	4 668 631	4 632 771
<b>COLLECTION METHODOLOGY SPLIT WITHIN THE ADVANCES PORTFOLIO</b>		
Government (Persal)	986 827	2 214 017
Payroll business	2 592 358	2 168 640
Retail/debit order business	880 145	167 784
SMME business	209 301	82 330
	4 668 631	4 632 771

	GROUP		COMPANY	
	2001 R'000	2000 R'000	2001 R'000	2000 R'000
<b>7. NET ADVANCES (continued)</b>				
<b>INDIVIDUAL COMPANIES' ADVANCES EXPOSURE</b>				
<i>African Bank Limited</i>				
- Persal - historic	783 953	2 106 798		
- Persal - consolidated	154 983	-		
- Parastatals and post office	211 034	376 495		
- Transitional Local Council (TLC)	188 306	250 724		
- Private sector, corporate and mining	1 703 977	1 248 161		
- Retail	623 382	41 390		
- Standard Bank joint venture (53%)	60 952	291		
<i>Theta Investments</i>				
Safrich				
- Persal	47 891	107 219		
- Corporate	21 818	63 698		
Credit Indemnity	195 811	126 103		
Miners Credit Guarantee	241 341	82 778		
Gilt Edge Management Services	225 882	146 784		
African Contractors Finance	206 941	79 881		
Quatro	2 360	2 449		
	<b>4 668 631</b>	<b>4 632 771</b>		
<b>8. OTHER ASSETS</b>				
Sundry debtors	156 209	112 332	1 622	8 057
Loans to joint venture partners *	42 841	-	-	-
	<b>199 050</b>	<b>112 332</b>	<b>1 622</b>	<b>8 057</b>

\* This amount was repaid by the joint venture partner shortly after year-end.



NOTES TO THE  
ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2001

	GROUP		COMPANY	
	2001 R'000	2000 R'000	2001 R'000	2000 R'000
<b>9. LIQUID ASSETS</b>				
Listed at carrying value:				
- Government of the Republic of South Africa	96 565	162 243		
- Public corporations and local authorities	58 441	889		
	155 006	163 132		
Unlisted at carrying value:				
- Negotiable certificates of deposits	50 177	4 930		
	205 183	168 062		
Cash deposits with SA Reserve Bank	75 730	68 922		
	280 913	236 984		
<b>MARKET VALUE OF LISTED ASSETS</b>	155 225	163 132		
<b>DIRECTORS' VALUATION OF UNLISTED ASSETS</b>	50 177	4 930		
<b>10. SHORT-TERM DEPOSITS AND CASH</b>				
Interbank	373 437	1 244 556	2 583	26 070
Call and fixed deposits	217 597	1 175 471	1 810	25 512
Current accounts	155 840	69 085	773	558
Cash on hand	67	2 423	-	1
	373 504	1 246 979	2 583	26 071
<b>11. LIFE FUND</b>				
The life fund at 30 September 2001 equals the amount of the actuarial valuation of the liability according to the assurance policies and contracts at that date.				
Movements in the fund during the year:				
Balance at the beginning of the year	69 644	97 918		
Transfer from/(to) the income statement	38 314	(30 515)		
Acquired from subsidiaries	-	2 241		
Balance at the end of the year	107 958	69 644		
Comprising the following:				
Policyholders' liability per balance sheet	107 958	69 644		
Reserves held by reinsurer	97 333	78 267		
Total reserves (including reinsurer's funds)	205 291	147 911		
Less: Attributable to offshore endowment policies	(54 261)	-		
<b>TOTAL RESERVES SUPPORTING ADVANCES BOOK</b>	151 030	147 911		



	Face value 2001 R'000	Interest capitalised 2001 R'000	Unamortised discount 2001 R'000	Net liability 2001 R'000	Net liability 2000 R'000
<b>12. LOANS AND DEBENTURES</b>					
<b>12.1 UNSECURED REDEEMABLE DEBENTURES</b>					
Redeemable debentures					
- Institutional investors	319 280	10 106	(25 564)	303 822	303 822
- National Housing Finance Corporation	43 400	18	(2 923)	40 495	40 495
- South African Municipal Workers Union Medical Aid Fund	-	-	-	-	6 116
Discount amortised	-	-	14 067	14 067	7 429
	<b>362 680</b>	<b>10 124</b>	<b>(14 420)</b>	<b>358 384</b>	<b>357 862</b>

The above debentures have coupon rates, which vary between 15% and 18% fixed, compounding and payable, semi-annually. The total face value of R362 680 000 will be redeemed through single capital repayments on the following dates:

15 December 2001	16 000
30 September 2002	96 680
3 February 2003	25 000
30 September 2003	63 000
15 December 2003	28 000
15 December 2005	134 000

**362 680**

	GROUP	
	2001 R'000	2000 R'000
<b>12.2 UNSECURED LONG-TERM LOANS</b>		
This loan bears interest at 2% below prime and has no fixed terms of repayment	4 167	12 500
These loans bear interest at 25% per annum and are not subject to any fixed terms of repayment	4 900	4 900
This loan bears interest at the interbank rate and has no fixed terms of repayment	-	270
This loan bears interest at prime and is repayable by October 2005	34	-
<b>TOTAL UNSECURED LONG-TERM LOANS</b>	<b>9 101</b>	<b>17 670</b>



NOTES TO THE  
ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2001

	GROUP	
	2001 R'000	2000 R'000
<b>12. LOANS AND DEBENTURES (continued)</b>		
<b>12.3 SECURED LONG-TERM LOANS</b>		
A loan secured by the cession of advances amounting to R460 million (2000: R833 million) and any benefits which may accrue from credit life policies relating to the above loans (refer note 7). The loan bears interest at prime less 2%. This loan is repayable over the next 16 months at R28 697 282 per month. This particular loan was settled in October 2001	460 175	832 899
An instalment sale agreement over a subsidiary's fixed assets with a book value of R121 533, repayable in monthly instalments carrying interest of 4% below the bank lending rate	-	162
A secured loan, repayable monthly, ending 30 August 2001, bearing interest at the three-year Johannesburg Securities Exchange actuaries Bond Yield Index plus 2,675%, the average rate currently being 16,15%. Advances amounting to R7,1 million and any benefits, which accrued from credit life policies relating to these advances, had been pledged as security	-	7 143
Finance lease agreements that bear interest at a rate linked to prime and are repayable over periods ranging from 18 to 60 months. The leases are secured by motor vehicles, with a book value of R129 098	-	90
Hire purchase agreements, which bear interest at rates linked to prime and are repayable over periods ranging from 15 to 60 months. The loans are secured by the assets valued at R6 585 000 (2000: R4 097 473) (refer note 2)	6 528	4 134
A loan secured over land and buildings (refer note 2), repayable in one lump sum on 31 March 2010. Interest is payable six monthly at an effective interest rate of 17,39% per annum	40 452	40 207
<b>TOTAL SECURED LONG-TERM LOANS</b>	<b>507 155</b>	<b>884 635</b>
<b>TOTAL LONG-TERM LOANS</b>	<b>874 640</b>	<b>1 260 167</b>

	GROUP		COMPANY	
	2001 R'000	2000 R'000	2001 R'000	2000 R'000
<b>12. LOANS AND DEBENTURES (continued)</b>				
<b>12.4 SECURED SHORT-TERM LOANS</b>				
Call loan bearing interest at prime less 1% and secured by advances of R20 million (refer to note 7)	4 000	-		
Call loan bearing interest at prime and secured by advances of R140 million (refer to note 7)	-	12 000		
<b>TOTAL SECURED SHORT-TERM LOANS</b>	<b>4 000</b>	<b>12 000</b>		
<b>12.5 UNSECURED SHORT-TERM LOANS</b>				
This loan bears interest at 80% of the Nedcor prime overdraft rate with interest being capitalised monthly	10 694	-		
This loan has no fixed terms of repayment and bears interest at prime +1%	26 357	-		
This loan bears interest at prime less 2%	4 167	-		
This loan bears interest at average call rate +2% and was repaid during October 2001	10 000	10 000		
<b>TOTAL UNSECURED SHORT-TERM LOANS</b>	<b>51 218</b>	<b>10 000</b>		
<b>TOTAL SHORT-TERM LOANS</b>	<b>55 218</b>	<b>22 000</b>		
<b>TOTAL LOANS AND DEBENTURES</b>	<b>929 858</b>	<b>1 282 167</b>		
<b>13. LIABILITIES TO DEPOSITORS</b>				
Interbank funding	55 482	45 784		
Demand deposits	253 275	114 841		
Savings deposits	28 043	82 190		
Fixed and notice deposits	699 631	189 956		
Negotiable certificates of deposit	269 384	209 917		
	<b>1 305 815</b>	<b>642 688</b>		
<b>14. OTHER LIABILITIES</b>				
Sundry creditors, provisions and accruals	273 282	307 163	12 218	10 256
Shareholders for dividends	443	27	443	27
	<b>273 725</b>	<b>307 190</b>	<b>12 661</b>	<b>10 283</b>



AFRICAN BANK INVESTMENTS LIMITED

NOTES TO THE  
ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2001

	GROUP AND COMPANY			
	2001		2000	
	Number of shares	R'000	Number of shares	R'000
<b>15. SHARE CAPITAL</b>				
<b>AUTHORISED</b>				
Ordinary shares of 2,5 cents each	1 000 000 000	25 000	1 000 000 000	25 000
<b>ISSUED</b>				
Ordinary shares of 2,5 cents each	514 298 421	12 858	622 783 987	15 570
The 485 701 579 (2000: 377 216 013) unissued shares remain under the unrestricted control of the directors, until the forthcoming annual general meeting.				
<b>16. SHARE PREMIUM</b>				
The decrease in the share premium is as a result of the share buyback approved by shareholders at a meeting held on 18 June 2001.				
	GROUP		COMPANY	
	2001	2000	2001	2000
	R'000	R'000	R'000	R'000
<b>17. RESERVES</b>				
<b>17.1 Non-distributable reserves comprise the following:</b>				
Surplus on sale of investments	75 128	77 621	80 578	79 121
Discount arising on acquisition of subsidiaries	10 766	26 139	-	-
Reduction as a result of share buyback	(4 181)	-	(4 181)	-
	81 713	103 760	76 397	79 121
<b>17.2 Other reserves comprise the following:</b>				
Attributable income	2 193 536	1 489 692	1 496 794	549 346
Treasury shares	(233 596)	-	-	-
<b>TOTAL RESERVES</b>	<b>2 041 653</b>	<b>1 593 452</b>	<b>1 573 191</b>	<b>628 467</b>
<b>18. SECONDARY CAPITAL</b>				
Subordinated debentures:				
Face value	200 000	500 000		
Discount	(17 910)	-		
Interest capitalised	1 377	6 341		
Subordinated debentures with a face value of R200 million (2000: R500 million), redeemable on 30 November 2006 (2000: 1 October 2004). Interest is calculated quarterly at a coupon rate of 14,75% (2000: 14,89%).				

	GROUP		COMPANY	
	2001 R'000	2000 R'000	2001 R'000	2000 R'000
<b>19. INTEREST INCOME</b>				
Advances	1 731 875	1 778 568	-	-
Other	123 185	74 202	1 728	6 083
Interest received from group companies	-	-	938	17 834
	<b>1 855 060</b>	<b>1 852 770</b>	<b>2 666</b>	<b>23 917</b>
<b>20. INTEREST EXPENSE</b>				
Interbank funding	78 147	165 001	-	-
Demand deposits	23 383	31 156	-	-
Savings deposits	1 079	2 401	-	-
Fixed and notice deposits	67 847	31 633	-	-
Subordinated debentures	73 610	74 671	-	-
Sundry loans and debentures	54 679	105 537	-	-
Negotiable certificates of deposit	26 081	26 519	-	-
Debenture discount	6 638	3 596	-	-
Interest paid to group companies	-	-	-	9 381
	<b>331 464</b>	<b>440 514</b>	<b>-</b>	<b>9 381</b>
<b>21. CHARGE FOR BAD AND DOUBTFUL ADVANCES</b>				
<b>SPECIFIC PROVISION</b>				
Balance at the end of the year	273 375	448 448		
Balance at the beginning of the year	448 448	156 628		
Net increase in the provision	99 878	293 170		
Acquisition of subsidiary	3 200	-		
Cash received for release of guarantee on portion of advances	-	259 000		
Amounts written off against the provision	(278 151)	(260 350)		
<b>GENERAL PROVISION</b>				
Balance at the end of the year	152 575	204 557		
Balance at the beginning of the year	204 557	157 944		
Acquisition of subsidiary	4 143	874		
(Decrease)/increase in the provision	(56 125)	45 739		
Total increase in provisions	43 753	338 909		
Less: Recoveries of amounts previously written off	(37 690)	(49 430)		
<b>TOTAL CHARGE</b>	<b>6 063</b>	<b>289 479</b>		



AFRICAN BANK INVESTMENTS LIMITED

NOTES TO THE  
ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2001

	GROUP		COMPANY	
	2001 R'000	2000 R'000	2001 R'000	2000 R'000
<b>22. NET ASSURANCE INCOME</b>				
Single premiums received	361 471	441 929		
Less: Reinsurance premiums paid net of experience refund	51 899	100 214		
Net premiums received	309 572	341 715		
Less: Benefits paid to policyholders	45 265	20 146		
Total claimed	79 652	43 618		
Recovered from reinsurance	(34 387)	(23 472)		
Expenses paid	3 115	5 447		
Assurance income before transfer	261 192	316 122		
Transferred (to)/from life fund	(38 314)	30 515		
Interest earned on insurance funds	2 833	-		
	225 711	346 637		
<b>23. NON-INTEREST INCOME</b>				
Fee and commission income	232 879	245 946	-	-
Dividends received	1 157	1 260	1 000 000	225 000
Profit on disposal of investment in associate	-	5 143	-	-
	234 036	252 349	1 000 000	225 000

During the year the company received a dividend of R1 000 million from its unlisted wholly owned subsidiary, African Bank Limited.

	GROUP		COMPANY	
	2001 R'000	2000 R'000	2001 R'000	2000 R'000
<b>24. OPERATING COSTS</b>				
Auditors' remuneration				
Audit fees	2 975	2 124	340	206
Fees for other services	295	424	-	-
Expenses	6	6	-	-
Depreciation on fixed assets				
Furniture	3 554	3 497	-	-
Computer equipment and software	20 660	12 897	-	-
Office equipment	2 984	2 311	-	-
Motor vehicles	840	576	-	-
Leasehold improvements	2 991	141	-	-
Net goodwill amortised	3 224	-	-	-
Minor assets written off	6 002	-	-	-
Direct selling costs/commissions	118 887	68 754	-	-
Loss on sale of fixed assets	3 543	15 926	-	-
Loss on disposal of associate	-	-	-	399
Provision for loss on investment loans	-	2 755	-	4 983
Professional fees:				
Legal fees	8 417	5 884	12	672
Consultants' and other professional fees	26 250	11 696	29	-
Staff cost	331 978	250 870	97	-
Operating lease premiums:				
Leasehold fixed property	45 343	30 692	42	-
Computers and other equipment	6 370	1 382	-	-
Directors' remuneration:				
Paid by				
Subsidiaries				
– Non-executive directors				
• Fees	302	224	-	-
– Executive directors				
• Salaries	1 195	2 470	-	-
• Bonus	4 147	1 375	-	-
Paid by				
Holding company – Executive director				
• Bonus	1 515	-	1 515	-
Other expenses	251 582	220 356	2 672	4 439
	<b>843 060</b>	<b>634 360</b>	<b>4 707</b>	<b>10 699</b>



NOTES TO THE  
ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2001

	GROUP		COMPANY	
	2001 R'000	2000 R'000	2001 R'000	2000 R'000
<b>25. TAXATION</b>				
<b>CHARGE FOR THE YEAR</b>				
SA normal tax				
– Current year	500 286	247 400	797	2 969
– Prior years under/(over)provision	3 601	346	(3)	–
Deferred tax				
– Current year	(169 002)	65 834	–	–
– Prior years (over)/underprovision	(154)	25	–	–
Secondary tax on companies	7 778	–	–	–
Taxation per income statement	342 509	313 605	794	2 969
Net income before taxation	1 137 834	1 103 550	997 959	228 837
Less: Share of associate companies' attributable income	(3 614)	(16 147)	–	–
Indirect taxation: Value added tax	(31 183)	(30 304)	–	–
	1 103 037	1 057 099	997 959	228 837
Taxation per income statement (excluding STC)	334 731	313 605	794	2 969
	%	%	%	%
<b>TAX RATE RECONCILIATION</b>				
Taxation charge for the year as a percentage of profit before taxation	30,3	29,7	0,1	1,3
Dividend income	0,1	–	30,1	29,5
Capital items	(0,2)	0,3	–	(0,3)
Other disallowable expenses	(0,2)	(0,3)	(0,2)	(0,5)
Other	–	0,3	–	–
Standard rate of South African taxation	30,0	30,0	30,0	30,0

	GROUP		COMPANY	
	2001 R'000	2000 R'000	2001 R'000	2000 R'000
<b>26. RECONCILIATION BETWEEN EARNINGS AND HEADLINE EARNINGS PER SHARE</b>				
Net income attributable to ordinary shareholders	751 068	723 184		
Adjustments:				
– Net goodwill amortised	3 224	–		
– Profit on disposal of investment in associate	–	(5 143)		
– Retrenchment provisions	8 573	–		
Headline earnings	762 865	718 041		
Weighted number of shares	586 473	589 030		
Fully diluted weighted number of shares	594 140	– <sup>1</sup>		
Earnings per share	128,1	122,8		
Headline earnings per share	130,1	121,9		
Fully diluted earnings per share	126,4	– <sup>1</sup>		
Fully diluted headline earnings per share	128,4	– <sup>1</sup>		

Earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

<sup>1</sup>No dilutionary effect as the share options were priced out of the money.

	GROUP		COMPANY	
	2001 R'000	2000 R'000	2001 R'000	2000 R'000
<b>27. CASH GENERATED FROM OPERATIONS</b>				
Net income before taxation and share of associate companies' attributable income	1 103 037	1 057 099	997 959	228 837
Adjustments for:				
– (Decrease)/increase in provisions for doubtful advances	(227 055)	338 909	–	–
– Depreciation	31 029	19 422	–	–
– Goodwill amortisation	3 224	–	–	–
– Loss on dilution of subsidiary	–	322	–	–
– Loss on disposal of fixed assets	3 543	15 926	–	–
– Profit on disposal of associate	–	(5 143)	–	399
– Provision for loss on loans	–	–	–	4 983
– Transfer to/(from) life fund	38 314	(30 515)	–	–
	952 092	1 396 020	997 959	234 219



NOTES TO THE  
ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2001

	GROUP		COMPANY	
	2001 R'000	2000 R'000	2001 R'000	2000 R'000
<b>28. (INCREASE)/DECREASE IN INCOME EARNING ASSETS</b>				
Increase in liquid assets	(43 929)	(60 221)	-	-
(Increase)/decrease in sundry debtors	(34 380)	27 892	6 435	(5 042)
Increase in advances	(35 860)	(859 865)	-	-
	(114 169)	(892 194)	6 435	(5 042)
<b>29. (DECREASE)/INCREASE IN DEPOSITS, LIABILITIES AND OTHER PROVISIONS</b>				
Increase in liabilities to depositors	663 127	184 698	-	-
Decrease in loans and debentures	(699 048)	(518 285)	-	-
(Decrease)/increase in other liabilities	(43 707)	64 035	3 419	1 801
	(79 628)	(269 552)	3 419	1 801
<b>30. ACQUISITION OF SUBSIDIARIES</b>				
The following subsidiaries were purchased during the years ended 30 September 2001 and 30 September 2000. Below is the fair value of assets acquired and liabilities assumed.				
Operating assets	1 589	111 717		
Cash and cash equivalents	37	(349)		
Other investments	-	10 000		
Fixed assets	78	4 660		
Operating liabilities	(1 007)	(44 235)		
Other liabilities	-	(22 602)		
Outside shareholders	-	(15 385)		
Consideration received	697	43 806		
Less: Cash and cash equivalents	37	(349)		
Net assets acquired in subsidiaries	660	44 155		
Prior holding of net assets	-	(16 003)		
Outside shareholders' interest	-	(13 436)		
Group interest	660	14 716		
Goodwill	469	54 296		
Total cost of acquisition	1 129	69 012		
Settled by issue of shares	-	9 813		
Net cash outflow on acquisition	1 129	59 199		

	GROUP		COMPANY	
	2001 R'000	2000 R'000	2001 R'000	2000 R'000
<b>31. ADDITIONAL HOLDINGS IN SUBSIDIARIES ACQUIRED</b>				
Net asset value of additional shares acquired	52 866	51 486		
Goodwill	28 601	280 635		
Cost of additional shares in subsidiaries	81 467	332 121		
Less: Cash acquired	(33 915)	-		
Settled by issue of shares	-	(229 444)		
Settled other than by cash	(8 000)	-		
Net cash outflow on acquisition	39 552	102 677		
<b>32. ASSOCIATES BECOMING JOINT VENTURES</b>				
The following associates were proportionately consolidated during the current year and equity accounted during the year ended 30 September 2000. Below is the fair value of assets acquired and liabilities assumed.				
Operating assets	51 741	-		
Cash and cash equivalents	3 079	-		
Operating liabilities	(28 634)	-		
Consideration received	26 186	-		
Less: Cash and cash equivalents	(3 079)	-		
Net assets acquired in joint ventures	23 107	-		
Prior holding of net assets excluding cash held	(26 186)	-		
Net inflow of acquisition	(3 079)	-		
<b>33. CASH AND CASH EQUIVALENTS</b>				
Short-term deposits and cash	373 504	1 246 979	2 583	26 071
Bank overdraft	(49 267)	(33 258)	-	-
	324 237	1 213 721	2 583	26 071



NOTES TO THE  
ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2001

34. FINANCIAL RISK

34.1 INTEREST RATE RISK

The subsidiaries are exposed to interest rate risk associated with the effects of fluctuations in the prevailing levels of market rates on their financial positions and cash flows. The table below summarises the subsidiaries' exposure to interest rate risk through grouping assets and liabilities into repricing categories, determined to be the earlier of the contractual repricing date or maturity.

2001	Up to one month R'000	One to three months R'000	Four to twelve months R'000	Beyond twelve months R'000	Non- interest sensitive items R'000	Total R'000
<b>ASSETS</b>						
Fixed assets	-	-	-	-	179 509	179 509
Investments in associates	-	-	-	-	7 133	7 133
Goodwill	-	-	-	-	25 846	25 846
Deferred tax asset	-	-	-	-	45 553	45 553
Advances	629 788	642 202	1 132 557	1 838 134	-	4 242 681
Other assets and taxation	42 841	-	-	-	177 699	220 540
Liquid and trading assets	127 613	23 679	53 891	-	75 730	280 913
Short-term deposits and cash	295 512	3 000	-	-	74 992	373 504
<b>TOTAL ASSETS</b>	<b>1 095 754</b>	<b>668 881</b>	<b>1 186 448</b>	<b>1 838 134</b>	<b>586 462</b>	<b>5 375 679</b>
<b>LIABILITIES</b>						
Life fund	-	-	-	-	107 958	107 958
Deferred tax liability	-	-	-	-	12 282	12 282
Secondary capital	1 377	-	-	182 090	-	183 467
Loans and debentures	85 865	68 544	258 276	517 173	-	929 858
Liabilities to depositors	531 415	150 066	406 501	217 833	-	1 305 815
Bank overdraft	49 267	-	-	-	-	49 267
Other liabilities and taxation owing	2 098	3 486	-	-	668 163	673 747
<b>TOTAL LIABILITIES</b>	<b>670 022</b>	<b>222 096</b>	<b>664 777</b>	<b>917 096</b>	<b>788 403</b>	<b>3 262 394</b>
<b>ON-BALANCE SHEET</b>						
<b>INTEREST SENSITIVITY</b>	<b>425 732</b>	<b>446 785</b>	<b>521 671</b>	<b>921 038</b>	<b>(201 941)</b>	<b>2 113 285</b>

Assuming the financial assets and liabilities on hand at 30 September 2001 were to remain on hand until maturity or settlement without any action by the subsidiaries to alter the resulting interest rate risk exposure, an immediate and sustained 1% parallel decline in the yield curve would result in the net interest income of the group for the next twelve months declining by R10,1 million.

## 34. FINANCIAL RISK (continued)

2000	Up to one month R'000	One to three months R'000	Four to twelve months R'000	Beyond twelve months R'000	Non- interest sensitive items R'000	Total R'000
<b>ASSETS</b>						
Fixed assets	-	-	-	-	96 660	96 660
Investments in associates	-	-	-	-	28 705	28 705
Deferred tax asset	-	-	-	-	49 998	49 998
Net advances	768 543	401 558	1 237 120	1 493 466	79 079	3 979 766
Other assets and taxation	45 952	-	-	-	87 268	133 220
Liquid assets	104 087	58 156	-	889	73 852	236 984
Short-term deposits and cash	1 090 041	147 062	-	-	9 876	1 246 979
<b>TOTAL ASSETS</b>	<b>2 008 623</b>	<b>606 776</b>	<b>1 237 120</b>	<b>1 494 355</b>	<b>425 438</b>	<b>5 772 312</b>
<b>LIABILITIES</b>						
Life fund	-	-	-	-	69 644	69 644
Loans and debentures	885 314	-	10 124	341 622	45 107	1 282 167
Deferred tax liability	-	-	-	-	186 875	186 875
Secondary capital	-	6 341	-	500 000	-	506 341
Liabilities to depositors	232 639	83 744	184 678	141 627	-	642 688
Other liabilities and taxation	20 513	-	45 009	264	365 051	430 837
Bank overdraft	33 258	-	-	-	-	33 258
<b>TOTAL LIABILITIES AND SECONDARY CAPITAL</b>	<b>1 171 724</b>	<b>90 085</b>	<b>239 811</b>	<b>983 513</b>	<b>666 677</b>	<b>3 151 810</b>
<b>ON-BALANCE SHEET</b>						
<b>INTEREST SENSITIVITY</b>	<b>836 899</b>	<b>516 691</b>	<b>997 309</b>	<b>510 842</b>	<b>(241 239)</b>	<b>2 620 502</b>



NOTES TO THE  
ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2001

34. FINANCIAL RISK (continued)

34.2 LIQUIDITY RISK

2001	Up to one month R'000	One to three months R'000	Four to twelve months R'000	Beyond twelve months R'000	Total R'000
<i>Assets and liabilities maturities as at 30 September 2001</i>					
<b>ASSETS</b>					
Fixed assets	-	-	-	179 509	179 509
Investments in associates	-	-	-	7 133	7 133
Goodwill	-	-	-	25 846	25 846
Deferred tax asset	-	-	4 012	41 541	45 553
Advances	502 479	687 171	1 218 341	1 834 690	4 242 681
Other assets and taxation prepaid	51 373	156 596	1 964	10 607	220 540
Liquid and trading assets	203 343	23 679	53 891	-	280 913
Short-term deposits and cash	352 149	3 000	-	18 355	373 504
<b>TOTAL ASSETS</b>	<b>1 109 344</b>	<b>870 446</b>	<b>1 278 208</b>	<b>2 117 681</b>	<b>5 375 679</b>
<b>LIABILITIES</b>					
Life fund	-	-	1 872	106 086	107 958
Deferred tax liability	-	-	-	12 282	12 282
Secondary capital	1 377	-	-	182 090	183 467
Loans and debentures	55 815	68 544	262 827	542 672	929 858
Liabilities to depositors	531 415	150 066	406 501	217 833	1 305 815
Bank overdraft	3 485	-	-	45 782	49 267
Other liabilities and taxation owing	194 344	21 165	404 391	53 847	673 747
<b>TOTAL LIABILITIES</b>	<b>786 436</b>	<b>239 775</b>	<b>1 075 591</b>	<b>1 160 592</b>	<b>3 262 394</b>
<b>NET LIQUIDITY GAP</b>	<b>322 908</b>	<b>630 671</b>	<b>202 617</b>	<b>957 089</b>	<b>2 113 285</b>

The table above analyses the group's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the group. It is unusual for bank and bank-controlling companies ever to be completely matched since the business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the group and its exposure to changes in interest rates.

**FACILITY UNUTILISED**

African Bank Limited has an undrawn guaranteed credit facility of R500 million with BoE and a R350 million undrawn unguaranteed credit facility with Standard Bank of South Africa.

## 34. FINANCIAL RISK (continued)

2000	Up to one month R'000	One to three months R'000	Four to twelve months R'000	Beyond twelve months R'000	Total R'000
<i>Assets and liabilities maturities as at 30 September 2000</i>					
<b>ASSETS</b>					
Fixed assets	-	-	-	96 660	96 660
Investment in associates	-	-	-	28 705	28 705
Deferred tax asset	-	-	-	49 998	49 998
Net advances	222 009	513 265	1 637 150	1 607 342	3 979 766
Other assets and taxation	81 930	22 042	5 092	24 156	133 220
Liquid assets	177 454	58 156	-	1 374	236 984
Short-term deposits and cash	1 090 018	148 172	-	8 789	1 246 979
<b>TOTAL ASSETS</b>	<b>1 571 411</b>	<b>741 635</b>	<b>1 642 242</b>	<b>1 817 024</b>	<b>5 772 312</b>
<b>LIABILITIES</b>					
Life fund	-	-	-	69 644	69 644
Loans and debentures	51 943	58 966	277 213	894 045	1 282 167
Deferred tax liability	-	-	-	186 875	186 875
Secondary capital	-	6 341	-	500 000	506 341
Liabilities to depositors	232 639	83 744	184 678	141 627	642 688
Other liabilities and taxation	223 707	83 054	83 067	41 009	430 837
Bank overdraft	33 258	-	-	-	33 258
<b>TOTAL LIABILITIES AND SECONDARY CAPITAL</b>	<b>541 547</b>	<b>232 105</b>	<b>544 958</b>	<b>1 833 200</b>	<b>3 151 810</b>
<b>NET LIQUIDITY GAP</b>	<b>1 029 864</b>	<b>509 530</b>	<b>1 097 284</b>	<b>(16 176)</b>	<b>2 620 502</b>



NOTES TO THE  
ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2001

34. FINANCIAL RISK (continued)

34.3 CREDIT RISK

All loans granted by the group are granted in the Republic of South Africa. The concentrations of these loans by economic sector are outlined in note 7.

34.4 CURRENCY RISK

The group has no significant foreign currency positions.

34.5 CAPITAL ADEQUACY RISK (BANKING)

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 provisions.

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.

The bank's capital adequacy ratio at 30 September 2001 was 33,1% compared to the regulatory requirement of 8,0%. (With effect from 1 October 2001, South African banks will be required to maintain minimum capital levels of 10,0% of risk-weighted assets.)

34.6 LIFE ASSURANCE RISK

*Legal risk*

Legal risk is the risk that the group will be exposed to contractual obligations which have not been provided for. During the development stage of any new product the legal services of the group monitor the drafting of the contract document to ensure that the rights and obligations of all parties are clearly defined.

*Capital adequacy risk*

Capital adequacy risk is the risk that there are insufficient reserves to provide for adverse variations in actual experience as compared with that which has been assumed in the financial soundness valuation.

35. CONTINGENT LIABILITIES AT YEAR-END

African Bank and Credit Indemnity are jointly and severally liable for a guarantee amounting to R35,3 million relating to funding provided by minorities of a group subsidiary.

African Contractors Finance Corporation has guaranteed loans totalling R11 million to contractors for prospective government construction contracts.

	GROUP	
	2001 R'000	2000 R'000
36. OPERATING LEASE COMMITMENTS		
Payable within one year	35 833	20 565
– Property	31 553	19 540
– Equipment	3 362	503
– Motor vehicles	918	522
Payable between one and five years	53 187	23 833
– Property	40 385	22 100
– Equipment	11 933	983
– Motor vehicles	869	750
Payable thereafter	–	–



**37. RETIREMENT AND POST-RETIREMENT BENEFITS**

Pensions are provided to some employees of the subsidiary companies by separate pension and provident funds. Remaining employees contribute to schemes of their own choice. 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 contributions to the fund.

The group has no obligation to provide medical aid benefits or post-retirement benefits to employees or pensioners.

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**38. RELATED PARTY INFORMATION**

African Bank Investments Limited holds 100% of African Bank Limited, Theta Investments Limited and Standard General Insurance Company Limited.

**MATERIAL RELATED PARTY TRANSACTIONS**

African Bank Limited has entered into financial services transactions with its subsidiaries. These transactions were in the ordinary course of business on market related terms and conditions similar to those arranged with third parties.

**DIRECTORS AND DIRECTOR-RELATED ENTITIES**

There were no material transactions with directors other than interests in share capital and share options and emoluments as disclosed in the directors' report and note 24 respectively.

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## APPENDIX A

### INVESTMENT IN SUBSIDIARIES

	Type of business	Issued share capital		Effective percentage held		Investment		Loans	
		2001	2000	2001	2000	2001	2000	2001	2000
		R'000	R'000	%	%	R'000	R'000	R'000	R'000
African Bank Limited	Credit bank	121 251	121 251	100	100	1 038 748	1 038 748	(37 000)	50 596
Theta Investments (Pty) Limited (formerly Nisela Growth Investments (Pty) Limited)	Financial services	11	11	100	100	66 981	7 093	-	(49 586)
Theta Investments Management (Pty) Limited (formerly Nisela Management (Pty) Limited)	Management company	-	-	100	100	-	-	-	-
Union Micro Loans (Pty) Limited	Financial services	-	-	100	100	-	-	-	-
ABIL Employee Share Trust	Trust	-	-	100	-	-	-	7	-
Goodbye Properties (Pty) Limited	Property	-	-	100	100	-	-	6 978	5 004
BSG Management Company (Pty) Limited	Dormant	-	-	100	100	-	-	(6 701)	(7 724)
BTU Trading and Underwriting (Pty) Limited	Dormant	-	-	100	100	-	-	(4 346)	(4 346)
Standard General Insurance Company Limited	Assurance	5 000	5 000	100	100	522 635	522 205	-	-
Credit Save (Pty) Limited	Property	-	-	100	100	8 000	8 000	-	-
						<b>1 636 364</b>	<b>1 576 046</b>	<b>(41 062)</b>	<b>(6 056)</b>

**The following subsidiaries are held by Theta Investments and African Bank:**

Alternative Finance Limited	Dormant	27 368	27 368	100	100	344 623	344 623		
King Finance Corporation Limited	Dormant	721	721	100	100	205 905	205 905		
Unity Financial Services Limited	Dormant	197	197	100	100	68 865	68 865		
Information Technology Connections (Pty) Limited	Dormant	-	-	100	100	-	-		
Liberal Holdings Shareblock (Pty) Limited	Dormant	10	10	100	100	-	-		
African Contractors Finance Corporation (Pty) Limited (previously Theta Investments Management Company)	Financial services	2	2	100	100	2	2		
Union Micro Loans (Pty) Limited	Financial services	11	11	100	100	6 251	6 251		
Gilt Edge Management Services (Pty) Limited	Financial services	100	100	97	88,5	15 863	13 063		
Credit Indemnity (Pty) Limited	Financial services	12	12	100	100	39 193	39 193		
Credit Direct (Pty) Limited	Financial services	4	4	100	100	3 105	3 105		
Theta Specialised Finance (Pty) Limited (previously Lifestyle Direct (Pty) Limited)	Financial services	-	-	100	100	-	-		
Miners Credit Guarantee (Pty) Limited	Financial services	-	-	85	85	10 546	9 467		
Soletrade Seven (Pty) Limited trading as Quatro	Financial services	-	-	100	100	750	750		
Safrich Financial Services (Pty) Limited	Financial services	5	5	51	51	5 617	5 617		
Theta Capital (Pty) Limited	Dormant	-	-	100	100	-	-		

All subsidiaries are incorporated in the Republic of South Africa.

## APPENDIX B

### INVESTMENT IN ASSOCIATES

	Percentage	Percentage	GROUP		COMPANY	
	holding 2001	holding 2000	2001 R'000	2000 R'000	2001 R'000	2000 R'000
Teba Credit (Pty) Limited (associate of Miner's Credit Guarantee (Pty) Limited)	-	50				
Principal activity: Financial services						
- Ordinary shares at cost			-	10 000	-	-
- Share of attributable income			-	16 186	-	-
				26 186		
Business Ventures Investments 189 (Pty) Limited	40	40				
Principal activity: Financial services						
- Ordinary shares at cost net of goodwill			2 558	2 558	-	-
- Share of attributable income/(loss)			3 575	(39)	-	-
- Loan to associate			1 000	-	-	-
			7 133	2 519	-	-
<b>TOTAL</b>			7 133	28 705	-	-



AFRICAN BANK INVESTMENTS LIMITED

— APPENDIX B —  
AGGREGATE FINANCIAL  
INFORMATION IN RESPECT OF  
ASSOCIATE COMPANIES

	2001 R'000	2000 R'000
<b>BALANCE SHEETS</b>		
<b>ASSETS</b>		
Fixed assets	3 804	3 980
Deferred tax asset	–	1 985
Net current assets	16 837	101 650
	20 641	107 615
<b>LIABILITIES AND EQUITY</b>		
Share capital and reserves	15 335	58 671
Liabilities:		
– Long term	39	48 432
– Short term	636	512
Other liabilities	4 631	–
	20 641	107 615
<b>INCOME STATEMENT</b>		
Revenue	21 160	87 088
Net income before taxation	12 909	48 259
Taxation	(3 873)	(14 478)
Net income after taxation	9 036	33 781
Group's share of net income after tax	3 614	16 147

## APPENDIX C

### BUSINESS SEGMENTAL ANALYSIS

	Interest income	Other income	Interest expense	Charge for bad and doubtful debts	Operating costs and VAT	Net income/ (loss) before taxation
<b>INCOME STATEMENT</b>						
<b>2001</b>						
African Bank	1 343 790	176 002	339 266	(81 203)	639 020	622 709
Stangen	80 344	235 489	489	–	24 798	290 546
African Bank and Stangen	1 424 134	411 491	339 755	(81 203)	663 818	913 255
Theta Investments	518 920	69 625	76 447	87 266	228 502	196 330
Other and consolidation	(87 994)	(17 755)	(84 738)	–	(18 077)	(2 934)
<b>TOTAL</b>	<b>1 855 060</b>	<b>463 361</b>	<b>331 464</b>	<b>6 063</b>	<b>874 243</b>	<b>1 106 651</b>
						Headline profit attributable to ordinary shareholders
		Taxation	Outside shareholders' interest	Net profit attributable to ordinary shareholders	Headline adjustments	
<b>INCOME STATEMENT</b>						
<b>2001</b>						
African Bank		198 222	–	424 487	(8 573)	433 060
Stangen		84 190	–	206 356	–	206 356
African Bank and Stangen		282 412	–	630 843	(8 573)	639 416
Theta Investments		58 716	13 074	124 540	(553)	125 093
Other and consolidation		1 381	–	(4 315)	(2 671)	(1 644)
<b>TOTAL</b>		<b>342 509</b>	<b>13 074</b>	<b>751 068</b>	<b>(11 797)</b>	<b>762 865</b>



— APPENDIX C —  
BUSINESS SEGMENTAL ANALYSIS

	Interest income	Other income	Interest expense	Charge for bad and doubtful debts	Operating costs and VAT	Net income before taxation
<b>INCOME STATEMENT</b>						
<b>2000</b>						
African Bank	1 520 808	208 436	446 942	260 948	514 979	506 375
Stangen	55 456	315 526	–	–	1 569	369 413
African Bank and Stangen	1 576 264	523 962	446 942	260 948	516 548	875 788
Theta Investments	328 370	150 542	54 293	28 531	204 588	191 500
Other and consolidation	(51 864)	(59 371)	(60 721)	–	(56 472)	5 958
<b>TOTAL</b>	<b>1 852 770</b>	<b>615 133</b>	<b>440 514</b>	<b>289 479</b>	<b>664 664</b>	<b>1 073 246</b>

		Taxation	Outside shareholders' interest	Net profit attributable to ordinary shareholders	Headline adjustments	Headline profit attributable to ordinary shareholders
<b>INCOME STATEMENT</b>						
<b>2000</b>						
African Bank			–	353 189	–	353 189
Stangen			–	261 669	–	261 669
African Bank and Stangen		260 930	–	614 858	–	614 858
Theta Investments		52 125	35 019	104 356	6 227	98 129
Other and consolidation		550	1 438	3 970	(1 084)	5 054
<b>TOTAL</b>		<b>313 605</b>	<b>36 457</b>	<b>723 184</b>	<b>5 143</b>	<b>718 041</b>



	Interest-bearing assets		Non-interest-bearing assets		Total assets	
	2001	2000	2001	2000	2001	2000
	R'000	R'000	R'000	R'000	R'000	R'000
<b>BALANCE SHEET</b>						
African Bank	4 274 404	4 375 398	249 191	191 100	4 523 595	4 566 498
Stangen	781 918	786 349	348 992	46 045	1 130 910	832 394
African Bank and Stangen	5 056 322	5 161 747	598 183	237 145	5 654 505	5 398 892
Theta Investments	927 560	528 826	118 155	193 940	1 045 715	722 766
Other and consolidation	(1 194 665)	26 552	(129 876)	(375 898)	(1 324 541)	(349 346)
<b>TOTAL</b>	<b>4 789 217</b>	<b>5 717 125</b>	<b>586 462</b>	<b>55 187</b>	<b>5 375 679</b>	<b>5 772 312</b>

	Interest-bearing liabilities		Non-interest-bearing liabilities		Total liabilities	
	2001	2000	2001	2000	2001	2000
	R'000	R'000	R'000	R'000	R'000	R'000
African Bank	2 950 994	2 516 397	317 354	200 016	3 268 348	2 716 413
Stangen	-	-	403 459	294 216	403 459	294 216
African Bank and Stangen	2 950 994	2 516 397	720 813	494 232	3 671 807	3 010 629
Theta Investments	564 200	247 843	127 331	275 710	691 531	523 553
Other and consolidation	(1 041 203)	40 207	(59 741)	(422 579)	(1 100 944)	(382 372)
<b>TOTAL</b>	<b>2 473 991</b>	<b>2 804 447</b>	<b>788 403</b>	<b>347 363</b>	<b>3 262 394</b>	<b>3 151 810</b>

The group is divided into three main business segments:

- Credit banking related activities
- Life assurance activities
- Financial services

Other operations of the group mainly comprise holding investment property which does not constitute a separately reportable segment.

Refer to note 38 for material intergroup transactions.



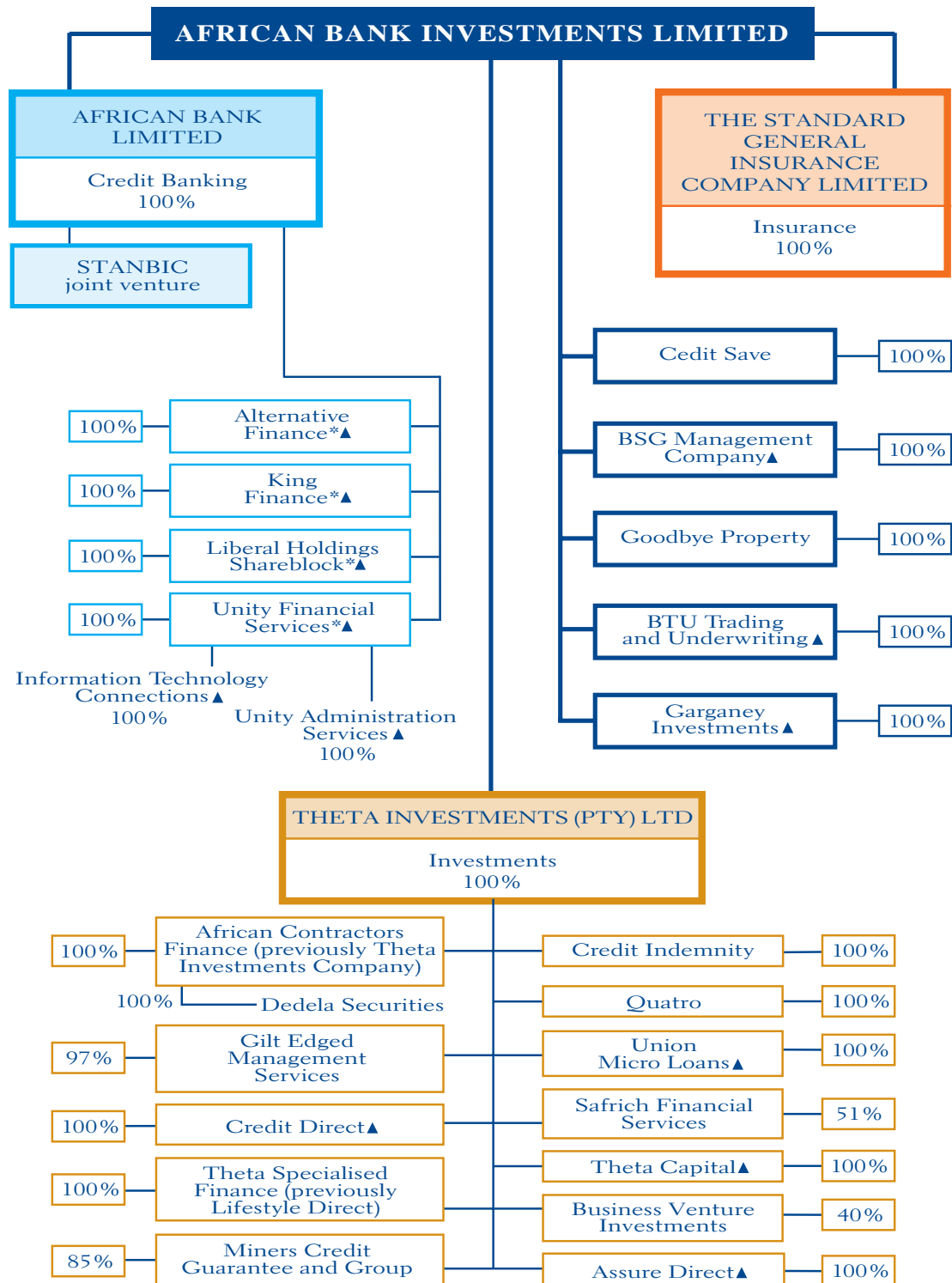
— APPENDIX D —  
INTEREST IN JOINT VENTURE

	2001 R'000	2000 R'000
<p>The group has a 40% interest in a joint venture, entered into with the Standard Bank of South Africa, which provides products and services in the credit banking industry. The following amounts represent the group's share of the assets and liabilities and revenue and expenses of the joint venture and are included in the consolidated balance sheet and income statement:</p>		
Interest-bearing assets	62 975	469
Non-interest-bearing assets	1 831	41
Interest-bearing borrowings	59 239	270
Non-interest-bearing borrowings	–	12
Provisions for liabilities and charges	4 551	–
Profit/(loss) before taxation	1 798	(311)
Taxation	(471)	–
Profit/(loss) after tax	1 327	(311)
Operating cash flow	5 209	201
Investing cash flow	–	–
Financing cash flow	–	–
Total cash flows	5 209	201
Proportionate interest in joint venture commitments	–	–
<p>The group has a 50% interest in a joint venture, entered into with Teba Bank, which provides products and services in the credit banking industry. The following amounts represent the group's share of the assets and liabilities and revenue and expenses of the joint venture and are included in the consolidated balance sheet and income statement.</p>		
Interest-bearing assets	125 021	–
Non-interest-bearing assets	9 862	–
Interest-bearing borrowings	69 239	–
Non-interest-bearing borrowings	–	–
Provisions for liabilities and charges	8 764	–
Profit before taxation	43 759	–
Taxation	(13 065)	–
Profit after taxation	30 694	–
Operating cash flow	389	–
Investing cash flow	–	–
Financing cash flow	–	–
Total cash flows	389	–
Proportionate interest in joint venture commitments	–	–



# APPENDIX E

## GROUP STRUCTURE AND PROFILE



▲ Dormant companies  
 \* Have been divisionalised into African Bank Limited



# NOTICE OF ANNUAL GENERAL MEETING

African Bank Investments Limited  
(Incorporated in the Republic of South Africa)  
(Registration number 1946/021193/06)  
("the company")

Notice is hereby given that the fifty-fifth annual general meeting of the shareholders of the company will be held on 6 February 2002, at 11:00 in the Conference Centre at African Bank Limited, 59 16th Road, Midrand, for the following business:

1. To receive and consider the annual financial statements for the year ended 30 September 2001.
2. To consider and, if deemed fit, to pass with or without modification, the following resolutions:
3. **ORDINARY RESOLUTION NUMBER 1**
  - 3.1 Resolved that the resolution regarding the resignation and appointment of directors, referred to in 3.2 below, be moved as a single resolution on the basis that if there are any objections to this, the resignation and re-election of each of the directors referred to in 3.2 below shall each be treated and moved separately.
  - 3.2 Resolved that as Leon Kirkinis, Nicholas Adams and Daniel Tembe are required to retire as directors of the company at this general meeting, in accordance with the articles of association, and such persons offer themselves for re-election, Leon Kirkinis, Nicholas Adams and Daniel Tembe be re-appointed as directors of the company with immediate effect.
4. **ORDINARY RESOLUTION NUMBER 2**

Resolved that the entire unissued share capital of the company be and is hereby placed under the control of the directors of the company who are hereby authorised to issue all or any of them on such terms and conditions as they may determine but subject to:

  - 4.1 the authority given to the directors in terms of ordinary resolution number 3;
  - 4.2 sections 221 and 222 of the Companies Act No 61 of 1973 ("the Companies Act");
  - 4.3 the rules and requirements of the JSE Securities Exchange SA ("the JSE"); and
  - 4.4 the Banks Act No 94 of 1990, as amended.
5. **ORDINARY RESOLUTION NUMBER 3**

Resolved that the directors have the powers to allot and issue any shares of any class in the capital of the company for cash when the directors consider it appropriate in the circumstances, subject to the following:

  - 5.1 this authority shall not endure beyond the next annual general meeting of the company nor shall it endure beyond 15 months from the date of this meeting;
  - 5.2 there will be no restrictions in regard to the persons to whom the shares may be issued, provided that such shares are to be issued to public shareholders (as defined by the JSE in its listing requirements) and not to related parties;
  - 5.3 upon any issue of shares which, together with prior issues during any financial year, will constitute 5% or more of the number of shares of the class in issue, the company shall, by way of a paid press announcement, give full details thereof, including the effect on the net asset value of the company and earnings per share;
  - 5.4 the aggregate issue of any particular class of shares in any financial year will not exceed 15% of the number of that class of shares (including securities which are compulsorily convertible into shares of that class);
  - 5.5 no shares issued pursuant to this authority will be issued at a price which is less than 90% of the weighted average traded price of the shares in question determined over the 30 business day period prior to the date that the price of the issue is determined or agreed by the directors, subject to the rules of the JSE.
6. **ORDINARY RESOLUTION NUMBER 4**

Resolved that the acquisition by the company of the insurance assets as detailed in Annexure 1 attached hereto from African Bank Limited, a wholly owned subsidiary of the company, be approved. The terms and conditions of such acquisition are set out in Annexure 1.
7. **ORDINARY RESOLUTION NUMBER 5**

Resolved that in terms of article 37 of the articles of association of the company and with effect from the close of business on the date of this meeting, the company's share capital account (excluding share premium) of R12 857 460,53 be reduced by R428 571,43 to R12 428 889,10, by cancelling the 17 142 857 ABIL shares held by The Standard General Insurance Company Limited, a wholly owned



subsidiary of the company. No payment shall be made to The Standard General Insurance Company Limited as a result of a cancellation of such shares.

8. ORDINARY RESOLUTION NUMBER 6

Resolved that the ABIL Share Option Scheme (called the African Bank Investments Limited Employee Share Participation Scheme) be amended to make provision for:

- 8.1 offers of options to be made not only to full-time employees of the ABIL group of companies but also to trustees nomine officio of a trust ("family trust") established primarily for the benefit of such full-time employees and/or one or more of the relevant employee's immediate relations (namely the relevant employee's spouse or his descendants, including adopted descendants); and
- 8.2 the transfer of options by full-time employees to their family trusts.

Copies of the amendments to the ABIL Share Option Scheme will be available for inspection at the registered office of the company during normal office hours on any business day until 6 February 2002. Copies of the amendments will also be tabled at the annual general meeting and initialled by the chairman for the purpose of identification.

9. SPECIAL RESOLUTION NUMBER 1

Resolved that the articles of association of the company be amended by the deletion of article 12.6 and the insertion of the following article in its place:

"The remuneration of the directors of the company shall, from time to time, be determined by the Remuneration Committee of the company, established by the board of directors of the company in accordance with corporate governance principles."

10. REASONS FOR AND EFFECT OF SPECIAL RESOLUTION NUMBER 1

- 10.1 The reason for special resolution number 1 is to ensure that the remuneration of non-executive and executive directors of the company is determined by a Remuneration Committee established in terms of current South African best corporate governance principles.
- 10.2 The effect of special resolution number 1 is that the remuneration of the directors will no longer be determined by the company in general meeting but by the Remuneration Committee so established.

11. SPECIAL RESOLUTION NUMBER 2

Resolved that the directors shall have the power to contract the company to acquire its own shares or any subsidiary of the company to acquire shares in the company, collectively referred to as "repurchases", when the directors consider it appropriate in the circumstances subject to the following:

- 11.1 this authority shall not endure beyond the next annual general meeting of the company nor shall it endure beyond 15 months from the date of the annual general meeting at which this special resolution is passed;
- 11.2 the repurchase of shares being implemented on the open market of the JSE;
- 11.3 the aggregate percentage of issued shares in the company which the company together with any of its subsidiaries may acquire during any financial year under this general authority shall not exceed 20% of the company's ordinary issued share capital;
- 11.4 repurchases must not be made at a price more than 10% above the weighted average of the market price for the shares in question for the five business days immediately preceding the date on which the repurchase is agreed;
- 11.5 any acquisition shall be subject to:
  - 11.5.1 the Companies Act, as amended;
  - 11.5.2 the prior approval of the Registrar of Banks, if necessary;
  - 11.5.3 the conditions laid down by the Registrar of Banks, if any;
  - 11.5.4 the Banks Act;
  - 11.5.5 the rules and requirements of the JSE and any other applicable stock exchange, as may be amended from time to time; and
  - 11.5.6 any other relevant authority.



## NOTICE OF ANNUAL GENERAL MEETING

12. **REASONS FOR AND EFFECT OF SPECIAL RESOLUTION NUMBER 2 AND STATEMENT REQUIRED IN TERMS OF PARAGRAPH 5.94 OF THE JSE LISTINGS REQUIREMENTS**
- 12.1 The reason for special resolution number 2 is to grant the directors of the company the general authority to contract the company and/or any of its subsidiaries to acquire shares in the company, should the directors consider it appropriate in the circumstances.
- 12.2 The effect of special resolution number 1 is that the directors will be granted the general authority to contract the company and/or any of its subsidiaries to acquire shares in the company, should the directors consider it appropriate in the circumstances and should the company comply with the relevant statutes and authority applicable thereto. This general authority shall prevail until the next annual general meeting of the company but shall not endure beyond 15 months from the date of the annual general meeting at which this special resolution is passed.
- 12.3 The directors, as at the date of this notice, have no definite intention of repurchasing shares. It is, however, proposed and the directors believe it to be in the best interests of the company that shareholders pass the special resolution contemplated in 11 above.
- 12.4 The directors, having considered the effect of any repurchases, shall not make any payment in whatever form to acquire any shares issued by the company if there are reasonable grounds for believing that:
- 12.4.1 The company and its subsidiaries are, or will at any time during the period of 12 months after the date of this notice, be unable, in the ordinary course of business, to repay their debts as they become due;
- 12.4.2 The consolidated assets of the company and its subsidiaries, fairly valued according to generally accepted accounting practice and in accordance with the accounting policies used in the latest audited annual financial statements of the company and its subsidiaries, will, at any time during the period of 12 months after this notice, be less than their consolidated liabilities;
- 12.4.3 The ordinary capital and reserves of the company and its subsidiaries will not, at any time within a period of 12 months after this notice, be sufficient to meet their needs for the foreseeable future; and
- 12.4.4 The company and its subsidiaries will not, at any time within the period of 12 months after this notice, have sufficient working capital to meet their needs for the foreseeable future.
- 12.5 Since the method of acquisition and the number of shares to be acquired are still to be determined by the board of directors in the future, the board of directors shall only exercise the authority hereby granted to it if, within the board's discretion, circumstances should merit such exercise and provided that, on the date of the acquisition of the shares and taking into account the effect thereof, the company will be able to comply with the requirements of 12.4.1 to 12.4.4 above.
13. **VOTING**  
All holders of ordinary shares will be entitled to attend and vote at the general meeting. On a show of hands, every holder of ordinary shares who is present in person or, in the case of a company, the representative appointed in terms of section 188 of the Companies Act, as amended, shall have one vote.
14. **PROXIES**  
A member entitled to attend and vote at a meeting is entitled to appoint a proxy to attend, speak and on a poll vote or abstain from voting in his stead. A proxy need not be a member. The instrument appointing a proxy must be received at the registered office of the company not less than 48 hours before the meeting.

By order of the board

**African Bank Investments Limited**

George Davias  
*Secretary*

Registered office  
59 16th Road  
Midrand  
1685

Private Bag X170  
Midrand  
1685

## ANNEXURE 1

**THE SALIENT TERMS AND CONDITIONS OF THE AGREEMENT BETWEEN ABIL AND ITS WHOLLY OWNED SUBSIDIARY, AFRICAN BANK LIMITED, REGARDING THE ACQUISITION OF CERTAIN INSURANCE ASSETS BY ABIL FROM AFRICAN BANK LIMITED**

1. During 1999, African Bank acquired the businesses of King Finance Corporation Limited ("King Finance"), Alternative Finance Limited ("Altfin") and Unity Financial Services Limited ("Unity"). Prior to the transfer of those businesses to African Bank, each of King Finance, Altfin and Unity entered into agreements with Hollard Life Assurance Company Limited ("Hollard Life") in terms of which Hollard Life was the underwriter of the credit life insurance sold by each of Altfin, King Finance and Unity to their borrowers. In terms of this underwriting agreement with Hollard Life, each of Altfin, King Finance and Unity have certain rights and obligations including, but not limited to, the most important right, which is to nominate an insurer to whom Hollard Life is obliged to pay, as a reinsurance premium, an amount equal to the claims reserve built up in respect of the credit life policies so underwritten by Hollard Life.
2. As the businesses of Altfin, King Finance and Unity were transferred to African Bank, this right to nominate the re-insurer in respect of the Hollard Life risk was also transferred to African Bank.
3. With effect from 1 September 1999, ABIL acquired 70% of the ordinary issued share capital of the Standard General Insurance Company Limited ("Stangen"), a registered insurance company. From such date, the credit life insurance business generated by African Bank (including its Altfin, King Finance and Unity divisions) was underwritten by Stangen. This business was placed by Stangen in a captive cell ("the African Bank business cell") and Stangen issued African Bank a B ordinary share in the share capital of Stangen, which gave African Bank ownership of the African Bank business cell.
4. Accordingly, since the establishment of the African Bank business cell in Stangen (being 1 September 1999), Hollard Life desisted in underwriting the credit life insurance business of African Bank (and its various divisions). However, Hollard Life still held the claims reserve built up in respect of credit life business generated by African Bank and its divisions prior to 1 September 1999.
5. The Registrar of Banks indicated to ABIL and African Bank that it would prefer it if ABIL organised its investments so that:
  - 5.1 those investments which involved businesses substantially similar to that of a bank be housed within or under African Bank; and
  - 5.2 the remaining operating companies of ABIL be housed under ABIL and that there is a clear differentiation between insurance assets and other investments.
6. African Bank and ABIL therefore wished for the insurance assets of African Bank to be transferred to ABIL at fair market value. Accordingly, ABIL concluded an agreement with African Bank, a copy of which will be tabled at the 55th annual general meeting of the shareholders of ABIL, in terms of which ABIL acquired all of African Bank's insurance interest being:
  - 6.1 the right to the B share in Stangen which gives African Bank ownership of the African Bank business cell held in Stangen; and
  - 6.2 the right of African Bank to nominate an insurer to whom Hollard Life will be obliged to pay, as a reinsurance premium, an amount equal to certain claims/life fund reserves held by Hollard Life as a result of credit life business introduced to Hollard Life by African Bank prior to 31 August 1999. In this regard ABIL has nominated Stangen as the recipient of such reinsurance premium.
7. In African Bank's books of account, the insurance assets were recorded, at the time of the agreement, at approximately R438 285 000,00. ABIL agreed to pay African Bank R490 000 000,00 for the insurance assets. The purchase price was therefore at a premium of approximately R51 715 000,00 above the book value.
8. In addition, African Bank granted ABIL the right, for so long as African Bank is a wholly owned subsidiary of ABIL:
  - 8.1 to appoint the insurer of ABIL's choice to insure and underwrite the insurance business associated with African Bank's term-lending business; and
  - 8.2 to utilise its distribution network to distribute products of insurers as selected by ABIL.
9. The conclusion of this transfer of insurance assets agreement was subject to conditions precedent, which inter alia included the approval of the Registrar of Banks to the Minister of Finance. All approvals were finally granted during August 2001. The Minister of Finance's approval is subject to the confirmation of the shareholders of ABIL and African Bank to the transaction described above. Therefore ordinary resolution number four, referred to in the notice of general meeting to which this Annexure 1 is attached, is necessary.



# MANAGEMENT TEAM

## ABIL

### **GORDON SCHACHAT (49)**

Deputy Chairman (Executive)

## LEON KIRKINIS (42)

Group Chief Executive Officer

BCom (Hons), BAcc, CA(SA)

## DAVID PORTEOUS (36)

Strategy

BCom (UCT), MPhil (Cambridge), PhD (Economics) (Yale)

## JOHAN DE RIDDER (43)

Strategic Projects

BSc Agric, MBA (University of Pretoria)

## AFRICAN BANK

### **LEON KIRKINIS (42)**

Managing Director of African Bank

## VERNON FILTER (39)

Finance and Treasury

BCompt (Hons) (cum laude), CA(SA) (Unisa)

## VICTOR RAMSINGH (37)

HR and Transformation

BA, LLB, SLC (University of Natal)

## ED COETZER (47)

Sales and Marketing

BCom Acc (UP), BCompt (Hons) (Unisa), CA(SA),

Executive Programme (USA)

## KGOMOTSO PHIHLELA (40)

Client Services

BSc (UCT), MBA (Wits)

## PIETER MARAIS (45)

Risk and Compliance

BCom (Hons), MCom

## DAVID LEW (42)

Collections

BAcc, CA(SA)

## STANGEN

### **RAYMOND GEORGIU (43)**

CEO: Stangen

BCompt (Hons), CA(SA)

## THETA

### **MICHAEL MENDELOWITZ (36)**

CEO: Theta Investments

BCom, CA(SA)

### **ROBERTO ROSSI (39)**

Executive: Theta Investments

BSc Mech Eng, GDE Ind Eng, BProc

### **JONATHAN JAWNO (35)**

Executive: Theta Investments

BCom, CA(SA)



FORM  
OF PROXY

AFRICAN BANK INVESTMENTS LIMITED  
(Incorporated in the Republic of South Africa)  
(Registration number 1946/021193/06)  
("ABIL" or "the company")

For use at the annual general meeting of African Bank Investments Limited to be held on 6 February 2002, at 11:00 in the Conference Centre at African Bank Limited, 59 16th Road, Midrand.

Each member is entitled to appoint only one proxy to attend, speak and vote (whether with or without a poll) in place of the member. A proxy need not be a shareholder of the company.

I/We (please print)

Telephone (work) ( ) Telephone (home) ( )

being the holder(s) of  ordinary shares in the company, appoint (see note 1):

1. or failing him

2. or failing him

3. the chairman of the annual general meeting  
as my/our proxy to act for me/us at the annual general meeting which will be held on 6 February 2002 and at each adjournment or postponement thereof for the purpose of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed at the general meeting in accordance with the following instructions (see note 2):

RESOLUTION	SUBJECT	FOR	AGAINST	ABSTAIN
Ordinary resolution No 1.1	Single resolution to appoint directors			
Ordinary resolution No 1.2	Re-elect Leon Kirkinis			
	Nicholas Adams			
	Daniel Tembe			
Ordinary resolution No 2	The unissued share capital of the company to be placed under the control of the directors of the company			
Ordinary resolution No 3	Directors can allot and issue shares for cash			
Ordinary resolution No 4	Acquisition of insurance assets			
Ordinary resolution No 5	Cancelling ABIL shares			
Ordinary resolution No 6	Amendments to ABIL Share Option Scheme			
Special resolution No 1	Directors' remuneration			
Special resolution No 2	Company can acquire its own shares			

Signed at on 2002

Signature of member/s Capacity

Assisted by State capacity and full names

(where applicable)

Please read the notes on the reverse side hereof.

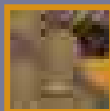
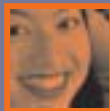


— FORM —  
OF PROXY

NOTES

1. A shareholder may insert the name of a proxy or the names of two or more alternative proxies of the shareholder's choice in the space/s provided with or without deleting "the chairman of the general meeting", but any such deletion must be initialled by the shareholder. The person whose name stands first on the form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. A shareholder's instruction to the proxy must be indicated by the insertion of an "X" in the appropriate box provided according to how the shareholder wishes his/her votes to be cast. However, if a shareholder wishes to cast his/her votes in respect of a lesser number of shares than he/she owns in the company, the shareholder must insert the relevant number of votes in the appropriate box. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the general meeting, as he/she deems fit provided that the total of the votes cast may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.
3. Forms of proxy must be received at the company's transfer secretaries' registered office, 10th Floor, 11 Diagonal Street, Johannesburg, 2001 (PO Box 1053, Johannesburg, 2000) by not later than 11:00 on 4 February 2002.
4. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form unless previously recorded by the company's transfer secretaries or waived by the chairman of the general meeting.
6. Any alteration to this form of proxy, other than the deletion of alternatives, must be initialled by the signatory(ies).
7. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries of the company.
8. The chairman of the general meeting may accept or reject any form of proxy which is completed and/or received other than in accordance with these instructions provided that he/she is satisfied as to the manner in which the member wishes to vote.





**AFRICAN BANK INVESTMENTS LIMITED**

[www.africanbank.co.za](http://www.africanbank.co.za)