

# *The African Bank Experience*

*African Bank Investments Limited  
Annual Report 2004*

# Financial highlights

## Five-year history

		2004	2003	2002	2001	2000
<b>Key shareholder ratios</b>						
Headline earnings	R000	<b>762 085</b>	680 059	510 642	753 065	718 041
Headline earnings per share	cents	<b>161,6</b>	140,4	104,4	128,4	121,9
Attributable earnings	R000	<b>755 961</b>	659 902	498 866	749 841	723 184
Attributable earnings per share	cents	<b>160,3</b>	136,2	102,0	127,9	122,8
Number of shares in issue (net of treasury shares)	000	<b>472 307</b>	474 210	489 567	504 193	622 784
Weighted average number of shares*	000	<b>471 601</b>	484 398	488 939	586 473	589 030
Net asset value per share	cents	<b>559,1</b>	588,1	497,1	407,0	410,4
Dividends per share						
Interim	cents	<b>35</b>	25	12	10	–
Final	cents	<b>57</b>	31	18	15	–
Total ordinary dividends	cents	<b>92</b>	56	30	25	–
Special dividend	cents	<b>53</b>	100	–	–	–
Total dividends	cents	<b>145</b>	156	30	25	–
Dividend cover (ordinary dividends vs headline earnings)	times	<b>1,76</b>	2,51	3,48	5,14	n/a
<b>Performance ratios (per RoE model)</b>						
Gross income yield on average advances	%	<b>60,3</b>	52,9	49,0	48,2	52,8
Bad debt expense to average advances	%	<b>9,5</b>	8,2	10,6	0,1	6,9
Risk-adjusted yield	%	<b>50,8</b>	44,7	38,4	48,1	45,9
Cost-to-income	%	<b>30,8</b>	36,2	36,6	38,5	26,4
Cost-to-advances	%	<b>18,5</b>	19,1	17,9	18,5	n/a
Effective tax rate (including indirect taxes)	%	<b>42,4</b>	37,4	34,4	32,9	31,2
Return on assets	%	<b>11,6</b>	10,6	8,9	13,9	14,9
Return on equity	%	<b>31,3</b>	25,9	23,2	31,6	40,4
<b>Asset and credit quality ratios</b>						
Gross advances	R000	<b>6 129 265</b>	6 314 097	7 166 640	4 668 631	4 632 771
Lending books	R000	<b>4 685 346</b>	4 131 183	3 678 355	3 147 401	2 296 859
Pay down books	R000	<b>1 443 919</b>	2 182 914	3 488 285	1 521 230	2 335 912
Average gross interest-bearing advances	R000	<b>5 101 359</b>	5 414 818	5 237 697	4 551 621	4 540 443
Total NPLs	R000	<b>2 246 104</b>	2 625 275	2 989 662	969 995	–
Total provisions (including all insurance reserves)	R000	<b>1 657 493</b>	1 961 016	2 375 905	576 978	822 860
NPLs to gross advances	%	<b>36,6</b>	41,6	41,7	20,8	–
Total provisions as a percentage of gross advances	%	<b>27,0</b>	31,1	33,2	12,4	17,7
NPL coverage	%	<b>73,8</b>	74,7	79,5	59,5	–
Bad debt write-offs to average gross advances	%	<b>13,5</b>	13,1	12,2	6,1	5,7
<b>Capital ratios</b>						
African Bank capital adequacy	%	<b>34,7</b>	40,8	34,0	33,1	50,3
Tier 1	%	<b>33,1</b>	38,4	31,3	25,0	38,4
Tier 2	%	<b>1,7</b>	2,4	2,7	8,1	11,9
ABIL group capital adequacy	%	<b>40,4</b>	44,5	38,1	39,5	45,4
<b>Cost of funds</b>						
Average cost of funds	%	<b>12,7</b>	14,5	13,5	13,3	15,8

\* 20 million shares were repurchased in May 2003 and cancelled in February 2004.

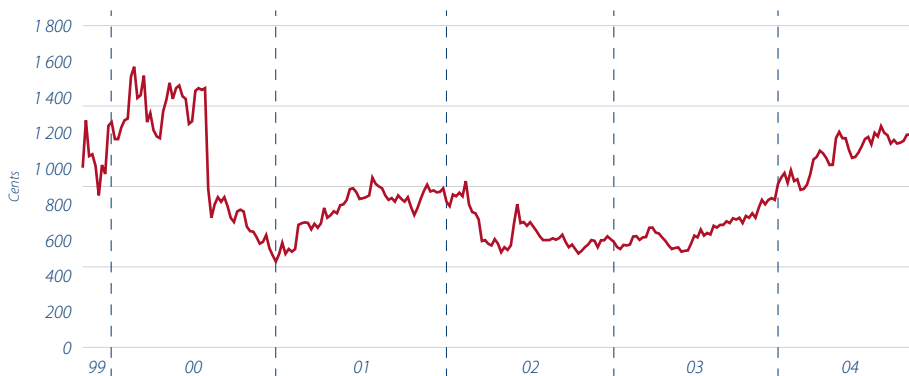
# JSE statistics



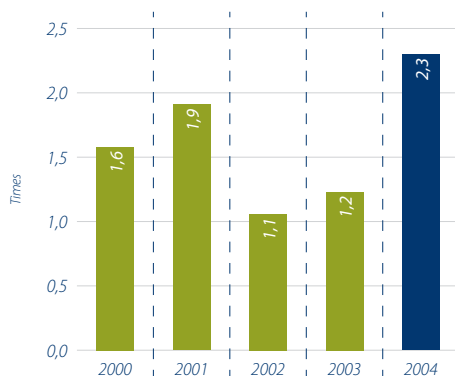
As at 30 September

	2004	2003	2002	2001	2000
<b>Traded price (cents per share)</b>					
Close	1 299	725	525	779	650
High	1 380	770	950	965	1 620
Low	721	520	480	460	565
Market capitalisation (Rm)	6 198	3 604	2 610	4 006	4 048
Value of shares traded (Rm)	5 371	2 804	3 109	4 274	4 544
Value traded as % of market capitalisation (%)	87	78	119	107	112
Volume of shares traded (000)	527 527	455 009	449 135	542 688	397 509
Volume traded as % of average number in issue (%)	112	94	92	93	67
PE ratio	9,3	6,5	4,1	6,3	5,8
Dividend yield	5,1	5,9	5,1	1,3	
Earnings yield	10,7	15,5	24,2	15,9	17,4
Year-end market price/NAV	2,3	1,2	1,1	1,9	1,6
Shares in issue (net of treasury shares) (000)	472 307	474 210	489 567	504 193	622 784
Average number of shares in issue (000)	471 601	484 398	488 939	586 473	5 89 030
Shares repurchased (000)	–	20 000	108 000	–	–
Number of shareholders	33 706	32 351	32 703	29 851	32 357

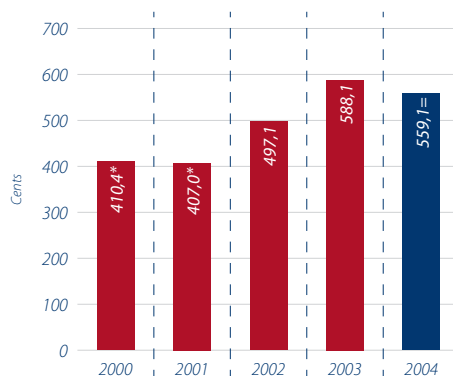
Five-year share performance



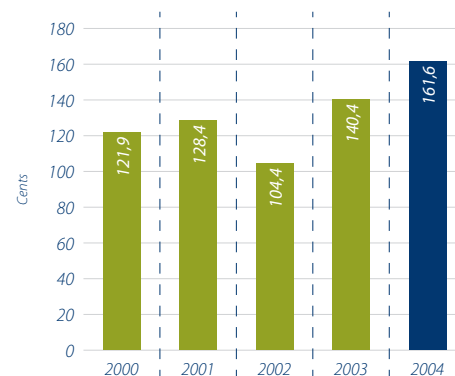
Year-end market price to NAV



Net asset value per share



Headline earnings per share



\* Influenced by a share issue and a share buy-back  
 = Influenced by 100 cent special dividend

# Financial review

## Group income statements

R million	Five-year compound growth %	12 months to 30 September (audited)					
		2004	2003	2002	2001	2000	1999
Interest income on advances	13,1	<b>2 490</b>	2 296	2 005	1 732	1 779	1 343
Net assurance income	4,8	<b>291</b>	247	260	226	347	230
Non-interest income	6,5	<b>294</b>	323	300	234	252	214
<b>Total revenue</b>	11,5	<b>3 074</b>	2 866	2 565	2 192	2 378	1 787
Charge for bad and doubtful advances	10,0	<b>(484)</b>	(445)	(553)	(6)	(289)	(301)
<b>Risk adjusted revenue</b>	11,8	<b>2 591</b>	2 421	2 012	2 186	2 088	1 486
Other interest income	(5,0)	<b>118</b>	143	83	123	74	153
Interest expense	0,1	<b>(453)</b>	(464)	(389)	(331)	(441)	(450)
Operating costs	18,6	<b>(946)</b>	(1 036)	(938)	(844)	(634)	(402)
<b>Net income from operations</b>	10,7	<b>1 310</b>	1 064	767	1 133	1 087	787
Share of associate companies' income	n/a	<b>1</b>	2	7	4	16	7
<b>Net income before taxation</b>	10,6	<b>1 311</b>	1 066	774	1 137	1 104	794
Direct and indirect taxation	17,3	<b>(555)</b>	(399)	(266)	(374)	(344)	(250)
<b>Net income after taxation</b>	6,8	<b>755</b>	667	508	763	760	544
Minority interest	n/a	<b>1</b>	(7)	(9)	(13)	(36)	(17)
<b>Net income attributable to ordinary shareholders</b>	7,5	<b>756</b>	660	499	750	723	527

## Group balance sheets

R million	Five-year compound growth %	30 September (audited)					
		2004	2003	2002	2001	2000	1999
<b>Assets</b>							
Net advances	5,9	<b>4 472</b>	4 400	4 900	4 220	3 980	3 357
Gross advances	10,8	<b>6 129</b>	6 314	7 167	4 669	4 633	3 672
Provisions for impairment	39,4	<b>(1 657)</b>	(1 914)	(2 266)	(448)	(653)	(315)
Short-term deposits, cash and liquid assets	25,6	<b>2 434</b>	1 628	1 257	600	1 484	780
Other assets	0,8	<b>429</b>	450	866	531	309	413
<b>Total assets</b>	10,0	<b>7 335</b>	6 478	7 024	5 351	5 772	4 550
<b>Liabilities</b>							
Loans and debentures	14,5	<b>3 524</b>	2 251	2 269	930	1 282	1 793
Liabilities to depositors	3,5	<b>544</b>	884	690	1 306	643	458
Other liabilities	(5,3)	<b>433</b>	359	1 388	821	721	568
<b>Total liabilities</b>	9,8	<b>4 501</b>	3 495	4 348	3 056	2 645	2 819
<b>Capital and reserves</b>							
Ordinary shareholders' equity	17,4	<b>2 641</b>	2 789	2 434	2 052	2 556	1 187
Outside shareholders' equity	(100,0)	<b>0</b>	5	56	59	65	38
Secondary capital	(17,5)	<b>193</b>	190	187	183	506	506
<b>Total equity (capital and reserves)</b>	10,4	<b>2 834</b>	2 983	2 676	2 294	3 127	1 731
<b>Total liabilities and equity</b>	10,0	<b>7 335</b>	6 478	7 024	5 351	5 772	4 550



## African Bank Investments Limited Annual Report 2004

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

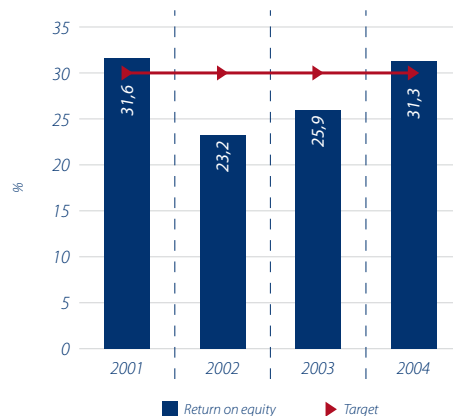
### Features

- ▶ *Headline earnings per share of 161,6 cents (2003: 140,4 cents)*
- ▶ *Return on assets of 11,6% (2003: 10,6%)*
- ▶ *Improved capital management and operating performance lift return on equity to 31,3% (2003: 25,9%)*
- ▶ *R684 million to shareholders – total ordinary dividends declared up 64% to 92 cents and special dividend of 53 cents declared*
- ▶ *Sales up by 25%, resulting in steady increase of 13% in lending books*
- ▶ *Continued positive change in product mix lifts total margins and revenues*
- ▶ *Bad debt to margin 19,4% (2003: 19,4%)*
- ▶ *Operating costs down R90 million resulting in cost-to-advances ratio of 18,5% (2003: 19,1%)*
- ▶ *Effective tax rate of 42,4% (2003: 37,4%), affected by R100 million in STC payments*
- ▶ *Long-term credit rating upgrade to "A" reduces funding costs to 12,7% (2003: 14,5%)*
- ▶ *Free cash reserves of R1,9 billion (2003: R1,1 billion)*

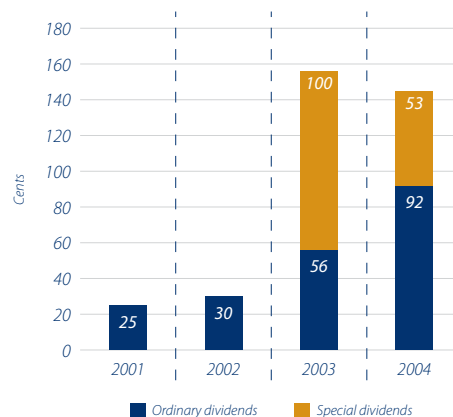
Return on assets



Return on equity



Dividends per share



# The process of credit at ABIL

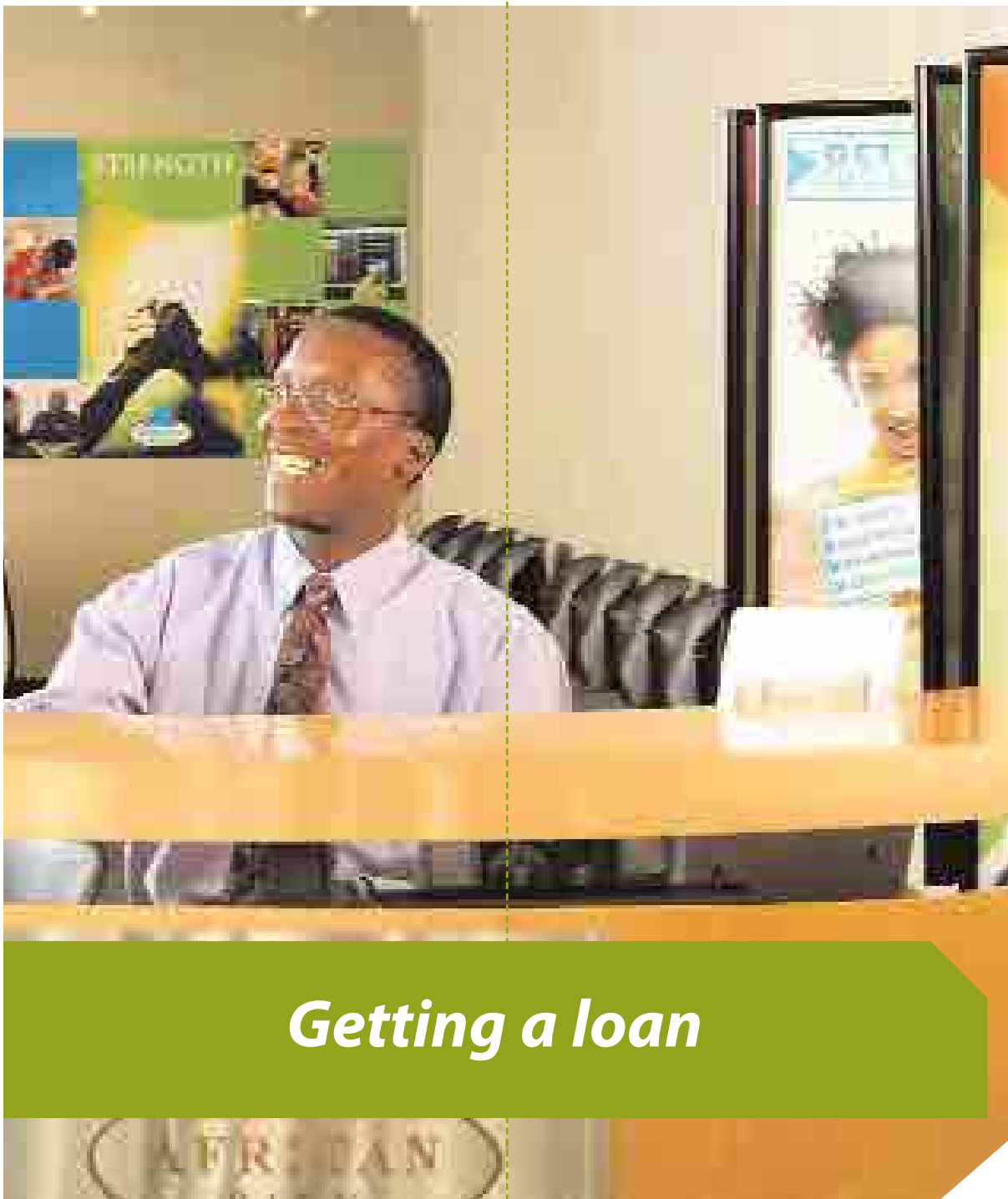


The process of credit at ABIL begins with the client deciding to use credit to satisfy special financial needs and choosing us to provide the credit. Our research tells us that these needs include incremental housing, education, funerals and debt consolidation, amongst others. The credit process can be categorised into nine stages, although most clients will not experience all of the stages.

## The process of credit at ABIL

### 1. Application for loan

Our client is over 21, in permanent employment, holding a bank account (not with us), he (or she) provides a copy of his (or her) identity document, a current payslip, two months' bank statements and proof of residence. He (or she) comes into one of our 542 conveniently located branches, offices, points of sale or Xpress centres or sets up a time for us to come to either his (or her) home or business.



## Getting a loan

### 2. Credit vetting and product offer

*Our fully automated, centralised processes check credit bureaux data, the client's prior history with the group and certain operational factors. We confirm the client's employment and calculate what repayments he (or she) can reasonably afford given the financial information provided to us. We offer a product with term, loan amount and price tailor-made to his (or her) profile.*

### 3. Disbursement

*Loans are paid directly into the client's bank account, making it safer and more convenient. At Credit Indemnity loans are disbursed in cash. Our clients value quick turnaround times which we are constantly improving. At African Bank our objective is to approve 90% of new loans within 90 minutes and repeat loans within 20 minutes. We are not there yet, but we are getting close! ... At Credit Indemnity a new client can leave the branch with cash in his (or her) wallet in 30 minutes. Repeat clients need as little as 15 minutes. Miners Credit approves loans inside two minutes and the client can elect to take cash immediately or disbursement into his (or her) bank account.*





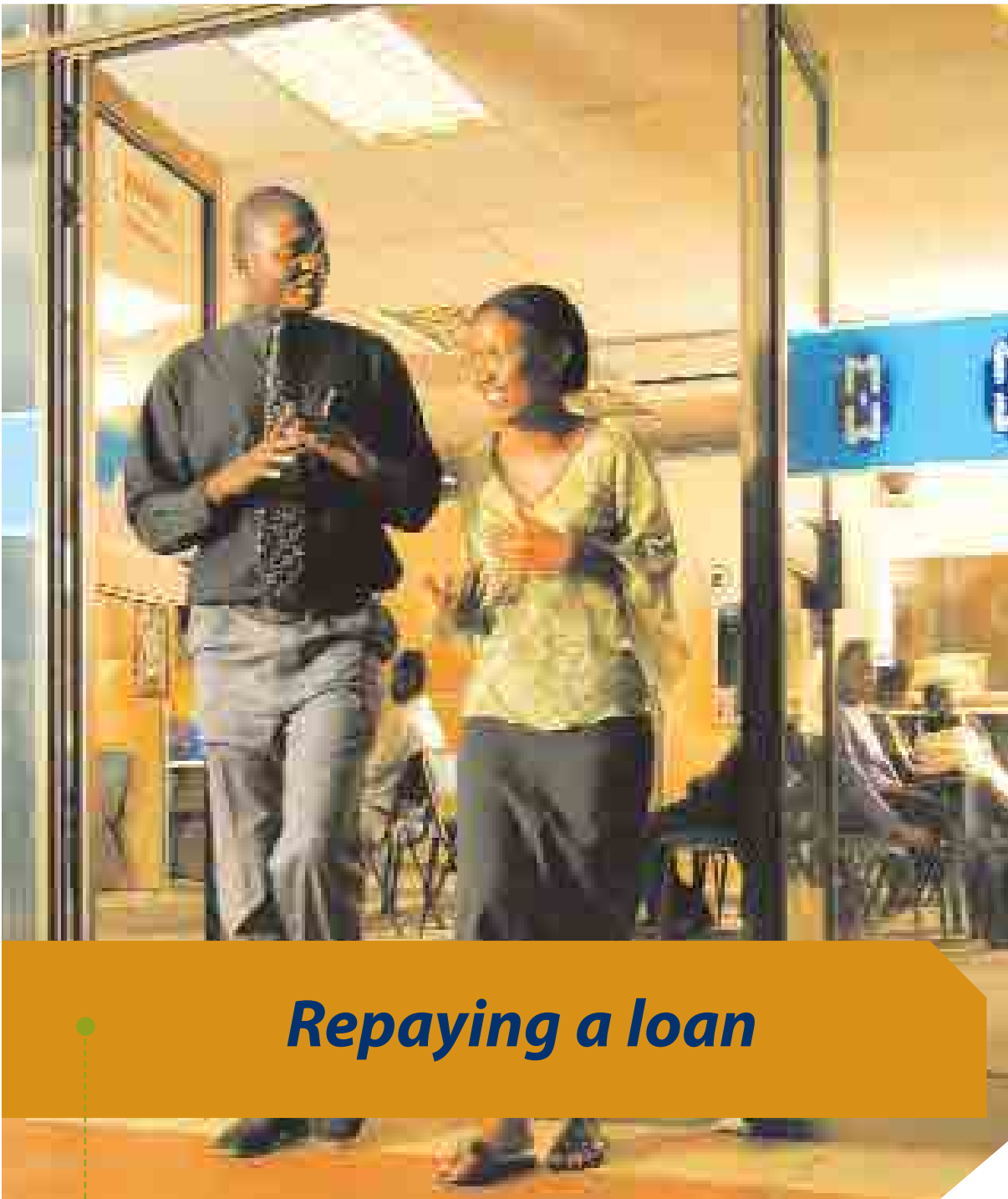
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#### **4. Repayments**

*We are happy to receive instalments through a deduction from the client's payroll (if we have an agreement with his or her employer), via a debit order deduction off his (or her) bank account, via a direct deposit made by the client into one of our bank accounts or sometimes in cash (where we are geared to handle cash).*

#### **5. Any query? Contact your local branch or our inbound call centre**

*For any balance, deduction, change of address or other query, our clients have the choice between personal contact at our branches or the Miners Credit regional client service centres, or convenience through our inbound call centres, where we can be contacted by telephone, fax or electronic mail. The call centres handle more than 40 000 queries per month and answer calls within six seconds. Any queries that cannot be solved immediately are escalated electronically to a resolution team to provide the client with a quick, efficient response. In addition, our interactive voice response facilities assist with automated responses to standard queries.*



## *Repaying a loan*

The process of credit at ABIL

### 6. Debt problems?

*Should our clients be concerned that a life event will interfere with their repayment pattern or feel themselves overextended, we can assist with guidance and debt restructuring services to protect their good credit record.*

*Through the African Bank Money School, our modular, audiovisual borrower education programme, we also educate clients in terms of managing their finances and how not to overextend themselves. Miners Credit regularly holds training sessions for mine workers as well.*



*The process of credit at ABIL begins with the client deciding to use credit to satisfy special financial needs and choosing us to provide the credit. Our research tells us that these needs include incremental housing, education, funerals and debt consolidation, amongst others. The credit process can be categorised into nine stages, although most clients will not experience all of the stages.*

#### **The process of credit at ABIL**

#### **7. Outbound call centres**

*The major aim of these centres is to get a client back on a payment track if he (or she) becomes delinquent. We regularly contact these clients to remind them to pay and to organise dates by which payments can be expected. Technology plays a major role in these state-of-the-art centres that utilise predictive dialers, telephones, faxes and cellular phone messaging to contact clients. These call centres handle in excess of 500 000 calls per month. We use voice recording technology and quality management tools to ensure that our employees deal with clients in an appropriate manner at all times.*



## *Applying for a new loan*

### **8.** *Legal collections*

*Should none of our efforts to get the client back on a payment track work, we ask the courts to assist us in obtaining repayment directly from the client's payroll. This route is taken as a last resort – it is expensive and the client gets a negative credit record that will impact his (or her) financial affairs for a long time.*

### **9.** *Ready for a new loan?*

*We value clients who have built up a history with us. In African Bank repeat business constitutes 69% of our sales, in Credit Indemnity 81% and in Miners Credit 97%.*

*We offer clients with a good repayment record favourable terms when they apply for their next loan. We also re-advance to existing clients after a period of consistent repayment should they require a top-up.*





## Who we are

African Bank Investments Limited ("ABIL"), is a publicly quoted bank-controlling company listed on the JSE Securities Exchange South Africa.

### *Our mission is to create choice, opportunity and growth through the responsible provision of credit.*

The main focus of the group is to underwrite unsecured credit risk through the provision of personal loans to the formally employed emerging market. ABIL has been a leader in the development of this market, and has to date focused on building a business of critical mass (1,4 million clients) with a broad distribution base as well as developing reliable credit scoring models and efficient collection methods. During this process the market has been through various evolutionary stages, from a simple "one size fits all" payroll deduction loan to the more recent focus on individual retail debit order style loans that incorporate and allow greater risk and price segmentation.

ABIL acknowledges that the market in which it operates will inevitably enter new phases, fuelled by competitive entrants from the big banks, and therefore ABIL's early mover competitive advantage will be challenged. ABIL's ability to sustain its position of market leadership will be dependent upon the choices it provides to clients in respect of levels of service, speed of delivery, competitive pricing as well as flexible and innovative product offering.

In addition ABIL recognises that the provision of credit has a delicate balance in terms of its impact on society. In the past, a large portion of our society has survived on a wage and cash-based existence without access to financial products and credit. ABIL believes that the responsible provision of credit allows people to:

- ▶ Harness and leverage today's ideas and energy, and to make repayments out of the future fruits of these actions.
- ▶ Manage short-term unpredictable and variable expenditures against steady income streams.
- ▶ Make realistic lifestyle investments and improvements and repay these out of future income streams.

However, we also recognise that pushed too far, this can create a future burden of over-indebtedness that outweighs the benefit and utility that the initial credit provides.

Key to our lending process is the assessment of an individual's creditworthiness and our capability to price our products for the cost of doing business (operating expenses) and the risk of doing business (bad debts) in order to earn a return on assets which, geared through an appropriate capital structure, will achieve our targeted returns on equity for the providers of capital to this business.

ABIL is committed to being a leader in the continued development of the credit market, through improved price segmentation, product innovation and simplification, coupled with reduced operating costs which will enable the group to **drive down the cost of credit.**

Complementary to this, is our commitment to a set of transparent values and ethics that is embraced by ABIL in the pursuit of its objectives and which respects the rights of our clients and the choices they make when dealing with the organisation. To this end, ABIL has developed and adopted the following African Bank Consumer Pledge:

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## The African Bank Consumer Pledge

African Bank is committed to actively promoting the rights of consumers who are our clients. We recognise you make a choice to do business with us and we will strive to treat you in such a way that you will always make African Bank the first choice provider of your credit needs. Through our Consumer Pledge we commit ourselves to the standards that you can expect us to uphold at every interaction with us.

### 1. Service culture

The guiding principle in all our interactions with you is based on the three cornerstones of the African Bank culture – ubuntu (humaneness), ethical behaviour and ukusiza (helpfulness).

### 2. Consumer-focused operations

Our operations will be structured with your needs as our key focus – this will include striving to give you a convenient, speedy and efficient experience every time you come into contact with us.

### 3. Full disclosure on prices and loan terms

We will give you complete information to enable you to make an informed decision about taking a loan – including interest rates, insurance, all charges and the full amount to be collected over the loan term. We will strive to keep our documentation as simple and understandable as possible.

### 4. Keeping your information confidential

We respect your right to have your personal information treated confidentially. We will not, without being legally obliged, disclose any such information to third parties without your permission, and then only for the purpose for which such permission was granted.

### 5. Fair pricing

We will strive to keep our costs as low as possible and by recognising your individual risk profile we will provide you with loans at fair and competitive prices.

### 6. Ethical staff behaviour

We hold our staff to the highest standards of ethical behaviour by responding to your needs, honestly protecting your interests and fully disclosing your rights and obligations to you.

### 7. Offering you loans that you can afford to repay

We will promote continued awareness of the dangers of over-indebtedness. Whilst it is your responsibility to assess your financial means, we will not grant you a loan that we do not believe you can afford to repay and we will provide access to financial skills training programmes to enable you to make informed decisions about your credit needs.

### 8. Ethical debt collection practices

While we have the right to actively collect monies owed to us, we will ensure that debt collection practices are respectful of your dignity and privacy and your right to be notified and to defend yourself. We will listen to your concerns and assist you where we can, thus balancing your needs with the interests of the bank.

### 9. Feedback from you to help improve our service

Your feedback, both good and bad, is essential for us to keep improving our standards of service delivery to you. We will make sure that you have the opportunity to give us this feedback through providing channels for you to make your voice heard. Our motto for dealing with your queries is “zama icebo” (make a plan) – we will take ownership of your issues, listen, apologise where we are wrong and make necessary corrections with a sense of urgency.



## Why we are in business

South Africa has a large unbanked and underbanked population. We believe that we play a pivotal role in promoting socio-economic development in the country by providing access to credit to people who lack the asset base or the income level to access mainstream banking. Access to responsible credit affords opportunities for improvements in the quality of life of our clients.

As any other public company we have responsibilities to various stakeholder groups. We (as a company with its employees) exist, however, primarily because of two of these groups:

- ▶ Shareholders provide us with capital to conduct our business. They require sustainable returns commensurate with the risk in our business and honest communication regarding our market, our strategies and the risks of investing in this business.
- ▶ Clients have needs and choices. Our role is to understand these needs and to provide the right products to satisfy them. As importantly, we have to conduct our business in a way that ensures that the client chooses us to satisfy these needs.

Without balance between these two groups, we have no sustainable business.

Our existence and prosperity depend on four business principles:

### 1. Adaptability/flexibility

The unsecured lending market in South Africa has a shallow history, which means that to grow, the group has had to pioneer products, business practices and credit models. There are no benchmarks and no textbooks. We embrace and thrive on change, being challenged by the unknown and finding solutions.

### 2. Striving for a low cost model

In an environment where constant adaptation is required to stay ahead, one cannot tolerate embedded legacy. Our focus is kept narrow and our processes are reviewed constantly to remove complexity and cost. A low cost model enables us to offer appropriately priced products to our good clients, fending off competition and making sure clients choose us.

### 3. Acknowledging the risk/return dynamic

When a client applies for a loan, there is no binary yes/no decision at ABIL. We believe that we can take on a continuum of risk if we can price for it correctly. We regard our ability to measure and monitor risk as a key strategic advantage, from our credit scoring models that are constantly refined based on proprietary data, to our capital adequacy model that is used to determine and communicate the appropriateness of our level of capital.

### 4. Maintaining focus

At ABIL we have defined our purpose and our market narrowly, aiming at critical mass and market leadership in that sector. It allows us to be nimble and adaptable and to develop specific competencies through our thorough understanding of a focused area of business.

Attracting and retaining the right employees are key to our success.

We are an integral part of the process of economic empowerment and job creation:

- ▶ Internally, through the processes and practices being put in place to become a preferred employer.
- ▶ Operationally, both through credit facilities that enable disadvantaged people to improve their quality of life with dignity and through our selection of small suppliers to grow grass-roots businesses.
- ▶ Externally, through the activities of the African Bank Foundation and its formal programme of effective and purposeful social investment, as well as the effort of our Money School to raise levels of basic financial education.

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## Where we came from

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

Subsequent to its acquisition by the JSE-listed Theta Group in 1998, African Bank was merged with King Finance Corporation ("King"), Unity Financial Services ("Unity") and Alternative Finance ("Altfin"), three loan finance companies owned by the Theta Group. Non-core assets and business activities of the former African Bank were disposed of, and only the business activities relevant and complementary to the core business of King, Unity and Altfin, were retained to form the new African Bank. African Bank's original retail deposit taking and transaction banking activities were phased out.

In December 1999, Theta Group Limited changed its name to African Bank Investments Limited. In August 2002 African Bank acquired the R2,8 billion Saambou personal loan book and the integration of this book into African Bank and the restructuring of Theta commenced in September 2002. During 2003 and 2004 the group focused primarily on optimising its business model, enhancing its service offering to its clients, re-establishing appropriate growth patterns and providing its funders and shareholders with satisfactory returns.

### Historical highlights

#### 1994

Formation of investment trust with Hollard Holdings.

#### 1995

Baobab Solid Growth Limited formed through a transmuted listing into Broadacres Investments Limited and listing transferred to Investment Trust sector.

#### 1996

Financial services entered through the acquisitions of minority stakes in Theta Securities and King.

#### 1997

Acquired controlling interest in Altfin, King and Unity. Divested of information technology interests through the listing of Mustek Group. Acquisition of balance of shares in Theta Securities. Name changed to reflect financial services focus from Baobab Solid Growth to Theta Limited.

#### 1998

Acquisition of 100% of African Bank Limited enabling Theta Group Limited to become a bank controlling company. Acquisition of the minorities of Altfin, King and Unity, to form the core of African Bank Limited. Acquisition of the Boland book for R1,7 billion.

#### 1999

Divisionalisation of Altfin, King and Unity into African Bank to form one operating unit. Name changed from Theta Group Limited to African Bank Investments Limited ("ABIL"). Acquisition of The Standard General Insurance Company Ltd ("Stangen") and reversal of captive cells into Stangen.

#### 2000

Acquisition of minorities of Nisela Growth to form the core of the Theta Investments group of companies.

#### 2001

R1,1 billion share buy-back undertaken. Formation of the African Bank Foundation. R1 billion of ABL1 bonds issued under R3,5 billion DMTN programme.

#### 2002

Acquisition of the R2,8 billion Saambou personal loan book.

#### 2003

Credit rating upgraded to A1 (short-term) and A- (long-term). R124 million share buy-back undertaken. R1 billion of ABL2 bonds issued under R3,5 billion DMTN programme. Special dividend of 100 cents declared.

#### 2004

Theta Investments businesses largely divisionalised into African Bank. Credit rating upgraded to A1 (short-term) and A (long term). R1 billion of ABL3 bonds issued under R3,5 billion DMTN programme. Special dividend of 53 cents declared.

## Group objectives and related performance

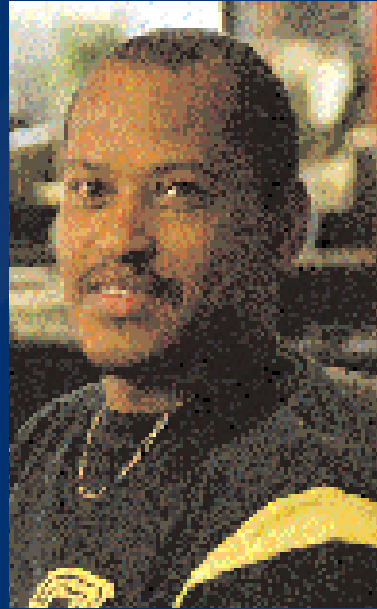
### Quantitative objectives

<b>Objective</b>	<b>How did we do in 2004?</b>	<b>Reference page in annual report</b>	<b>Target for 2005</b>
RoE of 30%	31,3%	20	30%
RoA of 10%	11,6%	20	10%
Capital adequacy target as per capital model: 30,8%	40,4% Pro forma after special dividend 31,4%	30	30%
Sales	25%	25	10% – 20%
Lending book growth target: 12,5% – 15%	13%	22 – 23	10% – 15%
Ordinary dividend cover as per capital model	1,76 times	31	1,5 – 2,0 times
Special dividend	R230 million release of capital in pay down books	30 – 31	R400 million capital release expected over two years
Cost-to-advances	Reduced from 19,1% – 18,5%	25	17% by end of 2006

## Qualitative objectives

<b>Objective</b>	<b>How did we do in 2004?</b>	<b>Reference page in annual report</b>
Differentiated pricing	<ul style="list-style-type: none"> <li>• 36% difference between highest and lowest rates</li> <li>• 78% of sales at reduced rates and constant rates</li> <li>• Re-priced products based on behavioural scoring in pilot phase, to be rolled out over six months</li> </ul>	17
Enhanced collection processes	<ul style="list-style-type: none"> <li>• Integration of Saambou PLB and GEMS books</li> <li>• Improved cash flows on NPL books</li> <li>• Enhanced technology</li> <li>• Improved efficiencies</li> </ul>	17, 26 – 27
Harmonising governance	Substantial work done to standardise practices in all the business units and provide uniform independent assurance at a group level	36 – 37
Employment equity	<p>At board level</p> <ul style="list-style-type: none"> <li>• PDI representivity improved from 41% to 42%</li> <li>• Women representivity improved from 12% to 42%</li> </ul> <p>At executive director level</p> <ul style="list-style-type: none"> <li>• PDI representivity improved from 14% to 25%</li> <li>• Women representivity improved from 0% to 13%</li> </ul> <p>At senior, middle and junior management levels</p> <ul style="list-style-type: none"> <li>• PDI representivity decreased in the middle management level, while remaining steady in senior and junior levels</li> </ul>	10, 61
Exploring new products and markets	<ul style="list-style-type: none"> <li>• Significant research re geographic expansion conducted during 2004</li> <li>• Market focus narrowed as a result of good growth prospects</li> <li>• New products awaiting National Credit Bill</li> </ul>	16 – 17
Integration of sustainability	Substantial progress in closing identified gaps, setting up structures and integrating sustainability into organisation	8, 49 – 50

\* Qualitative objectives for 2005 are discussed in the letter to stakeholders on page 12.





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*The 2004 annual report does not contain a notice of the annual general meeting. Shareholders will be notified of the meeting date and the matters to be dealt with at the meeting in a separate document.*



## Case study 1



**Christa Rorke**

*When we bought our new house, we thought we would have to wait ages to renovate. But with a loan from African Bank, we settled the transfer fees and did the necessary renovations to our home, including a lovely new kitchen. My husband and I were amazed at how quickly the funds were released and at the low interest rate. Our mobile sales consultant was friendly and efficient, and constantly kept us informed about progress.*

# Members of the ABIL board



## Executive directors

### **Gordon Schachat (52)**

#### Executive Deputy Chairman

Date appointed: 01/07/1995  
Other major directorships  
African Bank Limited

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

He currently serves as the executive Deputy Chairman for ABIL and executive director on the African Bank board.

### **Leonidas Kirkinis (45)**

CA(SA)

#### Chief Executive Officer

Date appointed: 01/07/1997  
Other major directorships  
The Banking Council of South Africa;  
Managing Director of African Bank Limited

Leon is the Chief Executive Officer of ABIL and Managing Director of African Bank Limited, and founded African Bank Investments Limited (previously Theta Group Limited) in partnership with Gordon Schachat. He guided the company through various mergers, acquisitions and the operational establishment of the present day group. Leon takes direct responsibility for the credit function across the group.

### **Johannes Andries de Ridder (46)**

BSc (Agric), MBA

#### Executive director

Date employed: 01/03/1999  
Date appointed as director: 22/04/2002  
Other major directorships  
African Bank Limited; Theta Investments (Pty) Limited; The Standard General Insurance Company; Miners Credit Guarantee (Pty) Limited; Soletrade Seven (Pty) Limited; Credit Indemnity (Pty) Limited; National Urban and Housing Reconstruction Agency (NURCHA);

Johannesburg Development Agency (Pty) Limited; Teba Credit (Pty) Limited

#### Operational responsibilities

Johan is responsible for the Innovation Unit which incorporates strategy development, product development, a card implementation programme, mergers and acquisitions, and an international thrust including the development of the Africa strategy.

Johan's involvement in the development finance sector stretches over 17 years. After seven years in various roles in agricultural and housing finance, Johan was appointed as advisor to the Minister of Housing from 1994 to 1996, then appointed as CEO of the National Housing Finance Corporation in 1996, tasked to set this housing wholesale funding corporation up for government, chaired the Mortgage Indemnity Fund set up by government to facilitate re-entry by the major banks into the low income mortgage market from inception in 1995 to closure in 1998, was also instrumental in setting up the National Home Builders Registration Council in 1995 for government and served as vice-chairman of this council during 1995 to 2001. He also served as a member of the National Housing Board from 1995 to 1998 and as a director of the Johannesburg Housing Company Limited from 1995 to 1998.

Johan joined African Bank Investments Limited (then Theta Group Limited) as Managing Director of King Finance Corporation Limited in 1999.

### **Antonio Fourie (44)**

BCom

#### Executive director

Date employed: 21/10/2003  
Date appointed as director: 21/10/2003  
Other major directorships  
African Bank Limited

#### Operational responsibilities

Toni heads up distribution and marketing – which consists of the sales distribution and marketing functions of African Bank Retail, Credit Indemnity and African Bank Miners Credit. He was appointed executive director of ABIL and African Bank Limited in October 2003. Before joining ABIL Toni was the CEO of Connection Group Holdings Limited with

Incredible Connection, Enterprise Connection and Software Connection U.S.A, in its stable.

Toni's experience preceding Connection Group includes roles within the Massmart Group as the Deputy CEO of Massdiscounters, Managing Director of Dion and prior to that Operations and Marketing Director of Dion.

### **Angus George Herselman (54)**

BCom (Honours)

#### Executive director

Date employed: 01/10/1998  
Date appointed as director: 06/06/2003  
Other major directorships  
African Bank Limited

#### Operational responsibilities

Angus is responsible for group arrears collections as well as receipting for African Bank Retail and GEMS. He also manages the group IT function.

Angus was appointed as executive director for ABIL and African Bank Limited in June 2003. He was formerly a director of Altfin and the executive responsible for loans processing, collections, IT and credit during the integration of the four operating entities which now form African Bank, namely Altfin, King, Unity and African Bank.

On acquiring the Saambou personal loans book Angus took responsibility for managing this acquisition until December 2003 when this was integrated into African Bank's Collections Business unit, which forms his main responsibility currently.

### **Marion Lesego Dawn Marole (44)**

BCom (Accounting), MBA

#### Executive director

Date employed: 01/12/2003  
Date appointed as director: 17/03/2004  
Other major directorships  
African Bank Limited; Anchor Yeast Zimbabwe; Non-executive Chairman of Kumba Resources Limited

#### Operational responsibilities

Dawn heads up the Group HR function and will also oversee the winding up or disposing of the following entities: Quatro, GEMS, ABCommerce and ACFC. In addition, Dawn is responsible for AB Commercial Vehicle Finance.

## Members of the ABIL board *(continued)*



Previously the Deputy Chief Executive Officer of Fabcos Investment Holdings Company Limited, Dawn is a BCom graduate from the University of Zululand with a tertiary education diploma from Unisa. She also holds an MBA in Marketing Management and Strategic Management from North Eastern University, Boston (USA). Dawn is Chairman of Kumba Resources. In addition to this, she finds time for her roles as chairperson of POWA (People Opposing Women Abuse) and former president and founder of BWA (Business Women's Association). Dawn joined ABIL with effect from 1 December 2003.

### **Thamsanqa Mthunzi Sokutu (41)**

BSc (Honours), MSc  
**Executive director**

Date employed: 01/09/2002

Date appointed as director: 19/05/2003

Other major directorships

African Bank Limited; The Standard General Insurance Company Limited;  
Chairman of Elixer Technology

### **Operational responsibilities**

Thami is responsible for group risk, the strategic positioning of the group, regulatory development, the Standard Bank JV, and the business sustainability initiatives.

Tami occupied the position of Director-General in the National Department of Public Works from 1999 to 2002. Tami was appointed Chief Operating Officer and executive director of African Bank Limited during September 2002. He joined the ABIL board as executive director during May 2003. Tami also serves as an executive director on the board of The Standard General Insurance Company Limited.

### **David Farring Woollam (41)**

CA(SA)

**Group Financial Director**

Date employed: 01/11/2002

Date appointed as director: 01/11/2002

Other major directorships

African Bank Limited; The Standard General Insurance Company Limited; Theta Investments (Pty) Limited

### **Operational responsibilities**

Dave joined ABIL as Group Financial Director in November 2002 with responsibility for Group

Finance, Treasury and Investor Relations. He also serves as Chief Executive Officer of the Standard General Insurance Company Limited.

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

### **Non-executive directors**

#### **Ashley Sefako Mabogoane (46)**

Diploma in Business Management (EE)

**Non-executive Chairman**

Date appointed: 01/12/1999

Other major directorships

Non-executive Chairman of African Bank Limited; Non-executive Chairman of New Africa Investments Limited (NAIL);

Non-executive Chairman of Anchor

Yeast Zimbabwe; Chief Executive Officer of New Seasons Investments (Pty) Limited

Ashley has been the Non-executive Chairman of the ABIL board of directors since December 1999. He also serves as a member of the Group Remuneration and Transformation Committee and the Directors' Affairs Committee of ABIL.

#### **David Braidwood Gibbon (62)**

CA(SA)

**Non-executive director**

Date appointed: 01/06/2003

Other major directorships

African Bank Limited;  
The Spar Group Limited

David retired from Deloitte & Touche last year as national lead partner – Securitisation and Debt Origination Services, whereafter he joined the ABIL Group as non-executive director during June 2003. David is also chairman of the Group Audit Committee and a member of the Directors' Affairs Committee of ABIL.

#### **Bahle Dawn Goba (42)**

BSc Business Administration, MBA

**Non-executive director**

Date appointed: 06/06/2003

Other major directorships

African Bank Limited; NOKUSA Consulting

Bahle is currently the marketing director for Nokusa Consulting of which she is a founding

member. Nokusa is a black-owned and black-run consulting firm founded in 1999. She is a member of the Reserve Bank Committee that is responsible for revising the Banks Act, 1990.

Bahle joined the ABIL Group as a non-executive director during June 2003. She is a member of the Group Remuneration and Transformation Committee as well as the Directors' Affairs Committee.

#### **Jacob Japi Kekane (53)**

BA, MA, DPhil

**Non-executive director**

Date appointed: 14/02/2000

Other major directorships

African Bank Limited; CellC (Pty) Limited

Jacob has extensive business experience in employment law, strategic management in human resources and remuneration and benefits organisational structures.

Jacob has served as non-executive director for ABIL and African Bank Limited since early 2000. Jacob is also a member of the Group Remuneration and Transformation Committee as well as the Directors' Affairs Committee.

#### **Steven Alan Levitt (50)**

CA(SA)

**Non-executive director**

Date appointed: 14/02/2000

Other major directorships

Macsteel Holdings (Pty) Limited; Macsteel Service Centres SA (Pty) Limited; Nosmas Investment Holding BV; Amalgamated Appliance Holdings Limited; African Bank Limited

Steven served as Deputy Chairman of Macsteel Holdings (Pty) Limited and Macsteel International Holdings BV, the international steel marketing joint venture between Iscor and Macsteel, until 1998. In 2002, he served on the ministerial panel, which was convened by the Minister of Finance to review the Accountancy Professions Bill. Steven is now CEO of O: Capital (Pty) Limited, a private equity investment company.

Steven joined the ABIL Group during 2000, initially as executive director, but later as a non-executive director for ABIL and African Bank

Limited. He is also currently a member of the Group Audit Committee and Directors' Affairs Committee.

**Ramani Naidoo (42)**

BA LLB

**Non-executive director**

Date appointed: 19/05/2003

Other major directorships

African Bank Limited; Allied Technologies Limited; Stellenbosch Vineyards Limited; Edward Nathan Corporate Governance (Pty) Limited

Ramani Naidoo is an attorney, conveyancer and notary public of the High Court of South Africa. After graduating from Rhodes and the University of Natal, Durban, Ramani spent a number of years in private legal practice before taking up a position with the Airports Company South Africa as its company secretary and Head of Legal Services. Other positions she has held include that of Legal Services Manager for the Southern Sun Group and Senior Manager: Private Equity with Gensec Bank.

Ramani's special area of professional interest is corporate governance. She took up her current position as a director of Edward Nathan Corporate Governance during 2003. She is the author of "Corporate Governance – an Essential Guide for South African Companies," and "The Effective Directors' Guide." She is the chair of the Directors' Affairs Committee of ABIL and is a member of the Group Risk Committee and BEE Committee.

**Bhekisa James Themba Shongwe (49)**

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

**Non-executive director**

Date appointed: 14/02/2000

Other major directorships

African Bank Limited; Primedia Limited; Highveld Steel and Vanadium Corporation Limited; Fleet Africa (Pty) Limited; PEU Investment Group (Pty) Limited

Bheki currently serves as the Deputy Managing Director of FleetAfrica (Pty) Limited. He has served as non-executive director on the boards of African Bank Investments Limited and African Bank Limited since February 2000. He is also a member of the Group Audit Committee,

Directors' Affairs Committee and BEE Committee of ABIL.

**Brian Paxton Furbank Steele (61)**

CA(SA), MBA

**Non-executive director**

Date appointed: 19/05/2003

Other major directorships

African Bank Limited; Aveng Limited

Brian retired as Chief Group Financial Manager of Barloworld during 2002. He joined the ABIL Group as non-executive director during May 2003 where he serves as a member of the Group Audit Committee, Group Risk Committee and the Directors' Affairs Committee. Brian is the chairman of the BEE Committee.

**Günter Zeno Steffens (67)**

Banking Exams

**Non-executive director**

(German)

Date appointed: 19/05/2003

Other major directorships

African Bank Limited; Omega Investment Research; Connection Group Holdings Limited; Non-executive Deputy Chairman for Ridge Mining PLC

Günter, German by birth, recently retired as group representative: Dresdner Bank AG and joined the ABIL Group as non-executive director during May 2003. Günter chairs the Group Risk Committee and serves as a member of the Directors' Affairs Committee.

**Daniel Filipe Gabriel Tembe (52)**

MSc Financial Economics

**Non-executive director**

(Mozambican)

Date appointed: 01/01/2000

Other major directorships

African Bank Limited; Non-executive Chairman of Mozambique Investment Company; Non-executive Chairman of Cornastone Mozambique, Lda; Chairman of Institute for Management of State Holdings; member of the Fiscal Council of Banco Internacional de Moçambique

Daniel joined the ABIL Group during January 2000, serving as non-executive director on the

ABIL and African Bank Limited boards. Daniel is also chairman of the Group Remuneration and Transformation Committee and member of the Directors' Affairs Committee and BEE Committee.

**Ashley (Oshy) Tugendhaft (56)**

BA LLB

**Non-executive director**

Date appointed: 01/04/2003

Other major directorships

African Bank Limited; Chairman of Moss Morris Consulting (Pty) Limited; Chairman of Moss Morris Inc.; Chairman of Moss Morris Investments (Pty) Limited; Imperial Holdings Limited; Pinnacle Holdings Limited; Unicode (Pty) Limited; Tiso Capital (Pty) Limited

Oshy, currently partner of Tugendhaft, Wapnick, Banchetti and Partners, joined the ABIL Group during April 2003. Oshy also serves as a member of the Group Risk Committee, the Directors' Affairs Committee and the BEE Committee at ABIL.

Oshy is the co-author of "Exchange Control Encyclopaedia" which is the leading publication in South Africa on exchange control. He also co-published a leading South African publication containing precedents of leases, used by other legal practitioners.

Oshy has extensive knowledge and experience in commercial litigation and arbitrations, both local and international.

## Case study 2

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**Maria Phatlhane**

*As a public servant, I was very interested when a friend told me about the facilities available from African Bank. With my loan quickly approved, I was able to pay my sister's school fees at the business training college, settle some debts and close one furniture account. What a great feeling!*

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## *Letter to stakeholders*

*This report should be read in conjunction with the accompanying sustainable development report for a comprehensive overview of the group and its activities.*

## *Ileta eya kubaxhasi*

*Le ngxelo ifanele ukuba ifundwe kunye nengxelo yokungatshitshi encanyatheliswe kuyo khona ukuze kube nokubonwa umfanekiso ophangaleleyo wequmrhu nelikwenzayo.*

*Given the nature of our business and the importance of responsible lending practices in the wider economy, we believe interaction with our stakeholder groups is fundamental to the sustainability process.*

### Introduction

The twelve months to 30 September 2004 was a successful year for ABIL, one in which much progress was made in many areas of our business. In recent years, we have positioned ABIL to maintain its dominant position in an increasingly competitive micro-lending environment. Our success on this front is reflected in ABIL's inclusion in the inaugural Socially Responsible Investment Index of the JSE Securities Exchange, which assesses companies on a broad range of economic, social and environmental indicators, and an improved ratings for African Bank of A2.za/Prime-1.za from Moody's, the international ratings agency. We also maintained our third-place ranking amongst financial services companies (up from ninth place in 2002) in the independent bi-annual Campbell Belman survey in which companies are rated by fund managers, analysts and journalists on 31 aspects related to their present and future prospects, as well as their people, ethics, communications and social responsibility.

### Economy

The economic environment during the review period was an attractive one for ABIL, with the combination of lower inflation and lower interest rates resulting in buoyant demand for credit as reflected in strong results across the retail sector. Importantly, there was little indication of consumers overextending themselves. The strength of the currency and the domestic economy were reinforced by the further relaxation of exchange controls in the medium-term budget policy statement in October 2004, a development we fully support

in the interests of global competitiveness by South African companies.

### Financial results

The positive economic environment over the past twelve months has been conducive to a consistent and steady performance of ABIL's businesses. This, together with tightened operating focus, has enabled the group to deliver its targeted return on equity for shareholders through improvements across the main drivers of the business. Headline earnings per share were up 15% at 161,6 cents (2003: 140,4 cents) and fully diluted headline earnings per share up 11% at 155,7 cents (2003: 139,7 cents). Return on equity improved to 31,3%. (2003: 25,9%). Return on assets increased to 11,6% (2003: 10,6%).

The ABIL board has declared a final dividend of 57 cents and a special dividend of 53 cents per share. This brings the total distribution for the year to R684 million, in line with the group's commitment to return capital in excess of its growth requirements to shareholders.

### Progress on sustainability

I am particularly pleased to report on the progress we have made during the year in embracing sustainability and integrating it more effectively in our activities. A group sustainability team, chaired by an executive director, has been established and we have appointed a dedicated sustainability officer. We focused a great deal of effort over the year on refining our sustainability strategy and management framework, and we are now embedding sustainability into our different business units. Underlying our approach to sustainability is a commitment to

implementing measures that take us beyond legal compliance, and our focus on triple bottom-line reporting (economic, social and environmental) was recognised by a second place in the prestigious Ernst & Young Excellence in financial reporting awards for 2004.

We are pleased with the proactive and responsible engagement we have had with regulatory and government authorities, most notably in our interactions relating to the financial sector charter, as well as in the development of new credit legislation that has implications for the entire industry. The favourable feedback we have received from many of our funders and investors, with whom we interact regularly, is heartening, as is the improvement in our credit and shareholder ratings this year.

Notwithstanding the progress made with respect to sustainability, we face some continuing challenges. Managing the restructuring requirements and its impact on the workforce remains a difficult challenge. From a client perspective we continue to strive to both better understand our clients and close the gaps between their expectations and our performance delivery. We also need to continue to refine our strategies and business model in anticipation of any regulatory changes. Finally, a challenge remains to rectify the perceived poor image of the micro-lending industry.

### Black Economic Empowerment and the Financial Sector Charter

ABIL is a signatory to the Financial Sector Charter and the Financial Summit Agreement, both of which are intended to facilitate meaningful transformation, empowerment and access to financial services for sectors of the economy that were previously disadvantaged by the political regimes of the past. For us at ABIL, BEE represents a commitment and investment in sustainability and growth and in this respect we are proud of our achievements thus far.

- ABIL has a client base of 1,4 million of whom over 90% are estimated to be black people. Loan disbursements cover all nine provinces

## Ingabula-zigcawu

Iinyanga ezilishumi elinambini eziphele ngomhla wama-30 kweyoMsintsi 2004 zibe ngunyaka onempumelelo kwiqumrhu lakwa-ABIL, unyaka obe nenkqubela kwimiba emininzi kushishino lwethu. Kutshanje sibe nakho ukulibeka iqumrhu lakwa-ABIL kwindawo eliya kuqaqamba kuyo, indawo enokhuphiswano kakhulu yokubolekisa ngemali. Impumelelo yethu kweli bakala ibonakaliswa ngokuthi iqumrhu lakwa-ABIL lifakwe kwibakala lesalathiso elaziwa njengeSocially Responsible Investment lwe-JSE Securities Exchange, bakala elo livavanya amaqumrhu kwiindidi ngeendidi zezalathiso zoqoqosho, zemiba yentalo neyendalo kwakunye nemigangatho ephuculweyo yeAfrican Bank yeA2.za/Prime-1.za esuka kwaMoody's, iarhente yemigangatho yehlabathi. Kwakhona sibe nakho ukugcina indawo yethu yesithathu phakathi kwamaqumrhu eenkonzo zemali (sisuka kwindawo yethoba ngowe-2002) kuvavavanyo oluzimeleyo olwenziwa kanye kwiminyaka emibini apho amaqumrhu athi avavanyelwe umgangatho ngabaphathi beengxowa-mali, iingcaphephe nangoonondaba kwimiba engama-31 ephathelene kwimpumelelo yawo yeli xesha neyexesha elizayo, nangokubhekiselele kubantu bamaqumrhu, imigaqo yokuziphatha, unxibelelwano nokuzinikela kwimiba yentlalo.

## Ubume bezemali

Imeko yobume bezemali ngeli thuba kuphononongwa lona ibe yebanga umtsalane ngolona hlobo kwa-ABIL. Kwakhona ukudityaniswa komgangatho wokuhla kwamandla emali nowenzala esezantsi kube ngunozala wokufunwa kwemali-mboleko ngamandla njengoko oko kubonakele kwiziqhamo ezincumisayo zecandelo lentegiso. Okubalulekileyo kukuba sibe sincinci isalathiso sabaxhasi esiye sazinabisela ngaphaya kwecandelo lentengiso. Amandla emali kunye noqoqosho lwangaphakathi zizinto eziye zakhuliswa kukungenyuki kwemigaqo yonaniselwano kwingxelo yomgaqo-nkqubo wolwabiwo-mali wethuba eliphakathi ngenyanga yeDwarha 2004, nkqubela leyo siyixhasa ngokupheleleyo kumbandela wokhuphiswano lwehlabathi ngamaqumrhu oMzantsi-Afrika.

## Iziphumo zemali

Imeko encumisayo yobume bezemali kwisithuba seenyanga ezilishumi elinambini ihambelene nenkqubo engagungqiyo yamashishini akwa-ABIL. Oku, ndawonye nokuqwalaselwa komsebenzi ongungqongqo, kubangele ukuba iqumrhu libe nakho ukufikelela kumyinge wenzuzo ebelizisikele wona kulungelelwaniso lwabanini-zabelo ngokuphucuka elikufumene kumashishini aphambili. Inzuzo efumanekileyo ngesabelo inyuke yaya kutsho kwi-15% ngeensenti ezili-161,6 (2003:140,4 leesenti), ukuze inzuzo engxengwe ngokupheleleyo yona iye kuma kwi-11% ngeensenti ezili-155,7 (2003:139,7 leesenti). Inzuzo efumaneke kulungelelwaniso lwabanini-zabelo inyuke yaya kuthi xhaxhe ngama-31,3% (2003: 25,9%). Inzuzo ngempahla inyuke yaya kuma kwi-11,6% (2003: 10,6%).

Ibhodi yakwa-ABIL ibhengeze izahlulo zokugqibela zama-57 eensenti kunye nesahlulo esisodwa sama-53 eensenti ngesabelo ngasinye. Oku kwenza ukuba imali iyonke etyalweyo ibe zizigidi ezingama-R684, ngokweminqwano yokuzinikela kwequmrhu ekwenzeni inzuzo engaphaya kweemfuno zokukhula kwayo kubanini-zabelo.

## Inkqubela kugcinakalo lwemigangatho

Ndinochululmanco ngakumbi ngokunika ingxelo ngenkqubela esithe sayizuza kulo nyaka ngokubhekiselele ekugcinakaleni komgangatho nasekuwudibaniseni ngendlela ekusulungeka kuncomekayo kwimisebenzi yequmrhu. Iqela lequmrhu elijongene nokugcinakala komgangatho, echotshelwa ngumlawuli wegqiza lolawulo, isekiwe kwaye siqeshe igosa lokugcinakala komgangatho elizininikele ngeyona ndlela. Sizame kangangoko sinako ukuqwalasela kulo nyaka ekuphuhliseni isicwangciso sokugcinakala komgangatho nakwindlela yokubumba ulawulo kwaye kungoku ke sibethelela ukugcinakala komgangatho kumacandelo ahlukeneyo wamashishini ethu. Eyona ntsika kwindlela esizama ngayo ukubethelela ukugcinakala kwemigangatho kukuzinikela ekufezekiseni kwemigaqo esithatha isiphose ngaphaya kwemigaqo yezomthetho kwaye ukujolisa kwethu kuniko-ngxelo lwemiba emithathu (ubume bezemali, bezentlalo nobendalo)

kwabalelwa kwindawo yesibini kunikezelo-mabhaso lwengxelo yemali eqqwesileyo yakwaErnst & Young yowe-2004.

Ngenxa yobume beshishini lethu kwanokubaluleka kwendlela efanelekileyo yokubolekisa kumacandelo amaninzi emali, sikholelwa kwinto yokuba ukusebenzisana nabaxhasi bequmrhu yeyona ntsika ekugcinakaleni kwenkqubo efanelekileyo. Saneliseke kakhulu yintsebenziswano esiyixhamle kumagosa owiso-mgaqo nakarhulumente, ingakumbi ekusebenzisweni kwethu nawo kwisibhambathiso samacandelo emali nasekuphuhliseni komthetho omtsha wemboleko-mali ebe neempembelelo kwishishini ngokubanzi. Ingxelo encomekayo esiye sayifumana kubaxhasi-mali nakubatyali-mali abaninzi esithe sasebenzisana nabo qho, iyaxolisa njengoko kube njalo nasekukalweni kwemboleko-mali nabanini-zabelo bethu kulo nyaka.

Nangona ibonakala inkqubela eyenziweyo ngokuphathelile ekugcinakaleni komgangatho, ikho yona imingeni esijamelene nayo. Indlela yokulawula uhlehlengiso lwabasebenzi kunye negalelo lwalo kubasebenzi ngumceli-mngeni onzima kunene. Ngokwembono yabaxhasi, siye sathi gqolo ukuzama ukwazi abaxhasi bethu kwanokuvala izikhewu ezikhoyo phakathi kwabakulindleleyo nakwindlela yokusebenza kwenthu. Kusafuneka sithe gqolo ukucokisisa izicwangciso zethu noshishino lwethu ukuze kuthi kufika okanye kusenzeka utshintsho lwemigaqo sibe sikulungele oko. Okokugqibela, owona mceli-mngeni usafuna ingqwalaselo ngumfanekiso ongemhle ncam weshishini lokubolekisa ngemali.

## Ukuxhotyiswa kwabaMnyama ngesakhono seMali kunye nesiBhambathiso seCandelo leMali

Iqumrhu lakwa-ABIL likwakhona kwisiBhambathiso seCandelo leMali nakwisiVumelwano soNgxowankulu, nto ezo ezinjongo yazo ikuzizisa inguqu efanelekileyo, ukuxhotyiswa nokufikelela kwiinkonzo zemali kudidi lwabantu obelusakwalelwa amathuba ngaphambili. Kuthi, siliqumrhu lakwa-ABIL, ukuxhotyiswa kwabamnyama ngesakhono semali luphawu lokuzinikela nelotyalo-mali ekugcinakaleni komgangatho nophuhliso

### Black Economic Empowerment and the Financial Sector Charter continued

of the country. Based on an independent survey conducted for African Bank, approximately 16% of ABIL's loans are used for incremental housing construction and home improvement. We believe that access to incremental housing finance is of vital importance to improve housing conditions for millions of South Africans. Some R300 million is invested in the SME market largely via asset-based finance in the taxi industry.

ABIL's human resources development strategy is on track. The proportion of black people in management is:

- 25% for executive directors against a target of 25% for 2008;
- 11,3% for senior management against a target of 20% for 2008;
- 24,6% for middle management against a target of 30% for 2008;
- 35,0% for junior management against a target of 40% for 2008.

The position of black women in executive management is 13% (against a target of 4% for 2008). The proportion of black women in senior management is 1,6% against a target of 4% for 2008. Black female representation at middle and junior management levels is at 10,4% (against target of 10% for 2008) and 14% (against target of 15% for 2008) respectively. Whilst the targets for the Financial Sector Charter in respect of black women are set out above, ABIL has set its own more aggressive targets.

- Our procurement policy for discretionary expenditure is geared towards benefiting empowered suppliers and in the past financial year procurement from such suppliers amounted to 44% of measurable discretionary expenditure.

- Through the African Bank Foundation, ABIL is already spending in excess of the Financial Sector Charter target of 0,5% of post-tax operating profits on social projects.
- ABIL has for some time been exploring a BEE equity transaction and expects to announce a proposed deal in 2005. ABIL is committed to achieving a broad-based equity empowerment structure, with emphasis on people closely associated with the group including management, employees, clients and existing small shareholders. This is in line with our philosophy of entrepreneurship and empowering our own people.

A more detailed and independently audited BEE report will be submitted to the Banking Council by March 2005 and will be published together with the interim results report for 2005. In the interim shareholders are invited to visit our website to obtain more detailed information on our principles, strategy and achievements on empowerment thus far.

### HIV/Aids

We recognise that HIV/Aids is impacting on our employees, and on the surrounding community from which we draw our client base. As a result, we have investigated the financial impact from both an internal and external perspective. Externally, the study showed that while bad debts will increase, the relative impact is expected to be small. Internally, an HIV/Aids committee has been established to review the policies of the various divisions and combine these to create a broad group strategy. As prevalence estimates indicate that ABIL is already incurring a significant HIV/Aids-related cost each year, the committee will also review and recommend possible interventions, including an employee assistance programme.

### Accolades

Reflecting our focus on building a contemporary and competitive long-term business, the review period was characterised by a number of high-profile awards and achievements for ABIL, including:

- Inclusion in the JSE Socially Responsible Investments Index launched in 2004
- Second place in the Ernst & Young Excellence in Financial Reporting awards, up from third place in 2003
- Highly commended in the Grand Prix for best overall investor relations – non-FTSE/JSE top 40 by IR magazine's South African investor relations awards
- Voted as the leader in corporate reporting in the sector "Financial: General" in the Investment Analyst Society's Best reporting and communication awards
- Second in the top 100 listed companies in Financial Mail's Annual online communications index website survey
- Rated 67th in the top 200 companies in Financial Mail's Top empowerment companies
- Two third places in the Business Day Financial advertising awards for advertisement of the financial results.

## Ukuxhotyiswa kwabaMnyama ngesaKhono seMali kunye nesibhambathiso seCandelo leMali iyaqhubeka

kwaye sinochulumanco ngempumelelo esiyizuzileyo ukuza kuthi ga kobu buhawu.

- Iqumrhu lakwa-ABIL linabaxhasi abasisigidi esi-1,4 kwaye ama-90% athelekelelwa ukuba ngabantu abamnyama. Icandelo lemali-mboleko likho kuwo olithoba amaphondo eli lizwe. Ngokophando oluzimelelo olwenzelwa iAfrican Bank, mayela ne-16% lemali-mboleko yakwa-ABIL isetyenziselwa ukwakhiwa kwezindlu nokuphuculwa kwazo. Sikholelwa kwinto yokuba ukufikelela kwimali-mboleko yokwakhiwa kwezindlu kubaluleke kakhulu ekuphuculweni kwezindlu zezigidi zabantu boMzantsi-Afrika. Ayela nesixa-mali esingama-R300 ezigidi ifakwa kwimarike ye-SME ngemali esekelwe kwimpahla kwishishini leeteki.

Isicwangciso sophuhliso lwezakhono zabasebenzi kwa-ABIL lisebenza kakuhle. Umlinganiselo wabantu abamnyama abakwizikhundla zokuphatha umi ngolu hlobo:

- 25% kwizikhundla zabalawuli abakhulu kanti kujoliswe kuma-25% ngowe-2008;
- 11,3% kwizikhundla zabalawuli kanti kujoliswe kuma-20% ngowe-2008;
- 24,6% kwizikhundla zoosekela-balawuli kanti kujoliswe kuma-30% ngowe-2008;
- 35,0% kwizikhundla zabancedisi-balawuli kanti kujoliswe kuma -40% ngowe-2008.

Abasetyhini abamnyama abakwi zikhundla zabalawuli abakhulu sisi-13% (kanti kujoliswe kwisi-4% ngowe-2008). Umlinganiselo wabasetyhini abakwizikhundla zabalawuli sisi-1,6% kanti kujoliswe kwisi-4% ngowe-2008. Umyinge wabantu basetyhini abakwizikhundla zoosekela-balawuli nakwezabancedisi-balawuli zikwi-10,4% (kanti kujoliswe kwi-10% ngowe-2008) nakwi-14% (kanti kujoliswe kwi-15% ngowe-2008) ngokulandelelana kwazo. Nangona imiyinge yesiBhambathiso seCandelo leMali ngokuphathelene kwabasetyhini abamnyama ikhankanyiwe apha ngasentla, iqumrhu lakwa-ABIL lona lizisikele eyalo imiyinge ethe kratya.

- Umgaqo-nkqubo wethu wentengo wenkcitho yengqikelelo ulungiselelwe ukuba kuxhamle oosomveliso kwaye kunyaka-mali odlulileyo, intengo yoosomveliso abakolo didi iye kufikelela kuma-44% yenkcitho yengqikelelo enokulinganiswa.

- Ngokusebenzisa iAfrican Bank Foundation, iqumrhu lakwa-ABIL sele lichithe ngaphaya komyinge wesiBhambathiso seCandelo leMali oyi-0,5% wenzuzo yasemva kwerhafu kumaphulo entlalo.
- Sele kulithuba abakwa-ABIL bephonononga ulingano kuXhotyiso lwabaMnyama kwisaKhono seMali kwaye balindele ukubhengeza isiphakamiso ngowe-2005. Abakwa-ABIL bazinikele ekuzuzeni ukulingana ekuxhotyisweni kwabamnyama okuphangaleyo, kugxininiswa kubantu abayanyaniswa kakhulu nequmrhu kuqukwa abaphathi, abasebenzi, abaxhasi nabanini-zabelo abakhoyo abancinci. Oku kuhambelana nengcinga yethu yoshishino nokuxhotyiswa kwabantu bethu.

Ingxelo ebanzi kunene ephicothiweyo yokuXhotyiswa kwabaMnyama ngesaKhono zeMali iza kunikezelwa kwiBhungu loGcino-mali ngenyanga yoKwindla kowe-2005. Kwaye iya kubhengezwa kunye nengxelo yexeshana yeziqhamo yowe-2005. Okweli thuba, abanini-zabelo bayamenywa ukuba bandwendwele isiza sentungelwano ukuze babe nokufumana ingcaciso ethe vetshe ngemigaqo, isicwangciso nangempumelelo yethu kumba wokuxhobisa ukuza kuthi ga ngoku.

## Intsholongwane kagawulayo/isifo sikagawulayo

Siyayibona into yokuba intsholongwane kagawulayo nesifo sikagawulayo zinegalelo kubasebenzi bethu nakwiindawo ezikufutshane ekuhlala kuzo abaxhasi bethu. Ngeso sizathu siye senza uphando ngegalelo lezemali ngaphakathi nangaphandle kwequmrhu lethu. Ngaphandle kwequmrhu lethu, uphando lubonakalise ukuba ngeli thuba amatyala esanda, igalelo lesi sifo lilindeleke ukuba libe nokuhla. Ngaphakathi, kusekwe ikomiti yentsholongwane nesifo sikagawulayo ngenjongo yokuba ziqwalasele imigaqo-nkqubo yamacandelo amaninzi zize ziyidibanise zenze isicwangciso esibanzi somgaqo-yamacandelo amaninzi zize ziyidibanise zenze isicwangciso esibanzi somgaqo-nkqubo wequmrhu. Njengokuba kukhangeleka ngathi iqumrhu lakwa-ABIL sele lingena kwiindleko eziphathelene kwintsholongwane nesifo sikagawulayo kunyaka ngamnye, ikomiti iya kuphonononga ize yenze iziphakamiso zezisombululo ezifanelekileyo, kuqukwa nenkqubo yokuncedisa abasebenzi.

## Okuncomekayo

Ukubonisa ingqwalaselo yethu ekwakheni ishishini lala maxesha nelethuba elide, ithuba lophononongo lube namabhaso odidi oluphezulu nempumelelo kwiqumrhu lakwa-ABIL, kuqukwa:

- Ukufakwa kwi-JSE Social Responsible Investments Index emiselwe ngowe-2004;
- Indawo yesibini kwiErnst & Young Excellence in Financial reporting awards, ukusuka kwindawo yesithathu ngowe-2003;
- Ukunconywa kakhulu kwiGrand Prix for best overall investor relations – non-FTSE/JSE top 40 ji-IR magazine's South African investor relations awards;
- Ukuvotelwa njengohamba phambili ekunikeneni ingxelo kwimiba ngemiba kwicandelo lezemali; jikelele kwiInvestment Analyst Society's Best reporting and communication awards;
- Indawo yesibini kuluhlu lwamaqumrhu ali-100 lweFinancial Mail's Annual online communications index website survey;
- Ukubekwa kwindawo yama-67 kumaqumrhu aphambili angama-200 kwiFinancial Mail's Top empowerment companies;
- Indawo yesibini esithathwini (2/3) kwiBusiness Day Financial advertising awards kwizaziso zonyaka nakwiziphumo zokuphela konyaka.

## Letter to stakeholders (continued)

### Looking ahead

The market in which ABIL operates, has and will continue to be a fast changing one, with evolving client needs, awareness and choices, regulatory and competitive landscape changes and generally improving economic circumstances in its chosen market segments.

ABIL has refined its strategy over the past year to one of focus, adaptability and simplicity, and believes that these will be the key success criteria of the business in the medium term. At the core of this strategy, is the continuous and dynamic trade-off between margin, volume, bad debts and cost absorption.

ABIL is committed to driving its client and price segmentation strategy, which provides the ability to manage the elasticity of sales volumes in discrete client risk bands, without concomitant increases in bad debts, but with the benefit of better cost absorption and thus the ability to lower prices. This creates further momentum, with again higher sales volumes through better affordability and the removal of detrimental client cross-subsidisation between risk bands.

The end result should entrench the long-term competitive and sustainable positioning of ABIL in the unsecured credit market, with the objective of both lowering the cost of, and expanding access to credit, whilst maintaining superior returns for shareholders.

In addition to the above, the group will also focus on the following key objectives:

- Repositioning and optimisation of the distribution network to ensure that the group cost effectively reaches its target market and improves its penetration into markets and areas where it is under-represented.
- Search for innovation opportunities that leverage off and add to the core competence of the group.
- Driving costs down.
- Improved cash collection methodologies to both reduce the dependence on third party mechanisms and improve efficiency of arrears collection processes.
- Achievement of broad-based BEE objectives including Employment Equity, human resources development, equity ownership and other requirements of the Financial Sector Charter.
- Adapting to the threats and opportunities of the proposed National Credit Bill.
- Simplification of our product suite and improved client service and turnaround times.
- Optimising the gearing, capital structures and funding strategies of the group.

Economic conditions are expected to remain positive over the next twelve months and ABIL is committed and confident to again at least achieve its objectives of a 30% return on equity

and a 10% return on assets for the full year to 30 September 2005.

### Appreciation

In recent years, ABIL has faced significant challenges as we positioned the business for sustainable long-term growth in a very competitive market. Restructuring is often painful and can be demoralising. The degree to which the group has weathered these challenges is testimony to the calibre and commitment of all our people, and especially Chief Executive Officer, Leon Kirkinis and his management team. On behalf of the board, I thank every one of you and assure you of our commitment to creating a working environment in which you can reach your full potential.

I thank the members of our board for their counsel and valued contributions, and the authorities with whom we are building strong relationships.

Most importantly, I thank our loyal clients for their trust and continued support. In turn, we will continue to concentrate on fulfilling your financial needs with innovative products, competitive rates and superior service.

### Declaration of dividend

On 11 November 2004, the board of directors proposed and approved a final dividend No 8 of 57 cents per ordinary share.

The board also approved a special dividend No 2 of 53 cents per share.

The two dividends will be paid out simultaneously.

### Salient dates for dividend payments:

Last day to trade cum dividend

Shares commence trading ex dividend

Record date

Payment of dividend

Friday, 3 December 2004

Monday, 6 December 2004

Friday, 10 December 2004

Monday, 13 December 2004

Share certificates may not be dematerialised or rematerialised between Monday, 6 December 2004 and Friday, 10 December 2004, both days inclusive.

## Ukujonga phambili

Imarike elisebenza kuyo ishishini lakwa-ABIL ithe gqolo kwaye izeza kuthi ukutshintsha ngokukhawuleza, njengoko kutshintsha iimfuno zabaxhasi, ulwazi nokuzikhethela, imigaqo kwanemeko yokhuphiswano kwishishini kwaye kwakhona iza kukhula gabalala kwimiba yezemali kwimarike esetyenziswayo.

Iqumrhu lakwa-ABIL lisiphucule isicwangciso salo kunyaka ophelileyo saba sesengqwalaselo, ukusebenziseka nobulula kwaye likholelwa kwinto yokuba oko kuya kuba yeyona mpumelelo iphambili yoshishino kwithuba eliphakathi. Intsika yesi sicwangciso yindlela efanelekileyo yokulawulwa korhwebo phakathi komlinganiselo, umyinge, amatyala angahlawulekiyo nokwamkela iindleko.

Abakwa-ABIL bazinikele ekuqhubeni isicwangciso sabaxhasi babo namaxabiso abo, nto leyo ebangela isakhono sokulawula imiyinge yeentengiso ezibanzi kwiimeko eziquka ukuba sesichengeni sabaxhasi, kwaye kwenzeka oko ngaphandle kokunyuka kwamatyala angahlawulekiyo, kodwa kusenzeka ngokuxhanyulwa kwendlela engcono yokwamkelwa kweendleko nto leyo ikhokelela kwisakhono sokuthotywa kwamaxabiso. Oku kuzisa enye ingeniso enomyinge weentengiso eziphezulu ngenxa yokufikeleleka okungcono kwanokususwa kwemiba enokubangela ukubekeka esichengeni kwicala labaxhasi.

Imveliso ifanele kubethelela umoya wokhuphiswano nokugcinakala kwemigangatho kwethuba elide kwiqumrhu lakwa-ABIL kwicandelo lobolekiso- mali elingakhuselekanga ncam ngenjono yokuthoba iindleko nokwandisa amathuba okufikeleleka kwemali-mboleko ngeli lixa kwelinye icala kusandiswa ingeniso yabanini-zabelo.

Ukongeza koku kungentla, iqumrhu liya kuqwalasele le miba iphambili ilandelayo:

- Ukulungelelanisa nokwandisa usasazo lonxibelelwano ukuqinisekisa ukuba ukuxabisa ngokufanelekileyo kwequmrhu kuyafumaneka kwimarike ekujoliswe kuyo

nokuphucula ukuthubeleza kwalo kwiimarike nakwindawo elingekafikeleli kakuhle kuzo.

- Uphando ngeendlela zokuvelisa amathuba amatsha aya kongeza kumacandelo ayintsika yoshishino kwiqumrhu.
- Ukugcina iindleko ziphantsi.
- Iindlela eziphuculweyo zokuqokelelwa kwemali ngenjongo yokunciphisa ukuxhomekeka kwiindlela zomntu ongomnye nokuphucula iinkqubo zokuqokelelwa kwamatyala asemva.
- Impumelelo ebanzi yenjongo zeBEE kunye nezokulinganiswa kwabaqeshwa ngabaqeshi, ezokuthathela ekhaya indaba zokulingana emsebenzini, nezokukhula kwabaqeshwa emsebenzini, neminye imibandela ebandekanya iFinancial Services Charter (uxwebhu Mthetho lwezezimali)
- Ukumelana nezoyikiso namathuba aphakanyiswayo omThetho oYilwayo weSizwe weMboleko-mali.
- Ukwenziwa lula kwemveliso yethu nenkonzo yabaxhasi ephuculweyo nemaxesha aphethuphethukayo.
- Ukwandisa iindlela zequmrhu zokuqhubela phambili, zokulungiselela imali eyinkunzi nezokuxhasa ngemali.

limeko zemali zilindeleke ukuba zihlale zincumisa kwezi nyanga zilishumi elinambini zizayo kwaye abakwa-ABIL bazinikele kwaye bezithembile ukuba kwakhona baya kuba nakho ukwenza inzuzo yama-30% kulingano nenzuzo ye-10% kwimpahla kunyaka uwonke ukuya kutsho kumhla wama-30 kweyoMsintsi 2005.

## Imibulelo

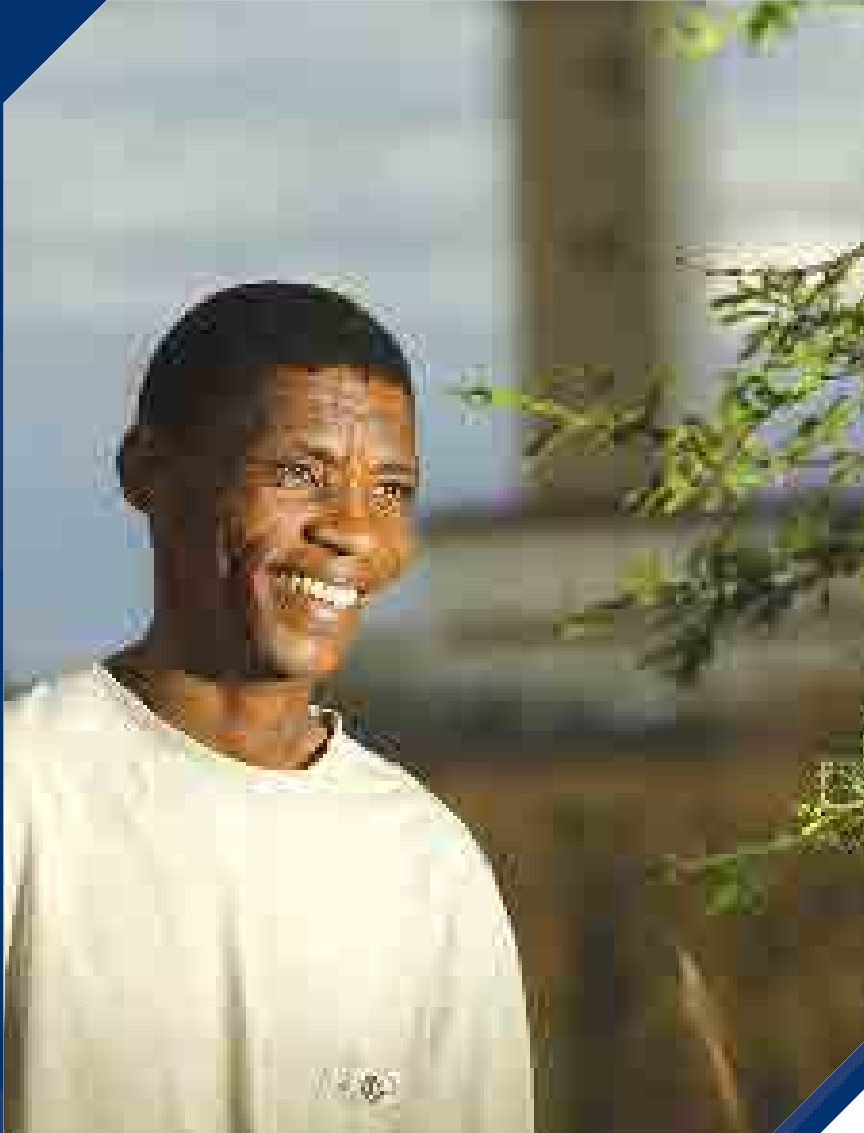
Kwiminyaka embalwa edlulileyo iqumrhu lakwa-ABIL liye lajongana nemiceli-mngeni ebalulekileyo njengoko belikwiinzame zokumisa ngendlela ubume beshishini ukulungiselela imeko yethuba elide yokugcinakala komgangatho walo kwishishini olunokhuphiswano ngendlela engummangaliso. Uhlengahlengiso lwabasebenzi yinkqubo ebuhlungu kunene kwaye isenokubangela ukudangala kubasebenzi. Indlela elithe iqumrhu lakwazi ngayo ukumelana nale miceli-mngeni

bubungqina besakhono nokuzinikela kwabasebenzi balo, ingakumbi iGosa loLawulo eliyiNtloko, uLeon Kirkinis kunye neqela lakhe labaphathi. Egameni lebhodi, ndithi kuni nangamso. Ukwanda kwaliwa ngumthakathi kwaye ndiniqinisekisa kanjaqo ngokuzinikela kwethu ekulenzeni eli qumrhu libe yindawo efanelekileyo yokusebenza apho unokuziva wanelisekile khona.

Ndithi maz'enethole kumalungu ebhodi ngamacebiso awo aphilileyo nangegalelo lawo elibaluleke ngokukodwa, ndibuye ndibambe ngazibini kwabasemagunyeni esele siqalile ukwakha ubudlelwane obuluqilima nabo.

Okona kubaluleke ngaphezulu, ndivakalisa elombulelo ongazenzisiyo kubaxhasi bethu abathembekileyo ngokubonisa ukusithemba kwabo nangenkxaso yabo engabanga nakugungqa nakancinane. Kwelethu icala, siya kusoloko sithe gqolo, sizama kangangoko ukuzalisekisa iimfuno neminqweno yenu ngokubhekiselele kwimiba yemali ngobuninzi bayo nangokufaneleka kwayo.

## Case study 3



**Tshiamo Gaokaelwe**

*When I heard about Miners Credit on the radio, I hoped this would be a solution to the financial predicament I was in. I know education is the greatest gift you can give your child but I simply did not see how I was going to pay school fees. With the loan from Miners Credit, the fees were paid and the loan repayments were affordable.*

## Overview

The macroeconomic environment in which ABIL operates has experienced significant developments over the past two years. The Financial Sector Charter was negotiated and implemented in 2003, which has as its main aims improved access to financial services and better representation of previously disadvantaged groups in the sector. Government's initiative to revamp the consumer credit legislative dispensation and establish a new rationalised and uniform dispensation for the credit market gained strong momentum in 2004. ABIL believes that these two developments, concurrent with conventional competitive factors, will result in a more competitive and regulated environment over the next two to three years. The bulk of the strategies developed and implemented over the past year were with a view to position the group to prosper in this type of environment.

## National Credit Bill

In August 2004, the Department of Trade and Industry ("the dti") published a draft National Credit Bill for public comment. This followed extensive research conducted by the dti into the current legislation in South Africa around the provision of credit-related products. There is widespread consensus that the existing legislation, namely the Usury Act of 1968, the Credit Agreements Act of 1980 and the Exemption notice to the Usury Act of 1999, have resulted in a fragmented and outdated framework and which have also contributed to creating a somewhat dysfunctional and polarised credit market.

The National Credit Bill proposes to consolidate all existing legislation, as well as introducing much broader consumer rights, increased rules and procedures pertaining to the activities of credit providers and the introduction of a single National Credit Regulator to administer and regulate the credit industry. The Bill is currently being debated by various industry and public sector roleplayers, and a number of changes have already been incorporated into subsequent drafts. It is expected that a final draft Bill will be published soon, and then taken through the parliamentary process which, if

*The strategies developed and implemented over the past year were with a view to position the group to prosper in a more competitive and regulated environment.*

successful, will be promulgated during the second half of 2005.

ABIL is supportive of the principles and objectives of the dti in this process and has also been actively involved in the consultative process, bringing ABIL's experiences in its market segment to the various forums and debates. In particular, ABIL believes that the harmonisation of effective credit legislation and the removal of market segmentation and polarisation caused by the current disparate legislation will be positive.

The crux of the debates and issues revolve principally around the delicate balance between consumer protection, rights and obligations on the one hand, and the impact that this may have on both the price of and continued expansion of access to credit on the other. ABIL is comfortable that these issues are being heard and addressed, however is also accepting of the fact that the consultation process will conclude, the legislation will be passed, and accordingly will adapt its business model to deal with the consequences of whatever the final outcome of the Bill is.

ABIL is confident that there is a convergence of the issues being addressed by the proposed Bill and its current strategic focus as discussed earlier, and consequently believes that it will be well prepared to meet both the challenges and opportunities that this new National Credit Bill offers.

## Strategic positioning

The macroeconomic developments have the potential to impact on the group in one or

more of the following areas: the sustainability of margins, maintaining asset growth, credit quality and our ability to price correctly and our collections platforms. ABIL identified a number of strategic responses for the group to deal with the implications over the next two to three years:

- Develop a lowest cost model
- Develop a growth strategy
- Enhance our credit and collections competence
- Develop a client centric focus
- Develop human capital
- Improve information technology capabilities

## Developing a lowest cost model

For ABIL the three key drivers that underpin the lowest cost model are:

- Centralising and integrating support services
- Optimising the distribution channel
- Optimising business processes

## Centralising and integrating support services

In order to deal with potential sales contraction, margin compression or both as a result of the requirements of the proposed National Credit Bill and increased competition, a decision was made to continue to drive costs down throughout the group.

A key driver of the cost reduction has been, and continues to be, the centralisation of all support services at a group level and eliminating inefficiencies in the distribution channel and all duplication of effort and structures by integrating the management of the operations of African Bank Retail, Credit Indemnity and Miners Credit. These three business units have reached critical mass and



have proven the sustainability of their models. To date, value creation has been enhanced vertically within each business unit. Further opportunities for value creation enhancements now lie horizontally, eg between business units.

During the year a number of elements of the plan have already been implemented, specifically the centralisation and integration of IT and HR. The integration of all collections processes across the group, including call centres, has also commenced. Group costs declined over the past two years from R1 036 million in 2003 to R946 million in 2004, with a lower target set for FY2005 in absolute terms.

### **Optimising the distribution channel**

An analysis of the distribution channels highlighted inefficiencies in the group's branch network within the critical mass business units of African Bank Retail, Credit Indemnity and Miners Credit. ABIL has a distribution footprint of 542 branches and service points. Independent strategies and operational management of these three businesses results in unnecessary duplication of costs and sub-optimal penetration of markets. Within smaller markets the inefficiencies are exacerbated given that our infrastructures compete predominantly against each other. It is envisaged that in many markets sales can be enhanced and the infrastructure optimised by consolidating branches, thereby ratcheting earnings capabilities of the market.

A project was initiated to potentially halve the infrastructure requirements in small markets whilst maximising sales potential. The project piloted the efficacy of marketing combined African Bank and Credit Indemnity product offers through a single branch outlet. The three key purposes of the pilot project was to:

- test our client's acceptance of a potential combined African Bank/Credit Indemnity product offer through a single branch;
- test the operational requirements necessary to effectively deliver the offer; and
- establish if the continued sales can be retained through one outlet.

We are seeing early positive business results.

Phase I of the channel optimisation plan has already commenced. The mergers have resulted in the elimination of value destroying outlets by removing the duplication of costs while attempting to retain all the sales in the merged branch, whilst closures of certain branches have eliminated branches making a negative contribution. Phase II involves further branches for potential merging in the 2005 financial year.

The channel analysis also identified a number of opportunities for new branches to be opened. These potential new branches are both in areas where we are already represented but are under-penetrating the market and some new geographic markets.

- A project was initiated to potentially halve the infrastructure requirements in small markets whilst maximising sales potential.
- The channel analysis also identified a number of opportunities for new branches to be opened.
- Our current target market within South Africa provides sufficient growth opportunity so as not to be forced into unexplored higher risk areas.

### **Optimising business processes**

The drive towards client centricity has led to detailed research to ensure understanding of our clients' needs. They clearly articulated their need for a quick response to their request and a quick and hassle-free process of application and disbursement. To this end we developed a new IT system and process to speed up and simplify loan application and processing. A pilot of ABIL.net, the new front-end loan processing system in African Bank Retail, was completed and implemented. The new system provides for a more efficient process and new affordability level calculations in the credit vetting systems. A simplified and automated loan re-advance process is also available and the turnaround time on loans has improved by 50% on average. The fastest loan turnaround time recorded from application to disbursement in ABIL.net has been 14 minutes. Our objective is to approve 90% of new loans within 90 minutes and repeat loans within 20 minutes.

To develop strategic advantage in the longer term we sought to develop a new mechanism to further improve our loan application, disbursement and collections processes, to reduce cost and to inexpensively access small markets. This could be further enhanced by the use of credit card technology.

### **Developing a growth strategy**

#### **Size of the market and market share**

In order to ensure our drive for growth is balanced by a prudent approach to managing risk, we have conducted detailed market shape and sizing analyses within both South Africa and the broader African continent over the past year. Extensive research and analysis was also conducted into understanding both

primary and secondary competitors. These competitors include microlenders, the major banks and major hire purchase and credit retailers who compete for share of wallet of a common client set.

After segmenting the South African credit market in terms of employment status and banked vs unbanked, we quantified the market in terms of the total number of clients as well as total amount available for credit repayments. What became very apparent is that our current target market within South Africa provides sufficient growth opportunity so as not to be forced into unexplored higher risk areas.

Although ABIL is the dominant player in the domestic microlending space, there is still much room to grow. The market size of the formal microlending market is approximately R15 billion. ABIL is estimated at having approximately 21% share of annual disbursements, 12% share of the total number of loans disbursed and 25% share of the

number of active LSM 3 – 7 clients, the latter being the segment of the population we specifically target.

### Opportunities for growth

As part of our analysis into the size of the market over the past year, we identified eleven specific potential growth opportunities within South Africa. After careful consideration of this risk-return trade-off for each potential opportunity, we settled on three growth opportunities to focus on in the short term. All three opportunities fall within our traditional market definition of banked and employed and include:

- increasing penetration in existing markets with existing products through existing infrastructure;
- increasing penetration in new and existing markets through new infrastructure; and
- targeting the higher end of our traditional market with customised products and service offerings.

Specific targets have been set for both African Bank and Credit Indemnity, and detailed implementation plans developed to ensure we achieve the increased market share. The opening up of new branches in identified metros has already commenced and we are in the process of securing additional sites for new branches as per our implementation plans.

Regarding the broader continent, we have also completed a detailed analysis of a number of countries; this analysis entailed both a macro-economic as well as a financial services infrastructure analysis. Based on the analytical outputs, we identified the more attractive countries and visited them. We engaged with stakeholders and started to build relationships with potential partners. It is anticipated that any strategy into Africa will take the form of joint ventures with formal banking institutions already present to leverage their client base and infrastructure. We will not pursue a strategy of acquisition or big capital investments.

### Enhancing our credit competence

The group has made steady progress in its efforts to provide better price differentiation to its clients. At African Bank Retail, the first stage

- The drive towards client centricity has led to detailed research to ensure understanding of our clients' needs. They clearly articulated their need for a quick response to their request and a quick and hassle-free process of application and disbursement.
- Our objective is to approve 90% of new loans within 90 minutes and repeat loans within 20 minutes.

of the project introduced more differentiation in the pricing of retail loans based on risk profiles in November 2003. The second stage comprising a new suite of scoring models, incorporating behavioural, operational and individual risk information, and a new set of re-priced products, which is being piloted and will be rolled out cautiously over the next six months. The impact of the National Credit Bill is also being assessed in light of the above, and the models will be modified to meet any of the new requirements of the Bill when enacted.

Credit Indemnity implemented its price targeting strategies earlier and hence reaped the benefits over the past twelve months. It experienced a substantial increase in sales without a notable increase in risk, by restricting credit to high-risk clients and promoting cheaper, longer-term, larger loans to low risk clients. This strategy, while resulting in a slight decline in yields, has been more than offset by higher gross advances and a steady cost base, which has lowered the average cost per loan.

### Enhancing our collections competence

The drive to enhance collections competencies has resulted in two key initiatives, training and developing an enhanced collections platform. A variety of strategies were implemented in 2004 that resulted in improved cash flows on the non-performing loan books. An important initiative in reducing wasted collection costs in 2005 will be the implementation of a collections scorecard in order to more accurately predict recoverability on delinquent loans.

As part of the drive to reduce cost all the African Bank regional collections processes and structures were centralised into Group Collections in 2004. A further process to centralise and integrate all the collections

departments in the different businesses into a group collections capability will commence in 2005.

### Developing a client centric culture

Our view is that those organisations that sustainably provide the best service to clients will win in the long term. The need for a client centric culture is therefore deemed critical to retaining our clients in the face of ever-increasing competition. The universally accepted "Determinants of Service Quality" (DSQs) have been used as the basis on which we will measure a service strategy.

During the year we conducted extensive research utilising the DSQ framework into client behaviour, their expectations and assessment of our performance against their expectations and relative to competitors. The client service strategy is currently under development and will form the basis of enhancing our service delivery to clients. Our consumer pledge which was developed in 2004 and which will be rolled out in the first half of 2005, is an important part of the process.

### Developing our human capital

A skilled and motivated human capital base is vital to our long-term success. A key initiative in achieving our objective of improved quality of employee management at lower costs was to centralise HR.

During the year we appointed a group HR executive tasked with developing and implementing progressive HR processes and practices across the group and an HR forum was established to assist with consistent HR policy and strategy formulation. We also developed a revised performance management tool which will be rolled out in 2005.

## Strategic review *(continued)*



We made progress with employment equity targets as discussed in the letter to stakeholders and a group employment equity forum has been established to finalise recommendations, monitor progress and ensure targets are met.

Due to ongoing business restructuring over the past two years morale within some parts of the business has been negatively affected. In order to understand and therefore address the challenges, a culture audit was conducted to determine the climate within the work environment and the exact areas requiring attention. The data is currently being analysed to identify the key areas of concern and develop strategies to remedy the shortcomings identified. Employee satisfaction targets will be set and ongoing tracker research will be conducted to monitor progress.

### Information technology

Information technology ("IT") plays a strategic role in enabling the processes and activities of

the group. Investment in IT continues and there was significant expenditure over the past year on:

- the purchasing of the core loans management system in order to enable the bank to control the speed of development, the quality of this crucial system, and to mitigate the risk of being dependent on the vendor;
- the development and rollout of the new loans origination system (ABIL.net);
- the acquisition of additional hardware to ensure scalability of systems;
- the acquisition of imaging technologies;
- a new collections software package, Tallyman, providing workflow automation functionality, workload management tools, and client management systems, was purchased;
- the implementation of interactive voice recognition ("IVR");
- the implementing of call blending functionality to allow for better management of peak volumes; and
- a new client services software package to allow for improved efficiencies in handling incoming client queries.

ABIL.net, the new loans origination system, utilises technologies such as imaging, biometrics and rules engines in order to facilitate a more accurate, secure and faster loans process. This system has also been designed for flexibility in order to accommodate faster new product rollouts, and to have scalability to accommodate the bank's future requirements.

With respect to stability, critical systems uptime has averaged in excess of 99,95% for the year. Furthermore, a number of innovative solutions and technologies have been implemented within IT in the past year which have enhanced stability and scalability in order to cater for the current and future growth of the bank.

## Overview

The positive results over the past twelve months were achieved through a combination of a vibrant economic environment and tightened operating focus on the main drivers of the business. The major contributors to these results were:

**Margins** – The continuing change in the mix of the lending portfolio towards retail debit order loans as well as the decline in low yielding pay down books provided for a substantial improvement in the total yield on advances from 52,9% to 60,3%. Margins were enhanced further by increased contributions from the higher yielding businesses of Credit Indemnity and Miners Credit. Total revenue grew by 7% to R3 074 million (2003: R2 866 million).

**Sales** – New loans granted increased by 25% to R4,4 billion over the prior period, growing the lending books by 13%. This growth in lending books was largely offset by a 34% decline in the pay down books, still however resulting in a net growth in gross interest-bearing advances of 4% to R5,1 billion, reversing the declining trends of the past few years.

**Bad debts** – The charge for bad debts was 9% higher at R484 million on the back of the changing portfolio mix, increased sales and an increased weighting of Credit Indemnity and Miners Credit in the overall portfolio. Given that the group focuses on risk-adjusted returns in its pricing methodology, the charge as a percentage of interest margin has remained steady at 19,4% and is within the targeted 19% to 20% of the underwriting models. Provision coverage of 73,8% (2003: 74,7%) has been maintained.

**Operating costs** – Expenditure fell by 9% to R946 million (2003: R1 036 million) over the period, with the majority of the savings achieved in the second half of the year. The cost-to-income ratio improved from 36,2% to 30,8% and the cost-to-advances ratio from 19,1% to 18,5%. The group is committed to bringing this ratio down towards the 17% level over the medium term.

**Net financing costs** – The average cost of funds fell from 14,5% to 12,7% due to the favourable interest rate environment and the credit ratings upgrade from Moody's Investors Service in the second half of 2004. This was partially offset by low returns on surplus cash invested in the interbank market.

The above drivers combined to produce a 23% increase in profit before tax to R1 311 million (2003: R1 066 million).

**Taxation** – The total taxation charge increased from 37,4% to 42,4% due mainly to the additional secondary tax on companies ("STC") charge on the special dividend declared at the end of 2003.

## Business unit performance

African Bank Retail and Collections increased headline earnings to R608 million (2003: R572 million) as the profits made in the prior year from the acquired Saambou PLB were more than offset by growth in organic earnings generated on the lending books. Credit Indemnity also benefited from growth in sales, increasing loan terms and effective cost control, lifting earnings by 51% to R151 million. Miners Credit experienced similar conditions, increasing its contribution by 56%, while Commercial Vehicle Finance grew earnings by 139% off a low base. The Standard Bank JV increased its profits by 87% on the back of a 65% lift in its advances book.

The discontinued businesses of Gilt Edged Management Services ("GEMS"), African Contractor Finance and Quatro, are being wound down after their respective models failed to reach critical mass or acceptable returns. ABCommerce, the invoice discounting business, was reclassified under the pay down books in the latter part of the year, after a decision was taken to close down the business, following the discovery of irregular activities by clients of the business, which resulted in unacceptable bad debts being realised. The impact of all these closures is substantially out of the system and should have little effect in 2005.

## Capital and dividends

Following a review of the economic capital model, ABIL has reduced the ordinary dividend cover to 1,75 times (from the previously stated 2,0 to 2,5 times) to pay out the profits that are surplus to the level of capital required to fund medium-term asset growth in the lending books. The special dividend of R250 million represents the release of capital from the pay down books as they are realised into cash as well as minor adjustments to gearing.

## Financial review *(continued)*



### Return on assets and return on equity model

<i>R million</i>	12 months September 2004	12 months September 2003	12 months September 2002	
Interest income on advances	2 490	2 296	2 005	Interest/Advances*
Net assurance income	291	247	260	Assurance/Advances*
Non-interest income	294	323	300	Other income/Advances*
<b>Total income</b>	<b>3 074</b>	<b>2 866</b>	<b>2 565</b>	
Charge for credit losses	(484)	(445)	(553)	Bad debts/Advances*
<b>Risk-adjusted income</b>	<b>2 591</b>	<b>2 421</b>	<b>2 012</b>	Risk-adjusted yield
Operating expenses	(946)	(1 036)	(938)	Opex/Advances*
Net financing costs	(335)	(321)	(306)	Financing costs/Advances*
Associate and other	1	2	7	Associate/Advances*
<b>Net income before tax</b>	<b>1 311</b>	<b>1 066</b>	<b>774</b>	Operating margin
Taxation (including VAT, STC and RSC)	(555)	(399)	(266)	Tax rate
<b>Net income after tax</b>	<b>755</b>	<b>667</b>	<b>508</b>	
Minorities and non-headline	7	14	3	Minorities and non-headline
<b>Headline earnings</b>	<b>762</b>	<b>680</b>	<b>511</b>	
				Advances/Total assets
Average gross interest-bearing advances	5 101	5 415	5 238	Return on assets
Average total assets	6 542	6 444	5 735	Gearing
Average ordinary shareholders' equity	2 431	2 628	2 190	Return on equity

\* Advances refer to average gross interest-bearing advances



## Financial review (continued)



### Advances portfolios

R million	As at 30 September 2004		As at 30 September 2003		As at 30 September 2002	
		% growth		% growth		
<b>Lending books</b>	<b>4 685,3</b>	<b>13</b>	4 131,2	12	3 677,2	
African Bank – retail debit order	2 510,5	43	1 761,3	52	1 162,4	
African Bank – payroll	933,6	(36)	1 454,8	(19)	1 806,9	
Credit Indemnity	402,6	28	315,6	28	246,7	
Miners Credit	378,8	18	319,8	14	279,4	
Standard Bank JV	272,8	65	165,3	44	115,0	
Commercial Vehicle Finance	187,0	63	114,4	71	66,8	
<b>Pay down books</b>	<b>1 443,9</b>	<b>(34)</b>	2 182,9	(37)	3 489,5	
Persal	301,6	(34)	457,5	(37)	731,6	
Saambou PLB	931,2	(37)	1 473,1	(39)	2 396,3	
Gilt Edged Management Services	99,2	(27)	135,2	(35)	208,6	
African Contractor Finance	94,2	(15)	110,5	(22)	141,0	
ABCCommerce	17,7	> 100	5,0	n/a	0,0	
Quatro and Safrich	0,0	(100)	1,5	(87)	12,1	
<b>Total advances</b>	<b>6 129,3</b>	<b>(3)</b>	6 314,1	(12)	7 166,6	
Less: Non-interest-bearing advances	1 029,1	(27)	1 415,3	n/a	–	
<b>Gross interest-bearing advances</b>	<b>5 100,2</b>	<b>4</b>	4 898,8	(32)	7 166,6	

### Advances

ABIL classifies its gross advances portfolio into two main portfolios:

**Lending books** – These comprise the lending activities of the ongoing businesses of the group. It is these businesses that form the base for future growth and on which the majority of the group's earnings are derived. The lending books grew by 13% to R4 685 million (2003: R4 131 million). This level of growth is consistent with that of the prior two years, and is within the group's targeted medium-term growth of between 10% and 15% per annum. In African Bank Retail the debit order products grew strongly while the switch of focus away from payroll-based products continued. Increased sales and new longer-term product

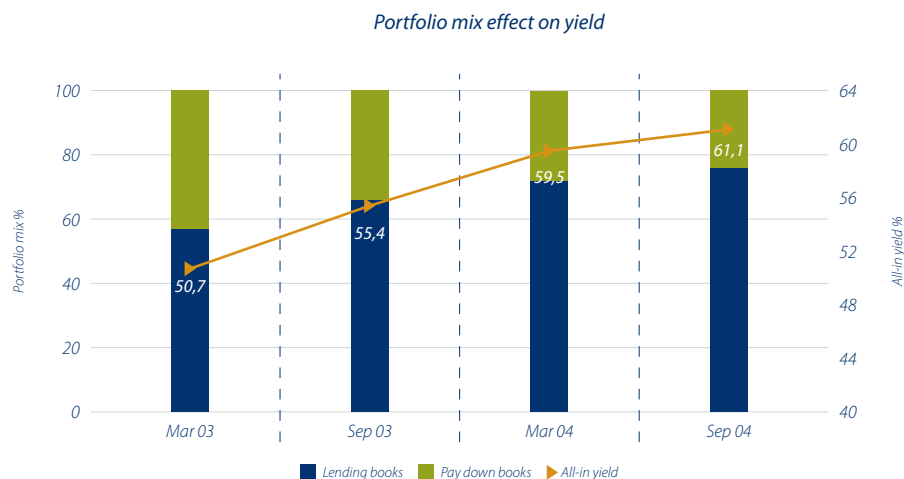
offerings have resulted in a 28% increase in Credit Indemnity's book. Miners Credit experienced steady growth while the extension of the taxi recapitalisation programme triggered an upsurge in demand for taxi finance in Commercial Vehicle Finance. The Standard Bank JV grew by a solid 65%, as the strategy to expand their presence, especially in areas where African Bank is less well represented, proved successful.

**Pay down books** – These comprise the acquired Saambou PLB and remaining Persal portfolios on which no new lending is taking place, as well as the smaller businesses that are being wound down. These portfolios continued to decline at expected rates.

Higher sales offset both the rate of reduction in the pay down books, and the writing off of non-performing loans on which interest had been suspended, increasing gross interest-bearing advances to R5 100 million (2003: R4 899 million), which was at the lower end of group projections for the year.

Whilst total gross advances for the period have remained steady compared to the previous period, the shift in mix of an increasing proportion of lending books to pay down books, as well as the continuing swing from payroll products to retail debit order products, have all contributed to an overall increase in the total yield.

Looking forward, the pay down books will continue to decline to negligible levels over the next eighteen months and the change in mix between the payroll and retail products will level off. This, together with the introduction of greater levels of price segmentation in the retail portfolio, will result in the overall yield remaining largely steady for the next twelve months.



### Advances analysis – number and average size of loans

	Growth in number of loans %	As at 30 September 2004			As at 30 September 2003		
		Gross advances outstanding Rm	Number of active loans 000	Average balance outstanding Rand	Gross advances outstanding Rm	Number of active loans 000	Average balance outstanding Rand
<b>Lending books</b>	4	<b>4 685</b>	<b>1 195</b>	<b>3 921</b>	4 131	1 145	3 608
African Bank – retail debit order	29	2 511	536	4 682	1 761	414	4 252
African Bank – payroll	(38)	934	159	5 865	1 455	255	5 704
Credit Indemnity	8	403	244	1 649	316	225	1 400
Miners Credit	(15)	379	161	2 357	320	188	1 700
Standard Bank JV	52	273	93	2 937	165	61	2 706
Commercial Vehicle Finance	66	187	2	94 648	114	1	96 134
<b>Pay down books</b>	(43)	<b>1 444</b>	<b>173</b>	<b>8 323</b>	2 183	306	7 126
Persal	(43)	302	46	6 607	458	81	5 668
Saambou PLB	(48)	931	99	9 401	1 473	189	7 803
Gilt Edged Management Services	(22)	99	29	3 471	135	37	3 699
African Contractor Finance	(32)	94	0	488 212	111	0	389 246
ABCCommerce	90	18	0	930 263	5	0	500 800
Quatro and Safrich	n/a	0	n/a	n/a	2	n/a	n/a
<b>Total</b>	(6)	<b>6 129</b>	<b>1 368</b>	<b>4 479</b>	6 314	1 451	4 350

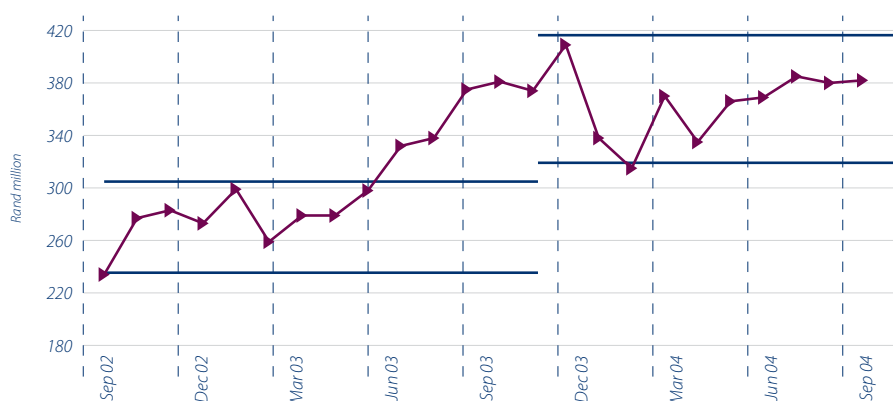
## Financial review (continued)



### Sales analysis – number and average size of loans

	% change 2004 vs 2003	2004					2003				
		Total	3 mths Sept 04	3 mths Jun 04	3 mths Mar 04	3 mths Dec 03	Total	3 mths Sept 03	3 mths Jun 03	3 mths Mar 03	3 mths Dec 02
<b>Sales value (R million)</b>											
African Bank – payroll	(41)	270,2	59,5	63,7	65,8	81,2	454,4	109,4	118,9	117,1	109,1
African Bank – retail debit order	38	2 155,1	576,5	513,7	493,8	571,1	1 565,2	490,6	361,3	349,4	364,0
Credit Indemnity	18	910,3	227,6	218,1	209,4	255,2	772,5	219,6	193,9	188,2	170,8
Miners Credit	29	595,4	147,9	147,9	131,1	168,6	462,2	126,5	111,6	102,2	122,0
Standard Bank JV	78	349,1	95,4	88,7	84,4	80,5	196,1	62,9	50,0	40,2	43,0
Commercial Vehicle Finance	57	138,3	44,4	38,4	28,9	26,5	88,0	23,8	26,0	17,6	20,6
<b>Total</b>	<b>25</b>	<b>4 418,4</b>	<b>1 151,3</b>	<b>1 070,5</b>	<b>1 013,5</b>	<b>1 183,2</b>	<b>3 538,3</b>	<b>1 032,8</b>	<b>861,6</b>	<b>814,6</b>	<b>829,4</b>
<b>Number of loans (000)</b>											
African Bank – payroll	(51)	26,5	5,8	6,2	6,4	8,1	53,7	12,1	13,5	14,0	14,0
African Bank – retail debit order	28	343,9	88,6	81,0	79,0	95,3	269,5	83,7	63,1	61,1	61,6
Credit Indemnity	(3)	583,5	142,5	131,0	139,6	170,4	601,5	159,1	152,8	150,2	139,4
Miners Credit	(18)	352,0	80,8	89,4	77,9	103,8	426,8	104,2	106,2	101,8	114,5
Standard Bank JV	64	77,4	20,6	19,6	18,9	18,3	47,3	15,0	12,1	9,8	10,4
Commercial Vehicle Finance	52	1,0	0,3	0,3	0,2	0,2	0,6	0,2	0,2	0,1	0,1
<b>Total</b>	<b>(1)</b>	<b>1 384,1</b>	<b>338,5</b>	<b>327,4</b>	<b>322,0</b>	<b>396,1</b>	<b>1 399,4</b>	<b>374,3</b>	<b>347,9</b>	<b>337,1</b>	<b>340,1</b>
<b>Average new loan size (rand)</b>											
African Bank – payroll	21	10 211	10 317	10 303	10 320	9 982	8 458	9 014	8 802	8 332	7 773
African Bank – retail debit order	8	6 267	6 507	6 340	6 250	5 995	5 808	5 865	5 721	5 715	5 912
Credit Indemnity	21	1 560	1 597	1 665	1 500	1 498	1 284	1 381	1 269	1 253	1 225
Miners Credit	56	1 692	1 832	1 653	1 682	1 623	1 083	1 213	1 050	1 003	1 066
Standard Bank JV	9	4 513	4 626	4 535	4 462	4 412	4 146	4 188	4 133	4 123	4 121
Commercial Vehicle Finance	3	145 409	151 642	143 854	144 005	139 468	140 790	133 624	135 469	150 402	149 290
<b>Total</b>	<b>26</b>	<b>3 192</b>	<b>3 401</b>	<b>3 269</b>	<b>3 147</b>	<b>2 987</b>	<b>2 528</b>	<b>2 759</b>	<b>2 476</b>	<b>2 417</b>	<b>2 439</b>

Monthly sales history



## Sales

Sales for the twelve months to 30 September 2004 increased by 25% to R4 418 million (2003: R3 538 million). However, the growth dynamics differed substantially between the different businesses in the group.

In the African Bank retail debit order and Standard Bank JV books, the number of loans increased by 28% and 64% respectively and the average size of loans by only 8% and 9%, as the sales strategy over the last year has been primarily focused on new client acquisition through new products and channels.

On the other hand, both Credit Indemnity and Miners Credit were successful in launching new longer-term products, mainly to the better performing repeat clients and their growth was achieved primarily from increases in loan size (21% and 56% respectively). Increased loan sizes imply longer terms, which had a negative impact on the number of loans (-3% and -18% respectively) as repeat clients received fewer, larger and longer-term loans.

The number of loans sold in the payroll books dropped 51% in line with the shift to retail debit order products but the loan size increased by 21%, due to the deliberate strategy of focusing the payroll product on large corporates with critical mass and lower risk client bands. Payroll loans sales have reached a steady state which should not change in the foreseeable future.

Looking forward to 2005, the group expects to grow sales between 10% and 20%, depending on market conditions and legislative developments.

## Portfolio underwriting margin

As reported in the first half of 2004, the overall yield on the advances book (being interest, insurance and fees) has been increasing on the back of predominantly higher sales and changes in the mix of products in the portfolio and not through increased pricing. These dynamics increased the overall yield to 60,3%

for the twelve months to 30 September 2004 from 52,9% for the equivalent period in 2003. The change in yield is explained by the following dynamics in the portfolio:

- Within the lending books, the higher yielding retail debit order products in African Bank Retail currently contribute some 90% of monthly sales, growing the debit order book by 43% over the period.
- The higher yielding businesses of Credit Indemnity and Miners Credit increased their weighting in the overall portfolio from 10% to 13% during the past twelve months, which increased their contribution to revenue from 21% to 25%.
- The pay down books, which have significantly lower yields, continued to fall from 35% of the overall portfolio to 24%.
- Insurance income has increased in line with sales growth in African Bank Retail and the Standard Bank JV, where the majority of insurance products are originated. Other non-interest income, comprising mostly fees and commissions, declined by R30 million compared to 2003. This decline was predominantly attributable to the decline in fee income in the discontinued and sold businesses, which dropped from R43 million in 2003 to R5 million in 2004 as well as a R17 million decline due to changes in the cost recovery structures in the Teba JV being offset against operating costs. Increased sales in African Bank Retail and the Standard Bank JV offset some of these declines.

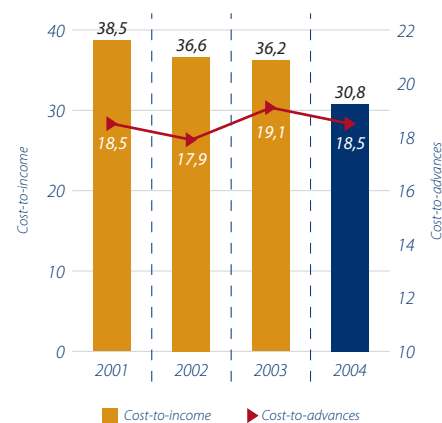
## Operating expenses

ABIL indicated a year ago that a key focus was a reduction in operating cost to a targeted 17% of gross average interest-bearing advances over the medium term. This was based on the fact that as the model had shifted from payroll to retail debit order, together with costs that were acquired with the Saambou PLB, this ratio had climbed to a high of 19,9% during 2003. Operating costs are the single biggest contributor to the pricing of our products and the optimisation of these cost structures is key to the group's competitiveness going forward.

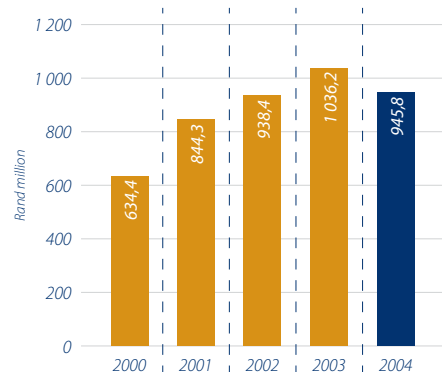
The efforts of this focus during the current financial year has resulted in operating costs declining by 9% from R1 036 million to R946 million. The majority of these cost savings were achieved in the second half of the year.

Certain of the cost savings have been structural, as non-core businesses have been sold or wound down, whilst others have been due to a refining of the distribution channels and centralisation of certain back office functions. The changes made to the operating structures in October 2004 and a number of cost-reduction strategies that are just starting to yield benefits give the group confidence that the targets set in 2003 are achievable and that costs will continue to decline over the next twelve to eighteen months.

Cost ratios (%)



Operating cost





## Charge for bad and doubtful advances

The charge for bad and doubtful advances as a percentage of advances increased from 8,2% to 9,5%. However, the charge as a percentage of margin has remained steady at 19,4%. It is this latter ratio which is the most relevant to ABIL, as it indicates the robustness of the risk-based underwriting model and the resultant bad debt experience which emerges given changes to the mix of products and their respective pricing. The increase in the charge for bad and doubtful advances as a percentage of advances was the result of three main trends:

- Credit Indemnity and Miners Credit have increased their proportionate share of the portfolio. These businesses generally have higher bad debt charges as a percentage of advances, albeit they operate at higher margins.
- The Saambou PLB and Persal books which have low bad debt rates have been steadily declining as a percentage of the total portfolio.
- The cautious relaxation of credit criteria, which had the impact of lifting sales and therefore total income, has resulted in a slight increase in the vintage curves (1% to 2%), and this has led to a slightly higher bad debt charge as provisions on these loans are raised.

## Taxation

As indicated in the interim results, the total taxation charge has increased substantially, primarily due to the R100 million in STC payments made on dividends declared, which included the R60 million STC on the special dividend paid in December 2003. In addition to a full 30% normal tax rate on

profits, the group also incurred R60 million in apportioned input VAT disallowed. Excluding the STC on the special dividend, the tax rate was similar to last year.

## Financing costs

The average cost of funds declined from 14,5% in 2003 to 12,7% in 2004. This was primarily due to the lower interest rate environment, combined with declining credit spreads on African Bank debt as the effects of the recent credit rating upgrade began to flow through. The lower interest rate environment however, also affected interest earned on cash balances, with the average interest rate earned being 390 basis points lower than in 2003.

The group issued the ABL3 bond in anticipation of the ABL1 bond maturing in February 2005, and hence is carrying a significant amount of cash reserves at the year-end. The dividend payment in December 2004 and ABL1 redemption will restore cash reserves to normal levels into 2005.

## Asset quality – NPLs, provisions and credit losses

### Non-performing loans

NPLs continued to fall steadily and decreased by R379 million from R2 625 million in September 2003 to R2 246 million in September 2004.

The decrease in NPLs and resultant decline in provisions was due to:

- a positive credit environment, which has resulted in a lower inflow of non-performing loans from the performing portfolios.
- aggressive write-offs of R845 million against provisions in 2004.

- increased cash collections and rehabilitation on the non-performing portfolios.

The aggregated NPLs as percentage of advances were 36,6% (2003: 41,6%). NPLs in the pay down books have decreased by R445 million over the period, but have increased to 75,7% (2003: 70,5%) as a percentage of the remaining pay down books, as performing loans continued to decrease, leaving mainly collection portfolios. Write-offs on these books were steady at R366 million (2003: R372 million). These portfolios will continue to decline through a combination of collections and write-offs over the course of the next year.

On the lending books, NPLs grew in absolute terms from R1 086 million to R1 152 million, an increase of 6%, however at a slower rate than the overall growth in these portfolios of 13%. This resulted in a slight decline in the NPL ratio for these loans from 26,3% in 2003, to 24,6% in 2004. This ratio is, however, a function of growth in sales and of the level of the vintages. At the current levels of both these variables, ABIL considers this level of NPLs to be within a steady state range for its business.

### Vintages

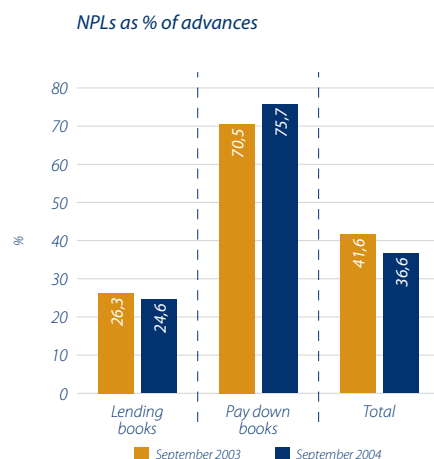
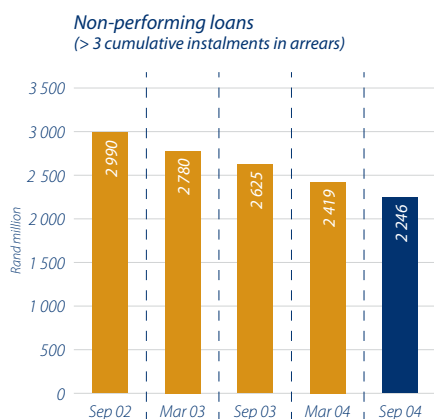
Vintage curves track each month's new loans as a discrete portfolio and plot the cumulative proportion of each portfolio that migrates into various levels of default status measured by contractual number of missed instalments.

The ">2 missed instalments" vintage, which has been disclosed in each of the quarterly announcements this year, shows a more immediate impact on default rates and was used to reflect on the impact of increased sales during the current year.

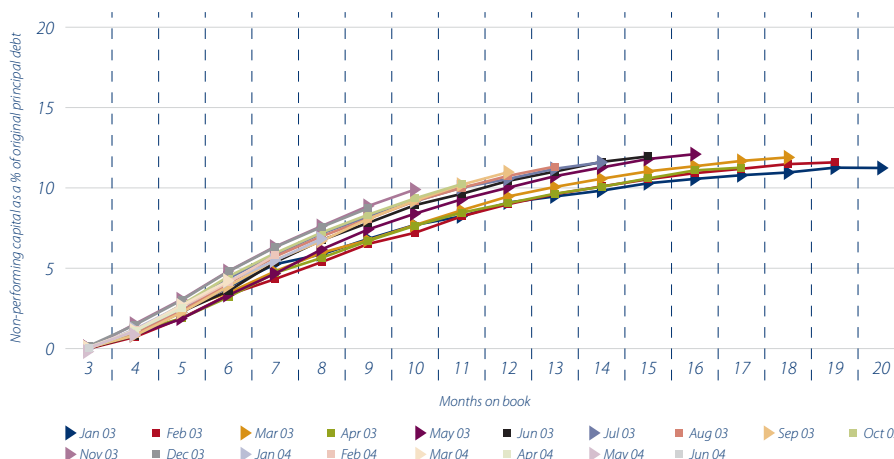
The ">3 missed instalments" vintage reflects the vintage that coincides with the classification of NPLs.

The vintage graphs show a consistent trend between the > 2 month vintage and the > 3 month vintage, with some 60% – 70% of loans in arrears after two months, progressing into NPLs (> 3 months).

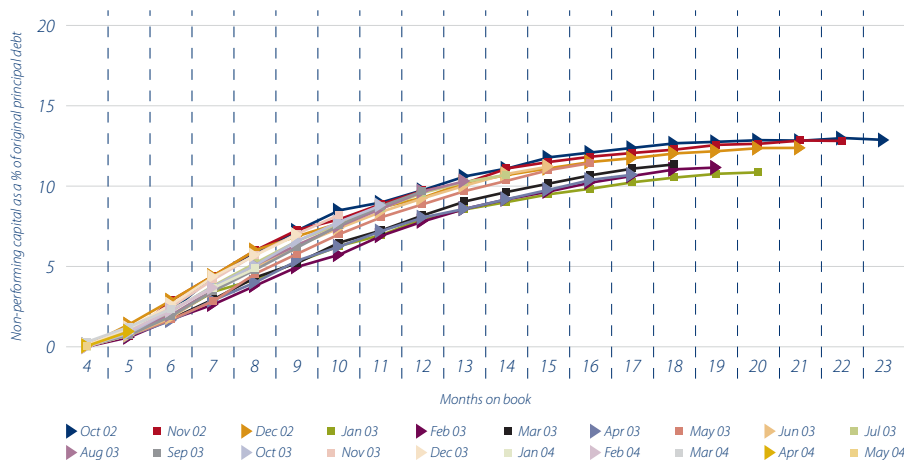
Both graphs also portray that for the current period the vintages have remained consistent with the trends established over recent reporting periods. ABIL indicated at the end of 2003 that it was going to take on more risk through



**Vintage graph – African Bank Retail (%)**  
(more than two missed instalments)



**Vintage graph – African Bank Retail (%)**  
(more than three missed instalments)



increased sales. The African Bank Retail vintage charts reflect an increase of approximately 1% – 2% over this financial year, on the back of a 25% increase in sales. The group is satisfied that the increased sales and concomitant increase in margins have not been at the expense of unanticipated higher default risk.

#### Provisions

Provisions reduced by 15% to R1 657 million, in line with the 14% reduction in NPLs. Thus the provision coverage of NPLs reduced slightly from 74,7% to 73,8% at September 2004. The reduction in provision coverage is mainly a function of the high levels of write-offs of loans.

This is the second full year of accounting for provisions under AC133, and the back-testing

of the models is proving to be both reliable and accurate in the prediction of cash flows out of the impaired portfolios.

Whilst these non-performing loans are disclosed at gross values with related provisions, a more relevant risk view is the net value of these NPLs. This net value has declined from R711 million as at 30 September 2003 to R589 million as at 30 September 2004. Thus the value at risk (together with low resultant yields) and the high capital charge on these NPLs continue to decline.

The AC133 model (and thus the net value above) is primarily a function of the present value of expected cash flows. Based on an analysis of the NPLs for African Bank Retail as

at 30 September 2003, which had a net value after provisions of R618 million, a total of R344 million was recovered in cash over the last 12 months. This represents 14,7% and 55,7% of the gross and net value of these loans respectively. Based on the present value discounting effect of these cash flows, this implies an approximate 30-month collection period at these rates of cash collection. The group is confident that the levels of provision coverage remain both conservative and consistent with prior periods.

Cash recoveries on bad debts previously written off improved from R75 million for 2003 to R84 million for the current financial year.

## Financial review *(continued)*



### Asset quality – NPLs, provisions and credit losses

#### Asset quality analysis

R million	30 September		30 September		30 September	
	2004	% change	2003	% change	2002	
<b>Advances</b>						
Performing	3 883	5	3 689	(12)	4 177	
Non-performing	2 246	(14)	2 625	(12)	2 990	
Total	6 129	(3)	6 314	(12)	7 167	
<b>Provisions for impairment and reserves</b>						
Portfolio provisions	31	2	30	(47)	56	
Balance at the beginning of the period	30		56		153	
Provisions raised (released)	1		(26)		(116)	
Acquisitions/(disposals) of portfolio provisions	0		0		20	
Specific provisions	1 514	(16)	1 793	(16)	2 123	
Balance at the beginning of the period	1 793		2 123		273	
Provisions raised	567		546		713	
Bad debts written off (against provision)	(845)		(875)		(640)	
(Disposals)/acquisitions of specific provisions	(1)		0		1 777	
Stangen credit life reserves	112		91		87	
Total provisions	1 657		1 914		2 266	
Other insurance coverage	0		47		109	
Total provisions and reserves	1 657	(15)	1 961	(17)	2 376	
	<b>12 months to</b>		<b>12 months to</b>		<b>12 months to</b>	
	<b>30 September</b>		<b>30 September</b>		<b>30 September</b>	
	<b>2004</b>	<b>% change</b>	<b>2003</b>	<b>% change</b>	<b>2002</b>	
<b>Income statement charges</b>						
Charge for bad and doubtful debt	484	9	445	(20)	553	
Portfolio provisions	1		(26)		(116)	
Specific provisions	567		546		713	
Recoveries	(84)		(75)		(43)	
<b>Ratios</b>						
NPLs as a % of total advances	36,6		41,6		41,7	
Total provisions as % of NPLs (NPL cover)	73,8		74,7		79,5	
Specific provisions as % of total advances	24,7		28,4		29,6	
Portfolio provisions as % of total advances	0,5		0,5		0,8	
Credit life reserves as % of total advances	1,8		2,2		2,7	
Total provisions and reserves as % of total advances	27,0		31,1		33,2	
Income statement charge for bad debts as % of average gross advances	9,5		8,2		10,6	
Bad debt write-offs as % of average gross advances	13,5		13,1		12,2	
Bad debt recoveries as a % of write-offs	9,9		8,5		6,8	

### Business unit advances and provisions analysis

	Gross advances	NPLs		Total provisions			Bad debts written off
	Rm	Rm	% of gross advances	Rm	% of gross advances	Provision coverage %	Rm
<b>30 September 2004</b>							
<b>Lending books</b>	<b>4 685</b>	<b>1 152</b>	<b>24,6</b>	<b>864</b>	<b>18,4</b>	<b>75,0</b>	<b>479</b>
African Bank – retail debit order	2 511	670	26,7	472	18,8	70,5	137
African Bank – payroll	934	353	37,8	255	27,3	72,3	191
Credit Indemnity	403	79	19,5	72	17,9	91,7	92
Miners Credit	379	50	13,2	42	11,0	83,8	39
Standard Bank JV	273	–	–	11	3,9	no NPLs	20
Commercial Vehicle Finance	187	1	0,6	12	6,4	>100%	–
<b>Pay down books</b>	<b>1 444</b>	<b>1 094</b>	<b>75,7</b>	<b>794</b>	<b>55,0</b>	<b>72,6</b>	<b>366</b>
Persal	302	226	74,9	151	50,2	67,1	66
Saambou PLB	931	675	72,5	458	49,2	67,9	296
Gilt Edged Management Services	99	84	84,9	78	79,1	93,2	3
African Contractor Finance	94	94	100,0	90	96,0	96,0	–
ABCCommerce	18	15	83,4	15	83,5	100,1	–
Quatro and Safrich	–	–	n/a	–	n/a	no NPLs	2
<b>Total</b>	<b>6 129</b>	<b>2 246</b>	<b>36,6</b>	<b>1 657</b>	<b>27,0</b>	<b>73,8</b>	<b>845</b>
<b>30 September 2003</b>							
<b>Lending books</b>	<b>4 131</b>	<b>1 086</b>	<b>26,3</b>	<b>864</b>	<b>20,9</b>	<b>79,6</b>	<b>503</b>
African Bank – retail debit order	1 761	476	27,0	364	20,7	76,5	78
African Bank – payroll	1 455	501	34,5	395	27,2	78,9	292
Credit Indemnity	316	62	19,7	56	17,6	89,5	77
Miners Credit	320	47	14,5	36	11,3	77,9	42
Standard Bank JV	165	–	–	6	3,9	no NPLs	13
Commercial Vehicle Finance	114	1	0,6	7	5,8	>100%	–
<b>Pay down books</b>	<b>2 183</b>	<b>1 539</b>	<b>70,5</b>	<b>1 097</b>	<b>50,2</b>	<b>71,3</b>	<b>372</b>
Persal	458	312	68,2	211	46,0	67,5	120
Saambou PLB	1 473	1 048	71,1	749*	50,8	71,5	239
Gilt Edged Management Services	135	68	50,1	49	36,4	72,7	9
African Contractor Finance	111	111	100,0	87	78,5	78,5	4
ABCCommerce	5	1	18,7	–	2,7	14,3	–
Quatro and Safrich	2	–	–	1	85,1	no NPLs	1
<b>Total</b>	<b>6 314</b>	<b>2 625</b>	<b>41,6</b>	<b>1 961*</b>	<b>31,1</b>	<b>74,7</b>	<b>875</b>

\* Includes R47 million of off-balance sheet insurance coverage

## Financial review (continued)



### Capital allocation model

R000	Balance sheet			% capital required	Ideal capital		
	Ongoing businesses	Pay down books	Total balance sheet		Lending books	Pay down books	Total balance sheet
<b>September 2004</b>							
Non-performing loans	1 152 355	1 093 749	2 246 104				
Less provisions for impairment	(863 948)	(793 545)	(1 657 493)				
Net book value	288 407	300 204	588 611	100,0	288 407	300 204	588 611
Performing loans	3 532 991	350 170	3 883 161	28,5	1 006 902	99 798	1 106 701
Cash reserves	2 434 077	0	2 434 077	2,0	48 682	0	48 682
Goodwill	14 067	0	14 067	100,0	14 067	0	14 067
Deferred tax asset	35 739	0	35 739	100,0	35 739	0	35 739
Policyholders' investment	49 611	0	49 611	0,0	0	0	0
Other assets	329 761	0	329 761	20,0	65 952	0	65 952
Total on-balance-sheet assets	6 684 653	650 374	7 335 027		0	0	0
Off-balance-sheet assets and commitments	133 684	0	133 684	20,0	26 737	0	26 737
Total assets	6 818 337	650 374	7 468 711				
Insurance company CAR					107 799		107 799
<b>Ideal capital</b>					1 594 285	400 002	1 994 287
Group risk-weighted assets (per DI returns)			6 652 380				
			% of risk weighted assets				
Actual qualifying capital as at 30 September 2004			40,4				2 688 093
Ideal capital as at 30 September 2004			30,0				1 994 287
<b>Surplus capital</b>			10,4				693 806
<b>September 2003</b>							
Non-performing loans	1 086 242	1 539 033	2 625 275				
Less provisions for impairment	(847 717)	(1 066 634)	(1 914 351)				
Net book value	238 525	472 399	710 924	100,0	238 525	472 399	710 924
Performing loans	3 044 941	643 881	3 688 822	24,6	749 055	158 395	907 450
Cash reserves	1 628 036	0	1 628 036	4,0	65 121	0	65 121
Goodwill	20 463	0	20 463	100,0	20 463	0	20 463
Deferred tax asset	58 812	0	58 812	100,0	58 812	0	58 812
Policyholders' investment	53 682	0	53 682	0,0	0	0	0
Other assets	317 403	0	317 403	20,0	63 481	0	63 481
Total on-balance-sheet assets	5 361 862	1 116 280	6 478 142		0	0	0
Off-balance-sheet assets and commitments	96 876	0	96 876	20,0	19 375	0	19 375
Total assets	5 458 738	1 116 280	6 575 018				
Insurance company CAR					77 877		77 877
<b>Ideal capital</b>					1 292 710	630 794	1 923 503
Group risk-weighted assets (per DI returns)			6 239 830				
			% of risk weighted assets				
Actual qualifying capital as at 30 September 2003			44,5				2 775 073
Ideal capital as at 30 September 2003			30,8				1 923 503
<b>Surplus capital</b>			13,6				851 570

## Capital, cash flow and funding

### Credit rating

African Bank was assigned a national scale credit rating from Moody's Investors Service for the first time in June 2004. The rating of A2.za/Prime-1.za for long and short term respectively, was an upgrade to the bank's previous long-term rating.

CA-Ratings affirmed its domestic long-term rating for African Bank of zaA- and its short-term rating of zaA1 in May 2004.

### Cash reserves

In addition to the R490 million in statutory and prudential cash reserves (liquid and insurance prudential investments), the group has built up available cash reserves of R1 944 million as at 30 September 2004, again underlining the strong cash generative capability of the group. The cash will partially be utilised to redeem the outstanding portion of R673 million of the ABL1 bond in February 2005 and to pay the final and special dividends. A strategic cash buffer is maintained at all times.

### Capital adequacy

ABIL operates in an environment that requires higher levels than the minimum level of capital to risk-weighted assets, as set by the Banks Act, of 10%. Capital is required to ensure that there is a sufficient risk cushion to protect the balance sheet from shocks as well as to provide an appropriate level of credit enhancement for the raising of debt at competitive rates.

The current capital ratio for ABIL as at 30 September 2004 is 40,4% (September 2003: 44,5%), well above its optimal capital adequacy requirement.

ABIL has developed its own economic capital allocation methodology that is applied to its different asset classes to obtain an optimal level of capital to be maintained. A brief description of the main classifications is set out below:

- Non-performing loans – the group considers it prudent to maintain capital equal to 100% of the residual NPLs that are not covered by the total provisions held.

- Performing loans – the group maintains capital equal to three times the average annual credit losses expected on these loans.
- Cash reserves – these are primarily invested with A1 banks and a capital ratio of 2% (2003: 4%) is maintained.
- Goodwill and deferred tax assets – 100% capital is maintained.
- Policyholder investments – the risk on these assets is fully absorbed by the policyholder liability relating to these assets and thus no capital is required.
- Other assets – capital of 20% is maintained.

The capital allocation model has been refined from the first version that was published in 2003 to, amongst others, also distinguish the capital allocated to ongoing business requirements and capital that is locked up in the pay down/discontinued books.

The above has been represented in the tables on the previous page.

The model indicates that the present optimal capital ratio is 30,0% (2003: 30,8%), relative to the actual capital adequacy of 40,4% (2003: 44,5%), leaving excess capital of R694 million. In addition, the pay down books are consuming R400 million of capital, albeit down from the R631 million as at 30 September 2003.

### Dividend policy

As stated previously, the group is committed to managing the capital base to optimal levels and this, together with the group's outlook for growth, dictates the dividend policy. For purposes of clarity and long-term forecasting, ABIL has split this policy into two components, namely ordinary dividends and special dividends.

Ordinary dividends are a function of the RoE that the business generates less capital retained to back future medium-term asset growth. ABIL has a medium-term objective of a 30% RoE and believes that the growth in the lending books will continue at approximately 12,5% to 15%. Thus, each year, approximately 42% to 50% of profits will have to be retained to fund future asset growth, and conversely

50% to 58% will be available for distribution to shareholders. ABIL considers it appropriate to therefore reduce its targeted ordinary dividend cover to 1,75 times.

Special dividends are a function of structural changes and the capital released from the pay down books as they diminish. In 2003, a special dividend of 100 cents was paid which represented both an increase in targeted gearing though the introduction of the economic capital model and the release of the capital embedded in the pay down books from 2002 to 2003.

The economic capital model for 2004 has not changed to any material degree and the ideal capital has remained a constant 30%. However, the capital released from the pay down books amounts to R231 million, and it is this amount that supports the special dividend declared of 53 cents. This implies that the further R400 million of capital that is tied up in these pay down portfolios will be released as further special dividends, as these assets are realised over the next two years.

The sum of the final ordinary and special dividends plus related STC charges amounts to R584 million and against the surplus capital per the above models leaves a R109 million buffer of surplus capital. On a pro forma basis, after STC, this distribution reduces the capital ratio to 31,4%.



### **A quick guide to ABIL's business units**

#### **African Bank Retail**

African Bank Retail comprises the major lending operations under the African Bank brand, as well as the insurance underwriting activities of Stangen.

African Bank Retail supplies short-term, unsecured credit to formally employed South Africans in full-time employment, holding transaction-based bank accounts.

Retail banking offers two generic loan types, Payroll lending, where loan instalments are deducted directly from borrowers' salaries and paid over by the employer through a pre-arranged deduction facility, and Retail, where loan instalment deductions are implemented by the bank against the borrowers' bank account by means of a debit order.

#### **Credit Indemnity**

Credit Indemnity has been operating for over twenty-five years in the lower end of the unsecured lending market. The business is primarily cash based and offers unsecured cash loans to moderate-income earners. Credit Indemnity relies heavily on its risk-based scoring system that is used for both new and repeat business. Clients are segmented according to risk profile allowing differentiated pricing across the various client risk profiles. Average loan sizes are relatively low but have increased to R1 642 as at September 2004.

#### **African Bank Miners Credit**

African Bank Miners Credit (formally Miners Credit Guarantee divisionalised into African Bank on 1 April 2004).

Miners Credit is a financial services company that has been providing unsecured loans to employees in the gold and platinum sector since 1993. Miners Credit operates through its 67 own branches in towns around and on mines, 51 outlets in mining hostels managed for MFS (a joint venture with Mineworkers Investment Corporation) and 150 points of sale in concession stores.

#### **Standard Bank Joint Venture**

The joint venture follows a similar business model to African Bank Retail, with the major difference being that the loans are sold through Standard Bank outlets. The joint venture is co-funded 53:47 (African Bank: Standard Bank) with costs and profits allocated on a 40:60 basis.

#### **African Bank Commercial Vehicle Finance**

This business provides asset based finance to small taxi operators and is nationally represented except (at present) in the Northern and Western Cape. It offers a one-stop service capable of financing and delivery of a new vehicle to the taxi operator with all the necessary documentation and accessories within one day. Finance is offered through a lease agreement over a maximum term of 36 months and the package includes credit life, short-term insurance as well as the fitment of an approved tracking device on the vehicle.

#### **ABCommerce (being wound down)**

ABCommerce targets the small and medium-enterprise sector (SMEs) and specialises in the discounting of invoices to improve the cash flow and capacity for growth of these businesses. Businesses with monthly turnovers of R150 000 and above are targeted.

#### **Quatro Trading – (being wound down)**

Quatro is involved in providing trade credit to the informal sector and its clients are spaza/tuck shops and small informal general dealers. It mainly operates through franchises granted to individuals who take principal risk in their respective franchise. The business operations and risk of this business at present are very small.

#### **African Contractor Finance Corporation (Pty) Limited ("ACFC") – (being wound down)**

As part of a drive into SMME finance, ABIL also expanded its portfolio to provide development and empowerment finance to contractors within the local construction industry. The current model is not profitable and the book is being wound down.

#### **Gilt Edged Management Services (Pty) Limited ("GEMS") – (being wound down)**

GEMS provided personal loans to the municipal worker market using a business model competitive to that of African Bank Retail. The business is being wound down and the book has been incorporated into the African Bank Retail book.

### Business unit profitability analysis

	Average gross interest-bearing advances	Total revenue		Bad debt charge		Operating expenditure			Headline earnings
	Rm	Rm	% of adv	Rm	% of adv	Rm	% of adv	Cost to income %	Rm
<b>12 months ended 30 September 2004</b>									
Continuing businesses	4 865,1	3 042,8	62,5	431,0	8,9	906,1	18,6	29,8	914,9
African Bank Retail	3 759,4	2 085,2	55,5	280,3	7,5	611,6	16,3	29,3	608,4
Credit Indemnity	375,0	486,1	129,6	95,1	25,4	155,7	41,5	32,0	150,9
Miners Credit	356,2	273,5	76,8	40,2	11,3	92,3	25,9	33,7	80,4
Standard Bank JV	227,4	146,9	64,6	16,2	7,1	37,1	16,3	25,3	51,8
Commercial Vehicle Finance	147,0	51,2	34,8	(0,8)	(0,6)	9,4	6,4	18,3	23,4
Discontinued businesses	236,3	30,9	13,1	52,7	22,3	23,2	9,8	75,1	(42,4)
Gilt Edged Management Services	114,6	20,0	17,5	32,4	28,2	9,8	8,6	49,2	(21,5)
African Contractor Finance	101,1	1,3	1,3	5,5	5,4	3,6	3,6	276,0	(8,1)
ABCCommerce	19,3	9,1	46,9	14,6	75,6	8,6	44,4	94,5	(11,0)
Other (Quatro, etc)	1,3	0,5	40,3	0,2	18,9	1,2	91,1	225,9	(1,9)
Group and Consol		0,5		0,0		16,4			(10,3)
STC		0,0		0,0		0,0			(100,2)
<b>Total</b>	<b>5 101,4</b>	<b>3 074,3</b>	<b>60,3</b>	<b>483,7</b>	<b>9,5</b>	<b>945,8</b>	<b>18,5</b>	<b>30,8</b>	<b>762,1</b>
<b>12 months ended 30 September 2003</b>									
Continuing businesses	5 115,6	2 760,8	54,0	376,5	7,4	939,2	18,4	34,0	761,2
African Bank Retail	4 334,6	2 024,6	46,7	270,9	6,2	636,4	14,7	31,4	572,2
Credit Indemnity	274,4	374,3	136,4	68,2	24,8	152,5	55,6	40,7	100,1
Miners Credit	280,7	237,6	84,7	23,4	8,3	117,7	41,9	49,5	51,4
Standard Bank JV	137,0	92,8	67,7	15,3	11,1	25,3	18,5	27,3	27,7
Commercial Vehicle Finance	88,8	31,5	35,4	(1,3)	(1,5)	7,3	8,2	23,3	9,8
Discontinued businesses	299,2	104,2	34,8	68,5	22,9	64,7	21,6	62,0	(39,2)
Gilt Edged Management Services	169,3	49,7	29,4	21,4	12,7	26,1	15,4	52,6	(10,1)
African Contractor Finance	122,5	15,5	12,6	45,5	37,1	14,8	12,1	95,9	(36,1)
ABCCommerce	1,7	1,5	85,8	0,1	7,7	1,9	111,3	129,7	(0,5)
Other (Quatro, etc)	5,7	37,6	658,1	1,4	24,5	21,8	380,9	57,9	7,6
Group and Consol		0,7				32,3			(9,0)
STC		0,0							(33,0)
<b>Total</b>	<b>5 414,8</b>	<b>2 865,7</b>	<b>52,9</b>	<b>444,9</b>	<b>8,2</b>	<b>1 036,2</b>	<b>19,1</b>	<b>36,2</b>	<b>680,1</b>

## Financial results in international currencies

### Currency-adjusted group income statement

000	Rand 2004	Rand 2003	US dollar 2004	US dollar 2003	GB pound 2004	GB pound 2003	Euro 2004	Euro 2003
<b>Revenue</b>								
Interest income on advances	2 489 582	2 295 519	376 070	277 908	209 914	173 509	309 265	257 634
Net assurance income	291 088	246 804	43 971	29 879	24 544	18 655	36 160	27 700
Non-interest income	293 620	323 407	44 353	39 153	24 757	24 445	36 475	36 297
<b>Total revenue</b>	<b>3 074 290</b>	<b>2 865 730</b>	<b>464 394</b>	<b>346 940</b>	<b>259 215</b>	<b>216 609</b>	<b>381 900</b>	<b>321 631</b>
Charge for bad and doubtful advances	(483 681)	(444 935)	(73 064)	(53 866)	(40 783)	(33 631)	(60 085)	(49 937)
<b>Risk-adjusted revenue</b>	<b>2 590 609</b>	<b>2 420 795</b>	<b>391 330</b>	<b>293 074</b>	<b>218 432</b>	<b>182 978</b>	<b>321 815</b>	<b>271 694</b>
Other interest income	117 910	143 131	17 811	17 328	9 942	10 819	14 647	16 064
Interest expense	(452 647)	(463 685)	(68 376)	(56 136)	(38 166)	(35 048)	(56 229)	(52 041)
Operating costs	(945 778)	(1 036 241)	(142 867)	(125 453)	(79 745)	(78 325)	(117 488)	(116 301)
<b>Net income from operations</b>	<b>1 310 094</b>	<b>1 064 000</b>	<b>197 898</b>	<b>128 813</b>	<b>110 463</b>	<b>80 424</b>	<b>162 745</b>	<b>119 416</b>
Share of associate companies' income	673	1 529	102	185	57	116	84	172
<b>Net income before taxation</b>	<b>1 310 767</b>	<b>1 065 529</b>	<b>198 000</b>	<b>128 998</b>	<b>110 520</b>	<b>80 540</b>	<b>162 829</b>	<b>119 588</b>
Indirect taxation: VAT, STC and RSC	(169 271)	(84 947)	(25 570)	(10 284)	(14 272)	(6 421)	(21 027)	(9 534)
Taxation	(386 181)	(314 071)	(58 335)	(38 023)	(32 562)	(23 739)	(47 973)	(35 249)
<b>Net income after taxation</b>	<b>755 315</b>	<b>666 511</b>	<b>114 095</b>	<b>80 691</b>	<b>63 686</b>	<b>50 380</b>	<b>93 829</b>	<b>74 805</b>
Minority interest	646	(6 609)	98	(800)	54	(500)	80	(742)
<b>Net income attributable to ordinary shareholders</b>	<b>755 961</b>	<b>659 902</b>	<b>114 193</b>	<b>79 891</b>	<b>63 740</b>	<b>49 880</b>	<b>93 909</b>	<b>74 063</b>
Adjustments:								
Net goodwill amortised	6 958	17 691	1 051	2 142	587	1 337	864	1 986
Other capital items	(834)	2 466	(126)	299	(70)	186	(104)	277
<b>Headline earnings</b>	<b>762 085</b>	<b>680 059</b>	<b>115 118</b>	<b>82 332</b>	<b>64 257</b>	<b>51 403</b>	<b>94 669</b>	<b>76 326</b>
<b>Weighted number of shares in issue (000)</b>	<b>471 601</b>	<b>484 398</b>	<b>471 601</b>	<b>484 398</b>	<b>471 601</b>	<b>484 398</b>	<b>471 601</b>	<b>484 398</b>
<b>Headline earnings per share (cents)</b>	<b>161,6</b>	<b>140,4</b>	<b>24,4</b>	<b>17,0</b>	<b>13,6</b>	<b>10,6</b>	<b>20,1</b>	<b>15,8</b>
<b>Attributable earnings per share (cents)</b>	<b>160,3</b>	<b>136,2</b>	<b>24,2</b>	<b>16,5</b>	<b>13,5</b>	<b>10,3</b>	<b>19,9</b>	<b>15,3</b>
Rate used for currency conversion								
Average rate	1,00	1,00	6,62	8,26	11,86	13,23	8,05	8,91

### Currency-adjusted group balance sheet

000	Rand 2004	Rand 2003	US dollar 2004	US dollar 2003	GB pound 2004	GB pound 2003	Euro 2004	Euro 2003
<b>Assets</b>								
Fixed assets	140 026	193 719	21 609	27 913	11 948	16 787	17 438	24 005
Investments in associates	9 997	9 324	1 543	1 344	853	808	1 245	1 155
Policyholders' investments	49 611	53 682	7 656	7 735	4 233	4 652	6 178	6 652
Goodwill	14 067	20 463	2 171	2 949	1 200	1 773	1 752	2 536
Deferred tax asset	35 739	58 812	5 515	8 474	3 049	5 096	4 451	7 288
Net advances	4 471 772	4 399 746	690 089	633 969	381 551	381 261	556 883	545 200
Gross advances	6 129 265	6 314 097	945 875	909 812	522 975	547 149	763 296	782 418
Provisions for impairment	(1 657 493)	(1 914 351)	(255 786)	(275 843)	(141 424)	(165 888)	(206 413)	(237 218)
Other assets	173 689	109 735	26 804	15 812	14 820	9 509	21 630	13 598
Taxation	6 049	4 625	933	666	516	401	753	573
Statutory assets – bank and insurance	489 929	479 474	75 606	69 088	41 803	41 549	61 012	59 414
Short-term deposits and cash	1 944 148	1 148 562	300 023	165 499	165 883	99 529	242 111	142 325
<b>Total assets</b>	<b>7 335 027</b>	<b>6 478 142</b>	<b>1 131 949</b>	<b>933 449</b>	<b>625 856</b>	<b>561 365</b>	<b>913 453</b>	<b>802 746</b>
<b>Liabilities and equity</b>								
<b>Liabilities</b>								
Life fund reserve	78 659	80 326	12 139	11 574	6 712	6 961	9 796	9 954
Loans and debentures	3 524 135	2 251 180	543 848	324 378	300 694	195 076	438 871	278 957
Liabilities to depositors	543 945	884 485	83 942	127 447	46 412	76 645	67 739	109 602
Other liabilities	156 117	173 094	24 092	24 941	13 321	14 999	19 442	21 449
Deferred tax liability	11 880	10 576	1 833	1 524	1 014	916	1 479	1 311
Taxation	182 716	95 335	28 197	13 737	15 590	8 261	22 754	11 814
Bank overdraft	3 989	150	616	22	340	13	497	19
<b>Total liabilities</b>	<b>4 501 441</b>	<b>3 495 146</b>	<b>694 667</b>	<b>503 623</b>	<b>384 083</b>	<b>302 871</b>	<b>560 578</b>	<b>433 106</b>
<b>Capital and reserves</b>								
Ordinary shareholders' equity	2 640 534	2 788 751	407 490	401 837	225 301	241 661	328 834	345 570
Outside shareholders' equity	–	4 541	–	654	–	394	–	563
Secondary capital	193 052	189 704	29 792	27 335	16 472	16 439	24 041	23 507
<b>Total equity (capital and reserves)</b>	<b>2 833 586</b>	<b>2 982 996</b>	<b>437 282</b>	<b>429 826</b>	<b>241 773</b>	<b>258 494</b>	<b>352 875</b>	<b>369 640</b>
<b>Total liabilities and equity</b>	<b>7 335 027</b>	<b>6 478 142</b>	<b>1 131 949</b>	<b>933 449</b>	<b>625 856</b>	<b>561 365</b>	<b>913 453</b>	<b>802 746</b>
<b>Rate used for currency conversion</b>								
Year-end rate	1,00	1,00	6,48	6,94	11,72	11,54	8,03	8,07

# Corporate governance

*The group 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.*

## Approach to corporate governance

The board of directors of ABIL recognises that, as the core of the corporate governance system, it is ultimately accountable and responsible for the performance and affairs of the company. The board accepts that the CEO and the executive directors are responsible for the management of the day-to-day affairs of the company and that delegating authority to management and/or any committee of directors does not in any way mitigate or dissipate the discharge by the board and individual directors of their responsibilities.

The board embraces the principles of good corporate governance as espoused in the guidelines of the King Report on Corporate Governance for South Africa 2002 ("King II"), the provisions of the Banks Act, 1990, the JSE Securities Exchange South Africa ("JSE") Listings Requirements and the Companies Act, 1963.

The board believes that good corporate governance is far more than a "check-the-box" list of minimum board and management policies and duties – a good corporate governance structure is a working system for principled goal setting, effective decision-making and appropriate monitoring of compliance and performance. Through such a vibrant and responsive system the CEO, the management team and the board of directors can interact effectively and respond quickly to changing circumstances within a framework of solid corporate values, to provide enduring value to the shareholders who invest in ABIL whilst maintaining a balance between shareholder needs and the needs of other stakeholders.

The board continuously strives to find the correct balance for its business between acting entrepreneurially and providing strategic leadership and maintaining good governance.

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

The board is satisfied that its decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times. The board relies on the external auditors and the Group Audit Committee to raise any issues of financial concern.

## Continuous improvement regarding the implementation of good corporate governance practices

ABIL is constantly striving to develop and improve current corporate governance structures and practices to ensure continued compliance with the recommendations of King II.

Identified areas requiring attention in 2004 have been rectified and progress against the specific corporate governance objectives detailed in the 2003 annual report is indicated in the table on page 37.

With the standardisation of risk management methodologies and practices throughout the group, the ABIL board now receives uniform independent assurance on governance and risk management practices.

The board is of the opinion that, while there has been noteworthy improvement in the implementation of:

- corporate social responsibility and integrated sustainability of non-financial matters at board level and
- focus on strategic issues at board level during the year under review, these areas will be given greater focus during the 2005 financial year.

## 2004 review of the standard of corporate governance in banking institutions

In 2003 we reported that the board was of the opinion that ABIL substantially complies with the findings and recommendations of the Myburgh Commission conducted for larger banks. In July 2004 the Registrar of Banks commissioned a review into the corporate governance standards of the banking institutions not reviewed by the Myburgh Commission. The purpose of the review was to establish to what extent an adequate and effective process of corporate governance has been established and maintained within each banking group and the extent to which the overall effectiveness of the process can be improved and enhanced by the board of directors and the Office of the Registrar of Banks. To this end the team appointed by the Registrar of Banks conducted interviews and discussions with all ABIL directors and other officials. Whilst the final report on this external review of the corporate governance standards within ABIL has not been released, we are of the opinion that the process will add value to enhance our efforts to continuously improve our understanding of corporate governance practices.

## Annual assessment

The annual board assessment has been designed with the intention of trying to assimilate as much information as possible to assist in raising the level of compliance with

## Compliance with the JSE Listings Requirements

The board is confident that ABIL complies with the provisions of the JSE Listings Requirements.

## The board and its functioning Structure

ABIL has a unitary board structure, which forms the focal point of the system of corporate governance of the organisation. The composition of the board is compliant with good corporate governance practices. The role of the chairman and CEO are segregated and a non-executive director acts as chairman. The board is of the opinion that there is an appropriate balance between executive and non-executive directors on the board with all non-executive directors, except one, being independent directors. The composition of the board is reflective of the demographic and gender diversity of South Africa and enhances its ability to remain effective.

## Skills and experience of the board

In determining the size of the board, the directors considered the nature, size and complexity of the group as well as its stage of development. The board believes that having directors with relevant business and industry experience is beneficial to the board as a whole as directors with such background can provide a useful perspective on significant risk and competitive advantages and an understanding of the challenges facing the business. The board monitors the mix of skills and experience of directors in order to assess whether it has the necessary tools to perform its oversight function effectively.

## Selection, appointment and rotation of directors

A nominations subcommittee of the Directors' Affairs Committee considers all director appointments. The charter of the Directors' Affairs Committee makes provision for formalising procedures for assisting the board with director selection and appointment of directors. Should the subcommittee be satisfied that the appointment would add value to the board as a whole, a recommendation is made to the Directors' Affairs Committee as per its approved charter.

Area of focus for 2004	Progress against objective during 2004
To continue to maintain compliance with the good corporate governance principles as contained in the Banks Act and King II	During an annual assessment conducted by the board, it emerged that the board is satisfied that ABIL continues to display an acceptance for and adoption of the principles and practices of good corporate governance
To improve the strategic focus of the board (as it is currently operationally focused)	<p>The agenda for board meetings is continuously being improved to focus on matters of a strategic rather than operational nature and the CEO submits a specific strategic update report at each board meeting. Two board strategy meetings were held during 2004</p> <p>Further measures have been taken to ensure that the operational reports submitted by management contain relevant strategic information</p> <p>All directors are encouraged to contact management in advance of board meetings should they require clarity on issues contained in the meeting pack</p>
To focus on corporate social responsibility and integrated sustainability matters at board level	The Group Risk Committee has been specifically mandated by the board to oversee corporate social responsibility and integrated sustainability within ABIL and receives feedback on progress with the sustainability plan at each meeting of the committee
To review the composition of the board in the future to determine if it is appropriate to meet the business objectives of the organisation	The Nominations Committee, a subcommittee of the Directors' Affairs Committee, was mandated to consider what the appropriate size and composition of the board should be. After due consideration the board concluded that its current size should remain unchanged. However, the position will be reviewed from time to time to ensure that the size and composition remains relevant. The committee also considered the issue of fiduciary accountability and concluded that the current structure of the board, with its large component of executive directors, emphasises the equal accountability of both executive and non-executive directors for the performance and affairs of ABIL

good corporate governance principles within the ABIL group of companies.

The 2004 assessment focused on the following:

- In terms of Regulation 38(5) the board of directors assessed and documented whether the process of corporate governance implemented has successfully achieved the objectives as determined by the board. The board had detailed its corporate governance objectives for the 2004 financial year in the approved board charter and the 2003 annual report
- A self-assessment completed by each director on their level of skills/knowledge and their individual contribution to the board
- A peer evaluation completed by all directors ranking their fellow directors on their contribution to the board in terms of certain listed criteria
- An overall board effectiveness evaluation completed by all directors
- An evaluation of each of the committees by the members of the committees focusing on effectiveness of the chairman of the committee, the contribution of individual committee members, and the effectiveness of the committee in discharging its responsibility in terms of the approved charters
- Performance assessment of the chairman of the board, the CEO and the company secretary completed by all directors.

# Corporate governance (continued)

## Board and subcommittee membership

1 October 2003 to 30 November 2004

Name		Details	Boards				ABIL board committees				
			ABIL	ABL	Theta Investments	Stangen	Directors' Affairs	Group Audit	Group Risk	Group Remuneration and Transformation	BEE (est. 21/09/2004)
AS Mabogoane	Independent non-executive	Chairman ABIL and ABL	✓	✓			✓			✓	
JJ Kekane	Independent non-executive		✓	✓			✓			✓	
BJT Shongwe	Independent non-executive		✓	✓			✓	✓			✓
DFG Tembe (Mozambican)	Independent non-executive	Chairman Group Remuneration and Transformation Committee	✓	✓			✓			✓	✓
SA Levitt	Independent non-executive		✓	✓			✓	✓			
A Tugendhaft	Non-executive		✓	✓			✓		✓		✓
GZ Steffens (German)*	Independent non-executive	Chairman Group Risk Committee	✓	✓		✓	✓		✓		
R Naidoo	Independent non-executive	Chairman Directors' Affairs Committee	✓	✓			✓		✓		✓
BPF Steele	Independent non-executive	Chairman BEE Committee	✓	✓			✓	✓	✓		✓
DB Gibbon*	Independent non-executive	Chairman Group Audit Committee	✓	✓		✓	✓	✓			
BD Goba	Independent non-executive		✓	✓			✓			✓	
L Kirkinis	Executive	CEO ABIL	✓	✓							
G Schachat	Executive	Deputy Chairman ABIL	✓	✓							
TM Sokutu	Executive		✓	✓		✓					
DF Woollam	Executive	Financial Director ABIL	✓	✓	✓	✓					
AG Herselman	Executive		✓	✓							
JA de Ridder	Executive		✓	✓	✓	✓					
A Fourie*	Executive		✓	✓							
MLD Marole*	Executive										
MP Mendelowitz**					✓						
JM Jawno**					✓						
IM Kirk		Chairman Stangen				✓					
S Martin		Secretary	✓	✓	✓	✓	✓	✓	✓	✓	✓

\* Appointments

A Fourie	21/10/2003:	ABIL and ABL
MLD Marole	17/03/2004:	ABIL and ABL
DB Gibbon	02/11/2004:	Stangen
GZ Steffens	02/11/2004:	Stangen

\*\* Resignations

M Mendelowitz	17/11/2004:	Theta Investments
J Jawno	17/11/2004:	Theta Investments

ABL African Bank Limited

After due consideration, the Directors' Affairs Committee then recommends the appointment for consideration to the full board subject to the approval of the South African Reserve Bank and other regulatory authorities, as well as "fit and proper" tests in terms of the Banks Act and the JSE Listings Requirements. This is regarded as a formal and transparent procedure. All director appointments are subject to confirmation by shareholders at the annual general meeting.

Directors are appointed with an intimate knowledge of those issues pertinent to the committed strategic direction and defined strategy of ABIL and its subsidiaries as well as the qualities expected of all directors and those specific to executive and non-executive directors.

All directors are appointed for specific terms and reappointment is not automatic. A third of directors retire by rotation annually, and if eligible their names are submitted for re-election to the annual general meeting.

The board as a whole has considered the classification of directors as independent non-executive, non-executive and executive. This classification is reviewed on an annual basis or more frequently if necessary.

#### **Terms of employment of directors**

Executive directors are employees of ABIL and have standard terms and conditions of employment. They do not receive any remuneration/compensation or benefits for additional duty as executive directors. None of them will receive any incentive for the completion of term of office or any other incentive payable on termination of services. There are also no restraints of trades in place for executive directors. The remuneration of executive directors is determined by the board on the recommendation of the Group Remuneration and Transformation Committee and is disclosed on page 83.

None of the non-executive directors have any employment contracts with ABIL and they receive fees for attendance at board and committee meetings as compensation. Full details are contained on page 84.

#### **Induction and training**

There is a formal procedure for the induction and training of directors to ensure that directors are aware of their statutory duties, obligations and potential liabilities. The induction course includes an overview of the ABIL business, the organisational structure and issues relevant to the business and environment in which ABIL competes and has been designed to equip new directors to participate in the activities of the board.

#### **Board charter**

A board charter has been developed and it confirms the board's responsibilities for various issues. The key principles embodied by the charter are:

- the role of the board and management;
- board composition and conduct of directors;
- board governance;
- the reserved and delegated powers of the board;
- director selection, appointment, induction and training;
- duties of directors; and
- risk management, compliance and internal controls.

Refer to page 124 for the board charter.

#### **Information requirements of directors**

The board has reviewed the information requirements of directors to enable them to effectively fulfil their duties and responsibilities. Directors are timeously informed of matters that will be discussed at board meetings and provided with information relating thereto. A procedure further allows for directors to suggest additional items for discussion at meetings and to call for additional information or a briefing on any topic prior to the meeting.

#### **Levels of materiality**

The board has quantitatively and qualitatively defined levels of materiality for the group. This is reviewed on an annual basis or more frequently if necessary.

#### **Delegation of authorities**

The board has approved and disseminated both internally and externally the delegation of certain authorities to the board subcommittees, where applicable, and to management.

#### **Board meetings**

At a minimum, board meetings are held every quarter and the board is of the opinion that this is sufficient. Special board meetings to specifically discuss strategy were also held during the year. The board is constantly reviewing the amount of time spent on corporate performance, strategic issues and the content and quality of non-financial information.

The annual general meeting held in February 2004 was well attended by directors and in particular the chairmen of all board committees were in attendance to answer any questions.

#### **Interaction with management**

The members of the ABIL board contribute a wide range of experience relevant to the particular business of ABIL and the group as a whole. The ABIL board has a high level of regular interaction with the executive management thereby enabling the directors to infuse their considerable experience, professional knowledge and knowledge of the target market into its strategic direction.

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

#### **Dealing in ABIL securities**

The company adheres to a policy of prohibiting dealings in securities within closed periods for all. The policies around dealing in ABIL securities, improper use of insider information and holding of shares by directors have been formally established by the board and are implemented by the company secretary. Securities as per the definition of the new JSE Listings Requirements include stocks, shares, debentures, warrants and options.

#### **Company secretariat**

All directors have access to the services of the company secretary, Sarita Martin, who is responsible for ensuring that board procedures are followed and plays an active role in the facilitation of the induction of new directors and the improvement and monitoring of corporate governance processes. All directors are entitled to seek independent professional legal advice with respect to any affairs of ABIL at the group's expense.

# Corporate governance *(continued)*

The appointment, removal and appraisal of the performance of the company secretary is a matter for consideration by the board of directors.

## Group governance structure

Only non-executive directors are members of the various committees with certain executives and other members of management attending the meetings. Non-executive directors have an open invitation to attend management committee meetings such as that of ALCO and the Credit Committee.

The group governance structure as approved by the board is depicted below.

This committee structure enables the board to address key areas in more depth than may be possible in a full board meeting. Decisions about committee membership are made by the full board, based on recommendations from the committee responsible for corporate governance issues (Directors' Affairs Committee – previously Group Nominations and Governance Committee). The board designates the chairmen of various committees. All committees apprise the full board of their activities on a regular basis through oral and/or written reports.

The duties and responsibilities of each committee are detailed in the relevant board approved committee charters which can be accessed at [www.africanbank.co.za](http://www.africanbank.co.za).

## Communication

ABIL subscribes to the principle of transparent, timeous, 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 various aspects influencing the business, both directly and indirectly, are communicated to stakeholders.

ABIL undertakes this responsibility to ensure that stakeholders are comprehensively informed to understand why they should continue to invest in a company which, they believe, will enjoy sustained success.

## Code Of Banking Practice

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

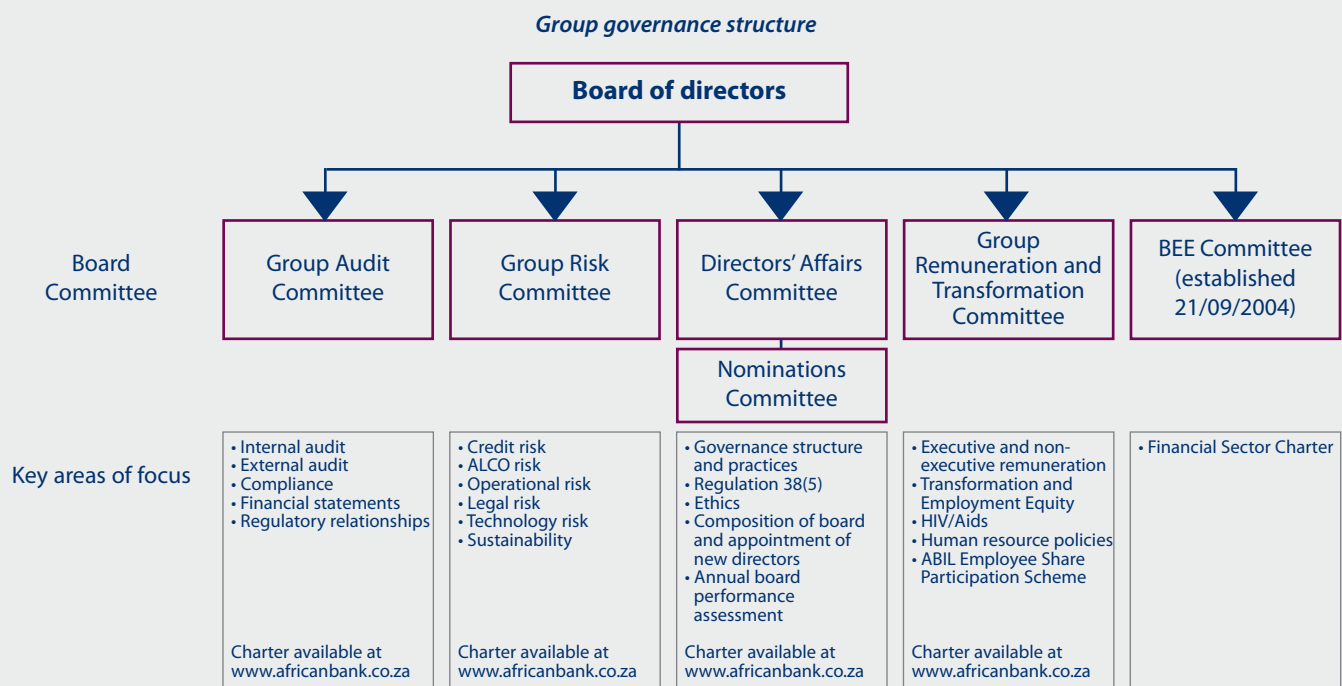
## Micro Finance Regulatory Council (“MFRC”)

African Bank, Credit Indemnity, GEMS and Miners Credit are members of the MFRC, which inter alia, allows them to write loans under the Exemption Notice to the Usury Act, 1968. Being a member requires that their lending practices be audited by the external auditors to ensure that they adhere to the rules of the MFRC.

The group is committed to a continuous process of liaising with the MFRC to benefit from its guidance in the implementation of its requirements.

## Code of ethics

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



## Meetings and attendance

	ABIL	Special ABIL	ABL	Special ABL	Stangen	Theta Investments	Group Audit Committee	Group Remuneration and Trans-formation Committee	Group Nominations Committee	Directors' Affairs Committee	Group Risk Committee	BEE Committee Ist meeting held in October 2004	AGM 06/02/04	Trilateral with SARB	Prudential with SARB
Number of meetings	4	2	4	2	1	1	4	5	3	3	4	1	1	1	1
<b>Names</b>															
AS Mabogoane	4/4	2/2	4/4	2/2				5/5	3/3	2/3			1/1		1/1
JJ Kekane	4/4	2/2	4/4	2/2				5/5		3/3			1/1		1/1
B/J Shongwe	4/4	2/2	4/4	2/2			2/4			3/3		1/1	1/1	1/1	1/1
DFG Tembe	4/4	1/2	4/4	1/2				5/5		3/3		1/1	1/1	1/1	1/1
SA Levitt	3/4	2/2	3/4	2/2			3/4			3/3			1/1	1/1	1/1
A Tugendhaft	4/4	2/2	4/4	2/2						3/3	4/4	1/1	1/1		1/1
GZ Steffens	4/4	2/2	4/4	2/2						3/3	4/4		1/1		1/1
R Naidoo	4/4	2/2	4/4	2/2						3/3	4/4	1/1	1/1		1/1
BPF Steele	4/4	2/2	4/4	2/2			4/4			3/3	4/4		1/1	1/1	1/1
DB Gibbon	4/4	2/2	4/4	2/2			4/4			3/3	4/4		1/1	1/1	1/1
BD Goba	4/4	2/2	4/4	2/2			4/4	5/5		3/3	4/4		1/1	1/1	1/1
L Kirikini	4/4	2/2	4/4	2/2						3/3	4/4		1/1	1/1	1/1
G Schachat	4/4	2/2	4/4	2/2		1/1				3/3	4/4		1/1	1/1	1/1
JA de Ridder	4/4	2/2	4/4	2/2		1/1				3/3	4/4		1/1	1/1	1/1
DF Woollam	4/4	2/2	4/4	2/2		0/1				3/3	4/4		1/1	1/1	1/1
TM Sokutu	4/4	2/2	4/4	2/2		1/1				3/3	4/4		1/1	1/1	1/1
AG Herselman	4/4	2/2	4/4	2/2		1/1				3/3	4/4		1/1	1/1	1/1
A Fourie	4/4	2/2	4/4	2/2		1/1				3/3	4/4		1/1	1/1	1/1
MLD Marole	2/2	1/1	2/3	1/1		1/1				3/3	4/4		1/1	1/1	1/1
IM Kirk															
M Mendelowitz						1/1									
J Jawno						1/1									
ABL African Bank Limited															

# Risk review



*The board has adopted a “Risk acceptance culture” which views risk as an inherent part of running a successful business, ie risks are not only mitigated but are also investigated for potential opportunities and therefore provide a direct linkage between risk management and maximising shareholder value.*

The business units remain primarily responsible and accountable for the identification and management of the various risks, ie risk is owned by the business units.

The board has delegated the detailed work required to effectively manage risk to mainly the Audit and Risk Committees with the Directors’ Affairs Committee responsible for the assessment of the effectiveness of the governance processes. The board sub-committees are supported by the following specialised management committees and are chaired by the positions indicated in brackets below:

- ALCO (Financial Director)
- Credit Committees (CEO)
- IT Risk Committee (Executive Director responsible for IT)

### Risk governance structure

The following risk governance structure is designed to provide adequate oversight, taking into account the functions, activities and processes of the group.

### Risk philosophy

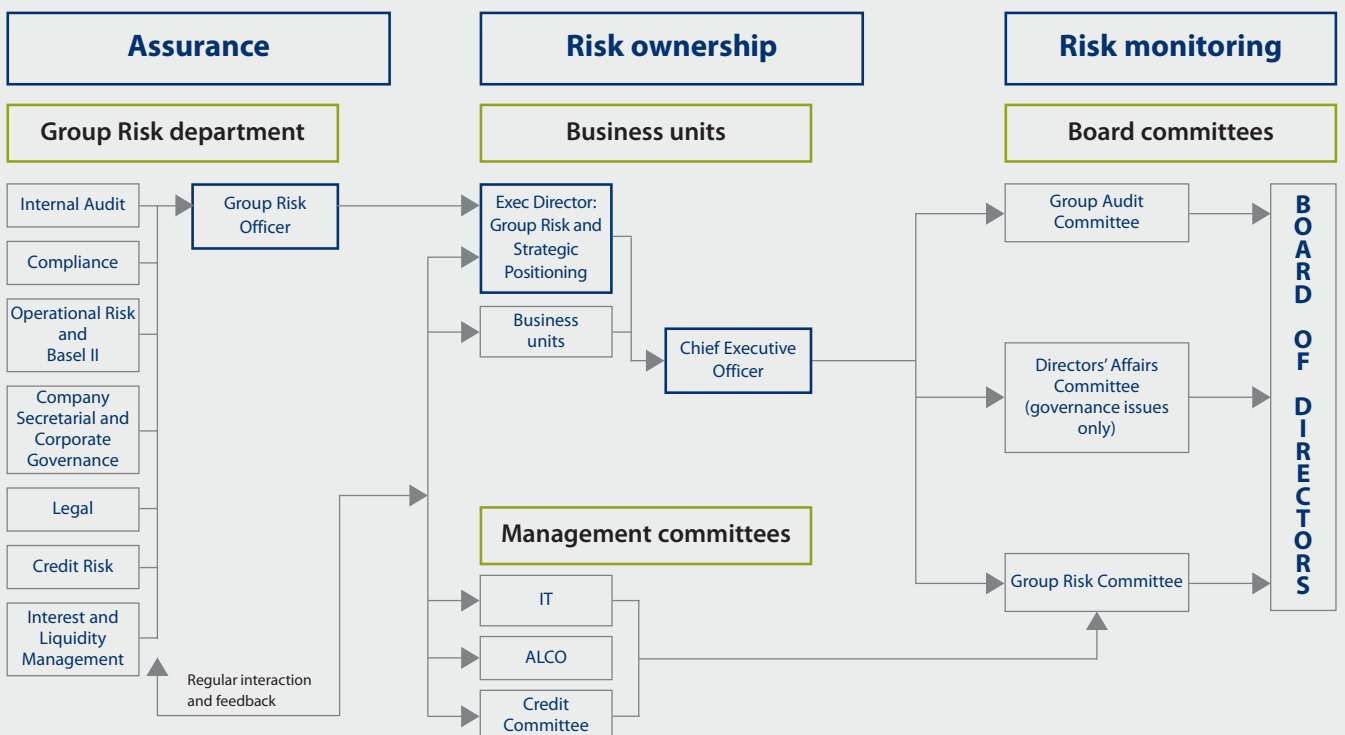
The group accepts that it is in the business of risk taking and that optimal risk management is therefore an integral part of conducting its business.

The board recognises the importance of effective risk management on the creation of sustainable shareholder value and accepts its responsibility to implement and maintain an acceptable risk culture. It simultaneously accepts its responsibility for the creation of an effective governance structure and an

integrated risk management framework supported by an effective system of internal control.

Risk is managed on a partnership basis between the various board substructures, the Group Risk department and the various business units. Independence between the risk management and line functions is maintained through segregated reporting lines and direct access by the risk management functions to the various board substructures and CEO.

### Risk management structure



## Group risk function

The Group Risk department is responsible for ensuring that an integrated risk management framework is established and maintained. This is effected via:

- the creation of risk identification and management processes;
- the monitoring and support of the risk management practices;
- best practice reviews; and
- reporting to the Exco, Risk Committee and board of directors.

Group risk consists of the following departments:

- Internal audit
- Forensic
- Compliance
- Legal
- Company secretarial and governance
- Operational risk and Basel II

## Risk culture, appetite and tolerance

The board has adopted a "Risk acceptance culture" which views risk as an inherent part of running a successful business, ie risks are not only mitigated but are also investigated for potential opportunities and therefore provide a direct linkage between risk management and maximising shareholder value.

A tolerance zone is created which allows risk taking within certain parameters and is supported with the establishment and maintenance of cost-effective controls.

Risk appetite is defined as the level of risk that is acceptable for the group to bear and is

dependent on the extent to which it seeks and tolerates risk as described by predetermined performance indicators, operational parameters and process controls.

Risk tolerance or absorption capacity is largely a function of the bank's capital, reserves and profitability in relation to the business strategy, cost-effective risk mitigation controls and effective risk transfer strategies.

## Operational risk management

The group has adopted the Basel definition of operational risk namely:

**"The risk that deficiencies in information systems or internal controls will result in unexpected loss. The risk is associated with human error, systems failure, and inadequate controls and procedures."**

These risks, if not addressed, may result in unavailability of service, information deficiencies, financial loss, increased costs, loss of reputation and failure to keep or increase market share. In turn this could damage the corporate image of the group and adversely affect shareholder value.

Strategic risks are assessed at group level. Strategic risk could manifest itself in that it may not support the long-term goals of the group, eg sustainable growth due to inadequate strategic planning, or failed or unsuccessful implementation of strategies.

Each business unit is responsible for the management of operational risk in accordance with the board approved operational risk

framework. Operational risk profiles of each unit are compiled by analysing the potential losses that may arise from failed processes, people, systems or external influences.

Line functions are the primary identifiers and monitors of risk. The internal audit, forensic and compliance functions all play a role in providing the necessary assurance that stated controls and additional controls are maintained and/or implemented. Continuous monitoring also assists with raising the awareness of operational risk management.

Monitoring progress of the action plans relating to the annual risk reviews is embodied in the quarterly reporting to the Risk Committee. Significant risks and risks with a high residual exposure (ie after mitigating controls have been applied) and those risks that could have a direct or indirect impact on the strategy of the group, are reported to the board on a bi-annual basis.

To ensure the group remains alert to emerging risks and to assist with raising the awareness of operational risks at all levels of the organisation, two additional processes have been introduced to support the annual risk reviews. Monthly reports are submitted to Exco by the business units on their top five risks. These reports in turn serve as input to the quarterly reports to alert the Risk Committee to newly identified or potential risks. This ensures that risk management remains alive throughout the group.

## Risk review (continued)

Below are the current top ten inherent risks (before the application of any mitigating activities) as identified during the annual review process. Apart from describing the risk, the current controls to mitigate the risk and any future action plans are also stated below. Management and the board are satisfied that the risks are adequately managed.

### Top ten risks

#### **Risk 1: Liquidity and interest rate risk**

Due to the inherent gearing of banks, a loss of confidence could result in a withdrawal of deposits to the extent that the bank cannot meet its obligations despite adequate capital and profitability.

Funding is raised in the capital market and wholesale markets which facilitates the raising of longer-term debt to ensure that assets mature at a faster rate than liabilities, ie a positive liquidity gap is maintained. Concentration of maturing liabilities is avoided and funding is sourced from a diversified funding base. An adequate daily cash buffer is maintained which is supported by strong cash generation of the group. A natural interest rate hedge is maintained. This is largely achieved by financing the fixed rate assets with matching fixed rate liabilities. The ALCO and Risk Committees continuously monitor the interest rate and liquidity risks. Refer to pages 112 – 115 for a more detailed analysis.

#### **Risk 2: Inappropriate level of capital/equity**

The level of capital employed in the bank involves a trade-off between optimising the return on equity and ensuring that sufficient capital is retained to ensure an adequate buffer to absorb unexpected and extreme shocks. Capital in excess of the desired optimal level will have a dilutory effect on returns which can lead to a derating of the group.

While the regulatory minimum risk-weighted capital requirement is 10%, the business nature of the ABIL Group is such that this is not an adequate basis for capital levels required. ABIL has therefore developed an economic capital model (refer page 30) which indicates a 30% ideal capital ratio. ABIL will continuously monitor and refine the model and in addition strive to maintain capital at the ideal level. The ability to generate a high RoE also strengthens the capital position. See page 31 for a detailed discussion.

#### **Risk 3: Regulatory changes**

The majority of the group's business is written under an exemption granted from the Usury Act. This enables the group to price adequately for risk and to recover the cost of small shorter-term loans. Government has published a draft bill to replace all current credit-related legislation. Potential negative impacts are:

- Strict affordability and potential reckless lending rules and price caps could reduce sales volumes
- Higher cost of compliance combined with a potential reduction in sales will place pressure on costs
- Potential changes to the rules relating to payment mechanisms might negatively affect the success rate of collecting instalments from clients.

Many of the enabling regulations still need to be published and the extent of possible positive or negative outcomes on the future business of the group is uncertain. The group is remaining close to the legislative processes, not only to influence a balanced outcome for all concerned, but also to adapt the business model well in advance to counter potential negative outcomes. Credit decisioning and pricing models have been enhanced to avoid cross subsidisation of clients and to restructure the portfolio of products to ensure adequate pricing for risk and cost recovery. A project has commenced to re-engineer all business processes to achieve a greater level of efficiency and thus improve service levels and reduce costs.

#### **Risk 4: People**

Most organisations' success is dependent on the quality of staff that it employs and retention of good performers.

The group has introduced an incentive scheme tailored to the various levels and type of work performed by staff. Weak performers are regularly appraised of their improvement and, if unsuccessful, are requested to leave our employ. The integration of the various divisions allows for a focused approach to training and development of staff. The outcome of a follow-up to the previous culture survey will be used to further strengthen identified shortcomings. Refer to the Strategic review on pages 17 – 18 and the Sustainable development report on pages 59 – 63 for a more detailed discussion.

## Top ten risks continued

### **Risk 5: Adequate level of sales**

The inability to achieve a balanced product mix and overall growth could result in the group losing its dominant status in its target market. Further consequences are potential margin compression or inability to carry the fixed overhead infrastructure with resultant negative impact on shareholder value.

Research is continuously undertaken to establish client service satisfaction levels, client product needs and the effectiveness of its advertising spend.

The integration of the various sales forces will lead to the broadening of the product offering in the sales outlets, which reduces the need for clients to shop around and an increase in our share of the clients' wallet. The introduction of the DSQ framework will provide a tool to measure service efficiency levels and the re-engineering project will also lead to improved service levels. Expansion of the group's reach into new markets and segments is receiving attention.

An innovation centre has been established to avoid complacency, while care is taken not to move into areas of non-competence.

Refer to the Strategic review on pages 16 – 17 for a more detailed discussion.

### **Risk 6: Credit management**

Credit leniency leads to underpriced loans and client overindebtedness while sales are hampered by the application of too strict credit criteria.

The underwriting competence of the group has improved considerably with the revision of its scorecards, affordability assessment and pricing models. This enables the group to select lower risk clients, avoid cross-subsidisation and adequately price for risk to ensure its stated aim of achieving an acceptable risk-adjusted margin (ie adjusted for cost and bad debt). Credit performance is continuously re-evaluated during the portfolio's lifecycle (using vintage reports) and adjusted as new external factors are anticipated or become known. The credit departments in the group have been merged to ensure optimisation of scarce resources. The Credit and Risk Committees closely monitor these risks.

### **Risk 7: Collections management**

Inefficient account management and collection methodologies and strategies result in high write-offs.

Significant investments have been made in people and technology to manage delinquent borrowers through planned workflows. New strategies are continuously devised to improve cash collected from the current portfolio of loans.

The Credit and Risk Committees closely monitor these risks.

### **Risk 8: Cost management**

The inability to contain cost escalation to lower levels than revenue growth necessitates higher margins which impedes the group's ability to compete or results in lower returns for shareholders.

Expenditure is managed through setting of tight targets and is closely monitored by the budgeting process. Business processes are continuously re-evaluated to ensure they remain simple and the group is divided into focused and measurable business units. All common functions in the group have been integrated to avoid duplication and improve efficiencies. The project to re-engineer the sales processes should contribute meaningfully to containing costs.

Refer to the Strategic review on pages 15 – 16 for a more detailed discussion.

### **Risk 9: Technology**

Inappropriate deployment of technology and lack of congruence between IT and the business could lead to inefficient business processes and overspending.

The integration of the major businesses created the opportunity to rationalise the various IT platforms. The IT strategy is closely aligned to the business requirements. All expenditure on new systems and platforms is closely scrutinised. Disaster recovery and business interruption procedures are regularly tested and monitored.

Refer to the Strategic review on page 18 for a more detailed discussion.

### **Risk 10: Change management**

The risk exists that the business attempts to implement too many unrelated changes simultaneously, and expanding to areas of incompetence and/or non-core activities.

All macroprojects and initiatives are listed at group level for prioritisation and evaluation by group Exco. Change control processes with continuous re-evaluation and feedback to Exco and operational level with post-implementation evaluation have been implemented.

## Case study 4



**Thagaraj Sidambaram**

*I first heard about African Bank four years ago. As a machine operator, it's sometimes hard to make ends meet. Through African Bank, I know that whenever I need a loan, they're always ready to help and their service is very good. I have used these loans for home improvements, paid my car and other debts. African Bank has made a huge difference in my life and I say thank you.*

## Compliance

Compliance risk is the risk of non-compliance with statutory, regulatory and supervisory requirements imposed by the South African Reserve Bank and any other regulatory bodies that the bank is regulated by or under.

The primary role of group compliance is to assist management in complying with all applicable statutory, regulatory and supervisory requirements. The compliance function forms part of the overall risk framework.

The group compliance officer operates under an authority delegated by the board in terms of a board approved compliance policy and has unrestricted access to the Chief Executive Officer, Group Audit Committee and the chairmen of the board and Group Audit Committee.

Each business unit has a dedicated compliance champion whose responsibility it is to assist with the implementation and monitoring of compliance in the particular unit. The business units follow a self-assessment approach to control.

Regular updates or reports are submitted to the board and the South African Reserve Bank on all compliance-related matters. There were no material issues of non-compliance that had to be reported during the year under review.

## Internal Audit

Internal Audit operates in terms of an approved Internal Audit Charter which is updated when required. The Internal Audit function reports directly to the Audit Committee and its staff have full and unrestricted access to the Chief Executive Officer, chairman of the Audit Committee and, in need, the chairman of the board.

All significant operations, business activities and support functions are subject to Internal Audit review. The audit plan is determined annually, based on the relative degree of the inherent risks identified from the ongoing groupwide risk assessments.

The group's internal audit responsibility is aimed at providing quality audit services to assist members of executive and senior management in the effective discharge of their duties and responsibilities. To this end, audits are planned and executed in such a manner as to provide management with an independent assessment and appraisal of the adequacy and effectiveness of the systems of internal control in place to, inter alia:

- minimise potential risks and losses;
- recognise opportunities for improvement;
- identify strengths and weaknesses in current processes and procedures; and
- evaluate the effectiveness of business practices.

The Audit Committee performs its own assessment on the effectiveness of the Internal Audit department.

## Forensic investigations

Fraud is an inherent risk of any bank. The group endeavours to combat acts of transgression and unethical behaviour through the implementation of dynamic and sound fraud prevention practices. The board has enforced a zero tolerance policy on fraud and all instances involving a reportable offence are managed consistently and in a uniform manner.

A code of ethics also commits all staff to the highest standard of integrity, behaviour and principles. Staff at all levels are responsible and accountable for exercising due diligence and control to prevent, detect, and report acts or suspicion of acts of a reportable nature, as defined in the bank's fraud policy. An internal hotline is available for staff or the public to report matters on a confidential basis.

## Money laundering

Effective controls have been implemented and staff trained to comply with the legislation pertaining to money laundering. However, as the group does not offer transactional facilities, the possibility of the group being used to launder funds is limited.

## Basel II

The group views Basel II as an opportunity to enhance its ability to more accurately determine and optimise its capital requirements and improve its risk management processes. The bank is participating in various industry forums dealing with the implementation of Basel II. Work is progressing to identify the gaps and enhance its processes and methodologies to meet the requirements and timeframes as set by the local regulator to be Basel II compliant.

## Information technology risks and business continuity

The Information Technology Risk Committee serves as a platform to assist the management of different information technology departments in the group to remain alert to pertinent related risks and to capitalise on new developments where relevant.

Business continuity and disaster recovery plans are reviewed and tested on a regular basis to ensure that critical processes can be resumed and to continue with essential operations within acceptable timeframes. Appropriate insurance cover provides further protection against this type of occurrence.

The above assists the group in preventing losses as a result of a lack of confidentiality, integrity or availability of information or services.

# Sustainable development report

## The African Bank Investment Limited 2004 Sustainable development report

ABIL's Sustainable development report 2004 provides an overview of the group's policies, practices and performance relating to its economic, social and environmental performance for the financial year ended 30 September 2004. The report builds on the progress and commitments articulated in our 2003 report, and covers all of the group's operations. The report has drawn on the Sustainability Reporting Guidelines of the Global Reporting Initiative ("GRI"), the GRI Financial Services Sector Supplement on Social Performance, the FORGE Group's Guidelines on Environmental Management and Reporting for the Financial Services Sector, as well as the criteria of the Social Responsible Investment ("SRI") Index of the JSE Securities Exchange South Africa ("JSE"). These criteria have been used for guidance only, with this report focusing on issues that are specifically material to our business.

Due to the relatively limited emphasis in this report on the provision of quantitative data, the services of an independent verification agency have not been used for this report. External assurance has been provided in the form of independent critical comment from recognised experts and commentators.

The Sustainable Development Report 2004 has been integrated within ABIL's Annual Report and may also be downloaded as a separate PDF file through our internet site at [www.africanbank.co.za](http://www.africanbank.co.za). Further details on our relevant policies and programmes are available from our website, or may be provided by contacting:

Zanele Mvelase

Group Sustainability Officer

African Bank Investments Limited

Tel: +27 (011) 256 9243

Fax: +27 (011) 256 7217

Email: [ZMvelase@AfricanBank.co.za](mailto:ZMvelase@AfricanBank.co.za)

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# Introductory message to our stakeholders



In this, our third annual report on our sustainability performance, we welcome the opportunity to build on our understanding of what sustainability means for the group. This report provides an overview of our progress over the last year in embedding sustainability as a strategic priority throughout ABIL, and informs our stakeholders of our understanding of the business case for sustainability, clarifying why sustainable development is being driven as a strategic imperative and why we intend for it to become an integral part of everything we do.

Sustainable development for ABIL is grounded in certain principles. It is about promoting responsibility and sound corporate governance practices in all our dealings. It is about providing a safe and rewarding working environment, in which the health of our employees is protected and their opportunities for self-development are enhanced. It is about promoting cultural diversity and equity in the workplace. It is about providing a valued and responsible service to our clients and providing opportunities for social and economic development through our core business activities. And it is about proactively minimising any adverse environmental impacts. Most of all, it is about being responsive to the expectations of our various stakeholders, identifying and responding to their concerns and interests. In this report we describe the various activities we have undertaken on each of these fronts, focusing on those issues that we believe are of material relevance and interest to our different stakeholder groups.

Sustainability is not a standalone undertaking removed from day-to-day business activities, and as such, this report should be read in conjunction with the rest of the annual report to gain a full overview of the group's activities.

It is pleasing to report on the progress that we have achieved throughout the year in embracing sustainability and integrating it more effectively in our activities. A Group Sustainability Team, chaired by an executive director, has been established and we have recently appointed a dedicated Sustainability Officer. We have focused a great deal of effort over the year on refining our sustainability

strategy and management framework, and we are now at the stage of embedding sustainability into the different business units. Underlying our approach to sustainability is a commitment to implementing measures that take us beyond legal compliance, and in this regard it is encouraging to report on the various areas in which we have met this commitment.

As discussed in the strategic review, in anticipation of a changing industry landscape that may result in greater competition in the market, we have taken aggressive action to improve our operational efficiency, while at the same time enhancing client centricity. A highlight this year has been the development of more sophisticated risk-profiling models, as well as our progress in introducing greater price differentiation in our product offerings. To achieve our goal of an increased market share, we recognise the importance of having a solid understanding of our clients' expectations and aspirations, as well as their behaviour. Building trust and financial literacy among our client base is paramount.

Interaction with our stakeholder groups is fundamental to the sustainability process. We are particularly pleased with the proactive and responsible engagement we have had with regulatory and government authorities, most notably in our interactions relating to the Financial Sector Charter, as well as in the development of new credit legislation that will have implications for the whole industry. The favourable feedback we have received from many of our shareholders and investors, with whom we interact on a regular basis, is heartening, as is the improvement in our credit and shareholder ratings this year.

It is a concern, however, that our communication efforts with some of our other stakeholder groups, most notably our employees, has perhaps not been sufficient. We recognise that the restructuring and rationalisation that has been undertaken throughout the group over the last eighteen months has caused unease in the workplace. We are committed to addressing human resources management as a strategic priority.

An "HR health" audit was conducted earlier this year, and more recently a culture audit was carried out among our employees with the aim of identifying their specific concerns and expectations. We are confident that the HR strategy being rolled out will resolve the issues identified and we have set ourselves a target of three years in which to again become one of the best South African companies to work for, as recognised by independently conducted surveys.

Promoting racial transformation and black economic empowerment is a cornerstone for longer-term sustainable development in South Africa. We are currently investigating opportunities for increasing black ownership, but will manage this process carefully so as not to compromise business principles. We believe in responsible competitiveness and are committed to being proactive in contributing to a more stable and prosperous society. The group is in a position to act as a catalyst in the way the Financial Sector Charter impacts on the unsecured lending sector. We have set internal employment equity targets in all our business units beyond those that are legally required and we are developing our management structures to better reflect the demographics of South Africa in our middle and upper management levels.

In order to maintain and strengthen our relevance and legitimacy in South African society we believe it is important to be self-critical and to meet our challenges head-on. In this report, we present a frank review of our performance, acknowledging some of the dilemmas that sustainability presents for the group and recognising the critical areas in which we will need to improve on our performance. We are confident that this transparent process will enhance our credibility and build trust among our stakeholders.

To achieve our goals we need your participation. Please share with us your views on this report as well as on our sustainability performance more generally.

**Leon Kirkinis**  
Chief Executive Officer

# Sustainability performance at a glance

## Highlights

### Journey to sustainability

- Commitment secured at board level (by the Group Risk Committee) to sustainable development as a strategic concern for the group
- Establishment of a Group Sustainability Team, supported by an Extended Sustainability Team, tasked with driving sustainability across the group
- Appointment of a Group Sustainability Officer to oversee day-to-day progress as the group-wide sustainability strategy is rolled out
- Finalisation of a Sustainability Management Framework and the development of comprehensive policies and initiatives to embed sustainability throughout all business units
- Valuable progress in closing the gaps in our corporate citizenship performance that were identified by external consultants and that were reported on in our previous sustainability report
- Introduction of KRAs (Key Result Areas) at group executive and group function levels to ensure accountability for delivery of objectives aligned to our sustainability goals for 2005

### Client centricity

- Development and implementation of sophisticated risk-profiling models, thereby enabling greater price differentiation in our product offering to clients

- Introduction of a debt mediation centre
- Continuation of client research activities at grassroots level, providing critical insight into expectations, aspirations and behaviour of our target market
- Significantly improved turnaround times through ABIL.net, thereby addressing a critical requirement of clients

### Employees

- Human resource audit and culture audit conducted to determine perceptions and expectations of employees and to inform management of the transformation process
- Examples of best-practice initiatives identified in different business units and leveraged as a groupwide function
- Leadership demonstrated by Miners Credit and Credit Indemnity in the implementation of a learnership aimed at developing microlending skills and capabilities
- Additional research into prevalence of HIV/Aids within the workplace

### Financial performance

- Improved operational efficiency achieved – costs have fallen in nominal terms over the last three years and are expected to continue to do so over the next three years
- R1 billion bond issued
- Credit rating upgrade from Moodys
- Achievement of return on equity (“ROE”) and return on assets (“ROA”) objectives as communicated to stakeholders

## Continuing challenges

### Our journey to sustainability

- Continuing to close identified operational gaps and to ensure that our business imperatives and our commitment to sustainability complement each other
- Finding an appropriate balance between short-term and long-term goals
- Effectively managing the complexities around the restructuring and transformation process, addressing areas of weakness identified in the culture audit and effecting a culture change to support the group in its strategic directions
- Offsetting the negative impact on workforce morale resulting from the group's operational efficiency drive and transformation process
- Cascading sustainability – conceptually and practically – through all levels of the organisation
- Continuing to reduce costs and realign the group
- Refining our strategies and business models in anticipation of regulatory changes
- Developing management structures, with an emphasis on ensuring that middle and upper levels of management more accurately reflect the racial and gender composition of our client base

### Client centricity

- Improving proficiency in understanding the expectations, aspirations and behaviour of our client base
- Promoting greater financial literacy amongst our target market, building greater trust and offsetting the debt trap
- Continuing to be proactive in rectifying the general poor image that the public has of the microlending industry as a result of its perceived exploitative practices
- Capitalising on a huge opportunity for market share growth
- Roll-out and embedding of our consumer pledge



*“The business was built on the principle of trying to make a difference to society, bridging the divide between the rich and the poor.”*

*Leon Kirkinis (ABIL co-founder and CEO)*

## Understanding sustainability for ABIL

ABIL, through its core business activities, can play a pivotal role in contributing to socio-economic development in the country. By providing access to unsecured credit for many of South Africa's historically disadvantaged majority – and by doing so in a responsible and ethical manner – the group creates significant new opportunities for individual upliftment and growth.

As a financial services company, the group's contribution to promoting sustainable development in South Africa relates largely to its ability to have a positive impact on social and economic development. The group has taken the strategic decision to focus its sustainability activities on addressing those sustainability challenges that are most material to its business, namely the responsible provision of unsecured lending services, counselling on financial management and the implementation of sound employment practices. While the focus is on integrating the socio-economic concerns associated with sustainable development into the group's core business practices, ABIL nevertheless recognises the importance of the natural environment as the foundation upon which any sustainability strategy should be built.

Consequently, the group has begun to implement a range of initiatives aimed at minimising the direct and indirect environmental impacts of its activities.

## Sustainability: The business implications

At a practical level, sustainable development has a number of implications for the group's activities. In meeting its strategic goal of being a leader in promoting sustainable development in the financial services sector in South Africa, the group is committed to:

- contributing to the economic development of the country by creating choice, opportunity and growth through the provision of unsecured credit to the moderate income sector of South Africa;
- providing responsible access to credit, focusing on preventing over-indebtedness and promoting financial fitness in our targeted market;
- engaging proactively in offsetting the negative reputation of the industry by reducing the potential for unethical practices that contribute to over-indebtedness;
- focusing on client centricity, with the aim of obtaining a better understanding of our clients' needs, expectations and behaviour, rewarding clients for financial discipline and

improving price differentiation in our product range;

- building our credibility and trust in the market with the aim of being the credit provider of choice and expanding our client base;
- exploring new markets and opportunities for growth, as well as new channels of access to credit;
- improving cost efficiencies in anticipation of a changing regulatory environment that will see increasing competition in the market;
- improving how we manage the transformation process within the company and encouraging a culture change that is conducive to sustainability;
- spearheading effective human resources management with an emphasis on ensuring that employees and management are more representative of the group's target market and of the South African demographic make-up;
- promoting corporate practices that adhere to the highest standards of corporate governance and that are environmentally and socially responsible; and
- developing a formalised stakeholder engagement process, sharing with stakeholders how we chart our desired future.

The group recognises that implementing sustainability principles may at times raise some difficult dilemmas, particularly in the context of potentially competing stakeholder priorities. In managing the process of developing the sustainability strategy and embedding it throughout the group, there has been some vibrant discussion at executive level. While there are many non-contentious issues relating to the group's sustainability practices, at times there are a number of challenges and dilemmas relating to sustainable development that invite differences of opinion (see box on the next page).

## Sustainable development at ABIL *(continued)*



### **ABIL and sustainable development – critical business challenges**

ABIL generates considerable profits, operating in an industry that has a reputation amongst many in the public for exploitative lending practices. This often prompts an emotive response to the group's activities, creating a perception amongst some that the bank extracts unreasonable profit from people with limited means. In this context, a number of challenges have been raised during discussions with some of our stakeholders regarding the nature of our commitment to sustainability.

We enjoy holding robust and insightful discussion on these challenges, and we invite you to share your views on these and related challenges as we seek to promote sustainability principles within our activities.

### **CHALLENGE – “Is there a disconnection between the interest rates that the bank charges and your commitment to helping citizens to become meaningful economic participants?”**

We believe that building access to credit and responsible lending is critical for the economic development of this country and that in our industry we have a particular responsibility towards the communities on which our business depends. But for us to play a responsible and ethical role in this business sector, it is necessary first that we are ourselves financially sustainable. It is only through our attainment of profitability that we can attract capital and funding to establish the required mutually beneficial relationships with our clients, and thereby contribute to their sustainable development, and they in turn to ours.

We provide unsecured credit to a high-risk segment of the market that traditionally has had limited access to credit on account of a limited ability to service personal debt, a lack of financial education and often poor historical payment patterns. Operational costs are high for this sector of the market. There are fixed set-up costs irrespective of loan size, as well as higher than average collections costs per loan in order to ensure effective repayments. As is outlined elsewhere in this report, we are confident that we are implementing effective measures to ensure appropriate pricing for this risk, finding the right balance between delivering shareholder value while at the same time providing a valuable service to clients based on interest rates that are set at a level to compensate for cost and risk.

Critical activities in this regard include our approach to risk profiling and price differentiation (thereby minimising the potential for cross-subsidisation), our various activities aimed at building financial literacy, as well as our active support of initiatives such as the credit bureaux and the credit ombudsman.

A guarded and prudent approach to the extension of credit has ensured we consistently deliver shareholder value and gain shareholder confidence. If we are to build access to credit in other markets, we need to make sure that we do this without exposing shareholders to significant risk.

### **CHALLENGE – “Is there not sometimes a conflict between building shareholder value and maintaining or building human, social and natural capital?”**

Sustainability has been positioned as an enabler for meeting the varying expectations of our different stakeholder groups, allowing us to generate profit in a responsible manner that creates value for communities. Certain business decisions will of course involve balancing the interests of one stakeholder group against those of another, with the underlying premise that we have a fiduciary responsibility to meet the demands of our shareholders. We recognise that our commitment to generating acceptable (short-term) financial returns, as well as to ensuring long-term excellence in corporate citizenship, may at times appear to result in opposing objectives. We are committed to considering these differences in interest and we strive to communicate our stance and actions on these issues openly.

It is encouraging that many of our investors are concerned with how we balance long-term sustainability with shorter-term performance. Non-financial assets are deemed to be of increasing importance in their assessment of share value, and particular attention is being paid to ethical business conduct and corporate responsibility. The integration of sustainability throughout our operations will enable shareholders to better assess the value in re-investing in the company, based on a more comprehensive and factual insight into the group's current and projected performance.

If we are to offset increasing competition in the market from smaller players and be the credit provider of choice, we need to offer the best value proposition in the market and remove the inefficiencies inherent in the business. Meeting these objectives has necessitated significant restructuring and rationalisation across the group at a cost to our human capital – both in terms of numbers and employee morale. Managing an effective transformation process and ensuring an appropriate culture change and shift in mindset in order to achieve sustainability is a critical challenge and one that we explore in more detail in this report.

### **Sustainability: the business case**

In today's business climate – where accountability, transparency and good corporate citizenship are becoming key dynamics – there is an increasingly compelling business case for integrating sustainability considerations within the group's strategy. Effective and proactive management of sustainable development issues enhances the group's reputation in the market place, reduces the potential for future liabilities, and opens up exciting new business opportunities, while at the same time offsetting the potential negative social impacts of unsecured lending.

The group recognises the increasing importance of a company's intangible assets, such as its reputation, levels of employee motivation and morale, client loyalty and community trust. Although these are all factors that are often not immediately visible or measurable in financial returns, they all form critical elements of the bank's business case for sustainability.

### **Progress in institutionalising sustainability at ABIL**

Over the last year the group has made good progress in terms of delivering on its commitment to positioning corporate citizenship as a part of its overall business, ensuring that sustainability issues are a direct responsibility of the board. Progress has been made in building on the Sustainability Management Framework outlined in the 2003 report, the principal aims of which were to strengthen stakeholder engagement, assess and manage risk, and enhance synergies and partnerships to create opportunities. The group has formalised most of the policies and procedures with some still in progress, and is in the process of integrating these in the group's way of doing business.

Some of the critical milestones during the 2004 financial year include:

- **Assigning management responsibility for sustainability** – A dedicated Sustainability Officer has been appointed and a Group Sustainability Team has been created to drive sustainability throughout the group. At

an operational level, sustainability is driven by a Group Sustainability Team with support from an extended team. Both teams are accountable to the Group Executive Committee. The Group Sustainability Team meets monthly and consists of the Group Strategist, the Company Secretary, the Treasury and Investor Relations Executive, the Group Sustainability Officer and an external advisor, under the chairmanship of an executive director. The Group Sustainability Extended Team meets quarterly and includes business unit executives and two non-executive directors.

- **Finalising the Group Sustainability Vision and Strategy** – The group's vision is for ABIL to play a leadership role in promoting sustainable development within the financial services sector in South Africa. To achieve this vision, a groupwide sustainability strategy has been developed as part of a collective effort, involving internal executives and external advisors. A sustainability management framework has been developed aimed at integrating sustainability considerations into the group's overall strategy and operations, and promoting activities beyond compliance.
- **Embedding sustainability throughout the group** – Steps have been taken to address the gaps in our sustainability performance that were identified by independent external experts during the 2003 financial year, and a number of measures are now in place aimed at embedding sustainability principles throughout the different business units. The process of embedding sustainability into ABIL's business and support functions has involved initial discussions with line executives and key support function managers, with the aim of establishing objectives for each unit. A sustainability scorecard is currently being developed as part of a process of setting KRAs so as to ensure that executives are accountable for the delivery of key objectives aligned with the company's sustainability goals. KRAs will be progressively introduced at other levels and throughout the group, with performance targets to be reviewed twice a year.

## Sustainable development at ABIL *(continued)*

### **Driving innovation and sustainability at ABIL**

#### **Perspective of Toni Fourie**

Toni is executive director of ABIL and until recently Head of its Innovation Centre, tasked with focusing on identifying new opportunities that will bring innovation to the bank's existing business operations. In the following extracts of a recent interview, Fourie outlines his thoughts on the bank's commitment to sustainability at a strategic level.

*"Our commitment to being the leader in our sector in terms of promoting sustainable development, presents us with a number of exciting challenges and opportunities, although at times it also raises some difficult potential dilemmas. At its core, our business plays an important part in contributing to the socio-economic development of South Africa. By providing credit in a responsible manner to the underbanked sections of the community, we are providing individuals and communities with opportunities for education, housing and the development of small businesses. These all form significant positive components of sustainable development.*

*We recognise, however, that in providing this service there are some important challenges. How, for instance, do we manage the problem of over-indebtedness? Those individuals who use our services tend to be "sailing close to the wind" – one unfortunate or unforeseen circumstance and they can be in serious financial trouble. To minimise this problem we have been actively involved in initiatives aimed at promoting greater financial literacy, as well as further refining our risk profiling system. This enables us to minimise the potential for over-indebtedness through more effective profiling of individuals, as well as providing us with the opportunity for reducing cross-subsidisation.*

*Another pressing challenge for us is to gain the trust and loyalty of our client base. We operate in an industry which often has a poor reputation in the eyes of the public – sometimes deservedly so. How can we make sure then that we are not seen to be simply profiteering? And how can we prevent clients moving to competitors? It is clear that the playing field in the unsecured lending industry is changing. The Financial Sector Charter is shaping a more inviting environment for new players to operate in, and success will be determined by those who can most satisfactorily meet the expectations of an aspirational market. If ABIL is to maintain its prominent market share, we need to actively earn our status as the preferred credit supplier through the adoption of a strategy that is strongly client focused. It is only when we are in a position to clearly understand and meet our clients' needs and expectations that we will earn and secure their loyalty. To achieve this, we are conducting detailed research into our clients' expectations, assessing how we are faring and ensuring that we respond accordingly.*

*Our commitment to embedding sustainability principles within our business strategy forms a critical element of our drive to remain best-in-class in this sector. I believe the commitment at ABIL is there, and that sustainability is becoming rooted in the operation. I believe that there is an excitement and energy in our sustainability team, which has gained momentum in the last months, both in terms of purpose and in terms of actions.*

*It is an exciting opportunity, personally, to build on my twenty years of experience in the retail sector – where client service is everything – to develop ABIL's potential in this area and tackle these key issues and challenges. I believe that the bank needs to get right into communities and to prove its commitment as a responsible lender. ABIL appreciates both its responsibility – as well as the business opportunities – to assist in efforts to thwart reckless practice in the industry and to promote greater financial awareness in the market. These are critical measures that are needed to minimise over-indebtedness, and we are proactive on both accounts.*

*The concept of sustainable development presents many challenges. How does one define sustainability at a practical level for the company? Is there clarity on the business case for implementing sustainability principles? How does one respond when there is a conflict between short-term shareholder gain and long-term societal value? And how does one find an appropriate balance between competing shareholder expectations?*

*I believe that at ABIL we are confronting these issues head on, in the belief that by effectively embedding sustainability into the company culture we will be contributing directly to the longer-term success of the business."*

### **Combating fraud and unethical behaviour at African Bank Investments Limited**

ABIL has a widely publicised and consistently enforced policy of “zero tolerance” for unethical behaviour displayed by its employees. Clear guidelines have been laid down on this issue, any breach of which is treated as a dismissible offence.

A Code of Ethics was introduced in 2001, committing the group to the highest standards of integrity, behaviour and principles, with the aim that business practices are conducted in a manner that, in all reasonable circumstances, are above reproach. Various facilities are available to employees for disclosing malpractice in the workplace. Whistle-blowing is encouraged, and may be rewarded, though may also be volunteered on an anonymous basis. An effective Ethics Toll-free Hotline is available to staff for reporting unethical practice. A centralised Group Forensic Investigation Services Division investigates any alleged instance of unethical or dishonest behaviour perpetrated against the group and ensures that appropriate action is taken against offenders.

The names of offenders who have been dismissed or had their services terminated are publicised in the quarterly internal magazine, Abmag. These individuals are listed on the Banking Council's Register of Dismissed Employees and the majority of them are also listed on the SA Fraud Prevention Services Database. When warranted, transgressors are criminally prosecuted.

The financial services sector, and the unsecured-lending business arguably more so, is exposed to a higher than average risk of fraudulent activity in its operations. We are confident that we have appropriate and effective policies and procedures in place to minimise malpractice that arises from time to time. In the last year our internal reporting has become more electronic-based, which has improved our ability to anticipate and counter a likely increase in fraudulent activity, and is a particularly cost-effective anti-fraud measure.

The following fraud-reporting channels exist:

- A toll free number: 0800 202 018 where callers can remain anonymous
- A fraud ethics email address: [abfraudethics@africanbank.co.za](mailto:abfraudethics@africanbank.co.za)
- A dedicated fraud fax line: +27 11 207 3811

### **Credit bureaux**

We are committed to reporting fully on our clients' behaviour to credit bureaux, in the interests of encouraging people to be accountable for their behaviour and benefit accordingly. A well-informed bureau is an asset for access to better financing. The validity of the information gathered by bureaux is dependent on the accuracy of the data received. The industry has made good strides since the introduction of a credit ombudsman, and the bureaux themselves are becoming more sophisticated in their products and data retrieval channels.

### **Collections**

Payment mechanism in this market is a very important lever in controlling risk. The group's collections experience is therefore an aspect of the business that is closely monitored by investors. The market learned a hard lesson from the Unifer and Saambou bad-debt debacle and there has subsequently been a distinct improvement in the willingness of borrowers to discuss and settle repayments. ABIL has largely moved away from payroll-based collections to debit orders. The challenge with debit orders is to strike the borrower's account at the critical moment, so as to avoid missing a repayment. The bank has to effectively take responsibility on the client's behalf for how their bank account operates. Spearheading this process is a high-tech call centre, in which approximately 25% of the bank's loans are managed. The call centre speeds up the collections process dramatically, collecting between 70% and 80% of overdue payments. It also helps to keep costs down and ensures that ABIL's non-performing loan ratio is tightly controlled. The call centre is an efficient risk management tool.

### **Improving client attrition rate**

Improving the group's client attrition rate is an important sustainability objective. Acquiring clients is an expensive process, and therefore a prime area to target for improved cost-efficiency. Credit Indemnity has developed an emerging business model that is cash-based. “Credit For Life” is a new system and a more affordable offering that is designed to discourage both dormancy and deflection among clients. The system is instalment driven: if clients pay off a loan in full and in time, they will progressively acquire a greater revolving credit line from which they can draw from on better and longer terms.

# Stakeholder relations



ABIL relies on the information and insight gained through engagement with its stakeholders in order to more effectively identify and monitor trends that may affect future business. The group engages with its stakeholders to reconcile dilemmas and to find common ground for more sustainable solutions, in the belief that earning the trust of stakeholders is essential for our long-term business success.

During 2004, relationships have been strengthened with investors and funders, as well as with government and regulatory authorities. Over the last three years the group has convincingly increased its legitimacy among these stakeholder groups, resulting in pleasing progress in building the group's profile in the media. While an important focus during the year has been on "client centricity", there is still considerable work to be done if the group is to cultivate greater legitimacy among this critical stakeholder group. A significant additional challenge in the year ahead will be to build and maintain the confidence of employees.

The group has acted on its commitment last year to formalise a stakeholder engagement programme. This will be rolled out in the year ahead.

## Stakeholder group profiles and relations

### Shareholders

Shareholders provide the capital with which ABIL finances its growth. In return, they expect an attractive return and an influence on decision-making in the company. ABIL has a diverse shareholder base with over 33 000 private and institutional shareholders, for whom the group has a medium-term objective of delivering a 30% return on equity. Foreign investors currently hold approximately 44% of the total issued share capital. Directors hold 4,8% of the shares, and staff participate in the company's growth through a share option

scheme, holding options equivalent to another 9,6% of issued shares.

The group relies on a variety of channels of communication to ensure that shareholders have easy access to up-to-date information in all areas of interest. These include meetings, roadshows, audiocasts, presentations, website information and publications. During the year more than 150 meetings were held with existing and prospective investors. It is estimated that 90% of our private shareholder base comes from a previously disadvantaged background. The Chairman's statement, as well as notice of annual general meeting and proxy forms are consequently translated into a different African language each year.

ABIL's communication with shareholders and the financial community has been recognised by external commentators, as evidenced for example by the various reporting awards that we have received from organisations such as Ernst & Young, the IR magazine and the Investment Analysts Society of Southern Africa.

### Funders

The group's business model places particular emphasis on using long-term fixed rate funding to support its asset base. Funding is mainly sourced from local corporate investors. The primary funding vehicle is the R3,5 billion Domestic Medium-term Note Programme, through which ABIL has issued R3 billion of bonds thus far.

Funding stability is paramount to the group's long-term sustainability. The group has thus committed to the following basic principles for this stakeholder group:

- Maintaining a capital adequacy ratio that reflects the risk profile of the group
- Maintaining a positive liquidity gap by ensuring that assets mature before liabilities, and retaining a cash buffer sufficient to cover short-term maturities and day-to-day activities

- Circumventing interest rate risk by primarily lending and borrowing at fixed rates
- Maintaining a diversified funding profile in terms of the range of maturities, types of instruments and funder base
- Maintaining open and regular communication with funders regarding our financial position and emerging business trends
- Regularly arranging external verification of our credit status from credit rating agencies

During the year under review more than 30 meetings were held with funders.

### Government and parliament

The group's business model focuses on a politically sensitive market, in an industry that is seen to be rife with unscrupulous lending practices. The government is particularly protective of consumers in this market, and concerned about perceived exploitation. The company maintains strong relations with government, the Banking Council, the MFRC and the Reserve Bank. The group's activities are encouragingly received at an administrative level, while there is still a degree of scepticism at a political level. The group engages proactively in the regulatory process, and pursues opportunities to help reduce the incidence of predatory lenders and improper practice in the industry. In the last year, the group led a campaign with the dti and major banks to collectively raise public awareness of the risks associated with debt administration orders, and it has also been particularly active in deliberations relating to the development of the Financial Sector Charter and the National Credit Bill.

The government is in the process of modernising credit control regulations in the country with the aim of providing greater consumer protection. ABIL has adopted a proactive and cooperative approach so that the envisaged new regulations recognise the complexity and risk of operating in this

segment of the market. Initial indications are that government is committed to an objective and wide consultation process and that change would be implemented in a way so as not to cause instability in the banking sector.

During the year, the group donated R2 million to assist political parties in the 2004 election process, as part of its commitment to supporting and promoting the advancement of democracy in South Africa. This donation was distributed in accordance with national and provincial representation in parliament.

#### **Clients**

The group has approximately 1,4 million clients, more than two thirds of whom constitute repeat business. Market research indicates that microlenders are perceived as ruthless, expensive and ready to exploit. It is consequently a major challenge to manage perceptions and build trust in this market. The group endeavours to earn the trust and secure the custom of the underbanked sector of society and will seek to differentiate itself by providing easy access to credit, ensuring interest rates based on a client's history and performance with the group, providing a business environment that is characterised by good client service, that is not intimidating and that treats clients with respect.

ABIL actively works to increase its understanding of its clients' needs through research, personal interaction, measuring, monitoring and feedback. This year the group again conducted detailed research in its target market at a grassroots level in order to gain a better understanding of clients' perceptions and expectations, and to assess the group's performance against these. More than 400 African Bank clients and 300 Credit Indemnity clients were consulted.

The group is committed to discouraging irresponsible lending and is thus concerned with how personal loans are being used. This

question is asked on loan application forms, and separate research is conducted into the use of loans. Research and feedback have consistently indicated that loans are predominantly used for home improvements, housing, education, debt consolidation, family events and emergencies. This is an encouraging indication that the group is fulfilling very specific client needs.

As the group merges its branch infrastructure across its 542 branches and opens new branches, it is driving greater awareness of its brands, especially in remote areas. Increased reach is also being secured through the joint venture with Standard Bank. Efforts will focus on opportunities to add value to rural communities through corporate social responsibility projects, in order to build a reputation as a reliable and trusted group.

Further information on the group's activities to proactively ensure that the rights of clients are protected and to reactively deal with client complaints is available through our website [www.africanbank.co.za](http://www.africanbank.co.za).

#### **Employees**

As at 30 September 2004, the group had 2 672 employees. As outlined elsewhere in the report, steps have been taken during the year with the aim of providing a stimulating work environment that attracts, nurtures and retains high-calibre individuals. This included undertaking a comprehensive employee

culture audit in which questionnaires were disseminated to all employees. In addition, approximately 200 one-on-one interviews and 20 focus groups with employees were held.

Various channels of communication are in place to ensure that employees are kept informed of the group's activities and aspirations. The impact of these measures varies between the group's different divisions; action is thus being taken to ensure a consistent groupwide communication effort. A quarterly internal magazine, ABmag, provides information on the group's activities, as well as publicising dismissals and unethical behaviour displayed by employees and sales consultants. The group intranet is an important tool for promoting awareness of the group's sustainability initiatives and developments.

#### **Suppliers**

Discretionary expenditure (other than rental, staff and depreciation) constitutes 15% of the operating budget, of which 44% is spent with empowerment companies. In line with the group's commitment to supporting empowerment companies, a formalised system is in place to monitor and evaluate the process. Suppliers are required to submit their employer and employee profiles, employment equity figures, and employment equity strategies. Suppliers' empowerment figures range from 20% to 62% and empowerment staff complements range from 37% to 81%. As part



## Stakeholder relations *(continued)*



of the group's sustainability strategy, criteria are currently being developed to assist in selecting those suppliers who make appropriate provision for social and environmental issues.

### ABIL's stakeholder engagement programme

In the belief that the group's different stakeholder groups should be seen as an important asset, a more formalised stakeholder engagement programme is currently being developed. In terms of this programme, each

division and department will appoint a designated representative accountable for interfacing with different stakeholder groups. This process will be guided by an information-gathering template that sets out key focus areas, and that includes yardsticks to measure input. Information will feed continuously into the knowledge management system and will be cross-referenced with identified sustainability-related gaps to ensure appropriate action and progress.

Stakeholder	Expectations	Benefits of engagement
<b>Employees</b>	Fair remuneration, good working conditions, career growth	Motivation, good performance, retention
<b>Clients</b>	Quick turnaround time, access to credit, quality service	Loyalty, retention, source of future income
<b>Investors, shareholders, analysts</b>	Return on equity ("RoE"), return on assets ("RoA") and dividends	Retention, demand for shares
<b>Funders</b>	Good capital management, ability to repay funds	Retain capital, new investment
<b>Regulators</b>	Transparency, compliance, accountability, good corporate governance	Stay in business, early warning of changes
<b>Credit rating agencies</b>	Compliance, accountability, transparency	Fair assessment
<b>Media</b>	Continuous contact and easy access	Positive reputation and balanced comment
<b>Suppliers</b>	Fair selection criteria, fulfilment of obligations	Preferential treatment
<b>Trade unions</b>	Good HR practices and policies	Stable working environment
<b>Communities and social groups</b>	Transparency and fairness	Licence to trade, good corporate citizenship

The success of the group's business is dependent ultimately on the motivation, ability and performance of its employees. The group recognises the value of providing a fair and equitable business environment that attracts, nurtures and retains high-calibre individuals.

During the year, as the group has sought to achieve its sustainability objectives in the context of an increasingly competitive market, it has been faced with an acute challenge: how to meet the strategic imperative of being a more streamlined business – which depends substantially on implementing business optimisation measures – while at the same time inspiring confidence in staff that they are our most important asset. Effectively addressing this challenge will form a critical part of the group's efforts at embedding sustainability within the organisation.

## Human resources management

HR management is a key strategic priority for the group and a mainstay of its commitment to developing an employee culture that is conducive to promoting the principles of sustainability throughout the business. In recent years the group has received external recognition for its excellence in various training and development initiatives, and has been highly ranked in various external "employer of choice" surveys.

Over the last eighteen months, however, there has been a sense of unease among many of the group's employees. This is largely as a result of the uncertainties surrounding the restructuring activities that have formed a necessary part of integrating the different operations more holistically within the group. As part of the group's commitment to addressing this concern,

and ensuring effective communication with its employees, an HR Forum has been established under the leadership of the Group Chief Executive to address HR management as a strategic priority.

With the aim of alleviating the hardships associated with retrenchment, the group has retained the services of recruitment companies to assist in identifying alternative employment. In addition, group HR practitioners provide assistance in structuring CVs, and on-site counselling services are offered to those employees facing retrenchment.

## Implementation of HR strategy

During March and April 2004 a comprehensive critical review was undertaken of the HR structure and capabilities throughout the group (see box). The results of the HR audit have informed the development of the group's HR strategy with specific emphasis on employment equity ("EE") and culture transformation. This is designed to support the implementation of the group's business strategy, linking people, strategy and performance with best practice HR policies.

Additional insight into the concerns and aspirations of employees will be gained from the feedback generated by an internal culture audit that is scheduled for completion in December 2004. This audit provided an opportunity for employees to anonymously express their opinion of the company and to identify specific areas of satisfaction, concern and expectation. The diagnostic will serve as a benchmark for culture and HR intervention improvements. Follow-up tracking audits will be conducted to measure the effectiveness of the implementation of our strategy.

Priority areas in our strategy include:

- Building a performance-based culture throughout the group, focused on targets and measures, and aligned with business strategy
- Driving employment equity in the workforce to better reflect the broader South African environment
- Revising the performance management system
- Aligning compensation, benefits, and short- and long-term incentives with sectoral benchmarks, ensuring that talent is appropriately rewarded for value-add contribution
- Ensuring consistency and equity in HR policies throughout the group
- Devolving the HR function to line management
- Implementing an HR management information system, thereby reducing administration costs and informing HR executive decision-making
- Addressing the gaps identified in the HR audit and the culture audit

A three-year plan is in place with action-orientated goals defined for each year. Innovation will be fostered throughout as a driver in the way that the group does business and delivers services. The challenge will be to manage the delivery of HR initiatives without increasing costs. In line with the group's sustainability vision, its goal is for the group's HR practices to again be regarded as among the leaders in South Africa within three years.

## Our employees (continued)

### 2004 human resources audit: summary of findings

A complete audit of all HR practices, policies and procedures across the organisation was undertaken in March/April 2004, under the direction of a recently appointed Group HR Executive. The audit checklist covered the major areas of transactional and traditional HR practice. The assessment was based on interviews within each business unit. Examples of practices and policies were provided during analysis and ratings, and tested against a set of best practice references. The analysis identified areas of strength and of weakness in each division.

#### Strengths

- There are pockets of excellence within different ABIL divisions – these initiatives and practices can be leveraged for the group as a whole, allowing for early wins through the establishment of a group HR infrastructure
- Highly effective business unit-specific training in Credit indemnity, Miners Credit and Collections business units
- Miners Credit has demonstrated leadership in the implementation of an effective workplace learnership programme, leveraging funding from the Bank SETA, and being the first to complete the training programme
- Credit Indemnity has a focused programme of management development, with a dedicated training manager appointed

#### Weaknesses

- In the absence of an overall enabling group HR strategy, business unit interventions have generally taken place without overall co-ordination
- Recent restructuring exercises have had a negative impact on employee morale and levels of trust
- Inconsistencies and inequities exist across divisions on a number of issues, including performance measurement and evaluation, and payroll systems
- Line management needs to assume greater responsibility for employee management, including issues relating to recruitment, development, performance and career management

### HR structure and responsibility

In terms of agreed priorities, group HR will provide thought leadership in driving the HR and employment equity process by focusing on training and development and employee relations, with a particular emphasis on line management's capabilities and responsibilities, and on ensuring appropriate compensation and benefits. The process will include gathering meaningful HR statistics, designing appropriate diagnostics, providing benchmarks and best practice measures, and designing actions, interventions and policies to correct issues identified.

The business units are responsible for the operational implementation and alignment of HR policies and initiatives. Technical and operations responsibility for training reside in each business unit, drawing on the overall group training and development expertise from the centre.

### Performance evaluation

Effective communication with employees is fundamental to establishing a commitment to sustainability and to developing a culture of trust and satisfaction throughout the group. The group's efforts in this regard will be more focused and coordinated as it strives to deliver on its HR strategy. The group has developed a performance management system to coincide with the strategy and objective setting process in 2005, with the aim of ensuring consistency and best practice throughout the group.

The current levels of disciplinary activity, relating primarily to fraud and data manipulation, are unacceptable. The group is confident that effective fraud prevention practices and fraud reporting channels are currently in place, and that the current drive to raise levels of satisfaction in the workplace will have a positive effect on reducing levels of unethical activity.

### Employee turnover

We directly employ 2 672 full-time and 2 644 part-time employees. During the year, the total voluntary turnover rate for the group was 14%, while the involuntary turnover rate was 11,6%. Over the last 12 months, 248 staff members were retrenched, 320 resigned and 75 were dismissed. As part of our drive towards being an employer of choice, we are committed to improving our understanding of employee concerns, with the aim of maintaining high levels of employee retention. In addition to undertaking culture audits we conduct employee exit interviews so as to understand – and where possible address – the contributing factors to employee turnover. During the year a total of 150 exit interviews were conducted.

### Staff turnover analysis

	2004
Total staff complement at end of financial year	2 672
New recruitments	457
Resignations	320
Retrenchments	248
Dismissals (misconduct)	75
Deaths (not work-related)	10
Other*	94

\* Abscondments, emigrations, etc.

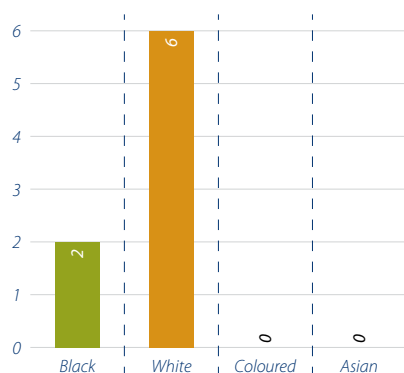
### Employment equity

The group has a strategy to recruit and develop the talent of previously disadvantaged individuals. This is being formalised into group and business unit targets with the aim of ensuring that the composition of our staff reflects the demographics of South African society, particularly at senior management levels. These targets will be cascaded into each operating department and will be included in performance KRAs and aligned to the reward system.

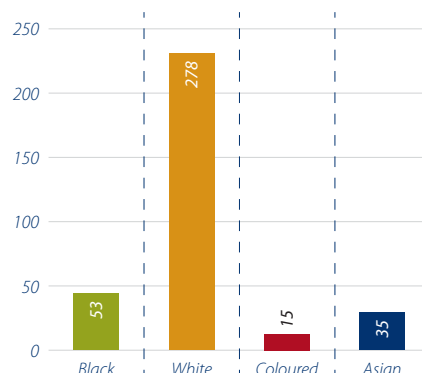
### Employees per level by race group

Group	Executive directors	Senior management	Middle management	Junior management	Non-management
Black	2	5	16	32	1 268
White	6	63	101	114	474
Coloured	0	0	3	12	250
Asian	0	3	14	18	291
Total	8	71	134	176	2 283
PDI status (%)	25,0	11,3	24,6	35,2	79,2

Executive directors



Senior/middle/junior management



Non-management



## Our employees (continued)

### Employment equity – 2004 performance indicators

- Executive director PDI status is 25%
- Top and senior management PDI status is 16,4%
- Female to male ratio of all permanent employees is 63% : 37%
- Female to male ratio of senior and top management is 16% : 84%
- Disability profile: total of 5, comprising 4 semi-skilled and 1 professional/middle management

### Training and development and talent management

Retaining talented employees in a market abounding with choice remains a challenge for the group. Developing thought and leadership potential in the group's staff is a priority on the HR agenda. A highlight for the year under review was the leadership demonstrated by Miners Credit and Credit Indemnity in the implementation of a learnership programme aimed at developing front line microlending skills and capabilities. Miners Credit initiated the first successful learnership, which was seen as a milestone for the Sectoral Education and Training Authority for the Banking Sector (the Bank Seta).

The current disparity in the incidence and effectiveness of training and development initiatives across the divisions is being addressed. An integrated approach to programmes will be coordinated at group level. All business units are identifying levels of education and experience of each member of staff in order to determine individual training needs for the next skills year. The effectiveness of the group's current accelerated Management Advancement Programme ("MAP") and Fast Track Programme is already under review, largely in response to the current concern that only 37% of MAP and 39% of Fast Track candidates are still with the bank.

### Labour relations

Currently 15% of the group's workforce is unionised, with the majority supporting the industry's main union, SASBO – The Finance Union. The bank has excellent working relations with this union, addressing issues in a consultative and transparent manner. It is expected that a more vigilant approach to ensuring the correct application of procedures will reduce the high instance of cases referred to the Commission for Conciliation, Mediation

and Arbitration ("CCMA"). The group has had limited interaction with smaller unions.

### Employee welfare

The focus of ABIL's employee well-being activities has been its Putting People First ("PPF") programme, introduced in June 2002. Although this programme was favourably received by many employees, it has recently been terminated with a view to incorporating its most successful elements within a more effective group Employee Assistance Programme ("EAP"). Credit Indemnity currently has a comprehensive EAP in place, which provides employees with access to services in areas that could impact on work performance. A number of initiatives are involved which address health (in particular HIV/Aids), matrimonial, financial and work-related issues. The EAP has had a positive impact on improving employee performance. The existing comprehensive HIV/Aids policy and programme will form part of the EAP.

### Medical aid

The group is concerned that the majority of its employees do not have a medical aid plan. Affordability remains the key challenge. The costs of current medical aid schemes are prohibitive for most of our staff. Group HR is aware of the concerns raised by staff and investigations are in progress to establish more affordable health plans. The group aims – as a minimum – to offer a hospital plan that the majority of our employees can afford.

### Health and safety

Health and safety measures in all offices within ABIL are being reviewed and where necessary will be upgraded to ensure that best practice standards are maintained throughout the group. During the year a number of Regional Health and Safety Committees were established. It is anticipated that additional committees will be established in the near future.

In each office, members of staff are nominated and appointed as health and safety representatives, to be trained to deal with emergencies. To date, twenty representatives have completed the first phase of this training. In the more recently established offices, health and safety representatives are yet to be appointed. Inspections are in progress in all offices and branches to establish health hazards and other risks. A priority is to ensure that fire drills are conducted in all ABIL offices. During the reporting period, a total of nine work-related injuries were reported, of which four resulted in lost work days. These injuries related predominantly to minor fractures, muscle spasms or soft tissue injuries associated with slips and falls at the workplace.

### Managing HIV/Aids

HIV/Aids has a direct impact on the group, both in terms of its workforce, as well as in terms of its current and future client base. During the reporting period the group undertook an actuarial impact assessment of its employee and client demographics. The results of this independent research have provided a useful insight into the current and future adverse consequences of the disease on the organisation. The HIV/Aids prevalence study conducted in the three major business units of ABIL has indicated that between 8% and 9,5% of staff may be infected.

Activities and formal management around HIV/Aids awareness and assistance was identified in assessments last year as an area for further development. The group is

### Labour relations – 2004 performance indicators

- 15% union membership at African Bank Retail
- 45 referrals to the CCMA for permanent staff and 31 referrals for sales agents

committed to the promotion of awareness of these conditions amongst all employees, and to the provision of counselling where possible to those who have been infected with HIV.

During the year under review, some significant progress has been made in addressing HIV/Aids. A group HIV/Aids policy has been developed, based on the highly effective and externally recognised divisional policies and programmes that have been in place in Miners Credit and Credit Indemnity. Due to the success of Credit Indemnity's HIV/Aids programme – which has been in place for almost two years –

we are in the process of implementing this throughout all our other business units. An HIV/Aids committee has been formed to oversee the implementation of the programme. This will centre around a recently launched initiative, AIDSInSITE, which is an important step in developing and strengthening the HIV/Aids strategy, knowledge and capacity within African Bank.

A national campaign to educate around the impact of HIV/Aids is currently being rolled out via the AIDSInSITE website campaign. This programme was designed with the full

spectrum of employees in mind, and follows a comprehensive HIV/Aids management curriculum, based around defined strategic themes. The programme integrates internal corporate resources with a combination of online, e-mail and print media, as well as face-to-face interactions, to ensure the coordinated delivery of a range of HIV/Aids management modules. AIDSInSITE also offers a wide range of online HIV/Aids resources. These include step-by-step guidelines on dealing with specific issues, alternative views on contemporary issues to stimulate thought and debate, as well as daily updates on HIV/Aids-related news.

## Making an economic contribution to society

### Value added statement

	2004 R million	Change (%)	2003 R million
<b>Value added</b>			
Total revenue	3 074	7,3	2 866
Charge for bad and doubtful advances	(484)	8,8	(445)
Risk-adjusted revenue	2 590	7,0	2 421
Other interest income	118	(17,5)	143
Interest expense	(453)	(2,4)	(464)
Share of associates' income	1	(50,0)	2
	2 256	7,3	2 102
<b>Value allocated</b>			
Employees	373	(4,7)	401
Agents for sales commission	123	0,8	122
Suppliers of various services	381	(15,3)	439
Provide shareholders with cash dividends	788	282,5	206
Government (taxes)	531	36,5	389
Retention for growth	60	(89,0)	545
Depreciation	69	(6,8)	74
Deferred taxation	24	140,0	10
Outside shareholders' interest	(1)	(114,3)	7
Attributable income (net of dividends paid)	(32)	(107,0)	454
	2 256	7,3	2 102

## Making an economic contribution to society (continued)



### Corporate social investment

As a responsible provider of credit to the previously disadvantaged sector of South African society, the group's business is arguably rooted in a socially responsible cause. For many people, access to credit represents an indispensable bridge to a much-needed opportunity for social upliftment. The future of the group's business is closely tied to the sustainable development of the communities of South Africa and its success depends largely on the existence of a climate of social and economic prosperity.

The group has played an important role in promoting social upliftment in communities through purposeful social investment. Corporate social investment ("CSI") is driven through the African Bank Foundation, a registered trust established in 2001. Over the past three years the Foundation has focused on supporting three main projects, through an annual investment of R5,5 million: the Johannesburg Market Theatre, the CIDA City

Campus in Johannesburg and the London South Africa ("LOSA") beadwork association. The three-year contract is now concluded having contributed towards ensuring a solid foundation for growth for each project.

### Integrating CSI within core activities

As part of the process of integrating sustainability into core business activities, there is a recognised opportunity for the group's CSI efforts to be more synergistic with its core business and strategic objectives. Through its contact with individuals in communities throughout the country, the group has a direct opportunity to address one of the country's most pressing concerns, namely education. Inadequate education has blighted generations of South Africans and remains a nationwide concern. A lack of understanding and knowledge of basic financial management is an important contributing factor for the large number of people who fall into a debt trap.

Education around financial matters will become the main thrust of the group's corporate social investment ("CSI") agenda. Given the strong overlap between African Bank's target market for loans and the target audience for basic development, the company will develop its CSI programme as an incubator of creative ideas in the development field, and as an integral part of its client-centricity drive, to bring the bank closer to the people.

Three years ago, African Bank launched Money School, a modular, audiovisual educational programme targeted to clients on managing their finances. There is immense potential to build on this core asset, which until now has been relatively limited in scope and driven as a marketing tool. The Money School initiative will be expanded and driven aggressively as a social responsibility initiative to promote responsible financial management and entrepreneurial spirit in communities.

### ABIL CSI project partners: 2001 – 2004

- **Education through the arts:** The African Bank Market Theatre opened in 1976 as the "theatre of the struggle". Non-racial and non-profit for nearly two decades it was the only venue that produced indigenous theatre in Johannesburg, providing a platform for black artists to develop their talent. African Bank contributed R9 million in support of all educational and outreach programmes.
- **CIDA City Campus:** African Bank invested R3,6 million towards this low-cost university for previously disadvantaged students, based in Johannesburg, South Africa. It offers students a fully accredited, practical four-year bachelor of business administration qualification that emphasises entrepreneurship, business and computer skills.
- **Beadwork:** African Bank contributed towards promoting awareness and appreciation of repatriated beadwork, displayed in collections and exhibitions nationwide. Through the bank's beadwork collection, the foundation partnered with KhumbulaZulu Craft/LOSA, to fuse old and new designs. This initiative provided jobs for 950 people.

The group's most significant potential to make a meaningful contribution to sustainable development is through its provision of unsecured lending services, its counselling around financial management and its implementation of sound employment practices. While the group's sustainability impacts are primarily of a socio-economic nature, the critical importance of environmental issues is nevertheless acknowledged and the group is committed to minimising its environmental impact.

Unlike most other banks, the group does not engage in project financing activities or the provision of large scale loans, and it does not undertake significant investments on behalf of clients. Consequently, the group has comparatively limited potential to promote environmental sustainability through its financial services offerings. Its ability to influence the natural environment is primarily through ensuring sound environmental management of its business operations, which – due to the nature of our activities – is also of a relatively minor nature.

## EHS policy and management system

During 2004, the group commenced implementation of an integrated environmental, health and safety ("EHS") management system based on ISO 14001. This EHS management system provides the foundation for monitoring, measuring and improving EHS performance throughout the group. Implementation of the management system will be coordinated between the recently established Sustainability Task Team, the Facilities Management Officer and the business unit functional heads.

The group EHS policy includes commitments to:

- minimising risk and contributing to improved environmental performance through the implementation of the EHS plan and programmes for the group;
- ensuring and, where possible, exceeding compliance, with applicable EHS laws and regulations;
- having open discussions with all our direct stakeholders – in particular our employees and business partners – to ensure they

understand and support the company's approach to the natural and social environment and recognise their responsibilities for custodianship of the environment;

- making informed choices that take into account the full range of economic, social and environmental implications;
- training, motivating and supporting our employees and business partners to be aware of and meet their EHS responsibilities; and
- setting specific measurable EHS objectives and targets and publicly reporting the results through our annual sustainability report and on our website.

The Risk Committee is responsible for regularly reviewing the EHS management system to ensure that the company achieves compliance and continual improvement. Ultimate responsibility for ensuring compliance with the group's EHS policies and practices rests with the CEO.

## Corporate environmental objectives

As part of the implementation of the EHS Management System, the group is committed to setting specific measurable targets and to publicly reporting on progress against these targets. Five environmental objectives have been defined that will assist the group in improving its environmental performance and minimising negative impacts, namely:

- to conserve energy and water, and to consume these resources more effectively;
- to reduce resource consumption and improve levels of efficiency;
- to increase the volume and type of waste being recycled;
- to ensure that sustainability and good environment practices are entrenched throughout our supply chain and procurement processes, and ultimately carried through to our service providers; and
- to ensure effective implementation of the EHS system and to undertake regular audits in all operations.

For each of these objectives there are a number of proposed targets and measures, details of which are available on our website. As these are very recent targets, the consumption of

water and energy and the generation of waste are being measured in an integrated manner for the first time. Progress on these issues will be reported on more fully in the next report.

## Embedding EHS consciousness throughout the group

Although initial steps have been taken to ensure that our central office in Midrand is managed according to sound environmental principles, there has been very limited attempt to ensure full compliance at all branch offices and related subsidiaries. To ensure that environmental principles are understood and effectively embedded throughout the organisation, relevant training and awareness programmes are being developed. EHS issues will be included in our new employee orientation activities, our professional programmes and learnership initiatives, as well as forming part of targeted training and development for line heads and departments. To promote general EHS awareness amongst staff and business partners, we will be publishing information bulletins on EHS issues and use other targeted media to raise awareness among staff, clients and suppliers.

## Managing direct environmental impacts *(continued)*

### **ABIL's setting and location**

The group head office and the operations of African Bank and Miners Credit are all located under one roof in Midrand, an ecologically sensitive area situated between two of South Africa's major urban centres, Johannesburg and Pretoria. The natural grasslands in Midrand have been drastically depleted due to development, with 65% of the area having been transformed for human settlements, agriculture, mining and industry. The group has undertaken a number of initiatives at central office to ensure we minimise our negative impacts on the area and contribute where possible to its preservation.

### **Environmental programmes at head office**

A number of environmental initiatives and programmes are currently in progress at our head office in Midrand. Many of these are in an initial stage of development. In future reports we will include details of our progress in implementing these initiatives, as well as more quantitative performance data.

#### **Energy conservation and management**

- A survey of the air-conditioning plant is in progress with the aim of determining a roll-out and cost to convert the plant to a CFC-free system.
- A timer has been fitted to the Building Management System to ensure more effective management of facility lighting.
- A company has been appointed to measure power and water consumption; we have consequently altered our demand requirements with the relevant local government department to reduce costs.

#### **Resource efficiency, waste management and recycling**

- Most of the waste generated by the bank is recycled; all the paper used is sorted on our premises, shredded and collected for recycling.
- Investigations continue into the recycling of "wet" waste generated by the kitchen, for use by local farmers in the area to use as pig feed.
- The African Bank Foundation coordinates the donation of old and unused office furniture to community projects.
- Old computers are sold to a company that restores them and resells them in the market place; a number of computers and copier/printers have been donated to community projects; toner cartridges are refilled and re-used.

#### **Water quality and natural habitat**

- The grounds have been landscaped with indigenous plants so as to reduce the amount of watering required, as well as to attract wildlife.
- Half the grounds are irrigated from a borehole on the premises; a recently developed section relies on municipal water, but we are looking at the costs of connecting this section to the borehole.
- Investigations continue into the cost and possible roll-out of a biolytic system whereby all the "grey" water is routed to an underground storage tank, for watering the gardens.
- Signs have been installed in the toilets to alert staff to the need to conserve water.

#### **Generator**

- Contact has been established with BP regarding the use of their Eco Diesel for future diesel requirements for the generator.

#### **Cleaning**

- The current cleaning company uses biodegradable chemicals to clean the building.

#### **Health and safety**

- A representative has been appointed to ensure compliance with regard to occupational health and safety across the group. A plan for the roll-out and implementation of the project is in progress.



## Assurance statements

### Assurance statements

*We recognise that many stakeholders perceive corporate sustainability reports to be little more than public relations exercises, believing them to be the preserve of spin doctors aimed at painting the company in a favourable light. At ABIL we believe that any attempts at “greenwash” are entirely counter-productive.*

*In the belief that sustainability reports should result in fostering trust with stakeholders, as well as providing a valuable basis for informing sustainability strategy, we are committed to providing an open and honest account of our performance. To assist us in meeting this commitment, we have asked the following two people to provide*

*a critical and objective comment on the sustainability sections of this report:*

- William Frater – Frater Asset Management
- Stephen Jacobs – The Natural Step

# Assurance statements



**William Frater is a Senior Analyst with Frater Asset Management (“FRATERS”). FRATERS is an independent, owner-managed company established in 1998. It provides discretionary investment management services to individuals, institutions and retirement funds focusing specifically on the South African market. FRATERS is a market leader in the field of shareholder activism. By analysing listed domestic companies with respect to governance, social and environmental practices, and engaging with management in this regard, FRATERS believes that it has one of the best investment risk management processes in South Africa.**

Frater Asset Management is very impressed by African Bank being prepared to submit its sustainability report for comment and review by both shareholders and stakeholders. It is Frater's view, as a long-term investor, that continuous improvement in the way in which a company meets its obligations to its stakeholders is fundamental to long-term shareholder wealth creation.

ABIL is a client-focused business, which – in order to meet the needs of its clients – needs to have an effective infrastructure of branches staffed by a committed and incentivised workforce.

ABIL lends its clients money. To be effective it has to understand its clients' needs and their ability to repay the loans. It thus needs effective information systems and risk management tools that continuously assess the performance of individual clients to ensure that the risk of bad debts is minimised. Effective performance in this respect ensures that ABIL can access funds more cheaply from its funders, thereby improving its lending margin and enabling it to offer more competitive rates to high performing clients.

ABIL is lending to a segment of the market that is most vulnerable due to its lack of recognised collateral, low levels of understanding of financial issues and high dependency levels. Consequently, the state has actively intervened in the microlending market in an effort to curb abuses. A working relationship and strong communication channels with the regulatory bodies is thus very important for ABIL.

There is a sound business rationale for the principles presented by the CEO, Leon Kirkinis, in the sustainability report. The report appears to cover all of these issues in a manner that enables the reader to understand why they are relevant to the company's business. However, within the language of the report, the word “sustainability” is so frequently used that it is difficult to discern whether reference is being made to sustainable development and the principles outlined by the CEO, or simply the sustainability of the business from an operational and financial perspective.

A process has been put into place to ensure that the sustainable development principles, as outlined by the CEO, are incorporated into the culture of the company. Responsibility for this taking place has been assigned to a team that includes a broad range of people from all levels of the organisation, indicating that ABIL is serious about its commitment.

With respect to stakeholder relations, more focus is placed on employees than other stakeholder groups including government, suppliers of capital (shareholders and funders) and, possibly most significantly, clients.

This may be for good reason, as the report indicates that cost cutting has resulted in a decline in workforce morale. This is a human capital business, and poor morale will result in higher staff turnover and the loss of crucial skills. Employee turnover is addressed, but it is very difficult to understand the extent of the problem if no comparative figures from previous years or peer groups are provided. For example, we note that there were 75 dismissals for misconduct during the year (comprising almost 3% of total staff), but there is little indication of whether this figure is high or low.

From the employment equity perspective, no comparative data is presented for previous years, no mention is made of the company's targets, and no gender breakdown is provided. Of concern is the issue that training is only being rolled out across the group at this stage, and that there is a poor retention rate for the fast track candidates. While not entirely clear about the extent of the problem, the ABIL Group is being open about it, and has indicated that it will be taking measures to address the problem.

From the transparency perspective, we are impressed with the level of transparency regarding the number of cases being held at the CCMA. HIV/Aids is covered, and an indication is given on the HIV prevalence rates, the group's HIV/Aids strategy is mentioned and responsibility for its implementation has been assigned. While the group has used the GRI guidelines, no mention is made on the adoption of the reporting guidelines for HIV/Aids, which are possibly more relevant to ABIL than the other GRI performance indicators.

ABIL is a client-focused business, and the report does raise the issue of perception management, providing insight into the efforts being made to understand clients' perceptions. Constant reference is made to the socially responsible nature of the group's activities, in that loans are being offered to people who do not ordinarily have access to credit. While this may be the case, ABIL charges a higher rate of interest to compensate for this risk. In doing this it generates a return for its funders. Understandably, people may get cynical about the company claiming that it provides a socially responsible service – this is how ABIL makes money. We appreciate the social responsibility argument associated with giving people access to credit for making improvements to their homes, paying school fees, starting a business or emergency situations. However, the funding of spurious consumption can result in people getting into debt traps, which may compromise their ability to pay for essential items or services, and/or may result in them being placed on a non-performing loan list. Is loaning money in this situation socially responsible? The report offers little insight into why the clients borrow. It is understood that surveys occur, but is the information sufficiently accurate to substantiate the claim of social responsibility by the company's core business?

Two further issues emerge with respect to client relationships. Firstly, ABIL's CSI programme focuses on financial literacy, which clearly has a direct relationship with the company's core activities, but further information on the implementation of this programme, and other CSI initiatives, would be useful. ABIL is in a fairly unique position in terms of its understanding of how people manage their money, and can play an enormous role in assisting people in this

respect. Secondly, while it may not be a function of the sustainability report, there is little coverage of the conditions in the market that ABIL serves. For instance, what has been the effect of job losses and HIV/Aids and the shift in spending priorities on the household economies of their clients and in turn on their ability to service their loans from ABIL?

Other key stakeholder groups and the environment are mentioned, and it becomes clear that engagement with these stakeholders is on the agenda for 2005.

Aside from the issues raised above, the report succeeds in presenting a useful and relevant account of the company's approach to stakeholders and development issues. What is clear and encouraging from the report and the group's overall approach is that the company sees sustainability as a long-term process, where the mindset of the whole organisation has to be shifted to embrace the challenges of both the present and the future. ABIL sees this as a continuous learning process that should be led from the top, and not orchestrated by a marginalised silo in the organisation that ensures that the boxes are ticked, and the marketing department is happy.

**Stephen Jacobs is the Executive Director of The Natural Step Southern Africa, a global organisation which offers a framework for companies to understand what sustainability really means and provides decision-making tools to assist them to move systematically along a path of sustainable development.**

In its opening paragraph of the introductory message by CEO Kirkinis, the report gives a lengthy definition of what the bank understands by sustainability. The definition is good and comprehensive, but fails to include what we regard as the crucial aspect of sustainability: "The impact that today's activities are likely to have on future generations". Later in the report, there is a paragraph that describes what the bank understands by sustainable development, and makes the statement that "ABIL . . . recognised the importance of the natural environment as the foundation upon which any sustainable strategy should be built". This is most pleasing as this dimension is often left out of people's grasp of sustainable development,

and the focus is more on financial or economic sustainability. In our definition of the conditions for sustainability, we emphasise, amongst other things, the importance of fair distribution of resources, (balancing previous inconsistencies) to which the bank is clearly committed.

The establishment of a committee and the appointment of a Sustainability Officer is proof that the bank is taking the matter seriously, and its stated intention of taking measures "beyond legal compliance" is encouraging to note, as one can be totally compliant and still be a polluter.

The bank's intention to become one of the best companies to work for within the next three years is a commendable one, and it seems to have already begun investigating how to achieve this through surveys amongst its employees. Achieving a greater degree of racial transformation and BEE is, from our perspective, an essential part of sustainability, and we thus support this intention.

In the statement of continuing challenges along the bank's journey to sustainability, mention is made of the need to, amongst other factors:

- cascade sustainability thinking throughout all levels of the organisation;
- continue to find ways to reduce costs;
- anticipate regulatory changes; and
- promote greater financial literacy amongst target markets.

These are all crucial from our perspective, but we would have liked a mention here of the need to reduce the bank's environmental impact.

In unpacking their understanding of sustainability, the bank recognises the importance of economic sustainability and is committed to running a good business as well as investing in the upliftment of its target market. It also recognises that there are other "intangible" factors which impact on sustainability (reputation, staff morale, client loyalty and community trust). Many measures have been put in place to ensure these aspects are thoroughly covered. However, the bank appears to have the crucial component of sustainability, namely environmental sustainability – recognising the

ecological footprint it is making, on its own and with its partners (suppliers and clients) – lower down on its list of priorities. Yet, the fact that it is listed on the JSE's SRI is an indication that it must be doing "triple bottom-line auditing" to some extent.

In the table outlining the various stakeholders, their expectations and benefits for engagement, they could have included "the public", expecting minimum harm done to the environment, with the benefit being for future generations being able to access life-giving resources.

If one were to consider how "success" is measured, there is much evidence in this report that ABIL made an impressive profit (single bottom-line) over the past year. It did a tremendous amount towards ensuring the well-being of its staff and made significant contributions to community upliftment initiatives through its CSI funds (double bottom-line). However, the work that is being done on reducing environmental impact (triple bottom-line) is still in its early stages with the group's recently adopted EHS policies, based on ISO 14001. The group has set five environmental objectives regarding energy conservation, resource use, waste generation, supply chain consistency and EHS monitoring, and it will be interesting to see the metrics around these objectives reported on in the next annual report.

The stated intention is to promote environmental awareness and involvement amongst the staff in the next year through various means. We would like to see mechanisms put in place for employees to initiate and get directly involved in environmental activities, both inside and outside of the bank. ABIL reports that it is also looking at the preservation and restoration of the natural habitat in its immediate surroundings. Whilst the bank is not a direct polluter, there is a lot more that can be done by the bank in this area. We would also like to see the bank promoting environmental education and awareness to the broader community, perhaps through schools and other community structures. Furthermore, we would encourage the bank to consider rewarding initiatives which demonstrate environmental responsibility through favourable rates.

# GRI index

The following table provides a summary of African Bank Investment Limited's reporting against the criteria of the Global Reporting Initiative's Sustainability Reporting Guidelines ([www.globalreporting.org](http://www.globalreporting.org)).

GRI element		Page	Report section/Additional comment
<b>Vision and strategy</b>			
1.1	Sustainable development vision and strategy	51 – 54	Sustainable development at ABIL
1.2	CEO statement	49	Introductory message from the CEO
<b>Profile</b>			
2.1 – 2.8	General organisational details	VIII, X, XI, IBC	Relevant sections in annual report
2.9	List of stakeholders	56	Stakeholder relations
2.10 – 2.16	Details on nature and scope of the report	48	ABIL's 2004 Sustainable development report (introductory box)
2.17 – 2.22	Profile of the report – including implementation of GRI principles and external assurance	48 67	ABIL's 2004 Sustainable development report (introductory box) External assurance statement
<b>Governance structure and management systems</b>			
3.1 – 3.8	Structure and governance	36 – 41	Relevant sections in annual report
3.9 – 3.12	Stakeholder engagement issues	56 – 58	Stakeholder relations
3.13 – 3.20	Overarching policies and management systems	51 – 53	Sustainable development at ABIL
<b>Economic performance indicators</b>			
EC 1 – 2	Clients: Net sales and markets	63 16 – 17 17 25	Making an economic contribution to society Size of the market and market share Developing a client centric culture Sales
EC 3 – 4	Suppliers: Costs of purchased goods/Payment of contracts in accordance with terms	10 63	Black Economic Empowerment Making an economic contribution to society
EC 5	Employees: Total payroll and benefits	63 62 83	Making an economic contribution to society Employee welfare Remuneration report
EC 6 – 7	Providers of capital: Distributions to providers of capital. Changes in retained earnings	63 IFC 31	Making an economic contribution to society Share price performance Dividend policy
EC 8 – 9	Public sector: Taxes and subsidies	63 26	Making an economic contribution to society Taxation
EC 10	Community donations	64	Corporate social investment
<b>Environmental performance indicators</b>			
EN 1 – 2	Material use	65	Managing our direct environmental impacts. The focus of this section is primarily on outlining the management system activities that are being implemented in the bank. At present limited quantitative data on many of the GRI's environmental criteria is being collated in a coordinated manner. Future reports will include further details on those quantitative measures that are deemed material to our operations.
EN 3 – 4	Energy use		
EN 5	Total water use		
EN 6 – 7	Biodiversity		
EN 8 – 13	Emissions, effluents and wastes		
EN 14 – 15	Environmental impacts of products and services		
EN 16	Incidents and fines		



GRI element	Page	Report section/Additional comment
<b>Social performance indicators</b>		
<b>Labour practices and decent work</b>		
LA 1 – 2	Workforce breakdown and employment creation	60 – 61 Our employees – employee turnover/employment equity
LA 3 – 4	Labour relations	62 Our employees – labour relations
LA 5 – 8	Health and safety issues	62 Our employees – health and safety
LA 9	Training and education	62 Our employees – training and development and talent management
LA 10 – 11	Equal opportunity policies and programmes	61 – 62 Our employees – employment equity
<b>Human rights</b>		
HR 1 – 7	Strategy and management, freedom of association, child labour, compulsory labour	59 Our employees. Some of the key elements relating to human rights (most notably on freedom of association, non-discrimination, etc) are addressed in our section on employees, and to some extent in the description of our activities on client centricity and our consumer pledge. These are seen to be the most material elements for the purposes of our activities.
<b>Society</b>		
SO 1 – 3	Policies to manage impacts on communities, to address bribery and corruption, and on political contributions	55 Sustainable development at ABIL – fraud and ethics
		56 – 57 Stakeholder relations – government and parliament
<b>Product responsibility</b>		
PR 1 – 3	Policies for preservation of client health and safety in using products	IX, 17 Stakeholder relations – clients. To the extent that these criteria are directly relevant to the bank's activities, this issue is addressed in our description of our activities relating to client centricity and our consumer pledge.

## Case study 5



**Stanley Ngema**

*Since my family introduced me to Credit Indemnity, I have been able to take loans to pay school fees, buy a vehicle for my small business and plan for my sister's wedding. Staff members are always willing to help with a smile. I enjoy their respectful attitude and the fact that I don't have to wait in long queues for service.*

# Annual financial statements

for the year ended 30 September 2004



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## **Attributable earnings per share (cents)**

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

## **Average gross interest-bearing advances**

These comprise the monthly average gross advances, after deducting advances on which the group has stopped accruing interest.

## **Capital adequacy ratio (%)**

The capital adequacy of banks is measured in terms of the Banks Act (Act No 94 of 1990) requirements. The ratio is calculated by dividing the sum of Tier 1 and Tier 2 capital by the risk-weighted assets. The minimum South African total capital adequacy ratio for banks is 10% of risk-weighted assets.

## **Cash and cash equivalents**

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

## **Cost-to-advances ratio (%)**

The cost-to-advances ratio is calculated by expressing the operating expenses as a percentage of average gross interest-bearing advances.

## **Cost-to-income ratio (%)**

The cost-to-income ratio is calculated by expressing the operating expenses as a percentage of total income (total income is also referred to as revenue).

## **Dividend cover (times)**

Dividend cover is calculated by dividing headline earnings per share by ordinary dividends per share.

## **Fully diluted attributable earnings per share (cents)**

Fully diluted attributable earnings per share is calculated by dividing attributable earnings by the fully diluted number of shares in issue during the year.

## **Fully diluted headline earnings per share (cents)**

Fully diluted headline earnings per share is calculated by dividing headline earnings by the fully diluted number of shares in issue during the year.

## **Fully diluted number of shares in issue**

The fully diluted number of shares in issue is the weighted number of shares in issue adjusted for the impact of outstanding options under the ABIL Employee Share Participation Scheme as defined in AC104.

## **Headline earnings**

Earnings attributable to ordinary shareholders excluding goodwill amortisation and capital profits and losses.

## **Headline earnings per share (cents)**

Headline earnings per share is calculated by dividing headline earnings by the weighted average number of ordinary shares in issue during the year.

## **Lending books**

The lending books comprise the advances of the ongoing businesses of the group and on which new lending is taking place.

## **Net asset value per share (cents)**

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

## **Non-performing loans ("NPLs")**

Non-performing loans are defined as loans that have more than three cumulative instalments in arrears.

## **NPL coverage (%)**

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

## **Operating margin (%)**

Operating margin is calculated by expressing the net income before tax as a percentage of average gross interest-bearing advances.

## **Pay down books**

The pay down books comprise the books on which no new lending is taking place and includes the Saambou personal loan book, the Persal book and the advances of the discontinued businesses.

## **Principal debt**

Principal debt is the initial loan disbursed plus capitalised administration fees and credit life premiums, but excludes any future interest or settlement charge.

## **Return on assets ("RoA") (%)**

Return on assets is calculated by expressing headline earnings as a percentage of monthly average total assets.

## **Return on equity ("RoE") (%)**

Return on equity is calculated by expressing headline earnings as a percentage of monthly average shareholders' equity.

## **Risk-adjusted yield (%)**

The risk-adjusted yield is calculated by expressing total revenue less the charge for bad and doubtful advances as a percentage of average gross interest-bearing advances.

## **Risk-weighted assets**

Risk-weighted assets are determined by applying risk weights to balance sheet assets and off-balance sheet assets and commitments according to the relative credit risk of the counterparty. The risk weighting for each balance sheet asset and off-balance sheet asset is defined by the regulations to the Banks Act (Act No 94 of 1990).

## **Sales**

Sales constitutes the aggregate of the principal debt of loans advanced in a period.

## **Statutory assets – bank and insurance**

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

## **Weighted number of shares in issue**

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

## 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 control 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 group internal audit function conducts operational, financial and specific audits and coordinates audit coverage with the external auditors.

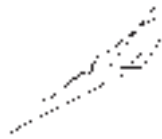
The external auditors are responsible for reporting on the financial statements.

The annual 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 77 to 123, have been approved by the board of directors and are signed on its behalf by:



**A Mabogoane**  
Chairman



**L Kirkinis**  
Chief Executive Officer

Midrand  
3 December 2004

## Certificate from 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 2004 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.



**S Martin**  
Company Secretary

Midrand  
3 December 2004

# Report of the independent auditors



To the members of African Bank Investments Limited

## **Introduction**

We have audited the annual financial statements and group annual financial statements set out on pages 77 to 123 for the year ended 30 September 2004. These annual financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on the financial statements based on our audit.

## **Scope**

We conducted our audit in accordance with Statements of South African Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statements presentation.

We believe that our audit provides a reasonable basis for our opinion.

## **Opinion**

In our opinion the financial statements fairly present the financial position of the company and the group as at 30 September 2004, and the results of their operations and cash flow information for the year then ended in conformity with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa.

A handwritten signature in blue ink, appearing to read "Deloitte &amp; Touche".

**Deloitte & Touche**  
Chartered Accountants (SA)  
Registered Accountants and Auditors

Johannesburg  
3 December 2004

Your directors present their report together with the audited annual financial statements for the twelve months ended 30 September 2004.

## Nature of the business

ABIL is a holding company to subsidiaries involved in the provision and underwriting of unsecured term finance. ABIL's subsidiaries include African Bank Limited ("African Bank"), the market leader in the provision of unsecured term finance to the formally employed mass market which has traditionally been underserved in its credit needs, The Standard General Insurance Company Limited ("Stangen"), which provides life assurance products to the African Bank client base and Theta Investments (Proprietary) Limited ("Theta"), which has been ABIL's private equity operation and new business incubator. During 2003 and continuing in 2004 Theta is undergoing a restructuring with major operating businesses being divisionalised into African Bank and remaining businesses that were either unsuccessful or failed to achieve critical mass being sold or closed down. This process will, when finalised in 2005, result in Theta becoming dormant and its capital base being injected into African Bank. The major part of this process has been completed.

## Share capital

At 30 September 2004, the issued share capital totalled 477 155 565 (2003: 497 155 565) shares of 2,5 cents each representing R11,9 million (2003: R12,4 million).

## Holding company

ABIL does not have a holding company.

## ABIL shares held by subsidiary companies

During February 2004 the 20 million shares held by Stangen were cancelled. As at 30 September 2004 the ABIL Employee Share Trust held 4 848 339 ABIL shares (2003: 2 945 286).

## Subsidiaries

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

	2004 R000	2003 R000
Net income	883 018	806 223
Losses	60 999	68 458

## Post-balance sheet events

On 10 November 2004, ABIL announced that Gilt Edged Management Services (Proprietary) Limited ("GEMS"), a subsidiary of the group via Theta Investments (Proprietary) Limited and which has been in the process of being closed down, was investigated by the directorate of special operations ("DSO") under various charges of corruption resulting from payments made to SAMWU union officials by certain GEMS officials during 1999 to 2002. ABIL fully cooperated with the DSO during the investigations and GEMS agreed to plead guilty and accept full responsibility for the actions of the officials concerned. GEMS also agreed to pay reparations to clients who may have been prejudiced by these actions. Whilst this was an unacceptable scar on the closure of the financial year for the ABIL Group, the directors are confident that this was an isolated issue.

The financial impact of the above settlement is not material to the group's results for 30 September 2004 and hence no post-balance sheet event adjustments have been made in the financial statements.

## Major capital expenditures

The group made total additions to its fixed assets of R31,1 million (2003: R82,6 million) during the past financial year, with R12,7 million (2003: R58,5 million) being spent on computer systems and programs.

## Regulatory approval

As at the date of this directors' report, there were no regulatory approvals from the South African Reserve Bank outstanding.

## Dividends

On 11 November 2004, the board of directors declared a final dividend for the 2004 financial year of 57 cents per ordinary share and a special dividend of 53 cents per ordinary share.

	2004 cents	2003 cents
<b>Ordinary dividends</b>		
<i>Interim, paid on 14 June 2004 to shareholders registered on 11 June 2004</i>	<b>35,0</b>	25,0
<i>Final, payable on 13 December 2004 to shareholders registered on 10 December 2004</i>	<b>57,0</b>	31,0
	<b>92,0</b>	56,0
<b>Special dividend</b>		
<i>Payable on 13 December 2004 to shareholders registered on 10 December 2004</i>	<b>53,0</b>	100,0

<b>Directors</b>	<b>Date appointed (if in the current year)</b>
<b>Executive</b>	
Schachat, G (Executive Deputy Chairman)	
Kirkinis, L (Chief Executive Officer)	
de Ridder, JA	
Fourie, A	21 October 2003
Herselman, AG	
Marole, MLD	17 March 2004
Sokutu, TM	
Woollam, DF (Group Financial Director)	
<b>Non-executive</b>	
Mabogoane, AS (Non-executive Chairman)	
Gibbon, DB	
Goba, BD	
Kekane, JJ	
Levitt, SA	
Naidoo, R	
Shongwe, BJT	
Steele, BPF	
Steffens, GZ	
Tembe, DFG	
Tugendhaft, A	

There were no resignations from the board during the current year.

### Secretary

The Group Company Secretary is S Martin.

### Interest of the directors in the share capital of the company

Shares owned at 30 November 2004

	2004 Direct	2004 Indirect	2004 Total	2003 Total
<b>Executive</b>				
Schachat, G (Executive Deputy Chairman)	1 800 000	9 460 000	11 260 000	10 074 734
Kirkinis, L (Chief Executive Officer)	1 800 000	9 994 365	11 794 365	9 433 956
de Ridder, JA	200 000	-	200 000	-
Fourie, A	-	-	-	-
Herselman, AG	42 500	-	42 500	-
Marole, MLD	-	-	-	-
Sokutu, TM	-	-	-	-
Woollam, DF (Group Financial Director)	1 365 000	-	1 365 000	240 000
<b>Non-executive</b>				
Mabogoane, AS (Non-executive Chairman)	4 000	-	4 000	4 000
Gibbon, DB	-	-	-	-
Goba, BD	-	-	-	-
Kekane, JJ	2 000	-	2 000	2 000
Levitt, SA	-	9 000	9 000	9 000
Naidoo, R	-	-	-	-
Shongwe, BJT	12 000	-	12 000	2 000
Steele, BPF	-	-	-	-
Steffens, GZ	-	-	-	-
Tembe, DFG	2 000	-	2 000	2 000
Tugendhaft, A	10 000	-	10 000	10 000
<b>Total</b>	<b>5 237 500</b>	<b>19 463 365</b>	<b>24 700 865</b>	<b>19 777 690</b>

None of the directors of ABIL have a non-beneficial interest in ABIL ordinary shares.

### Share options

A total of 45 770 891 and 259 127 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 9,65% of the number of shares in issue. In terms of the rules of the schemes, a total of 15% may be granted.

### The ABIL Employee Share Participation Scheme

Accounting treatment: The share trust may acquire the number of shares to be issued to employees in the market or ABIL may issue a fresh issue to the trust. At 30 September 2004, the trust had a balance of 4 848 339 (2003: 2 945 286) 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 their share options according to the rules of the scheme, shares will be delivered to the employees.

Below is a table detailing the movements in the schemes.

<b>ABIL Employee Share Participation Scheme</b>	<b>Total</b>	<b>Options not vested</b>		<b>Options vested</b>	
		<b>Exercised</b>	<b>Not exercised</b>	<b>Exercised</b>	<b>Not exercised</b>
Balance of options granted at 30 September 2003	54 054 271	3 691 315	40 690 656	2 415 816	7 256 484
Options offered to employees during the year	10 867 433	–	10 867 433	–	–
Options not accepted by employees	–	–	–	–	–
Options offered and accepted	10 867 433	–	10 867 433	–	–
Options exercised	–	12 031 059	(12 031 059)	6 166 750	(6 166 750)
Options vested	–	(10 743 946)	(1 140 148)	10 743 946	1 140 148
Options exercised and taken delivery of	(15 843 845)	–	–	(15 843 845)	–
Options lapsed	(3 306 968)	–	(3 306 968)	–	–
<b>Balance of options granted at 30 September 2004</b>	<b>45 770 891</b>	<b>4 978 428</b>	<b>35 079 914</b>	<b>3 482 667</b>	<b>2 229 882</b>
Balance of ABIL shares held at 30 September 2004	<b>(4 848 339)</b>				
Options in excess of ABIL shares held	<b>40 922 552</b>				

<b>Baobab Solid Growth Share Option Scheme</b>	<b>Total</b>	<b>Options not vested</b>		<b>Options vested</b>	
		<b>Exercised</b>	<b>Not exercised</b>	<b>Exercised</b>	<b>Not exercised</b>
Balance of options granted at 30 September 2003	317 041	–	–	–	317 041
Options exercised	–	–	–	50 008	(50 008)
Options exercised and taken delivery of	(50 008)	–	–	(50 008)	–
Options lapsed	(7 906)	–	–	–	(7 906)
<b>Balance of options granted at 30 September 2004</b>	<b>259 127</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>259 127</b>

## Number of outstanding options

	Strike price	Vesting profile							Total
		Vested at 30 Sept 2004	<6 months	<12 months	<2 years	<3 years	<4 years	<5 years	
ABIL scheme	4,61	828 400	2 660 535	–	2 660 550	–	–	–	<b>6 149 485</b>
	6,37	5 536	–	13 524	13 524	–	–	–	<b>32 584</b>
	6,85	–	54 000	–	54 000	54 000	–	–	<b>162 000</b>
	4,60	232	–	651 410	651 410	651 410	–	–	<b>1 954 462</b>
	4,50	–	514 500	–	514 500	514 500	514 500	–	<b>2 058 000</b>
	4,63	494 548	1 554 618	–	1 554 618	1 554 618	1 554 618	–	<b>6 713 019</b>
	5,08	20 000	–	127 700	127 700	127 700	127 700	–	<b>530 800</b>
	5,35	3 402 742	–	3 486 342	3 486 342	3 486 342	3 486 342	–	<b>17 348 108</b>
	6,26	–	350 000	–	350 000	350 000	350 000	350 000	<b>1 750 000</b>
	10,91	6 000	–	1 657 444	1 657 247	1 657 247	1 657 247	1 657 247	<b>8 292 433</b>
	11,60	–	–	156 000	156 000	156 000	156 000	156 000	<b>780 000</b>
<b>Total: ABIL scheme</b>		<b>4 757 457</b>	<b>5 133 653</b>	<b>6 092 420</b>	<b>11 225 891</b>	<b>8 551 817</b>	<b>7 846 407</b>	<b>2 163 247</b>	<b>45 770 891</b>
Baobab scheme	7,02	–	48 850	–	34 582	–	–	–	<b>83 432</b>
	11,50	117 130	–	–	58 565	–	–	–	<b>175 695</b>
<b>Total: Baobab scheme</b>		<b>117 130</b>	<b>48 850</b>	<b>–</b>	<b>93 147</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>259 127</b>
<b>Total outstanding options</b>		<b>4 874 587</b>	<b>5 182 503</b>	<b>6 092 420</b>	<b>11 319 038</b>	<b>8 551 817</b>	<b>7 846 407</b>	<b>2 163 247</b>	<b>46 030 018</b>
Intrinsic value at 30 September 2004 closing price R12,99 (R000)		<b>(37 457)</b>	<b>(42 639)</b>	<b>(36 865)</b>	<b>(79 505)</b>	<b>(56 827)</b>	<b>(51 030)</b>	<b>(6 019)</b>	<b>(310 342)</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 at the annual general meeting held on 26 February 2004:

- That the directors be given general authority to buy back the company's shares.
- That the articles of association of the company be amended by the deletion of article 35 and the insertion of a new article in its place so that the acquisition of shares by the company is not only subject to approval of the Registrar of Banks alone.
- That article 23 of the articles of association of the company be amended so that the directors of the company have the authority to accumulate small cash dividends due to members where payment of such dividends would be uneconomical for such members and/or the company.

## Litigation statement

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

## Acquisition and disposals

No interests were acquired during the financial year ended 30 September 2004.

The following interest was disposed of during the financial year ended 30 September 2004:

Miners Credit Guarantee (Proprietary) Limited:

- Disposal of the complete holding of 51% of Safrich, for a consideration of R4,3 million.

# Directors' report – shareholder information



<b>Shareholder information as at 30 September 2004</b>	<b>Number of holders</b>	<b>% of holders</b>	<b>Number of shares</b>	<b>% of issued capital</b>
<b>Analysis of shareholdings</b>				
Range				
1 – 999	29 685	88,07	1 609 554	0,34
1 000 – 9 999	3 012	8,94	8 527 204	1,79
10 000 – 99 999	686	2,04	17 959 779	3,76
100 000 and over	321	0,95	449 059 028	94,11
	33 704	100,00	477 155 565	100,00
<b>Analysis of shareholders</b>				
Category				
Individuals	31 858	94,52	34 368 516	7,20
Limited companies	59	0,18	6 619 959	1,39
Banks	98	0,29	158 477 522	33,21
Nominee companies or trusts	689	2,04	48 112 768	10,08
Pension/provident funds	350	1,04	101 094 858	21,19
Insurance companies	15	0,04	6 775 198	1,42
Growth funds/unit trusts	239	0,71	83 849 433	17,57
Private companies (Pty)	155	0,46	6 398 540	1,34
Close corporations (CC)	18	0,05	11 535	0,01
Staff share trust	1	0,01	5 280 653	1,11
Other corporate bodies	155	0,46	976 650	0,20
Investment companies	62	0,18	24 613 933	5,16
Medical aid schemes	5	0,02	576 000	0,12
	33 704	100,00	477 155 565	100,00
<b>Holdings of 2% or more of the shares in issue</b>				
Beneficial holders				
JP Morgan Chase Bank Limited			76 684 653	16,07
State Street Bank & Trust Company Limited			65 147 689	13,65
Investec Asset Management			51 842 174	10,86
Public Investment Commissioners			23 557 161	4,94
Directors			23 090 865	4,84
Standard Trust Company Limited			14 665 138	3,07
Brown Brothers Harriman & Company Limited			14 413 270	3,02
Stanlib Asset Management			10 260 150	2,15
C Wood			10 074 533	2,11
Managers				
Investec Asset Management (ZA)			76 787 246	16,09
Morgan Stanley Investment Mgmt Limited (UK)			37 393 932	7,84
Scottish Widows Investment Ptnrship (SC)			24 245 356	5,08
Directors (ZA)			23 090 865	4,84
RMB Asset Management (ZA)			20 445 729	4,28
Deka Investment GmbH (DE)			11 984 659	2,51
Grantham Mayo Van Otterloo & Co LLC (US)			11 650 030	2,44
Prudential Portfolio Managers (ZA)			10 902 032	2,28
Wood C (ZA)			10 074 533	2,11
STANLIB Asset Management (ZA)			9 998 035	2,10
T. Rowe Price Associates Inc (US)			9 830 840	2,06
<b>Shareholder spread</b>				
Public	33 688	99,95	306 951 705	64,33
Non-public				
Directors	13	0,04	23 090 865	4,84
Employee Share Trust	1	0,00	5 280 653	1,11
Holdings 10% + (beneficiaries undisclosed)	2	0,01	141 832 342	29,72
	33 704	100,00	477 155 565	100,00

# Directors' report – remuneration

## Remuneration philosophy

*The group's equitable pay strategy aims to attract and retain the right calibre of staff required to achieve all the group's objectives.*

*Fixed remuneration is reviewed annually to ensure that employees who contribute to the success of the group are remunerated competitively. ABIL uses a broad-banded approach to remuneration, comprising seven levels. This approach aims at rewarding people for skills and competencies both learned and applied.*

*Remuneration includes all elements of remuneration such as guaranteed remuneration, share options and variable remuneration, all of which are linked to performance.*

## Executive directors' remuneration

*The group utilises the services of various independent remuneration consultancies to advise the Group Remuneration and Transformation Committee on the remuneration of the executive directors, non-executive directors and senior management. Fixed remuneration, variable remuneration and share options are benchmarked against the practices of similar positions within the banking and retail industry.*

*The directors are satisfied that fair remuneration practices are being followed and that there are no unnecessary risks of executives not being remunerated in line with market trends.*

## Executive directors' performance-based remuneration

*The group has a number of incentive schemes based on the needs of the various operating divisions. The schemes are based on various criteria, the major one being economic value added ("EVA"). The business units have schemes in place to reward specific sales and collection targets. The bonuses paid to executive directors subsequent to year-end are set out in table 1.*

## Executive directors' share option grants

*Share option allocations to executive directors are considered annually. These allocations are benchmarked against market practices and are aimed at retaining the services of the key employees. Apart from the executive directors having to be in the employ of the group on the vesting dates, there are no other preconditions for the allocation of share options (see table 2).*

## Executive directors' service contracts

*No directors are on fixed-term contracts and all directors are subject to short-term notice periods.*

## Non-executive directors' remuneration

*Non-executive directors are remunerated for their membership of the boards of African Bank Limited, African Bank Investments Limited and board-appointed committees.*

# Directors' report – remuneration (continued)



**Table 1**  
**Remuneration and fees for the year ended 30 September 2004**

	<i>Date appointed to the board</i>	<i>Role</i>	<i>Services as directors<sup>4</sup></i>	<i>Cash package, including benefits</i>	<i>Performance related<sup>5</sup></i>	<i>Other</i>	<i>Total</i>
<b>Executive</b>							
Schachat, G	01/07/1995	Executive Deputy Chairman		1 700 000	2 000 000		3 700 000
Kirkinis, L	01/07/1997	Chief Executive Officer		2 000 000	2 500 000		4 500 000
de Ridder, JA	22/04/2002	Executive director		1 760 535	1 410 000		3 170 535
Fourie, A	21/10/2003	Executive director		1 522 043 <sup>1</sup>	1 390 000	600 000 <sup>3</sup>	3 512 043
Herselman, AG	06/06/2003	Executive director		1 750 000	1 510 000		3 260 000
Marole, MLD	17/03/2004	Executive director		1 333 334 <sup>1</sup>	805 000		2 138 334
Sokutu, TM	19/05/2003	Executive director		1 700 000	1 395 000		3 095 000
Woollam, DF	01/11/2002	Group Financial Director		1 950 000	1 485 000		3 435 000
<b>Subtotal</b>				<b>13 715 912</b>	<b>12 495 000</b>	<b>600 000</b>	<b>26 810 912</b>
<b>Non-executive</b>							
Mabogoane, AS	01/12/1999	Non-executive Chairman	471 000				471 000
Gibbon, DB	01/06/2003	Non-executive director	148 000				148 000
Goba, BD	06/06/2003	Non-executive director	140 000				140 000
Kekane, JJ	14/02/2000	Non-executive director	145 000				145 000
Levitt, SA	14/02/2000	Non-executive director	135 000				135 000
Naidoo, R	19/05/2003	Non-executive director	160 000				160 000
Shongwe, BJT	14/02/2000	Non-executive director	120 000				120 000
Steele, BPF	19/05/2003	Non-executive director	160 000				160 000
Steffens, GZ	19/05/2003	Non-executive director	163 000				163 000
Tembe, DFG	01/01/2000	Non-executive director	150 000				150 000
Tugendhaft, A	01/04/2003	Non-executive director	150 000				150 000
<b>Subtotal</b>			<b>1 942 000</b>				<b>1 942 000</b>
<b>Total</b>			<b>1 942 000</b>	<b>13 715 912</b>	<b>12 495 000</b>	<b>600 000</b>	<b>28 752 912</b>

## Remuneration and fees for the year ended 30 September 2003

	<i>Date appointed to the board</i>	<i>Role</i>	<i>Services as directors<sup>4</sup></i>	<i>Cash package, including benefits</i>	<i>Performance related<sup>6</sup></i>	<i>Other</i>	<i>Total</i>
<b>Executive</b>							
Schachat, G	01/07/1995	Executive Deputy Chairman		1 500 000	1 400 000		2 900 000
Kirkinis, L	01/07/1997	Chief Executive Officer		1 600 000	1 700 000 <sup>2</sup>		3 300 000
de Ridder, JA	22/04/2002	Executive director		1 552 655	1 110 000		2 662 655
Herselman, AG	06/06/2003	Executive director		431 348 <sup>1</sup>	1 200 000		1 631 348
Sokutu, TM	19/05/2003	Executive director		574 350 <sup>1</sup>	1 344 000	600 000 <sup>3</sup>	2 518 350
Woollam, DF	01/11/2002	Group Financial Director		1 375 000 <sup>1</sup>	2 250 000 <sup>2</sup>	976 748 <sup>3</sup>	4 601 748
<b>Subtotal</b>				<b>7 033 353</b>	<b>9 004 000</b>	<b>1 576 748</b>	<b>17 614 101</b>
<b>Non-executive</b>							
Mabogoane, AS	01/12/1999	Non-executive Chairman	560 000				560 000
Adams, N	14/02/2000	Non-executive director	88 500				88 500
Gibbon, DB	01/06/2003	Non-executive director	48 666				48 666
Goba, BD	06/06/2003	Non-executive director	51 666				51 666
Kekane, JJ	14/02/2000	Non-executive director	145 000				145 000
Levitt, SA	14/02/2000	Non-executive director	209 000				209 000
Naidoo, R	19/05/2003	Non-executive director	69 083				69 083
Shongwe, BJT	14/02/2000	Non-executive director	115 000				115 000
Steele, BPF	19/05/2003	Non-executive director	77 083				77 083
Steffens, GZ	19/05/2003	Non-executive director	59 083				59 083
Symmonds, RJ	14/02/2000	Non-executive director	95 333				95 333
Tembe, DFG	01/01/2000	Non-executive director	187 000				187 000
Tugendhaft, A	01/04/2003	Non-executive director	62 083				62 083
<b>Subtotal</b>			<b>1 767 497</b>				<b>1 767 497</b>
<b>Total</b>			<b>1 767 497</b>	<b>7 033 353</b>	<b>9 004 000</b>	<b>1 576 748</b>	<b>19 381 598</b>

### Notes

1. These directors were appointed to the board during the year and accordingly these amounts are based on cash packages from the respective dates of appointment.
2. Both L Kirkinis and DF Woollam used the after-tax proceeds of their bonuses to purchase shares in ABIL through the open market, which resulted in 110 956 shares and 140 000 shares being purchased on 20 November 2003 at R9,10 respectively.
3. Relates to upfront relocation allowances granted at the start of employment.
4. Includes all fees paid in respect of board meetings and related subcommittee meetings.
5. These performance incentives relate to the financial year ended 30 September 2004 and were approved by the board (after Remco approval) on 11 November 2004 and paid at the end of November 2004.
6. These performance incentives relate to the financial year ended 30 September 2003 and were approved by the board (after Remco approval) on 14 November 2003 and paid at the end of November 2003.

## Directors' report – remuneration (continued)



**Table 2**  
**Executive directors' share options**

<i>Name</i>	<i>Date appointed to the board</i>	<i>Role</i>	<i>Balance as at 30/09/2003</i>
Schachat, G	01/07/1995	Executive Deputy Chairman	3 000 000
			300 000
			2 000 000
<b>Subtotal</b>			<b>5 300 000</b>
Kirkinis, L	01/07/1997	Chief Executive Officer	3 000 000
			300 000
			2 500 000
<b>Subtotal</b>			<b>5 800 000</b>
de Ridder, JA	22/04/2002	Executive director	1 000 000
			1 000 000
<b>Subtotal</b>			<b>2 000 000</b>
Fourie, A	21/10/2003	Executive director	
<b>Subtotal</b>			
Herselman, AG	06/06/2003	Executive director	800 000
			900 000
			1 000 000
<b>Subtotal</b>			<b>2 700 000</b>
Marole, MLD	17/03/2004	Executive director	
<b>Subtotal</b>			
Sokutu, TM	19/05/2003	Executive director	2 000 000
			3 000 000
<b>Subtotal</b>			<b>5 000 000</b>
Woollam, DF	01/11/2002	Group Financial Director	2 500 000
			1 000 000
<b>Subtotal</b>			<b>3 500 000</b>
<b>Total</b>			<b>24 300 000</b>



Options granted			Options exercised/taken up				Balance as at
Date of grant	Number	Price	Date of take-up	Number	Price	Expiry date	30/09/2004
28/03/2001		4,61	15/03/2004	(1 200 000)	4,61	28/03/2008	<b>1 800 000</b>
			21/05/2004	(600 000)	4,61		<b>(600 000)</b>
25/03/2003		4,63	21/05/2004	(60 000)	4,63	25/03/2010	<b>240 000</b>
26/09/2003		5,35				26/09/2010	<b>2 000 000</b>
				(1 860 000)			<b>3 440 000</b>
28/03/2001		4,61	15/03/2004	(1 200 000)	4,61	28/03/2008	<b>1 800 000</b>
			21/05/2004	(600 000)	4,61		<b>(600 000)</b>
25/03/2003		4,63	21/05/2004	(60 000)	4,63	25/03/2010	<b>240 000</b>
26/09/2003		5,35				26/09/2010	<b>2 500 000</b>
				(1 860 000)			<b>3 940 000</b>
28/03/2001		4,61	12/03/2004	(400 000)	10,56	28/03/2008	<b>600 000</b>
			17/09/2004	(200 000)	4,61		<b>(200 000)</b>
26/09/2003		5,35				26/09/2010	<b>1 000 000</b>
15/06/2004	300 000	10,91				15/06/2011	<b>300 000</b>
	300 000			(600 000)			<b>1 700 000</b>
29/07/2003	1 700 000	5,35				29/07/2010	<b>1 700 000</b>
15/06/2004	500 000	10,91				15/06/2011	<b>500 000</b>
	2 200 000						<b>2 200 000</b>
28/03/2001		4,61	04/12/2003	(160 000)	4,61	28/03/2008	<b>640 000</b>
			05/12/2003	(160 000)	9,73		<b>(160 000)</b>
			16/07/2004	(62 801)	12,03		<b>(62 801)</b>
			19/07/2004	(97 199)	11,88		<b>(97 199)</b>
21/07/2003		5,35				21/07/2010	<b>900 000</b>
26/09/2003		5,35				26/09/2010	<b>1 000 000</b>
				(480 000)			<b>2 220 000</b>
15/10/2003	1 700 000	6,26				15/10/2010	<b>1 700 000</b>
	1 700 000						<b>1 700 000</b>
30/08/2002		4,61	04/12/2003	(400 000)	9,73	30/08/2009	<b>1 600 000</b>
			02/09/2004	(400 000)	11,70		<b>(400 000)</b>
26/09/2003		5,35				26/09/2010	<b>3 000 000</b>
				(800 000)			<b>4 200 000</b>
01/11/2002		4,50	11/03/2004	(500 000)	4,50	01/11/2009	<b>2 000 000</b>
26/09/2003		5,35				26/09/2010	<b>1 000 000</b>
				(500 000)			<b>3 000 000</b>
	4 200 000			(6 100 000)			<b>22 400 000</b>

# Balance sheet

as at 30 September 2004



	Notes	Group		Company	
		2004 R000	2003 R000	2004 R000	2003 R000
<b>Assets</b>					
Fixed assets	2	140 026	193 719	-	-
Investment in subsidiaries	3	-	-	1 788 199	1 799 936
Investment in associate	4	9 997	9 324	-	-
Policyholders' investments		49 611	53 682	-	-
Goodwill	5	14 067	20 463	-	-
Deferred tax asset	6	35 739	58 812	-	714
Net advances	7	4 471 772	4 399 746	-	-
Gross advances		6 129 265	6 314 097	-	-
Provisions for impairment		(1 657 493)	(1 914 351)	-	-
Other assets	8	173 689	109 735	8 000	8 005
Taxation		6 049	4 625	432	837
Statutory assets – bank and insurance	9	489 929	479 474	-	-
Short-term deposits and cash	10	1 944 148	1 148 562	1 378	1 391
<b>Total assets</b>		<b>7 335 027</b>	<b>6 478 142</b>	<b>1 798 009</b>	<b>1 810 883</b>
<b>Liabilities and equity</b>					
Life fund reserve	11	78 659	80 326	-	-
Loans and debentures	12	3 524 135	2 251 180	-	-
Liabilities to depositors	13	543 945	884 485	-	-
Other liabilities	14	156 117	173 094	82 233	20 991
Deferred tax liability	6	11 880	10 576	-	-
Taxation		182 716	95 335	-	-
Bank overdraft		3 989	150	-	-
<b>Total liabilities</b>		<b>4 501 441</b>	<b>3 495 146</b>	<b>82 233</b>	<b>20 991</b>
Share capital	15	11 929	12 429	11 929	12 429
Reserves	16	2 628 605	2 776 322	1 703 847	1 777 463
Ordinary shareholders' equity		2 640 534	2 788 751	1 715 776	1 789 892
Outside shareholders' equity		-	4 541	-	-
Secondary capital	17	193 052	189 704	-	-
<b>Total equity (capital and reserves)</b>		<b>2 833 586</b>	<b>2 982 996</b>	<b>1 715 776</b>	<b>1 789 892</b>
<b>Total liabilities and equity</b>		<b>7 335 027</b>	<b>6 478 142</b>	<b>1 798 009</b>	<b>1 810 883</b>

# Income statement

for the year ended 30 September 2004

	Notes	Group		Company	
		2004 R000	2003 R000	2004 R000	2003 R000
<b>Revenue</b>					
Interest income on advances	18	2 489 582	2 295 519	-	-
Net assurance income	21	291 088	246 804	-	-
Non-interest income	22	293 620	323 407	818 306	219 488
<b>Total revenue</b>		<b>3 074 290</b>	<b>2 865 730</b>	<b>818 306</b>	<b>219 488</b>
Charge for bad and doubtful advances	20	(483 681)	(444 935)	-	-
<b>Risk adjusted revenue</b>		<b>2 590 609</b>	<b>2 420 795</b>	<b>818 306</b>	<b>219 488</b>
Other interest income	18	117 910	143 131	192	208
Interest expense	19	(452 647)	(463 685)	-	(50)
Operating costs	23	(945 778)	(1 036 241)	(63 489)	4 011
<b>Net income from operations</b>		<b>1 310 094</b>	<b>1 064 000</b>	<b>755 009</b>	<b>223 657</b>
Share of associate company's income	4	673	1 529	-	-
<b>Net income before taxation</b>		<b>1 310 767</b>	<b>1 065 529</b>	<b>755 009</b>	<b>223 657</b>
Indirect taxation (VAT and RSC)	24	(68 957)	(51 981)	(3 415)	-
Direct taxation (Income tax and STC)	24	(486 495)	(347 037)	(6 932)	(17 051)
<b>Net income after taxation</b>		<b>755 315</b>	<b>666 511</b>	<b>744 662</b>	<b>206 606</b>
Minority interest		646	(6 609)	-	-
<b>Net income attributable to ordinary shareholders</b>		<b>755 961</b>	<b>659 902</b>	<b>744 662</b>	<b>206 606</b>
<b>Headline earnings and earnings per share</b>					
Net income attributable to ordinary shareholders		755 961	659 902		
Adjustments:					
Goodwill amortised	5	6 958	17 691		
Other capital items		(834)	2 466		
<b>Headline earnings</b>		<b>762 085</b>	<b>680 059</b>		
Weighted number of shares in issue (000)		471 601	484 398		
Fully diluted number of shares in issue (000)		489 393	486 816		
Headline earnings per share (cents)		161,6	140,4		
Attributable earnings per share (cents)		160,3	136,2		
Fully diluted headline earnings per share (cents)		155,7	139,7		
Fully diluted attributable earnings per share (cents)		154,5	135,6		
Dividends per share (cents)	25				
Interim – paid		35	25		
Final – declared		57	31		
<b>Total ordinary dividends</b>		<b>92</b>	<b>56</b>		
Special – declared		53	100		
<b>Total ordinary and special dividends</b>		<b>145</b>	<b>156</b>		

# Statement of changes in equity

for the year ended 30 September 2004



## Group

	Share capital R000	Distributable reserves R000	Treasury shares and the ABIL Employee Share Trust R000	Total R000
<b>Balance at 30 September 2002</b>	12 429	2 489 604	(68 511)	2 433 522
<i>Dividends paid</i>	–	(206 066)	–	(206 066)
<i>Shares purchased into the ABIL Employee Share Trust less shares issued to employees (cost)</i>	–	–	37 849	37 849
<i>Loss incurred on group employees acquiring ABIL share trust shares</i>	–	–	(11 792)	(11 792)
<i>Treasury shares acquired by subsidiary</i>	–	–	(124 664)	(124 664)
<i>Net income for the year</i>	–	659 902	–	659 902
<b>Balance at 30 September 2003</b>	<b>12 429</b>	<b>2 943 440</b>	<b>(167 118)</b>	<b>2 788 751</b>
<i>Dividends paid</i>	–	(788 344)	–	(788 344)
<i>Shares purchased into the ABIL Employee Share Trust less shares issued to employees (cost)</i>	–	–	(31 077)	(31 077)
<i>Loss incurred on group employees acquiring ABIL share trust shares</i>	–	–	(70 897)	(70 897)
<i>Cancellation of treasury shares held by subsidiary</i>	(500)	(124 164)	124 664	–
<i>CGT on cancellation of treasury shares held by subsidiary</i>	–	(13 860)	–	(13 860)
<i>Net income for the year</i>	–	755 961	–	755 961
<b>Balance at 30 September 2004</b>	<b>11 929</b>	<b>2 773 033</b>	<b>(144 428)</b>	<b>2 640 534</b>

## Company

	Share capital R000	Distributable reserves R000	Treasury shares and the ABIL Employee Share Trust R000	Total R000
<b>Balance at 30 September 2002</b>	12 429	1 784 632	–	1 797 061
<i>Dividends paid</i>	–	(213 775)	–	(213 775)
<i>Net income for the year</i>	–	206 606	–	206 606
<b>Balance at 30 September 2003</b>	<b>12 429</b>	<b>1 777 463</b>	<b>–</b>	<b>1 789 892</b>
<i>Dividends paid</i>	–	(818 278)	–	(818 278)
<i>Cancellation of treasury shares held by subsidiary</i>	(500)	–	–	(500)
<i>Net income for the year</i>	–	744 662	–	744 662
<b>Balance at 30 September 2004</b>	<b>11 929</b>	<b>1 703 847</b>	<b>–</b>	<b>1 715 776</b>

# Cash flow statement

for the year ended 30 September 2004

	Notes	Group		Company	
		2004 R000	2003 R000	2004 R000	2003 R000
Cash generated from operations	26	<b>1 972 887</b>	1 666 944	<b>754 509</b>	226 987
Increase in gross advances	27	<b>(661 425)</b>	(22 467)	-	-
(Increase)/decrease in working capital	28	<b>(88 458)</b>	(473 769)	<b>61 247</b>	(21 235)
Indirect and direct taxation paid	29	<b>(445 118)</b>	(504 427)	<b>(9 228)</b>	(2 336)
Shareholder payments and transactions	30	<b>(904 178)</b>	(303 402)	<b>(818 278)</b>	(212 894)
Cash inflow/(outflow) from investing activities	31	<b>15 868</b>	(11 661)	<b>11 737</b>	7 316
Cash inflow from financing activities	32	<b>935 763</b>	179 049	-	-
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>825 339</b>	530 267	<b>(13)</b>	(2 162)
Cash and cash equivalents at the beginning of the year		<b>1 345 881</b>	815 614	<b>1 391</b>	3 553
<b>Cash and cash equivalents at the end of the year</b>	33	<b>2 171 220</b>	1 345 881	<b>1 378</b>	1 391

# Notes to the annual financial statements

for the year ended 30 September 2004



## 1. Accounting policies

The annual financial statements of the group are prepared as a going concern on a historical cost basis, except for certain financial assets and liabilities that are measured on a fair value basis in terms of AC133 – Financial Instruments: Recognition and Measurement. The consolidated financial statements conform to South African Statements of Generally Accepted Accounting Practice and the Companies Act of 1973. The following principal accounting policies have been consistently applied.

### 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 control is acquired and up to the effective dates of disposal. All significant inter-company transactions and balances have been eliminated. Premiums or discounts arising on the acquisition of subsidiaries 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.

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.

### 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 is eliminated. The results of the joint ventures are included from the effective date of acquisition and up to the effective date of 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.

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

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 are recognised on a trade-date basis and are initially measured at cost, including transaction costs.*

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

*Investments other than held-to-maturity debt securities are classified as either held-for-trade or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.*

## 1.6 Advances and provisions for impairment

*Advances are disclosed net of impairment provisions and credit life insurance reserves which, in the opinion of the directors, are required. Specific impairment provisions are made against identified doubtful advances. Portfolio provisions are maintained to cover potential losses, which although not specifically identified, are considered to be present in the advances portfolio. Credit life insurance reserves are the actuarial reserves held by the group's insurance company on policies ceded to African Bank as security and which provide additional provision coverage.*

*Advances, which are deemed uncollectable, are written off against the specific provision for doubtful debts. Loans previously written off which subsequently become fully performing again are reincorporated in the advances portfolio.*

*Both the specific and portfolio provisions raised during the year, less recoveries of advances previously written off, are charged to the income statement.*

*The group reviews the carrying amounts of its advances to determine whether there is any indication that those advances have suffered an impairment loss. Where it is not possible to estimate the recoverable amount of an individual advance, the group estimates the recoverable amount on a portfolio basis for a group of similar financial assets.*

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

*If the recoverable amount of the advance is estimated to be less than the carrying amount, the carrying amount of the advance is reduced to its recoverable amount by raising a specific impairment provision which is recognised as an expense in the income statement.*

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

## 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 are depreciated on a straight-line basis over their expected useful lives.*

*The estimated useful lives are as follows:*

<i>Furniture</i>	<i>– 6 years</i>
<i>Computer equipment and software</i>	<i>– 3 years</i>
<i>Office equipment</i>	<i>– 3 years</i>
<i>Motor vehicles</i>	<i>– 4 years</i>
<i>Buildings</i>	<i>– useful life (limited to 50 years)</i>
<i>Leasehold improvements</i>	<i>– over the shorter of the lease term or its useful life.</i>

# Notes to the annual financial statements *(continued)*

for the year ended 30 September 2004



*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 Indirect taxation and direct taxation**

*Indirect taxes in the form of unrecovered value-added tax ("VAT") and regional services council levies ("RSC") are grouped as indirect taxation in the income statement.*

*Direct taxation in the income statement consists of income tax (being the income tax currently payable, prior year adjustments and deferred tax) and secondary tax on companies ("STC").*

*STC on dividends, net of STC credits earned, is expensed through the income statement in the period in which the dividend paid is accounted for.*

*The income tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.*

*Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.*

*Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.*

*The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.*

*Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.*

## **1.9 Revenue recognition**

*Interest income is accrued on a time basis by reference to the principal outstanding and the interest rate applicable. Interest accrued but not yet received is included in the assessment for impairment provisions. In certain instances where a loan is in arrears for greater than six months, an assessment is made regarding the recoverability of the loan and if necessary the accrual of interest is stopped.*

## **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 risks and rewards of ownership are effectively retained by the lessor. Obligations incurred under operating leases are charged to the income statement and disclosed under operating expenses.*

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#### 1.14 Retirement benefits

*Contributions to retirement benefit funds are charged to the income statement as incurred.*

#### 1.15 Segmental reporting

*The group operates within a single market segment, namely the underwriting and provision of credit. Individual business units operating within this segment have been further segmented to highlight the key performance drivers of the business units.*

*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, investments in money market instruments and cash reserves held by the insurance company, net of bank overdrafts.*

*For purposes of the balance sheet the statutory assets – bank and insurance, comprising South African Reserve Bank cash requirements and prudential liquid assets, together with insurance prudential cash reserves required by the Financial Services Board, are not disclosed as bank and cash balances but rather “statutory assets – bank and insurance”.*

#### 1.17 Comparative figures

*Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. Any such changes have been accompanied by an explanatory note.*

# Notes to the annual financial statements (continued)

for the year ended 30 September 2004



## Group

	<b>Cost/ valuation 2004 R000</b>	<b>Accumulated depreciation 2004 R000</b>	<b>Carrying value 2004 R000</b>	<b>Cost/ valuation 2003 R000</b>	<b>Accumulated depreciation 2003 R000</b>	<b>Carrying value 2003 R000</b>
<b>2. Fixed assets</b>						
Furniture	31 880	(18 059)	13 821	31 065	(13 798)	17 267
Computer equipment and software	200 310	(152 197)	48 113	198 143	(111 412)	86 731
Office equipment	36 017	(22 799)	13 218	28 204	(15 986)	12 218
Motor vehicles	4 567	(2 204)	2 363	7 535	(2 840)	4 695
Leasehold improvements	36 561	(31 012)	5 549	32 833	(22 360)	10 473
Land	11 000	–	11 000	11 000	–	11 000
Buildings	53 612	(7 650)	45 962	57 439	(6 104)	51 335
<b>Total</b>	<b>373 947</b>	<b>(233 921)</b>	<b>140 026</b>	<b>366 219</b>	<b>(172 500)</b>	<b>193 719</b>

The carrying amounts of fixed assets at 30 September 2004 for the group are reconciled as follows:

	<b>Carrying value at beginning of year R000</b>	<b>Additions R000</b>	<b>Depreciation R000</b>	<b>Disposals and write-offs R000</b>	<b>Carrying value at end of year R000</b>
Furniture	17 267	3 812	(5 563)	(1 695)	13 821
Computer equipment and software	86 731	12 664	(44 872)	(6 410)	48 113
Office equipment	12 218	9 648	(7 014)	(1 634)	13 218
Motor vehicles	4 695	1 288	(1 169)	(2 451)	2 363
Leasehold improvements	10 473	3 729	(8 653)	–	5 549
Land	11 000	–	–	–	11 000
Buildings	51 335	19	(2 157)	(3 235)	45 962
<b>Total</b>	<b>193 719</b>	<b>31 160</b>	<b>(69 428)</b>	<b>(15 425)</b>	<b>140 026</b>

Certain of the land and buildings have been pledged as security (refer note 12.4).

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>2. Fixed assets (continued)</b>				
<i>Land and buildings comprise:</i>				
<i>Erf 136, Rantjespark Extension 62, situated at 59 16th Road, Midrand, measuring 35 259 square metres.</i>	<b>60 424</b>	60 424	-	-
<i>At cost – 2000</i>	<b>36 560</b>	36 560	-	-
<i>Additions at cost – 2001</i>	<b>7 718</b>	7 718	-	-
– 2002	<b>14 969</b>	14 969	-	-
– 2003	<b>1 177</b>	1 177	-	-
<i>Portion 6, erf 2315, situated at 157 Pietermaritz Street, Pietermaritzburg, measuring 2 174 square metres. Remaining portion 6 (of 2) of erf 2315, situated at 108 Chapel Street, Pietermaritzburg, measuring 725 square metres.</i>	<b>1 269</b>	1 269	-	-
<i>At cost – 2001</i>	<b>1 269</b>	1 269	-	-
<i>Portion 4 (of 1), erf 2314, remainder of erf 2314 and erf 2313, situated at 135 Pietermaritz Street, Pietermaritzburg. Portion 8 (of 7) of erf 2313 situated at 135 Pietermaritz Street, Pietermaritzburg, measuring 2 876 square metres.</i>	<b>2 919</b>	2 900	-	-
<i>At cost – 2003</i>	<b>2 900</b>	2 900	-	-
<i>Additions at cost – 2004</i>	<b>19</b>	-	-	-
<i>Portion 3, erf 52, Rosebank, situated at 9 Arnold Road, Rosebank, measuring 752 square metres. In May 2004 the property was sold for R3 353 000 generating a profit of R118 517.</i>	-	3 846	-	-
<i>At cost – 1994</i>	-	1 435	-	-
<i>Additions at cost – 1995</i>	-	205	-	-
– 1997	-	2 375	-	-
– 1998	-	1 500	-	-
– 1999	-	1 880	-	-
<i>Provision for permanent diminution in value</i>	-	(3 549)	-	-
<i>Cost/valuation</i>	<b>64 612</b>	68 439	-	-
<i>Accumulated depreciation to date</i>	<b>(7 650)</b>	(6 104)	-	-
<i>Total land and buildings</i>	<b>56 962</b>	62 335	-	-
<b>Capital commitments</b>				
<i>Authorised and contracted for</i>	-	6 723	-	-
<i>Authorised and not contracted for</i>	-	-	-	-
<i>Total</i>	-	6 723	-	-

# Notes to the annual financial statements *(continued)*

for the year ended 30 September 2004



	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>3. Investment in subsidiaries</b>				
Shares at cost less impairments	-	-	1 811 815	1 811 815
Indebtedness to the company	-	-	3 407	7 112
	-	-	1 815 222	1 818 927
Indebtedness by the company	-	-	(27 023)	(18 991)
	-	-	1 788 199	1 799 936
See Appendices A and B for information relating to subsidiaries.				
<b>4. Investment in associate</b>				
<b>Movement for the year</b>				
Carrying value at the beginning of the year	9 324	17 605	-	-
Share of attributable income	673	1 529	-	-
Share of attributable income (pre goodwill)	1 135	1 529	-	-
Goodwill amortised (refer note 5.1)	(462)	-	-	-
Additions at cost, less goodwill written off	-	848	-	-
Associate becoming a subsidiary	-	(10 658)	-	-
Carrying value at the end of the year	9 997	9 324	-	-
<b>Investment in associate comprises the following:</b>				
Cost	5 577	5 253	-	-
Share in distributable reserves (net of dividends received)	4 420	4 071	-	-
Carrying value at the end of the year	9 997	9 324	-	-
See Appendix C for information relating to the associate.				

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>5. Goodwill</b>				
<b>Cost</b>				
At the beginning of the year	54 217	29 070	-	-
Additional goodwill relating to prior year acquisition	100	-	-	-
Arising on acquisition of additional holdings in subsidiaries	-	25 147	-	-
At the end of the year	54 317	54 217	-	-
<b>Amortisation</b>				
At the beginning of the year	33 754	16 063	-	-
Charge for the year	6 496	17 691	-	-
At the end of the year	40 250	33 754	-	-
Carrying amount at the end of the year	14 067	20 463	-	-
<b>5.1 The amount added back for headline earnings per share is made up as follows:</b>				
Charge for the year (above) – included in operating costs	6 496	17 691	-	-
Amortised goodwill included in share of associate companies' income	462	-	-	-
Goodwill adjustment to earnings	6 958	17 691	-	-
<b>6. Deferred tax asset/liability</b>				
<b>Deferred tax analysis</b>				
Deferred tax assets				
General provision for credit losses	6 005	4 615	-	-
Estimated tax losses	10 112	37 792	-	-
Secondary tax on companies	1 719	4 738	-	714
Other provisions	17 903	11 667	-	-
	35 739	58 812	-	714
Deferred tax liability				
Assurance income	11 880	10 576	-	-
	11 880	10 576	-	-
Net deferred tax assets at the end of the year	23 859	48 236	-	714
<b>Deferred tax reconciliation</b>				
Balance at the beginning of the year	48 236	50 203	714	15 771
Income statement movement	(24 377)	(1 967)	(714)	(15 057)
Balance at the end of the year	23 859	48 236	-	714

# Notes to the annual financial statements (continued)

for the year ended 30 September 2004



	Group	
	2004 R000	2003 R000
<b>7. Net advances</b>		
Gross advances	6 129 265	6 314 097
Provisions for impairment	(1 657 493)	(1 914 351)
<b>Net advances</b>	<b>4 471 772</b>	<b>4 399 746</b>
<b>Analysis of gross advances by book</b>		
Lending books	4 685 346	4 131 183
<i>African Bank – Retail debit order</i>	2 510 530	1 761 261
<i>African Bank – Payroll</i>	933 585	1 454 763
<i>Standard Bank JV</i>	272 826	165 283
<i>Credit Indemnity</i>	402 591	315 641
<i>Miners Credit</i>	378 790	319 836
<i>Commercial Vehicle Finance</i>	187 024	114 399
Pay down books	1 443 919	2 182 914
<i>Persal</i>	301 639	457 543
<i>Saambou PLB</i>	931 191	1 473 054
<i>Gilt Edged Management Services</i>	99 189	135 220
<i>African Contractors Finance</i>	94 225	110 546
<i>ABCommerce</i>	17 675	5 008
<i>Quatro</i>	-	1 543
<b>Total gross advances</b>	<b>6 129 265</b>	<b>6 314 097</b>
<b>Analysis of gross advances by type</b>		
<i>Retail/debit order</i>	3 185 947	2 242 185
<i>Payroll</i>	1 713 203	2 367 362
<i>Saambou PLB</i>	931 191	1 473 054
<i>SMME</i>	298 924	231 496
<b>Total gross advances</b>	<b>6 129 265</b>	<b>6 314 097</b>
<b>Provisions for impairment</b>		
Specific provision		
<i>Balance at the end of the year</i>	1 514 363	1 793 466
<i>Balance at the beginning of the year</i>	1 793 466	2 122 816
<i>Increase in the provision (refer note 20)</i>	566 890	545 660
<i>Amounts written off against the provision (Disposal)/acquisition of advances book</i>	(845 377) (616)	(875 010) -
Portfolio provision		
<i>Balance at the end of the year</i>	30 651	30 060
<i>Balance at the beginning of the year</i>	30 060	56 237
<i>Increase/(decrease) in the provision (refer note 20) (Disposal)/acquisition of advances book</i>	592 (1)	(26 177) -
<b>Total provisions</b>	<b>1 545 014</b>	<b>1 823 526</b>
<i>Credit life insurance reserves (refer note 11)</i>	112 479	90 825
<b>Provisions for impairment</b>	<b>1 657 493</b>	<b>1 914 351</b>

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>8. Other assets</b>				
Owing by the Saambou receivership	–	17 629	–	–
Rental deposits	336	242	–	–
JV counterparty receivables	90 158	47 570	–	–
Sundry receivables	83 195	44 294	8 000	8 005
	<b>173 689</b>	109 735	<b>8 000</b>	8 005
<b>9. Statutory assets – bank and insurance</b>				
Listed at carrying value				
Government of the Republic of South Africa (refer note 9.1)	175 850	154 678	–	–
	<b>175 850</b>	154 678	–	–
Insurance prudential cash reserves				
Bank and cash	231 061	197 469	–	–
Other	–	50 756	–	–
	<b>231 061</b>	248 225	–	–
Cash deposits with the SA Reserve Bank	83 018	76 571	–	–
	<b>489 929</b>	479 474	–	–
<b>9.1 Market value of listed assets</b>	<b>175 893</b>	155 002	–	–
<b>10. Short-term deposits and cash</b>				
Fixed and notice deposits	177 475	15 335	1 378	1 391
Call and current accounts	1 766 673	1 133 227	–	–
	<b>1 944 148</b>	1 148 562	<b>1 378</b>	1 391
<b>11. Life fund reserve</b>				
The life fund at 30 September 2004 equals the amount of the actuarial valuation of the liability according to the assurance policies and contracts at that date that relate to parties outside the group.				
Movements in the fund during the year:				
Balance at the beginning of the year	171 151	182 101	–	–
Transfer from/(to) the income statement	20 800	(10 950)	–	–
Disposal of subsidiary	(813)	–	–	–
Balance at the end of the year	<b>191 138</b>	171 151	–	–
The balance at the end of the year comprises the following:				
Third party policyholders' liability per balance sheet	78 659	80 326	–	–
Group policyholders' liability – netted against advances (refer note 7)	112 479	90 825	–	–
	<b>191 138</b>	171 151	–	–
<b>12. Loans and debentures</b>				
Unsecured redeemable debentures (refer note 12.1)	18 956	162 659	–	–
Unsecured listed bonds (refer note 12.2)	2 615 668	1 802 959	–	–
Unsecured long-term loans (refer note 12.3)	834 148	211 218	–	–
Secured long-term loans (refer note 12.4)	55 363	67 202	–	–
Total long-term loans and debentures	<b>3 524 135</b>	2 244 038	–	–
Unsecured short-term loans (refer note 12.5)	–	7 142	–	–
	<b>3 524 135</b>	2 251 180	–	–

# Notes to the annual financial statements (continued)

for the year ended 30 September 2004



Group

	Face value 2004 R000	Interest capitalised 2004 R000	Unamortised discount 2004 R000	Net liability 2004 R000	Net liability 2003 R000
<b>12. Loans and debentures (continued)</b>					
<b>12.1 Unsecured redeemable debentures</b>					
<i>Redeemable debentures</i>					
– Institutional investors	18 000	956	(5 839)	13 117	159 001
Discount amortised	–	–	5 839	5 839	3 658
	<b>18 000</b>	<b>956</b>	–	<b>18 956</b>	162 659
<i>The above debentures have a coupon rate of 18% fixed, compounding and payable semi-annually. The total face value of R18 million will be redeemed through a single capital repayment on 15 December 2005.</i>					
<i>In addition to the above unsecured redeemable debentures, the group has a further R193,1 million (2003: R189,7 million) subordinated debentures which are reflected as secondary capital (refer note 17).</i>					
<b>12.2 Unsecured listed bonds</b>					
<i>ABL1, ABL2 and ABL3 bonds issued on the South African Bond Exchange</i>	2 638 472	37 264	(14 577)	2 661 159	2 000 420
Discount amortised	–	–	5 789	5 789	3 312
Less: Held by group subsidiaries	(50 500)	(780)	–	(51 280)	(200 773)
	<b>2 587 972</b>	<b>36 484</b>	<b>(8 788)</b>	<b>2 615 668</b>	1 802 959
<i>ABL1 bonds with a face value of R673,4 million are redeemable on 28 February 2005. Interest is calculated and payable semi-annually at a coupon rate of 12,5%. ABL2 bonds with a face value of R940,5 million are redeemable on 18 September 2006. Interest is calculated and payable semi-annually at a coupon rate of 11,75%. ABL3 bonds with a face value of R974 million are redeemable on 12 July 2007. Interest is calculated and payable semi-annually at a coupon rate of 11,75%.</i>					



Group

	<b>Face value 2004 R000</b>	<b>Interest capitalised 2004 R000</b>	<b>Unamortised discount 2004 R000</b>	<b>Net liability 2004 R000</b>	<b>Net liability 2003 R000</b>
<b>12. Loans and debentures (continued)</b>					
<b>12.3 Unsecured long-term loans</b>					
<i>International Finance Corporation</i>	<b>166 667</b>	<b>11 961</b>	<b>(3 135)</b>	<b>175 493</b>	210 069
<i>Facility fee amortised</i>	-	-	<b>1 001</b>	<b>1 001</b>	1 149
	<b>166 667</b>	<b>11 961</b>	<b>(2 134)</b>	<b>176 494</b>	211 218
<i>Loan bearing interest at 15,5%, payable semi-annually. The capital is payable in ten equal instalments every six months, the first being on 15 October 2004 and the last on 15 April 2009.</i>					
<i>Promissory notes</i>				<b>657 654</b>	-
				<b>657 654</b>	-
<i>The above promissory notes consist of zero coupon, quarterly coupon and semi-annual coupons, with the rates varying from 8% to 15% NACS. These notes have various maturities, ranging from 24 October 2005 to 9 September 2009.</i>					
<i>In the current financial year, we adopted the practice of disclosing long-term (&gt;12 months) promissory notes as part of loans and debentures. If this practice were to be applied retrospectively the prior year comparative would amount to R247 151. Also see note 13 below.</i>					
<i>Total unsecured long-term loans</i>				<b>834 148</b>	211 218

# Notes to the annual financial statements *(continued)*

for the year ended 30 September 2004



	Group	
	2004 R000	2003 R000
<b>12. Loans and debentures (continued)</b>		
<b>12.4 Secured long-term loans</b>		
<i>Hire purchase agreements, which bear interest at rates linked to prime and are repayable over periods ranging from 36 to 53 months. The loans were repaid during the year.</i>	-	8 836
<i>Loan secured over land and buildings (refer note 2), repayable in six-monthly instalments, the last being 30 September 2009. The interest rate is an effective 16,45% per annum.</i>	<b>18 206</b>	19 324
<i>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.</i>	<b>37 157</b>	39 042
<i>Total secured long-term loans</i>	<b>55 363</b>	67 202
<b>12.5 Unsecured short-term loans</b>		
<i>This loan bears interest at prime less 2% and was redeemed during the current year.</i>	-	7 142
	-	7 142
<b>13. Liabilities to depositors</b>		
<i>Demand deposits</i>	<b>90 209</b>	201 761
<i>Savings deposits</i>	<b>14 827</b>	18 935
<i>Fixed and notice deposits</i>	<b>169 955</b>	614 491
<i>Negotiable certificates of deposit</i>	<b>201 245</b>	49 298
<i>Promissory notes – short term</i>	<b>67 709</b>	-
	<b>543 945</b>	884 485
<i>Included in the fixed and notice deposits comparative of R614 491 are promissory notes to the amount of R377 316, of which R247 151 are long term and R130 165 are short term. In the current financial year, the group adopted the practice of disclosing promissory notes, broken down into long term and short term, separately. Also see note 12.3 above.</i>		

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>14. Other liabilities</b>				
Sundry creditors and accruals	153 595	171 637	79 711	19 934
Shareholders for dividends	2 522	1 457	2 522	1 057
	<b>156 117</b>	<b>173 094</b>	<b>82 233</b>	<b>20 991</b>

Group and company

	2004		2003	
	Number of shares	R000	Number of shares	R000
<b>15. Share capital</b>				
Authorised				
Ordinary shares of 2,5 cents each	1 000 000 000	25 000	1 000 000 000	25 000
Issued				
Ordinary shares of 2,5 cents each	477 155 565	11 929	497 155 565	12 429
20 million shares with a par value of R500 000 were repurchased in May 2003 and cancelled on 26 February 2004.				
The directors have no authority to issue any of the unissued share capital.				

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>16. Reserves</b>				
Reserves comprise the following:				
Attributable income	2 773 033	2 943 440	1 703 847	1 777 463
Treasury shares and the ABIL Employee Share Trust	(144 428)	(167 118)	–	–
Total reserves	<b>2 628 605</b>	<b>2 776 322</b>	<b>1 703 847</b>	<b>1 777 463</b>
<b>17. Secondary capital</b>				
Face value	200 000	200 000	–	–
Discount	(9 460)	(12 809)	–	–
Interest capitalised	2 512	2 513	–	–
Subordinated debentures	<b>193 052</b>	<b>189 704</b>	–	–
Subordinated debentures with a face value of R200 million are redeemable on 30 November 2006. Interest is calculated quarterly at a coupon rate of 14,75%.				

# Notes to the annual financial statements *(continued)*

for the year ended 30 September 2004



	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>18. Interest income</b>				
<i>Interest income on advances</i>	<b>2 489 582</b>	2 295 519	-	-
<i>Interest received on cash reserves</i>	<b>117 910</b>	143 131	<b>192</b>	163
<i>Interest received from group companies</i>	-	-	-	45
	<b>2 607 492</b>	2 438 650	<b>192</b>	208
<b>19. Interest expense</b>				
<i>Interbank funding</i>	<b>668</b>	69 348	-	-
<i>Demand deposits</i>	<b>11 178</b>	27 389	-	-
<i>Savings deposits</i>	<b>76</b>	475	-	-
<i>Fixed and notice deposits</i>	<b>17 816</b>	95 847	-	-
<i>Subordinated debentures</i>	<b>32 847</b>	32 529	-	-
<i>Loans and debentures</i>	<b>383 772</b>	229 055	-	-
<i>Negotiable certificates of deposit</i>	<b>6 290</b>	9 042	-	-
<i>Interest paid to group companies</i>	-	-	-	50
	<b>452 647</b>	463 685	-	50
<b>20. Charge for bad and doubtful advances</b>				
<i>Increase in the specific provision (refer note 7)</i>	<b>566 890</b>	545 660	-	-
<i>Increase/(decrease) in the portfolio provision (refer note 7)</i>	<b>592</b>	(26 177)	-	-
<i>Movement in provisions</i>	<b>567 482</b>	519 483	-	-
<i>Less: Recoveries of amounts previously written off</i>	<b>(83 801)</b>	(74 548)	-	-
	<b>483 681</b>	444 935	-	-
<b>21. Net assurance income</b>				
<i>Premiums received</i>	<b>434 823</b>	325 212	-	-
<i>Less: Reinsurance premiums paid net of claims experience refund</i>	<b>(48 095)</b>	(32 152)	-	-
<i>Net premiums received</i>	<b>386 728</b>	293 060	-	-
<i>Less: Benefits paid to policyholders</i>	<b>(74 809)</b>	(55 494)	-	-
<i>Less: Expenses paid</i>	<b>(31)</b>	(144)	-	-
<i>Assurance income before transfer</i>	<b>311 888</b>	237 422	-	-
<i>Transferred (to)/from life fund</i>	<b>(20 800)</b>	10 950	-	-
<i>Interest paid on insurance funds</i>	-	(1 568)	-	-
	<b>291 088</b>	246 804	-	-
<i>The reinsurance premiums relate to the portion of the premiums received via the Standard Bank JV, paid to Charter Life under the terms of the JV agreement.</i>				
<b>22. Non-interest income</b>				
<i>Fee and commission income</i>	<b>291 004</b>	322 078	-	-
<i>Dividends received</i>	<b>2 616</b>	1 329	<b>818 306</b>	219 488
	<b>293 620</b>	323 407	<b>818 306</b>	219 488

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>23. Operating costs</b>				
<i>Auditors' remuneration</i>				
<i>Audit fees – current year</i>	<b>5 685</b>	5 215	<b>1 279</b>	650
<i>– prior year underprovision</i>	–	2 878	–	–
<i>Fees for other services</i>	<b>726</b>	773	–	–
<i>Expenses</i>	–	20	–	–
<i>Depreciation on fixed assets</i>				
<i>Furniture</i>	<b>5 563</b>	5 437	–	–
<i>Computer equipment and software</i>	<b>44 872</b>	47 792	–	–
<i>Office equipment</i>	<b>7 014</b>	6 724	–	–
<i>Motor vehicles</i>	<b>1 169</b>	1 486	–	–
<i>Leasehold improvements</i>	<b>8 653</b>	10 227	–	–
<i>Buildings</i>	<b>2 157</b>	2 174	–	–
<i>Goodwill amortised</i>	<b>6 496</b>	17 691	–	–
<i>Minor assets written off</i>	<b>251</b>	112	–	–
<i>Direct selling costs/commissions</i>	<b>122 508</b>	122 318	–	–
<i>(Profit)/loss on sale of fixed assets</i>	<b>(161)</b>	634	–	–
<i>Professional fees</i>				
<i>Legal fees</i>	<b>2 530</b>	10 505	<b>348</b>	268
<i>Consultants and other professional fees</i>	<b>16 302</b>	16 446	<b>127</b>	14
<i>Staff cost</i>	<b>373 119</b>	401 287	–	–
<i>Operating lease premiums</i>				
<i>Leasehold fixed property</i>	<b>41 798</b>	57 474	–	–
<i>Computers and other equipment</i>	<b>4 972</b>	3 121	–	–
<i>Directors' remuneration</i>				
<i>Paid by subsidiaries to non-executive directors</i>				
<i>Fees</i>	<b>1 714</b>	1 601	–	–
<i>Paid by subsidiaries to executive directors</i>				
<i>Salaries</i>	<b>13 716</b>	7 033	–	–
<i>Bonus</i>	<b>9 004</b>	–	–	–
<i>Other</i>	<b>600</b>	1 577	–	–
<i>Paid by holding company to non-executive directors</i>				
<i>Fees</i>	<b>228</b>	167	<b>228</b>	167
<i>Provision for guarantee of inter-group loans raised/(reversed)</i>	–	–	<b>56 362</b>	(10 309)
<i>Other expenses</i>	<b>276 862</b>	313 549	<b>5 145</b>	5 199
	<b>945 778</b>	1 036 241	<b>63 489</b>	(4 011)

# Notes to the annual financial statements (continued)

for the year ended 30 September 2004



	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>24. Indirect taxation and direct taxation</b>				
Indirect taxation charge per the income statement	68 957	51 981	3 415	–
Direct taxation charge per the income statement	486 495	347 037	6 932	17 051
<b>Total taxation charge per the income statement</b>	<b>555 452</b>	<b>399 018</b>	<b>10 347</b>	<b>17 051</b>
	%	%	%	%
All-in tax rate calculated as the total taxation charge per the income statement as a percentage of net income before taxation	42,4	37,4	1,4	7,6
	R000	R000	R000	R000
<b>Indirect taxation</b>				
Value-added tax (VAT)	60 279	51 981	–	–
Regional services council levies (RSC)	8 678	–	3 415	–
Indirect taxation charge per the income statement	68 957	51 981	3 415	–
<b>Direct taxation</b>				
SA normal tax				
Current year	348 745	325 221	57	61
Prior years' under/(over) provision	13 059	(2 084)	–	–
Deferred tax				
Current year	23 992	(10 689)	–	–
Prior years' overprovision of deferred tax asset	385	1 623	–	–
Secondary tax on companies (STC)				
Current year	100 314	21 933	6 161	1 933
Deferred	–	11 033	714	15 057
Direct taxation charge per the income statement	486 495	347 037	6 932	17 051
<b>Tax rate reconciliation</b>				
Net income before taxation	1 310 767	1 065 529	755 009	223 657
Less: Share of associate companies' attributable income	(673)	(1 529)	–	–
Indirect taxation: Value-added tax	(60 279)	(51 981)	–	–
Indirect taxation: Regional services council levies	(8 678)	–	(3 415)	–
Amount used as the denominator in the tax rate reconciliation	1 241 137	1 012 019	751 594	223 657

	Group		Company	
	2004 %	2003 %	2004 %	2003 %
<b>24. Indirect taxation and direct taxation (continued)</b>				
<i>Amount used as the denominator in the tax rate reconciliation (from previous page)</i>	<b>1 241 137</b>	1 012 019	<b>751 594</b>	223 657
<i>Total taxation charge for the year as a percentage of the above</i>	<b>44,8</b>	39,4	<b>1,4</b>	7,6
<i>Value-added tax</i>	<b>(4,9)</b>	(5,1)	-	-
<i>Regional services council levies</i>	<b>(0,7)</b>	-	<b>(0,5)</b>	-
<i>Effective rate of taxation</i>	<b>39,2</b>	34,3	<b>0,9</b>	7,6
<i>Secondary tax on companies</i>	<b>(8,1)</b>	(3,3)	<b>(0,9)</b>	(7,6)
<i>Dividend income</i>	<b>0,1</b>	0,1	<b>32,7</b>	29,4
<i>Capital items</i>	-	(0,8)	-	1,4
<i>Disallowable expenses</i>	<b>(0,3)</b>	(0,3)	<b>(2,7)</b>	(0,8)
<i>Other and prior year tax adjustments</i>	<b>(0,9)</b>	-	-	-
<i>Standard rate of South African taxation</i>	<b>30,0</b>	30,0	<b>30,0</b>	30,0
<i>Estimated losses amounting to R34 million are available for set-off against future taxable earnings. These losses have been fully recognised as deferred tax assets.</i>				
	<b>R000</b>	R000	<b>R000</b>	R000
<b>25. Dividends</b>				
<i>Final dividend number 6 of 31 cents per ordinary share (2003: 18 cents)</i>	<b>147 567</b>	88 177	<b>154 118</b>	89 488
<i>Special dividend number 1 of 100 cents per ordinary share</i>	<b>476 022</b>	-	<b>497 156</b>	-
<i>Interim dividend number 7 of 35 cents per ordinary share (2003: 25 cents)</i>	<b>164 755</b>	117 889	<b>167 004</b>	124 287
<i>Total dividends paid during the year</i>	<b>788 344</b>	206 066	<b>818 278</b>	213 775
<i>Interim dividend number 7 of 35 cents per ordinary share (2003: 25 cents)</i>	<b>164 755</b>	117 889	<b>167 004</b>	124 287
<i>Final dividend number 8 of 57 cents per ordinary share (2003: 31 cents)</i>	<b>269 215</b>	147 005	<b>271 979</b>	497 156
<i>Special dividend number 2 of 53 cents per ordinary share (2003: 100 cents)</i>	<b>250 323</b>	474 210	<b>252 892</b>	167 004
<i>Total dividends relating to income for the year</i>	<b>684 293</b>	739 104	<b>691 875</b>	788 447
<i>Final dividend number 8 of 57 cents and special dividend number 2 of 53 cents per ordinary share were approved by the board on 11 November 2004. No provision has been made for these dividends and their related STC in the financial statements for the year ended 30 September 2004.</i>				

# Notes to the annual financial statements (continued)

for the year ended 30 September 2004



	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>26. Cash generated from operations</b>				
Net income from operations	1 310 094	1 064 000	755 009	223 657
Adjustments for:				
Increase in provisions for impairments	589 136	522 920	-	-
Depreciation	69 428	73 840	-	-
Goodwill amortisation	6 496	17 315	-	-
(Profit)/loss on disposal of fixed assets	(161)	1 955	-	-
Profit on disposal of subsidiary	(439)	-	-	-
Transfer from life funds i.r.o. third party policies	(1 667)	(14 387)	-	-
Net assets acquired for no consideration	-	-	-	3 330
Other	-	1 301	(500)	-
	<b>1 972 887</b>	<b>1 666 944</b>	<b>754 509</b>	<b>226 987</b>
<b>27. Increase in gross advances</b>				
Opening balance of gross advances	6 314 097	7 166 640	-	-
Less: Closing balance of gross advances	(6 129 265)	(6 314 097)	-	-
Movement in gross advances	184 832	852 543	-	-
Less: Bad debts written off (refer note 7)	(845 377)	(875 010)	-	-
Less: Advances disposed of (refer note 31.2)	(880)	-	-	-
	<b>(661 425)</b>	<b>(22 467)</b>	<b>-</b>	<b>-</b>
<b>28. (Increase)/decrease in working capital</b>				
(Increase)/decrease in other assets	(71 481)	395 248	5	(7 927)
Amount paid to Saambou Receivership	-	(750 000)	-	-
(Decrease)/increase in other liabilities	(16 977)	(119 017)	61 242	(13 308)
	<b>(88 458)</b>	<b>(473 769)</b>	<b>61 247</b>	<b>(21 235)</b>
<b>29. Indirect and direct taxation paid</b>				
Increase/(decrease) in tax liability	87 381	(124 076)	-	-
(Increase)/decrease in prepaid tax	(1 424)	16 700	405	(342)
Indirect and direct taxation charged to the income statement	(555 452)	(399 018)	(10 347)	(17 051)
Deferred tax portion of the amount charged to the income statement	24 377	1 967	714	15 057
	<b>(445 118)</b>	<b>(504 427)</b>	<b>(9 228)</b>	<b>(2 336)</b>
<b>30. Shareholder payments and transactions</b>				
Dividends paid	(788 344)	(204 795)	(818 278)	(212 894)
CGT on cancellation of treasury shares	(13 860)	-	-	-
Shares repurchased by subsidiary company	-	(124 664)	-	-
Shares purchased (by)/from the ABIL Employee Share Trust	(101 974)	26 057	-	-
	<b>(904 178)</b>	<b>(303 402)</b>	<b>(818 278)</b>	<b>(212 894)</b>

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>31. Investing activities</b>				
Acquisition of fixed assets	(31 160)	(82 622)	-	-
Disposal of fixed assets	15 586	2 137	-	-
Additional holdings in associates acquired	-	(1 313)	-	-
Additional goodwill on holding in subsidiary	(100)	-	-	-
Additional holding in subsidiaries acquired (refer note 31.1)	-	(77 880)	-	-
Sale of holding in subsidiary (refer note 31.2)	4 334	21 975	-	-
Decrease in statutory assets (excluding insurance statutory cash reserves)	23 137	131 746	-	-
Decrease in policyholder funds	4 071	11 398	-	-
Increase in loans from subsidiaries	-	-	11 737	7 316
Dividends paid to outside shareholders in subsidiaries	-	(17 102)	-	-
	<b>15 868</b>	<b>(11 661)</b>	<b>11 737</b>	<b>7 316</b>
<b>31.1 Additional holdings in subsidiaries acquired</b>				
Net asset value of additional shares acquired	-	54 197	-	(130)
Goodwill arising/(reversing)	-	23 683	-	(3 200)
Cost of additional shares in subsidiaries	-	77 880	-	(3 330)
Less: Cash acquired	-	-	-	-
Add: Net assets acquired for no consideration	-	-	-	3 330
Net cash outflow on acquisition	-	77 880	-	-
<b>31.2 Sale of holding in subsidiary</b>				
Net asset value of assets disposed of	3 895	23 276	-	-
Gross advances	880	-	-	-
Other	3 015	23 276	-	-
Profit/(loss) on sale of assets	439	(1 301)	-	-
Consideration received	4 334	21 975	-	-
<b>32. Financing activities</b>				
Increase/(decrease) in loans and debentures	1 272 955	(18 133)	-	-
(Decrease)/increase in liabilities to depositors	(340 540)	194 153	-	-
Increase in secondary capital	3 348	3 029	-	-
	<b>935 763</b>	<b>179 049</b>	<b>-</b>	<b>-</b>
<b>33. Cash and cash equivalents</b>				
Short-term deposits and cash	1 944 148	1 148 562	1 378	1 391
Bank overdraft	(3 989)	(150)	-	-
Statutory cash reserves – insurance (refer note 9)	231 061	197 469	-	-
	<b>2 171 220</b>	<b>1 345 881</b>	<b>1 378</b>	<b>1 391</b>

# Notes to the annual financial statements *(continued)*

for the year ended 30 September 2004



## 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.

	Up to one month R000	One to three months R000	Four to twelve months R000	Beyond twelve months R000	Non-interest sensitive items R000	Total R000
<b>2004</b>						
<b>Assets</b>						
Fixed assets	-	-	-	-	140 026	140 026
Investments in associates	-	-	-	-	9 997	9 997
Policyholders' investments	-	-	-	-	49 611	49 611
Goodwill	-	-	-	-	14 067	14 067
Deferred tax asset	-	-	-	-	35 739	35 739
Net advances	286 081	596 603	1 152 230	2 554 156	(117 298)	4 471 772
Other assets and taxation	-	-	-	-	179 738	179 738
Liquid and trading assets	183 519	306 410	-	-	-	489 929
Short-term deposits and cash	1 030 549	823 155	90 444	-	-	1 944 148
<b>Total assets</b>	<b>1 500 149</b>	<b>1 726 168</b>	<b>1 242 674</b>	<b>2 554 156</b>	<b>311 880</b>	<b>7 335 027</b>
<b>Liabilities</b>						
Life fund reserve	-	-	-	-	78 659	78 659
Loans and debentures	28 628	956	838 409	2 600 779	55 363	3 524 135
Deferred tax liability	-	-	-	-	11 880	11 880
Liabilities to depositors	186 889	92 952	263 006	1 098	-	543 945
Other liabilities and taxation	29 007	2 399	5 988	-	301 439	338 833
Bank overdraft	3 989	-	-	-	-	3 989
Secondary capital	-	2 512	-	190 540	-	193 052
Shareholders' funds and minority interests	-	-	-	-	2 640 534	2 640 534
<b>Total liabilities</b>	<b>248 513</b>	<b>98 819</b>	<b>1 107 403</b>	<b>2 792 417</b>	<b>3 087 875</b>	<b>7 335 027</b>
On-balance sheet interest sensitivity	1 251 636	1 627 349	135 271	(238 261)	(2 775 995)	-

Assuming the financial assets and liabilities on hand at 30 September 2004 were to remain on hand until maturity or settlement without any action by the subsidiaries to alter the resulting interest rate risk exposure, an immediate and sustained 1% parallel decline in the yield curve could result in the net interest income of the group for the next twelve months declining by R26 million.

2003	Up to one month R000	One to three months R000	Four to twelve months R000	Beyond twelve months R000	Non-interest sensitive items R000	Total R000
<b>34. Financial risk (continued)</b>						
<b>34.1 Interest rate risk (continued)</b>						
<b>Assets</b>						
Fixed assets	–	–	–	–	193 719	193 719
Investments in associates	–	–	–	–	9 324	9 324
Policyholders' investments	–	–	–	–	53 682	53 682
Goodwill	–	–	–	–	20 463	20 463
Deferred tax asset	–	–	–	–	58 812	58 812
Net advances*	393 485	513 892	1 419 295	2 163 669	(90 595)	4 399 746
Other assets and taxation	38	32 336	–	242	81 744	114 360
Liquid and trading assets	91 507	139 742	197 469	–	50 756	479 474
Short-term deposits and cash	857 125	283 062	–	4 800	3 575	1 148 562
<b>Total assets</b>	<b>1 342 155</b>	<b>969 032</b>	<b>1 616 764</b>	<b>2 168 711</b>	<b>381 480</b>	<b>6 478 142</b>
<b>Liabilities</b>						
Life fund reserve	–	–	820	–	79 506	80 326
Loans and debentures	46 998	36 498	31 468	2 069 850	66 366	2 251 180
Deferred tax liability	–	–	–	–	10 576	10 576
Liabilities to depositors	277 161	190 525	162 944	253 855	–	884 485
Other liabilities and taxation	97 239	129	8 175	–	162 886	268 429
Bank overdraft	150	–	–	–	–	150
Secondary capital	–	2 512	–	187 192	–	189 704
Shareholders' funds and minority interests	–	–	–	–	2 793 292	2 793 292
<b>Total liabilities</b>	<b>421 548</b>	<b>229 664</b>	<b>203 407</b>	<b>2 510 897</b>	<b>3 112 626</b>	<b>6 478 142</b>
<b>On-balance sheet interest sensitivity</b>	<b>920 607</b>	<b>739 368</b>	<b>1 413 357</b>	<b>(342 186)</b>	<b>(2 731 146)</b>	<b>–</b>

\* In 2003 the net advances of the MCG group were allocated to the non-interest sensitive items category. This line has now been restated to reflect the maturity classifications of the MCG group net advances.

# Notes to the annual financial statements *(continued)*

for the year ended 30 September 2004



2004	Up to one month R000	One to three months R000	Four to twelve months R000	Beyond twelve months R000	Total R000
<b>34. Financial risk (continued)</b>					
34.2 Liquidity risk					
Assets and liabilities maturities as at 30 September 2004					
Assets					
Fixed assets	-	-	-	140 026	140 026
Investments in associates	-	-	-	9 997	9 997
Policyholders' investments	-	-	-	49 611	49 611
Goodwill	-	-	-	14 067	14 067
Deferred tax asset	-	-	5 354	30 385	35 739
Net advances	286 081	596 603	1 155 990	2 433 098	4 471 772
Other assets and taxation	41 565	32 032	104 455	1 686	179 738
Liquid and trading assets	183 519	306 410	-	-	489 929
Short-term deposits and cash	1 030 549	823 155	90 444	-	1 944 148
<b>Total assets</b>	<b>1 541 714</b>	<b>1 758 200</b>	<b>1 356 243</b>	<b>2 678 870</b>	<b>7 335 027</b>
Liabilities					
Life fund reserve	-	-	-	78 659	78 659
Loans and debentures	28 628	956	843 100	2 651 451	3 524 135
Deferred tax liability	-	-	-	11 880	11 880
Liabilities to depositors	186 889	92 952	263 006	1 098	543 945
Other liabilities and taxation	267 428	35 959	5 918	29 528	338 833
Bank overdraft	3 989	-	-	-	3 989
Secondary capital	-	2 512	-	190 540	193 052
Shareholders' funds and minority interests	-	-	-	2 640 534	2 640 534
<b>Total liabilities</b>	<b>486 934</b>	<b>132 379</b>	<b>1 112 024</b>	<b>5 603 690</b>	<b>7 335 027</b>
<b>Net liquidity gap</b>	<b>1 054 780</b>	<b>1 625 821</b>	<b>244 219</b>	<b>(2 924 820)</b>	<b>-</b>

2003	Up to one month R000	One to three months R000	Four to twelve months R000	Beyond twelve months R000	Total R000
<b>34. Financial risk (continued)</b>					
34.2 Liquidity risk (continued)					
Assets and liabilities maturities as at 30 September 2003					
<b>Assets</b>					
Fixed assets	–	–	–	193 719	193 719
Investments in associates	–	–	–	9 324	9 324
Policyholders' investments	–	–	–	53 682	53 682
Goodwill	–	–	–	20 463	20 463
Deferred tax asset	–	–	8 310	50 502	58 812
Net advances*	393 715	513 892	1 419 295	2 072 844	4 399 746
Other assets and taxation	85 819	15 911	2 743	9 887	114 360
Liquid and trading assets	91 507	139 742	197 469	50 756	479 474
Short-term deposits and cash	857 798	283 062	–	7 702	1 148 562
<b>Total assets</b>	<b>1 428 839</b>	<b>952 607</b>	<b>1 627 817</b>	<b>2 468 879</b>	<b>6 478 142</b>
<b>Liabilities</b>					
Life fund reserve	–	–	–	80 326	80 326
Loans and debentures	46 981	36 498	34 469	2 133 232	2 251 180
Deferred tax liability	10 433	–	143	–	10 576
Liabilities to depositors	277 161	190 525	162 944	253 855	884 485
Other liabilities and taxation	37 773	48 037	99 461	83 158	268 429
Bank overdraft	150	–	–	–	150
Secondary capital	–	–	2 512	187 192	189 704
Shareholders' funds and minority interests	–	–	–	2 793 292	2 793 292
<b>Total liabilities</b>	<b>372 498</b>	<b>275 060</b>	<b>299 529</b>	<b>5 531 055</b>	<b>6 478 142</b>
<b>Net liquidity gap</b>	<b>1 056 341</b>	<b>677 547</b>	<b>1 328 288</b>	<b>(3 062 176)</b>	<b>–</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 are 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.

\* In 2003 the net advances of the MCG group were allocated to the up-to-one month bucket. This line has now been restated to reflect the maturity classifications of the MCG group net advances.

# Notes to the annual financial statements *(continued)*

for the year ended 30 September 2004



## **34. Financial risk (continued)**

### **34.3 Facility unutilised**

*At 30 September 2004 African Bank Limited had a R25 million undrawn credit facility with Standard Bank of South Africa.*

### **34.4 Credit risk**

*All loans granted by the group are granted in the Republic of South Africa.*

*Exposure to credit losses is managed through granting loans to individuals where repayment of loans is made through debit order deductions, payroll deductions or similar techniques, the evaluation of the financial stability of the employer and arrears management.*

### **34.5 Currency risk**

*The group has no significant foreign currency positions.*

### **34.6 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 2004 was 34,7% (2003: 40,8%) compared to the regulatory requirements of 10,0% (2003: 10%).*

### **34.7 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 contact 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 claims experience as compared with that which has been assumed in the financial soundness valuation.*

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## **35. Contingent liabilities at year-end**

*African Bank has deposits with Standard Bank for EFT and electricity guarantees totalling R5,8 million.*

*The insurance company has not provided for certain outstanding level life claims amounting to R61,4 million as the beneficiaries could not be traced. The probability of these claims being subsequently made is, from prior experience, extremely low, and hence no provision is carried in the financial statements. Should any claims be made they will be taken as losses in the period in which the claim is made. The contingent liability will also reduce as the outstanding claims prescribe.*

*African Contractor Finance Corporation Division has guaranteed loans totalling R2,5 million to contractors for prospective government construction contracts.*

*The group has a contingent exposure to legal claims of R3,7 million.*

*On 10 November 2004 the group announced that GEMS, a subsidiary of the group via Theta Investments (Proprietary) Limited and which has been in the process of being closed down, was investigated by the directorate of special operations ("DSO") under various charges of corruption resulting from payments made to SAMWU union officials during 1999 to 2002. ABIL fully cooperated with the DSO during the investigations and GEMS agreed to plead guilty and accepts full responsibility for the actions of the officials concerned. GEMS also agreed to pay reparations to clients who may have been prejudiced by these actions. In terms of the court order the maximum amount of reparations was R60,1 million. This has been recorded as a contingent liability, as the terms of the order require each client to sign an acceptance and waiver form before the settlement can be made.*

---



	Group	
	2004 R000	2003 R000
<b>36. Operating lease commitments</b>		
Payable within one year	34 556	36 025
Property	25 007	27 709
Equipment	9 222	7 892
Motor vehicles	327	424
Payable between one and five years	29 359	25 419
Property	22 980	12 359
Equipment	6 243	12 675
Motor vehicles	136	385
Payable thereafter	-	-

**37. Retirement and post-retirement benefits**

Pensions are provided to some employees of the subsidiary companies by separate pension and provident funds. The remaining employees contribute to schemes of their own choice. The funds are governed by the Pension Funds Act, 1956, and 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.

**38. Related party information**

African Bank Investments Limited holds 100% of (inter alia) African Bank Limited, Theta Investments (Proprietary) Limited and The Standard General Insurance Company Limited.

**Related party transactions**

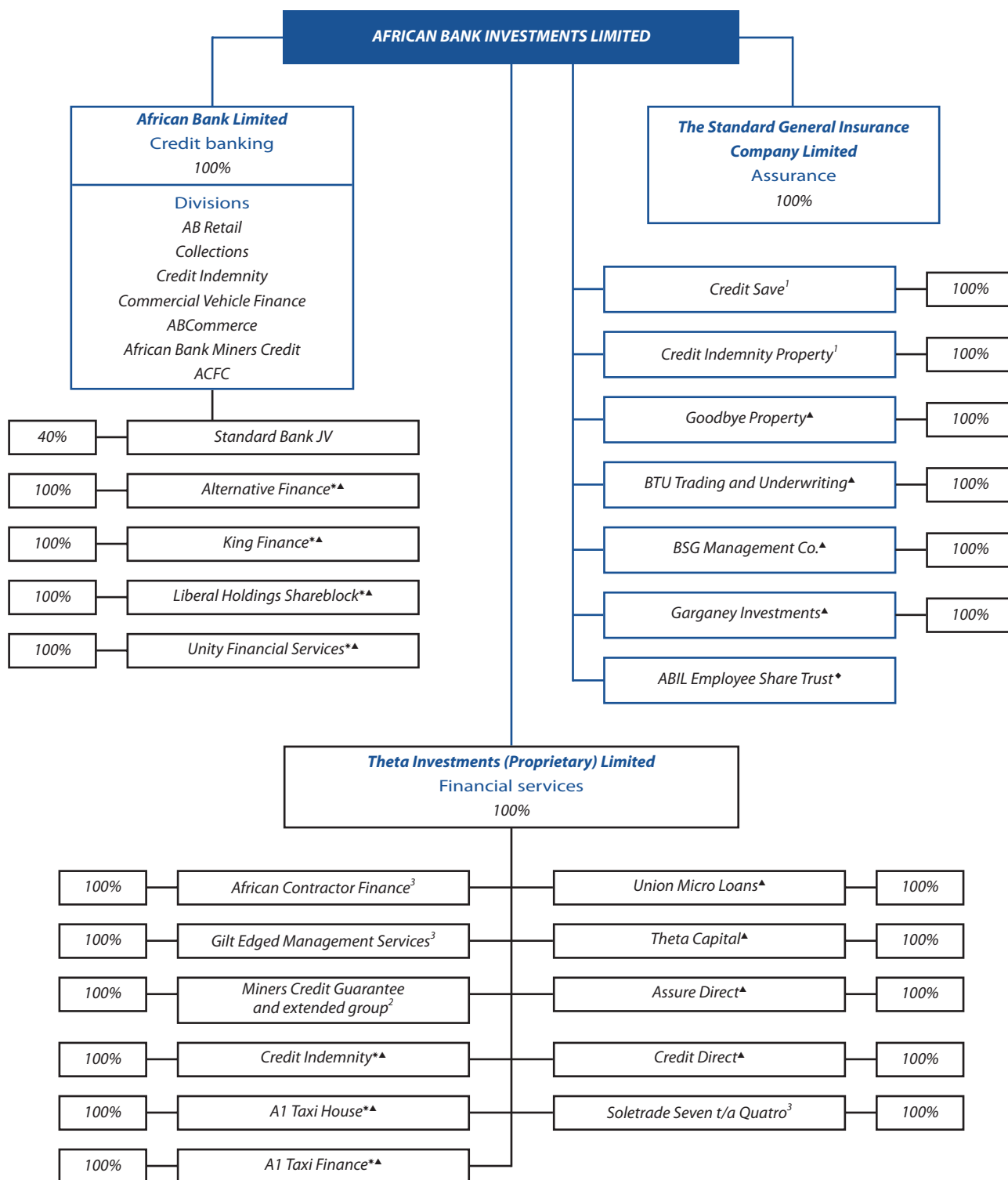
African Bank Limited has entered into financial services transactions with its subsidiaries. These transactions were in the ordinary course of business on market-related terms and conditions similar to those arranged with third parties.

**Director-related transactions**

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 23 respectively.

# Appendix A

Group structure and profile



^ Dormant  
 \* Has been divisionalised into African Bank Limited  
 ^ Trust  
 1 Property companies  
 2 Part divisionalised  
 3 Being wound down

## Appendix B

Investment in subsidiaries/controlled entities

	Type of business	Issued share capital		Effective percentage held		Investment (at cost and impairments)		Loans	
		2004 R000	2003 R000	2004 %	2003 %	2004 R000	2003 R000	2004 R000	2003 R000
<b>Held by African Bank Investments Limited:</b>									
African Bank Limited	Credit bank	121 251	121 251	100	100	1 538 748	1 538 748	(15 474)	(7 442)
Theta Investments (Pty) Limited	Financial services	11	11	100	100	63 781	63 781	-	-
Goodbye Property (Pty) Limited	Property	-	-	100	100	-	-	3 278	6 978
BSG Management Company (Pty) Limited	Dormant	-	-	100	100	-	-	(7 203)	(7 204)
BTU Trading and Underwriting (Pty) Limited	Dormant	-	-	100	100	-	-	(4 346)	(4 346)
Credit Indemnity Property (Pty) Limited	Property	1	1	100	100	(129)	(129)	129	129
Standard General Insurance Company Limited – cost	Assurance	5 000	5 000	100	100	539 135	539 135	-	-
Standard General Insurance Company Limited – impairment						(337 720)	(337 720)		
Credit Save (Pty) Limited	Property	-	-	100	100	8 000	8 000	-	-
Garganey Investments Holdings (Pty) Limited	Dormant	-	-	100	100	-	-	-	-
ABIL Employee Share Trust	Share trust	-	-	100	100	-	-	-	6
						1 811 815	1 811 815	(23 616)	(11 879)
<b>Held by Theta Investments (Pty) Limited and African Bank Limited:</b>									
Alternative Finance Limited – cost	Dormant	27 368	27 368	100	100	344 623	344 623		
Alternative Finance Limited – impairment						(189 726)	(183 513)		
King Finance Corporation Limited – cost	Dormant	721	721	100	100	205 905	205 905		
King Finance Corporation Limited – impairment						(146 474)	-		
Unity Financial Services Limited – cost	Dormant	197	197	100	100	68 865	68 865		
Unity Financial Services Limited – impairment						(42 332)	-		
Liberal Holdings Shareblock (Pty) Limited	Dormant	10	10	100	100	-	-		
African Contractors Finance Corporation (Pty) Limited	Financial services	2	2	100	100	14 753	14 753		
Union Micro Loans (Pty) Limited	Financial services	11	11	100	100	6 074	6 074		
Gilt Edged Management Services (Pty) Limited	Financial services	100	100	100	100	15 794	15 794		
Credit Indemnity (Pty) Limited	Financial services	12	12	100	100	39 193	39 193		
Credit Direct (Pty) Limited	Financial services	4	4	100	100	1 119	1 119		
Miners Credit Guarantee (Pty) Limited	Financial services	-	-	100	100	50 163	50 063		
Soletrade Seven (Pty) Limited trading as Quatro	Financial services	-	-	100	100	-	-		
A1 Taxi House (Pty) Limited	Financial services	-	-	100	100	-	-		
A1 Taxi Finance (Pty) Limited – cost	Financial services	-	-	100	100	1 020	1 020		
A1 Taxi Finance (Pty) Limited – impairment						(1 020)	-		
Theta Capital (Pty) Limited	Dormant	-	-	100	100	-	-		
Assure Direct (Pty) Limited	Dormant	-	-	100	100	-	-		

All subsidiaries are incorporated in the Republic of South Africa.

## Appendix C

Investment in associate



	Percentage holding		Group		Company	
	2004 %	2003 %	2004 R000	2003 R000	2004 R000	2003 R000
<i>Mathomo Financial Services (Pty) Limited (associate of Miners Credit Guarantee (Pty) Limited) Principal activity: Financial services</i>	<b>50,0</b>	50,0				
<i>Ordinary shares at cost</i>			<b>5 577</b>	5 253	-	-
<i>Share of attributable income</i>			<b>4 420</b>	4 071	-	-
<b>Total</b>			<b>9 997</b>	9 324	-	-

### Aggregate financial information in respect of associate company

	2004 R000	2003 R000
<b>Balance sheet</b>		
<b>Assets</b>		
<i>Deferred tax asset</i>	<b>14</b>	196
<i>Net current assets</i>	<b>29 328</b>	23 208
	<b>29 342</b>	23 404
<b>Liabilities and equity</b>		
<i>Long-term liabilities</i>	-	12 817
<i>Other liabilities</i>	<b>19 565</b>	3 011
<i>Share capital and reserves</i>	<b>9 777</b>	7 576
	<b>29 342</b>	23 404
<b>Income statement</b>		
<i>Revenue</i>	<b>6 807</b>	10 323
<i>Net income before taxation</i>	<b>3 248</b>	4 373
<i>Taxation</i>	<b>(977)</b>	(1 314)
<i>Attributable income (pre goodwill)</i>	<b>2 271</b>	3 059
<i>Group's share of attributable income (pre goodwill)</i>	<b>1 135</b>	1 529
<i>Group's share of goodwill amortised</i>	<b>(462)</b>	-
<i>Group's share of associate company's income</i>	<b>673</b>	1 529

# Appendix D

## Business unit profitability analysis

	Average gross interest-bearing advances	Total revenue		Bad debt charge		Operating expenditure			Headline earnings
	Rm	Rm	% of adv	Rm	% of adv	Rm	% of adv	Cost to income %	Rm
<b>12 months ended 30 September 2004</b>									
<b>Continuing businesses</b>	<b>4 865,1</b>	<b>3 042,8</b>	<b>62,5</b>	<b>431,0</b>	<b>8,9</b>	<b>906,1</b>	<b>18,6</b>	<b>29,8</b>	<b>914,9</b>
<i>African Bank Retail</i>	<i>3 759,4</i>	<i>2 085,2</i>	<i>55,5</i>	<i>280,3</i>	<i>7,5</i>	<i>611,6</i>	<i>16,3</i>	<i>29,3</i>	<i>608,4</i>
<i>Credit Indemnity</i>	<i>375,0</i>	<i>486,1</i>	<i>129,6</i>	<i>95,1</i>	<i>25,4</i>	<i>155,7</i>	<i>41,5</i>	<i>32,0</i>	<i>150,9</i>
<i>Miners Credit</i>	<i>356,2</i>	<i>273,5</i>	<i>76,8</i>	<i>40,2</i>	<i>11,3</i>	<i>92,3</i>	<i>25,9</i>	<i>33,7</i>	<i>80,4</i>
<i>Standard Bank JV</i>	<i>227,4</i>	<i>146,9</i>	<i>64,6</i>	<i>16,2</i>	<i>7,1</i>	<i>37,1</i>	<i>16,3</i>	<i>25,3</i>	<i>51,8</i>
<i>Commercial Vehicle Finance</i>	<i>147,0</i>	<i>51,2</i>	<i>34,8</i>	<i>(0,8)</i>	<i>(0,6)</i>	<i>9,4</i>	<i>6,4</i>	<i>18,3</i>	<i>23,4</i>
<b>Discontinued businesses</b>	<b>236,3</b>	<b>30,9</b>	<b>13,1</b>	<b>52,7</b>	<b>22,3</b>	<b>23,2</b>	<b>9,8</b>	<b>75,1</b>	<b>(42,4)</b>
<i>Gilt Edged Management Services</i>	<i>114,6</i>	<i>20,0</i>	<i>17,5</i>	<i>32,4</i>	<i>28,2</i>	<i>9,8</i>	<i>8,6</i>	<i>49,2</i>	<i>(21,5)</i>
<i>African Contractor Finance</i>	<i>101,1</i>	<i>1,3</i>	<i>1,3</i>	<i>5,5</i>	<i>5,4</i>	<i>3,6</i>	<i>3,6</i>	<i>276,0</i>	<i>(8,1)</i>
<i>ABCCommerce</i>	<i>19,3</i>	<i>9,1</i>	<i>46,9</i>	<i>14,6</i>	<i>75,6</i>	<i>8,6</i>	<i>44,4</i>	<i>94,5</i>	<i>(11,0)</i>
<i>Other (Quatro, etc)</i>	<i>1,3</i>	<i>0,5</i>	<i>40,3</i>	<i>0,2</i>	<i>18,9</i>	<i>1,2</i>	<i>91,1</i>	<i>225,9</i>	<i>(1,9)</i>
<i>Group and Consol STC</i>		<i>0,5</i>		<i>0,0</i>		<i>16,4</i>			<i>(10,3)</i>
		<i>0,0</i>		<i>0,0</i>		<i>0,0</i>			<i>(100,2)</i>
<b>Total</b>	<b>5 101,4</b>	<b>3 074,3</b>	<b>60,3</b>	<b>483,7</b>	<b>9,5</b>	<b>945,8</b>	<b>18,5</b>	<b>30,8</b>	<b>762,1</b>
<b>12 months ended 30 September 2003</b>									
<b>Continuing businesses</b>	<b>5 115,6</b>	<b>2 760,8</b>	<b>54,0</b>	<b>376,5</b>	<b>7,4</b>	<b>939,2</b>	<b>18,4</b>	<b>34,0</b>	<b>761,2</b>
<i>African Bank Retail</i>	<i>4 334,6</i>	<i>2 024,6</i>	<i>46,7</i>	<i>270,9</i>	<i>6,2</i>	<i>636,4</i>	<i>14,7</i>	<i>31,4</i>	<i>572,2</i>
<i>Credit Indemnity</i>	<i>274,4</i>	<i>374,3</i>	<i>136,4</i>	<i>68,2</i>	<i>24,8</i>	<i>152,5</i>	<i>55,6</i>	<i>40,7</i>	<i>100,1</i>
<i>Miners Credit</i>	<i>280,7</i>	<i>237,6</i>	<i>84,7</i>	<i>23,4</i>	<i>8,3</i>	<i>117,7</i>	<i>41,9</i>	<i>49,5</i>	<i>51,4</i>
<i>Standard Bank JV</i>	<i>137,0</i>	<i>92,8</i>	<i>67,7</i>	<i>15,3</i>	<i>11,1</i>	<i>25,3</i>	<i>18,5</i>	<i>27,3</i>	<i>27,7</i>
<i>Commercial Vehicle Finance</i>	<i>88,8</i>	<i>31,5</i>	<i>35,4</i>	<i>(1,3)</i>	<i>(1,5)</i>	<i>7,3</i>	<i>8,2</i>	<i>23,3</i>	<i>9,8</i>
<b>Discontinued businesses</b>	<b>299,2</b>	<b>104,2</b>	<b>34,8</b>	<b>68,5</b>	<b>22,9</b>	<b>64,7</b>	<b>21,6</b>	<b>62,0</b>	<b>(39,2)</b>
<i>Gilt Edged Management Services</i>	<i>169,3</i>	<i>49,7</i>	<i>29,4</i>	<i>21,4</i>	<i>12,7</i>	<i>26,1</i>	<i>15,4</i>	<i>52,6</i>	<i>(10,1)</i>
<i>African Contractor Finance</i>	<i>122,5</i>	<i>15,5</i>	<i>12,6</i>	<i>45,5</i>	<i>37,1</i>	<i>14,8</i>	<i>12,1</i>	<i>95,9</i>	<i>(36,1)</i>
<i>ABCCommerce</i>	<i>1,7</i>	<i>1,5</i>	<i>85,8</i>	<i>0,1</i>	<i>7,7</i>	<i>1,9</i>	<i>111,3</i>	<i>129,7</i>	<i>(0,5)</i>
<i>Other (Quatro, etc)</i>	<i>5,7</i>	<i>37,6</i>	<i>658,1</i>	<i>1,4</i>	<i>24,5</i>	<i>21,8</i>	<i>380,9</i>	<i>57,9</i>	<i>7,6</i>
<i>Group and Consol STC</i>		<i>0,7</i>				<i>32,3</i>			<i>(9,0)</i>
		<i>0,0</i>							<i>(33,0)</i>
<b>Total</b>	<b>5 414,8</b>	<b>2 865,7</b>	<b>52,9</b>	<b>444,9</b>	<b>8,2</b>	<b>1 036,2</b>	<b>19,1</b>	<b>36,2</b>	<b>680,1</b>

# Appendix E

## Business unit advances and provisions analysis



	Gross advances	NPLs		Specific provisions	Portfolio provisions	Insurance reserve balance	Total provisions			Bad debts written off
	Rm	Rm	% of gross advances	Rm	Rm	Rm	Rm	% of gross advances	NPL coverage %	Rm
<b>30 September 2004</b>										
<b>Lending books</b>	<b>4 685</b>	<b>1 152</b>	<b>24,6</b>	<b>738</b>	<b>30</b>	<b>95</b>	<b>864</b>	<b>18,4</b>	<b>75,0</b>	<b>479</b>
<i>African Bank</i>										
– retail debit order	2 511	670	26,7	405	15	51	472	18,8	70,5	137
– payroll	934	353	37,8	223	4	28	255	27,3	72,3	191
Credit Indemnity	403	79	19,5	69	3	–	72	17,9	91,7	92
Miners Credit	379	50	13,2	40	2	–	42	11,0	83,8	39
Standard Bank JV	273	–	0,0	–	2	8	11	3,9	no NPLs	20
Commercial Vehicle Finance	187	1	0,6	–	4	8	12	6,4	>100%	–
<b>Pay down books</b>	<b>1 444</b>	<b>1 094</b>	<b>75,7</b>	<b>776</b>	<b>–</b>	<b>17</b>	<b>794</b>	<b>55,0</b>	<b>72,6</b>	<b>366</b>
<i>Persal</i>										
Saambou PLB	302	226	74,9	134	–	17	151	50,2	67,1	66
Gilt Edged	931	675	72,5	458	–	–	458	49,2	67,9	296
<i>Management Services</i>										
African Contractor Finance	99	84	84,9	78	–	–	78	79,1	93,2	3
ABCCommerce	94	94	100,0	90	–	–	90	96,0	96,0	–
Quatro	18	15	83,4	15	–	–	15	83,5	100,1	–
Quatro	–	–	n/a	–	–	–	–	n/a	no NPLs	2
<b>Total</b>	<b>6 129</b>	<b>2 246</b>	<b>36,6</b>	<b>1 514</b>	<b>31</b>	<b>112</b>	<b>1 657</b>	<b>27,0</b>	<b>73,8</b>	<b>845</b>
<b>30 September 2003</b>										
<b>Lending books</b>	<b>4 131</b>	<b>1 086</b>	<b>26,3</b>	<b>742</b>	<b>28</b>	<b>94</b>	<b>864</b>	<b>20,9</b>	<b>79,6</b>	<b>503</b>
<i>African Bank</i>										
– retail debit order	1 761	476	27,0	303	11	50	364	20,7	76,5	78
– payroll	1 455	501	34,5	348	5	42	395	27,2	78,9	292
Credit Indemnity	316	62	19,7	53	2	–	56	17,6	89,5	77
Miners Credit	320	47	14,5	34	2	1	36	11,3	77,9	42
Standard Bank JV	165	–	0,0	4	2	–	6	3,9	no NPLs	13
Commercial Vehicle Finance	114	1	0,6	–	5	1	7	5,8	>100%	–
<b>Pay down books</b>	<b>2 183</b>	<b>1 539</b>	<b>70,5</b>	<b>1 051</b>	<b>2</b>	<b>43</b>	<b>1 097</b>	<b>50,2</b>	<b>71,3</b>	<b>372</b>
<i>Persal</i>										
Saambou PLB	458	312	68,2	197	–	13	211	46,0	67,5	120
Gilt Edged	1 473	1 048	71,1	718	1	30	749*	50,8	71,5	239
<i>Management Services</i>										
African Contractor Finance	135	68	50,1	48	1	–	49	36,4	72,7	9
ABCCommerce	111	111	100,0	87	–	–	87	78,5	78,5	4
Quatro and Safrich	5	1	18,7	–	–	–	–	2,7	14,3	–
Quatro	2	–	0,0	1	–	–	1	85,1	no NPLs	1
<b>Total</b>	<b>6 314</b>	<b>2 625</b>	<b>41,6</b>	<b>1 793</b>	<b>30</b>	<b>137</b>	<b>1 961*</b>	<b>31,1</b>	<b>74,7</b>	<b>875</b>

\* Includes R47 million of off-balance sheet insurance coverage.

## Appendix F

### Interest in joint ventures

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, liabilities, revenue and expenses of the joint venture and are included in the consolidated balance sheet and income statement.

	<b>2004</b> <b>R000</b>	2003 R000
Interest-bearing assets	<b>283 709</b>	166 095
Non-interest-bearing assets	<b>83</b>	149
Interest-bearing borrowings	<b>203 497</b>	122 738
Provisions for liabilities and charges	<b>32 657</b>	14 775
Profit before taxation	<b>50 053</b>	22 484
Taxation	<b>(16 079)</b>	(6 745)
Profit after taxation	<b>33 974</b>	15 739
Profit distribution	<b>(15 064)</b>	–
Proportionate interest in joint venture commitments	–	–

The group has, via MCG (Pty) Limited, a 50% interest in a joint venture, entered into with Teba Bank, which provides credit products and services in the mining industry. The following amounts represent the group's share of the assets, liabilities, revenue and expenses of the joint venture and are included in the consolidated balance sheet and income statement.

	<b>2004</b> <b>R000</b>	2003 R000
Interest-bearing assets	<b>242 716</b>	165 810
Non-interest-bearing assets	<b>14 656</b>	8 928
Interest-bearing borrowings	<b>5 457</b>	18 548
Provisions for liabilities and charges	<b>31 505</b>	17 975
Profit before taxation	<b>87 704</b>	64 680
Taxation	<b>(26 321)</b>	(19 415)
Profit after taxation	<b>61 383</b>	45 265
Proportionate interest in joint venture commitments	–	–

## **1. PREAMBLE**


- 1.1 *The board of directors ("the board") of African Bank Investments Limited ("the group") is the core of the group's system of corporate governance and is ultimately accountable and responsible for the performance and affairs of the group.*
- 1.2 *Good corporate governance is regarded as critical to the success of the business of the group and the board is unreservedly committed to applying the fundamental principles of good governance – transparency, integrity, accountability and responsibility – in all dealings by, in respect of and on behalf of, the group.*
- 1.3 *The board accordingly embraces the principles of good governance as set out in the 2002 King Report on Corporate Governance for South Africa ("King II"), the Banks Act, 1990, as amended, the JSE Securities Exchange South Africa ("JSE") Listings Requirements and the Companies Act, 1963, as amended.*

## **2. FORM, AIM AND OBJECTIVES**

- 2.1 *This board charter defines the governance parameters within which the board exists, sets out specific responsibilities to be discharged by the board and directors collectively, as well as certain roles and responsibilities incumbent upon directors as individuals.*
- 2.2 *To allow the group to comply as economically as possible with the King II recommendation to publish its board charter in the group's annual report, this board charter is made up of a principal charter, which sets out the broad governance principles and parameters within which the board will operate (which is published in the annual report), and an Appendix which provides detailed guidelines of the board's procedures and responsibilities (collectively referred to as the "board charter"). The complete board charter is available on the group's website (<http://www.africanbank.co.za>) or from the group secretariat of the bank on request.*
- 2.3 *Whilst this board charter of necessity includes references to minimum acceptable standards of conduct, in pursuit of the ideals underlying this board charter it is critical that substance prevails over form, and in applying the governance principles contained herein the board will be guided by the recommendations and ethos of King II as well as established standards of governance best practice, locally and internationally.*
- 2.4 *This board charter shall constitute an integral part of each director's letter of appointment.*

## **3. THE ROLE OF THE BOARD**

- 3.1 *This clause sets out the general principles applicable to the board's governance of the group. Matters which are specifically reserved for decision by the board are set out in the Appendix to this charter.*
- 3.2 *The board should exercise leadership, enterprise, integrity and judgement in directing the group so as to achieve continuing prosperity for the group and its shareholders, and shall at all times act in the best interests of the group in a manner based on transparency, integrity, accountability and responsibility.*
- 3.3 *The board's primary responsibilities include determining the group's purpose and values and giving strategic direction to the group, identifying key risk areas and key performance indicators of the group's business, monitoring the performance of the group against agreed objectives, advising on significant financial matters and reviewing the performance of executive management against defined objectives and applicable industry standards.*
- 3.4 *The board must specifically:*
  - 3.4.1 *retain full and effective control over the group, and monitor management's implementation of the strategic plans and financial objectives as defined by the board;*
  - 3.4.2 *define levels of materiality, reserving specific powers to itself and delegating other matters, with the necessary written authority, to management;*
  - 3.4.3 *continually monitor the exercise of delegated power by management;*
  - 3.4.4 *ensure that a comprehensive system of policies and procedures is in place and that appropriate governance structures exist to ensure the smooth, efficient and prudent stewardship of the group;*

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- 3.4.5 ensure compliance by the group with all relevant laws and regulations, audit and accounting principles, the group's code of conduct, and such other principles as may be established by the board from time to time;
  - 3.4.6 regularly review and evaluate the risks to the business of the group and ensure the existence of comprehensive, appropriate internal controls to mitigate against such risks;
  - 3.4.7 exercise objective judgement on the business affairs of the group, independent from management but with sufficient management information to enable a proper and informed assessment to be made; and
  - 3.4.8 identify and monitor non-financial aspects relevant to the business of the group, and ensure that the group acts responsibly towards all relevant stakeholders having a legitimate interest in its affairs.
- 3.5 The board shall have the power to delegate to any person or committee any of its powers and discretions and to grant to such person or committee general or specific powers of sub-delegation.
- 3.6 The day-to-day management of the group will vest in the hands of the Chief Executive Officer ("CEO") and the management team appointed by him.

#### **4. COMPOSITION OF THE BOARD**

- 4.1 The constitution of the board is dictated by ABIL's articles of association which permits a maximum number of twenty directors, of whom a majority shall be non-executive. The group presently has a unitary board consisting of eight executive directors, and eleven non-executive directors of whom ten are classified as independent non-executive directors within the definition of King II.
- 4.2 In determining the optimum composition of the board, the board shall seek to ensure that it collectively contains the skills, experience and mix of personalities appropriate to the strategic direction of the group and necessary to secure its sound performance.
- 4.3 The Directors' Affairs Committee of the board shall, in line with its terms of reference, from time to time review the general composition of the board and make appropriate recommendations on the appointment of new executive or non-executive directors.
- 4.4 Irrespective of a director's special expertise or knowledge and regardless of whether a director is an executive or a non-executive director, all members of the board recognise that they are collectively responsible to shareholders for the performance of the group.
- 4.5 The termination of an employment contract of an executive director will result ipso facto in the termination of his membership of the board, unless the board determines otherwise.

#### **5. DIRECTORS**

- 5.1 In discharging their role, directors of the group must satisfy the following primary requirements. A director must always act:
  - 5.1.1 in good faith, and in a professional manner, having due regard to his fiduciary duties and responsibilities to the group;
  - 5.1.2 independently, in what he personally believes to be the best interests of the group as a whole;
  - 5.1.3 with the degree of care, diligence and skill that may reasonably be expected from a person of his knowledge and experience;
  - 5.1.4 *intra vires*, ie within the scope of his authority as prescribed by the memorandum and articles of association of the group; and
  - 5.1.5 as a member of the board.

The duties of directors are set out in detail in the Appendix to this board charter.
- 5.2 On appointment, new directors will undergo an induction programme (detailed in the Appendix) aimed at facilitating their understanding of the group, their responsibilities as directors and the business environment and markets in which the group operates.
- 5.3 The board will determine the level of remuneration paid to executive and non-executive directors on the recommendation of the Group Remuneration and Transformation Committee. In deciding on appropriate levels of remuneration, the board shall be guided by the principle that whilst levels of remuneration should be sufficient to attract and retain the calibre of directors needed to run the group successfully, it should avoid paying more than is necessary for this purpose.
- 5.4 Executive directors will receive no additional fees, but will be paid as employees of the group in accordance with their contracts of employment.

Note: The male gender pronoun has been used throughout this board charter to facilitate drafting. It is intended to refer equally to both genders.

### 6. LEADERSHIP

- 6.1 *The group's philosophy of leadership is based on the principle that the control of the board and the executive responsibility for the running of the business are two separate and distinct tasks. There is accordingly a clear division of responsibilities between the role of the chairman of the board and the CEO so as to ensure that an appropriate balance of power is maintained within the group.*
- 6.2 *The board shall be led by an independent non-executive chairman who shall, inter alia, preside over meetings of the board and be responsible for ensuring the integrity and effectiveness of the board governance process. The role of the chairman is regarded as critical to good governance and is defined in the Appendix to this board charter.*
- 6.3 *The board shall appoint the CEO and set the terms and conditions of his employment contract. Without limiting the obligations of the CEO as determined in his contract of employment, the principal functions of the CEO are set out in the Appendix to this board charter.*

### 7. BOARD GOVERNANCE

#### 7.1 Board meetings

- 7.1.1 *The board will meet at least four times in each financial year, and may convene additional meetings as and when necessary. In addition to the rules of procedure set out in the Appendix to this board charter, meetings and proceedings of the board will be governed by the articles of association of ABIL.*

#### 7.2 Board committees

- 7.2.1 *The board may form such committees as may be necessary to facilitate efficient decision-making and to assist the board in the execution of its duties. The board presently has five standing committees, namely, the Group Audit Committee, the Group Risk Committee, the Directors' Affairs Committee, the Group Remuneration and Transformation Committee and the BEE Committee.*
- 7.2.2 *Each committee of the board shall be constituted with formal terms of reference which shall determine inter alia the membership, purpose, powers and authority of the committee, the scope of its mandate and its relationship to the board. The general principles dealing with the constitution, membership and authority of board committees are set out in the Appendix to this board charter.*

#### 7.3 Independent professional advice

- 7.3.1 *The board shall approve a procedure in terms of which any director may take independent professional advice, at the expense of the group, where there is doubt as to whether a proposed course of action is consistent with his fiduciary duties and responsibilities.*

#### 7.4 Conflicts of interests and dealing in ABIL securities

- 7.4.1 *The board shall consider whether the business of the group requires that it develops a formal conflicts of interests policy in terms of which conflicts are defined and appropriate conduct for dealing with conflicts is prescribed. In the absence of a policy, directors must inform the board of any actual, suspected or potential conflict of interests they may have in relation to particular items of business, as soon as they become aware of such conflict or potential conflict.*
- 7.4.2 *Directors should recuse themselves from discussion or decisions on matters in which they have a conflict of interest.*
- 7.4.3 *All directors are required to abide by the trading in ABIL securities policy as approved by the board and the provisions of the JSE Listings Requirements in so far as they relate to the trading in ABIL securities by directors.*

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## **8. COMPANY SECRETARY**

- 8.1 *The Company Secretary shall work closely with the Chairman and the CEO, to ensure the proper and effective functioning of the board and the integrity of the board governance process. The functions of the Company Secretary are set out in detail in the Appendix to this board charter.*
- 8.2 *The appointment or dismissal of the Company Secretary should be with the concurrence of the board as a whole.*

## **9. RISK MANAGEMENT, COMPLIANCE AND INTERNAL AUDIT**

- 9.1 *The internal audit function (defined in the Appendix) is recognised as an integral part of the governance structures of the group and functions under policies established by executive management and the board.*
- 9.2 *The appointment or dismissal of the group risk officer, compliance officer and head of internal audit should be made in consultation with the chairmen of the Group Audit and Group Risk Committees.*

## **10. PROCESS FOR REVIEW OF BOARD CHARTER**

- 10.1 *This board charter shall be reviewed by the board as and when necessary to ensure that it remains relevant to the business objectives of the group. The review process shall be initiated by the Company Secretary in consultation with the chairman of the board or the chairman of the Directors' Affairs Committee.*

**Adopted by the board of directors on 14 November 2003.**

*This charter contains the following appendices which are available on the ABIL website at [www.africanbank.co.za](http://www.africanbank.co.za):*

- A: *Appendix to the board charter*  
B: *Terms of reference for board committees*

## COMPANY REGISTRATION

1946/021193/06

## COMPANY SECRETARY

Sarita Martin

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Standard Bank

## AUDITORS

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## African Bank Investments Limited 2004 Sustainable Development Report – feedback form

Fax: +27 (0)11 256 9217

**Your opinion matters. Please share your views with us.**

**Please identify which stakeholder group you belong to:**

Employee  Shareholder  Client  Supplier   
Community  NGO  Public authority  Other  \_\_\_\_\_

**Does the Sustainable development report address the issues that are of greatest interest to you?**

Comprehensively  Partially  Not at all

**Please identify any additional issues that you would like to see included in future reports:**

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**How do you rate ABIL's 2004 Sustainable development report in terms of:**

	Excellent	Good	Fair	Poor
1) Content and scope	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2) Design and layout	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Do you have any additional comments on the Report or on ABIL's performance in general?**

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Please tick here if we may include your comments in any future reports

**Your name and address (optional):**

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**Would you like to be consulted when we prepare our next sustainability report?** Yes  No

**Approximately how much time did you spend reading the report?**

Less than 10 minutes  10 – 30 minutes  30 – 60 minutes  Cover-to-cover

For further information please contact:

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