

## **AFRICAN BANK LIMITED**

(Incorporated in the Republic of South Africa)

(Registered Bank)

(Registration No. 2014/176899/06)

Company code: ABKI

(the “Bank” or “African Bank”)

## **RELEASE OF THE AUDITED FINANCIAL RESULTS FOR AFRICAN BANK LIMITED AND RELATED GROUP INFORMATION FOR THE YEAR ENDED 30 SEPTEMBER 2020**

African Bank is pleased to announce that the Bank and its holding company, African Bank Holdings Limited (“ABH” or “ABH Group” or the “Group”), released their audited financial statements for the year ended 30 September 2020 (“results” and “ABH consolidated results”, respectively) today. The Bank’s stand-alone results are addressed first, followed by the more comprehensive ABH consolidated results.

### **African Bank results**

The challenging South African macroeconomic environment, exacerbated by the Covid-19 pandemic and related national lockdown measures, negatively impacted the Bank’s performance primarily through higher credit impairments. As a consequence, the Bank reported a net loss after tax of R560 million, for the year ended 30 September 2020 (FY 2019: R267 million profit).

Key aspects of the African Bank results, in comparison to the prior year ended 30 September 2019 (“FY 2019”), include the following:

- Loss after tax: R560 million (FY 2019: R267 million profit);
- Net customer advances balances: R17 636 million (FY 2019: R19 846 million);
- Cash deposits and financial investments, including surplus liquid assets: R4 646 million (2019: R5 645 million);
- Retail customer deposits, including transactional banking balances: R5 958 million (FY 2019: R2 391 million); and
- Total capital adequacy ratio: 38.4% (FY 2019: 38.3%).

### **ABH Consolidated results**

African Bank is a 100% subsidiary of ABH. ABH is an unlisted, registered bank controlling company under the Banks Act, Act 94 of 1990. The shares in ABH are privately held by the South African Reserve Bank, the Government Employees Pension Fund, Absa Trading and Investment Solutions (Proprietary) Limited, Capitec Bank Limited, FirstRand Bank Limited, Investec Bank Limited, Nedbank Limited and The Standard Bank of South Africa Limited.

ABH has material insurance operations which are housed in African Insurance Group Limited (“AIG”), a wholly-owned subsidiary of ABH, which in turn holds a cell captive investment in Guardrisk Life Limited. The financial performance of the cell captive investment, 100% owned by AIG, is not consolidated by ABH Group in accordance with International Financial Reporting Standards (“IFRS”). The financial performance

of AIG is dealt with in the audited consolidated annual financial statements of ABH Group by means of a re-measurement of the investment in insurance contracts and the dividend received from such cell captive.

The challenging South African macroeconomic environment, exacerbated by the Covid-19 pandemic and related national lockdown measures, negatively impacted the ABH Group's performance primarily through higher credit impairments in African Bank as well as an increased number of actual and expected claims in the insurance operations. As a consequence, the ABH Group reported a net loss after tax of R27 million, for the year ended 30 September 2020 (FY 2019: R1 204 million profit); a reduction of 102%. The Group's return on equity ("RoE") was a resultant negative 0.3% (FY 2019: 11.6%).

The broader impacts of the Covid-19 pandemic on credit risk are, to a large extent, reflected in the ageing (i.e. migration of customers from stage 1 through to 3) of the advances and the actual model experience. As a consequence, it is no longer possible to isolate the direct impact of the pandemic on our financial results and credit risk experience, as was the case with the half year results to 31 March 2020. The credit impairment charge of R3 408 million (FY2019: R2 163 million) increased by 58% in the current year, resulting in a credit loss ratio of 11.7% (FY 2019: 7.5%). Customer balances remain conservatively provided for, with a coverage ratio of 37.4% (FY 2019: 32.7%).

The Bank implemented credit tightening measures during September 2019 due to the deteriorating macroeconomic environment. Anticipating the negative impacts of an extended national lockdown on the financial well-being of consumers, the Bank took a decision to implement further credit-tightening measures in April and August 2020, to stem potential future losses. A key outcome of these measures was reduced advances disbursement levels, which decreased by 37%, resulting in the year-end gross advances balance declining by 5% year-on-year.

Notwithstanding the subdued economy, the Bank extended its customer value proposition and actively diversified its funding base by targeting retail savings deposits of up to five years, with its transactional banking product, MyWORLD, continuing to show encouraging growth with over 368 000 accounts opened since inception in May 2019. The retail deposit and transactional book increased by 149% year-on-year to R6 billion, representing 35% of the Bank's total liabilities' portfolio, up from 12% a year ago. The Group continues to maintain robust capital levels and surplus liquidity.

Key aspects of the ABH consolidated results, in comparison to the audited consolidated annual results for the year ended 30 September 2019, include the following:

- Loss after tax for the year: R27 million (FY 2019: profit R1 204 million);
- Net customer advances balances: R17 636 million (FY 2019: R19 846 million);
- Cash deposits and financial investments, including surplus liquid assets: R6 948 million (2019: R5 647 million);
- Retail customer deposits, including transactional banking balances: R5 958 million (FY 2019: R2 391 million);
- Insurance profit for the year: R427 million (FY 2019: R879 million); and
- Total capital adequacy ratio: 39.1% (FY 2019: 41.0%).

## Restatement of the prior year comparative numbers in the African Bank and ABH consolidated results

In both the African Bank results and the ABH consolidated results, there has been a restatement of certain numbers on the prior period comparative statement of total comprehensive income for the year ended 30 September 2019 and the statement of financial position as at 30 September 2019.

During the finalisation of the 2019 African Bank results and ABH consolidated results, a prior period (FY 2018) error was identified, which related to the treatment of the service fees in the effective interest rate (“EIR”) calculation. In calculating the EIR, management had to consider the behavioural run-down of accounts on a number weighted basis, as opposed to the behavioural run-down on a balance weighted basis, which was erroneously used in the EIR calculation.

After careful consideration, in November 2019, the management team and Audit and Compliance Committee concurred that this correction was not material in terms of International Financial Reporting Standards (“IFRS”) standards. The Bank and ABH Group’s materiality was based on a quantitative and qualitative assessment, as required by the IFRS standards and was applied in a manner consistent with that of previous years. Satisfied that the materiality assessment was appropriate, it was concluded that the correction of the prior period error could be affected in the FY 2019 annual financial statements and that an adjustment of the FY 2018 financial statements was not required.

Subsequent to an investigation by the JSE Limited (“JSE”) into the correction, the JSE advised the bank that a prior period error had to be corrected as the JSE regarded the error to be material. After extensive interaction and co-operation by the Bank with the JSE on the assessment of materiality, the JSE remained steadfast in their opinion that the error was material. The fact that the material error was not corrected in FY 2018 was therefore regarded as non-compliance with the IFRS standards and consequently the Debt Listings Requirements and, as such, the JSE required the Bank and ABH Group to restate their 2019 AFS.

Given the JSE’s view of the materiality for African Bank, the management team and the board undertook an extensive analysis of various other accounting treatments, identified in the 2019 AFS. As a consequence of this analysis and erring on the side of conservatism, a total of four accounting matters were restated in the 2019 AFS. Below are details of the 4 items and the effect that their respective restatements had on the FY 2019’s Statement of Financial Position (“SFP”) and/or the Statement of Comprehensive Income (“SCI”):

- Recognition of the service fee component of interest income on advances was incorrectly accounted for on a balance weighted rather than a number weighted behavioural basis (as explained above). The restatement affected the *Net Advances* note in the SFP, the *Interest Income on Advances* note in the SCI, and the *Credit Quality* notes disclosed;
- Modification loss arising from the rescheduling of the loan size or term of loans under debt counselling required to reduce gross advances, with a commensurate reduction of impairments’ provisions as opposed to disclosing such loss only. The restatement impacted the *Net Advances* note in the SFP and the *Credit Quality* notes disclosed;
- Collections’ costs associated with the advances book were shown as operating expenses instead of as part of the impairment charge. The restatement affected the *Operating Costs* and *Credit Impairment Charge* in the SCI and associated notes; and

- Certain property and equipment assets acquired in 2016 which could not be verified, should have been written-off. This restatement affected the *Property, Equipment and Right of Use Assets* in the SFP, the *Operating Costs* in the SCI and associated notes.

The net effect on these restatements on the FY 2019 Statement of Comprehensive Income was an increase in the net profit before tax of R93 million. Further details of the various restatements are contained in chapter 6 of the ABH Group Integrated Report and detailed in the respective annual financial statements.

## Results publication material

The following published results in respect of the year ended 30 September 2020 are accessible on African Bank’s website at [www.africanbank.co.za](http://www.africanbank.co.za) under the “Investors/Financial Reporting” section as well as at the Bank’s registered office, 59-16<sup>th</sup> Road, Midrand:

1. African Bank Holdings Limited audited group consolidated annual financial statements;
2. African Bank Holdings Limited group investor presentation, integrated annual report and governance report;
3. African Bank Limited audited annual financial statements; and
4. African Bank Limited and African Bank Holdings Limited Basel Pillar III Disclosure documents as at 30 September 2020.

The governance report now includes the previously stand-alone King IV disclosures, which can be accessed at [www.africanbank.co.za](http://www.africanbank.co.za) under the “Investors/Corporate information/Governance report (including King Code)” section.

## Webcast details, presentation material and playback facility

Interested parties are invited to register for a live webcast during which Basani Maluleke, ABH Group CEO and Gustav Raubenheimer, ABH Group CFO, will take participants through the ABH consolidated results. Details of the webcast are:

Date	Tuesday, 26 January 2021
Time	10h00 SAST/CAT
Web pre-registration	Interested parties are requested to pre-register for this webcast at <a href="#">live webcast</a> and follow the instructions provided.

A recording of the webcast will be available on the Bank’s website at [www.africanbank.co.za](http://www.africanbank.co.za) under “Investors/Financial Reporting”.

26 January 2021

## Debt Sponsor

RAND MERCHANT BANK (A division of FirstRand Bank Limited)

