

African Bank Ltd press release

29 November 2016

## **African Bank issues encouraging results for the period 4 April to 30 September 2016**

### Financial highlights

- Operating profit before tax for the period of R335 million compares favourably to Offer Information Memorandum ('OIM') forecast of a R280 million loss before tax
- After a goodwill impairment of R1 947 million, a net loss after tax of R1 678 million compares favourably to the OIM forecast net loss after tax of R1 990 million
- Gross customer advances balances at R27,6 billion
- Strong liquidity, with cash balances R12,9 billion
- Core Equity Tier 1 capital adequacy ratio of 31,5%

### Operational highlights

- Several key milestones achieved in first six months of operations
- Stable credit quality, with collections ahead of expectations
- Robust and prudent provisioning levels
- Broadened product offerings through partnerships
- Improved customer and employee engagement
- 1,25 million customers

African Bank is pleased to announce the release of the audited financial statements for the new African Bank Group covering the operating period from 4 April to 30 September 2016.

"We are encouraged by these results and have made significant progress towards our strategic objectives in a relatively short period", commented CEO, Brian Riley.

The Group's insurance operation made a profit after tax of R33 million, after having built up a prudent level of reserves for known and unknown claims.

Operating expenditure was in line with the OIM forecast. The management team identified and acted on identified annualised savings of approximately R250 million that are partially reflected in the current period.

Gross advances reduced to R27,6 billion from the take-on book in April 2016 of R29,2 billion, which reduction is largely attributable to constrained disbursements. Personal loan and credit card disbursements of R4,2 billion remained subdued under the new National Credit Regulator regulations, effective May 2016, revised credit policies and a competitive and economically stressed market. Collections were ahead of expectations, which resulted in a decrease in impairment provision to R7,5 billion from R7,9 billion at take-on date. Impairment coverage remains at a conservative equivalent of 63,7% of accounts with 4 or more missed instalments.

A robust and prudent provisioning and impairment policy was maintained. Credit quality trends remained stable, supported by the continuous review of underwriting criteria and better than anticipated collections. Loan accounts originated in 2016 continue to perform in line with those originated in 2015, albeit at a slightly reduced level, influenced by the continuing negative macro-economic climate.

### Strategy

African Bank's strategy is to be a successful retail bank which offers a wide range of products and services to South African banking customers.

The group has made steady progress to refine and start delivering on this strategy over the past six months. Significant improvements have been made regarding governance and compliance.

Major operational improvements have been made, including proactive and nimble implementation of credit changes, a central data management system and a new, more customer-friendly website. Improvements are already evident from several large investments made to mitigate IT risk and accommodate new initiatives.

Two new products were launched in the past six months. "Extra Value Loans" enable customers to benefit from receiving additional value on their loans through spending with identified retail partners. A Funeral Policy was launched on 3 August 2016 - 10 000 policies had been sold by 30 September 2016. The policy is one of the best in the business due to its innovative features. Both products are aligned with the Bank's strategy of providing more value to customers.

Medium-term strategies, such as lending to higher income customers, transactional banking and further partnering opportunities are all well under way and at various stages of development, all of which are expected add long-term value to the business.

### Challenging environment

The biggest uncertainty for the next year is the South African economic environment. However, regardless of whether there is growth in the country, African Bank is not a mature business. As such the Bank can only grow by ensuring that the product offerings are aligned to the requirements of its customers, are market competitive and are distributed through channels appropriate to the various target markets. The business is expected to continue gaining traction through a wider spread of products, aimed at consumers where appropriate returns can be achieved.

African Bank management are aware of the need to regain the trust of the investor community as well as the desired higher-income target market and can do only so by building a track record through the delivery of solid financial results, transparent reporting and providing customer value.

## Outlook and prospects

African Bank has a book of better assets acquired from the old bank. The opening balance sheet of the business is highly unusual but does buy management sufficient time to establish African Bank and provide sufficient evidence that the strategy has gained traction and is workable by the time further funding is required.

Brian Riley commented, "I believe we have developed the right strategy and have the right people in place to execute it. The foundation for success is being laid. I am confident that we will deliver on our strategy to the benefit of all our stakeholders".

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On behalf of CEO of African Bank, Brian Riley

## Notes to editors

African Bank is a 100% subsidiary of African Bank Holdings Limited ("ABHL or ABHL group"). ABHL is an unlisted registered bank controlling company under the Banks Act, Act 94 of 1990. The shares in ABHL are privately held by the South African Reserve Bank, the Government Employees Pension Fund, Barclays Africa Group Limited, Nedbank Limited, FirstRand Bank Limited, Investec Bank Limited, The Standard Bank of South Africa Limited and Capitec Bank Limited.

The ABHL group has material insurance operations that are housed in African Insurance Group Limited, a separate 100% held subsidiary of ABHL which, in turn holds a cell captive investment in Guardrisk Limited ("cell captive"). The cell captive investment owned 100% by African Insurance Group Limited is not consolidated by the ABHL group according to International Financial Reporting Standards ("IFRS"), although the pro forma financial position and performance of this entity is dealt with in the Chief Financial Officers Report included in the ABHL group annual integrated report.

African Bank Holdings Ltd will retain its September year end. The Bank commenced operations on 4 April 2016 and therefore the first financial year reported on is a partial financial year.