

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 ANNUAL FINANCIAL RESULTS FOR AFRICAN BANK LIMITED, RELATED GROUP INFORMATION FOR THE YEAR ENDED 30 SEPTEMBER 2021, AND UPDATES TO INFORMATION INCORPORATED BY REFERENCE

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 annual financial statements for the year ended 30 September 2021 (“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 performance of the current year, ended 30 September 2021 (“FY 2021”), was significantly better than that of the prior year, as the upfront higher credit impairments raised a year ago were sufficient to account for the increased risk of default off-set by strong collections persisting in the current reporting period. As a consequence, the Bank reported a net profit after tax of R2 million, for the year ended FY 2021 (FY 2020: R560 million loss).

Key aspects of the African Bank results for the current financial year FY 2021, in comparison to the audited annual financial statements for the year ended 30 September 2020 (“FY 2020”), include the following:

- Profit after tax: R2 million (FY 2020: R560 million loss);
- Credit impairment charge: R1 341 million (FY 2020: R3 408 million);
- Net customer advances balances: R16 462 million (FY 2020: R17 636 million);
- Cash deposits and financial investments, including surplus liquid assets: R7 556 million (FY 2020: R4 646 million);
- Retail customer deposits, including transactional banking balances: R10 315 million (FY 2020: R5 958 million); and
- Total capital adequacy ratio: 42.5% (FY 2020: 38.4%).

ABH consolidated results

The Group’s results have improved dramatically, from a loss after tax of R27 million in FY 2020, to a profit after tax of R534 million in FY 2021. With the Group’s net profit after tax in the second half of FY 2021 being more than double of what was generated in the first half of FY 2021 (H1 2021: R152 million versus H2 2021: R382 million), accelerated economic recovery is clearly evident.

Key aspects of the ABH consolidated results for the current financial year FY 2021, in comparison to FY 2020, include the following:

- Net profit after tax: R534 million (FY 2020: R27 million loss);
- Credit impairment charge: R1 341 million (FY 2020: R3 408 million);
- Net customer advances balances: R16 462 million (FY 2020: R17 636 million);
- Cash deposits and financial investments, including surplus liquid assets: R9 019 million (FY 2020: R6 948 million);
- Retail customer deposits, including transactional banking balances: R10 315 million (FY 2020: R5 958 million);
- Insurance profit after taxation for the year: R496 million (FY 2020: R437 million); and
- Total capital adequacy ratio: 43.3% (FY 2020: 39.1%).

African Bank is a 100% subsidiary of ABH. 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 the ABH Group. The financial performance of AIG is dealt with in the audited consolidated annual financial statements of the ABH Group by means of a re-measurement of the investment in insurance contracts and the dividend received from such cell captive. This treatment is in accordance with International Financial Reporting Standards.

The current year’s reporting performance, ended 30 September 2021, was significantly better than that of the prior year, as the upfront higher credit impairments raised a year ago were sufficient to account for the increased risk of default, with strong collections persisting in the current reporting period. As a consequence, the ABH Group reported a net profit after tax of R534 million, for the year ended 30 September 2021 (FY 2020: R27 million loss). The Group’s return on equity was a resultant positive 4.9% (FY 2020: negative 0.3%).

In both calendar years, 2019 and 2020, the Group tightened its credit-granting criteria, as a consequence of first, a pre-pandemic already-ailing local economy observed in the second half of the 2019 calendar year, and in the 2020 calendar year due to the outbreak of the novel coronavirus pandemic in South Africa in March 2020. Consequently, the level of disbursements granted to the Group’s customers was substantially reduced in the second half of the FY 2020 reporting period. Within an improving operating context and encouraging results from a credit risk perspective, the Group slowly relaxed its credit-granting criteria, in the current reporting period, ended 30 September 2021.

Disbursements, however, remained conservative, increasing marginally by 2% year-on-year off the lows of R6 770 million in FY 2020 to R6 931 million in the current year. The conservative disbursements resulted in the gross advances using pre-acquisition gross value of advances balance continuing its decline, by 6% year-on-year. Consequently, total net revenue (including insurance income) reduced by 14% year-on-year, from R5 893 million to R5 094 million. The strong collections experienced in the first half of the current reporting period continued into the second half of FY 2021, and materially contributed to the credit impairment charge reducing by 61% year-on-year. As a consequence, the credit loss ratio of average advances improved to 4.9% (FY 2020: 11.7%).

Customer balances remain conservatively provided for, with a coverage ratio of 37.5% (FY 2020: 37.4%) excluding deferred fee liabilities, in line with the prior year.

Notwithstanding the various cost containment measures introduced over the past financial year, operating costs were negatively impacted in this reporting period by the payment of section 189A severance packages, the resumption of bonus and long-term incentive provisions, as well as the indirect tax charge increasing substantially, due to a change in the VAT apportionment ratio.

Conservative disbursements, coupled with better than anticipated collections, and continued strong retail savings inflows, offsetting wholesale liability maturities, has ensured that the Group's balance sheet remains highly liquid, with strong available cash resources growing to R9.0 billion (FY 2020: R6.9 billion); representing an increase of 30%. Equity capital levels of R11.2 billion (FY 2020: R10.6 billion) continue to grow; representing 68% of net advances of R16.5 billion, and a Group CET1 level of 42.5% (FY 2020: 35.9%).

The Group continues to achieve significant success in growing its deposit book to R10 315 million as at 30 September 2021 (FY 2020: R5 958 million); an increase of 73%. Included in this total is R914 million (FY 2020: R392 million) deposits from transactional MyWORLD accounts; an increase of 133%. The number of retail savings and investment accounts grew by 40% from 60 000 in the prior year to 83 928 as at 30 September 2021.

Since its launch in May 2019, steady growth of the MyWORLD transactional banking account has been experienced, with the number of accounts opened to date total 741 000 (FY 2020: 388 000), of which 398 000 (FY 2020: 200 000) are funded accounts, a growth of 99% year-on-year. Usage of the transactional accounts is also rising, with 17.3 million (FY 2020: 7.3 million) transactions having been processed, representing R24.5 billion (FY 2020: R8.7 billion) in transactional value in the current year.

Restatement of the prior period comparative numbers in the African Bank results 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 ("SCI") and statement of cash flow for the year ended 30 September 2020, and the statement of financial position ("SFP") as at 30 September 2020.

Reallocation of non-interest income and operating costs:

- The Group earns non-interest income for value added services it provides to customers. In the prior year, the Group recognised this arrangement as if it was principal rather than as an agent. Therefore, in the prior year, the non-interest income and operating expenses line items were grossed up by R30 million to reflect sales made and the cost of these sales. In the current year the Group has reduced the non-interest income and operating expenses line items by R30 million and now only shows the net commission income earned of R2 million from this arrangement in non-interest value added services. This reclassification has not impacted the net loss in the SCI.

Retail investments incorrectly classified as other long-term funding:

- In the prior period, retail investments with a 24-month term were incorrectly classified as other long-term funding even though customers can withdraw the investment on demand which therefore classify as short-term in nature. R122 million has been reclassified from other long-term funding to short-term funding in the prior year SFP. This had no impact on the net assets.

The Statement of Cash flow:

- The Group has previously presented the net movements in gross advances with additional information separately disclosing cash received from customers amounting to R9.04 billion and advances disbursed to customers of R11.30 billion as separate line items on the face of the cash flow statement. Management also disclosed the interest received from customers in the cash received from lending activities line item amounting to R7.61 billion as a separate line item on the face of the cash flow statement.
- In the current year management are presenting the net movement in gross advances as a single line item only amounting to R5.53 billion. Management is of the view that net presentation of this amount reflects information that is used for decision-making by investors and stakeholders and is aligned to industry practice.
- The prior year cash generated from operations note has also been restated to include the interest amount received from customers of R7.61 billion in the cash received from lending activities line item to be consistent with the restated disclosures on the face of the cash flow statement. This has no impact on the net cash flow from operating activities.
- In the prior year the cash received from lending activities included other non-interest income of R477 million from activities other than lending. In the current year the line item has been adjusted to cash received from income earning activities to correctly reference all income activities in this line item.

Results publication material and information incorporated by reference

The following published results in respect of the year ended 30 September 2021 are accessible on African Bank's website at www.africanbank.co.za under the "Investors/Financial Reporting" section:

1. African Bank Holdings Limited audited group consolidated annual financial statements for the year ended 30 September 2021;
2. African Bank Holdings Limited group investor presentation;
3. African Bank Holdings Limited group integrated report for the year ended 30 September 2021;
4. African Bank Holdings Limited group environmental, social and governance report for the year ended 30 September 2021;
5. African Bank Limited audited annual financial statements for the year ended 30 September 2021; and
6. African Bank Limited and African Bank Holdings Limited Basel Pillar III Disclosure documents as at 30 September 2021.

The external auditors have issued unqualified audit reports on both the Bank and Group annual financial statements, which include no modifications.

The governance report is now incorporated into the Environmental, Social and Governance report, and includes the various King IV disclosures, which can be accessed at www.africanbank.co.za under the “Investors/Corporate information/Environmental, Social and Governance report” section.

Webcast details, presentation material and playback facility

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

Date	Tuesday, 30 November 2021
Time	10h00 SAST/CAT
Web pre-registration	Interested parties are requested to pre-register for this webcast Click here and follow the instructions provided.

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

30 November 2021

Debt Sponsor

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