28 May 2019

African Bank Group reports solid financial performance for the six months ended 31 March 2019

African Bank has had another successful six-month period as shown in these results, during a period in which the Bank has invested in new initiatives, allowing it to diversify its business. The Bank launched its transactional banking proposition, MyWORLD, which signals a new phase in the Bank's growth. Retail deposit customers continue to show trust in the Bank, as evidenced by the significant increase in savings and investments deposits.

The cost of credit risk continues to decrease, while new credit disbursements have increased against a backdrop of stricter credit underwriting criteria. This is also testament to the increased efficiencies between the Bank's distribution network and the alignment of its marketing campaigns. The ABH Group has been able to achieve all of this while maintaining robust capital levels and surplus liquidity and believes that the combination of these factors present African Bank as an attractive and investable proposition.

Group financial headlines

Key aspects of the African Bank Holdings Group results include the following, in comparison to the prior year, being the six months ended 31 March 2018:

- Savings and Investments increased over 100% to R1.5 billion (H1:2018: R680 million)
- Direct Sales and web channels (R637 million) contribute 11% of total sales – up from 6%
- Credit disbursements increased by 17% to R5.6 billion
- The credit loss ratio improved from 11.1% to 6.8% (Including an IFRS9* impact, which reduced the ratio by 2.5%)
- Profit after tax increased 19% to R533 million from R448 million
- Group Return on Equity improved to 10.9% from 9.6%
- Investment into the new business lines and increased capacity raised operating costs by 10% to R 1 396 million from R 1 270 million
- Cash resources, including surplus statutory assets of R6 billion
- The Group is well capitalised with Core Equity Tier 1 ratio of 34.1% at a Group level

Commenting on the results, Basani Maluleke, Group CEO noted:

"We continue to place our customer at the forefront of everything that we do. The growth in sales from our website and Direct Sales channels demonstrates that our customers identify with the convenience and comfort of using our digital channels. Our lending continues to be offered prudently and responsibly, as demonstrated by our improved loan loss rate and continued focus on better risk customers. The excellent increase in our Savings and Investments portfolio reflects a growing customer base that wants to benefit from the best interest rates in South Africa and has regained trust in our brand.

"Last week we successfully launched the lowest cost and ground-breaking transactional banking product called MyWORLD. We firmly believe that MyWORLD delivers excellent value and ease of use to our customers and that it will be a springboard to ensuring long term sustainability of the business."

Sustained financial performance

The Group delivered a solid performance for the six months ending 31 March 2019. The banking book has grown and earnings have increased, while simultaneously investing in the strategy of building a sustainable digital retail bank. The Group reported an increase of 19% in net profit after taxation to R533 million for the six months ended 31 March 2019, compared to R448 million for the six months ended March 2018. Operating profit before foreign exchange and tax improved by 3% to R740 million from R715 million for the six-month period ending 31 March 2018.

The Group reported an improved RoE of 10.9% (H1 2018: 9.6%), with the Branch Network continuing to be a profitable channel of the Bank, reporting a stand-alone RoE of 21.7% (H1 2018: 20.0%).

Operating costs increased 10% to R 1 396 million from R1 270 million, primarily as a result of an increase in staff costs to support additional credit disbursements as well as additional recruitment to support the MyWORLD transactional banking and underlying IT structure. Costs remain tightly controlled across the board.

Excellent Savings and Investments growth

African Bank continues to actively diversify its funding base, offering market-leading interest rates to retail depositors, including 10.75% per annum, which is equivalent to 13.33% per annum calculated on expiry, for its 5 year fixed term product. The Bank has grown its retail deposits to R1.5 billion. This retail funding constitutes 8% of the total funding for the Bank. Depositors have increased to 19 000, while the average deposit has increased to R80 000 (H1 2018: R52 000).

Improved new credit business

African Bank remains a significant and responsible provider of personal loans to South Africans. New loan and credit card business written for the six months under review grew by 17% to R5 612 million (H1 2018: R4 792). The Direct Sales channel contributed a 71% increase in credit disbursements, reporting R413 million versus R242 million for the six months ended 31 March 2018. The profitability of Direct Sales is expected to increase as the channel gains traction due to ongoing enhancements to systems and processes that aims to improve the customer experience and lower the cost per loan disbursed through this channel. Launched in 2018, the new web channel was well received by customers and contributed an improved 400% profit at R224 million compared to R41 million for the comparative period ending 31 March 2018.

The traditional network of 394 branches remains well supported by customers and contributed R4 975 million in disbursements, a 10% improvement as compared to R4 509 million for H1:2018. This increase was as a result of Branch Network and distribution efficiencies being realised, as well as an increase in loan sizes resulting from a continued focus on lower risk customers, who tend to qualify for larger loans.

The Bank continued to focus on lower risk customers by writing better quality new business onto the loan book, with over 80% of disbursements to these customers. As a consequence, the Bank extended larger loans to fewer people and so the customer base declined over the last six months. These disbursements however continue to show better risk emergence, with a like for like improvement of the credit loss ratio to 6.8 % from

11.1% (including a positive impact of IFRS9 of 2.5%) demonstrating the prudent and cautious approach to credit extension.

Increased loan volumes

African Bank's gross advances improved to R29 349 million, as compared to R26 922 million at 31 March 2018. The growth is in line with banking industry trends and underscores both a steady growth of the advances book and the Bank's prudent approach to credit underwriting.

Capital, funding and liquidity

African Bank and the Group remains well capitalised and reported a regulatory capital CET1/Tier 1 ratio of 30.1% and 34.1% respectively.

Cash reserves, including surplus liquid assets as at 31 March 2019, amounted to R6 billion. Management remain engaged with shareholders to establish a shareholder-backed liquidity support arrangement.

African Bank's launch of MyWORLD and the journey to become a digital retail bank

The successful launch of the MyWORLD transactional banking offering on 21 May 2019 represents an important milestone in the Bank's stated strategy to become a sustainable digital retail bank. MyWORLD provides exceptional value and convenience at the cheapest price compared to what is currently available from other South African banks. Its innovative features provide a mechanism to share banking within families, groups and in communities and it has been well received by customers. To date, customers have opened over 12 000 MyWORLD accounts.

MyWORLD has significant longer term benefits for African Bank. These include access to a new customer base and the retention of existing customers through the offering of a market-leading transactional banking offering. Access to an increased customer base across their transactional banking products also allows the Bank access to better customer data, and in doing so inform its customer strategy.

ENDS

* IFRS9 is intended to implement a forward looking impairment provision methodology in contrast to IAS39 (which it replaces), which was retrospective and based on history. It assumed the future looks like the past. African Bank Holdings Limited ("the Group") applied IFRS9 from 1 October 2018 retrospectively without restating comparative figures. An IFRS9 – Financial Instruments Transition Report is available on the African Bank website.

Conference call today at 10.00am

Interested parties are invited to register for a conference call during which Basani Maluleke (CEO) and Gustav Raubenheimer (CFO) will take participants through the operational highlights, financial results and outlook for the Group.

Details of the conference call are:
- Date: Tuesday, 28 May 2019
- Time: 10:00am SAST

Interested parties are requested to pre-register for this conference call at the following www.diamondpass.net/8167232 and follow the instructions provided. A recording of the results will be available on the Bank's website after the presentation.

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On behalf of CEO of African Bank, Basani Maluleke

Notes to editors

About African Bank Holdings Ltd and African Bank

African Bank is a 100% subsidiary of African Bank Holdings Limited ("ABH" or "ABH Group"). 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 Group Limited, Capitec Bank Limited, FirstRand Bank Limited, Investec Bank Limited, Nedbank Limited and The Standard Bank of South Africa Limited.

The ABH Group has material insurance operations that are housed in African Insurance Group Limited, a separate 100% held subsidiary of ABH 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 ABH Group according to International Financial Reporting Standards ("IFRS"), although the financial performance of this entity is dealt with in the unaudited consolidated financial statements, by means of a re-measurement of the investment in insurance contracts.