African Bank Holdings Limited press release

23 May 2017

African Bank Group reports solid set of results for the six months ended 31 March 2017

Financial headlines

- Profit before tax and foreign exchange movements for the period up 32% to R501 million
  (4 April 2016 to 30 September 2016: R379 million)
- Both the Bank and the Insurance entities are profitable
- Net customer advances down 2% to R19,7 billion
- Cash balances, including surplus liquid assets of R11,7 billion
- African Bank Core Equity Tier 1 capital adequacy ratio of 32% and total capital adequacy ratio of 38,7%
- Costs, including cost of investment in new business initiatives, flat against prior period

Operational headlines

- Partnership engagements progressing well
- Prudent provisioning levels, with an overall coverage ratio of 30%
- Credit Direct launched post results period
- Core Transactional Banking platform completed; user interface development well under way – targeting public launch first quarter 2018
- Credit risk tracking according to predications
- Modernising of branches on track for completion by June 2018
- Retail deposits up 42% off a low base

The Group reported a 32% increase in profit before tax and foreign exchange losses of R501 million, compared to R379 million reported for the period 4 April 2016 to 30 September 2016. The core loans business, currently written primarily through the branch network, reported earnings after tax of R611 million, translating into an ROE of 17,3%. It continues to benefit from risk pullbacks in prior periods and good cost control in a tough economic environment. Whilst these credit underwriting adjustments had a positive impact on credit risk, it resulted in decreased new business volumes. Strong collection actions in addition to the tighter credit risk appetite have led to improving arrears. The Group has maintained a conservative and consistent provisioning policy across its retail lending portfolio, with a well provided for loan book and an overall coverage ratio of 30%.

Diversification strategy gaining traction

The Group is gaining traction on the execution of its stated diversification strategy. Credit Direct, which provides lending products through direct contact with customers via non branch channels, was recently launched, albeit after a slight delay.

The core digital transactional banking platform is fully operational on a closed user-group basis, with the 'user interface' technology layer currently under development.

The impact of the liability management exercise (primarily foreign debt buyback), as described in the previous set of results can now also be seen through a further reduction in negative carry (interest paid on funding less interest earned on bank deposits) at the corporate level.

Challenging consumer environment

The South African consumer continues to be under considerable strain. This is particularly true of the higher risk market, which represents the core of the Bank's traditional customer base. The effects of the credit rating agencies downgrade of South African sovereign risk are expected to further negatively impact the macro economic landscape and the South African consumer over the medium term.

Overall consumer indebtedness and a risk aversion by the banks have resulted in negative real growth in credit extension for 2016 and 2017, while corporate credit growth, although positive, has been declining during the same period.

Media reports regarding restructuring plan at African Bank

To achieve the strategy approved by the Board of Directors, it is essential to continually transform the business into one that is sustainable over the long term. Riley noted that 'The Bank is set to begin consultations with Sasbo on a restructuring plan to be facilitated by the Commission for Conciliation, Mediation and Arbitration (CCMA). The first consultation date of 30 May 2017 has been confirmed by all parties. The conclusion of the initial consultation process, may take place over a period of days or weeks.'

Outlook

The outlook for the Group, particularly related to its core loans business, remains challenging against a South African economy with limited growth prospects in the short to medium term. Regulation is becoming more complex and whilst it offers a welcome levelling playing field, it brings with it an increasing cost of compliance. In the near term, the implementation of the credit life insurance regulations changes in August 2017 are expected to reduce the Bank's new business volumes by 10 - 15%.

The Group is however confident that is has the right approach to managing these challenges through a combination of prudent risk management and focus on the diversification of its financial service offerings.

Commenting on the results, Brian Riley, group CEO noted: 'We are pleased to announce a solid set of results, reflecting a core loans business that continues to improve albeit in a tough environment. Credit risk remains firmly under control in the context of understandably muted new business volumes, due to the Bank's conservative approach to credit in a struggling economy and the impact of regulatory changes. We are gaining traction on executing our diversification strategy'.

ENDS

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On behalf of CEO of African Bank, Brian Riley