African Bank final press release

26 January 2021

African Bank Holdings Limited Group achieved the following for the full year financial results ended 30 September 2020, despite the depressed economy and impact of Covid-19

- Robust balance sheet with a strong liquidity profile and high available cash resources, including surplus statutory assets of R6.9 billion, as a result of prudent liquidity management
- High equity capital levels of R10.6 billion, resulting in a total Group capital adequacy ratio of 39.1% (FY19: 41%)
- Bank's CET1 capital ratio at 31.2%, well above internal and regulatory minimums
- Increase in the retail deposit book to R6 billion (FY19: R2.4 billion)
- Net customer advances balances: decrease by 5% to R17.6 billion (FY19: R19.8 billion)
- Customer balances conservatively provided for with coverage ratio of 37.4% (FY19: 32.7%)
- Total number of customers increased to 1.35 million

Subdued financial results, with signs of improvement in second half

- Net loss after tax R27 million (FY19 profit: R1.2 billion) - an improvement from the H1 loss of R111 million with a profit of R84 million in the second half
- Group return on equity of negative 0.3% (FY19: 11.6%)
- Year-on-year gross advances decreased by 5%
- Group's net interest margin increased by 4% to R4.8 billion

Outgoing CEO Basani Maluleke noted: "*Over the last three years, we have made good progress on our strategic direction. Our transition from a single-product business, operating through a single channel, to a diversified financial services business, has enabled us to grow and attract new customers. Unfortunately, our financial numbers have not withstood the worsened economic climate and the overlay of the effects of the Covid-19 pandemic. We are however heartened by the second half of the full year, which reported signs of reduced risk, improved earnings and a steady increase of usage of MyWORLD.*"

Financial performance

Against a backdrop of one the steepest contractions of the South African economy recorded by any major economy during the pandemic, the business reported subdued results. The Group reported a net loss of R27 million for the year ended 30 September 2020 (FY19: R1.2 billion profit), as a result of higher credit impairments and reduced insurance income. The Group's return on equity (RoE) was a resultant negative 0.3% (FY19: 11.6%).

Encouragingly, the Group reported a second half improvement in earnings of R84 million for April to September, as lower risk emerged and operating costs and net interest expenses were reduced. The full year loss was negatively impacted as a result of increased provisioning and lower insurance income received, due to reduced credit activity and tightened credit underwriting especially in the second half of the year, being April to September.

Total net revenue, including insurance income, reduced by 9% to R6.1 billion from R6.7 billion for the year ended September 2019.

Impact of the Covid-19 pandemic

At the outbreak of the pandemic, with the ensuing lockdowns, the Group raised a specific credit impairment of R550 million and an insurance provision of R303 million. The Covid-19 general provisions raised in H1 2020 are being partly released, with R111 million of the Covid-19 credit impairment and R216 million of the related insurance provision remaining. 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 pandemic and resultant economic lockdown had a significant impact on insurance returns, with Covid-19 related claims up by 27% to R638 million (FY19:R502 million).

The Bank assisted customers with various debt-relief measures, in an effort to support the most vulnerable, with instalments to the value of R304 million being deferred. Credit life insurance cover also provided customers with financial relief and at the end of 30 September 2020, R134 million had been claimed by customers who experienced short-time or unpaid leave.

Key factors in the control of the organisation were instituted by the team, which included streamlining processes, limiting duplication of activities and enhancing automated systems. It therefore became necessary to commence with a consultation process with Sasbo, the Bank's recognised union, to right-size the business in terms of the number of employees. This process has not yet been concluded.

Restatement of FY2019 comparatives

In both the African Bank results and the African Bank Holdings 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.

As a result of a JSE review, management restated certain FY19 comparative numbers and subsequent conservative treatment applied to three other items. The net effect on these restatements on the FY19 Statement of Comprehensive Income, was an increase in the net profit before tax of R93 million for that year.

Steady take up of MyWORLD transactional banking product, the Bank's "anchor tenant"

The MyWORLD transactional product marks the transition from a largely credit-focused Bank to a diversified retail Bank in which customers are anticipated to hold a range of products. Central to its credit-led strategy, MyWORLD is seen as an anchor tenant for the Bank. The offering enables cross-selling of products with meaningful personalisation as the Bank gathers insights, which further supports and informs its data strategy. Priced with low fees, over 368 000 accounts have been opened since the launch of MyWORLD in May 2019. During the current financial year, the Bank processed some 8.9 million transactions with a value of R8.9 billion.

The Bank has also completed the full implementation of its Omni-channel, which began in 2017. This system enables customers' easy access across multiple channels and all product ranges, and access to a chatbot, "Karabo", giving immediate assistance to the simpler queries received from its customers. Omni provides African Bank with a leading-edge digital offering.

Strong growth in retail deposits

In extending the Bank's customer value proposition, retail savings were actively targeted. The Bank recorded strong growth in retail savings and investment deposits over the year, as it continues to offer South Africans the best interest rate, currently at 11.11% per annum calculated on expiry after 60 months. Retail savings and investment deposits increased by 149% to R6 billion, year-on-year, with this source of funding representing an increase to 35% of the Groups' total liabilities portfolio, improving the Group's funding diversification, up from 12% compared to the prior year. Of the R6 billion in investments, over 59% were invested into the long-term 5-year fixed deposit product, with a re-investment roll over rate of greater than 45%.

Continued conservative credit-granting measures

Prior to the outbreak of Covid-19 and given an already weakened economy, management took proactive steps to tighten various credit granting criteria in September 2019. Further tightening measures were taken in April and August 2020 as a result of the pandemic. The key outcome was reduced disbursements, resulting in a decline of 37% to R6.8 billion from R10.8 billion in the prior year. Reduced disbursements resulted in the net advances book declining by 5% to R17.6 billion. Customer balances remain conservatively provided for, with a coverage ratio of 37.4%, substantially higher than reported coverage of 32.7% for the year ended September 2019.

The Bank continues to focus on lower risk customers, which constituted 87% of the loans advanced during the year. Non-performing loans increased to 41% (FY19: 35.2%) as a result of the adverse economy and effects from the Covid-19 lock down.

Customers are the centre of everything, with high employee engagement scores

In March 2020, the South African Customer Satisfaction Index rated African Bank the best bank for customer service in South Africa. BrandsEye further reported African Bank to be the only bank with a positive online sentiment.

"Both accolades were well received by our executive committee and our people, given that one of our key pillars is customer centricity. Our customer numbers also increased to 1.35 million, demonstrating a steady interest from South Africans seeking value from our products and services," noted Raubenheimer.

"Our recent people engagement score was an above average 52% and we continue to develop our people with assistance to digital innovation, promoting higher levels of engagement and promoting empowered accountability. We believe that these initiatives, amongst others, will further assist to future-proof the Bank for long-term value creation."

Opportunities to re-enter domestic wholesale funding at market related rates

In September 2020, the Bank concluded a shareholder-backed liquidity facility totaling R8 billion over 3.5 years. This Support Arrangement will facilitate African Bank's formal re-entry into the South African wholesale funding market at market related rates and should provide further comfort and confidence to South African funders. EMTN funding has reduced to 18% of total funding, from 31% (FY19), which together with the reduction in the repo rate on floating rate funding, and the increase in retail deposits, has also assisted to reduce the Bank's cost of funding.

Strong liquidity and capital levels maintained

The Group's balance sheet remains robust with high available cash resources of R6.9 billion. Management continued to maintain a strong liquidity profile with high Group equity capital levels static at R10.6 billion and a Group total capital adequacy ratio of 39.1%. The Bank's CET1 capital ratio is well above the internal and regulatory minimums, at 31.2%.

Looking ahead - remaining a strong investment proposition

In February 2020, the SARB indicated that they would appoint advisors to assist them to exit their shareholding in the Group. The Bank has started working with these advisors and the SARB anticipates that their exit will be completed within 18 -24 months, after the identification of a suitable buyer.

Looking ahead, the team will continue to future-proof the organisation such that the business competes across the fintech and banking landscape in terms of value provided, low price offerings and digital innovation.

The Group will continue to evaluate mergers and acquisitions to drive growth and diversification, with the intention being to leverage economies of scale.

On leaving the Bank, Maluleke thanked the Boards and all stakeholders for entrusting her with the responsibility of leading the Group, which she noted had been a privilege. She further thanked the many South Africans for the goodwill showed to her which made her role all the more meaningful.

Raubenheimer again thanked Basani for her contribution and concluded, “We have navigated a tough year, and remain a solid business. We look forward to growing the Group for the benefit of our customers and the broader stakeholder group.”

ENDS

Presentation and webcast today at 10am

Interested parties are invited to register for a conference call during which Basani Maluleke and Gustav Raubenheimer will take participants through the operational highlights, financial results and business prospects.

Details of the conference call are:

- Date: Tuesday 26 January 2021
- Time: 10h00 SAST

Interested parties are requested to pre-register for this webcast at live webcast and follow the instructions provided. A recording of the results presentation will be available on the Bank’s website after the presentation.

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Notes to editors

About 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 Trading and Investments Solutions Proprietary Ltd, 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.

African Bank offers a diversified range of products and services that compete on the basis of innovation, creating customer value and socially responsible banking.