

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 financial results for African Bank Limited and related group information for the year ended 30 September 2017**

African Bank is pleased to announce the release of the audited annual financial statements for the full year ended 30 September 2017. The Bank commenced operations on 4 April 2016 and therefore the comparative results referred to in this announcement, both for African Bank and African Bank Holdings Limited on a consolidated basis are reflective of the results for an effective six month period from 4 April 2016 to 30 September 2016.

Key aspects of the African Bank Limited results include the following:

- Net profit after tax for the period of R178 million (2016: Net loss after tax of R1 699 million)
- Net interest income after impairment R1 358 million (2016: R548 million)
- Net customer advances balances R18 743 million (2016: R20 111 million)
- Available cash balances, including surplus liquidity invested in the SA sovereign assets, of R10 148million (2016: R12 862 million)
- Core Equity Tier 1 capital adequacy ratio of 29.9% (2016: 31.5%)

The change in "Net profit after tax for the period" was primarily attributable to the full goodwill impairment of R1 947 million in 2016 on commencement of operations on 4 April 2016 not recurring in the current period. The Bank increased its reported "Net interest income after impairment" to R1 358 million (2016: R548 million), primarily as a result of a lower credit impairment charge due to conservative underwriting practices and lower net interest expense as a result of bond buybacks to date, partially offset by lower overall yields as a result of lower average gross advances balance. "Net interest income after impairment" excludes the profit on bond buybacks.

Net customer advances have reduced as a result of a more conservative risk appetite reducing new business disbursements by 9%. Strong liquidity has been maintained while the Bank has further optimised its balance sheet through additional buy-backs of liabilities, further reducing its net interest cost. Robust capital levels have been maintained, notwithstanding the negative impact of the sub investment grade rating of the counterparty banks where significant surplus cash was invested. A greater portion of this surplus cash has been invested in South African sovereign debt securities which do not require a capital allocation but nevertheless offer similar interest income.

### **Unqualified audit report**

The audit reports in respect of the financial year ended 30 September 2017 for African Bank Limited and African Bank Holdings Limited referred to below, are both unqualified.

### **Restatement of elements of the statement of cash flows for the comparative period.**

In order to improve the transparency and comparability of the amounts included in the "cash flows from operating activities" analysis, the Bank has reclassified the adjustments related to the acquired book accounting and thus disclosed them as part of the movement in gross advances. In the 2016

analysis, adjustments relating to the acquired book accounting were presented as cash receipts from lending activities.

After further consideration, presentation of these adjustments as “movement in advances” was considered to be more relevant and reliable, and is thus disclosed in the notes to the annual financial statements.

The restatement did not change the net cash inflow from operating activities, although it did change the classification of amounts described to derive the net cash inflow from operating activities.

### **African Bank Holdings Limited group information**

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, Barclays Africa Group Limited, Nedbank Limited, FirstRand Bank Limited, Investec Bank Limited, The Standard Bank of South Africa Limited and Capitec Bank 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.

ABH has today also released its audited consolidated annual financial statements for the year ended 30 September 2017.

Key aspects of the African Bank Holdings Limited consolidated results include the following

- Net profit after tax for the period of R786 million (2016: Net loss after tax of R1 678 million)
- Net interest income after impairment R1 330 million (2016: R536 million)
- Earnings from Insurance operations R639million (2016: R33 million)

The change in Net profit after tax reported also benefitted from an increase in earnings from the investment in insurance operations, which reported earnings of R639 million (2016: R33 million), in addition to not being impacted by the goodwill impairment as described above. The creation of the initial reserve in the prior period resulted in a disproportionately large actuarial movements charge for that period for the insurance operations. Net advances, available cash balances and capital adequacy for African Bank Holdings Limited are all in line with African Bank Limited.

The following published results in respect of the year ended 30 September 2017 are available for inspection at the registered office of the Bank and can be accessed on the African Bank’s website via the following url: <https://www.africanbank.co.za/en/home/investors/corporate/financial-reporting/>

1. African Bank Holdings Limited Integrated Report;
2. African Bank Holdings Limited Investor slide presentation;
3. African Bank Holdings Limited audited Group Consolidated Annual Financial Statements;
4. African Bank Limited audited Annual Financial Statements; and
5. African Bank and African Bank Holdings Limited Basel Pillar III Disclosures.

Commenting on the results, Brian Riley, group CEO noted: “I am very pleased with the progress we have made in many areas across African Bank, which have directly contributed to the good set of results we have delivered for the 2017 financial year. Although we come off a relatively low base, the significant increase in profitability is a result which should satisfy all stakeholders, particularly as it includes planned investment and voluntary severance costs. In particular, the core loans business has been fixed with the branch network producing a much improved RoE of 20%.

The online and contact centre channels have been improved and are gaining traction. The MMI partnership has commenced and, whilst still in its infancy, it has the potential to create significant embedded value for the Bank. We intend to grow the balance sheet following the previous period of consolidation during which we established our conservative risk appetite, an approach we intend to maintain.

Good progress has been made towards launching both transactional banking and our customer centric omni-channel platforms. Both platforms will be launched in mid-2018 and should provide significant uplift to our customer numbers.

Whilst this is my last set of results as the CEO, I look forward to my new role as a non-executive director after March 2018. I am confident that I leave the organisation in capable hands. There is a fine team of executives, supported by a highly committed staff base whom are duly skilled to deliver upon the mission to build a successful retail bank”.

#### **Conference call details, presentation material and playback facility**

Interested parties are invited to register for a conference call during which Brian Riley, Gustav Raubenheimer, group CFO, and Basani Maluleke, group head of Operations will take participants through the results. Details of the conference call are

- Date: Friday, 1 December 2017
- Time: 11h00 SAST/CAT
- Web pre-registration: Interested parties are requested to pre-register for this conference call at the following url: <https://goo.gl/2cFnUS> and follow the instructions provided.

A playback recording will be available on (+27) 11 305 2030, playback code 10008688#

#### **Comparison to Offer Information Memorandum for African Bank**

The launch of African Bank on 4 April 2016 was preceded by the acceptance of a series of Exchange Offers (“Exchange Offers”) by the creditors of the old African Bank (“old Bank” Registration No 1975/002526/06, Company Code BIABL). The affected creditors included holders of notes issued under the old Bank’s Domestic Medium Term Note Programme, Euro Medium Term Note Programme and bilateral corporate deposits. The acceptance of these Exchange Offers was a condition precedent to the establishment of African Bank.

The information pertaining to the Exchange Offers was contained in an Offer Information Memorandum (“OIM”) published on 4 February 2016, which is available on African Bank’s website at <https://www.africanbank.co.za/en/home/investors/corporate/financial-reporting/>

The OIM contains certain financial information pertaining both to the old Bank and African Bank, referred to as “Good Bank” in that document. A financial forecast for the period from 1 April 2016 to 30 September 2018 was included as part of Annexure A of the OIM. This financial forecast was split into three periods, the six months ended 30 September 2016, and two full year periods ended 30 September 2017 and 2018 respectively.

The Board of African Bank have noted some variances in this set of reported results to the 2017 OIM forecast. The comparison is done reflecting the risk adjusted income using the effective interest rate, as explained in the OIM, rather than the fair value basis as disclosed in the audited interim results for African Bank for the year ended 30 September 2017.

The material variances include the following:

1. The net interest income after impairment is marginally lower than forecast in the OIM as a result of three factors which largely offset each other:
  - A lower yield on advances than forecast in the OIM, given the Bank’s reduced risk appetite, favouring lower risk customers that command larger loans over longer periods at lower yields. This reduced risk appetite is deemed necessary as a result of a deteriorating economy and the introduction of regulatory caps on interest and insurance rates;
  - A lower credit impairment charge than forecast in the OIM, as a result of the reduced risk appetite described in the point above, partially offset by a more conservative approach to writing off bad debt than was assumed in the OIM forecast. The change in the bad debt write-off policy revolved around moving the point of bad debt write-off from a “recency 10” factor, as assumed in the OIM forecast, to a more conservative “recency 5” factor, where “recency” refers to the number of months since the last payment by the customer; and
  - A lower reported net interest expense, as a result of the bond buy backs that have been executed, partially offset by certain foreign exchange losses.
2. Higher operating costs than anticipated in the OIM as a result of investment into strategic areas of focus which were specifically not contemplated in the OIM, which have increased the negative variance to the OIM.

The Board is however satisfied that, because of the changing economic environment since the curator published the OIM forecasts and the need to drive a strategy which is aimed at diversifying the business of African Bank over time, which was specifically not considered within the OIM forecasts, the variances are not inappropriate.

The Board believes that as the Bank begins to deliver its stated strategy over time, the OIM forecasts will continue to be increasingly distinct from reported results, eventually to the point where they are all but irrelevant. The Board is thus satisfied with the quality of the reported earnings.

1 December 2017

Debt Sponsor

Rand Merchant Bank (A division of FirstRand Bank Limited)