

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 unaudited financial results for African Bank Limited and related group information for the six months ended 31 March 2017

African Bank is pleased to announce the release of the unaudited interim financial statements for the six months ended 31 March 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 the period from 4 April 2016 to 30 September 2016.

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

- Operating profit R83 million before tax (2016: R314 million)
- Profit for the period R53 million (2016: Loss of R1 699 million)
- Net customer advances balances R19 701 million (2016: R20 111 million)
- Available cash balances, including surplus liquid assets, of R11 695 million (2016: R12 862 million)
- Core Equity Tier 1 capital adequacy ratio of 32.0% (2016: 31.5%)

The lower operating profit was primarily driven by lower gains on bond buybacks during the period of R11 million (2016: R251 million), given that the majority of the bond buy backs were completed in the prior period. The increase in profit for the period was driven by a goodwill impairment of R Nil (2016: R1 947 million), given that the goodwill which arose on the commencement of operations was impaired under the International Accounting Standards during the prior period.

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 unaudited consolidated financial statements for the six months ended 31 March 2017.

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

- Operating profit R345 million before tax (2016: R335 million)
- Profit before tax and foreign exchange losses with insurance profits grossed up for tax purposes was R501 million (2016: R379 million)
- Profit for the period R315 million (2016: Loss of R1 699 million)
- Earnings from Insurance operations R280 million (2016: R33 million)

The reduction in operating profit within African Bank referred to above is offset by an increase in the earnings from the investment in insurance operations. The increase in insurance operations is as a result of a change in the actuarial movements charge in the insurance operations of R9 million (2016: R440 million) as a result of the initial creation of the incurred but not reported provision being built up from zero in the preceding period. The creation of the initial reserve in the preceding period resulted in a disproportionately large actuarial movements charge for that period.

The following published results in respect of the six months ended 31 March 2017 can be accessed on the African Bank's website via the following url: <https://www.africanbank.co.za/about-us/investors>

1. African Bank Holdings Limited Investor slide presentation and results booklet
2. African Bank Holdings Limited unaudited Group Consolidated Condensed Interim Financial Statements
3. African Bank Limited unaudited Condensed Interim Financial Statements
4. African Bank and African Bank Holdings Limited Basel Pillar III Disclosures

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 in the context of 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, albeit with a slight delay in Credit Direct, which launched successfully on 15 May 2017." He added that "While the business operates in a climate of increasing economic and regulatory headwinds, we have the continued support of all of our stakeholders and there is increasing evidence that we are delivering on our strategy".

Conference call details, presentation material and playback facility

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

- Date: Tuesday, 23 May 2017
- Time: 11h00 SAST/CAT
- Web pre-registration: Interested parties are requested to pre-register for this conference call at <http://goo.gl/5yTSnj> and follow the instructions provided.

A playback recording will be available on (+27) 11 305 2030, playback code 10001965# until 29 May 2017.

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/about-us/investors>.

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.

The Board of African Bank have noted some variances in this set of reported results to the 2017 OIM forecast, albeit that these variances are at this stage imputed, given that the reported results are interim and the 2017 OIM forecast is for a full financial year. The material variances include the following:

- 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 higher credit impairment charge than forecast in the OIM, primarily because the Bank chose to take 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 6” factor, where “recency” refers to the number of months since the last payment by the customer. There are also some seasonal factors at play that account for some variances;
- 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; and
- 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.

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 also believes that as the Bank begins to gain greater traction in executing its stated strategy, the OIM forecasts will become 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.

23 May 2017

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