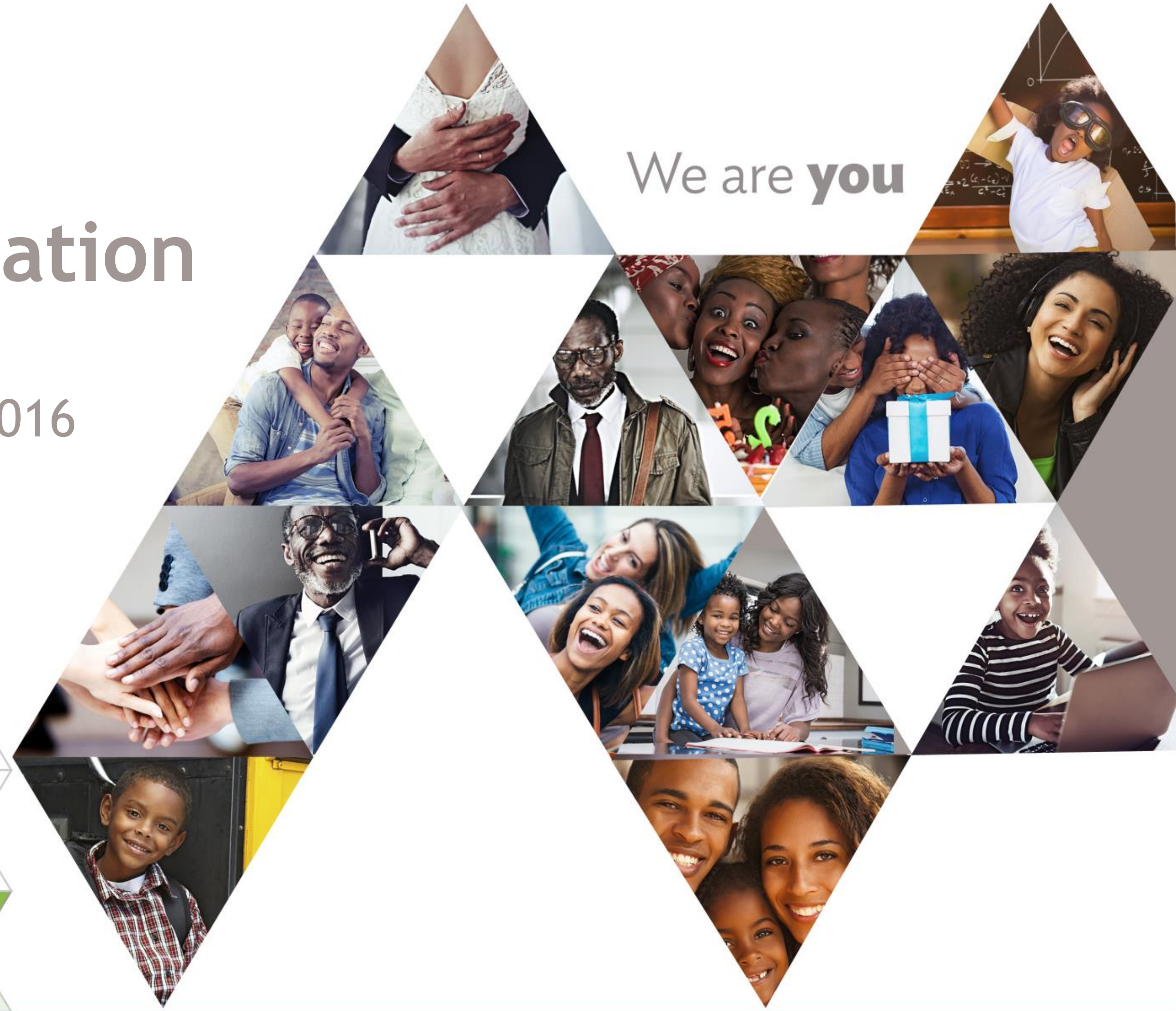
# Results presentation

for the period

4 April to 30 September 2016




African Bank

AFRICAN BANK HOLDINGS LIMITED

29 November 2016

# Introduction

- First set of results for the new African Bank group
- Significant improvement in all aspects of the business
- Good foundation for transparent reporting
- Solid base for business transformation
- Considerable support from a wide set of stakeholders
  - South African Reserve Bank
  - Government Employees Pension Fund
  - Banking Consortium
  - Funders
  - Curator and deal team
  - African Bank people

# Highlights

## Financial results

- Results R615 million better than forecast contained in the Offer Information Memorandum (OIM)
- Both Bank and Insurance entities are profitable before impairment of goodwill
- Credit risk under control, despite macro economic pressures
- Conservative provisioning
- Strong balance sheet, improved by liability management exercise

## Stabilised customer franchise

- 1,25 million customers on book
- Extensive branch network of 386 branches
- 150 000 loan applications per month

# Group overview

## CONSORTIUM

- Banking Consortium — **25%**
- South African Reserve Bank (SARB) — **50%**
- Government Employees Pension Fund (GEPF) — **25%**

## AFRICAN BANK HOLDINGS LIMITED

### EQUITY OF R10 BILLION

**African Bank Limited**

Debt structure

| | |
|---|---|
| 39% | Bilateral corporate funding |
| 40% | Domestic medium term notes (DMTN) |
| 21% | Euro medium term notes (EMTN) |

**African Insurance Group Limited**

Guardrisk cell captive

# Strategy formulation

## The legacy business

- Monoline, largely branch based unsecured lending business
- Highly liquid, well capitalised but inefficient balance sheet
- Below par IT infrastructure
- Some operational and process improvements under curatorship
- Low morale

## Required a full scale business review

- New Mission, purpose and strategy, underpinned by:
  - New set of Values
  - New operating model
  - New balanced set of Success Factors
- Four business units – Branch, direct, digital and corporate segmentation
- Creating a differentiated customer service experience
- Investing in a new IT roadmap to align to strategy
- Driven by a motivated workforce

# Strategy overview

## OUR VALUES

- TRANSPARENCY
- INNOVATION
- COLLABORATION
- EMPATHY
- PROFIT CONSCIOUS

OUR CULTURE

## MISSION

To be a successful retail bank which offers a wide range of products and services to the consumers of South Africa. We seek to provide value – more than our consumers expect of us. We promise to live our purpose, "humanity through banking" in all that we do, and we are confident that we can, because... we are you.

## OUR STRATEGY

- Position as 'humanity through banking'; 'we are you'
- Offer more value than expected
- Diversify product offering to become a retail bank
- Widen customer base
- Broaden channels
- Partner where it makes sense
- Strengthen balance sheet to improve competitiveness

## OUR PILLARS

| Governance and compliance | People | Process and technology |
|---|---|---|

## PERFORMANCE MEASURES

| ROE | PEOPLE ENGAGEMENT SURVEY | CUSTOMER NPS | CUSTOMER SATISFACTION SURVEY |
|---|---|---|---|
| >15% | > 35% | > 40 | > 80% |

| GROW CUSTOMER BASE | DIVERSIFICATION OF REVENUE | DIVERSIFY FUNDING | CREDIT |
|---|---|---|---|
| 1,25 million to > 2,5 million | Non-interest R300 million | > 25% | < 13% |

OUR CUSTOMERS

# Operating model

**Executive Committee**

## Business Units

- Branch network
- Credit direct
- Digital
- Corporate

## Support Functions

- Finance
- Risk
- Credit
- Process and technology
- Marketing
- Operations
- Human Capital
- Assurance

# Successes to date

- Focused commitment to strategy
- Business unit segmentation complete
- Customer service measures established
  - Net Promoter Score in median of South African banks
  - ‘Humanity through banking’ and ‘We are you’ ethos
  - CEO is custodian of customer experience
- African Bank brand
  - Remains strong in traditional customer base
  - Brand development plan in place
- Product offering improved
  - Extra Value Loans
  - Funeral cover
  - Savings and Investment offerings to be scaled up

# Successes to date (continued)

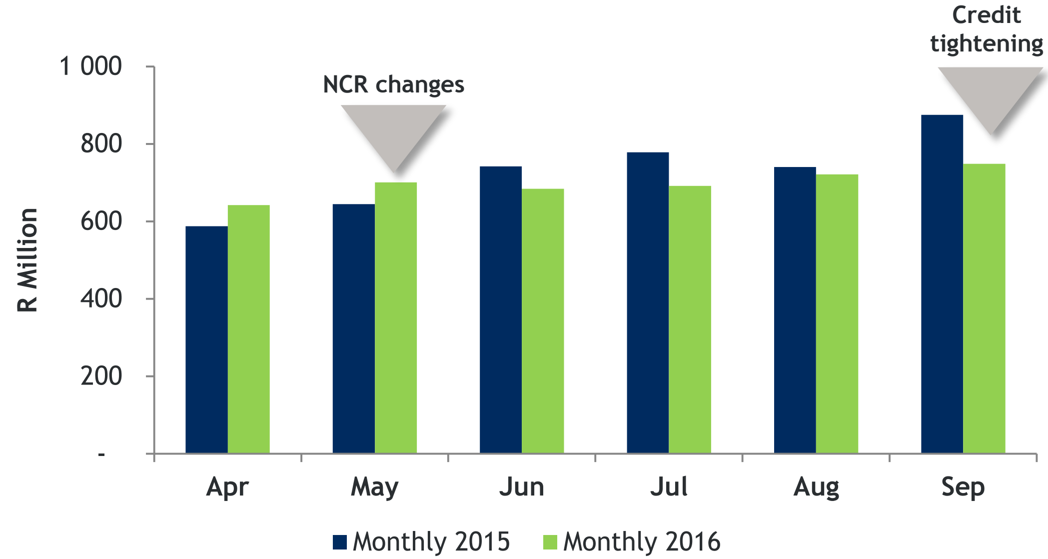
- Significant governance and compliance improvements
  - New Board with a diversified skill set
  - Risk sub-committees – Asset and Liability Committee (ALCO) and Technical Model Committee, with independent external expertise
- Major operational improvements
  - Central data management
  - Proactive and nimble implementation of credit changes
  - New customer friendly website
  - Collection operations working exceptionally well
- IT improvements
  - Increased system stability
  - Roadmap to future IT business model agreed
- Committed people
  - Above average engagement score 43 % (75% participation)

# New business disbursements

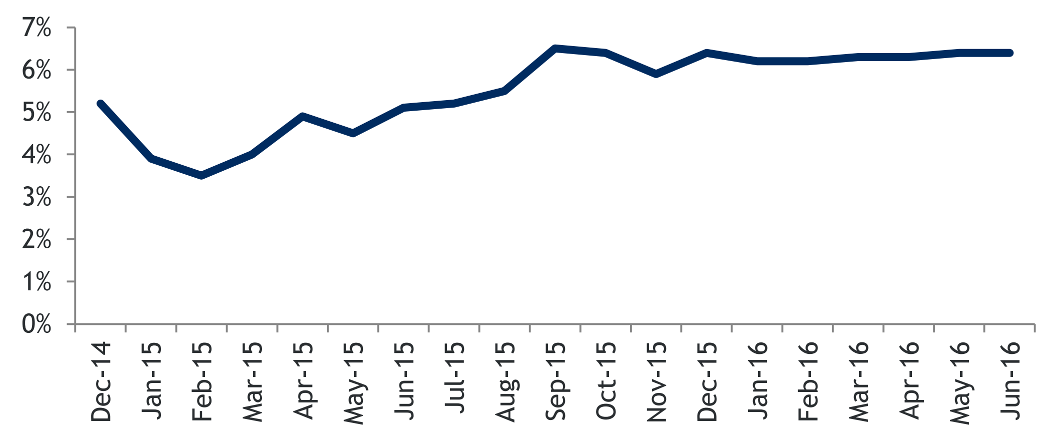
## Stable with increased market share

- Disbursements to 30 Sep 2016 R4 188 million, 4% down year-on-year (2015: R4 368 million)
  - Economic pressures
  - Competitive market
  - National Credit Regulator (NCR) pricing changes 6 May 2016
  - Further credit tightening criteria in Sep 2016
- Marginal increase in market share in disbursements, reaching 6,4% in Jun 2016 vs. a low of 3,5% in Feb 2015

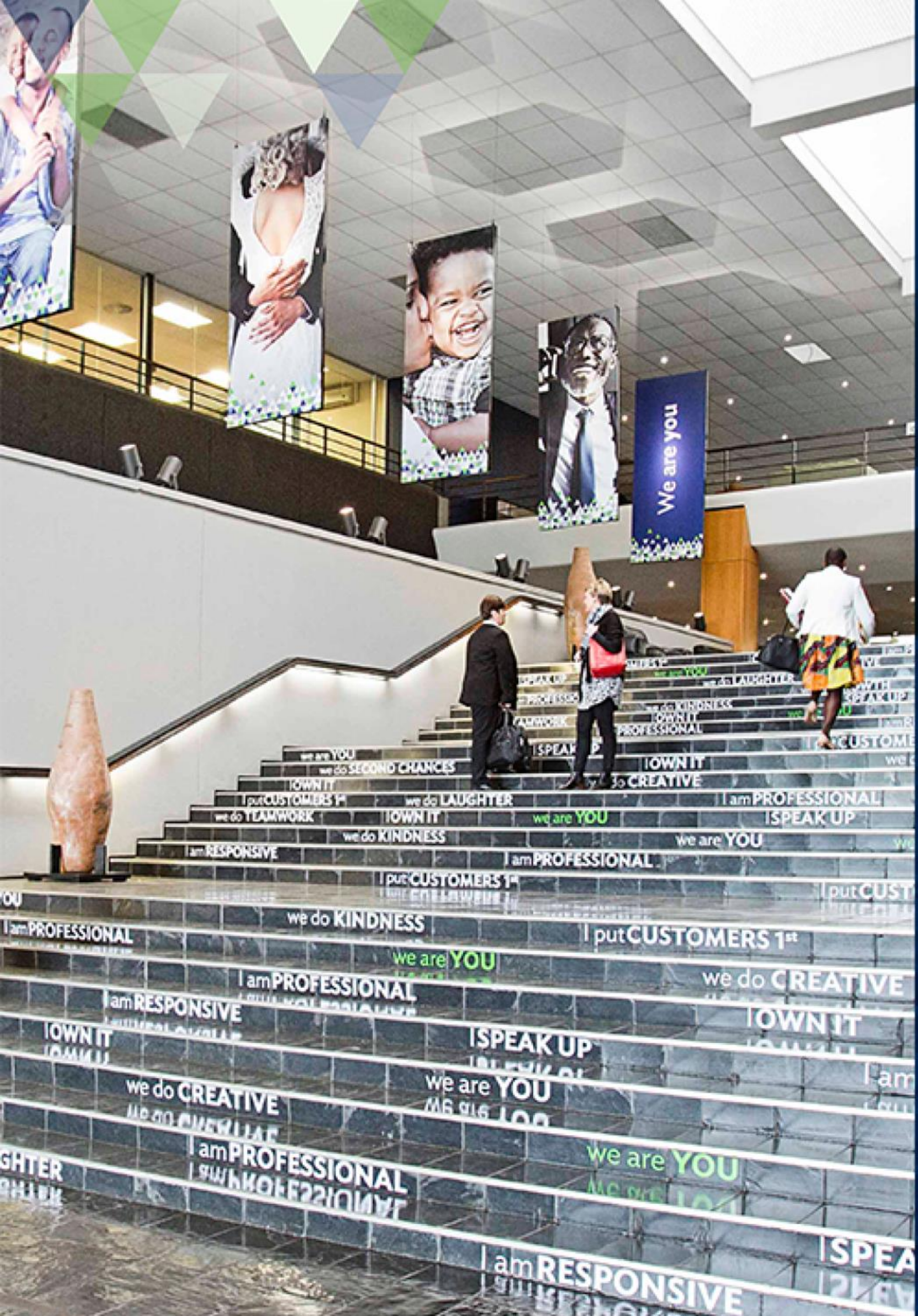
### DISBURSED CREDIT SALES




### MARKET SHARE - DISBURSEMENTS (%)




* % calculated based on Experian credit bureau data




# Financial review

# Results highlights

- Operating profit before tax for the period R335 million (after tax R269 million)
- Gross customer advances balances R27,6 billion
- Strong liquidity, with cash balances of R12,9 billion
- Core Equity Tier 1 capital adequacy 31,5%

# Earnings comparison to OIM*

| R million | Published IFRS | Adjusted results | OIM forecast | Difference |
|---|---|---|---|---|
| **Yield on advances** | **2065** | **4008** | **4310** | **(302)** |
| Credit impairment charge | (362) | (1893) | (2294) | 401 |
| **Risk adjusted yield** | **1 703** | **2 115** | **2 016** | **99** |
| Other non- interest income | 782 | 370 | 339 | 31 |
| Net Interest and similar charges | (1 167) | (1 167) | (1 218) | 51 |
| Gains on liability management exercises | 251 | 251 | - | 251 |
| Operating costs | (1 223) | (1 178) | (1 148) | (30) |
| Brand impairment | - | (45) | - | (45) |
| Indirect taxation: VAT | (44) | (44) | (269) | 225 |
| Re-measurement of insurance asset | 33 | 33 | | 33 |
| **Operating profit before tax** | **335** | **335** | **(280)** | **615** |
| Goodwil impairment | (1947) | (1947) | (1732) | (215) |
| **Loss after tax** | **(1678)** | **(1678)** | **(1990)** | **312** |

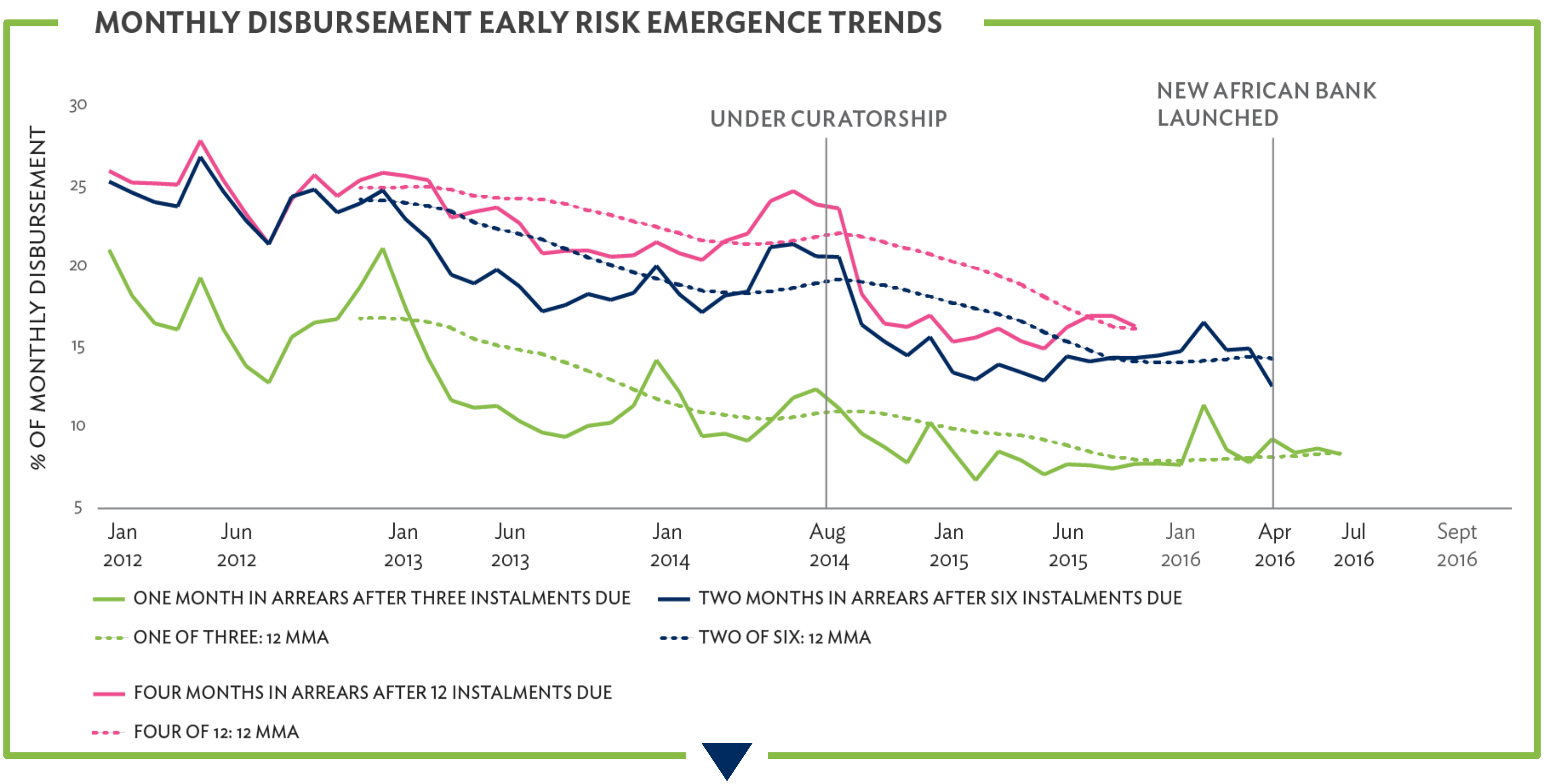
- Decreased yield as a result of higher debt counselling
- Lower credit impairment charge as a result of review of underwriting criteria and better collections
- Liability management exercise gains
- Favourable VAT ruling from SARS on Residual Debt Services Limited asset purchase



* The OIM is the Offer Information Memorandum, issued by the curator, of the old African Bank as part of the Exchange Offer to affected creditors

# Credit quality

## Continuing improving/stable trend in arrears




- Driven by continuing improvements in underwriting against a deteriorating economic environment and early risk experience adjustments
- Early risk experience continues to be indicative of overall risk experience

# Term and loan size distribution

## Increasing focus on lower risk customers

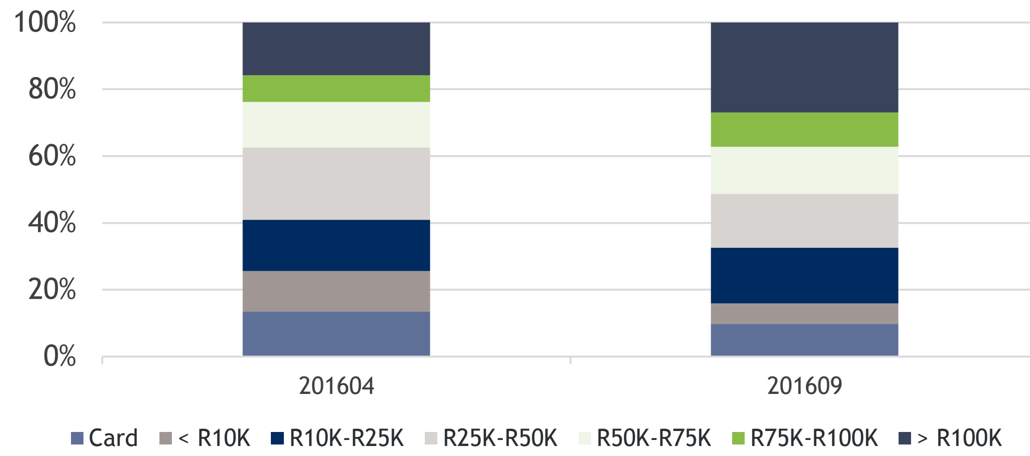
### Apr → Sep 2016

- Average loan size
  - R18 854 →R24 793
- Average term
  - 26,3 → 31,0 months

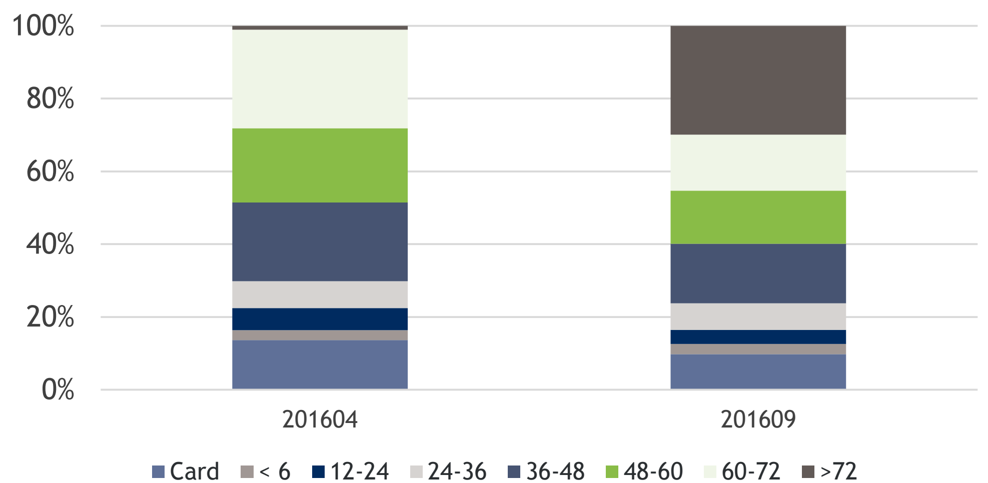
### Drivers

- Reduced appetite for short term loans
- Increase of maximum loan size and term to R200K over 72 months
- Increasing exposure to lower risk customers, qualifying for larger loans

**LOAN SIZE DISTRIBUTION**




**TERM DISTRIBUTION**



# Credit quality

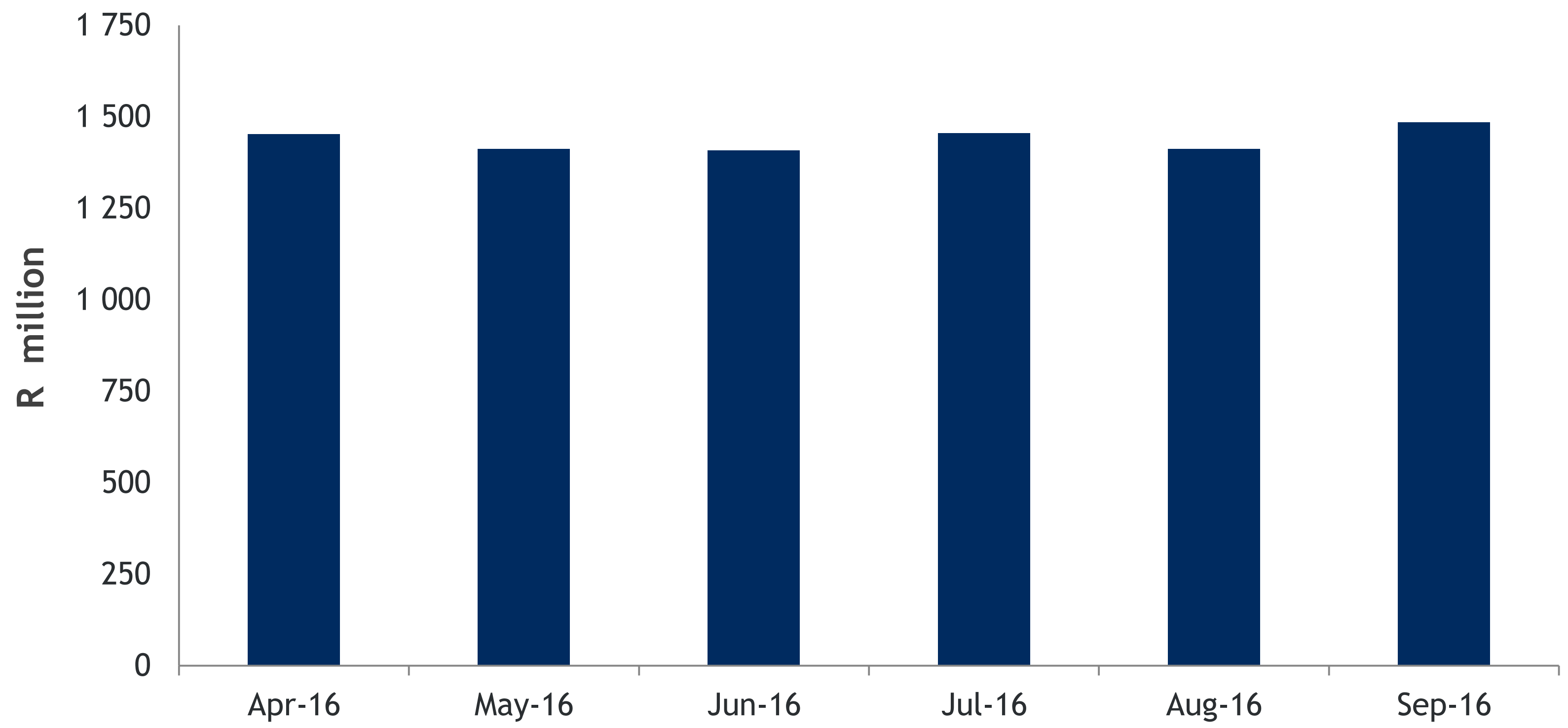
## A robust and prudent provisioning policy

| Impairments analysis | 30 September 2016 | 4 April 2016 |
|---|---|---|
| | % Impairment Cover (%) | |
| **Per missed Instalments** > = 4 | 63,7% | 69,3% |
| **Split** | | |
| Loan | 28,3% | 33,0% |
| Card | 23,2% | 22,4% |
| **% of portfolio** | NPLs >= 4 missed instalments | |
| | 31.5% | 33.5% |

- Advances with contractual arrears up to six months impaired progressively
  - Based on expected cash flows
  - A 90-day emergence period
- Advances are written off if no payment has been received for six months
  - The written-off book has zero value
- Restructuring of advances does not affect arrears classification
- Arrears calculations are rounded up
  - Any partial missed instalment is rounded up to full period, no matter how small

# Collections

## Continuing stable collections on a decreasing book



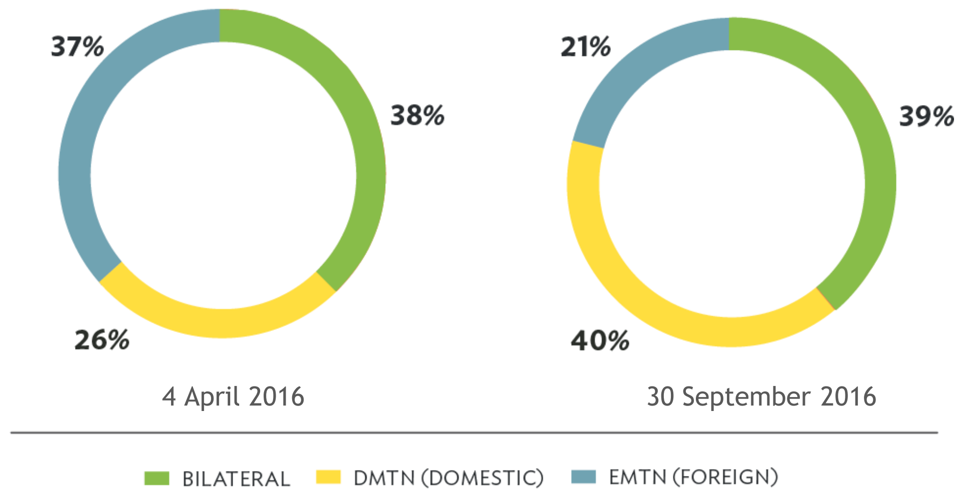

- Continuing focus on all collections mechanisms
  - Electronic, effective striking of customer accounts
  - Special collections focus increased in current environment
  - Legal collections

# Strong liquidity and capital

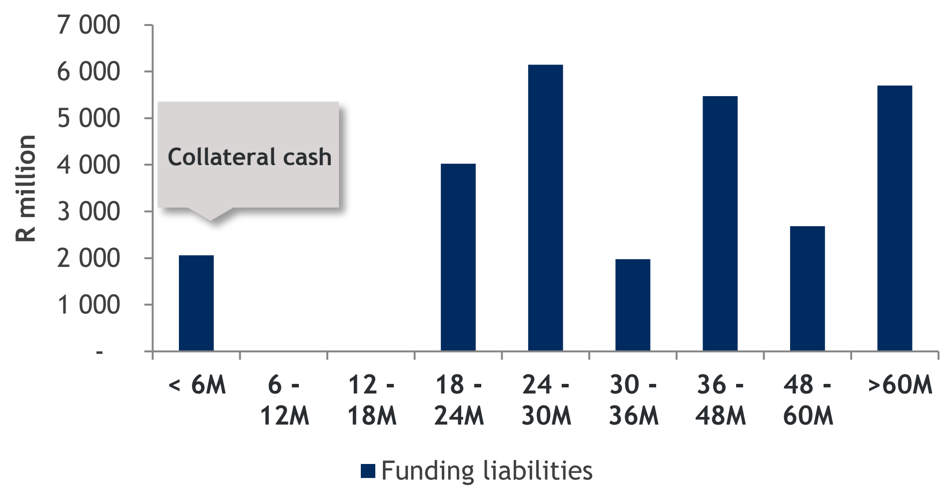
## Earliest funding maturity April 2018

- Successful R11,7 billion liability management exercise saving negative carry of approximately R2,3 billion over the full term of the bonds
- Foreign liabilities largely hedged by cash and swaps at 30 Sep 2016
- Cash balance R12,9 billion
- Positive liquidity gap
- Positive repricing gap
- Deferred maturity profile commencing Apr 2018
- Strong capital adequacy
  - CET/Tier1 – 31,5%
  - Total – 38,3%

### FUNDING SPLIT PER CATEGORY (%)




### MATURITY PROFILE – FUNDING LIABILITIES



# Insurance

## Financial highlights

- All Credit Life policies transferred to Guardrisk
- R33 million net profit after tax, after having built up appropriate reserves
- African Bank earned R215 million in fees and commission
- Claims ratio 35%
- Value of investment R314 million
- Total assets R797 million

# Outlook

# Challenges

## South Africa

- Low predicted GDP growth
- Volatile economic and political background

## Regulation

- Increasing cost and complexity may hamper innovation
- Will make some higher risk business unprofitable, possibly driving these customers to unregulated lenders
- Welcome regulation that levels playing field

## Competition

- Large SA retail banks have made significant improvements to their business models
- Left field play

## Brand recognition

- Investors
- Higher earners

## Operational improvements

- Remaining IT improvements
- IT infrastructure for new business
- Right size cost base

# Challenges (Continued)

## African Bank Holdings context

- As an immature business, we must grow by
  - Ensuring product offerings are aligned to customer needs
  - Improving competitiveness
  - Distributing through target market appropriate channels
  - Ensuring product, service and pricing has an excellent chance of success
- Macro economic factors are less of a concern



African Bank

# Prospects

## Different plans for different business units

- **Branch network**
  - Mature business, continue to improve and right size
  - Utilise channel for more products
  - Maximise returns
- **Credit direct**
  - Remote fulfilment
  - Evolving business
  - Marketing spend to grow
  - Scale up early 2017
- **Digital**
  - Significant investment required
  - Value Transactional Banking
  - Differentiation essential
  - Launch late 2017
- **Corporate**
  - Continue to right size balance sheet within defined risk appetite
  - Manage balance sheet and transfer price to business

# Concluding remarks

- Better assets and an unusual balance sheet acquired from the old bank, buying sufficient time to
  - Establish the new African Bank
  - Provide sufficient evidence that the strategy has gained traction by the time we will need new funding
- We have the right strategy supported by engaged people
- We have a stable customer base with a viable growth strategy
- Our foundation for success is being laid
- We've made significant progress in a short period
- We are confident that we will deliver our strategy to the benefit of all stakeholders

# Contact details

## Investor relations

investor.relations@africanbank.co.za

## Financial media

Louise Brugman
louise@vestor.co.za