African Bank Group

Final press release

30 November 2021

African Bank Group reports R534 million in profit for year ended 30 September 2021

- Net profit after tax for the Group of R534 million (FY 2020: Net loss after tax R27 million);
- Credit impairment charge: R1 341 million (FY 2020: R3 408 million);
- Return on equity 4.9% (FY 2020: negative 0.3%);
- Gross loan advances decreased by 6% to R26 725 million (FY 2020: R28 328 million);
- Net customer advances balances decreased by 4% to R16 462 million (FY 2020: R17 636 million);
- Conservatively provided for at a coverage level of 37.5% (FY 2020: 37.4%);
- Stabilised non–performing loan ratio at 42.9% (FY 2020: 41.0%);
- Credit loss ratio improved to 4.9% (FY 2020: 11.7%);
- Retail deposits in investments and transactional banking increased 73% to R10.3 billion compared to R5.9 billion at the same time last year;
- Retail deposits represent 61% of total funding of the Bank (FY 2020: 35%);
- Cost of funding improved to 7.9% (FY 20: 9.1%);
- Equity capital levels increased to of R11.2 billion;
- African Bank Group well capitalised. Regulatory ratio for the Group 43.3% (FY 2020: 39.1%).

Commenting on the performance of the business, CEO, Kennedy Bungane noted “The financial year has been a story of two halves at African Bank, with the first six months being about business resilience as we emerged from harsh effects of the first three waves of Covid –19. The second half of the financial year was about transitioning the business to our new 2025 Excelerate strategy, while instituting necessary risk aversion measures ahead of a 4th wave of Covid-19, which is now unfolding.”

Group returns to profitability

With sectors of the South African economy looking to return to pre-pandemic activity and output levels, on the whole, the year in review, ended 30 September 2021, was significantly better than that of the previous 2020 financial year.

The African Bank Group, which includes the insurance and banking subsidiaries reported a net profit after tax of R534 million for year ended 30 September 2021 compared to a reported loss of R27 million for the same period last year. The Group’s return on equity was a resultant positive 4.9% (FY 2020: negative 0.3%).

The return to profitability for the year was largely attributable to upfront higher credit impairments raised a year ago being sufficient to account for the increased risk of default, strong collections and increased profits in the insurance entity.

Well contained credit risk

Credit disbursements remained conservative, increasing by 2% year-on-year to R6 931 million compared to the R6 770 million for the previous year. The conservative disbursements resulted in the gross advances balance declining, by 6% year-on-year to R26 725 million. Consequently, total net revenue, including insurance income, reduced by 14% year-on-year, to R5 094 million from R5 893 million for the previous year.

The strong collections experienced in the first half of the current reporting period continued into the second half of FY21, and materially contributed to the credit impairment charge reducing by 61% year-on-year. Consequently, the credit loss ratio of average advances improved to 4.9% (FY20: 11.7%). Customer balances remain conservatively provided for, with a coverage ratio of 37.5% (FY20: 37.4%), in line with the prior year.

With early risk indicators confirming an improving operating context, the Bank gradually relaxed the credit-granting criteria, in the current reporting period, ending 30 September 2021, while the quality of the new business disbursements remained high.

Diversification of revenue

The transactional product MyWORLD, which was launched in 2019, continues to gain traction and broader consumer appeal, with an increase of customer accounts opened increasing to 741 000 from 388 000 a year ago. Transactional volumes have risen to 17.3 million compared to 7.3 million transactions in 2020 processed, representing a value of R24.5 billion (FY20: R8.7 billion).

The Group's ongoing strategy to diversify the funding base and grow the retail savings deposit book is yielding success. The Bank offers an attractive yield of 11% on expiry, or 9.16% on a nominal annual compounding annually (NACA) basis on a five-year fixed deposit.

Retail deposits book grew by 73% to R10.315 million (FY20: R5 985 million), which constitutes 61% of total funding. Some 59% of retail deposits are invested into the 60-months fixed term product. The number of retail savings and investment accounts grew by 40% from 60 000 in the prior year to 83 928 as at 30 September 2021.

The Bank also has 31% of domestic wholesale debt as a funding base. The treasury team successfully re-entered the debt capital market with two public Domestic Medium Term Note bond auctions during the financial year ending September 2021, and raised R502 million and R358 million, respectively. Pleasingly, the Bank did not need to call on a shareholder liquidity support arrangement for the two public auctions, which remains undrawn.

Notwithstanding the various cost containment measures introduced over the past financial year, operating costs increased by 16% to R3.0 billion (FY 2020: R2.6 billion). This was primarily due to the payment of section 189A severance packages, the resumption of bonus and long-term incentive provisions and an increase in transactional card issue costs and work-from-home connectivity and IT related costs. An additional R14 million cost was incurred as a result of the civil unrest in July as 32 branches were affected with 5 remaining closed.

Strong capital and liquidity

Conservative disbursements, coupled with better than anticipated collections, and continued strong retail savings inflows, which offset the Banks' wholesale liability maturities, have ensured that the Group's balance sheet remains highly liquid. Available cash resources have grown 30% to R9.0 billion (FY20: R6.9 billion). Equity capital levels of R11.2 billion (FY20: R10.6 billion) continue to grow; representing 68% of net advances of R16.5 billion.

The Group's strong capital position, with a total Group capital adequacy ratio of 43.3%, also ensures that the Group remains well above regulatory and internal capital levels – perfectly positioned for accelerated growth.

2025 strategy poised for growth, underpinned by strong balance sheet

Inspired by the vision to build a scalable, sustainable and diversified Bank that has a compelling narrative for a public listing, the Board of Directors approved a new 2025 corporate strategy.

This new strategy is premised on two key pillars of firstly, strengthening the core of the current business, current customer base using our current products and capabilities. Secondly, expanding the core of the business by entering new customer segments by building platform banking capabilities and providing a digital offering to small, micro and medium enterprises.

The new strategy is developed on the foundation of five sustainability levers, which is to permeate across all business and functional activities, and which have measurable targets to be achieved by the end of FY25. They include customer satisfaction, social responsibility, financial resilience, inclusivity and environmental promotion.

Looking ahead CEO Kennedy Bungane noted, "As the vaccine rollout continues to progress in South Africa and around the world, and despite subsequent waves of the pandemic, and indeed last weeks' news on the new Omnicron variant of Covid, we are confident that opportunities will exist for African Bank and for our customers. During this period of uncertainty, it has become clear to us that our strategy and operating model must remain adaptive and nimble, particularly in relation to the needs of our customer base, our product and service offering and our capacity to manage future disruption risks to our people, processes and services. These ongoing adaptions will assist to cement a future-fit organisation."

ENDS

Presentation and conference call today, 30 November 2021, at 10am

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

Details of the conference call are:
Date: Tuesday 30 November 2021
Time: 10h00 SAST

Interested parties are requested to pre-register for this webcast here 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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On behalf of the African Bank Group