

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 INTERIM FINANCIAL RESULTS FOR AFRICAN BANK LIMITED AND RELATED GROUP INFORMATION FOR THE SIX MONTHS ENDED 31 MARCH 2021

African Bank is pleased to announce that the Bank and its holding company, African Bank Holdings Limited (“ABH” or “ABH Group” or the “Group”), released their unaudited interim financial statements for the six months ended 31 March 2021 (“results” and “ABH consolidated results”, respectively) today. The Bank’s stand-alone results are addressed first, followed by the more comprehensive ABH consolidated results.

African Bank results

The South African economy continues to be negatively impacted by the aftermath of the first and second waves of the Covid-19 pandemic and the stringent national lockdown measures which were implemented in 2020. The current reporting period’s performance, ended 31 March 2021, was significantly better than that of the prior year, as the upfront higher credit impairments raised a year ago were sufficient to account for the increased risk of default. As a consequence, the Bank reported a net loss after tax of R135 million, for the six months ended 31 March 2021 (H1 2020: R358 million loss). See the ABH consolidated results section below for more details.

Key aspects of the African Bank results, in comparison to the unaudited interim financial statements for the six months ended 31 March 2020 (“H1 2020”), include the following:

- Loss after tax: R135 million (H1 2020: R358 million loss);
- Credit impairment charge: R850 million (H1 2020: R1 909 million);
- Net customer advances balances: R16 698 million (H1 2020: R18 995 million);
- Cash deposits and financial investments, including surplus liquid assets: R5 530 million (H1 2020: R5 393 million);
- Retail customer deposits, including transactional banking balances: R8 622 million (H1 2020: R3 819 million); and
- Total capital adequacy ratio: 42.7% (H1 2020: 36.6%).

ABH consolidated results

Key aspects of the ABH consolidated results, in comparison to H1 2020, include the following:

- Net profit after tax: R152 million (H1 2020: R158 million loss);
- Credit impairment charge: R850 million (H1 2020: R1 909 million);
- Net customer advances balances: R16 698 million (H1 2020: R18 995 million);



- Cash deposits and financial investments, including surplus liquid assets: R7 984 million (H1 2020: R5 401 million);
- Retail customer deposits, including transactional banking balances: R8 622 million (H1 2020: R3 819 million);
- Insurance profit for the year: R251 million (H1 2020: R146 million); and
- Total capital adequacy ratio: 43.6% (H1 2020: 40.1%).

African Bank is a 100% subsidiary of ABH. ABH has material insurance operations which are housed in African Insurance Group Limited (“AIG”), a wholly-owned subsidiary of ABH, which in turn holds a cell captive investment in Guardrisk Life Limited. The financial performance of the cell captive investment, 100% owned by AIG, is not consolidated by the ABH Group in accordance with International Financial Reporting Standards (“IFRS”). The financial performance of AIG is dealt with in the unaudited consolidated interim financial statements of the ABH Group by means of a re-measurement of the investment in insurance contracts and the dividend received from such cell captive.

The South African economy continues to be negatively impacted by the aftermath of the first and second waves of the Covid-19 pandemic and the stringent national lockdown measures which were implemented in 2020. The current six month reporting period’s performance, ended 31 March 2021, was significantly better than that of the prior year, as the upfront higher credit impairments raised a year ago were sufficient to account for the increased risk of default, while the insurance entity also increased its profits. As a consequence, the Group reported a net profit after tax of R152 million, for the six-month period ended 31 March 2021 (H1 2020: R158 million loss); an improvement of 196%. The Group’s return on equity was a resultant positive 2.9% (H1 2020: negative 3.0%).

Various credit-granting criteria were tightened during our 2019 and 2020 financial years, due to the ailing local economy observed in the second half of 2019, and the outbreak of the novel coronavirus pandemic in South Africa in March 2020. As a consequence, the level of disbursements granted to our customers were substantially reduced in the second half of the financial year ended 30 September 2020 and continued to be subdued in the current six month reporting period, ending 31 March 2021.

The muted conservative disbursements resulted in the gross advances balance declining by 8% year-on-year. H1 2020 disbursements of R4 229 million dropped materially to R2 541 million in the following 6 months ended 30 September 2020, but has recovered somewhat to R3 360 million in H1 2021. In turn, total net revenue (including insurance income) reduced by 12% year-on-year, from R3 027 million to R2 662 million. The credit loss ratio however, improved significantly. As a result of the conservative credit granting over this reporting period, the strong collections and not having to raise additional Covid-19 general provisions, the credit impairment charge declined by 55% year on year. This resulted in an improved credit loss ratio of 6.1% (H1 2020: 12.9%) of average advances. Customer balances continued to remain conservatively provided for, with a coverage ratio of 38.1% (H1 2020: 35.2%), higher than the prior period due to migration of customers to higher provisioning stages as a result of an ageing advances book.

Notwithstanding the various cost containment measures introduced over the past year, operating costs were negatively impacted in this reporting period by the S189 severance packages paid, the resumption of the long-term incentive provision, as well as the indirect tax charge increasing substantially due to a change in the VAT apportionment ratio.

Despite the muted and challenging operating environment, the Group's balance sheet remains highly liquid, with strong available cash resources of R8.0 billion (H1 2020: R5.4 billion); representing an increase of 48%. The Group continues to maintain high equity capital levels of R10.8 billion (H1 2020: R10.5 billion); representing 64% of net advances of R16.7 billion, and a Group CET1 level of 40.1% (H1 2020: 36.8%).

Restatement of the prior period comparative numbers in the African Bank results and ABH consolidated results

In the Bank and Group consolidated results ending 30 September 2020, the Group disclosed certain prior year restatements that were made to the FY2019 comparative results. These restatements were only finalised at the FY2020 year-end and consequently, this resulted in changes needing to be made to the period ended 31 March 2020 comparatives that were affected by the restatements.

Below are details of the 5 items and the effect that their respective restatements had on the H1 2020's Statement of Financial Position ("SFP") and/or the Statement of Comprehensive Income ("SCI"):

- Interest income relating to advances that have been written off, to the value of R28 million, was incorrectly recognized in interest income. This restatement affected the *Interest Income on Advances* note and the *Credit Impairment Charge* in the SCI and associated notes, and had no effect on the net profit before taxation;
- Recognition of the service fee component of interest income on advances was initially incorrectly accounted for on a balance weighted rather than a number weighted behavioural basis, as explained in the financial statements for the year ended 30 September 2020 ("FY2020 AFS). When the 31 March 2020 interim financial statements were initially prepared, the movement of the deferred fee liability did not include the effect of the restatement that was included in the FY2020 AFS; even though it related to prior periods. Thus, the opening balance deferred fee liability used initially to prepare the 31 March 2020 interim financial statements was incorrect. To correct for this restated opening balance deferred fee liability at 1 October 2019, an adjustment of R31 million was made, which decreases the interest income on advances. The restatement affected the *Interest Income on Advances* note in the SCI, and the *Credit Quality* notes disclosed. Net profits before tax reduced by R31 million;
- Modification loss arising from the rescheduling of the loan size or term of loans under debt counselling required to reduce gross advances, with a commensurate reduction of impairments' provisions as opposed to disclosing such loss only. The restatement impacted the *Net Advances* note in the SFP and the *Credit Quality* notes disclosed. This had no effect on the net profit before taxation;
- Collections' costs associated with the advances book were shown as operating expenses instead of as part of the impairment charge. The restatement affected the *Operating Costs* and *Credit Impairment Charge* in the SCI and associated notes. This had no effect on the net profit before taxation; and
- Certain property and equipment assets acquired in 2016 which could not be verified, should have been written-off. This affected the *Property, Equipment and Right of Use Assets* in the SFP, the *Operating Costs* in the SCI and associated notes. Net profits before tax reduced by R35 million.

The net effect on these restatements on the H1 2020 SCI was an increase in the net loss before tax of R66 million. The net loss after tax for the financial year ended 30 September 2020 remains at R27 million.

Further details of the various restatements are contained in chapter 4 of the ABH Group commentary booklet and detailed in the respective interim financial statements.

Results publication material

The following published results in respect of the six months ended 31 March 2021 are accessible on African Bank's website at www.africanbank.co.za under the "Investors/Financial Reporting" section:

1. African Bank Holdings Limited unaudited group consolidated interim financial statements for the six months ended 31 March 2021;
2. African Bank Holdings Limited group investor presentation and interim results booklet;
3. African Bank Limited unaudited interim financial statements for the six months ended 31 March 2021; and
4. African Bank Limited and African Bank Holdings Limited Basel Pillar III Disclosure documents as at 31 March 2021.

Webcast details, presentation material and playback facility

Interested parties are invited to register for a live webcast during which Kennedy Bungane, ABH Group CEO and Gustav Raubenheimer, ABH Group CFO, will take participants through the ABH consolidated results. Details of the webcast are:

Date	Thursday, 27 May 2021
Time	10h00 SAST/CAT
Web pre-registration	Interested parties are requested to pre-register for this webcast at Click here and follow the instructions provided.

A recording of the webcast will be available on the Bank's website at www.africanbank.co.za under "Investors/Financial Reporting".

27 May 2021

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