African Bank
We are **you**

Results Presentation

For the financial year ended 30 September 2017

AFRICAN BANK HOLDINGS LIMITED
1 DECEMBER 2017

www.africanbank.co.za

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Outlook

Introduction

- Good set of results
- Core loans business performing well
- Diversification strategy roll out progressing well
- Building a competitive retail bank for South Africans

Highlights

Financial results

- Headline earnings up 75% (H2 2017 vs. H2 2016)
- Credit loss ratio down to 11.7% from 13.2% (H2 2017 vs. H2 2016)
- Core operating costs flat
- New business loan volumes down 9%, given conservative risk appetite
- Retail deposit book up 148% off a low base

Highlights

Significant business developments

- Branch Network
  - right-sized cost base
  - all branches to be refreshed by May 2018
- Credit Direct - progressing well
- Digital – core transactional banking system fully operational, on track for 2018 launch
- Corporate – further reduction in negative carry, and strengthened capital adequacy
- MMI partnership commenced
  - July 2017 – Insurance
  - October 2017 - Lending

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

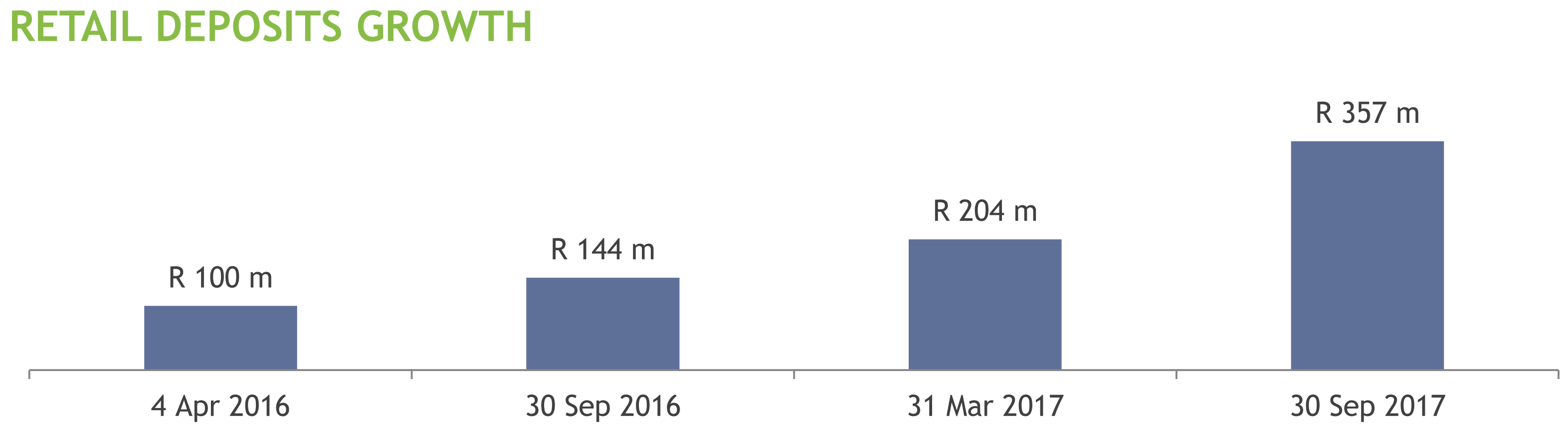
Strategy scorecard

	Target 2021	Sep 2016	Sep 2017	Trend	Comment*
Return on Equity	>15%	6.7%	9.0%	Up	Improved as a result of higher NII and insurance earnings, lower impairment charge, offset by higher operating costs and equity capital
Credit loss ratio	< 13%	13.2%	12.7%	Up	Lower credit risk appetite resulting in better quality business
Non interest revenue	> R300 million	< R1 million	R19 million	Up	Increasing volumes of funeral insurance policies
Funding diversification	> 25%	<1%	2%	Up	Gaining traction on retail deposits. Transactional banking and MMI partnership will assist
Customer base	> 2.5 million	1.25 million	1.16 million	Down	Further risk pull back and decreasing customer credit appetite has reduced customer numbers by 90 000
People engagement survey	> 40%	43%	48%	Up	Improvement from 43% for fully engaged staff
Net Promoter Score	> 40	15	35	Up	Customer centricity programme introduced

* Comparative reference is to the September 2016 period

Retail deposits growth

An emerging product line gaining traction



- Predominantly longer date deposits
  - 5 year deposits amount to 60% of new business
- Lower average cost of funding than wholesale funding
- Market leading deposit rates

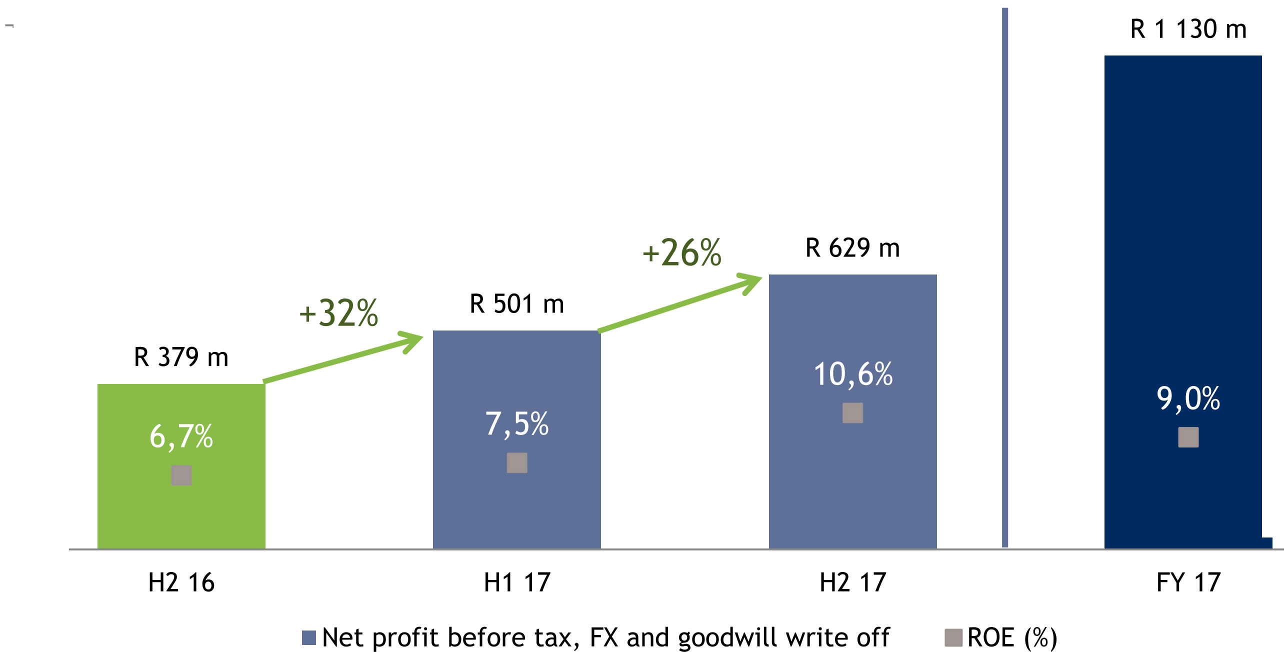
Financial review

Results

- Operating profit R1 130 million (excluding foreign exchange movement)
- Full year RoE 9.0 % (Branch Network 20%)
- Continuing risk, cost and efficiency focus, contributing positively to the bottom line
- Strong capital and liquidity
  - Core Equity Tier 1 ratio 29.9% (Bank)
  - Available cash balances R10.1 billion

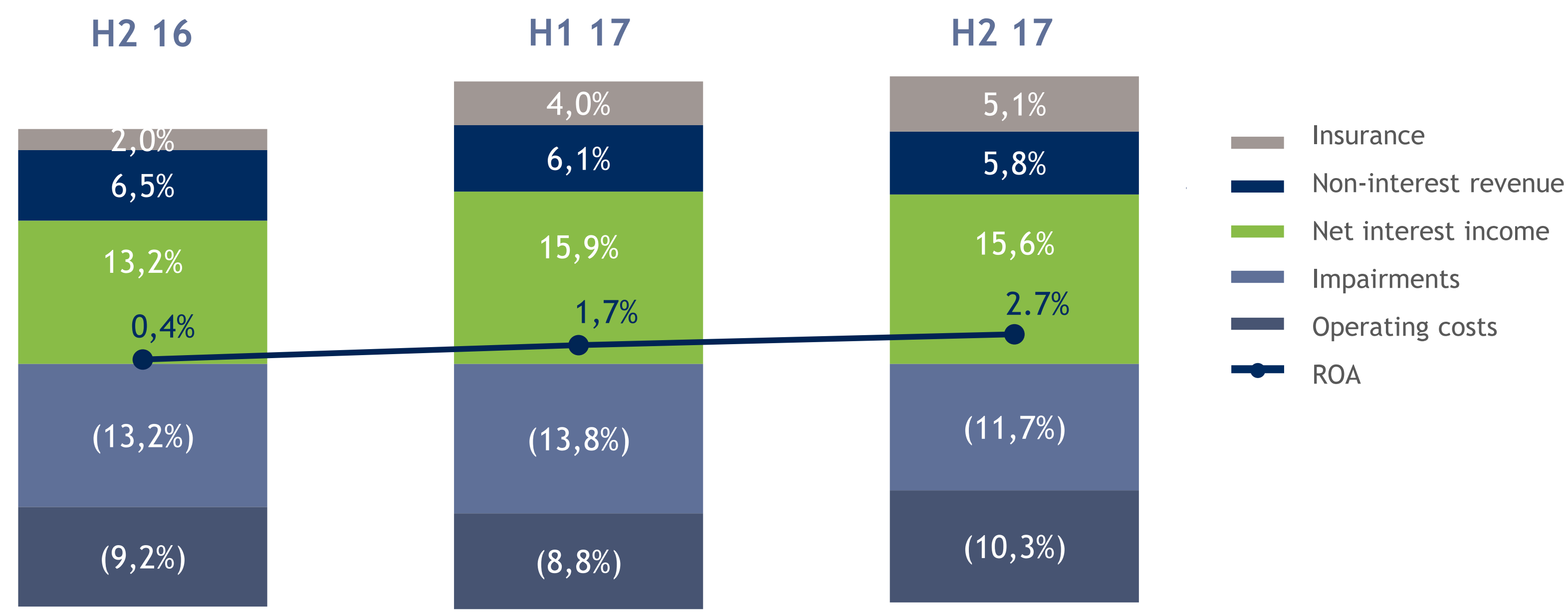
Increasing operating profit

EARNINGS AND RoE OVERVIEW



- RoE in later periods increasingly diluted by higher equity
- H2 2016 includes R251 million buy back profit

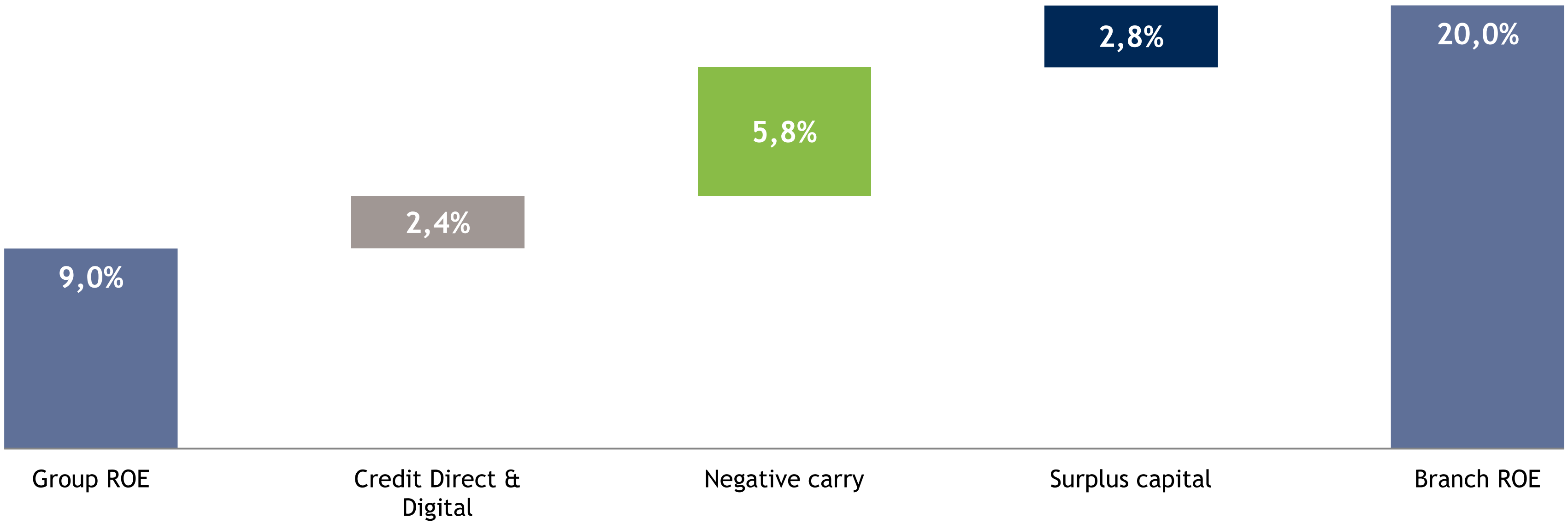
Returns on average gross advances
ROA overview



- Higher insurance earnings, after creation of IBNR (incurred but not reported) R440 million in H2 2016
- Decreasing Net Interest Revenue (NIR) – larger loans to lower risk customers
- Increasing Net Interest Income (NII) – impact of debt buybacks decreasing negative carry (excludes profit on buybacks)
- Decreasing impairment charge – reflective of lower risk customer base
- Increasing operating costs – investment costs and a decreasing average advances balance

Branch RoE above target range
Emerging businesses and balance sheet overhang dilutes Group ROE

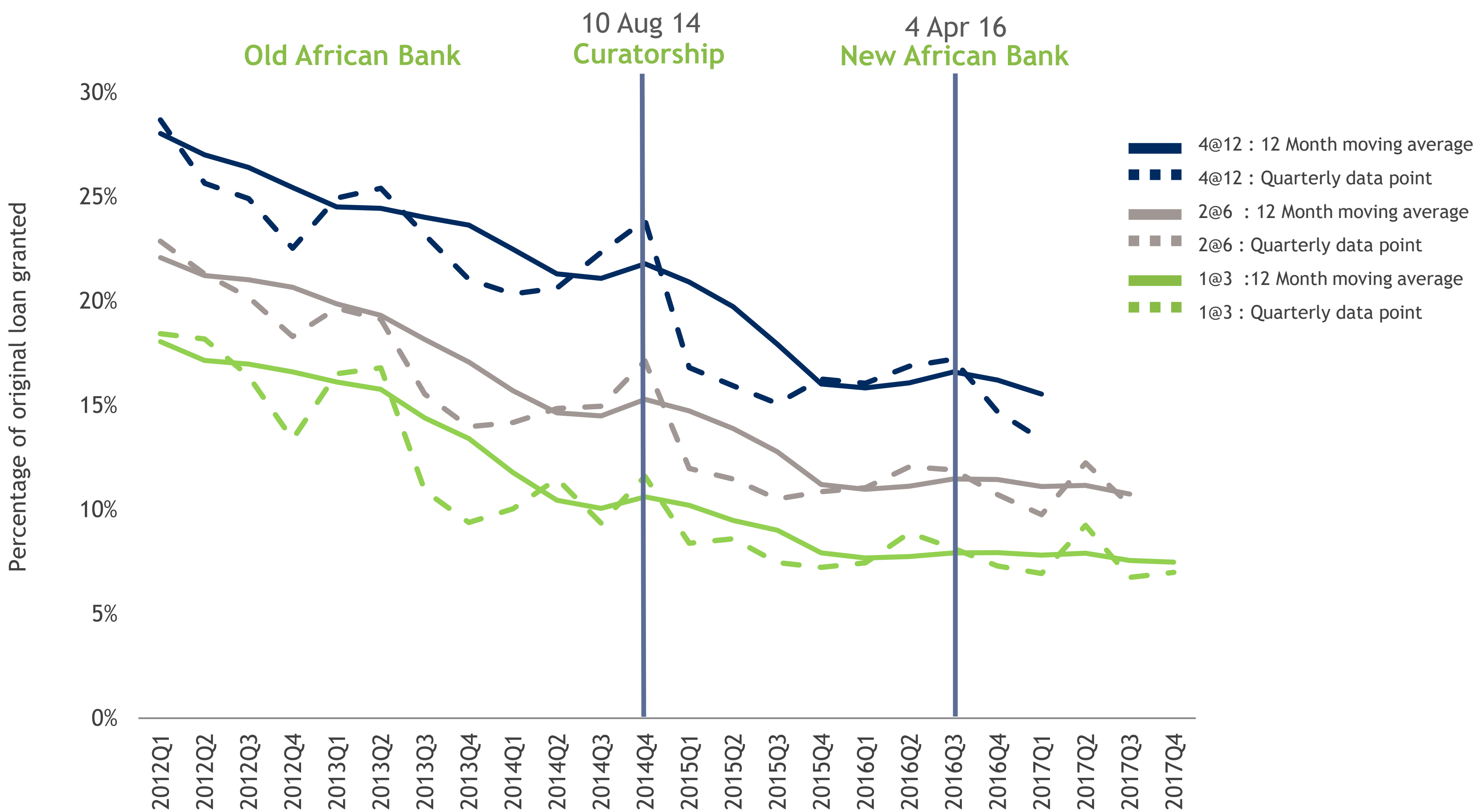
FY 2017 - RoE DRIVERS ANALYSIS



Credit quality – early risk

Early risk continues to be indicative of overall risk experience

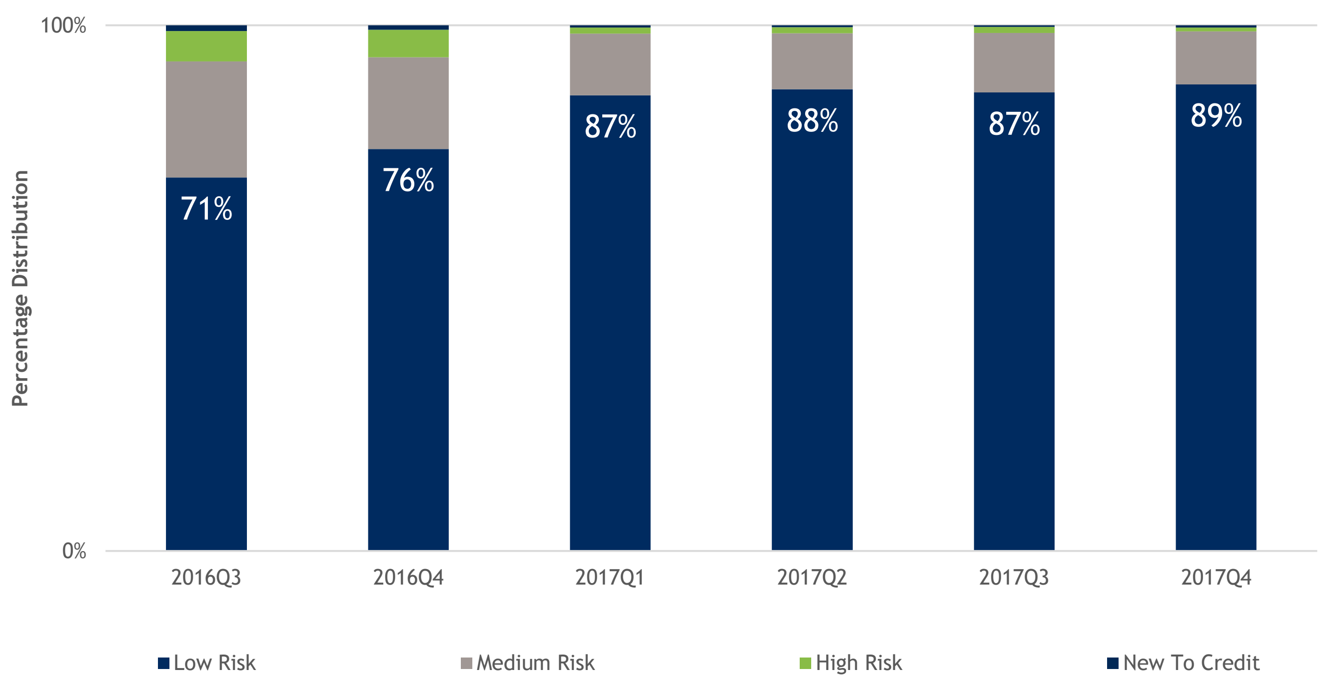
QUARTERLY DISBURSEMENT EARLY RISK EMERGENCE TRENDS (TOTAL BOOK)



Note: The last data point for all Early Risk Indicators are based on one month of results and not a full quarter

Consistent focus on lower risk customers

RISK BAND DISTRIBUTION (QUARTERLY)

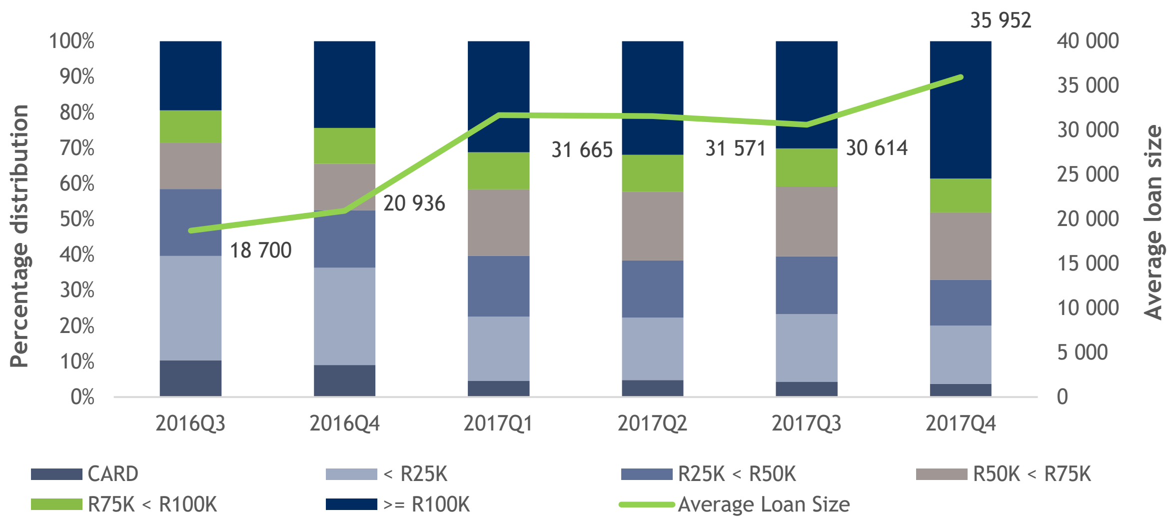


- Over 80% disbursements to lower risk customer base (best 5 risk bands of 22)
- Larger, longer term loan sizes with better risk emergence

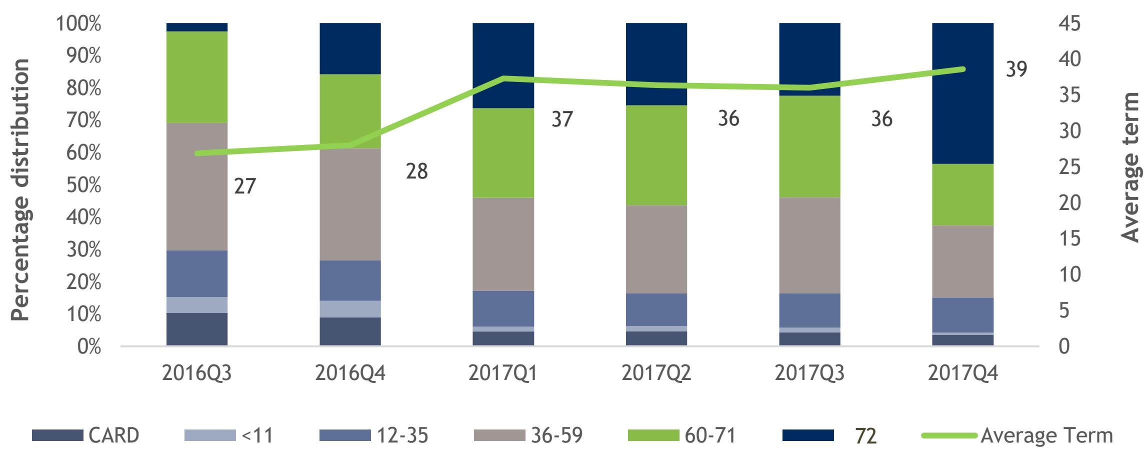
Term and loan size distribution

Reflection of lower risk customer base

LOAN SIZE DISBURSEMENTS



TERM DISTRIBUTION

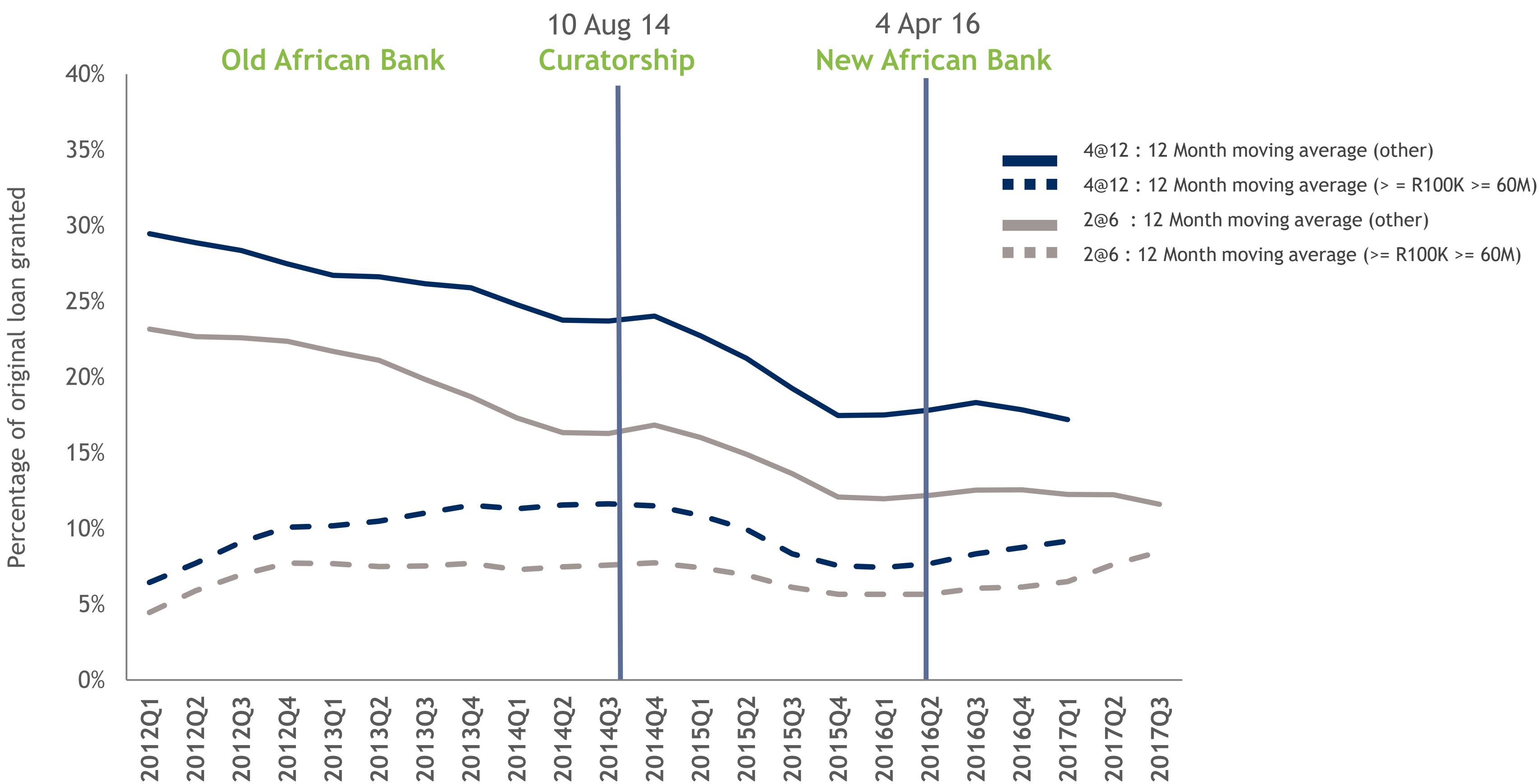


- Reduced appetite for short term loans
- Increased maximum loan size
- Increasing exposure to lower risk customers, qualifying for larger loans

Credit quality – early risk

Larger, longer term loans to low risk customers continue perform according to expectations

QUARTERLY DISBURSEMENT EARLY RISK EMERGENCE TRENDS (BOOK SPLIT)



Note: The last data point for all Early Risk Indicators are based on one month of results and not a full quarter

Credit quality – coverage and book split

A robust and prudent provisioning policy

COVERAGE BY CONTRACTUAL DELINQUENCY BUCKET

	FY 2016	H1 2017	FY 2017
CD 0	5%	5%	5%
CD 1-3	35%	35%	36%
CD 4+	63%	67%	65%
Total Book	**27.1%**	**30.0%**	**29.3%**

- Book remains well provided for
- Steady, conservative provisioning verified by back-testing

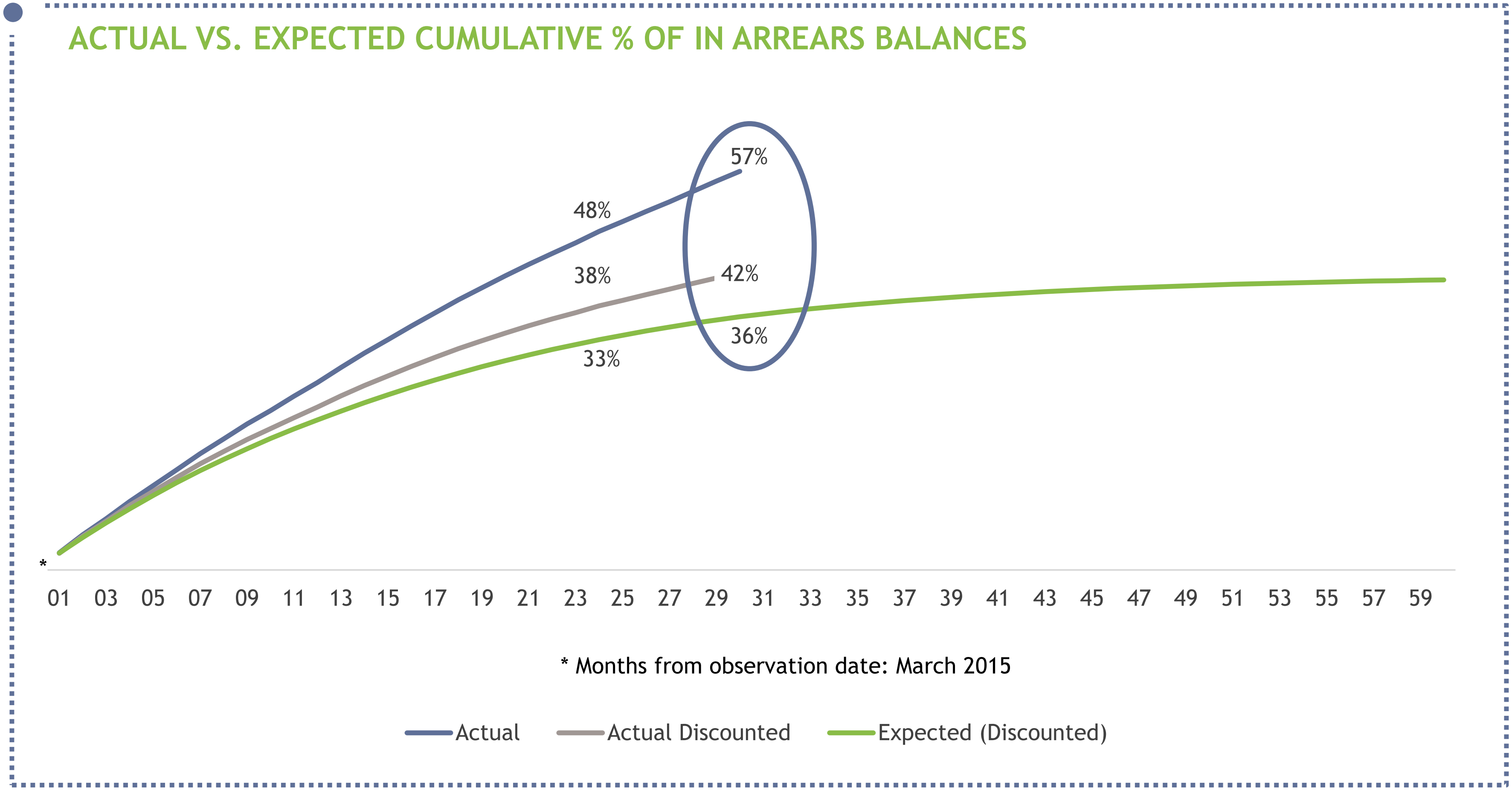
BOOK SPLIT AND SIZE

	FY 2016	H1 2017	FY 2017
CD 0	54%	52%	53%
CD 1-3	15%	14%	13%
CD 4+	31%	34%	34%
Total (R m)	27 638	28 135	26 513
W/Off Book (R m)	10 437	12 271	13 384

- Reduced book as a result of lower, new business volumes (better risk) and earlier write-off (Recency 5 vs. recency 6)
- No value assigned to the written-off book
- No restructuring of loans in arrears

Credit quality – collections vs. model

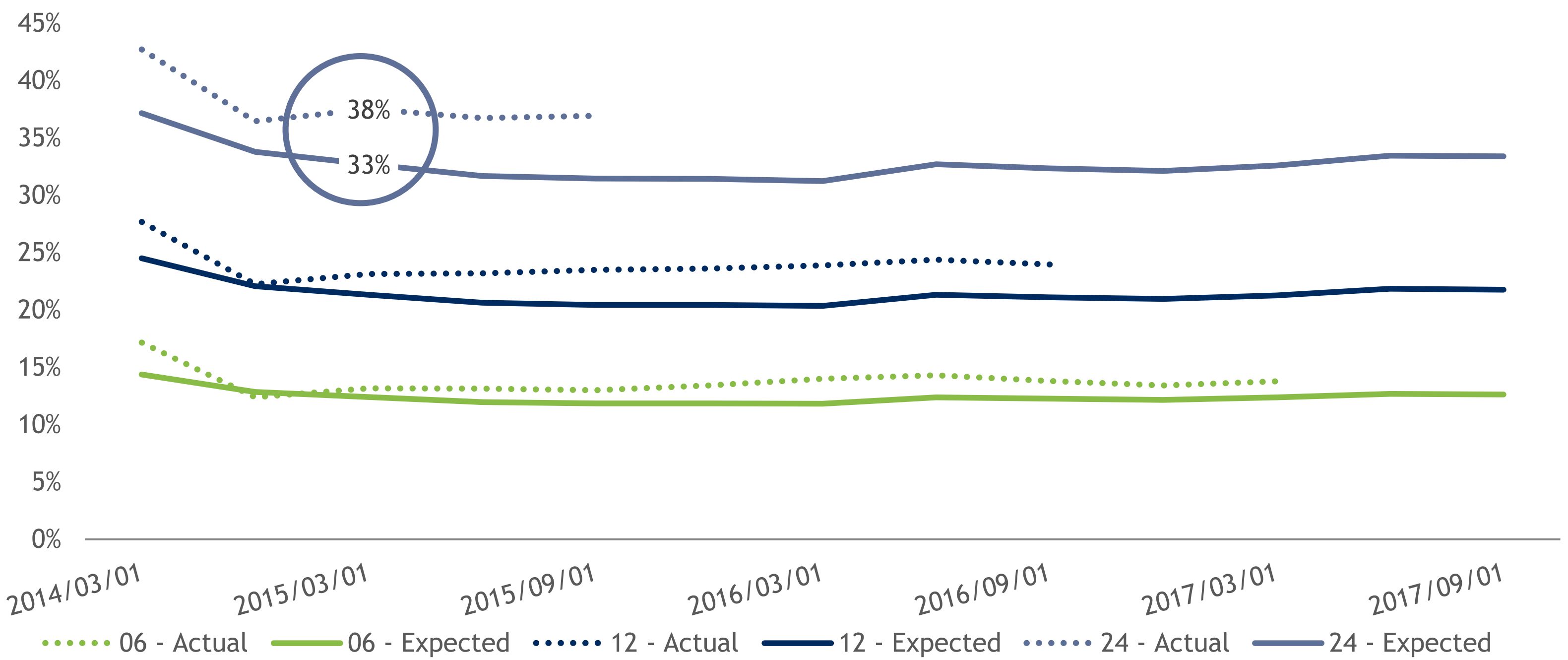
Discounted actual cash flows continue to track above modelled cash flows



Credit quality – collections vs. model

Consistent out performance against model over time

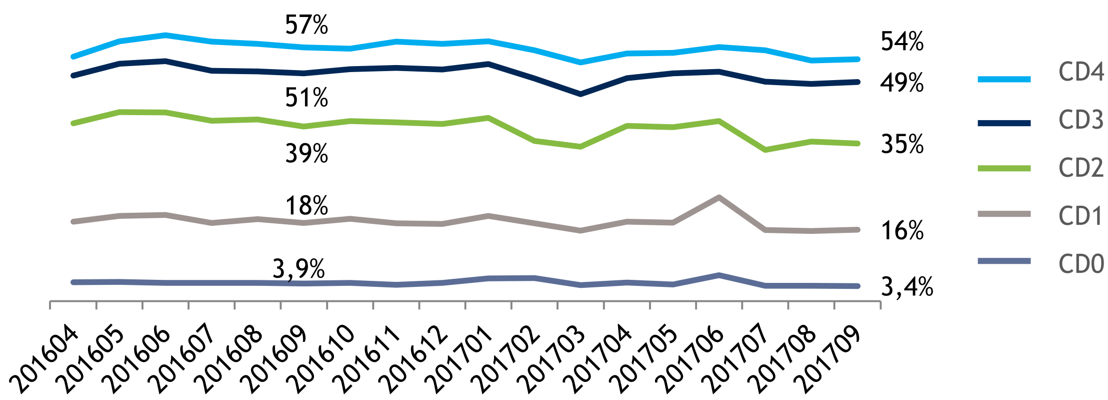
ACTUAL VS. EXPECTED DISCOUNTED % OF ARREARS BALANCES



Collections/arrears migration

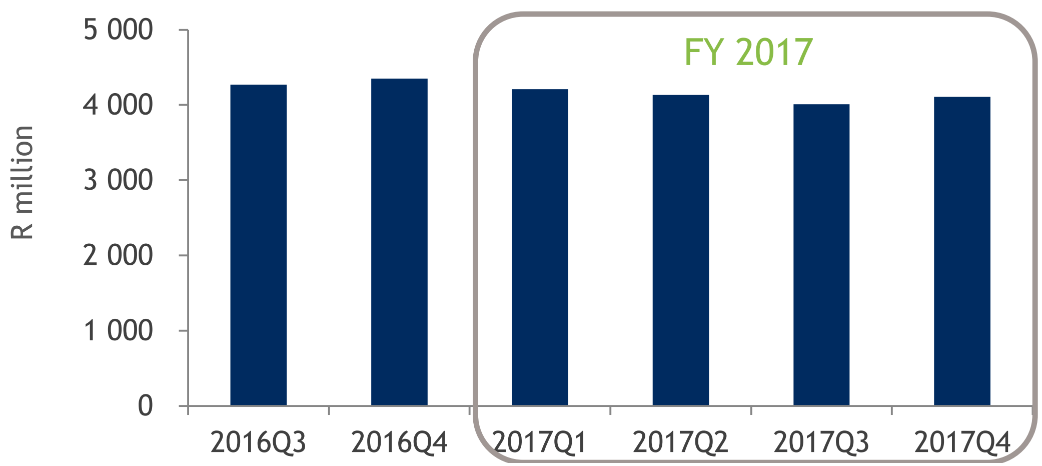
Improved collections resulting in positive arrears migration trend

CONTRACTUAL DELINQUENCY (CD) FORWARD ROLL RATE (BALANCE)



- Forward roll rates decreased on a year-on-year basis

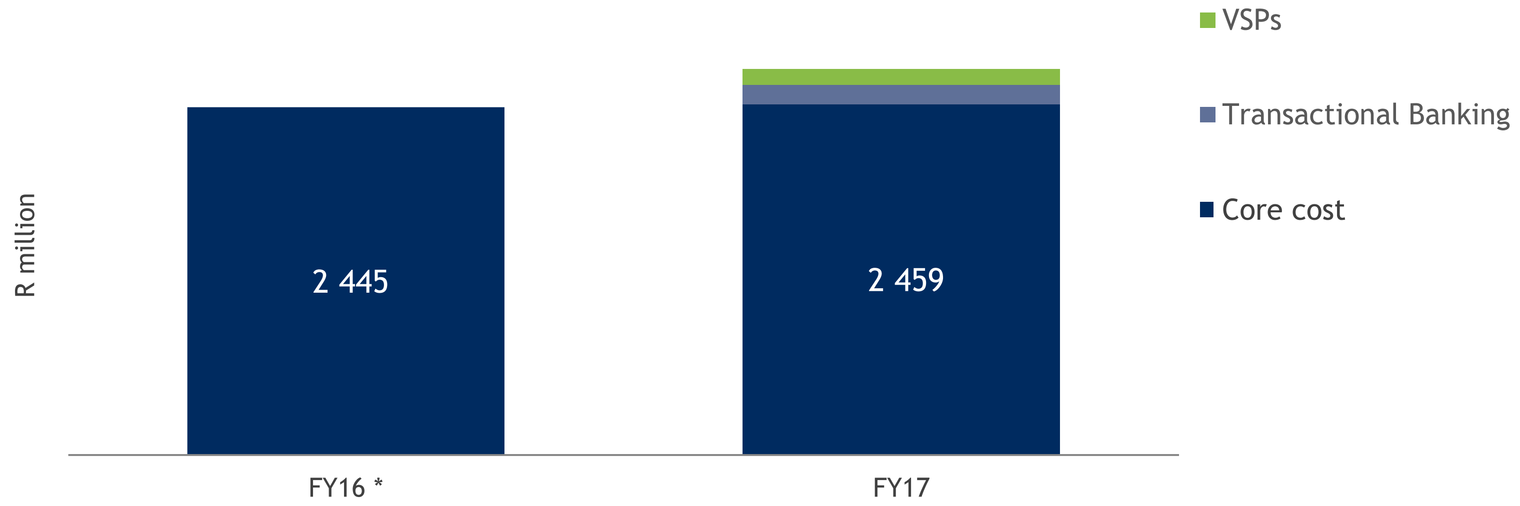
QUARTERLY COLLECTIONS



- Collections remain steady, despite decreasing advances book

Operating costs overview

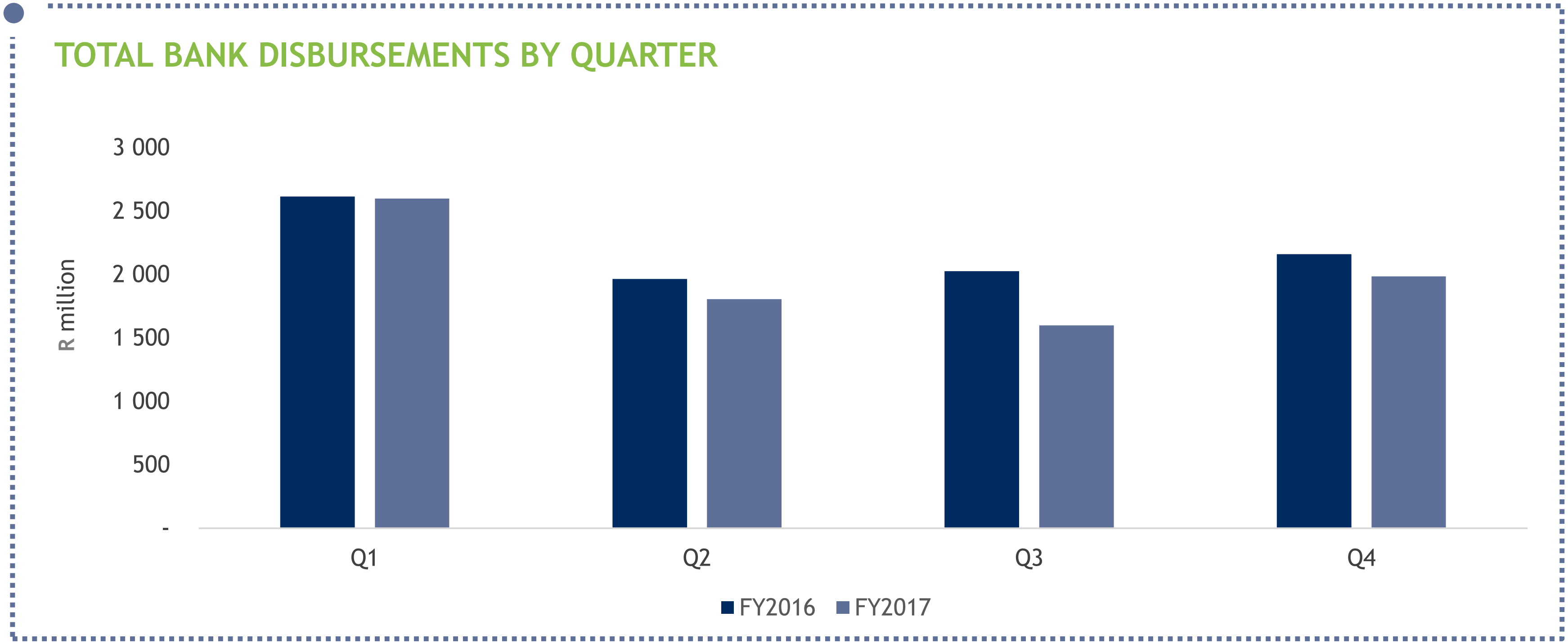
Increase <1% vs. FY 2016 – Business as usual basis



- Total FY 2017 operating costs R2 605 million
- FY 2017 operating costs increased due to once off payments
  - Voluntary Severance Payments (VSPs) (R67 million)
  - Transactional banking operating costs (R79 million)
- Operating expenditure on a business as usual basis FY 2017 - R2 459 million
- Increased <1% vs. FY 2016

* FY16 = H216 x 2

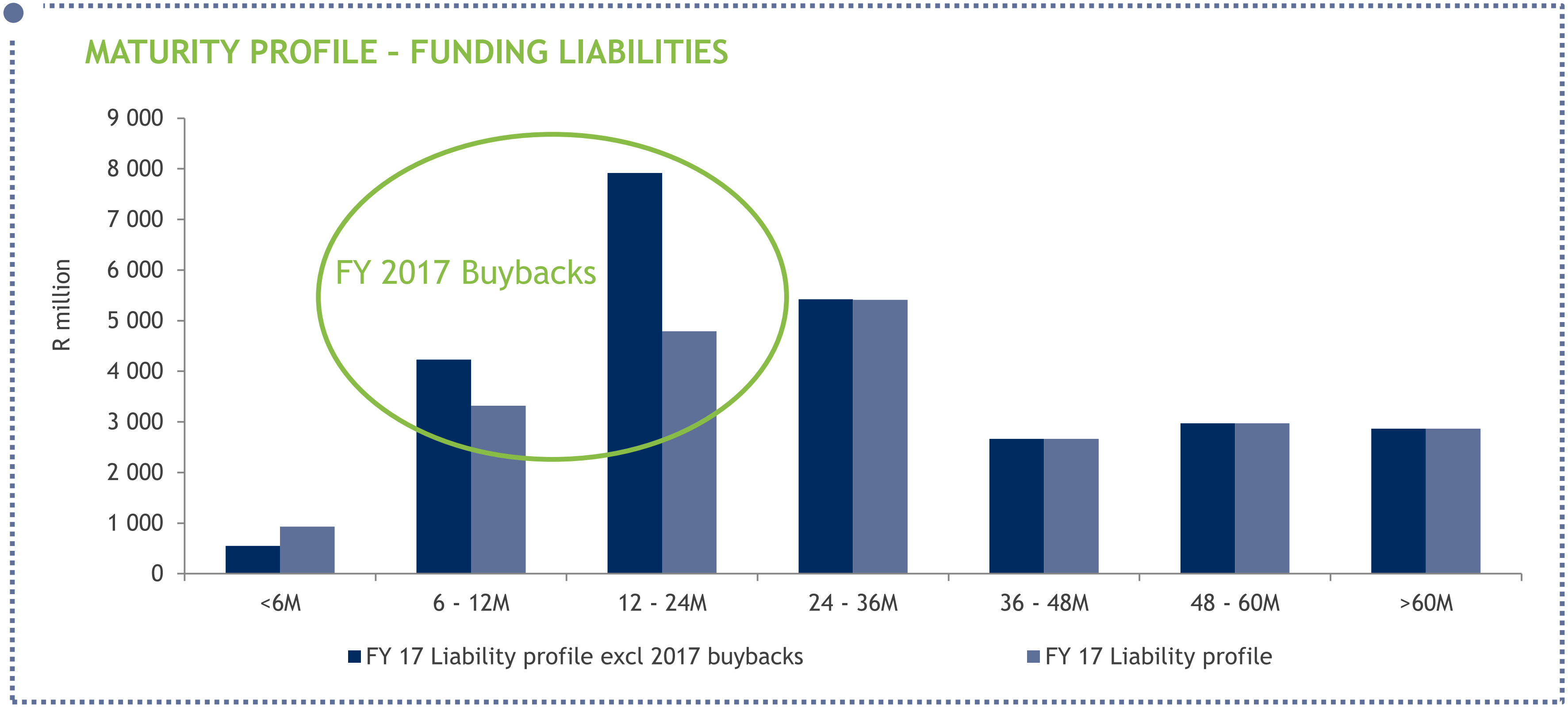
New business disbursements
Impacted by risk appetite



- Total disbursements R7 989 million, 9% down year-on-year
  - Economic pressures
  - Lower affordability
  - Lower risk appetite
- Credit Direct R298 million, up 142% year-on-year

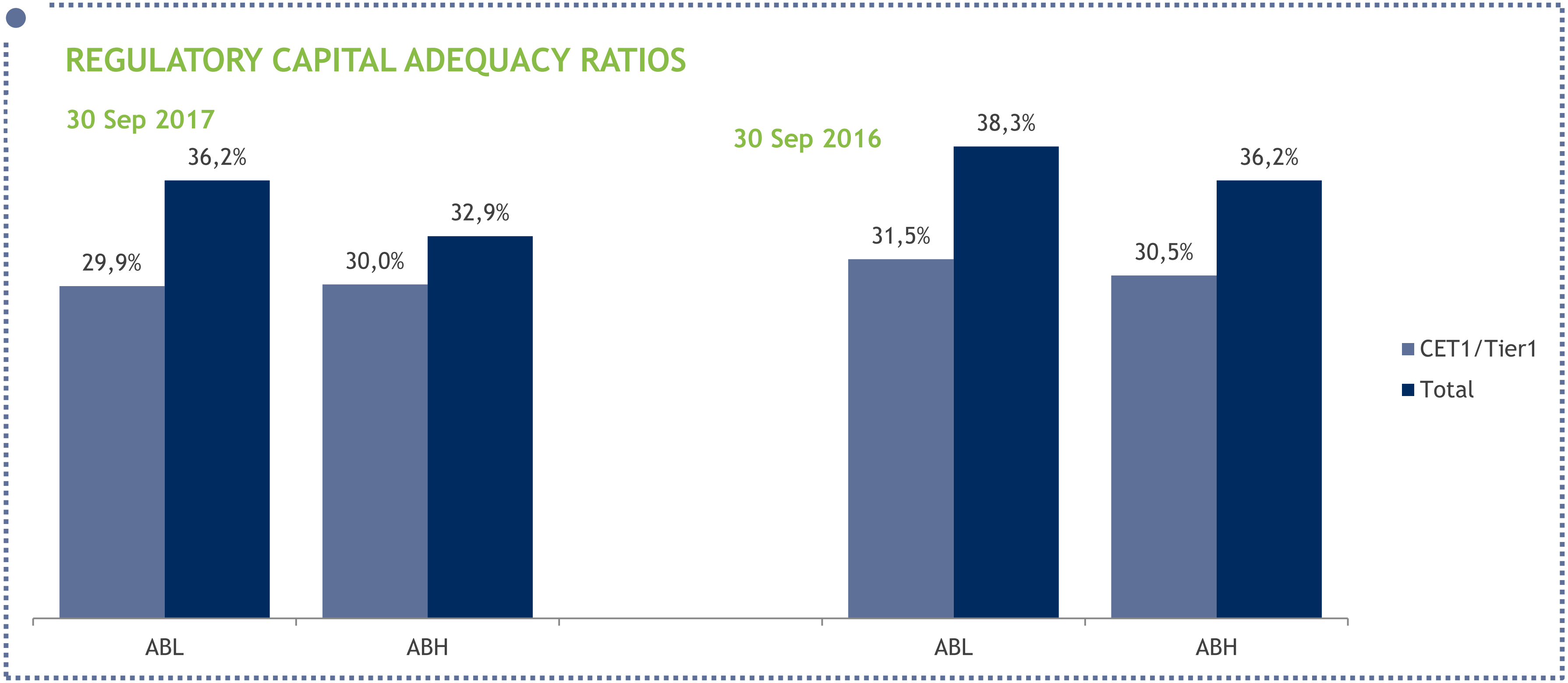
Liquidity

Earliest funding maturity April 2018



- Positive impact of a liability management exercise on earnings and capital
- Bought back R4.1 billion ZAR denominated Domestic Medium Term Note Programme (DMTN) and bilateral deposits (FY 2016 : total R11.7 billion)
- Available total cash balance R10.1 billion, invested with large SA Banks and in RSA sovereign

Solid capital levels



- Strong capital adequacy (CET1/Tier1)
  - Significantly above CET1/Tier1 internal target of 27%
  - Well positioned for International Financial Reporting Standard 9 (IFRS9) impact (R500 million – R1 billion)
    - Regulatory capital impact phased in FY19 – FY22
- South African banks credit ratings downgrades decreased regulatory capital by 4% to 5%

Outlook

Outlook

Business environment

- Struggling economy
- Indebted consumer in a static market
- Political instability adding further risk to the downside

Regulation

- Increasing complexity
  e.g. Risk Data Aggregation and Risk Reporting (RDARR)
- Increasing cost of compliance
- Protection vs. constraint/growth (opportunity cost)

Industry

- More competition in a reducing market
- Margin erosion is evident everywhere
- Cyber security threats escalating
- The only constant is change

Looking ahead

- Conservative approach to credit will continue
- Growth opportunities exist in all business units
- Emphasis on customer experience paramount to success
- Continuation of partnership strategy
  - MMI partnership to create embedded value
  - Telco relationship to be established
- Strategic initiatives to be implemented
  - Omni-channel banking
  - Digital
  - Branch network modernisation and additional branches opened
- Further right-sizing of liabilities and capital optimisation

Overview of Omni-channel approach

In all ways, in all places

Concluding remarks

- Delighted with progress to date
- Strategy is on track
- Success factors all achievable by 2021
- Competition tough but we have a strong team
- Moving brand from ‘recovery’ to ‘relevant’

Contact details and information

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Financial media

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Investor relations website

- African Bank Holdings Limited
  Integrated Report | 2017
- African Bank Holdings Limited
  Results presentation | 2017
- African Bank Holdings Limited
  Audited Consolidated Financial Statements | 2017
- African Bank Limited
  Audited Financial Statements | 2017
- African Bank Holdings Limited and African Bank Limited
  Basel III Pillar 3 Report | 2017

https://www.africanbank.co.za/financial_reporting.html