

Interim results Presentation

For the 6 months ended 31 March 2019

28 May 2019

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CEO STRATEGY UPDATE AND REVIEW



Our strategy



WE ASPIRE TO CREATE SOLUTIONS TOGETHER, TO ADVANCE LIVES

2021 PERFORMANCE MEASURES

RoE

>15%

CREDIT LOSS RATIO

<13%

GROW CUSTOMER BASE

1.25 million to
>2.5million

CUSTOMER NPS

>40

PEOPLE ENGAGEMENT SURVEY

>50%

CUSTOMER SATISFACTION SURVEY

>70%

DIVERSIFY FUNDING (RETAIL DEPOSITS)

>25%

DIVERSIFICATION OF REVENUE

Non-interest
R500 million

African Bank - Who we are

Customer CENTRIC

Multi-product and multi-channel CAPABILITIES 

GROWING STRENGTH in sales and service contact centres 

A digital COMPETITOR 

Excellent CREDIT AND COLLECTIONS CAPABILITIES 

Investing in and augmenting DATA CAPABILITIES 

BRAND CONTINUES to strengthen 

Everybody is Somebody

Building capabilities today to meet the needs of tomorrow's customers

CUSTOMERS OF THE FUTURE:

Higher levels of **DIGITAL LITERACY**

Increased **SMART PHONE** Usage



Want more CHOICE



Higher levels of **CONVERGENCE (business & technology)**

Increased use of data to **drive personalisation**

Lower COST OF DATA



Hello Lindiwe,
Have a look at these great offers...



FOCUS ON DATA AND CUSTOMER SATISFACTION WILL IMPROVE:

Acquisition and retention



PRODUCT RANGE



Brand perception



Profitability



Sustainability



Value for **customers**



A digital bank

Over
12 000*
MyWORLD
customers

MyWORLD

More value than you expect

1

SHARED BANKING

Bank together with family and friends.

Product

2

Save TIME

One simple, convenient experience across channels.

Omni

3

Save MONEY & GROW

SA's best savings rate. Zero monthly account fees.

Price

Success factors

- A compelling customer value proposition
- Innovative Omni-channel platform
- Focus on customer-centricity
- An agile technology strategy
- A data strategy to embed data-centricity
- The right culture and talent
- Committed and aligned teams across our business

* As at 21 May 2019

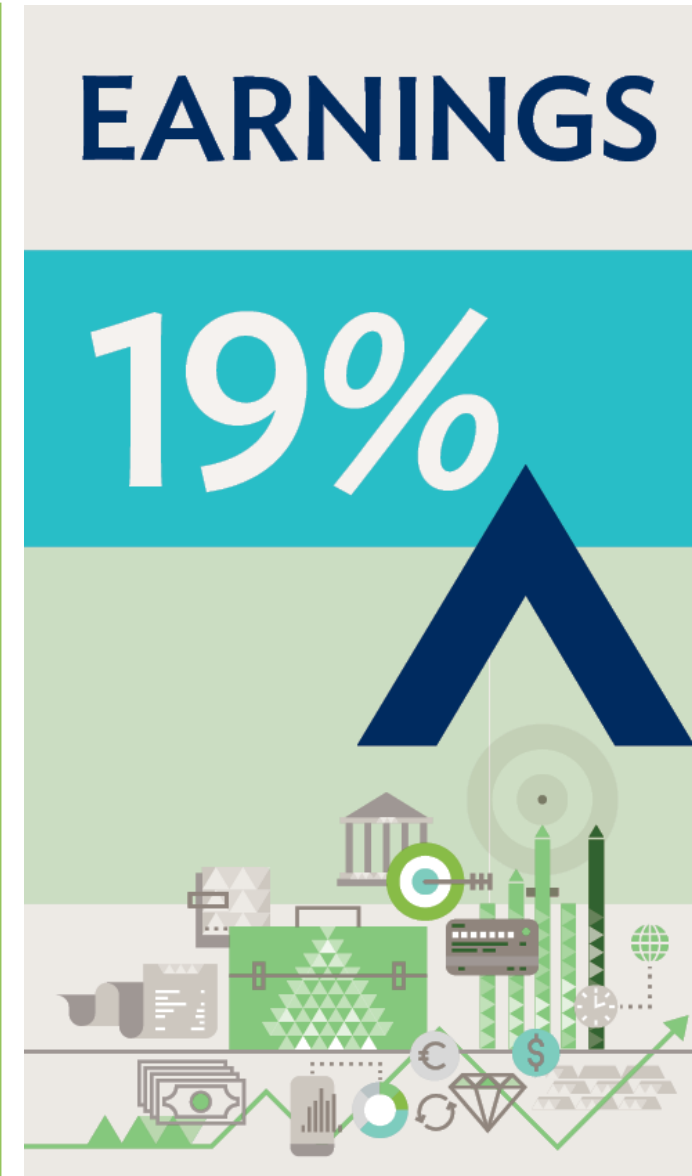
MyWORLD | Made to share



Building an investment proposition for all stakeholders

- Savings and Investment portfolio up 119% – to R1.5 billion
- Credit disbursements up 17%
- Credit loss ratio improved from 11.1% to 6.8%*
- Direct Sales and web channels comprise 11% of total disbursements
- Net profit after tax increased by 19% to R533 million
- Operational cost growth of 10% – investment into future capabilities

*Equivalent to 9.3% pre IFRS9 adjustments



Strategy scorecard

Good progress towards 2021 targets

	H1 2019 PERFORMANCE	TARGET 2021	31 MARCH 2019	31 MARCH 2018	31 MARCH 2017
OUR FINANCIAL PERFORMANCE					
Return on equity (RoE)	▲	>15%	10.9%	9.6%	7.5%
Funding diversification (Savings and Investments)	▲	>25%	8%	3%	1%
Non-interest revenue	▲	>R500 million	R15 million	R14 million	R6 million
Credit loss ratio	▲	<13%	6.8%*	11.1%	13.8%
NON-FINANCIAL PERFORMANCE					
CUSTOMER TARGETS					
Customer NPS®		>40	36	36	27
Customer satisfaction (SAcsi)		>70	78	-	-
Grow our customer base	▼	>2.5 million	1.04 million	1.10 million	1.2 million
EMPLOYEE TARGETS					
People engagement survey score	▲	>50%	58%	48%	45%

▲ Year-on-year improvement and 2021 target exceeded

▼ Year-on-year decrease and below target

▲ Year-on-year improvement

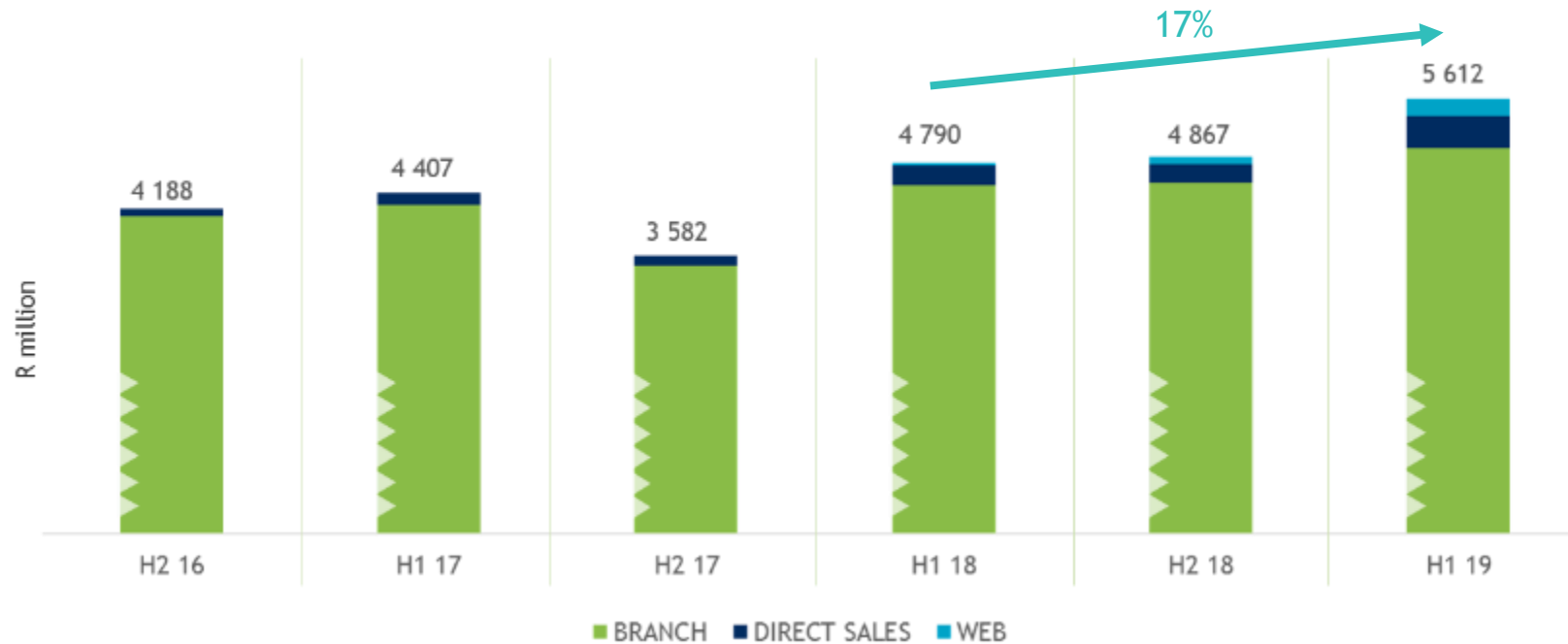
*Equivalent to 9.3% pre IFRS9 adjustments

SAVINGS & INVESTMENTS

8%
OF FUNDING



Credit disbursements



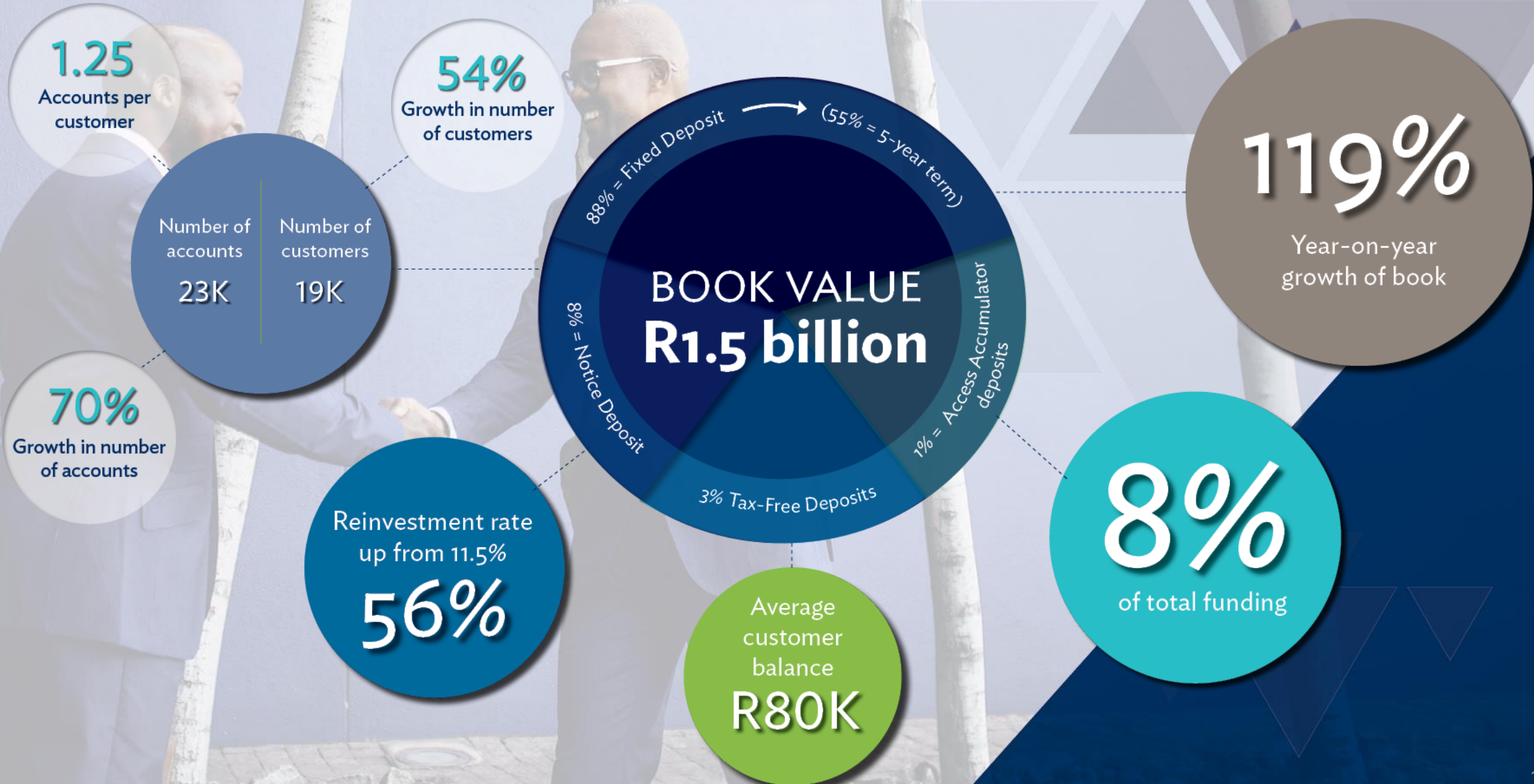
- Increase in net new disbursements – 17%
- New Direct Sales and web channels (R637 million) contribute 11% of total – up from 6%
- Branch new business (R4 975 million) – up 11%

NEW CHANNELS

11%



Excellent SAVINGS AND INVESTMENTS growth



CFO FINANCIAL REVIEW



Financial results

For the six months ended 31 March 2019

- Operating profit increased to R740 million (after tax R533 million)
- Return on Equity 10.9% (Branch Network 21.7%)
- Increased overall provisioning under IFRS9
- Credit loss ratio 6.8%*
- Lower net interest expense
- Investment into new business lines and increased capacity has raised operating costs
- Strong capital and liquidity
 - Core Equity Tier 1 ratio Bank 30.1% (Group 34.1%)
 - Cash balances R6 billion**

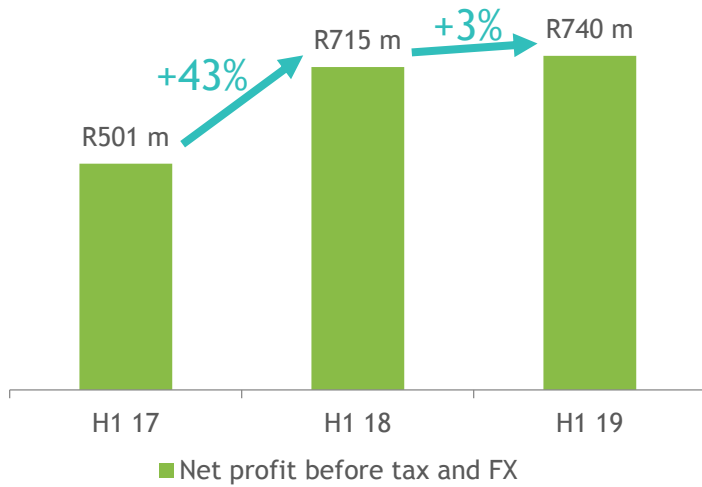
*Equivalent to 9.3% pre IFRS9 adjustments

**Including surplus statutory assets

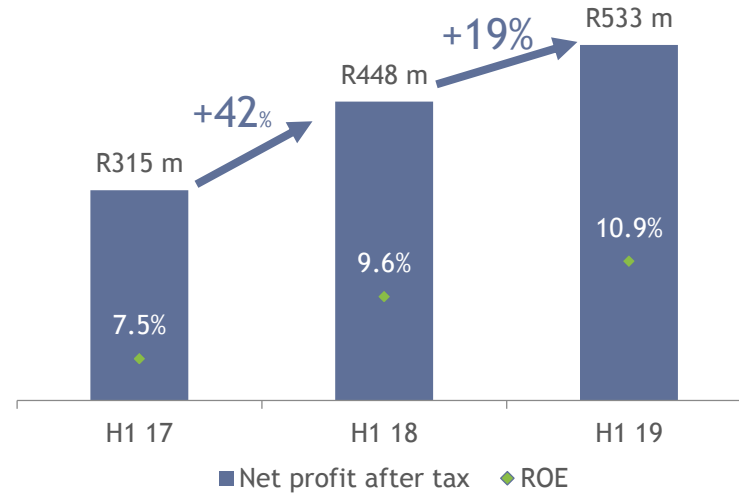
Increased operating profit

Profit growth dampened by investment in new business

Net profit before tax and FX



Net profit after tax



RoE

10.9%

Positive contribution

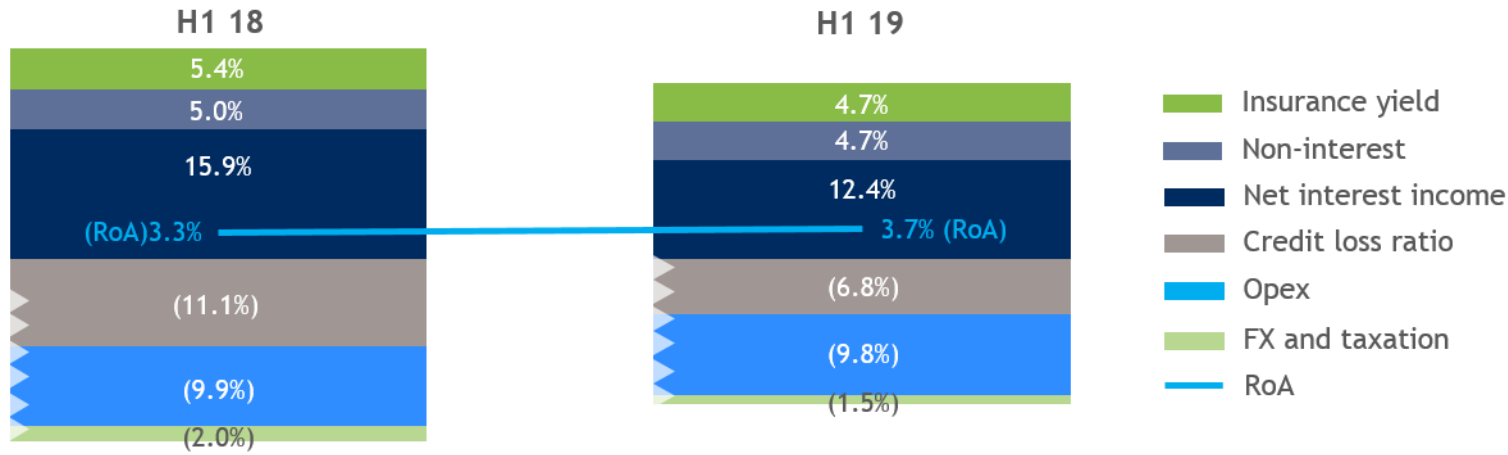
- Improved credit risk
- Lower net interest cost
- Higher absolute insurance profits

Negative impacts

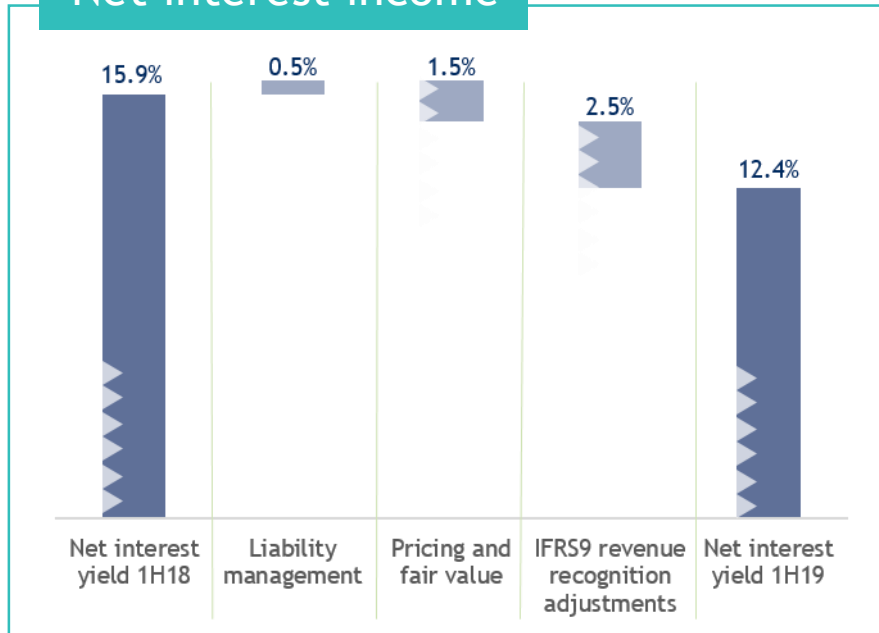
- Increased operating cost
- Lower non-interest revenue



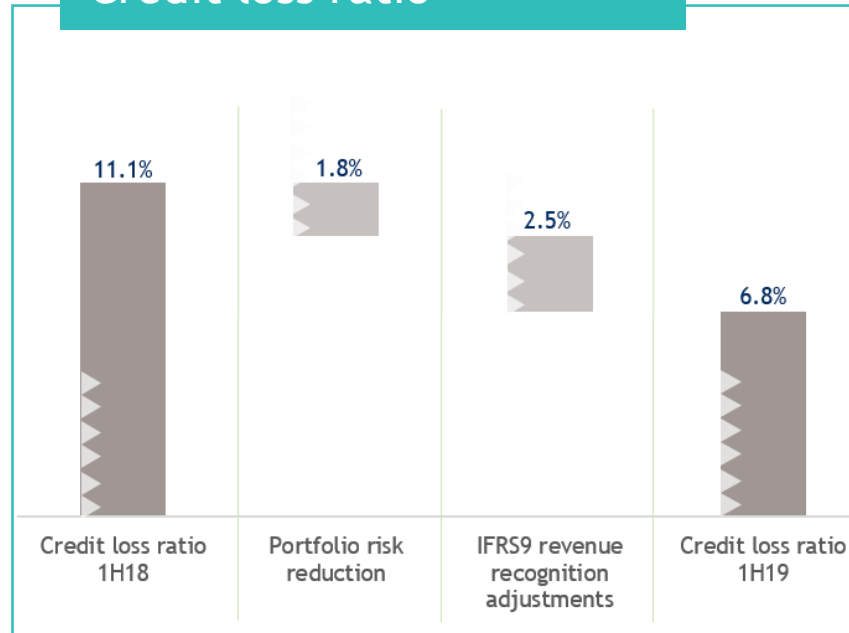
Return on average gross advances



Net interest income



Credit loss ratio



IMPROVED CREDIT LOSS RATIO

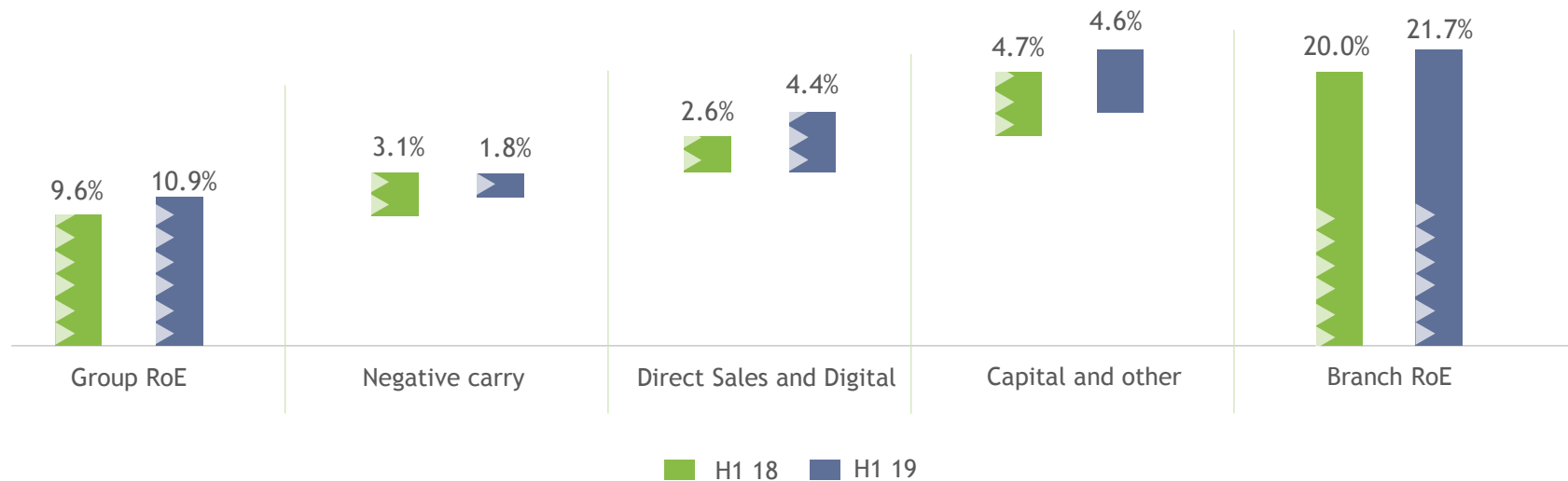
6.8%*



*Equivalent to 9.3% pre IFRS9 adjustments

Group RoE analysis

Improved lending business returns



- Branch RoE improved due to better credit loss ratio
- Emerging business and balance sheet overhang dilutes Group RoE
 - Reduced drag from negative carry
 - Increased dilution from additional investment in new business
 - Continued dilution from excess capital

BRANCH NETWORK

RoE
21.7%



Abridged statement of financial position

R million	H1 2018	H1 2019	% Change
ASSETS			
Net advances	18 969	19 182	1%
Gross advances	26 922	29 349	9%
Provisions	(7 953)	(10 167)	28%
Minimum regulatory assets and security	1 110	1 184	7%
Cash reserves*	8 775	5 993	(32%)
Other assets	2 052	2 288	12%
TOTAL ASSETS	30 906	28 647	(7%)
LIABILITIES AND EQUITY			
Liabilities	21 349	18 609	(13%)
Short-term liabilities	6 510	7 031	17%
Long-term liabilities	14 839	11 578	(26%)
Equity and reserves	9 557	10 038	5%
TOTAL LIABILITIES AND EQUITY	30 906	28 647	(7%)

- Marginal increase in net advances, provided for at 34.5% (2018: 29.4%)

*Including surplus statutory assets

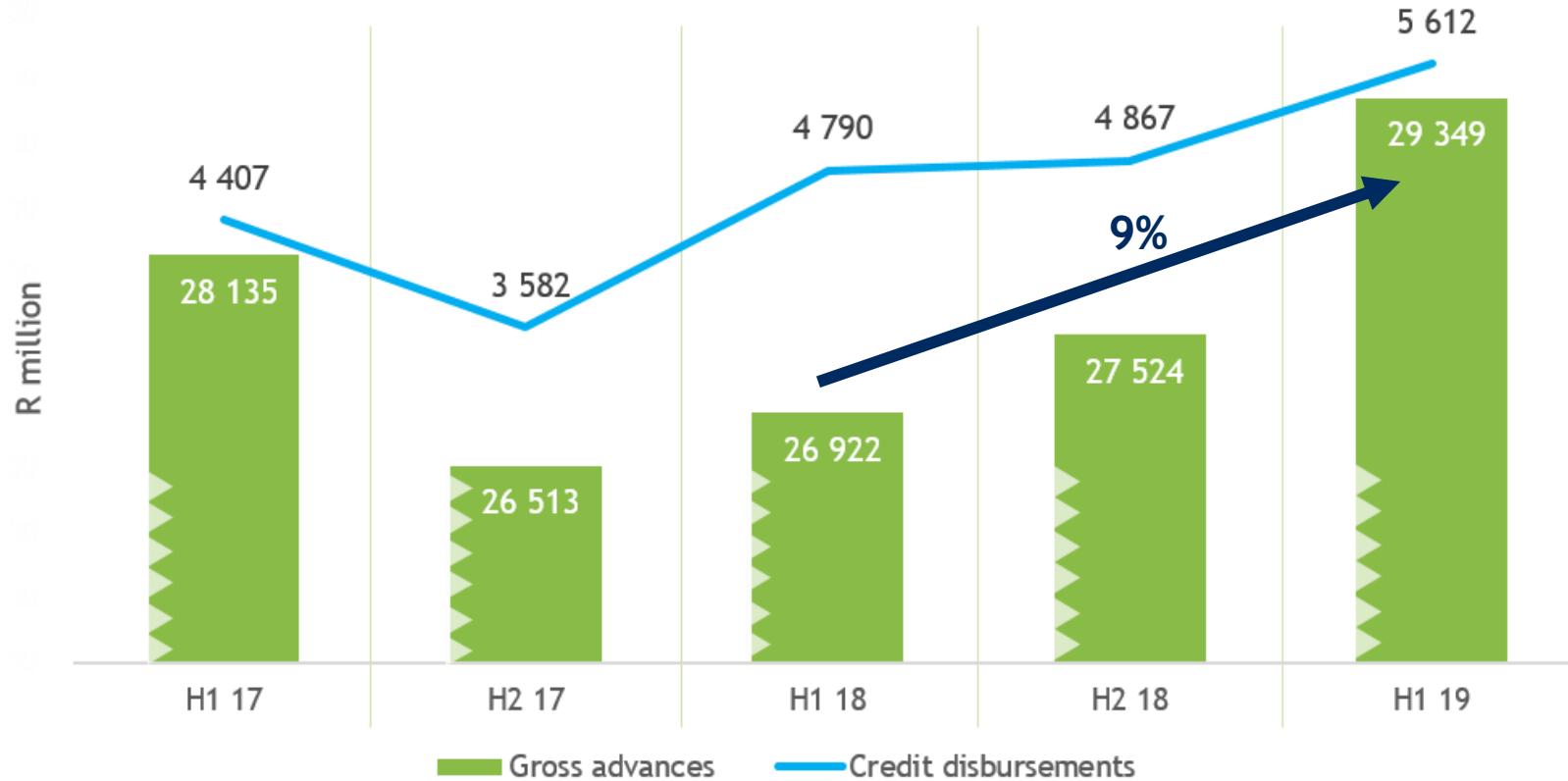
EQUITY AND RESERVES

R10.0 billion

AFTER IFRS9 IMPAIRMENTS



Retail advances overview



- Advances book up 9% (5% book growth, 4% change in accounting methodology)
- Continued new business growth, disbursement up 17%

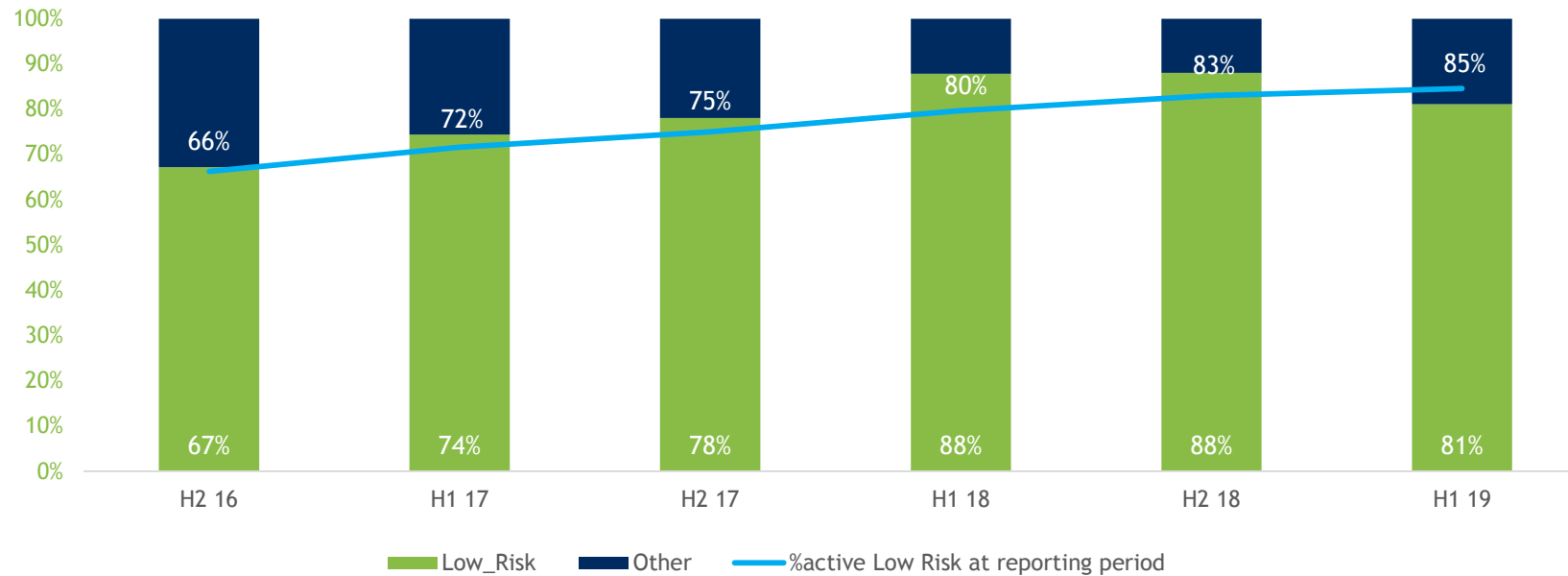
ADVANCES BOOK UP

9%



Consistent focus on lower risk customers

Risk band distribution at origination and reporting date



- Above 80% disbursement to low risk customers (best 5 of 22 risk bands)
- Percentage disbursements used to settle existing African Bank debt at 12%
- Scorecard recalibration in October 2018 moved some previous low risk to high risk

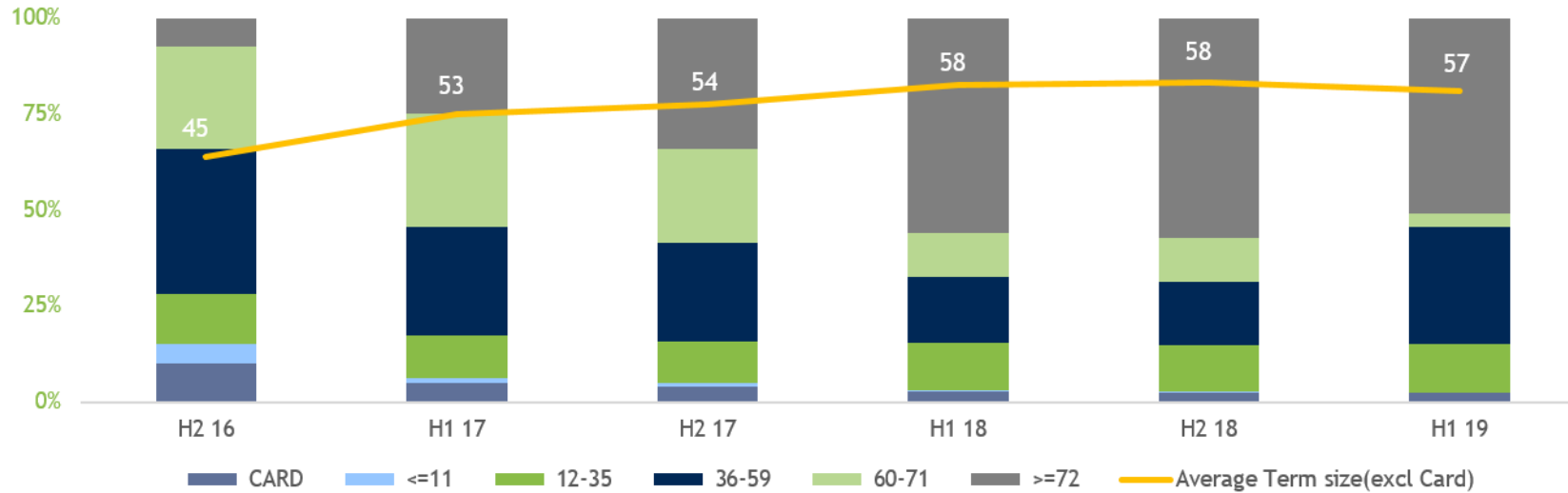
LOW RISK ON BOOK

85%

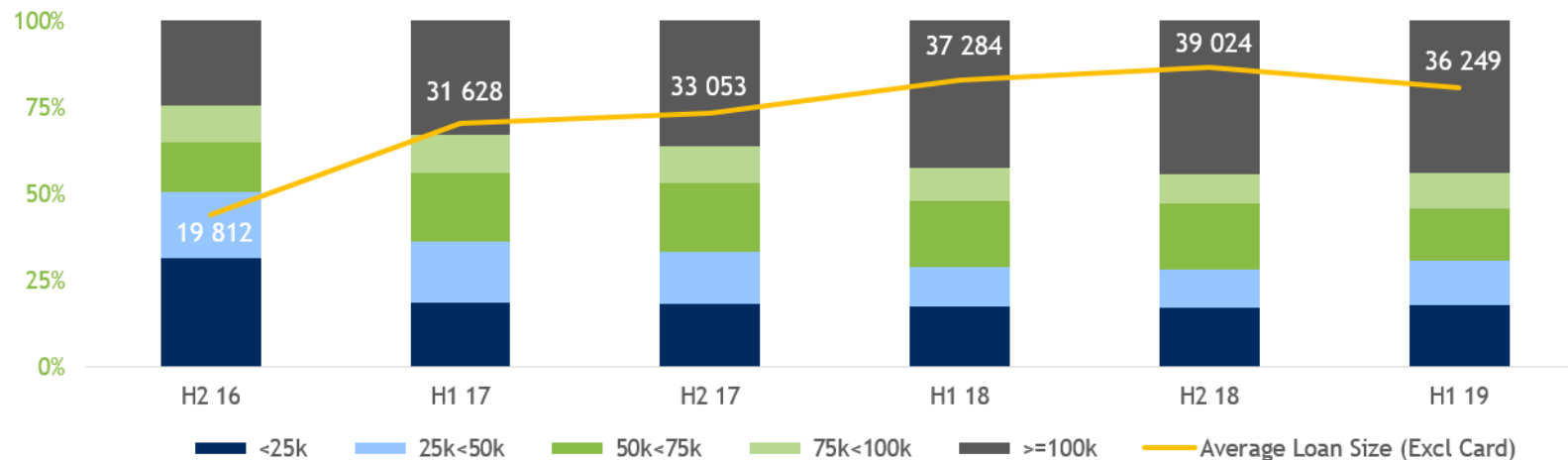


Term and loan size distribution

Loan term distribution (half year)



Loan size distribution (half year)

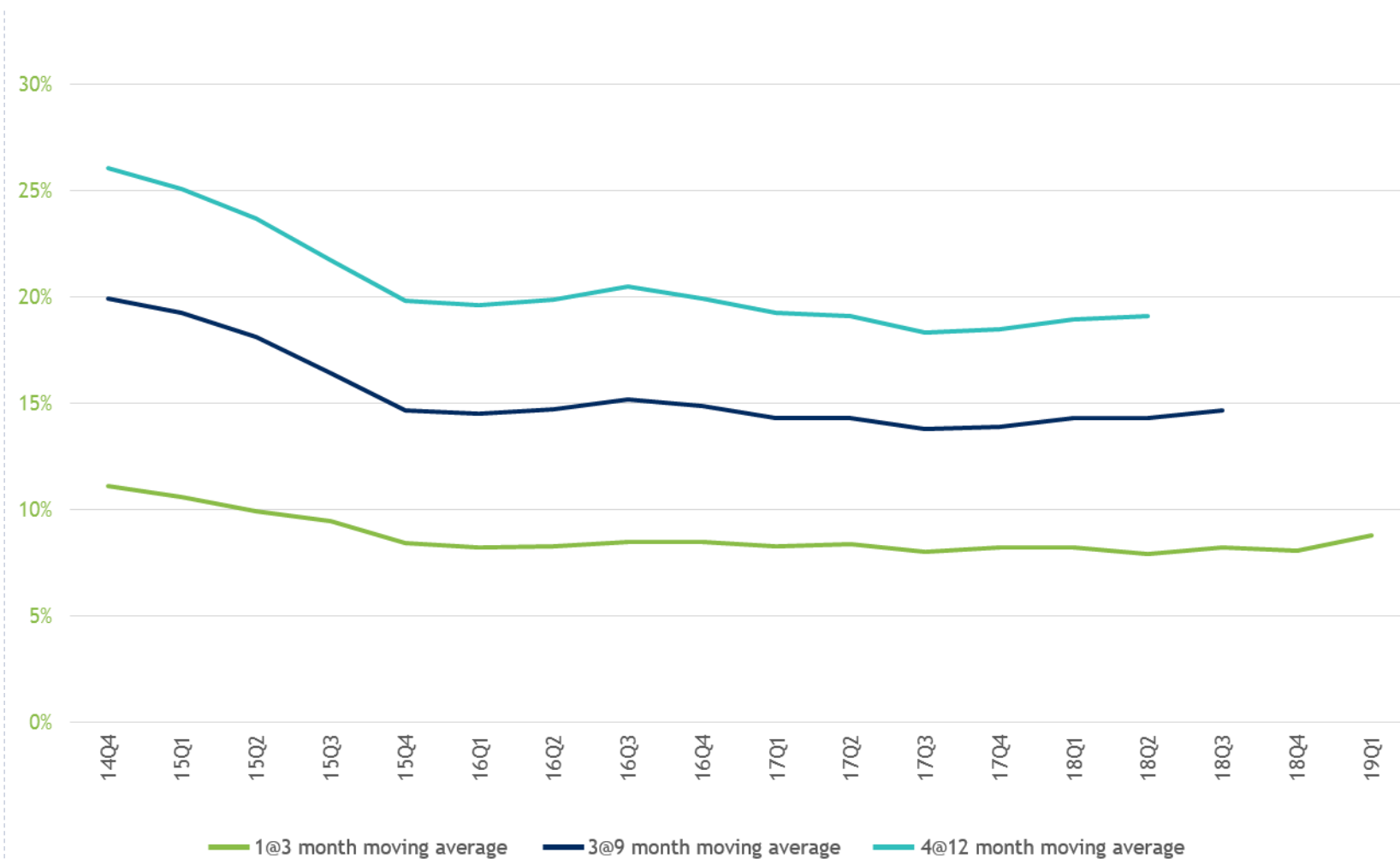


**OCTOBER 2018
SCORECARD
recalibration
reduced average
term and loan size**



Credit quality

Quarterly early risk emergence trends



- October 2018 scorecard adjustments implemented to adjust for slight uptick in risk

The lines represent the minimum number of missed instalments at the relevant number of months on book
e.g. 1@3 is the percentage of disbursements that have missed at least one instalment after 3 months on book

IMPROVEMENT
in credit quality
over time



Credit quality - Book split and credit coverage

Increased provisioning under IFRS9

Book split

R MILLION	30 September 2018 (IAS39)	1 October 2018 (IFRS9)	31 March 2018 (IAS39)	31 March 2019 (IFRS9)
Stage 1 (CD0)	14 681	8 289	14 328	9 538
Stage 2 (CD1 to 3)	3 387	9 778	3 406	9 486
Stage 3 (CD4+)	9 456	9 457	9 188	10 325
Total	27 524	27 524	26 922	29 349
PERCENTAGE stage3/CD4+	34	34	34	35
WRITTEN OFF BOOK	12 279	12 279	13 314	12 678

Coverage

PERCENTAGE	30 September 2018 (IAS39)	1 October 2018 (IFRS9)	31 March 2018 (IAS39)	31 March 2019 (IFRS9)
Stage 1 (CD0)	5	6	6	7
Stage 2 (CD1 to 3)	41	25	40	26
Stage 3 (CD4+)	66	66	63	67
TOTAL	30	33	29	35

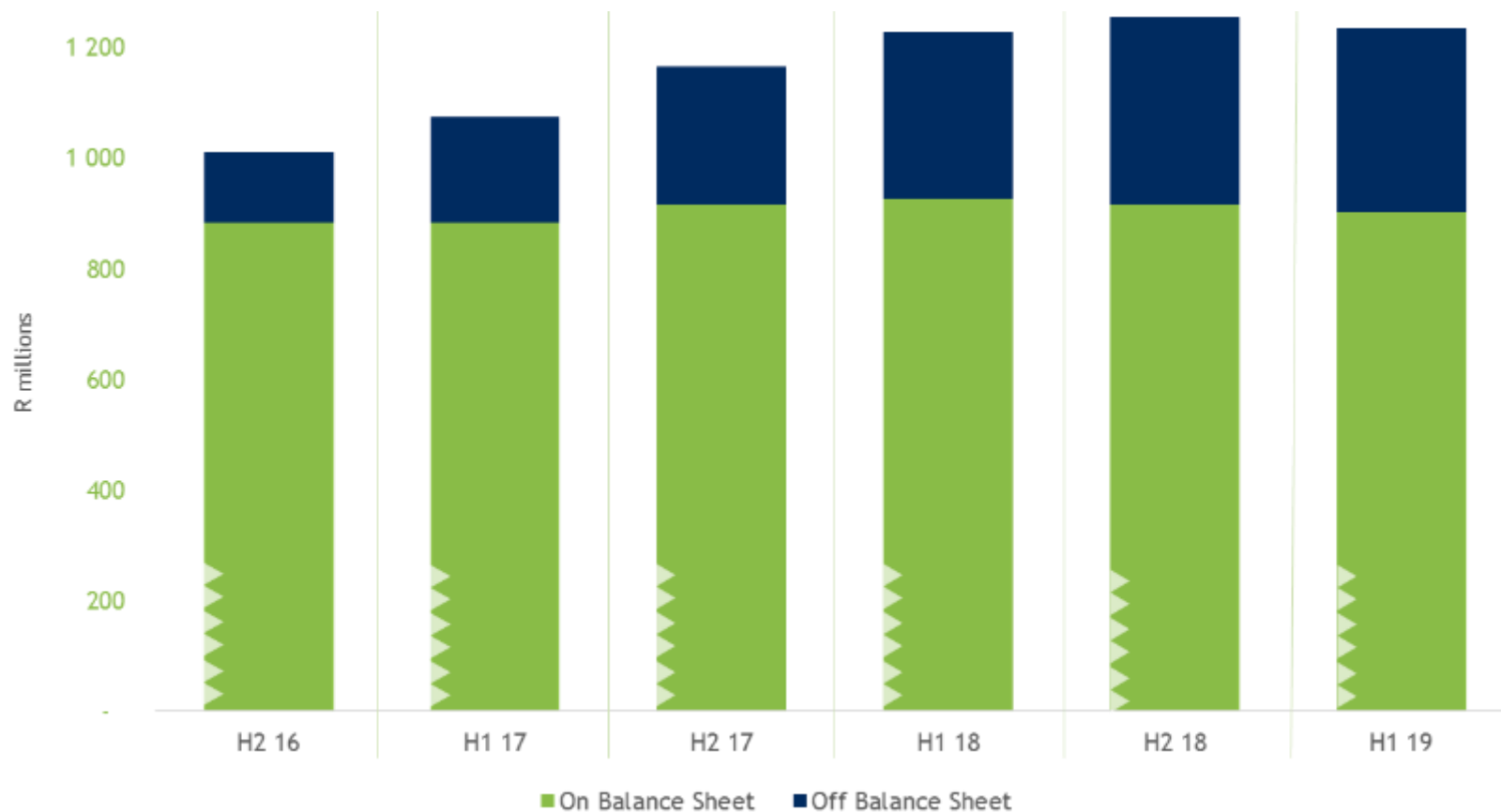
- Increased coverage under IFRS9 as a result of conservative forward-looking risk assessment
- Nil value assigned to gross written-off book (R12.7 billion)
- No restructuring of loans in arrears
- Maintained additional provisioning for challenging macro and regulatory developments

TOTAL COVERAGE

35%



Significant collections on CD4+ and written-off book



- Total collections R1 287 million
 - On balance sheet R903 million
 - Off balance sheet bad debt recoveries R384 million
- Consistently high payments by customer in late stage arrears

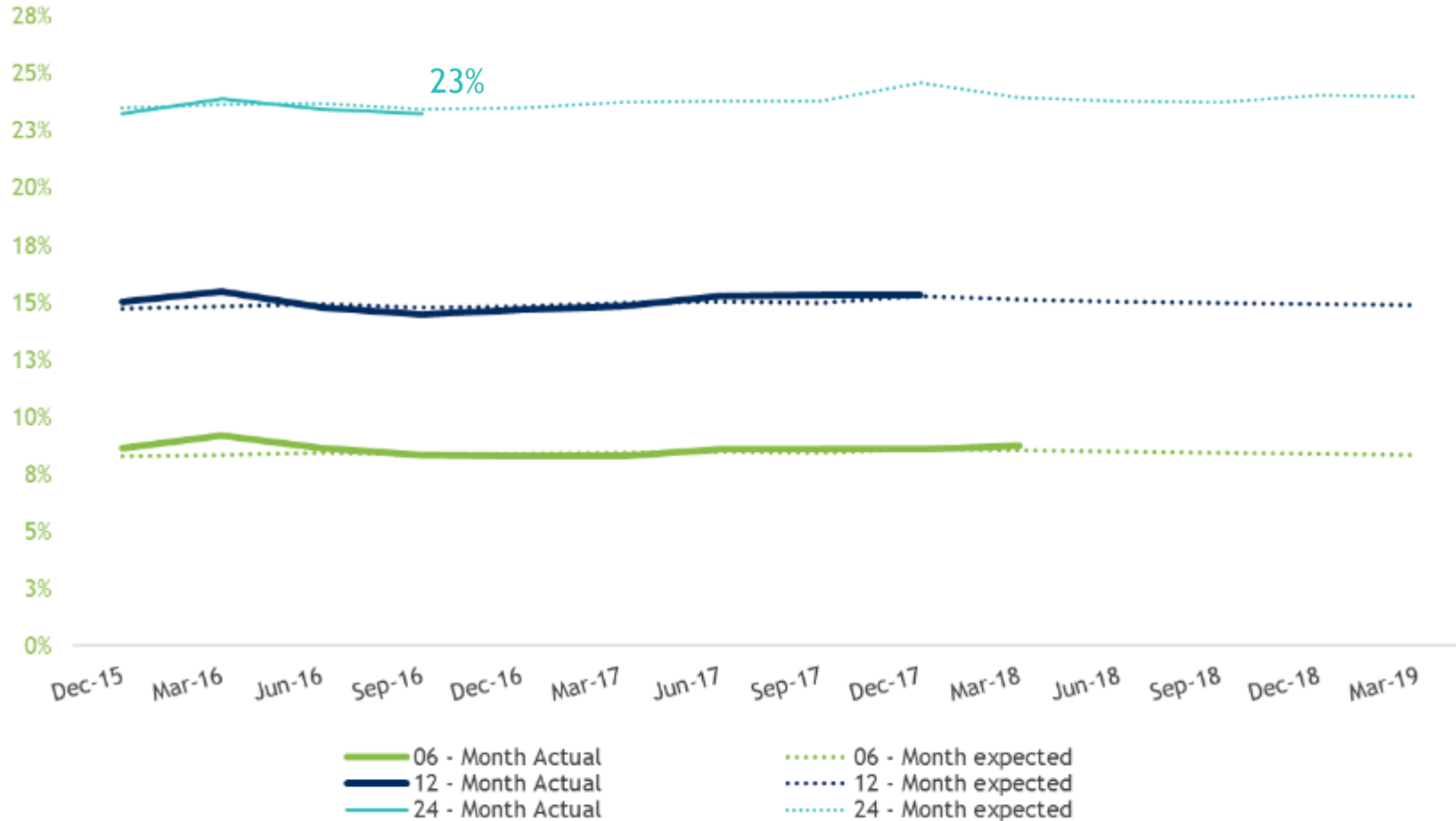
BAD DEBT RECOVERIES

R384
million

INCREASED FROM
R374 MILLION

Provisioning - collections versus model

Actual vs expected recovery rates (CD4+/Stage 3)



- Prudent provisioning
- Actual performance in line with model expectations

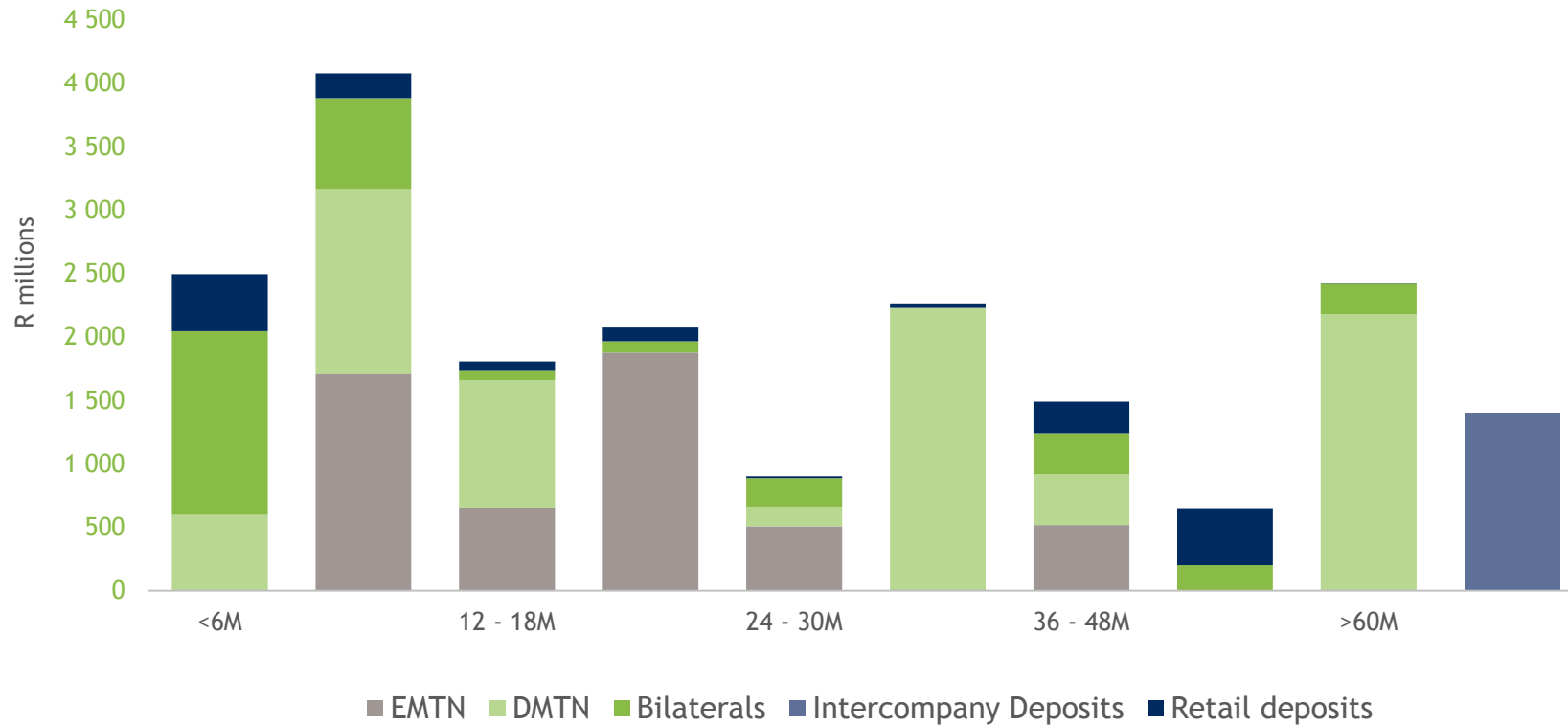
**DISCOUNTED
CASH
RECOVERIES**

23%

AFTER 24 MONTHS



Maturity profile of funding liabilities



- Liquidity buffers maintained
- Standard & Poor's affirmed national scale rating of zaA- in April 2019
- Development of shareholders-backed liquidity facility continues

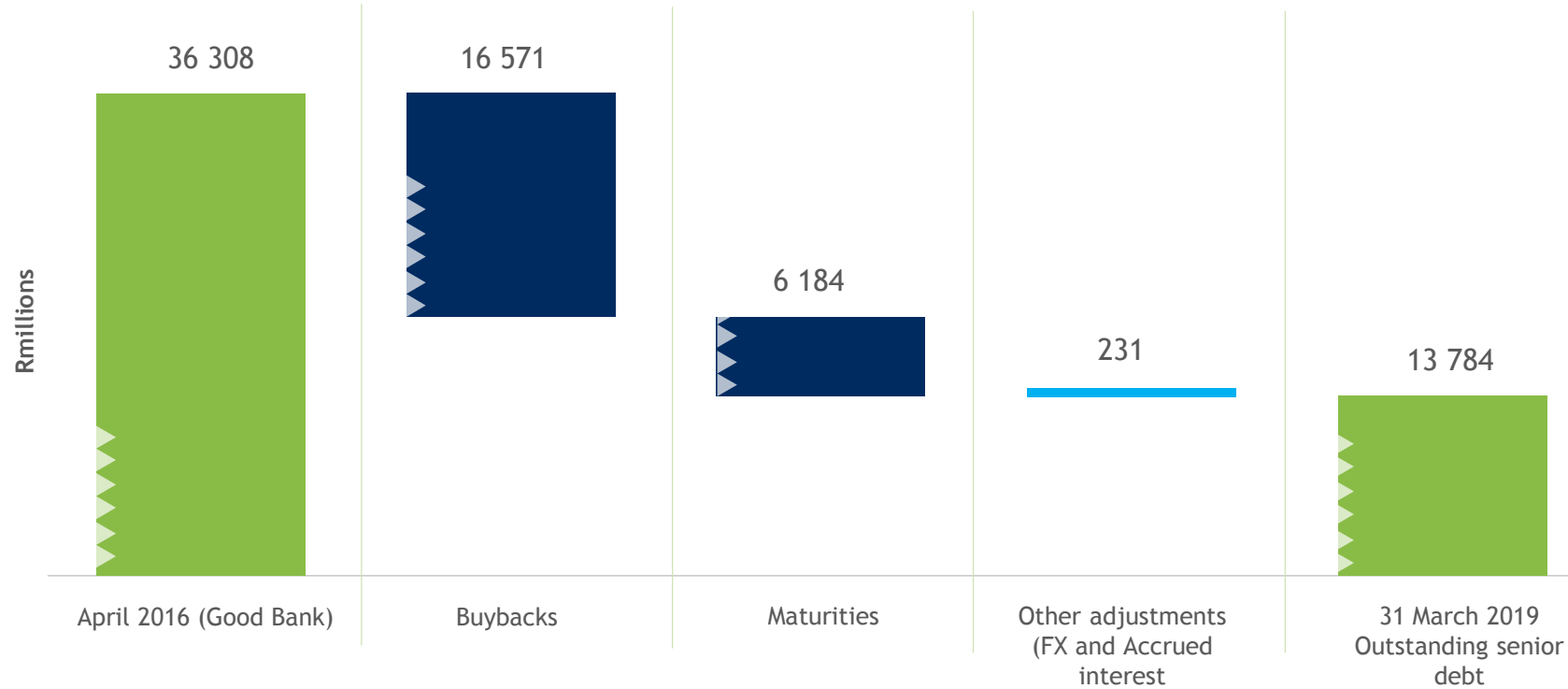
CASH RESOURCES

R6.0 billion



Senior wholesale liabilities settlement

ABL senior unsecured debt



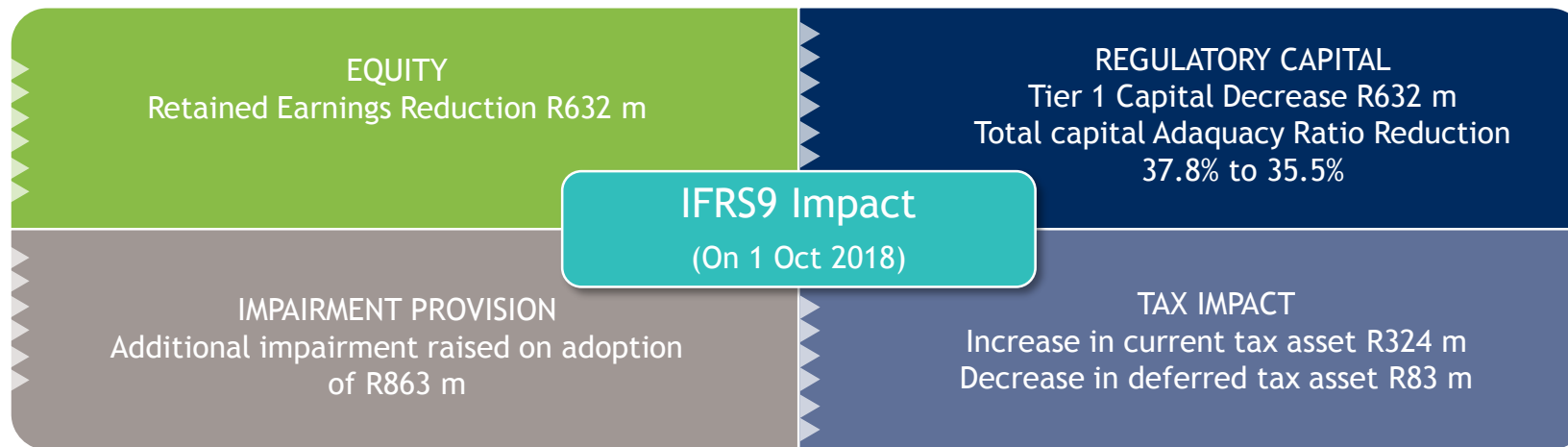
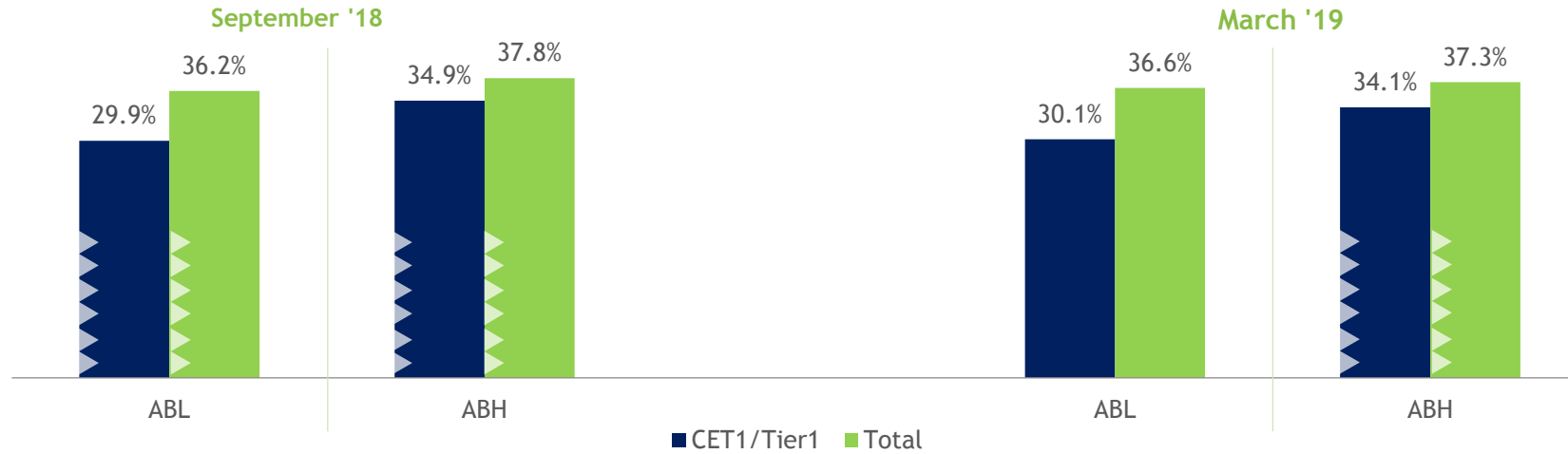
SETTLED
R22.8
BILLION
(61% to date)

- R22.8 billion (61%) of African Bank restructured senior wholesale debt settled to date
- Buybacks of R16.6 billion saved R2.4 billion in negative carry



Solid capital levels

Regulatory Capital adequacy



GROUP WELL CAPITALISED

CET1

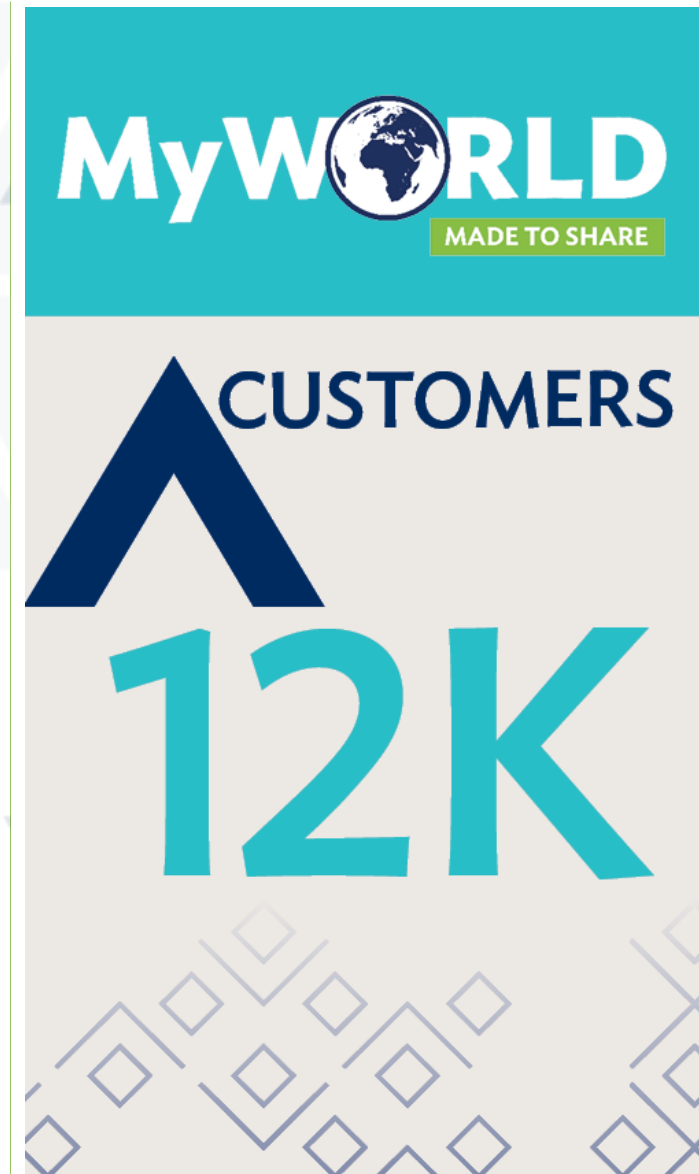
34.1%

OUTLOOK



Concluding remarks

- Successful six month period
 - Earnings growth while investing for the future
 - Increased disbursements while maintaining risk appetite
 - Strong growth in Savings & Investments portfolio
 - Robust capital and strong liquidity
- Launch of MyWORLD is a strategic milestone, with longer-term benefits
 - Acquisition of new customers
 - Retention of existing customers
 - Improved data to inform customer strategy
- Positioning African Bank for sustained success
- An attractive investment proposition



Contact details and information

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Financial media

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African Bank website - Investors

- Information in respect of the 6 months ended 31 March 2019

- [African Bank Holdings Limited](#)
Results Presentation and results analysis
- [African Bank Holdings Limited](#)
Unaudited consolidation condensed financial results
- [African Bank Limited](#)
Unaudited condensed financial statements
- [African Bank Holdings Limited and African Bank Limited](#)
Basel III Pillar 3 Report
- [African Bank Holdings Limited](#)
IFRS 9 Transition Report

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