

29 May 2018

African Bank Group reports improved results for six months ended 31 March 2018

This media release contains pertinent details of the financial results for African Bank for the period ending 31 March 2018. In order to view a short video presentation of these results and a business overview by Basani Maluleke, CEO of African Bank Holdings Limited please view <https://www.africanbank.co.za/en/home/corporate-info-financial-reporting>

Group financial headlines

- Operating profit for the six month period up 42 % to R715million, compared to R501 million for the period ended 31 March 2017
- RoE improved to 9.6% from 7.5%
- Credit impairment ratio improved to 11.1% from 13.8%
- New credit disbursements increased by 9% to R4.8billion
- Retail deposits increased by 90% over the six months to R680 million (Sep 2017:R357million)
- Cash balances of R8.6 billion
- Core Equity Tier 1 ratio of 32.6% for African Bank Limited

Commenting on the results, Basani Maluleke, group CEO noted: *“We have made good progress on our strategy to right-size and modernise the branch network and digitise the business. The growth in both our lending and retail deposit books, coupled with the launch of our “My World” transactional banking product to our staff are strong indicators of the execution of our strategy. As the competitive landscape intensifies, we believe we have the right team to deliver acceptable returns to all our stakeholders and real value to our target market.”*

Introduction

The Group continued to develop increasingly relevant products and services to a broader South African customer base. The financial results improved off the back of better risk management processes, while the advances book has stabilised off better new business volumes, notwithstanding the difficult economic conditions experienced during the reporting period. The Group continued to invest in and develop the transactional product offering, known as My World, in order to deliver on its strategy to become a successful South African retail bank, providing enhanced value to its customers.

Improved financial results

The Group generated a 42% increase in net profit before tax and foreign exchange losses, reporting R715 million for the six months ended 31 March 2018 (2017 : R501 million). The increase was primarily due to a lower credit impairment charge as a result of a generally lower credit risk appetite and better collections, an increase in insurance profit and lower net interest charge due to debt buy backs. Operating costs for the period were well contained, edging only 4% higher to R1 270 million, primarily as a result of a 3% increase in core costs and spend on the transactional banking roll out.

Increased new business and better credit risk

African Bank increased its new loan and card business by 9% to R4 792 million (2017: R4 407 million). The bank continued to focus on lower risk customers, disbursing over 80% of all advances to this group. These customers typically qualify for larger loans over longer terms. These disbursements continue to show better risk emergence. Evidence of better credit risk emergence can be seen in the impairment loss ratio improving to 11.1% from 13.8% in H1 2017.

The Bank is also attracting more new customers, with 33% of all loans issued during the period to new customers, up from 28% for the previous six months, primarily as result of more targeted marketing.

Solid progress on diversification - A digital retail bank in the making

The branch network has been fully refreshed and modernised, and continues to generate the bulk of the business, with disbursements through this channel increasing by 6% to the comparable prior period.

The Credit Direct channel, which provides lending products through direct contact with customers, is fully operational and business written through this channel has increased by 56% compared to the comparable prior period.

The “My World” transactional banking product has been released to African Bank staff, with over 53% of employees opening an account since 4 April 2018. The public launch is on track for later in 2018.

The interest charge has been further reduced by deploying excess cash to buy back R1.9 billion of shorter dated debt.

The joint venture lending business with MMI continues to gain traction.

Strong retail deposit growth

African Bank continues to actively diversify its funding base, offering market-leading interest rates to retail depositors. Since 30 September 2017, African Bank has grown its retail deposits by 90% to R680 million. This retail deposit base now comprises over 13 000 depositors with an average deposit of just over R52 000, constituting 3% of the funding for the Bank. The Bank strives to offer the best rates across the investment curve, including 10.5% (NACA) for its 5 year fixed term product.

Capital and liquidity

Cash reserves, including surplus liquid assets as at 31 March 2018, amounted to R8.6 billion. Under a largely neutral projected operational cash flow, the cash on hand is sufficient to more than cover maturing liabilities of R7.1 billion for the next 18 months. Management are also proactively engaging with shareholders to establish a co-ordinated funding arrangement that will allow it to re-enter the capital markets.

African Bank to deliver a sustainable business into the future

The financial services industry is evolving and the pace of change is accelerating. Customers want more value and service for lower fees. They want it quickly, transparently and ‘hassle-free’. The digitisation of the Bank is a corner stone of its strategy to meet these legitimate and evolving customer requirements.

The planned customer launch of the My World transactional product by the end of 2018 and the increasing levels of digitisation that the Bank’s businesses provide, together with the enhanced customer value and a cost effective operating model are expected to deliver a solid and sustainable business into the future.

These factors are expected to contribute to a growing and diversified business that encompasses an efficient and effective retail banking business across lending, deposit taking and transactional banking.

ENDS

Conference call today at 11.00am

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

Details of the conference call are:

- Date: Tuesday, 29 May 2018
- Time: 11h00 SAST

Interested parties are requested to pre-register for this conference call at the following url:<https://goo.gl/TqBPSM> and follow the instructions provided. A recording of the results will be available on the Bank’s website after the presentation.

Louise Brugman 083 504 1186; louise@vestor.co.za

On behalf of CEO of African Bank, Basani Maluleke

Notes to editors

About African Bank

African Bank is a 100% subsidiary of African Bank Holdings Limited (“ABH” or “ABH group”). ABH is an unlisted registered bank controlling company under the Banks Act, Act 94 of 1990. The shares in ABH are privately held by the South African Reserve Bank, the Government Employees Pension Fund, Barclays Africa Group Limited, Capitec Bank Limited, FirstRand Bank Limited, Investec Bank Limited, Nedbank Limited and The Standard Bank of South Africa Limited.

The ABH group has material insurance operations that are housed in African Insurance Group Limited, a separate 100% held subsidiary of ABH which in turn holds a cell captive investment in Guardrisk Limited (“cell captive”). The cell captive investment, owned 100%

by African Insurance Group Limited, is not consolidated by the ABH group according to International Financial Reporting Standards ("IFRS"), although the financial performance of this entity is dealt with in the unaudited consolidated financial statements, by means of a re-measurement of the investment in insurance contracts.