



African Bank

INVESTMENTS LIMITED

African Bank Investments Limited

(in business rescue)
Incorporated in the Republic of South Africa
(Registration number 1946/021193/06)
Ordinary share code: ABL ISIN: ZAE000030060
Hybrid instrument code: ABLP ISIN: ZAE000065215
("ABIL" or "the company")

CONDENSED AUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2014

OVERVIEW

The 2014 financial year was one of significant changes for African Bank Investments Limited ("ABIL") with the following events taking place:

- African Bank Limited ("African Bank"), a subsidiary of ABIL, was placed under curatorship on 10 August 2014;
- Ellerines Furnishers Proprietary Limited ("Ellerines Furnishers"), a subsidiary of Ellerine Holdings Limited ("Ellerine Holdings"), which is in turn a subsidiary of ABIL, was placed under business rescue on 7 August 2014;
- Ellerine Holdings was placed under business rescue on 22 August 2014; and
- Trading in ABIL securities on the JSE was suspended on 11 August 2014.

Subsequent to year-end, the company began voluntary business rescue proceedings on 5 June 2015.

The board of directors of ABIL ("the Board") has presented unconsolidated company results as the Board was unable to prepare consolidated results. During the financial year under review and for the reasons described below, the company lost control of two of its material wholly-owned subsidiaries, African Bank and Ellerine Holdings.

On 10 August 2014, the board of African Bank requested the Registrar of Banks to place the bank under curatorship. The Registrar in conjunction with the Minister of Finance, placed African Bank under curatorship in terms of section 69 of the Banks Act, 1990. From that date control of African Bank was vested with the curator and the African Bank board of directors was relieved of its duties.

From the date that African Bank was placed under curatorship ABIL has had neither control nor access to the African Bank accounting records and data relating to its advances book.

In light of the significant size of the additional credit impairment provision raised by the curator on the advances book, ABIL requested access to the African Bank accounting records in order to form a view of the accuracy and correctness of the significant changes to the provisions – materially affecting both the current and the prior year results of African Bank.

The board of ABIL agreed to appoint KPMG to conduct an independent review to verify the accuracy of the calculations of the impairment provisions.

The board of ABIL also appointed an independent accounting expert to provide a view on the correctness of the IFRS accounting treatment that African Bank adopted for the increased provisions, as this would directly affect the 2014 ABIL consolidated financial statements and the comparative for 2013. In terms of professional rules, the curator of African Bank and Deloitte (who acted as auditors of the African Bank financial statements for the year ended September 2013 and prior years) had to agree on the facts relating to the past and additional credit impairment provisions raised in order for the independent accounting expert to furnish an opinion on the proper IFRS accounting for the additional credit impairment provisions. Regrettably, the ABIL board was unable to convince the curator to support this process and Deloitte would only respond to the requests for confirmation of background facts relevant to the accounting after the curator had agreed to the background facts. Therefore, the KPMG review referred to above did not take place, and the independent accounting expert could not complete his work.

Given the circumstances described above, the Board is not in a position to satisfy itself on the correctness or accuracy of the African Bank financial statements prepared by the curator, and not in a position to consolidate the financial results of African Bank up to the date it was placed under curatorship.

On 22 August 2014, Ellerine Holdings commenced voluntary business rescue proceedings in terms of section 129 of the Companies Act, 71 of 2008. From that date, control of Ellerine Holdings vested with the business rescue practitioner.

The major trading subsidiary of Ellerine Holdings, Ellerines Furnishers Proprietary Limited ("Ellerines Furnishers"), had already commenced voluntary business rescue proceedings on 7 August 2014. The business rescue practitioners of Ellerines Furnishers disposed of or closed all South African operations before 31 December 2014. As a result, all staff involved in the South African business operations were retrenched. As Ellerines Furnishers no longer has staff, it is not possible to obtain sufficient and proper financial information to perform the consolidation of Ellerine Holdings up to the date it was placed in business rescue. Given the circumstances, the Board is not in a position to consolidate the financial results of Ellerine Holdings up to the date it was placed in business rescue.

FINANCIAL PERFORMANCE

The company incurred a loss after tax of R16.2 billion (2013: R225 million) mainly due to the impairment of its investments in African Bank Limited and Ellerine Holdings Limited.

As a consequence of the above, the ordinary shareholders' equity reduced from net assets of R9.7 billion in 2013 to R1.4 billion net liability.

GOING CONCERN

ABIL is currently in business rescue due to the demand for repayment of loans and fulfilment of guarantees issued to various financial institutions. Information regarding the business rescue proceedings is available at <http://abil.investoreports.com/investor-media/abil-business-rescue/>

The company is an investment holding company and hence is reliant on the dividends it receives from its subsidiaries for income in order to meet its commitments.

The Board believes that the claims by the creditors will be paid in full for the following reasons:

- The company's subsidiary, The Standard General Insurance Company Limited ('Stangen'), is in a strong financial position and has equity of approximately R1.1 billion at 30 September 2015.
- Stangen is profitable and in the 2015 financial year made profits of approximately R1.4 billion.
- Value will be realised from Stangen's run-off credit life book with African Bank, despite the lapsing of the purchase and sale agreement for the entire issued shares in Stangen. Stangen is exploring various ways to retain value in its book as well as developing new routes to market independent of African Bank Limited.
- Stangen has sufficient cash and equity to declare dividends to ABIL that will fund operations, facilitate repayment of ABIL's creditors and provide ABIL with funds to either invest in new opportunities or to make distributions to ABIL's shareholders.

The Board believes that if Stangen is either sold or continues operating as a subsidiary of ABIL, there will be sufficient cash to pay ABIL's creditors, fund operations and potentially make new investments or distributions to ABIL's shareholders.

Thus the Board concluded that the preparation of the financial information as a going concern is appropriate.

RIGHTS OFFER

The company raised R5.5 billion in a rights offer which was finalised in December 2013. These funds were utilised to capitalise African Bank Limited.

DIVIDENDS

No ordinary dividends were declared in the 2014 financial year. A preference dividend of 349 cents per share was declared on 19 May 2014 and paid on 17 June 2014.

DIRECTORATE

The chief executive officer, Leon Kirkinis resigned on 6 August 2014 whilst Toni Fourie and Tami Sokutu, both executive directors, resigned with effect from 6 February 2014.

Nithia Nalliah resigned subsequent to year-end on 31 March 2015 and Jack Koolen sadly passed away subsequent to year-end on 3 May 2015.

LOOKING AHEAD

The company is currently under business rescue and its future will depend on the outcome of the business rescue process, which is forecast to conclude in 2016.

On behalf of the Board

Mutle Mogase

Chairman

Company income statement for the year ended 30 September 2014

R million	2014	2013
Dividends received	1 271	1 227
Sundry income	7	–
Interest received	9	2
Total income	1 287	1 229
Reversal of impairment loss	–	338
Operating costs	(372)	(7)
Impairment of financial instruments	(167)	–
Impairment of subsidiaries	(16 925)	(1 784)
Finance cost	(6)	–
Indirect tax	(4)	(1)
Loss before taxation	(16 187)	(225)
Direct taxation: SA normal tax	(4)	–
Loss for the year	(16 191)	(225)
Reconciliation between basic loss and headline earnings		
Loss for the year	(16 191)	(225)
Preference dividends	(89)	(88)
Basic loss attributable to ordinary shareholders	(16 280)	(313)
Adjusted for: Impairment of subsidiaries	16 925	1 446
Headline earnings	645	1 133
Earnings per share (cents)		
Basic and diluted loss per share	(1 160,9)	(32,2)
Headline earnings per share	46,0	116,5
Weighted number of shares in issue (million)	1 402,4	972,7

Company statement of other comprehensive income for the year ended 30 September 2014

	2014	2013
Loss for the year	(16 191)	(225)
Other comprehensive loss	–	–
Total comprehensive loss	(16 191)	(225)

Company statement of financial position as at 30 September 2014

R million	2014	2013
Assets		
Short-term deposits and cash	4	35
Other financial assets	4	125
Deferred tax asset	–	1
Investment in subsidiaries	564	12 040
Total assets	572	12 201
Liabilities and equity		
Borrowings	447	1 314
Other liabilities	378	29
Total liabilities	825	1 343
Ordinary share capital	192	20
Ordinary share premium	14 458	9 420
Reserves	(16 033)	288
Ordinary shareholders' equity	(1 383)	9 728
Preference shareholders' equity	1 130	1 130
Total equity (capital and reserves)	(253)	10 858
Total liabilities and equity	572	12 201
Tangible net asset value per ordinary share (cents)	(92.1)	1 192.4
Net asset value per ordinary share (cents)	(92.1)	1 192.4
Number of shares in issue (million)	1 501.0	815.8

Company statement of changes in equity for the year ended 30 September 2014

R million	Ordinary shares	
	Ordinary share capital and premium	Retained earnings
Balance at 30 September 2012	9 151	1 689
Shares issued in scrip distribution	289	(289)
Dividends paid	–	(799)
Total comprehensive loss for the year	–	(313)
Balance at 30 September 2013	9 440	288
Shares issued in rights issue	5 210	–
Dividends paid	–	(41)
Total comprehensive loss for the year	–	(16 280)
Balance at 30 September 2014	14 650	(16 033)

R million	Ordinary shareholders' equity	Preference share capital and premium	Total
	Balance at 30 September 2012	10 840	1 130
Shares issued in scrip distribution	–	–	–
Dividends paid	(799)	(88)	(887)
Total comprehensive loss for the year	(313)	88	(225)
Balance at 30 September 2013	9 728	1 130	10 858
Shares issued in rights issue	5 210	–	5 210
Dividends paid	(41)	(89)	(130)
Total comprehensive loss for the year	(16 280)	89	(16 191)
Balance at 30 September 2014	(1 383)	1 130	(253)

Company statement of cash flows for the year ended 30 September 2014

R million	2014	2013
Cash generated from operations	1 258	1 218
Cash receipts	1 287	1 229
Cash payments	(29)	(11)
Indirect and direct taxation paid	(7)	(1)
Cash inflow from operating activities	1 251	1 217
Cash outflow from investing activities	(5 494)	(1 381)
Investments acquired during the year	(177)	(120)
Investments disposed of during the year	132	–
Investments in subsidiaries	(5 449)	(1 261)
Cash inflow from financing activities	4 216	192
Cash (outflow)/inflow from funding activities	(867)	1 079
Issue of ordinary shares	5 213	–
Preference shareholders' payments and transactions	(89)	(88)
Ordinary shareholders' payments and transactions	(41)	(799)
(Decrease)/Increase in cash and cash equivalents	(27)	28
Cash and cash equivalents at the beginning of the year	35	7
Reclassification of cash held by African Bank Limited	(4)	–
Cash and cash equivalents at the end of the year	4	35

NOTES TO THE FINANCIAL STATEMENTS

AUDITORS' REPORT

The accompanying financial information is extracted from the audited financial statements but in itself is not audited. The auditors have expressed an adverse opinion on the financial statements of the group and an unqualified opinion with an emphasis of matter on the separate financial statements of the company. A paragraph relating to a reportable irregularity was furthermore included. An extract of the audit opinion is as follows:

'Basis for adverse opinion on consolidated financial statements and an unqualified opinion on the separate financial statements

The company has subsidiaries and is required by International Financial Reporting Standards to prepare consolidated financial statements. As described in the directors' report, the directors have prepared unconsolidated financial statements. These financial statements have been prepared on the same basis as separate financial statements, which are financial statements permitted in terms of International Financial Reporting Standards when an entity also prepares consolidated financial statements. Unconsolidated financial statements are prepared on the basis that investments in subsidiaries are reported at cost and income is recognised when dividends from subsidiaries are receivable. The effect of not preparing consolidated financial statements in accordance with International Financial Reporting Standards is not given as required.

Adverse opinion on consolidated financial statements

In our opinion, because of the significance of the matter discussed in the preceding paragraph, the financial statements do not present fairly the financial position of the group as at 30 September 2014, and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

Unqualified opinion on the separate financial statements

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the company as at 30 September 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 3.1 to the financial statements which indicates that the company incurred a loss of R16.2 billion for the year ended 30 September 2014 and, as at that date the company's total liabilities exceed its total assets by R253 million. Note 3.1 also indicated that these conditions, along with other matters, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern.

Report on other legal and regulatory requirements

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified certain unlawful acts or omissions committed by persons responsible for the management of African Bank Investments Limited which constitute reportable irregularities in terms of the Auditing Profession Act, and have reported such matters to the Independent Regulatory Board for Auditors.

The reportable irregularities are that the annual financial statements for the years ended 30 September 2014 and 30 September 2015 have not been published within six months after the year-end as required in terms of section 30(1) of the Companies Act and the Annual General Meeting has not been held within 15 months from the previous Annual General Meeting as required by section 61(7) of the Companies Act.

The full audit report is available for inspection at the company's registered office. The auditors' report does not necessarily report on all of the information contained in these financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditors' engagement they should obtain a copy of the auditors' report together with the accompanying financial information from the issuer's registered office.

BASIS OF PREPARATION

The preparation of this financial information was supervised by Reynold Ngobese CA(SA).

Except for the non-preparation of consolidated results, this financial information has been prepared in accordance with the framework concepts and the measurement and recognition requirements of the International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board, Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, IAS 34 "Interim Financial Reporting", the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the requirements of the Companies Act of South Africa (Act 71 of 2008) as well as the Listings Requirements of the JSE Limited.

The company has adopted the following standards and interpretations during the financial year, which did not have material impact on the reported results:

- IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine
- IFRS 1 – First time adoption of International Financial Reporting Standards
- IFRS 7 – Financial instruments: Disclosures
- IFRS 10 – Consolidated Financial Statements

- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- IAS 19 – Employee Benefits
- IAS 27 – Consolidated and Separate Financial Statements
- IAS 28 – Investments in Associates and Joint Ventures

All the other accounting policies and their application are consistent with those used for the company's 2013 annual financial statements.

The directors take full responsibility for the preparation of these financial results and confirm that the financial information has been correctly extracted from the underlying financial statements.

CONTINGENT LIABILITIES

A number of Ellerine Furnishers employees have claimed amounts due to them from Ellerine Furnishers Proprietary Limited and Ellerine Holdings Limited. The amounts claimed by the executives amounts to R42.6 million.

The claimants are also seeking to recover this amount from the company.

The legal opinion obtained by the company from an eminent Senior Counsel states that the company is not liable for payment of the amounts claimed and accordingly the company has not provided for this contingent liability.

Midrand
22 April 2016

Sponsor

Merchantec Capital

Board of directors

Independent non-executive

MC Mogase (*Chairman*)

N Adams

Advocate MF Gumbi

NB Langa-Royds

M Mthombeni

RJ Symmonds

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