SBC Limited and Subsidiaries

Group Results

for the six months ended 30 June 2017

(Incorporated in the Kingdom of Swaziland Reg. No. 473 of 2011)
ISIN Code: SZE000331031 Share Code: SBC
Listed on the Swaziland Stock Exchange

HIGHLIGHTS

Loan book growth of 8% ▲	Revenue growth of 7% ▲	Headline earnings maintained	Progress on the Malkerns property development initiative

Figures in Emalangeni	Reviewed 6 months ended 30 June 2017	Audited 12 months ended 31 December 2016
STATEMENT OF COMPREHENSIVE INCOME		
Revenue	119,938,595	224,003,740
Operating expenses	(55,503,273)	(103,302,880)
OPERATING PROFIT	**64,435,322**	**120,700,860**
Other income	17,806,216	30,636,148
Finance costs	(51,726,391)	(78,591,468)
PROFIT BEFORE TAXATION	**30,515,147**	**72,745,540**
Taxation	(8,405,236)	(20,793,093)
PROFIT FOR THE PERIOD	**22,109,911**	**51,952,447**
Other comprehensive income	0	0
TOTAL COMPREHENSIVE INCOME	**22,109,911**	**51,952,447**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	21,579,211	51,039,149
Non-controlling interest	530,700	913,298
	21,109,911	**51,952,447**
STATEMENT OF FINANCIAL POSITION		
ASSETS		
NON-CURRENT ASSETS		
Investment property	61,280,000	61,280,000
Property, plant and equipment	1,003,363	1,121,551
Goodwill	209,448,253	209,448,253
Deferred tax asset	9,979,983	6,804,131
Loans and advances	539,399,780	493,852,624
	821,111,379	**772,506,559**
CURRENT ASSETS		
Amounts owing by related parties	276,026,990	140,477,723
Current tax receivable	3,123	4,831,271
Loans and advances	214,170,500	205,926,051
Trade and other receivables	14,542,582	8,972,092
Cash and cash equivalents	138,206,775	115,768,817
	642,949,970	**475,975,954**
TOTAL ASSETS	**1,464,061,349**	**1,248,482,513**
EQUITY AND LIABILITIES		
EQUITY		
Share capital	348,329,629	348,329,629
Retained earnings	60,759,425	39,180,214
	409,089,054	**387,509,843**
Non-controlling interest	4,414,262	3,883,562
	413,503,316	**391,393,405**
NON-CURRENT LIABILITIES		
Amounts owing to related parties	32,634,930	30,912,500
Other financial liabilities	626,324,194	328,445,675
Deferred tax liability	11,352,000	11,352,000
	670,311,124	**370,710,175**
CURRENT LIABILITIES		
Amounts owing to related parties	5,668,709	6,985,489
Other financial liabilities	362,382,361	461,603,337
Current tax payable	3,461,343	1,813,053
Trade and other payables	8,734,496	15,977,054
	380,246,909	**486,378,933**
TOTAL LIABILITIES	**1,050,558,033**	**857,089,108**
TOTAL EQUITY AND LIABILITIES	**1,464,061,349**	**1,248,482,513**
STATEMENT OF CHANGES IN EQUITY		
SHARE CAPITAL	**9,649**	**9,649**
Balance at the beginning of the period	9,649	9,649
SHARE PREMIUM	**348,319,980**	**348,319,980**
Balance at the beginning of the period	348,319,980	348,319,980
RETAINED EARNINGS	**60,759,425**	**39,180,214**
Balance at the beginning of the period	39,180,214	13,421,965
Dividends declared	-	(25,087,400)
Profit for the period	21,579,211	51,039,149
Movement on acquisition of NCI	-	(193,500)
NON-CONTROLLING INTEREST	**4,414,262**	**3,883,562**
Balance at the beginning of the period	3,883,562	3,213,380
Movement for the period	530,700	670,182
TOTAL EQUITY	**413,503,316**	**391,393,405**
STATEMENT OF CASH FLOWS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash used in operations	(137,034,938)	(59,760,340)
Interest income	17,806,216	19,552,318
Finance costs	(51,726,391)	(78,591,468)
Tax paid	(5,104,650)	(19,776,179)
NET CASH USED IN OPERATING ACTIVITIES	**(176,059,763)**	**(138,575,669)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(159,822)	(543,354)
Purchase of investment property	-	(300,000)
Acquisition of non-controlling interests	-	(193,501)
NET CASH USED IN INVESTING ACTIVITIES	**(159,822)**	**(1,036,855)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from other financial liabilities	339,656,524	373,071,650
Repayment of other financial liabilities	(140,998,981)	(146,555,764)
Dividends paid	-	(25,330,516)
NET CASH GENERATED BY FINANCING ACTIVITIES	**198,657,543**	**201,185,370**
TOTAL CASH MOVEMENT FOR THE PERIOD	**22,437,958**	**61,572,846**
Cash at the beginning of the period	115,768,817	54,195,971
TOTAL CASH AT END OF THE PERIOD	**138,206,775**	**115,768,817**

Figures in Emalangeni	Reviewed 6 months ended 30 June 2017	Audited 12 months ended 31 December 2016

NOTES

1. STATEMENT OF COMPLIANCE

The financial results have been prepared in accordance with International Financial Reporting Standards (IFRS), IAS 34, in the manner required by the Companies Act of Swaziland. The accounting policies and methods of compilation applied in these financial results are consistent with those applied in the preparation of the annual financial statements for the year ended 31 December 2016. The financial results have been prepared under the supervision of the Group Chief Financial Officer, Mr R Zoio.

2. HEADLINE EARNINGS

2.1 EARNINGS PER SHARE (CENTS)

Basic	0.22	0.53
Headline	0.22	0.45
Diluted basic	0.22	0.53
Diluted headline	0.22	0.45

2.2. RECONCILIATION BETWEEN BASIC AND HEADLINE EARNINGS

Basic earnings	21,595,869	51,039,149
Fair value gain on investment property	-	(8,035,777)
Headline earnings	**21,595,869**	**43,003,372**

2.3. NUMBER OF ORDINARY SHARES OF E0.0001 EACH IN ISSUE

Actual	96,490,000	96,490,000
Weighted average	96,490,000	96,490,000
Diluted	96,490,000	96,490,000

3. LOANS AND ADVANCES

Advances	785,059,515	725,297,376
Impairment for credit losses of loans and advances	(31,489,235)	(25,518,701)
	753,570,280	**699,778,675**

4. CASH AND CASH EQUIVALENTS

Select Limited, a subsidiary of SBC Limited, provided surety for an overdraft and short term loan facility from CfC Stanbic Bank Kenya to Select Management Services Limited (Kenya) ("SMSK") of KES175.0 million (2016 - KES 175.0 million) by placing E34.4 million (2016 – E33.2 million) on call with Standard Bank South Africa. In exchange for this security Select Limited received a 12.5% equity share in SMSK.

A guarantee was issued by Select Africa Finance Limited, the holding company of SBC Limited, to Select Limited for R20.0 million.

5. OTHER FINANCIAL LIABILITIES

5.1 HELD AT AMORTISED COST

Medium term notes	494,638,506	380,660,958
Term loan	62,786,640	33,741,544
Promissory notes	431,281,409	375,646,510
	988,706,555	**790,049,012**

5.2 MEDIUM TERM NOTE PROGRAMME

The Group raises funds through Promissory Notes and Medium Term Note Programmes (MTNs). The MTNs are listed on the Swaziland Stock Exchange in the name of Select Limited, a subsidiary of SBC Limited, and had an available facility of E24,640,800 as at 30 June 2017.

6. RELATED PARTY TRANSACTIONS

Administration and advisory fees	(19,217,083)	(36,787,247)
Group life and funeral cover	(6,351,119)	(11,894,922)
IT infrastructure	(1,742,162)	(3,512,469)
Net interest income	11,890,630	8,325,872

All Group transactions are made on terms equivalent to those prevailing in arm's length transactions. There have been no guarantees provided or received for any related party receivables or payables. The Group has not recorded any impairment of receivables relating to amounts owed by related parties during the period.

7. CASH GENERATED FROM OPERATIONS

Profit before tax	30,515,147	72,745,540
Adjustments for:		
Depreciation and amortisation	278,010	483,524
Bad debts written off	1,540,300	6,024,230
(Profit)/Loss on exchange differences – unrealised	(134,102)	(1,630,915)
Fair value gain on investment property	-	(11,083,830)
Interest received	(17,806,216)	(19,552,318)
Finance costs	51,726,391	78,591,468
Impairment for credit losses of loans and advances	5,970,534	4,497,818
Changes in working capital:		
Decrease /(Increase) in trade and other receivables	(5,570,490)	4,086,407
Increase/(Decrease) in trade and other payables	(7,242,558)	11,248,927
Increase in loans and advances	(61,302,439)	(149,403,351)
Amounts received from related parties	1,856,532	27,872,750
Amounts paid to related parties	(136,866,047)	(83,640,590)
	(137,034,938)	**(59,760,340)**

8. SEGMENTAL ANALYSIS

	Swaziland		Lesotho		Elimination		Group	
Segmental reporting	**30 June 2017**	**31 Dec 2016**	**30 June 2017**	**31 Dec 2016**	**30 June 2017**	**31 Dec 2016**	**30 June 2017**	**31 Dec 2016**
Operating profit	52,168,283	100,396,276	12,267,039	20,304,584			64,435,322	120,700,860
Profit before tax	24,621,586	64,301,178	5,893,561	8,444,362			30,515,147	72,745,540
Taxation consolidated	(6,931,837)	(18,681,985)	(1,473,399)	(2,111,108)			(8,405,236)	(20,793,093)
Profit for the year	17,689,749	45,619,193	4,420,162	6,333,254			22,109,911	51,952,447
Gross advances to customers	655,799,931	610,411,241	129,259,584	114,886,134			785,059,515	725,297,376
Impairment provisions	(24,000,000)	(20,463,454)	(7,489,235)	(5,055,247)			(31,489,235)	(25,518,701)
Net advances	631,799,931	589,947,788	121,770,349	109,830,887			753,570,280	699,778,675
Total segment assets	1,359,652,026	1,221,377,123	151,851,706	113,201,973	(47,442,383)	(86,096,583)	1,464,061,349	1,248,482,513
Borrowings	977,301,492	825,881,569	97,151,085	89,272,706	(47,442,383)	(86,096,583)	1,027,010,194	829,057,692
Total segment liabilities	993,887,179	848,302,025	104,113,237	94,883,666	(47,442,383)	(86,096,583)	1,050,558,033	857,089,108

Segments are derived by geographic region. This is aligned with management's approach to the business.

There is no segmental reporting available on the basis of product groups.

As the Group provides retail and housing micro-finance products there are no major customers or customer groups.

COMMENTARY

INTRODUCTION

The SBC Limited Financial services retail group ("the Group", "SBC") continues to review its offering of financial solutions and products to its identified markets to ensure it remains relevant. These fall primarily within the retail sector in both the Kingdoms of Swaziland and Lesotho and trade under the "Select" and "Lesana" brands respectively. These financial solutions focus more towards housing loans offered on an incremental basis based on affordability. The additional loan products include education and consumer loans that fund school fees and the purchase of white goods. The target market of the Group, focuses on jurisdictions with low barriers to entry and a high demand for financial services, with a primary focus on influencing the livelihood of our client base where housing and related spend is a core need and a social status enhancer.

The attention to organic growth and continuous improvement in the Group, which has been a key focus area, is finding some realignment whilst the Group continues to seek and identify further investment opportunities within the region. The need to provide an avenue for ownership of affordable quality housing to the wide sector in the markets we operate and indeed target remains our prime mandate.

Malkerns Square is evidence that the Group remains resolute in its desire to contribute to fulfill this social need, whilst creating a firm platform to re-align its business profile to ensure sustainability into the future. The development, is structured such that it incorporates first world living through its offerings to meet all the modern demands of a homeowner.

The development will include an accompanying commercial component to encapsulate the demands of a modern society. This commercial centre will include provision for a fuel/ service station, bringing with it value for the development, the municipality and to Malkerns community at large.

FINANCIAL REVIEW

SBC eased its level of disbursements slightly to E135m (2016 – E300m full year) for the period under review. This is attributed to an element of caution around the Lesotho business with the implementation of the ILS platform as well as an election during the period. In Swaziland, disbursements also came off a little as the business decided to not drive the growth elements of its loan book which are considered to be of a higher risk.

The result was that the gross loan book only grew at an annualised rate of 16% during the period to E785m compared to 25% growth in the prior year. Disbursements (net of rollovers) in Swaziland amounted to E105m which was reasonably consistently spread over the period. With the medium term note programme in Lesotho only having launched in early June, this timing coincided with the implementation of the ILS loan management platform as well as elections in this country. All of these factors contributed to a rather muted disbursement level of M30m over the period. With funding in place, elections having concluded relatively peacefully and the ILS loan management system having been successfully implemented, the Lesotho business is now in a position to increase its sale force and drive its volumes.

The impact of the continued loan book growth achieved by the Group on revenues has been offset by a slightly lower yield. This is attributed to the decision to reduce the extent to which the Group is dependent on high yielding but also relatively higher risk loans giving rise to a revenue of E120m, an annualised increase of 7% over the prior year period.

In this business environment SBC has done well to hold its annualised escalation in operating costs to be in line with the revenue increase of 7%. Within this, the Group saw a significant escalation of bad debt write off and provision for bad debts, which cumulatively amounted to E7.5m, an annualised increase of 43% over the prior year comparative. This is mainly attributed to the collection performance of the debit order book, which relates more to debit order strike administration issues rather than an increased level of financial distress on the part of the customer. Accordingly operating profit is also up by an annualised 7% over the prior year.

Other income at E18m is up by an annualised 82% over the prior year comparative after excluding the fair value adjustment on investment property from that comparative and is attributed to a 103% increase in interest bearing loans to related parties.

Finance costs at E52m predominately arose from interest on notes issued under the listed medium term note program and other promissory notes issued by subsidiary Swaziland Select Limited. This represents an annualised increase of 32% over the prior year and is attributed to a 27% increase in the average level of borrowings. The Group is also experiencing an increase in the average borrowing cost in an environment where the prime lending rate operates as a base for much of the cost of funding negotiations.

Excluding the impact of the fair value gain in the prior year comparative, profit was flat on an annualised basis. With an effective tax rate of 27.5%, the Group was able to achieve a flat headline earnings of E22m for the six months under review.

OPERATIONAL REVIEW

The Group continues to drive expansion, which is taking effect in both the Select and Lesana jurisdictions. In the case of Swaziland, the Siteki point of representation has started to yield a notable performance, which is encouraging from a footprint and distribution perspective. It improves access and the consequent value proposition to our client base through reduced costs that previously occasioned travel by the various civil servants in that region. As management develops capacity in that region the access to the significant number of corporate employees, whom are located within a 20km radius of this office will be unlocked.

There is continued focus on the strategically important call centre, where activation in both in-bound and out-bound sales are processed, together with support for collections through periodic campaigns to address bulk arrears occasioned by defective collection platforms.

The group has also expanded its footprint and distribution capabilities in Lesotho by adding further staff in the satellite branches on a permanent basis. This is to tap the opportunity in these areas on a consistent basis as opposed to the select days previously offered. These points of representation include Maseru branch and the new satellite offices in Mafeteng, Hlotse and Qacha's Nek. This widening of the distribution network brings with it increased market penetration and visibility for Lesana.

Speed to market and an appropriate product offering are key to customer onboarding and retention. The recently introduced loan management system (ILS system) with its mobile capability continue to facilitate sales by increasing the distribution channels available to the Group, which can now remotely deliver on site sales. The ILS system also provides the capability to segment our book to portfolio interrogation and facilitate the improved risk management and collection capabilities of the Group.

PROSPECTS

The future growth strategy of the Group remains intact and is underpinned by both organic growth and through acquisitions. Robust funding activities continue to support this growth strategy along with the Group's internally generated cash flows. The launch of a medium term note programme in Lesotho has resulted in the raising of M43m for Lesana and now the Group has appropriate funding mechanisms in both countries to raise funding required to optimise opportunities that become available.

The trading environment continues to see increased competitive pressure where stakeholders through their offering are upselling to our client base influencing our sales performance. Management consequently continues to seek measures to absorb and counter this challenge. The Group continuously re-evaluates its offerings inside the identified risk parameters suitably tailoring its product suite to meet its customer's ever-changing needs. In addition, the impending Malkerns Square development is expected to provide new and alternate avenues to attract clientele and fresh revenue streams.

The launch of the Malkerns Square development is due shortly having systematically stepped through the regulatory requirements to ensure full compliance for the development and perfection of ownership for the intended target market. The Group continues to be encouraged by the prospects that Malkerns Square brings to the table despite the lag effect occasioned by the need for conformity to the regulatory requirements. The Select franchise is positioning itself to provide mortgage funding to qualifying clients for the purchase and ultimate ownership of a part of an aspirational lifestyle housing estate.

FINANCIAL STATEMENTS

The financial statements for the period ended 30 June 2017 have been reviewed by KPMG, who have expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at the company's registered office together with the condensed financial statements identified in the auditor's report.

The auditor's review report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

CORPORATE GOVERNANCE

The directors and management of SBC Limited confirm their continued commitment to the principles of openness, integrity and accountability as advocated by sound principles of Corporate Governance contained in the King Reports.

By order of the Board
T Dladla, Chairperson

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