



SBC Limited and Subsidiaries

Group Results

for the six months ended 30 June 2016

HIGHLIGHTS

Loan book growth of
12% ▲

Revenue growth of
21% ▲

Headline earnings growth of
38% ▲

Progress on the Malkerns
property development initiative

Figures in Emalangeni	Reviewed 6 months ended 30 June 2016	Audited 12 months ended 31 December 2015
STATEMENT OF COMPREHENSIVE INCOME		
Revenue	105,302,298	173,773,162
Operating expenses	(44,906,640)	(83,431,541)
OPERATING PROFIT	60,395,658	90,341,621
Investment revenue	8,789,856	47,539,979
Finance costs	(37,359,832)	(58,445,607)
PROFIT BEFORE TAXATION	31,825,682	79,435,993
Taxation	(9,295,228)	(23,578,321)
PROFIT FOR THE PERIOD	22,530,454	55,857,672
Other comprehensive income	0	0
TOTAL COMPREHENSIVE INCOME	22,530,454	55,857,672
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	22,020,564	53,702,720
Non-controlling interest	509,890	2,154,952
	22,530,454	55,857,672

Figures in Emalangeni	Reviewed 6 months ended 30 June 2016	Audited 12 months ended 31 December 2015
STATEMENT OF FINANCIAL POSITION		
ASSETS		
NON-CURRENT ASSETS		
Investment Property	50,196,170	50,196,170
Property, plant and equipment	941,290	1,014,496
Goodwill	209,448,351	209,148,253
Intangible assets	30,559	47,225
Deferred tax asset	5,878,885	6,408,621
Loans and advances	444,276,235	401,538,548
	710,771,490	668,353,313
CURRENT ASSETS		
Amounts owing by related parties	109,558,059	108,708,773
Current tax receivable	1,658,349	3,243,136
Loans and advances	183,345,855	159,358,824
Trade and other receivables	22,521,233	13,058,499
Cash and cash equivalents	117,818,631	54,195,971
	434,902,127	338,565,203
TOTAL ASSETS	1,145,673,617	1,006,918,516
EQUITY AND LIABILITIES		
EQUITY		
Share capital	348,329,629	348,329,629
Retained earnings	35,249,029	13,421,965
	383,578,658	361,751,594
Non-controlling interest	3,723,270	3,213,380
	387,301,928	364,964,974
NON-CURRENT LIABILITIES		
Amounts owing to related parties	-	3,039,750
Other financial liabilities	317,148,432	301,735,399
Deferred tax liability	8,301,609	8,301,609
	325,450,041	313,076,758
CURRENT LIABILITIES		
Amounts owing to related parties	44,087,247	60,488,044
Other financial liabilities	384,809,107	261,797,727
Current tax payable	264,278	1,862,886
Trade and other payables	3,111,439	4,728,127
Bank overdraft	649,579	-
	432,921,648	328,876,784
TOTAL LIABILITIES	758,371,689	641,953,542
TOTAL EQUITY AND LIABILITIES	1,145,673,617	1,006,918,516

Figures in Emalangeni	Reviewed 6 months ended 30 June 2016	Audited 12 months ended 31 December 2015
STATEMENT OF CHANGES IN EQUITY		
SHARE CAPITAL		
Balance at the beginning of the period	9,649	9,649
Issue of shares	-	-
Share buyback	-	-
SHARE PREMIUM	348,319,980	348,319,980
Balance at the beginning of the period	348,319,980	348,319,980
Issue of shares	-	-
Share buyback	-	-
RETAINED EARNINGS	35,249,029	13,421,965
Balance at the beginning of the period	13,421,965	4,087,668
Dividends paid	-	(54,999,300)
Profit for the period	22,020,564	53,702,720
Movement on acquisition of NCI	(193,500)	10,630,877
NON-CONTROLLING INTEREST	3,723,270	3,213,380
Balance at the beginning of the period	3,213,380	26,075,906
Movement for the period	509,890	(22,862,526)
TOTAL EQUITY	387,301,928	364,964,974

Figures in Emalangeni	Reviewed 6 months ended 30 June 2016	Audited 12 months ended 31 December 2015
STATEMENT OF CASH FLOWS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash used in operations	(37,779,027)	(107,261,772)
Interest income	8,789,856	17,343,809
Finance costs	(37,359,832)	(58,445,607)
Tax paid	(8,752,423)	(18,682,830)
NET CASH USED IN OPERATING ACTIVITIES	(75,101,426)	(167,046,400)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(156,304)	(604,923)
Purchase of investment property	-	(20,130,133)
Purchase of other intangible assets	-	-
NET CASH USED IN INVESTING ACTIVITIES	(156,304)	(20,735,056)
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of non-controlling interests	(193,601)	(12,906,674)
Proceeds from other financial liabilities	240,778,909	296,892,645
Repayment of other financial liabilities	(102,354,495)	(123,479,058)
Dividends paid	-	(31,702,103)
NET CASH GENERATED BY FINANCING ACTIVITIES	138,230,813	128,804,810
TOTAL CASH MOVEMENT FOR THE PERIOD	62,973,083	(58,976,646)
Cash at the beginning of the period	54,195,971	113,172,617
TOTAL CASH AT END OF THE PERIOD	117,169,054	54,195,971

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 basis for the preparation of the financial results is consistent with that applied in the preparation of the annual financial statements for the year ended 31 December 2015. 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)

	Reviewed 6 months ended 30 June 2016	Audited 12 months ended 31 December 2015
Basic	0.23	0.56
Headline	0.23	0.33
Diluted basic	0.23	0.56
Diluted headline	0.23	0.33

2.2. RECONCILIATION BETWEEN BASIC AND HEADLINE EARNINGS

	Reviewed 6 months ended 30 June 2016	Audited 12 months ended 31 December 2015
Basic earnings	22,020,564	53,702,720
Fair value gain on investment property	-	(21,892,223)
Headline earnings	22,020,564	31,810,497

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

	Reviewed 6 months ended 30 June 2016	Audited 12 months ended 31 December 2015
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

	Reviewed 6 months ended 30 June 2016	Audited 12 months ended 31 December 2015
Advances	648,055,184	581,918,255
Impairment for credit losses of loans and advances	(20,433,094)	(21,020,883)
	627,622,090	560,897,372

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 (2015 - KES 219.8 million) by placing E32.0 million (E30.9 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

	Reviewed 6 months ended 30 June 2016	Audited 12 months ended 31 December 2015
Medium term notes	394,510,514	271,223,939
Term loan	12,785,027	12,211,963
Promissory notes	294,661,998	280,097,224
	701,957,539	563,533,126
Non-current	317,148,432	301,735,399
Current	384,809,107	261,797,727
	701,957,539	563,533,126

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, with a total facility of E500 million.

At 30 June 2016, notes to the value of E395 million were issued under these programmes.

6. RELATED PARTY TRANSACTIONS

	Reviewed 6 months ended 30 June 2016	Audited 12 months ended 31 December 2015
Administration and advisory fees	(16,061,882)	(30,299,250)
Group life and funeral cover	(5,862,085)	(9,530,853)
IT infrastructure	(1,801,489)	(2,976,121)
Interest	2,788,041	351,755

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

	Reviewed 6 months ended 30 June 2016	Audited 12 months ended 31 December 2015
Profit before tax	31,825,682	79,435,993
Adjustments for:		
Depreciation and amortisation	246,178	407,089
Bad debts written off	4,153,878	2,123,334
(Profit)/Loss on exchange differences - unrealised	(417,577)	2,966,275
Fair value gain on investment property	-	(30,196,170)
Interest received	(8,789,856)	(17,343,809)
Finance costs	37,359,832	58,445,607
Impairment for credit losses of loans and advances	(587,789)	6,367,457
Changes in working capital:		
Increase in trade and other receivables	(9,462,734)	(4,147,495)
Decrease in trade and other payables	(1,616,688)	(9,105)
Net movement in loans and advances	(70,290,807)	(115,858,972)
Amounts received from related parties	-	28,868,291
Amounts paid to related parties	(20,199,146)	(118,320,267)
	(37,779,027)	(107,261,772)

8. SEGMENTAL ANALYSIS

	Swaziland		Lesotho		Elimination		Group	
	30 June 2016	31 Dec 2015	30 June 2016	31 Dec 2015	30 June 2016	31 Dec 2015	30 June 2016	31 Dec 2015
Segmental reporting								
Operating profit	58,499,949	67,679,347	10,685,565	22,662,274	-	-	69,185,514	90,341,621
Profit before tax	26,792,996	68,668,419	5,032,686	10,767,574	-	-	31,825,682	79,435,993
Taxation consolidated	(8,037,047)	(20,886,298)	(1,258,181)	(2,692,023)	-	-	(9,295,228)	(23,578,321)
Profit for the year	18,755,949	47,782,121	3,774,505	8,075,551	-	-	22,530,454	55,857,672
Gross advances to customers	543,889,600	486,842,167	104,165,585	95,076,088	-	-	648,055,185	581,918,255
Impairment provisions	(15,414,147)	(16,122,952)	(5,018,947)	(4,897,931)	-	-	(20,433,094)	(21,020,883)
Net advances	528,475,453	470,719,215	99,146,638	90,178,157	-	-	627,622,091	560,897,372
Total segment assets	1,119,207,542	991,230,738	103,678,852	96,907,218	(77,212,777)	(81,219,440)	1,145,673,617	1,006,918,516
Borrowings	746,044,786	627,060,920	85,820,025	81,219,440	(77,212,777)	(81,219,440)	754,652,034	627,060,920
Total segment liabilities	747,665,172	638,250,817	87,919,294	84,922,165	(77,212,777)	(81,219,440)	758,371,689	641,953,542

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

Financial services retail group SBC Limited ("the Group", "SBC") offers a wide range of financial solutions in its identified markets. These are within the retail sector of the Kingdoms of Swaziland and Lesotho under the "Select" and "Lesana" brands respectively. These financial solutions primarily include incremental housing loans together with education and consumer loans. The Group targets jurisdictions with low barriers to entry and a high demand for financial services, with a core focus on housing finance solutions to address the ever increasing market demand from this sector.

The Group is continually evaluating investment opportunities within the region to deliver ownership of affordable quality housing to a wide sector in the markets where the housing needs have been identified. A bespoke proposition through the Pine Acres Limited investment in the form of Malkerns Square is in the process of being formalised. This development is structured to incorporate a first world living experience which seeks to address a portion of the gap that has been identified within Swaziland market particularly focused on housing.

Infused with this housing development will be a retail and commercial component to further augment its offering and address the wider needs of retail and the Malkerns Square community.

FINANCIAL REVIEW

SBC has maintained a level of disbursements which amounted to E138m (2015 - E265m full year) for the six months under review. This has enabled it to grow its loan book by 12% to E628m. Disbursements in Swaziland amounted to E113m which represented a consistent level despite the delay in the implementation of salary increases for Government employees, which is anticipated will allow Select's clientele to increase their borrowing capacity. Lesotho's disbursements have been relatively muted at M25m pending the launch of a planned medium term note program on the Maseru Securities Market. On completion of this exercise, it is anticipated that the business will be well positioned to aggressively approach the market. On the back of sequential loan book the Group achieved over several reporting periods, revenue for the 6 months to date has increased by an annualised 21% over the prior year period.

SBC has held its operating costs at an annualised 8% growth over the prior year. This has enabled it to grow its operating profit by an annualised 34% over the 2015 year. The prior investment revenue included E30m relating to a fair value gain on the value of the Malkerns property. This is an annual exercise and accordingly there is no fair value adjustment for the purposes of these interim results. Excluding this amount from the comparative, investment revenue was only 1% up on the prior year with this indicating a consistent level of excess funds in the business. Such excess funds, while representing an inefficient utilization of capital are essential to enable the business to anticipate debt servicing obligations and disbursement opportunities.

Finance costs at E37m predominately arose from interest on notes issued under the listed medium term note program by subsidiary Select Limited, as well as certain funding sourced via other companies in the African Alliance Group. This represents an annualised increase of 28% over the prior year and has in part tracked with the 21% increase in loan book revenue. Nevertheless SBC has experienced an increase in the cost of funding which is attributable to the rising of interest rates in the market. In addition, the opportunity to access certain funding did necessitate holding an increased level of excess funds which could not generate an equivalent revenue stream in the short term.

OPERATIONAL REVIEW

The Group through Select has increased its Swaziland footprint to five branches which includes the recent advent of the Siteki satellite branch which strategically improves accessibility through the widening in the Select distribution network for walk-in clients. Within this footprint, the two largest branches are located in the main economic centres of Swaziland being the capital Mbabane and Manzini. Specific attention has been placed on the growth of the call centre and mobile sales teams as a further distribution channel to enable the effective and efficient delivery of Select's product offering directly to its customers. This has brought with it wider reach and an improved value proposition to the client base that are well spread through the country's geography. The group has also seen expansion in Lesotho where the group has added a further satellite branch to its network. The branches now total 3 inclusive of the main Maseru branch and the two "Lesana" branded satellite offices in Mafeteng and Hlotse. This widening in the distribution network will bring with it increased market penetration and visibility for Lesana as we build the Lesana brand.

The Group continues to see notable growth in its loan book across its represented territories. With this is the need to improve on product offering and market creation. To support this evolution the Group has adopted a new loan management system which is presently being implemented through the various geographies. This implementation will bring with it additional flexibility in modelling appropriate products for the varied client base that we serve. In tandem with this comes the ability to segment our book to facilitate the improved risk management and collection capability.

Speed to market will be facilitated by operating off mobile platforms allowing the business to deliver its suite of offerings into remote areas without the costs and delays involved with 'bricks and mortar'.