

24 August 2016

## **Atlas Mara Limited Interim Results - Six Months Ended 30 June 2016**

Atlas Mara Limited ("Atlas Mara" or the "Company" and, including its subsidiaries, the "Group"), the sub-Saharan African financial services group, today releases unaudited results for the six months ended 30 June 2016.

### **Key highlights for the period:**

- Profitable first half with improving operational performance in the second quarter relative to the first. Reported earnings of US\$1.2 million as at 30 June 2016.  
(Adjusted Net Profit excluding M&A and integration costs US\$9.2 million)
- Managing through macroeconomic headwinds with positive momentum continuing into Q3.
- Closed two additional acquisitions. Integration of Rwanda businesses completed ahead of schedule, with Zambia integration progressing well.
- Driving cost efficiencies through restructuring and reducing Shared Services & Center's cost base. Acquisition cost synergies on track to be delivered.
- Accelerating growth plans of markets businesses and digital finance initiatives. Operational leverage from this expansion expected to increase both earnings and ROE significantly from 2017 onwards.

### **Financial highlights during the period**

- Reported net profit after tax for the first half of 2016 was US\$1.2 million compared to a profit of US\$4.1 million reported for the prior year period and a loss of US\$6.7m in the first quarter. The decline in African currencies, a worse macroeconomic backdrop and market liquidity tightness across a number of our markets were contributory factors to the weaker net profit year-on-year.
- Net interest income increased by 4.2% year on year on a constant currency (ccy) basis supported by lower funding costs as a result of our strategy of raising less expensive transactional deposits. All countries, with the exception of Tanzania, reduced their cost of funds year on year.
- Growth in non-interest income of 66.3% on a ccy basis with this figure boosted by fair value gains of US\$15.4 million as a result of the devaluation of the Nigerian Naira in June 2016 and a provisional US\$1 million accounting gain on the acquisition of Finance Bank Zambia. We have also seen good growth in fee and commission income and very strong growth in FX flow related income.
- Loan impairment charges of US\$9.1 million increased on the prior year net charge of US\$6.1 million. The second quarter charge of US\$0.6 million was considerably lower than the first quarter (US\$8.5 million) as a result of recoveries of US\$2.7 million with Rwanda, Mozambique and Zimbabwe particularly positive contributors in this regard.
- Union Bank of Nigeria Plc (UBN) continued to demonstrate ongoing operational improvements and contributed US\$12.5 million of net income to Atlas Mara's results, an increase of 22.9% versus the prior year period in ccy terms. The impact of further Naira depreciation against the US Dollar may dampen UBN's contribution to net income of Atlas Mara in the second half.

- Loans and advances were US\$1.42 billion at 30 June 2016. Excluding acquisitions the loan book grew by 2.5% on a ccy basis since December 2015.
- Deposits were US\$1.81 billion at 30 June 2015. Excluding acquisitions, this represented growth of 10% on a ccy basis since June 2015.
- Reported equity at period end was US\$577 million, a decline from US\$625.5 million at December 2015, largely due to US\$83 million of foreign exchange translation losses principally driven by the depreciation of the Naira. At the end of June our book value was US\$8.07 per share (December 2015: US\$ 8.94) and our tangible book value was US\$ 6.07 per share (December 2015: US\$ 7.00).
- Our business performance has been improving over the course of 2016 with the second quarter better than the first and with June representing our best month of the first half of this year. July has continued this trend.

### **Key operational highlights during the period**

- We completed two acquisitions in the first half of 2016; Banque Populaire du Rwanda (BPR) in early January and are now the second largest bank in Rwanda by assets. Finance Bank Zambia completed at the end of June despite challenging market conditions. The acquisition places us as Zambia's second largest bank by branch numbers.
- Our integration efforts are now complete in Rwanda with the successful integration of BPR with our existing asset, BRD Commercial in July. Our predecessor banks now operate as a single entity on a common platform.
- Atlas Mara has been implementing a comprehensive program to strengthen its subsidiaries' end-to-end credit process. This is expected to yield results in terms of profitable book growth. The asset recoveries in the second quarter and NPL ratios that continue to trend down are evidence of the work undertaken here.
- We remain focused on delivering operational improvements across our existing network. As indicated with the first quarter results, we are implementing clear plans to deliver incremental revenues and lower costs to ensure our key operating subsidiaries deliver an acceptable level of performance. These initiatives will deliver tangible improvements to profitability in the second half of 2016.
- In Zambia we were awarded the 2016 Visa Growth Champion Award largely driven by the growth we have achieved in our Prepaid Card which was launched last year. In Rwanda BPR was awarded the 'best overall exhibitor for customer service at Rwanda's 19th International Trade Fair.

### **Key events since period end**

- We have executed a group-wide cost reduction programme to align our cost base with the current revenue environment. We expect to reduce headcount by 30% - 35% across our Shared Services and Centre and reduce non-staff central costs. We expect this to lead to a decline in the run-rate of our operating expenses of US\$8 million on a full year basis from 2017.
- We have accelerated growth plans for certain digital initiatives and the build out of our markets/treasury businesses to ensure we can deliver the level of revenue growth our investors expect of us into 2017 and beyond.



- The migration of all branches onto our new global network commenced in the second week of July and has been completed successfully. Network connections have been stable since the migration with much improved response times and notable business system improvements.

Commenting on these results, John Vitalo, Atlas Mara's Chief Executive Officer, said:

"The first half of 2016 presented a particularly difficult operating environment for Atlas Mara. The full impact of last year's decline in African currencies, a more challenging macroeconomic backdrop and market liquidity constraints across a number of our countries of operation have all presented particular challenges to profitability. Notwithstanding these challenges, we are pleased to report that our businesses have demonstrated an improving trend over the course of 2016 resulting in the second quarter better than the first, with June representing our best month of the first half and with this trend continuing into July."

### **H1 Results Review - Investor Conference Call**

Atlas Mara's senior management will today be holding a conference call for investors at 10am EST / 3pm BST. There will be a presentation available in the Investor Relations section of the Company's website, <http://atlasmara.com>.

Dial-in details are as follows:

Conference ID: 66627689

US: +1 631 621 5256 / +1 866 926 5708

United Kingdom: 08448719299

International: +44 (0) 1452 560304

#### Contact Details

##### Investors

John-Paul Crutchley, +971 4275 6025

Kojo Dufu, +1 212 883 4330

##### Media

Teneo Strategy, +44 (0)20 7240 2486

Anthony Silverman



Atlas Mara Limited

Consolidated Summary Statement of Comprehensive Income

Quarterly			USD million	Six Months Ended 30 June		
Q1 2016	Q2 2016	Var %		2016	2015	CC Var %
23.7	21.5	(9.3%)	Net interest income	45.2	49.4	4.2%
28.2	40.1	42.2%	Non-interest income	68.3	49.4	66.3%
<b>51.9</b>	<b>61.6</b>	18.7%	<b>Total income</b>	<b>113.5</b>	<b>98.8</b>	34.5%
(8.5)	(0.6)	92.5%	Credit impairment	(9.1)	(6.1)	(64.0%)
<b>43.4</b>	<b>61.0</b>	<b>40.6%</b>	<b>Operating income</b>	<b>104.4</b>	<b>92.7</b>	<b>32.4%</b>
(57.5)	(57.9)	(0.7%)	Operating expenses	(115.5)	(94.0)	(39.1%)
<b>(14.1)</b>	<b>3.1</b>	<b>&gt;100%</b>	<b>Net operating income</b>	<b>(11.1)</b>	<b>(1.3)</b>	<b>&gt;(100%)</b>
6.9	5.6	(18.8%)	Income from associates	12.5	10.5	22.9%
<b>(7.2)</b>	<b>8.7</b>	<b>&gt;100%</b>	<b>Profit/(loss) before tax</b>	<b>1.4</b>	<b>9.2</b>	<b>(76.6%)</b>
0.5	(0.7)	>(100%)	Taxation and minority interest	(0.2)	(5.0)	94.6%
<b>(6.7)</b>	<b>8.0</b>	<b>&gt;100%</b>	<b>Profit/(loss) after tax</b>	<b>1.2</b>	<b>4.2</b>	<b>(33.9%)</b>
3.5%	2.9%		Net interest margin (total assets)	3.1%	3.9%	
4.9%	3.9%		Net interest margin (earning assets)	4.1%	5.5%	
7.1%	6.0%		Net interest margin (customer loans)	6.4%	8.4%	
2.5%	0.2%		Credit loss ratio	1.3%	1.0%	
110.9%	94.0%		Cost to income ratio	101.7%	95.2%	
(1.0%)	1.1%		Return on assets	0.1%	0.3%	
(2.0%)	2.7%		Return on equity	0.4%	1.3%	

Atlas Mara Limited

Consolidated Summary Statement of Financial Position

Quarterly			USD million	Period Ended 30 June		
Q1 2016	Q2 2016	Var		2016	2015	CC Var %
345.0	448.3	29.9%		Cash and investments	448.3	374.1
143.5	160.4	11.8%	Financial assets held for trading	160.4	209.7	(10.0%)
1,339.4	1,421.0	6.1%	Loans & advances to customers	1,421.0	1,173.9	33.2%
110.9	181.9	64.0%	Investments	181.9	37.7	>100%
422.1	324.3	(23.2%)	Investment in associates	324.3	384.5	(17.5%)
153.5	166.7	8.7%	Intangible asset	166.7	155.2	13.9%
163.3	244.0	49.5%	Other assets	244.0	171.4	59.4%
<b>2,677.8</b>	<b>2,946.7</b>	<b>10.0%</b>	<b>Total assets</b>	<b>2,946.6</b>	<b>2,506.6</b>	<b>28.1%</b>
1,628.8	1,814.9	11.4%	Customer deposits	1,814.9	1,462.9	37.9%
298.3	342.9	15.0%	Borrowed funds	342.9	284.7	55.0%
89.1	211.5	137.4%	Other liabilities	211.5	119.6	62.6%
661.7	577.3	(12.8%)	Capital and Reserves	577.3	639.4	(12.5%)
<b>2,677.8</b>	<b>2,946.6</b>	<b>10.0%</b>	<b>Total equity and liabilities</b>	<b>2,946.6</b>	<b>2,506.6</b>	<b>28.1%</b>
82.2%	78.3%		Loan : Deposit ratio	78.3%	80.2%	

**John Vitalo, Chief Executive Officer**

## **Overview**

Atlas Mara faced a particularly difficult operating environment in the first half of 2016. The full impact of the decline in African currencies, a worse macroeconomic backdrop and market liquidity tightness across a number of our countries of operation have all presented particular challenges to profitability.

While we remain wholly focused on our long-term objective of building sub-Saharan Africa's premier financial institution, we are also working to ensure that the company is well positioned to deliver adequate short-term results as we build towards our medium-term targets. We have placed more weight on growth plans within our execution priorities during the first half of this year during which we undertook the following steps to improve returns:

- First, we executed a bank-wide cost reduction effort to align our cost base with our current revenue environment. We expect to reduce headcount by 30% - 35% across our Shared Service and Centre and reduce non-staff central costs. This will ensure our cost base is more aligned with our current revenue environment. We expect this to lead to a decline in the run-rate of our operating expenses of US\$8 million on a full year basis from 2017 and we continue to look for further opportunities to reduce costs.
- Secondly, we have accelerated growth plans for certain digital initiatives and the build out of our markets/treasury businesses to help deliver the level of revenue growth our investors expect of us into 2017 and beyond.
- Finally, we are focused on operational improvements across our existing network. As I indicated when we announced our first quarter results, we have clear plans to achieve incremental revenues and to reduce costs to bring our key operating subsidiaries back to an acceptable level of profitability. We anticipate tangible improvements to profitability from these initiatives in the second half of 2016.

Notwithstanding the challenges that we faced, we are pleased to report that our business has demonstrated an improving operational performance trend over the course of 2016 with the second quarter better than the first and with June representing our best month of the first half. July has continued this trend.

As our CFO, Arina McDonald, will discuss in more detail below, we reported net income of US\$1.2 million for the first six months of this year against US\$4.1 million last year. Within this, our weak operational performance in the first half was offset by certain accounting adjustments, as a result of the devaluation of the Naira in Nigeria at the end of the period.

## **Strategic Update**

In our 2015 Annual Report, we highlighted the components of our "Buy, Protect, and Grow" model for how we intend to build our business to be sub-Saharan Africa's premier financial institution and deliver our financial goals of a 20% RoE, 2% RoA and a 65% cost income ratio in the medium-term. Despite near-term headwinds, we remain cautiously optimistic of achieving these objectives, albeit that this is predicated on a supportive economic environment and having achieved scale from further acquisitions.



Acquisitions remain central to the Atlas Mara strategy and are essential if we are to achieve the scale we need to make our business model work but, over the course of 2016, we have deliberately sought to rebalance our priorities. While we remain focused on our pipeline of acquisitions, we are increasingly focused on the “Grow” aspect of our strategy. This is being implemented through increasing investment in digital initiatives, led by Chidi Okpala, our Chief Digital Officer who joined the group at the beginning of the year, and the build out of our onshore and offshore treasury and markets businesses by Mike Christelis, our Group Head of Global Markets and Treasury.

## **Execution**

Benchmarking our progress so far in 2016 against our Buy, Protect, and Grow model can be summarized as follows:

### **Buy**

We announced two acquisitions in 2015 and completed both in the first half of 2016. The acquisition of Banque Populaire du Rwanda was completed in early January and Finance Bank Zambia at the end of June.

We are now Zambia’s second largest bank by branch numbers. We announced the appointment of Ben Dabrah as CEO for our new operations in Zambia. Ben joined us from Standard Chartered Bank and he also previously worked for Barclays Africa. Integration plans to combine Finance Bank Zambia with our existing operations in Zambia are under way. Although much remains to be done, we are very excited about the growth prospects for this business given the increased scale of our operations.

### **Protect**

Within our Southern operations, we have been focused on a number of business improvement projects such as rolling out our Point of Sale (POS) card acquiring business, reducing operational costs and managing down non-performing loans and impairments.

The total first half impairment charge was US\$9.1 million after taking a US\$8.5 million charge in the first quarter. The lower second quarter charge reflected the improvement in recoveries we anticipated when we announced our first quarter results. Rwanda and Zimbabwe were particular contributors in this regard.

We continue to improve governance and compliance processes, such as automating Know Your Customer and transaction monitoring procedures, to mitigate our operational risk exposure to these areas.

The team in Rwanda has done an excellent job and completed the integration of BPR with our existing asset BRD Commercial in July, with the combined bank live on a common operational platform. All client and internal data was successfully transferred and our predecessor banks now operate as a single





entity. We remain focused on growing revenues and delivering operational improvements to reduce the cost:income ratio of the combined business towards the level we target for the group.

## Grow

As noted above, we have deliberately accelerated investment into specific growth initiatives in our digital finance and our treasury and global markets operations and we look forward to updating the market as we make progress here.

We have been particularly pleased with our ability to attract deposits at attractive pricing over the course of 2016 with growth here running ahead of our expectations. This has been a key area of focus for us. While growth in loans and advances has been somewhat slower, we have seen selective areas of expansion and, of course, remain vigilant on maintaining high levels of credit quality given the uncertain economic environment.

In terms of progress across individual businesses, I am pleased to highlight the following:

In **Corporate Banking**, we saw net interest growth of 30.8% year-on-year driven by reduction in cost of funds, a decline in credit impairments of 32.3% reflecting improved credit processes and a focus on NPL recovery. A new transactional banking platform will be fully implemented in the second half which will boost non-funded income and support customer retention.

Within **Treasury and Markets**, trade volumes are running at US\$1 billion year to date (31% higher than at the comparable period last year), sales revenue growth is up 51%, trading revenue is up 121% and we have implemented a funds transfer pricing mechanism across all our subsidiary banks to ensure that all products are priced appropriately.

**Retail Banking** has been steady. Recent developments include deployment of point of sale (POS) terminals in Zimbabwe which is yielding positive results and agency banking will be rolled out in Tanzania and Mozambique in the second half to deliver further customer and asset & liability growth.

## Branding

We recognise that each of our banks possess certain unique brand equity in the markets in which they operate. Our research has also shown that there is also value from the Atlas Mara brand in enhancing the perception of the strength and standing of our local operations and that this translates into tangible business improvement through, for example, larger deposits at a lower cost than the businesses could have achieved on a standalone basis.

To combine the best of local and global capabilities, last year we launched a brand endorsement strategy across BancABC wherein “part of Atlas Mara” appears on all BancABC communications, from billboard signage to cheque books, and the Atlas Mara logo is combined with a refreshed Banc ABC logo. A similar rebranding exercise was undertaken at our Rwandan operations earlier this year following the merger of BPR and BRD Commercial. We are considering the brand proposition of our new operations in Zambia carefully given the need to dovetail this with our existing brand positioning in that country.

## Valuation and shareholder returns

We are acutely conscious that, to date in 2016, it has again been a difficult year for investors in our stock. In particular:

- Although we do not take comfort from the fact, we do note that since both the beginning of 2015 and our IPO, the Atlas Mara stock price has performed broadly in line with the median of its African peers, in US Dollar terms.
- We also recognize that the market capitalization of the company, at around US\$220 million, is below what we paid for our investment and subsequent capital injection into our principal operating entity BancABC or what we paid for our Associate interest in UBN.

In our view, our current market valuation does not reflect the economic value we expect to deliver to shareholders from our businesses over time. In particular, the market value of our stake in UBN at 30 June was around US\$95 million against a carrying value (post-devaluation) of US\$321.4 million. We believe this latter valuation provides a fairer reflection of its economic value. The fact that the stock is relatively illiquid and tightly owned means that the market valuation is not close to a level where control could be obtained nor is it representative of the value that we would expect a well-run Nigerian banking business to deliver to our shareholders over time.

We remain focused on improving our businesses and delivering our medium-term targets in the expectation that the valuation of the company will follow.

## Macroeconomic perspectives

Atlas Mara has operations and/or investments in seven sub-Saharan African countries. Demographics coupled with low financial penetration make us confident that banking businesses in these markets are structurally positioned to enjoy high growth rates over time, but we recognize that some of these economies face cyclical short-term headwinds. We believe that there are benefits from our regional and trade bloc diversification as some markets continue to perform well (such as Botswana and Rwanda), while others face challenges (as is the case in Nigeria and Zimbabwe). A brief review of our markets is provided below:

### Southern Africa

Subdued commodity prices weighed heavily on the Botswanan domestic economy last year with the economy contracting by an estimated 0.25% in 2015 after the growth of 3.2% recorded in 2014. Encouragingly, the economy delivered positive growth in the first quarter of 2016 at an annualized rate of 2.8%. While developments in the diamond and commodities markets will drive the speed at which the economy recovers, we note that NKC Economics expects that GDP growth will recover to an estimated 3.5% in 2016 and 4.6% in 2017, supported by a modest pickup in diamond demand, as the impact of government's Economic Stimulus Program (ESP) to boost the domestic economy begins to take effect.

Mozambican real GDP growth slowed in the first quarter of 2016 with preliminary data indicating that the economy expanded by 5.3% y-o-y in Q1 2016, compared to 6.1% year on year expansion recorded in Q4 2015. Drought within the agricultural sector is expected to continue to weigh on growth. NKC Economics forecasts growth of 4.9% in 2016 and 5.5% for 2017. The more important short term issue for the economy is debt sustainability as a need to restructure previously undisclosed loans to state-owned companies has led to a substantial increase in Government debt to GDP.

In Zambia, the first six months of this year have been overshadowed by heightened tensions during the build-up to elections earlier in August, which passed off relatively trouble-free. The overall economy has been under stress as a result of a commodity-induced cyclical slowdown from lower copper prices and this was aggravated by a drought-induced power crisis. NKC Economics expects that the real economy will expand by just 3.3% this year before recovering to c.4.5% per annum over the medium term driven by moderate improvement in copper prices. The second quarter of this year also saw weakness in the Kwacha exchange rate and continuing tight liquidity conditions which has contributed to pressure on margins in our local operations.

In Zimbabwe the economic challenges remain intense with weak levels of economic activity expected to continue throughout 2016. The appreciation of the USD (Zimbabwe adopted a multi-currency regime in 2009 with the USD being the predominant currency) against regional currencies has contributed to the erosion of the country's export competitiveness. Across the entire banking system, a lack of availability of physical cash also remains a constraint on economic activity. Although 2016 will continue to be a challenging year, we remain hopeful with respect to Zimbabwe's longer-term prospects.

### **East Africa**

The Rwandan economy continued to perform well in the first quarter with growth at a real rate of 7.1%. This was broadly based with each of agriculture, services and industry each delivering a strong outcome. This makes the economy likely to achieve one of the highest growth rates in sub-Saharan Africa (and the world) in 2016 – with inflation expected to be in line with the Central Bank's 5% target.

While Tanzania has not released GDP growth figures for this year, growth is projected to remain at a level significantly higher than the sub-Saharan average. In July, the International Monetary Fund completed a review of Tanzania and concluded that macroeconomic performance has been strong with growth remaining close to 7% and inflation at moderate levels. They noted that the macroeconomic outlook is favourable, supported by the authorities' ambitious development agenda, although risks are tilted to the downside and that sustaining high growth and implementing the development agenda while preserving fiscal and external sustainability will require a range of policy reforms.

### **West Africa**

In Nigeria, the policy environment has been dictated by the dearth of foreign exchange which led to the devaluation of the Naira in June. The consequent impact of this upon our financial statements is summarized in the CFO report below. The CBN reported that economic activities in Nigeria declined faster in June and confirmed that the nation's economy formally entered into recession in the second



quarter, following a modest contraction of 0.4% in the first quarter. In terms of economic stimulus, the CBN is setting aside ₦500bn (c.US\$2.5bn) for loans to non-oil exporters. The facility is expected to address the decline in export credit and reposition the sector to increase its contribution to revenue generation and economic development, particularly in light of the slump in oil revenues (from lower prices and disruption in the Delta) and declining GDP. In addition, the federal government has planned a fresh ₦90bn bailout for state governments to provide financial relief.

Inflation has picked up (the rate of 15.6% in May represented an increase of 188bps from April) fueled by an increase in food prices and imported inflation due to foreign exchange scarcity and a weaker Naira.

## **Outlook**

We expect a better operational performance from our businesses during the second half of the year as the cost and revenue initiatives that we have implemented begin to deliver results. Notwithstanding this, our medium-term financial targets and strategic goals remain unchanged and we remain optimistic about our ability to achieve them but recognize that further acquisitions and a supportive economic environment are central to achieving this. As a result of the measures we are taking, we continue to strive to meet our goal of matching last year's earnings of US\$11.3 million. However, we do recognize that the combination of weaker currencies, restructuring costs associated with staff reductions and integration expenses associated with the two completed acquisitions, as well as the uncertain economic outlook, provide challenging headwinds in this regard.

We believe that the execution of our strategy will, in time, be reflected in a higher share price but we understand the frustration of our investors with recent performance. The Board and Management remain focused on addressing investor concerns, enhancing communication and are considering ways to encourage more liquidity in our stock.

The remarkable progress that we have seen to date in building the operation that is Atlas Mara in what is still a relatively short time period would not have been possible without the commitment and dedication of our investors, customers, the co-founders, Atlas Mara Board, management and employees and support from the regulators in the countries in which we operate.

We are wholly focused on delivering our stated objectives and we welcome your continued engagement.

**Arina McDonald, Chief Financial Officer**

## **Overview**

As our CEO, John Vitalo, has already noted, Atlas Mara has faced a number of challenges so far in 2016. Africa has not been isolated from broad global macroeconomic trends and several factors have combined to provide headwinds in our operating markets this year. These include the impact of lower commodity prices, the lower oil price and its effect on oil-exporting economies, such as Nigeria, and a significant weakening of a number of African currencies against the US Dollar in the second half of last year, the full impact of which we are now experiencing on an annualised basis.

The net impact of the devaluation of the Naira towards the end of June had a positive impact on our P&L, largely due to fair value adjustments of US\$15.4 million. However, there has been a negative impact on our reported equity of US\$83 million from unrealised translation losses, principally on our investment in UBN. This latter item was the principal reason for the decline in our equity since the end of December. At the end of June our book value was US\$8.07 per share (December 2015: US\$ 8.94) and our tangible book value was US\$6.07 per share (December 2015: US\$ 7.00). In the second half, the contribution from our Associate, UBN, can be expected to be somewhat lower when translated into our functional reporting currency, the US Dollar, given the continued depreciation seen in the Naira.

We are taking a number of steps to improve the operational performance of the business and we remain wholly focused on execution to deliver the returns our shareholders expect. The consolidated reported profit after tax and non-controlling interest for the period to June 2016 was US\$1.2 million which compares with the prior year profit of US\$4.1 million. Excluding the impact of exchange rate movements, our first half net profit would have been US\$3.5 million.

We also focus on operating earnings which exclude certain revenues and costs that are not part of the ongoing earnings base of the future. This reflects the fact that Atlas Mara is focused on targeting acquisitions whilst simultaneously protecting and integrating acquired businesses to put them in a position to deliver high-quality growth. Our operating earnings for the first half were US\$9.2 million versus the US\$17.0 million calculated on a similar basis for 2015.

Excluding one-off and transaction-related expenses, our cost to income ratio was 91.7% versus the comparable figure in 2015 of 79.8%. This ratio remains higher than we would like as a result of a challenging revenue environment coupled with planned investments to facilitate future growth. A further factor is the impact of having a significant component of US dollar linked costs while our revenues are in local African currencies which have depreciated over the last 12 months.

We remain very focused on managing costs and initiated a group-wide cost reduction plan at the beginning of the second half which will lower our Shared Services and Center costs on an annualised basis by c.US\$8 million. As for incremental budgeted expenditure, our priority in 2016 is on investment in building our digital businesses and capital markets/treasury operations, both of which will drive future revenues.

**Table 1: Adjusted operating profit and reconciliation to IFRS profit for six months to end June**

		2016	2015	Var	CC Var <sup>1</sup>
Total income	\$ million	113.5	98.8	14.9%	34.5%
Impairment	\$ million	(9.1)	(6.1)	49.2%	64.0%
Total expenses (excluding one-off)	\$ million	(104.1)	(78.8)	32.1%	53.5%
Income from associates	\$ million	12.5	10.5	19.0%	22.9%
Adjusted profit/(loss) before tax	\$ million	12.8	24.4	(47.5%)	(39.7%)
<b>Adjusted net profit/(loss)</b>	<b>\$ million</b>	<b>9.2</b>	<b>17.0</b>	<b>(45.9%)</b>	<b>(38.4%)</b>
M&A transaction expenses	\$ million	(7.8)	(5.4)	44.4%	44.4%
Reorganising/restructuring costs	\$ million	(3.6)	(9.9)	(63.6%)	(63.3%)
Reported profit/(loss) before tax	\$ million	1.4	9.1	(84.6%)	(76.6%)
<b>Reported net profit/(loss)</b>	<b>\$ million</b>	<b>1.2</b>	<b>4.1</b>	<b>(70.7%)</b>	<b>(33.9%)</b>
Reported cost to income ratio	%	101.7%	95.2%		
Adjusted cost to income ratio	%	91.7%	79.8%		
Reported return on equity	%	0.4%	1.7%		
Adjusted return on equity	%	3.2%	6.9%		
Return on assets	%	0.1%	0.4%		
Adjusted return on assets	%	0.6%	1.7%		
Reported EPS	\$	0.02	0.05		
Credit loss ratio	%	1.3%	1.0%		
Book value per share	\$	8.07	8.94		
Tangible book value per share	\$	6.07	7.00		

**Notes:** 1. Constant currency variance excludes the impact of depreciating currencies against the US dollar.

## Income statement review

**Table 2: Total income**

We reported growth in total income of 34.5% on a constant currency basis, largely attributable to momentum in Botswana and Rwanda with the former being a particular beneficiary of lower cost of funds and on optimising growth both organically and via acquisitions. We continue to build our capability in digital and mobile banking and expect less balance-sheet-intensive revenues from these sources to build over the course of 2016 and into 2017.

	2016	2015	Var	CC Var
	\$m	\$m	%	%
Net interest income	<b>\$45.2 m</b>	\$49.4 m	(8.5%)	4.2%
Non-interest income	<b>\$68.3 m</b>	\$49.4 m	(38.3%)	66.3%

### Net interest income

During the 6 months, there have been market-wide, liquidity shortages in a number of our countries of operation including Mozambique, Tanzania and Zambia. Despite this, the improvement in net interest income on a constant currency basis is largely due to a reduction in funding costs in other markets. The decline in cost of funds from 6.43% in the first quarter of 2016 to 5.95% for the second quarter of 2016 reflects the Group's focus on targeting cheaper transactional deposits and placing less reliance on interbank funding. Our partnership with a number of development finance institutions (DFI) has also contributed to achievement of this goal.

As we continue to focus on attracting low-cost retail deposits across the Group, we expect to see our retail business making a greater contribution to net interest income over time and this will, in turn, support an improvement in net interest margins. Notable headwinds to growth in the first half came from subdued growth in loans and advances across all countries due to liquidity challenges and delayed deal closure. We are taking steps to ensure a faster and smoother process from credit approval to drawdown to ensure that balance sheet growth is not compromised by unnecessary bottlenecks in the process.

### Non-interest income

Non-interest income increased by 66.3% on a constant currency basis to US\$68.3 million in 2016 (2015: US\$49.4 million) with this figure boosted by fair value gains of US\$15.4 million post devaluation of the Naira in June 2016 and a US\$1 million (provisional) bargain purchase gain on acquisition of Finance Bank Zambia.

There was a notable uplift in trading revenue to US\$17.8 million from US\$10.1 million a year ago reflecting our efforts to build out our onshore treasury capability.

### Total expenses

Total costs amounted to US\$115.5 million, an increase of 39.1% in constant currency terms year on year with the acquisitions completed this year being a principal contributor to this.

Staff costs have been impacted by separation and hiring related costs as we continue to hire top talent to lead change in the businesses acquired.

Investment in centralised Group procurement has driven a better understanding of country cost drivers. As a consequence, we have prioritised key cost containment projects, including negotiating lower annual license fees and rates with IT related vendors. The benefits of this will be realised in the second half of 2016.

### Loan impairment charges

The 2016 loan impairment charge of US\$9.1 million represents a significant increase on the prior year charge of US\$6.1 million but with the second quarter charge of US\$0.6 million considerably lower than the first quarter (US\$8.5 million). This is after gross recoveries of US\$2.7 million, which were weighted towards the second quarter and with Rwanda and Zimbabwe being particular contributors in this regard. Areas of particular focus are Mozambique where impairment model changes have driven higher credit costs and Zambia where we continue to monitor a number of specific exposures.

**Table 3: Loan impairment charges**

	2016	2015	Var	CC Var
	\$m	\$m	%	%
Loan impairment charges	9.1	6.1	(49.2%)	(64.0%)

### Share of profit of associates

This represents Atlas Mara's share of profit from the 31.15% stake in Union Bank of Nigeria Plc ('UBN') based on their published results to 30 June 2016. The impact of intangible amortisation is also included. Given that, as of the date of release of these results, UBN had publicly disclosed its first half results to the market, their results have been included in this set of accounts without any change.

As noted above, the Nigerian macroeconomic environment has been challenging in 2016 culminating in devaluation in the Naira just before the period end. The decline in commodity prices, especially in oil and gas, has led to a reduction in national income and slower growth, as well as a reduction in Foreign Direct Investment. Against this backdrop, UBN performed creditably and gross earnings were up 7% on June 2015 with operating expenses in line with planned investments in technology and network infrastructure. Despite double digit inflation, the anticipated cost efficiencies from the last two years' transformation projects are becoming visible. Loans and advances were up 27% compared to June



2015, 12% of which is real business growth and the rest driven by the impact of the currency devaluation. Customer deposits grew by 11%. Improved service offerings continue to generate customer growth.

UBN’s NPLs increased to 7.14% (December 2015: 6.99%), which reflects UBN’s conservative and realistic perspective on the stresses expected in the local economy into 2016. UBN’s CAR with the benefit of the first half profit was at 15.2% as at June 2016, modestly ahead of the Basel II 15% CAR requirement which became effective from 30 June 2016.

A foreign exchange loss of approximately US\$87 million arising from the translation of our foreign operations from Naira to US dollars was accounted for directly against equity upon the inclusion of UBN’s results into the Atlas Mara Group.

**Table 4: Share of profit of associates**

	2016	2015	Var	CC Var
	\$m	\$m	%	%
Share of profit of associates	12.5	10.5	19.0%	22.9%

**Statement of financial position review**

Customer loans and advances comprise c.48% of the Group’s total asset base. Cash, short-term funds and marketable securities represent c.15% and investment in our associate bank, UBN, accounts for 11% of the asset base. Goodwill and intangible assets represents c.6% of assets with fixed assets and other assets making up the remainder. On a constant currency basis, total asset growth was 28.1% compared to 2015 with the acquisitions in Rwanda and Zambia the principal drivers of this.

**Credit quality**

In management’s view, the customer loan book is adequately provided for. This is reflected in the provision adequacy ratio of 58.7% (December 2015: 42.8%), which represents a satisfactory coverage position given the uncertain economic outlook. Non-performing loans (NPLs) as a percentage of the loan book also declined to 13.2% (December 2015: 14.6%), reflecting evidence of our improved resourcing behind our credit origination and collection processes. Zambia is the economy of greatest concern where we are monitoring developments closely. Although impairment levels in Zambia are elevated and we have seen an increase in NPL ratio, our NPL coverage at June 2016 was in excess of 100% after taking into account the fair value of collateral.

We continue to focus on improving credit processes and embedding responsible lending practices across the group to drive continuous improvements in the quality of the loan portfolio as a key priority for management.

## Capital position

As at 30 June 2016, all of Atlas Mara's operating banks complied with local minimum capital requirements relevant in that country, as summarised in the graph below.

**Table 5: Customer loans and deposits**

	2016	2015	Var	CC Var
	\$m	\$m	%	%
Total assets	<b>2,946.6</b>	2,506.6	17.6%	28.1%
Customer loans	<b>1,421.1</b>	1,173.9	21.1%	33.2%
Total deposits	<b>1,814.9</b>	1,462.9	24.1%	37.9%

Our focus on deposit growth has delivered clear results with constant currency growth of 37.9% year-on-year in retail deposits supporting our aim of reducing the cost of funding for the Group. The contribution of interbank deposits has decreased gradually from 9.5% at end of 2015 to 8.9% at end of H1 2016. Interbank funding in Tanzania and Zambia remains high as a result of market-wide liquidity constraints. Risk-weighted asset growth, excluding acquisitions, was limited reflecting both the subdued demand for credit across our markets but also our selective approach to credit risk as a result of refining our overall risk appetite.

## Goodwill and intangibles

As a result of the acquisitions made during 2016 and in compliance with IFRS 3: Business Combinations, the statement of financial position incorporates a goodwill asset of US\$81.8 million (December 2015: US\$82.7 million) and intangible assets of US\$84.9 million (December 2015: US\$56.6 million). Intangible assets are amortised over a 10-year useful life period.

These assets represent a combined 6% of the Group's asset base, resulting in a tangible book value of US\$6.07 per share (December 2015: US\$7.00 per share) versus a book value per share of US\$8.07 (December 2015: US\$8.94).

## Investment in associate: UBN

Our investment in UBN is equity-accounted for in the statement of financial position as an investment in an associate, with a closing balance of US\$321.4 million (2015: US\$395.9 million). The value of the equity-accounted earnings is as reported in UBN's 30 June 2016 unaudited financials.

We have reviewed the carrying value of the investment held in UBN from a valuation perspective. Stress-testing of future expected earnings has been considered, taking into account the impact of the devaluation in the Naira, as well as potential credit shocks in the Nigerian market from lower oil prices and market-wide shortages of US Dollar liquidity. The carrying value was substantiated notwithstanding such potential stresses in the local market.

### Liabilities

The reduction in equity largely reflects the translation impact from converting our foreign operations in our African subsidiaries into US Dollars. The negative impact on equity (as an unrealised conversion loss) was US\$83 million – of which Nigeria was the largest contributor (US\$87 million).

Customer deposits comprise 76.6% of the liability base and represent 61.6% of the aggregate of liabilities and equity. The loan to deposit ratio for June 2016 is 78.3% (June 2015: 80.2%).

**Table 6: Composition of liabilities**

	2016	2015	Var	CC Var
	\$m	\$m	%	%
Deposits due to customers	\$1,814.9	\$1,462.9	24.1%	37.9%
Borrowed funds	\$342.9	\$284.7	20.4%	55.0%

### Segment information

The segmental results and statement of financial position information represents management’s view of its underlying operations. The business is managed on a geographic basis consistent with the Group’s emphasis on sub-Saharan Africa’s key trading blocs with a specific focus on underlying business line performance.

The seven countries of operation and investment are grouped as follows:

#### Southern Africa

Our Southern Africa segment includes the operations of BancABC excluding Tanzania, i.e. Botswana, Mozambique, Zambia and Zimbabwe, as well as BancABC’s holding company, ABCH, incorporated in Botswana, and various affiliated non-bank Group entities in those jurisdictions. The scale of our operations in Zambia were significantly increased by the acquisition of Finance Bank Zambia at 30 June 2016. The integration process is underway and while Zambia faces some short-term economic headwinds, we remain positive about the long-term prospects for this market.

### **East Africa**

Our East Africa segment consists of BancABC Tanzania and Banque Populaire du Rwanda following its merger with BRD Commercial Bank.

In January 2016 Atlas Mara acquired a 45.03% stake in BPR. BPR was established in 1975 and is the second largest bank in Rwanda with total assets of c.US\$250 million, loans of US\$164 million and deposits of c.US\$188 million as at 31 December 2015. BPR was merged with BRD Commercial Bank at the beginning of January 2016 resulting in Atlas Mara owning 62.06% of the merged entity, which is now the second largest bank in this key market. The integration process is complete and we are positive about the prospects for the merged entity in Rwanda.

### **West Africa**

The contribution to earnings from West Africa comprises our associate investment in UBN, based on our 31.15% share of UBN's earnings attributable to equity holders as disclosed in their published results. Our investment in UBN resulted in associate income of US\$12.5 million in 2016 compared to US\$10.5 million for 2015.

Atlas Mara, through its three board seats on the UBN board, is working closely with UBN management to monitor the impact of the recent oil price declines and currency weakening on the credit and capital positions. We see positive medium-term growth potential for UBN irrespective of the near-term challenges from the macroeconomic environment.

### **Other**

Included in this segment are Atlas Mara Limited, the BVI incorporated holding company, and Atlas Mara's Dubai subsidiary and all other intermediate Group holding entities acquired in connection with acquisitions of ABCH and ADC in August 2014. The Shared Services and Center of Atlas Mara reported a net loss of US\$11.8 million for the first half of 2016 compared to a net loss of US\$11.9 million for 2015. We have initiated plans to reduce the Shared Services and Centre costs both through direct staff reduction and through the transfer of certain personnel to operating businesses. The increase in costs and expenses in 2016 reflect continued investment to build a best-in-class banking infrastructure

USD'm	June 2016	Banking Operations			Other	
		Southern	East	West	Shared Services & Center	M&A, ADC & Consol
	Actual					
Total Income	113.5	71.2	27.1	-	6.6	8.6
Loan impairment charge	(9.1)	(8.1)	(1.5)	-	-	0.5
Operating expenses	(115.5)	(61.0)	(24.6)	-	(18.4)	(11.5)
Share of profits of associate	12.5	-	-	12.5	-	-
Profit / (loss) before tax	1.4	(2.1)	1.0	12.5	(11.8)	1.8
<b>Profit / (loss) after tax and NCI</b>	<b>1.2</b>	<b>(2.1)</b>	<b>1.1</b>	<b>12.5</b>	<b>(11.8)</b>	<b>1.5</b>
		-	-			
Loans and advances	1,421.0	1,125.3	297.0	-	-	(1.3)
Total assets	2,946.7	1,979.3	504.2	321.4	722.4	(580.6)
Total equity	577.3	105.5	71.1	321.4	642.1	(562.8)
Total liabilities	2,369.4	1,873.8	434.1	-	76.3	(14.8)
Deposits	1,814.9	1,423.7	391.5	-	-	(0.3)
Net interest margin - total assets	3.1%	3.4%	7.9%		N/A	
Net interest margin - earnings assets	4.1%	4.3%	9.3%		N/A	
Cost to income ratio	101.7%	85.7%	90.9%		>100%	
Statutory Credit loss ratio	1.3%	1.4%	1.0%		N/A	
Return on equity	0.4%	(3.9%)	3.1%		(3.7%)	
Return on assets	0.1%	(0.2%)	0.4%		(3.3%)	
Loan to deposit ratio	78.3%	79.0%	75.9%		N/A	

USD'm	June 2015	Banking Operations			Other	
		Southern	East	West	Shared Services & Center	M&A, ADC, Consol
	Actual					
Total Income	98.8	91.4	6.7	-	(1.1)	1.8
Loan impairment charge	(6.1)	(6.3)	0.2	-	-	-
Operating expenses	(94.0)	(64.1)	(9.3)	-	(10.8)	(9.8)
Share of profits of associate	10.5	-	-	10.5	-	-
Profit / (loss) before tax	9.2	21.0	(2.4)	10.5	(11.9)	(8.0)
<b>Profit / (loss) after tax and NCI</b>	<b>4.1</b>	<b>15.7</b>	<b>(2.1)</b>	<b>10.5</b>	<b>(11.9)</b>	<b>(8.1)</b>
Loans and advances	1,173.9	1,059.1	125.1	-	-	(10.3)
Total assets	2,506.6	1,698.3	246.4	382.5	340.2	(160.8)
Total equity	639.4	70.2	34.1	382.5	298.2	(145.6)
Total liabilities	1,867.2	1,628.1	212.3	-	42.0	(15.2)
Deposits	1,462.9	1,279.2	183.7	-	-	-
Net interest margin - total assets	3.9%	5.7%	5.1%		N/A	
Net interest margin - earnings assets	5.5%	6.3%	5.6%		N/A	
Cost to income ratio	95.2%	70.1%	138.8%		>100%	
Statutory Credit loss ratio	1.0%	1.2%	(0.3%)		N/A	
Return on equity	1.3%	44.7%	(12.3%)		(3.6%)	
Return on assets	0.3%	1.8%	(1.7%)		(3.3%)	
Loan to deposit ratio	80.2%	82.8%	68.1%		N/A	

USD'm	Banking Operations					
	December 2015	Banking Operations			Other	
	Actual	Southern	East	West	Shared Services & Center	M&A, ADC, Consol
Total Income	205.1	181.2	14.1	-	11.4	(1.6)
Loan impairment charge	(12.0)	(12.4)	0.4	-	-	-
Operating expenses	(194.2)	(136.3)	(17.7)	-	(33.4)	(6.8)
Share of profits of associate	20.3	(0.1)	0.2	20.2	-	-
Profit / (loss) before tax	19.2	32.4	(3.0)	20.2	(22.0)	(8.4)
<b>Profit / (loss) after tax and NCI</b>	<b>11.3</b>	<b>21.6</b>	<b>(1.9)</b>	<b>20.2</b>	<b>(22.0)</b>	<b>(6.6)</b>
Loans and advances	1,229.4	1,100.3	129.8	-	-	(0.7)
Total assets	2,452.1	1,643.3	241.6	395.3	355	(183.1)
Total equity	625.5	101.1	32.1	395.3	279.3	(182.3)
Total liabilities	1,826.6	1,542.2	209.5	-	76	(1.1)
Deposits	1,436.1	1,248.5	187.6	-	-	-
Net interest margin - total assets	4.3%	6.6%	5.3%		N/A	
Net interest margin - earnings assets	6.0%	7.2%	5.6%		N/A	
Cost to income ratio	94.7%	75.2%	125.4%		>100%	
Statutory Credit loss ratio	1.0%	3.8%	(10.1%)		N/A	
Return on equity	1.7%	21.4%	(6.0%)		(3.3%)	
Return on assets	0.4%	1.3%	(0.8%)		(3.0%)	
Loan to deposit ratio	85.6%	88.1%	69.2%		N/A	

**Arina McDonald**

Chief Financial Officer

## **Principal Risks**

The principal risks as listed and described on pages 62 - 67 of the 2014 Annual Report have been evaluated and individually considered by management. These risks are deemed to be still applicable and no material additional risks have been identified as at the period ended 30 June 2016.

## **Directors' Responsibilities Statement in Respect of the Interim Results**

We confirm that to the best of our knowledge:

The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;

The interim management report includes a fair review of the information required by:

- a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
- b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

John F. Vitalo

Chief Executive Officer

24 August 2016

## **Forward Looking Statement and Disclaimers**

This announcement does not constitute or form part of any offer or invitation to purchase, otherwise acquire, issue, subscribe for, sell or otherwise dispose of any securities, nor any solicitation of any offer to purchase, otherwise acquire, issue, subscribe for, sell, or otherwise dispose of any securities.

The release, publication or distribution of this announcement in certain jurisdictions may be restricted by law and therefore persons in such jurisdictions into which this announcement is released, published or distributed should inform themselves about and observe such restrictions.