



# High energy reaping rewards

Operational update – quarter one of 2011

# Introduction

## *Momentum in last 6 months of 2010 accelerated into 2011*

### **External environment**

- Moderately improving economic conditions
- Stronger retail sales over the festive period
- Unemployment claims have stabilised but remain high
- Intensely competitive trading conditions
- Low inflation, low interest rates and above inflation salary increases improving consumer affordability
- Debt mediation rules finalised – deployment expected by February 2011

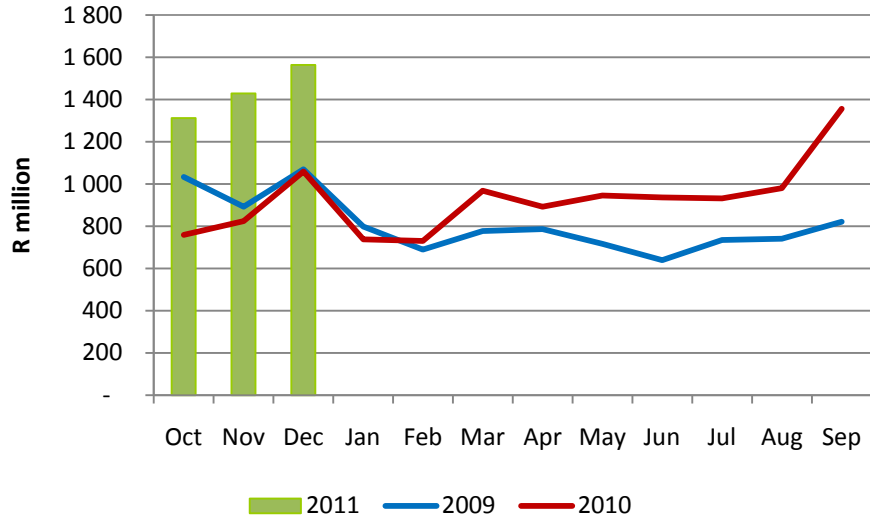
# ABIL initiatives

## ***Substantial reinvigoration of business and focus on people bearing fruit***

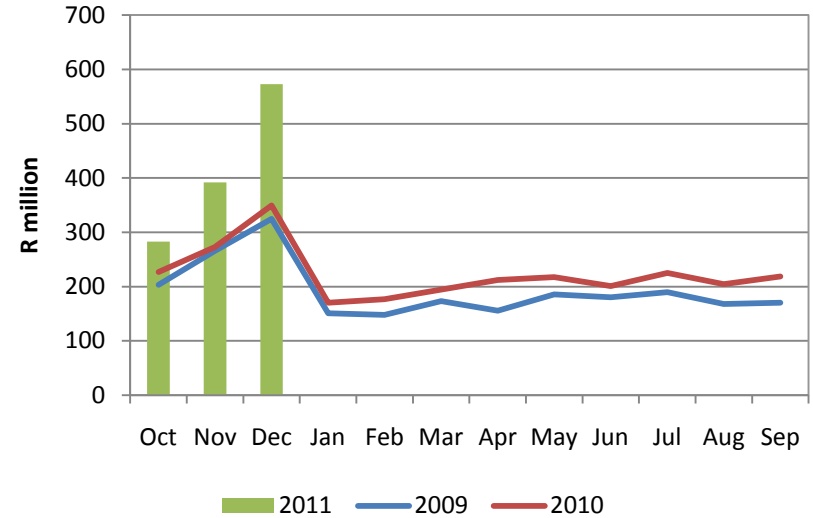
- Strong quarter for both businesses
- New products for the 'festive' and 'back-to-school' seasons well received
- EHL brands experienced some impact of change over to African Bank systems in September 2010
- Substantial growth in the number of new clients
- High growth in credit card continued
- African Bank footprint expanding rapidly through a presence in EHL stores
- Ezi\*cash (top-up credit products) and Ezi\*Loans (credit only initiatives) in EHL stores proving successful
- New retail categories and private label expansion in EHL
- Group operating cost slightly ahead of budget given higher sales
- Asset quality continued to improve
- Yields relatively stable

# Credit sales of R5,5 billion (up 59% y-on-y)

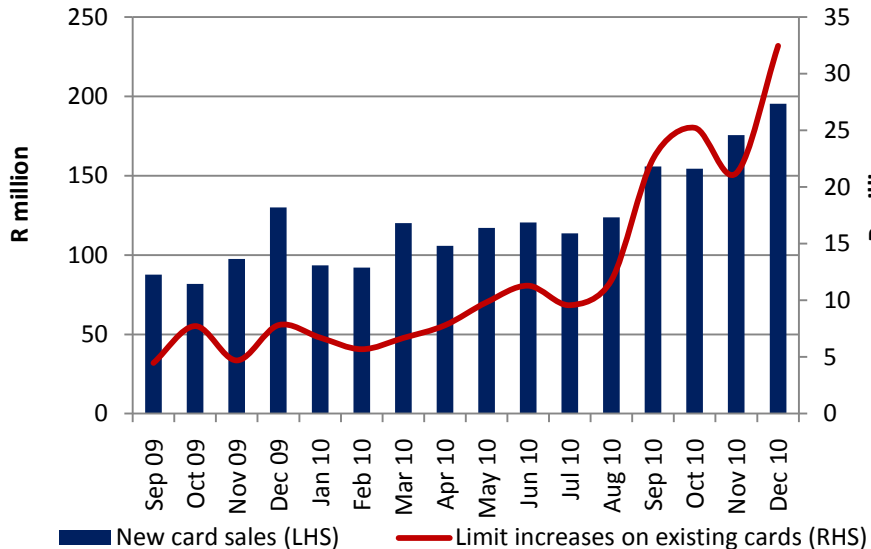
## African Bank credit sales up 63%



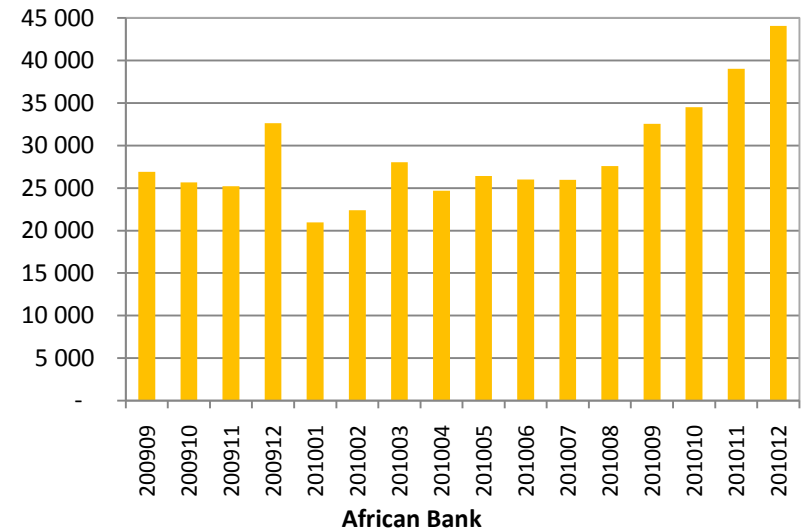
## EHL credit sales up 29%



## Card sales grew 87%

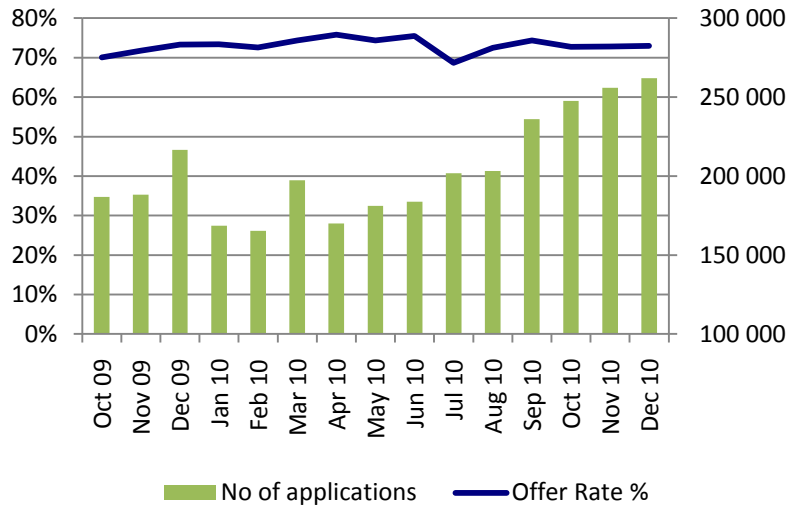


## New client base up 41%

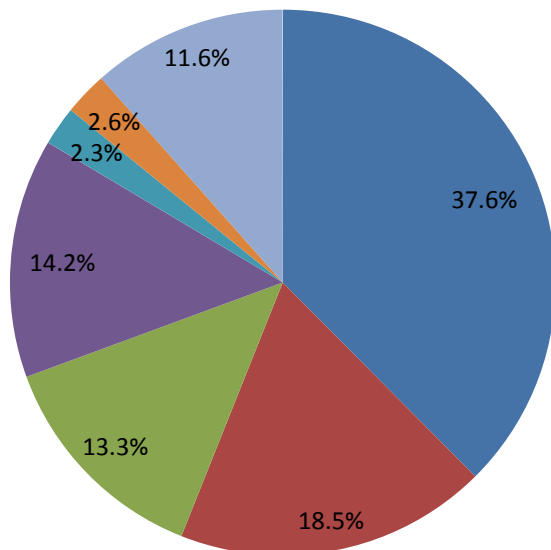


# Risk mix positive

## Loan applications – African Bank

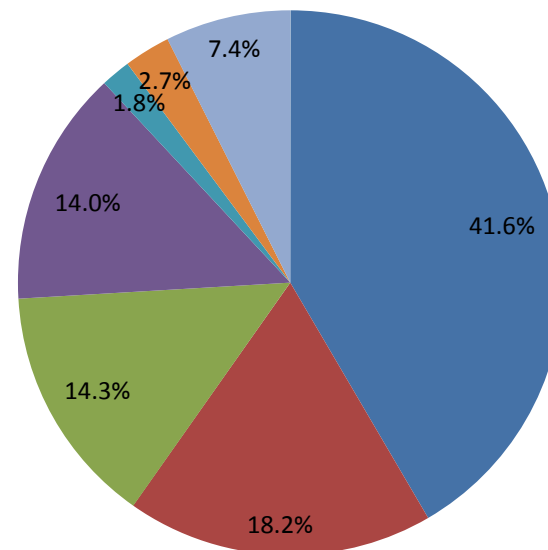


- Loan offer rates have remained steady
- The move in the mix to low risk was largely a function of the 'Payment break' campaign
- Low/Med customers have increased from 69% of portfolio to 74%



### Sales risk mix Dec 2009

- 1Low
- 2LowMed
- 3Med
- 4MedHigh
- 5High
- 6Thin
- 7Other



### Sales risk mix Dec 2010

- 1Low
- 2LowMed
- 3Med
- 4MedHigh
- 5High
- 6Thin
- 7Other

# Product innovation paying off

- **Insights gained from staff and customer roadshows and the retail business, are driving product development**
- **PAYMENT BREAK**
  - Offered from October to December 2010 – R1 billion in sales (19% of credit sales)
  - Aimed at lower risk and new clients – sales volumes skewed towards lower risk as a result
  - 1<sup>st</sup> instalments due in January 2011
  - Similar product in EHL and an African Bank April/May 2010 promotion have performed satisfactorily
- **INTEREST BUSTER**
  - Designed to capitalise on short term lending opportunities and attract new and long-dormant clients
  - Product available for limited time and specific book size – currently +/- 15% of sales by number of loans, 9% by value
  - 0% interest, no service fees, R10 000 maximum loan size, 12-month product
  - Standard initiation fee and compulsory credit life
  - R2 500 potential saving for customers
- **MOBILE SERVICE (balance enquiries, airtime, lost cards) - 50 000 active users**

# Product innovation paying off

- EZI\*CASH (top-up credit) and EZI\*LOANS (credit only) in EHL proving successful – R112 million for the quarter
- Category expansion in EHL through new imported furniture ranges and computers
- TEK private label – further development into appliances as well
- Club membership reached 570 000 members – new club magazines & benefits positively received
- Credit facilities pilot launched in Wetherlys in December 2010

# Distribution network expanding rapidly

- 32 new African Bank branches opened to date in 2011, including 10 sales centres
- 30 new EHL stores opened for the quarter and 41 more secured for 2011, with a strong focus on improving trading densities
- 121 (55 in Qtr1 2011) African Bank kiosks opened in EHL stores - R90 million of additional sales for the quarter
- 10 African Bank 'carve-out' branches in EHL – R73 million of sales
- 5 African Bank promotional vehicles deployed
- Expectation for 100 more kiosks and 100 'carve-out' branches this year

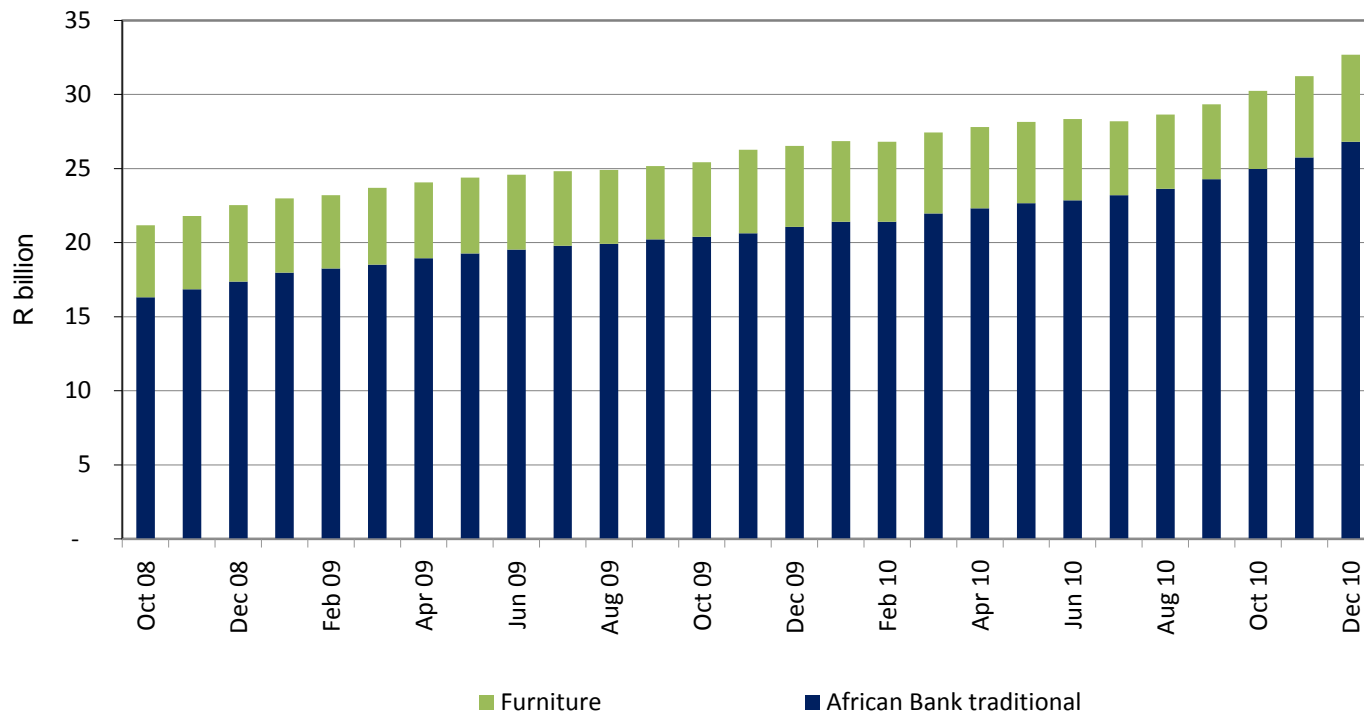




# Advances growth tracking sales

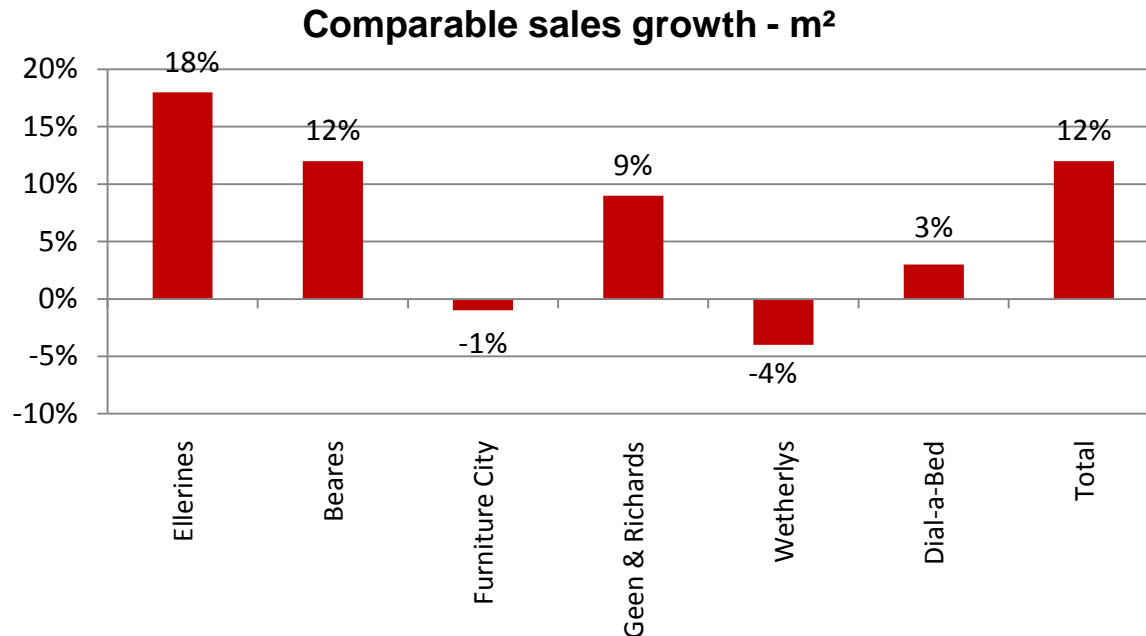
- African Bank traditional advances increased by 10% for the quarter to R26,8 billion
- Furniture credit advances increased by 17% to R5,9 billion
- First quarter is traditionally the highest growth quarter
- Advances growth on track to reach the 2011 objective

Monthly advances growth



# EHL – retail performance

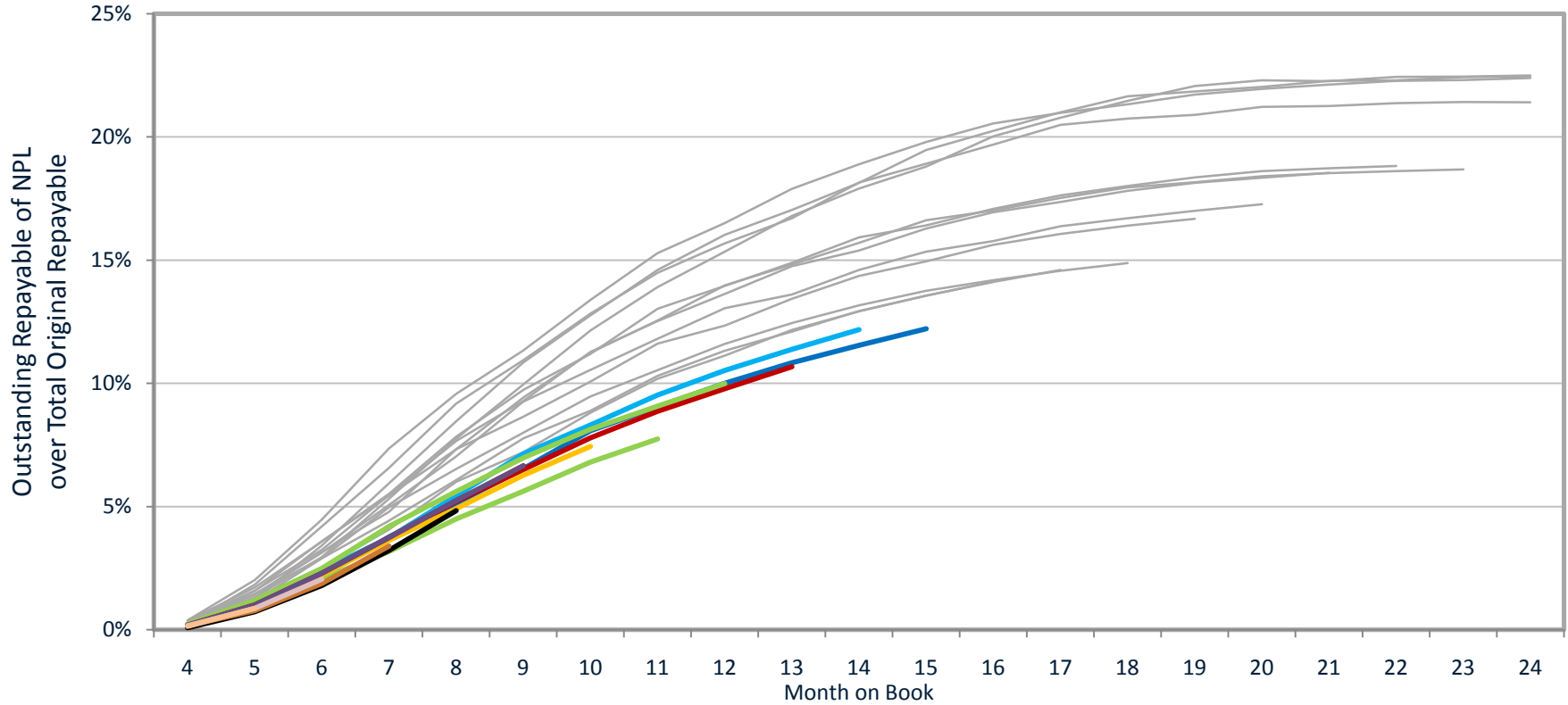
- Merchandise sales up 8% to R1,5 billion, 12% on a like-for-like m<sup>2</sup>
- Focus on trading densities paying off - m<sup>2</sup> down but number of stores up
- Ellerines (48% of EHL sales) performed well
- Fire at Furniture City's biggest store
- Wetherlys continued to battle with legacy location strategy and slow recovery in upper LSMs
- Gross margins increased relative to same period in 2010 and stock turn improved
- Merchandise sales credit mix increased from 60% (Sep 10) to 66% (Dec 10)
- Productivity ratios continued to improve further



# African Bank vintages continue to fall from peaks of 2008

## VINTAGE GRAPH - African Bank

More than three missed instalments

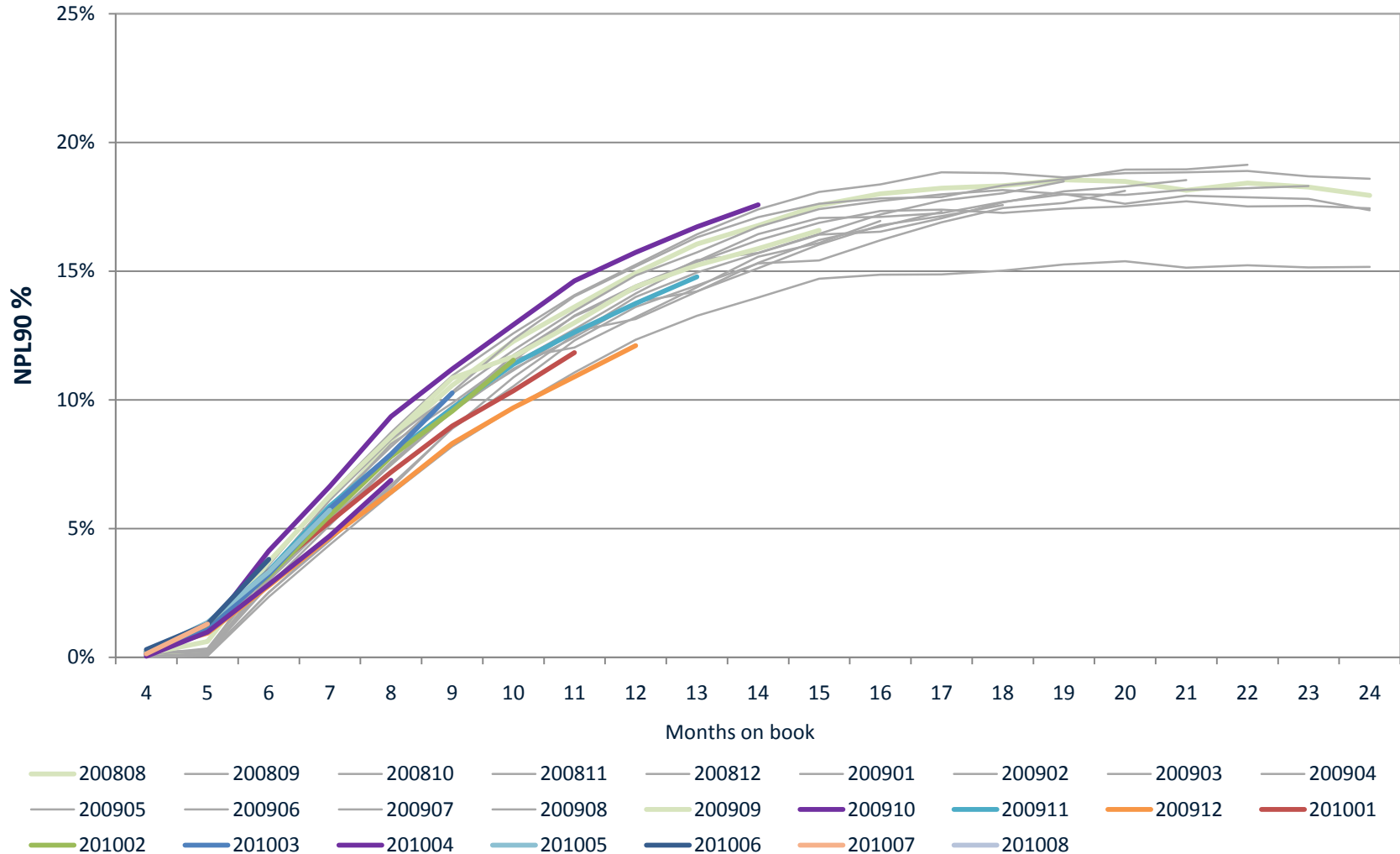


Sep-08 Oct-08 Nov-08 Dec-08 Jan-09 Feb-09 Mar-09 Apr-09  
May-09 Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09  
Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10

# Furniture credit vintages at the lower end of target range

## VINTAGE GRAPH - EHL

More than three missed instalments



# Looking ahead

## The main strategic initiatives for ABIL in 2011 remain as follows:

- Integrate and optimise the African Bank operations
- Transform the value proposition and delivery model of the Bank to service a broader market
- Grow the client base of the Bank and convert EHL customers into African Bank customers as well
- Build EHL into a premier cash retailer
- Expand ABIL's presence in the retail footprint in South Africa.

<b>ABIL group objectives</b>	<b>Actual 2010</b>	<b>Target 2011</b>	<b>Medium term target (rolling 4 years)</b>
Advances growth	20%	> 25%	> 15% CAGR
Merchandise sales	R4,5 bn	> 8,5%	R8 bn – R9 bn p.a.
Return on equity	15,6%	> 18%	> 30%



*Our people journey has only just started!*