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ABL – African Bank Investments Limited – Unaudited interim results and cash

ABL ABLP

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ABL – African Bank Investments Limited – Unaudited interim results and cash dividend declaration for the six months ended 31 March 2010

African Bank Investments Limited

(Incorporated in the Republic of South Africa)

(Registered bank controlling company)

(Registration number 1946/021193/06)

Ordinary share code: ABL ISIN: ZAE000030060

Preference share code: ABLP ISIN: ZAE000065215

('ABIL' or 'the group')

UNAUDITED INTERIM RESULTS AND CASH DIVIDEND DECLARATION FOR THE SIX MONTHS ENDED 31 MARCH 2010

FEATURES

– Group headline earnings of R914 million (H1 2009:R937 million) and headline earnings per share of 113,7 cents (H1 2009: 116,6 cents), a decline of 2% respectively.

– Dividends per ordinary share maintained at 85 cents.

– African Bank headline earnings of R713 million (H1 2009: R747 million), impacted negatively by higher suspension of income on non-performing loans, funding costs and bad debt charges.

– Ellerines headline earnings of R201 million (H1 2009: R190 million), benefiting from a lower bad debt charge and a further decline in operating expenses.

– Strong momentum in the Ellerines financial services integration project, with full completion expected by the end of the current financial year.

OVERVIEW OF RESULTS

In the first half of the current financial year, the group`s operating environment was characterised by generally subdued economic conditions and lower consumer spending, following the sharp decline in formal sector employment over the past year. Tentative signs of recovery in some segments of the economy were tempered by continued pressure and further retrenchments in others. The retail trading environment in particular lagged the modest recovery in the broader economy.

These conditions necessitated a continuation of the largely risk-averse stance that the group maintained during the 2009 financial year. Credit underwriting appetite remained relatively conservative in the first quarter, and this impacted on sales volumes in this period. Emerging consumer demand in the second quarter, together with greater risk segmentation, enabled the group to relax credit criteria selectively, with a concomitant lift in sales volumes. This was supported by a renewed focus on removing internal impediments to growth.

As a result of the above, the growth in net advances of 18% was somewhat below the targeted 25% for the current year. Income yields were affected by proportionally larger non-performing loans on which interest and fees were suspended, as well as an increasing proportion of loans to lower risk customer segments. Net assurance income continued to reflect relatively high retrenchment claims. In aggregate, group revenues grew by 2% over the prior comparable period.

The group`s bad debt charge increased by 9%, with a higher charge at African Bank on the back of the high sales volumes written towards the end of 2008, offsetting lower provisioning requirements at Ellerines. A heightened focus on cost control resulted in a multitude of initiatives being implemented to reduce operating expenses, with a strong emphasis on extracting benefits from closer cooperation between African Bank and Ellerines. The group`s operating expenses declined by 4%.

Substantial progress was made with the migration and integration of Ellerines` financial services activities into African Bank and the completion of the project by the end of the 2010 financial year remains on track. All of the Ellerines, Dial-a-Bed and Furniture City branches have now been converted onto the African Bank front end credit origination platform, as has the majority of the Geen & Richards and Beares stores.

The remaining stores are expected to be converted by September 2010 in preparation for the peak trading period from October to December. A phased approach is being used to convert the existing Ellerines advances book onto the African Bank systems, to ensure that customers and collections are not impacted by the conversion. The ownership of the loans is expected to be transferred to African Bank at the end of September 2010.

Liquidity conditions improved considerably during the period, with a commensurate reduction in risk premiums and greater availability of funding. The group raised substantial new long-term deposits which in part were applied to settle maturing liabilities and replace more expensive debt. At the same time, against the backdrop of continued volatility in capital markets, the group increased its cash reserves significantly in order to support both the anticipated pick-up in sales volumes going forward as well as the efficient transfer of the remaining financial services assets of Ellerines into African Bank. While the average funding rate declined from 11,7% to 10,5%, the higher absolute amount of funding resulted in the net interest expense increasing by 24%.

Group headline earnings declined by 2% to R914 million as a result of the above factors, as did headline earnings per share to 113,7 cents. Average ordinary shareholders` equity was effectively unchanged at R11,9 billion, with the group return on equity (RoE) declining marginally from 15,8% to 15,3%.

Headline earnings for the African Bank business unit declined by 5% to R713 million (H1 2009: R747 million). The total income yield declined by 310 basis points to 36,0%, which was partly offset by a 130 basis point improvement in total charges, resulting in a decline in the return on assets (RoA) from 8,3% to 5,8%. The return on assets was also impacted by the higher levels of cash reserves held of R6,5 billion (H1 2009: R2,4 billion) with a consequential increase in gearing from 6,8 times to 7,7 times. The return on equity was 44,2%.

Ellerines reported headline earnings of R201 million, a 6% increase over the prior comparable period. The retail division achieved a strong turnaround in profitability, while earnings for the financial services activities were sharply lower, the latter driven largely by a decline in income yields, primarily as a result of the high level of interest suspension. Ellerines generated an aggregate RoE of 10,1% for the period, calculated excluding goodwill.

ECONOMIC PROFIT

African Bank`s economic profit declined by 15% to R455 million while Ellerines incurred a R119 million economic loss, based on its internal capital. Together with the R377 million economic loss based on the goodwill arising from the acquisition of Ellerines, the ABIL group generated a net economic loss of R41 million, relative to a loss of R11 million for the six months to March 2009.

DIVIDENDS AND DIVIDEND COVER

ABIL has declared an interim dividend of 85 cents per ordinary share, in line with the dividend declared in the first half of 2009. The ordinary dividend cover has declined marginally to 1,3 times, representing a payout ratio of 75% of headline earnings per share. As communicated previously, the dividend cover is expected to rise to approximately 1,5 times over time, in order to support the expected increase in sales growth at both African Bank and Ellerines.

The group has also declared an interim preference share dividend of 355 cents per share.

FUNDING AND CAPITAL MANAGEMENT

ABIL maintained its conservative approach to capital management during this period, which ensured stable credit ratings for the bank, a steady flow of available funding and a reduction in the cost of funding as the relatively elevated risk premiums of 2009 returned to more normalised levels.

The group`s internal capital model indicated an optimal level of regulatory capital for the ABIL group of R6,5 billion, or 26,7% of assets at risk at 31 March 2010. Against this, ABIL held total capital of R7,9 billion (after impairments for goodwill, trademarks and dividends declared).

The transfer of the remaining financial services assets of Ellerines into African Bank by the end of the current financial year, will result in a more efficient distribution of capital between the two businesses, and create a significant foundation for further growth within African Bank.

LEAVE OF ABSENCE

Executive director David Woollam, has requested, and the board has agreed, to a six month leave of absence in order to focus on his health, wellbeing, and his family.

LOOKING AHEAD

Whilst trading conditions are not expected to show any material improvement in the short term, the group expects a stronger performance for the full year, given the better sales momentum evident in recent months, the expectation of lower bad debt charges as previously higher vintages work their way through, and the benefits of the various cost savings initiatives recently implemented. At the same time, the integration of the group`s financial services activities into the African Bank business unit will enable more efficient utilisation of capital and liquidity balances, with a positive impact on overall group returns.

African Bank is targeting an acceleration in its sales growth, a lower rate of increase in operating costs, more efficient application of cash resources and improved collections from its branch collections initiative amongst others.

Ellerines` priorities for the retail part of the business for the next six months will remain on margin delivery, stock management, supply chain optimisation and sales growth, while the financial services part of the business will concentrate on finalising the integration and providing innovative value added products to its customer base.

The forecast financial information has not been reviewed and reported on by ABIL`s auditors.

BASIS OF PREPARATION

These condensed group interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting, the requirements of the South African Companies Act (Act 61 of 1973), as amended and the Listing Requirements of the JSE Limited.

The group has adopted the following standards and interpretations during the financial year:

- IFRIC 17 – Distribution of Non-cash Assets to Owners
- IFRS 2 (amended) – Vesting Conditions and Cancellations
- IFRS 7 – Financial Instruments: Disclosures
- IFRS 8 – Operating Segments
- IAS 1 (revised) – Presentation of Financial Statements
- IAS 23 – Borrowing Costs
- IAS 32 (amended) – Financial Instruments Puttable at Fair Value and Classification of Rights Issues.

The accounting policies are in compliance with International Financial Reporting Standards (IFRS) and their application is consistent with those used for the group`s 2009 annual financial statements except for changes in disclosure of the following: financial instruments, primary statements and operating segments.

On behalf of the board

Mutle Mogase	Gordon Schachat	Leon Kirkinis
Chairman	Executive deputy chairman	Chief executive officer

ABIL GROUP INCOME STATEMENT

for the six months ended 31 March 2010

R million	% change	Unaudited 6 months to 31 March 2010	Unaudited 6 months to 31 March 2009	Audited 12 months to 30 September 2009
Revenue	2	7 549	7 415	14 332
Gross margin on retail business	1	1 014	1 007	1 791
Interest income on advances	9	2 932	2 682	5 437
Net assurance income	(24)	854	1 124	2 081
Non-interest income	9	1 227	1 130	2 251
Income from operations	1	6 027	5 943	11 560
Charge for bad and doubtful advances	9	(1 473)	(1 351)	(2 511)
Risk adjusted income from operations	(1)	4 554	4 592	9 049
Other interest and investment income	6	188	177	367
Interest expense	21	(1 142)	(944)	(2 025)
Operating costs	(4)	(2 251)	(2 354)	(4 576)
Indirect taxation: VAT	33	(12)	(9)	(18)
Profit from operations	(9)	1 337	1 462	2 797
Capital items	>100	34	(7)	(7)
Profit before taxation	(6)	1 371	1 455	2 790
Direct taxation: STC	(12)	(78)	(89)	(159)
Direct taxation: Normal	(15)	(345)	(408)	(776)
Profit for the period	(1)	948	958	1 855
Reconciliation of headline earnings and per share statistics				
Profit for the period (basic earnings)	(1)	948	958	1 855

Preference shareholders	(36)	(18)	(28)	(52)
Basic earnings attributable to ordinary shareholders	0	930	930	1 803
Adjustments for non-headline items:				
Capital items	<100	(19)	7	7
Tax thereon		3	0	0
Headline earnings	(2)	914	937	1 810
Number of shares in issue (net of treasury)		803,7	803,7	803,7
Weighted number of shares in issue		803,7	803,7	803,7
Fully diluted number of shares in issue		803,8	803,8	803,8
Basic earnings per share	0	115,7	115,7	224,3
Fully diluted basic earnings per share	0	115,7	115,7	224,3
Headline earnings per share	(2)	113,7	116,6	225,2
Fully diluted headline earnings per share	(2)	113,7	116,6	225,2

The capital items in the income statement relate to African Bank`s sale of its pre-emptive right to repurchase the equity of SA Taxi Finance (Pty) Limited and the sale of a property portfolio by Ellerines.

ABIL GROUP STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 31 March 2010

		Unaudited	Unaudited	Audited
		6 months to 31 March	6 months to 31 March	12 months to 30 September
R million	% change	2010	2009	2009
Profit for the period	(1)	948	958	1 855
Other comprehensive income after tax				
Exchange differences on translating foreign operations	(65)	(6)	(17)	(25)
Movement in cash flow hedge reserve	13	(87)	(77)	(18)
IFRS 2 reserve transactions (employee incentives)	>100	13	3	11
Shares purchased into the ABIL Employee Share Trust less shares issued to employees (cost)		1	0	0
ABIL Share Trust shares less dividends received	(100)	0	1	2

Other comprehensive income for the period	(12)	(79)	(90)	(30)
Total comprehensive income for the period	0	869	868	1 825

ABIL GROUP STATEMENT OF FINANCIAL POSITION

as at 31 March 2010

		Unaudited	Unaudited	Audited
		31 March	31 March	30 September
R million	% change	2010	2009	2009
Assets				
Short-term deposits and cash	>100	5 112	1 396	3 553
Statutory assets – bank and insurance	11	1 604	1 448	1 323
Inventories	2	777	764	859
Other assets	64	486	297	357
Taxation	>100	16	5	20
Net advances	18	22 599	19 133	20 486
Deferred tax asset	13	514	454	501
Assets held for sale	(98)	5	205	181
Policyholders` investments	(20)	16	20	15
Property and equipment	19	588	493	586
Intangible assets	(8)	870	942	906
Goodwill	0	5 472	5 472	5 472
Total assets	24	38 059	30 629	34 259
Liabilities and equity				
Short-term funding	(40)	2 716	4 491	3 108
Other liabilities	7	1 531	1 429	1 363
Taxation	31	97	74	77
Deferred tax liability	(12)	211	241	265
Liabilities held for sale	(100)	0	31	25
Life fund reserve	(17)	15	18	15
Bonds and other long-	68	18 575	11 063	14 705

term funding				
Subordinated bonds	>100	2 210	874	2 044
Total liabilities	39	25 355	18 221	21 602
Ordinary shareholders` equity	2	12 221	11 925	12 174
Preference shareholders` equity	0	483	483	483
Total equity (capital and reserves)	2	12 704	12 408	12 657
Total liabilities and equity	24	38 059	30 629	34 259

NOTES

1. Treasury shares		31 March 2010	30 September 2009	31 March 2009
Treasury shares at cost	R million	13	13	13
Number of shares held	million	0,5	0,5	0,5
Average cost per share	Rand	27,23	26,96	26,73

2. Number of ordinary shares at 31 March 2010	Total	Weighted	Diluted
Number of shares in issue at the beginning of the year	804 175 200	804 175 200	804 175 200
Treasury shares on hand	(477 415)	(482 041)	(482 041)
Dilution as a result of outstanding options	0	0	74 747
	803 697 785	803 693 159	803 767 906

ABIL GROUP STATEMENT OF CASH FLOWS

for the six months ended 31 March 2010

	Unaudited 6 months to 31 March	Unaudited 6 months to 31 March	Audited 12 months to 30 September
R million	2010	2009	2009
Cash generated from operations	3 079	3 271	6 026
Cash received from lending and insurance activities and cash reserves	7 811	7 478	14 756
Recoveries on advances previously written off	58	160	172
Cash paid to funders, staff, suppliers and insurance beneficiaries	(4 790)	(4 367)	(8 902)
Increase in gross advances	(3 626)	(4 333)	(6 918)
Decrease in working capital	(342)	(201)	(62)
Decrease/(increase) in inventories	82	3	(89)
Increase in other assets	(297)	(154)	(40)
Decrease in other liabilities	(127)	(50)	67
Indirect and direct taxation paid	(449)	(680)	(1 192)
Cash (outflow)/inflow from equity accounted incentive transactions	(2)	1	1
Cash outflow from operating activities	(1 340)	(1 942)	(2 145)
Cash outflow from investing activities	(178)	(273)	(399)
Acquisition of property and equipment (to maintain operations)	(106)	(108)	(289)
Disposal of property and equipment	196	21	18
Other investing activities	(268)	(186)	(128)
Cash inflow from financing	2 923	494	3 068

activities			
Cash inflow from funding activities	3 745	1 366	4 648
Preference shareholders` payments and transactions	(18)	(28)	(52)
Ordinary shareholders` payments and transactions	(804)	(844)	(1 528)
Increase/(decrease) in cash and cash equivalents	1 405	(1 721)	524
Cash and cash equivalents at the beginning of the period	3 996	3 472	3 472
Cash and cash equivalents at the end of the period	5 401	1 751	3 996
Made up as follows:			
Short-term deposits and cash	5 112	1 396	3 553
Statutory cash reserves – insurance	289	355	443
	5 401	1 751	3 996

ABIL GROUP SEGMENTAL ANALYSIS

for the six months ended 31 March 2010

Segment revenue

	Unaudited 6 months to 31 March	Unaudited 6 months to 31 March	Unaudited 12 months to 30 September
R million	2010	2009	2009
Banking unit	4 012	3 579	7 407
Ellerines Retail	2 518	2 474	4 513
Ellerines Financial Services	1 070	1 372	2 451
Consolidation adjustments	(51)	(10)	(39)
ABIL Consolidated	7 549	7 415	14 332

Intersegment revenues

	Unaudited 6 months to 31 March	Unaudited 6 months to 31 March	Unaudited 12 months to 30 September
R million	2010	2009	2009

Banking unit	44	1	21
Ellerines Retail	0	0	0
Ellerines Financial Services	7	9	18
Consolidation adjustments	0	0	0
ABIL Consolidated	51	10	39

Segment profit after taxation

R million	Unaudited 6 months to 31 March 2010	Unaudited 6 months to 31 March 2009	Unaudited 12 months to 30 September 2009
Banking unit	731	775	1 577
Ellerines Retail	148	(38)	(192)
Ellerines Financial Services	69	221	470
Consolidation adjustments	0	0	0
ABIL Consolidated	948	958	1 855

ABIL GROUP STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 March 2010

Ordinary shares

R million	Share capital and premium	Distributable reserves	Share-based payment reserve	Other
Balance at 30 September 2008	9 151	2 201	586	(9)
Dividends paid	0	(844)	0	0
Total comprehensive income for the period	0	931	3	(94)
Balance at 31 March 2009 (unaudited)	9 151	2 288	589	(103)
Dividends paid	0	(684)	0	0
Transfer to insurance contingency reserve	0	(42)	0	42
Total comprehensive income for the period	0	874	8	51

Balance at 30 September 2009 (audited)	9 151	2 436	597	(10)
Dividends paid	0	(804)	0	0
Total comprehensive income for the period	0	930	13	(92)
Balance at 31 March 2010 (unaudited)	9 151	2 562	610	(102)

R million	Preference share capital and premium	Total
Balance at 30 September 2008	483	12 412
Dividends paid	(28)	(872)
Total comprehensive income for the period	28	868
Balance at 31 March 2009 (unaudited)	483	12 408
Dividends paid	(24)	(708)
Transfer to insurance contingency reserve	0	0
Total comprehensive income for the period	24	957
Balance at 30 September 2009 (audited)	483	12 657
Dividends paid	(18)	(822)
Total comprehensive income for the period	18	869
Balance at 31 March 2010 (unaudited)	483	12 704

CASH DIVIDEND DECLARATION

Ordinary shares   Preference shares

Share code	ABL	ABLP
ISIN	ZAE000030060	ZAE000065215
Dividend number	19	11
Dividends per share (cash dividends)	85 cents	355 cents
Declaration date	Monday, 24 May 2010	Monday, 24 May 2010
Last date to trade cum dividend	Thursday,10 June 2010	Thursday, 10 June 2010
Shares commence trading ex dividend	Friday, 11 June 2010	Friday, 11 June 2010
Record date	Friday, 18 June 2010	Friday, 18 June 2010
Dividend payment date	Monday, 21 June 2010	Monday, 21 June 2010

Share certificates may not be dematerialised or rematerialised between Friday, 11 June 2010 and Friday, 18 June 2010, both days inclusive.

Share transfer secretaries

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Board of directors

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* Executive

Company Secretary

Y Mistry

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Sponsor

RAND MERCHANT BANK (A division of FirstRand Limited)

For a more detailed discussion of ABIL`s results and outlook for the remainder of 2010, please refer to the investor zone on our website, at http://www.abil.co.za

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