Trading update for the first quarter ended 31 December 2013
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")

AFRICAN BANK LIMITED
(Incorporated in the Republic of South Africa)
(Registered bank)
(Registration number 1975/002526/06)
Company code: BIABL
("African Bank")

Trading update for the first quarter ended 31 December 2013

ABIL issues quarterly updates in order to provide investors with timely insights into strategic and operational performance trends. These updates cover certain key disbursement and advances metrics.

The South African economy continues to prove increasingly challenging for consumers and consumer led demand businesses. The consolidated impact of the fuel price hikes, interest rate increases and food inflation against the backdrop of a weakened rand has and will continue to present challenges that the group needs to address.

This statement reflects the first quarter metrics performance against both the comparative period and the last quarter of the FY2013 in order to give a clearer perspective of the most recent trends in the group.

Banking Unit

	Unit	Change QoQ	Change YoY	Q1 2014	Q4 2013	Q1 2013
Disbursements	R' bn	11%	(25%)	5.56	5.02	7.43
Average loan size	R	(2%)	11%	13 559	13 845	12 203
Average loan term	months	(2%)	8%	53	54	49
Gross advances	R' bn	4%	7%	61.4	59.0	57.3

In line with our intentions, following our strategic initiatives implemented in FY2013, disbursements have declined on a year on year basis due to the application of more stringent credit granting criteria, an increased shift in focus to lower risk business and a difficult operating environment. Disbursements increased by 11% on a quarter on quarter basis due to the cyclical increase associated with the last quarter of the calendar year. Loan term and loan size increased on a year on year basis reflecting the move to lower risk customers. These figures have decreased marginally on a quarter on quarter basis, mainly as a result of shorter term prime loans offered to low risk customers, launched in October 2013 currently comprising 2% of disbursements.

The quality of new business written has improved, based on early performance indicators and vintage curves and our new pricing initiatives are positively impacting the incoming yield. Income yield after suspension of interest on affected non-performing loans (NPLs) continues to stabilise at FY2013 levels. While collections remain challenging, particularly over the December and January periods, the stabilizing trend over the last few months remains intact.

The impact of the business written pre-June 2013 (the month in which the group implemented drastic new tighter credit granting measures) continues to negatively impact NPL formation. This should be seen against the backdrop of NPLs typically peaking 8-9 months after the granting of the loan.

Consequently, NPL's as a percentage of gross advances and NPL provision coverage are slightly elevated from the levels reported as at September 2013, negatively impacting Q1 financial performance. The negative impact of the higher bad debt charge on the larger volume of business written pre-June 2013 will continue to outweigh the positive impact of the lower volume better quality business written after that date during the first half of FY2014. This is expected to reverse in the second half of FY2014, after the lower quality business moves through the peak risk emergence period.

The overall impact is likely to be a significant reduction in profitability for the first half of FY2014 compared to the restated first half earnings of R604m in FY2013, albeit a material improvement from the restated earnings for the second half of FY2013. For the reasons stated above we anticipate a recovery in profitability in the second half of FY2014.

Retail Unit

	Unit	Change QoQ	Change YoY	Q1 2014	Q4 2013	Q1 2013
Merchandise Sales	R' bn	40%	(21%)	1.18	0.84	1.48
Credit Sales	R' bn	51%	(32%)	0.67	0.44	0.99
Cash Sales	R' bn	28%	2%	0.51	0.40	0.49

The 21% decline in merchandise sales to R1.18 billion from R1.48 billion on a year on year basis was exacerbated by the group's stringent pull back in credit for retail customers. This pull back was implemented in order to stem credit losses, and has resulted in credit sales as a percentage of total sales decreasing to 57% from 67% on a year on year basis, while cash sales are marginally up at 2%. The gross margin as a percentage of retail sales has remained in line with FY2013.

The group is currently developing a revised value proposition to better balance credit risk with retail sales, aimed at improving the quality of credit granted and increasing merchandise sales on credit. The initiative is based on a better differentiation between the total value generated on a furniture credit transaction incorporating the merchandise sale and the credit granted. These changes will be positive for both the retail and the banking unit, even after a potential disposal of the retail unit.

The retail unit's profitability is also expected to be considerably lower for the first half of FY2014 in relation to the comparative period of the previous financial year.

Outlook for FY2014

The group currently anticipates that overall credit quality of the book will improve into the second half of FY2014, after the NPL formation of the pre June 2013 business is likely to have peaked and the new business features more prominently in the portfolio.

The increasingly tough economic environment will put further pressure on new business volumes and asset quality in both the banking and retail unit and we remain vigilant in our underwriting and collections processes. Operating costs also remain well under control as the group continues to focus on managing expenses.

Our strategic actions have placed the business on a more stable, sustainable and sound footing and the recent rights issue has significantly strengthened the balance sheet, with the group Tier 1 ratio at 24.9% as at 31 December 2013, compared to 15.1% as at 30 September 2013. The rights issue has also bolstered the group liquidity position providing significant comfort to our funding partners. Although funding market conditions both locally and globally remain challenging, it is not anticipated that the overall cost of funding for the current year will be significantly increased. We are actively and constructively engaged with regulators and believe that the on-going regulatory reviews will deliver results to ensure and promote a healthier retail credit industry that balances value to customers and returns for shareholders.

We remain focussed on improving profitability in Ellerine Holdings Limited (EHL) and will announce the appointment of a replacement CEO within the next few weeks. Initiatives to improve efficiencies, including cost saving and those described above, are continuing. A drive to increase African Bank's presence in EHL is being stepped up as we aim to maximize value through the retailers' extensive distribution network, while better balancing risk and return in the credit granted through that network.

ABIL group CEO Leon Kirkinis stated, "The group has emerged in a stronger position from an extremely challenging year and has now entered a new chapter in its history. Our strategic actions undertaken in 2013, and the improvement in the quality of new business written, are expected to produce improved results in the second half of FY2014. ABIL and its people are refocused and reenergized, committed to its purpose of improving the lives of millions of ordinary South Africans by providing access to affordable financial services and responsible credit, while providing attractive shareholder returns in the medium to longer term in a challenging market."

The information provided in this update has not been reviewed and reported on by ABIL's external auditors.

Website disclosure	The quarterly operational update will be released on SENS and simultaneously published on www.abil.co.za on Wednesday, 5th February 2014 at 08:45. A presentation will be available on the ABIL website at 13:00.

Conference call	Access numbers for participants dialling from their country:		
	(16:00 SA time)		
	Live call South Africa & Other Toll 011 535 3600	48 hour playback South Africa & Other 011 305 2030	Code 28767#
	USA Toll-free 1 855 481 5362	USA 1 855 481 5363	
	UK Toll-free 0 808 162 4061	UK 0 808 234 6771	

Queries: Investor Relations on 27 11 564 7495 or investor.relations@africanbank.co.za

On behalf of the board

Midrand

5 February 2014

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