



 **African Bank**
INVESTMENTS LIMITED

1st Quarter update
for the year 2014

Our purpose



Our purpose is to impact positively on people’s lives through the provision of credit led, risk based financial services. We help our customers to affordably meet their needs, achieve their dreams, and manage the unanticipated financial events that occur through life.

We achieve this purpose by actively engaging with our people and through them, with our customers.

Operating, competitive and regulatory environment

▶ Operating environment

- › Challenging macroeconomic environment, on a country and industry level.
- › Fuel price increases, food inflation and interest rate increases against a backdrop of rand weakness, continue to impact consumer led businesses negatively.
- › For ABIL this is negatively impacting loan origination volumes and collections in the banking unit and merchandise sales for the retail unit remain under pressure.
- › However, the indicators for business written post the drastic cut back in risk, continue to show significantly improved early stage risk emergence.
- › An increasing interest rate environment increases the yield on the variable rate credit card portfolio, and enables ABIL to re-price new business. This must be viewed in the context of decreasing disposable real incomes, should rates increase considerably.
- › We are seeing a stabilisation in our customers total instalment to net income stabilising throughout 2013 , compared to the increasing trend we saw through 2012.

▶ Competitive environment

- › The unsecured lending slowdown continues as the major banks and other players pull back.
- › The sector disbursement growth has been negative 19.5% y-o-y as at Q3 2013, reducing to R 20 billion from R 26 billion in Q3 2012.
- › Disbursements in ABIL have also slowed over the same period, reducing by 25% on a year on year basis, reflecting an earlier risk pull back compared to the industry.
- › The slowdown in credit granting has negatively impacted merchandise sales in EHL.

▶ Regulatory Environment

- › Active and constructive engagement with regulators, with expected changes leading to a healthier retail credit industry.
- › Balancing value to customers with shareholder returns.

Disbursements have declined, as expected, resulting in slower gross advances growth

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

The year-on-year decline in disbursements is due to:

- More stringent credit granting criteria
- Focus on lower risk business
- Prevailing challenging operating environment.

This has resulted in an increase in loan size and lengthening of term (year-on-year) – lower risk customers qualify for larger and longer term loans.

Quarter-on-quarter, loan size and term have decreased following the successful introduction of prime loans, capped at R 20,000 over 2 years, to low risk customers ($\pm 2\%$ of disbursements).

Merchandise sales continues to slow

Retail Unit		Change QoQ (%)	Change YoY (%)	Q1 2014	Q4 2013	Q1 2013
Merchandise Sales	R million	40%	(21%)	1 175	839	1 484
Credit Sales	R million	51%	(32%)	669	444	990
Cash Sales	R million	28%	2%	506	395	494

The year-on-year decline in merchandise sales is due to:

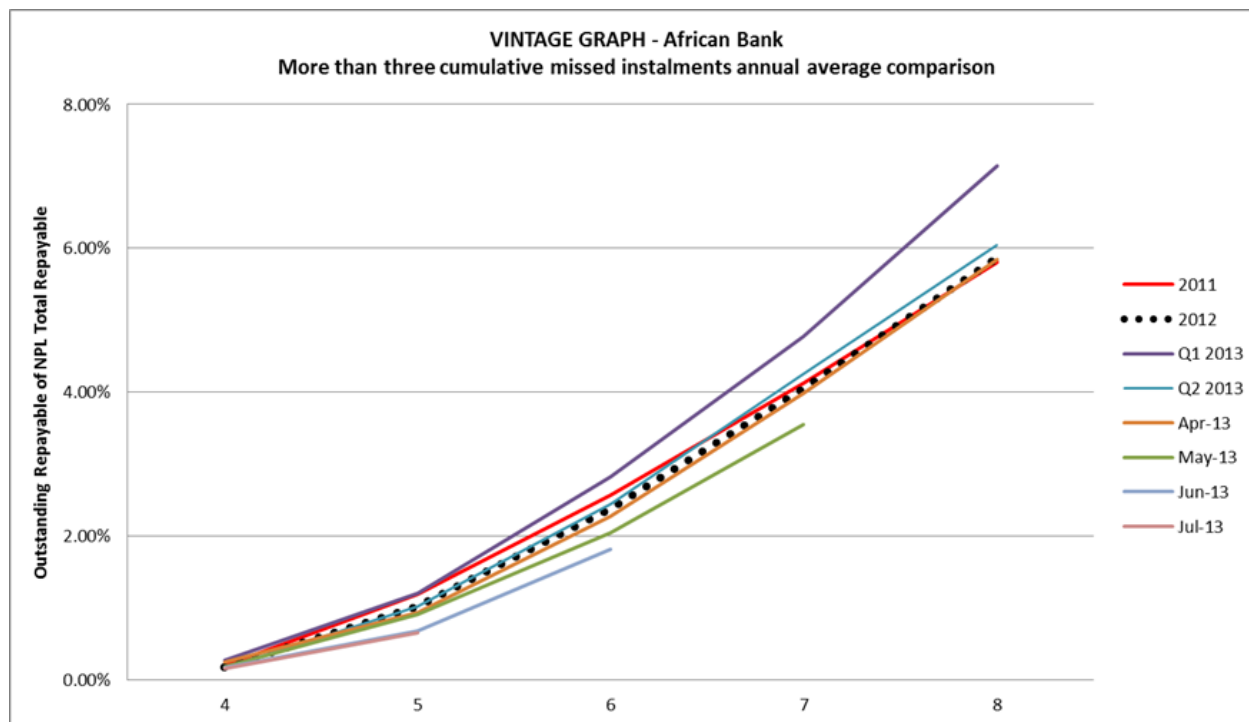
- More stringent credit granting criteria
- Focus on lower risk business
- Prevailing retail sector challenges, further worsened by the deliberate cut back in EHL.

The quarter-on-quarter increase in merchandise sales is a function of seasonality.

The impact of improving the risk yield relationship

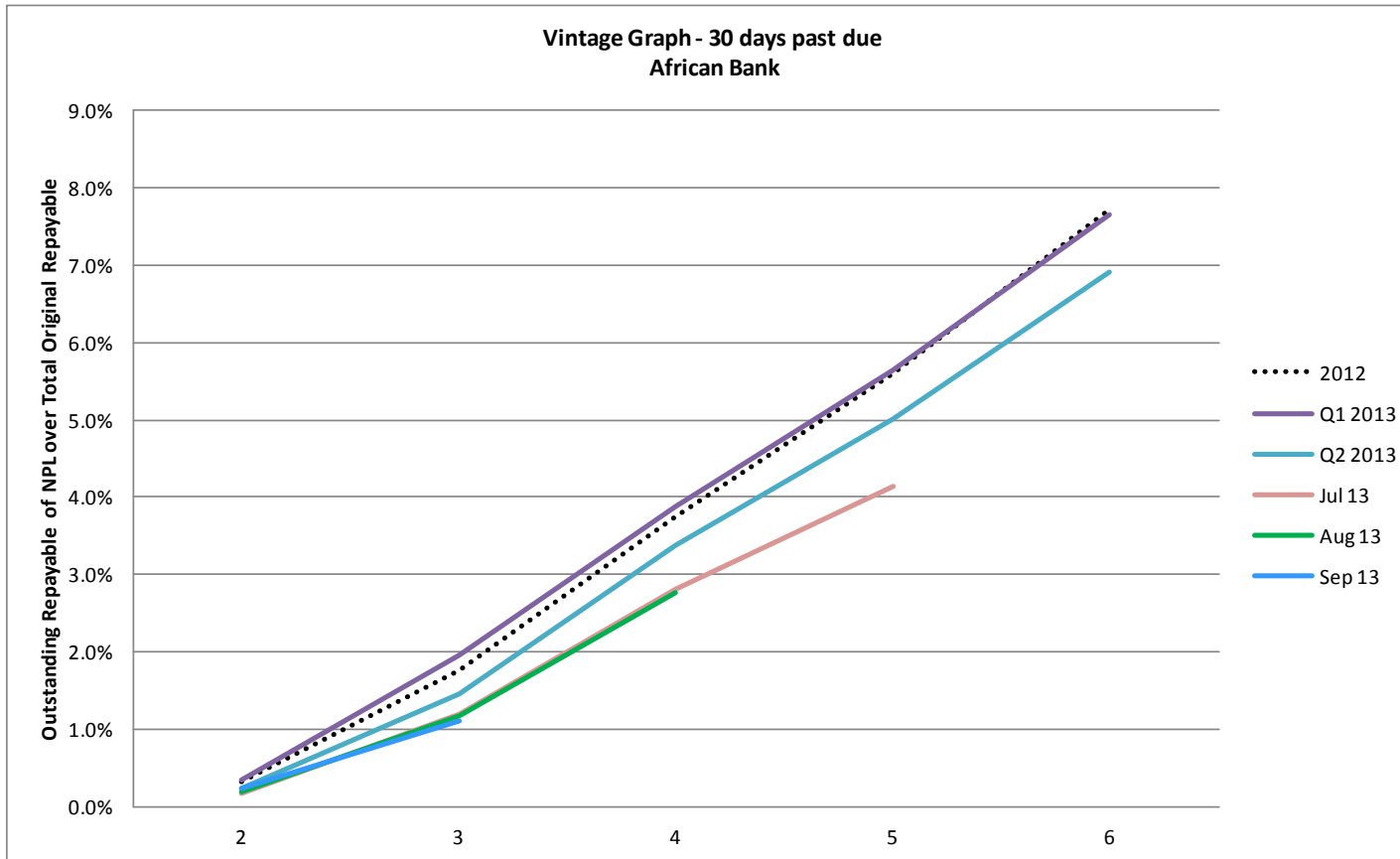
- ▶ In the trading update issued on 5 August 2013, ABIL reported that it had implemented a strategic initiative that was aimed at restoring the risk yield relationship on new business.
- ▶ This centred on far reaching capital and pricing changes impacting the higher risk groups in its customer base, resulting in smaller loan sizes and terms, increasing yield and increasing affordability through smaller instalments.
- ▶ This has resulted in a continuing shift in new business towards lower risk groups, and overall decreased disbursements, the latter also impacted by the current economic climate.
- ▶ The group has previously reported positive early risk emergence in these tranches of business written. This is evidenced in the subsequent graphical slides:
 - › Business written subsequent to the risk pull back is showing risk emergence trends better than business written in 2011.
 - › Business written at the peak of the cycle continues to show poor results off a high volume of business and will continue to negatively impact results.
 - › This trend is evident on both a 3 month and 30 day vintage analysis.
- ▶ Note that these graphs represent business originated through African Bank channels and exclude EHL furniture credit, which is still displaying poorer risk emergence as reported at year end, and credit card risk emergence which continues at the lower end of experience, after the risk pullback of 2011/12 in that portfolio.

Vintage graph – Greater than 3 missed instalments



- ▶ NPL formation on business written post strategic actions is showing positive results.
- ▶ The significant impact of the high volume poor quality business written in Q1 2013 (October to December 2012) is shown in the top line.
- ▶ Business written in the subsequent quarter (Q2 2013, covering January to March 2013) while showing better risk experience is still higher than historic norms.
- ▶ Business written subsequent to the risk pull back is showing risk emergence trends better than business written in 2011.

Vintage graph – 30 day view



- ▶ The positive risk emergence trend is also evident in the 30 day vintages.
- ▶ Latest vintages represent significantly improved risk experience compared to prior business

New business in line with improved Value Proposition

- ▶ Continual improvement in our customer value proposition saw the launch and roll out of new products
 - › Insurance
 - › Retail deposits in our branch network
 - › Prime linked deposit
 - › Platinum card
 - › Prime loan.
- ▶ Retail deposits now total over R 100 million.
- ▶ During Q1 2014 a focus on our new product lines resulted in
 - › Prime loan disbursements amounted to over R100m
 - › Platinum cards issued totalled nearly 3,000 with over R 100 million in limits being issued
 - › The sale of 40,000 funeral insurance policies.



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EHL Update

- ▶ ABIL remains focussed on improving profitability in EHL.
- ▶ Appointment of replacement CEO will be announced shortly.
- ▶ Initiatives to improve cost efficiencies continue.
- ▶ Developing a revised value proposition, to improve quality of credit granted and increase merchandise sales on credit.
- ▶ African Banks presence in EHL is being stepped up to maximise value through the utilisation of the extensive distribution network.
- ▶ Changes expected to serve business well both as part of the ABIL group and after a potential disposal.

The balance sheet strengthened

Capital, Funding and Liquidity Management

- ▶ R5.5 billion rights issue was successfully concluded early December with a 98% take up, and significant oversubscription for the remaining 2%.
- ▶ The Tier 1 capital adequacy is 24.9% as at 31 December 2013, compared to 15.1% as at September 2013.
- ▶ The rights issue bolstered the group liquidity position providing significant comfort to our funding partners.
- ▶ Funding market conditions are challenging, but we do not expect a significant increase in the cost of funding for 2014.

The outlook and 2014 expectation

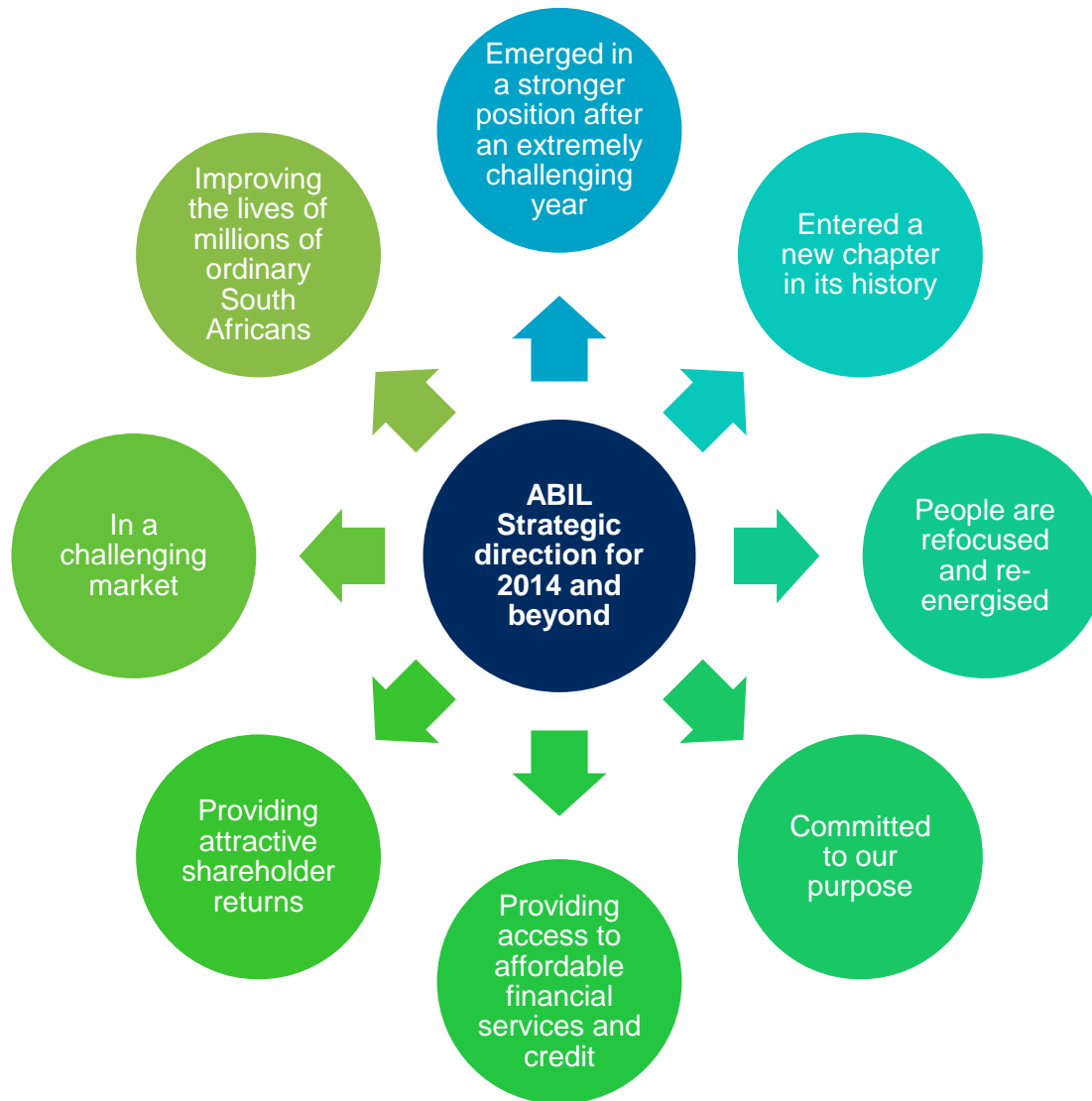
Banking Unit

- ▶ Overall credit quality of book expected to improve during H2 2014.
 - › During H1 2014 we expect the impact of NPL formation and resultant bad debt charge of business written pre June 2013 to outweigh the positive impact of the lower volume business written subsequent to the restoration of the risk yield relationship.
 - › This dynamic is expected to reverse during the H2 2014.
- ▶ H1 earnings will be lower than the R604m (restated) H12013 with an improvement by year end.

Retail Unit

- ▶ Overall conditions remain extremely challenging in this business.
- ▶ Operational changes being implemented will take time to yield results.
- ▶ Retail profitability also expected to be lower than the R 4 m (restated) H1 2013, without an improvement by year end.

The big picture





Questions?