



**UNAUDITED INTERIM
RESULTS PRESENTATION**

for the six months ended
31 March 2014

Our purpose

Our purpose is to impact positively on people's lives through the provision of credit-led, risk-based financial services. We assist 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.



Key themes

- **Continued heightened risk emergence in a challenging consumer environment**
 - Elevated NPL formation from pre-July 2013 sales
 - Compression of yield through lower sales and higher NPLs
 - Pressure on collections, particularly on higher NPL portfolios
 - Required higher coverage including a higher general provision
- **Retail business continues to operate under stress**

This resulted in a decision to raise a general credit impairment provision of R2,5 billion in the bank and to write-off of remaining goodwill, trademarks and deferred tax assets

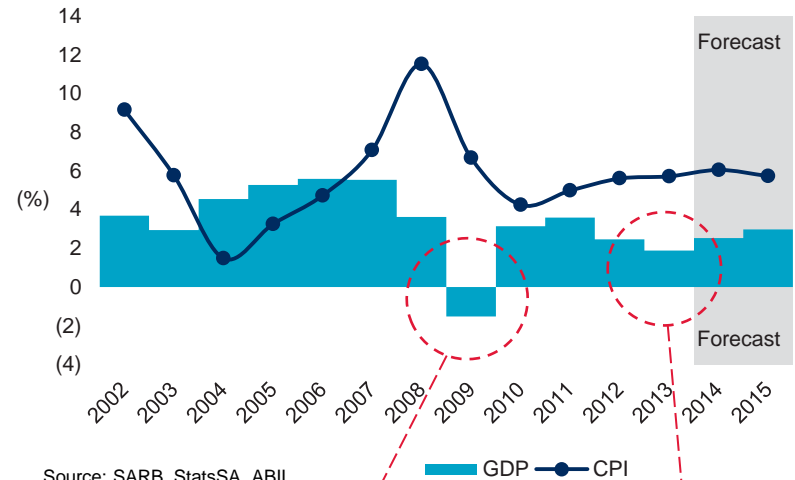
- **Better positioned with a cleaner balance sheet**
 - **Will need to focus on capital to achieve medium-term internal minimum levels**
 - **New business at lower volumes continues to perform in line with expectations**
 - **Revision of strategy to position the business through the expected tough period and return to acceptable risk-adjusted returns**
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Weak economic conditions to remain in the near term

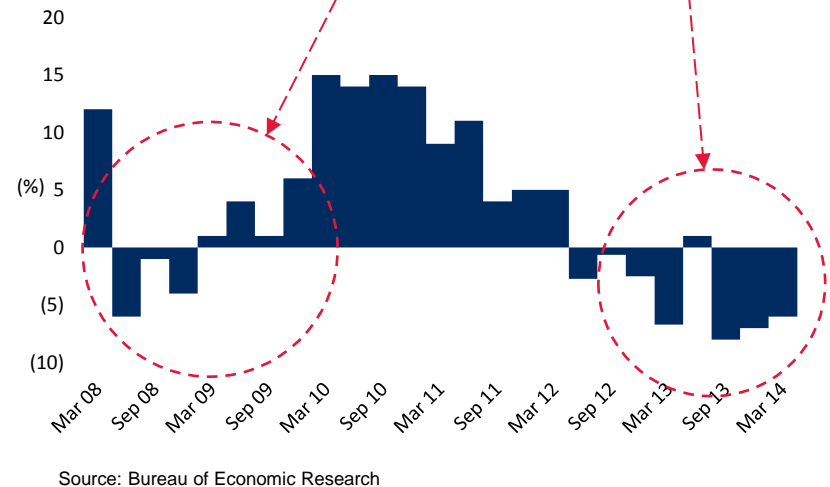
The economy, and unsecured lending in general, is at cyclical lows, this has and will continue to impact on customers – both in terms of asset quality and lending volumes.

- GDP is expected to grow, but slowly.
- CPI is expected to remain at the upper end of the Reserve Bank's target range.
- Our customers' disposable income continues to be eroded.
- Consumer confidence remains particularly low (below level experienced during 2008/9 financial crisis).

Economic conditions remain weak



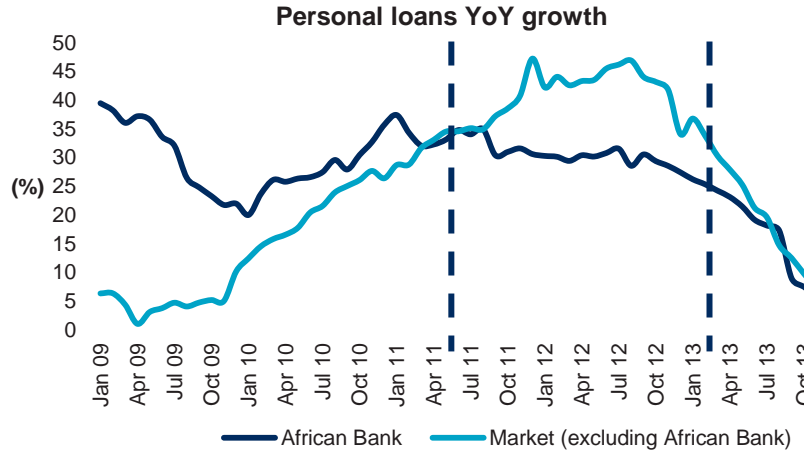
The BER consumer confidence index



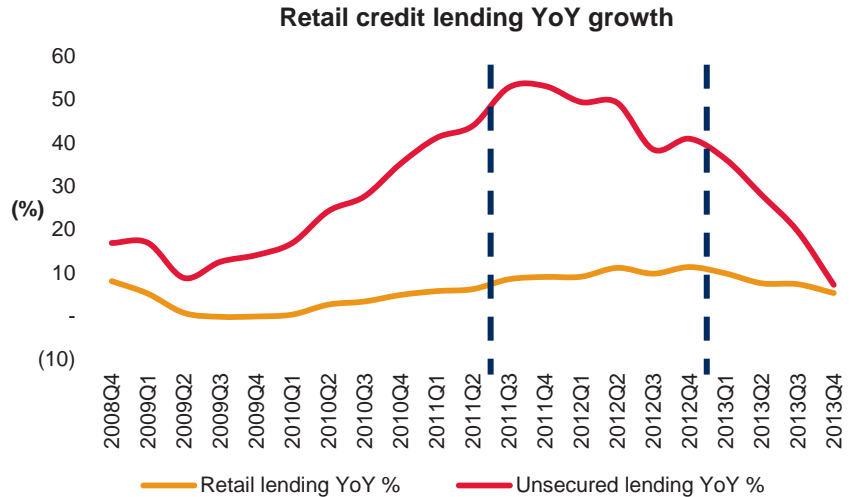
Lower (but more sustainable) growth in the unsecured lending industry

African Bank and the unsecured lending industry has seen a sharp pullback in growth rates from a peak in August 2012.

- African Bank implemented an initial cut back in December 2012 and a new sales incentive scheme focussed on quality in March 2013.
- In July 2013 African Bank implemented a new underwriting model based on a reduced risk appetite.
- During this period the market also tightened lending criteria.
- As a result, growth in unsecured lending is now in line with the growth in the overall retail lending industry.
- We see this as a huge positive in terms of the overall sustainability of the industry.



Source: BA900 returns
The acquisition of EHL has been excluded from African Bank YoY growth for the period between September 2010 and August 2011



Source: National Credit Regulator

ABIL's 5 point strategy

Rebase the business

- Decrease the unsustainably high risk charge, through better credit underwriting, better collections and making the right sales
- Focus on costs
- To ensure business transitions to its new form supported by the right balance sheet structure
- Decreased maximum loan term from 84 months to 60 months effective 9 May 2014

Strengthen the core

- Continue development of customer life cycle journey (loans, insurance ,savings)
- Further development of credit card product as a bundled offering
- Distribution channels – physical and virtual

Regulatory and stakeholder management

- Market conduct – dti, NCR
- Prudential – SARB, FSB
- Shareholders
- Funders

Invent the new

- Refine the customer value proposition & product offering balancing risk/reward relationship
- Funeral product
- Savings and Investments

EHL

- Continue to work on disposal, while returning the business to profitability
- New CEO implemented a turnaround strategy to return the business to profitability

Medium-term financial target: risk / yield relationship < 40%

Group results

			Unaudited for the six months ended 31 March 2014	Restated for the six months ended 31 March 2013*
		% change		
Earnings before adjustments	R million	(>100)	8	604
Headline (loss)/earnings	R million	(>100)	(3 123)	604
Banking unit	R million	(>100)	(1 939)	604
Retail unit	R million	(>100)	(1 186)	4
Consolidation adjustments	R million		2	(4)
HEPS	cents	(>100)	(240,7)	62,3 [#]
Dividend per share	cents	(100)	0	25
TNAV per share	cents	(28)	623	870 [#]
Total risk charge	%		28,5	16,8
Credit impairment charge	%		26,3	13,5
Claims paid	%		2,2	3,2
Capital adequacy (%)			ABIL African Bank	ABIL African Bank
Tier 1 capital adequacy	%		17,7 19,0	19,9 19,5
Total capital adequacy	%		25,2 26,4	27,6 27,6

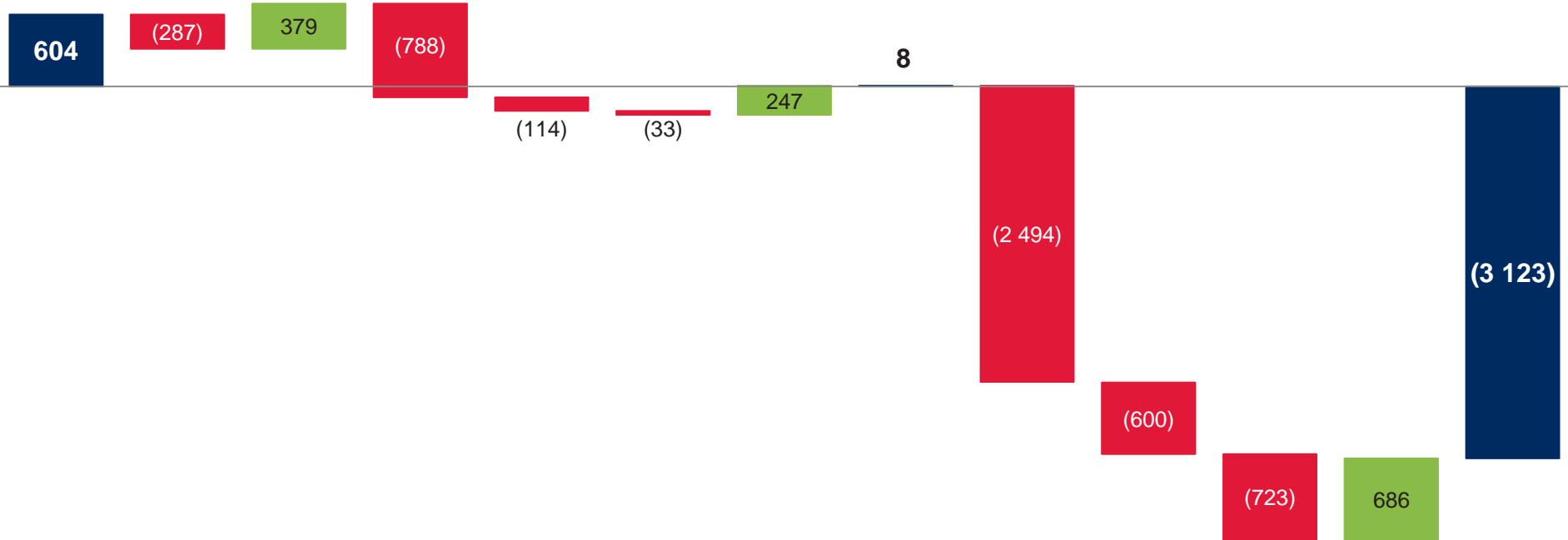
*With the exception of capital adequacy numbers, these were restated.

[#]Adjusted for effect of rights issue



Unpacking the group's performance

Change in headline earnings/(loss)
(R million)



Headline earnings March 2013	Gross margin on retail business	Income from loans	Expected credit impairment charge and insurance claims	Interest expense and other interest income	Operating costs	Taxation	Earnings before adjustments	Increase in general provisions	Increase in specific impairments	Deferred tax asset write-down	Taxation	Headline earnings March 2014
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Unpacking the impact of the material adjustments

We recognise the severity, and take responsibility for our role in these results.

- **Banking unit:** general provision for credit impairments relating to performing loans increased by R2,5 billion.
 - NPL formation for the poorer quality business written pre July 2013 remains at an elevated level.
 - The R2,5 billion general provision effectively accelerates the provisions for the pre July 2013 business and its future above normal NPL formation.
 - By doing this the business' future results should be, to an extent, immunised from the impact of any abnormal NPL formation due to loans written pre July 2013.
- **Retail unit:** ceased raising any further deferred tax on losses within this unit and the opening balance of deferred tax assets of R723 million has been impaired.
 - The decision was taken in light of the continued operating losses generated.
 - The deferred tax asset will only be recognised in the future once the business is profitable.
 - A R100 million provision (before tax) for discontinued, phased-out and damaged inventories.
 - Further decisions impacting **basic earnings**:
 - Write off the residual Retail unit goodwill of R831 million.
 - Trademarks were impaired by R582 million in light of continued operating losses.

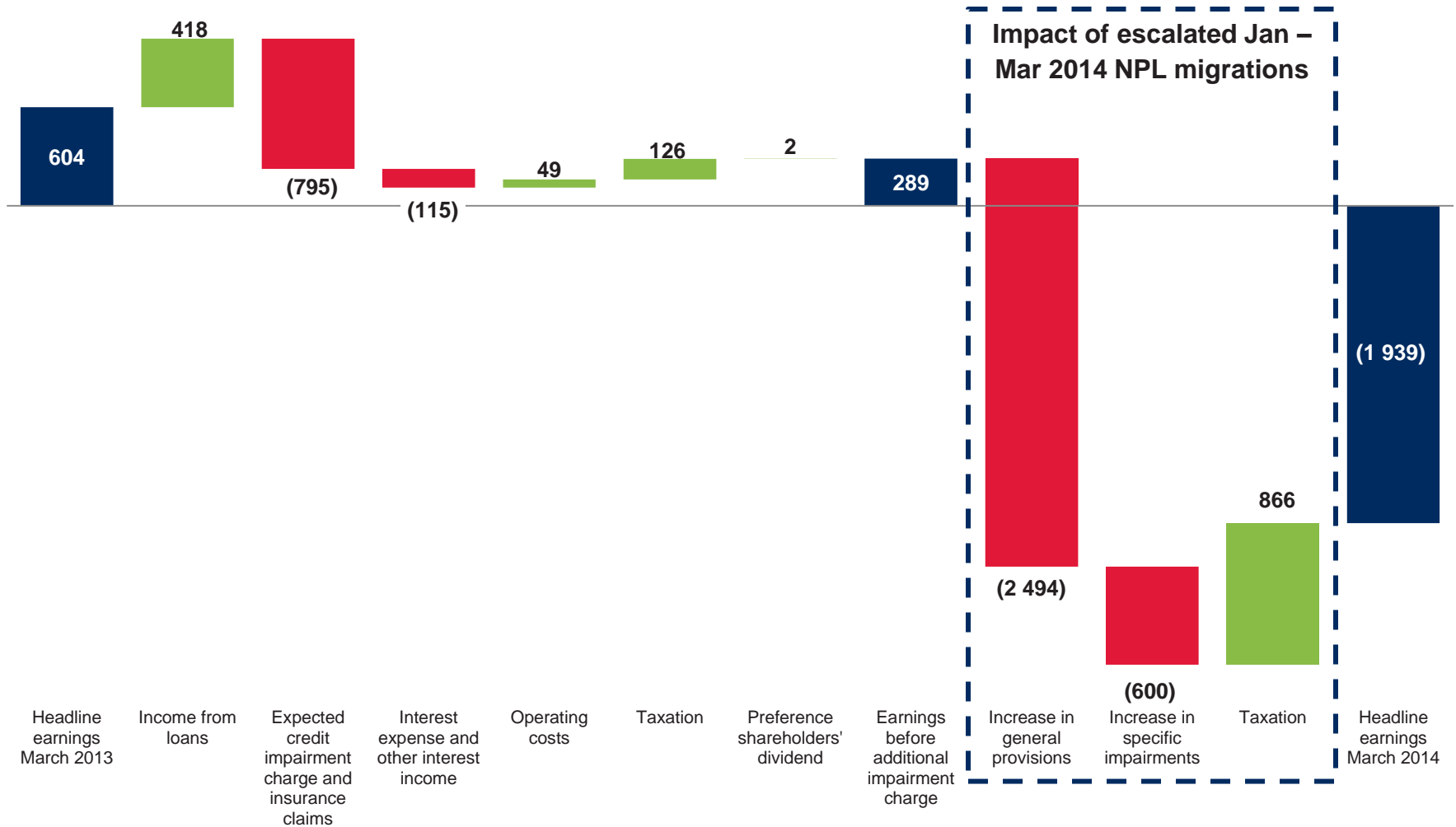
The Banking unit

		% change	Unaudited for the six months ended 31 March 2014	Restated for the six months ended 31 March 2013
Earnings before additional impairment charge	R million	(52)	289	604
Headline (loss)/earnings	R million	(>100)	(1 939)	604
Gross advances	R million	5	61 623	58 799
Yield	%		32,2	32,8
Total risk charge	%		28,5	16,8
Credit impairment charge	%		26,3	13,5
Base impairment charge	%		16,1	13,5
Impact of additional specific and general impairments	%		10,2	0,0
Claims paid	%		2,3	3,2
NPL Coverage	%		82,9	68,6
Written off book	cents/R		5,9	10,2
Total disbursements	R million	(21)	9 855	12 542
Average net loan size (current sales)*	Rand	8	13 868	12 817
Average gross loans size (current sales)	Rand	5	20 346	19 429
Average term (current sales)	Months	10	54	49

*Net loan size includes external debt settlements but excludes any internal settlements.

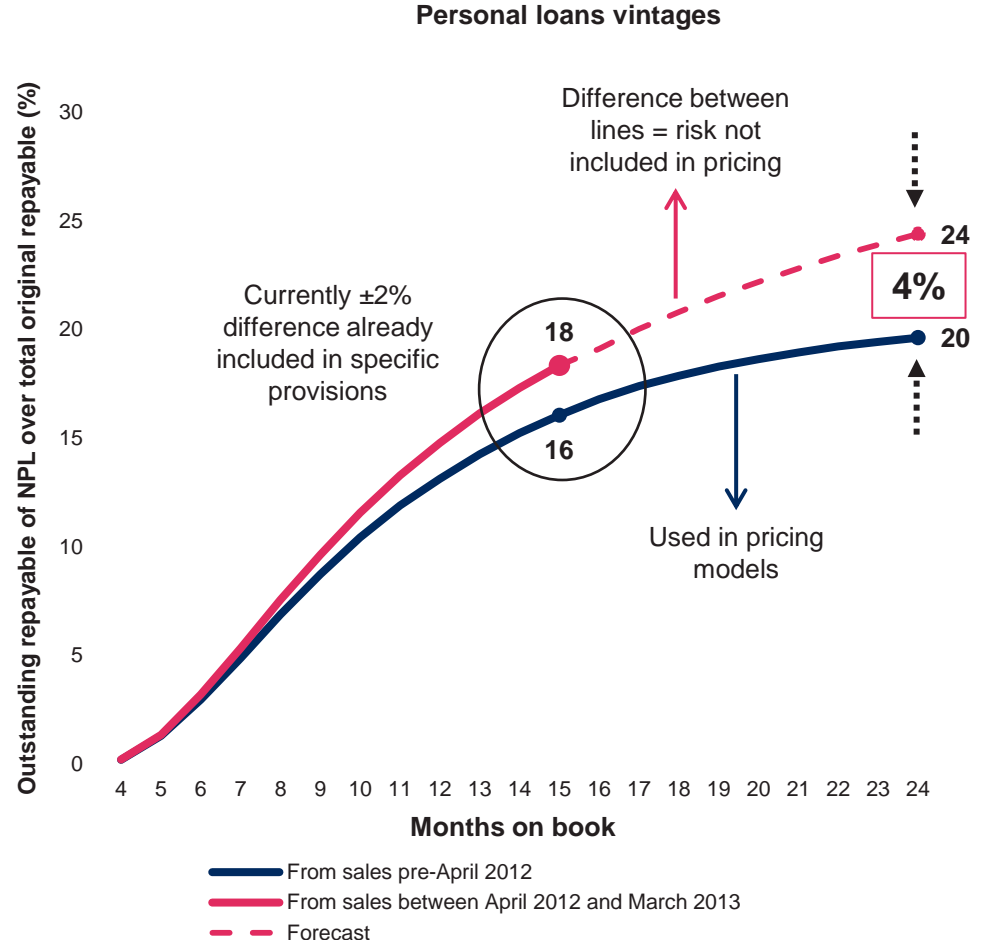
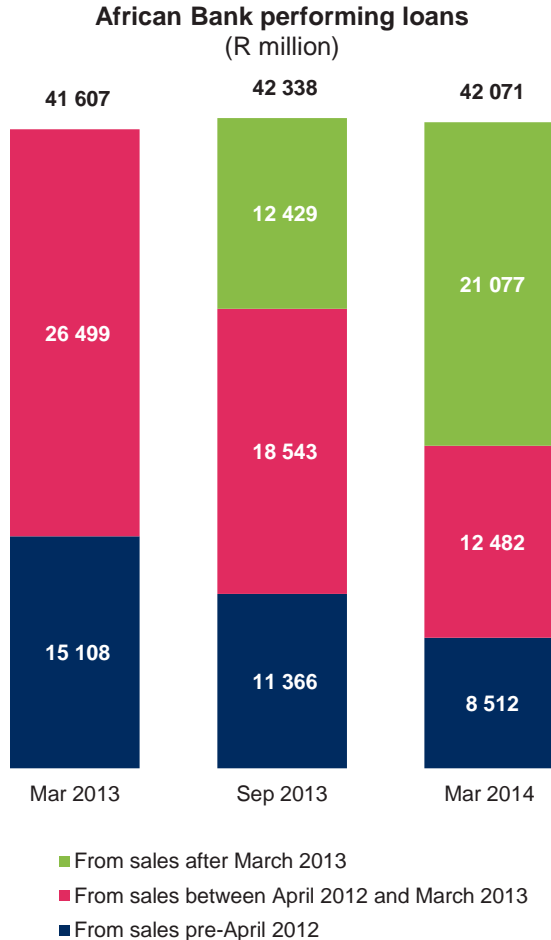
Unpacking the Banking unit's performance

Change in headline earnings/(loss)
R million



Portion of increased general provisions used to cover pre July 2013 business

- Used April 2012 – March 2013 for this analysis as it contained the highest vintages for this period

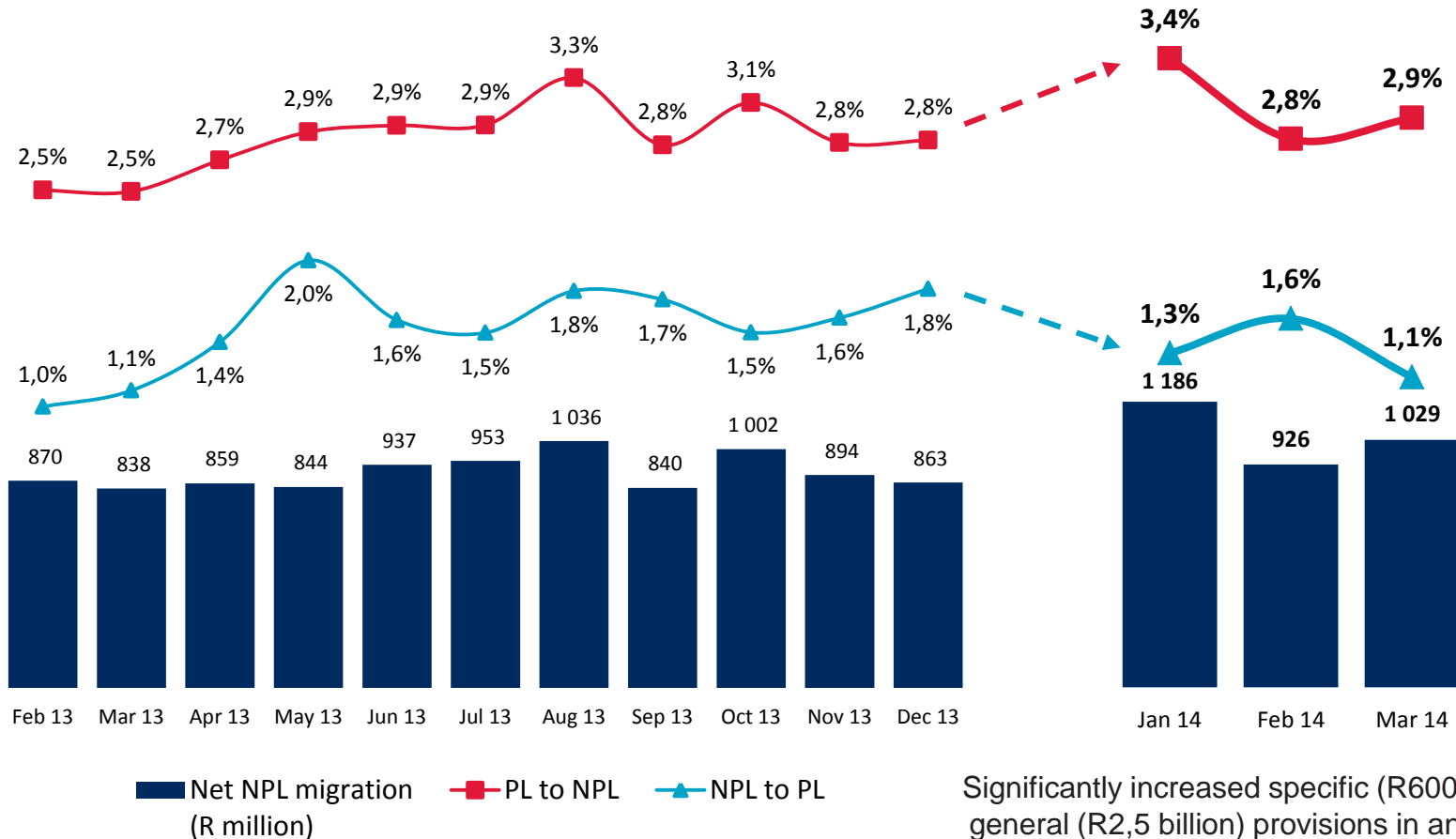


An additional 4% of the original total repayable* (R50 billion) from sales between April 2012 and March 2013, this represents the future cash value at risk. The R2,5 billion general provision raised is to address this unexpected loss together with potential lower collections.

*Original total repayable = instalment amount multiplied by number of instalments.

Increase in net NPL migrations

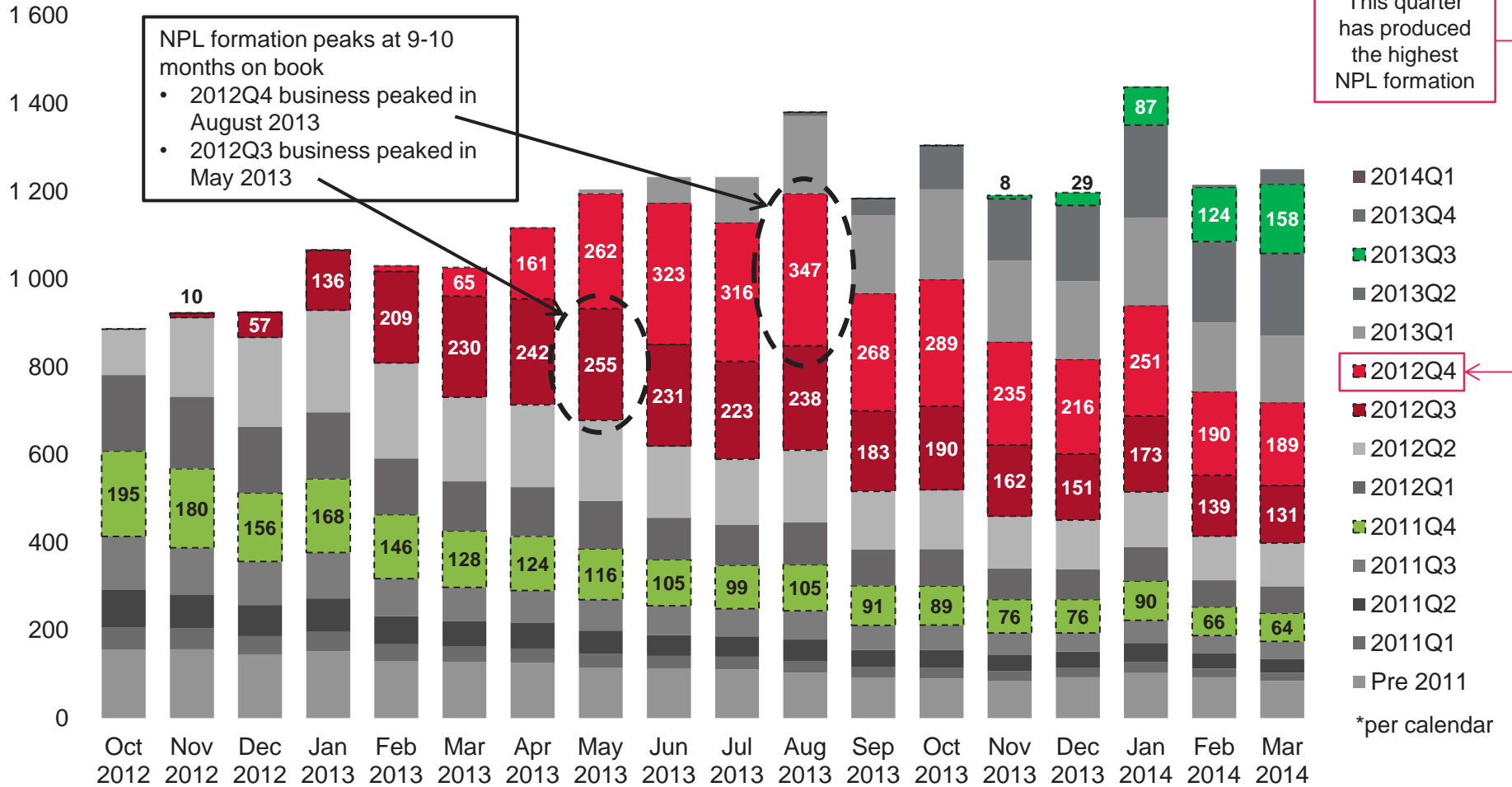
Net NPL migration



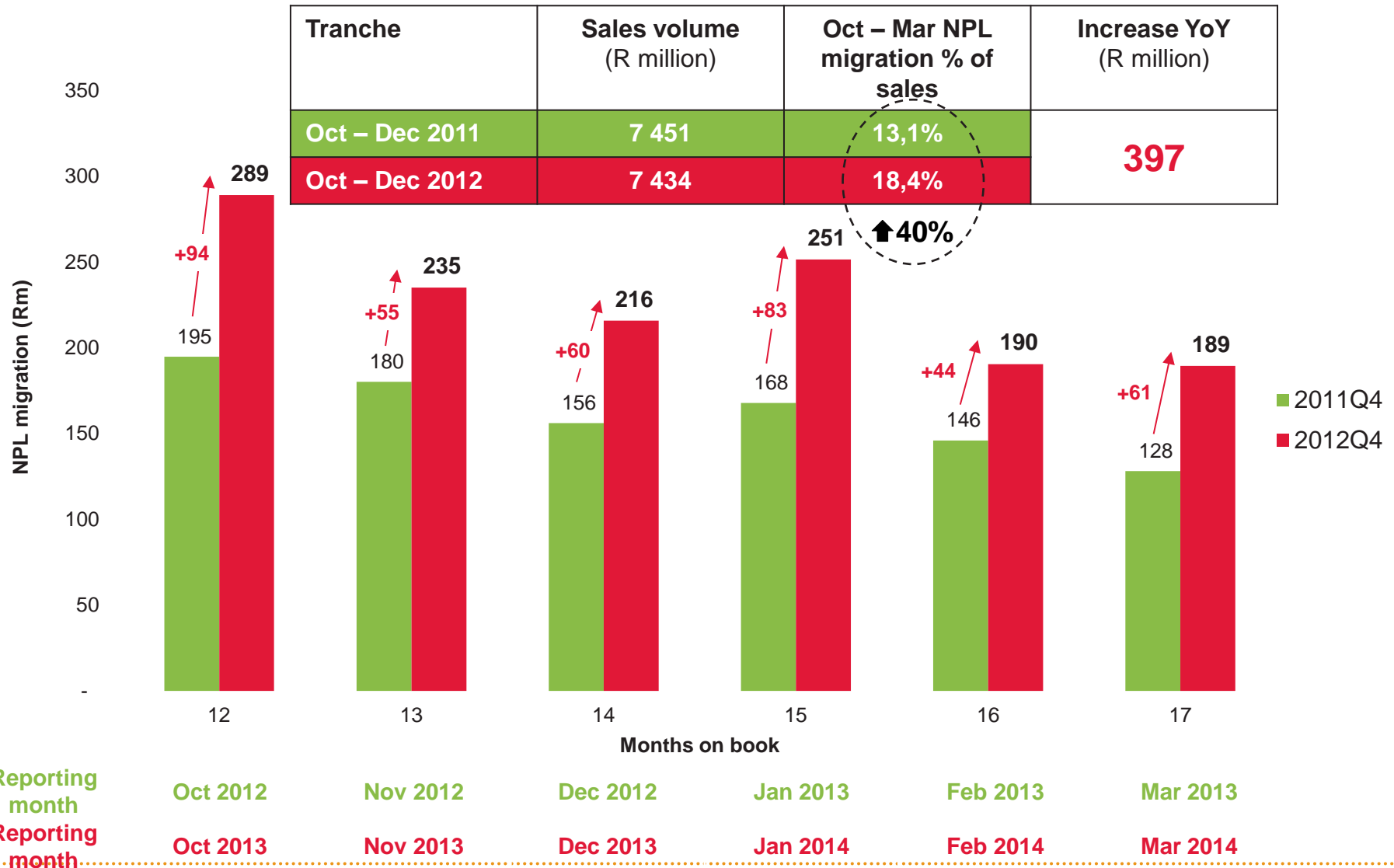
Significantly increased specific (R600 million) and general (R2,5 billion) provisions in anticipation of continued elevated net NPL migrations

NPL formation escalation predominantly due to 2012 business

Gross NPL formation split by quarterly tranche of business (R million)

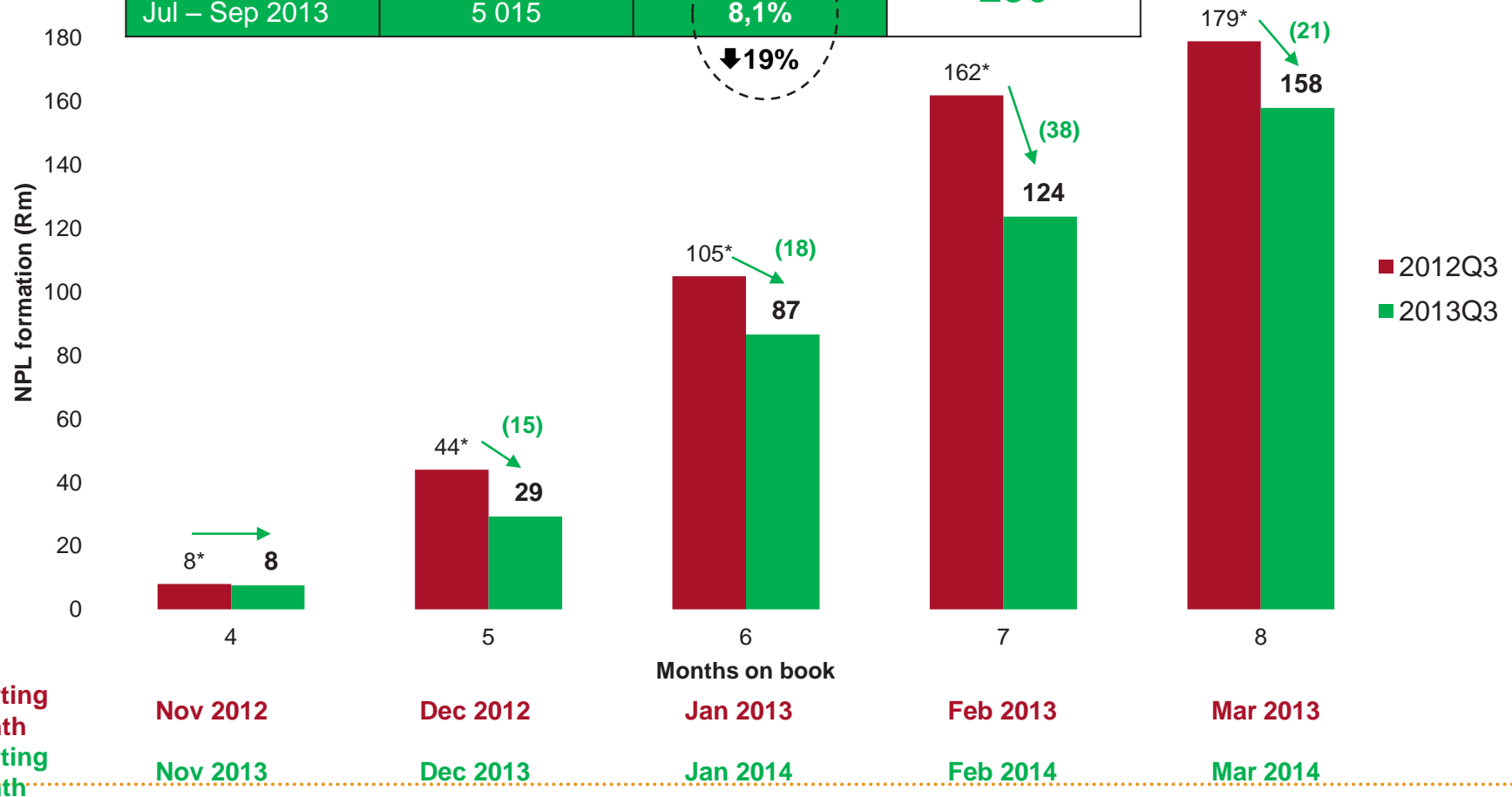


Oct – Dec 2012 business has had a disproportionate negative impact on NPL formation and risk charge



Post-July 2013 business is performing well but at lower sales volumes

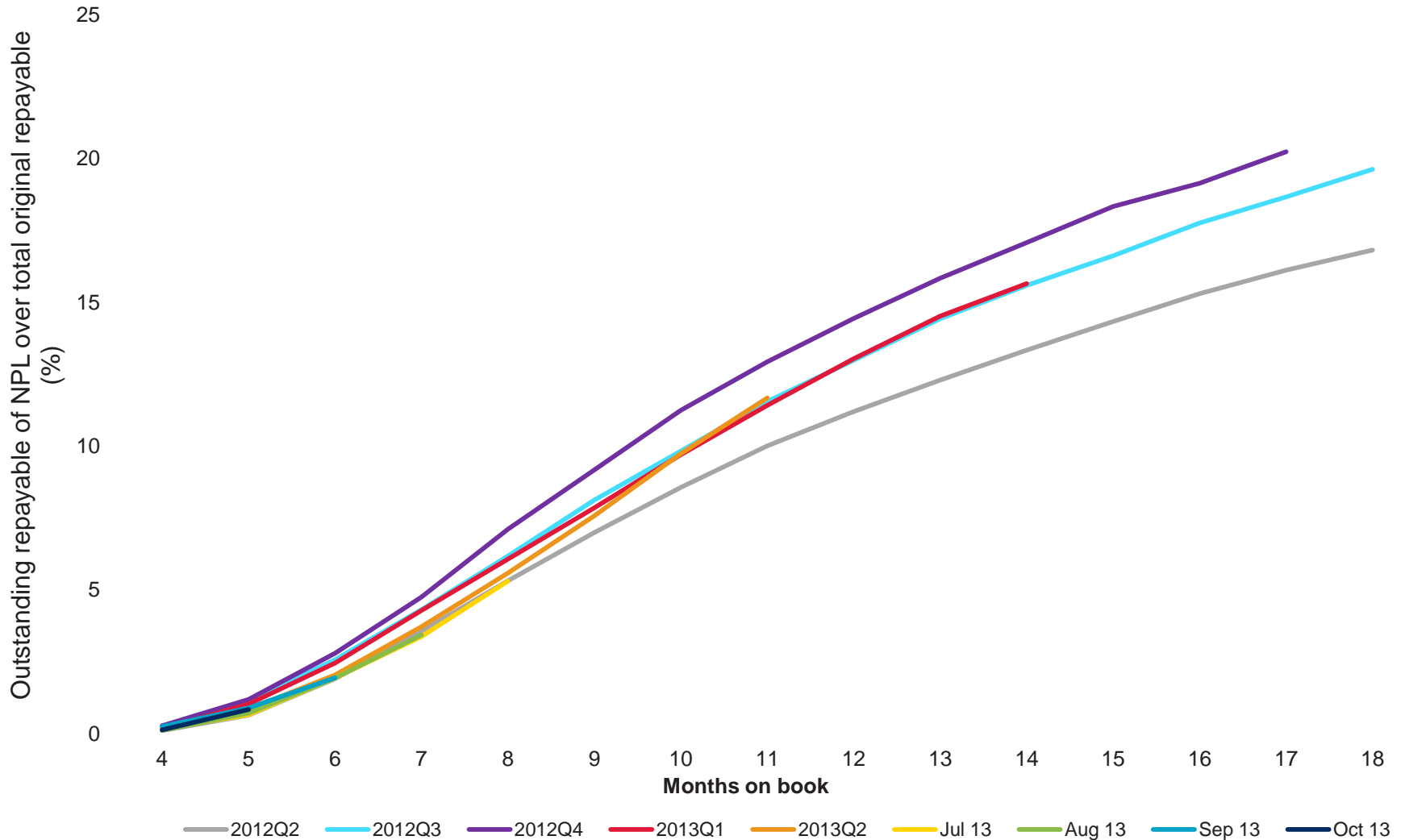
Tranche	Sales volume (R million)	Nov – Mar NPL migration % of sales	Decrease YoY (R million)
Jul – Sep 2012	6 449	10,0%	236
Jul – Sep 2013	5 015	8,1%	



*After normalising for differential in sales from R6 449 million to R5 015 million

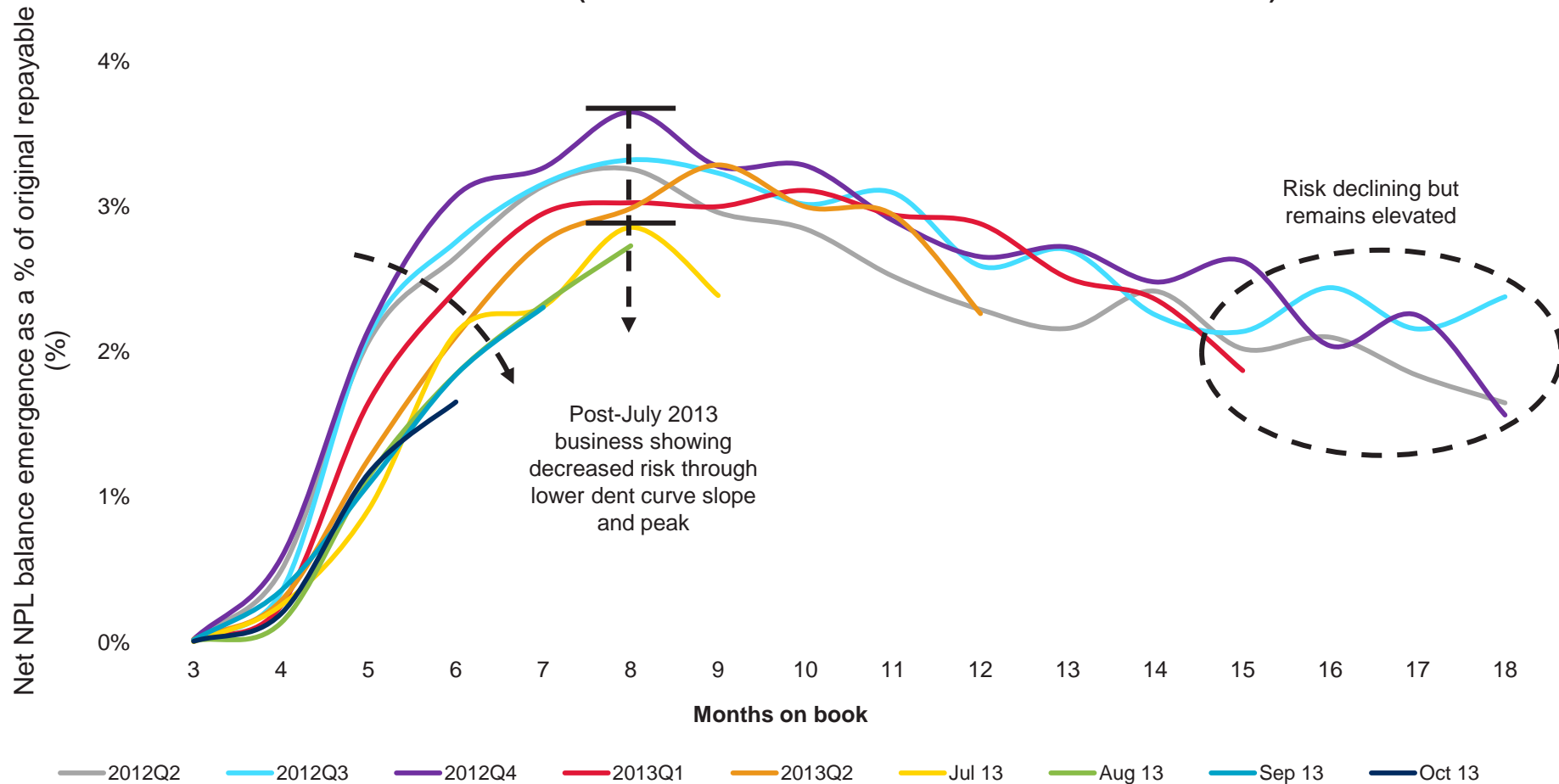
Post-July 2013 cumulative vintages improving following reduction in risk appetite

Vintage graph – African Bank (more than three cumulative missed instalments in arrears)



Post-July 2013 vintages showing delta having peaked

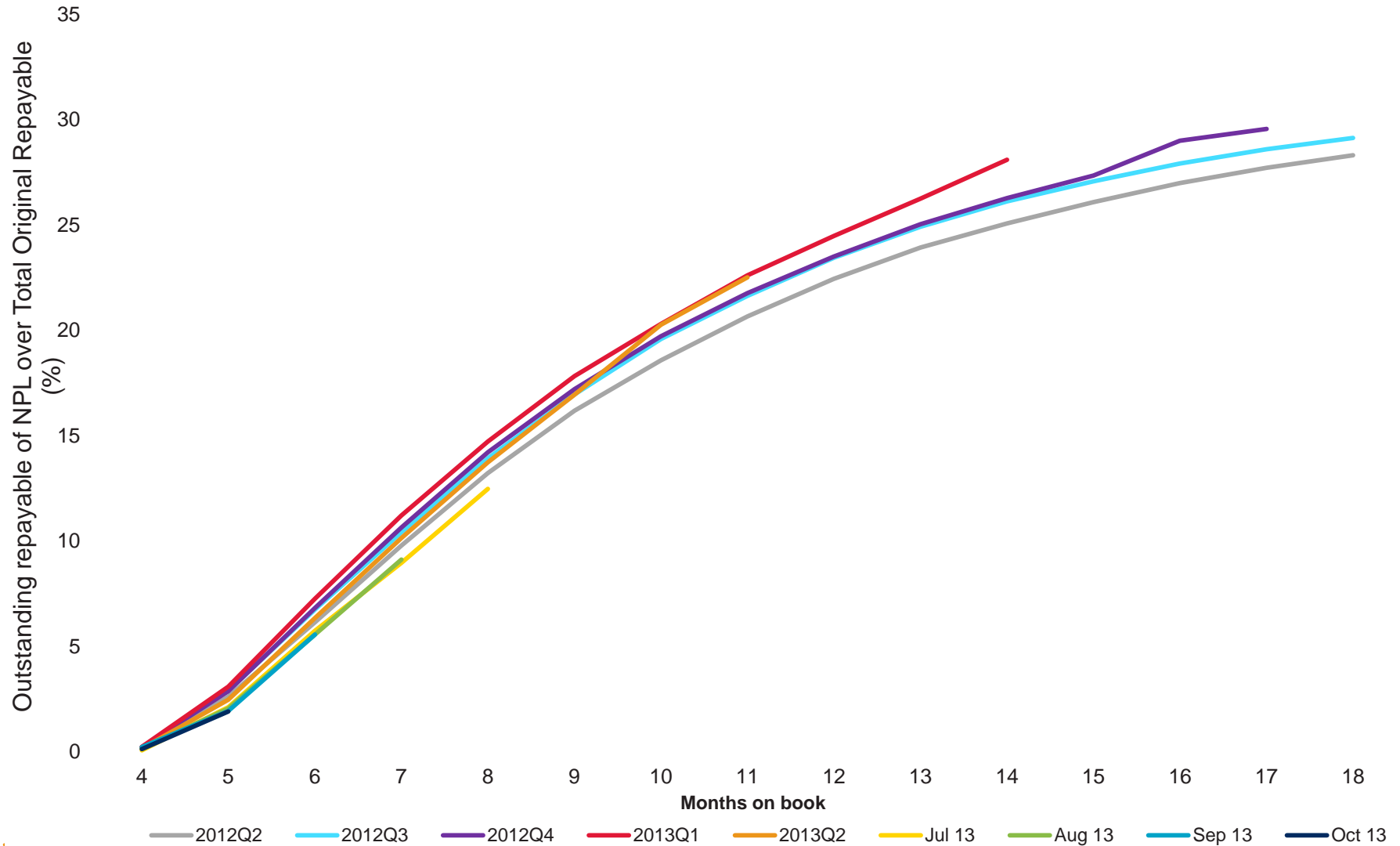
Dent curve* – African Bank (more than three cumulative missed instalments in arrears)



Newer vintages have improved but it will take time before the benefit of this has a pronounced impact on the greater business

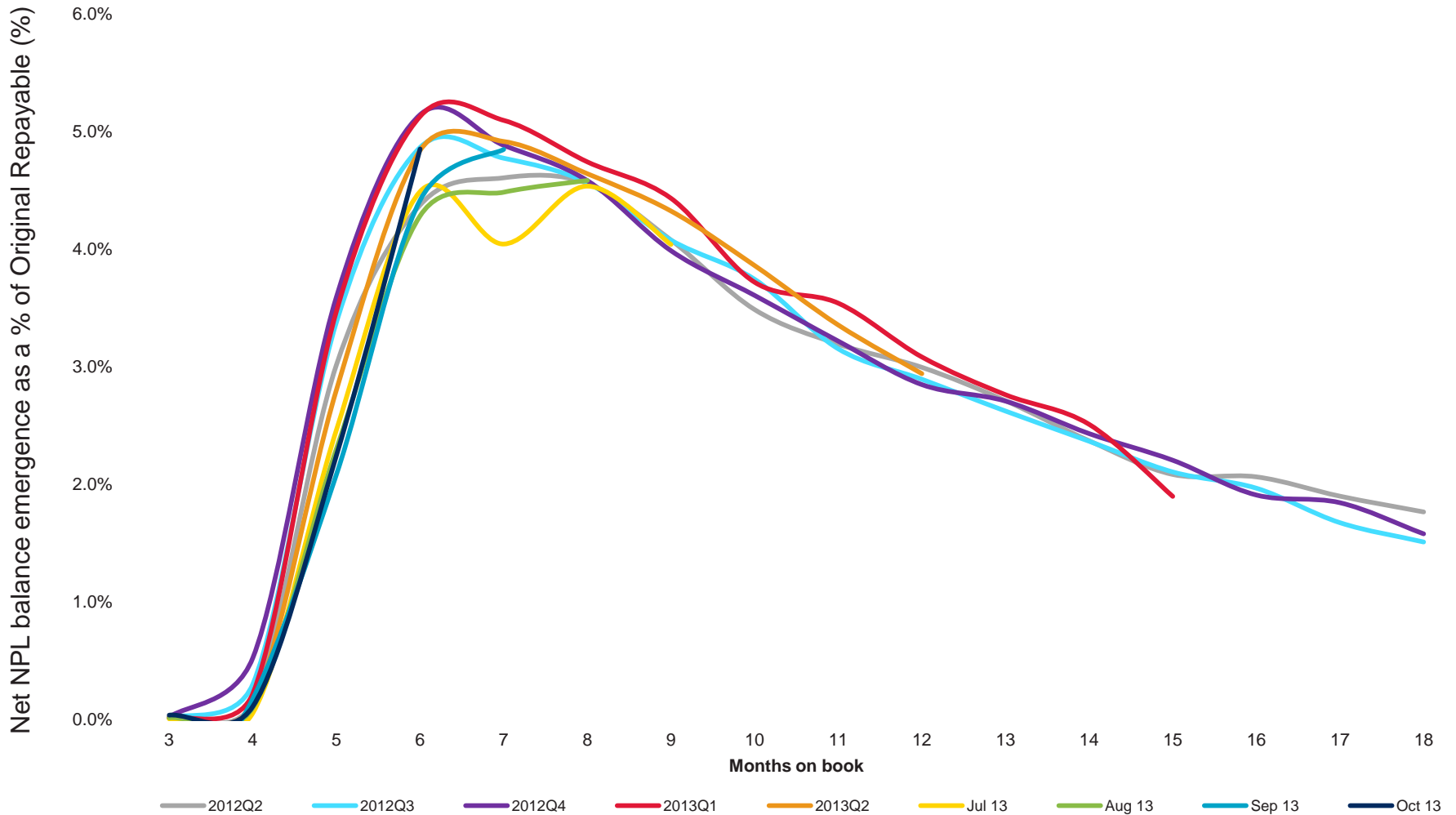
The positive trend in post-July 2013 business also applies to the Ellerines loans portfolio, albeit not as pronounced

Vintage graph – Furniture credit (more than three cumulative missed instalments in arrears)



The positive trend in post-July 2013 business showing delta having peaked

Dent curve – Furniture credit (more than three cumulative missed instalments in arrears)

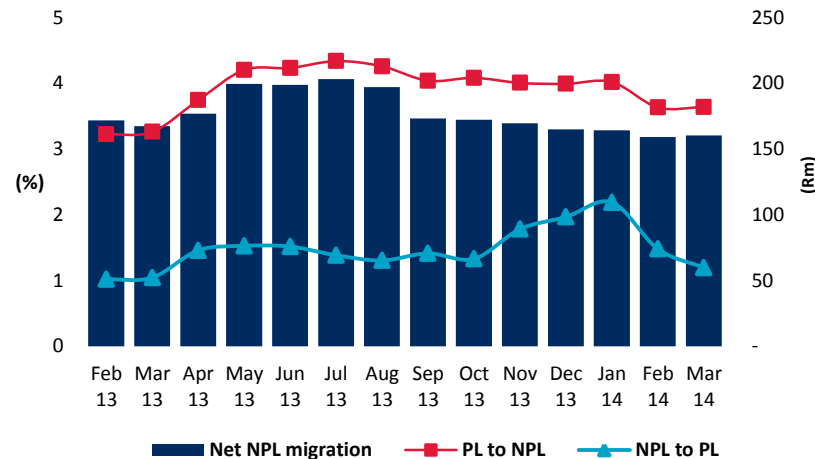




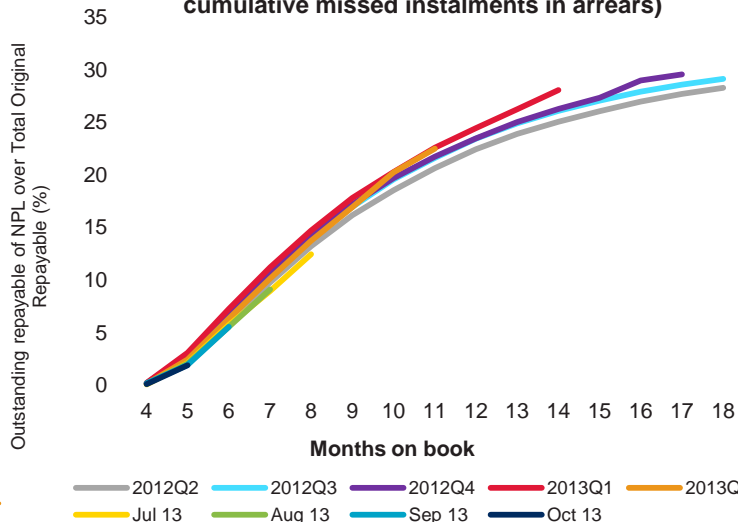
The positive trend in post-July 2013 business showing NPL migration, cumulative vintage and delta

- Net NPL migration for March 2014 at R160 million was down from a peak of R203 million in July 2013.
- Vintages for post-July 2013 business trending towards bottom end of range.
- Dent curves starting to show lower peaks.

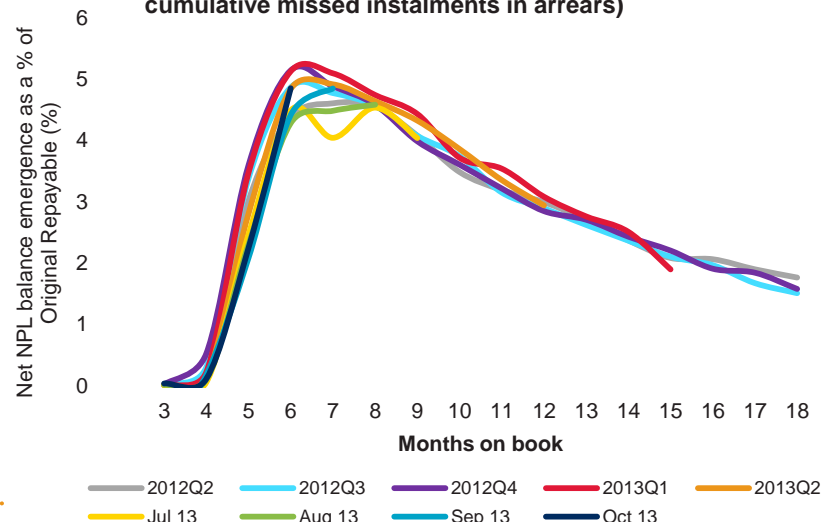
Net NPL Migration (EHL) - Balance



Vintage graph – Furniture credit (more than three cumulative missed instalments in arrears)

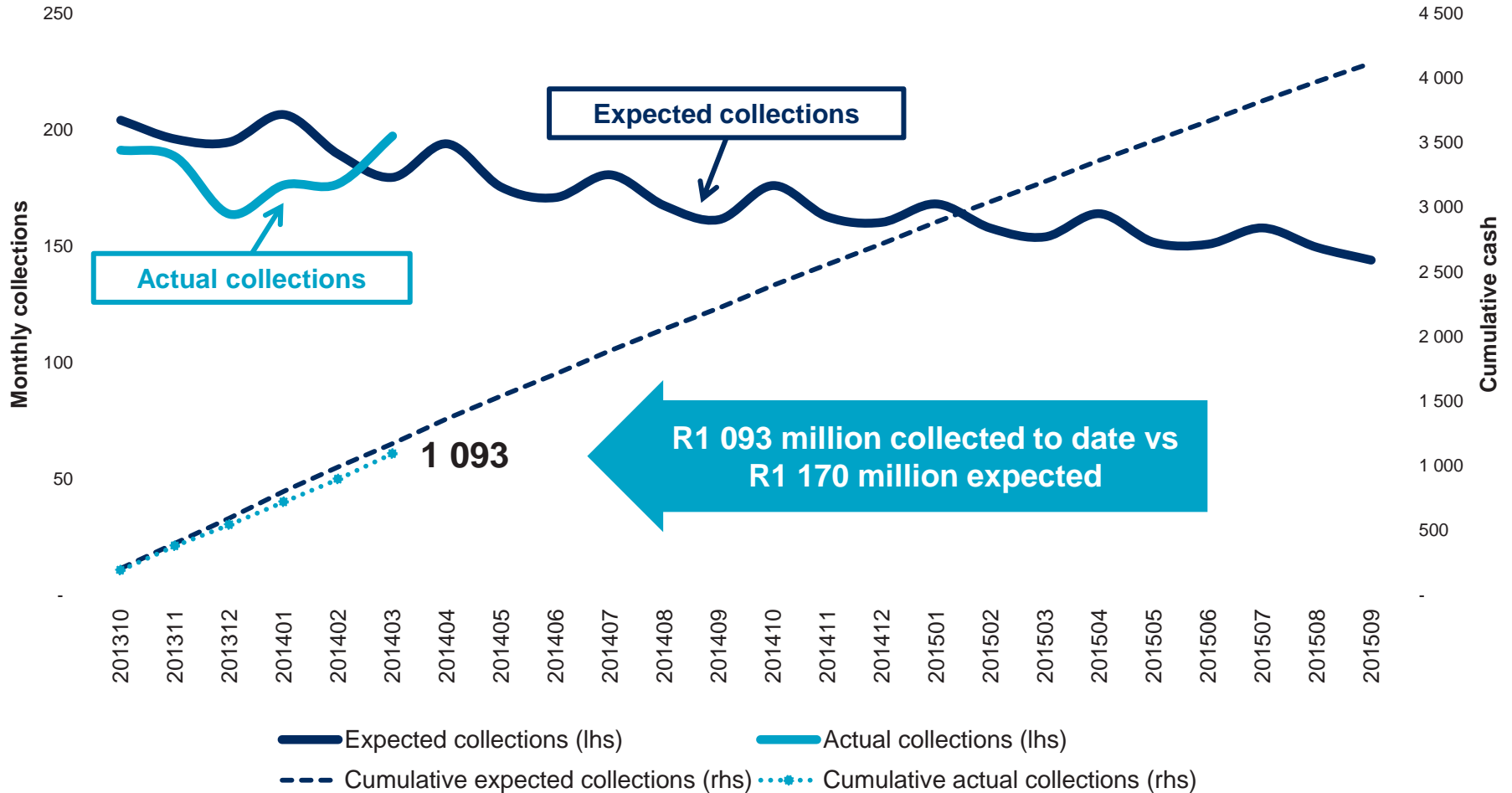


Dent curve – Furniture credit (more than three cumulative missed instalments in arrears)



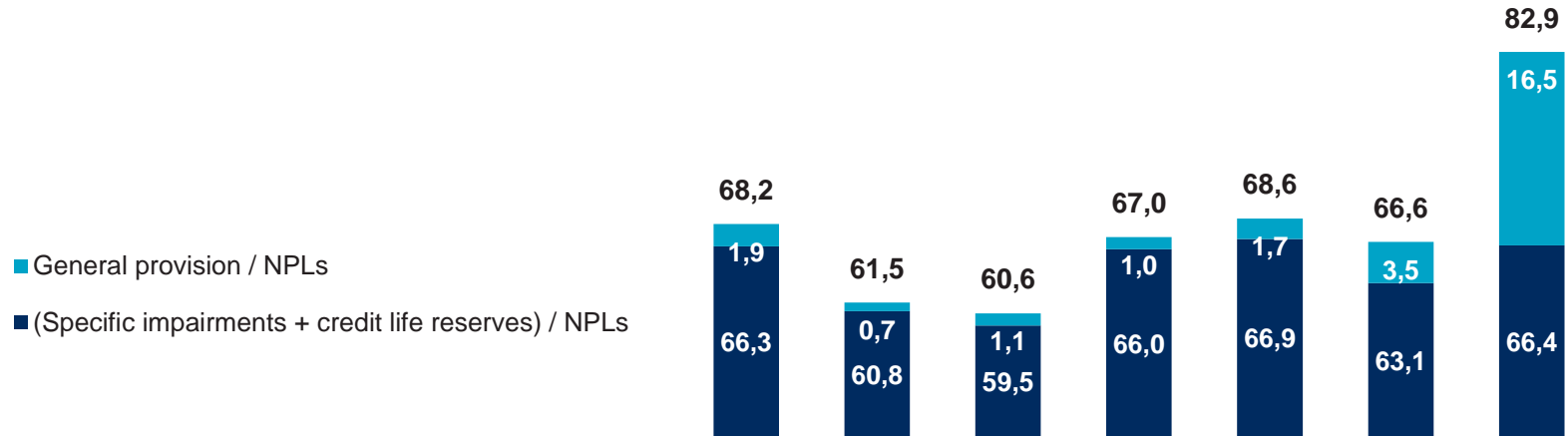
Back test on September 2013 NPL portfolio: lower early 2014 collections resulted in additional specific provisions for NPLs

Back test on September 2013 total NPL portfolio (R16 622 million)
(R million)



The ratio of provisions to gross loans has increased significantly following the R2,5 billion increase in general provisions

NPL coverage (%)



Breakdown of impairment provisions

R million

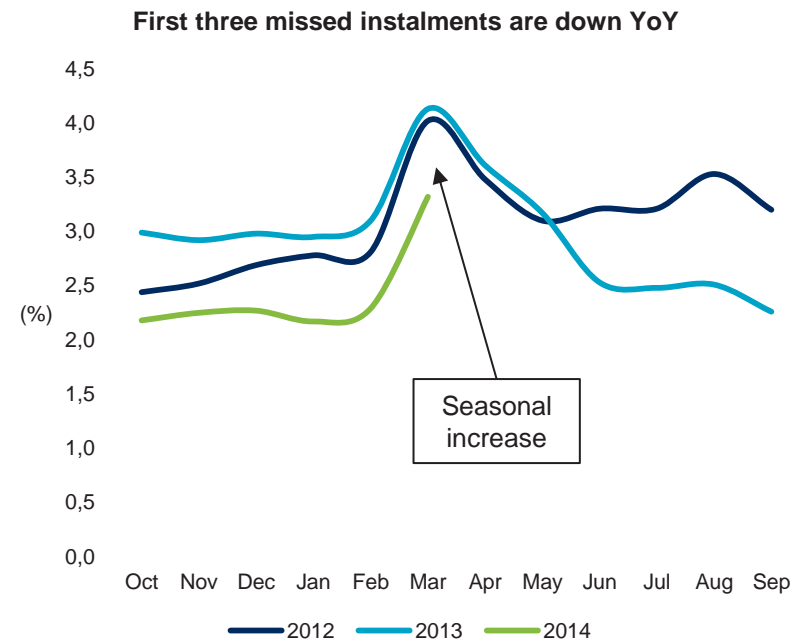
	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Mar 2013	Sep 2013	Mar 2014
Credit impairments	5 587	5 537	6 645	9 825	11 103	10 566	15 701
Specific impairments	5 430	5 472	6 529	9 669	10 804	9 981	12 472
General provision	157	65	116	156	299	585	3 229
Credit life reserves	37	18	0	339	698	512	500
Total provisions	5 624	5 555	6 645	10 164	11 801	11 078	16 201
Non performing loans	8 250	9 039	10 974	15 160	17 192	16 622	19 552
Book value of written off portfolio	1 003	1 700	1 928	1 659	1 321	1 321	1 321
Net uncovered NPLs	2 626	3 484	4 329	4 996	5 391	5 544	3 351
Provisions / gross loans	22,3	19,1	16,6	19,2	20,1	18,8	26,3
Total NPL coverage	68,2	61,5	60,6	67,0	68,6	66,6	82,9
Specific impairments + credit life reserves / NPLs	66,3	60,8	59,5	66,0	66,9	63,1	66,4
General provision / NPLs	1,9	0,7	1,1	1,0	1,7	3,5	16,5

Collections initiatives introduced

Collections initiatives intensified to stem the flow of performing loans to NPLs.

These are focused on both good faith and bad faith clients:

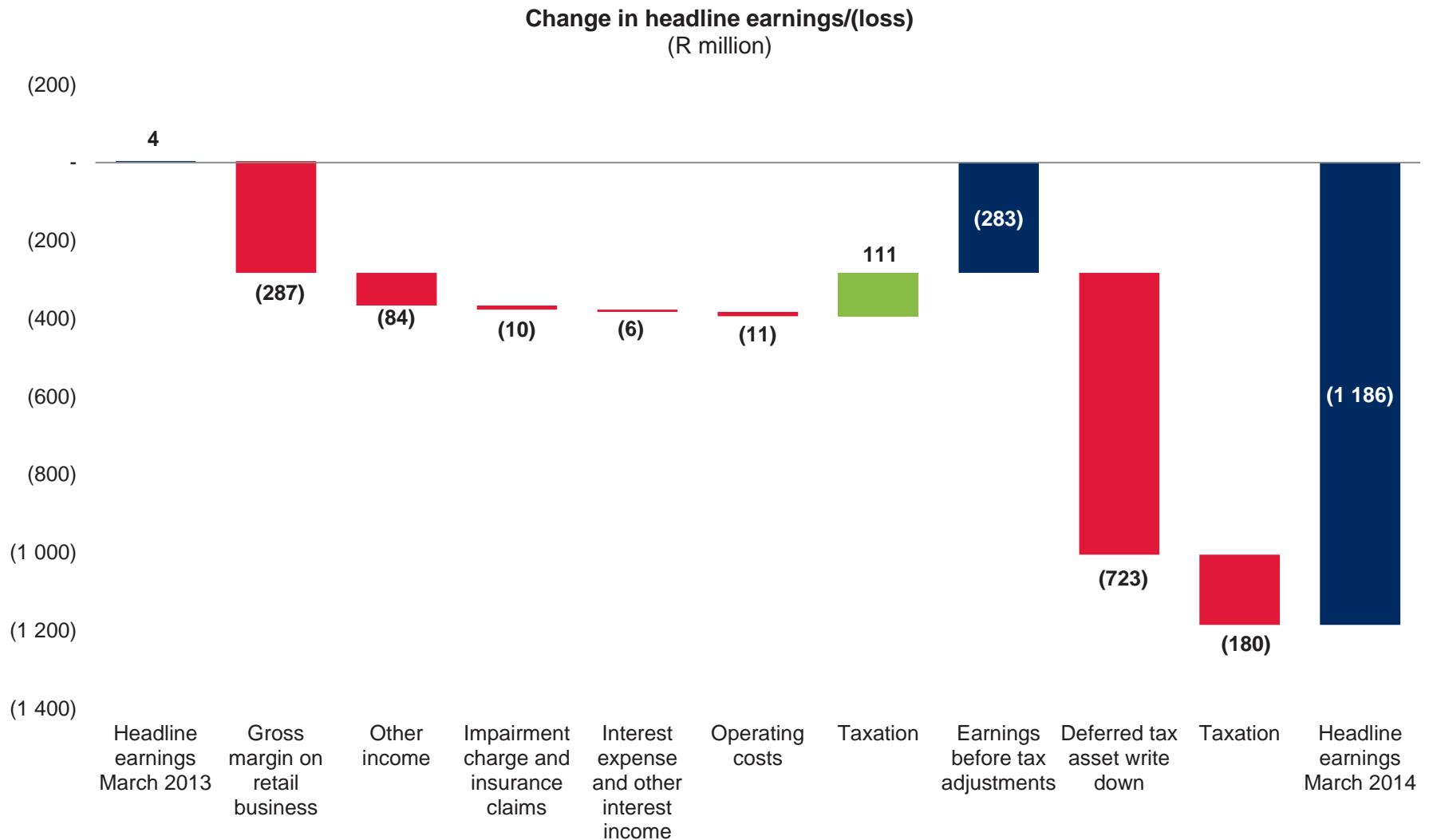
- Additional capacity in the call centre at 1 350 is now deemed adequate
- Additional 150 collectors added to the EHL in store collections network
- Intensified focus on high balance arrears totalling R2,5 billion across 60 000 accounts (balance approximately R42 000 per account)
- Champion challenger process to test internal collections capacity against external agents – currently internal processes outperforming external agents by 6%
- Analysing bureau data to determine if there are instances where customers are paying third parties and not African Bank and launching differentiated campaigns on these customers
- Implemented a parallel collections process, running call centre collections in parallel with tracing and legal collections
- Earlier commencement of legal collections after 4 – 6 months delinquency, depending on status of account
- Issued 70,000 summonses since March 2014



The Retail unit

		% change	Unaudited for the six months ended 31 March 2014	Restated for the six months ended 31 March 2013
(Loss)/earnings before tax adjustments	R million	(>100)	(283)	4
Headline (loss)/earnings	R million	(>100)	(1 186)	4
Merchandise sales	R million	(15)	1 968	2 324
Cash sales	R million	7	889	832
Credit sales	R million	(28)	1 079	1 492
Non-furniture credit sales	R million		976	1 627
Credit merchandise sales % of total	%		54,8	64,2
Gross margin	%		38,4	44,8
Gross margin excluding impact of inventories provision	%		43,4	44,8
Impact of inventories provision	%		(5,0)	0
Operating margin	%		(19,1)	0,7
Stock turn	times		3,1	3,3
Number of stores		(3)	1 025	1 057
Retail trading area	m ²	(6)	621 650	663 840

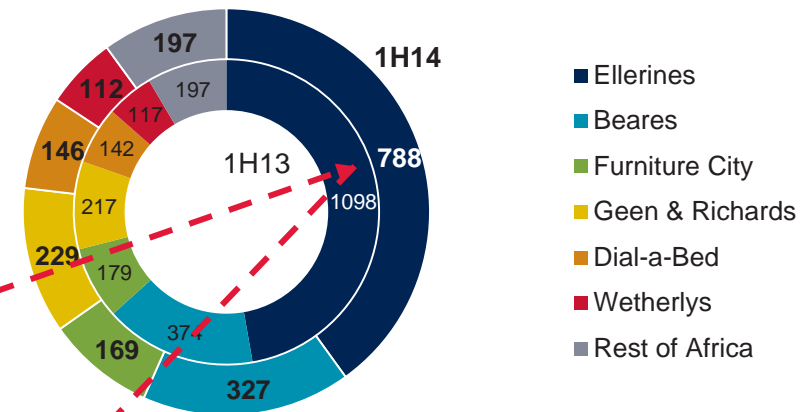
Unpacking the Retail unit's performance



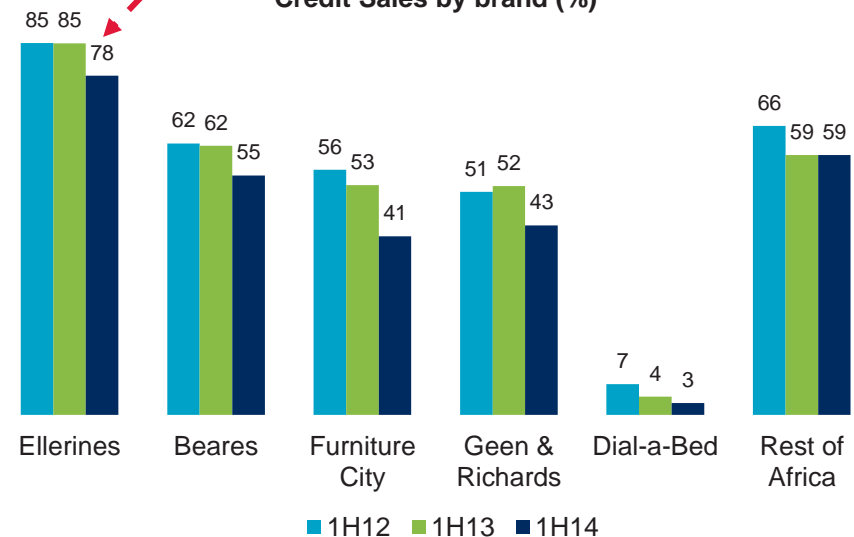
Brand analysis

- Merchandise sales has declined by 15% to R2 billion from R2,3 billion.
 - Credit sales decreased by 28% to R1.1 billion from R1,5 billion.
 - A result of more stringent credit granting criteria implemented in June 2013 in an effort to improve the yield risk relationship.
- This had a particularly negative impact on the Ellerines brand where total sales declined by 28% to R788 million from R1 098 million.
- EHL cash sales increased by 7% to R889 million from R832 million.

Merchandise sales by brand
R million



Credit Sales by brand (%)





Balance sheet management

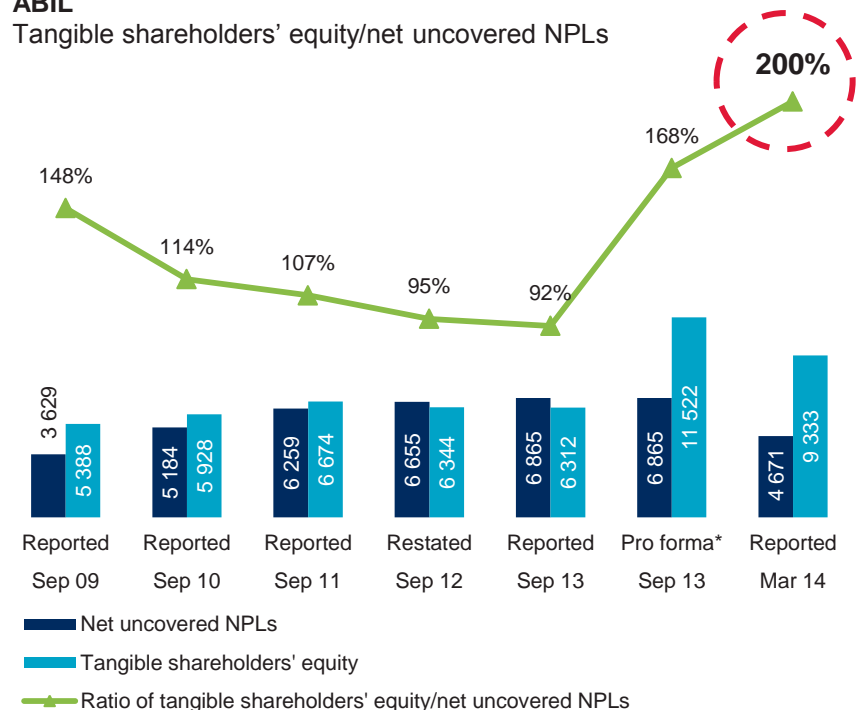
Capital adequacy

Capital adequacy %	ABIL			
	Mar 14	Dec 13	Sep 13	Mar 13
Core Equity Tier 1	15,8	22,9	13,0	17,8
Additional Tier 1	1,9	2,1	2,1	2,1
Tier 1	17,7	24,9	15,1	19,9
Tier 2	7,5	7,6	8,1	7,7
Total CaR	25,2	32,5	23,2	27,6

Capital adequacy %	African Bank			
	Mar 14	Dec 13	Sep 13	Mar 13
Core Equity Tier 1	19,0	24,3	15,7	19,2
Additional Tier 1	0,0	0,0	0,0	0,0
Tier 1	19,0	24,3	15,7	19,2
Tier 2	7,4	8,2	8,3	8,1
Total CaR	26,4	32,5	24,0	27,3

ABIL

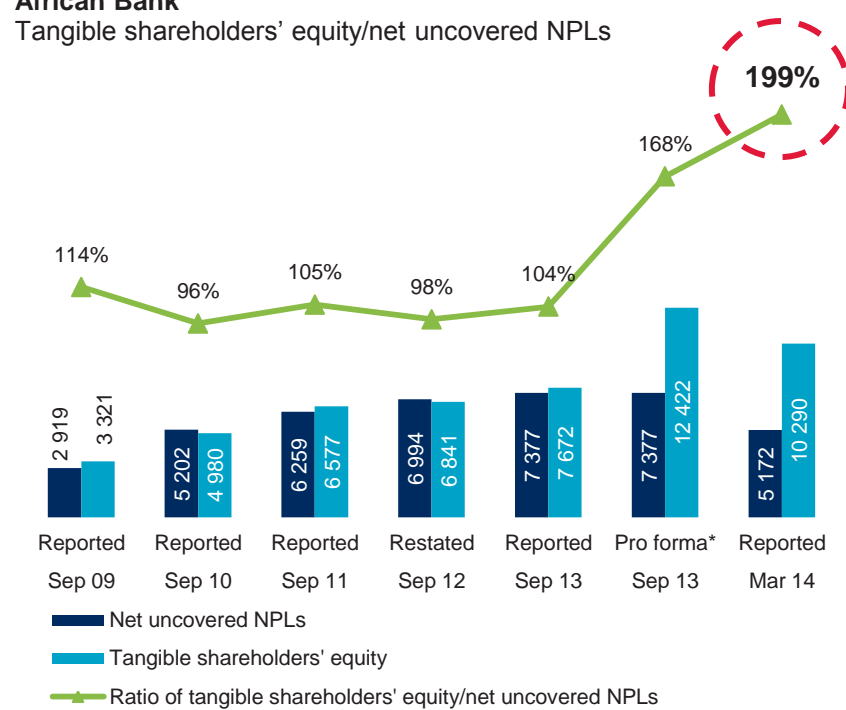
Tangible shareholders' equity/net uncovered NPLs



*Pro forma following the rights issue

African Bank

Tangible shareholders' equity/net uncovered NPLs



*Pro forma following the rights issue

Group:
 Tangible shareholders' equity = ordinary shareholders' equity – goodwill – intangible assets – Retail unit deferred tax assets
 Net uncovered NPLs = gross NPLs + written off book – impairment provisions – credit life reserves

Bank:
 Tangible shareholders' equity = ordinary shareholders' equity – goodwill – intangible assets
 Net uncovered NPLs = gross NPLs + written off book – impairment provisions including general provision

Balance sheet management

Capital adequacy

ABIL and African Bank target the following regulatory capital adequacy ratios and reaffirm the previous targets over the medium term:

- 2014: Tier 1 \geq 18% and Total \geq 27% (revised down due to the R2,5 billion increase in general provisions)
- Medium-term: Tier 1 \geq 20% and Total \geq 30%

ABIL	2014				Medium term
	Actual	Internal minimum	Difference*		Internal minimum
			%	Rm	
Tier 1	17,7	\geq 18,0	0,3	152	20,0
Total	25,2	\geq 27,0	1,8	901	30,0

African Bank	2014				Medium term
	Actual	Internal minimum	Difference*		Internal minimum
			%	Rm	
Tier 1	19,0	\geq 18,0	n/a	n/a	20,0
Total	26,4	\geq 27,0	0,6	275	30,0

*Difference calculated on March 2014 RWA

The board has implemented certain measures to preserve and increase capital through both operational and strategic initiatives and is pursuing additional measures.

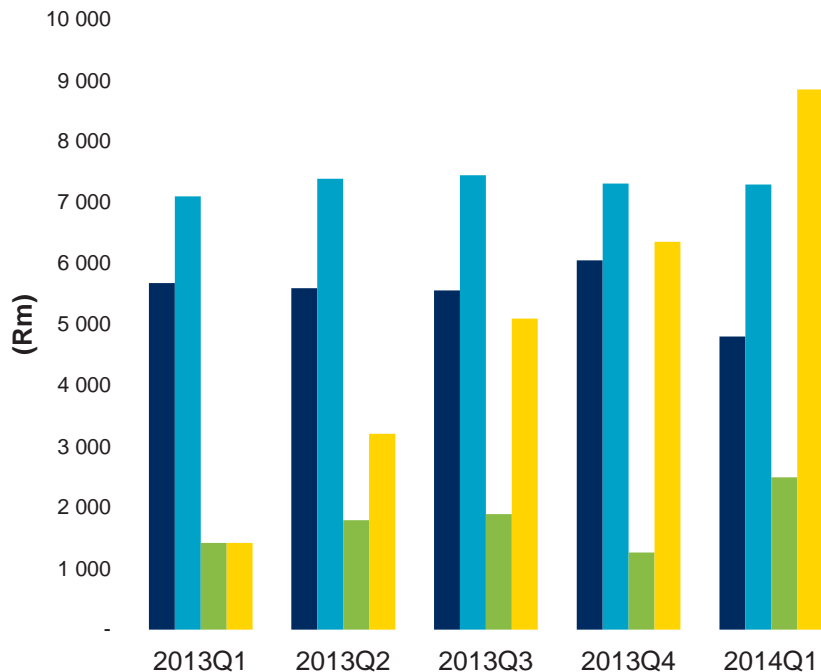


Balance sheet management

Liquidity

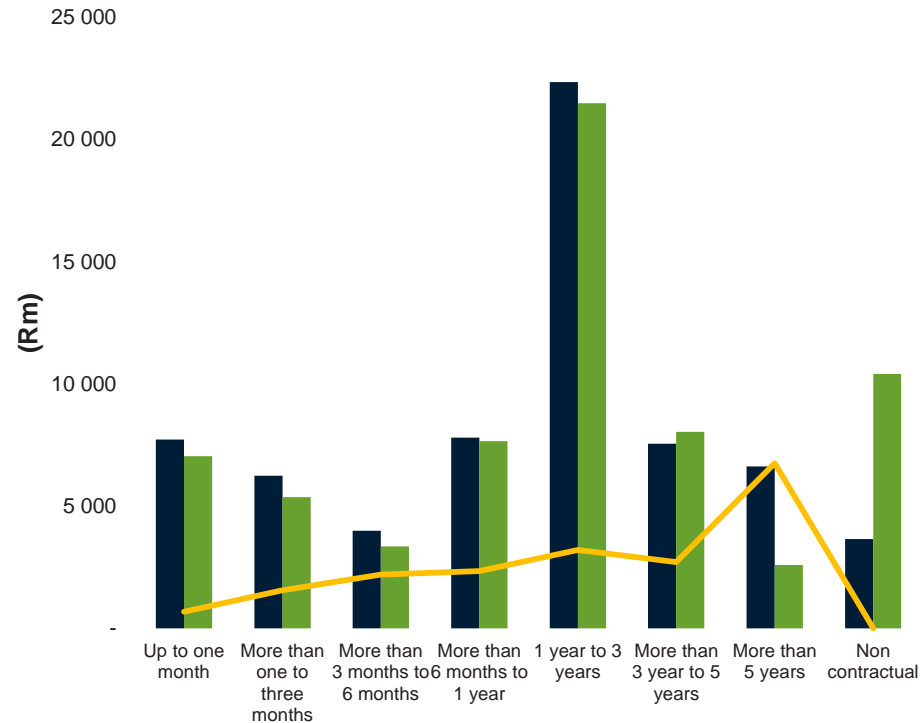


Sales/collections dynamic generated **R8.9 billion** positive cash flow from Jan 2013 – Mar 2014



- Payaways on new loans
- Receipting
- Net cash
- Cumulative net cash flows

African Bank Limited net liquidity gap 31 March 2014

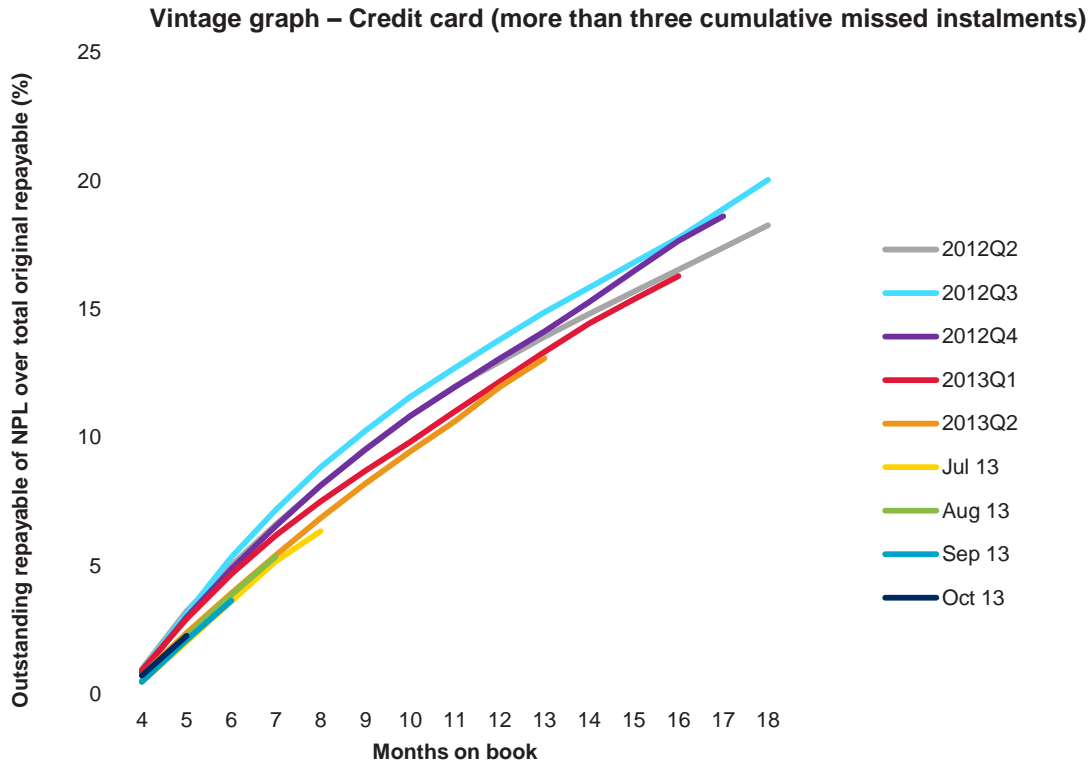


- Assets
- Liabilities
- Cumulative on balance sheet liquidity gap

A strategic relationship explored with Edcon

Focus on smaller balance revolving credit facility

- In line with reduced risk appetite as per July 2013 cutback in loan size on medium and high risk customers.
- Similar concept to credit card product which has been showing better risk experience.
- New customers to African Bank is a key focus.



Regulatory developments affecting unsecured lending

General observations

- Final regulatory changes proposed by the dti and passed by parliament are made in consultation with the Ministry of Finance.
- We believe that the changes to affordability and pricing will be pragmatic, balancing the interests of the affected stakeholders, and that the final changes will result in a fairer, better and more equitable unsecured lending industry going forward.
- We have good visibility on prospective regulatory developments and the process of constructive engagement continues.

Credit amnesty (passed effective 1 April 2014)

- **Removed from credit bureau:**
 - All adverse credit information of customer behaviour and enforcement action taken by the credit provider
 - Paid up judgements
- **Remains on credit bureau:**
 - Payment profiles
 - Judgements with an outstanding balance.
 - Notices such as sequestrations, etc
- **Credit providers keep all customer information**

Affordability

- Initial NCR proposals under review
- Progress being made through consultation

Credit life

- Proposals including minimum benefits and price caps under review
- Reviewing possible business mitigants

Pricing – interest and fees

- NCR intends reviewing as part of its ongoing review of pricing in the industry

ABIL's BEE share schemes

Gearing significantly reduced

BEE Structure and impact of rights issue

	September 2013		March 2014
Number of ABIL shares	74,3m		74,5m
Eyomhlaba	48,5m		48,6m
Hlumisa	25,8m		25,9m
Percentage holding in ABIL	9,12%		4,97%
Eyomhlaba	5,95%		3,24%
Hlumisa	3,17%		1,73%
Preference shares outstanding	R510m		R177m*
Eyomhlaba	R330m		R112m
Hlumisa	R180m		R65m

**Proceeds
from sale of
rights used
to reduce
debt**

*ABIL is now the holder of the preference shares

In Conclusion

- A very tough environment
- ABIL is going through a challenging period
- Bold decisions taken to hasten the turnaround
- Engaged and committed people focussed on delivery into the future

End of presentation

Questions

