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")

QUARTERLY OPERATIONAL UPDATE FOR THE THIRD QUARTER ENDED 30 JUNE 2013 AND STRATEGIC ANNOUNCEMENTS

ABIL issues quarterly updates in order to provide investors with timely insights into strategic and operational performance trends. These updates should be viewed as guidance on trading conditions, rather than an indication of profitability. The current announcement contains important information on strategic changes at ABIL, as well as an overview of current trading conditions and operational progress.

Strategic initiatives

- Improving the yield / risk relationship
- Enhanced collection activities achieved through additional resource commitment
- Strengthening of the capital base by up to R4 billion
- Review of EHL's strategic fit

Operational performance

- Environment remains challenging, both for credit and furniture retail
- 19% growth in advances to R60,3 billion
- Reduced credit disbursements of R17,7 billion for 9 months period (10% lower year-on-year)
- Increase in NPLs as percentage of advances to 30,2% from 29,2%
- Continued favourable access to funding markets
- Good progress on implementation of risk reduction measures

Trading environment

The third quarter proved to be another challenging period with the trends of the first half of 2013 continuing through the quarter, albeit improving. Over the past 12 months the environment in which ABIL operates has changed considerably due to the rapid deterioration in the economy and the high levels of indebtedness amongst consumers, following a period of high growth in unsecured lending.

STRATEGIC INITIATIVES

Since we first highlighted our concerns around the level of growth in the industry, the over extension of the consumer market and the increasingly challenging collections environment in August 2012, the group has conducted a thorough review of the business. In the quarter under review, the group has initiated the following strategic initiatives to:

- significantly improve the yield/risk relationship and the asset quality of the book,
- enhance collection procedures,

- strengthen the capital base, and
- review the strategic alternatives for EHL.

Significant progress has already been made on the implementation of the aforementioned initiatives and the first results are expected by the last quarter of 2013. The full benefits of these initiatives will be realised from the second half of 2014.

Improving the yield/risk relationship

In order to enhance returns, the Banking unit's customer acquisition model has been recalibrated and refined to optimise the yield versus risk relationship. These changes will improve the Bank's return on assets in the medium term. Over the past 3 months, the group implemented a range of far reaching loan size and pricing changes to reduce exposure in less profitable market segments. Medium and higher risk groups had loan sizes reduced by between 7% and 63% depending on the risk group, with loan terms reduced by between 3 and 24 months. We estimate the impact of the changes to affect 40% of customers through smaller loans, shorter terms and lower instalments. The cumulative effect of cutbacks in the furniture retail credit offer over the past nine months, reduced disbursements in this portfolio by some 15% to 20%, predominantly but not exclusively aimed at the non-furniture credit originated in the EHL stores.

Separately, ABIL is in the process of rolling out a significantly improved proposition for low risk customers, including new products and distribution options, whereby ABIL is looking to increase the number and overall proportion of low risk customers.

Whilst the cutbacks will impact a significant number of customers, the increased focus on a greater proportion of low risk customers will lessen the impact on total disbursements, with an estimated reduction in disbursements of approximately 10%.

Enhancing collection activities

Collections activities have been increased in a flexible and sustainable manner by dedicating a certain amount of African Bank branch and furniture store working hours to collections. The call centre has been bolstered further, bringing the total capacity to some 1 300 agents. Collections activities have been increased and are beginning to bear fruit as they continued to improve from the lows of Dec-2012/Jan-2013, although not yet at the same levels as last year. Significantly less early settlement of debt by other credit providers has also reduced collections ratios, compared to 2012. Further improvements in collections strategies are to be implemented for all credit portfolios.

Strengthening the capital base

In order to strengthen ABIL's balance sheet and to ensure a robust financial position for the coming years, ABIL's board of directors has decided to pursue an equity raise through a rights issue of up to R4 billion. To that effect ABIL has entered into a standby underwriting agreement with Goldman Sachs International of up to R4 billion, subject to standard terms and conditions. The proceeds of the capital raise will serve to improve Basel III capital ratios, particularly the core equity Tier I ratios, and provide additional capital in the event of economic headwinds and consequential impact on the credit environment. The group believes that the capital raise is in shareholders' best interests and by enhancing the capital position of the bank substantially, will also serve to benefit funders and other stakeholders.

Shareholders are referred to the corresponding announcement released on SENS on 5 August 2013 for further details.

Continued review of strategic options for EHL

The ABIL board is of the view that the group has implemented the majority of the strategic initiatives with regard to the EHL acquisition. A standalone product-based retail business does not fit the strategic requirements of ABIL's risk-based financial services business model. ABIL has therefore decided to accelerate the disposal of the furniture retail business. The group is actively reviewing various options designed to fulfil this in an appropriate and timely manner that will optimise the strategic outcomes for both the group and EHL. This process will ensure that the interests of all stakeholders are enhanced.

The combination of these four key initiatives is clearly a significant undertaking that will require focused and dedicated attention to advance swiftly. ABIL will continue to inform investors of its progress with each of these programmes as more information becomes available.

OPERATIONAL PERFORMANCE

The initiatives that ABIL implemented over the past year to deal with the worsening operating environment is starting to pay off, with the key business drivers generally maintaining stable to slightly improving trends. Specifically, early stage risk indicators on new business and collections trends on both existing and new business are improving.

In the retail business, the weak trading environment was further exacerbated by the slowdown in unsecured lending in general, and by the ABIL group specifically.

Banking unit

Credit disbursements for the nine months ended June 2013 were R17,7 billion, 10% lower than disbursements for the previous comparable period. African Bank disbursements decreased by 8%, the credit card portfolios decreased by 19%, while furniture related credit disbursements declined by 10% year-on-year. The lower sales stemmed from a reduction in applications and higher rejections due to affordability criteria, as well as the significant further cutbacks on risk exposure that ABIL implemented in the past quarter. Average approval rates for the first nine months of financial 2013 remained steady at 69%, but the most recent months are trending lower.

The number of loans disbursed for the nine months to June 2013 decreased by 11% to 1,4 million, while average net loan size increased by 2% to R12 300. Average term for the 9 months period was 50 months, relative to 49 months for the first half of 2013. This is attributable to changes in the mix of the portfolio towards a higher proportion of low risk customers and not to increases in loan size and term. These metrics are expected to increase further as the portfolio weight changes on the back of the cutbacks in medium and medium-high risk groups and the improved offerings for low risk customers.

Gross advances growth continued to slow, growing by 19% to R60,3 billion year-on-year, relative to the 25% year-on-year growth as at 31 March 2013. African Bank's loan advances grew by 22% (H1 2013: 28%) and the credit card portfolios increased by 19% (H1 2013: 23%) on the back of new cards issued and R1,4 billion in card utilisation. Furniture related credit advances grew by 10% (H1 2013: 14%) year-on-year.

The total income yield for the nine-month period has stabilised, supported by the price increases implemented from 2012 starting to filter through, but partially negated by the continuing, but diminishing, influence of the once-off *in duplum* adjustment in the first half of 2013.

Operating cost growth increased on the back of a charge for the ABIL share incentive scheme relating to the movement in the share price. Operating cost growth excluding this charge was in line with the growth reported in the first half of the year.

Non-performing loans (NPLs) as a percentage of advances increased from 29.2% to 30.2%, in line with expectations. The bad debt charge is marginally higher than the first half of the year in order to maintain the NPL coverage in line with the 2013 interim period and the 2012 financial year. The African Bank and furniture credit vintages are tracking at the higher end of historical ranges, but new NPL formation has started to peak for both the African Bank and the furniture books and credit card vintages continue to improve, as a result of the risk reduction measures implemented in all three portfolios over the past year. This bodes well for NPL formation into 2014. Provisions are being closely monitored and coverage of non-performing loans has been kept stable, despite substantially higher write-offs.

Liquidity

African Bank issued a R600 million seven year bond, as well as a R1 billion three year Jibar-linked bond under its Domestic Medium Term Note (DMTN) programme during the past quarter. The group also continued to achieve significant rollover rates for maturing liabilities in the money market. Whilst the costs of the most recent funding raised has trended slightly higher, funding costs for the full year are still expected to be lower than the previous year.

Capitalisation

Capital adequacy as at 30 June 2013 was in line with figures reported in March 2013, with retained profits offsetting risk weighted asset (RWA) growth.

On a proforma basis, based on March 2013, the proposed R4 billion capital raise will increase the ABIL Tier 1 ratio to 28.1% (from 19.9%) and the total capital ratio to 35.8% (from 27.6%)

Retail unit

The slowdown in furniture sales evident in the first half of the year worsened in the past 3 months, due to the continued pressure on the consumer and the cutbacks in credit granting. EHL recorded merchandise sales of R3,2 billion for the nine months to 30 June 2013, a 13% decline relative to the previous comparative period. Comparable sales (on a square metre basis) decreased by 7% relative to last year.

Cash sales of R1,2 billion were 12% lower than the prior year. Credit sales amounted to R2,0 billion, a decline of 13% relative to the comparable period in 2012. The credit sales mix for the nine months at 62,6%, was in line with last year's 62,9%. The most recent credit sales mix was however substantially lower as a result of the lower offer rates and smaller loan sizes at increased pricing.

Gross margins reduced by 0,5% over the period due to lower buying volumes. The EHL group managed to contain its operating cost growth to single digits. Operating cost growth increased on the back of an additional charge for the ABIL long term incentive scheme due to the movement in the share price. Operating cost growth excluding this charge was in line with the growth reported in the first half of the year.

The EHL store footprint increased by 11 stores relative to 2012, in the 9 months to date while at the same time, the retail trading area was reduced by a further 4% to 651 178 m², through smaller store sizes and innovative store layouts. Year-to-date stock turn reduced to 2,9 times from 3,3 times in the first half of the year, on the back of the decline in sales. Stock levels are lower than last year, as the centralised logistics capabilities begin to manifest.

Regulation

Good progress has been achieved on the material regulatory developments with regard to emolument attachment orders, payments systems processes and affordability guidelines. Active and cooperative engagement is continuing on credit life as well. Further announcements will be made on conclusion of these consultative processes.

The matter before the National Consumer Tribunal with regards to the allegations of reckless lending by the National Credit Regulator is following its due process and is expected to be heard in October 2013.

Outlook

The Banking unit earnings for H2 2013 are expected to be lower than H1 2013 for the reasons discussed above. The retail environment remains challenging and unpredictable. ABIL will provide more detailed guidance on the results for the full year as part of the right issue announcement in a pre-close statement in September 2013.

We believe that the group has identified the challenges in the operating environment over the last year and has responded proactively to improve risk adjusted profitability and its longer term strategic outlook. We are confident that the benefits from our initiatives will materialise in the short to medium term.

The proposed capital raise will strengthen ABIL's balance sheet while improving Basel III capital ratios and position ABIL for the future.

The information provided in this update is not an earnings forecast and has not been reviewed and reported on by the group's external auditors.

Conference call

ABIL will hold a conference call on Monday, 5 August 2013 at 16:00 (SA time) for interested parties. The presentation covering the conference call will be available for download on www.abil.co.za prior to the call.

Website disclosure	The quarterly trading update will be released on SENS and simultaneously published on www.abil.co.za on Monday, 5 August 2013 from 08:00. A presentation will be available on the ABIL website.		
Conference call **(16:00 SA time)**	Access numbers for participants dialling from their country:		
	Live call South Africa 011 535 3600	48 hour playback South Africa 011 305 2030	Code 2134#
	USA 1 412 317 6060	USA 1 412 317 0088	
	UK 0 808 162 4061	UK 0 808 234 6771	

Queries: Investor Relations on 27 11 564 7297 or investor.relations@africanbank.co.za

On behalf of the board
Midrand

5 August 2013

Sponsor

RAND MERCHANT BANK (A division of FirstRand Bank Limited)