



QUARTERLY TRADING UPDATE
for the nine months ended
30 June 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

- **Management and Board changes**
- **Capital raising and liquidity**
- **EHL**
- **Operating environment**
- **Financial trends**
- **Regulation**
- **Outlook**

Management and Board changes

- **It is with regret that we announce the resignation of Leon Kirkinis, the CEO of ABIL**
 - Leon is one of the founders of the group and has dedicated 23 years to building a business that fulfils a vital role in the betterment of peoples lives in South Africa
 - Leon leaves with immediate effect and the Board and staff of ABIL wish him every success for the future
 - We express our gratitude to Leon for his vision and leadership during the growth of African Bank
- **Nithia Nalliah (54), the current Group Chief Financial Officer, is appointed as acting CEO of ABIL with immediate effect**
 - Nithia joined ABIL in 2006 as CFO and the Board has confidence in his ability to steer ABIL through these challenging times
 - Nithia has the support of senior management and the staff of ABIL to implement the necessary changes to return ABIL to profitability and its position as market leader
- **Piet Swanepoel (52) has been appointed as Chief Risk Officer and brings extensive banking and management experience to ABIL**
- **ABIL is in discussions to make further appointments of independent non-executive directors to the ABIL and African Bank Boards that will materially strengthen both Boards**



Capital raising

- Risk emergence on the advances book remains at elevated unexpected levels
- Consequently the Board has appointed independent advisors to review the bank's underwriting, collections and provisioning methodologies and practices to ensure adequate provisioning
- In the interim the Board has decided to more closely align the bank's provisioning practices to industry standards resulting in an additional impairment provision of R3 billion
- We expect a further minimum negative capital impact of R1,5 – R2,5 billion as part of eliminating future exposure of ABIL to EHL
- ABIL's capital ratios are below levels achieved following last year's rights offer – this combined with the above impairments necessitates a capital raise of at least R8,5 billion to restore the capital ratios
- We will actively engage with shareholders and other stakeholders regarding a capital raise

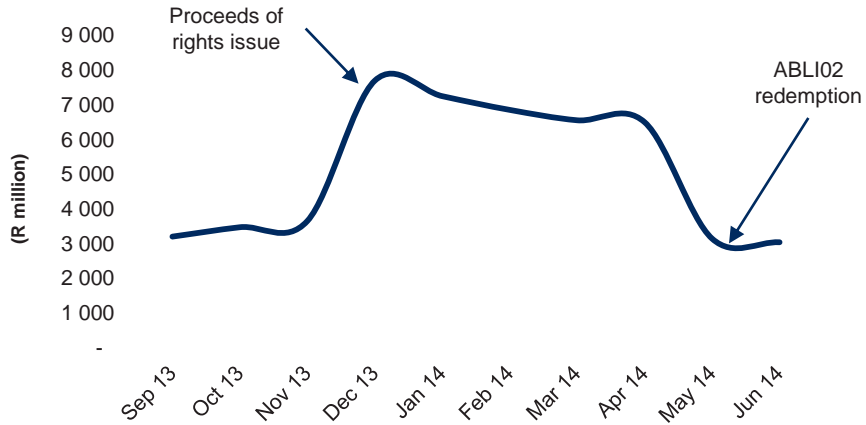


Liquidity is constrained

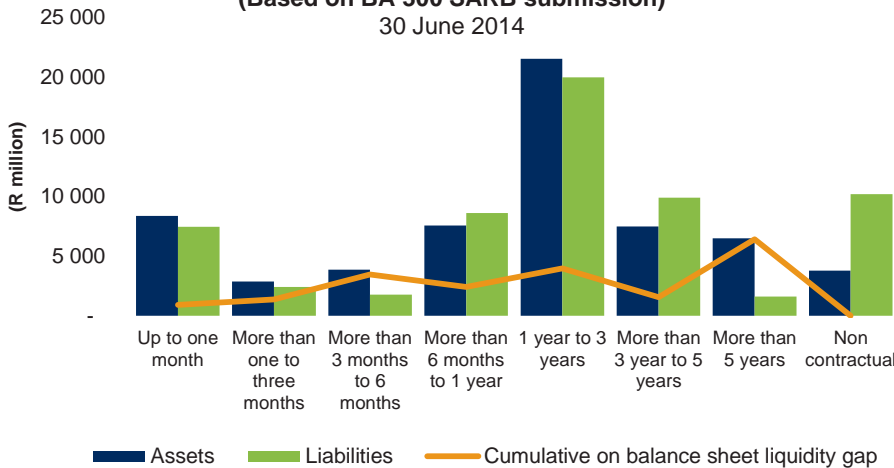


- Although the cumulative liquidity gap remains positive through all maturity buckets, negative sentiment has weighed on bilateral maturity roll rates
 - This is offset to a certain degree by the surplus monthly cash generated, being the difference between new sales and collections
- All bilateral and bond programme maturities and coupon payments have been met from cash resources
- In context of intended capital raise ABIL will engage with key funders and stakeholders to ensure appropriate levels of liquidity

Cash deposits with other banks per BA 900 SARB submission



African Bank Limited net liquidity gap (Based on BA 300 SARB submission) 30 June 2014



- On 7 July 2014 ABIL issued a cautionary announcement relating to the potential disposal of Ellerines and its subsidiaries
- The Board remains determined to secure the banking operations and insulate ABIL from future losses in Ellerines
- The Retail unit is expected to show a basic and headline loss for the second half of the 2014 financial year
- Consequently a full year basic and headline loss of at least R2,9 billion and R1,7 billion, respectively, is forecast
- The minimum negative capital impact as part of removing future exposure of ABIL to EHL is expected to be R1,5 – R2,5 billion

Shareholders are advised to continue to exercise caution until a further announcement is made by end August 2014

Operating environment

- consumers remain under pressure

• Target market continues to experience pressure on disposable income and ability to service debt

- Above inflationary cost of living increases
- Lower GDP growth expectations
- Lower income gains through strike action and high unemployment

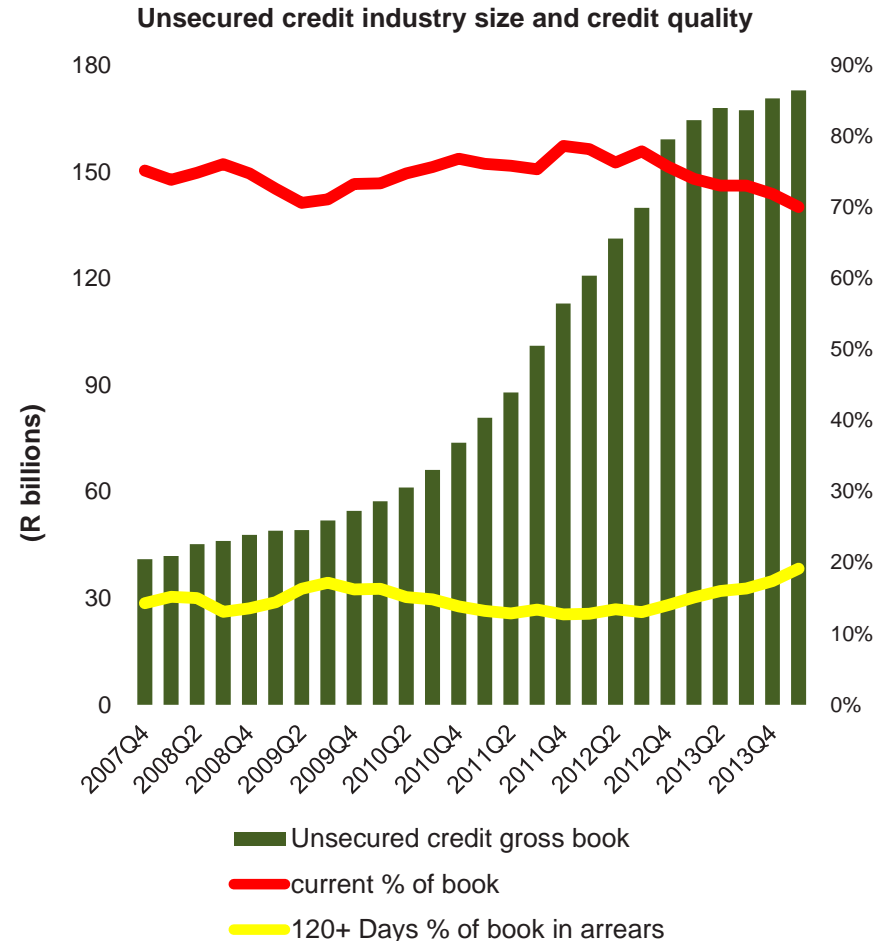
• NCR 2014 Q1 data

- Unsecured lending disbursements down 16,7% YoY
- Personal Loans increased by 5% YoY to R173 billion from R165 billion
 - Current: 70,1% (2014) vs. 74,0% (2013Q1)
 - 120+ Days: 27,0% (2014) vs. 24,4% (2013Q1)

• Personal loans growth contracting in real terms

- YoY growth rate declined to 5% in March 2014, from 36% in March 2013
- All major industry players are showing rapidly declining growth rates (BA 900)

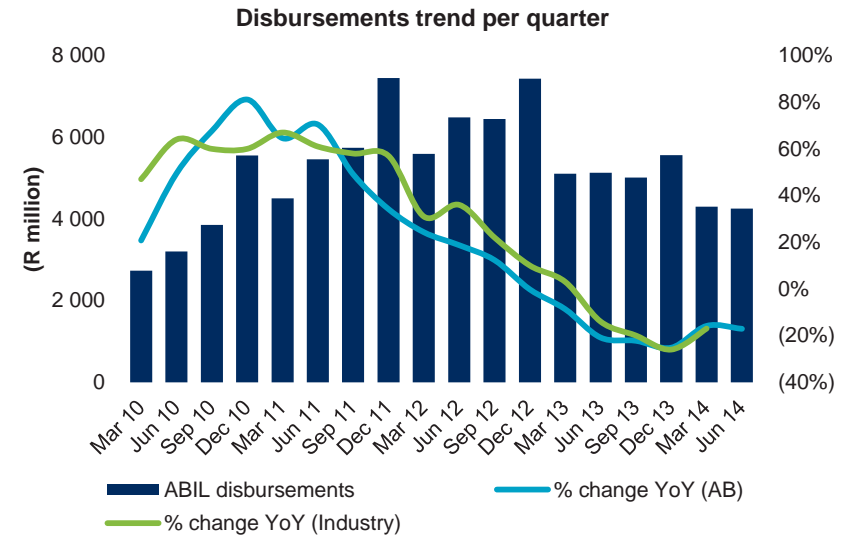
• Positive for the longer term sustainability of the industry



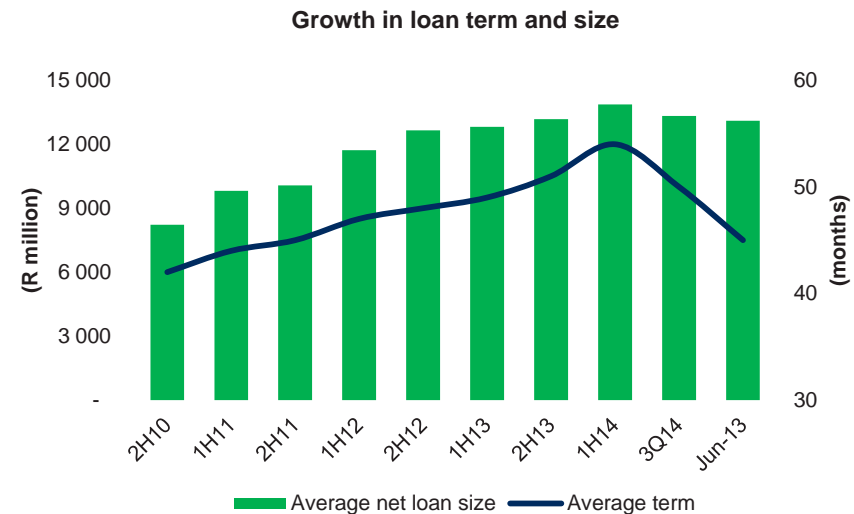
Financial trends

- disbursements decline further

- **ABIL disbursements at R14,1 billion declined by 20,2% from R17,7 billion YoY**
- **The overall industry decline has been 16,7% YoY as at March 2014**
- **Decrease in loan term and loan size for 3Q14 versus 1H14**
 - Loan term decreased by 7% to 50 months in 3Q14 from a peak of 54 months
 - Average gross loan size decreased by 4% to R19 498 in 3Q14 from R20 346 in 1H14
 - Average net loan size decreased by 4% to R13 331 in 3Q14 from R13 868 in 1H14
- **Further risk tightening measures implemented to reduce risk and ensure appropriate returns on new business**
 - Cut back rehabilitation loans further
 - Reduced max term from 84 to 60 months
 - Maximum loan size reduced from R180K to R160K
 - Further restrictions on Settlement Re-advances (SRA's)
 - Increased interest pricing
- **June 2014 loan metrics, showing impact of cutbacks**
 - Loan term 45 months
 - Average gross loan size R17 810
 - Average net loan size R13 096

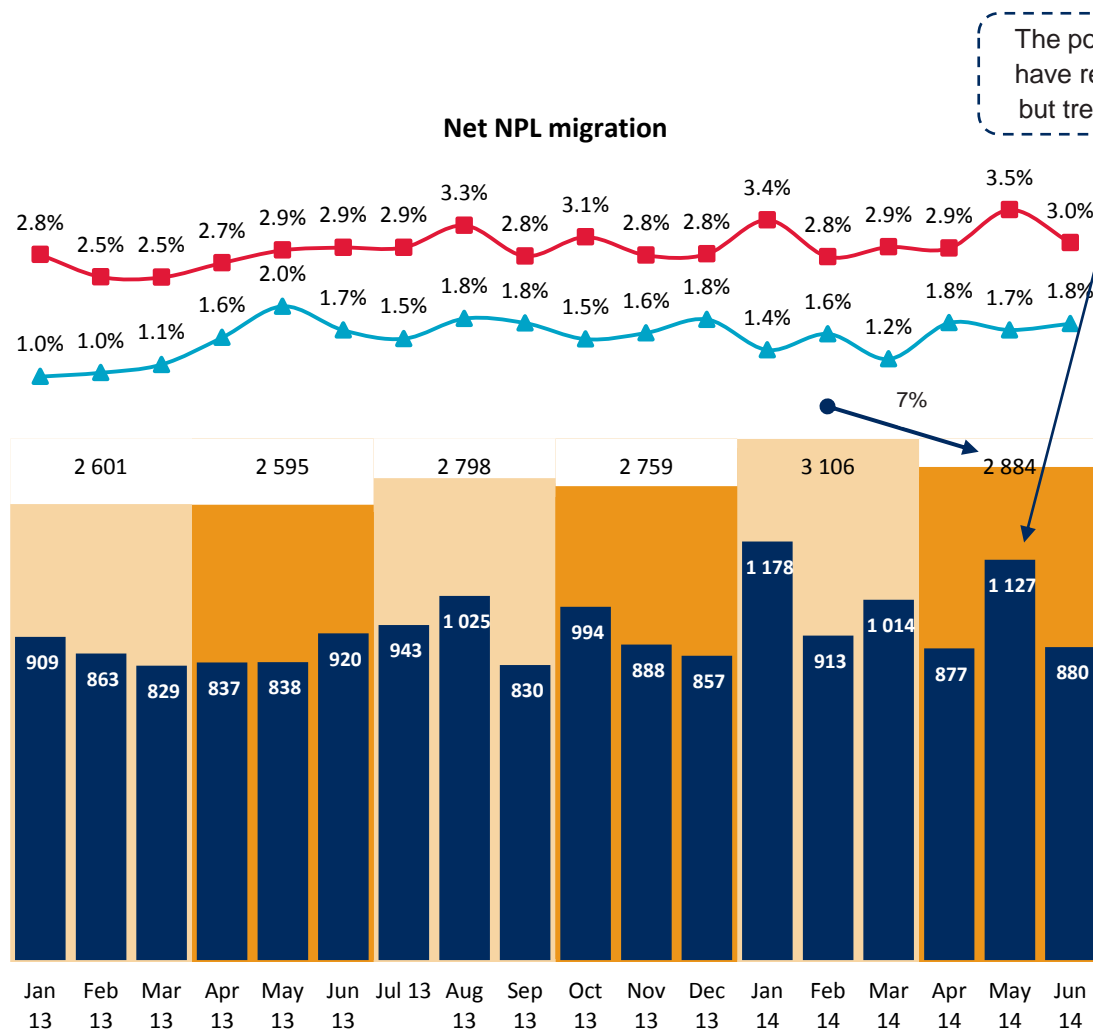


Source: NCR data



Financial trends

- net NPL migration down 7% QoQ



The poorer collections in April and May have resulted in higher NPL migrations but trending lower on a quarterly basis

- A decrease of 7,1% in net NPL formation to R2 884 million in 3Q14 from a peak of R3 106 million in 2Q14
- Negative Impact of April/May collections on May NPL emergence
 - Net NPL emergence for May 2014 was R1 127 million
 - 5 Public/Bank holidays between 15 April to 15 May negatively impacted collections, increasing contractual delinquency and forward NPL migration for May by 0,6% from 2,9% to 3,5% of performing loan balances
 - This added approximately R250 million to NPL migrations (R42 billion x 0,6%)
 - June net NPL migrations were down to R880 million from May's peak

Restatement: Card NPL migrations have been corrected

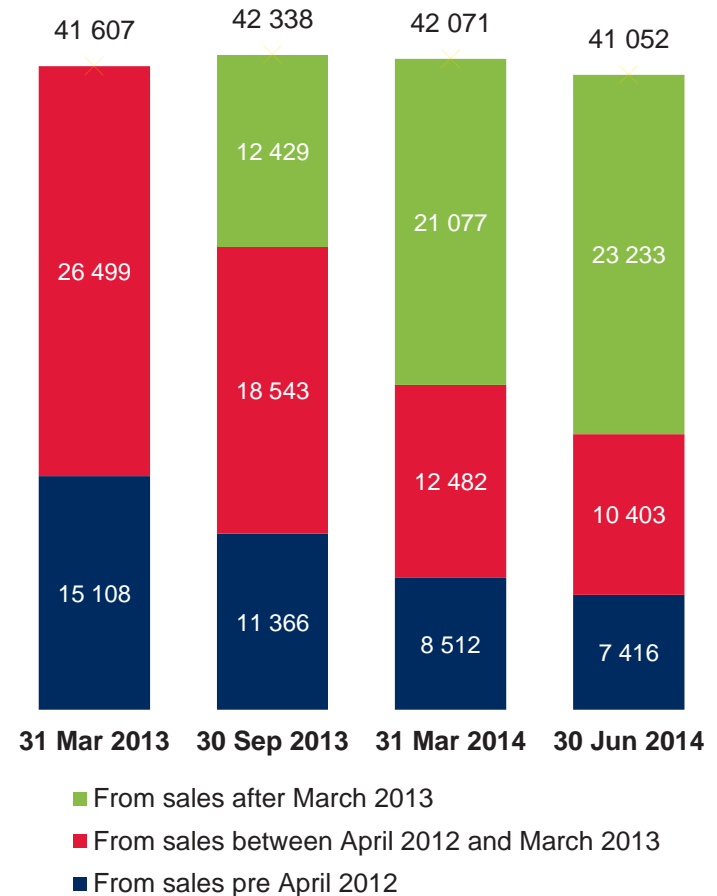


Financial trends

- pre March 2013 business is becoming less significant

- **Poorer quality business pre March 2013 is 25% of performing loans vs. 44% at September 2013**
 - Still showing significantly higher risk emergence than equivalent business written pre March 2012, and post March 2013
 - Higher risk emergence in line with expectations
- **Business written post March 2013 represents 57% of performing loans vs. 29% at September 2013**
 - The overall risk emergence on this tranche of business is lower
 - Business written from Oct – Dec 2013 is showing NPL emergence of 8,9% after 8 months on book, which is 22% better than business written from Oct – Dec 2012, and in line with business written during Jul – Sep 2013 at the same stage

African Bank performing loans



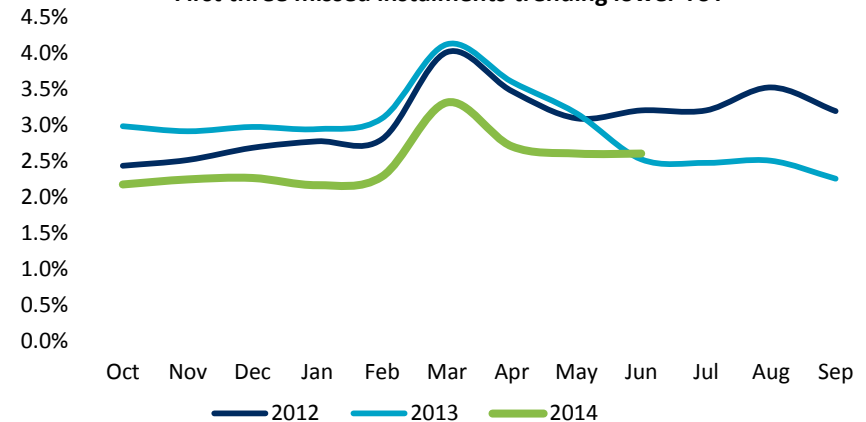


Financial trends

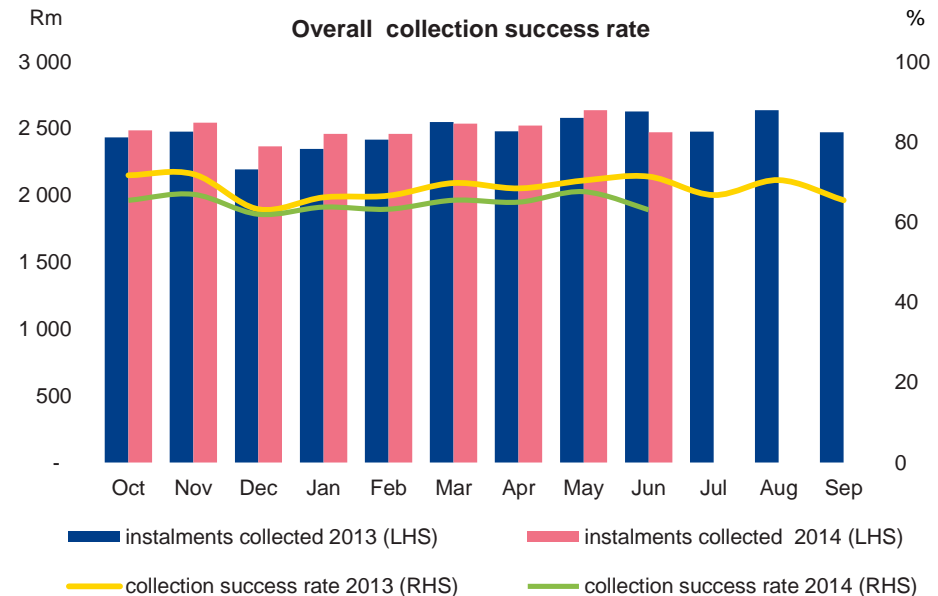
- intensified collection efforts in a difficult environment

- The overall collections run rate is currently at \pm R7 billion per quarter
- First three missed instalments remain steady at 2,6%, which is similar to 2013 level and continues 1% below 2012 levels
- The average collections rate for the 9 months is lower at 65% relative to the 69% for the comparative period
- Specialised collections covering primarily delinquent accounts continue to focus on:
 - Larger account balances, focussing on arrears balances totalling R2,5 billion across 60 000 accounts (R42 000 per account)
 - Earlier hard collection on a champion challenger basis
 - Effective use of summons process in respect of bad faith customers

First three missed instalments trending lower YoY



Overall collection success rate



Outlook

- The Board is satisfied that there is a core “good” advances book and sustainable demand for unsecured credit at the appropriate level of risk to generate commensurate returns for shareholders
- Parts of the advances book may not generate appropriate returns and the intention is to ring-fence this book for the benefit of future returns, improved liquidity and the Moody’s rating of African Bank Limited
- The Board has appointed PwC to assist in the restructuring of the Group
- ABIL will brief the market on the conclusions of the restructuring (EHL disposal, provisioning and related matters), recapitalisation and funding work before the end of August 2014
- ABIL continues to engage constructively with the regulators to assist in ensuring a sustainable unsecured credit market, and believes the outcome of revised regulations will result in a fairer, better and more equitable industry

Shareholders and investors are advised to exercise caution when dealing in the company’s securities until such further announcement is made

Annexures

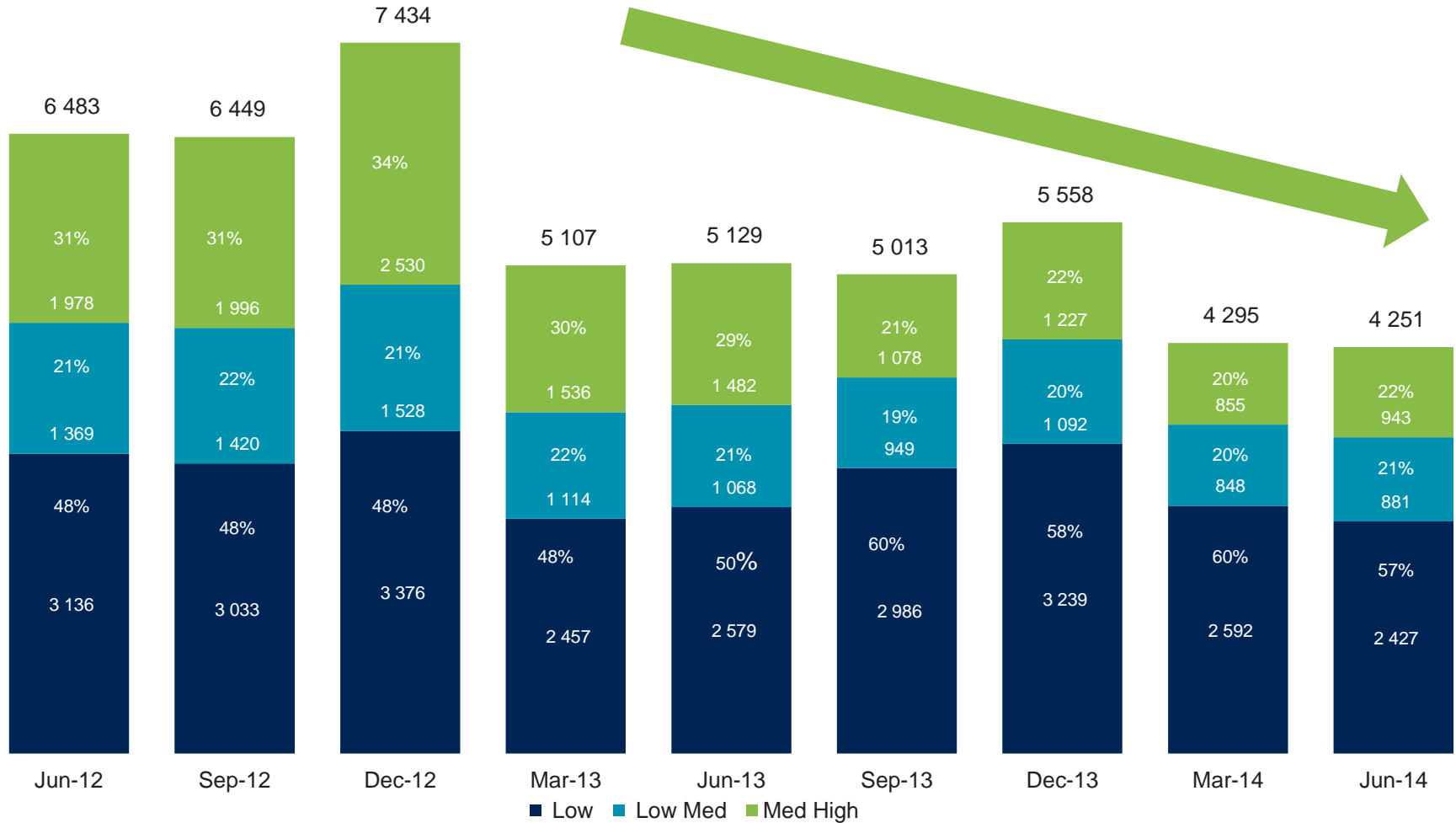




ABIL disbursements by risk category

- with continued focus on lower risk, which has also reduced in nominal terms

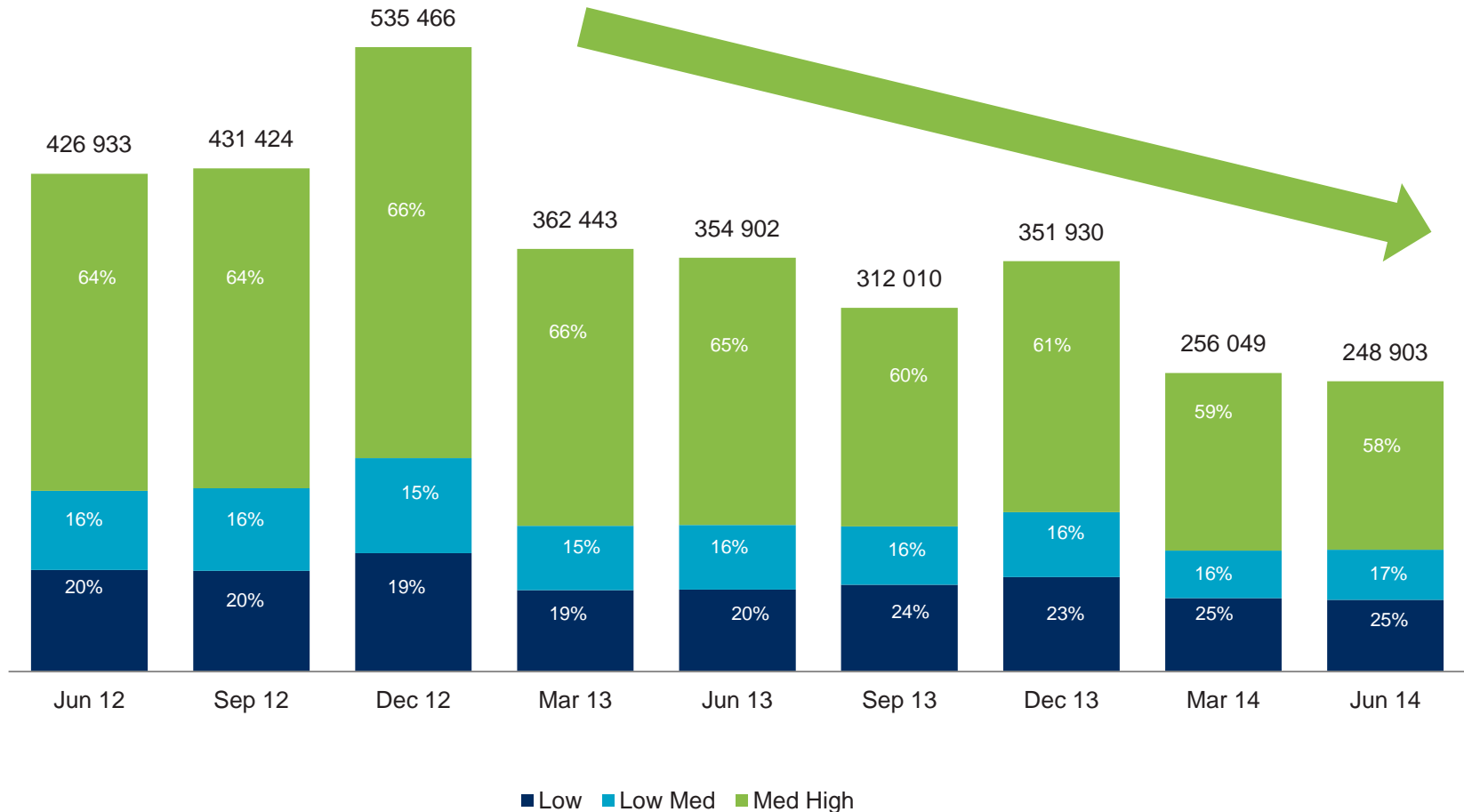
Risk distribution per quarter



Number of loans disbursed by risk distribution

- significant decrease in the number of higher risk accounts

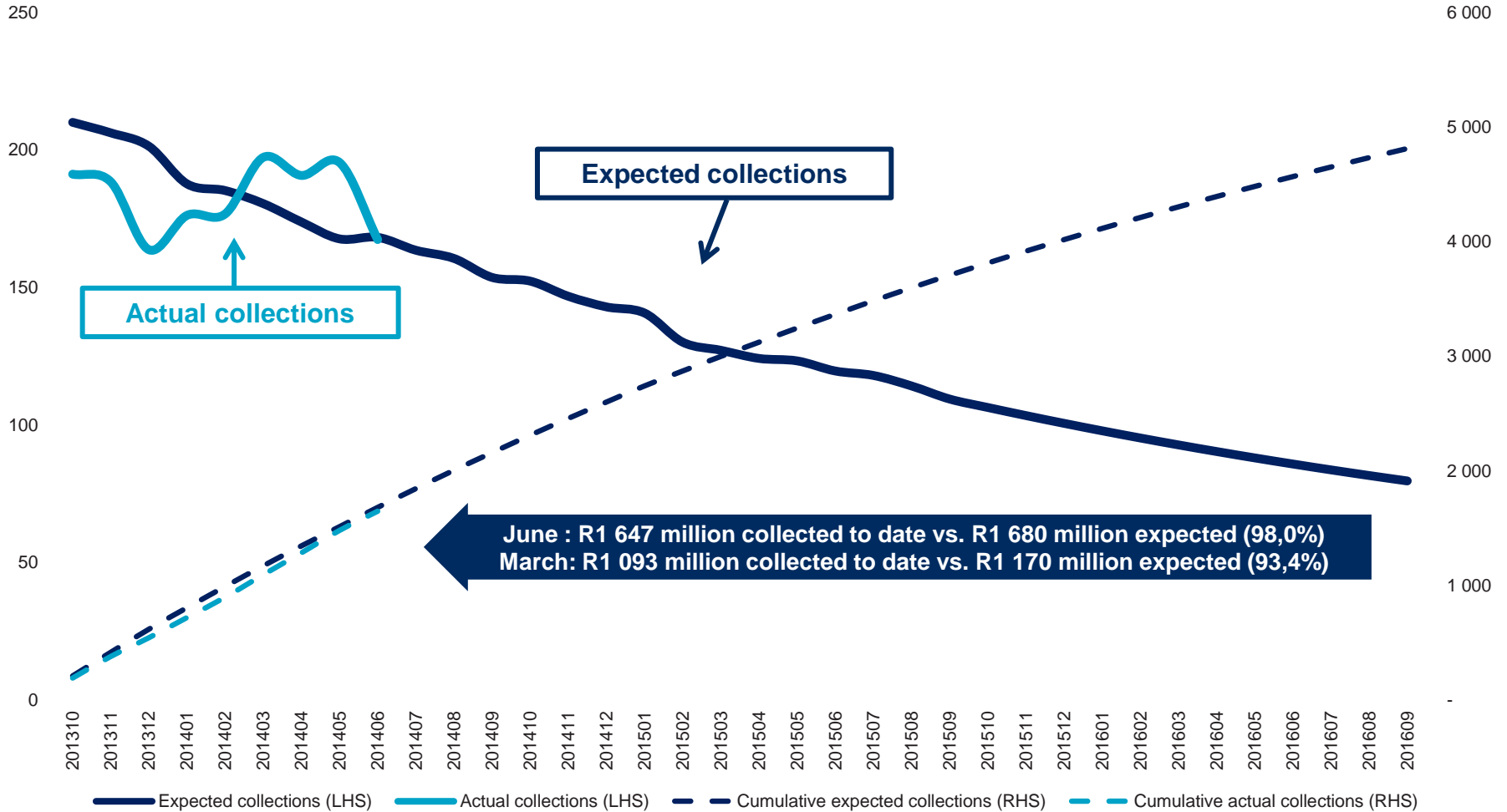
Number of Loans disbursed by risk category per quarter



Back test on September 2013 NPL portfolio

- year to date run rate in line with March 2014 reported numbers

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



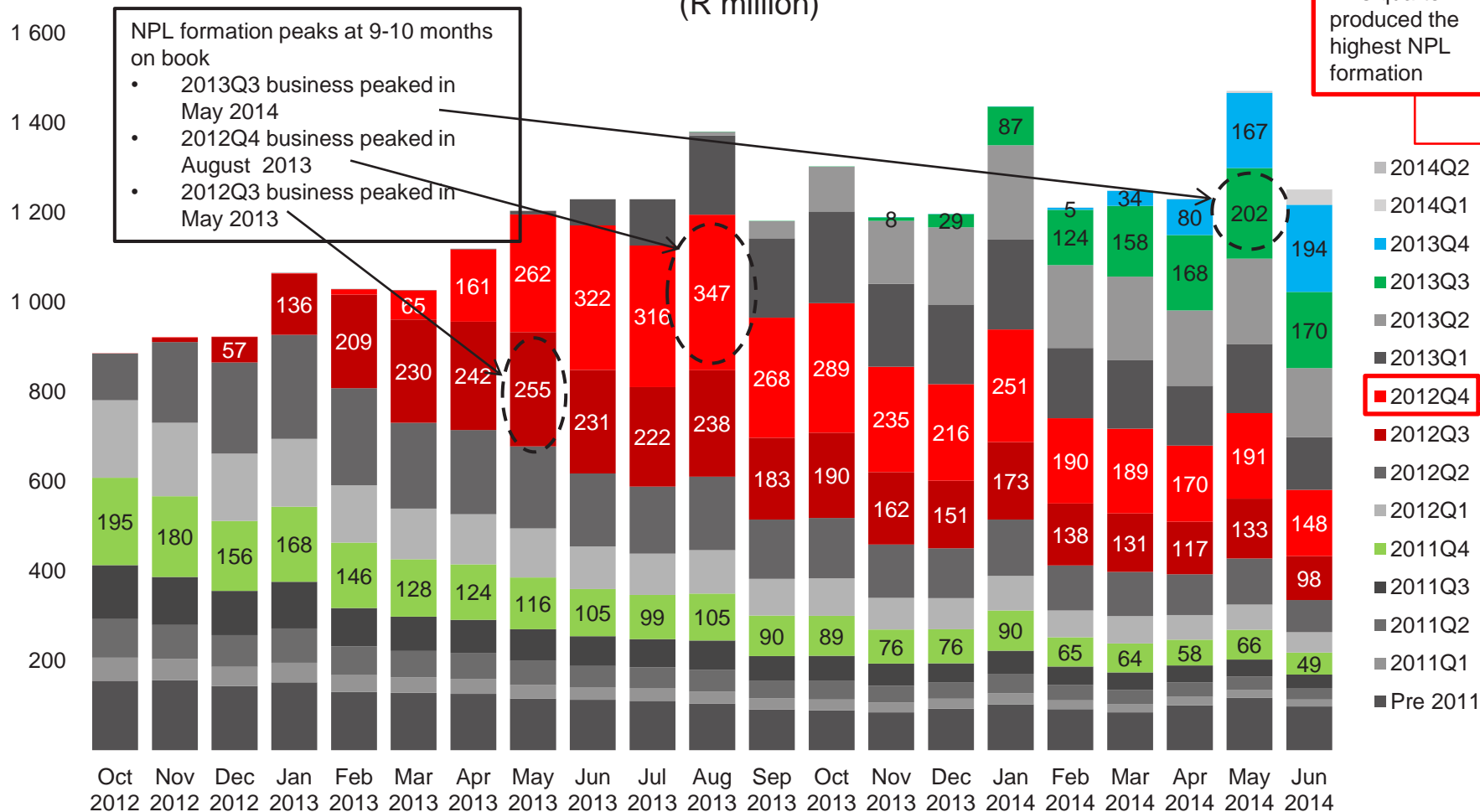
June : R1 647 million collected to date vs. R1 680 million expected (98,0%)
March : R1 093 million collected to date vs. R1 170 million expected (93,4%)



Gross NPL formation

- NPL formation still impacted by 2013 business

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

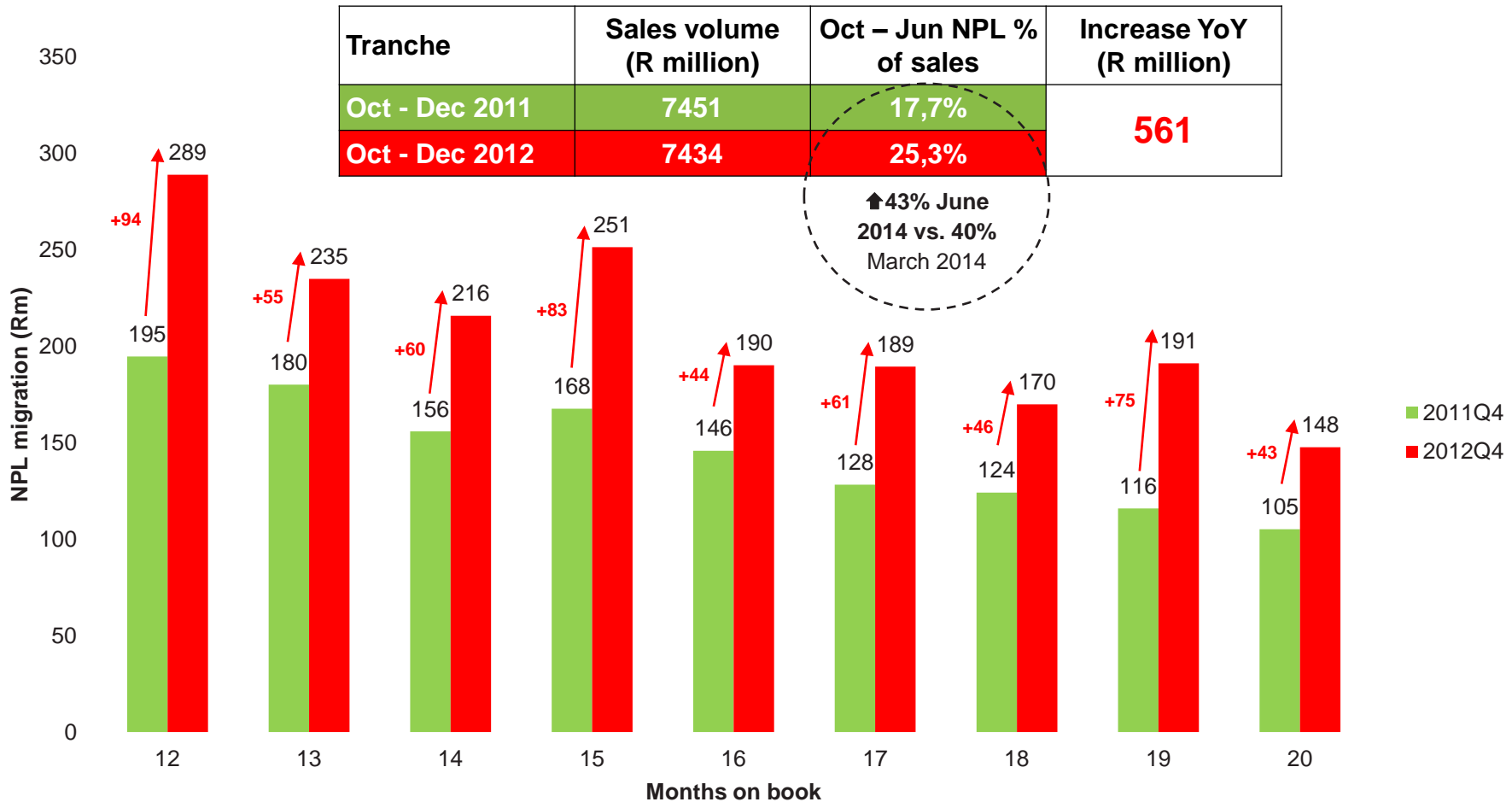


Restatement: Card NPL migrations have been corrected

Further analysis in Annexure

Oct – Dec 2012 business

- continues to have a negative impact on NPL formation



Reporting month: Oct 2012, Nov 2012, Dec 2012, Jan 2013, Feb 2013, Mar 2013, Apr 2013, May 2013, Jun 2013

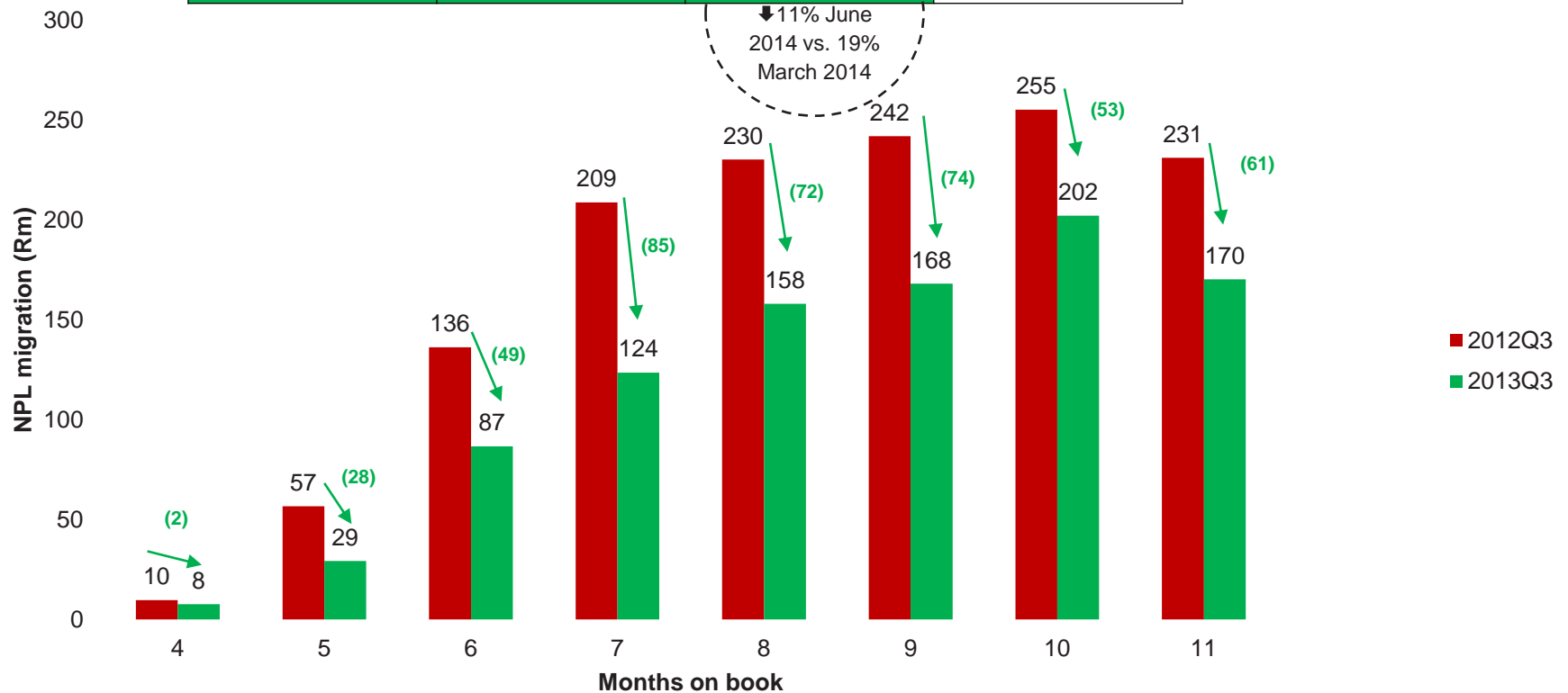
Reporting month: Oct 2013, Nov 2013, Dec 2013, Jan 2014, Feb 2014, Mar 2014, Apr 2014, May 2014, Jun 2014

Restatement: Card NPL migrations have been corrected

Jul – Sep 2013 business

- continues to outperform business from a year earlier

Tranche	Sales volume (R million)	Nov - Jun NPL % of sales	Decrease YoY (R million)
Jul - Sep 2012	6 449	21,2%	424
Jul - Sep 2013	5 015	18,9%	



Reporting month

Nov 2012

Dec 2012

Jan 2013

Feb 2013

Mar 2013

Apr 2013

May 2013

Jun 2013

Reporting month

Nov 2013

Dec 2013

Jan 2014

Feb 2014

Mar 2014

Apr 2014

May 2014

Jun 2014

Restatement: Card NPL migrations have been corrected

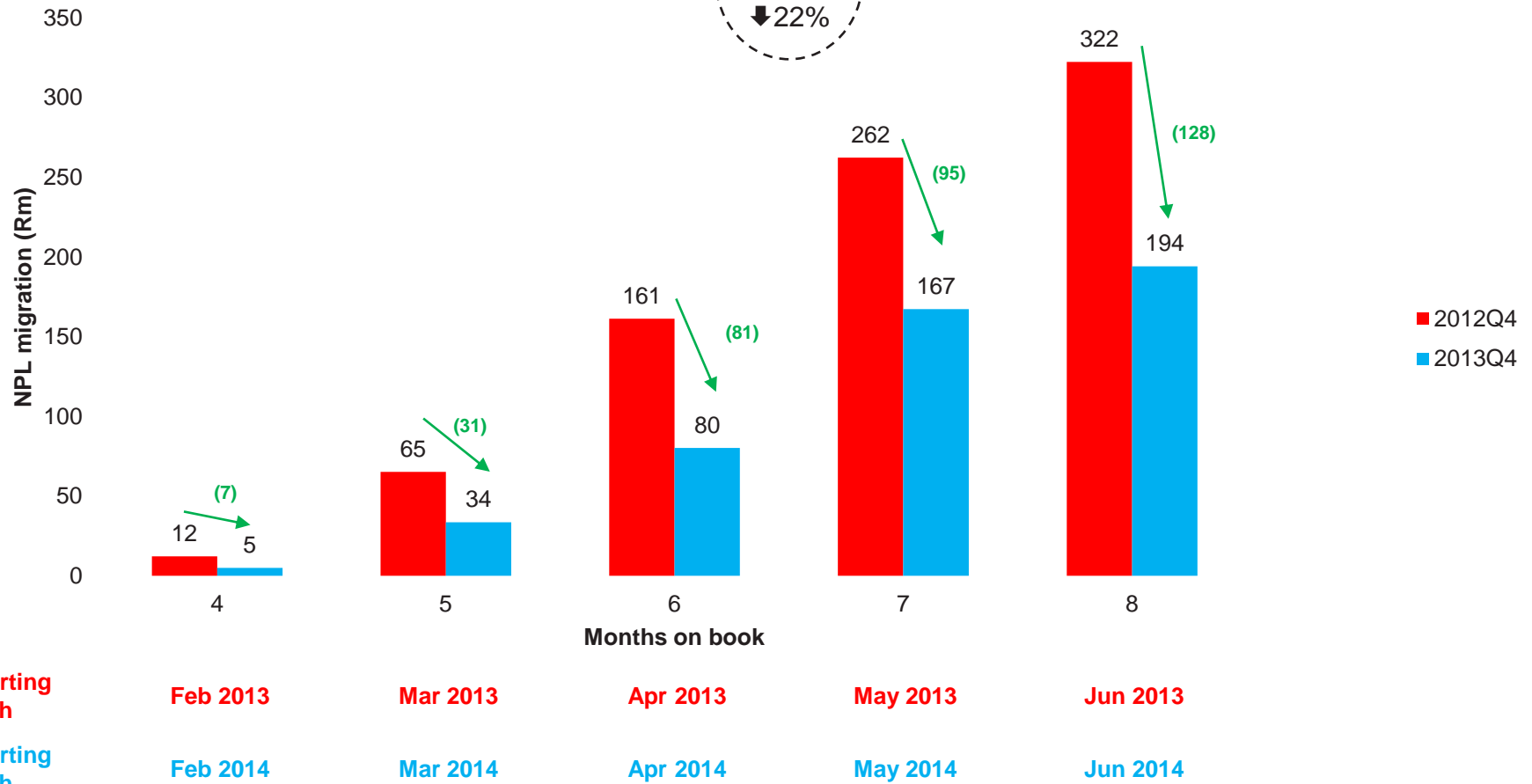


Oct – Dec 2013 business

- following the better trend of the previous quarter's business

Tranche	Sales volume (R million)	Nov - Jun NPL % of sales	Decrease YoY (R million)
Oct - Dec 2012	7 434	11,1%	342
Oct - Dec 2013	5 560	8,6%	

↓22%

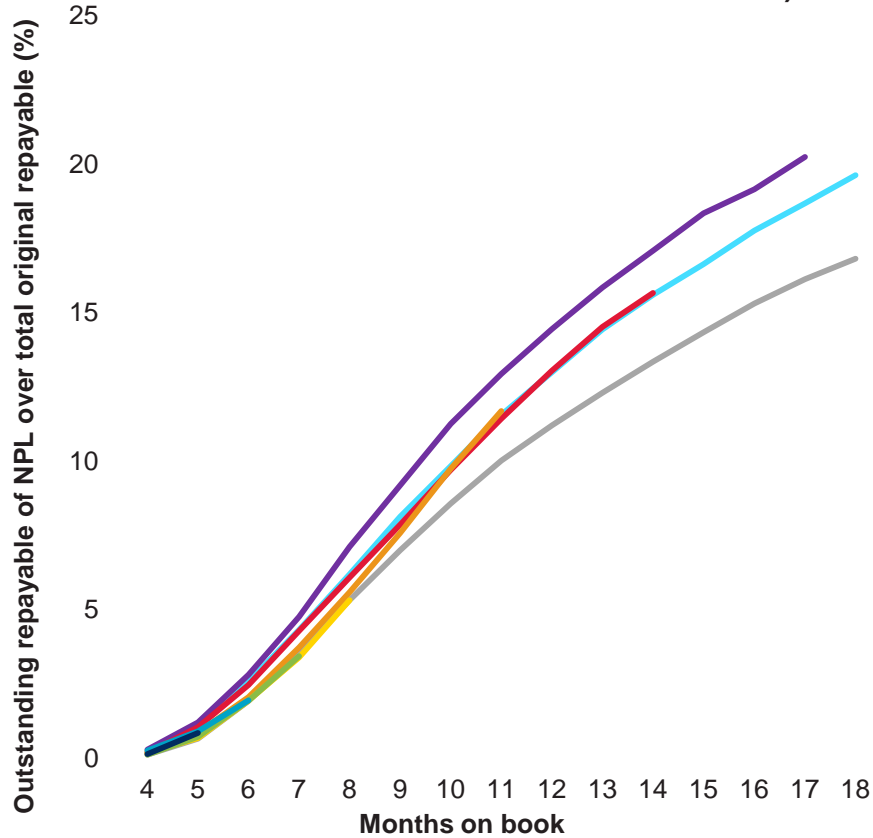




African Bank vintages: 1H14 vs. 3Q14

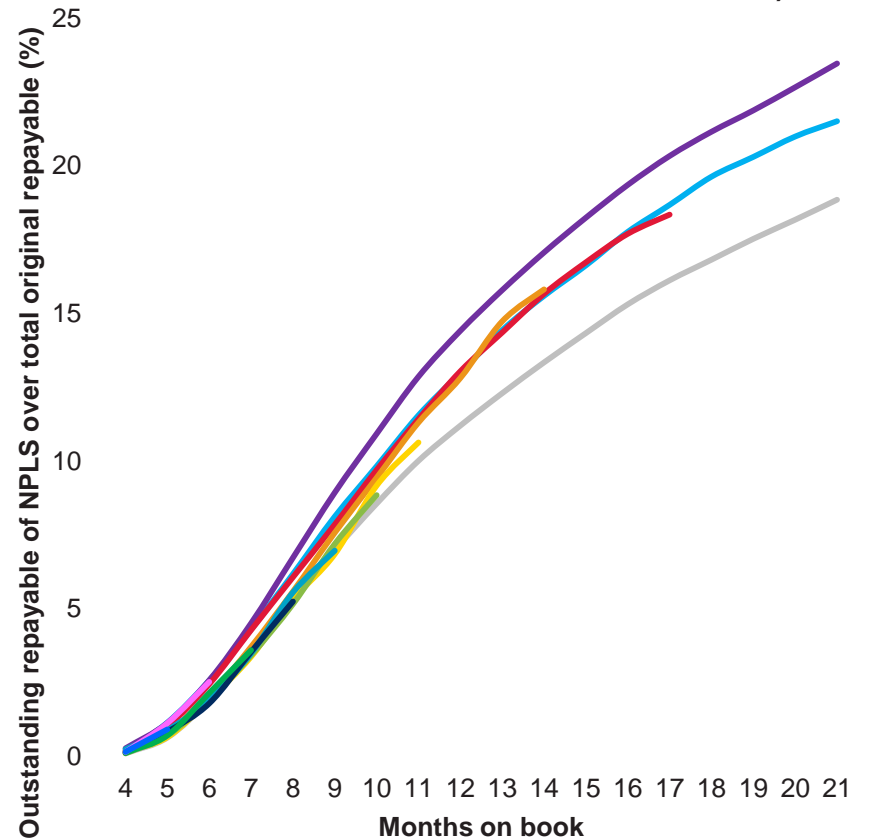


1H14 Vintage graph – African Bank (more than three cumulative missed instalments in arrears)



2012Q2 2012Q3 2012Q4 2013Q1 2013Q2
 Jul 13 Aug 13 Sep 13 Oct 13

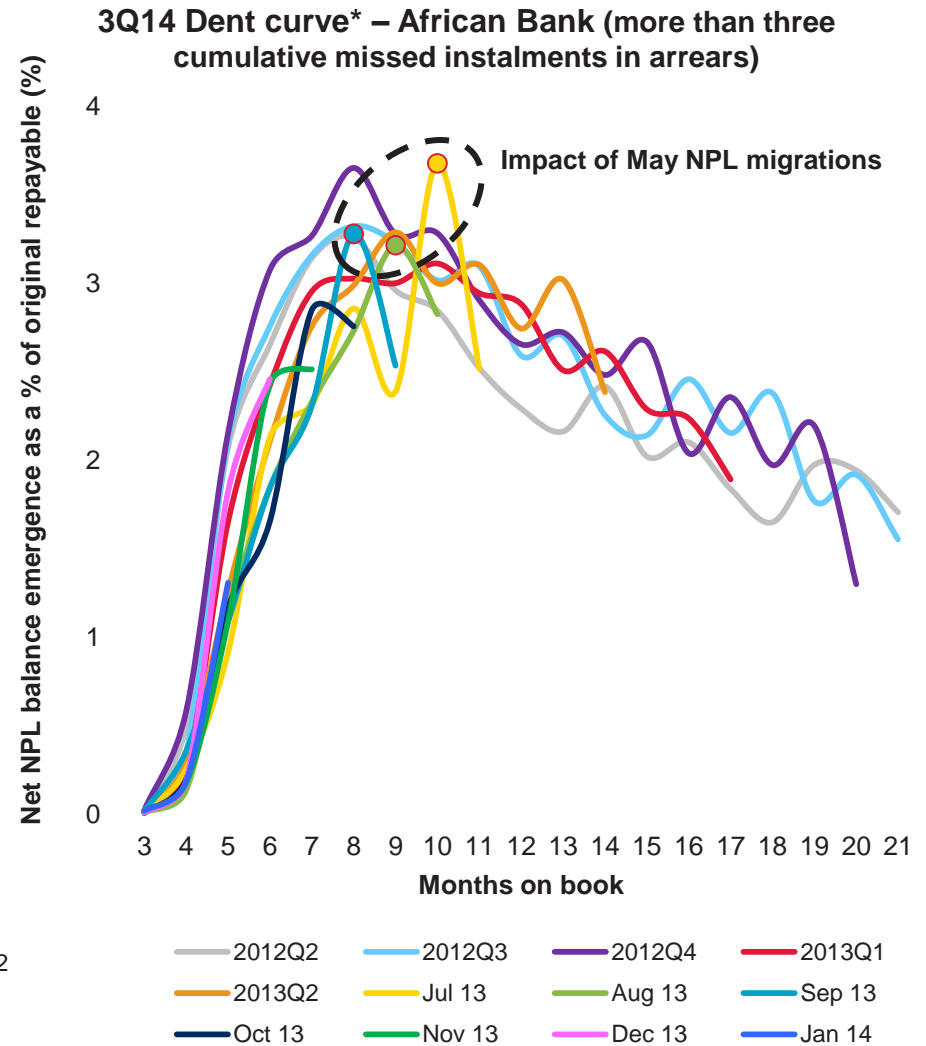
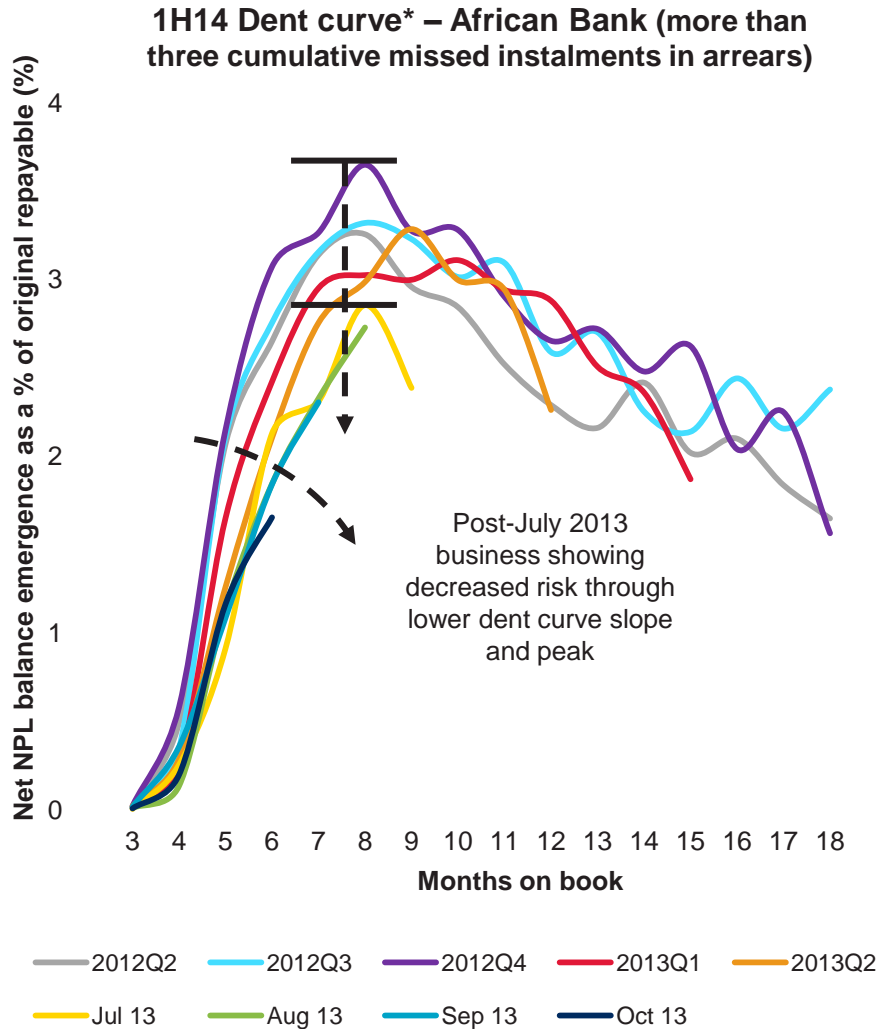
3Q14 Vintage graph – African Bank (more than three cumulative missed instalments in arrears)



2012Q2 2012Q3 2012Q4 2013Q1
 2013Q2 Jul 13 Aug 13 Sep 13
 Oct 13 Nov 13 Dec 13 Jan 14



African Bank dent curves: 1H14 vs. 3Q14

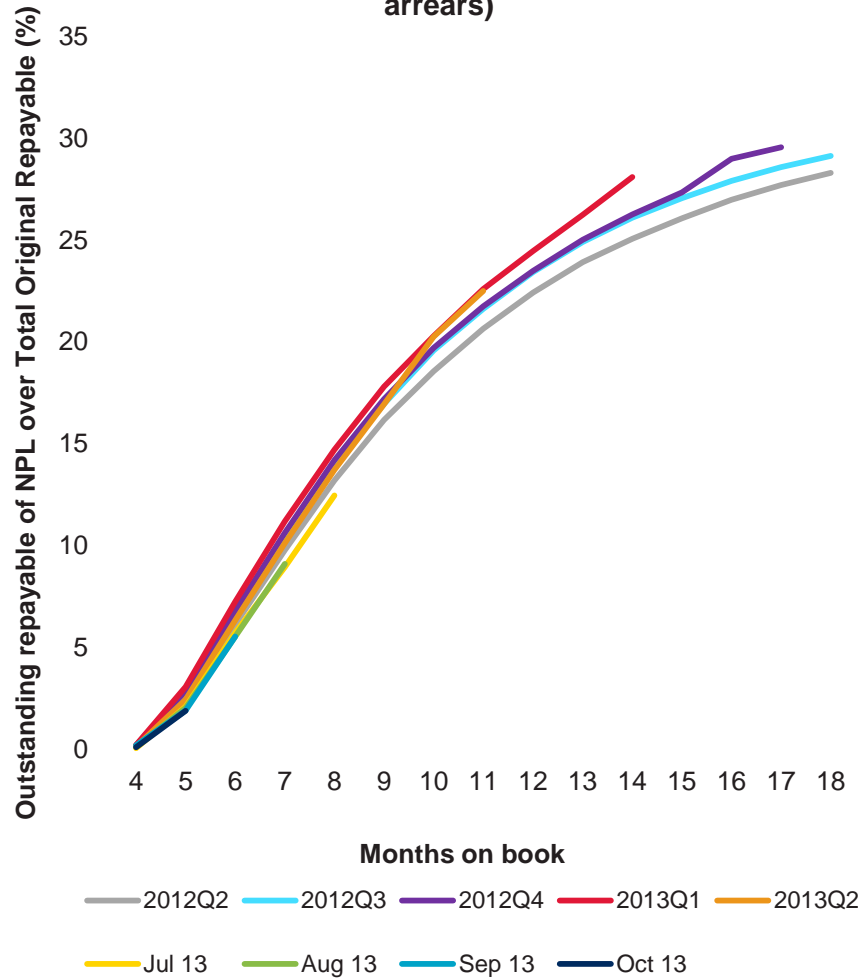


*Dent curves measure the rate of change in NPL formation

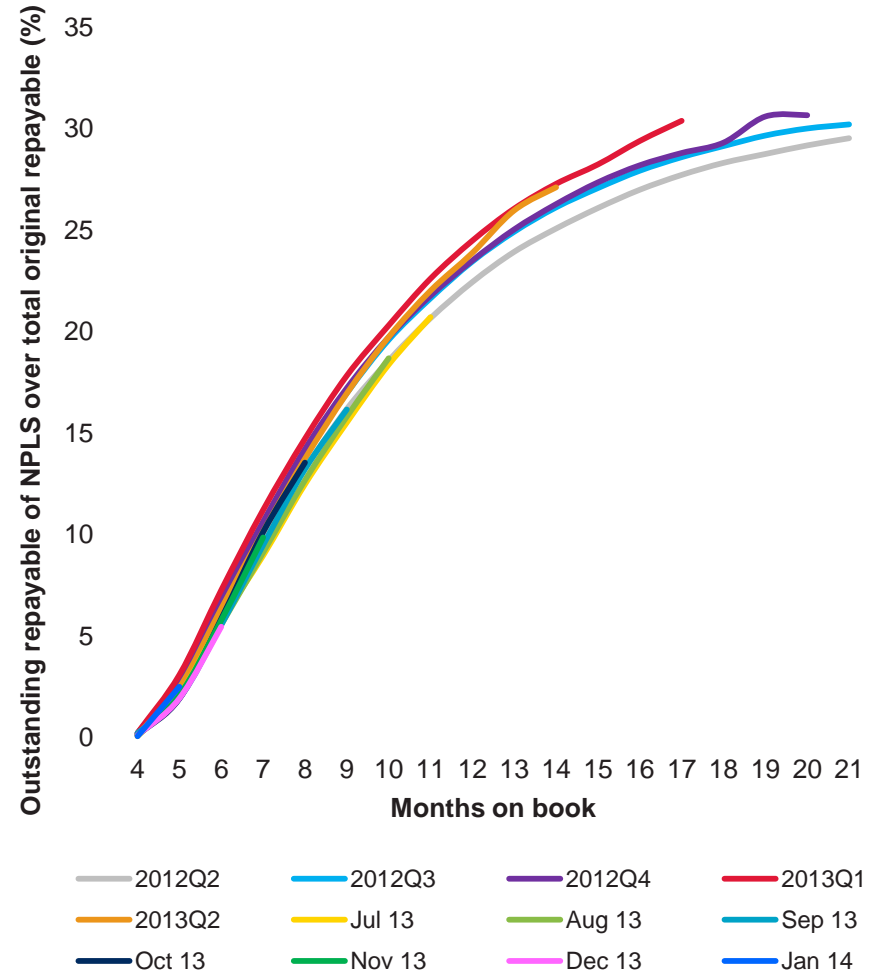


EHL vintages: 1H14 vs. 3Q14

1H14 Vintage graph – Furniture credit (more than three cumulative missed instalments in arrears)



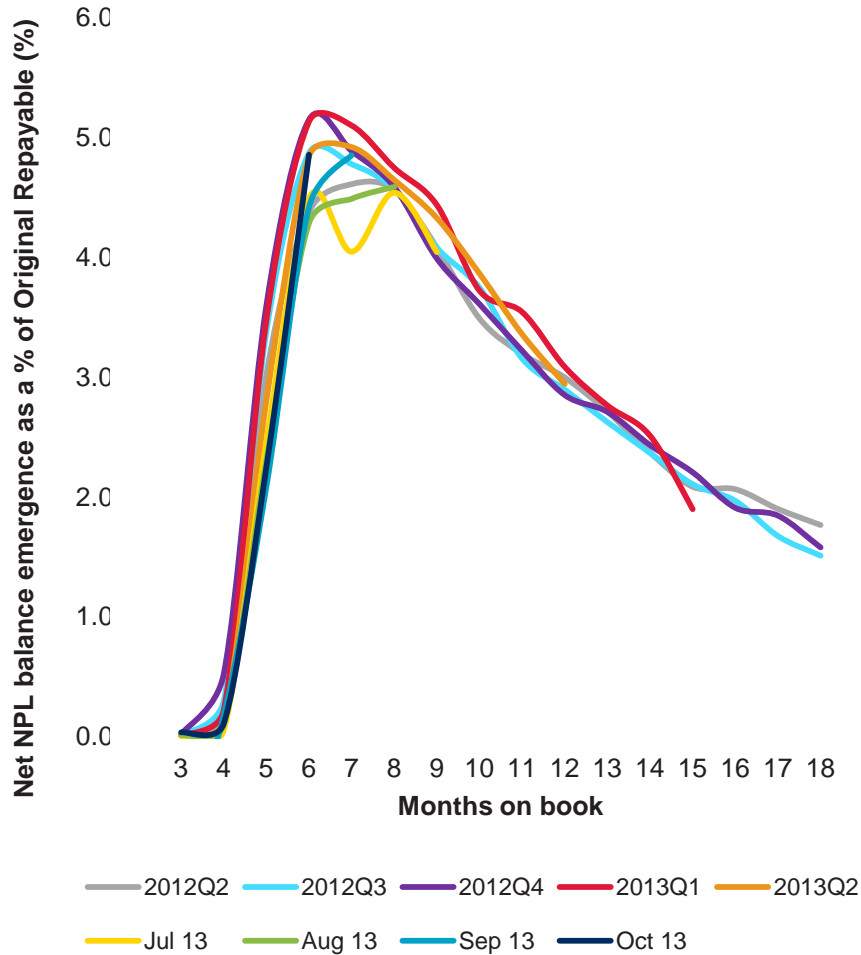
3Q14 Vintage graph – Furniture credit (more than three cumulative missed instalments in arrears)



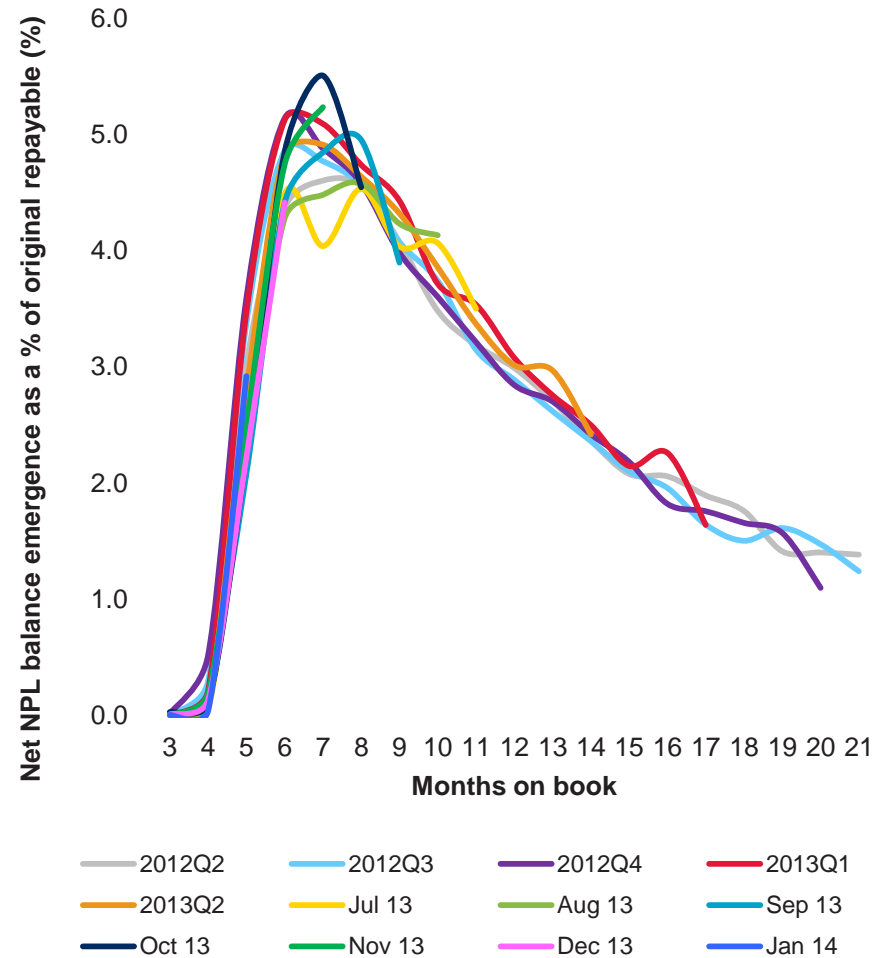


EHL dent curves: 1H14 vs. 3Q14

1H14 Dent curve – Furniture credit (more than three cumulative missed instalments in arrears)



3Q14 Dent curve* – Furniture credit (more than three cumulative missed instalments in arrears)



*Dent curves measure the rate of change in NPL formation

Major risk and term cutback implemented in 2013/14

- aimed to restore risk yield relationship and reduce problem loans in the future

June 2013 implementation

Considerable refinements to the customer acquisition model to increase returns

- ▶ Risk breakouts on middle and high risk customer groupings
- ▶ Far reaching capital and pricing changes implemented
- ▶ Loan sizes for medium and high risk groups reduced by between 7% to 63%
- ▶ Loan terms for medium and high risk groups reduced by between 3 to 24 months
- ▶ Improvements in the proposition for low risk customers rolled out

Impact to date

- ▶ Better early risk experience on business
- ▶ 40% of customers received smaller loans, shorter terms and thus lower instalments
- ▶ Overall decrease on disbursements ($\pm 30\%$) and slow asset growth ($\pm 5\%$), also influenced by lower customer credit appetite
- ▶ Shift in portfolio towards a larger proportion of low risk customers that generally have larger loans

June 2014 implementation

Further risk cutbacks to improve risk adjusted returns

- ▶ Cut back rehabilitation loans further – unfavourable experience
- ▶ Reduced max term from 84 months to 60 months on loan book
- ▶ Maximum loan size reduced from R180K to R160K
- ▶ Further restrictions on Settlement Readvances (SRA's)
- ▶ Increased interest pricing

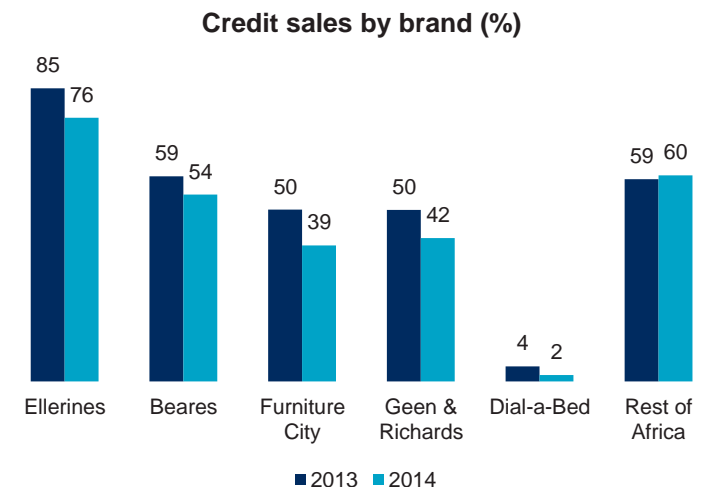
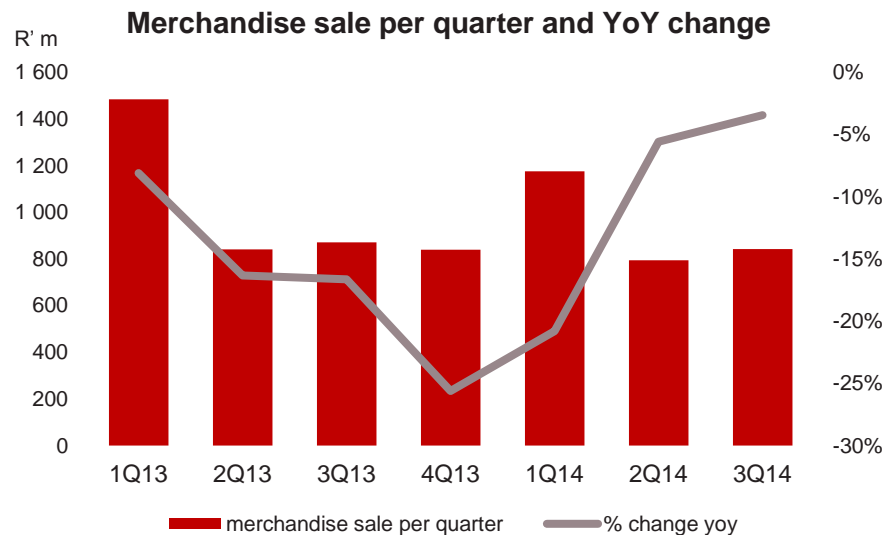
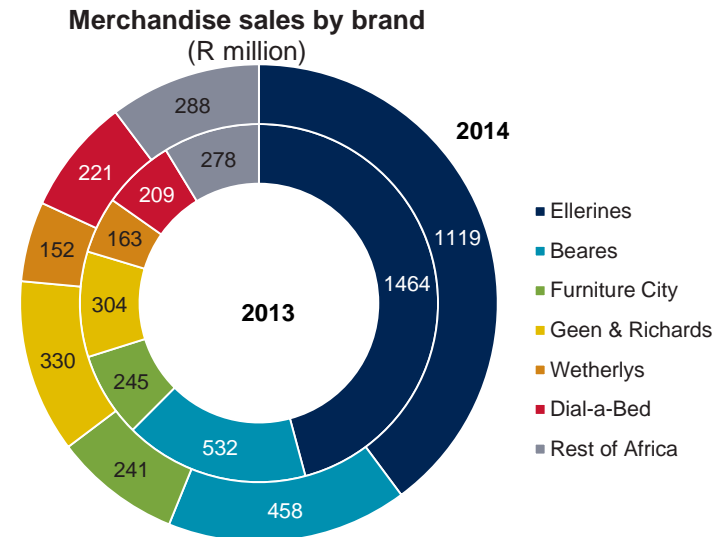
Expected Impact

- ▶ Increase in incoming yield of approximately 3% from July 2014 onwards
- ▶ Reduction in term to < 45 months
- ▶ Reduction in average loan size
- ▶ Further 17% to 22% decrease in disbursements
- ▶ Decrease in total advances over near term
- ▶ Restoration of Risk/Yield relationship < 40% over the longer term

Retail unit

- brand analysis 9 months to 30 June 2014

- ▶ Merchandise sales for the period of R2,8 billion decreased 12% YoY compared to a 15% YoY decrease as at March 2014
- ▶ The mix between cash and credit sales shifted to 54% credit sales year to date compared to 63% for the same period in 2013
 - › Credit sales decreased by 25% to R1,5 billion from R2,0 billion
 - › Cash sales increased by 9% to R1,3 billion from R1,2 billion



Regulatory update

- regulatory developments affecting Credit Insurance released during 3Q14

- **Department of Trade & Industry – National Credit Act Amendment Bill**
 - Promulgated 16 May 2014, implementation date to be confirmed
 - Bill provided for a form of price regulation in consultation with Minister of Finance
 - Regulations to NCA published 1 August 2014
 - We continue to engage through industry bodies in providing input to NCR process
 - Our cover is comprehensive and in line with target market needs; hopeful that a fair balance will be struck between credit risk management and outcomes for customers
- **Ministry of Finance – National Treasury “Technical report on the consumer credit insurance market in South Africa”**
 - Published 3 Jul 2014 for comment by 30 September 2014 and effective date to be confirmed
 - Summarises different options for regulatory intervention & reform, covering compulsory credit insurance
 - Report recognises the benefits, to both consumers and credit providers, of appropriately designed and delivered CCI
 - Includes proposals on price capping and/or market conduct interventions
 - ABIL credit life claims ratio above min threshold of 25% deemed fair by report
 - Product and market conduct changes will be made in line with final outcomes (as necessary)
 - Product insurance to be reviewed in line with ABIL customer value proposition and final reforms