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ABL/ABLP – African Bank Investments Limited – Unaudited results and cash

ABL ABLP

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ABL/ABLP – African Bank Investments Limited – Unaudited results and cash

dividend declarations for the six months ended 31 March 2012

African Bank Investments Limited

(Registration Number 1946/021193/06)

(Incorporated in the Republic of South Africa)

(Registered bank controlling company)

Ordinary Share Code: ABL

ISIN: ZAE000030060

Preference Share Code: ABLP

ISIN: ZAE000065215

('ABIL' or 'the group')

Return on equity

20,3%

UP FROM 17,5%

Economic profit

R390 million

UP FROM R155 MILLION

Headline earnings

R1,4 billion

UP 25%

Headline EPS

170,4 cents

UP 25%

Ordinary DPS

85 cents

UNCHANGED

Group income statement

for the six months ended 31 March 2012

R million	% change	Unaudited 6 months to 31 Mar 2012	Unaudited 6 months to 31 Mar 2011	Audited 12 months to 30 Sep 2011
Gross margin on retail business	6	1 172	1 105	2 083
Interest income on advances	32	4 557	3 440	7 308
Assurance income	40	1 976	1 410	2 962
Non-interest income	13	1 616	1 434	2 930
Income from operations	26	9 321	7 389	15 283
Credit impairment charge	38	(2 385)	(1 725)	(3 596)
Credit life claims	30	(395)	(304)	(612)
Risk-adjusted income from operations	22	6 541	5 360	11 075
Product insurance claims	11	(42)	(38)	(68)
Other interest and investment income	(11)	144	161	339
Interest expense	33	(1 762)	(1 328)	(2 850)
Operating costs	14	(2 795)	(2 450)	(4 931)
Indirect taxation: VAT	2	(43)	(42)	(67)
Profit from operations	23	2 043	1 663	3 498
Capital items		(6)	0	1
Profit before taxation	22	2 037	1 663	3 499
Direct taxation: STC	(2)	(79)	(81)	(151)
Direct taxation:	21	(569)	(470)	(977)

Normal

Profit for the period	25	1 389	1 112	2 371

Reconciliation of headline earnings
for the six months ended 31 March 2012

		Unaudited	Unaudited	Audited
		6 months to	6 months to	12 months to
R million	% change	31 Mar 2012	31 Mar 2011	30 Sep 2011
Profit for the period (basic earnings)	25	1 389	1 112	2 371
Preference shareholders	35	(23)	(17)	(32)
Basic earnings attributable to ordinary shareholders	25	1 366	1 095	2 339
Adjustments for non-headline items:				
Capital items		6	0	0
Tax thereon		(2)	0	0
Headline earnings	25	1 370	1 095	2 339
Number of shares in issue (net of treasury)		804,1	803,7	803,7
Weighted number of shares in issue		803,9	803,7	803,7
Fully diluted number of shares in issue		804,0	803,8	803,8
Basic earnings per share	25	169,9	136,3	291,0
Fully diluted basic earnings per share	25	169,9	136,3	291,0
Headline earnings	25	170,4	136,3	291,0

per share

Fully diluted headline earnings per share	25	170,4	136,3	291,0

Group statement of comprehensive income
for the six months ended 31 March 2012

		Unaudited	Unaudited	Audited
		6 months to	6 months to	12 months to
R million	% change	31 Mar 2012	31 Mar 2011	30 Sep 2011
Profit for the period	25	1 389	1 112	2 371
Other comprehensive income				
Exchange differences on translating foreign operations	>100	(4)	(1)	5
Movement in cash flow hedge reserve	(71)	44	153	(2)
IFRS 2 reserve transactions (employee incentives)	>100	46	9	(6)
Other comprehensive income for the period, net of tax	(47)	86	161	(3)
Total comprehensive income for the period	16	1 475	1 273	2 368

Group statement of financial position

as at 31 March 2012

R million	% change	Unaudited 31 Mar 2012	Unaudited 31 Mar 2011	Audited 30 Sep 2011
ASSETS				
Short term deposits and cash	1	4 733	4 689	3 198
Statutory assets – bank and insurance	39	3 586	2 574	2 775
Inventories	4	847	816	885
Other assets	>100	1 006	432	872
Taxation	73	26	15	13
Net advances	36	41 014	30 262	35 099
Deferred tax asset	>100	534	256	465
Policyholders` investments	(100)	0	8	1
Property and equipment	34	962	716	852
Intangible assets	(10)	718	797	761
Goodwill	–	5 472	5 472	5 472
Total assets	28	58 898	46 037	50 393
LIABILITIES AND EQUITY				
Short term funding	54	4 393	2 850	1 666
Other liabilities	12	1 841	1 650	2 013
Taxation	84	105	57	72
Deferred tax liability	(14)	219	255	229
Life fund reserve	(100)	0	8	1
Bonds and other long term funding	36	34 200	25 128	29 672
Subordinated bonds	13	3 105	2 757	2 775
Total liabilities	34	43 863	32 705	36 428
Ordinary shareholders` equity	8	13 905	12 849	13 246

Preference shareholders` equity	>100	1 130	483	719
Total equity (capital and reserves)	13	15 035	13 332	13 965
Total liabilities and equity	28	58 898	46 037	50 393

Statement of changes in equity

for the six months ended 31 March 2012

	Ordinary shares			
R million	Share capital and premium	Distri-butable reserves	Share-based payment reserve	Other
Balance at 30 September 2010 (audited)	9 151	2 672	813	(240)
Dividends paid		(804)		
Employee Share Trust less share issued to employees (cost)				1
Transfer from insurance contingency reserve		8		(8)
Total comprehensive income for the period		1 095	9	152
Balance at 31 March 2011 (unaudited)	9 151	2 971	822	(95)
Dividends paid		(684)		
Issue of preference shares (net)				
Loss incurred on group employees acquiring ABIL Share Trust shares less dividends received		1		
Transfer from share-based payment reserve		726	(726)	
Transfer to insurance		5		(5)

contingency reserve				
Total comprehensive income for the period		1 244	(15)	(149)
Balance at 30 September 2011 (audited)	9 151	4 263	81	(249)
Dividends paid		(804)		
Issue of preference shares (net)				
Loss incurred on group employees acquiring ABIL Share Trust shares less dividends received		3		
Employee Share Trust less share issued to employees (cost)				8
Transfer to insurance contingency reserve		(4)		4
Total comprehensive income for the period		1 366	46	40
Balance at 31 March 2012 (unaudited)	9 151	4 824	127	(197)

R million	Preference share capital and premium	Total
Balance at 30 September 2010 (audited)	483	12 879
Dividends paid	(17)	(821)
Employee Share Trust less share issued to employees (cost)		1
Transfer from insurance contingency reserve		
Total comprehensive income for the	17	1 273

period		
Balance at 31 March 2011 (unaudited)	483	13 332
Dividends paid	(15)	(699)
Issue of preference shares (net)	236	236
Loss incurred on group employees acquiring ABIL Share Trust shares less dividends received		1
Transfer from share-based payment reserve		
Transfer to insurance contingency reserve		
Total comprehensive income for the period	15	1 095
Balance at 30 September 2011 (audited)	719	13 965
Dividends paid	(23)	(827)
Issue of preference shares (net)	411	411
Loss incurred on group employees acquiring ABIL Share Trust shares less dividends received		3
Employee Share Trust less share issued to employees (cost)		8
Transfer to insurance contingency reserve		
Total comprehensive income for the period	23	1 475
Balance at 31 March 2012 (unaudited)	1 130	15 035

Notes

1. Treasury shares		31 Mar 2012	30 Sep 2011	31 Mar 2011
Treasury shares at cost	R million	3	11	11
Number of shares held	million	0,1	0,5	0,5
Average cost per	Rand	25,00	23,24	23,24

share

2. Number of ordinary shares at 31 March 2012	Total	Weighted	Diluted
Number of shares in issue at the beginning of the year	804 175 200	804 175 200	804 175 200
Treasury shares on hand	(120 000)	(256 433)	(256 433)
Dilution as a result of outstanding options			65 650
	804 055 200	803 918 767	803 984 417

Group statement of cash flows

for the six months ended 31 March 2012

	Unaudited	Unaudited	Audited
	6 months to	6 months to	12 months to
R million	31 Mar 2012	31 Mar 2011	30 Sep 2011
Cash generated from operations	4 860	3 968	7 746
Cash received from lending and insurance activities and cash reserves	10 825	8 882	18 329
Recoveries on advances previously written off	98	83	213
Cash paid to funders, staff, suppliers and insurance beneficiaries	(6 063)	(4 997)	(10 796)
Increase in gross advances	(8 352)	(6 780)	(13 605)
Decrease in working capital	(321)	(208)	(398)
Decrease/(increase) in inventories	38	35	(34)
Increase in other assets	(115)	(111)	(577)

(Decrease)/increase in other liabilities	(244)	(132)	213
Indirect and direct taxation paid	(808)	(534)	(1 288)
Cash inflow from equity accounted incentive transactions	11	1	2
Cash outflow from operating activities	(4 610)	(3 553)	(7 543)
Cash outflow from investing activities	(618)	(800)	(1 252)
Acquisition of property and equipment (to maintain operations)	(227)	(192)	(483)
Disposal of property and equipment	13	12	80
Disposal of investment			1
Other investing activities	(404)	(620)	(850)
	7 169	5 773	8 688
Cash inflow from financing activities			
Cash inflow from funding activities	7 585	6 594	9 972
Issue of preference shares	411		236
Preference shareholders` payments and transactions	(23)	(17)	(32)
Ordinary shareholders` payments and transactions	(804)	(804)	(1 488)
Increase/(decrease) in cash and cash equivalents	1 941	1 420	(107)
Cash and cash equivalents at the beginning of the period	3 609	3 716	3 716
Cash and cash equivalents at the end of the period	5 550	5 136	3 609

Made up as follows:

Short term deposits and cash	4 733	4 689	3 198
Statutory cash reserves – insurance	817	447	411
	5 550	5 136	3 609

Group segmental analysis

for the six months ended 31 March 2012

Segment income from operations

R million	Unaudited 6 months to 31 Mar 2012	Unaudited 6 months to 31 Mar 2011	Audited 12 months to 30 Sep 2011
Banking unit	7 723	5 811	12 354
Retail unit	1 706	1 652	3 051
Consolidation adjustments	(108)	(74)	(122)
Group	9 321	7 389	15 283

Intersegment revenues

R million	Unaudited 6 months to 31 Mar 2012	Unaudited 6 months to 31 Mar 2011	Audited 12 months to 30 Sep 2011
Banking unit			
Retail unit	108	74	122
Consolidation adjustments			
Group	108	74	122

Segment profit after taxation

R million	Unaudited 6 months to 31 Mar 2012	Unaudited 6 months to 31 Mar 2011	Audited 12 months to 30 Sep 2011
Banking unit	1282	1 050	2 334
Retail unit	187	144	190

Consolidation adjustments	(80)	(82)	(153)
Group	1 389	1 112	2 371

OVERVIEW

Financial results

High levels of focus and energy from our staff, the continued positive response from customers to the group`s credit and retail product offerings, strong efficiency gains at EHL, as well as the increased African Bank footprint through the EHL distribution network, all contributed to the operational performance in the six months ended 31 March 2012.

The trading environment during this period was characterised by stable economic conditions, but with increasing pressure due to high fuel and electricity prices, high supply of credit, continued deflation in durable goods and intense competition in both the credit and retail segments.

ABIL reported a return on equity of 20,3% for the six months to 31 March 2012 (H1 2011: 17,5%) and an economic profit, after charging for its cost of equity, of R390 million (H1 2011: R155 million). Headline earnings increased by 25% to R1 370 million (H1 2011: R1 095 million), as did headline earnings per share to 170,4 cents (H1 2011: 136,3 cents).

The Banking unit produced a return on equity of 22,9%, relative to 21,5% in the equivalent period in 2011. The unit grew economic profit by 47% to R460 million and headline earnings by 22% to R1 259 million (H1 2011: R1 033 million). The Bank benefited from strong sales and advances growth, a slower reduction in yield than in recent years and stable asset quality, while high cost growth and an elevated bad debt charge were detractors.

The Retail unit generated a return on sales of 7,3%, a return on equity of 14,1% and decreased its economic loss to R5 million from R75 million in the previous period. Headline earnings increased 33% to R191 million (H1 2011: R144 million), as more efficient operations and firmer margins provided operating leverage in the face of modest sales growth. The turnaround in some of the EHL brands also provided impetus to the earnings growth.

Growth in unsecured lending

There has been much debate in the market about the high growth in unsecured lending and the possibility of a credit bubble forming. Experience has shown that wherever there is a rapid expansion of credit markets, heightened caution is required. These cycles normally take 18 to 24 months to play out. There are signs of increased stress in certain sectors of the market.

What is clear is that the lending market is changing and that competition continues to intensify. Lending has moved away from mortgages and instalment credit to unsecured lending for a variety of reasons, not least of which is to improve margins and ultimately, risk-adjusted profitability. Customers are encouraged to migrate to unsecured credit for their additional financial needs. This is particularly evident in the growing number of higher income earners in this segment of the market who, even in a rapidly growing market, have almost doubled as a percentage of the unsecured market between 2008 and 2011.

In the light of the surge in unsecured lending the National Credit Regulator (NCR) is in the process of conducting a number of enquiries and investigations relating to unsecured lending. These enquiries and investigations are market related, product related, general information gathering and related to possible reckless lending. The South Africa Reserve Bank (SARB) also commissioned a study into unsecured lending to understand the current market conditions in the banking sector, while the NCR`s exercise includes the registered credit providers outside the banking sector.

Evidence suggests that the real growth in personal disposable income, reducing household debt levels and stable to reducing debt service costs as term lengthened, have protected disposable income. However there are groups of customers who are overextending themselves financially although we have not seen a growing trend of this amongst our customers. ABIL has also initiated preventative action some time ago by making its underwriting criteria and affordability tests more stringent, to ensure that we reduce our potential exposure to customers who are displaying undue appetite for credit.

It is also essential however, not to lose sight of what the borrowings are used for. Research shows our customers have consistently utilised more than 50% of their borrowings for housing, home improvements and education. This steady trend of customers who use our credit to improve their daily lives and grow their families` futures, is what reinforces to us that our vision is worth pursuing.

STRATEGIC INITIATIVES

Progress has again been made over the past six months in the group`s strategic initiatives. These are discussed in more detail below.

Transforming our culture

The group showed that energy and an impetus among our people could produce robust results in a subdued economic environment. We remain convinced that the pursuit of a healthy, people-orientated culture, where our staff feel empowered and passionate about making a difference to society, is key to the long term success of our organisation. Our efforts to strengthen this culture continued into 2012, with 25 roadshows to our people and our customers in African Bank in the first half of the financial year. At EHL, the very successful 'Beyonders' programme which was implemented in the Ellerines brand during 2011, is also currently being rolled out to Beares and to the rest of the brands soon thereafter. Satisfaction among our people was also measured in this period and the results remain positive.

Enhancing our customer value proposition

The implementation of the new customer credit interface across all of African Bank during this period strengthened our value proposition to customers through quicker service, an easier application process and real-time disbursements of loans.

African Bank launched a consolidation loan to assist customers to restructure their debt obligations to improve affordability and extended its vehicle pilot after adjustments to certain underperforming categories. Furniture product offerings at EHL met with customer approval as evidenced by the sales at Ellerines which were substantially higher than the rest of the market and the improving sales trends at Wetherlys and Furniture City. New customers were particularly attracted to the Interest Buster, credit card and vehicle finance loans.

Rehabilitation of financially delinquent customers and supporting our customers to get back to financial health, is high on the group`s agenda and the first rehabilitation project was rolled out in January of this year.

Access has been improved significantly over the past year through the increase in the distribution network and the extension of our mobile and electronic channels. EHL also started piloting its first virtual store.

Optimising the value from the African Bank/EHL relationship

The EHL store network generated R4 billion of credit disbursements for the six months ended 31 March 2012, 68% more than the R2,4 billion of credit disbursements in the first half of the 2011 financial year. In addition to the R2,2 billion disbursed in furniture credit, the store network generated R409 million in non-furniture credit through Ezi*Cash and Ezi*loan, while the 321 kiosks and carve-outs operated from EHL stores produced R1,4 billion of new disbursements, in comparison to R328 million for the equivalent period in 2011. The group has now operated the kiosk/carve-out model for sufficient time to have gained insights and learnings and this has prompted some changes in how we pursue this opportunity. The model will continue to be adjusted to accommodate these learnings.

Focus on business optimisation

The strong growth over the past two years and the need to prepare the business for increased scale has given rise to a substantial increase in operating expenses at the Banking unit, due to higher sales incentives, volume-based banking fees, the staffing of the kiosks and carve-outs, IT development and other once-off costs. Rapid growth inevitably gives rise to embedded inefficiencies. We have initiated a programme aimed at improving efficiencies which are expected to yield positive results over the next 18 months. At EHL, the group has made material efficiency gains and continues to implement strategies to optimise the business model and further reduce costs.

The group will continue to focus on these main strategic initiatives for the remainder of 2012 as a means to produce tangible benefits for our employees, customers and shareholders.

CAPITAL MANAGEMENT

ABIL and African Bank remain well capitalised, supported by a combination of internally generated capital, capital optimisation and selective capital raising. Group capital adequacy at 31 March 2012 was 29,1%.

During March 2012 ABIL issued 5,5 million additional non-redeemable, non-cumulative, non-participating preference shares for a net consideration of R411 million. ABIL used the proceeds to subscribe for an additional ordinary share in African Bank. The Bank`s capital adequacy was bolstered by this equity injection as well as the raising of a R300 million Tier 2 capital. The Bank`s capital adequacy ratio at 31 March 2012 was 28,9%.

The group also intends to further strengthen its capital base through the issuance of additional non-redeemable, non-cumulative, non-participating preference shares from ABIL as well as issuances of Tier 2 capital by African Bank during the remainder of 2012. All issues will be subject to regulatory approvals and acceptable market conditions.

Dividends

ABIL has declared an interim cash dividend of 85 cents per ordinary share for the six months to 31 March 2012. The ordinary dividend cover was 2,0 times, which is at the top end of the target dividend cover range of 1,8 – 2,0 times provided previously. We believe that the current cover will retain sufficient capital to support growth for the current year.

The group will continue to manage its dividend policy to support ABIL through the current growth phase as well as the anticipated Basel III impacts. It will also continue to actively engage shareholders to understand their dividend preferences, taking into account the business strategy and the resultant capital requirements and explore such mechanisms as the potential appetite for a scrip dividend option in future.

The group has declared an interim preference share dividend of 341 cents per share. As announced previously, the preference dividend has been grossed up by the 10% secondary tax on companies (STC) saving the company has obtained.

CHANGES TO THE BOARD

There have been no changes to the ABIL board over this reporting period.

DIVIDEND DECLARATION

The directors have declared an interim gross cash dividend of 85 cents (72,25 cents net of dividend withholding tax) per ordinary share for the six months to 31 March 2012.

The directors have also declared an interim gross cash preference share dividend of 341 cents per share (289,85 cents net of dividend withholding tax). The dividends have been declared from income reserves and no secondary tax on companies credits have been used.

A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

	Ordinary shares	Preference shares
Share code	ABL	ABLP
ISIN	ZAE000030060	ZAE000065215
Company registration number	1946/021193/06	1946/021193/06
Company tax reference number	9850164717	9850164717
Dividend number	23	15

Gross cash dividends per share	85 cents	341 cents
Net dividend amount represented as cents per share	72,25 cents	289,85 cents
Issued shares as at declaration date	804 175 200	13 523 029
Declaration date	Monday, 21 May 2012	Monday, 21 May 2012
Last date to trade to receive a dividend	Friday, 08 June 2012	Friday, 08 June 2012
Shares commence trading ex-dividend	Monday, 11 June 2012	Monday, 11 June 2012
Record date	Friday, 15 June 2012	Friday, 15 June 2012
Payment date	Monday, 18 June 2012	Monday, 18 June 2012

Share certificates may not be dematerialised or rematerialised between Monday, 11 June 2012 and Friday,15 June 2012, both dates inclusive.

BASIS OF PREPARATION

The preparation of these group consolidated financial statements was supervised by the Chief Financial Officer, Nithia Nalliah CA (SA).

These condensed group interim financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards and AC 500 Standards as issued by the Accounting Practices Board and the information required by International Accounting Standard 34: Interim Financial Reporting, the South African Companies Act (Act 71 of 2008) and the Listing Requirements of the JSE Limited.

The group has adopted the following standards and interpretations during the financial year, which did not have any impact on reported results:

* IFRIC 14 – Prepayment of a Minimum Funding Requirement;
* IFRS 7 – Financial Instruments Disclosure: Transfers of financial assets; and
* IAS 24 – Revised definition of Related Parties.

The accounting policies and their application are:

* In compliance with International Financial Reporting Standards and interpretations issued by the International Financial Reporting Interpretations Committee of the International Accounting Standards Board; and
* Consistent with those used for the group`s 2011 annual financial statements.

LOOKING AHEAD

It is expected that the current economic environment will continue for the rest of the financial year. The Bank should continue to benefit for the enlarged distribution base, the growth in customers and new products. The retail environment seems to be weakening and it is envisaged that trading conditions will be difficult.

Innovation and energy have resulted in strong levels of activity in the first half of the year and these are expected to continue in the second half. Given the current impetus in the business, our financial objectives for 2012 remain on track.

On behalf of the board

Mutle Mogase

Chairman

Gordon Schachat

Executive deputy chairman

Leon Kirkinis

Chief executive officer

21 May 2012

Board of directors

Non-executive: MC Mogase (Chairman), N Adams, Advocate MF Gumbi, JDMG Koolen#,

NB Langa-Royds, S Sithole*, RJ Symmonds

Executive: G Schachat (Deputy Chairman), L Kirkinis (CEO),

A Fourie, N Nalliah, TM Sokutu *Zimbabwean #Dutch

Company Secretary

MM Luthuli

Registered office

59 16th Road, Midrand, 1685

Share transfer secretaries

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For a more detailed discussion of ABIL`s results and outlook for the remainder

of 2012, please refer to the investor relations section on our website, at

www.abil.co.za

Sponsor

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(A division of Firstrand Bank Limited)

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