

# Absa Group interim results

## For the period ended 30 June 2012

### Introduction

Good morning ladies and gentlemen, and a warm welcome to Absa's 2012 interim results. Thank you for joining us, whether in person, over the phone, on Summit TV or the web.

David Hodnett, our Financial Director, joins me on stage. Our Executive Committee is with us, sitting in the front row. They will be joining me and David in answering your questions after our presentation. A number of our board members are also present.

I am going to start by providing an overview of our first half performance. Then David will take you through our numbers and business unit performances in detail. I will close with our prospects for the second half, we'll be happy to answer your questions after that.

### Slide – Section (title) slide

Before I dive into the numbers, let me say our strategy remains on track we set out in 2009 to build a very resilient bank at the time we envisaged a prolonged, uneven 5 to 7 year economic recovery, with customers remaining stretched, and business confidence low. Our single-minded focus continues to be to build a solid bedrock for the bank In the last 3 years we have changed the way we do business. And we have shifted Absa's model to adapt to the changing environment. I believe we have achieved a great deal as you will see from the good underlying performance of the business and our strong balance sheet.

We remain convinced that the strategy we set out in 2009 is the right strategy for 2012 and beyond

Turning to today's results

### Slide – first half performance well below expectation

Our first half headline earnings were below expectations, declining by 6%. This was due to two factors: subdued revenue growth and two significant impairment issues, the first relates to our mortgage legal book and the second to our Commercial Property Finance book.

We will be spending quite a bit of time this morning talking you through the impairments issues.

David has a great deal of detail he will share on both Let me give you the context for the first impairment issue earlier this year we started a process to reduce NPLs as a result we saw particularly high write-offs in April and May this led us to launch a thorough review of our legal book, specifically the model we'd used in the book and the overall level of impairments on the basis of the review we realised we had a challenge and we needed to take action we immediately set about remedying the situation we changed the parameters of the model previously, it had been based on 24 months historical data and we now base it more on current data we also introduced more differentiation.

Before, we calculated a weighted average for loss given default (LGD) for the entire legal book. After our review, we now include higher levels of impairment for sub-categories in the model.

Secondly, we put measures in place, including bringing in a third party to review how we do things, to ensure that we have the right business processes and the right people to manage our legal book which is naturally large because of our large mortgage book. I want to emphasise that we are sticking with our policy of keeping people in their homes rather than foreclosing aggressively. I must make one important

point very clear questions have been raised as to whether we overstated our 2011 earnings. I can categorically state that we did not.

David will be returning to this issue in greater detail. And of course, we'll be happy to take questions. Excluding the additional R1.15 billion mortgage provision, underlying first half performance was satisfactory.

Our diluted headline earnings per share would have grown by 12%, our return on equity would have exceeded 16%. Even with the substantial charge, our ROE is 13.8%, which remains above our cost of equity. Although revenue growth was moderate, our pre-provision profit rose by 3% to R10.4bn reflecting very strong cost management our NAV per share also grew 10% to R89.50. And our strong capital position allowed us to declare a well considered 8% higher dividend.

### **Slide – Delivering on our strategy**

As I mentioned earlier, we continue to deliver on our strategy because we believe it's the right one we are five years into an economic shock that is expected to continue for several more years so it makes absolute sense that our focus continues to be on improving our customer experience and making it easier to do business with us creating a leaner organisation continuing to strengthen our balance sheet and taking a prudent approach to lending.

We have continued to execute against this strategy to build a platform for sustainable growth in our targeted areas. We have streamlined the group, creating a leaner, more agile organisation. This was necessary given the tough operating environment and increased competition, particularly in our retail banking stronghold. We completed our new target operating model during the half, establishing our corporate bank as part of CIBW and combined our Retail and Business Bank, which allows us to extract savings and new synergies across the businesses.

We further strengthened our balance sheet, improving our liquidity by building our surplus liquid assets to R28 billion, and increasing our core tier 1 ratio to 13.2%, well above regulatory targets. Combined with our strong capital generation, we have ample funding for our medium-term growth.

Our strategy has been to focus much more on increasing non-interest revenue across all our businesses and pursuing our more cautious approach to lending. This has meant that we have focused more on our own customers and writing high-quality new business that generates good returns through the cycle. This has dampened our net interest income and our fee income near-term.

As our global macro view plays out, writing high quality, appropriately-priced new business will remain our priority. We are now seeing the early benefits from the growth platform that we have built over the past 3 years.

In RBB we remain firmly focused on our customers with two aims in sight to improve customer experience through high quality service and to deliver innovative products that are fairly priced and provide more value. This is true for our business clients, as well as individuals entering banking for the first time. We've made great progress we're improving our account opening processes and turnaround times, we've launched a number of new products many of them digital.

We're starting to see tangible results Business Market's electronic banking strategy is paying off, as its fees and commissions grew 12%. Our card business also continues to perform well with headline earnings growing 11% in the first half. Absa Card is an example of how our One Africa Strategy and the integration with Barclays continues to generate tangible benefits. Another example is in our Forex business where we

have bedded down Barclays award-winning foreign exchange platform, this has improved our offering considerably, and produced 15% growth in our Forex trading revenues.

You will notice our strong emphasis on customers throughout today's presentation. Going forward, you will see us placing even greater attention on our customers, shifting away from the internal focus on re-organisation of the past year. Now let me hand you to David, who will unpack our numbers.

Thank you Maria and good morning.

It is clear that our results are disappointing. However, with lower earnings it is easy to ignore the positives. My five key takeaways are top line growth was below expectation, but our revenue remains high quality with a high proportion of annuity income. We also had a number of negative one-offs in the half that reduced revenue.

Large credit impairments hurt our results. We will cover our significant Home Loans provision in detail. Excluding this, our credit quality continued to improve. Positively, our costs remain well contained, as we streamline the group. Our earnings are well diversified, which cushioned our lower RBB earnings somewhat.

Our capital ratios remained strong, which gives us sufficient funding for organic growth, strategic flexibility for acquisitions like the Edcon book and an opportunity to optimise our capital levels and returns.

#### **Slide – Earnings decline on higher impairments**

Looking at our summary income statement, we flagged that last year's low loan growth would constrain our ability to grow net interest income near-term. So our modest 2% net interest income growth should not surprise anyone. It reflected 4% higher average interest-bearing assets.

Combined with 5% non-interest revenue growth, our total revenue increased 4% to R23 billion. Our credit impairments increased 39% to R4 billion, which was significantly higher than expected. However, our operating expenses were well contained at 4%, growing below inflation and resulting in flat JAWS. Our effective tax rate increased to 29% from 27.6%, largely due to STC on higher dividends we paid in the half. We expect this to decline to about 27% medium-term. Because of our large credit losses, headline earnings decreased 6% to R4.3 billion resulting in a 2.1% RoRWA.

#### **Slide – Stable net interest margin**

Moving on to our net interest margin, it was stable at 3.94% from 3.99%. Unpacking our margin, none of its components changed much. Our loan pricing increased marginally, for example in mortgages and we had a small benefit from our larger capital base. These offset slight deposit margin compression. Lower investment banking margins outweighed better management of our liquid assets, to produce the 5 basis point decline in our 'other' margin.

Last week's surprise rate cut should reduce our net interest income by about R190 million, since we cannot hedge out basis risk. We experience the bulk of the drag from rate cuts over a three month period. This is very evident on the graph in the first half of 2009.

With low, unchanged interest rates in the first half, our hedge contributed R1 billion to net interest income, the same as last year. Our cash flow hedge reserve increased from R2.0 billion last December to R2.3 billion post tax in June. This should be released into the income statement over its remaining life, if market rates remain at current levels.

In the current economic environment, where rates look like staying lower for longer, our approach to structural hedging should continue to prove very effective. We still expect a stable margin this year.

#### **Slide – Modest retail non-interest revenue growth**

Non-interest revenue grew 5% to R11.2 billion, with good growth where we invested during recent years. We have flagged pressure on retail fees and commissions before. Customers continue to migrate away from traditional channels like branches and ATMs, where we are the largest, to electronic ones with lower fees.

For example, electronic transactions increased to almost two-thirds of our retail volumes, from 61% last year and 51% in 2008. Moving from 'pay as you transact' to packaged offerings, losing AllPay's government contract from April, increased competition and low credit growth also reduced our retail fee income.

In response to modest retail fee growth, it is vital that we remain focussed on creating a leaner and more efficient group. Therefore retail costs will remain an area of focus. Business Markets' continued success in increasing primary transactional clients and improved cross-selling produced double digit growth in fee income. Corporate Banking fee income increased 5%, reflecting steady growth in electronic payments and winning some large cash management mandates.

Financial Services' non-interest revenue grew 3%. Net insurance premiums increased 11%, despite low loan volumes and higher weather-related claims. Non-premium revenue was flat. Markets' net trading increased 21%, thanks to good growth in equity and prime services, the rest of Africa and FX. Total Markets revenue, including net interest income, grew 8%. Private equity revaluations increased due to improved earnings in its underlying investments. However, negative CPF revaluations largely offset these.

Both these equity portfolios remain non-core and are now managed together. Our private equity portfolio was stable at R5.5 billion from a high of over R7 billion in 2010, while CPF equity sold the balance of its listed portfolio in June. As mentioned, our non-interest revenue remains high quality, as it is predominantly annuity in nature.

#### **Slide – Significant rise in impairments**

Our R4 billion charge increased our credit loss ratio to 1.59% from 1.16%, largely due to the 80% rise in our mortgage provision, which we cover separately on the next slide.

Retail Market's provisions grew 37% to R3.2 billion, resulting in a credit loss ratio of 2.0%, with Home Loans at 2.2%. We expected Personal loans' higher credit loss ratio, which is now at close to through-the-cycle levels, from last year's low base. Its returns remain very attractive. Our card portfolio's charge remains low, in part due to lending predominantly to our own customers.

VAF's credit loss ratio halved, with lower new NPL formation and improvements in our vehicle recovery and management of our legal portfolio. Business Markets' impairments grew 28%, increasing its credit loss ratio to 1.55%. Its credit loss ratio may be higher than you are accustomed to, because it now excludes our Corporate book, which has a far lower ratio.

There were 2 large commercial property defaults and significantly higher provisions in Tanzania. Our CPF realisations were lower in a weak market for distressed properties. However, we have a diverse portfolio and our average CPF loan to value is 47%. Positively, our total NPL cover improved to 32.5% from 29.0%, as almost all categories increased, particularly Vehicle and Asset Finance, Home Loans and Business Markets.

### **Slide – Substantial charge in Home Loan legal book**

As the major cause of our lower first half group earnings, it is important for the market to understand our substantial Home Loan impairments. Stepping back, there were a number of reasons for our relatively high mortgage NPL ratio in the past few years. As Maria said, our strategy is to keep customers in their homes, rather than aggressively foreclose. We also did not terminate debt counselling accounts until legal certainty was established for the new process. Once we started doing so, the debt counselling moratorium prevented us from continuing for several months. And a declining mortgage book in the denominator increased our ratio relative to peers.

We reduced our NPL cover in mortgages last year because our customers in legal continued their good payment performance and voluntary sales had increased. Using a generally accepted 24 months of historical data, our model indicated a lower coverage ratio. All of this was confirmed by our external auditors and another professional firm.

So what changed in the second quarter this year?

The problem is in our legal book, which is R14 billion of our gross mortgages of R239 billion. An initiative to reduce our NPLs caused the accelerated work out of mortgage accounts in legal, which generated particularly high write offs in April and May. In response, we took decisive action and proactively involved external parties in a full review of our model, legal book and overall impairments.

Of our write-offs in the past three months, half were insolvencies, three quarters were written in 2006 to 2008 at the peak of the property cycle, and two-thirds had been in legal for over two years. After this review we decided that it was appropriate to use parameters and assumptions from our current experience rather than the past 24 months of historical data.

An example of the changing nature of our legal book is the growth in insolvencies, which increased to R3.5 billion, a quarter of the book. Based on our recent experience, the cover required on this segment increased to about 60%, due to extended timelines and the increased cost to work through this category.

The result was an additional R1.15 billion in provisions, taking our total mortgage NPL cover to almost 23%. So our cover has almost doubled since 2006. We have also brought in an external firm to review our collections processes against best practice, to see if any areas require operational improvement. This includes our systems and management information.

We also looked at how our operations are structured and we will split collections strategy from execution. As mentioned, the majority of loans impacted were written in the 2006 to 2008 period with high LTVs. We proactively changed our LTV criteria on the new business as far back as the second half of 2008. While we believe our provisions are appropriate, in the current economic environment, some uncertainties exist.

In a weak economy, consumers are still stretched, distressed house prices remain under pressure and the large banks have over 60,000 non-performing mortgages in total, so selling these could reduce our realisation rates. We will continue to manage our portfolio responsibly, without flooding the market. Our mortgage NPLs continue to age and the time taken and cost to recover properties have increased.

### **Slide – Lower inflows improve NPLs**

This mortgage charge masks the underlying improvement in our credit quality. Since 2009, we have written better quality (and priced) loans and focussed on our own customers, who we know better.

The results are evident in our slowing new NPLs across most portfolios. For instance, our number of new mortgage NPLs decreased 22% year on year in the first half, while vehicle finance improved by 52%. Our

pre-legal mortgage NPLs dropped 26% to R7.4 billion. As a result, our NPLs decreased by over R6 billion from last June to R33 billion. Despite almost no loan growth, our non-performing loans improved from 7.6% to 6.4%, the lowest since 2008. However, there is a lot of room to improve, since it is still well above historical averages.

#### **Slide – Sustainable cost containment**

Our operating expenses increased 4% to R12.7 billion, reflecting strong cost containment, while still investing in target growth areas. Excluding the R154 million fair value adjustment on investment properties, costs grew just over 2%. Staff costs, the largest component, decreased 2% to R6.5 billion, due to continued focus on operational efficiencies and 15% lower incentive provisions. Non-staff costs increased 10%, reflecting high growth in property and accommodation expenses due to rising administered costs.

We reduced discretionary spend, including professional fees by 25% and printing and stationery by 9%. Our IT costs grew 3% to R1.15 billion. In our booklet, we also disclose our total IT-related costs, including staff and depreciation, which declined 3% to R2.6 billion, but still accounted for 21% of group costs. Our amortisation of intangible assets declined 12% to a relatively low R132 million, so we are not postponing these costs into future periods.

We continue to invest in growth initiatives, for instance we are spending over R450 million on projects including our new Absa Online offering, improving our contact centres, re-engineering Home Loans and changing our customer on-boarding process. We also plan to spend over R400 million on our ATM network, cash acceptors and self service terminals over three years.

Financial Services has invested heavily on its life and short-term insurance systems in recent years. It is spending on digital channels to sell bancassurance products and systems to support its new advisor model. Sensible cost control was the main reason our cost to income ratio remained flat at 54.9%, despite subdued revenue growth.

#### **Slide – Strengthened our balance sheet**

Turning to our balance sheet, R52 billion growth in customer deposits was our main source of new funding. We also added R6 billion of equity. In total, our balance sheet grew by over R85 billion. We deployed these funds into R9 billion higher liquid assets and R29 billion of loans, which were mostly interbank.

#### **Slide – Strong capital ratios**

Our Group core tier 1 ratio improved further to 13.2% during the half, which remains well above regulatory requirements and our board targets. Moving our wholesale book to the advanced internal rating-based approach added 90 basis points to our ratio, slightly more than we expected. This outweighed the 6% credit risk scaling factor in Basel 2.5. Implementing Basel 2.5 reduced our ratio by 70 basis points, which was less than expected, due to proactive market risk mitigation as our DVaR declined further. Our capital generation remains strong. First half earnings added 99 basis points to our core tier 1 ratio. Our final 2011 dividend reduced this by 66 basis points.

Our 8% higher interim dividend may surprise some given 6% lower earnings. But it is well considered, based on our strong capital position, internal capital generation, strategy and growth plans and the impact of expected regulatory changes. Also our leverage remains low at 12.4 times. We continue to work with the SARB to clarify some uncertainty in South Africa's implementation of Basel 3. We still expect it to reduce our Group core tier 1 ratio by about 90 basis points, were it fully implemented at 30 June.

#### **Slide – Solid deposit growth**

Our deposits increased 13% to R458 billion, with solid growth in cheque, savings and transmission accounts. 'Other deposits' grew considerably, due to R34 billion growth in CIBW notice deposits, where we

launched new structured notice products. Retail deposits increased 8%, maintaining our leading market share. Business Market's 7% growth is in line with its strategy. Importantly, the decline in its deposits since December reflects seasonality, given our large government and agricultural client base.

Liquidity management remains a priority and we improved our funding mix by increasing customer deposits to 75% of the total, while reducing debt securities in issue to 21%. We also continued to increase our proportion of long-term funding to almost 26%. And our loan to deposit ratio improved to 87% from 91%.

### **Slide – Improving loan momentum**

Our total loans increased by over 5% to R565 billion, due to strong growth in loans and advances to banks. Customer loans increased 0.5%, despite our large commercial property finance and retail mortgage books declining 9% and 3% respectively. However, our loan momentum is improving as our focus remains on our origination strategies and customer processes, rather than just changing risk appetite.

For instance, our share of industry new business in mortgages increased to 22% from 17% in January after re-engaging mortgage originators. We have improved from a low single digit share of mortgage originator business to over a quarter this year. Our improved volumes should become evident in the second half of the year. We continue to see an opportunity to grow our CIBW loans, where we are under-represented.

We are pleased with our Edcon deal, which is still subject to Competition Commission approval. Edcon's R10 billion private label store card book will increase our proportion of unsecured lending in retail to 17% of the total, taking us closer to our 20% target. We expect low to mid-single digit loan growth this year.

### **Slide – Diversified earnings**

Our diversified portfolio of businesses helped us to absorb the drop in Retail & Business Banking's earnings somewhat, given CIBW's solid growth and higher Financial Services earnings. Despite its large impairments, Retail Markets still accounted for a third of group earnings, slightly more than CIBW, which benefits from the inclusion of Corporate.

As promised, we improved our geographic disclosure in your booklets, splitting out our rest of Africa entities. These made 2% of group revenues, although its total contribution is higher after including our Bancassurance and investment banking revenue across the continent.

### **Slide – Divergent Retail Market performances**

Moving onto our divisional performances, Retail Markets' headline earnings declined 24% to R1.4 billion, due to 37% higher credit impairments. However, its pre-provision profits grew 3%, as 2% revenue growth exceeded flat costs. Looking the business units, Card's contribution increased 11% to R0.9 billion, to account for a fifth of group earnings. Its returns remain very attractive.

Retail Bank's earnings increased 32%, due to lower impairments and achieving positive JAWS. However, AllPay's earnings fell 43%, after losing its government social grants contract in the second quarter. Vehicle and asset finance continued its strong turnaround, growing earnings 70% due to lower bad debts, good cost control and stronger volumes. Its return on economic capital improved to over 20%.

Personal Loans' earnings declined 17%, reflecting lower loans and some margin compression, plus an expected rise in credit impairments. Home Loans made a substantial loss after its impairments grew 80%. This overshadowed 10% lower costs and its improved lending margin. Retail Markets' return on regulatory capital declined to 17% from 22%.

### **Slide – Equity losses reduce Business Markets' earnings**

Business Markets' headline earnings dropped 32% to R565 million, due to a R481 million pre-tax loss on its non-core equities portfolio. This loss distorts its underlying performance, where pre-tax profit increased 3% in South Africa. Business Markets continues to deliver on its strategy, as fee income grew 12%. Core costs also increased just 3%, after consolidating our back office.

While customer loans declined 2%, given our lower commercial property finance book, agri loans increased 9% and our CAF payouts grew 17%. As noted, credit impairments increased 28% due to higher CPF charges. Rest of Africa impairments also rose to R131 million from R14 million, mostly in Tanzania. We also increased interest in suspense materially in Tanzania. Business Markets' return on regulatory capital declined to 10% from 15%.

### **Slide – Steady Financial Services performance**

Financial Services' headline earnings increased 5% to R678 million, reflecting improved investment income. Its net operating income grew marginally to R822 million. It continues to generate attractive returns. Its return on equity was slightly lower at 29%, as some capital was retained to fund its expansion across Africa. Gross and net premium income grew 17% and 11% respectively. Non-premium income was flat, given 2% growth in Investments revenue and lower employee benefits revenue. Our embedded value of new business declined 30% due to lower credit volumes.

Costs were well contained after last year's investment in growth initiatives. Operating expenses in SA declined 2%, which improved the division's efficiency ratio to 24%. Our new bancassurance operations in Botswana and Mozambique made a small profit after last year's start up losses.

### **Slide – Broad-based CIBW growth**

CIBW's headline earnings increased 14% to R1.35 billion, as 10% revenue growth exceeded 4% higher costs. Markets net revenue increased 8%, with solid growth in FX, strong growth in equities and prime services, and our rest of Africa trading. Fixed income and credit trading declined 4% off a high base. Corporate revenues grew 5%. We continue to invest in our product offering and corporate systems.

Investment banking revenue increased 4%, as 13% growth in the margin business offset a 21% decline in fees. Wealth did well. Its headline earnings more than doubled after 9% revenue growth, lower impairments and good cost containment. Private equity and infrastructure revenue grew significantly, as its underlying investments continued to perform better. CIBW's return on regulatory capital improved to 22% from 21%, despite the introduction of Basel II.5.

I now hand you back to Maria, who will discuss some strategic issues and our prospects for the rest of the year.

### **Prospects**

Thank you David. Let me outline what you can expect from us over the coming months and years.

### **Slide – RBB regaining momentum**

We're well on track with our strategy to deliver better service to customers and to make their lives much easier we have done the heavy lifting and the results are starting to pay off we have the right structures, people and systems in place and we've revamped our processes we are rolling these out into our branch network and they will make it much faster and easier for our customers to open accounts, make payments or get a loan approved.

We continue to invest in our distribution network. In particular we are upgrading our ATMs to add new functionality. We are also optimising our branches. Our newly opened Clearwater Mall Branch offers a



glimpse into the future of branch banking where customers are trying out the interactive environment in a live environment.

We're also making headway on our alternative banking models our In-Store Basic banking service offering is available in 1000 merchants,

We have responded to our customers' needs for greater control and more choice by delivering more product choice and delivering more customer choice in channels with simpler pricing structures

A good example of this is Value Bundles which we launched in June these offer value-for-money relationship banking, rewarding customers that give us a greater share of their wallet.

We have driven our Rewards programme hard aimed at our primary customers.

We believe it's an industry leader as it pays back actual cash our customers have responded enthusiastically the take up has doubled in the last year to 24% of our primary customer base.

Innovation underpins our approach to creating new value for customers

We continue to develop our digital capabilities; we completed a revamp of our Absa Online platform, where we expect to see strong growth. We saw a 29% increase in cellphone banking use we have now 3.7 million customers using this channel we also have a number of ground-breaking innovations in the pipeline these include tablet devices for paperless account opening that will speed up account opening turn-around times and lessen volume pressure in branches

In the second half we will drive getting volumes up keeping our costs under control this will result in gaining net new customers, improving our advances growth and increasing fee income. In the lending space, as you heard from David we have re-entered the mortgage originator market while maintaining a prudent approach to risk and we are seeing a healthy pipeline of advances

To mention three specific examples:

We have seen strong growth in new home loan applications, which we are converting at enhanced margins. In vehicle finance, we have significantly upgraded our turnaround times; this has resulted in better service to our dealer network. Finally, the deal with Edcon is an excellent example of how we can grow our portfolio inorganically with a substantial book and an excellent partner. This deal is fully in line with our strategy of increasing our unsecured retail lending and is expected to generate solid returns above our cost of equity.

### **Slide – Financial Services maintains good returns**

Financial services continues to offer good growth prospects with attractive returns. Its satisfactory growth in premium income, can be attributed to a number of initiatives around our operating model. These include setting up a tied agency force, entrenching our bancassurance model in Absa, focussing on high quality leads management, embedding sales processes within the branch network and expanding our distribution capacity by adding new channels.

These initiatives will remain a strategic focus in the second half. They are essential for growth and re-enforce our customer value proposition in this business. Leveraging Barclays franchise and footprint across the continent will help to grow our Financial Services business.

This is what our One Africa strategy is about. We have made good progress: both our Botswana and Mozambique operations are performing in line with expectations and are profitable. Our newly established operation in Zambia is in place and will open for business on 1 August. The initial focus will be on life insurance, using the distribution network and client base of Barclays Bank Zambia. We have managed this

expansion while improving our cost-efficiency ratio to 24% from 26.5% because we can leverage Barclays and Absa's customer base, footprint and infrastructure to keep origination costs low.

This is one of the key reasons for the attractive 29% ROE we see in this business Eastern Africa is our next focus area and we are evaluating acquisition opportunities in this region, with a target date of the first quarter 2013.

Looking forward, drivers of AFS' future success include RBB's improving loan production, and sustained growth in our equity and balanced mandates.

### **Slide – CIBW client focus reflected in improving returns**

As in our other businesses, clients are at the centre of our strategy in Corporate & Investment Banking and Wealth. Providing a holistic product offering is key in this business. We have put the structures and strategies into place that create an integrated product offering across the businesses and leverage Barclays capabilities.

Corporate Banking was successfully established as part of CIBW and some of our recent client wins show the benefit of being able to offer clients an integrated product value chain. We also see significant potential in further improving our FX cross-sell into our Corporate client base leveraging our award winning FX platform PACE.

Our investment banking pipeline looks strong for the remainder of the year and should underpin further revenue growth. Our Markets business has proactively focused on facilitating client flow and – together with Investment Banking – on supporting client's financing and risk management needs.

This has seen us increase our volumes and market share in flow products. Our DVaR has reduced since 2009 and our daily profit and loss distribution shows very few loss days.

Our strict client focus has over time required us to move away from areas where the client benefit was not evident, such as reducing our exposure to private equity. CIBW is an important part of our One Africa strategy Barclays strong African footprint helps us to follow our clients across the continent and globally.

This particularly enhances our capability to serve large multi-national corporate clients. We are also collaborating to provide a seamless regional client offering our focus on client activities has allowed CIBW to improve its returns on regulatory capital from 20.7% to 21.7%, despite higher Basel capital requirements for trading.

We will continue to invest in areas that deepen our client offering and provide the strongest risk-adjusted returns. We see a number of opportunities here. We are working closely with Barclays to deliver a world-class transactional offering to corporates, linking it to Barclays.net.

We are enhancing our Trade and FX business infrastructure, since this area is expected to benefit from strong trade flows between Africa and the rest of the world. Last but not least, we have made key hires in Investment Banking, that will help us capitalize on these opportunities.

### **Slide – What to expect in the second half**

The outlook for the South African economy remains subdued. Local conditions remain challenging as the global economy faces further headwinds we can expect the ongoing crisis in the Eurozone, and potential slowing in China, India and Brazil to continue to pose down-side risk for the local economy.

We have already seen a marked slowdown in economic activity both on the supply and the demand side consumer demand has been the source of strength for the South African economy but there are signs that consumers are taking more strain and investor confidence remains low we believe that we will continue to see uneven economic recovery and consumers will remain stretched in the near future.

Against this backdrop, the focus areas that we mentioned in February remain important. I have spoken a lot about our attention on customers and you will see us shift from concentrating on re-organising our business to an even greater focus on our customers they are at the centre of all we do, and we will continue to ensure that customers lives much easier.

We remain on track with our One Africa strategy it's the right strategy in the first half the African operations contributed GBP £475 million to the earnings of Barclays Group and together we are better positioned than others to serve our clients and customers across the continent.

We advanced our Africa strategy in the first half, and will continue, with Barclays, to do so in the second half. The base we have built and the initiatives we have started will drive growth in the targeted areas that I outlined.

In all this, efficiency remains an ongoing priority, as well as maintaining a strong balance sheet, developing our talent pipeline and investing in people. In terms of guidance, with low to mid-single digit loan growth our revenue is likely to remain subdued this year. However, our cost to income ratio is expected to remain similar to last year's, as we continue to focus on expenses.

We also indicated in our SENS this morning that our credit loss ratio is likely to be in the region of 1.4% for 2012.

Looking further ahead, we remain committed to our 20% return on equity target by 2014.