



“Business in a testing consumer cycle”

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Agenda

- Current market environment
- Retail banking at Absa
- Absa's response to the current business cycle
- Conclusion



Current Market Environment

Macro economic headwinds

Global and local factors triggering changes to the SA landscape with implications for the SA consumer

- Energy and food inflation
- Crude oil prices remain above \$100 per barrel
- Global credit crunch
- US slowdown

A prolonged downward cycle for SA

SA has entered a period of economic slowdown after three consecutive years of robust growth

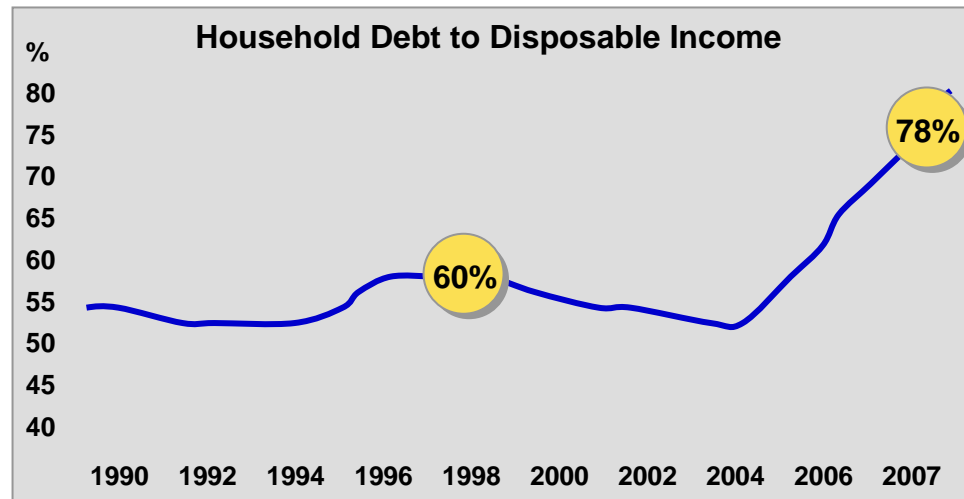
- Eskom crisis
- Petroleum and food prices
- Interest rate hikes
- Inflationary pressure

The SA consumer is in for a Tough Time

Consumer Spending Under Pressure

Year	2006/07	2007/08	2008/09
Personal income	100	100	100
Less direct tax	11	11,8	12,1
Disposable income	89	88,2	87,9
Non-discretionary spending	58,7	60,8	63,5
Less indirect taxes	15,4	15,2	15,5
Discretionary spending power	15	12,3	8,9

- Increases in food and energy prices
- Rising inflation eroding purchasing power
- 40% reduction in discretionary spending over past two years and more to come
 - R9,11/l for petrol by May 2008 – price has risen by 38% over past year
 - R5 for a loaf of brown bread – set to rise 50% over next few months
- Real income growth slowing
 - 6.7% in 2006 to 4.2% in 2007
- At 77.6%, debt is commanding a substantial amount of consumer's income



Source: Financial Mail, March 2008

What does this mean for banks?

Changing consumer banking behavior

- Declining transactional accounts with positive balances
- An increase in bad debts
- Avoidance of discretionary spending and delaying replacement of durable goods
- Credit card, overdrafts and savings are being used for short term to finance non-discretionary spend
- An increase in cancellations of short term insurance policies
- Insolvencies are picking up



Retail Banking at Absa

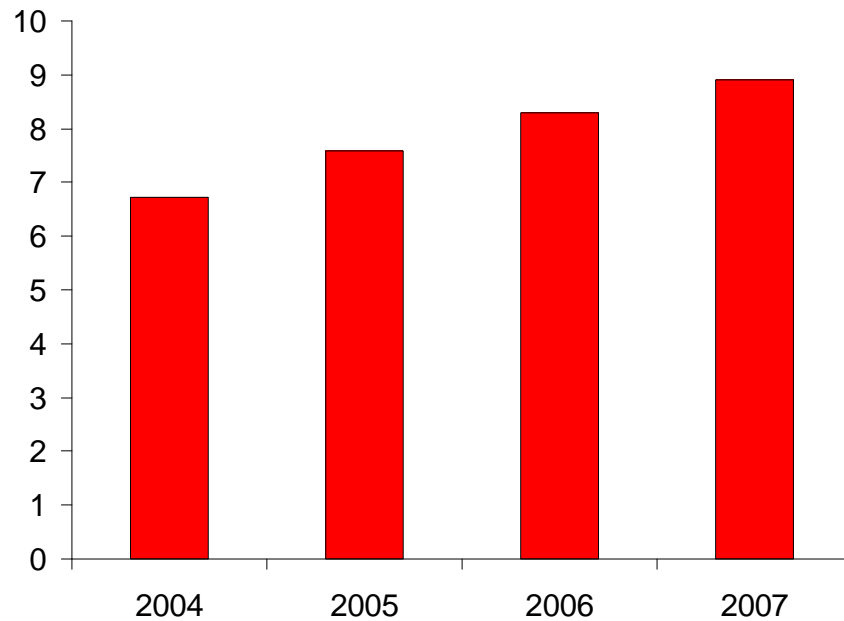
Absa retail bank

Positive business growth

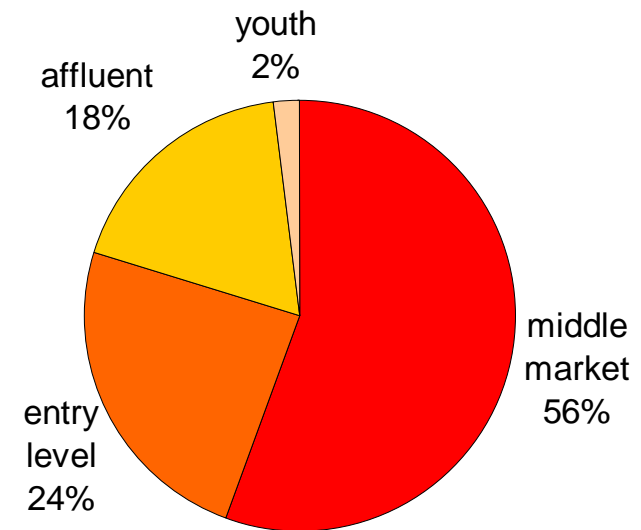
- Earnings CAGR of 45% from 2003 – 2007
- Leader in total advances
- Leader with individual savings
- Leader in customer numbers
- Strong distribution capability

Largest customer base

- Customer growth of over 33% since 2004
- More than 50% middle market



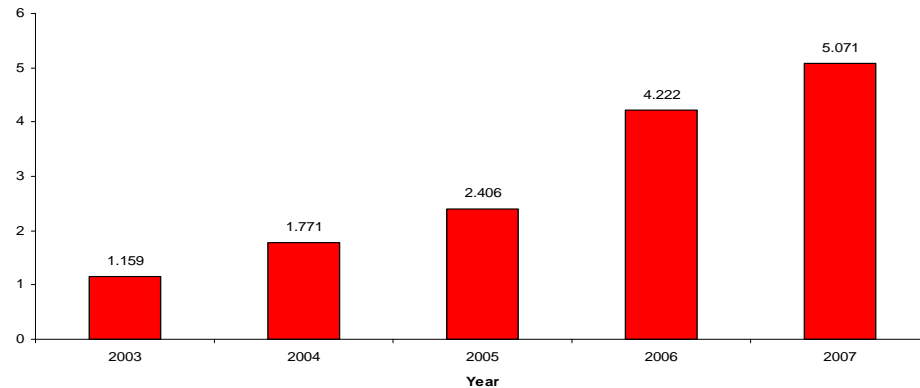
Total number of customers



Segment breakdown

2007 financials reflect strong contribution from retail bank

■ Attributable earnings (Rm)

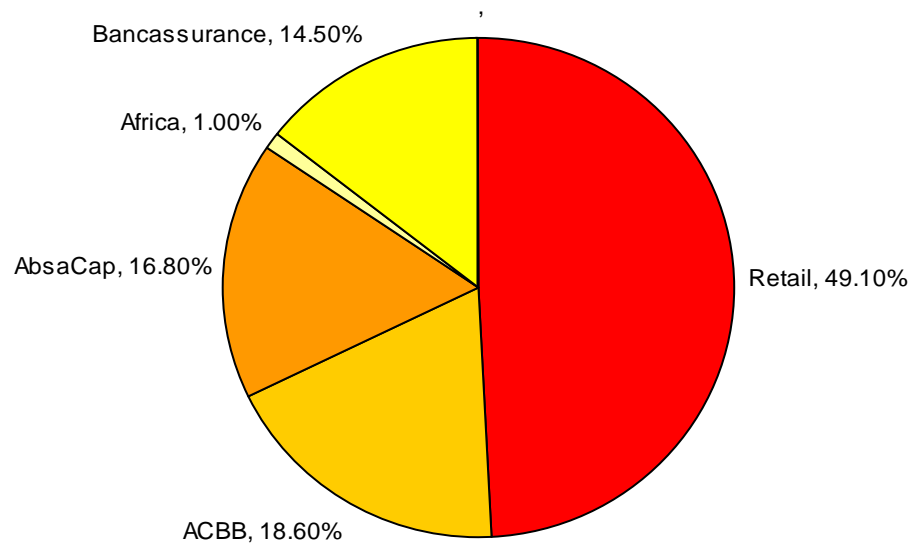


■ Growth in advances

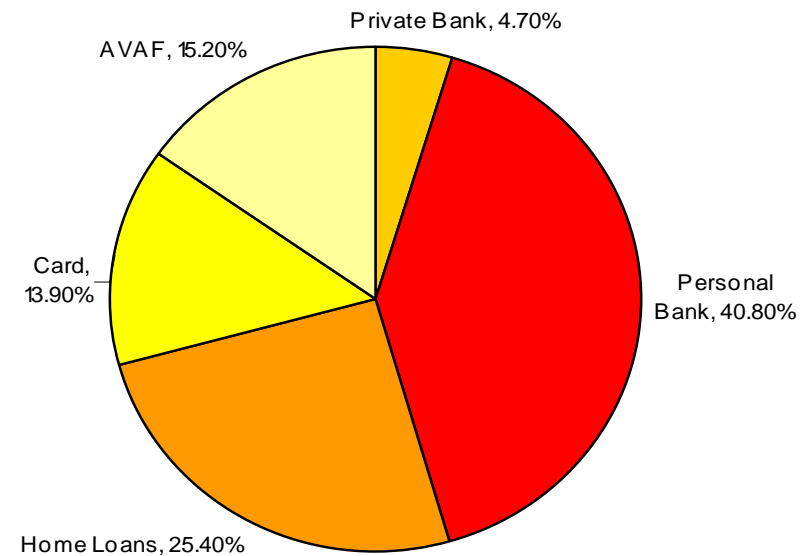
	Dec 2007 Rbn	YoY change %	Market share %	Advances mix %
■ Mortgages and CPF*	265	22.9	31.1	57
■ Credit cards	14	23.0	25.1	3
■ Instalment finance	64	12.2	23.1	14
■ Overdrafts and other	119	25.5	20.1	26
Gross advances	462	21.9	25.9	100

Key driver of profitability for the Group FY2007

- Profitability and earnings contribution to Group



- Retail segment contribution



Opportunities for growth remain... but near term outlook is not without its challenges

- Challenging macro environment
- Inflation is rapidly increasing
- Consumer is over extended
- Decline in consumer discretionary spending
- Debt is at record levels and impairments are rising



Absa's response to the current business cycle

Response to the current business cycle

- Preventative and curative interventions
- Sustaining the business through the downswing of the economic cycle
- Positioning the business for upswing in economic cycle

Preventative and curative interventions

- Financial education and awareness campaigns
- Provide useful information on the economic cycle and tips on how to manage through it
- Proactive advice and financial counselling for customers who are struggling to meet financial commitments
- Call centre 'help line'
- Treaty agreements

Sustaining business through a downcycle

- Customer service and segmentation
 - Thorough in-depth understanding of the customer
 - Identify real needs, pockets of value and pre-empt potential financial stress situations

- Cost management and efficiency
 - Focus on core competencies and doing the basics better

- Capacity planning
 - Balance between limiting expansion and investment in the early downcycle vs. establishing excess capacity towards the end of the downcycle to position the business for the upswing

- Collections and Scorecards

Sustaining business through a downcycle

Score cards

- LTV caps
- Price for risk
- Review scorecards
- Increased cut off per scorecard

Sustaining business through a downcycle

Collections

- Opened collections capability in Durban
- Appointed 380 additional collectors
- Introduced sms capacity
- Incentive schemes for collectors
- Face to face collection in secured lending
- Debt repair line
- Shift working

Position the business for upswing in cycle

Selectively grow market share

Focus on leveraging our core business

- Increase our customer numbers
- Be the savings bank of the nation
- Opportunities for cross selling
- Improve private banking capability
- Targeted growth in unsecured lending
- Transactional income

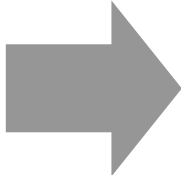
Investing for growth by improving...

- Customer experience
- Customer loyalty
- Innovation and differentiation
- Distribution channels
- Training and retention of staff



Conclusion

Conclusion

- Quality growth
 - Improved efficiencies
 - Improved customer delivery/service
 - Optimise costs
- 
- Customer loyalty
 - Driving market share
 - Profitability
 - Returns to shareholders



Questions