

Navigating the downcycle

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Global financial landscape facing headwinds

- **Loss of confidence in financial systems**
- **Liquidity and funding risk**
- **Threat to global growth**
- **Heightened risk aversion**

South Africa is fairing better ...

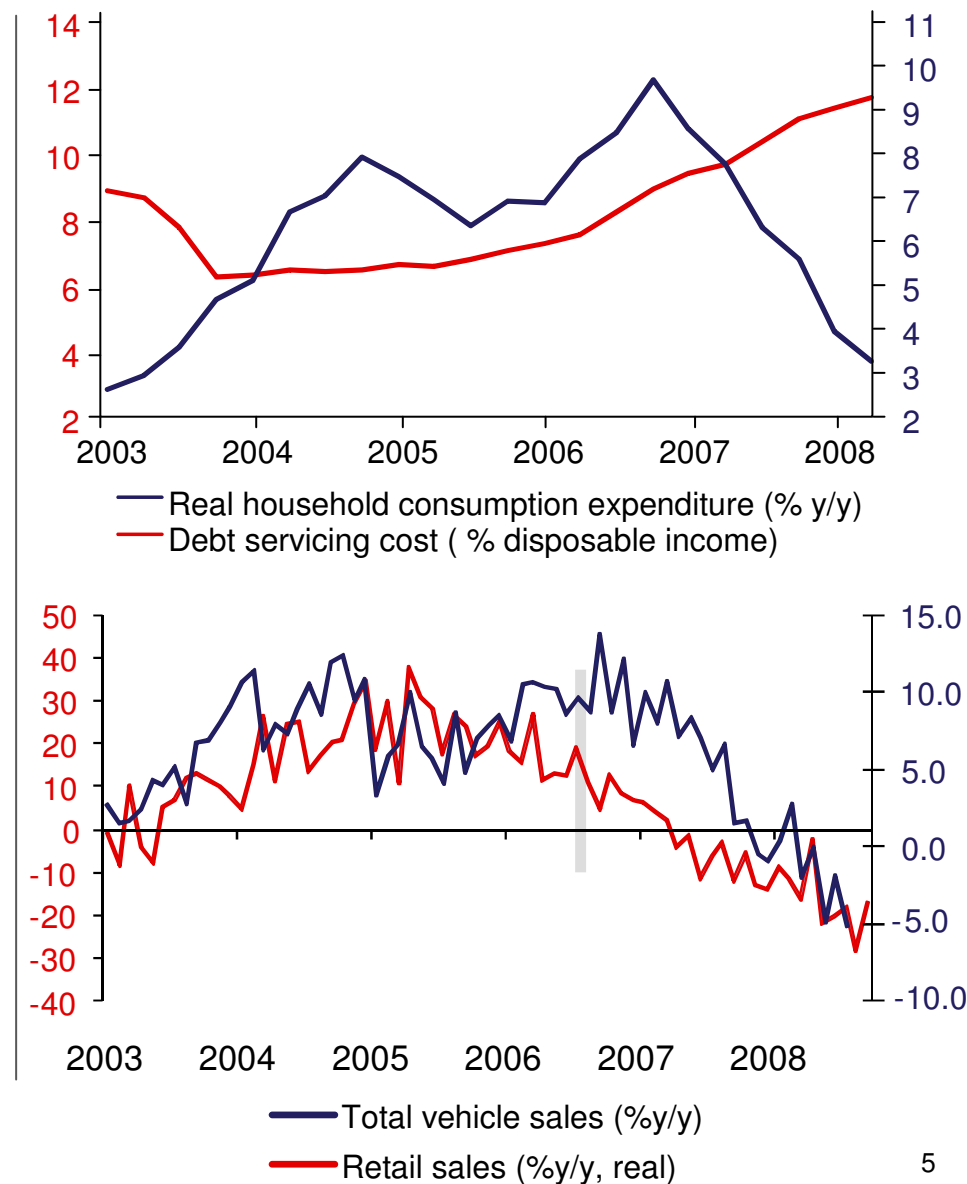
- **Limited exposure to sub prime crisis**
- **Strong regulatory framework**
- **Peak in inflation**
- **SA was well ahead of the global interest rate hiking cycle**

...though not without risks

- **Rand volatility**
- **Current account deficit**
- **Infrastructure capacity constraints**
- **Political uncertainty**
- **Consumer remains under pressure**

Policy rates and higher inflation have hurt the consumer

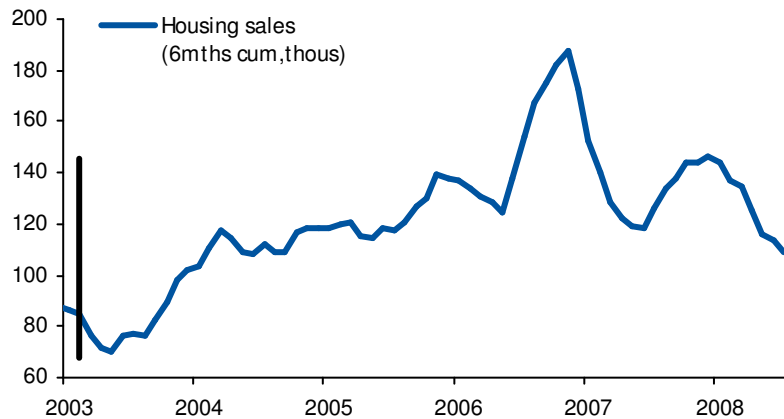
- A dramatic rise in debt servicing cost
- Increases in food and energy prices
- Broad-based inflation eroding purchasing power
- Household discretionary spending under pressure



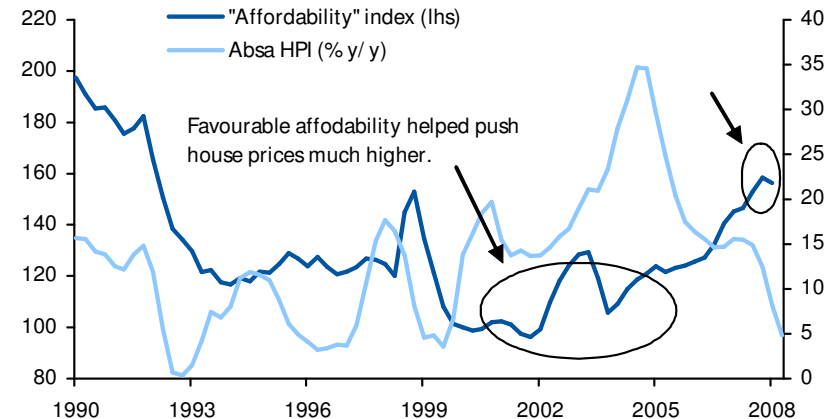
Sources: SARB, Absa Capital

Housing market is expected to remain under pressure

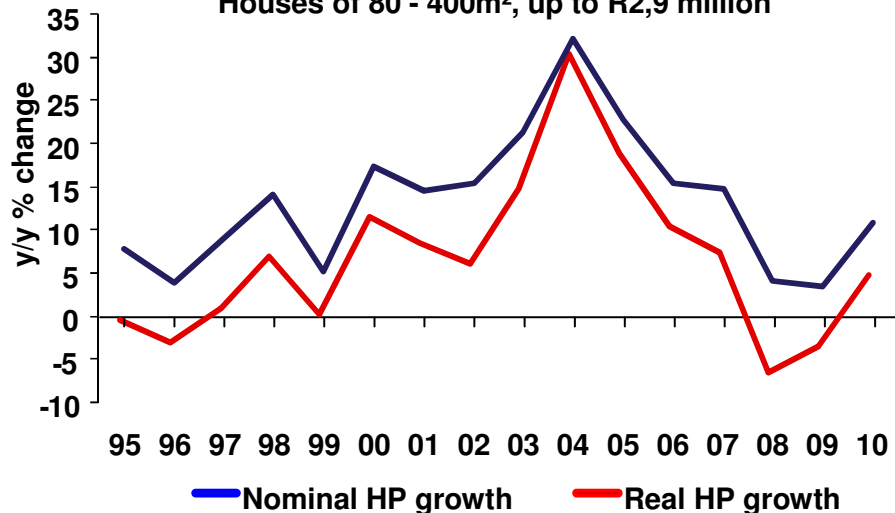
Housing sales back at early 2004 levels, keeping stocks high



“Affordability” will recover only slowly, keeping price growth depressed

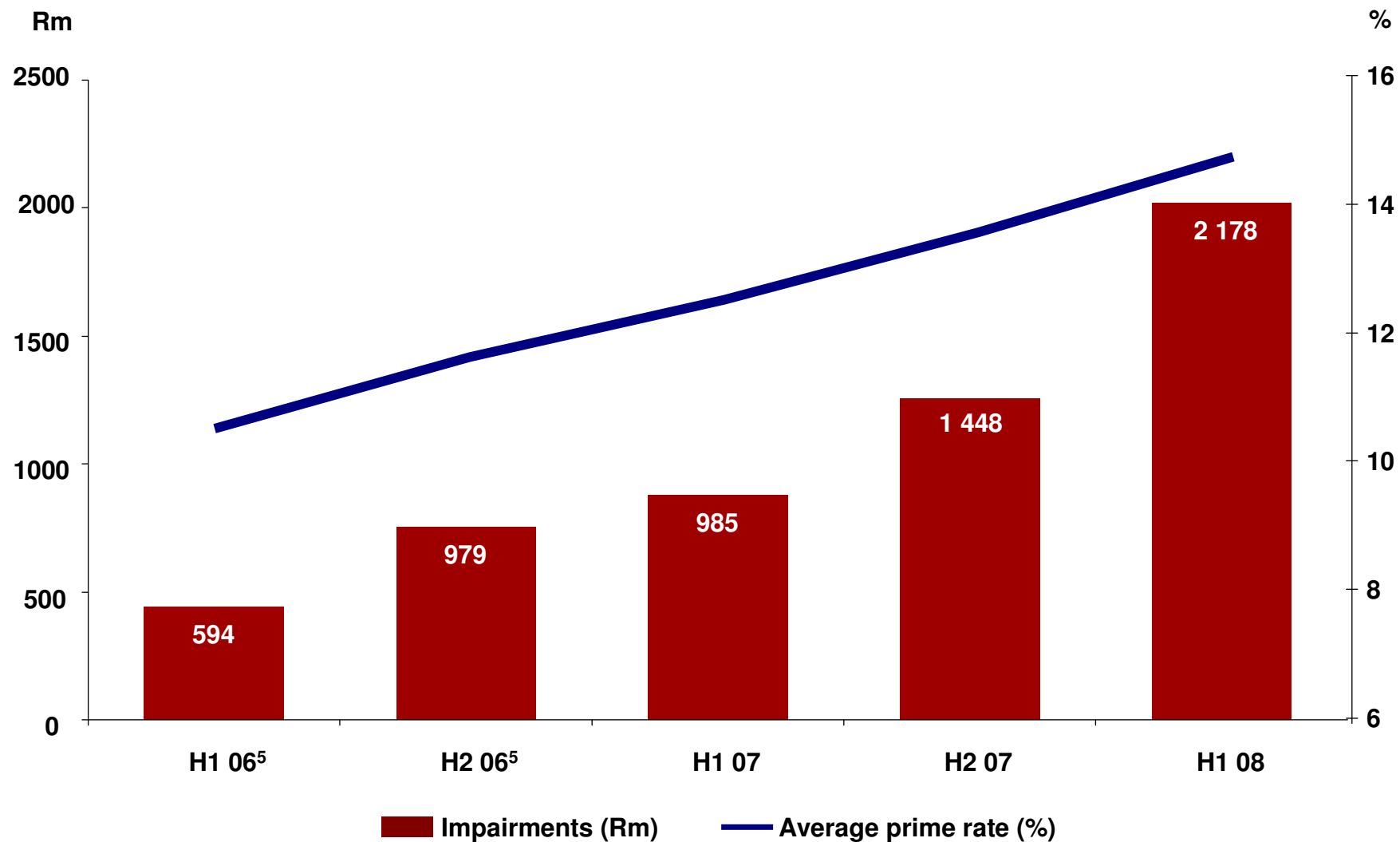


Nominal and Real House Prices
Houses of 80 - 400m², up to R2,9 million



- Declining house prices as a result of rising inflation, interest rates and declining real household disposable income growth
- Positive real house price growth expected by 2010

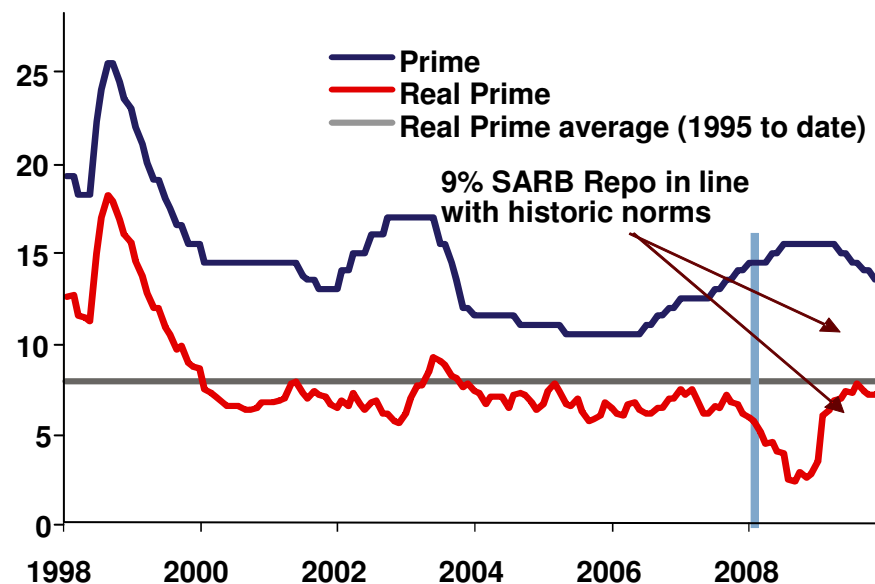
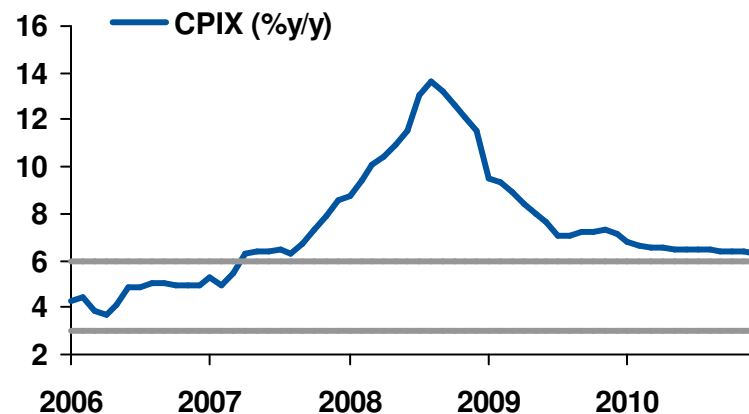
Lower Disposable Income and Security Values have impacted Impairments



⁵ Not restated for CAF + Africa

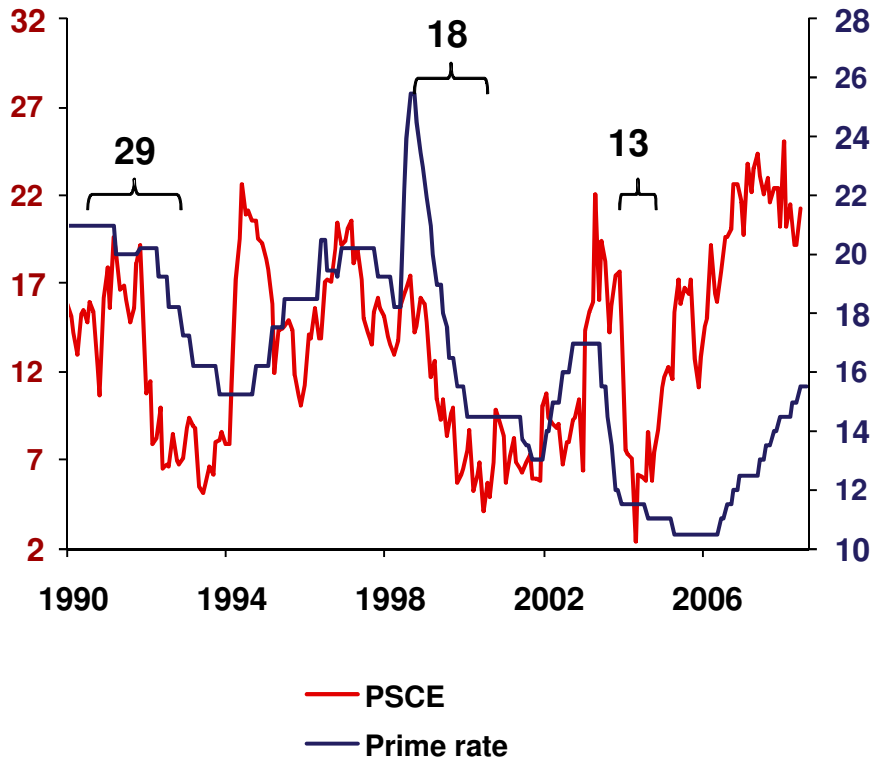
The outlook for market conditions, however, is improving ..

- Inflation has peaked and should fall quickly from late 2008
- 300bp in cuts reasonable, given historic SARB comfort zone
- Lower inflation will bring lower Prime, but not as low as in the previous cycle

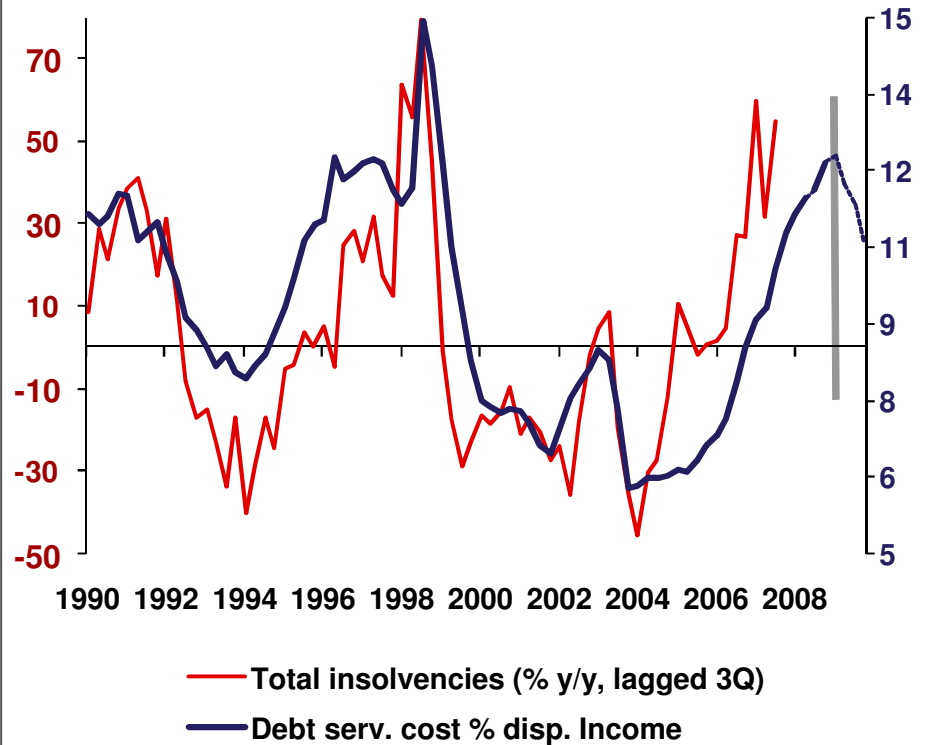


..but the consumer remains vulnerable

Lag between rates falling and borrowing up-tick is long, but falling



Insolvencies tend to peak well after rates do



Strategic positioning in the current cycle

Protect the retail business

Cost control

Cost of funding

Growth and diversification

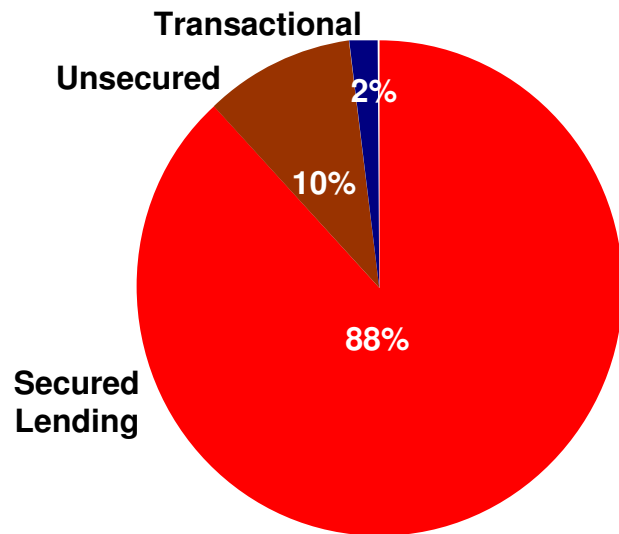
Strategic positioning in the current cycle

Protect the retail business

Disciplined management of book quality

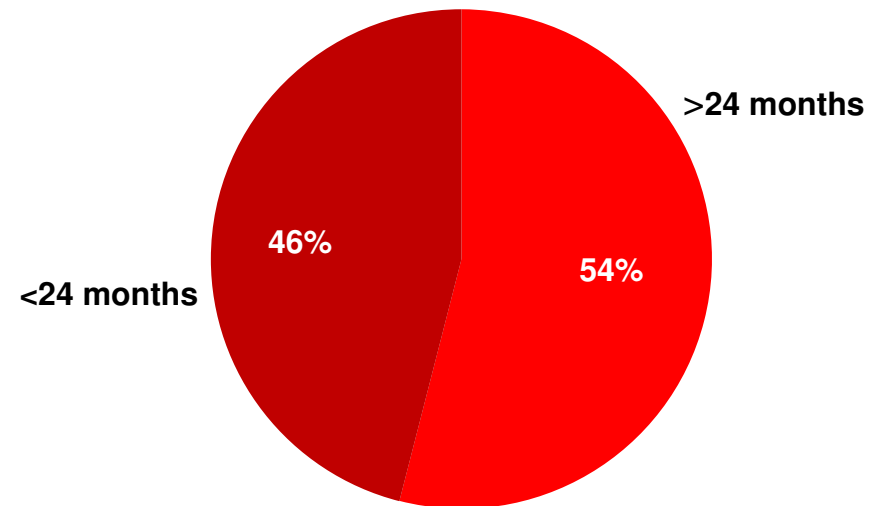
Protect the retail business

Retail Banking book

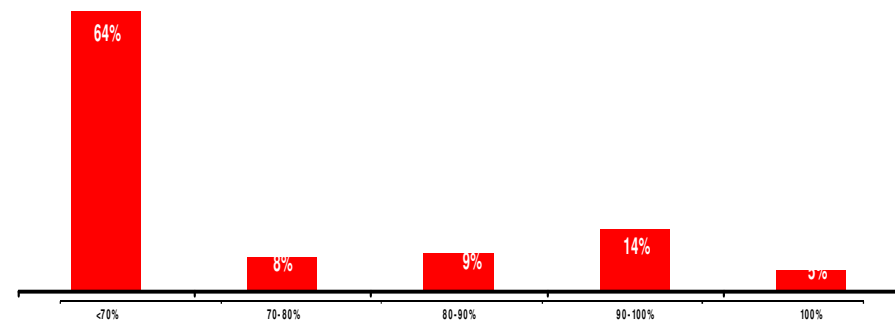


- Large secured book
- Average LTV 44%
- 54% book > 24 months (AHL)

Maturity of home loans book



Loan-to-Value



Early move to tighten credit criteria

Protect the retail business

- **5th iteration of tightening underwriting criteria**
- **Increased LTV caps, restricting exposure**
- **Improved risk based pricing**
- **Move from volume to return on economic capital**
- **Innovation to limit losses**

Strengthen collections capability

Protect the retail business

- **Increased collections headcount to 1534 from 800**
- **4th collection site in Durban opened in march**
- **Initiatives driving efficiencies:**
 - Implementation of a sophisticated SMS tool
 - Added Predictive diallers to enhance volume of calls
 - Implementation of Trace teams to assist in client contactability
 - Implementation of shift work for collectors
 - Introduction of Dialler optimisation teams ensuring efficiency at collection centres
 - Expanded our mobile Collector functionality

Selective growth in market share

Protect the retail business

- **Largest individual deposit base**
- **Limited credit card rollout**
- **Slowdown growth in unsecured lending**
 - Focus on micro enterprise finance
 - Woolworths financial services book

Protecting the future revenue stream

Protect the retail business

- **Grow the customer base**
- **Lengthen advances and deposit portfolio duration**
- **Grow the retail affluent segment**
- **Operational excellence**
- **Full banking proposition and superior service**

Strategic positioning in the current cycle

Protect the retail business

Cost control

Limiting cost growth

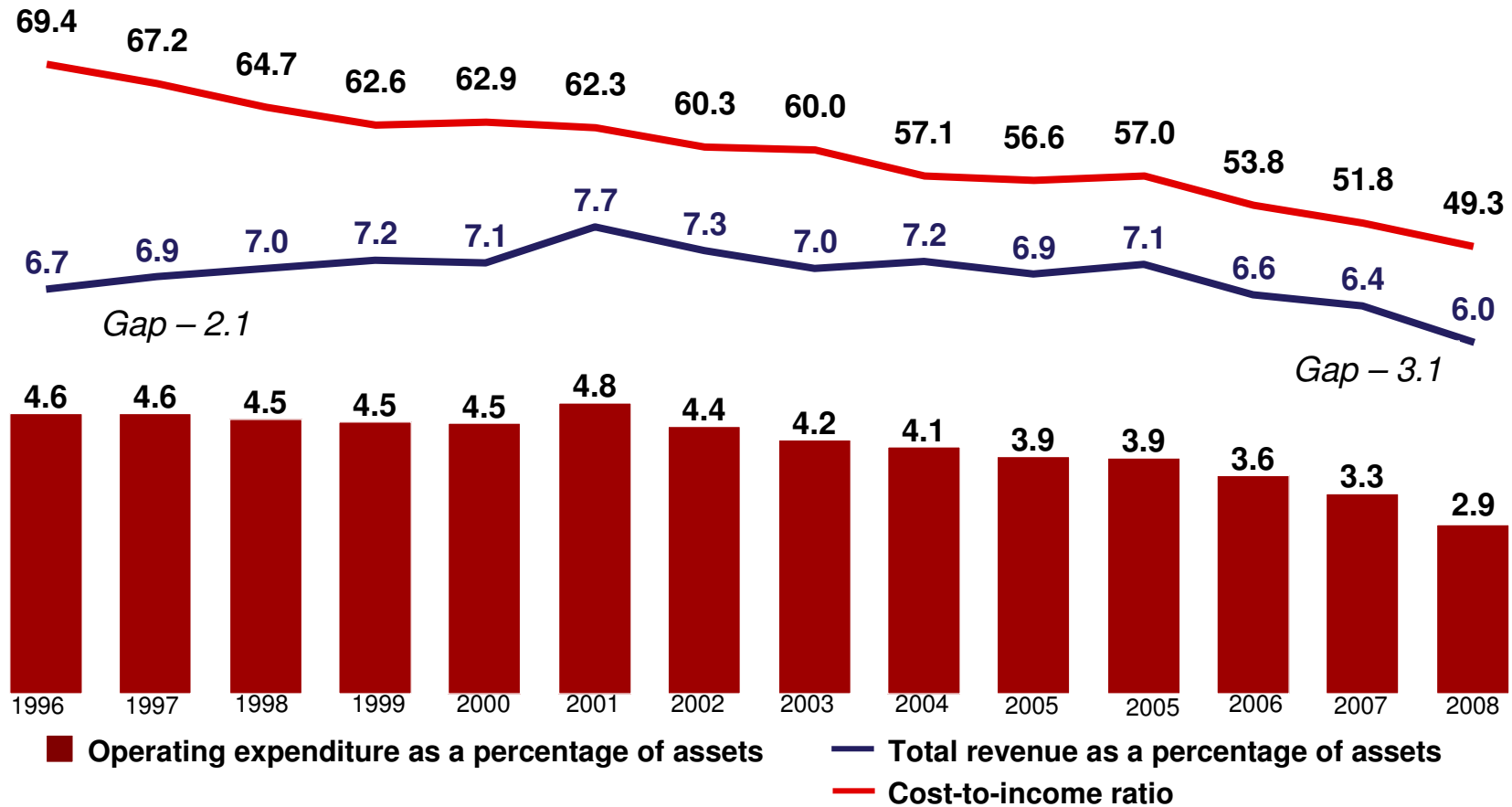
Cost control

- **Cost pressure ↑**
 - Skills shortage
 - General inflation
 - Wage expectations
- **Mitigating response ↓**
 - Reduction in roll out of new branches
 - Mothballing certain internal projects
 - Reduction in discretionary spending
 - Extracting synergies with Barclays

Improving efficiency a key focus

Cost control

Driving a declining cost-to-income ratio (%)



⁹ Year to 31 December

Strategic positioning in the current cycle

Protect the retail business

Cost control

Cost of funding

Effect of global credit crunch impacting funding..

Cost of funding

- **Higher funding costs due to re-pricing of credit risk**
- **Challenging market conditions in terms of off-shore funding and capital issuance**
- **Limited domestic market appetite for securitised notes, asset backed commercial paper and other structured notes previously tapped for funding purposes**
- **Onerous regulatory standards, compliance and disclosure requirements may potentially emanate going forward**

Limited impact on liquidity

Cost of funding

- **Exchange controls**
- **Low reliance on off-shore funding**
- **Strong retail deposit franchise**
 - access to stable funds
- **Strong underlying fundamentals**
 - Well capitalised balance sheet,
 - Diversified earnings
 - prudent liquidity ratios

Strategies to mitigate funding costs

Cost of funding

- **Increase the contribution of retail and commercial deposits**
- **Correctly price liquidity into all assets and liabilities**
- **Grow and diversify the funding base**
- **Continue to maintain a conservative funding profile**
- **Minimise off-balance sheet exposure**

Challenges for Absa in the current cycle

Protect the retail business

Cost control

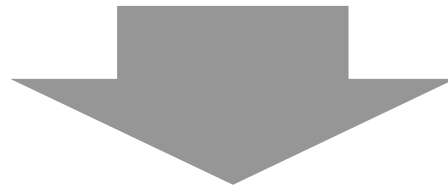
Cost of funding

Growth and diversification

Diversifying the business mix

Growth and diversification

- **Build the leading investment bank**
- **Accelerate growth in commercial business**
- **Grow a wealth management capability**

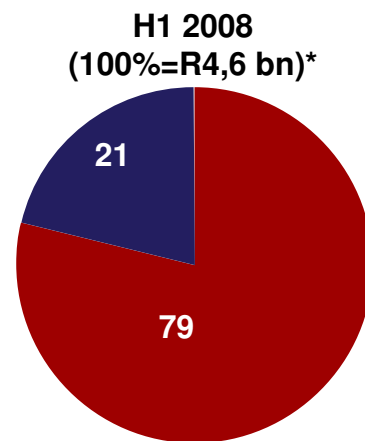
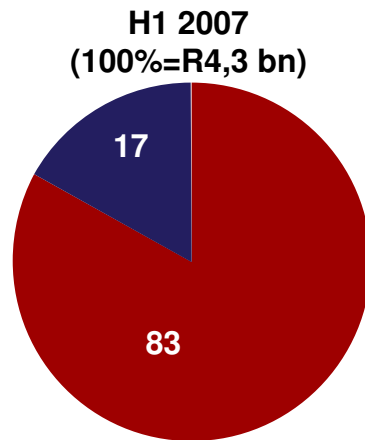


Target
Grow wholesale businesses to
50% of Group earnings by 2012

Absa Capital growing strongly...

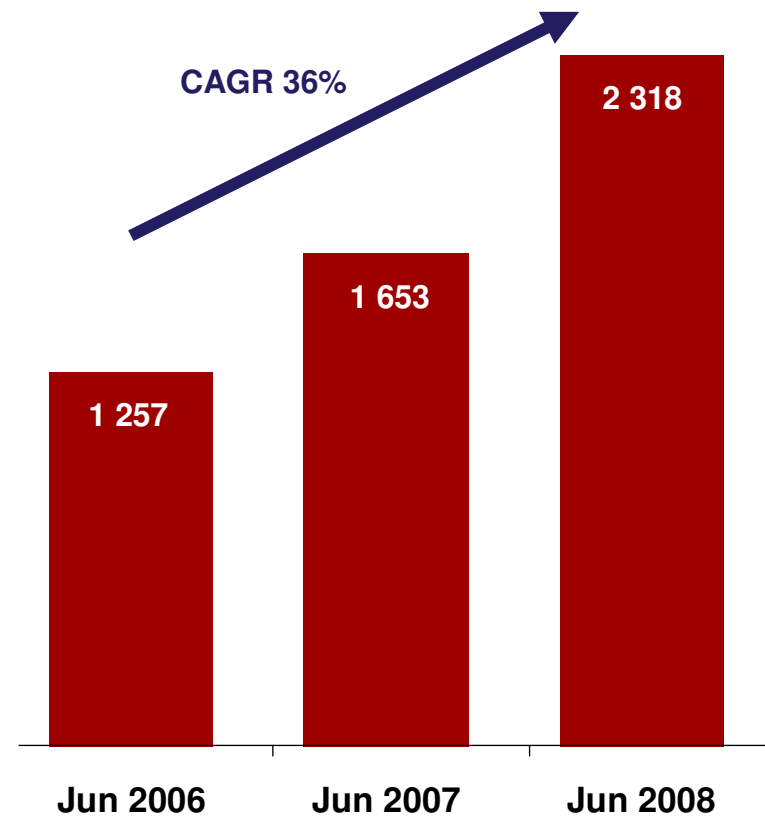
Growth and diversification

Contribution to group earnings (%)



*excludes once off earnings from VISA IPO

Revenue (Rm)⁶

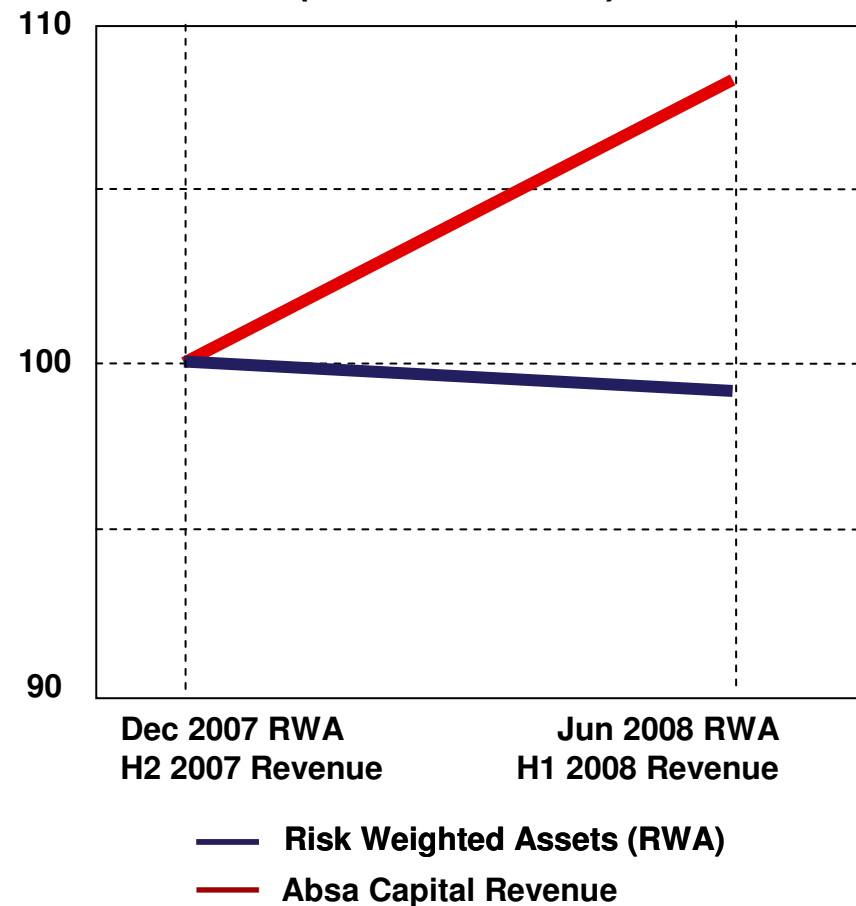


...without an increase in Risk Weighted Assets

Growth and diversification

- Strong focus on risk management
- High quality credit advances

Revenue Growth Relative to Change in RWA
(indexed to 100)



Gaining market recognition

Industry Awards



Risk South Africa Rankings

Derivatives Dealer
of the Year

2nd
Overall

2007



250MW Hydropower Plant
16 Year Debt Facility
Uganda

UD867m

Mandated Lead Arranger
Hedging Bank

2007



KPMG/SAVCA Venture
Capital and Private Equity
Industry Performance Survey

Private Equity - Involved in 5
of the top 10 transactions

Leveraged Finance -
Mandated lead arranger for 3
of the top 10

2007



Financial Mail Analyst
Rankings 2008
DEALING

2nd
Fixed Interest Securities

6th
Derivatives

Largest Transactions in 2008



R6.5bn syndicated loan

Mercedes-Benz South Africa

R3.5bn debt facility*



R2.2bn bond

Firsts in South Africa in 2008



Listed first ever eRAFI
Exchange Traded Fund



Listed first ever capital-
protected commodity basket



First Shari'ah compliant
Exchange Traded Fund

* Largest single-day debt raising exercise in South Africa this year

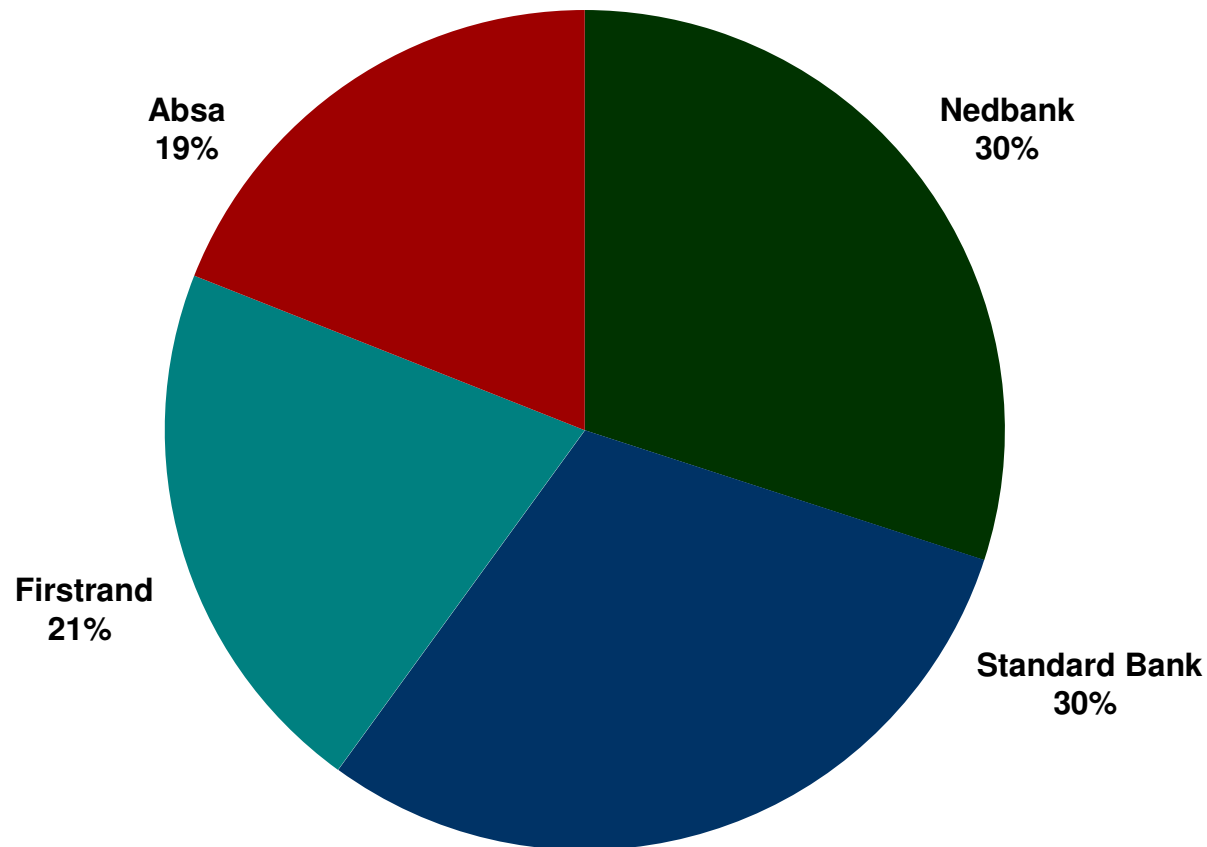
Goal: To be the leading investment bank in SA

Growth and diversification

- **Continue to grow the client franchise**
- **Expand into Sub-Saharan Africa**
- **Derivatise the client base and develop innovative solutions**
- **Leverage Group wide cross-sell opportunities**
- **Leverage synergies with Barclays Capital**

Commercial banking has the lowest market share in South Africa (pbt)...

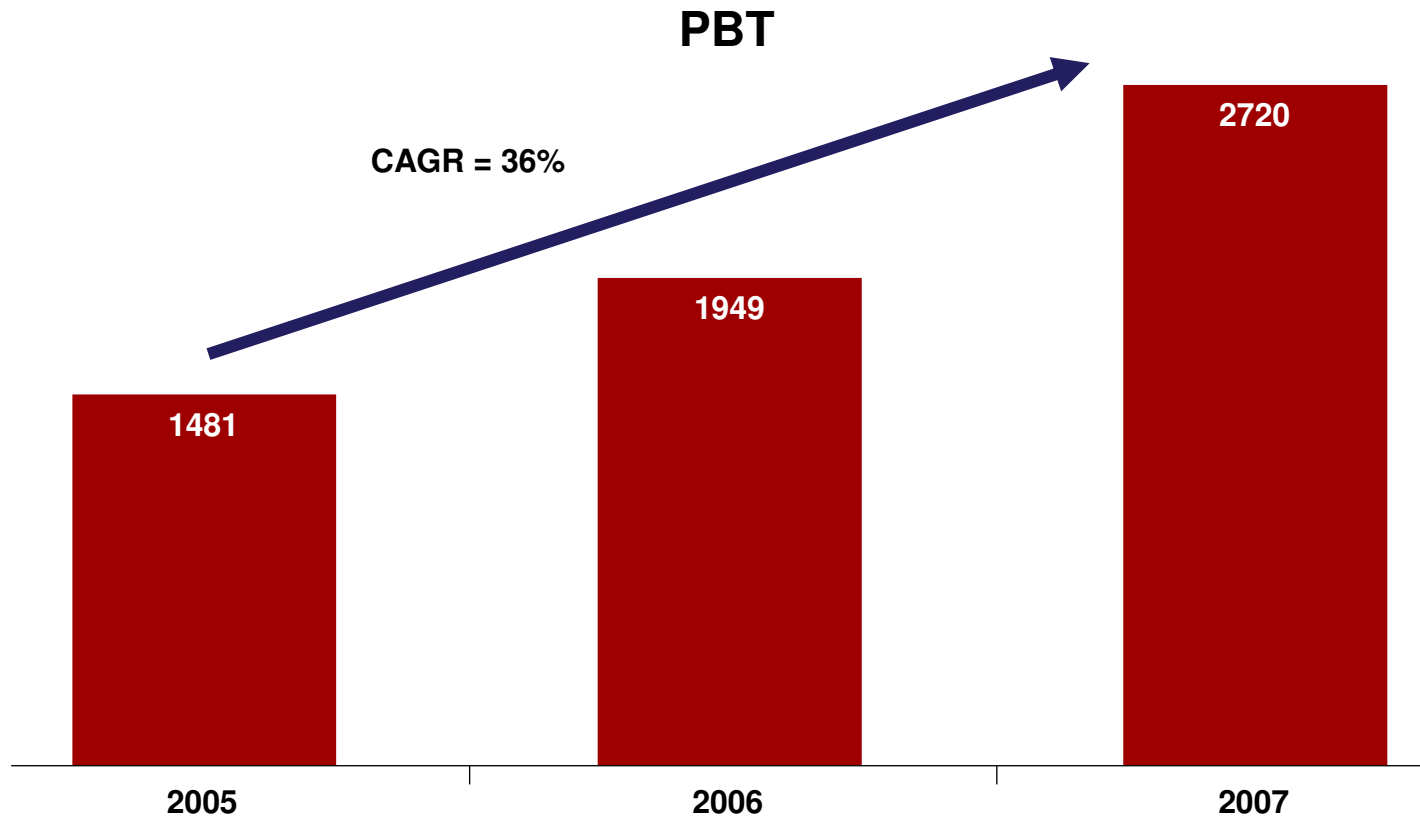
Growth and diversification



Source: Absa Corporate and Business Bank

..but has experienced one of the fastest growth rates over the past three years

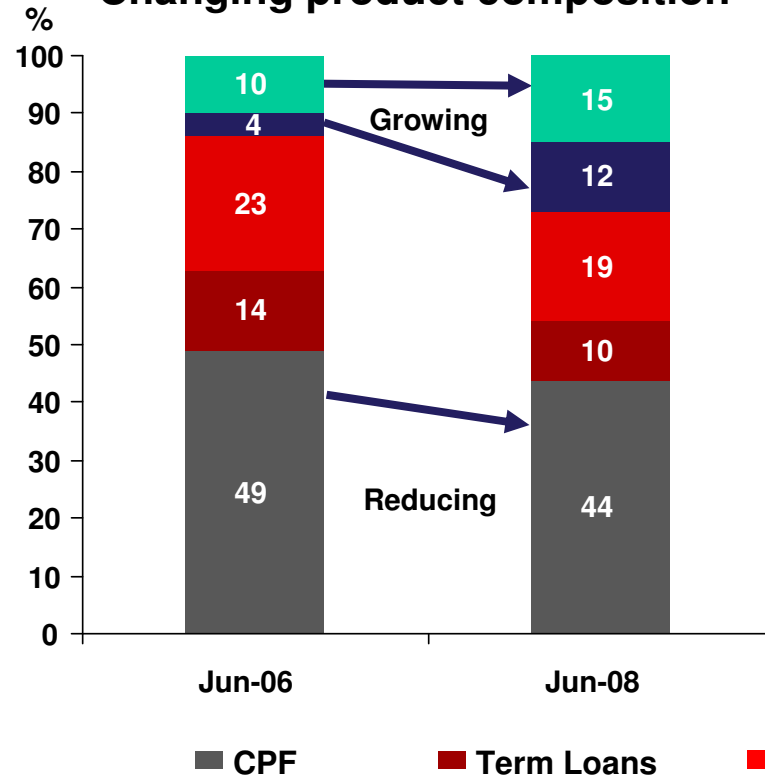
Growth and diversification



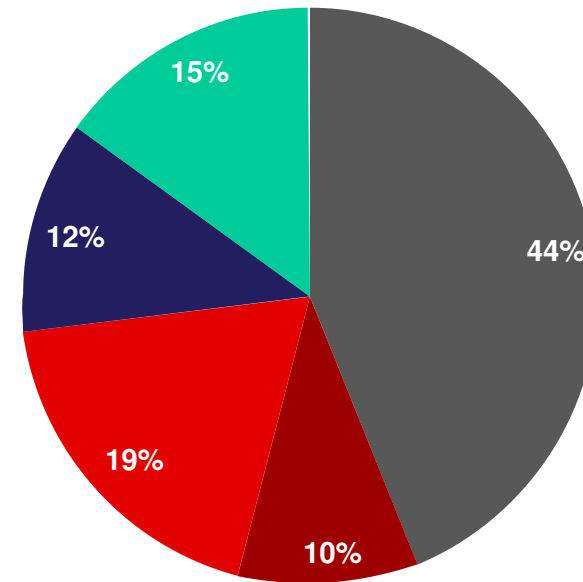
Key driver is product and sector diversification

Growth and diversification

Changing product composition



Composition of the advances book



- More focus on specialised funding solutions, secondary markets, debtor finance, commercial asset finance

* Other includes ADF, Agri property loans and Foreign currency loans

Positioning and potential to deliver future growth

Growth and diversification

- **Deeper customer understanding**
- **Diversifying the revenue mix**
 - Products
 - Sectors
 - Grow corporate franchise
- **Cross sell opportunities and new business acquisition**
- **Leverage off Absa capital**
- **Expansion in Sub Saharan Africa**

Conclusion

Sustained earnings through the cycle

- **Defending a strong retail franchise**
- **Diversifying the business mix**
- **Maximising cross sell opportunities between business clusters**
- **High impact, low risk growth potential**
- **Not capital constrained**

Questions
