

# Absa Group Limited

**Optimising return on capital in a challenging new landscape**

**Group Financial Director: David Hodnett**

**UBS Conference**

**21 October 2010**

---

A challenging new landscape

Well positioned

Our response

# A challenging landscape – tough macro backdrop

---

## Trends

---

### Macro Backdrop

- Weaker than expected global recovery
- Income rather than credit-driven recovery
- High unemployment, household debt ratio improving slowly
- Muted consumer and corporate sectors
- Low interest rates for longer
- Strong Rand



## Implications for Absa

---

- Modest credit demand – retail and corporate
- Hedge reduces margin pressure (endowment)
- Low, but steady growth in transaction activity
- Client-driven trading volumes under pressure
- Normalising impairments

# A challenging landscape – notable regulatory change

---

## Regulatory Changes

- Basel Amendments
- Consumer Protection Act
- Companies Act



## Implications for Absa

---

- Maintain high capital and liquidity levels
- Margin compression (funding)
- Impacts product profitability e.g. equity products, term lending
- Implementation costs
- Process optimisation
- Rising consumerism

# A challenging landscape – rising competition

---

## Competition

- International banks enter/return
- Rivals focus on unsecured lending, deposits, non-interest revenue and primary customers
- Niche banks making gaining market share
- Greater focus on Africa
- Non-banks



## Implications for Absa

---

- Increased competition, particularly in growth segments and for deposits and liquidity
- Impacts ability to re-price
- Cost pressures, given limited skills pool
- Maintain channel presence

---

A challenging new landscape

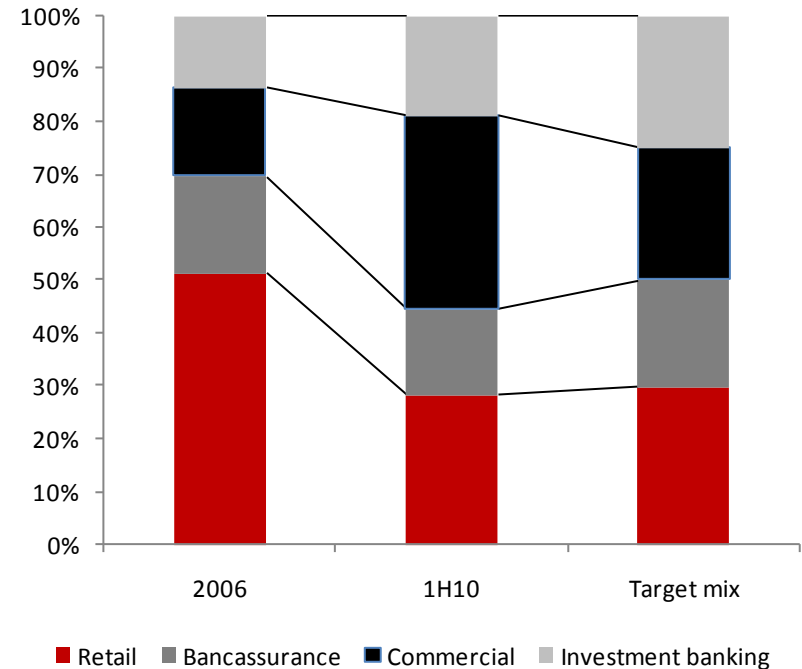
Well positioned

Our response

# A robust starting point

- Full strength management team
- Well capitalised
- Leading distribution network
- Large customer base
- Strong brand
- Better diversified earnings
- Retail banking leader
- Strong investment bank
- Unique bancassurance model

## Attributable profit mix



Source: ABSA

---

A challenging new landscape

Well positioned

Our response



# 'One Absa' strategy

---



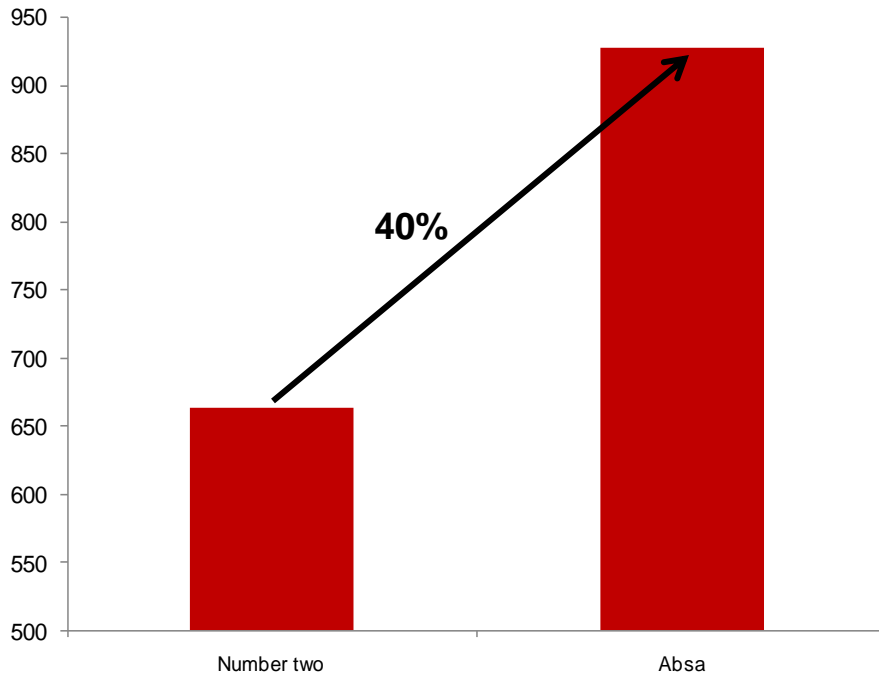
# Absa One strategy generates 13 key workstreams

Sustainable growth in targeted markets	Enhancing business as usual	Core fundamentals
Position corporate bank alongside IB	Leading FX franchise	Strengthen risk management
Establish ABB's market leadership	Grow retail business	Optimise balance sheet
Entry level banking proposition	Grow deposits	Implement target operating model
Wealth and investment advisory	Streamline the group	
Grow African earnings	Performance through people strategy	

# Grow Retail – we have a distribution edge

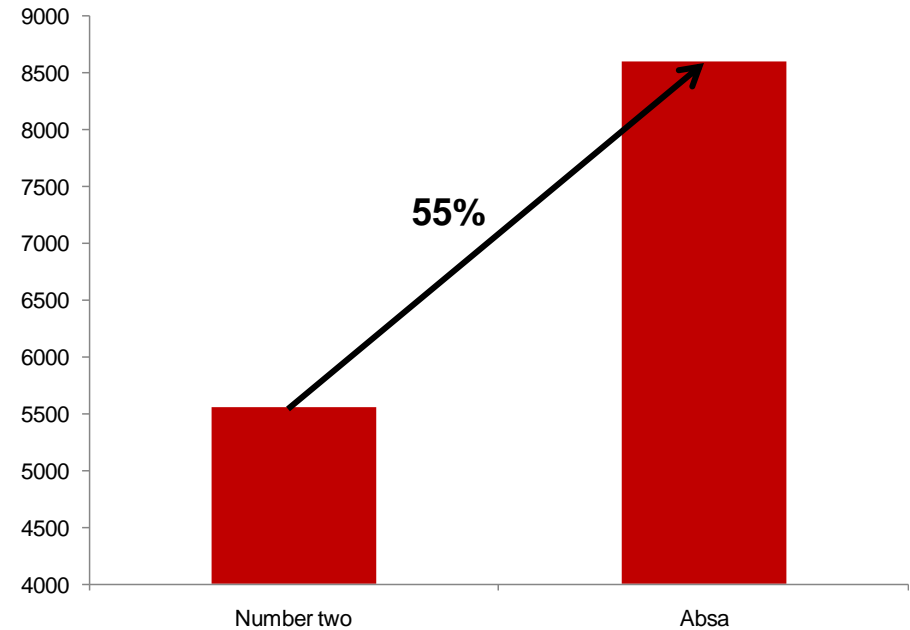


## Branches, 1H10



Source: ABSA, company reports

## ATMs, 1H10



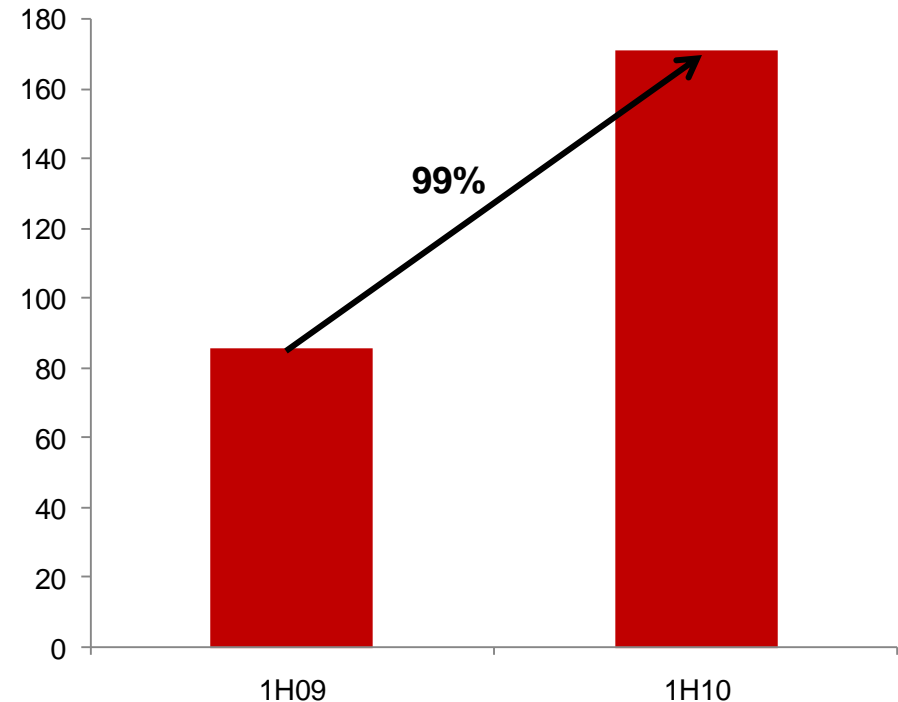
Source: ABSA, company reports

# Corporate bank – seeing early success



- Share of profit pool well below customer relationships
- Extend Abcap's coverage model to our top corporate customers
  - Grow primary customer base
  - Holistic customer solutions
- Performed well in 1H10
  - Gained customers
  - Increased transaction volumes

Corporate PBT, Rm

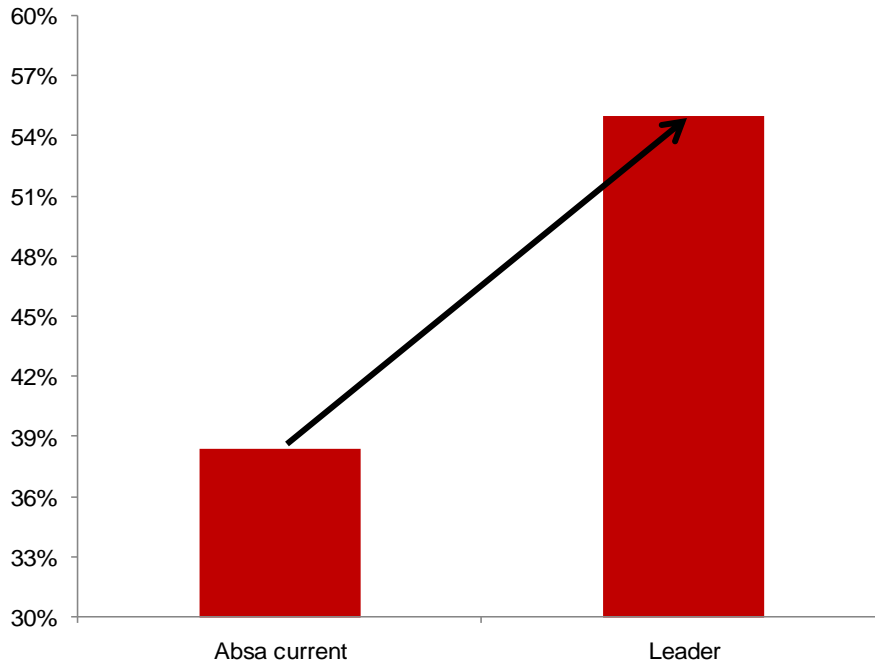


Source: ABSA

# Business Bank – significant upside potential

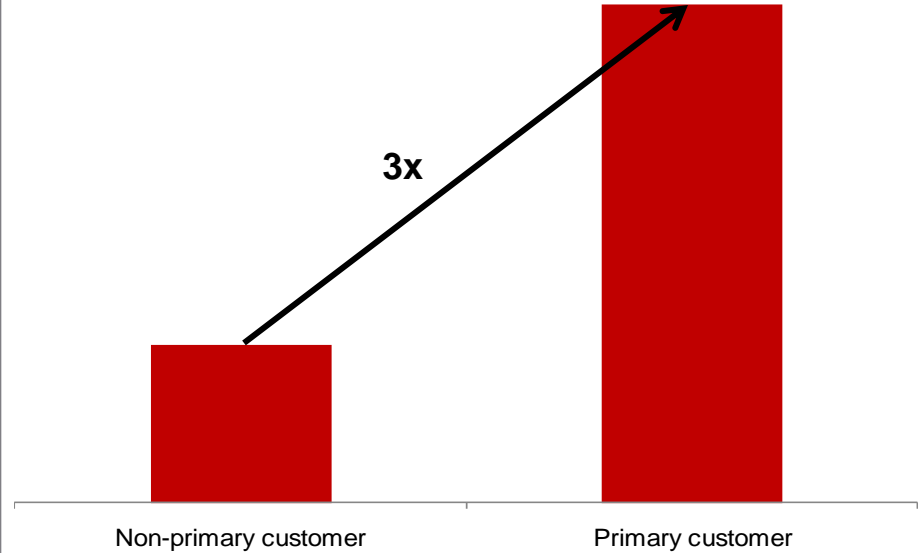


## Business banking NIR to total income



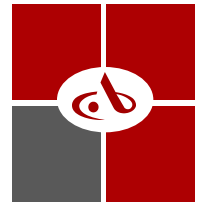
Source: ABSA

## Large business products per customer



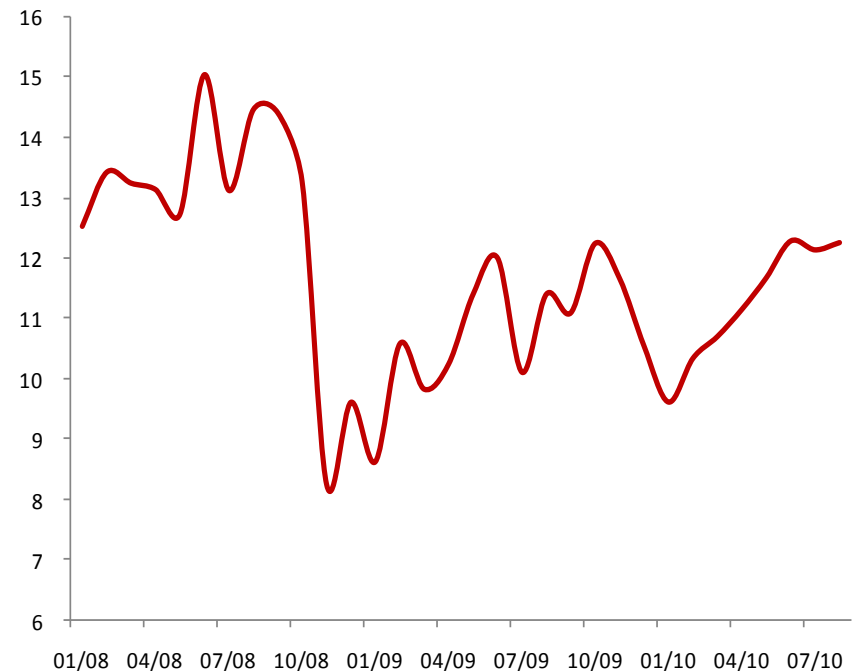
Source: ABSA

# Establish a leading FX centre



- Build a scalable platform
- Installed Barclays' PACE system
- Several early successes
  - Consolidated 5 divisions into one Forex Operation
  - Reduced turnaround times
  - Rolled out PACE in Tanzania
- Performed relatively well in 1H10

**Net average daily turnover on SA foreign exchange market, US\$**



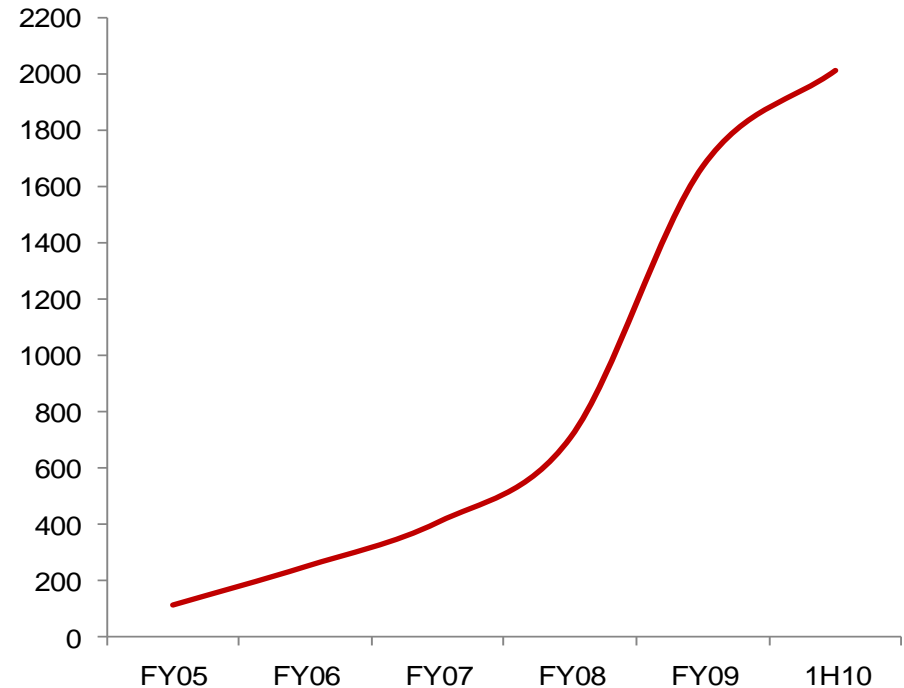
Source: SARB

# A new entry level banking model



- Leading customer base ...
  - 33% banking customers
  - 16% social grants (AllPay)
- ... brand, distribution and product
- Piloting new model
  - Low cost of delivery
  - Simple products
  - Customer education
- Deepen share of wallet

**Cellphone customers (thousand)**

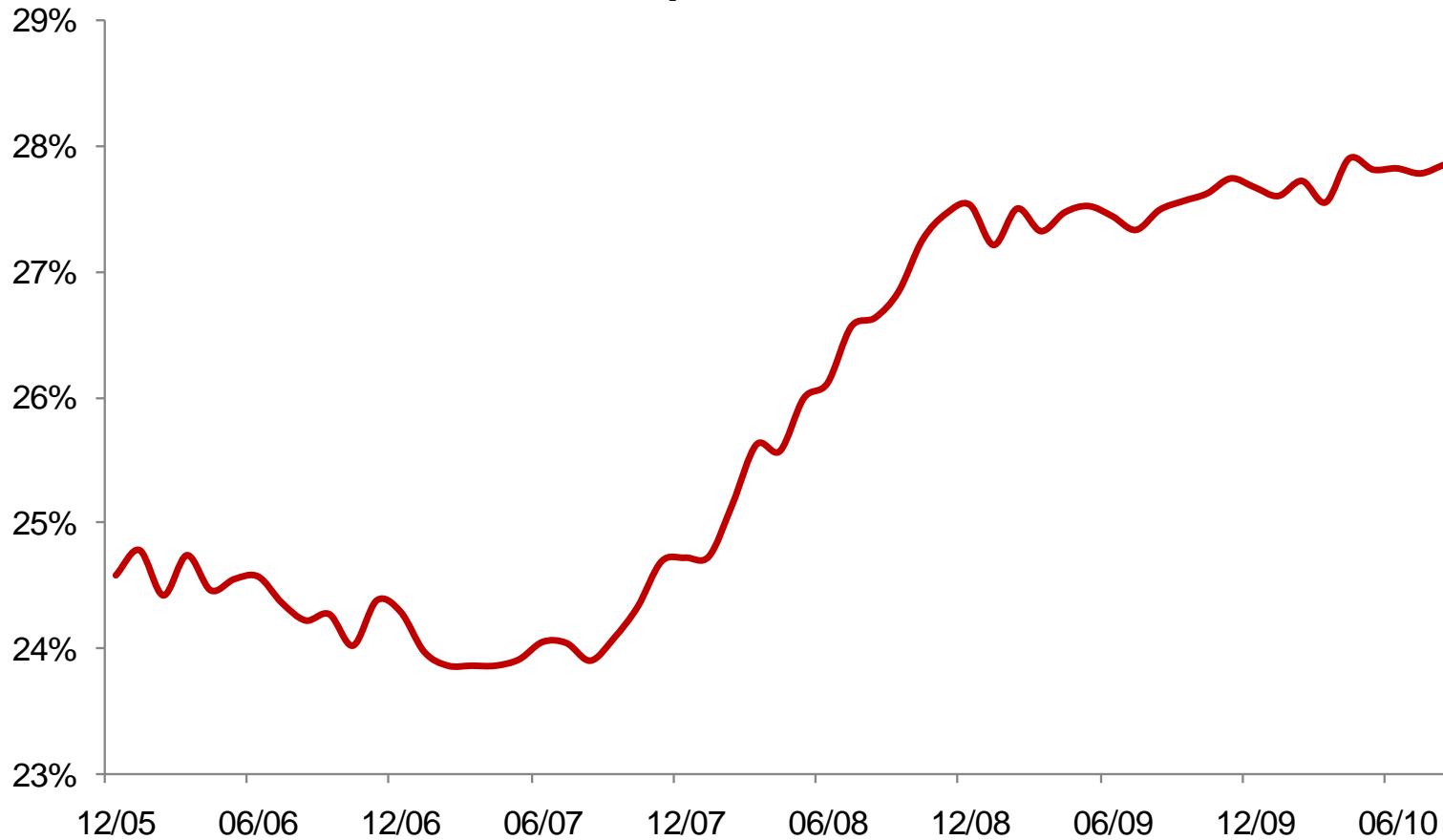


Source: ABSA

# Grow deposits



## Individual deposit market share



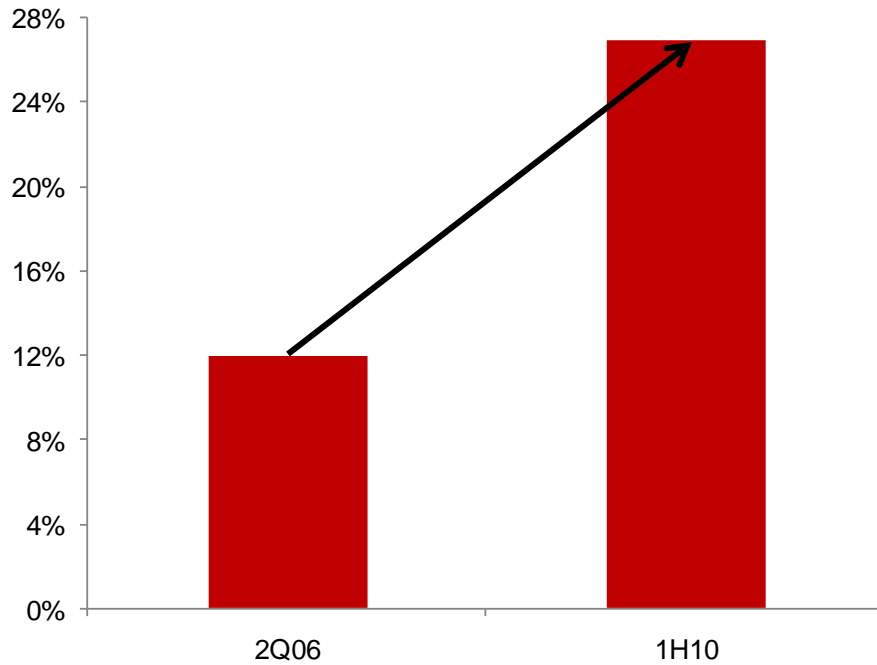
Source: BA 900 data



# Balance sheet optimisation

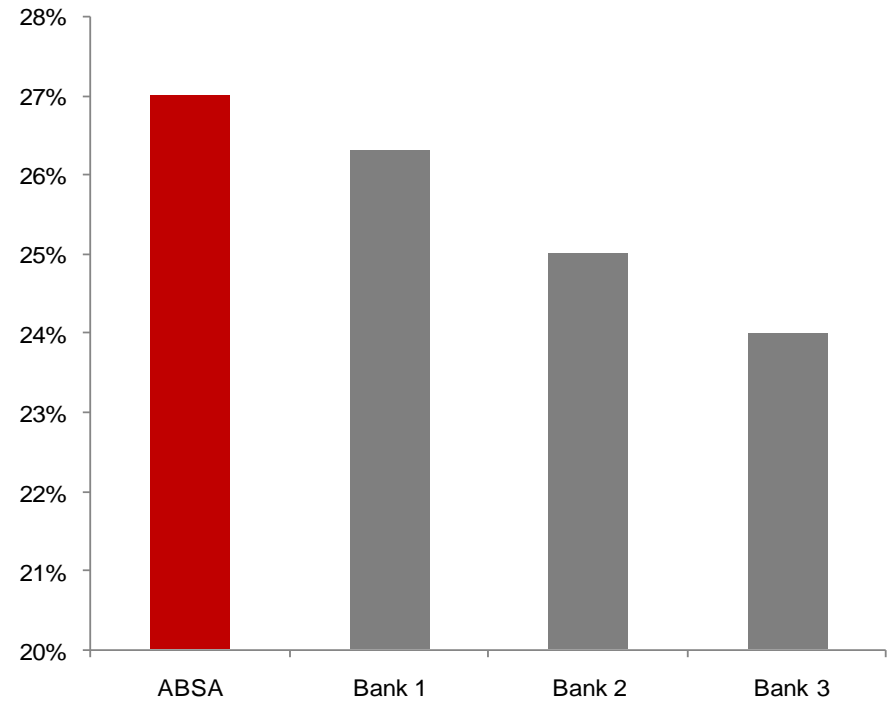


## ABSA long-term funding ratio



Source: ABSA

## Long-term funding ratios, 1H10

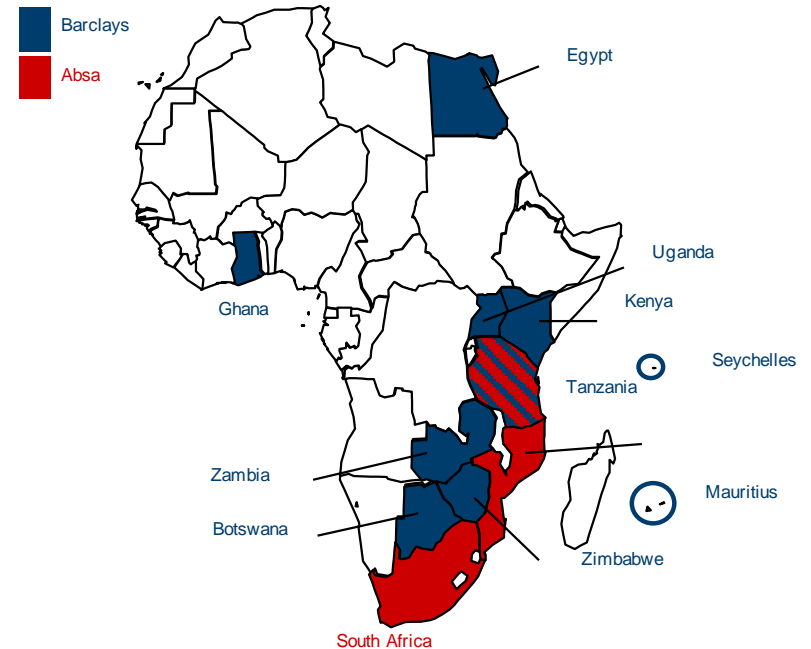


Source: ABSA, company reports

# Low risk three-prong rest of Africa strategy



- Grow existing franchises
  - Replatforming
  - NBC IPO in Tanzania
- Enhanced Barclays collaboration
  - Bancassurance
  - Investment banking
  - Other products e.g. Islamic banking, agri
- Enter key new markets
  - Nigeria (rep office)
  - Namibia (rep office)

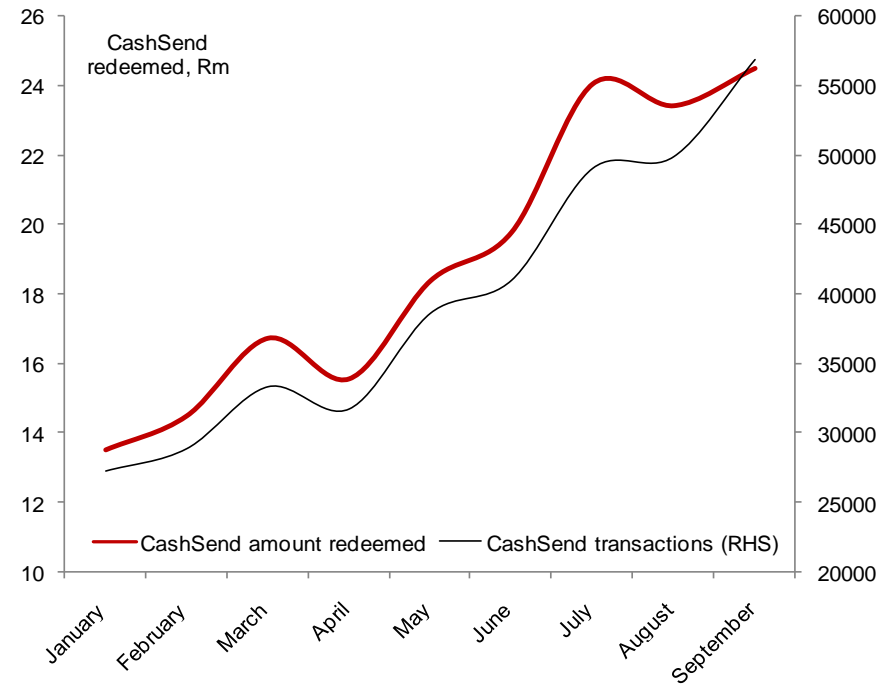


Source: ABSA, Barclays

# Innovative, particularly electronic and payments

- CashSend
- Western Union
- POS dynamic currency conversion
- PayPass™ contactless card
- Absa.mobi
- Agri card
- 1<sup>st</sup> public corporate switch auction in SA Debt Capital Markets
- 1<sup>st</sup> USD CPI note placed with an SA investor
- 1<sup>st</sup> high-yield bond issuance in SA

## CashSend volumes



Source: ABSA

# Cost to income ratios capture key dynamics

- Pressure on ratio medium-term
- Past staff optimisation evident
- Clear hedging benefit
- Non-interest revenue opportunity
  - Absa Capital
  - Bancassurance cross sell into retail, Africa, commercial
  - Corporate and business banking transaction volumes

$$\frac{\text{Costs}}{\text{Revenue}} = \frac{\text{Costs}}{\text{RWA}} \times \frac{\text{Revenue}}{\text{RWA}}$$

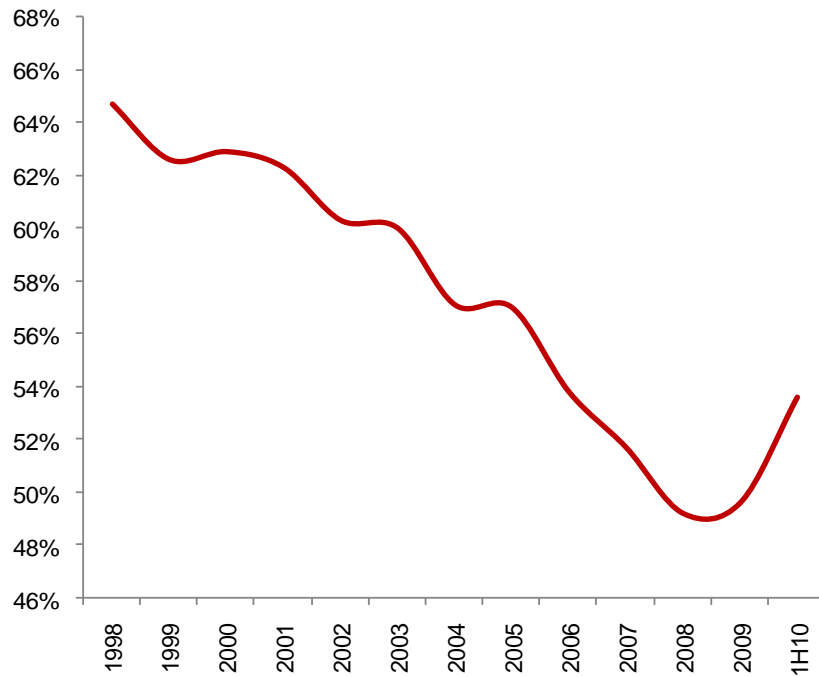
## To average RWA (1H10)

	ABSA	Peers
<b>Costs</b>	5.8%	6.0%
Staff costs	3.0%	3.2%
Other costs	2.8%	2.8%
<b>Revenue</b>	10.7%	10.3%
Net interest income	5.8%	4.8%
Non-interest revenue	5.0%	5.5%

Source: ABSA

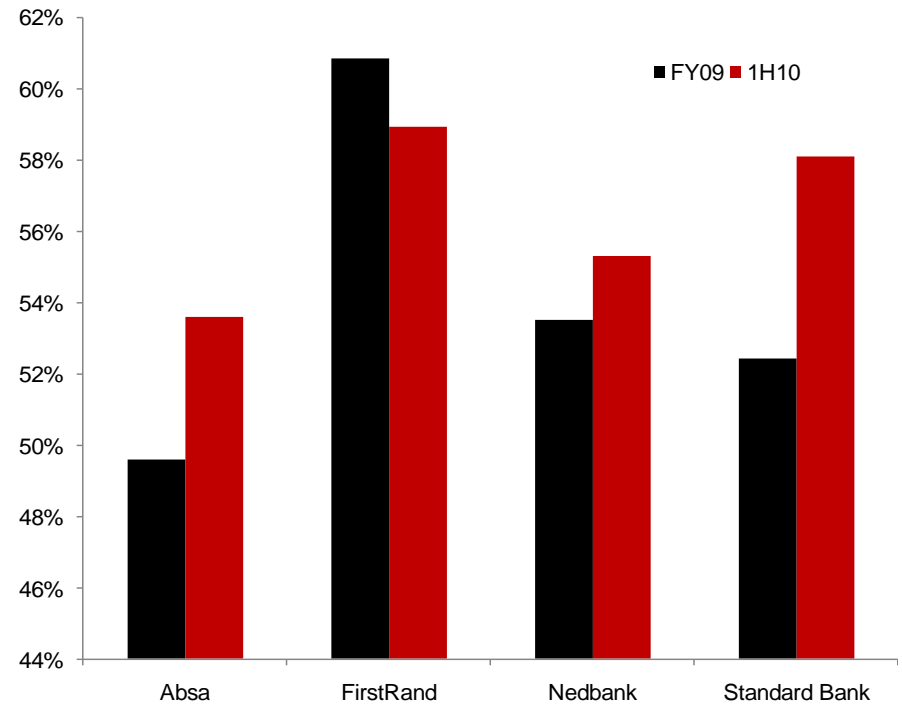
# Cost to income ratio under pressure, but competitive

## Cost to income ratio



Source: ABSA

## Big 4 bank cost to income ratios



Source: ABSA, company reports

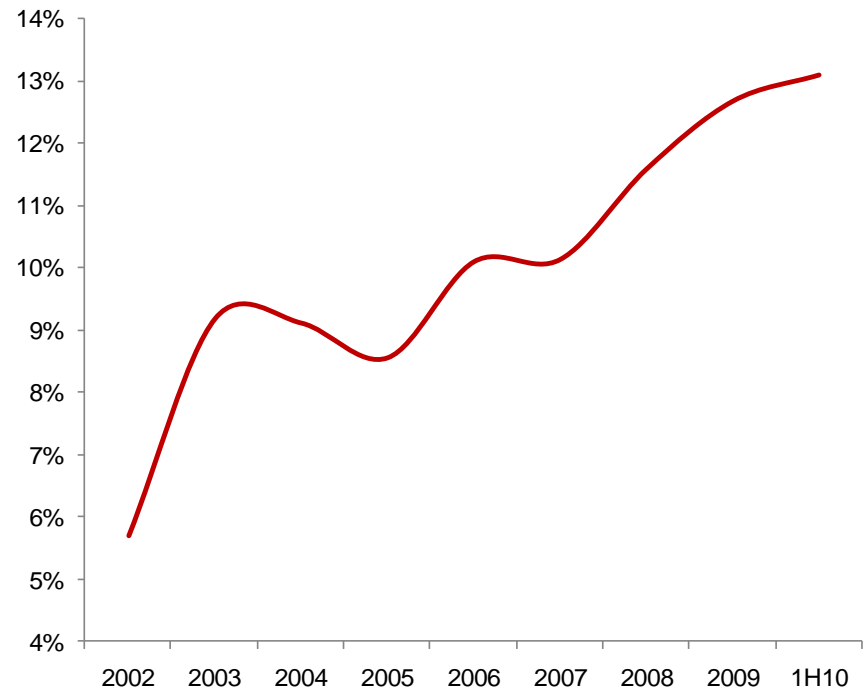
# Well capitalised, but still several moving parts



- Still some Basel uncertainty
- Upward pressure on RWAs
  - + Substantial rise in market risk
  - + Increasing credit risk RWAs (model refinements)
- Various optimisation initiatives
  - Implement AIRB (wholesale)
  - Reduce equity risk

We will review capital level medium-term

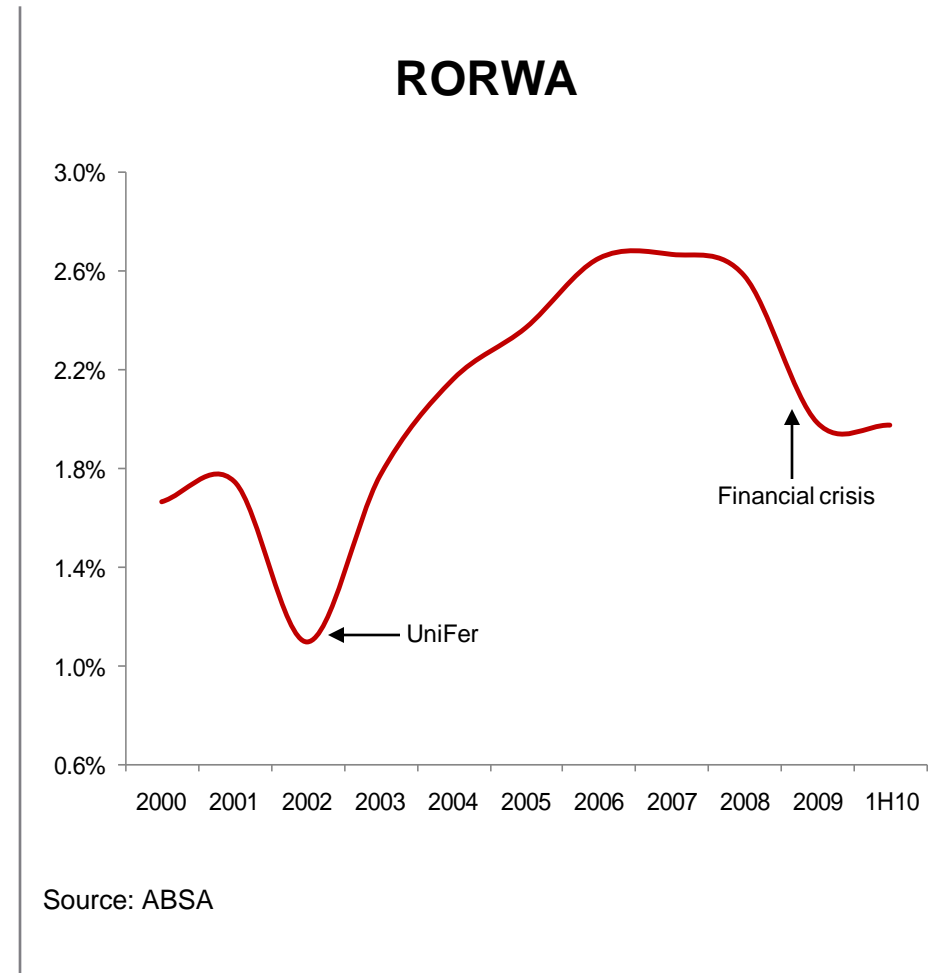
## Tier 1 capital ratio



Source: ABSA

# Greater focus on RORWA

- Further impairment tailwind
- Improve revenue growth
  - Non-interest revenue initiatives
  - Wider margins
  - Loan growth picks up
- Manage cost growth
  - Given initiative spend, staff cost pressures
  - Flex cost growth to revenues
- Optimise RWA



# In summary

---

- Strong franchise
- Right strategy
- Execution, execution, execution