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# Making the investment case

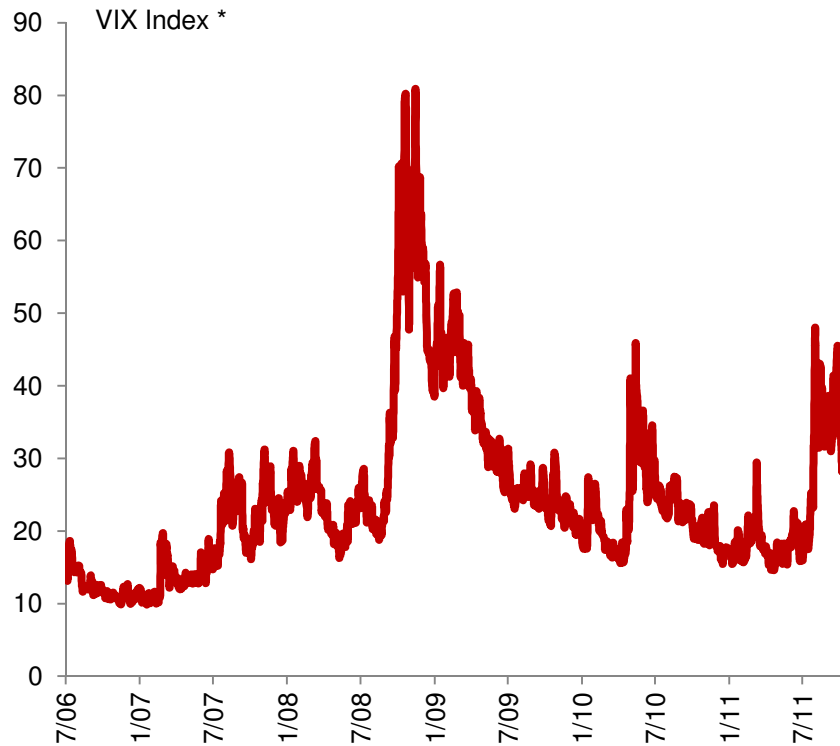
## UBS conference

Louis von Zeuner, Deputy Group Chief Executive Officer

27 October 2011

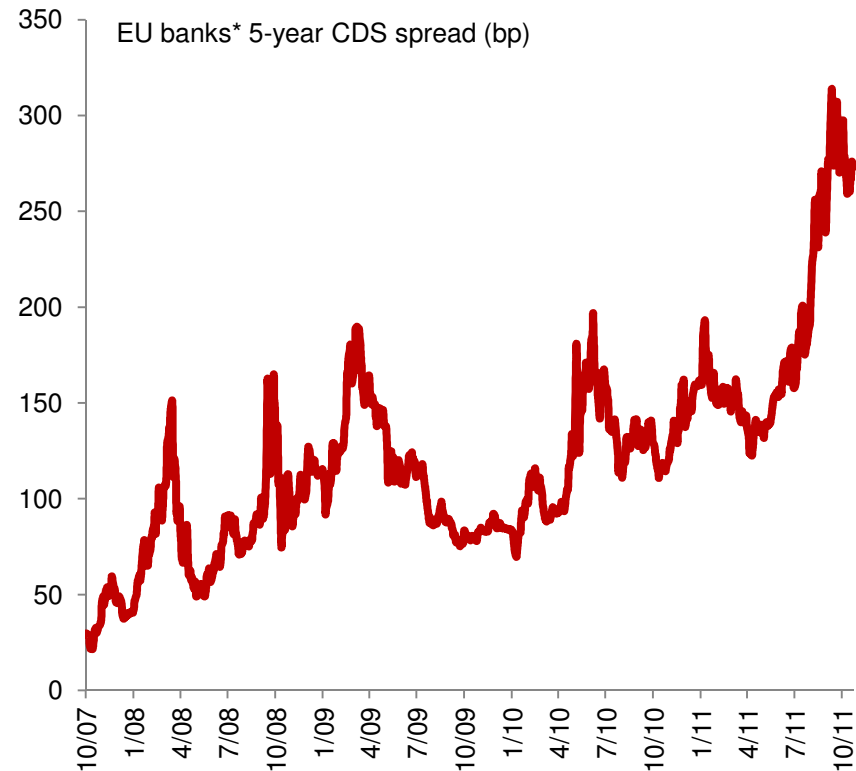
# Deteriorating global backdrop ...

## Elevated VIX Index signals greater 'fear'



Source: Bloomberg  
Note: \*Chicago Board Options Exchange Market Volatility Index - measuring the implied volatility of S&P 500 index options

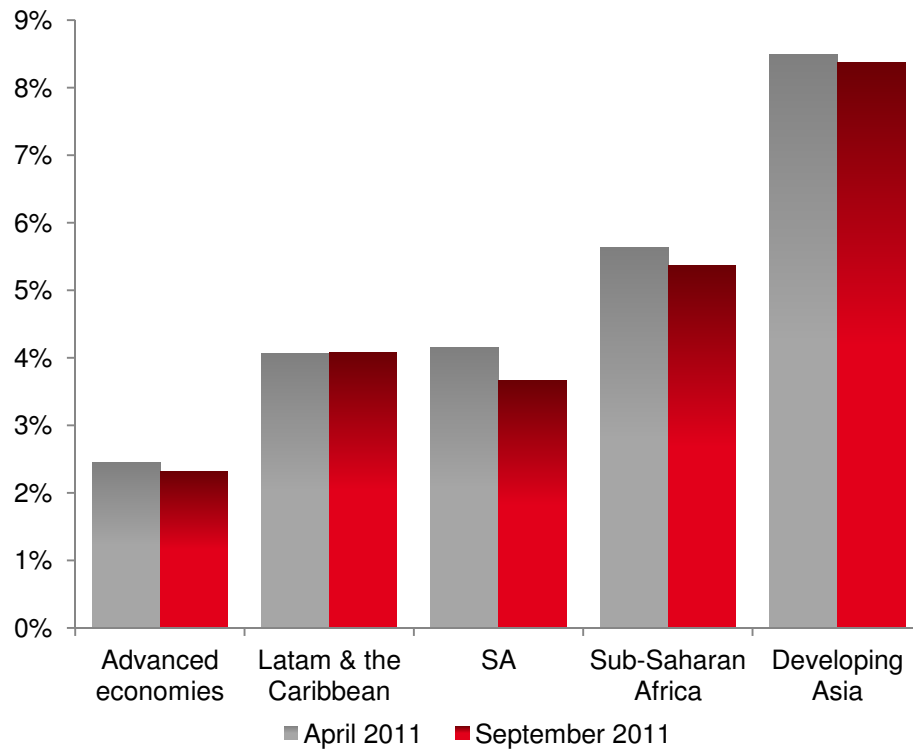
## EU bank CDS spreads increased sharply



Source: Bloomberg  
Note: \*Average Euro CDS (senior, 5 year) for Societe Generale, RBS, Lloyds, BBVA, Credit Agricole, Commerzbank, BNP Paribas, Barclays, Deutsche Bank, Standard Chartered, HSBC, Santander, Unicredit

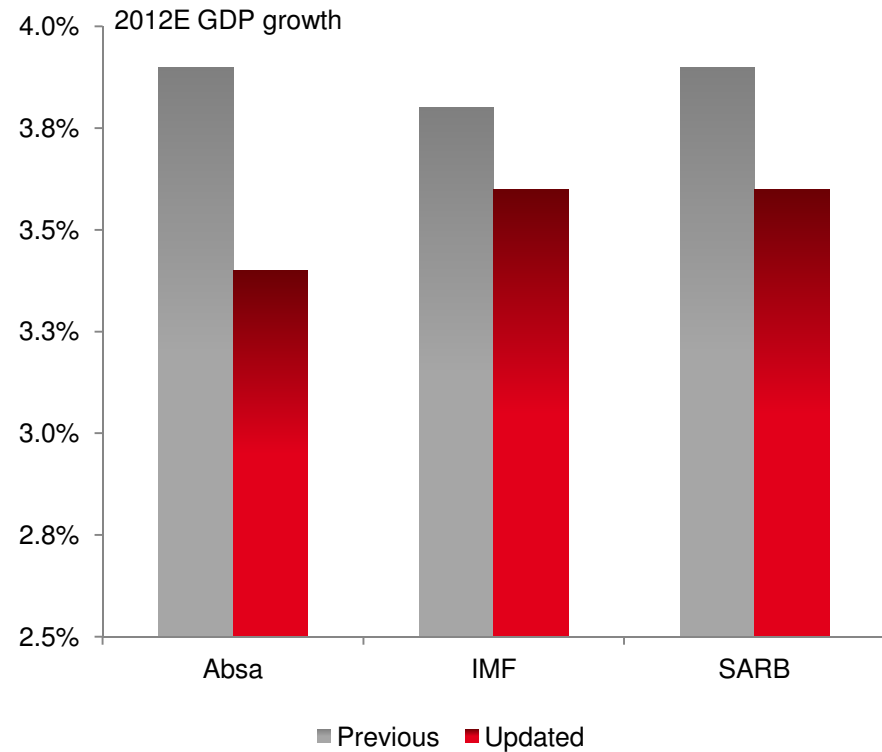
# ... dampens our macro outlook

Expected global GDP growth reduced\* ...



Source: IMF  
Notes: \* Average, constant prices (2011-16E)

... dampening South Africa's outlook



Source: IMF, Absa, SARB

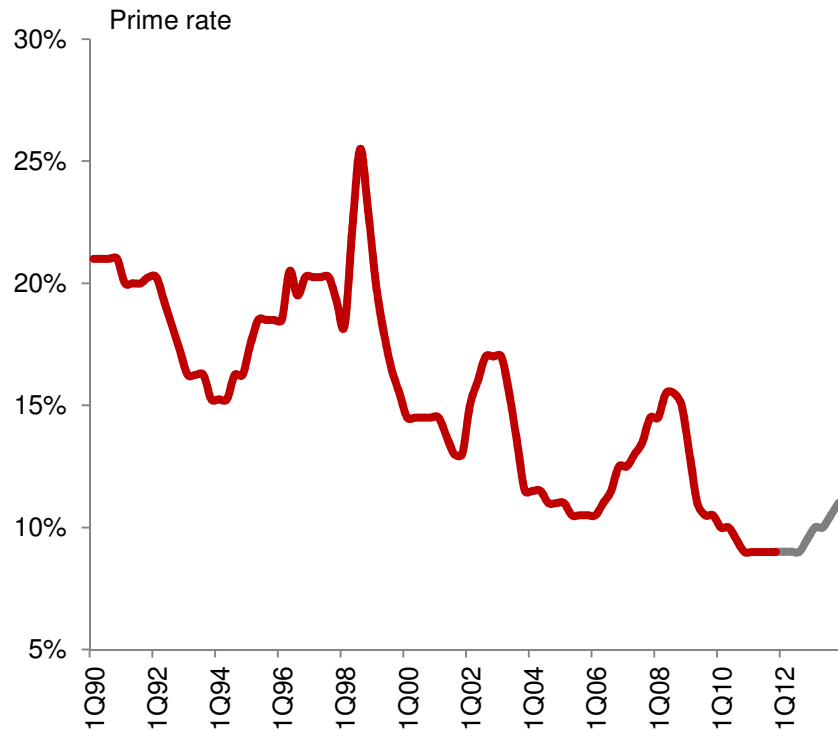
# One Absa is delivering

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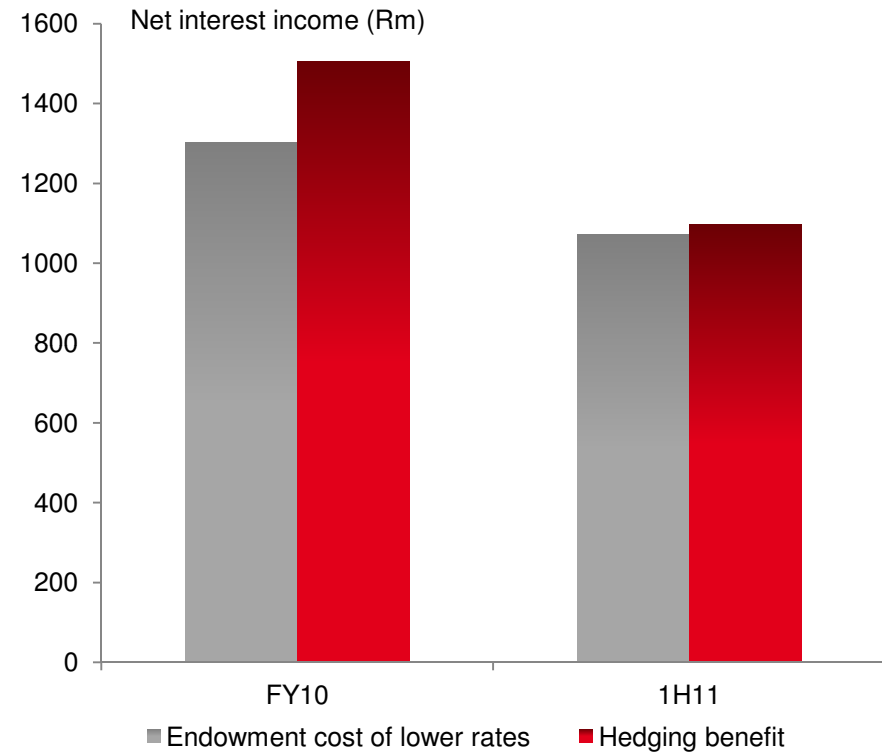
# Hedging policy paying dividends

## Rates expected to remain low for longer



Source: Absa Capital estimates, I-Net

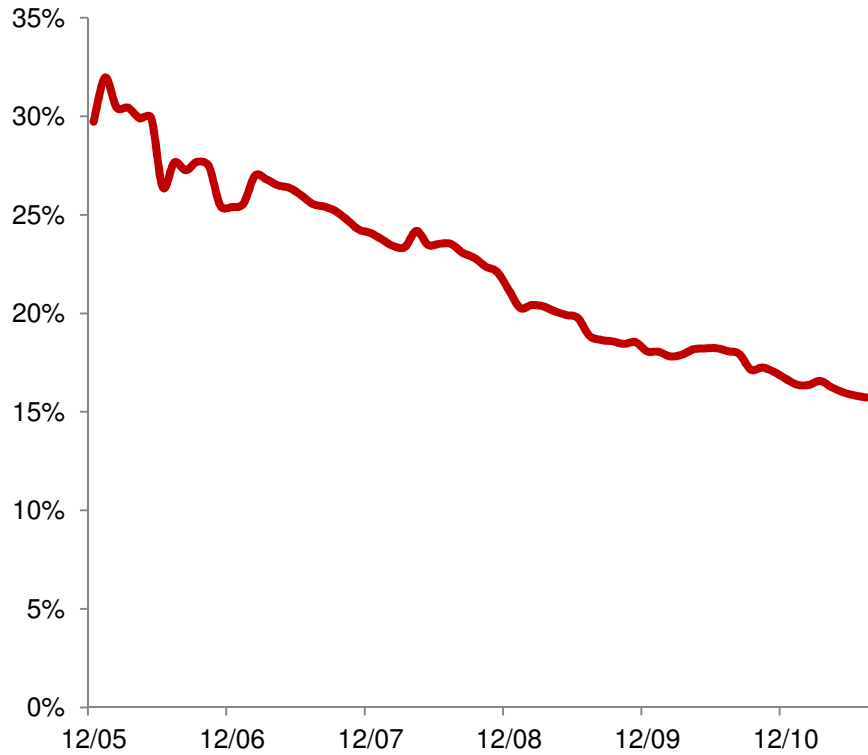
## Hedge protects our margin



Source: Absa

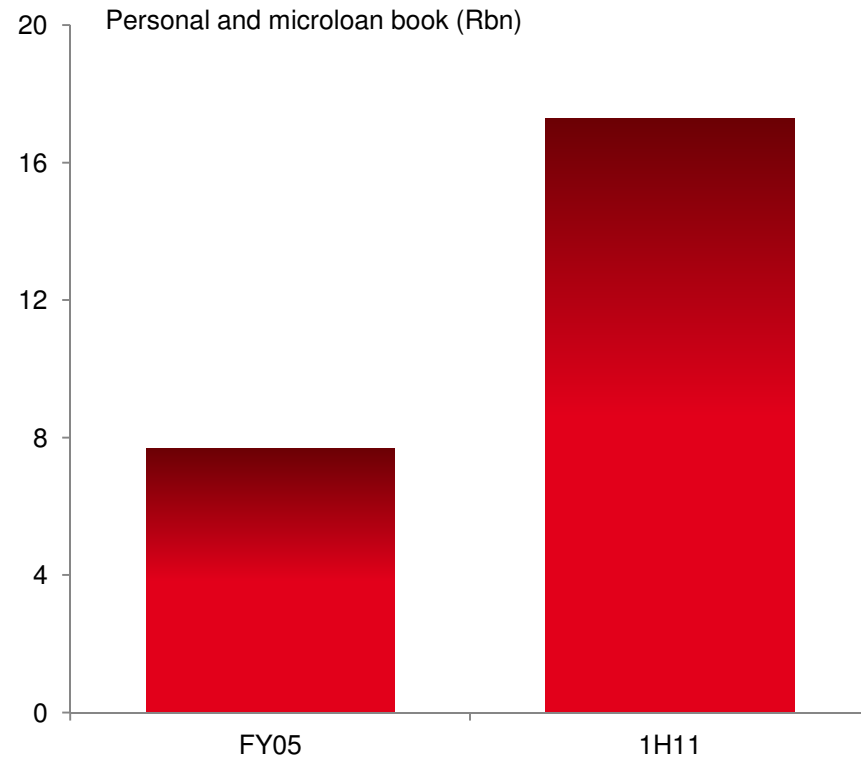
# Focus on returns rather than market share

### Personal loan market share dropped ...



Source: Statutory returns

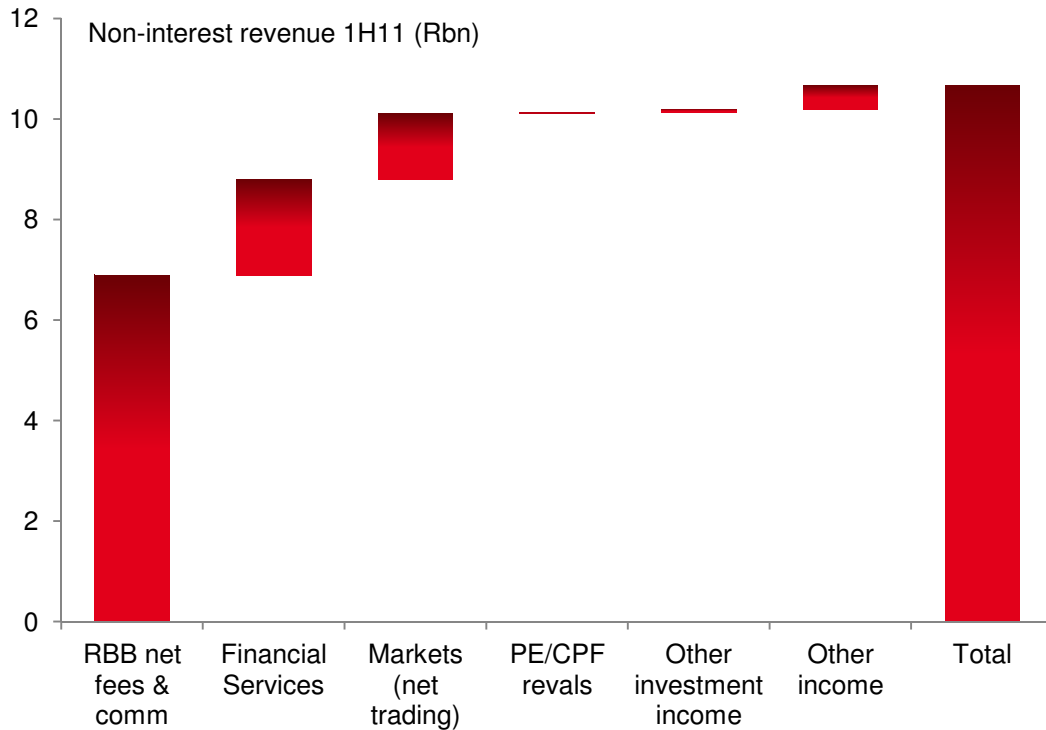
### ... despite strong book growth since FY05



Source: Absa

# Quality non-interest revenue growing

## High level of annuity non-interest revenue

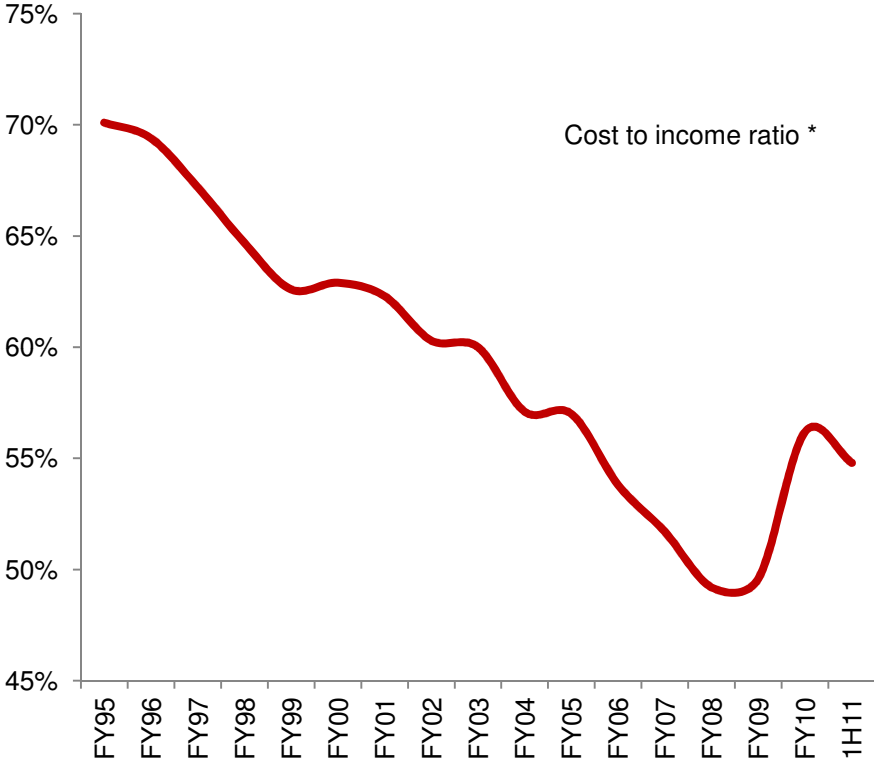


Source: Absa  
Note: RBB is Retail and Business Banking

- Robust bancassurance growth
- FX offering transformed
- Business Banking gaining traction
- Retail positioned to capture uptick

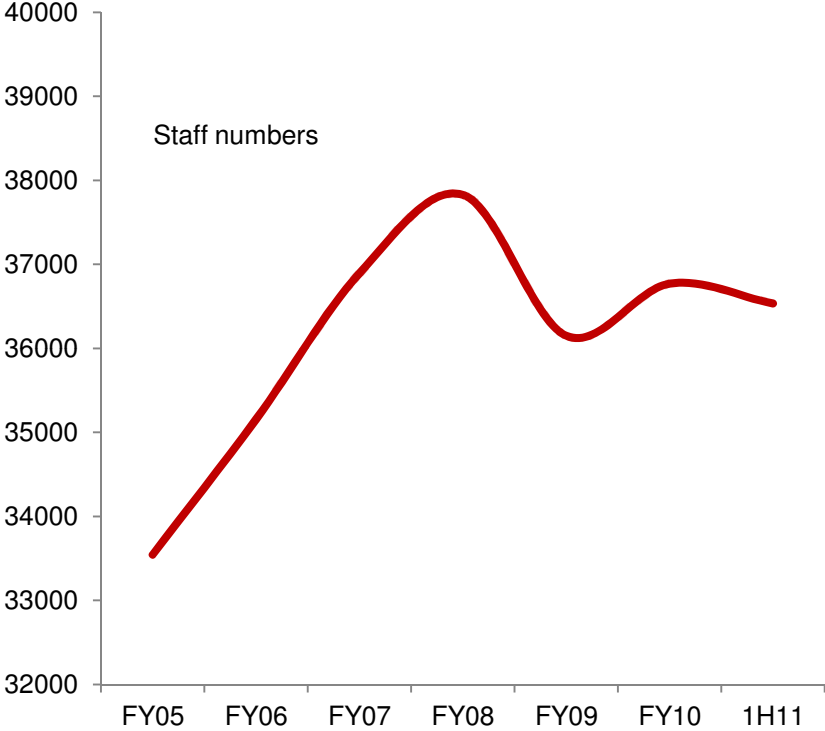
# Sustainable cost containment

**Efficiency ratio has turned the corner**



Source: Absa  
 Note: \* March year end until FY05, IFRS from FY06

**Headcount slightly below FY07 levels**

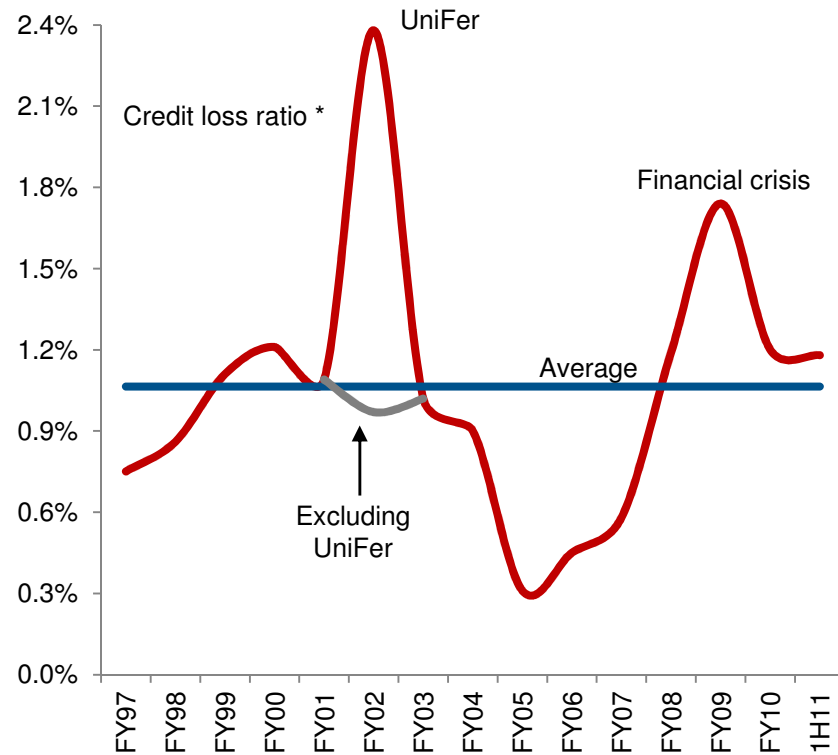


Source: Absa  
 Note: Excludes contract workers



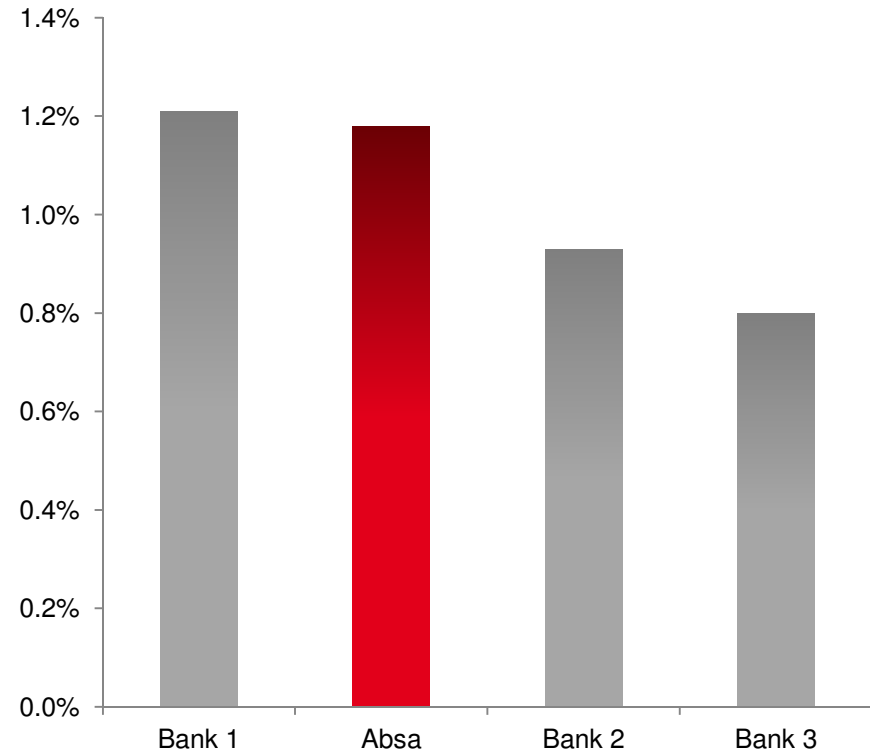
# Scope for credit costs to normalise

## Credit costs still above historical average



Source: Absa  
 Note: \* March year end until FY05; IFRS from 2006

## 1H11 credit loss ratio relatively high



Source: Company reports

## Several drivers to improve our returns

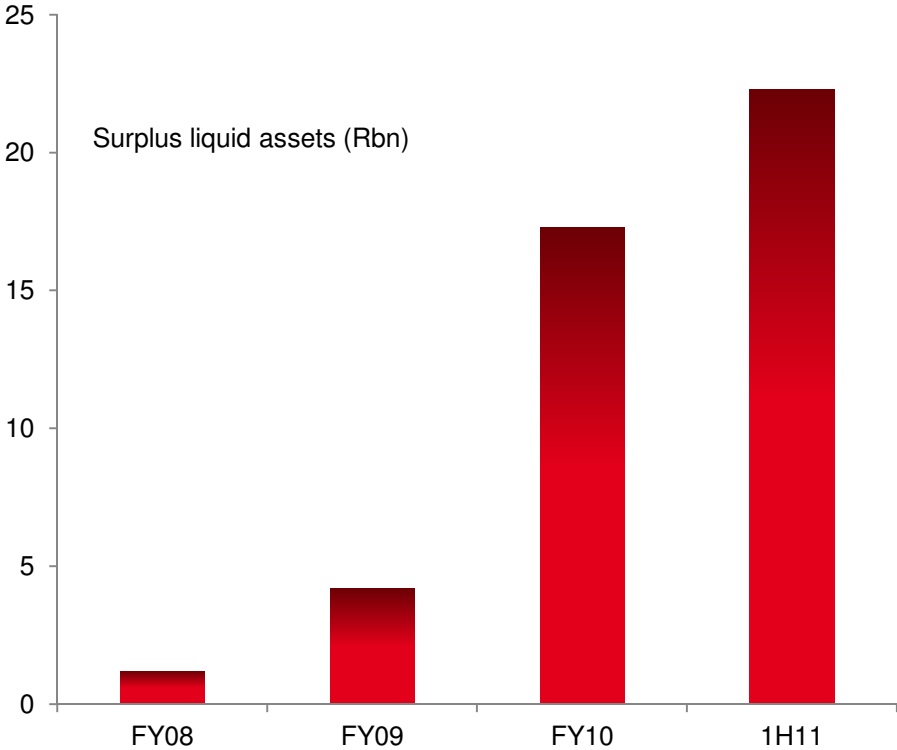
	1H07 %	1H08 %	1H09 %	1H10 %	<b>1H11 %</b>
Income to RWAs	10.6	11.6	10.9	10.9	10.8
Cost to income ratio	52.8	49.3	46.6	53.6	54.8
Credit losses to income	5.9	10.8	23.0	17.6	13.0
Operating margin *	26.1	23.4	18.2	18.4	20.6
Return on risk-weighted assets	2.77	2.72	1.99	2.00	2.23
Financial leverage *	9.7	9.0	8.2	7.5	7.2
Return on equity	26.8	24.6	16.3	15.0	16.2

Source: Absa

\* Note: Operating margin = headline earnings / total revenue; Financial leverage = average RWAs / average shareholders equity

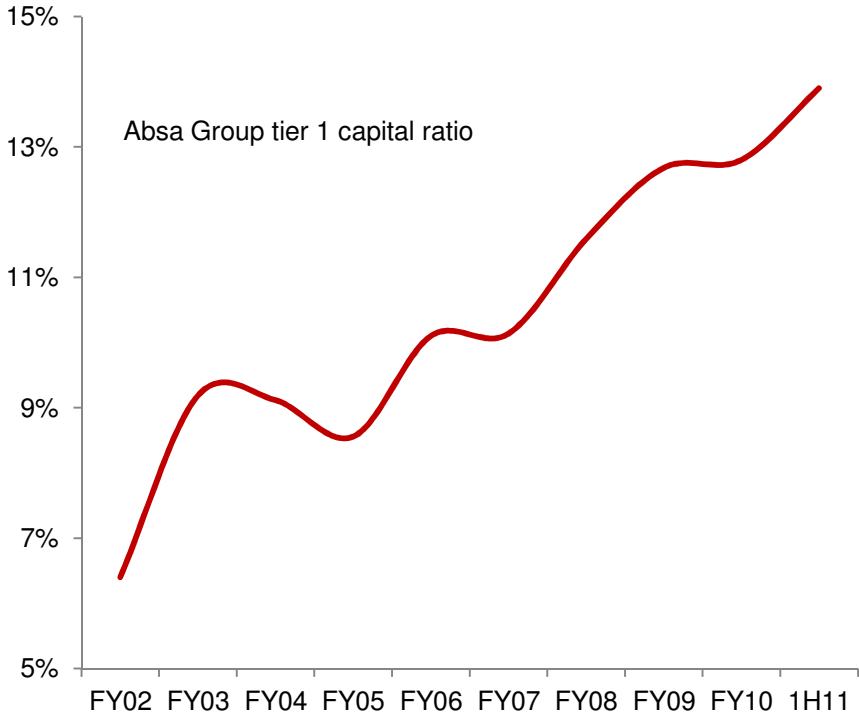
# We will maintain a strong balance sheet

## Continue to build our surplus liquidity



Source: Absa

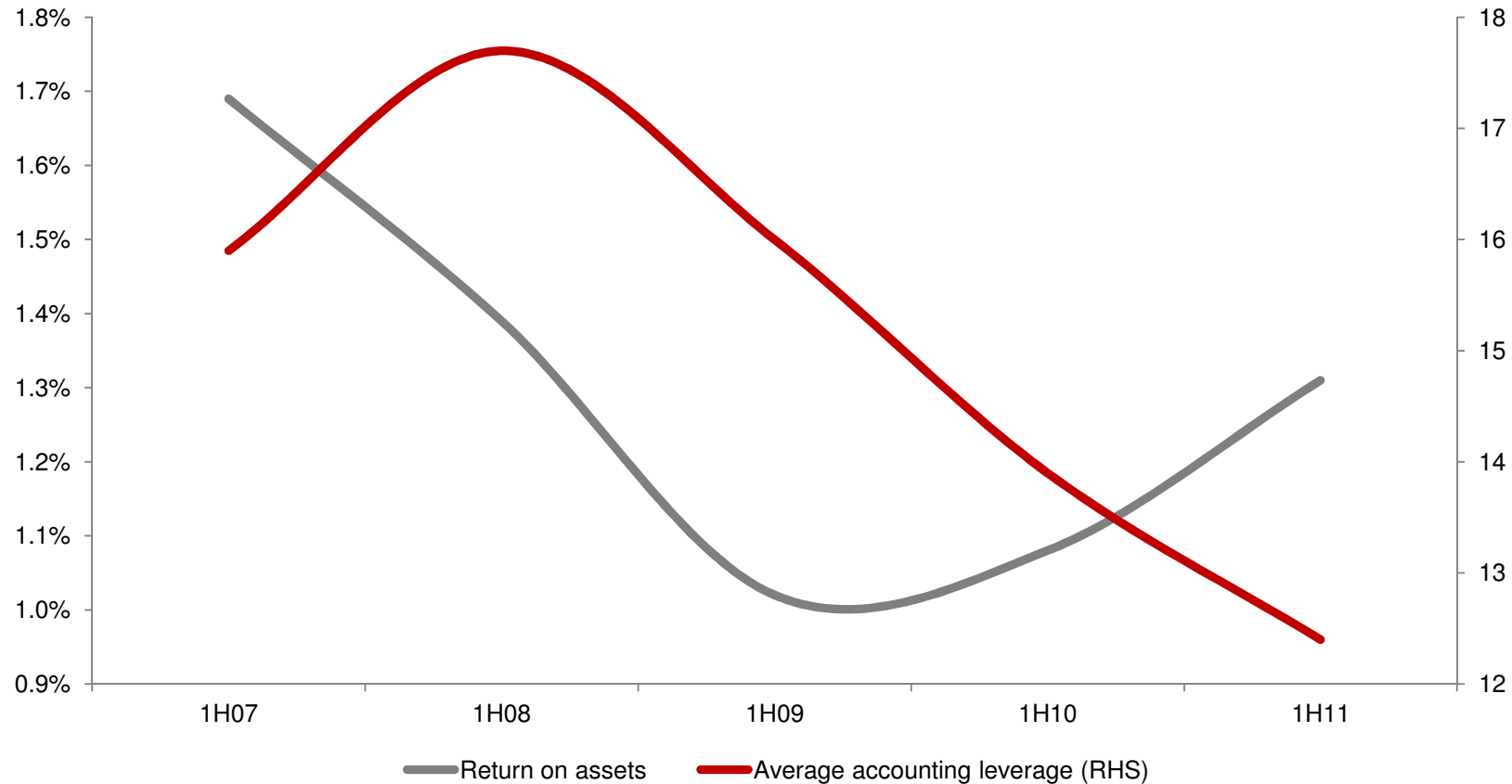
## Capital levels well above target



Source: Absa  
Notes: March year end until FY05, Basel II from FY08

# Excess capital masks improving underlying returns

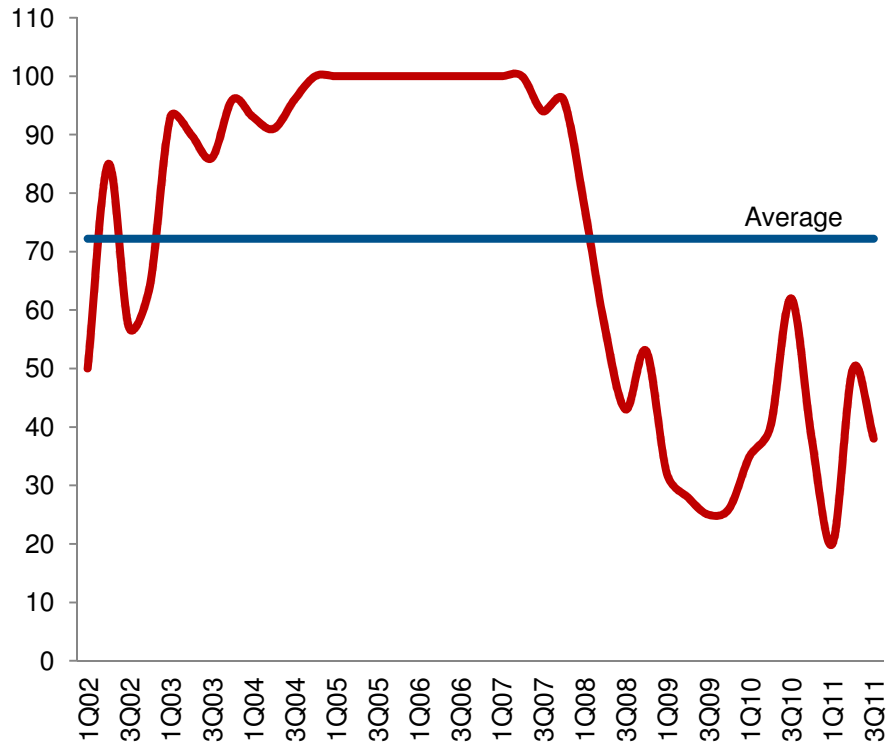
## RoA is recovering, but leverage remains sub-optimal



Source: Absa

# Further runway to grow locally

### Retail banking confidence remains low

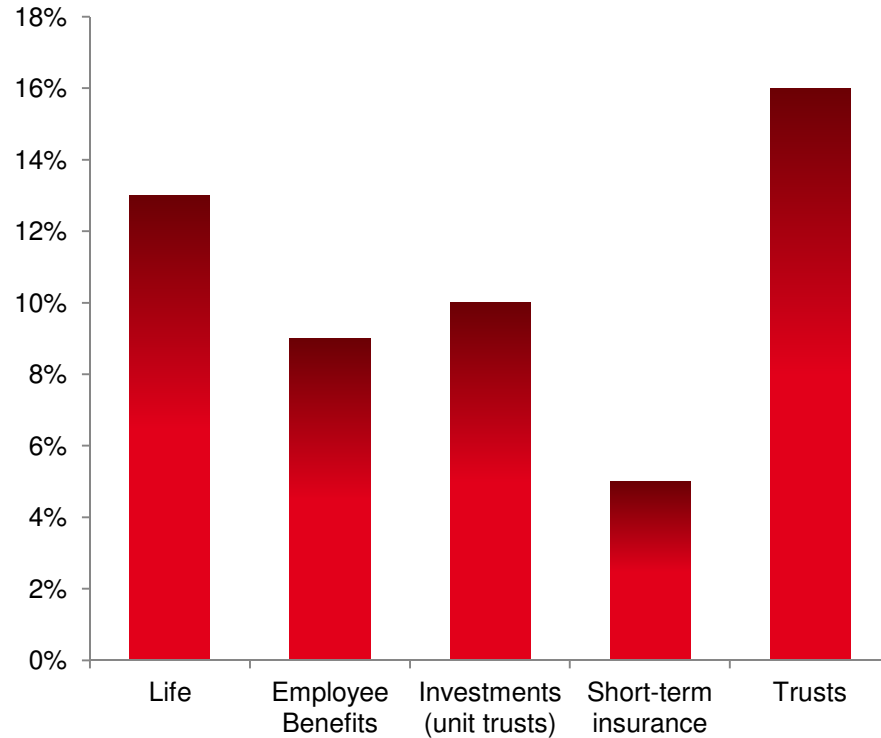


Source: Ernst & Young  
Note: Retail Banking business confidence index, % satisfactory

- Retail and Business Banking
- Absa Capital
- Absa Financial Services

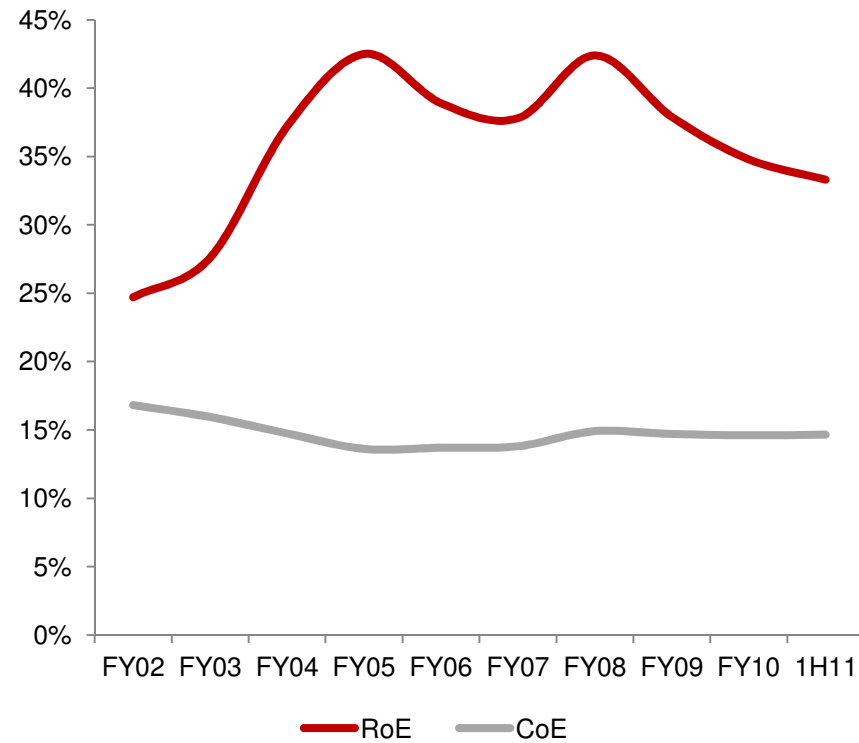
# Absa Financial Services well-positioned to grow

Scope to increase our market share...



Source: Absa, ASISA, RIA

...while generating attractive returns



Source: Absa, I-Net  
Note: \* March year end until FY05

# Africa opportunity

- Offers attractive growth potential
- Our Africa strategy has progressed
- We are part of a leading franchise
- Operate as One Bank to capture the opportunity

	Presence since	Share of assets (%)	Rank by Revenue
<b>Egypt</b>	1864	2	12
<b>South Africa</b>	1888	22	2
<b>Zimbabwe</b>	1912	9	4
<b>Tanzania</b>	1916	18	3*
<b>Ghana</b>	1917	4	2
<b>Zambia</b>	1918	10	1
<b>Mauritius</b>	1919	11	3
<b>Kenya</b>	1925	12	1
<b>Uganda</b>	1927	10	3
<b>Botswana</b>	1950	26	1
<b>Seychelles</b>	1959	24	1
<b>Mozambique</b>	2002	7	4

Source: Bank annual reports, central banks, Global Credit Ratings, McKinsey

Note: \* Includes consolidated National Bank of Commerce and Barclays Tanzania data except for the ranking based on revenue where NBC is ranked 3rd and Barclays 6th

# We continue to deliver

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This year



















- Double digit non-interest revenue growth
- Single digit cost growth
- Positive JAWS

Medium term

- Cost to income ratio of 50%
- RoRWA above 2.5%
- Sustainable RoE of 20%



# Questions

 <p>Best local bank in South Africa</p> <p>2009-2011</p>	 <p>Best Retail Bank in South Africa</p> <p>Best mobile phone banking (international)</p> <p>2011</p>	 <p>Best debt house in South Africa</p> <p>2010-2011</p>	 <p>Best bond house</p> <p>2010</p>	 <p>1<sup>st</sup> Dealing: Fixed Interest Securities</p> <p>2011</p>	 <p>1<sup>st</sup> Overall bank</p> <p>1<sup>st</sup> Overall currency</p> <p>2011</p>
 <p>Banking Category Winner</p> <p>2011</p>	 <p>1<sup>st</sup> Banking</p> <p>1<sup>st</sup> Short-term household insurance</p> <p>2011</p>	 <p>Coollest bank award</p> <p>2006-2011</p>	 <p>Top Retail Bank</p> <p>2010-2011</p>	 <p>Best Islamic Financial Institution in Non-Gulf Cooperation Council Middle East/Africa</p> <p>2009-2011</p>	 <p>Best Islamic Bank in South Africa</p> <p>2009-2010</p>
 <p>1<sup>st</sup> Financial services</p> <p>2<sup>nd</sup> South African corporates</p> <p>2011</p>	 <p>Top Companies Reputation Index Business segment award</p> <p>2011</p>	 <p>Best debt house</p> <p>2011</p>	 <p>Innovative Use of Technology "Improve access to banking" category</p> <p>2011</p>	 <p>Peer Review</p> <p>1<sup>st</sup> Retail Lending and Deposits 2005-2011</p> <p>1<sup>st</sup> Retail Mortgages 2005-2011</p>	 <p>CSI award</p> <p>2011</p>