2011 Annual Results Presentation

10 February 2012

Maria Ramos, Group Chief Executive, speaker notes

Section One: Review

Good afternoon ladies and gentlemen, and a warm welcome to Absa's 2011 results presentation. We are very pleased to have you with us, whether in person, over the phone or on the webcast.

I'm joined on stage by David Hodnett, our Financial Director, and Louis von Zeuner, our Deputy Group Chief Executive. I would like to point out that our Executive Committee is sitting in the front row, and a number of our board members are also here.

I will start by reviewing our 2011 performance. Then David will take you through our numbers, before Louis discusses our business units. I will close with our prospects for the year ahead, and then take your questions.

Slide: Delivering on our commitments

So let me start by reflecting on our 2011 performance. I am pleased that we delivered on our commitments to stakeholders, despite a challenging operating environment.

We grew headline earnings per share 21% and declared a 50% higher dividend.

And, importantly, our earnings remain of a high quality, as we focus on our customers and our core activities. We continue to create significant value for our shareholders, while ensuring our long-term sustainability, and positioning Absa to grow.

We met all our key 2011 performance targets. We achieved double digit non-interest income growth, with much of this annuity in nature, through focusing on our customers.

We showed that we can contain costs, by comfortably achieving single digit expense growth, as we streamline the group, while continuing to invest in growth initiatives. David will show why our cost containment is sustainable.

Combined with better than expected net interest income growth, we delivered positive JAWS, which was a significant improvement from 2010.

Our credit loss ratio continued to improve, due to focussed lending, low interest rates, and our strong collections capabilities. We try hard to support our distressed customers, doing our best to keep them in their houses.

You will see throughout our presentation how we have further strengthened our balance sheet. Besides writing high quality new loans, we enhanced our capital ratios and funding mix.

We improved our underlying profitability noticeably, as our return on risk weighted assets increased to 2.35%, and our economic profit trebled to over R1.7 billion.

Importantly, looking beyond these headline numbers, our earnings are of a high quality, since the vast majority is client-driven.

Slide: Creating significant value
Absa has created substantial value for our shareholders. Our record dividend takes the 9 year compound annual growth in our distributions to 22%, and our NAV per share has grown 16% compound over this period.

Slide: Ensuring long-term sustainability
Not only did we produce strong numbers in 2011, but we also enhanced Absa's long-term sustainability. We strengthened our balance sheet in several areas.

We increased our core tier 1 capital ratio to 13% from 8.9% in 2007, so we remain one of the best capitalised large banks in SA.

We also increased our surplus liquid assets 58% to R27 billion last year.

And our credit quality continues to normalise, as our credit loss ratio improved to 1.0% from a high of 1.7% in 2009.

Our strong balance sheet is evident in our group credit ratings, which remain the best of the SA banks.

Engaged staff are critical to our One Absa strategy, and it is clear that our staff productivity is improving, as our revenue per head increased 30% in the past 4 years.

Strong customer focus is another pillar of our strategy, and this is clear throughout today's presentation. We grew our customer base 3% to 12,1 million last year, and remain the largest SA bank by number of customers.

We are improving our customers' banking experiences. Let me mention a few examples: We rolled out cash recyclers in branches that reduced queuing time by 30%; we launched remote account opening on Galaxy tablets to provide access to banking in rural areas. We have also improved our complaints resolution process significantly in recent years. We had a billion e-mail and SMS contacts with customers last year, to keep them informed about what is happening with their finances.

Our record volumes and uptime in December, when our point of sale and card transactions increased 31%, demonstrate that we have large, robust platforms.

Our systems stability is clear from the 93% decline in our severity one IT incidents in the past 5 years.

Slide: Delivering on our strategy
While producing strong numbers, we also completed several major initiatives last year that enhance our growth prospects. We established a corporate bank alongside our investment bank, to better serve a thousand large clients, in a more holistic and efficient way. We bedded down the

Barclays foreign exchange platform, which has improved our offering considerably, and resulted in a solid 9% increase in our forex revenues.

Wealth is also gaining traction. We benefit significantly from Barclays, which is on track to become a top 5 global wealth manager. Absa Wealth performed well in 2011, growing its net revenues 33%.

Business Banking's investment in electronic banking is paying off. Its share of primary electronic banking customers has increased to 24% from 21% in two years.

In Retail, we continue to innovate to make customers' lives much easier. Again leveraging Barclays cutting-edge capabilities, we lead in low value payments, having launched tap 'n go cards, and near field communication mobile payments.

Absa Card made almost R1.8 billion last year, and accounted for 18% of Barclaycard's global profit before tax.

Absa Financial Services entered Botswana and Mozambique last year, where it has already written R200 million of gross premiums. This is part of our Africa strategy, which I will discuss later.

Slide: Strong combined franchise

Looking across our group, we have the leading retail bank, with the number 1 market share of retail deposits, customers, branches and ATMs, and over 3.2 million cellphone banking customers.

Retail performed very well, growing its earnings 33% to R4.2 billion last year to account for more than 40% of our group's earnings.

We are not content to just defend our leading position, but aim to extend it. We have created innovative customer value propositions. For example, we recently launched our Transact Account, which offers customers the most affordable simplified banking.

Our strategies in Business Banking are delivering. Last year's 11% higher underlying earnings growth, with 13% deposit and 15% transactional revenue growth, underline its progress.

We have maintained our strong positions in agriculture, the public sector and small and medium sized enterprises.

Leveraging the global expertise of Barclays Capital, Absa Capital has become a very competitive investment bank, with leading positions in targeted areas, such as fixed income trading. Although Absa Capital's earnings declined last year, its quality of earnings has improved notably.

Our unique, well positioned bancassurance operation is a positive differentiator that continues to deliver attractive returns. Its underlying earnings grew 21%, although it continued to invest in growth opportunities. Notably, AFS has paid R6.6bn in dividends to the group since 2007.

Eliminating silos and operating as an integrated group, is an important part of our One Absa strategy. Cross-selling bancassurance products into Retail and Business Banking, is the obvious example of this. But there are numerous others, such as launching CashSend for our business clients, and developing exchange traded funds for retail investors.

Let me hand you over to David to unpack our numbers.

Section Two: Prospects

Thank you Louis.

Slide: Uncertain macro backdrop

The macro environment obviously has a substantial impact on banks, whether through affecting our asset growth, impairments, margins, or our transactional revenue.

Looking ahead, the global macro backdrop seems set to remain uncertain, and growth expectations continue to be pared back. Resolving Europe's debt issues will take years. Fiscal austerity is likely to dampen growth, however the European Central Bank's provision of low cost 3 year loans to banks has done a lot to ease liquidity and restore confidence. And it seems there is greater political will to resolve the crisis.

While better, US growth will probably remain moderate at 2.5% this year and next, given their large deficit and household de-leveraging.

Many emerging markets, including the BRICs, are tightening policy, so their growth is slowing. However, Sub-Saharan Africa is expected to remain resilient, growing at around 5.5% for the next two years.

We expect South Africa's growth to lag this and other emerging markets, but exceed the developed economies. We see our GDP growth slowing to 2.8% this year, before improving to 3.8% next year.

Although consumer confidence remains a risk, with inflation projected to average 6.5% this year, household consumption should remain resilient, given real income growth and low rates. We see prime increasing 50 basis points in the fourth quarter, rising to 11% by the end of next year. This suggests muted South African property markets and loan growth in 2012.

Slide: Progressed our Africa strategy

Now let me turn to our Africa strategy. Africa is important to us and to Barclays. It is one of Bob Diamond's key priorities. Africa contributes meaningfully to Barclays, accounting for over 16% of its adjusted group revenue.

Barclays made almost 1.3 billion pounds pre-tax in Africa last year. Together with Barclays, we are well positioned to serve our customers across the continent, with top 3 franchises by revenue in 9 of the 12 countries we operate in.

Although not yet reflected in our earnings, we continued to advance our Africa agenda. Last year we formed a combined Africa Exco, and moved the Barclays Africa head office to Johannesburg, which has saved costs and improved collaboration. We have established committees for Customers and Community Investment in Africa, to lead our customer and citizenship initiatives, which are key for Absa and for Barclays.

Slide: What to expect in 2012

So we will drive the significant opportunity across Africa with Barclays. We will also continue growing in targeted areas, extending our leading position in Retail, increasing primary Business

Banking customers, leveraging off the Barclays Capital global platform, and improving our bancassurance selling into our large customer base.

Customers are at the centre of all we do. We are committed to making our customers' lives much easier, by offering them innovative, value for money products, whether they are large corporate clients, or individuals entering banking for the first time.

Efficiency remains an ongoing priority, as we continue to streamline our group. We will bed down our new target operating model, having combined Retail and Business Banking, and established a corporate bank.

In a changing regulatory landscape, we will strengthen our balance sheet further, including growing deposits, lengthening our funding and increasing our surplus liquid assets. We will also maintain strong capital levels, to support our planned growth.

Slide: What you can measure
As I said, the muted macro environment is likely to constrain credit extension, so we expect mid-single digit loan growth this year. However, our net interest income should continue to benefit from re-pricing new business, solid deposit growth, and our hedging strategy, as interest rates remain low.

Our strategy to grow non-interest income in targeted areas should enable us to improve our revenue growth this year.

Containing costs remains a priority, and we are committed to growing costs less than revenue, to improve our cost to income ratio again this year.

With low interest rates and rising household incomes, our credit loss ratio should decline further. These drivers should improve our returns.

We are on track to increase our return on risk-weighted assets to over 2.5% this year. And to reach our sustainable RoE target of 20% in 2014, which will require some capital management, to ensure our leverage is appropriate.

So we are excited about the year ahead, and ensuring we continue to deliver value for all our stakeholders.

Thank you for your attention.