

# Absa Group Limited

## 2011 Results Presentation

# Review

**Maria Ramos**

**Group Chief Executive**

# Delivering on our commitments

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- Double digit non-interest income growth ✓
- Single digit cost growth ✓
- Achieved positive JAWS ✓
- Reduced credit loss ratio ✓
- Improved profitability ✓
- Strengthened our balance sheet further ✓

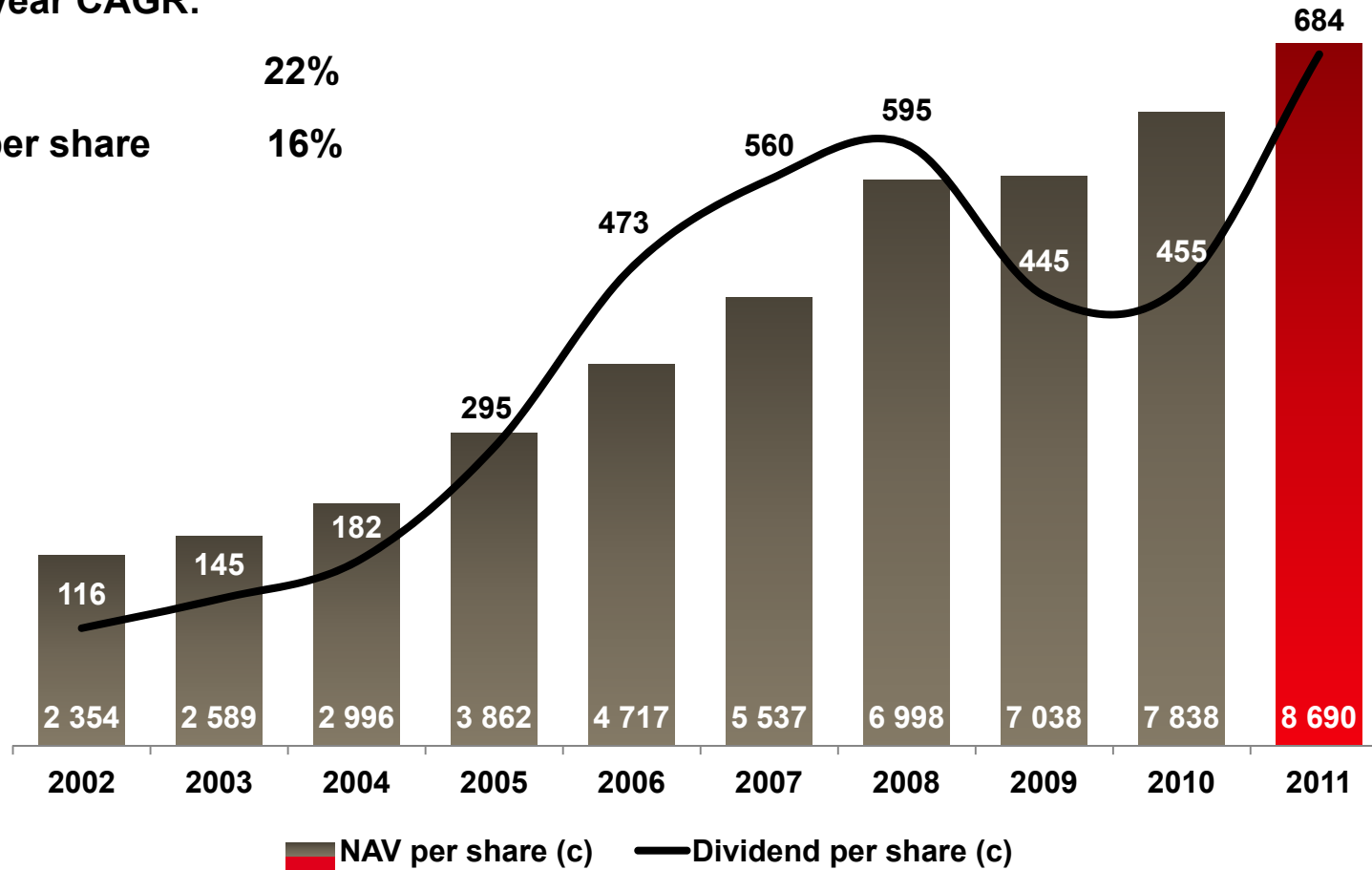
**Strong earnings growth**  
**Declared a record dividend**

# Creating significant value

Nine-year CAGR:

DPS 22%

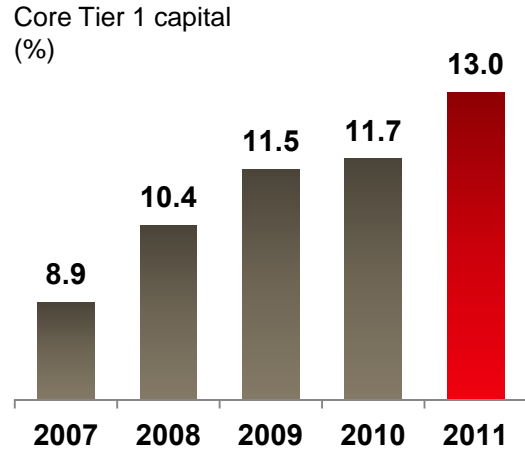
NAV per share 16%



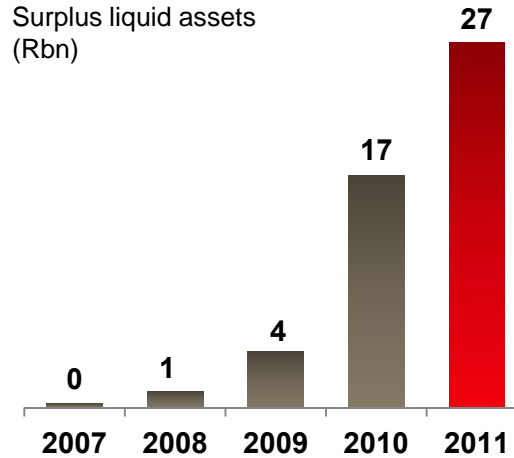
Note: March year-end until 2004

# Ensuring long term sustainability

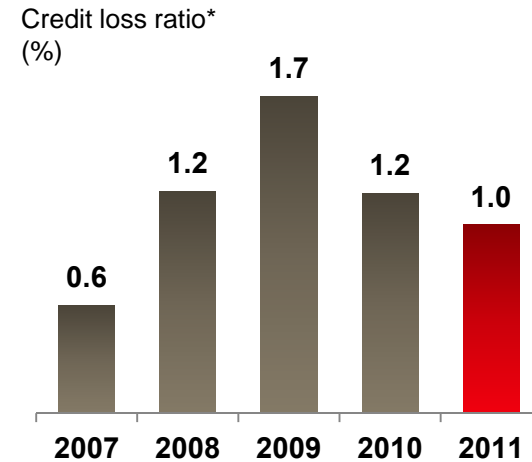
## Strengthening capital



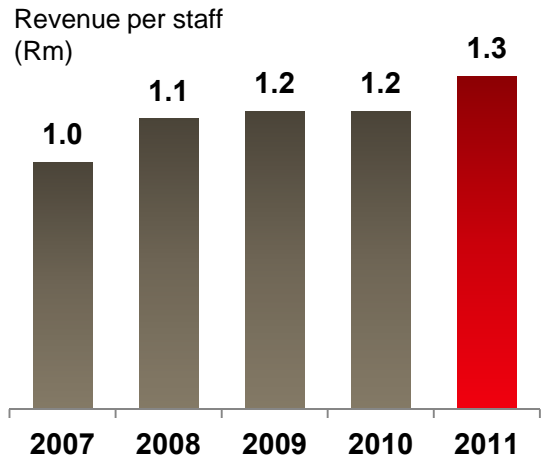
## Improving liquidity



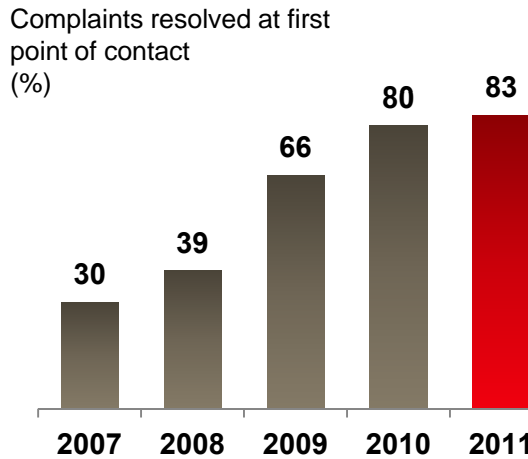
## Credit quality normalising



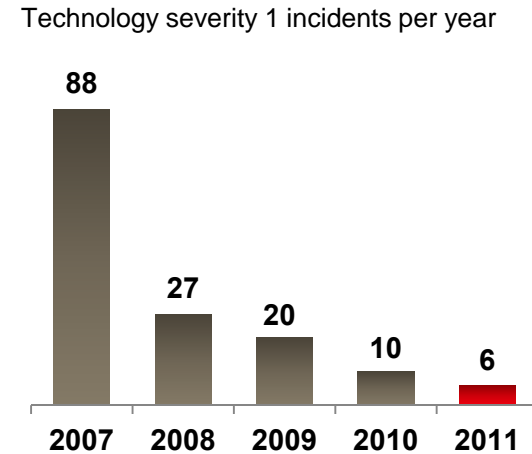
## Increasing staff productivity



## Improving complaint resolution



## Enhancing system stability



Note: \*2009 and 2010 restated

# Delivering on our strategy

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- Established our Corporate Bank
- Forex platform performing well
- Wealth gaining traction
- Retail continues to innovate for customers
- Business Bank growing electronic banking
- Financial Services entered rest of Africa
- Progressed our Africa strategy

# Strong combined franchise

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- Leading retail bank
- Solid business bank with scope to grow
- Absa Capital strong in targeted areas
- Quality bancassurance franchise

*... operating as One Absa*

# Financial Review

**David Hodnett**  
**Group Financial Director**



## Delivered a strong performance

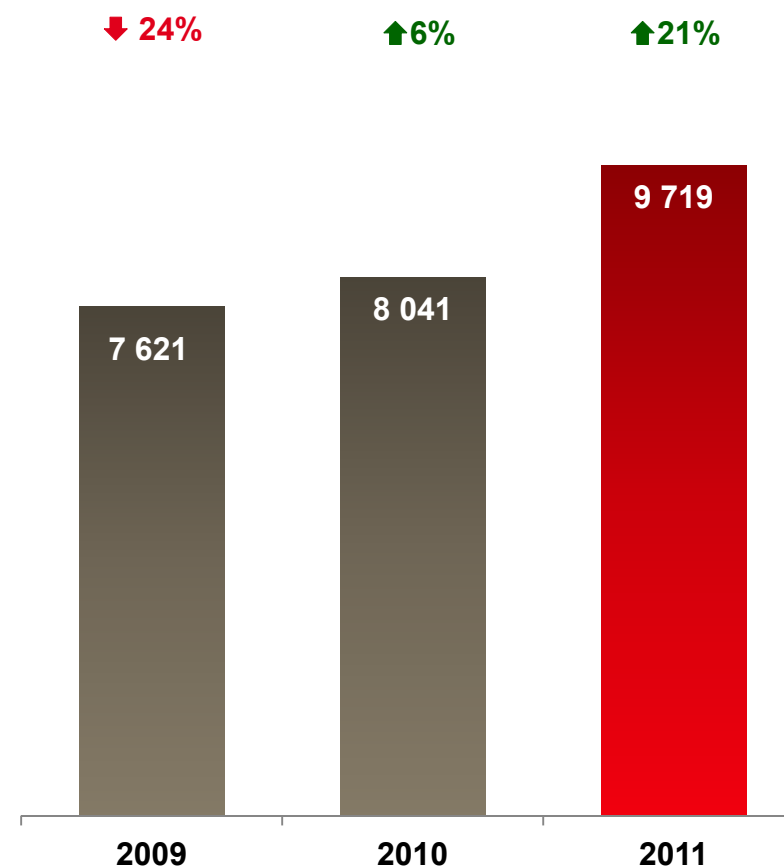
	2011	2010	Change %
Headline earnings (Rm)	9 719	8 041	21
Pre-provision profit (Rm)	20 374	18 744	9
Diluted headline earnings per share (cents)	1 350.0	1 115.7	21
Dividends per ordinary share (cents)	684	455	50
Net interest margin on interest-bearing assets (%)	4.11	3.94*	
Credit loss ratio (%)	1.01	1.18*	
Cost-to-income ratio (%)	55.5	56.2	
Return on equity (%)	16.4	15.1	
Return on risk-weighted assets (%)	2.35	1.99	
Return on assets (%)	1.32	1.10*	
Net asset value per share (cents)	8 690	7 838	11
Core Tier 1 capital adequacy ratio (%)	13.0	11.7	

Note: \*2010 restated

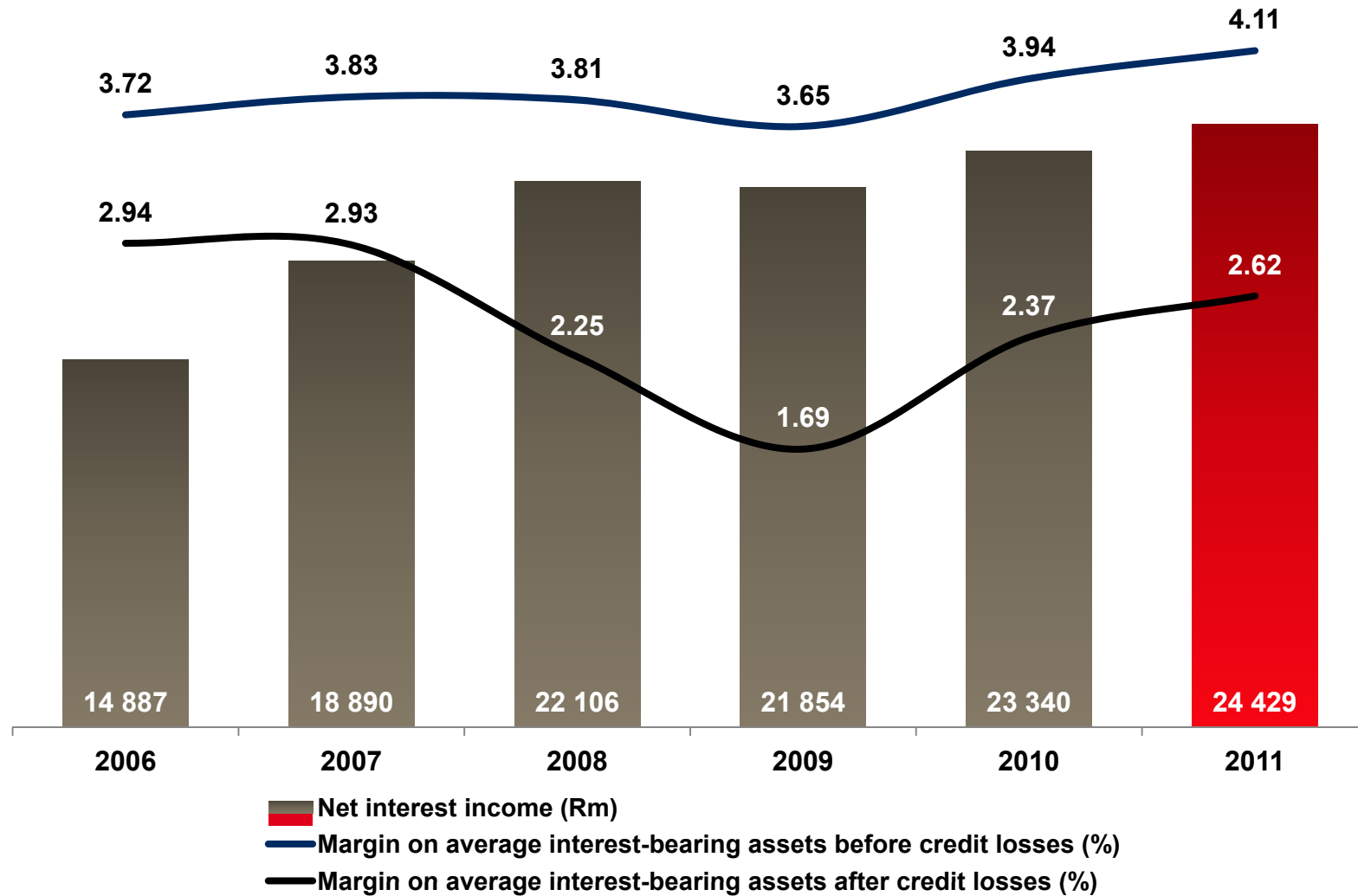
## Solid earnings growth

	2011 Rm	2010 Rm	Change %
Net interest income	24 429	23 340	5
Non-interest income	21 403	19 474	10
<b>Total revenue</b>	<b>45 832</b>	<b>42 814</b>	7
Credit losses	(5 081)	(6 005)	(15)
Operating expenses	(25 458)	(24 070)	6
Other	(1 083)	(888)	22
Taxation	(4 026)	(3 262)	23
<b>Headline earnings</b>	<b>9 719</b>	<b>8 041</b>	21
<b>Attributable earnings</b>	<b>9 674</b>	<b>8 118</b>	19

### Headline earnings (Rm)



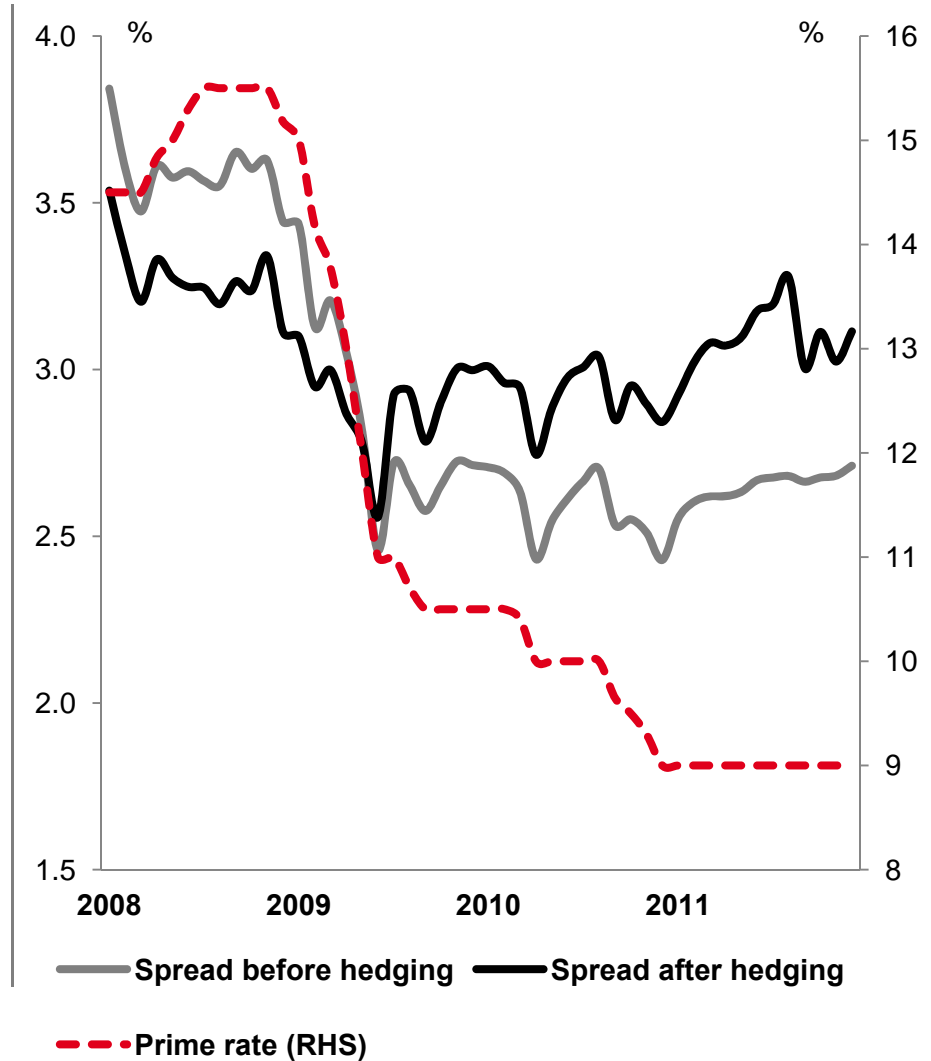
# Moderate net interest income growth



Note: 2009 and 2010 restated

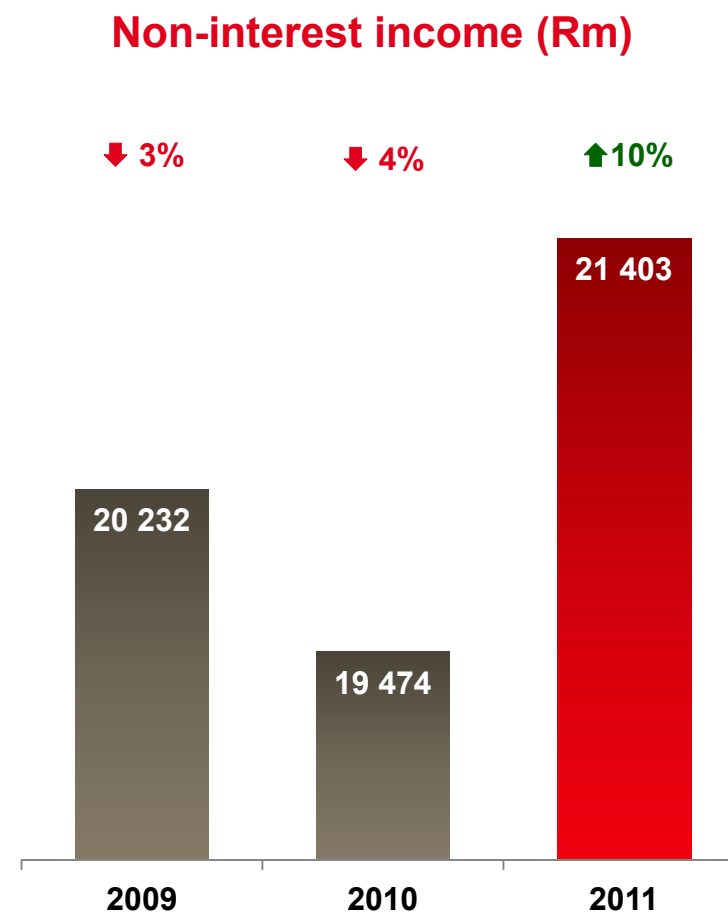
# Hedging preserved net interest margin

	YoY Δ bps
<b>Loans and advances to customers</b>	<b>11</b>
• Change in client rates	10
• Change in composition	1
<b>Deposits due to customers</b>	<b>(7)</b>
• Client pricing	(1)
• Change in composition	(1)
• Endowment	(5)
Capital	(6)
Structural hedging	12
Other	7
<b>Change in margin on average interest-bearing assets</b>	<b>17</b>



## Grew non-interest income in target areas

	2011 Rm	Change %	Mix %
Retail net fees and commissions	10 493	6	49
ABB net fees and commissions	3 719	8	17
Financial Services	3 994	11	19
Markets – net trading results	2 166	1	10
Revaluations – CPF and Private Equity	138	(16)	1
Other investment income	250	33	1
Other income	643	>100	3
<b>Total</b>	<b>21 403</b>	<b>10</b>	



# Credit quality improved

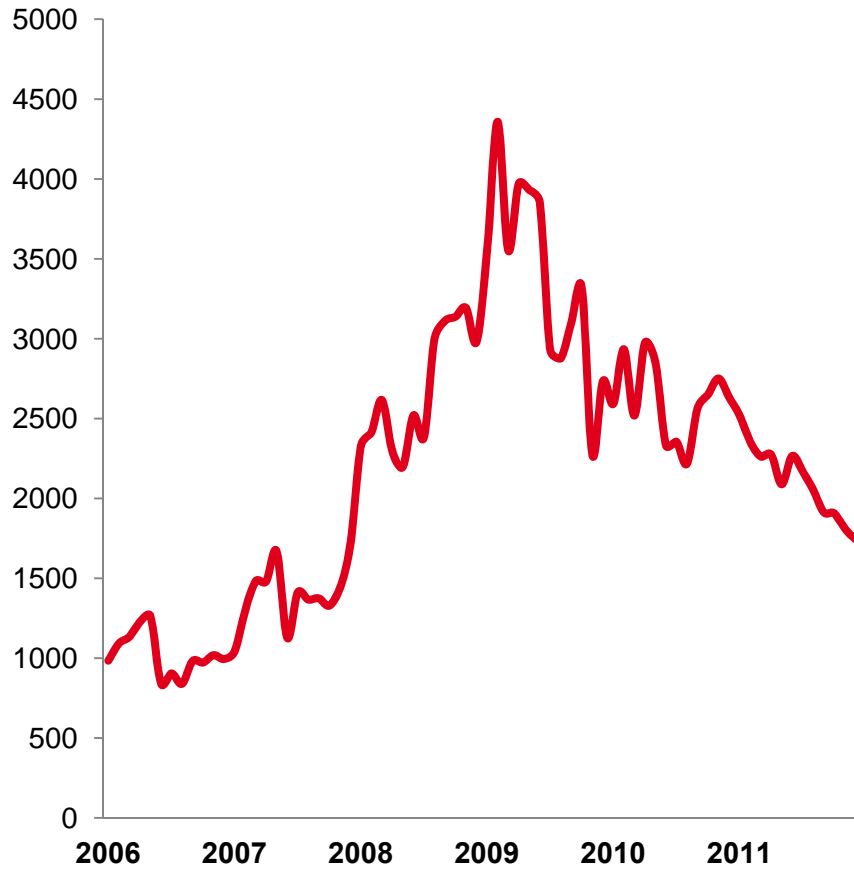
	2011 %	2010 %
	Credit loss ratio	
Retail Banking	1.23	1.48
• Mortgages	0.97	0.98
• Vehicle and Asset Finance	1.88	2.16
• Card	1.05	2.57
• Personal Loans	3.87	4.76
• Retail Bank	1.33	2.52
Absa Business Bank	0.72	0.93
Absa Capital	0.11	0.15
<b>Absa Group</b>	<b>1.01</b>	<b>1.18</b>

	2011 %	2010 %
	NPL coverage ratio	
	26.0	28.7
	17.1	19.1
	48.2	41.9
	64.6	71.8
	60.5	68.7
	75.9	70.8
	35.2	33.2
	52.0	62.1
	27.8	29.8

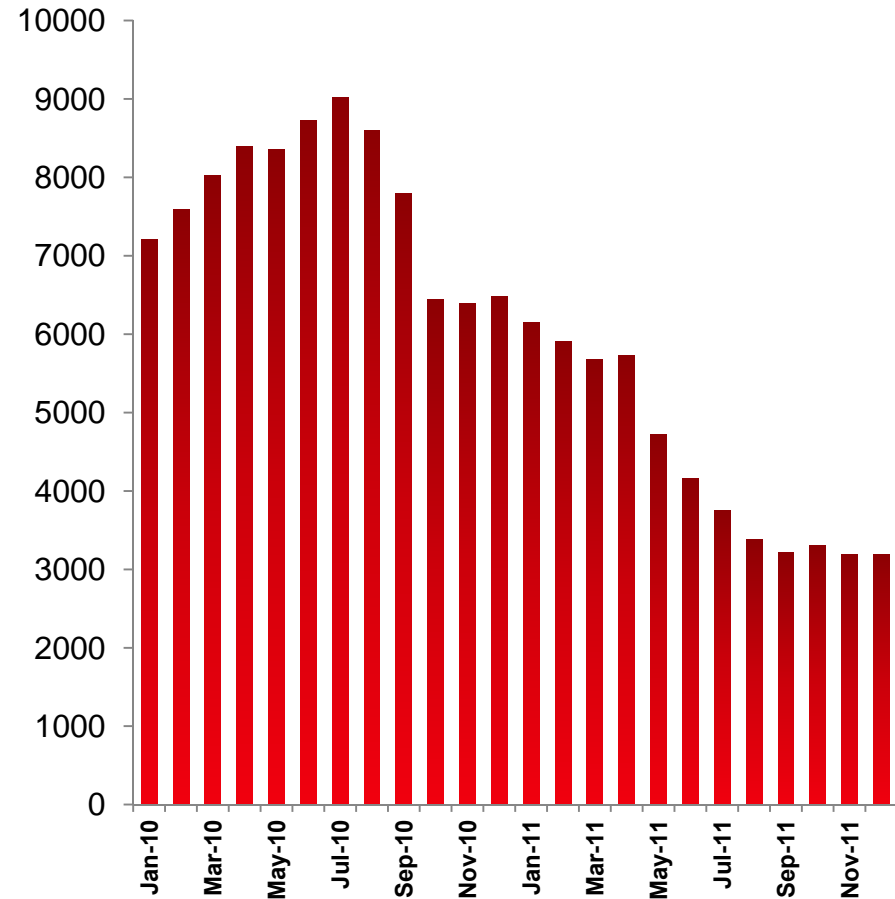
Note: 2010 restated

# Declining NPL inflows

### New home loan NPLs (number)

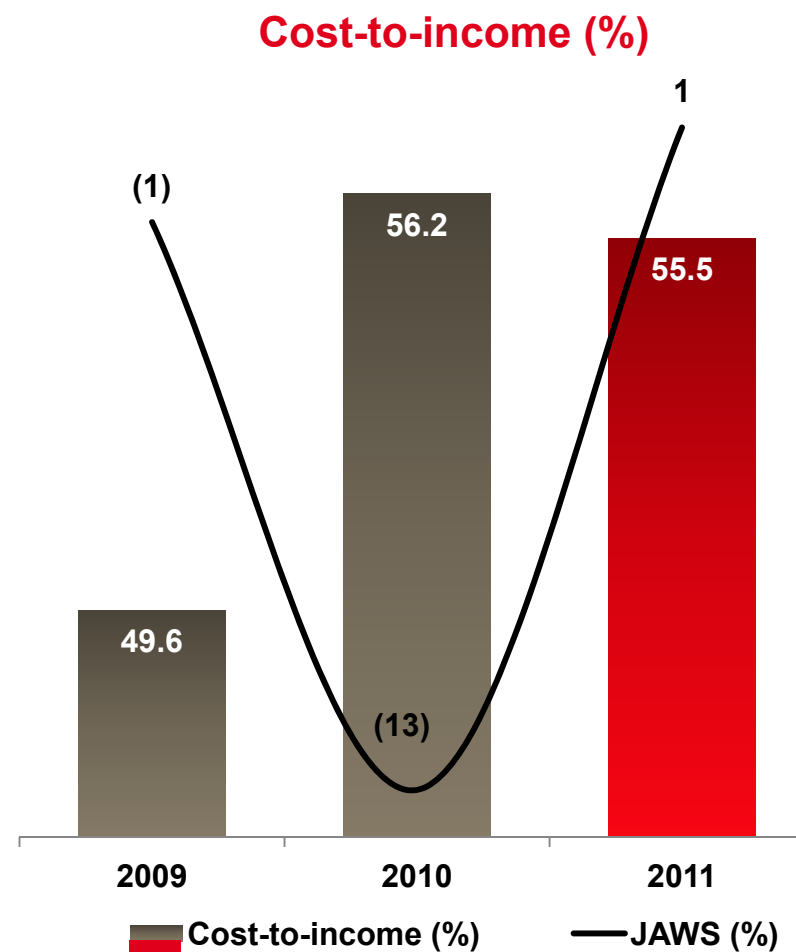


### Debt counselling book (Rm)



# Sustainable cost containment

	2011 Rm	Change %	Mix %
Staff costs	13 642	9	54
Accommodation, property and equipment-related	4 388	16	17
Information technology	2 241	7	9
Communication and marketing	2 092	(3)	8
Professional and audit fees	1 242	(1)	5
Cash transportation	726	(0)	3
Other	1 127	(27)	4
<b>Total</b>	<b>25 458</b>	<b>6</b>	



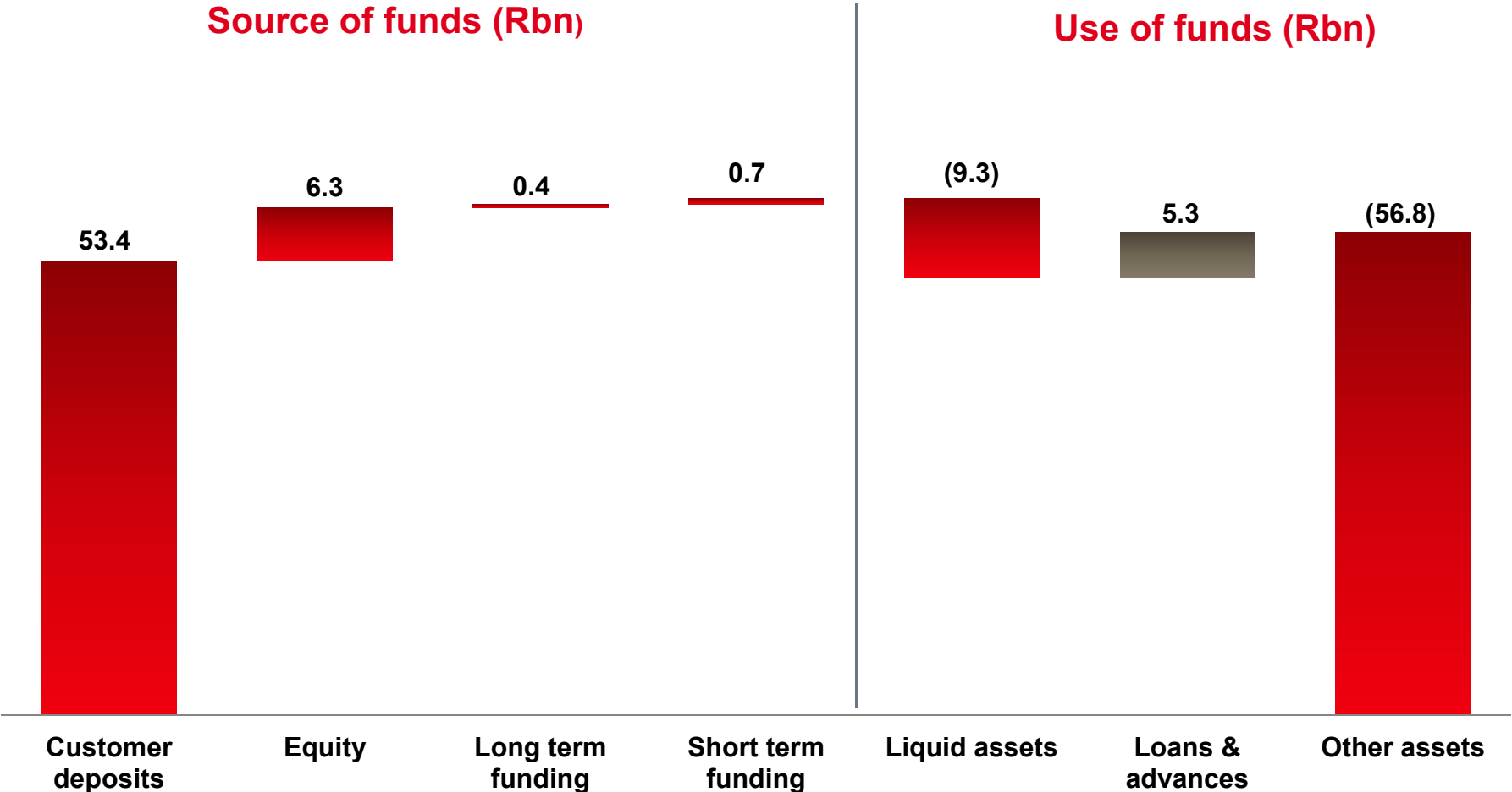


## Underlying returns improved further

	2007 %	2008 %	2009 %	2010 %	<b>2011 %</b>
Revenue as a percentage of RWAs	10.2	11.1	10.9	10.6	11.1
Cost-to-income ratio	51.7	49.2	49.6	56.2	55.5
Credit losses as a percentage of income	6.7	13.6	21.3	14.0	11.1
Operating margin *	26.1	23.1	18.1	18.8	21.2
Return on risk-weighted assets	2.67	2.57	1.97	1.99	2.35
Financial leverage *	10.2	9.1	7.9	7.5	7.0
Return on equity	27.2	23.4	15.5	15.1	16.4

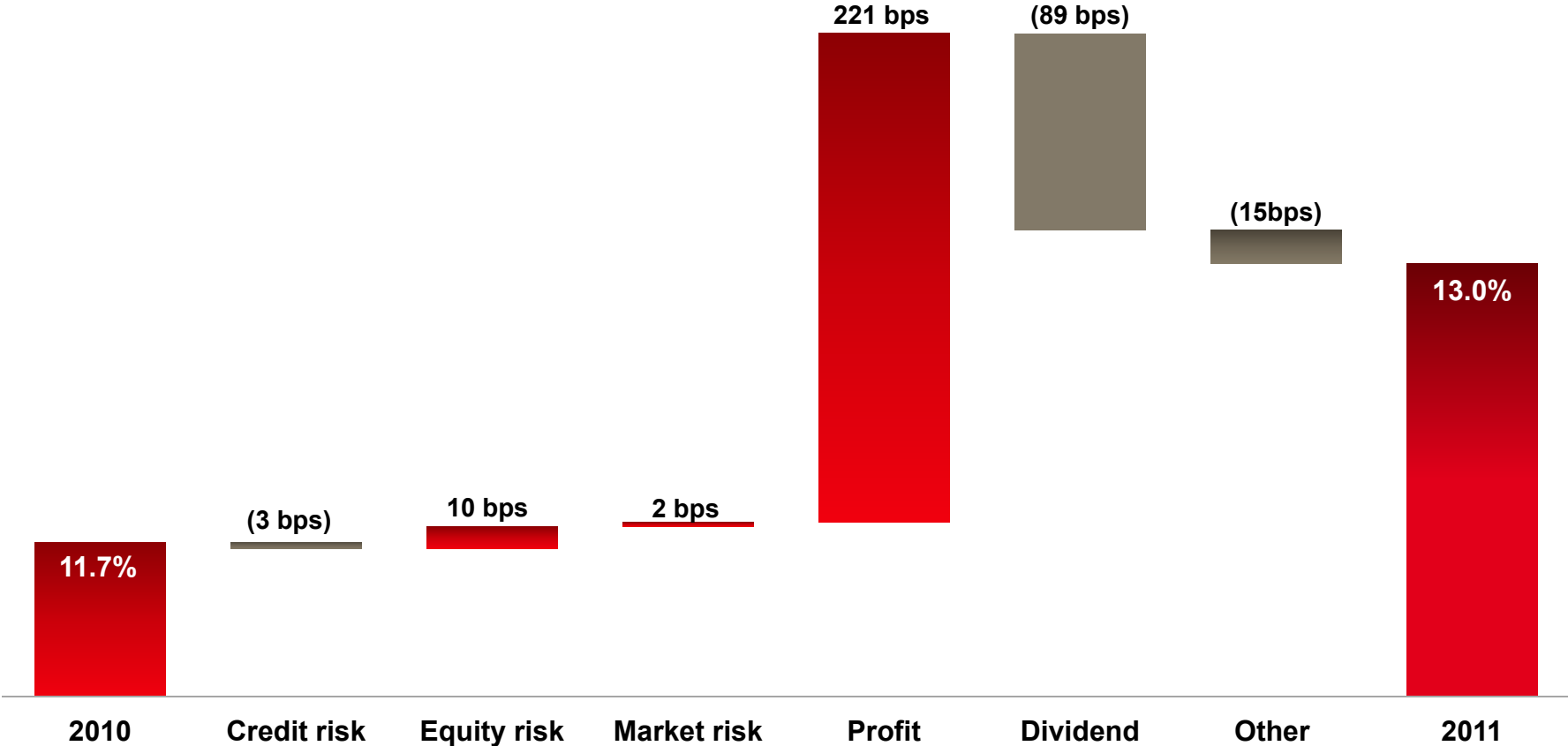
Note: \*Operating margin = headline earnings / total revenue; financial leverage = average RWAs / average shareholders equity; 2009 and 2010 restated

# Strengthened our balance sheet

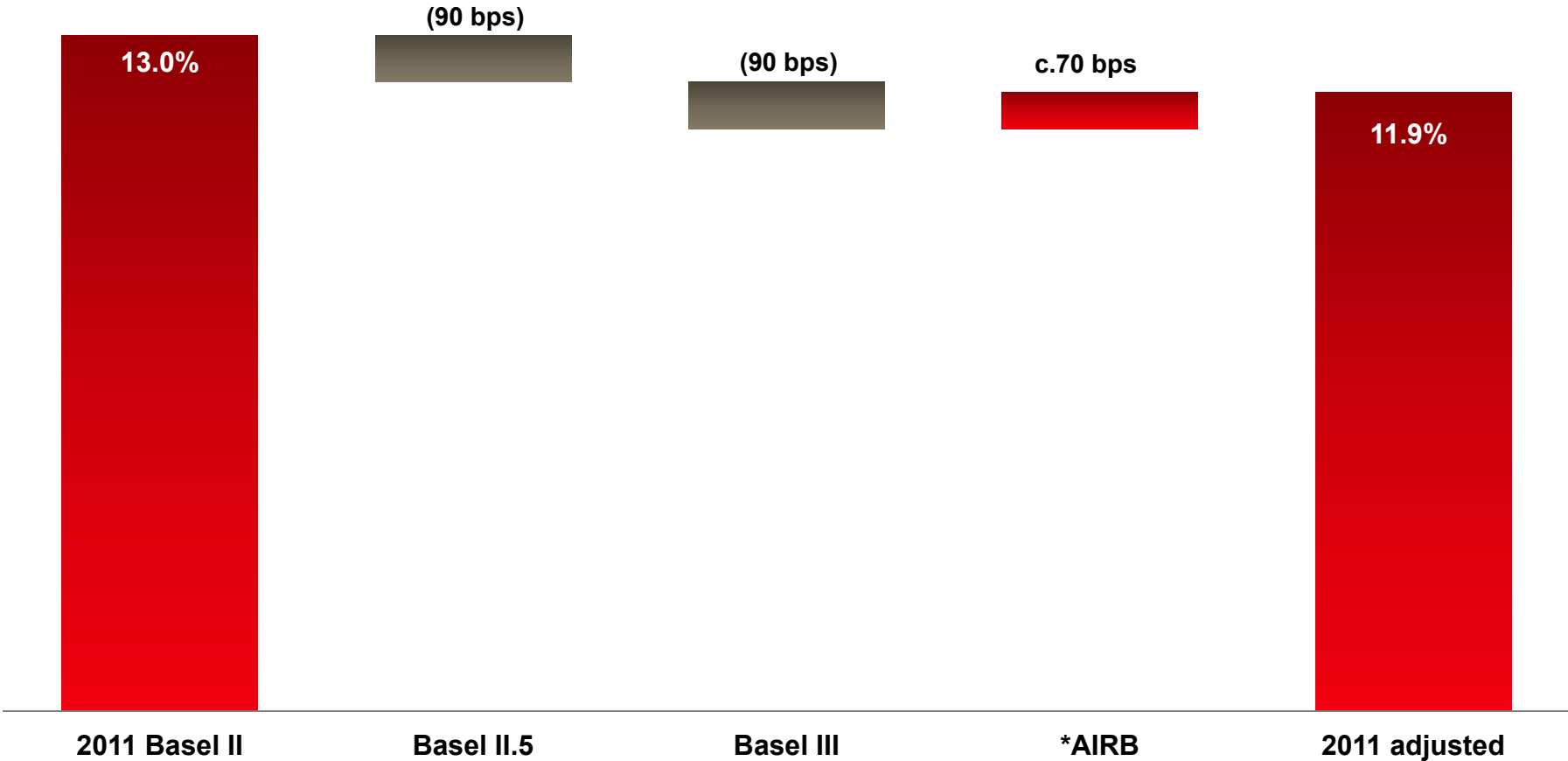


Note: 2010 restated

# Core Tier 1 ratio improved



# Limited Basel capital impact

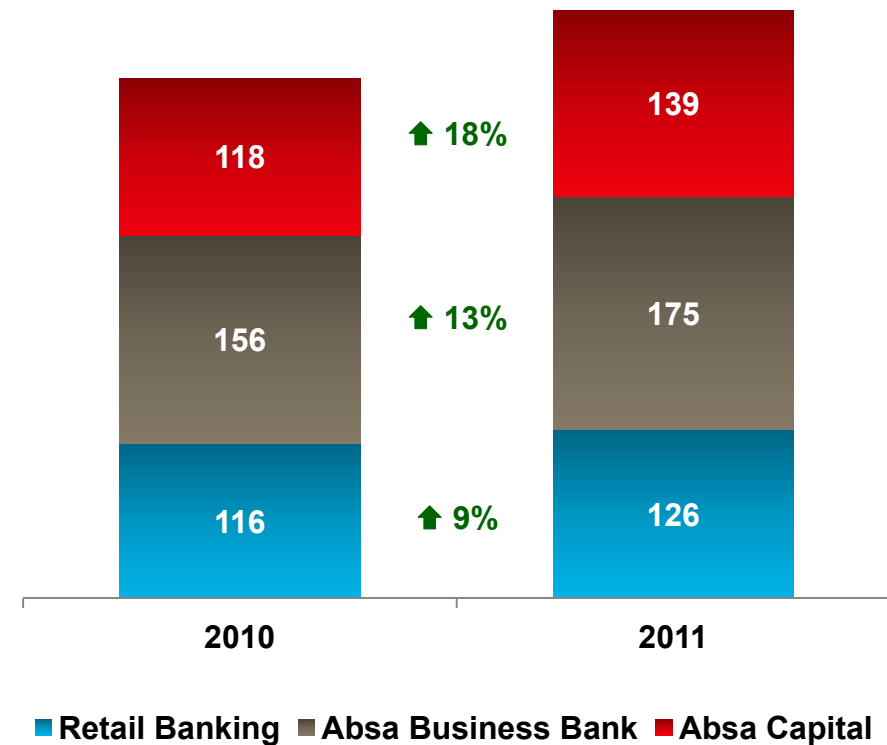


Note: \*Advanced Internal Rating-Based on wholesale book

# Strong core deposit growth

	2011 Rbn	Change %	Mix %
Cheque accounts	135	15	31
Savings and transmission	75	10	17
Fixed deposits	125	10	28
Call deposits	56	2	13
Other	50	51	11
<b>Total</b>	<b>441</b>	<b>14</b>	

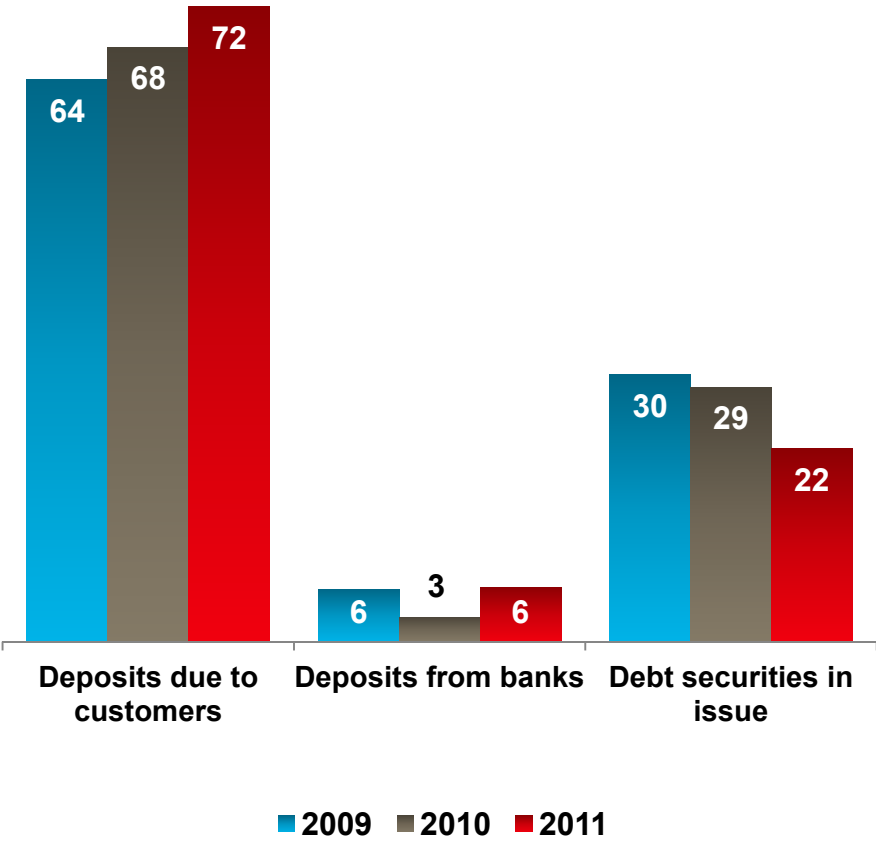
## Deposits due to customers (Rbn)



Note: 2010 restated

# Improving funding mix and term

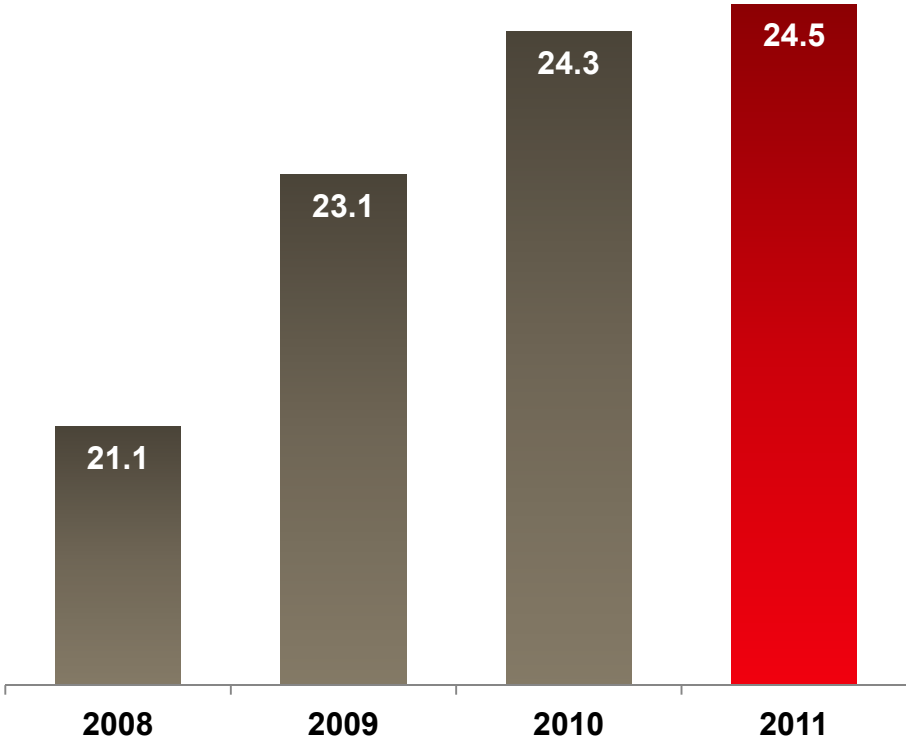
Total funding mix (%)



Note: 2009 and 2010 restated

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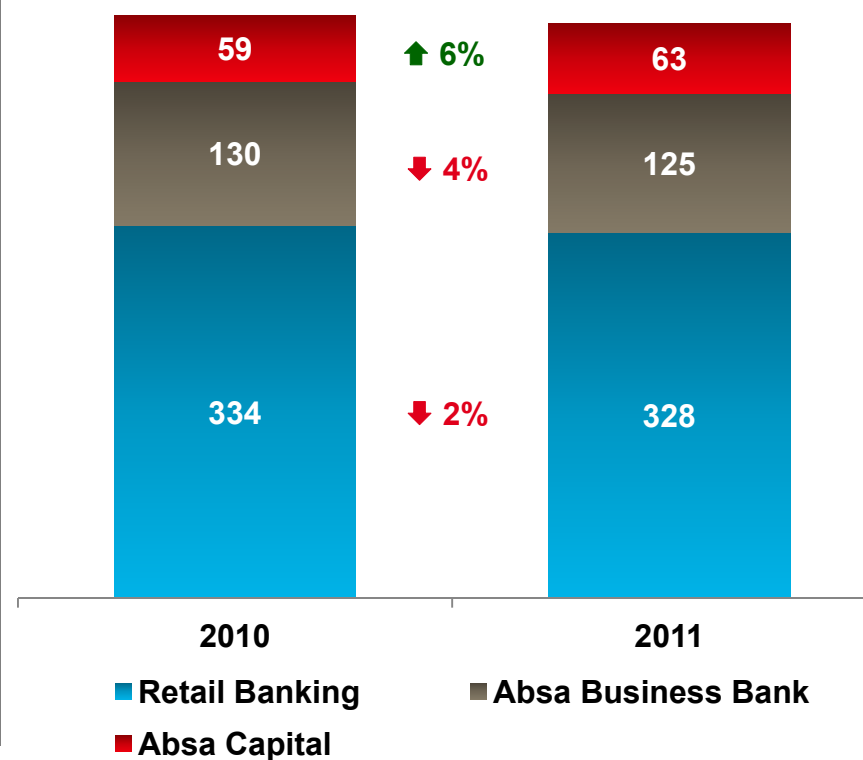
Proportion of long term funding (%)



# Focussed loan strategy

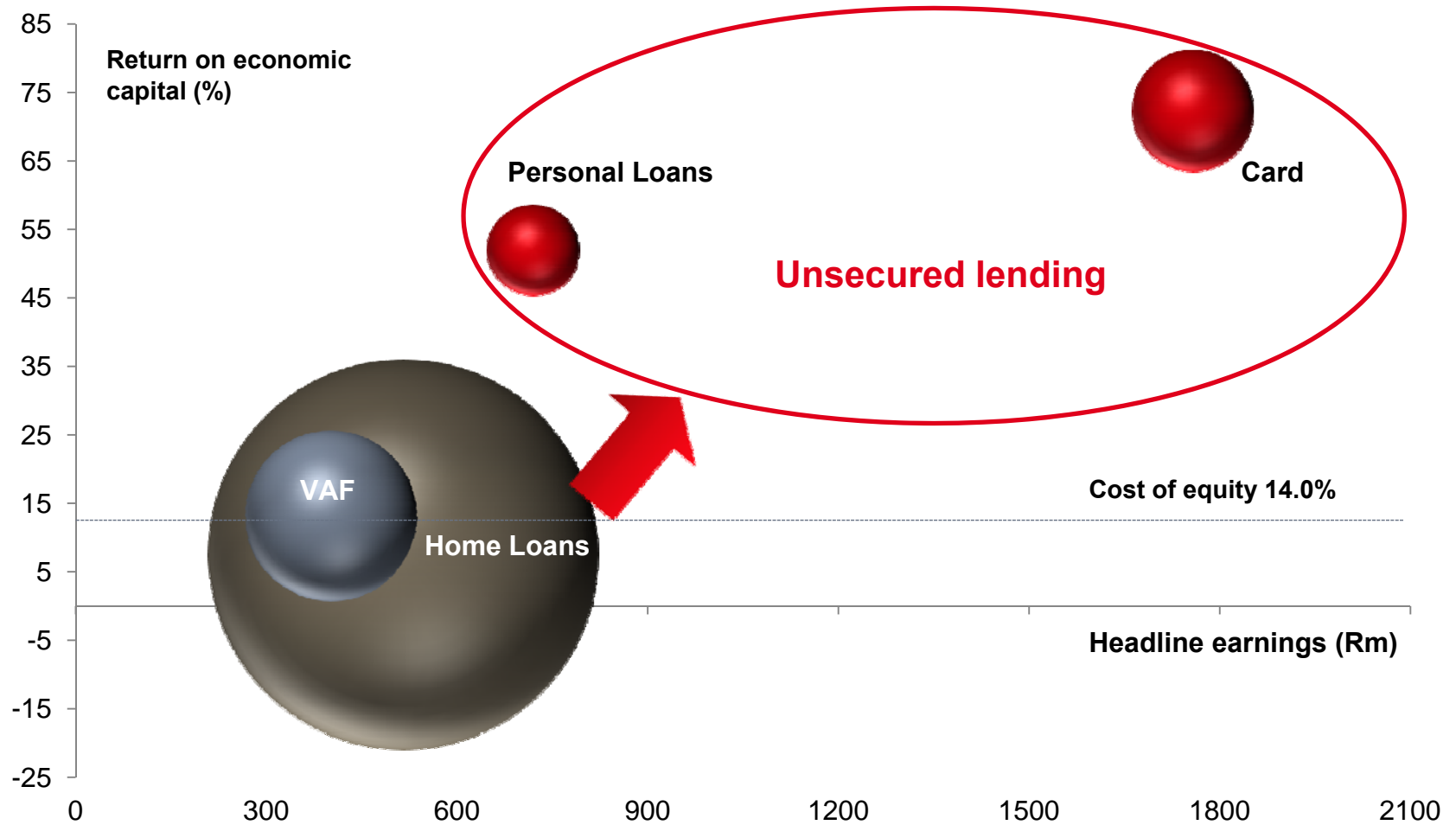
	2011 Rbn	Change %	Mix %
Retail Banking	328	(2)	64
• Credit cards	21	4	4
• Instalment finance	39	2	8
• Mortgages	243	(4)	47
• Other	25	3	5
Absa Business Bank	125	(4)	24
Absa Capital	63	6	12
<b>Total</b>	<b>516</b>	<b>(1)</b>	

## Gross loans and advances to customers (Rbn)



Note: 2010 restated

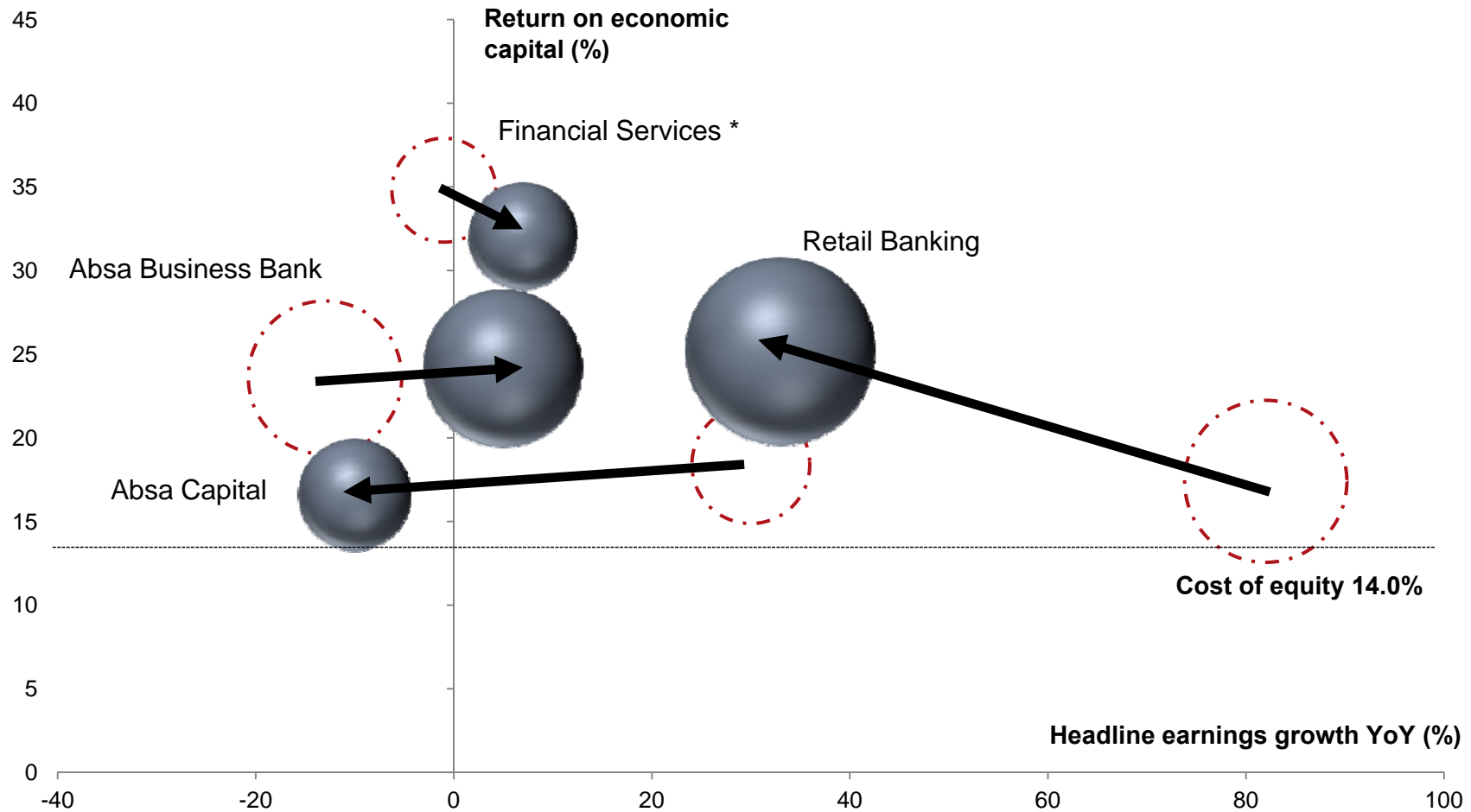
# Changing retail loan mix



Note: Bubble size represents 2011 loans and advances



# Retail drove growth and improving returns



Note: Bubble size represents headline earnings; dotted bubbles represent 2010 and grey 2011; \*RoE; 2009 not restated for structure changes

# Segmental Performance

**Louis von Zeuner**

**Deputy Group Chief Executive**

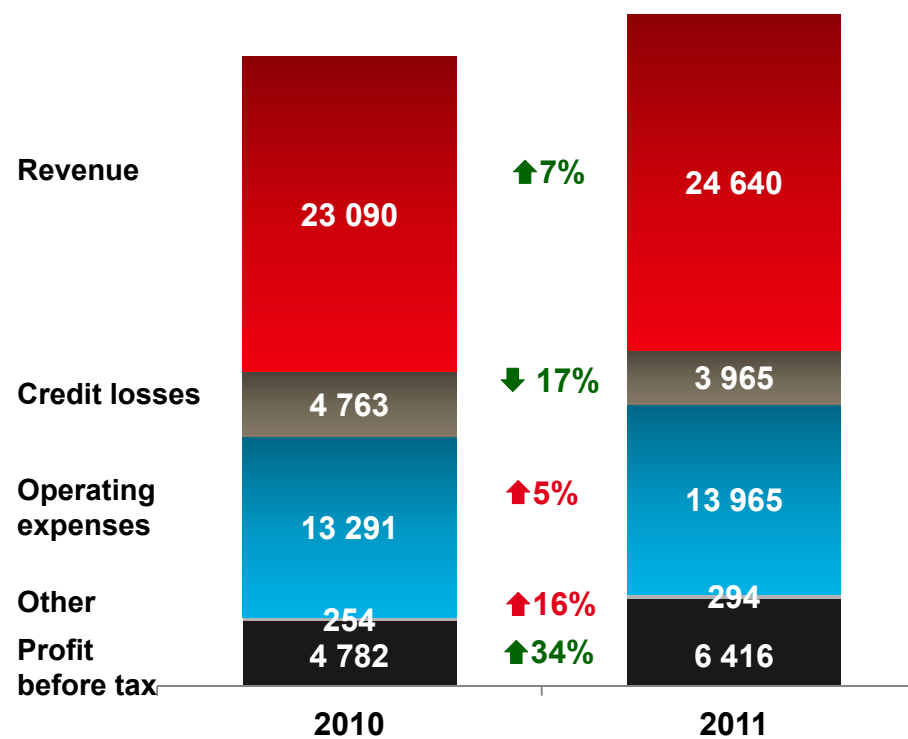
# Retail Banking

## Balanced set of results

	2011	2010
Headline earnings (Rm)	4 179	3 137
Non-interest income / total revenue (%)	44.0	44.8
Cost-to-income ratio (%)	56.7	57.6
Credit loss ratio (%)	1.23	1.48
Return on risk-weighted assets (%)	2.64	1.96

Note: 2010 restated for structure changes

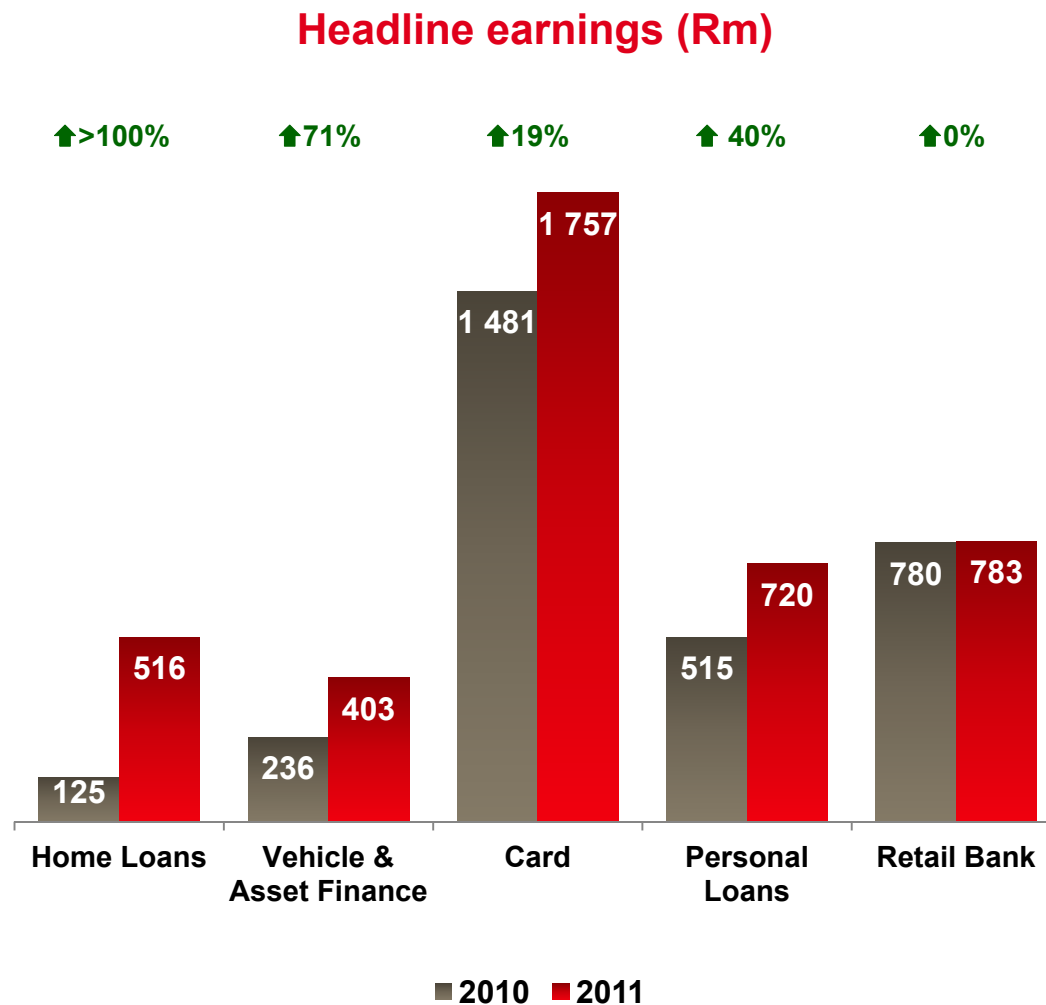
### Operating results (Rm)



# Retail Banking

## Strong performance across products

- Improved profitability
- Grew unsecured loans
- Lower credit losses in all portfolios
- Increased risk-based pricing
- Grew acquiring income
- Improved efficiency

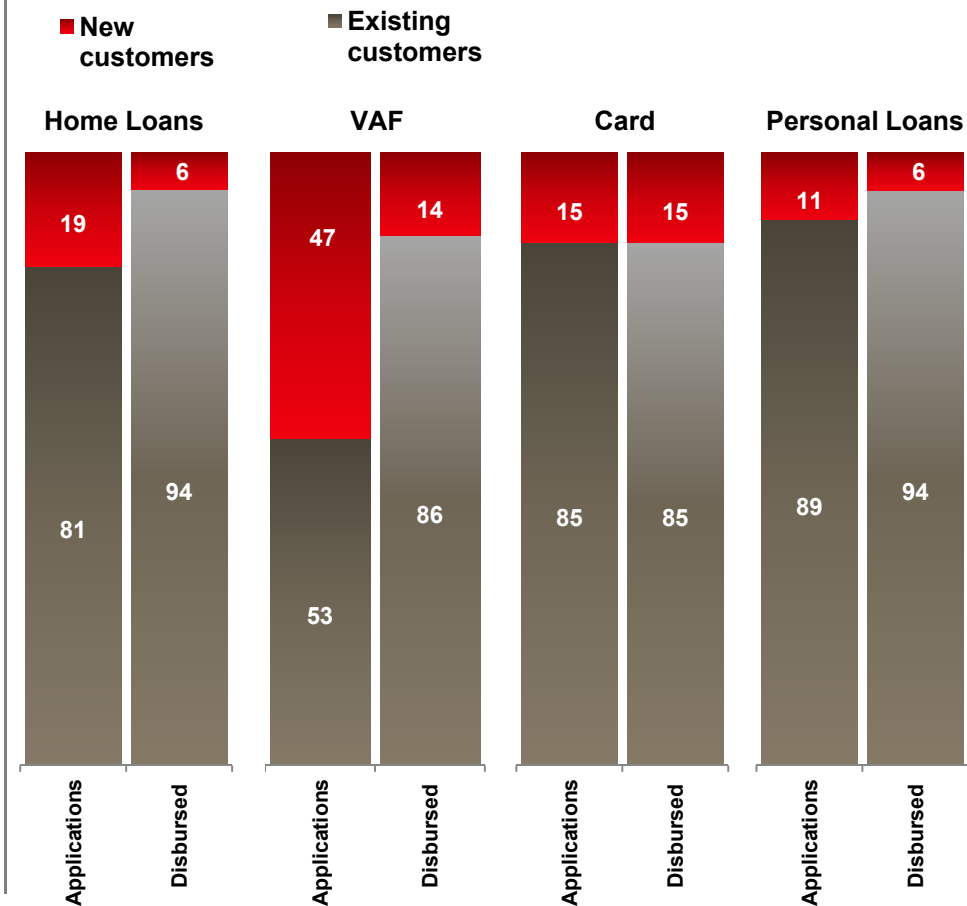


# Retail Banking

## Deepening relationship with existing customers

- Increased customers
- Growth focused on existing customers
- Maintained leading individual market share in deposits
- Improved credit quality
- Improved distribution capabilities for entry level banking customers
- Strong merchant growth through collaborating with Business Bank
- Exponential growth in Absa Rewards

### Advances - new sales (%)



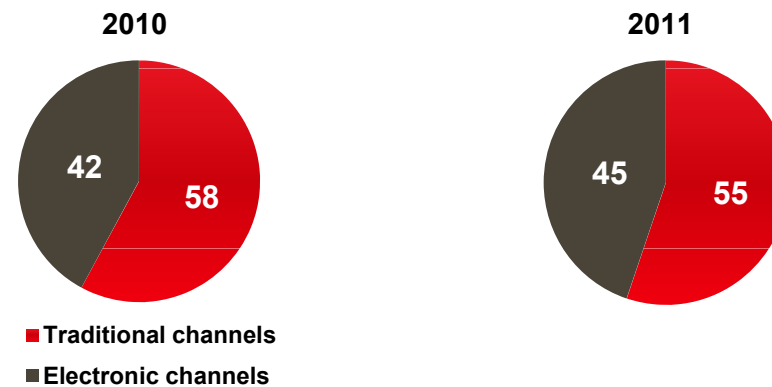
# Retail Banking

## Non-interest income reflects change in customer behaviour

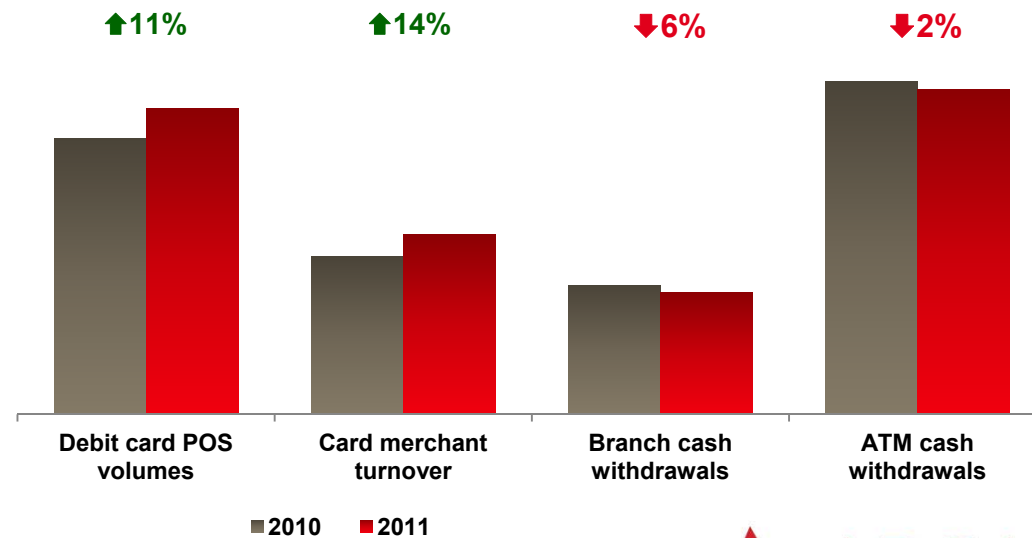
Muted increase, despite solid transactional volume growth

- Accelerated migration
  - Traditional to digital channels
  - Pay as you go to management fees
- Strong growth in:
  - Debit card POS transactions
  - Card merchant acquiring turnover
  - Prepaid purchase transactions
  - Mobile banking customers

### Transaction volumes (%)



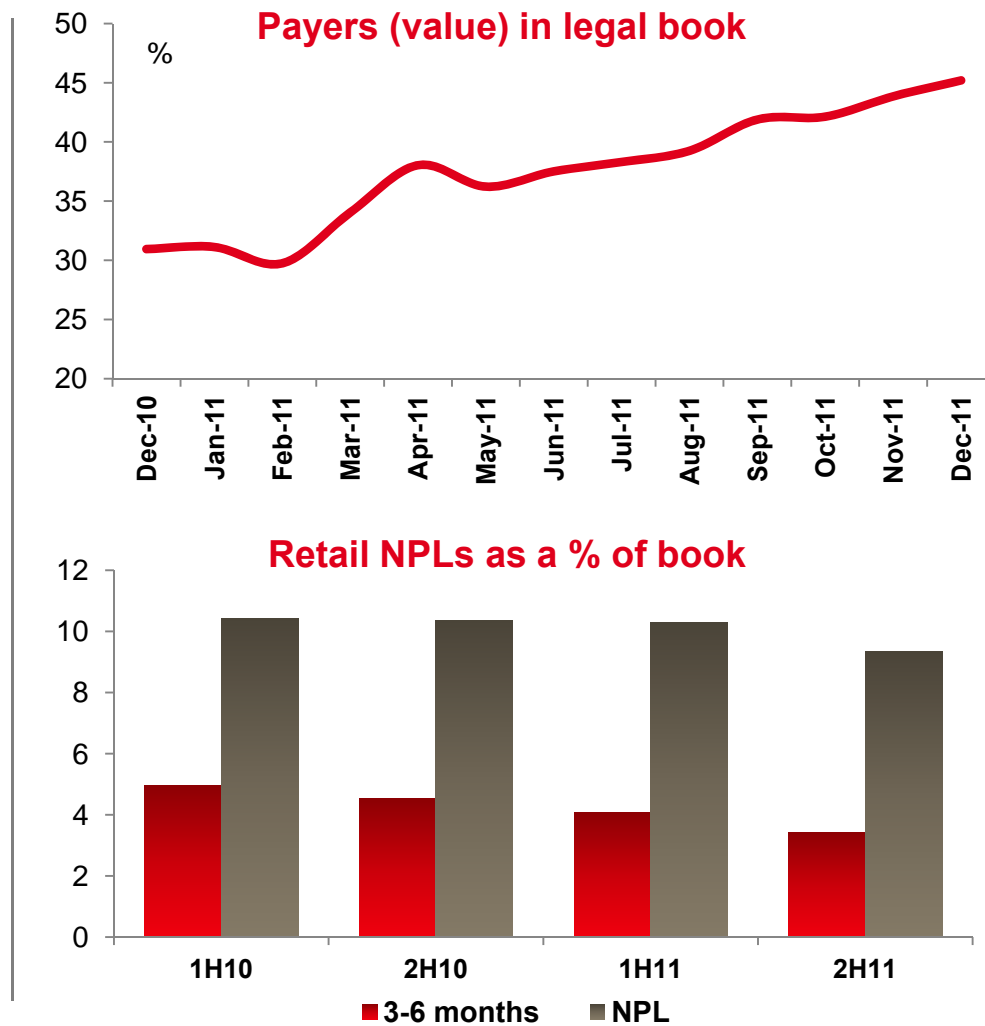
### Volume growth



# Retail Banking

## Quality of advances portfolio continues to improve

- Declining credit loss ratio
- NPLs and legal portfolio reduced
- Portfolio performance improved
  - Construct of performing book
  - Quality of legal book
- LGD parameters improved significantly
- NPL coverage ratios improved



Note: 1H10 and 1H11 not restated

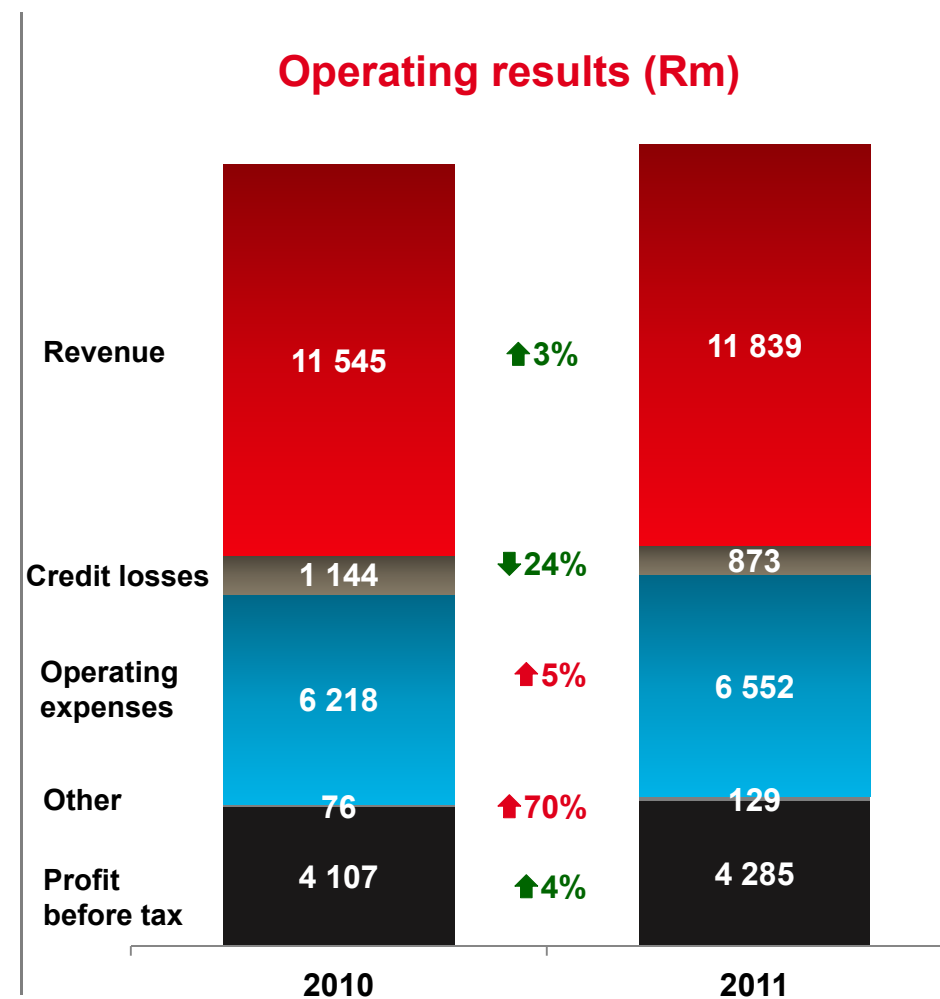
# Absa Business Bank

## Returning to growth

	2011	2010
Headline earnings (Rm)	2 948	2 811
Non-interest income / total income (%)	34.5	34.7
Cost-to-income ratio (%)	55.3	53.9
Credit loss ratio (%)	0.72	0.93
Return on risk-weighted assets (%)	1.95	2.20

Note: 2010 restated for structure changes

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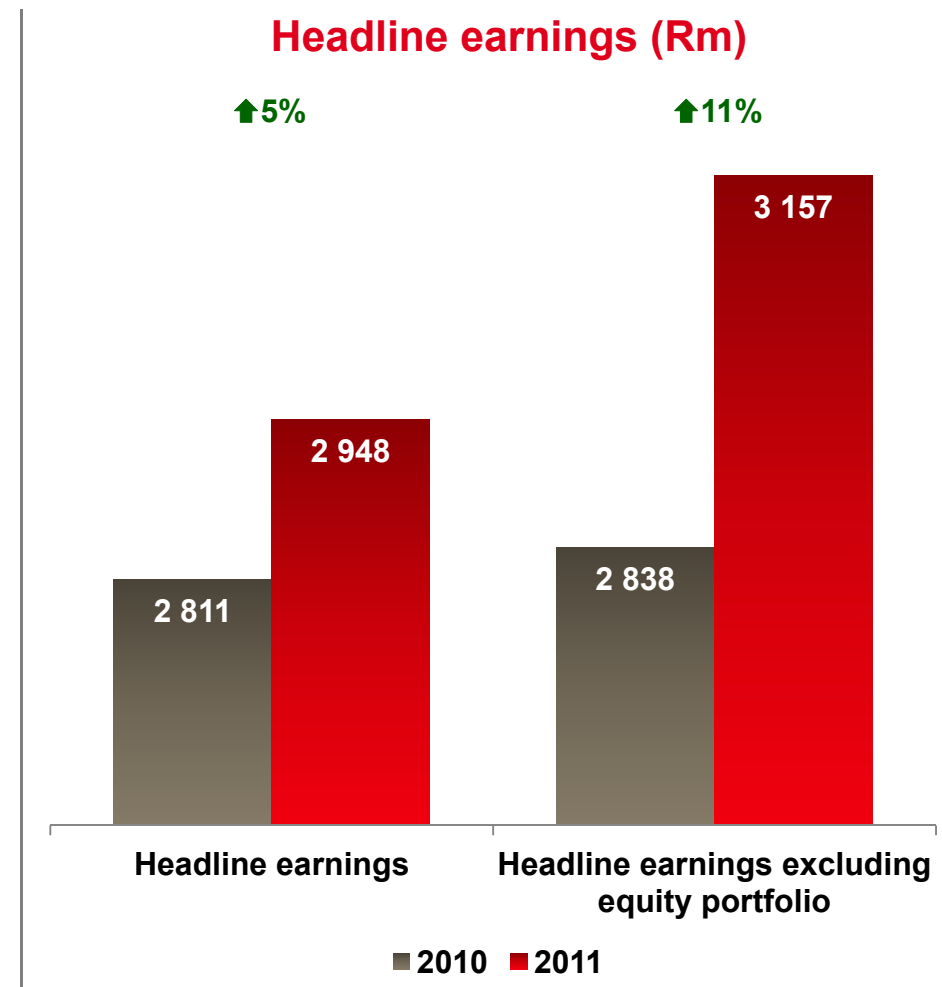




# Absa Business Bank

## Solid underlying earnings

- Core business grew 11%
- Strong deposit growth
- Reduced commercial property loans, but selected growth in other debt products
- Improved credit quality
- Low cost growth
- Equity portfolio reduced revenue
- Solid core non-interest income growth

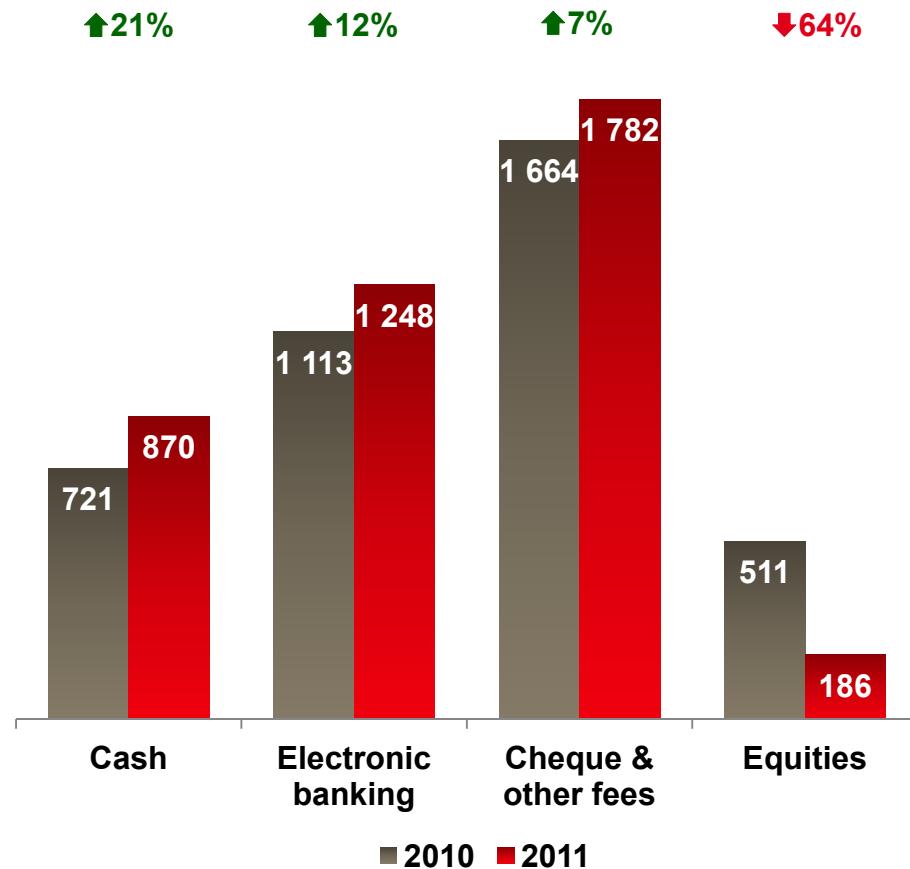


# Absa Business Bank

## Transactional strategy successful

- Strong 15% transactional growth
  - Cash revenue up 21%
  - Electronic banking revenue up 12%
- Enhanced functionality, security and accessibility
- Cheque volumes decreased in line with industry
- Equity portfolio incurred losses
- Grew trade and forex business

### Non-interest income (Rm)

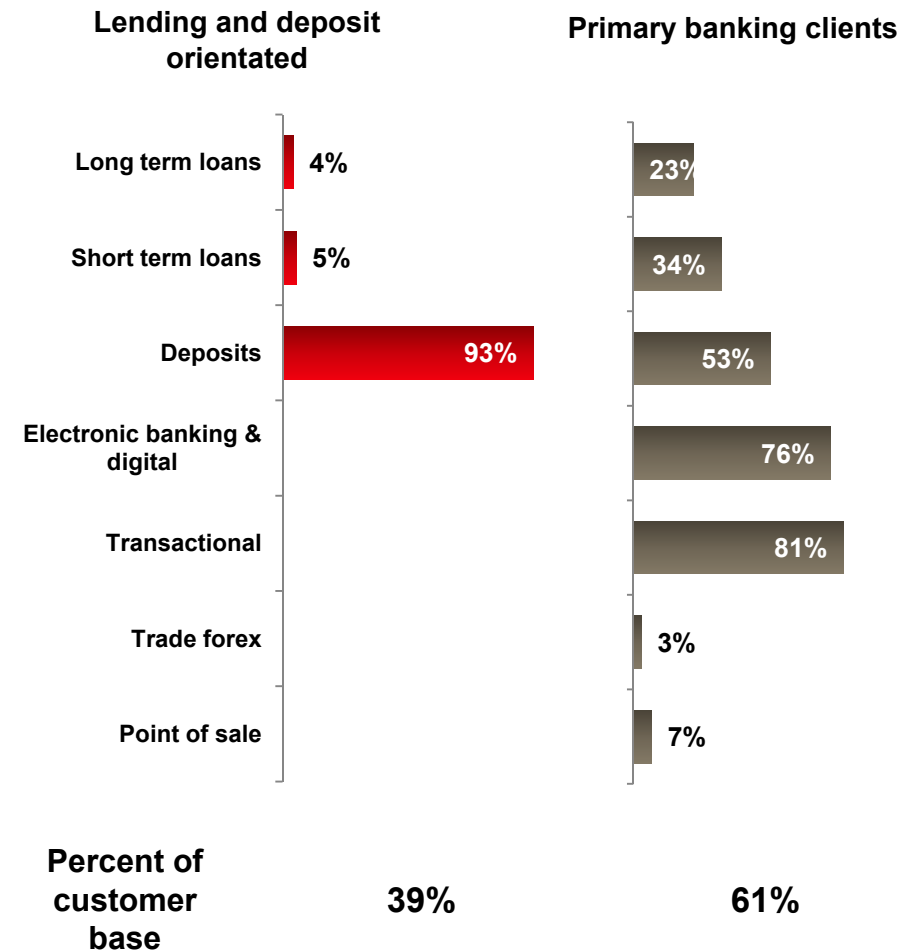


# Absa Business Bank

## Leveraging our large customer base

- Over 500 000 clients (61% are primary)
- Pricing strategy based on behaviour and usage
- Improved credit quality:
  - Reduction in early watch list
  - Lower arrears across all segments
- Repositioned our advances strategy in CAF, Commodity and Structured Finance
- Strong growth in Agri and Public Sector loans
- Absa is SA's leading Agri bank

### Scope for growth (clients with a product)



## **Retail and Business Bank**

### **Do the basics brilliantly**

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- Bed down new operating model
- Sharper focus on customer value delivery
- Improve cross selling to primary customers
- Enhance our market leading sales and service capabilities
- Build on our strong positions in key products
- Continue to invest in digital and other electronic platforms
- Strong credit risk management
- Leverage product synergies with CIBW

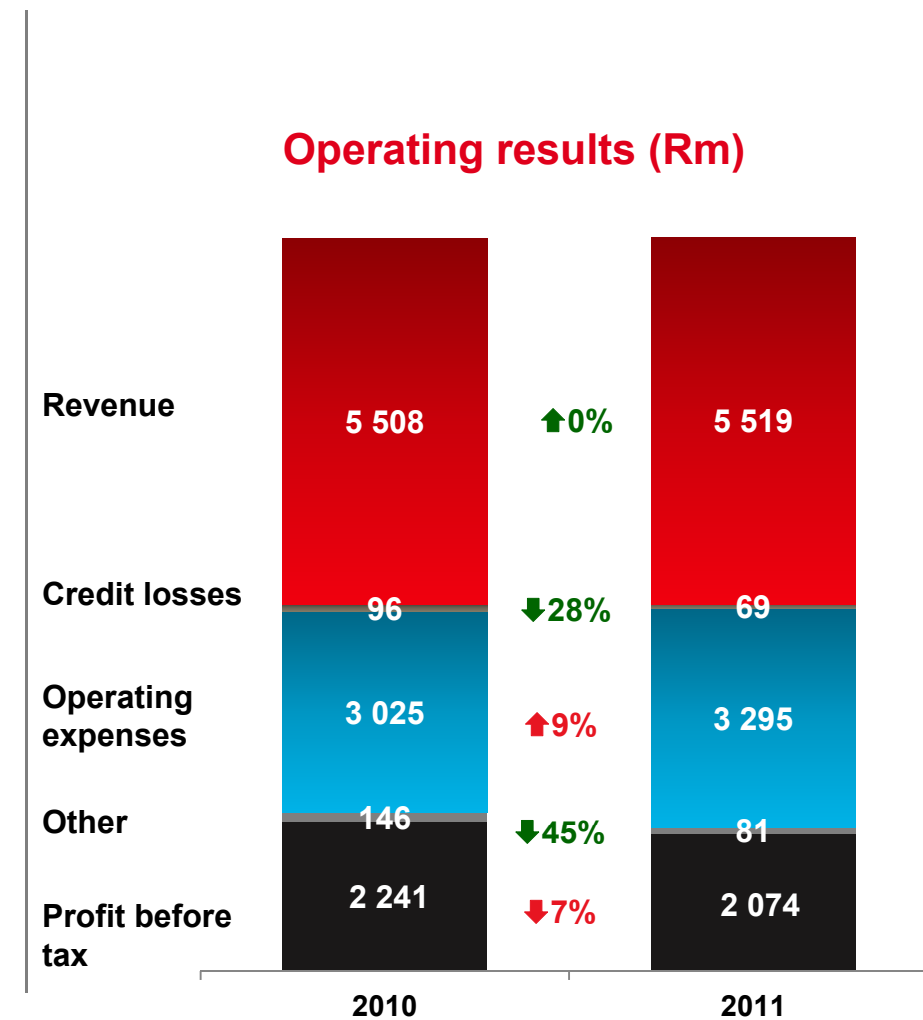
# Absa Capital

## Stable performance in uncertain markets

	2011	2010
Headline earnings (Rm)	1 495	1 659
Cost-to-income ratio (%)	59.7	54.9
Credit loss ratio (%)	0.11	0.15
Return on risk-weighted assets (%)	1.62	1.72

Note: 2010 restated for structure changes

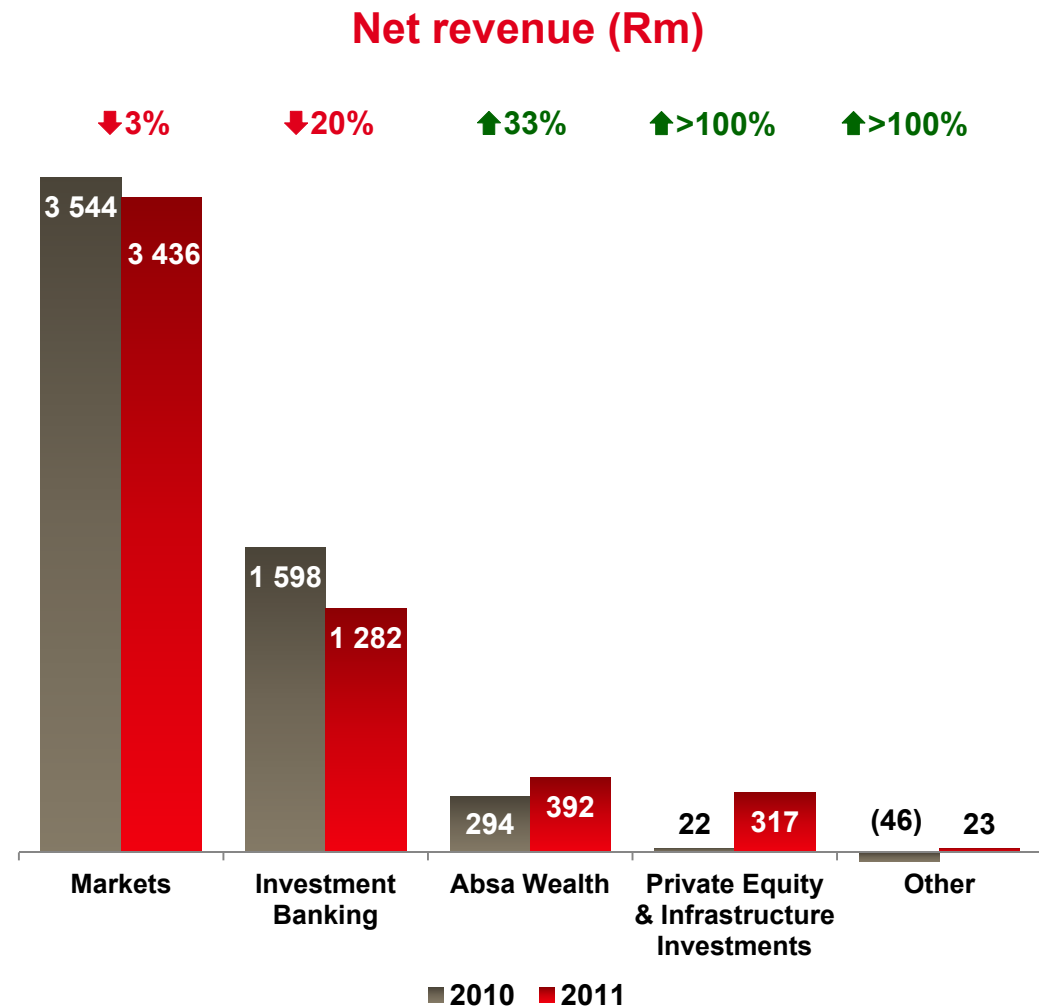
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# Absa Capital

## Diversified revenue base

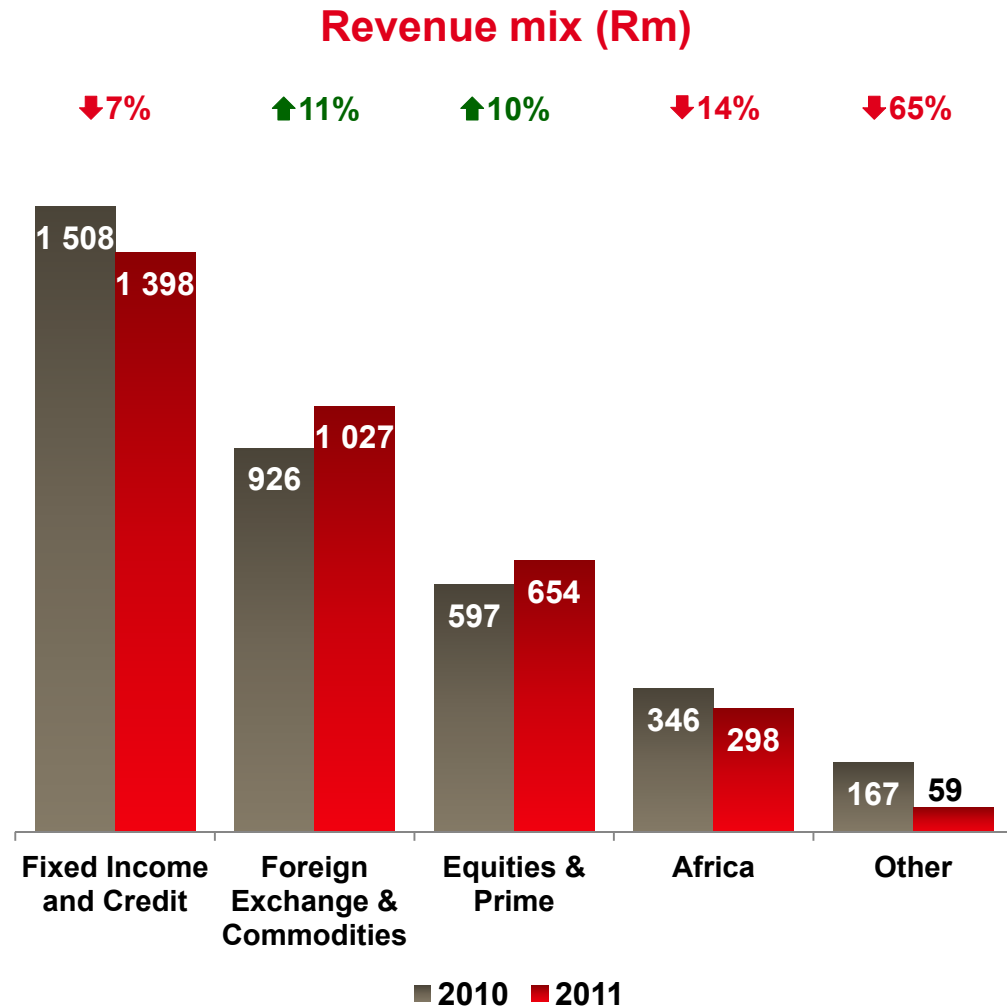
- Markets client franchise offset difficult market conditions
- Lower structured lending reduced Investment Banking margin revenue
- Strong performance in Absa Wealth
  - Higher margins and fee income
  - Reduced impairments due to improved credit processes
- Stable Private Equity performance



# Absa Capital

## Resilient Markets revenue underpinned by strong client franchise

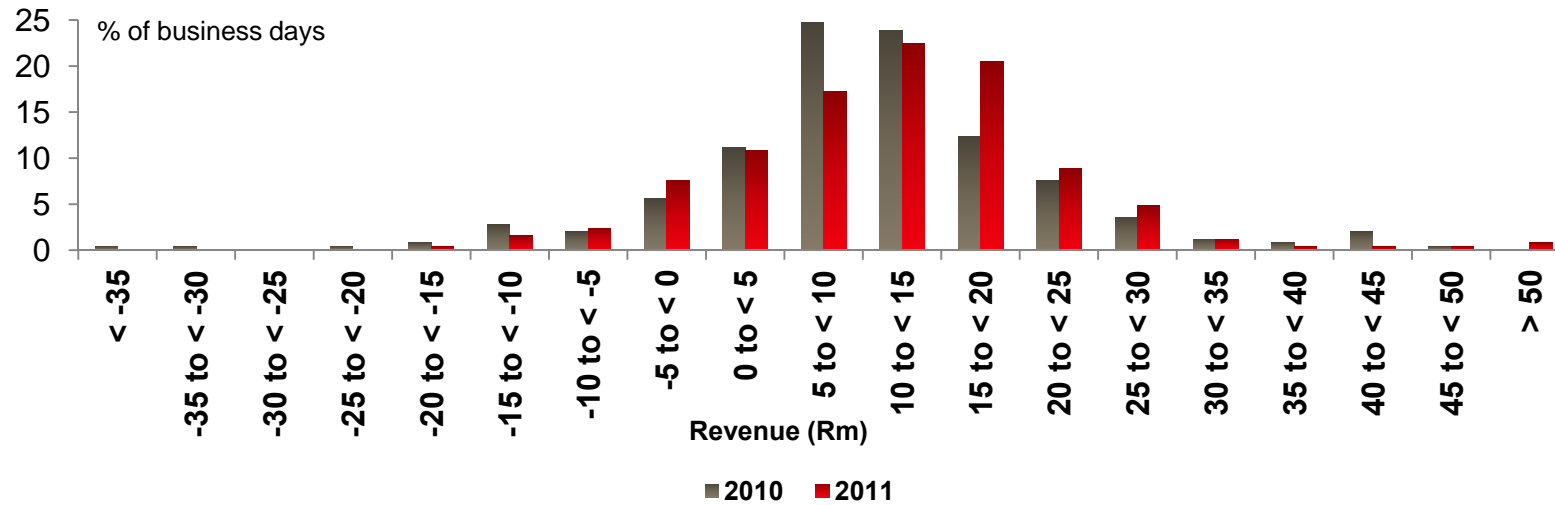
- SA business resilient in spite of difficult markets
  - Strong growth in client revenue
  - Successful FX strategy
  - Fixed Income results affected by market dislocation in 2H
  - Prime and Equities roll-out continues
- Margin compression impacted Africa trading



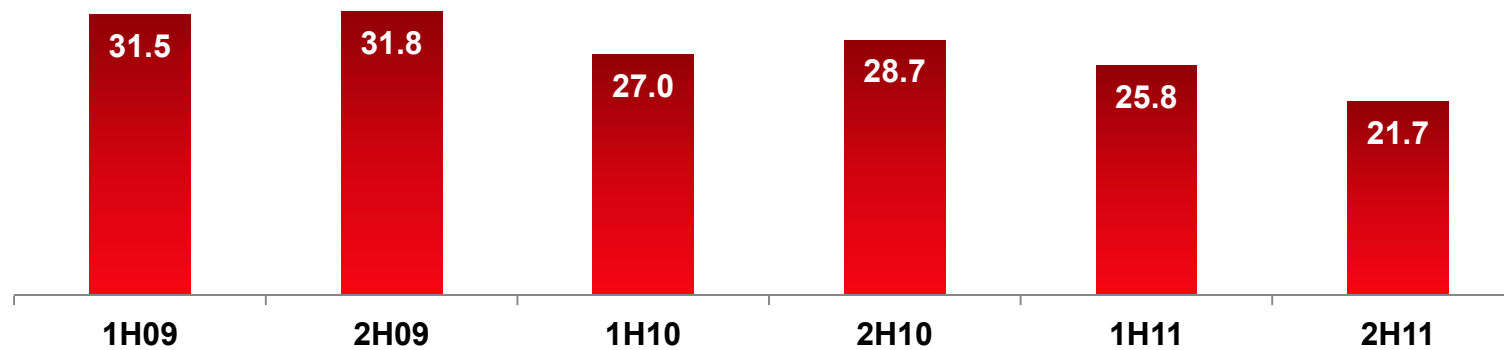
# Absa Capital

## Increased client contribution improved quality of earnings

### Daily Markets revenue showing an improved profile



### Lower average DVaR\* (Rm)



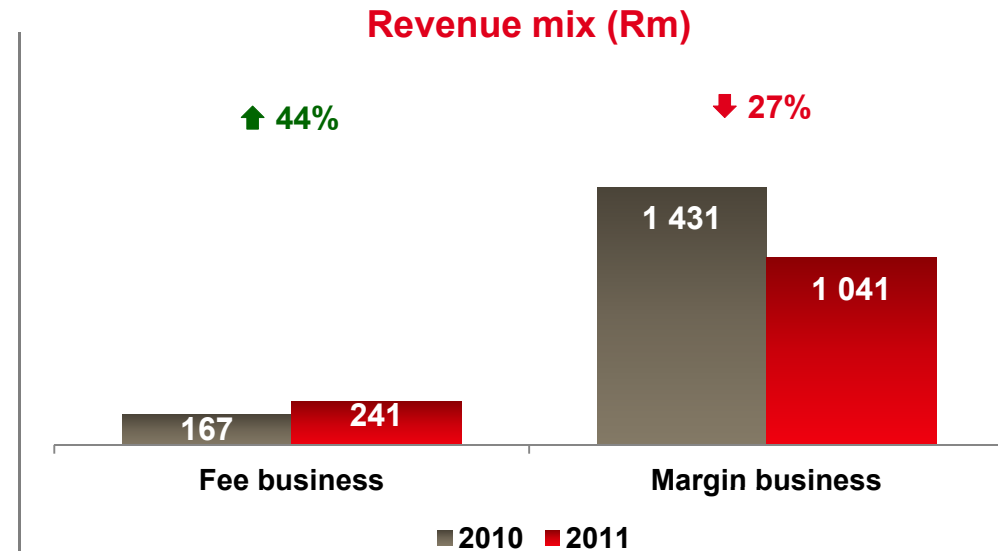
\*Note: Trading book risk over a 1-day holding period at a 95% confidence interval



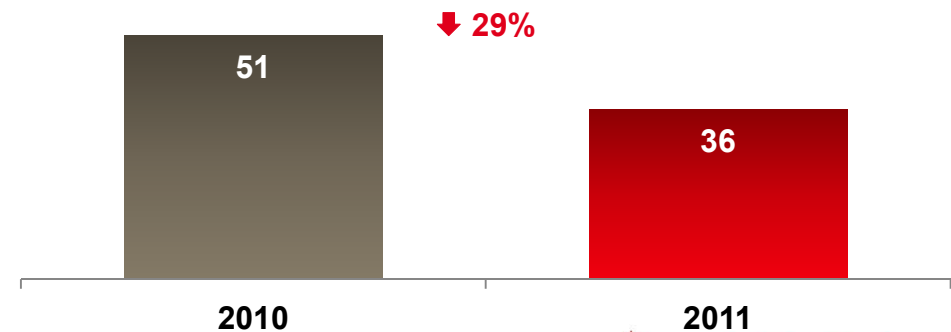
# Absa Capital

## Investment Banking client franchise grew strongly

- Strong growth in fee business
  - Benefit of integrating Corporate
  - Concluded a number of landmark transactions
- Drop in margin business
  - Reduced structured on balance sheet financing
  - Improved quality of income



### Average Investment Banking loans and advances (Rbn)



## Absa Capital

### Integrated Corporate and Investment Bank in 2012

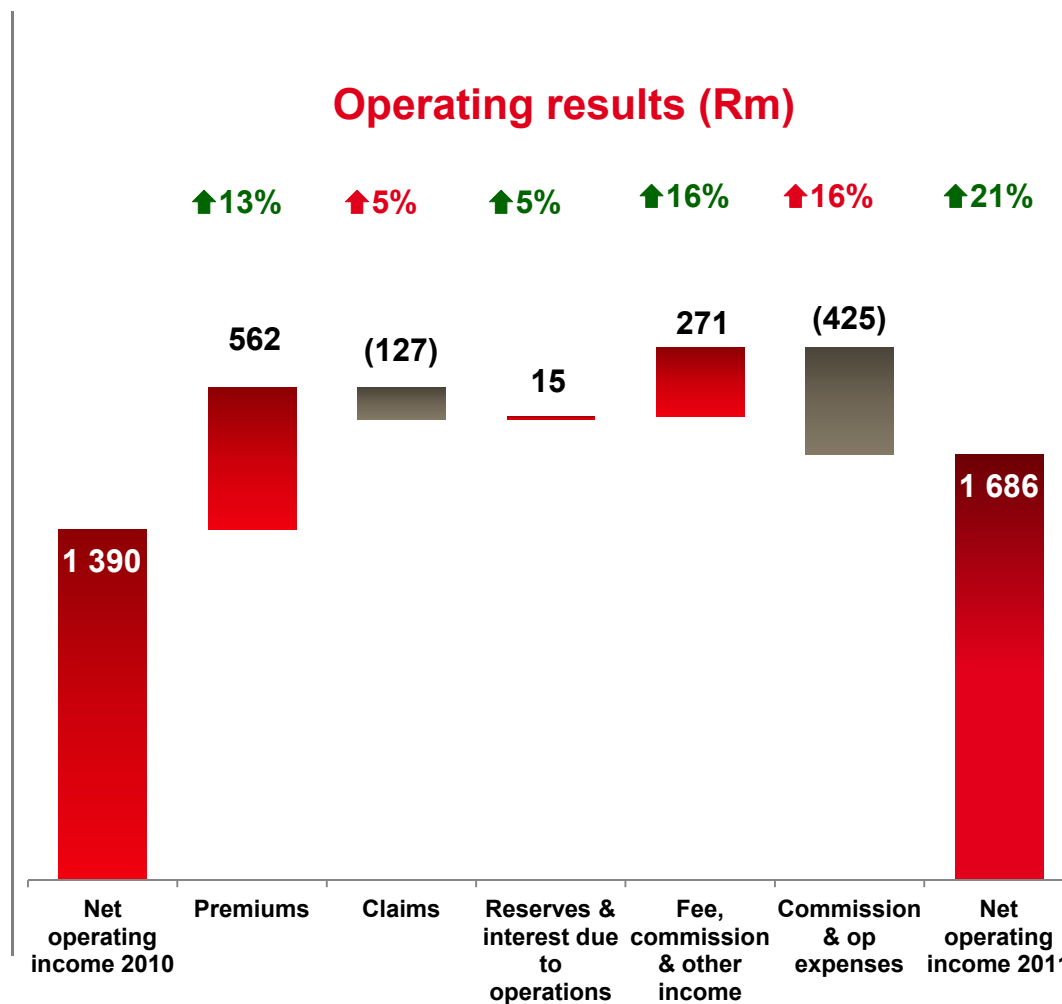
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- Implement an integrated Corporate and Investment Bank
- Leverage the global platform
- CIBW in Africa
- Ongoing capital and liquidity optimisation
- Infrastructure leveraging

# Financial Services

## Earnings from operations up 21%

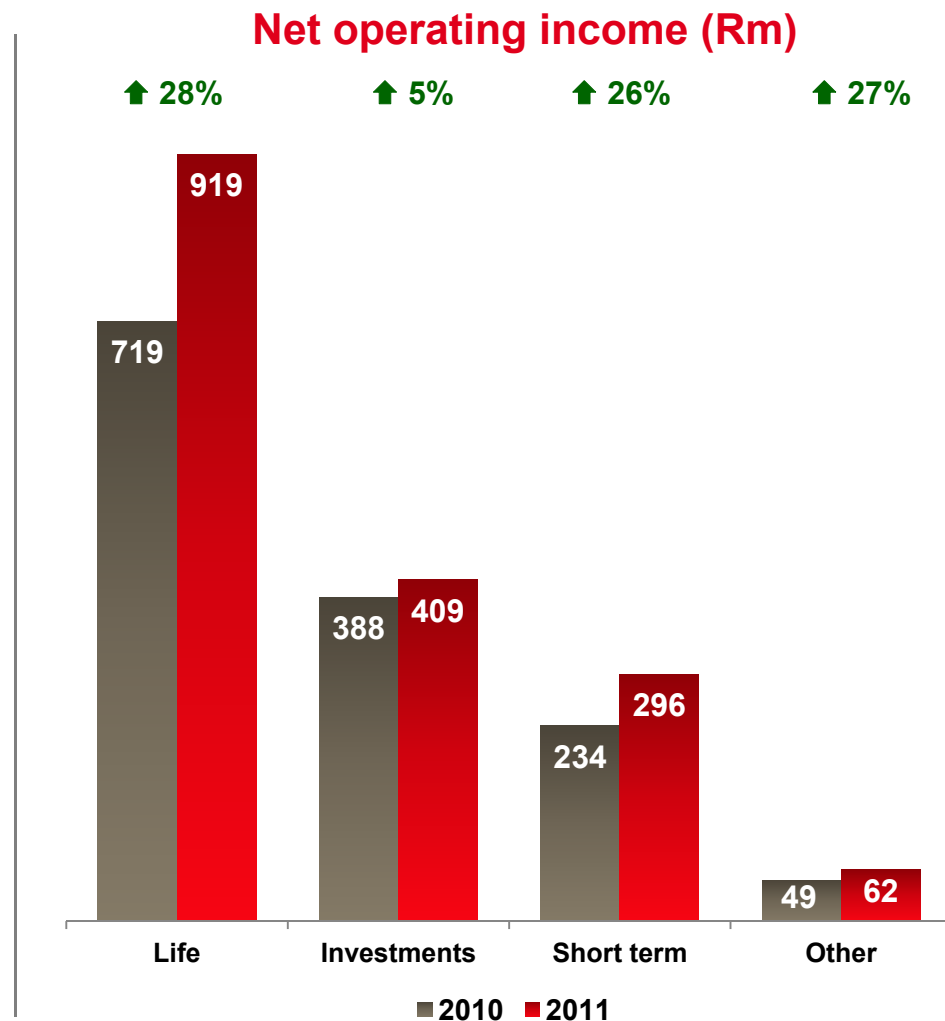
	2011	2010
Headline earnings (Rm)	1 375	1 291
Investment income shareholders (Rm)	198	332
Cost efficiency ratio (%)	25.2	26.4
Return on equity (%)	32.0	34.8
Return on embedded value (%)	37.1	39.8



# Financial Services

## Well diversified revenue streams

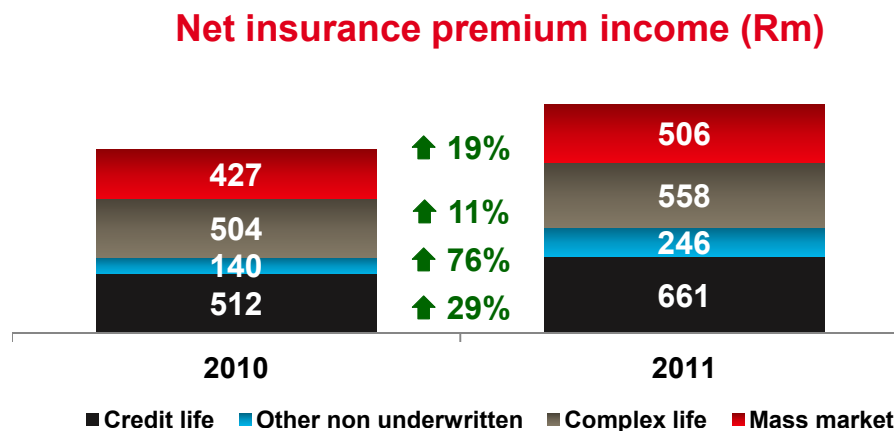
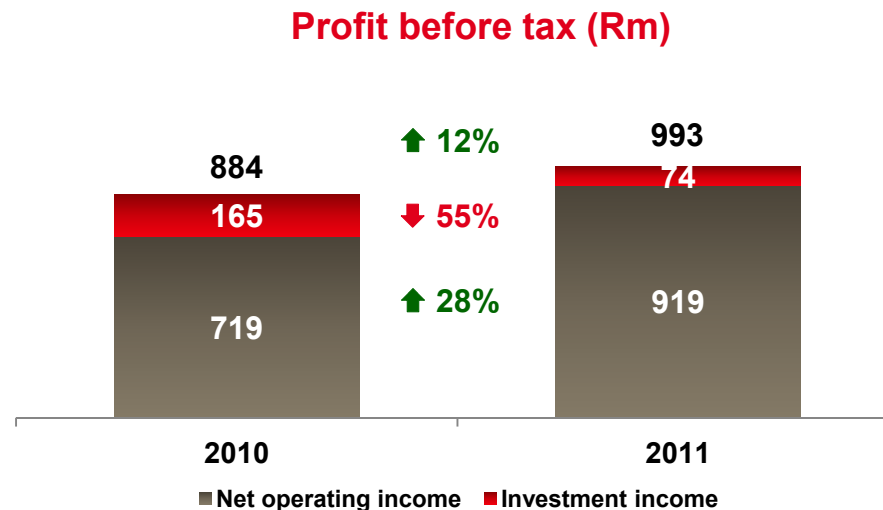
- Strong Life and Short term insurance performances
- Investments grew net AUMs 3% to R168 billion
- Africa
  - Established operations in Botswana and Mozambique
  - Gross premiums of R200m
- Fiduciary
  - Headline earnings from employee benefits declined R10m
  - Trust grew revenue by 3% and maintained earnings



# Financial Services

## Absa Life maintained growth momentum

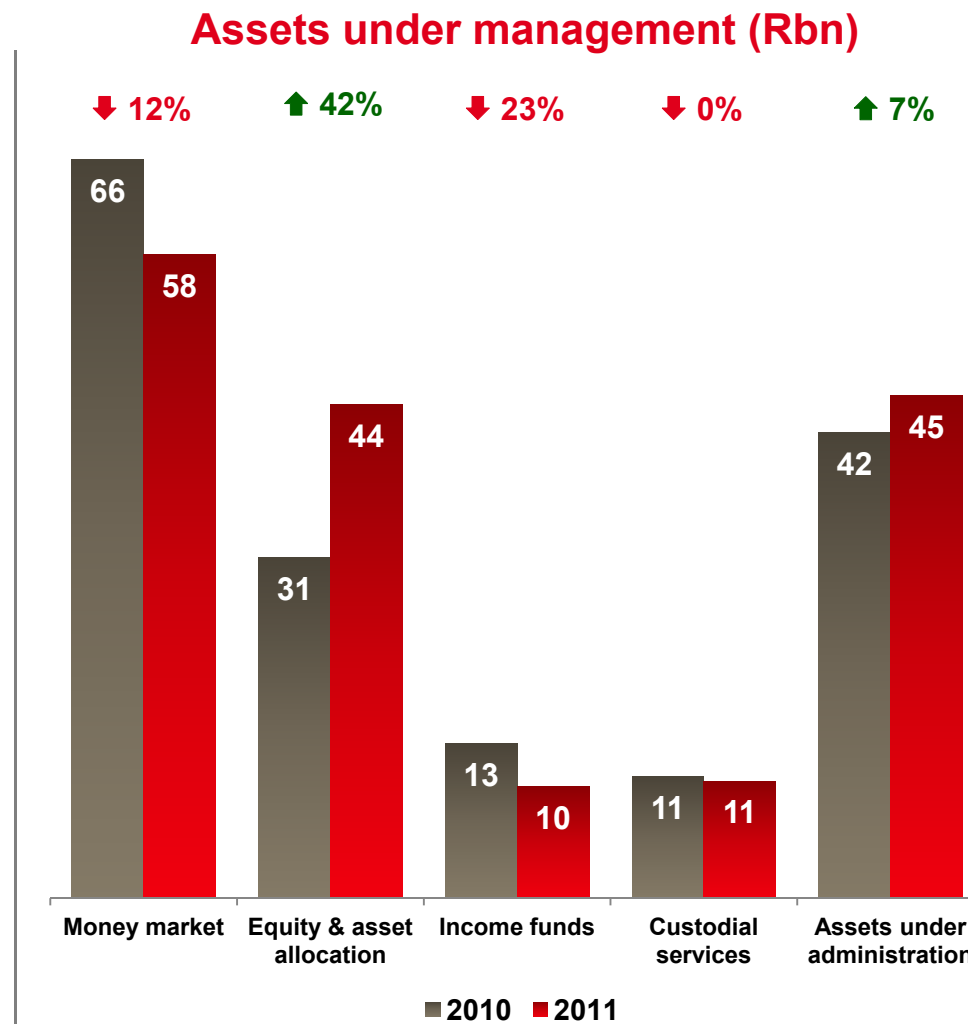
- Gross premiums up 22%
- Strong operational earnings growth of 28%
- Embedded value of new business R369m



## Financial Services

### Absa Investments grew external AUM mandates to R168 billion

- Customers continue to benefit from top quartile investment performance
- Delivering on our strategy to grow equity mandates
- Exiting Dividend Income Fund due to changing environment
- Institutional outflows from money market fund in 4Q
- Continued investment in brand, technology and talent

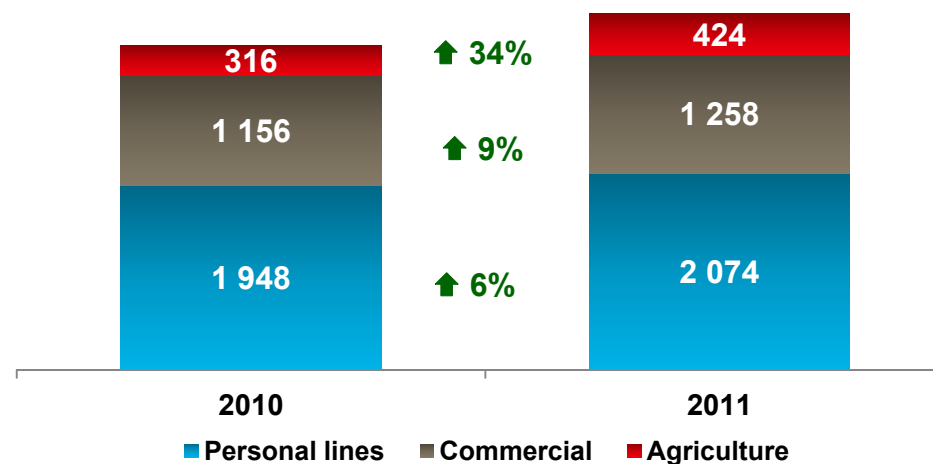


# Financial Services

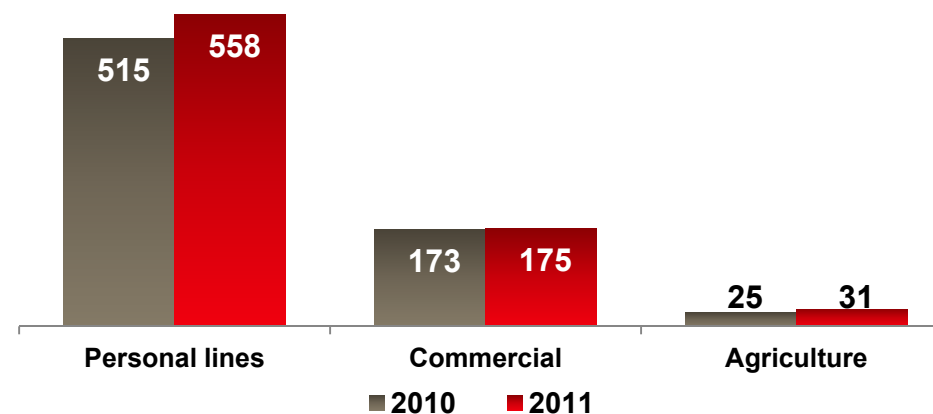
## Short term insurance grew operational earnings 26%

- Gross premiums grew 10%
- Crop underwriting results recovered in 2H
- Loss ratio of 67.4% (2010: 68.5%)
- Underwriting margin of 6.5%
- Operating expenses down 1%

Gross premium income (Rm)



Underwriting surplus, pre-management expenses (Rm)



## Financial Services

### Capturing growth opportunities

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- Continue to expand into the rest of Africa, with immediate focus on Zambia and Kenya
- Implement revised advisor operating model
- Further increase cross sell into Absa's customer base through integration, leads management and trigger event solutions
- Roll out and improve digital channels and “straight-through” processing
- Improve customer experience via new products, alternative delivery channels and service levels



# Prospects

**Maria Ramos**

**Group Chief Executive**

# Uncertain macro backdrop

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## Global uncertainty persists

- EU debt issues likely to stall growth
- US growth remains modest
- Many emerging markets tightening policy and growth is moderating
  - African growth remains robust

## SA not immune

- GDP growth slowing
- Household consumption resilient
- Inflationary pressure increasing
- Rates to remain low but may start increasing in 4Q12

# Progressed our Africa strategy

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- Africa is important to us and Barclays
- We have a leading, well-established presence
- Our strategy is gaining momentum
  - Moved Barclays Africa head office to Johannesburg
  - Formed an Africa Executive Committee
  - Established Africa Customer and Community Investment Committees



# What to expect in 2012

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- Driving the Africa opportunity
- Growing in targeted areas
- Efficiency an ongoing priority
- Continue to strengthen our balance sheet
- Customer, customer, customer

# What you can measure

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- Improved revenue growth
- Lower cost-to-income ratio
- Improved credit loss ratio
- Increased profitability
- Africa synergies

# Disclaimer

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## **Forward-looking statements**

Certain statements in this document are forward looking that relate to, among other things, the plans, objectives, goals, strategies, future operations and performance of Absa Group Limited (“Absa”). Words such as “anticipates”, “estimates”, “expects”, “projects”, “believes”, “intends”, “plans”, “may”, “will” and “should” and similar expressions are typically indicative of a forward-looking statement. These statements are not guarantees of Absa’s future operating, financial or other results and involve certain risks, uncertainties and assumptions. Accordingly, actual results and outcomes may differ materially from these expressed or implied by such statements. Absa makes no representation or warranty, express or implied, that the operating, financial or other results anticipated by such forward-looking statements will be achieved and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. Absa undertakes no obligation to update the historical information or forward-looking statements in this document.