

# ABSA GROUP LIMITED

## **PRESENTATION TO THE IAS**

For the six months ended 30 June 2006

PRESENTATION TO THE IAS

Member of the  **BARCLAYS** Group

  
**ABSA**



# ABSA GROUP LIMITED

## INTERIM FINANCIAL RESULTS

For the six months ended 30 June 2006

Member of the  BARCLAYS Group



## Agenda

- **Putting the building blocks for progress in place**  
*Steve Booyesen*
- **Financial overview**  
*Jacques Schindehütte*
- **Prospects and key differentiators**  
*Steve Booyesen*

# ABSA GROUP LIMITED

**STEVE BOOYSEN**

Putting the building blocks for progress in place

Member of the  **BARCLAYS** Group



## Operating environment

Stable domestic growth in a strong global economy

- **Global growth the best in three decades**
- **Positive domestic economic conditions persisted**
  - GDP growth picked up slightly from the end of 2005
  - Inflation and interest rates started to rise
  - Consumer demand continued at a strong pace
  - Market correction and volatility

## Domestic developments

- Intense focus on consumerism
  - National Credit Act
  - Competition Commission enquiry into transaction fees
- Basel II
- Financial Sector Charter
- Growing interest in sub-Saharan Africa

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## Financial highlights

For the six months ended 30 June 2006

- Headline earnings ↑ 22.4%
- Headline earnings per share ↑ 20.4%
- Return on average equity of 24.7%
- Dividend per share ↑ 30.0%\*

\*From September 2005

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## What did we achieve?

Keeping our eye on the ball

- **Focus on core operations resulted in:**
  - A growing customer base
  - Strengthening our overall market position
  - Further expanding our infrastructure and reach
- **Made good progress on realising synergy benefits**
- **Attracted top talent**

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## Retail banking

Leveraged off the strong consumer cycle

- **Customer excellence focus**
- **Strong advances growth**
- **Pressure on margins**
- **Solid transaction volume growth**
- **Moderate uptick in impairments**
- **Transformation of the Absa Card business**

Advances growth of 32.0%, Attributable earnings  $\uparrow$  24.3%, Return on average equity of 26.6%

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## Retail banking

Market share (May 2006) – Growth in majority of the counters

	Total market			Individual market		
	Share	Position	Change*	Share	Position	Change*
	%		%	%		%
Mortgage advances	32.4	1	↑ 0.5	37.0	1	↑ 0.2
Instalment finance	25.9	2	↑ 1.1	26.9	2	↑ 0.5
Credit card debtors	23.5	3	↑ 1.1	23.6	3	↑ 0.7
Overdrafts and loans	19.8	3	↓ 0.1	27.1	1	↓ 0.8
<b>Total advances**</b>	<b>26.8</b>	<b>1</b>	<b>↑ 0.6</b>	<b>33.7</b>	<b>1</b>	<b>↑ 0.2</b>
<b>Total deposits</b>	<b>22.4</b>	<b>2</b>	<b>↑ 0.4</b>	<b>24.6</b>	<b>2</b>	<b>–</b>

\*December 2005 to May 2006

\*\*Excluding bank and foreign funding

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## Retail banking

Absa Card transformation strategy paying off

### ■ Transformation of the Absa Card business by:

- Deploying Barclays knowledge, skills and capabilities
- Strong growth in cardholder recruitment levels
- Increased transaction volumes
- Growth in impairment charge in line with strategy to enhance top-line growth

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## Corporate and Business Banking Services

Realigned and re-engineered

- Realigned the corporate and business banking models
- Enhanced our customer offering and relationship management
- Value aligned performance measurement (VAPM) methodology
- Enhanced industry sector focus
- Market volatility impacted commercial property finance listed equity performance

Advances growth of 34.2%, Attributable earnings  $\uparrow$  57.6%, Return on average equity of 19.5%

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## Absa Capital

Fully local, fully global

- Fully local, fully global value proposition providing a competitive edge to drive new business
- Refocus on core investment banking business activities
- Increased deal flow in response to the enhanced customer service and product offering
- Good revenue pace in secondary markets
- Substantial revenue increases in primary markets

Attributable earnings  $\uparrow$  21.9%, Return on average equity of 29.0%

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## Bancassurance

Solid operational performance

- Short-term insurance underwriting cycle hardening
- Repositioning of investment businesses to enhance product offering and extract value
- Sound investment performance but lower than previous year's record highs
- Integrated bancassurance offering extended to partnerships and alliances

Attributable earnings ↓ 5.4%, Return on average equity of 33.0%

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## Barclays related synergies

Good progress on realising synergies

- Cost synergies have been achieved through:
  - Better sourcing
  - Consolidating IT applications and platforms
- Revenue synergies have been achieved through:
  - Launching Absa Capital
  - Reinvigorating Absa Card
  - Reducing balance sheet funding costs
  - Using data to increase cross sales in retail banking
- Integrated the Barclays South Africa business

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# ABSA GROUP LIMITED

JACQUES SCHINDEHÜTTE

Financial overview

Member of the  BARCLAYS Group



## Group income statement

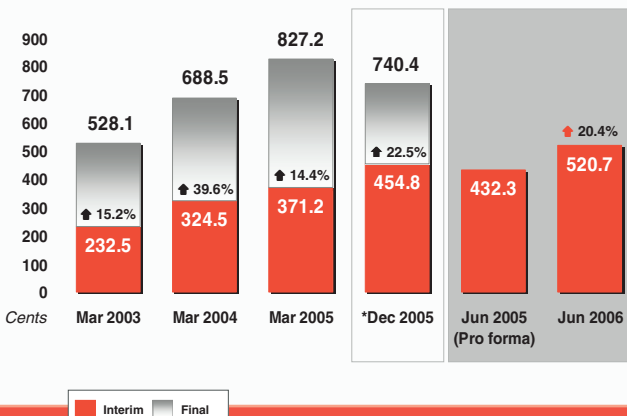
Six months ended 30 June

	2006 (Unaudited) Rm	2005 (Unaudited) (Pro forma) Rm	Change %
Net interest income	7 163	5 588	↑ 28.2
Impairment charge	(594)	(568)	↑ 4.6
Non-interest income	6 600	6 417	↑ 2.9
Operating expenses	(7 936)	(6 824)	↑ 16.3
Taxation	(1 391)	(1 216)	↑ 14.4
Other*	(382)	(570)	↑ 33.0
Headline earnings	3 460	2 827	↑ 22.4
Attributable earnings	3 445	2 934	↑ 17.4

\*Other includes share of associated income, minority shareholders' interest, impairments, indirect tax and headline earnings adjustments

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## Headline earnings per share



Note: The comparative for March 2005 has been restated for International Financial Reporting Standards (IFRS) \*Nine months

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## Business unit performance

Six months ended 30 June 2006

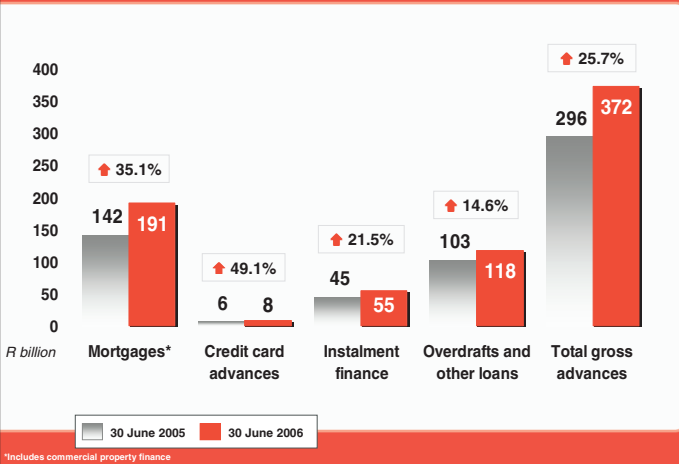
	Attributable earnings Rm	Attributable earnings growth %	Attributable earnings contribution %	**RoE %
■ Retail banking	1 783	24.3	51.8	26.6
– Segment-focused*	661	29.4	19.2	57.4
– Absa Home Loans	461	15.5	13.4	15.2
– Absa Card	287	27.6	8.3	96.1
– AVAF	374	25.1	10.9	16.9
■ Absa Corporate and Business Banking Services	457	57.6	13.3	19.5
■ Absa Capital	617	21.9	17.9	29.0
■ African operations	66	61.0	1.9	26.6
■ Bancassurance	560	(5.4)	16.3	33.0
■ Other	(38)	>(100.0)	(1.2)	n/a
<b>Absa Group</b>	<b>3 445</b>	<b>17.4</b>	<b>100.0</b>	<b>24.7</b>

\*Includes Retail Banking Services and Absa Private Bank

\*\*RoEs are not comparable to those of the previous reporting period owing to a change in the Group's structure and allocation of corporate centre costs and surplus capital

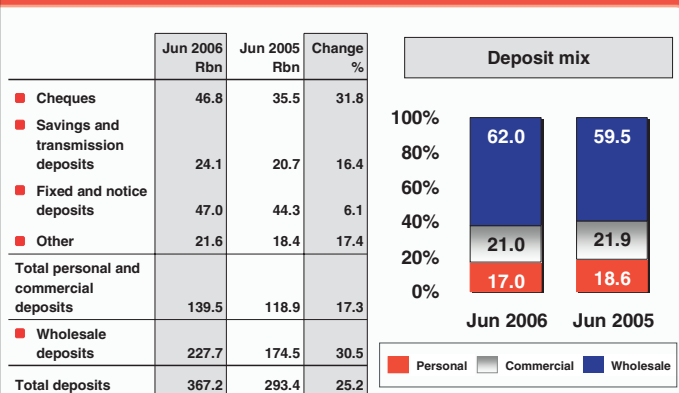
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## Gross loans and advances to customers



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## Deposits due to customers and banks



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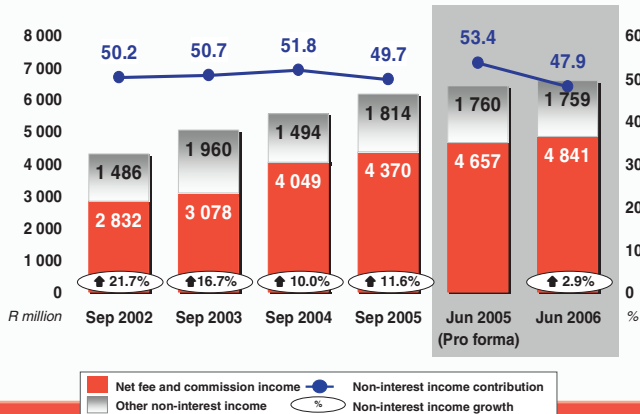
## Change in net interest margin

Percentage	Jan 2006	Apr 2005
<b>Net interest margin – Opening position</b>	<b>3.36</b>	<b>3.25</b>
■ Composition change of deposits and advances	(0.08)	0.00
■ Pricing impact of deposits	(0.02)	(0.07)
■ Pricing impact of advances	(0.00)	(0.06)
■ International and African operations	0.00	0.03
■ Impact on capital	0.05	(0.04)
■ Trading and gross-up of derivatives	(0.03)	0.09
■ Other	(0.01)	0.02
■ Impact of IFRS	0.00	0.10
■ Interest risk strategies	(0.00)	0.04
<b>Net interest margin – Closing position</b>	<b>3.27</b>	<b>3.36</b>
	<b>Jun 2006</b>	<b>Dec 2005</b>

Average prime for nine months ended 31 December 2005 → 10.53% and the six months ended 30 June 2006 → 10.56%

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## Non-interest income



Note: The comparative for September 2004 has been restated for International Financial Reporting Standards (IFRS)

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## Non-interest income

### Credit related and secondary market income growth

	Six months ended 30 June		Change %
	2006 Rm	2005 Rm	
Net fee and commission income	4 841	4 657	4.0
■ Credit cards	632	533	18.6
■ Cheque accounts	1 162	1 046	11.1
■ Electronic banking	1 055	958	10.1
■ Other transaction related fees and commissions	1 254	1 357	(7.6)
■ Net insurance commissions	160	155	3.2
■ Advisory, payment and administration services	578	608	(4.9)
Investment income	629	663	(5.1)
Trading and banking income	461	264	74.6
Net insurance premium income	1 408	1 074	31.1
Net insurance claims and benefits paid	(607)	(487)	(24.6)
Changes in insurance and investment liabilities	(564)	(257)	(119.5)
Property related and sundry income	432	503	(14.1)
<b>Total</b>	<b>6 600</b>	<b>6 417</b>	<b>2.9</b>

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## Credit impairments and provisioning

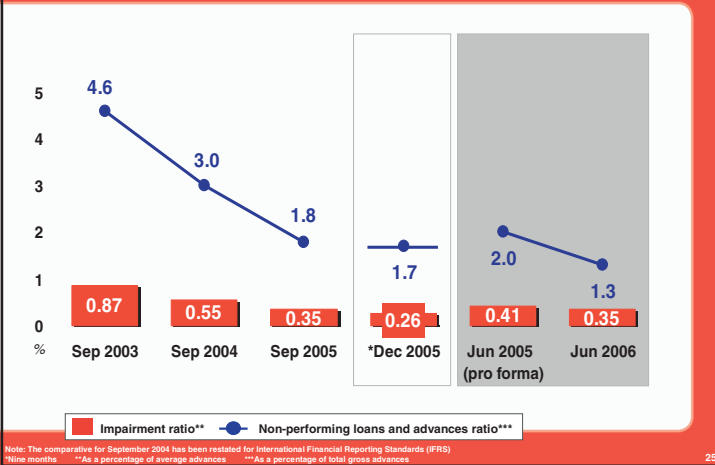
### Per business unit

	Six months ended 30 June			
	2006		2005	
	NPL*	Charge**	NPL*	Charge**
■ Retail banking	1.6	0.39	2.1	0.36
– Absa Private Bank	0.9	0.13	0.9	0.19
– Retail Banking Services***	8.5	1.45	16.3	1.46
– Absa Home Loans	1.3	0.11	1.7	0.11
– Absa Card	3.6	1.86	3.9	1.61
– AVAF	0.9	0.78	0.7	0.63
■ Absa Corporate and Business Banking Services	0.8	0.51	0.9	1.50
■ Absa Capital	0.6	0.04	2.2	(0.55)
■ African operations	3.6	0.71	2.4	1.67
<b>Absa Group</b>	<b>1.3</b>	<b>0.35</b>	<b>2.0</b>	<b>0.41</b>

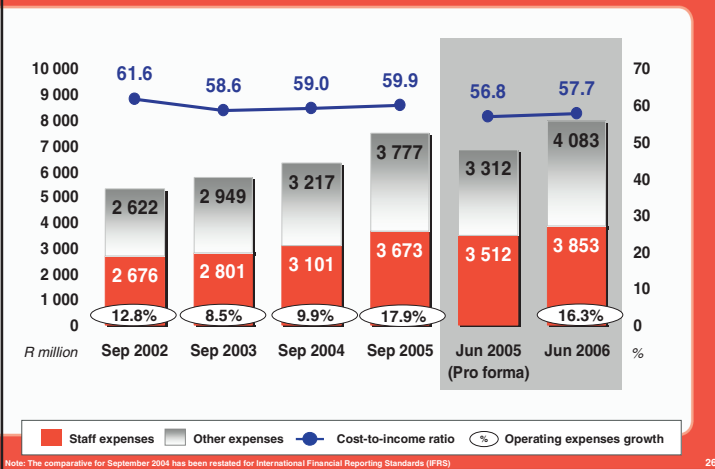
\*As a percentage of total advances    \*\*As a percentage of average advances    \*\*\*Including UB Micro Loans

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## Credit impairment trends



## Operating expenses



## Operating expenses vs top-line revenue

Six months ended 30 June 2006

	Top-line growth %	Cost growth %	Cost-to-income ratio %
■ Retail banking	18.5	16.0	61.9
– Segment-focused*	17.0	14.3	75.4
– Absa Home Loans	16.2	16.2	45.5
– Absa Card	32.7	34.3	46.2
– AVAF	17.6	14.9	46.0
■ Corporate and Business Banking	13.9	15.1	62.5
■ Absa Capital	90.2	20.2	37.0
■ African operations	(18.3)	(31.1)	63.5
■ Bancassurance	(2.1)	11.5	36.2
Absa Group	14.6	16.3	57.7

\*Includes Retail Banking Services and Absa Private Bank

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## Investments facilitating future growth

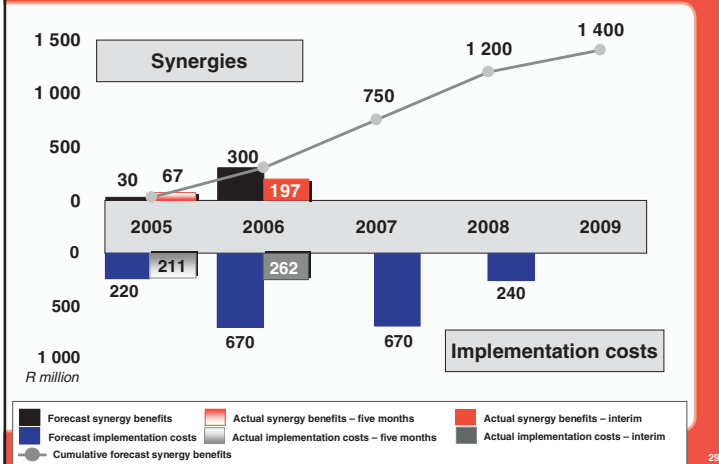
Undertaken for the six months ended 30 June 2006

Growth attributable to:	%
Total operating expenses	16.3
<b>LESS</b>	
■ Barclays related implementation costs	3.8
■ Compliance costs	1.0
■ Infrastructure roll-out	1.0
■ Virgin money	0.6
■ Investment in employee base	2.1
<b>EQUALS</b>	
Core expenses	7.8

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## Barclays related synergies and implementation costs



## Barclays related synergies

### Revenue and cost synergies

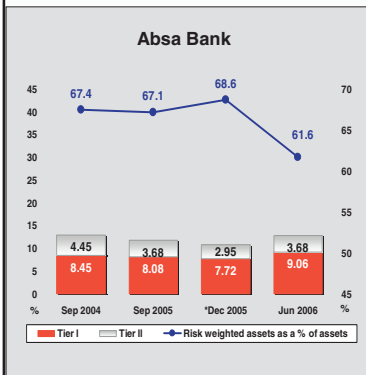
- **The cost-to-revenue split remains 60% revenue uplift and 40% cost efficiencies**
  - Source of revenue synergies
    - Absa Capital – 25%
    - Absa Corporate and Business Banking Services – 25%
    - Retail banking – 25%
    - Absa Card – 15%
    - Other – wealth management, emerging black market and funding
  - Source of cost synergies
    - Sourcing
    - Barclays global best practices (risk and legal)
    - IT and operations

## Barclays related synergies Implementation costs

- Sarbanes-Oxley (expected spend of R200 million to R250 million)
- Upgrading capabilities in Absa Capital, Absa Card and Absa Corporate and Business Banking Services
- Delivering IT and operations benefits
- Renewing platforms across the Barclays operations in Africa (approximately 25% of the total amount and dependent on the timing of the proposed transaction)

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## Absa's capital position



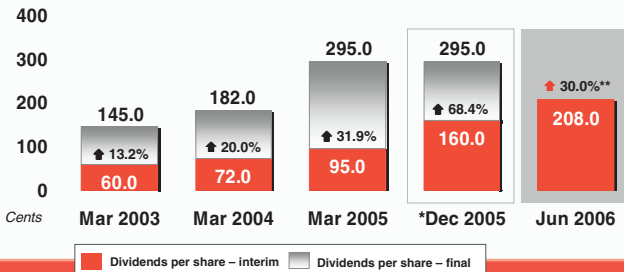
	30 Jun 2006		31 Dec 2005
	%	Rm	%
<b>Absa Bank</b>	12.7	33 078	10.7
■ Tier I	9.0	23 518	7.7
■ Tier II	3.7	9 560	3.0
- Tier II convertible	-	-	-
- Tier II debt	3.3	8 600	2.7
- Tier II regulatory capital reserves**	0.4	960	0.3
<b>Absa Group</b>	12.9		11.3

Note: The comparative for September 2004 has been restated for International Financial Reporting Standards (IFRS)

\*Nine months  
\*\*Includes revaluation reserves and impairments

## Dividends per share and dividend cover

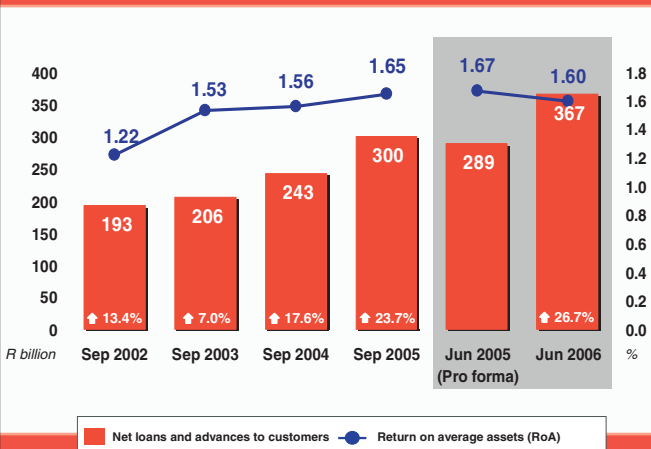
Dividend payout ratio (%)					
Final	29.5	29.2	42.6	47.4	n/a
Interim	25.8	22.5	26.3	36.6	40.1
Capital adequacy ratio (%)					
Bank	11.5	12.3	11.4	10.7	12.7
Group	12.5	13.0	12.0	11.3	12.9



Note: The comparative for March 2005 has been restated for International Financial Reporting Standards (IFRS) \*Nine months \*\*From 30 September 2005

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## RoA and advances growth



Note: The comparative for September 2004 has been restated for International Financial Reporting Standards (IFRS)

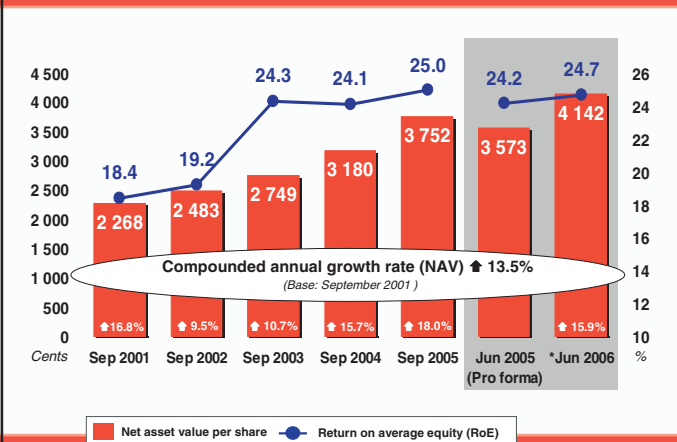
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## RoE decomposition

		Six months ended 30 June	
		2006	2005
		%	%
<b>Headline RoA</b>		<b>1.60</b>	<b>1.67</b>
■ Net interest income		3.27	3.29
■ Non-interest income		3.05	3.78
■ Expenses (including indirect taxes and impairments)		(3.86)	(4.28)
■ Impairment charge		(0.27)	(0.33)
■ Taxation		(0.63)	(0.72)
■ Other		0.04	(0.07)
<b>Leverage</b>		<b>15.4</b>	<b>14.5</b>
<b>Headline RoE</b>		<b>24.7</b>	<b>24.2</b>

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## Shareholder value creation



Note: The comparative for September 2004 has been restated for International Financial Reporting Standards (IFRS)  
\*Excludes the Absa Bank non-cumulative, non-redeemable preference shares

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# ABSA GROUP LIMITED

**STEVE BOOYSEN**

Prospects and key differentiators

Member of the  **BARCLAYS** Group



## Prospects

More challenging operating environment

- **Inflation expected to accelerate → economic growth likely to slow somewhat**
- **Household credit growth expected to decelerate**
  - Slowdown to be evident in mortgages, motor vehicle sales and credit cards
- **Impairment charges to normalise**
- **Infrastructure investment-lead growth**

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## Key market challenges

Increased pressure to deliver

- Consumerism to gather pace
- Low levels of savings in the household sector
- Competitive conditions intensifying
- Regulatory and compliance cost pressures to continue
- Increased pressure to deliver on operational efficiency initiatives

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## Key differentiators

Mitigating factors in a challenging operating environment

- Revenue diversification strategy
- Leveraging off a well established platform
- Delivery on synergy commitments
- Improvement in operational efficiency
- Customer excellence

**Continuing with our journey to pre-eminence in South Africa and the rest of Africa**

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## Our commitments

- |                |  |
|----------------|--|
| Shareholders   | <ul style="list-style-type: none"><li>■ To build the pre-eminent bank in South Africa and the rest of Africa</li><li>■ To deliver sustainable returns over time</li></ul>        |
| Customers      | <ul style="list-style-type: none"><li>■ To empower our customers through increasing choice and education</li></ul>   |
| Employees      | <ul style="list-style-type: none"><li>■ Ensuring that our employees are highly capable, empowered and motivated</li></ul>  |
| Transformation | <ul style="list-style-type: none"><li>■ A business imperative, but also a journey, and not an event</li><li>■ On track to achieve the Financial Sector Charter targets</li></ul> |
| Government     | <ul style="list-style-type: none"><li>■ To align ourselves and our business with national priorities like low-cost housing and skills development</li></ul>                      |

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**The building blocks are in place to deal successfully with an increasingly challenging environment**

Member of the  **BARCLAYS** Group

  
**ABSA**

## Disclaimer

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended and Section 27A of the US Securities Act of 1933, as amended with respect to certain of the plans, current goals and expectations of Absa Group Limited (Absa) relating to its future financial condition and performance. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as "aim", "anticipate", "target", "expect", "estimate", "intend", "plan", "objective", "believe", or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding Absa's future financial position, income growth, impairment charges, business strategy, projected levels of growth in the banking and financial markets, projected costs, estimates of capital expenditures, and plans and objectives for future operation.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances including, but not limited to, the further development of standards and interpretations under International Financial Reporting Standards (IFRS) applicable to past, current and future periods, evolving practices with regard to the interpretation and application of standards under IFRS and pending tax elections with regard to certain subsidiaries, as well as South African domestic and global economic and business conditions, market related risks such as changes in interest rates and exchange rates, the policies and actions of government and regulatory authorities, changes in legislation, the outcome of pending and future litigation, the impact of competition, and Absa's ability to increase earnings per share from acquisitions, which may be affected, among other things, by the ability to realise expected synergies, integrate businesses, and costs associated with the acquisition and integration - a number of which factors are beyond Absa's control. As a result, Absa's actual future results may differ materially from the plans, goals, and expectations set forth in Absa's forward-looking statements.

Any forward-looking statements made by or on behalf of Absa speak only as of the date they are made. Absa does not undertake to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Absa has made or may make in documents it has filed or may file with South African regulatory authorities including its most recent annual report.



## Administrative information

### Controlling company

Absa Group Limited (Registration number: 1986/003934/06)  
JSE share code: ASA  
ISIN: ZAE000067237

### Registered office

3rd Floor, Absa Towers East  
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Telephone: +27 11 350-4000  
Telefax: +27 11 350-4009  
e-mail: groupsec@absa.co.za

### Sponsors

#### Lead sponsor

**Merrill Lynch South Africa (Proprietary) Limited**  
(Registration number 1995/001805/07)  
(Member of the Merrill Lynch Group)  
138 West Street, Sandown, Sandton, 2196

#### Co-sponsor

**Absa Capital**  
Corporate Finance (a division of Absa Bank Limited)  
(Registration number 1986/004794/06)  
3rd Floor, Absa Towers North, 3W2,  
180 Commissioner Street, Johannesburg, 2001

### Transfer secretaries

#### South Africa

**Computershare Investor Services 2004  
(Proprietary) Limited**  
(Registration number 2004/003647/07)  
70 Marshall Street, Johannesburg, 2001  
P O Box 61051, Marshalltown, Johannesburg, 2107

#### ADR depositary

**The Bank of New York**  
101 Barclay Street, 22W, New York, NY10286, USA

### Shareholder contact information

Shareholder and investment queries about the Absa Group should be directed to the following areas:

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e-mail: ir@absa.co.za

#### Group Secretariat

Telephone: +27 11 350-6062  
Telefax: +27 11 350-4009  
e-mail: groupsec@absa.co.za

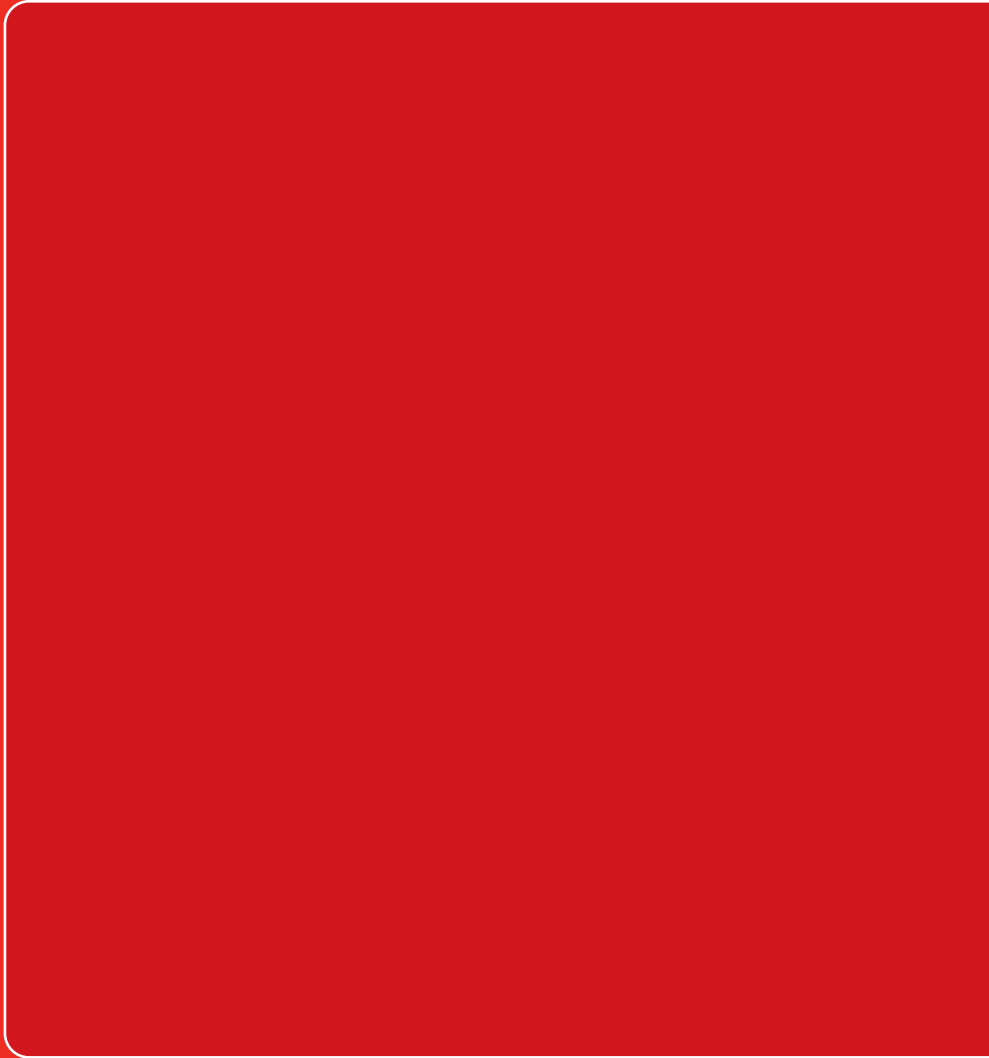
### Other contacts

#### Group Media Relations

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#### Group Finance

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Absa information on  
**[www.absa.co.za](http://www.absa.co.za)**