

# Presentation to the IAS



# Absa Group Limited

Interim financial results

For the six months ended 30 June 2007

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Steve Booysen

*Improving competitiveness*

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## Making the most of a strong market

- Global economic growth continued but uncertainties increased
- Domestic economic expansion remained solid
- Changes in the drivers of growth became evident
- Demand for household credit remained strong
- Increasing inflationary pressures and interest rates
- Increased financial pressure on households – affordability
- More evidence of investment-led growth

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## Financial highlights

- **Headline earnings of R4 365 million (↑ 26%)**
- **Headline earnings per share of 651 cents (↑ 25%)**
- **Attributable earnings of R4 363 million (↑ 27%)**
- **Dividends per share of 240 cents (↑ 15%)**
- **Return on average equity of 26.8%**
- **Cost-to-income ratio of 53.6%**

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## Improving competitiveness by focusing on the basics

- Growing the customer base through enhanced value propositions
- Improving diversity of earnings
- Building a winning team
- Investing in technological improvement to support customer service and efficiencies
- Improving compliance to world-class standards
- Fine-tuning risk management and collection capabilities
- Leveraging our Barclays relationship

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## Retail banking forging ahead

Attributable earnings up 24% to R2 213m  
RoE of 25.5% (2006: 26.6%)

- Extending Absa's franchise by growing our customer base
- Continually expanding our footprint
- Growing in key market segments
- Proactively managing credit risk as the cycle evolves
- Fee increases kept below inflation rate, but volumes growing
- Continuing to invest in improving customer service levels

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## Uplift in corporate and business banking

Attributable earnings up 46% to R740m  
RoE of 29.6% (2006: 21.6%)

- Strong earnings performance
- Improved quality of advances book
- Income diversification strategies gaining momentum
- Leveraging the customer base
- New operating model emphasizing sales and operational efficiency
- Significant synergy value from Barclays

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## Continued growth in Absa Capital

Attributable earnings up 33% to R757m  
RoE of 30.0% (2006: 26.7%)

- Increasing benefit from our unique ‘fully local, fully global’ positioning
- Significant increase in fee-based income in Primary Markets
- Strong performance in Secondary Markets
- Equity Investments building a solid portfolio with results benefiting from harvesting
- Technology rebuild allowing seamless integration with Barclays Capital
- Improving pricing capability, risk management and product development

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## Bancassurance showing promise

Attributable earnings up 34% to R750m  
RoE of 38.4% (2006: 33.0%)

- Solid performance from insurance operations
- Market conditions assisted new business volumes
- Support from strong equity markets
- Re-positioning our investment management business
- Focus on efficiency improvement and customer service
- Boosting and leveraging distribution capacity

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## Re-shaping African operations for the future

Attributable earnings down 21% to R52m  
RoE of 21.0% (2006: 26.6%)

- Portfolio to consist of businesses we control
- Investing in National Bank of Commerce and Banco Austral's retail networks to build growth capacity
- Focused on initiatives to get local management in place

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## More complex demands changing the role of banks

- **Banks supporting national priorities beyond credit and risk**
  - Banks are pivotal in South Africa's growth strategy – AsgiSA
  - Capacity limitations require infrastructure investment
  - Culture of savings and investment now vital
  - Facilitating access to banking for all South Africans
  - Empowerment and transformation to reflect the diversity of our society and improve competitiveness
- **New competitors**
  - New banks
  - New products from non-banks
- **Excellence of South African banking is a national competitive advantage**

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## A changing regulatory environment

- **National Credit Act (NCA) effective from 1 June 2007**
  - Financial services industry likely to lead compliance
  - Impacting application and credit approval processes
- **Competition Commission enquiry**
  - Comprehensive consultation process
  - Appears to be balanced with reference to international practice
  - Report expected by year-end
- **Basel II**
  - Preparation in an advanced stage
  - Improvement in risk management likely to impact pricing
  - Capital position will be moderately strengthened

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## Shifting gears in a different economic environment

- Inflation risks expected to result in continued interest rate pressure
- Household indebtedness and rising credit costs to impact affordability
- Increased investment in infrastructure and manufacturing capacity
- Growth rates to remain healthy, but the drivers of economic expansion in South Africa will change
  - Slowdown in the rate of growth in consumer credit expected
  - Investment-led growth will support corporate and commercial lending and corporate activity

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## Positioned for growth

- Enhancing the diversity of earnings
- Continuing to build the distribution network
- Driving efficiencies to achieve a 50% cost-to-income ratio
- Batho Bonke to exercise options
- Funding mix and maturity profile impacting cost of capital
- Regulatory compliance pressuring resources
- Maintaining a 2.5x dividend cover for the full financial year

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Jacques Schindehütte

Financial overview

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## Group income statement

For the six months ended 30 June

	2007	2006	Change
	Rm	Rm	%
Net interest income	8 577	6 891	↑ 25
Impairment charge	(985)	(594)	↑ 66
Non-interest income	8 411	6 869	↑ 22
Operating expenditure*	9 590	8 356	↑ 15
Taxation	(1 900)	(1 389)	↑ 37
<b>Attributable earnings</b>	<b>4 363</b>	<b>3 445</b>	<b>↑ 27</b>
<b>Headline earnings</b>	<b>4 365</b>	<b>3 460</b>	<b>↑ 26</b>

\*Includes impairments and indirect taxation

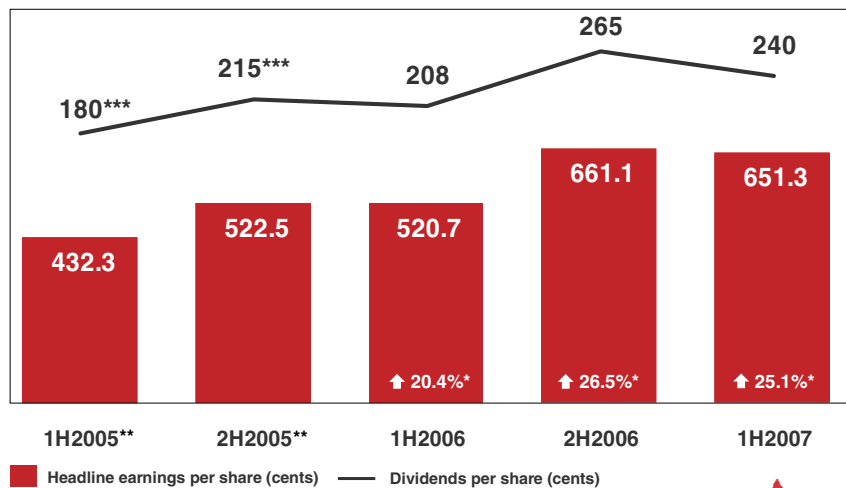
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## Value for shareholders

Cents per share



\*Growth based on comparable six months \*\*Pro-forma figures  
 \*\*\* Dividends recalculated on a six monthly basis (time-based calculation)

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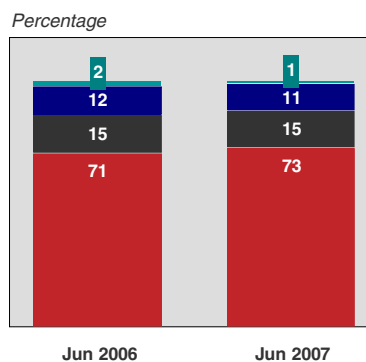


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## Sound advances growth

	Jun 2007 Rbn	YoY change %	Absa's market share* %
Mortgages and CPF**	237	26	32.0
Credit card advances	13	53	25.3
Instalment finance	60	17	23.6
Overdrafts and other loans	111	11	20.5
<b>Total gross advances</b>	<b>421</b>	<b>20</b>	<b>23.8</b>

### Advances mix



■ Retail (%) ■ Absa Corporate and Business Bank (%) ■ Absa Capital (%)  
 ■ Other (%)

\*31 May 2007 \*\*Commercial property finance

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## Interest margins remained stable

<i>Percentage</i>	Jan 2007	Jan 2006
Net interest margin – opening position	3.30	3.27
Abacas* adjustment	(0.01)	–
Net interest margin – adjusted	3.29	3.27
• Composition change of deposits	(0.04)	(0.10)
• Pricing change of deposits (including risk strategies)	0.10	0.10
• Impact of advances	(0.02)	(0.02)
• International and African operations	0.00	0.05
• Impact on capital	0.11	0.09
• Interest-bearing investments	(0.06)	(0.04)
• Investment and trading items	(0.05)	(0.02)
• Other	(0.01)	(0.03)
Net interest margin – closing position	3.32	3.30

Jun 2007 Dec 2006

The average prime overdraft rate was 12.56% from January to June 2007 and 11.13% from January to December 2006

\*Asset Backed Collateralised Securities (Proprietary) Limited

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## Credit impairments – consumers under pressure

<i>Percentage</i>	Six months ended 30 June				Twelve months ended
	2007		2006		31 December 2006
	NPL*	Charge**	NPL*	Charge**	Charge**
• Retail banking	1.7	0.63	1.5	0.38	0.48
– Absa Home Loans	1.9	0.19	1.3	0.11	0.13
– Absa Card	4.0	2.86	2.8	1.86	2.08
– AVAF	1.0	0.98	0.9	0.78	0.80
• ACBB***	0.6	0.17	1.1	0.58	0.67
• Absa Capital	0.1	0.00	0.5	0.05	0.00
<b>Absa Group</b>	<b>1.5</b>	<b>0.49</b>	<b>1.4</b>	<b>0.37</b>	<b>0.44</b>

\*As a percentage of total advances \*\*As a percentage of average advances \*\*\*Absa Corporate and Business Bank

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## Volumes drive growth

For the six months ended 30 June

	2007	2006	Change
	Rm	Rm	%
• Net fee and commission income	5 626	4 805	17
• Investment income	1 084	588	84
• Trading and banking income	930	610	53
• Net insurance premium income	1 653	1 408	17
• Net insurance claims and benefits paid	(778)	(607)	(28)
• Changes in insurance and investment liabilities	(573)	(294)	(95)
• Property related and sundry income	469	359	31
<b>Total non-interest income</b>	<b>8 411</b>	<b>6 869</b>	<b>22</b>

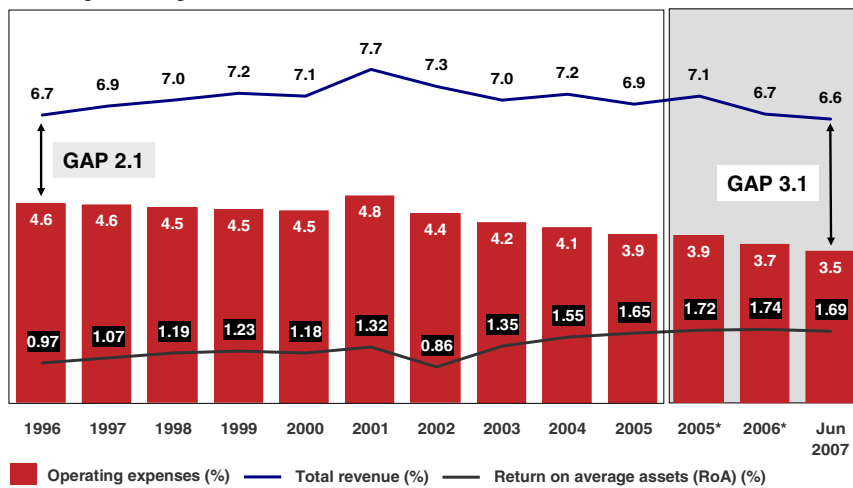
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## Stable asset yields and improved efficiency

Percentage of average assets



\*Year to 31 December

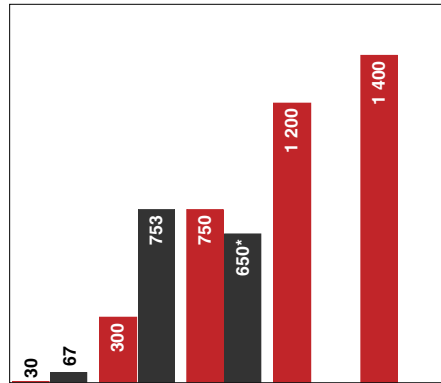
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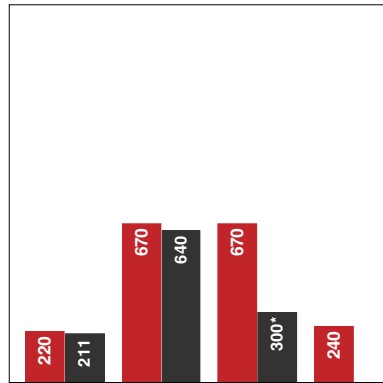
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## Accelerated synergy realisation continues

### Synergies



### Implementation costs



Dec 2005 Dec 2006 Dec 2007 Dec 2008 Dec 2009

Dec 2005 Dec 2006 Dec 2007 Dec 2008

■ Communicated targets (Rm) ■ Actual synergies/Implementation costs (Rm)

\*Six months ended 30 June 2007

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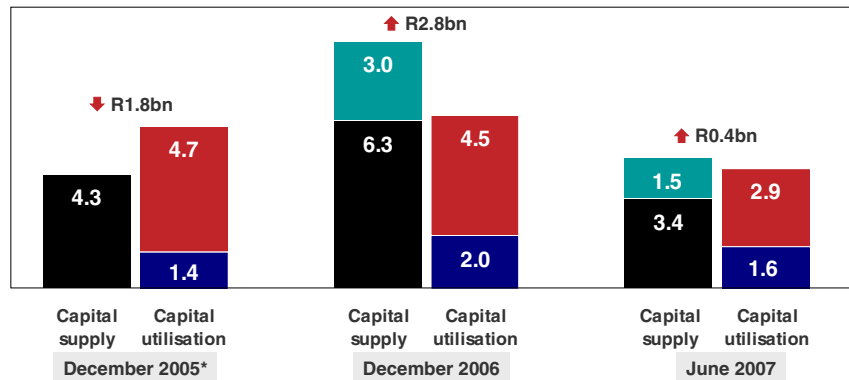


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## Capital management – Absa Bank

Risk-weighted asset growth (%)				
26.8	20.7	22.4		
Capital adequacy (%)				
7.7	9.1	9.3		Tier I
10.7	12.3	12.9		Total

### Tier I capital generation (R billion)



■ Profits (Rbn) ■ Preference shares (Rbn) ■ Capital requirement (Rbn)  
 ■ Dividends (ordinary and preference) (Rbn)

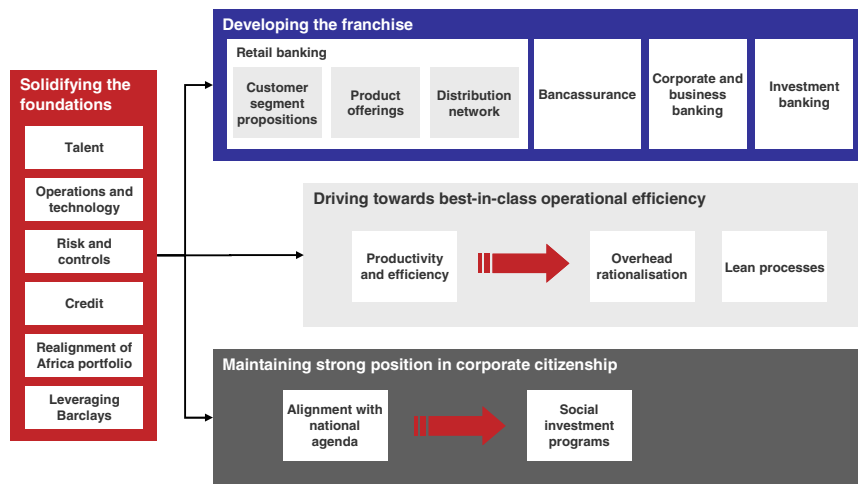
\*Pro forma figures

## Favourable, albeit tougher trading conditions

- Solid progress on all fronts
- Improved diversification
- Synergy target within reach
- Well positioned for market opportunities

*Addendum*

## Executing our strategy to enhance competitiveness



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## Earnings diversification

For the six months ended 30 June 2007

	Attributable earnings	Attributable earnings growth	RoE
	Rm	%	%
• Retail banking	2 213	24	25.5
• Absa Corporate and Business Bank	740	46	29.6
• Absa Capital	757	33	30.0
• African operations	52	(21)	21.0
• Bancassurance	750	34	38.4
• Other	177	20	n/a
• Integration costs	(212)	(14)	
• Preference share dividends	(114)	>(100)	
<b>Absa Group</b>	<b>4 363</b>	<b>27</b>	<b>26.8</b>

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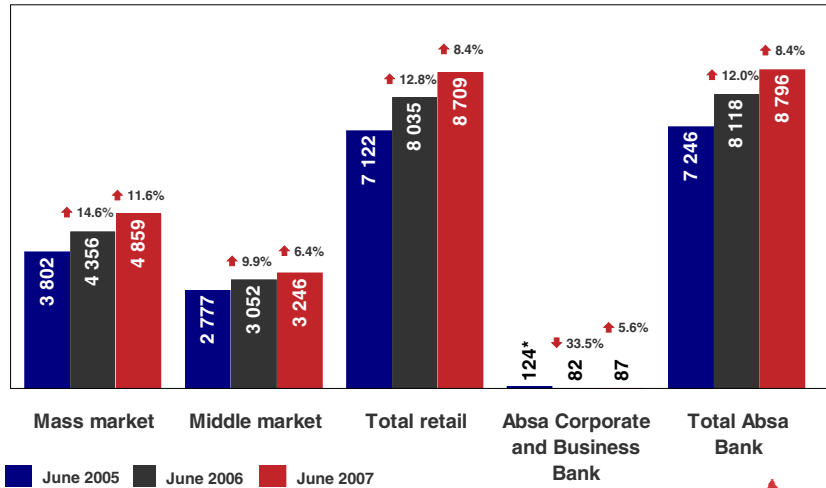


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## Continued growth in the Group's customer base

Thousands



Mass market = Individuals earning up to R60 000 per annum  
 Middle market = Individuals earnings between R60 000 and R500 000 per annum  
 \*A number of business banking customers were migrated to the small business segment during the 2005/2006 period

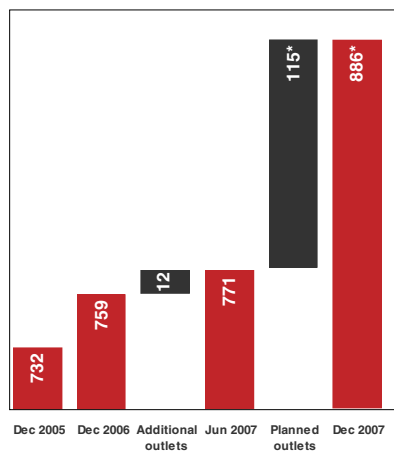
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## Facilitating enhanced access to financial services

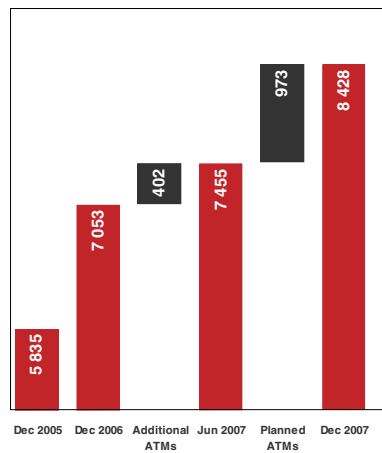
### Outlet network



\*Includes alternative forms of delivery

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### ATM network



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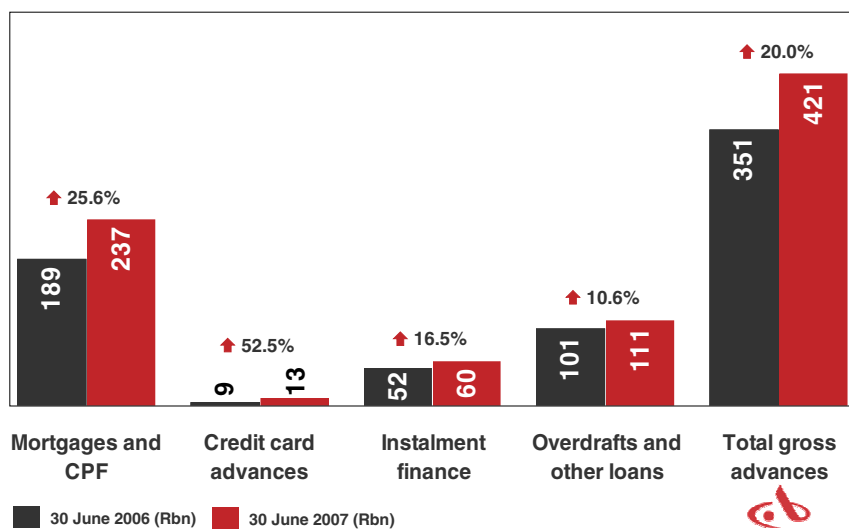
## Strong operational performance from bancassurance

For the six months ended 30 June

Life insurance		2007	2006	Change
				%
• Embedded value	(Rm)	2 328	2 045	14
• Embedded value on new business	(Rm)	142	131	8
• Return on embedded value	(%)	30.3	31.5	
• Net income after tax	(Rm)	308	216	43
Short-term insurance				
• Loss ratio	(%)	61.4	58.7	
• Underwriting margin	(%)	13.6	18.1	
• Net income after tax	(Rm)	247	180	37
Investments				
• Assets under management	(Rbn)	116	88	31

## Gross loans and advances to customers

R billion

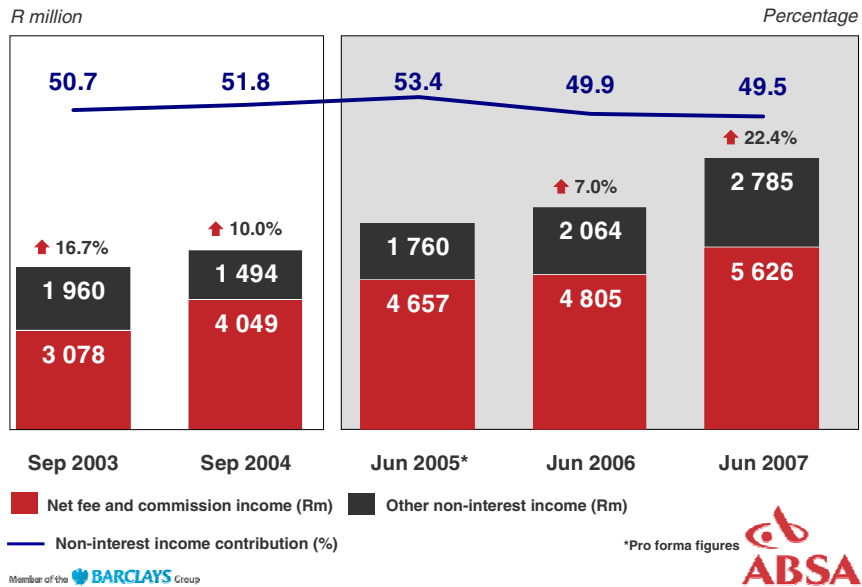


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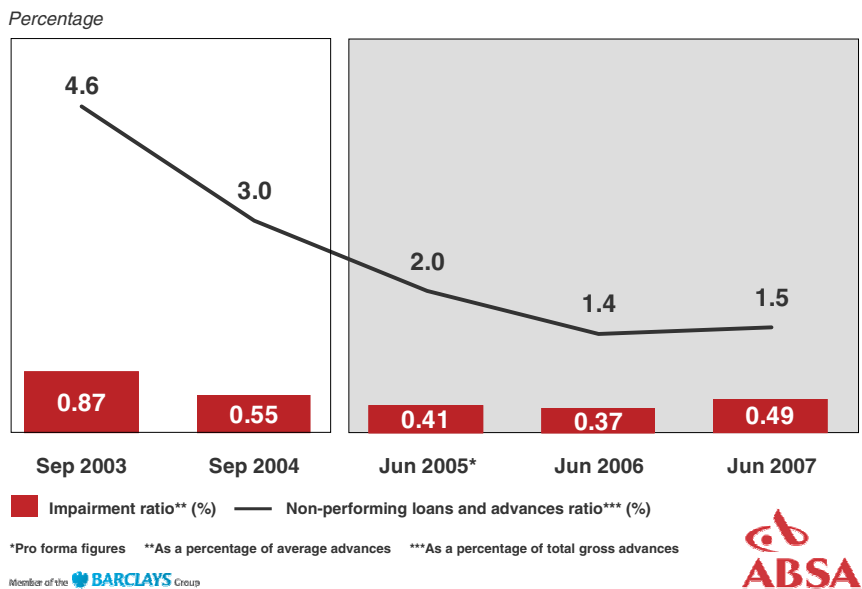
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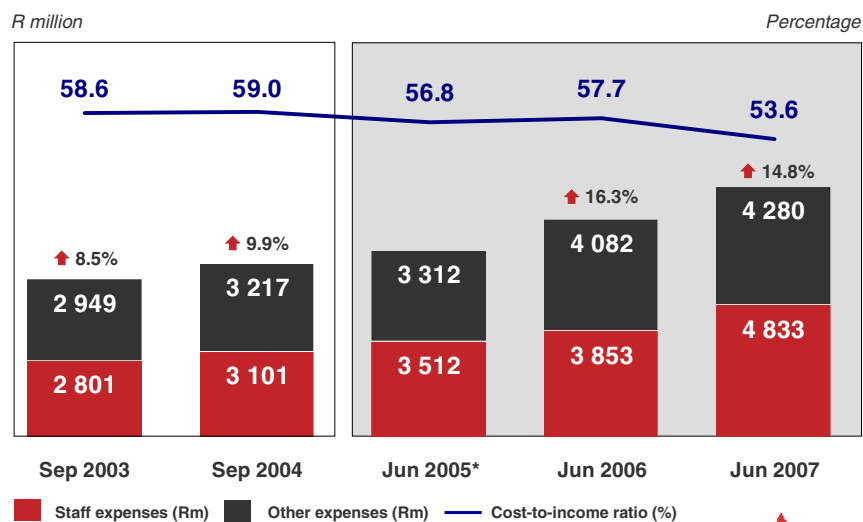
## Non-interest income growth



## Credit impairment trends



## Operating expenses



\*Pro forma figures

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## Operating leverage enhancing growth

For the six months ended 30 June 2007

	Top-line income growth	Operating expenses growth	Cost-to-income ratio
	%	%	%
• Retail banking	22	14	57.8
– Segment focused business units*	25	14	70.2
– Absa Home Loans	17	9	39.8
– Absa Card	25	19	44.1
– Absa Vehicle and Asset Finance	16	12	44.1
• Absa Corporate and Business Bank	22	19	58.6
• Absa Capital	30	31	35.7
• African operations	37	26	58.5
• Bancassurance	26	20	34.4
<b>Absa Group</b>	<b>24</b>	<b>15</b>	<b>53.6</b>

\*Includes Retail Banking Services and Absa Private Bank

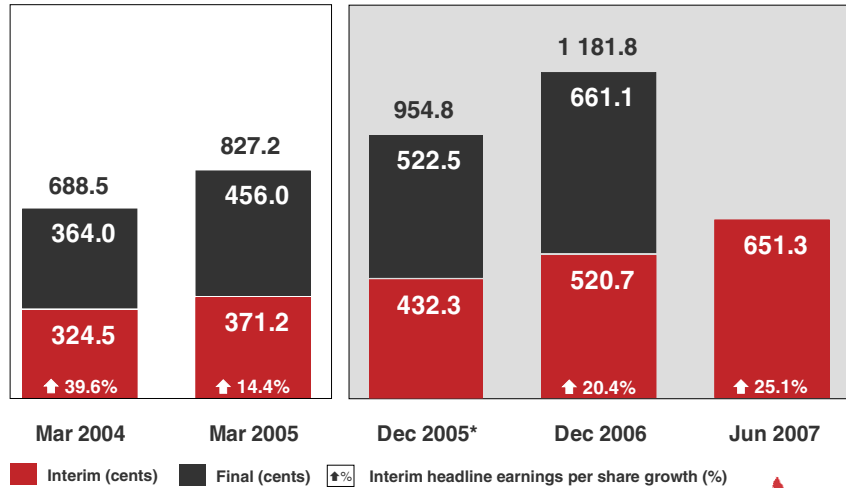
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## Headline earnings per share

Cents per share



\*Pro forma figures

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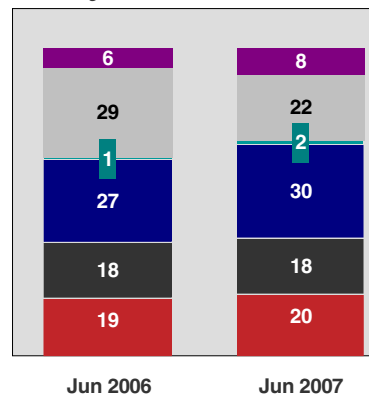
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## Total funding

	Jun 2007	Jun 2006	Change %
	Rbn	Rbn	%
Cheque deposits	63	53	19
Savings and transmission deposits	30	23	28
Fixed and notice deposits	53	47	13
Other deposits	18	19	(5)
<b>Total retail and ACBB deposits</b>	<b>164</b>	<b>142</b>	<b>15</b>
Absa Capital's deposits	121	111	9
Other deposits	6	5	8
<b>Total deposits due to customers</b>	<b>291</b>	<b>258</b>	<b>13</b>
Deposits from banks	24	30	(20)
Debt securities in issue	131	79	66
<b>Total funding</b>	<b>446</b>	<b>367</b>	<b>22</b>

### Funding mix

Percentage



■ Retail (%)    
 ■ Absa Corporate and Business Bank (%)    
 ■ Absa Capital (%)  
■ Other deposits (%)    
 ■ Debt securities in issue (%)    
 ■ Deposits from banks (%)

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