

# Absa Group Limited

Financial results  
For the six months ended 30 June 2009

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# Agenda

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- Financial Overview Jacques Schindehütte
- Retail Bank and Commercial Bank Louis von Zeuner
- Absa Financial Services Willie Lategan
- Absa Capital and Absa Wealth John Vitalo
- Outlook Maria Ramos

# Financial Overview

Jacques Schindehütte  
Group Financial Director

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## Financial highlights

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- Headline earnings of R3,8 billion (↓ 19%)
- Attributable earnings of R3,3bn (↓ 39%)
- Diluted headline earnings per share of 551 cents (↓ 17%)
- Dividends per share of 225 cents
- Net asset value per share of 6 762 cents (↑ 16%)
- Return on equity of 16.4%
- Tier 1 capital ratio of 11.5%

# Group income statement

	2009 Rm	2008 Rm	Change %
Net interest income	10 772	10 565	↑ 2
Non-interest income	10 209	9 683	↑ 5
Top line income	20 981	20 248	↑ 4
Operating expenditure	(10 210)	(10 498)	↓ 3
Profit before impairments	10 771	9 750	↑ 10
Credit impairment charge	(4 834)	(2 178)	↑ 122
Other impairment charge	(1 179)	-	↑ >100
Taxation	(1 138)	(1 995)	↓ 43
Attributable earnings	3 272	5 335	↓ 39
Headline earnings	3 826	4 731	↓ 19

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# Cluster performance

	Earnings Rm	Earnings growth %	Earnings composition %	RoE <sup>2</sup> %
Retail banking	1 336	↓ 31	41	12
ACBB	1 098	↑ 3	33	17
Absa Capital <sup>1</sup>	129	↓ 87	4	
• Headline earnings	917	↓ 10	28	18
• SSF impairment	(788)		(24)	
Bancassurance	672	↓ 5	21	38
Corporate centre	37	↓ 94	1	–
Absa Group	3 272	↓ 39	100	16

1. Includes Absa Wealth.

2. Based on headline earnings.

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# Margins under pressure

	Group (bps)
Advances	2
<ul style="list-style-type: none"><li>• Change in client rates</li></ul>	2
<ul style="list-style-type: none"><li>• Change in composition</li></ul>	11
<ul style="list-style-type: none"><li>• Interest suspended</li></ul>	(11)
Deposits	(14)
<ul style="list-style-type: none"><li>• Client pricing</li></ul>	(9)
<ul style="list-style-type: none"><li>• Change in composition</li></ul>	(5)
Endowment / reset risk	(15)
Change in margin on interest bearing assets	(27)

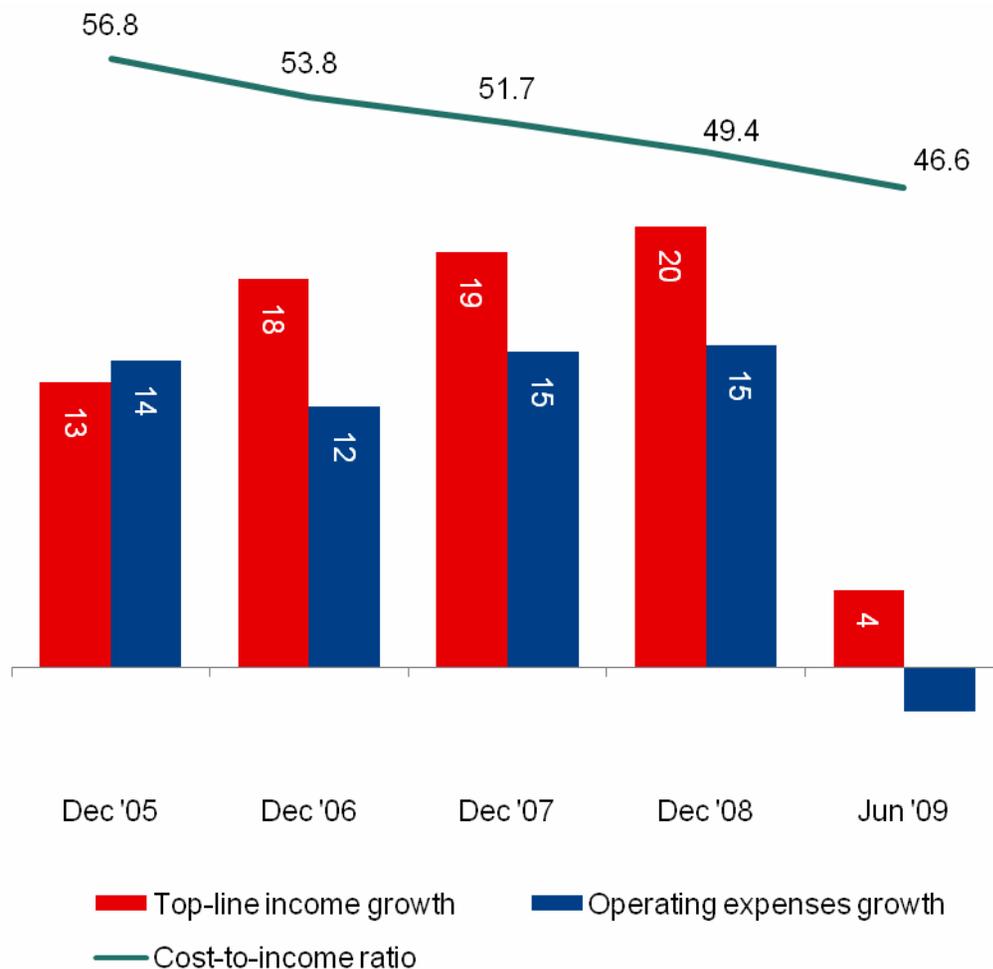
# Non-interest income

	2009 Rm	Growth <sup>3</sup> %	Composition %
Net fees and commission	6 903	↑ 15	68
• Cheque accounts	1 606	↑ 10	16
• Credit card	889	↑ 18	9
• Electronic banking	1 633	↑ 18	16
• Savings accounts	1 098	↑ 9	11
• Insurance and other income	1 013	↑ 26	10
• Other fees net of commissions paid	664	↑ 9	6
Other non-interest income	3 306	↓ 10	32
Total non-interest income	10 209	↑ 5	100

# Credit impairment charge continues to rise

	Impairment charge			NPL s June 2009		
	June 2009 Rm	Change June 2008 %	Change Dec 2008 %	NPL ratio %	NPL coverage ratio %	Loss ratio %
Retail banking	4 204	↑ 110	↑ 19	9.2	26.9	2.52
• Home Loans	2 073	↑ 143	↑ 22	9.8	16.4	1.86
• Vehicle/asset finance	678	↑ 67	↓ 12	6.5	49.6	2.88
• Credit cards	761	↑ 185	↑ 50	13.4	63.7	8.41
• Personal loans	537	↑ 28	↓ 6	8.3	87.4	12.41
• Transactional products	155	↑ 161	↑ >999	7.3	33.5	0.86
Commercial banking	524	↑ 198	↑ 372	2.5	56.1	0.90
Investment banking	120	↑ >999	↑ >999	0.8	19.7	0.34
Total <sup>4</sup>	4 834	↑ 122	↑ 32	6.6	29.3	1.86

# Improved cost efficiency



- Employment costs
  - Staff numbers down by 3 100 (8%) since June 2008
  - Contractors down by 3 005
  - Incentive provisions reduced
- Tactical interventions
  - Discretionary spend reduced
  - Projects delayed
  - Marketing cost down 25%
- Franchise protected
  - Information technology cost up 27%
  - Risk and control strengthened

# Capital position

Absa Group	RWA Rbn	Economic capital Rbn
Credit risk	304	32
<ul style="list-style-type: none"> <li>• Retail</li> <li>• ACBB</li> <li>• Absa Capital</li> <li>• Wealth</li> <li>• Africa and other assets</li> </ul>	129	16
	80	8
	56	3
	7	1
	32	4
Operational risk	49	4
Market risk	8	1
Equity risk	31	6
Insurance risk	-	1
Business risk	-	1
<b>Total</b>	<b>392</b>	<b>45</b>

Capital adequacy	Bank %	Group %	Target %
Core Tier I	9.5	10.3	8.0
Tier I	10.8	11.5	10.0
Tier II	2.9	2.4	
<b>Total</b>	<b>13.7</b>	<b>13.9</b>	<b>13.0</b>

Absa Group capital generation	Rbn
Profit for the period	3.6
Growth in RWA	(1.1)
Dividends	(2.4)
<b>Free cash flow</b>	<b>0.1</b>

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# Resilient performance in tough conditions

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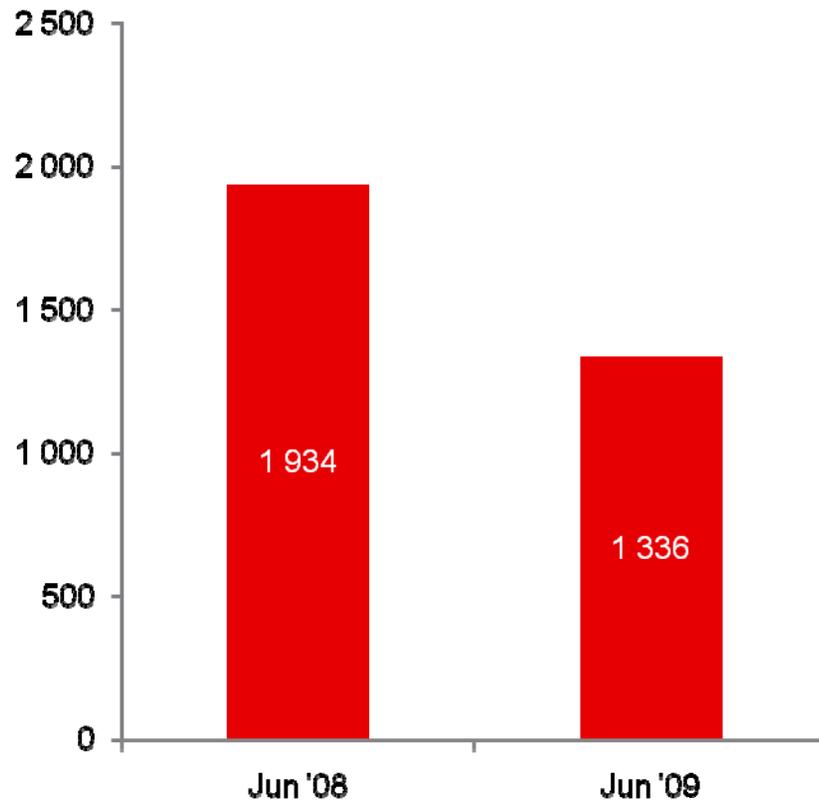
- Diversified franchise protects earnings
  - Fee and commission income
  - Secondary markets
  - Robust Bancassurance model
- Retail impairments nearing its peak
- Commercial impairments set to rise
- Cost flex balanced with investment for future

# Retail Bank Overview

Louis von Zeuner  
Chief Executive

# Key highlights

Attributable earnings (Rm)



- Revenue of R12,9 billion (↑ 11.3%)
- Attributable earnings of R1,3 billion (↓ 30.9%)
- Sharp rise in impairments of 110.0%
- Cost to income ratio improves to 51.5%
- Customer numbers growing
- Improved structure of balance sheet

# No1 in market share for deposits and advances

Gross Loans and Advances	(Rm)	June 2009	June 2008	Change %	Market share <sup>5</sup>
Mortgage loans		251 458	238 955	5	→ 1
Vehicle finance		43 557	48 008	(9)	↓ 3
Card advances <sup>6</sup>		19 973	14 471	38	→ 2
Personal loans		15 607	13 770	13	→ 2
Total net loans and advances	(Rm)	331 853	321 925	3	→ 1
Deposits due to customers	(Rm)	128 296	112 915	14	→ 1

5. Market share per BA900 May 09

6. Purchase of Woolworths Financial Services effective 1 October 2008

## Growth from unsecured lending

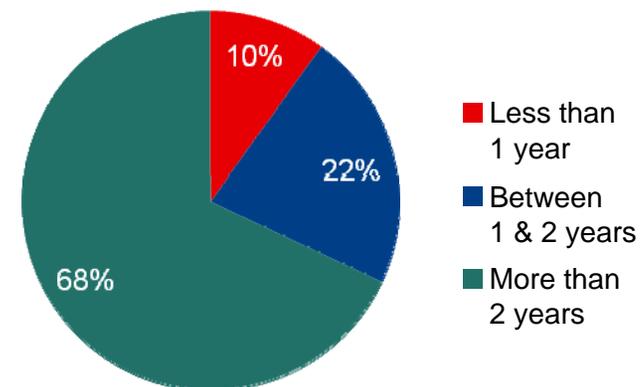
Total income (Rm)	June 2009	June 2008	Change %
Secured			
• Home loans	1 597	1 968	(19)
• AVAF	1 164	1 251	(7)
Unsecured			
• Card <sup>7</sup>	2 096	1 296	62
• Personal loans	860	614	40
Retail Bank	7 156	6 443	11
<b>Total</b>	<b>12 873</b>	<b>11 572</b>	<b>11</b>

- Core business showed healthy growth
- Secured lending as expected – under pressure
- Strong performance in unsecured lending
- Retail Bank recorded strong growth due to rising deposits and transaction volumes
- Customer base and transactional activity continue to grow

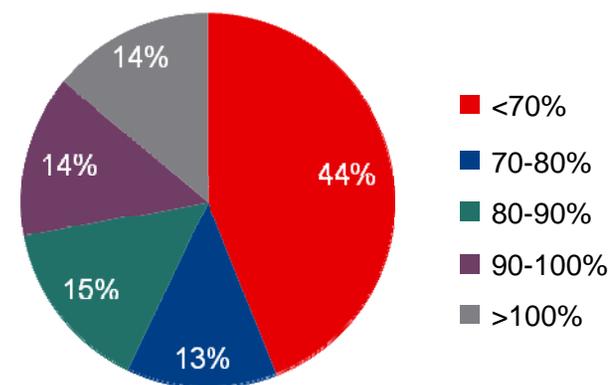
# Impairment levels continue to rise

Impairment ratio	June 2009	June 2008	Change %
Secured			
• Home loans	1.86	0.81	130
• AVAF	2.88	1.57	83
Unsecured			
• Card <sup>8</sup>	8.41	4.46	89
• Personal loans	12.41	9.46	31
Retail Bank	0.86	0.35	146
<b>Total</b>	<b>2.52</b>	<b>1.27</b>	<b>98</b>

AHL age Analysis (Jun '09)



AHL Loan to Value (Jun '09)



# Proactive cost management delivering results

Cost-to-income ratio	June 2009	June 2008	Change %
Secured			
• Home loans	31.7	34.3	(8)
• AVAF	37.1	39.7	(7)
Unsecured			
• Card <sup>10</sup>	39.3	49.3	(20)
• Personal loans	41.4	84.3	(51)
Other business units <sup>9</sup>	63.0	65.5	(4)
<b>Total</b>	<b>51.5</b>	<b>56.6</b>	<b>(8)</b>

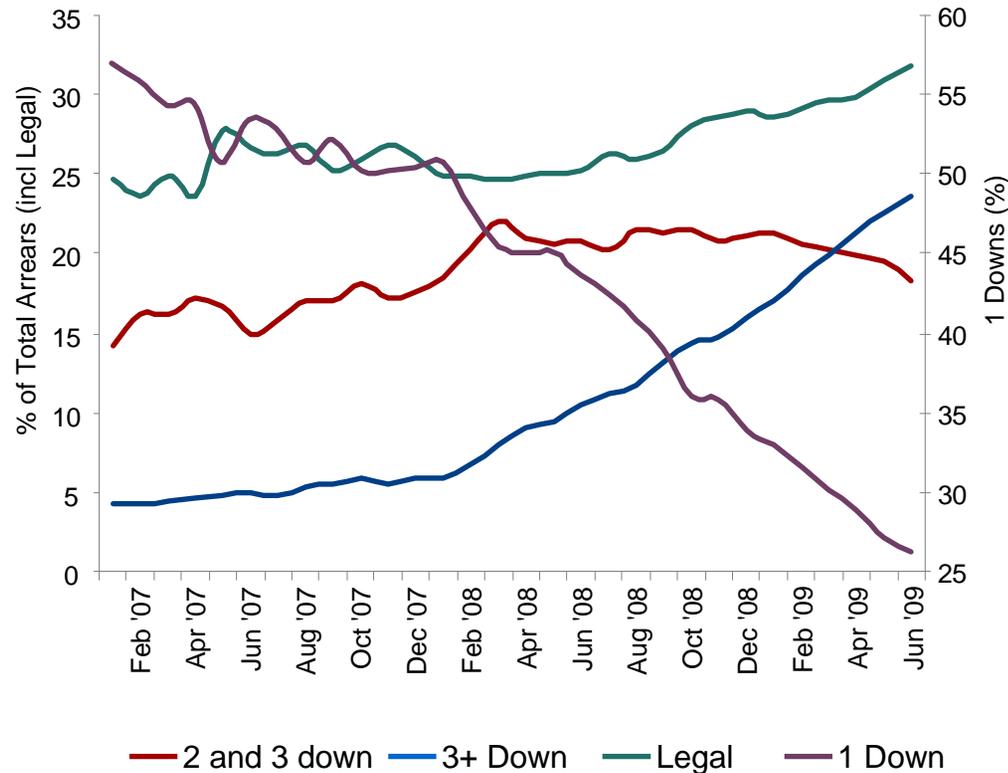
- Retail bank operating costs (↑ 1.8%)
- Excluding WFS operating costs (↓ 2.5%)
- Staff numbers declined through effective resource management
- Tight control of all discretionary spend

9. Other business units include Transactional & Deposits, Small business, Digital, Ventures & Innovations and Head office.

10. Purchase of Woolworths Financial Services effective 1 October 2008

# Delinquencies – early buckets showing signs of improvements

Total arrears (incl Legal) construct of keys portfolios

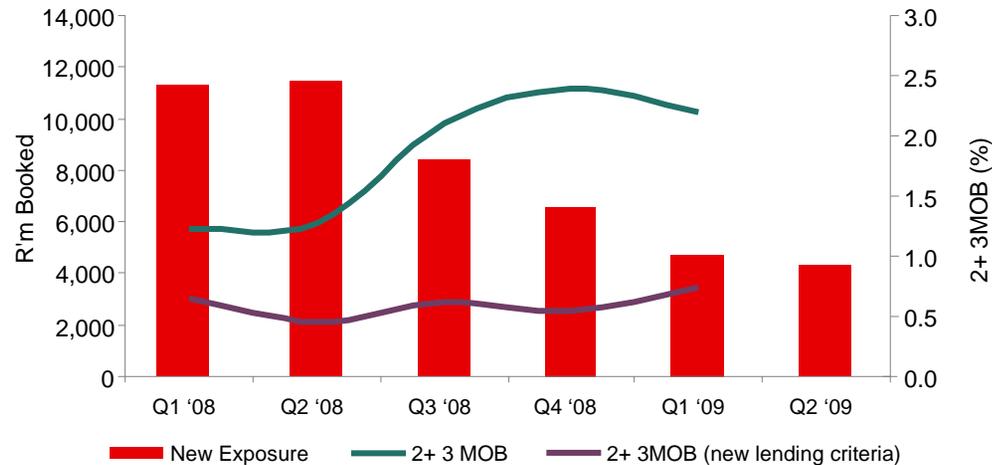


- Stability evident in early delinquents
- Tightening of lending criteria delivers results
- Debt counselling has a negative impact on late stage delinquents
- Collections process effective after building capacity
- In-house counselling showing results
- Legal book increasing

# Sustainability of improved business remains key

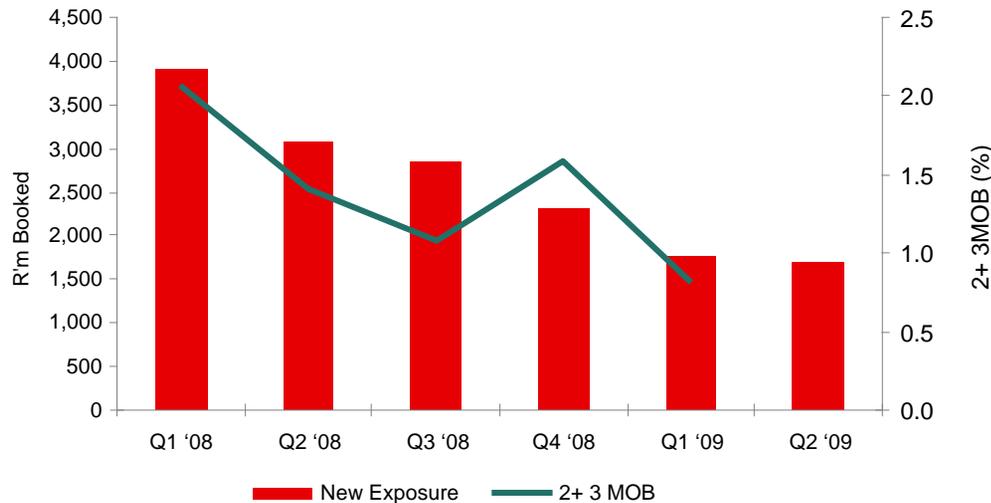
## Home Loans

### New Performance Trends



## AVAF Retail

### New Booked Performance Trends



- Move from volume to value evident
- Vintages show improvement
- Increased life time value and increased return on capital
- Stress testing confirm quality of new business
- Able to extend lending in certain risk segments
- Objective of secured : unsecured business mix remains
- Activity of used vehicle market benefitting business

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## Strategic focus

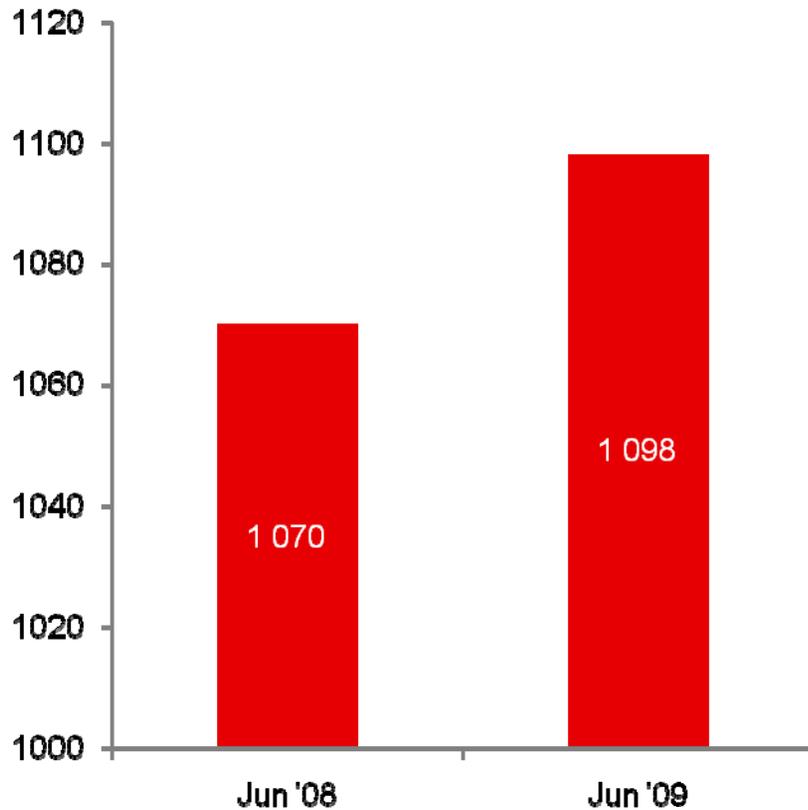
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- No further deterioration in market will mean impairments may peak in Q4
- Grow business in segments with acceptable risk profile
- Continue with collections and consumer support as cycle improves
- Continue with disciplined cost management
- Grow non-interest through cross sell and product innovation
- Customer service
- Well prepared for growth post the cycle
  - Customer base
  - Brand
  - Distribution footprint
  - People
  - Innovative solutions

# Commercial Bank Overview

# Key highlights

Attributable earnings (Rm)



- Attributable earnings of R 1 098m (↑ 2.6%)
- Revenue of R4 215m (↑ 12%)
- Strong deposit growth (↑ 17%)
- Transaction volumes continue to rise (↑ 12%)
- Rise in impairment ratio to 0.9%
- Cost to income ratio improves from 54% to 50%

## Deposits continue to grow

Gross Loans and advances by main product	June 2009 Rm	June 2008 Rm	Change %
Cheques	20 919	18 292	↑ 14
Specialised Funding Solutions	9 387	7 309	↑ 28
Commercial Asset Finance	22 383	22 869	↓ 2
Commercial Property Finance	42 548	36 803	↑ 15
Other	25 818	25 375	↑ 2
Total gross loans and advances	121 055	110 648	↑ 9
Deposits due to customers	102 551	87 567	↑ 17

## Strong growth in non-interest income

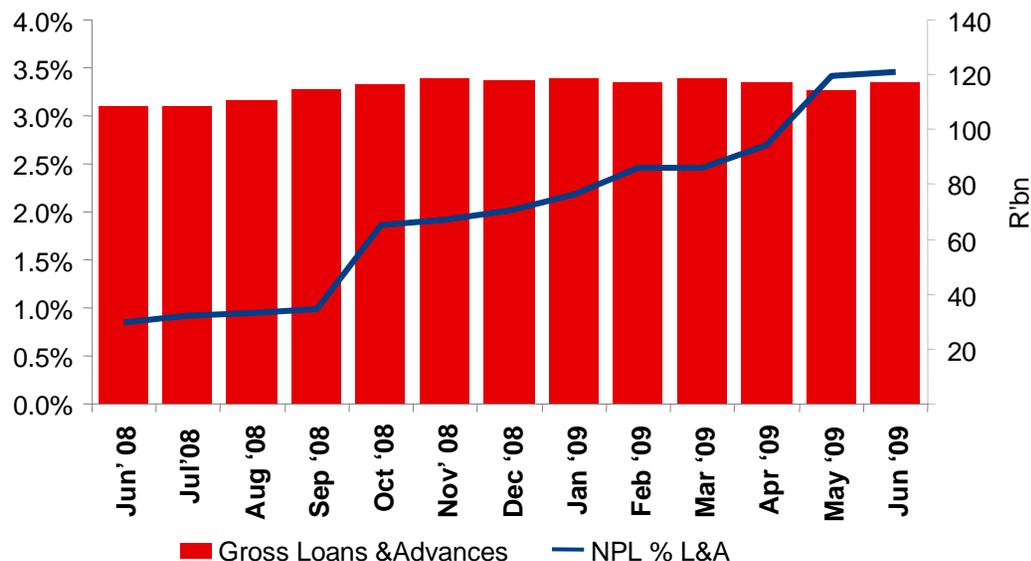
Non-interest income categories (Rm)	June 2009	June 2008	Change %
Electronic banking fees	297	244	↑ 22
CPF equities	(67)	(259)	↑ 74
DevCo	30	44	↓ 32
Other	1 163	1 023	↑ 14
<b>Total</b>	<b>1 423</b>	<b>1 052</b>	<b>↑ 35</b>

- Electronic banking fees up 22 %
- Property market conditions adversely impacting on Devco sales
- Market volatility impacting negatively on CPF listed equity values
- Growth in customers and banking high value deals
- Decrease in our CPF and specfin fees

# Impairments rise

Credit impairment ratio's	June 2009 %	June 2008 %
Total ACBB	0.90	0.36
Commercial Asset Finance	0.96	1.00
Commercial Property Finance	0.78	0.49

Non performing loans as % of average loans and advances



- The mining, transport ,retail, and real estate industries are taking strain.
- Stricter lending criteria implemented
- Impairments driven by commercial defaults and downward pressure on asset and commercial property values

## Cost initiatives implemented reaping rewards

Main cost categories	June 2009 Rm	June 2008 Rm	Change %
Staff costs	686	777	↓ 12
Marketing costs	30	46	↓ 35
Travel & entertainment	27	47	↓ 12
Professional fees	20	24	↓ 16
Other	1 324	1 149	↑ 15
<b>Total</b>	<b>2 087</b>	<b>2 043</b>	<b>↑ 2</b>
Cost-to-income ratio	50%	54%	↓
Staff compliment	3 359	3 565	↓

- Total costs (↑ 2%)
- Staff numbers declined by 206 due to natural attrition as well as reductions in CPF and CAF
- Reduced incentive provisions
- Reduced travel and entertainment cost due to aggressive cost management
- Review of all sponsorships, campaigns and other marketing activities

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## Strategic focus

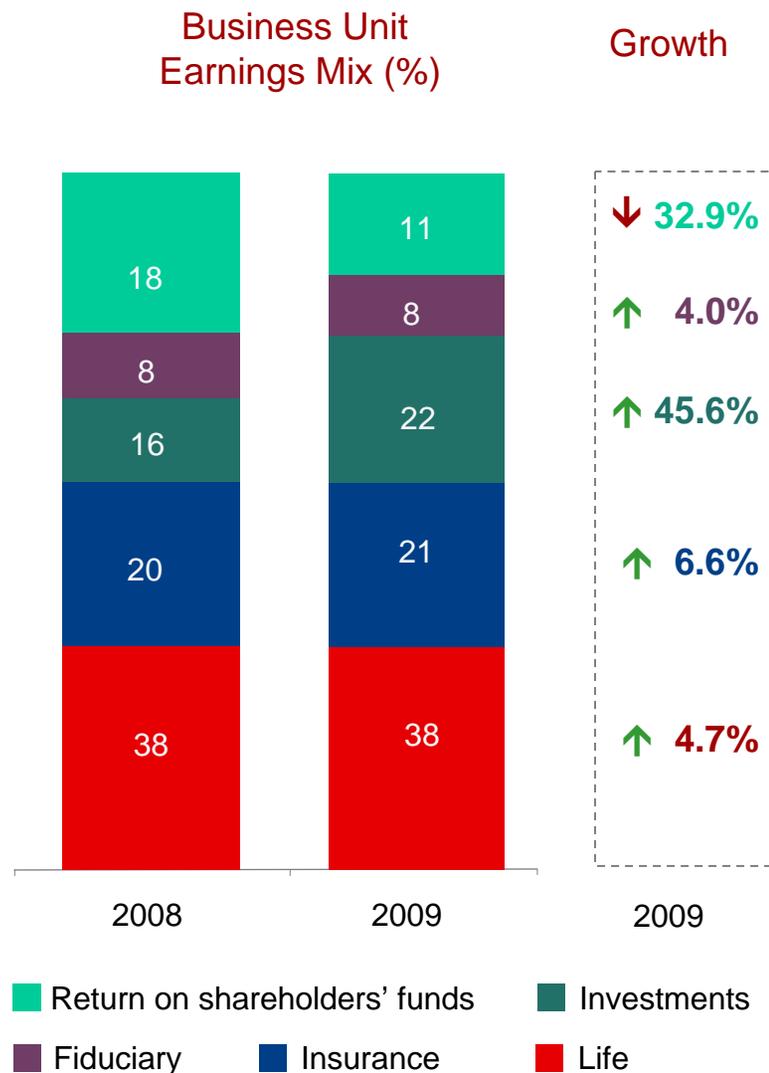
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- Continue with the focus in non-interest income growth
- Our full banking proposition allows us to now establish our selves as primary bankers
- Increase the contribution of Markets revenue
- Continue to focus and improve the electronic banking solutions
- Deepen share of customer wallet
- Continue successful growth in agriculture, public sector and PPP finance
- Risk management
- Excellent relationship management

# Absa Financial Services

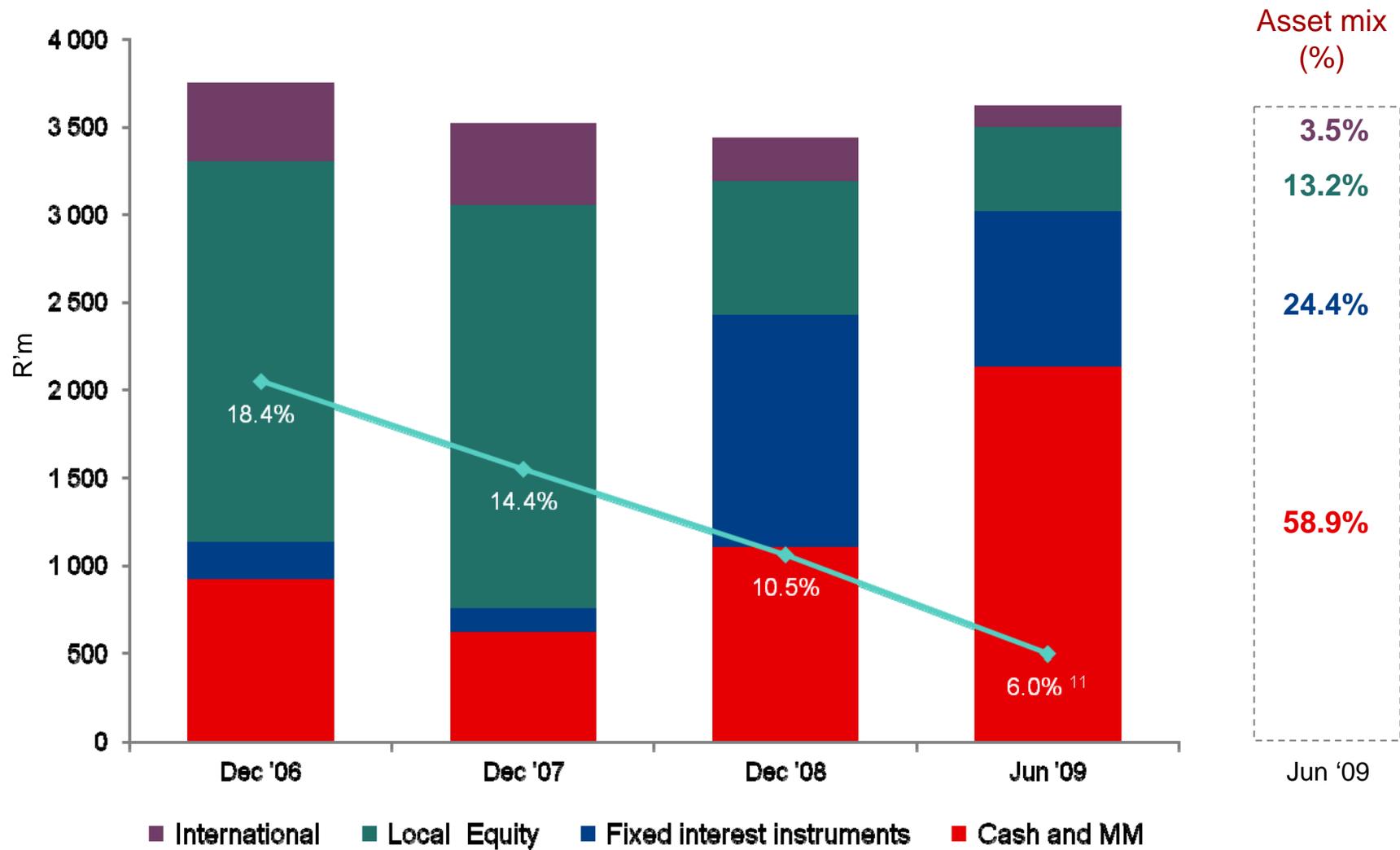
Willie Lategan  
Chief Executive

# Financial highlights



- Attributable earnings of R672m (↓ 4.8%)
- Operational earnings (↑ 8.5%)
- Absa Investments : Total net inflows of R25 bn (↑ R24 bn)
- Absa Life : Embedded value of new business at R164m (1H08 : R135m) (↑ 21.5%)
- Absa Insurance : Underwriting profit of R148m (1H08 : R135m) (↑ 9.6%)
- Return on Equity (ROE) of 38.3% (1H08: 43.5%) (↓ 5.2%)

# Return on shareholders funds



# Absa Investments posted excellent results

Investments	Rbn	June 2009	June 2008	Change %
Net Inflows ex MM		20.9	3.2	↑ 17.7
Retail		2.7	1.2	↑ 1.5
Institutional		18.2	2.0	↑ 16.2
Money market		4.2	(2.2)	↑ 6.4
Total net inflows		25.1	1.0	↑ 24.1
Net assets under management		143.7	116.8	↑ 26.9
Cost-to-income ratio	%	43	55	

- Operating income of R204m (↑ 45.6%)
- Significant asset management and administration mandates secured
- Net margin of 32.8bps (1H08: 25.3 bps) (↑ 7.5bps)
- AUM Money market Non-Money market split of 40:60 (1H08: 47:53)
- Top quartile performers over 1, 2 and 3 years

# Absa Life maintaining superior returns

Life insurance		June 2009	June 2008	Change %
Gross premium income	Rm	619	562	↑ 10.1
Net operating income	Rm	358	342	↑ 4.7
Embedded value of new business	Rm	164	135	↑ 21.5
Return on embedded value	%	14.7	22.1	↓ 7.4
CAR ratio		3.6	3.6	Target 2.5x

- Continued diversification of the product range to stand alone risk products
- Protection solutions for the entry level market performing well
- Retention under strain in all business lines
- Embedded value earnings of R149 million (↓ 31.8%)

# Absa Insurance performance resilient

Short-term insurance		June 2009	June 2008	Change %
Gross premium income	Rm	1 358	1 257	↑ 8.0
Underwriting profit	Rm	148	135	↑ 9.6
Underwriting margin	%	11.6	11.5	↑ 0.1
Solvency margin	%	76.8	78.4	Target 60%

- Increased uptake of idirect – 2 000 policies per month
- Retention efforts successful
- Good underwriting performance in crop insurance
- Forex Travel insurance launched – A first in South Africa

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## Strategic focus

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- Leveraging the Group's infrastructure
- Improving cross sell ratios into the customer base
- Diversification of income streams and
- Customer and asset retention

# Absa Capital and Absa Wealth Overview

John Vitalo  
Chief Executive

# Absa Capital and Absa Wealth

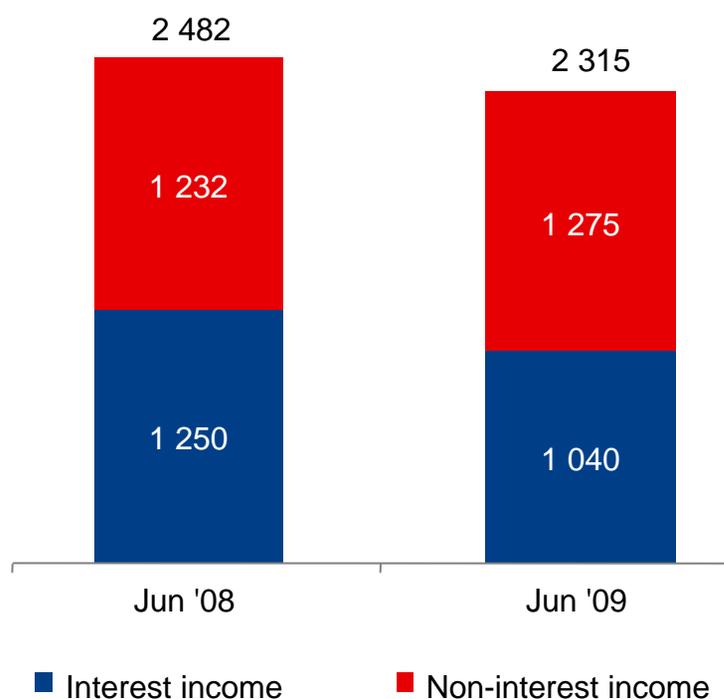
Absa Capital				Absa Wealth
Markets	Investment Banking	Private Equity & Infrastructure Investments	Centre	Private Banking and Investment Management
<ul style="list-style-type: none"><li>• Fixed income and credit</li><li>• Sub-Saharan Africa</li><li>• Foreign Exchange</li><li>• Equity and Commodities</li><li>• Prime Services &amp; Other</li></ul>	<ul style="list-style-type: none"><li>• Debt Financing Products</li><li>• Equity Financing Products</li><li>• Advisory</li></ul>	<ul style="list-style-type: none"><li>• Private Equity</li><li>• Infrastructure Investments</li></ul>	<ul style="list-style-type: none"><li>• Legacy SSF positions</li></ul>	<ul style="list-style-type: none"><li>• Onshore and offshore wealth management services</li><li>• Advisory, fiduciary, banking, credit, risk and investments</li></ul>

# Absa Capital and Absa Wealth

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# Key highlights

## Revenue gross of impairments (Rm)



- Revenue (gross of impairments) of R2,3 billion (↓ 7%)
- Attributable earnings of R0,1 billion (↓ 87%)
- Headline earnings of R0,9 billion (↓ 10%)
- Headline Earnings CAGR H1 2006 – H1 2009 22%
- Attributable earnings adversely affected by R1,1 billion pre-tax impairment in legacy SSF equity positions
- Contribution to Group attributable earnings of 4% (H1 08 contribution: 19%)

## Material impairments of legacy SSF equity positions were incurred in the period

### Shares acquired as a result of SSF defaults

Share Name	% Holding	Cost (Rm)	Impairment (Rm)	Carrying value at 30 June (Rm)	Accounting basis
Pinnacle Point Group	28	931	931	0	Equity accounted
Blue Financial Services	22	452	136	316	Equity accounted <sup>12</sup>
Sekunjalo Investments	26	71	0	71	Equity accounted <sup>13</sup>
ConvergeNet Holdings	10	86	28	58	Available for sale
Total		1 540	1 095	445	

12. Blue Financial Services is accounted for as an associate following the acquisition of additional shares (previously held as available for sale)

13. The Sekunjalo holding includes the 17% acquired as a result of the SSF defaults in addition to the 9% stake already held by ACBB

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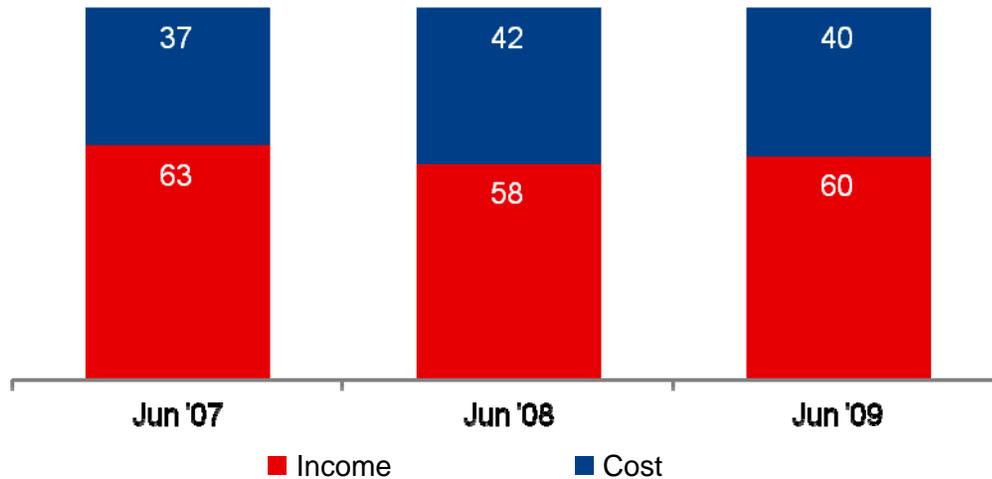
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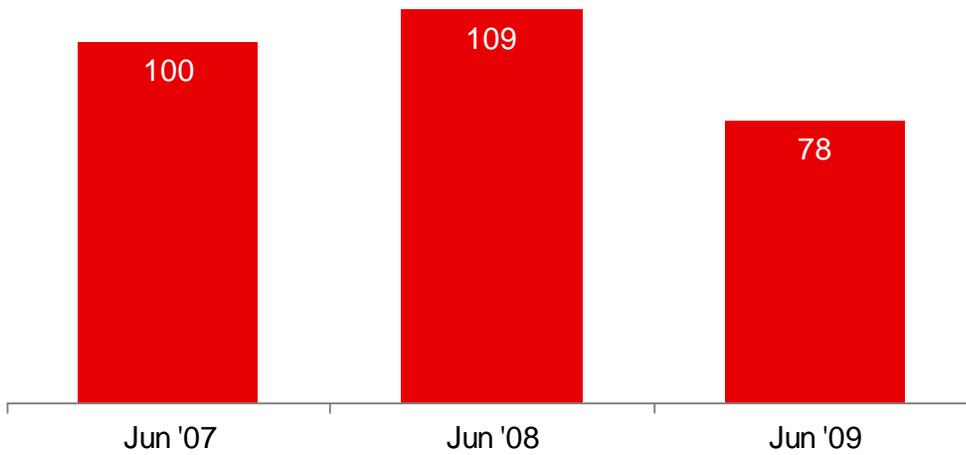
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# Strong focus on cost management

Cost-to-income ratio (%)



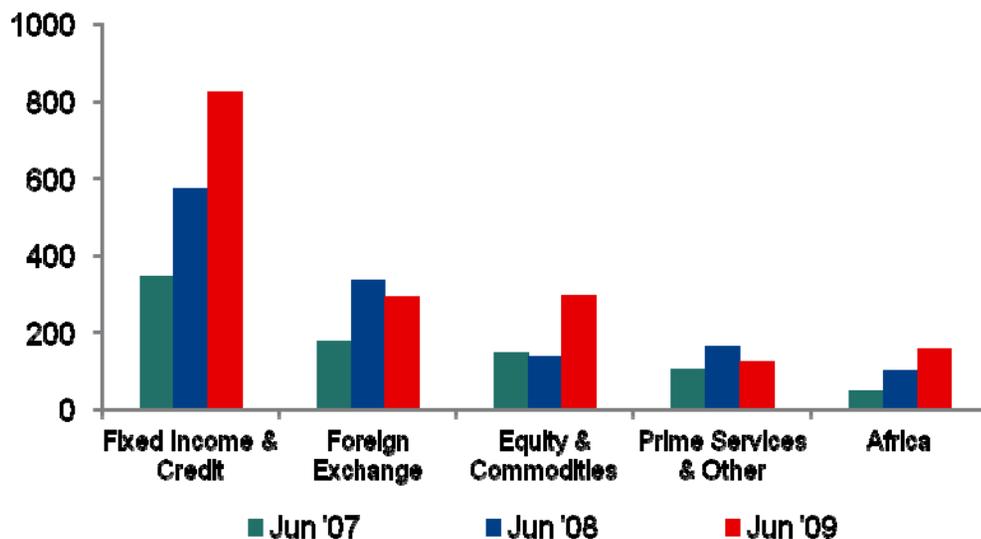
Headline earnings per average head  
Indexed to 100



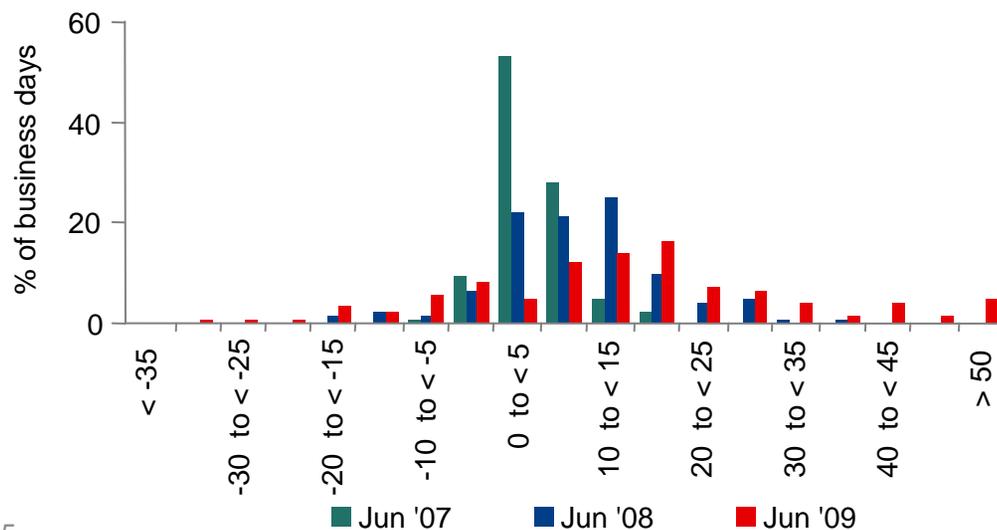
- Business continues to have a strong focus on cost management
- Pro-actively manage the cost base in line with the economic climate and revenue conditions
- Productivity per head adversely affected by Private Equity

# Markets continued to grow revenue

P&L distribution per significant product (Rm)



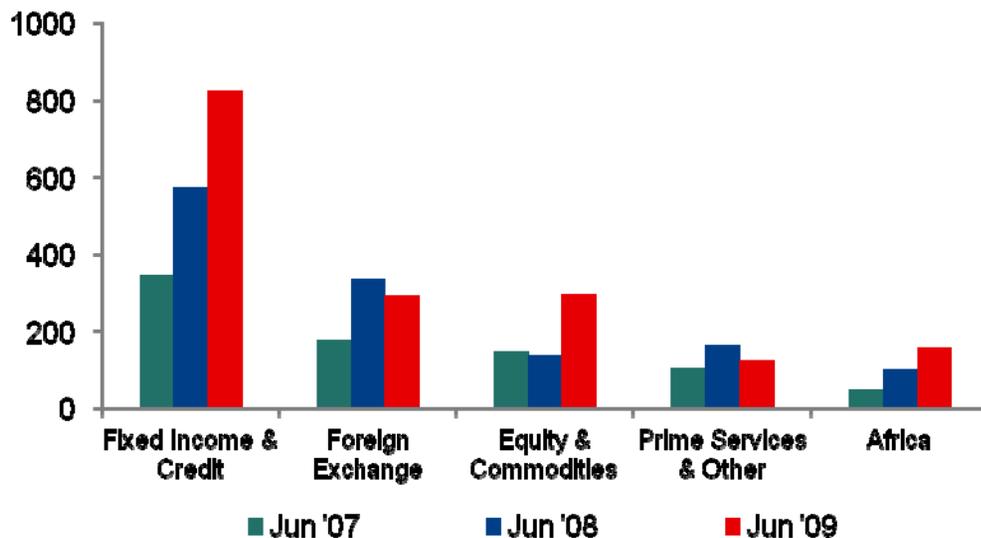
P&L distribution (Rm)



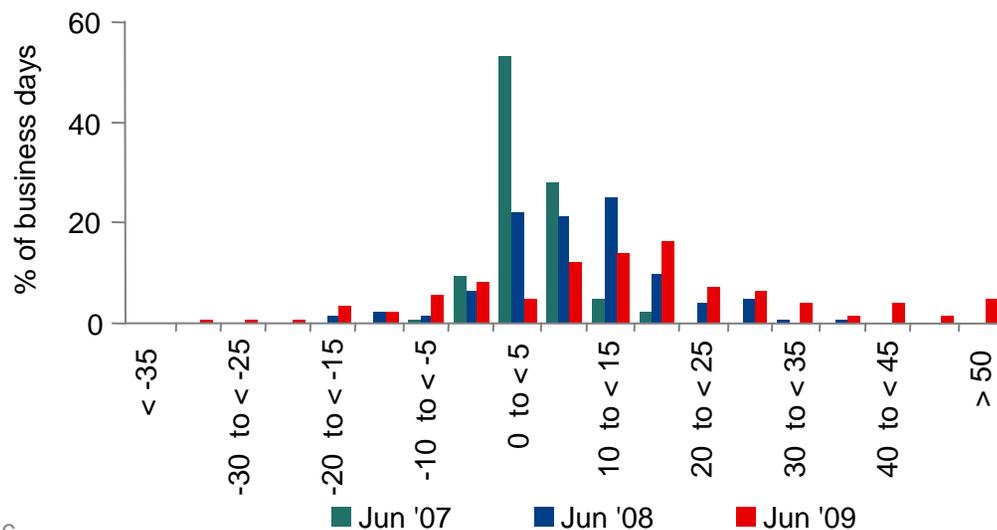
- Revenue growth of 30% (net of impairments)
- P&L distribution has continued to shift to the right (increased number of days with higher positive P&L)
- Performance driven by:
  - Increasing the number of substantial risk management transactions facilitated
  - Effective positioning and interest rate risk management through the interest rate cutting cycle
- Foreign exchange revenues impacted by lower levels of economic activity

# Markets continued to grow revenue

P&L distribution per significant product (Rm)



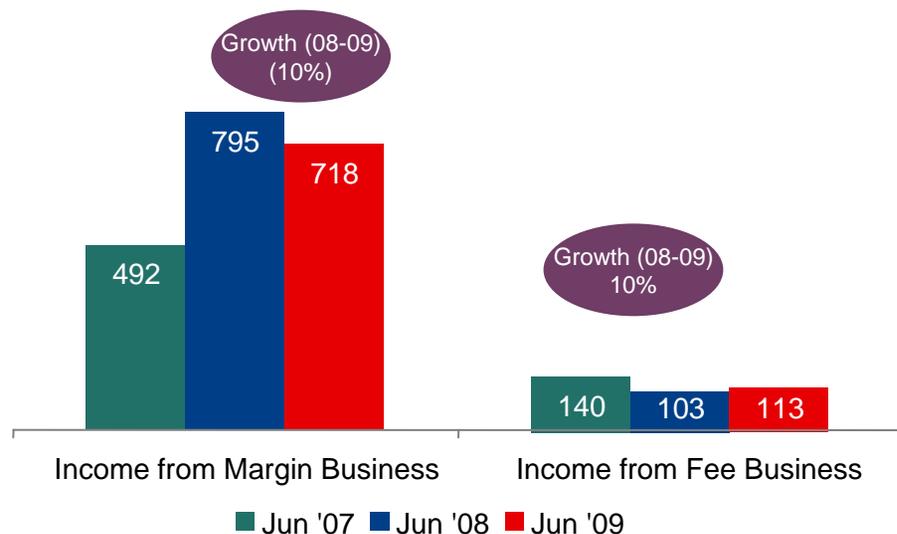
P&L distribution (Rm)



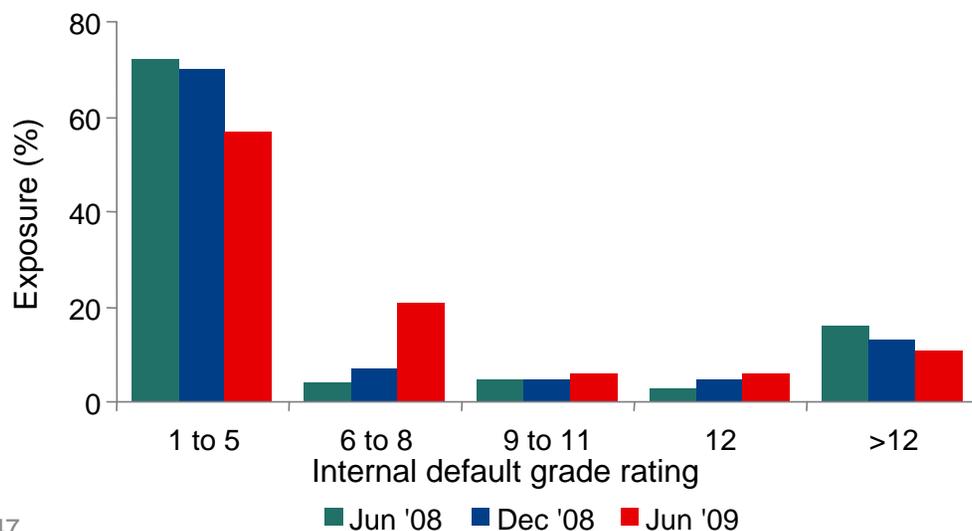
- Revenue growth of 30% (net of impairments)
- P&L distribution has continued to shift to the right (increased number of days with higher positive P&L)
- Performance driven by:
  - Increasing the number of substantial risk management transactions facilitated
  - Effective positioning and interest rate risk management through the interest rate cutting cycle
- Foreign exchange revenues impacted by lower levels of economic activity

# Investment banking revenue marginally lower

Revenue mix (net of impairments) (Rm)



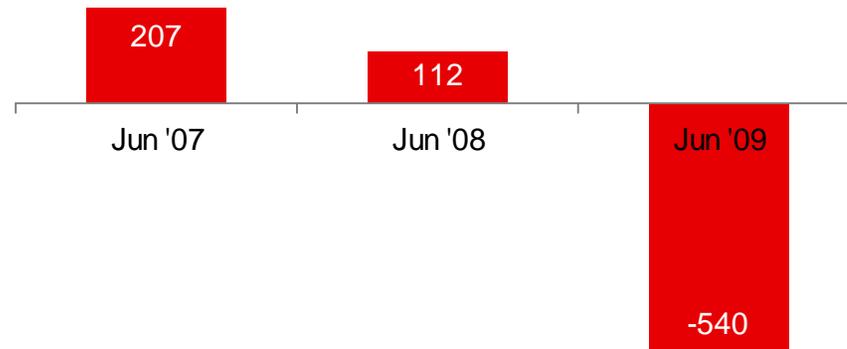
Quality of assets



- Revenue down 8%
- Strong pipeline for future growth
- Growth experienced in lower risk fee business, while margin business decreased
- Margin business lower mainly due to unidentified impairments raised against the loan book
- Migration in the number of loans from high quality default grade categories to lower grades

# Difficult conditions for Private Equity and Infrastructure Investments

Revenue (net of impairments) (Rm)



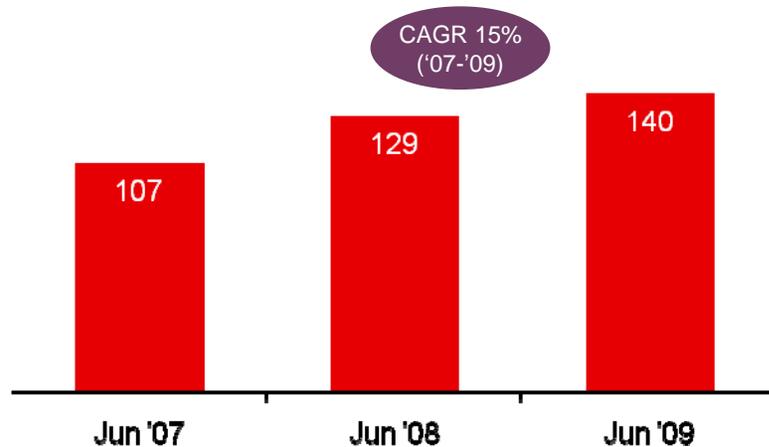
Revenue breakdown (Rm)

	2007	2008	2009
Revaluations	36	235	(223)
Realisations, Dividends and Interest	247	124	30
Funding	(76)	(247)	(347)
<b>Total revenue</b>	<b>207</b>	<b>112</b>	<b>(540)</b>

- Performance under pressure because of:
  - Higher funding costs with no realisations
  - The global recession which negatively impacted the performance and valuation of investments
  - Depressed listed equity markets which impacted valuations
  - Longer timelines for raising the semi-captive private equity fund, resulting in increased funding costs
- Followed consistent and robust valuation process

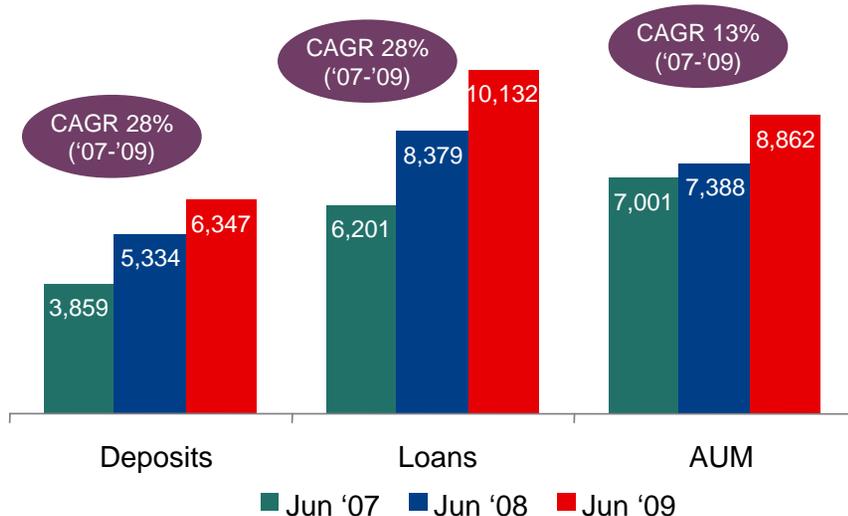
# Absa Wealth continuing to grow revenue and customer balances

Revenue growth (net of impairments) (Rm)



- Revenue growth of 9% reflects:
  - broad based growth in customer balances
  - improving lending margins
  - an increase in impairment charges as economic conditions have worsened
- We continue to invest in talent, product capability and infrastructure to support the future growth of the business

Total customer balances (Rm)



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# Strategic focus

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## Absa Capital

- Grow the client franchise and increase risk management penetration
- Continue to invest in support infrastructure and robust controls
- Be the employer of choice for top talent
- Increase collaboration with other Absa business units to increase share of client wallet
- Grow Sub-Saharan Africa business

## Absa Wealth

- Deliver proprietary advice tools and package bespoke investment solutions
- Leverage the Barclays Wealth offshore proposition
- Launch of the Absa Wealth brand
- Build our support infrastructure and robust controls

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# Outlook

Maria Ramos  
Group Chief Executive

# Outlook

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# Outlook

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- Macro economy unlikely to record positive growth
- Household consumption to remain strained
- Deleveraging of the consumer to continue
- Financial markets are expected to remain fragile
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- Customer service and support
- Balance between risk management and growth
- Improving efficiency while investing for the future
- Leveraging the franchise for deposit and transaction income growth
- Retention and motivation of top talent

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# Strategic framework

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Targeted growth in economic value

Balance sheet optimisation and proactive risk management

Simple and streamlined Group for *customer delivery*

Customer, people, centric organisation

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# Questions

# Addendum

# Bancassurance

Life Insurance		June 2009	June 2008	Change %	
Embedded value	Rm	2 114	1 711	↑	23.6
Embedded value earnings	Rm	149	219	↓	31.8
Net operating income	Rm	358	342	↑	4.7
Net income after tax	Rm	266	300	↓	11.3

## Short-term Insurance

Loss ratio	%	64.2	62.4	↑	1.8
Combined ratio	%	88.4	88.5	↓	0.1
Net operating income	Rm	195	183	↑	6.6
Net income after tax	Rm	186	214	↓	13.1

# Bancassurance

Investments		June 2009	June 2008	Change %
Net flows (total)	Rm	25 048	983	↑ >100
Net flows (non - money market)	Rm	20 893	3 229	↑ >100
Net operating income	Rm	204	140	↑ 45.6
Net income after tax	Rm	150	104	↑ 44.2

## Fiduciary

Assets under management – Trust	Rbn	5 203	5 845	↓ 10.9
Number of wills under custody		1 374 934	1 377 589	↓ 0.2
Members under administration		415 678	374 780	↑ 10.9
Net operating income - Trust	Rm	38	46	↓ 17.8
Net operating income – Employee benefits	Rm	33	26	↑ 26.9
Net income after tax	Rm	63	60	↑ 5.0