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. The formation of Africafsbank has progressed better than expected
Piet Badenhorst, Chief Executive of ABSA, talks to Communications Consultant
Lucien Willun.

Willun: Amalgamated Bank of South Africa (ABSA) came into
being earlier this year, following the largest merger
in South African banking history, to form the
country's biggest banking group. What was the
background to the merger and why did you give some
perspective of the merging situation of the group?

Badenhorst: Well prior to the listing of the United
Building Society on the JSE in December 1986, we
realised that a new order was in the making in the South
African banking sector. The winds of change were
gathering pace, driven largely by the authorities'
intention to level the competitive playing field of the
various deposit-taking institutions. Even then, we
realised that to survive and be a vital part of the financial
services market of the future. We began
examining our growth options right after the listing.
We were aided more than adequately by our strong capital base.
When we decided to merge with the establishment of United Bank, a joint-venture with
Volkskas, and then looked further ahead for other
opportunities. Many presented themselves, however
none really excited us until our Chairman Herc Hefer
and I, together with our deputy chairman Joe Stegman
and deputy chief executive Danie Cibi, began working
on the ABSA deal in the latter half of 1990.

In terms of size, I believe we are possibly the biggest
bank in Africa with total assets of the order of R51 (D50
million), representing roughly one quarter of the assets
of the entire banking sector. We employ more than
26 000 people. Income attributable to shareholders at
our March 1991 year-end amounted to R321 million.
After absorbing all costs relating to the merger.
In terms of market penetration, our group has gained
nearly 40 per cent of all home loans in South Africa,
has over 30 per cent of all savings and term deposits and
over 20 per cent of all cheque accounts.
Now we have things messed up since the merger
and what is the outlook for ABSA?

Badenhorst: Let me say right away that we are under
no illusions as to the difficulty of winning the
competitive battle for the merger, more of a long-term work.
Because of this, we have been pleasantly surprised by
the remarkable progress to date.

We already have a cohesive, motivated and talented
senior management structure in place drawn from all
quarters of the group; there is an exceptional work ethic
amongst the staff; all support functions have been
rationalised and are producing major gains in operating
efficiency; and we are trading profitably as one deposit-
taking institution (UPI) with separate divisions for
Allied, Unimod and Volkskas.

The immediate outlook for ABSA is optimistic but
challenging. We still have to complete the merger process
to reap its full benefits and this is a process we are ahead
of schedule. We are adequately capitalised and have
leading edge technology by world standards. However
being the biggest, we have to be that bit more efficient
and enterprising to meet our market shares and expand
our service areas. We have to keep our eyes on the ball
- which we're doing.

Looking further ahead is problematic given the

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We hope the private enterprise and free market system will remain intact, based on its universal success elsewhere in the world and the ihilune of other altemative economic orders.

Assuming it will, I believe the outlook for ABSA is extremely positive.

Vallun: Do you envisage further rationalisation within the South African banking sector?

Badenhorst: Yes, I do.

ValiumAmnnberol'fordgnbankshaveindleated their intention to open offices In South Africa, followingthescnppingofsanctiomJburreaction?

Badenhorst: This is a logical development which I personally welcome. The financial services industry in misoounu'yisremarkablysophistieated,asituationbom out of healthy competition. Further competition from abroad should add to this, but the playing field must be the same for all.

Vallun: The protracted economic messiah has impacted negatively on the South African banking sectonparticularlyintennsofbaddebtleowhns ABSAcopedandlstheendtotheeconomicmalaise in sight?

Badenhot'st: Bad debts have certainly been a problem _ in fact the worst we have experienced to date.

Fortunately, we have made substantial provisions in this regard totalling nearly R480 million, or well over one percent of our total advances, at our March 1991 year-end.

We are coping with the situation butI believe some respite for comumets in the form of lower intemt rates isnowealled for. This shoddbepossxbleearly nextyear if the Government can exercise control over its own expenditure, which up till now has not been the case. I believe the middle to thin! quarter of1992 should see some revival in the economy led. I hope, by lower interest rates.

Vallun: It's been said that SouthAfrica mecbastmng economy to facilitate the process ofpolitical change. Do you agree and do you believe there are forces at work to achieve a strong economy?

Badenhorst: I certainly do. The authorities have reduced the country's foreign debt, they've maintained realintettestlatesinlinewithourmajoruadingpamieis, and they'veencouragedexports atevery turn. However Government spending is still too high and must be curtailed.

The scrapping ofsanctions will helptheeconomy, but it is foreign capital that is needed most urgently to get thewealthcicationpmssgoingagain- lbrthebenefit of all South Africans.

Vallun: Thlldng of foreign capital, when do you believe theecountryywillhaveaecesstolongterm foreignloans?

Badenhotst:lbelieve thetimeisnottoofaroff-two years at most. The recent German bond issue is an example.

VhlhmzbosABSAhaveamletophy

for that matter, the world at large?

InAfrimand,

Badenhorst: I believe we do. All three institutions which make up ABSA have played an enormous role in the development of the South African economy. We can do so beyond our borders as well, but we will proceed cautiously depending upon the quality of the opportunities that arise. WE have a bianch in London and a worldwide network ofco banks. Other overseas branches will follow later.

Pie: Badenhorst

Vallun: 'I'heprovision of mass housingslsabuming

issue in South Africa. What must be the ABSA's role in this regard?

Badenhorst: We have always taken the view that mass housing is the Government's responsibility. We make a substantial annual contribution to the Urban Foundation to assist the authorities in this aim, and an even greater one via our corporate team.

However, we have to adhere to the free market system in the pricing of homes and this means that it is difficult for income earners who can afford to pay their monthly instalments. Operating this way, we've housed more South Africans than anyone else.

Vallun: What is ABSA's position on social responsibility and does the group pursue an equal opportunity strategy?

Badenhorst: We believe our primary responsibility is to make a profit and thereby stay in business. Because out of this flows everything else. We are leaders in the provision of home finance and we intend to stay there.

What are the custodians of the third then, the social savvies?

We regard these as amongst our most onerous responsibilities. At the same time, we contribute annually to a number of social issues in the areas of disadvantaged children, tertiary education, conservation and many others.

With regard to equal opportunity, we have an equal opportunity policy which is monitored by top management to ensure its application throughout the group. All marketing and people management related decisions are taken solely on their merit and are reflected, amongst other things, in the rapidly growing numbers of women and people of colour within our customer body, as well as amongst our management and staff.

Vallun: Finally, what is your view on the ANC's role as an investment opportunity in the context of the span of Africa and the third world, and the dismal economic record?

Badenhorst: The risks attached to investing in this country are undoubtedly high at present. However, the longer foreign capital stays away, the greater the risks will become as the economy deteriorates. This will aggravate factors such as mass unemployment, the housing shortage, declining social services and educational spending.

I believe the country has the market potential together with the basic management, technical and manpower resources to earn foreign investment a lucrative return on their money, providing the social and political factors which heighten their investment risks are solved.

We could easily become an effective means of unlocking the immense market potential that lies within this vast continent.

Amalgamated Banks of South Africa Limited

P.O. Box 260595, Ekurhuleni, 2023

Telephone - (011) 335-4000

Telefax - (011)