



# Absa Group

FY19 results presentation

11 March 2020

# Daniel Mminele

Chief Executive

# Initial impressions of Absa

- Absa has great potential, solid businesses, a wide product range, strong brand, talented and committed people
- Focus on transforming culture, consistent execution and harnessing digital
- Strategic choices match our growth ambitions
- Need to be responsive to fast-changing operating environment
- Appropriate to review strategy and execution

# We aspire to be a globally respected African organisation

The strategy comprises of a guiding purpose, three strategic priorities that outline the business' objectives in terms of what is required to succeed and three enablers which will change the way we operate and define exactly how we will achieve these objectives



## Bring your possibility to life.

We believe in possibility, in the actions of people who always find a way to get things done. We believe in creating opportunities for our customers to make their possibilities real and supporting them every step of the way.



- 1 For our people**, we will create a culture that appreciates, unifies and differentiates us from our competitors.
- 2 For our customers**, we will create seamless experiences to engage and delight them.
- 3 For society**, all our employees will lead with a conscience... doing the best for people and the planet.



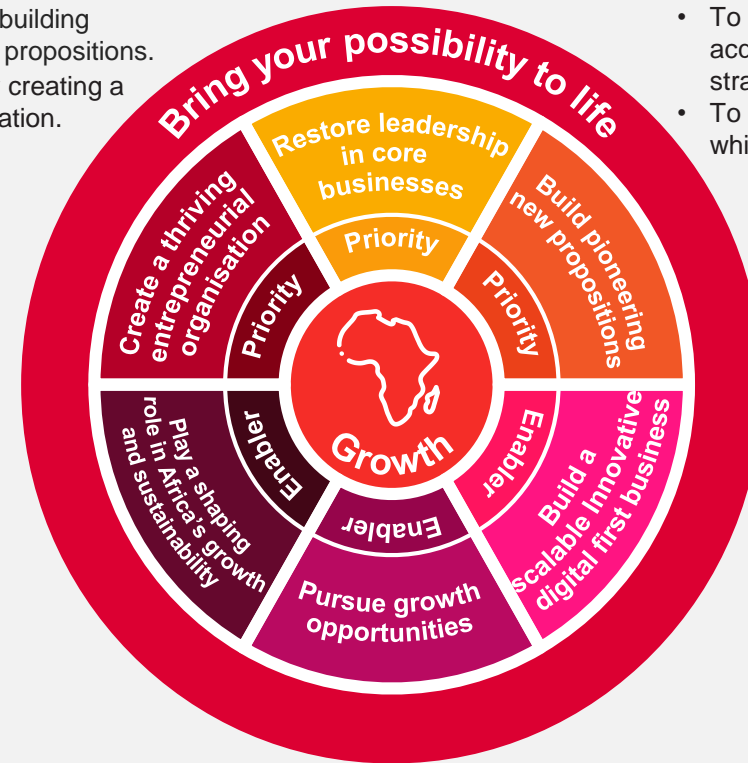
- We drive high performance to achieve results
- Our people are our strength
- We are obsessed with the customer
- We have an African heartbeat

## 3 priorities

- To restore leadership in core businesses.
- To innovate by building pioneering new propositions.
- To empower by creating a thriving organisation.

## 3 enabling capabilities

- To scale by becoming a digitally-led business.
- To grow through targeted acquisitions, disposals and strategic partnerships.
- To shape the societies in which we operate.



# Reflecting on our FY19 performance

- Resilient performance considering challenging macro backdrop
  - SA's GDP growth has consistently disappointed the past 5 years
- Maintained balance sheet momentum
- Underlying costs remain well contained
- Maintained solid balance sheet
- RoE decline indicative of challenging macros
- Balance sheet, revenue and earnings growth broadly in line with peer average

# Restore leadership in our core businesses

## Retail & Business Bank

### Customer Franchise:

-   CUSTOMER #'S
-   CUSTOMER PRIMACY
-   PRODUCTS PER CUSTOMER
-   CUSTOMER COMPLAINTS

## Corporate & Investment Bank

### Customer Franchise:











-   CUSTOMER #'S
-   CUSTOMER PRIMACY
-   PRODUCTS PER CUSTOMER
-   CLIENT EXPERIENCE

## Absa Regional Operations

### Customer Franchise:

-   CUSTOMER #'S
-   PRIMARY CUSTOMER BASE  
RETAIL  BUSINESS BANK
-   PRODUCTS PER CUSTOMER  
RETAIL  BUSINESS BANK
-   CUSTOMER EXPERIENCE





### Market Share:

-   RETAIL DEPOSITS
-   RETAIL LOANS AND ADVANCES
-   PERSONAL LOANS
-   NEW HOME LOANS
-   VEHICLE FINANCING

### Product Franchise:

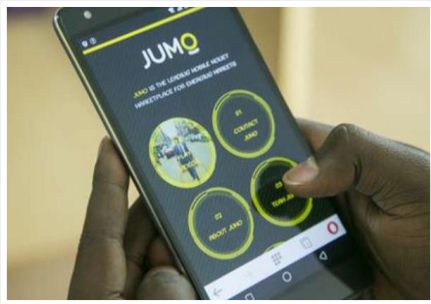
-   MARKETS REVENUE – ARO
-   CORPORATE REVENUE – ARO
-   MARKETS REVENUE – SA
-   CORPORATE REVENUE – SA

### Product Franchise:

-   CIB REVENUE
-   RBB REVENUE

# Digital innovation

## Mobile lending and savings proposition



### JUMO

Offers a convenient way to access a cash loan from your mobile phone or an interest-bearing savings account linked to a mobile money app.

## Digital lending and savings platform



### Timiza

Virtual banking proposition yielding a 35% growth in loan disbursements; eightfold increase in repeat borrowing customers; 70% revenue growth.

## Vehicle Asset Finance system



### Bolt

We are able to deliver processing of loan application to payout within 30 minutes. Currently rolled out to 150 dealers across South Africa.

## Digital capabilities



### Digital Fraud Warranty

A first in the SA market; protects customers in the event of digital fraud

## Digitisation



### Automation

Leveraged robotics and artificial intelligence to create a single view for call centre agents, notably improving servicing turnaround times.

# Jason Quinn

Financial Director



# Key FY19 takeaways

- Macros were tougher
- Net interest margin stabilized in the second half
- Continued delivery on cost initiatives
- Regional Operations again underpinned group growth
- Separation from Barclays almost complete
- Focusing on balance sheet coverage, capital and liquidity

# Resilient normalised salient features

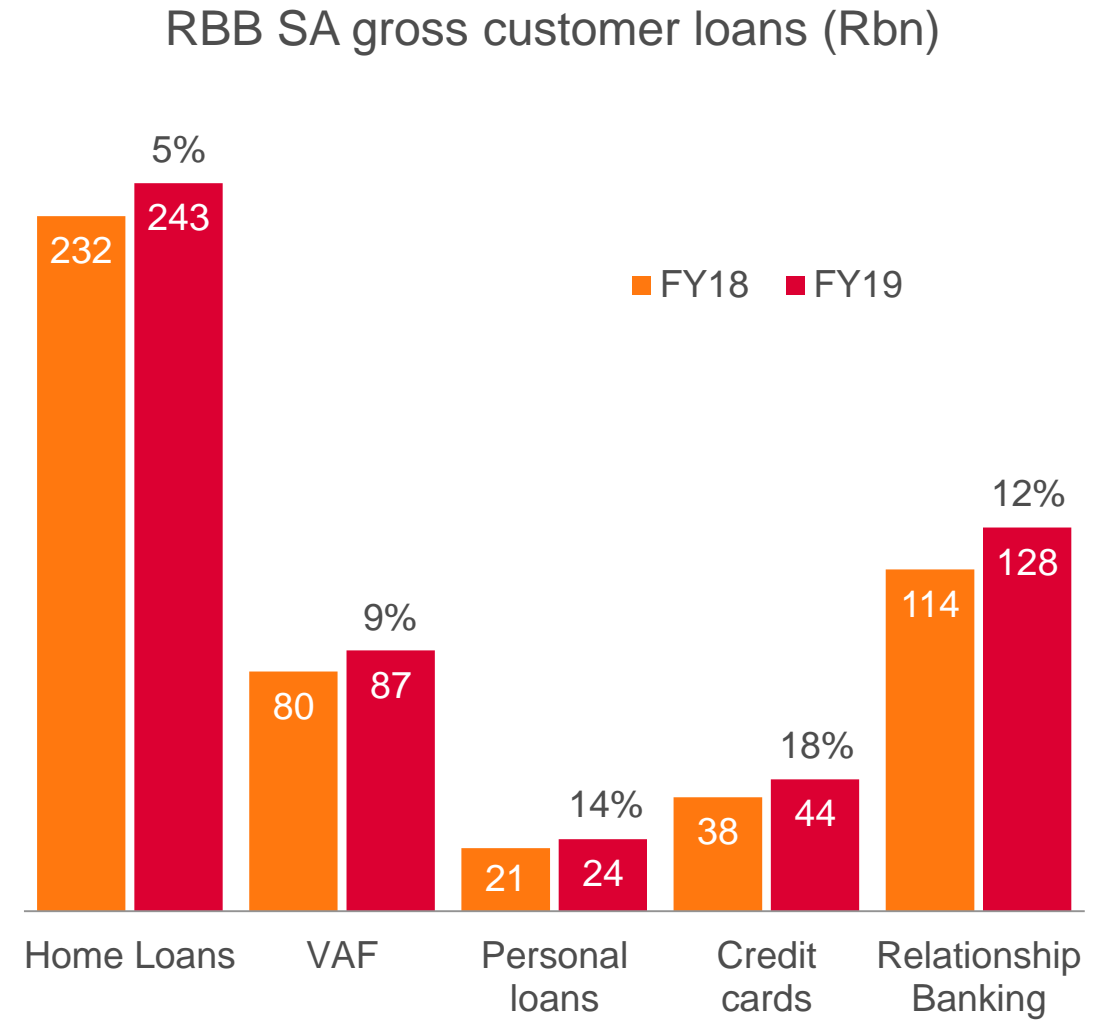
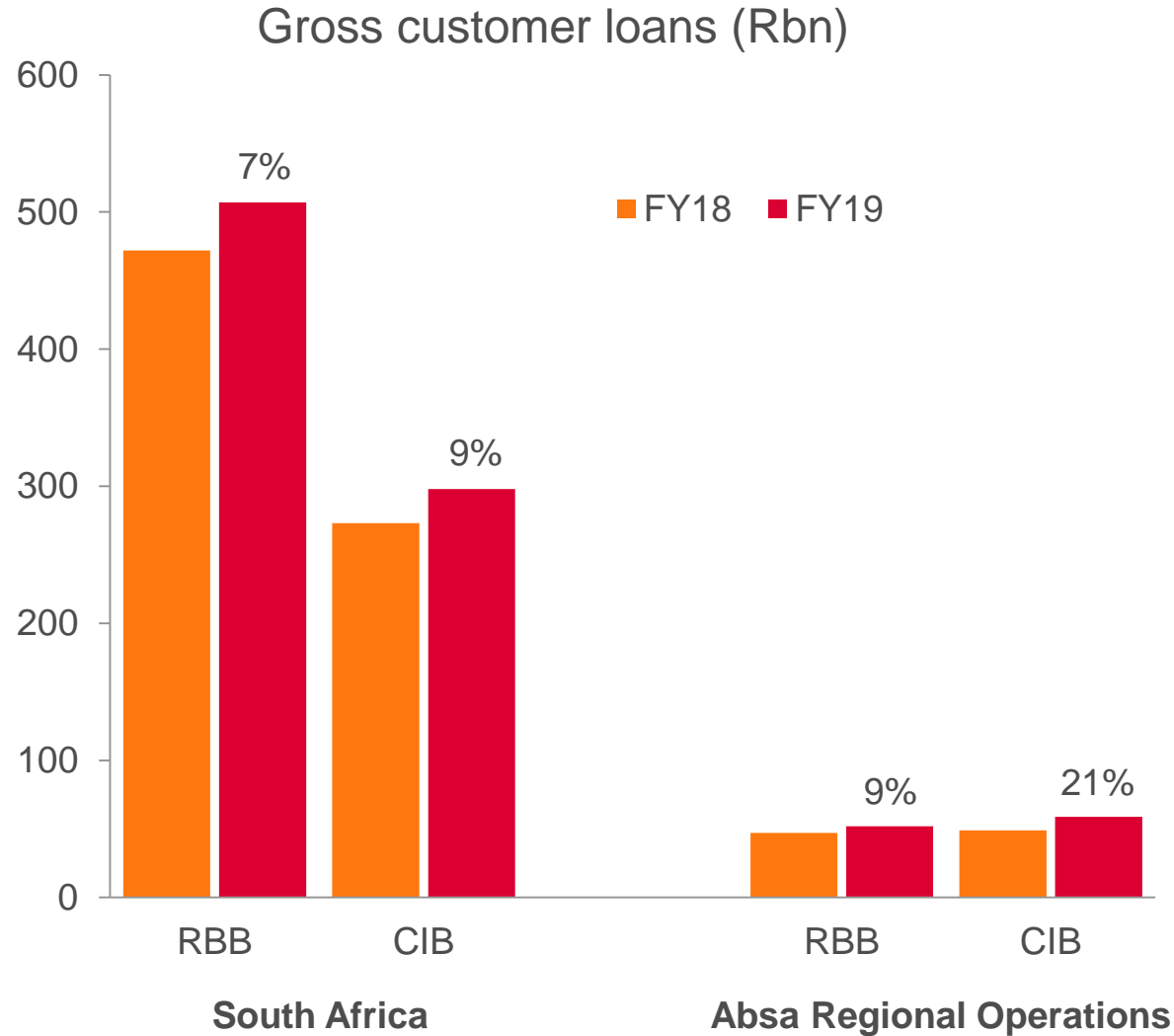
	FY18	FY19
	%	%
Diluted headline EPS growth	4	<b>1</b>
Dividend per share growth	4	<b>1</b>
Net asset value per share growth	4	<b>5</b>
Return on equity	16.8	<b>15.8</b>
Profit after regulatory capital charge (Rbn)	2.9	<b>2.1</b>
Net interest margin	4.64	<b>4.50</b>
Operating JAWS	(1.7)	<b>(0.5)</b>
Cost to income ratio	57.7	<b>58.0</b>
Pre-provision profit (Rbn)	32.0	<b>33.6</b>
Credit loss ratio	0.73	<b>0.80</b>

# Income statement shape broadly in line with guidance

Rm	FY18	FY19	Change (%)	Normalisation adjustments
Net interest income	43 425	<b>46 306</b>	7	195
Non-interest income	32 235	<b>33 655</b>	4	(36)
Total income	75 660	<b>79 961</b>	6	159
Impairment losses	6 324	<b>7 816</b>	24	-
Operating expenses	43 642	<b>46 357</b>	6	(2 410)
Other *	1 653	<b>1 672</b>	(1)	(113)
Taxation	6 766	<b>6 310</b>	(7)	538
Non-controlling interest	1 372	<b>1 803</b>	31	(79)
<b>Headline earnings</b>	<b>16 128</b>	<b>16 265</b>	<b>1</b>	<b>(1 739)</b>

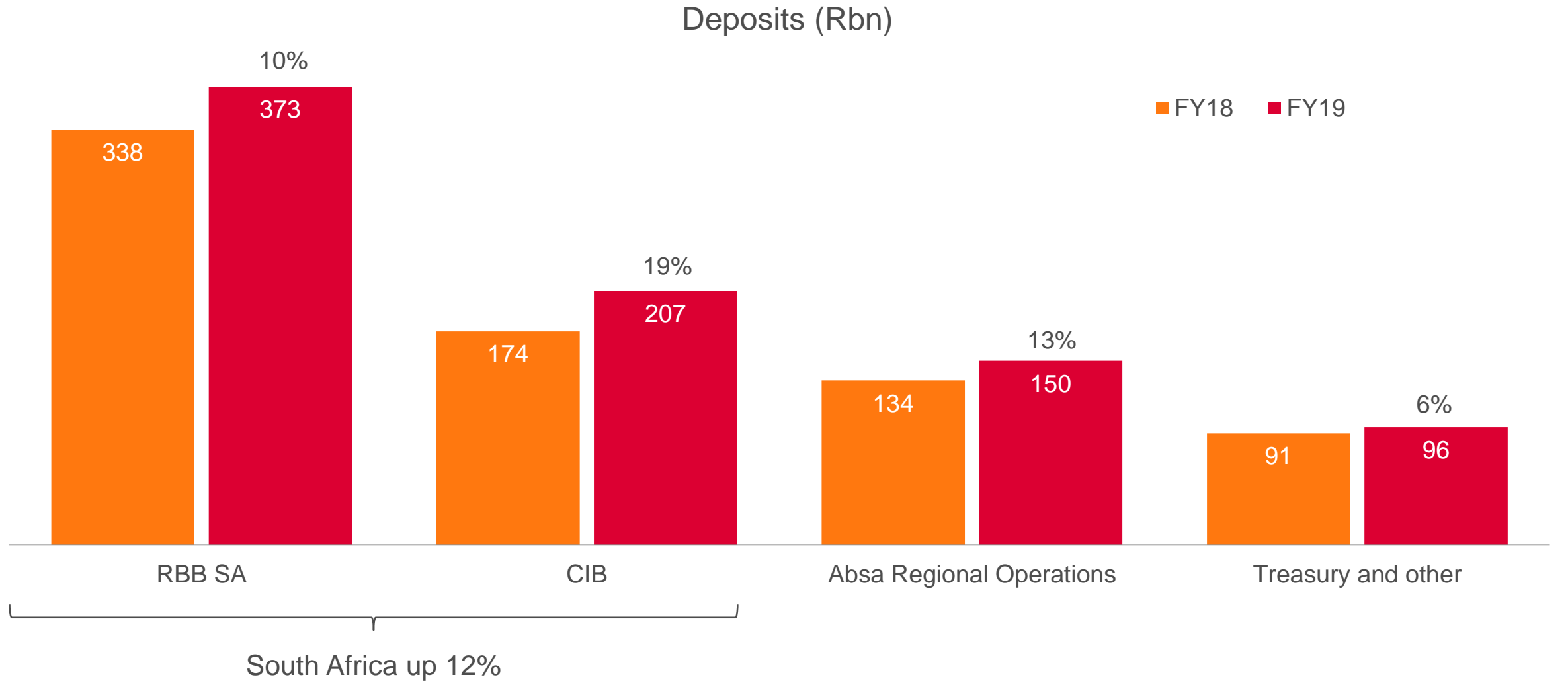
Note: \* includes other impairments, indirect tax and associates' and JVs share of post tax results

# Loan growth momentum maintained ...



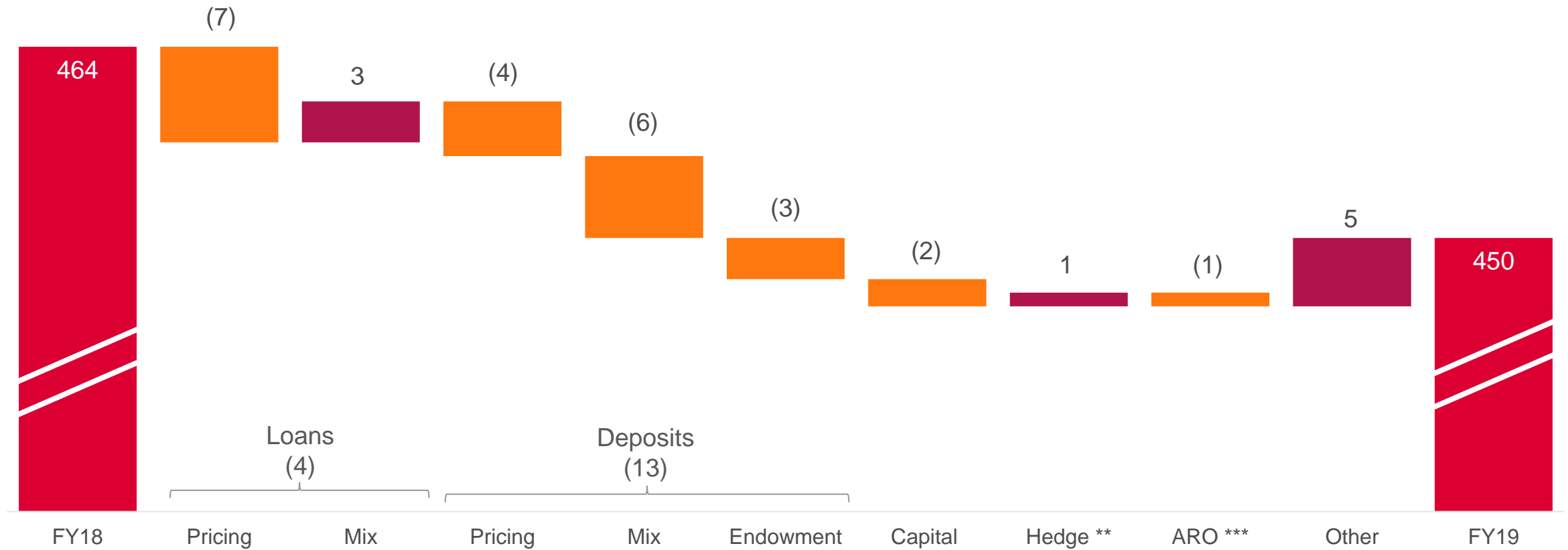
Note: Credit cards excludes Edcon storecard portfolio

# ... as deposit growth also improved



# Funding and endowment reduce net interest margin

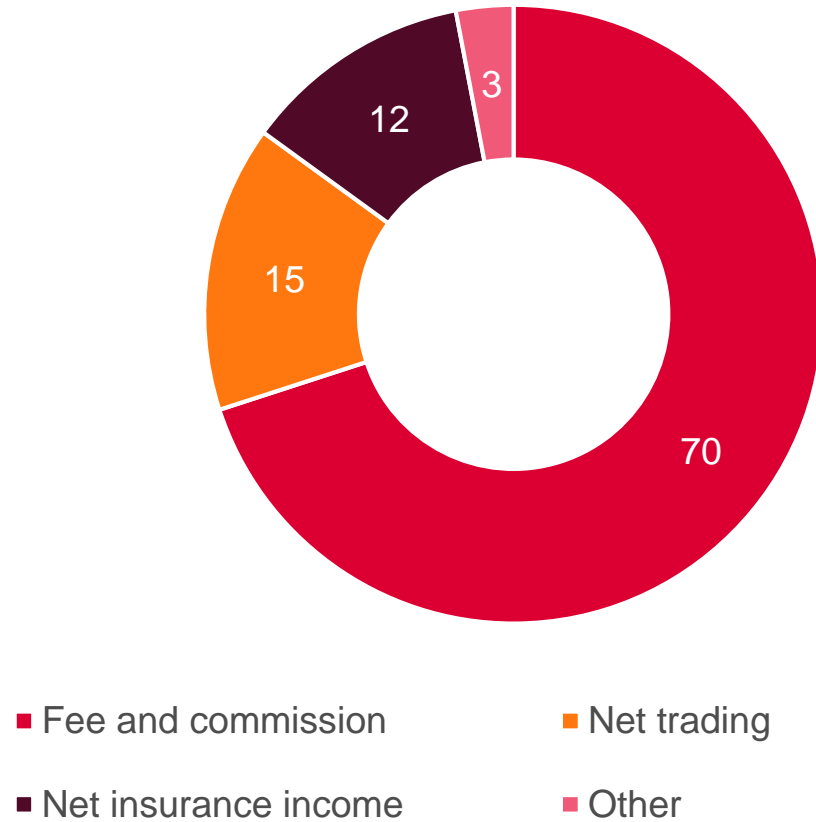
Change in net interest margin\* (basis points)



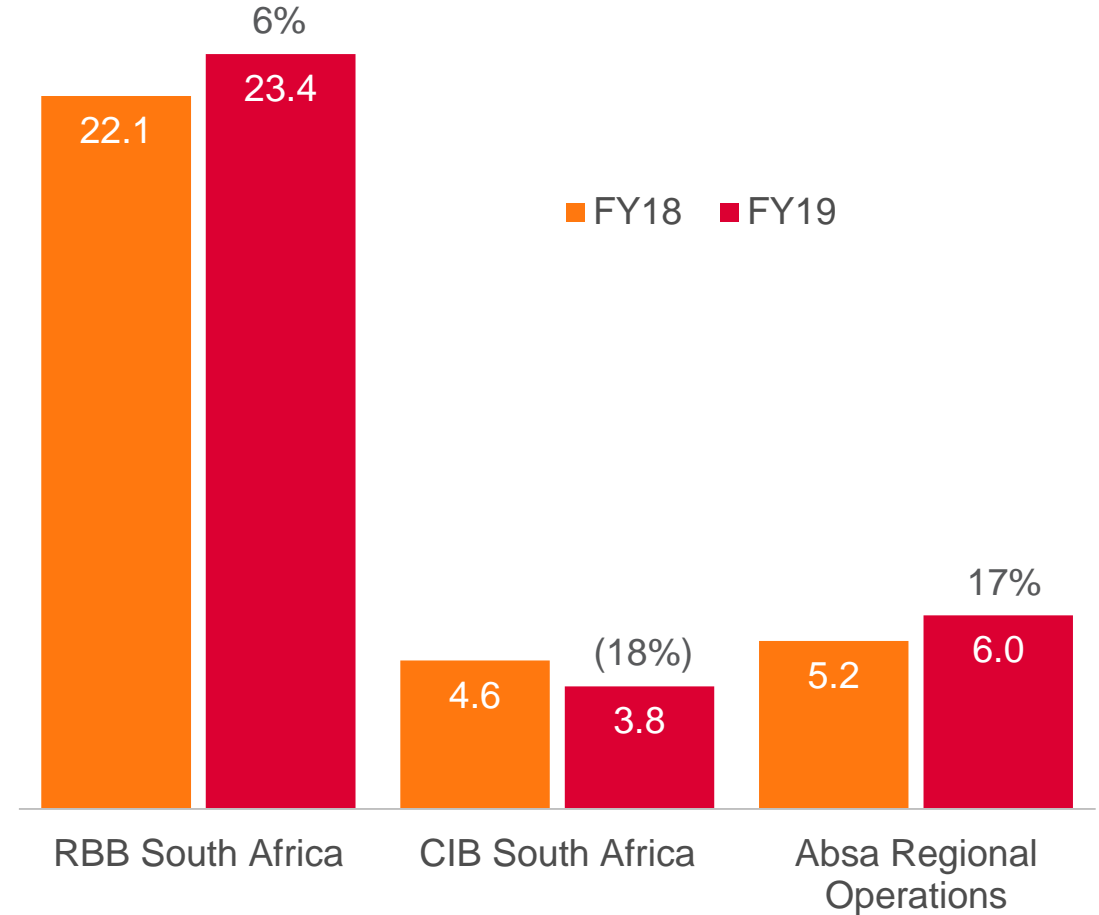
Note: \* average interest bearing assets; \*\* interest rate risk management; \*\*\* Absa Regional Operations

# Core non-interest income growth emerging

Non-interest income mix FY19 (%)

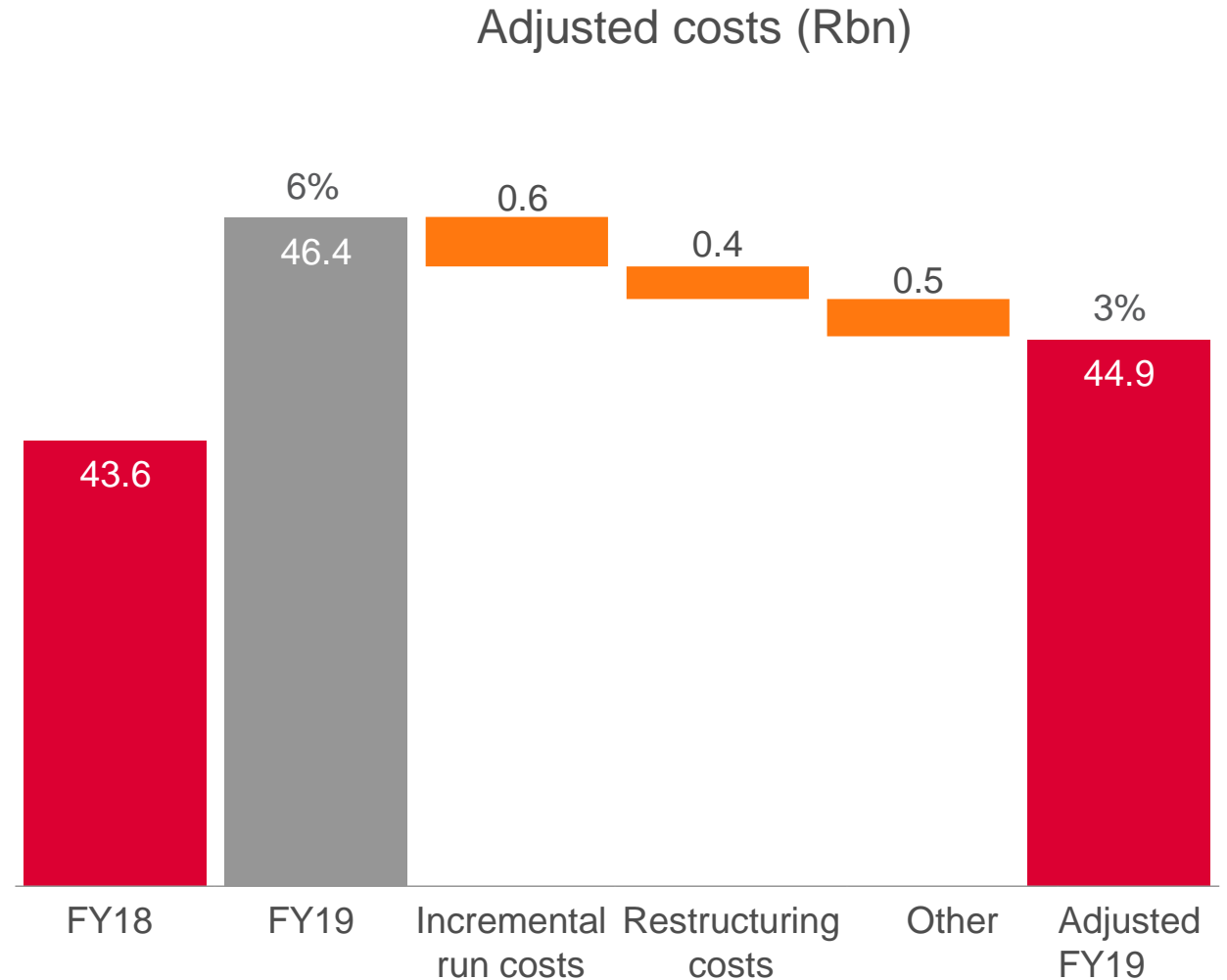


Non-interest income by division (Rbn)



# Underlying cost growth well contained

	FY19 Rm	Change %	Mix %
Staff	25 696	7	55
Property-related	1 937	(42)	4
Technology	3 717	16	8
Depreciation	3 564	54	8
Professional fees	2 263	5	5
Marketing	1 538	(4)	3
Communication	1 505	7	3
Cash transportation	1 304	3	3
Amortisation	1 100	35	2
Other *	3 733	7	8
<b>Total</b>	<b>46 357</b>	<b>6</b>	<b>100</b>



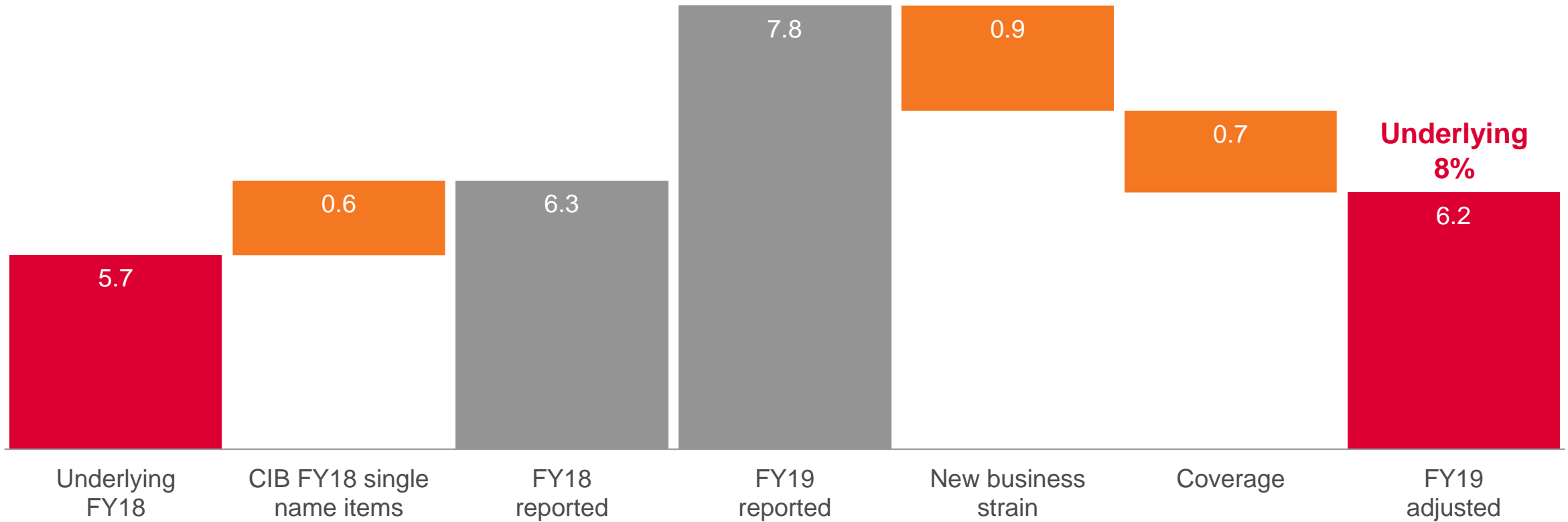
Note: \* includes administration fees, equipment costs, fraud, travel and entertainment, other costs etc.



# Unpacking the increase in our credit impairments

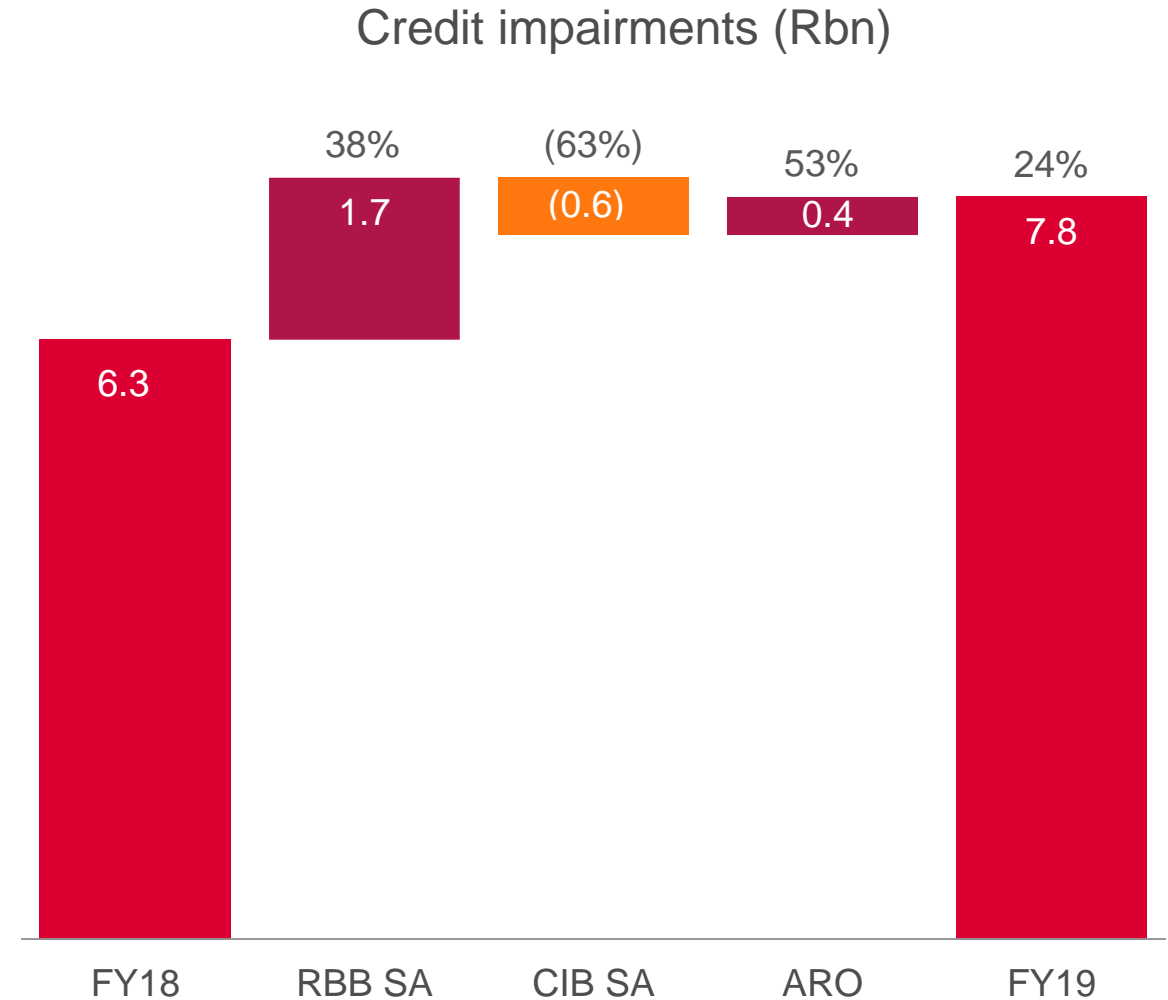
Credit impairments (Rbn)

Reported 24%

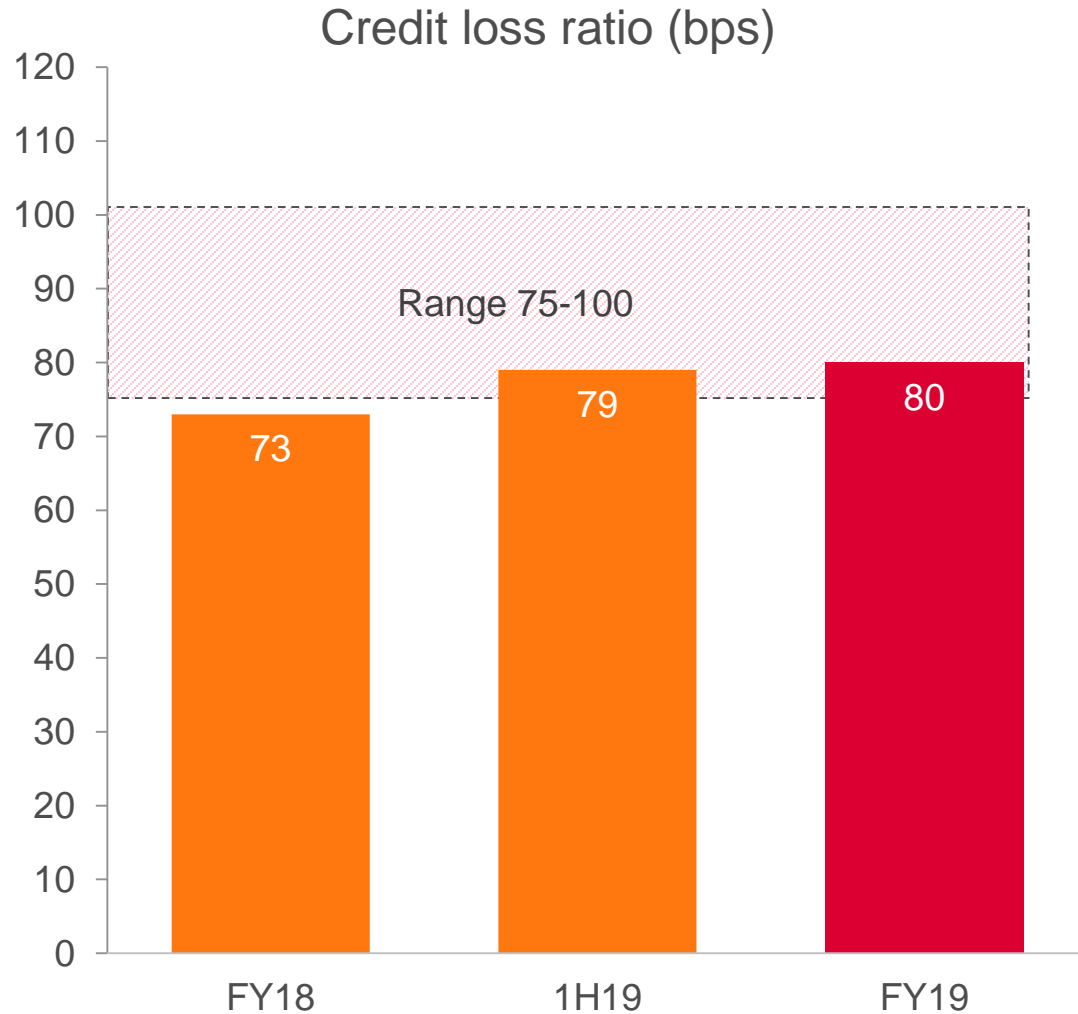


# Credit loss ratio increased ...

Credit loss ratio (%)	FY18	FY19
RBB SA	0.92	1.18
Everyday Banking	4.13	5.50
Vehicle and Asset Finance	1.37	1.34
Home Loans	0.05	0.08
Relationship Banking	0.25	0.26
CIB SA	0.36	0.11
Absa Regional Operations	0.78	0.98
<b>Group</b>	<b>0.73</b>	<b>0.80</b>



# ... but remains relatively low

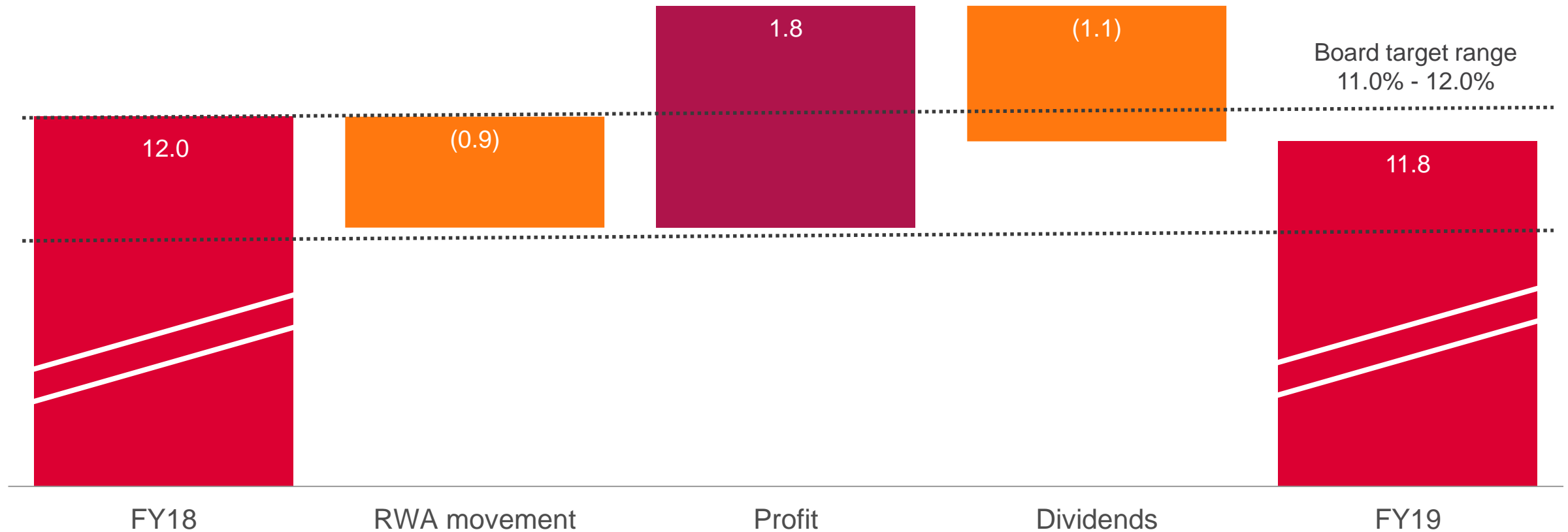


FY19 and expected range through-the cycle (bps):

	FY18	FY19	Range
• RBB SA	92	118	110 to 155
• Total CIB	32	14	20 to 30
• ARO	78	98	100 to 140

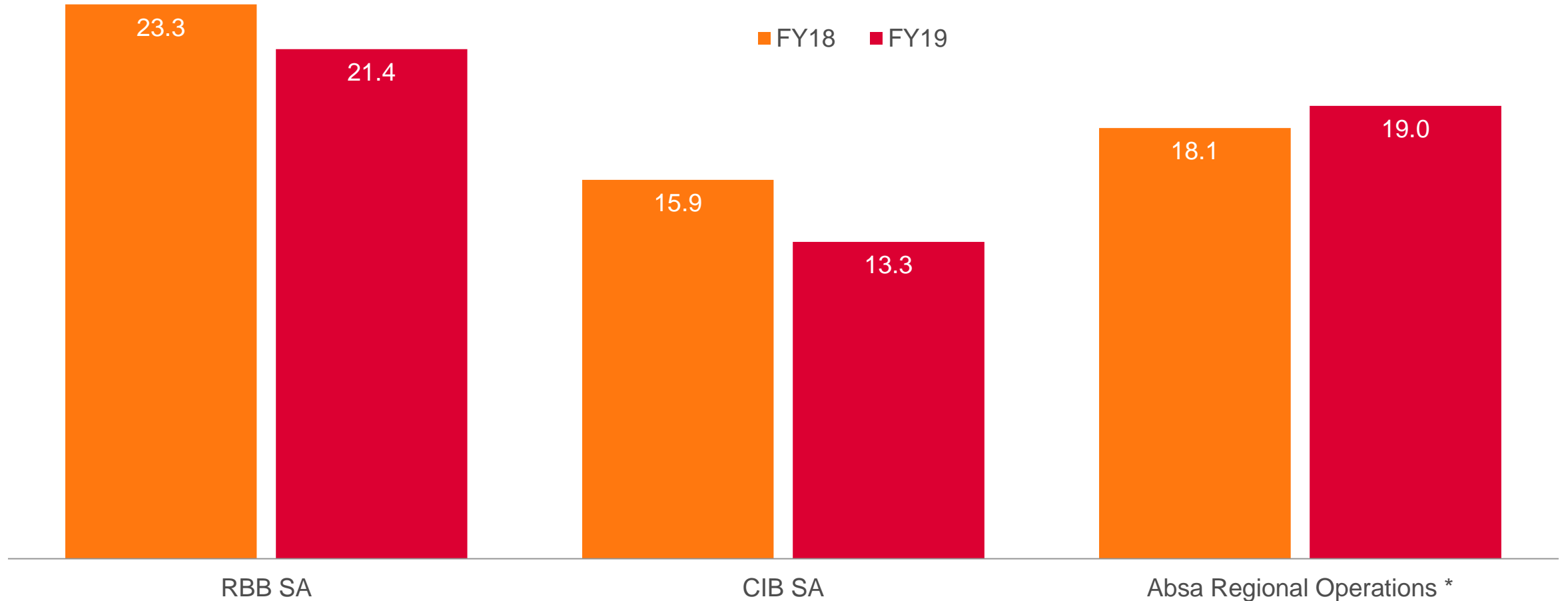
# Capital levels remain strong

Absa Group normalised common equity tier 1 ratio (%)



# Lower SA returns outweighed improved ARO RoE

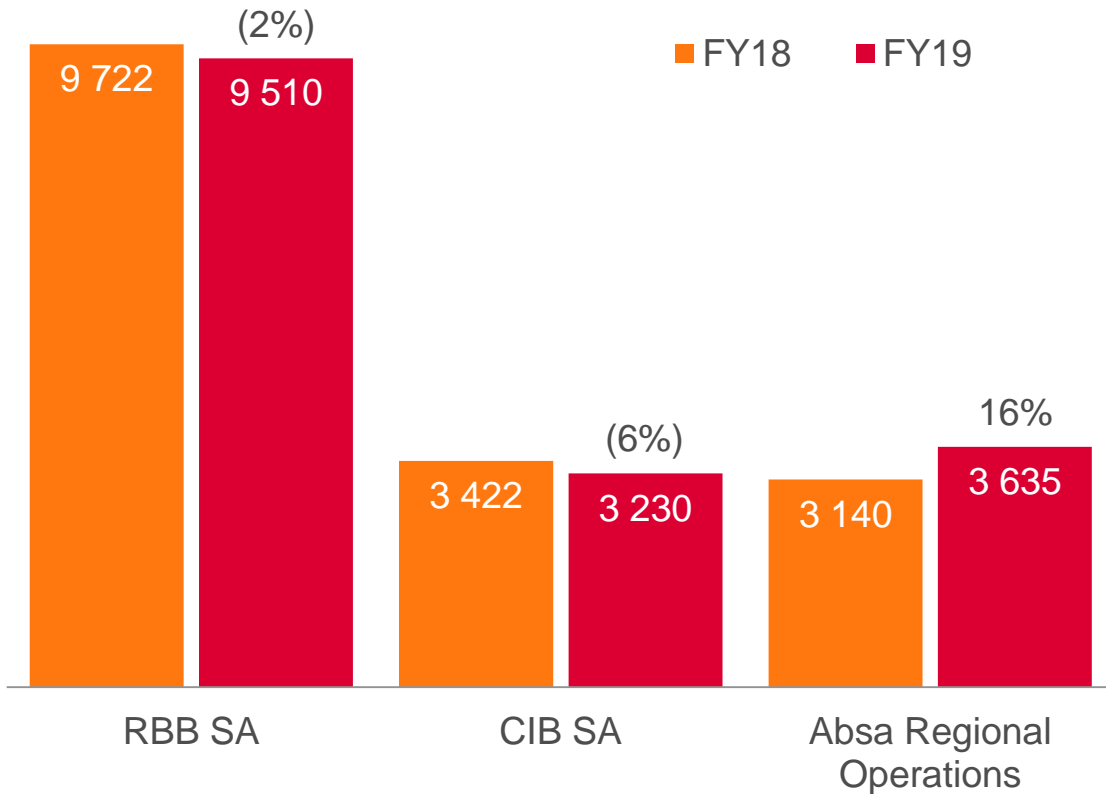
Divisional return on regulatory capital (%)



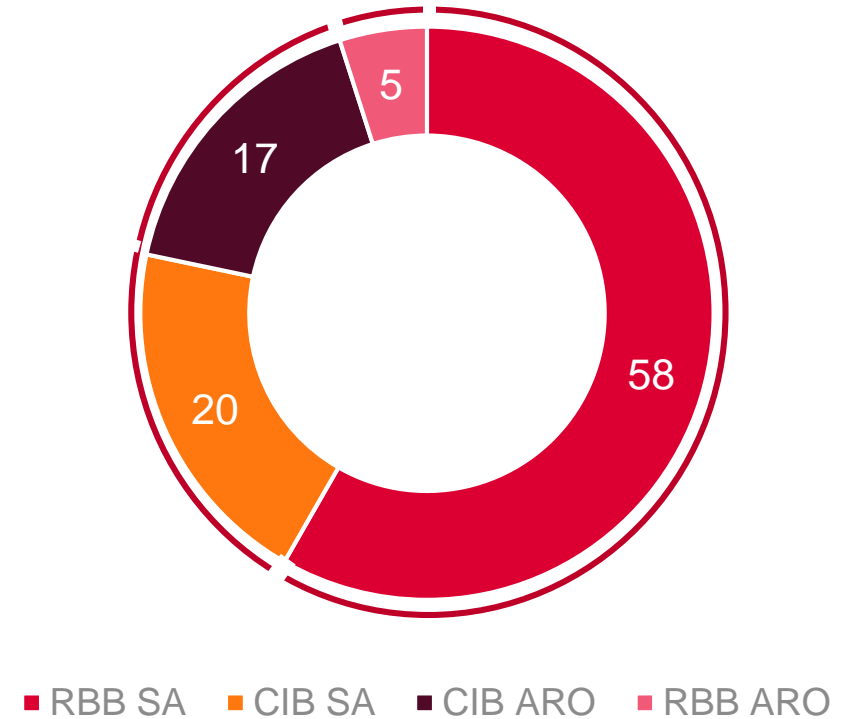
Note: \* return on equity

# Continue to benefit from a diversified portfolio

Divisional headline earnings (Rm)

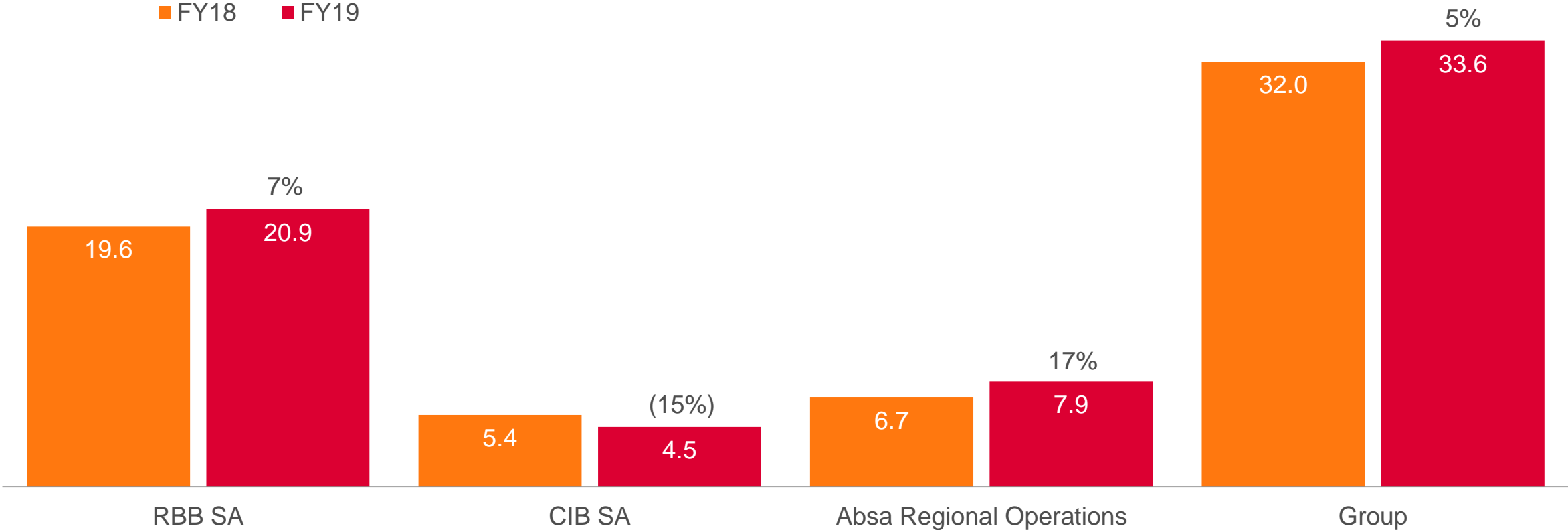


Headline earnings mix FY19 (%) \*



# Solid pre-provision profit growth despite CIB SA

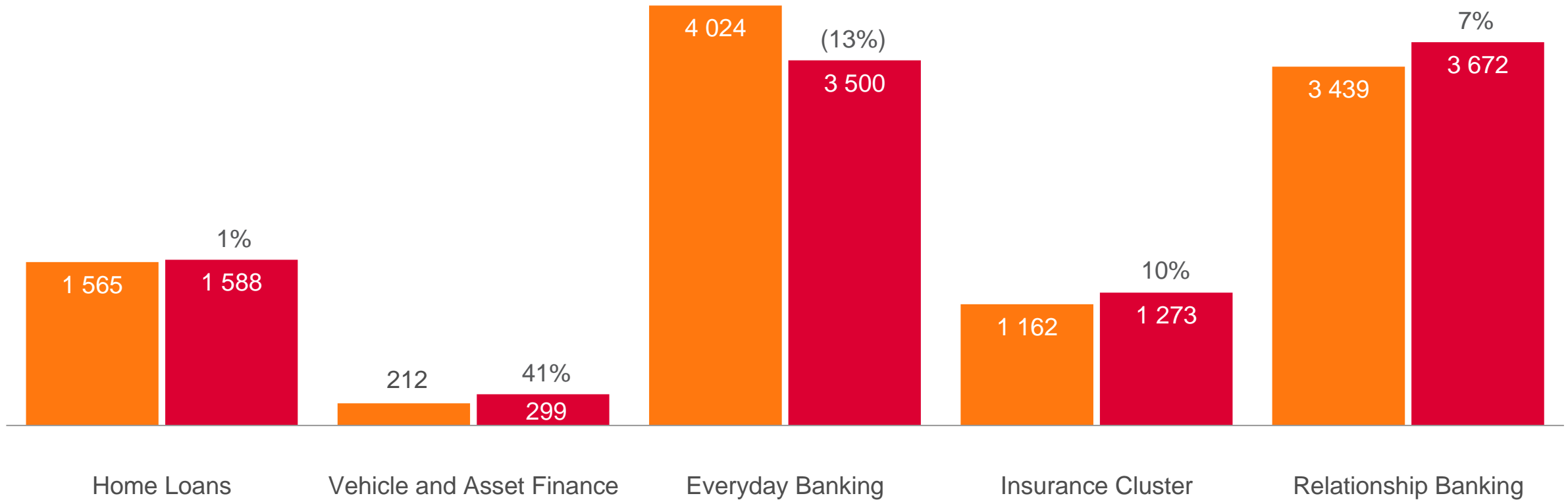
Divisional pre-provision profits (Rbn)



# RBB SA earnings grew excluding Everyday Banking ...

Headline earnings (Rm)

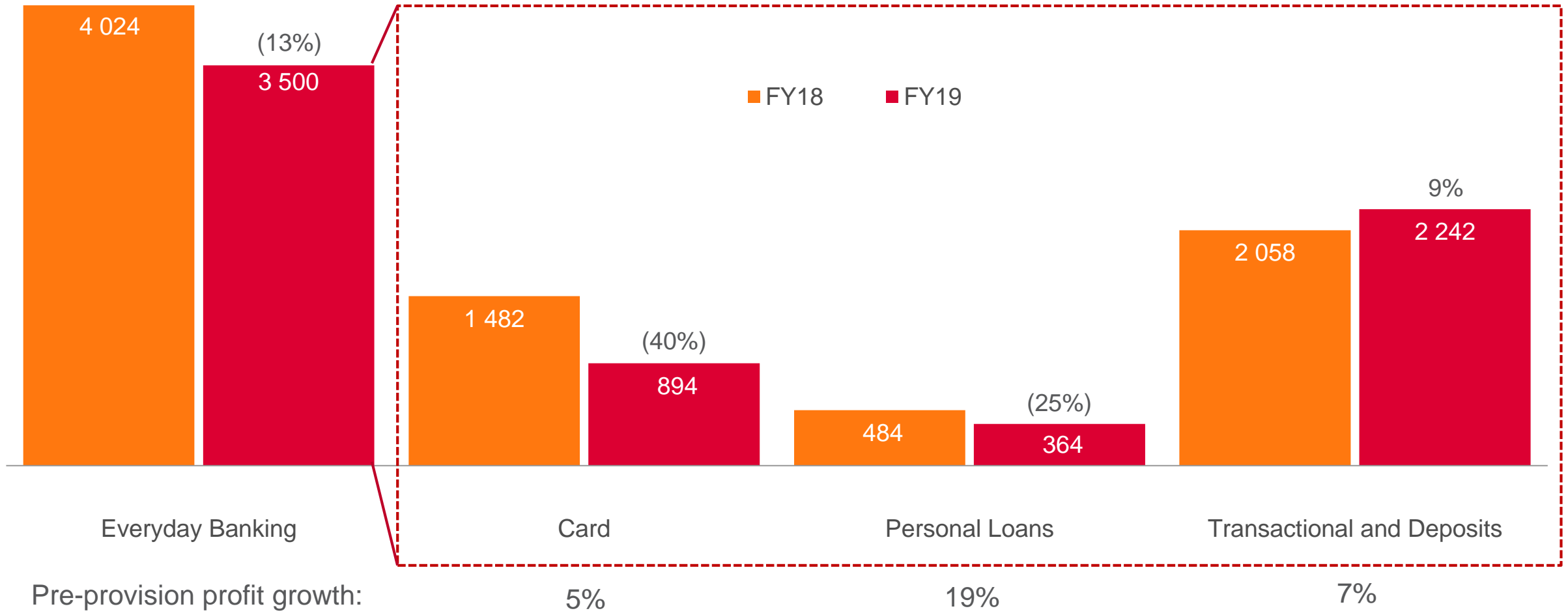
■ FY18 ■ FY19





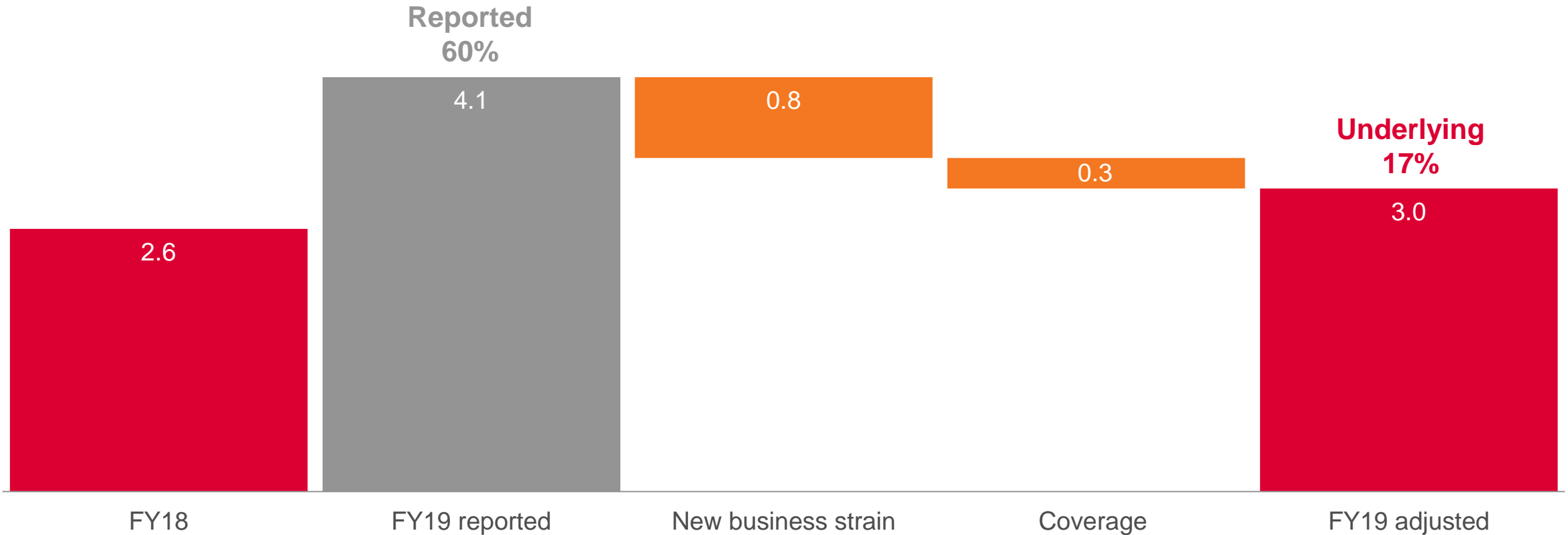
# ... as unsecured lending offset improving transactional

Headline earnings (Rm)



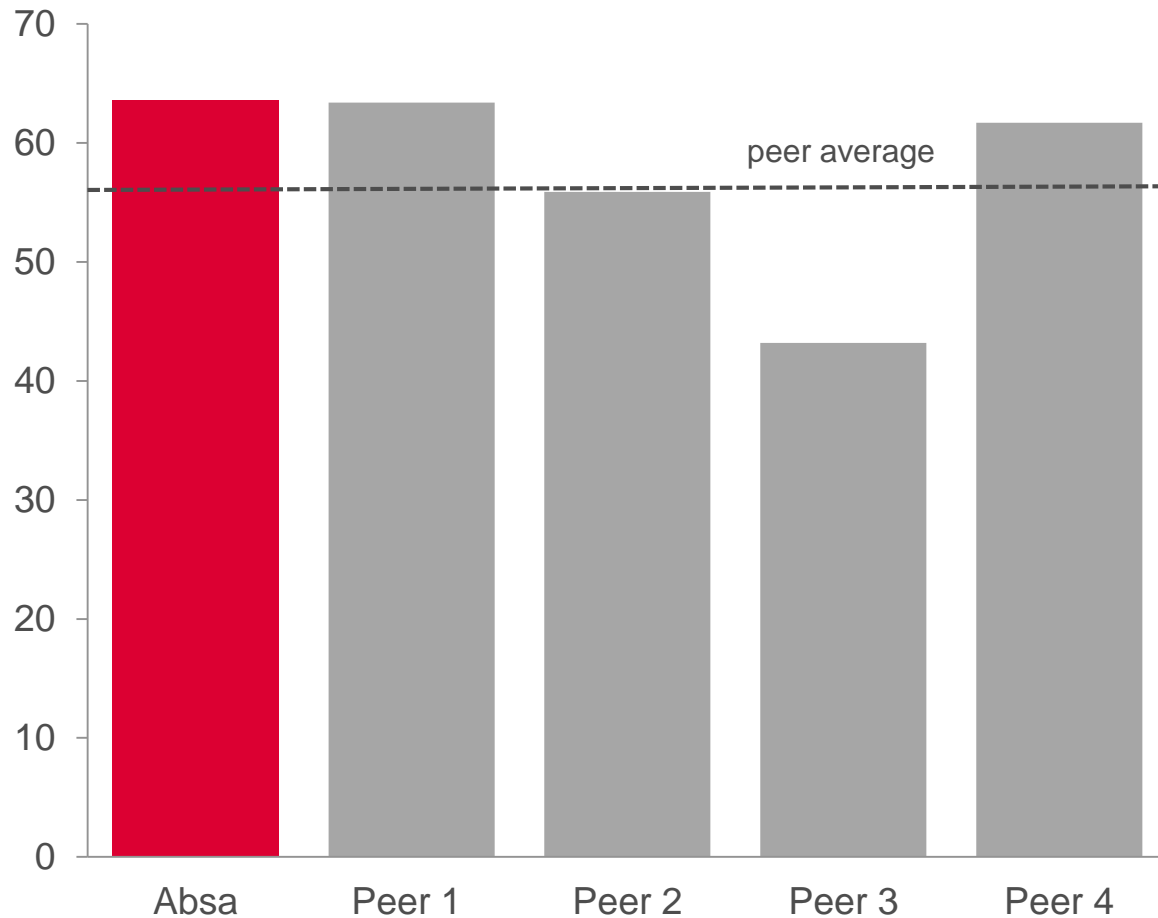
# Unpacking Card and Personal Loans credit charge ...

SA Card and Personal Loans credit impairments (Rbn)

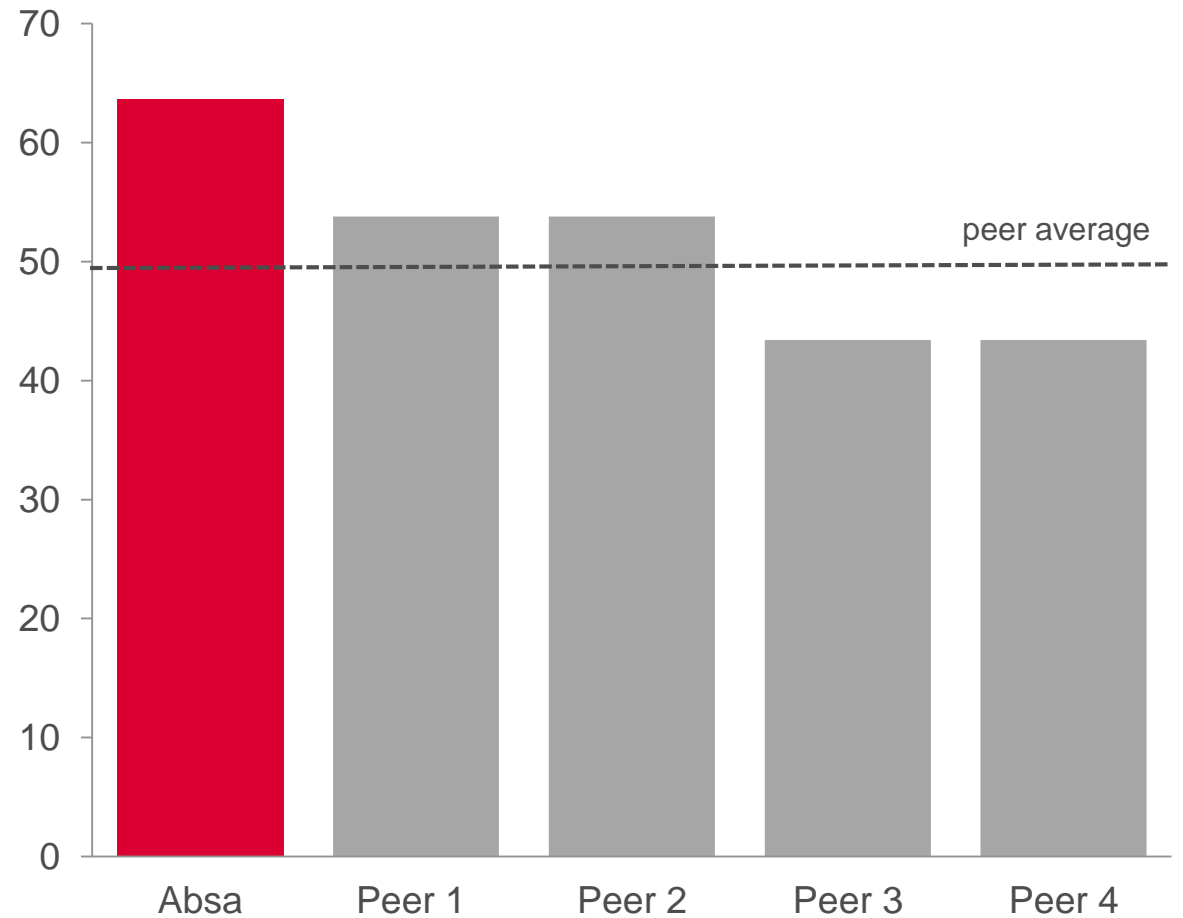


# ... where we wrote high quality new business

Card new business 2019 (% high quality)

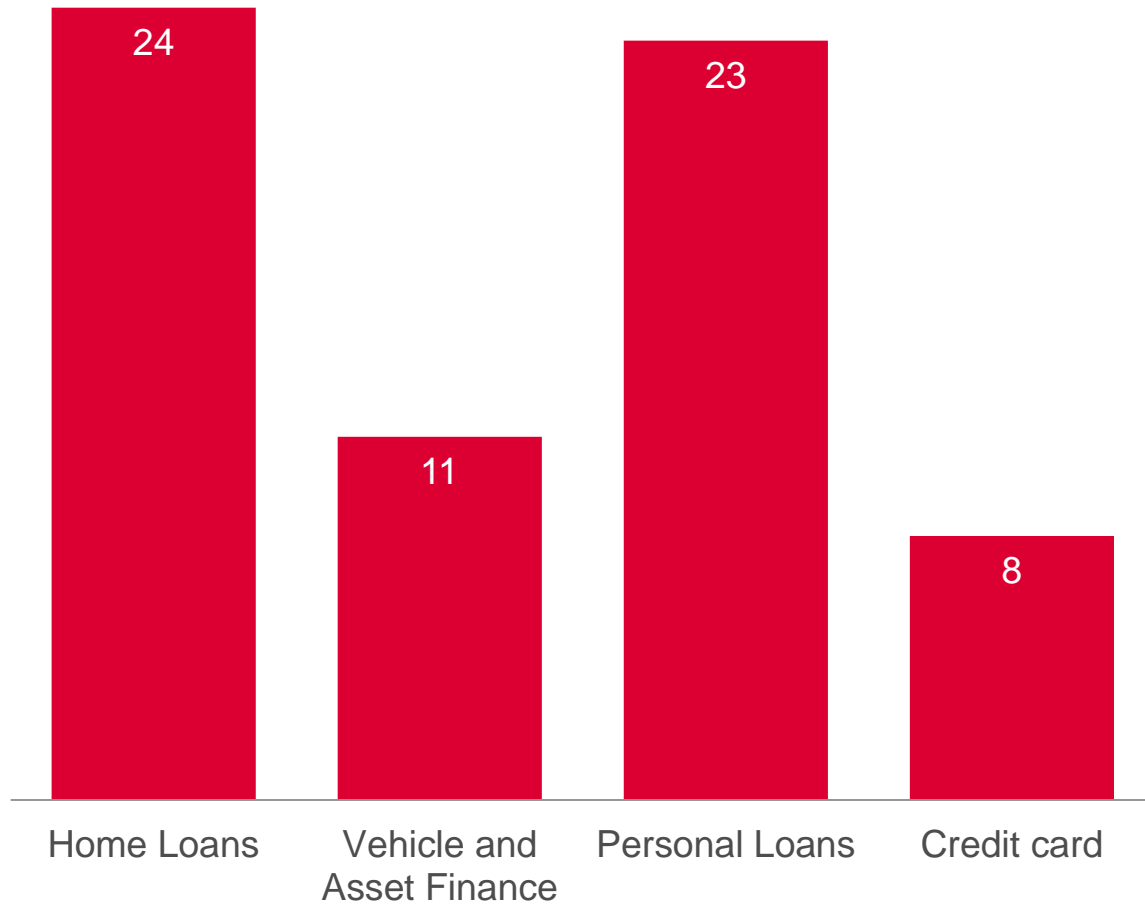


Personal loans new business 2019 (% high quality)

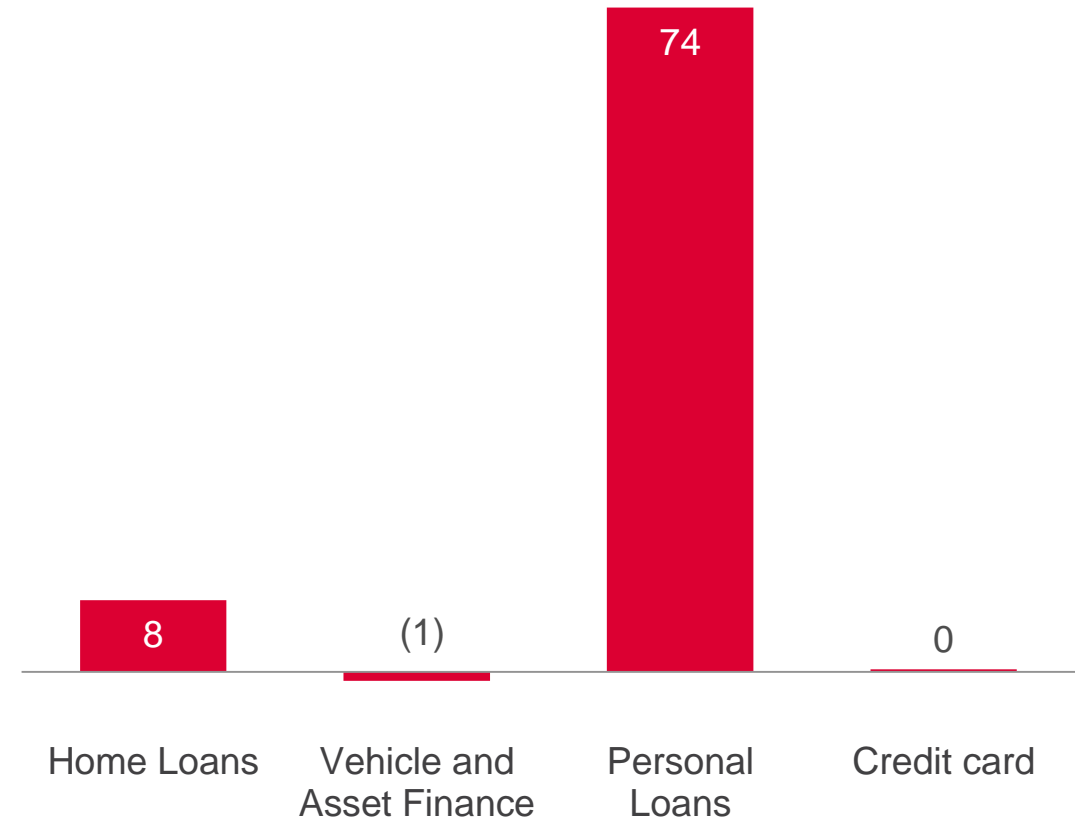


# Retail loan production and pricing momentum continues

Retail SA YoY loan production (%)

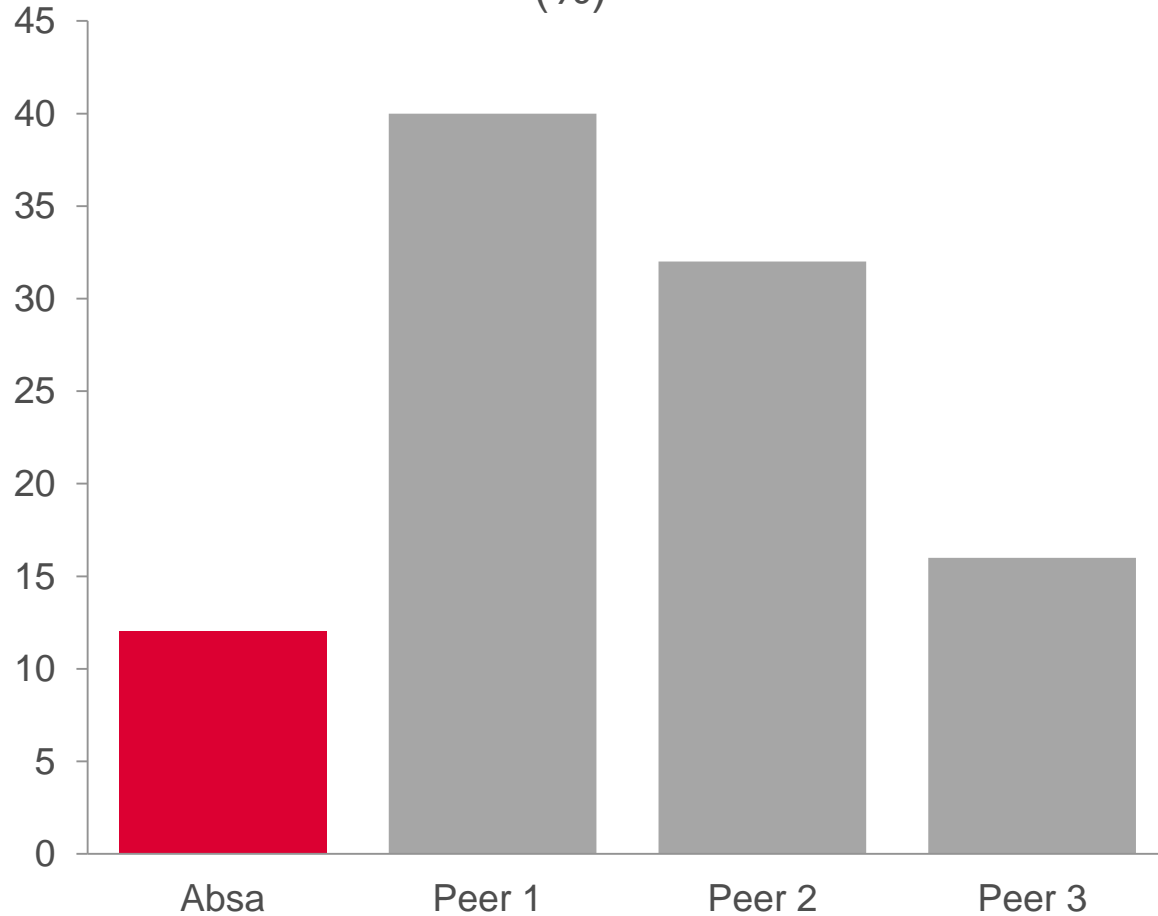


New business pricing change YoY (bps)

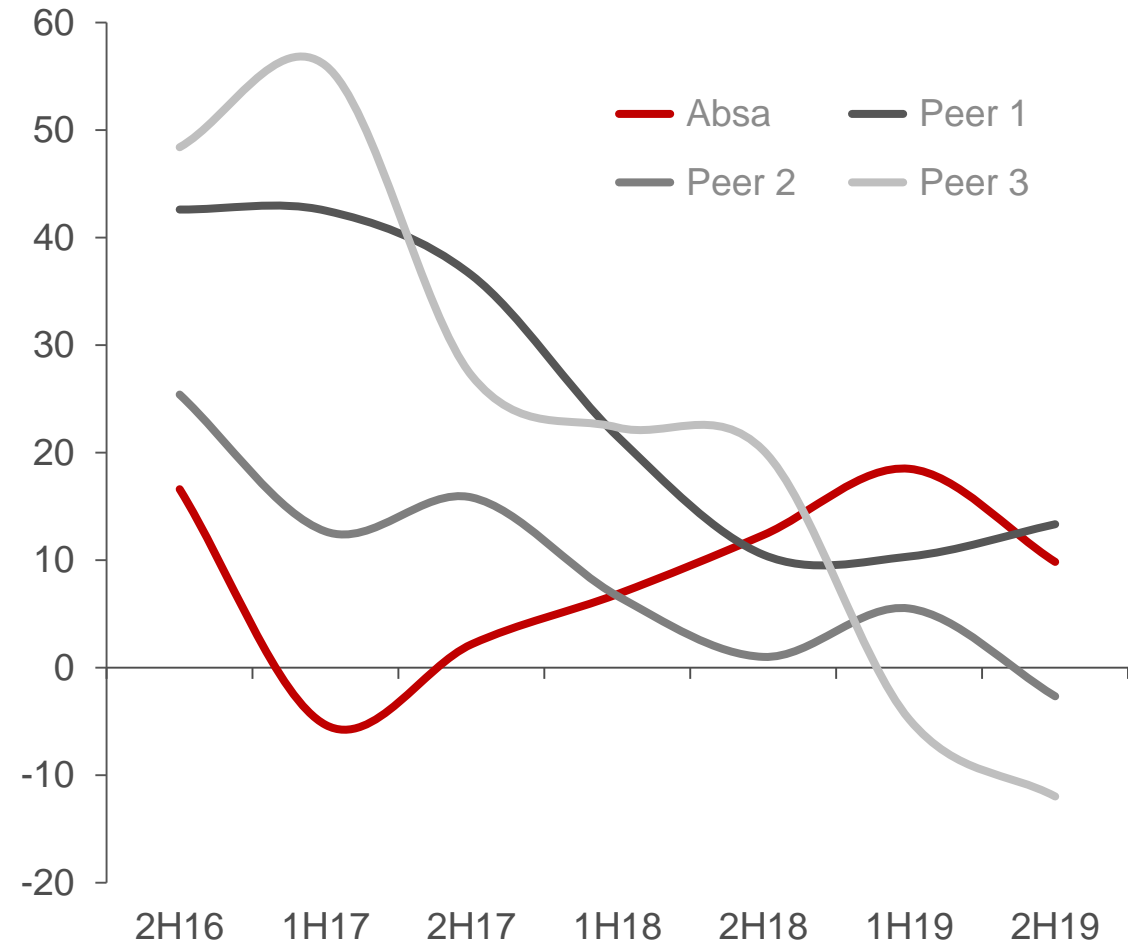


# Prudent mortgage growth at the right price

Big 4 bank share of LTV >100% mortgages in 2019 (%)

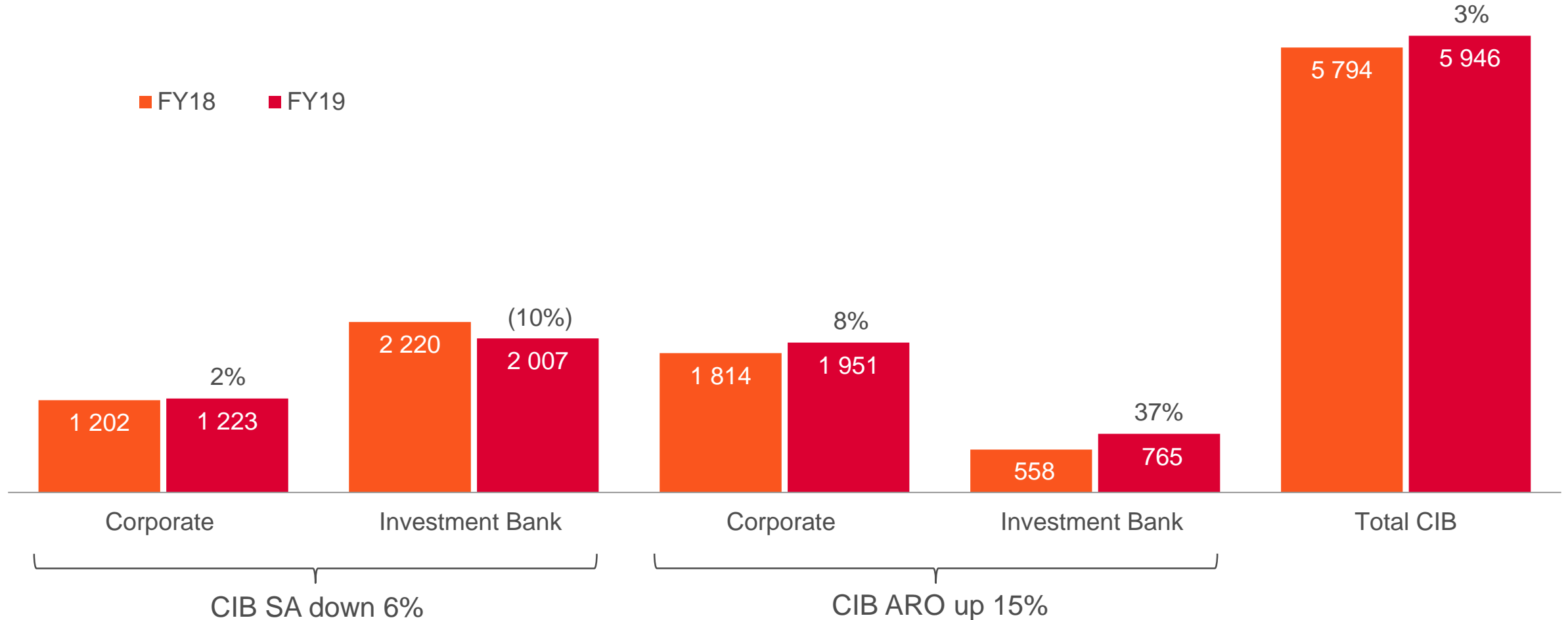


Mortgage pricing to prime (bp)



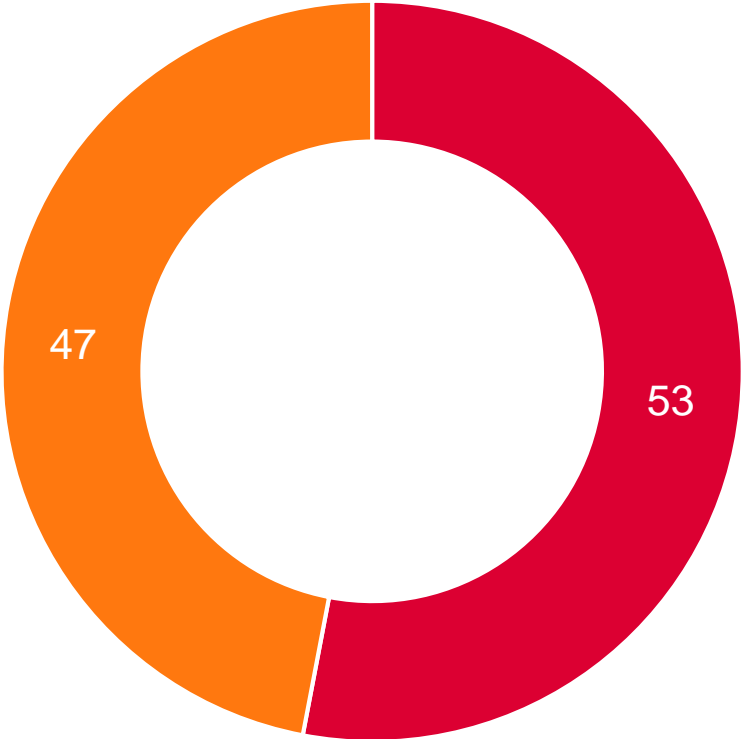
# Strong CIB ARO growth offsets lower SA earnings

Headline earnings (Rm)



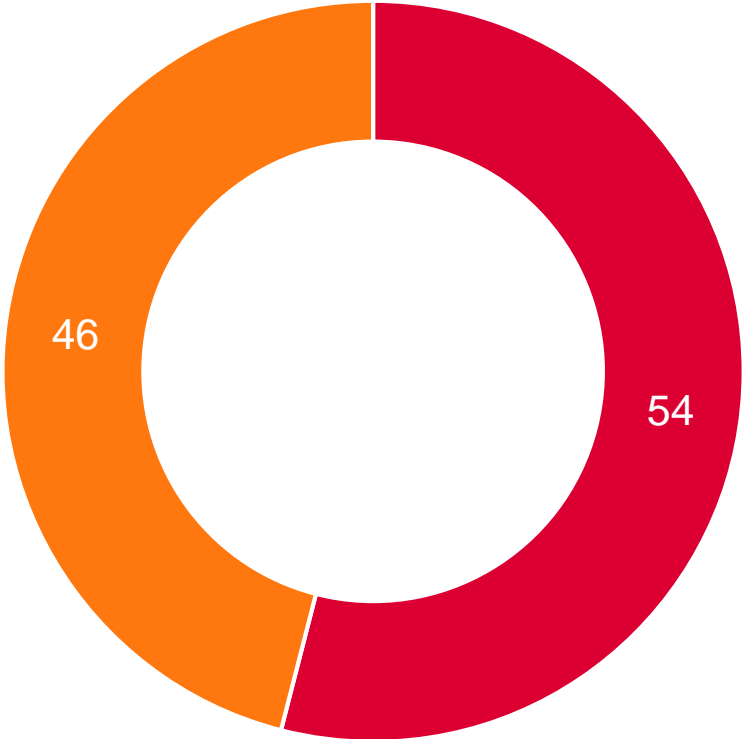
# CIB earnings mix well balanced

Headline earnings (Rm)



■ Corporate ■ Investment Bank

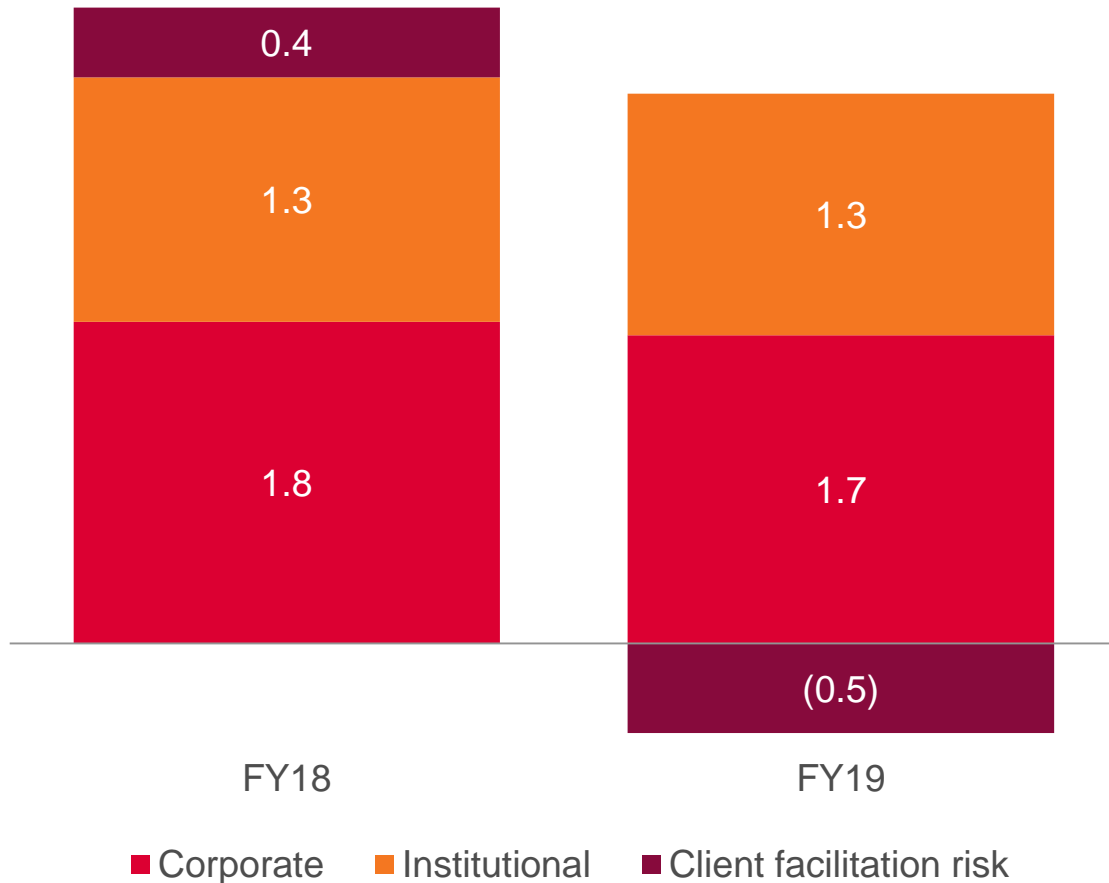
Headline earnings FY19 (%)



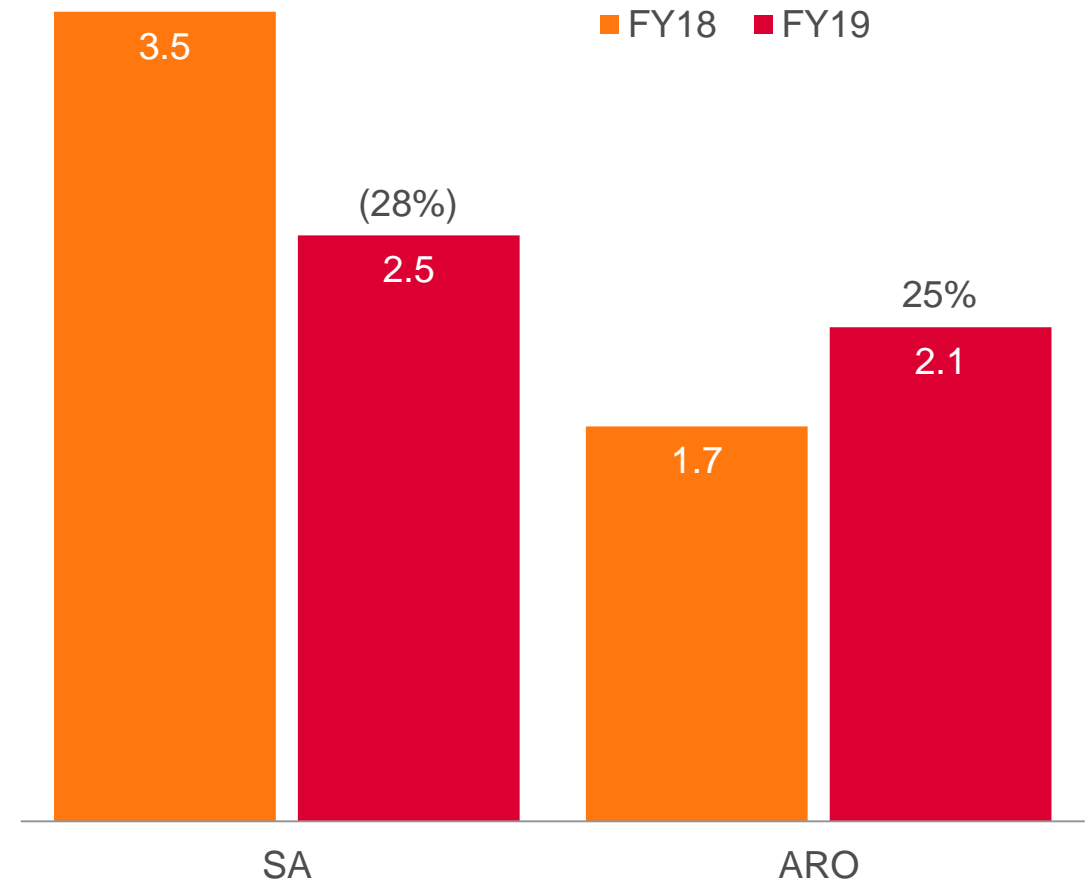
■ South Africa ■ ARO

# CIB Markets performance diverged

CIB SA Markets revenue (Rbn)



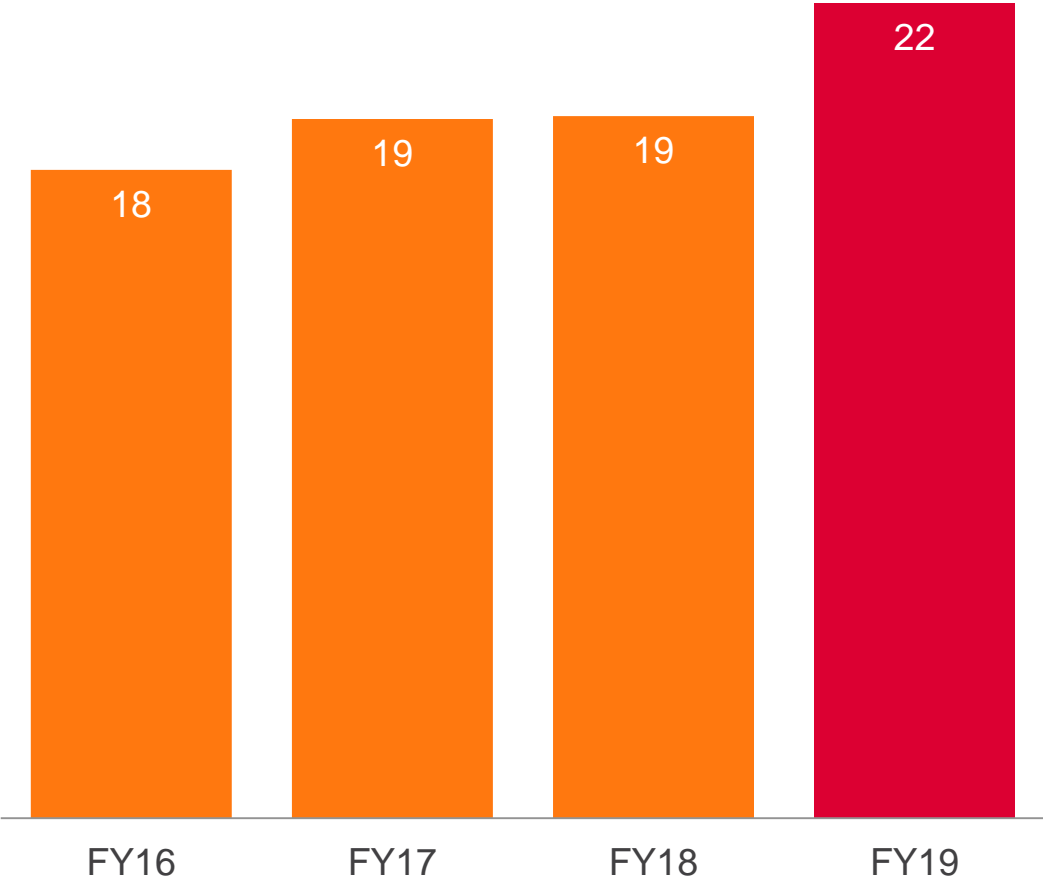
CIB Markets revenue (Rbn)



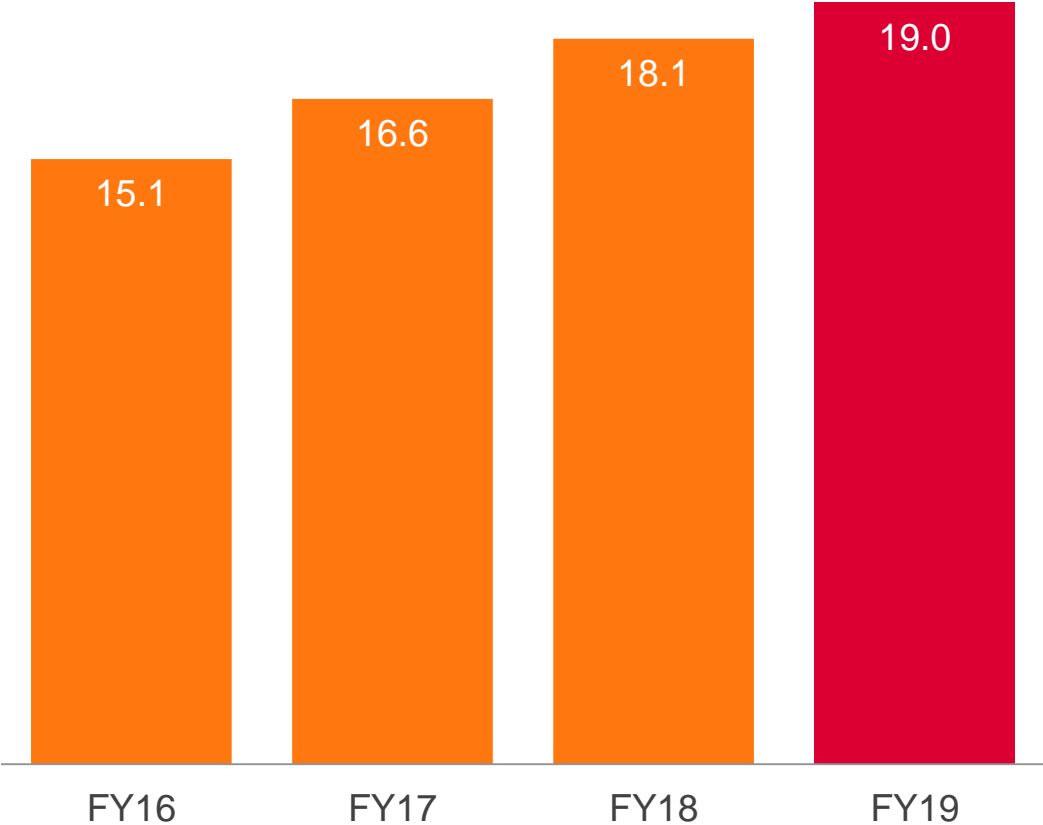


# Africa Regions enhances our earnings growth and returns

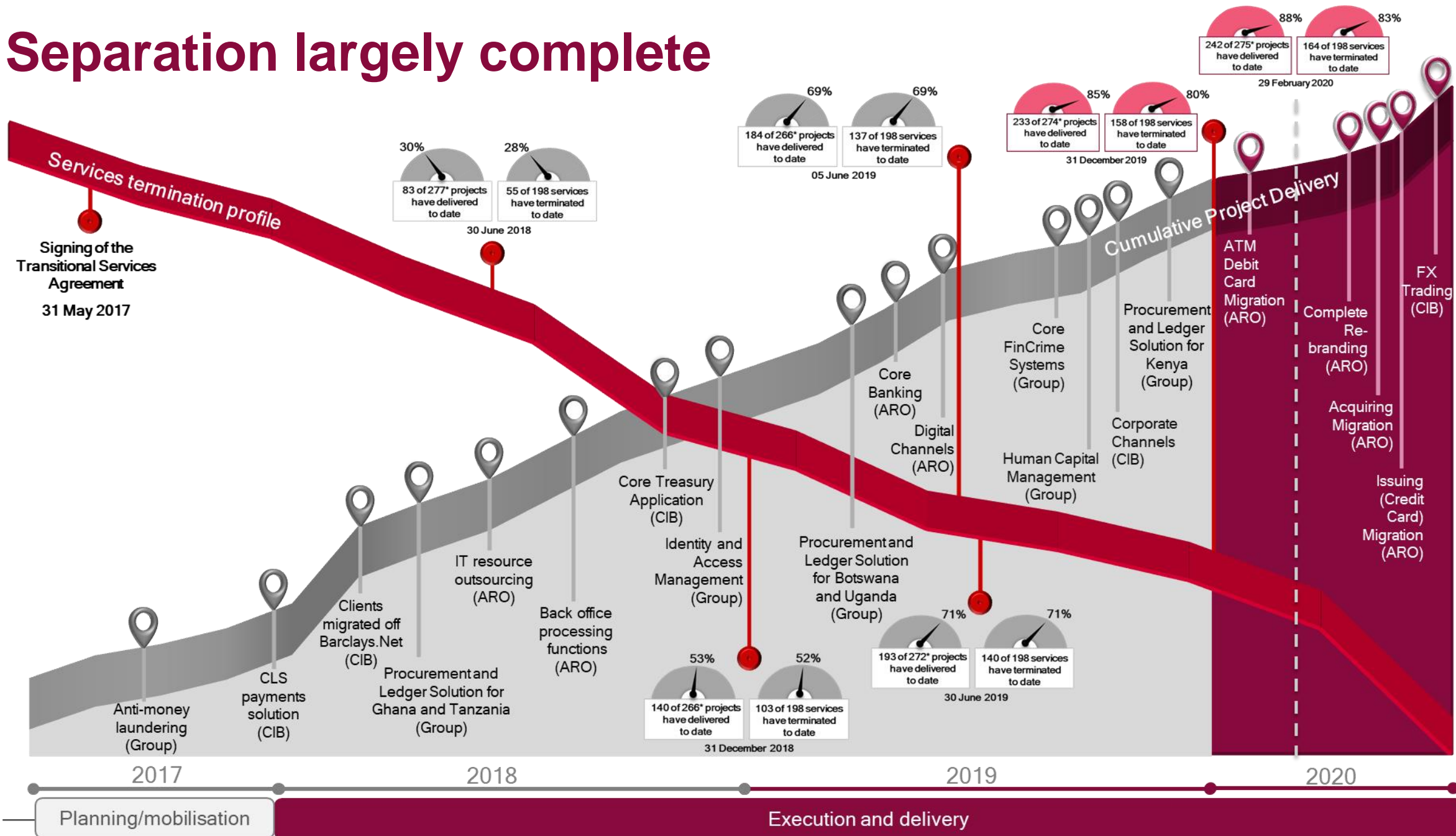
Africa Regions to group headline earnings (%)



Absa Regional Operations RoE (%)



# Separation largely complete



# 2020 outlook and beyond

## 2020

- Tough and uncertain macro backdrop
- We expect solid balance sheet growth
- Net interest margin expected to be similar to 2019
- Costs will remain well controlled and we expect positive JAWS
- Credit loss ratio is expected to increase slightly
- RoE is likely to be similar to 2019
- CET1 ratio should remain at top end of our Board target range, allowing unchanged dividend cover

## Medium-term

- We expect to steadily improve cost to income ratio over the next few years
- RoE target of 18% to 20% appropriate. Do not expect to achieve it until 2022 at the earliest (heavily dependent on SA economy)

# Daniel Mminele

Chief Executive

# Disclaimer

## Forward-looking statements

Certain statements (words such as ‘anticipates’, ‘estimates’, ‘expects’, ‘projects’, ‘believes’, ‘intends’, ‘plans’, ‘may’, ‘will’ and ‘should’ and similar expressions in this document are forward looking. These relate to, among other things, the plans, objectives, goals, strategies, future operations and performance of Absa Group Limited and its subsidiaries. These statements are not guarantees of future operating, financial or other results and involve certain risks, uncertainties and assumptions and so actual results and outcomes may differ materially from these expressed or implied by such statements. We make no express or implied representation or warranty that the results we anticipated by such forward-looking statements will be achieved. These statements represent one of many possible scenarios and should not be viewed as the most likely or standard scenario. We are not obligated to update the historical information or forward looking statements in this document.