

FY18 speaker notes

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Good morning everybody and thank you for joining us on our webcast or on the line.

My presentation will focus on our 2018 financial performance, and then update you on the progress we are making in separating from Barclays, before providing our 2019 guidance and taking your questions.

Normalised salient features

As we separate from Barclays, we continue to give a normalised view of our financial results that better reflects our underlying performance. We reconcile our normalised and reported IFRS results in our booklet and I will refer to our normalised financials throughout the presentation.

Starting with our salient features, diluted headline EPS rose 4%.

As we guided, our dividend per share is up 4%, in line with our HEPS growth.

Our NAV per share grew 4%, despite IFRS 9 reducing equity.

As we guided, return on equity improved slightly to 16.8%.

Our profit after regulatory capital charge, or PARCC, which is a version of economic profit, grew 5% to R2.7bn.

I will cover the other key metrics in some detail in the rest of the presentation.

Shape of income statement in line with guidance

Looking at our income statement, we show normalisation on the right.

We excluded almost R900m in revenue from foreign exchange revaluation and interest earned on the contribution from Barclays. We also normalised for R3.2bn of operating expenses, 66% more than the

previous year. At a headline earnings level, we added back R2bn for the period, compared to R1.2bn in 2017. We expect this quantum to peak in 2019, as we deliver the bulk of our separation effort.

The overall shape of our normalised income statement was as we guided, although the transition to IFRS 9 makes it slightly noisy.

Revenue growth improved from last year, but remains moderate. Our underlying growth was slightly better, with revenue up 5%, or 6% in constant currency, excluding the impact of IFRS9.

Operating expenses remain well controlled, growing at 5%.

Although our operating JAWS were negative, these improved YoY, resulting in 1% higher pre-provision profits, or 5% excluding IFRS 9.

Credit impairments fell 10%, although the underlying improvement excluding IFRS 9 was closer to 1%.

The 14% rise in non-controlling interest was due to the issuance of R1.5bn of additional tier 1 capital in the second half of 2017.

Our normalised headline earnings grew 3% to R16.1bn.

IFRS 9 reduced net interest margin

Implementing IFRS 9 last year reduced our net interest income. Reclassifying recoveries on cured accounts from interest income to credit impairments and increased suspended interest decreased our net interest income by R1.1bn, which reduced our margin by about 12 basis points.

Excluding these IFRS 9 transition impacts, on a like-for-like basis our group net interest margin declined slightly, in line with our guidance.

Despite stronger CIB growth, loan mix improved our margin, largely because of slow growth in mortgages.

Our deposit margin narrowed due to pricing competition for retail fixed deposits and higher wholesale funding, while lower interest rates reduced the endowment on our equity and lazy deposits.

We continue to hedge structural balances of about 13% of our South African capital and liabilities. Our structural hedge released R500m to income, 3 basis points more than last year, to partially offset the negative endowment impact.

Lower rates across our Absa Regional Operations reduced our group margin by 2 basis points.

Within 'other', Treasury's improving asset/liability construct in SA added 6bps, partially offset by the reduction between prime and JIBAR.

With 7% higher average interest-bearing assets, our net interest income rose 3% to R43bn.

Group loan growth momentum continued

Our loan growth improved to 13% from 4% in 2017, increasing our total gross loans to R872bn. Excluding retail mortgages, the growth was 18%.

South Africa, which accounts for almost 90% of our loans, increased 12%.

Our largest book, Retail in South Africa, grew 5%, better than last year's 2% growth.

Business Banking's gross loans rose 11%, driven by 19% growth in term loans.

CIB's gross loans increased 25%, or 13% on average, with strong growth in reverse repos particularly at year end, good momentum in commercial property finance and 23% higher term loans.

Absa Regional Operations' gross loans grew 26%, or 12% in constant currency, with very similar growth from RBB and CIB.

The right hand graph shows the growth in our key retail products in SA, which account for 48% of our total gross loans.

Home Loans, which is 56% of SA retail, grew for the first time in several years as it gained share of new business.

Vehicle and Asset Finance grew 12%, also ahead of the market, given growth in both retail and commercial.

Card increased 4%, although it rose 9% excluding one of our store card portfolios.

Lastly, Personal Loans grew 12%, given strong production growth, as our share of flows increased.

We are pleased with the momentum that is building in retail lending, as well as the quality of new production, which bodes well for improved annuity business.

Improvement in RBB deposits while lower in CIB SA

Although our total deposit growth improved to 7% from 2% in 2017, it lagged our loan growth.

RBB SA grew 11% to R333bn or 45% of our total deposits, after a strong second half.

Retail increased 11% and gained market share, with strong growth in fixed and notice deposits, while cheque account deposits grew 10%.

Business Banking rose 10%, after a strong second half with solid growth in transactional and investment products.

In SA, CIB deposits declined 2%, although its average cheque deposits increased 8% demonstrating progress in gaining primary customers. Growing deposits is a focus for CIB SA and it launched an innovative on balance sheet money market product last month.

Absa Regional Operations' 23% deposit growth is flattered by the weaker spot Rand and was 10% in constant currency. It remains well funded, with a 72% loan to deposit ratio.

Given the gap between our customer loan and deposit growth, deposits from banks and debt securities in issue increased strongly. Growing core deposits is a significant focus for us going forward.

Broad-based momentum building in non-interest income

Our non-interest income growth improved from 1% in 2017 to 5%, or 6% in constant currency. At over R32bn, it increased to almost 43% of our total revenue.

Annuity income is a large component, as net fee and commission income grew 4%, or 6% excluding the sale of Employee Benefits, and accounts for almost 70% of the total.

Net trading income grew 7% after a stronger second half. In South Africa, Markets income increased 10% off a relatively low base, while Absa Regional Operations' trading declined 2% off a high one.

Non-interest income growth was broad-based across our divisions.

RBB South Africa grew its non-interest income 5%, largely due to card issuing and merchant acquiring volumes growing 9% and 13% respectively. As you can see, momentum in Retail Banking's fee and commission income, which accounts for over half group non-interest revenue, has now consistently improved since the second half of 2016.

CIB SA's non-interest income increased 7%, due to Markets growth and 9% higher transactional income in Corporate.

Absa Regional Operations grew 6%, or 9% in constant currency, reflecting growth in Card and Payments, Bancassurance and Corporate.

WIMI's non-interest income grew 6%, with life insurance net premium income up 10%, offsetting slightly lower Investment Management revenue.

Continued to manage costs while investing

Our operating expenses increased 5%, or 6% in constant currency, to R44bn. It included R750m of incremental run costs due to separating from Barclays, plus RBB SA restructuring costs of R200m and a similar amount in rebranding costs that we did not normalise. Excluding these items, our underlying cost growth was closer to 3%.

We are pleased that our constant currency cost growth has been in line with inflation for the past three years.

Staff costs grew 4% and remain the biggest component at 55% of the total. Salaries grew 7%, while incentives declined 2%, largely due to lower share-based payments and deferred bonuses.

Non-staff costs increased 7%, with cash transportation and depreciation up 16% and 17% respectively. The latter reflects IT investments and new property that was brought into use.

Total property-related costs grew only 1%, as we continue to optimise across our estate.

Communication costs were flat, with telephone and postage, plus printing and stationery well contained.

Professional fees grew 9%, reflecting incremental run costs, mostly related to a large technology outsourcing contract. Marketing declined 7% due to lower product campaign spend.

Amortisation of intangible assets grew 25% given investment in digital, data and automation.

Our direct IT costs rose 2%, although our total IT spend – including staff and depreciation – increased 7% to almost R8bn, which is 18% of group expenses.

We remain focused on efficiency, and continue to plan for further savings opportunities in operations, Absa Regional Operations' cost base and technology, and remain focused on discretionary costs.

Credit impairments improved further

We adopted IFRS 9 last year, so credit impairments moved to a lifetime expected credit loss approach from an incurred basis.

IFRS 9 brings forward the recognition of credit provisions, although our charge should not differ through the cycle. It also creates some 'new business strain' as banks grow their loans.

IFRS 9 also introduces greater volatility, as there is a "cliff effect" when loans move between stages. For instance, our December 2018 coverage on retail mortgages in South Africa ranged from 15 basis points in stage 1, to 1.7% in stage 2 and 26% in stage 3. Provisioning is likely to become harder to compare across banks. We provided 27 pages on the transition in our booklet and we plan to give an IFRS 9 teach-in during the second quarter, so I won't go into a lot of detail here.

However, I should mention two technical issues. Firstly, there has been substantial global technical debate on how to treat post write-off recoveries in calculating loss given defaults or LGDs. We

reconsidered our treatment and excluded them from LGDs, which resulted in a R1.9bn or 7% increase in our adjustment as at 1 January.

Secondly, in November the sector received conclusion from the International Financial Reporting Interpretations Committee, or IFRIC, on how to treat interest in suspense recovered on cured stage 3 assets. As a result, for 2018 we have amended our accounting treatment and included R600m as a credit impairment gain, rather than in interest income as we previously did. The change reduced both our revenue and our credit impairments, but had no impact on our bottom line.

Our group credit impairment fell 10% to R6.3bn, resulting in a 73 basis point credit loss ratio from 87 basis points. In order to illustrate what the change in our credit loss ratios would have been, excluding the IFRIC interpretation, we added a third column with the 'underlying' ratios for RBB South Africa.

Excluding the impact of the IFRIC, RBB SA's credit impairments grew 2%, which was in line with our expectations. Our retail credit loss ratio declined further, with noticeable improvements in Card and Home Loans. These offset underlying strain in retail vehicle finance.

Excluding the IFRIC, Business Banking's credit impairments increased 34%, due to book growth and some commercial defaults.

CIB SA's credit impairments increased 76% due to a large charge for a retailer. CIB's watchlist has improved since 2017, although it remains at elevated levels and we continue to closely monitor the construction sector, mining and SOEs.

Our regional operations' credit impairments were better than we expected, dropping 38%, resulting in a 77 basis point credit loss ratio. This reflects a benign macro backdrop, including lower interest rates in all markets, proactive risk management and strengthened collections. CIB's credit loss ratio of 7 basis points is well below its through-the-cycle levels and could increase going forward.

Lastly, stage 3 assets decreased to 5.1% of total loans from 5.5% and our cover improved to 45.1%, which we consider appropriate.

Maintained strong capital levels

Our capital levels remain strong, with our common equity tier 1 ratio stable.

Group risk-weighted assets grew 11% to R819bn, in line with our customer loan growth.

IFRS 9 reduced our CET1 ratio by 7 basis points as we are phasing it in over 3 years.

We remain strongly capital generative, with profit adding 2% to our CET1 ratio, while dividends reduced it by 1.2%.

Our resulting normalised CET1 ratio of 12.0% remains well above the 11.5% top end of our Board target range.

Of course, our capital levels are stronger on a statutory basis, which includes another 0.8% for what remains of the contribution from Barclays.

Our total normalised Group capital ratio is healthy at 15.4%, which includes the \$400m of Basel III compliant Tier 2 capital we issued last April.

Stable underlying divisional returns

Most of our divisions produced stable returns for the period, with RBB South Africa's return on regulatory capital 24%.

CIB South Africa's lower return on regulatory capital was entirely due to its single name provision.

Rest of Africa Banking's RoE improved further to almost 19%, significantly better than 13% when we acquired it five years ago.

Lastly, WIMI's 22% RoE remains well above our cost of equity.

We benefit from a well-diversified portfolio

Our group earnings remain well-diversified both by activity and geography.

RBB South Africa grew 2% to contribute 53% of our earnings.

In total, CIB accounted for over a third of earnings, which is evenly split between Corporate and the Investment Bank.

CIB South Africa's earnings decreased 1% due to negative JAWS and significantly higher single name credit impairments.

Absa Regional Operations increased to 19% of group earnings with earnings up 9%, including strong 26% growth from RBB.

WIMI contributed the remaining 8% of earnings, after growing 3%.

Regaining RBB leadership in SA a priority

Regaining leadership in our largest franchise, RBB SA, is a group priority, and we laid out our plans and medium-term targets at our RBB investor day last December.

Its returns are healthy, although its earnings and revenue growth have been low as we lost market share in past years.

The shape of its income statement is noisy and masks its underlying performance.

Transitioning to IFRS 9 reduced its revenue by R1.1bn and excluding this, growth was 5% rather than 2%. Moreover, restructuring costs and our brand refresh added 2% to its expenses. As a result, RBB's underlying pre-provision profit grew 7%, instead of falling 2%. Of course, the IFRIC also reduced its credit impairments by R600m, excluding which the charge would have increased 2%. So, RBB's underlying earnings growth and momentum were better than it looks in the graph.

RBB's improved balance sheet momentum was very evident, with gross loans up 6% or 10% excluding retail mortgages.

We were pleased to see RBB's deposits grow at 11% and we started to regain market share in retail with a strong fourth quarter. Retail transactional deposits grew for the first time in three years. Deposits remain a key franchise health indicator for us.

Investments are aimed at improving customer experience, strengthening our physical and cyber channels and enhancing our IT infrastructure.

Strong retail loan production while improving pricing

Our asset origination strategies maintained above-market growth in retail loan production, which I mentioned earlier. While growth slowed in the second half in a tough economy, it was off a much higher base since we started improving retail production in the third quarter of 2017.

Home Loan registrations grew 11%, improving our flow market share to 19%, as we focused on higher LTV loans to low risk customers.

Vehicle finance production grew 16%, well above the 1% reduction in SA's new vehicle sales. Renewed focus on dealer relationships increased production in commercial and retail by 13% and 20% respectively. Retail's market share improved to 20%.

Personal loan production rose 24%, largely through improved operational processes and without changing our risk appetite. There remains scope to increase our market share from just 11%.

Our credit card turnover grew 9%, largely due to limit increases to existing low risk customers.

Importantly, as you can see on the right, our new business pricing improved on these key products, and we expect to see further improvement in Home Loans margins, in particular.

Card and Payments underpinned RBB SA growth

As mentioned, adopting IFRS 9 and reclassifying suspended interest on cured accounts distorted the revenue and credit charges of RBB SA's business units. I'll talk to their underlying trends, as the reported numbers are all in our booklet.

Unpacking RBB SA's earnings growth, Card and Payments earnings rose 15%, primarily because of 20% lower underlying credit impairments due to a continued strategic reduction in one of our store card portfolios.

Home Loans earnings were unchanged, despite a 47% reduction in underlying credit impairments, as operating JAWS were negative given low underlying revenue growth.

Vehicle and Asset Finance's net interest income grew 11% like-for-like, which was offset by 42% higher underlying credit impairments due to book seasoning, earlier IFRS 9 provisioning and a suboptimal collections performance on a new system, which we are addressing.

Transactional and Deposits earnings decreased 3%, despite 7% higher pre-provision profits, because of significantly higher credit impairments on overdrafts.

Personal Loans earnings increased 7%, largely due to improved 12% underlying net interest income growth.

Business Banking earnings rose 1%. Underlying pre-provision profit growth of 4% was dampened by 34% higher credit impairments like-for-like.

Underlying momentum in WIMI

While WIMI's earnings grew 3%, SA rose 9% to over R1.3bn and continuing earnings were 8% higher.

WIMI benefited from the momentum within Retail SA, particularly its stronger loan production, while improved collaboration increased branch sales of life products by 18%.

Life's embedded value of new business has grown 15% compound since 2015, given this standalone new business through our bank branches and good credit life sales. Our Life return on EV remains attractive at over 30%.

In SA, our Short-term Insurance underwriting margins widened to 9.6%, given considerably lower catastrophe claims off a high base, re-pricing and improved claims management. Consequently, its earnings grew 52%.

The Investment cluster had a better second half, as net inflows grew assets under management 1% for the year to R337bn. However, margin compression meant its earnings declined 6%.

We continued to dispose of non-core operations, such as Employee Benefits, which did not achieve the requisite scale.

WIMI made a small loss in its Africa regions, which we will remedy near-term.

In line with our strategy, we continue to build better collaboration between our RBB and WIMI businesses.

Corporate drove CIB's earnings growth

Here we present you an overall view of CIB, in line with how it is run on a Pan-African basis.

Earnings grew 2% to R5.9bn or 4% in constant currency. In total, Corporate grew 14%, while the Investment Bank decreased 9%. Corporate increased to 54% of CIB's earnings.

CIB's overall return on regulatory capital was 21%.

CIB's SA earnings declined 1% to R3.4bn, reflecting negative JAWS and significantly higher credit impairments.

Within this, Corporate earnings increased 4% to almost R1.2bn, with 11% revenue growth as it continues to deliver in targeted areas. Trade revenue increased 26% and transactional banking 9%, while deposit revenue rose 12%. Corporate's average advances grew 13% and its net interest margin widened.

Investment Banking comprises Markets, Banking and Commercial Property Finance, and its earnings in SA declined 4% off a relatively high base, due to the large single name credit impairment and negative JAWS.

Markets revenue grew 10% off a low base, with renewables hedging and FX and equities rebounding. Trading in our Markets business has been tough in the first two months of 2019.

Banking revenue declined 2%, following a large reduction in M&A and ECM. We extended a collaboration agreement with Barclays in December, which will help us to provide a holistic client offering.

Commercial property finance continued to perform well with 38% revenue growth. Our total CPF earnings, including from RBB and Wealth, grew 36% to almost R0.5bn and generated a 23% return on regulatory capital. The book remains small compared to peers and well-diversified, with a rising proportion of investment grade loans.

We still see growth potential in target areas and aim to win primary relationships to increase our transactional revenue and deposits. Doing so should improve CIB's returns in SA.

After years of low growth, CIB's SA costs increased 12%, mostly due to building out capabilities after separating from Barclays, opening a small office in London and investing in technology.

CIB earnings in our Absa Regional Operations grew 7%, or 11% in constant currency, to R2.5bn. It increased to 43% of CIB's earnings.

Corporate grew 21%, as significantly lower credit impairments offset negative JAWS. Its non-interest revenue grew 12%, or 16% in constant currency, reflecting growth in customers and transactional accounts. Customer loans grew 25%, or 11% in constant currency, largely to global corporates, public sector and telcos.

IB's earnings fell 27% off a high base that included significant Markets trades. Costs rose 19% due to incremental run costs as we separate from Barclays.

We have identified significant cost opportunities, which will offset the incremental run cost drag over time.

As a reminder, we signed an MOU with Societe Generale to partner with them in Corporate across the continent, given our very complementary geographic footprints. We also separately announced the acquisition of their custody, trustee and derivatives clearing business in SA, subject to regulatory approvals.

The CIB leadership restructuring was completed and announced last week and we intend to host a CIB investor day in the second half, similar to the RBB event late last year.

Lower interest rates across portfolio, spot Rand weaker

Before moving onto our regional operation's performance, it is worth commenting on the macro backdrop.

As usual, real GDP growth in our this portfolio was considerably higher than SA, averaging 5.4% last year, compared to SA's weak 0.8%. Mozambique and SA's GDP growth were below expectation, while Ghana and Uganda were above.

Interest rates declined in all our markets, with significant cuts in Ghana, Tanzania, Mozambique and Zambia. While good for credit impairments and loan growth, this also reduced our net interest margin.

Although differing by country, on average the Rand was slightly stronger in 2018 than in the regional portfolio. So currency was a 4% headwind to the regional operations rand-denominated earnings last year.

However, you can see that the spot Rand rate was almost uniformly weaker YoY, which added 13% to asset growth. As a result, at spot rates, the weaker Rand should provide a slight benefit to first half 2019 group earnings.

Absa Regional Operations enhanced our growth

Our regional operations continued to enhance our growth with earnings of R3.2bn, up 9%, or 13% in constant currency. It accounted for 19% of total earnings and 21% of revenue.

Although its pre-provision profits grew 3%, significantly lower credit impairments were the main driver of its growth.

I covered CIB earlier, which accounts for 75% of their earnings excluding Head Office, Treasury and other.

RBB's earnings grew 26%, or 29% in constant currency, on 10% higher pre-provision profits and 14% lower credit impairments.

Its RoE has improved materially since we bought it in 2013, to almost 19%. We believe this should increase further medium-term, as we reduce RBB's high 71% cost to income ratio and grow our CIB franchise, where returns are attractive.

Maintained separation progress

Before getting into the projects and numbers, I just want to highlight that the separation process has been the catalyst for a significant strategic and cultural reset of our organisation. Separation is progressing well, through delivering a combination of standard lift-and-drop solutions, noteworthy systems refresh, and some substantial transformation.

We have split the 198 services from Barclays into 266 projects in our separation book of work. This includes 24 platinum projects, which are the most complex and interdependent. The number of projects can change as we refine them. At the end of 2018, 103 services contracted with Barclays had terminated and we delivered 140 projects, including 5 that were platinum.

Resources who supported business-critical regional operations applications from the Barclays Technology Centre in India have been successfully transferred to the selected third party, and continue to provide these services under separate contract. We will look to localize resources from India to South Africa over 5 years and plan to localize half by 2021.

This year is critical, as we have 12 platinum projects to deliver. The vast majority remain on track. As with any programme of this size, there has been slippage in some projects, but we have worked hard to get them back on track.

One of the most significant technical projects, being the migration of core banking applications for regional operations entities from the UK to SA will be done in the first half, and will remove existing complexities and improve overall customer experience. We have already completed 6 dress rehearsals to ensure that the "go live" is a success.

This year we will also replace our core financial crime systems with an integrated and analytically advanced system that has substantially improved functionality.

In addition to separation, the programme is consolidating and digitising core technology services. In most instances, we are implementing the same solutions with more recent versions, providing opportunity to improve our current state.

We have made good progress on the work to rebrand our Barclays branded subsidiaries to Absa by June 2020, and products and services in those markets will not be affected by the name change.

Separation remains on track

Barclays contributed GBP765m or R12.6bn to enable us to take the steps required to achieve separation and as you know regulatory deconsolidation was achieved ahead of schedule last year.

The benefit of receiving the contribution upfront is the foreign exchange gains and interest earned on the contribution invested.

There is R7.3bn remaining from the aggregate of the initial contribution and the expected benefits of receiving the contribution upfront.

The expectation remains that separation will be capital and cash flow neutral over time as spend is incurred.

To date we have spent R7.6bn on separation execution and R1.5bn on Transitional Services Agreement costs. These include technology and brand projects, programme support and TSA costs. Platinum projects have been about R3bn of the spend.

We will host an investor day on separation in the second quarter.

Outlook for 2019

I'm going to conclude by giving our guidance for 2019.

In South Africa, we expect 1.7% real GDP growth and we forecast real GDP growth of over 5% in our regional operations. At current levels, the weaker Rand should enhance our first half earnings.

Based on these assumptions, and excluding any major unforeseen political, macroeconomic or regulatory developments, our guidance all on a normalised basis as follows:

We expect stronger deposit growth this year and it should exceed our loan growth. We again see better loan growth from the regional operations in constant currency than from South Africa, where momentum should continue.

Our net interest margin is likely to decline slightly this year, given higher wholesale funding and regulatory costs.

Costs will remain well controlled and we are targeting positive operating JAWS for the full year, although this could be challenging in the first half, given the slow start we expect in the economy and financial markets.

Our credit loss ratio is likely to increase off a low base.

Our RoE should increase slightly in 2019, on the path towards achieving our target of 18% to 20% in 2021.

Lastly, our CET1 ratio should remain above Board targets and we are comfortable with our dividend cover at current levels.

Thanks very much for your attention and I'll now answer your questions.