

1H19 speaker notes

Thank you Rene and good morning everybody.

As usual, my presentation will focus on our first half performance and then I'll briefly update you on our separation from Barclays, before providing our guidance for the rest of 2019 and finally we'll answer your questions.

Reflections on 1H19

Before getting into the details, I wanted to comment on key aspects of our first half performance.

Firstly, the macro economic backdrop in our main markets has been tougher than expected. And it's not just in South Africa where growth has disappointed. We have revised down our GDP growth expectations this year for 8 of our 10 markets. And Global trade tensions have escalated lately, which is negative for emerging markets as a whole.

Secondly, as our investor update in June showed, with only a year to go our separation from Barclays remains on track from a budget and timing perspective. We landed some very important projects during the half, including migrating our core ARO banking system to South Africa. Nonetheless, there is still a lot to complete in the next year.

The separation process has been a positive catalyst for us to "reset" our organization. The extent of operational restructuring is evident in our results, with R500m of restructuring charges in this half and with benefits already starting to flow from the restructuring charges we took in the second half of last year. We have changed our segmentation within RBB South Africa, our largest franchise, to reflect how we run the business and have also included WIMI's Insurance and Wealth businesses in RBB, while Investment Management is now in the Group centre.

Thirdly, you see further evidence of this reset in the improving momentum in our loans, deposits and annuity transactional revenues. Despite the tough operating environment, we have been able to sustain better revenue momentum in our key target areas, with total revenue growth improving to 6%. This is in

line with the medium-term guidance we gave last December to grow revenue in line with the market this year and then faster than it in 2020 and 2021.

Fourth, in response to pressure on revenue growth, we have been executing our cost initiatives at pace. This allowed us to achieve flat JAWS for the half, which was better than guided.

Lastly, we achieved most of the remainder of our guidance, despite the macro backdrop and while executing substantial separation projects.

Normalised salient features

Starting with our salient features, we continue to give a normalised view of our financial results while we separate from Barclays, as it better reflects our underlying performance. I refer to our normalised financials throughout the presentation and we provide a reconciliation of our normalised and reported IFRS results in our booklet

Our diluted HEPS rose 3% and we increased our first half dividend per share in line with this HEPS growth.

Our NAV per share grew 7%, driven by retained earnings and an increase in our foreign currency translation reserve, while the impact of IFRS 16 on equity was negligible.

Given this solid growth in our NAV and a relatively strong base in the first half of 2018, our return on equity declined slightly to 16.4%.

This reduced our PARCC, or profit after regulatory capital charge, for the period by 16% to R1.3bn.

Flat operating JAWS increased our pre-provision profits 7% to R17bn, which outweighed the slight increase in our credit loss ratio.

Shape of income statement as guided

Moving onto the income statement, its overall shape was again largely as we guided.

Revenue growth improved to 6%, or 5% in constant currency, due to 9% higher net interest income and 3% growth in non-interest income. This was despite prior year WIMI disposals reducing revenue by R600m and a R140m revenue drag from implementing IFRS 16.

Operating expenses remain very well controlled, increasing by 6% or 5% in constant currency, with low single digit underlying growth.

Credit impairments grew 19% off a low base and ahead of our loan growth.

Our effective tax rate decreased to 27% from almost 28%.

The 29% rise in non-controlling interest was largely due to issuing additional tier 1 capital in support of our growth ambitions.

Our normalised headline earnings grew 3% to R8.3bn.

We show the normalisation items on the right. Separation-related operating expenses of R900m was the most material item, although this was 37% less than last year's, as Transitional Services Agreement costs fell after localizing more of the services.

At a headline earnings level, we added back R600m in the half, slightly less than last year's R700m, with our IFRS headline earnings up 4%.

Funding reduced net interest margin

As expected, our net interest margin declined, mostly due to funding margins. Our average weighted interest bearing assets grew 13% to just over R1tn and our net interest income grew 9%.

Our loan margins declined mostly due to Investment Bank SA's strong growth in preference shares, as well as higher suspended interest. Pricing was lower in Relationship Banking, while front book margins continued to improve in Home Loans and Personal Loans.

Slower growth in Home Loans than our overall book was positive for our loan mix, although this was partially offset by strong CIB growth.

Our deposit margin narrowed due to competitive pricing in Everyday and Relationship Banking.

Increased reliance on wholesale funding and stronger growth in lower margin Everyday Banking deposits had an adverse mix impact.

The combined 5bp negative impact from our capital and deposit endowment income was due to slower growth in these balances than in our overall interest bearing assets, rather than lower interest rates.

We continue to hedge structural balances of about 13% of our South African capital and liabilities. Our structural hedge released R240m, or 5 basis points, to the income statement, which was in line with the previous period.

In ARO, lower rates in many of our markets and competitive pricing of foreign currency loans and deposits further reduced our group margin slightly.

The negative impact of implementing IFRS16 was the main item in 'other', although there was an offset in costs.

Our net interest margin declined only slightly from the 4.59% recorded in the second half of 2018.

Loan growth momentum maintained

We maintained last year's momentum in lending. Our gross loans increased 12% to over R900bn, as we added R100bn year-on-year, and R40bn year to date.

Growth was evident across most businesses.

RBB SA, our largest book, grew 7%, an improvement from last year's figure of 5% growth.

CIB SA's gross loans rose 23%, although most of this was already booked in the second half of 2018, and low margin reverse repos increased 80% to R45bn. Commercial property finance grew 35% on average, off a relatively low base, while term loans declined slightly this year.

ARO's gross loans increased by 15%, with consistent growth from RBB and CIB.

Looking at RBB's loan growth in SA on the right, our key products all achieved solid growth besides Home Loans. Excluding Home Loans, RBB SA grew 11%.

Importantly, Home Loans has gained 2% market share of new business this year.

Vehicle and Asset Finance grew 8%, as it also increased share to offset declining industry sales.

Personal Loans grew 12%, due to strong production via branches and digital channels and targeted marketing campaigns.

Credit cards increased 9%, largely due to limit increases.

Lastly, Relationship Banking grew 13%, with double digit growth in commercial property finance, Agri, term loans and commercial asset finance.

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

With improving deposit growth

As you know, growing core deposits is one of our priorities, and is also an indicator of improving franchise health.

Total deposits grew 12% year-on-year, with strong growth of over R60bn year to date, well ahead of loans. Customer deposits account for 74% of our total funding mix.

RBB SA grew 13% to R349bn or 44% of our total deposits, in part due to a strong second half of 2018.

Everyday Banking deposits increased 12%, ahead of the market's 9%.

Relationship Banking, rose 14% with growth in transactional and savings due to new products and growth in the public sector.

Deposits is a focus area for CIB SA and its deposits grew 13%, with corporate transactional deposits up 12%. We successfully launched an on balance sheet money market product in the first quarter.

ARO's deposits increased 10%, or 11% in constant currency. Although below its loan growth, its loan to deposit ratio remains low at 82%.

Our proportion of long-term funding was comparatively high at over 27%.

And non-interest income growth emerging

Balance sheet growth and a focus on improving customer primacy is starting to translate into improving non-interest income growth.

Our non-interest income increased 3%, or 2% in constant currency, to over R16bn or 42% of total revenue. It grew 6% excluding the fall in net trading income.

Annuity income is a large component, as net fee and commission income accounted for 71% of the total after growing 5%.

Net trading declined 10% and is a relatively small part of our overall non-interest income, while net premium income from the Insurance Cluster is a big part of Other.

Looking at our divisions, RBB South Africa grew its non-interest income 8%, with solid 11% growth in merchant income, 6% higher net fees and commissions and the Insurance Cluster up 5%.

CIB SA's non-interest income fell 20%, with the Investment Bank down a third due to our Markets business, which I will cover later. This was partially offset by Corporate's solid 12% growth.

Our Regional Operations grew 19%, or 12% in constant currency. RBB ARO rose 15%, or 8% in constant currency, due to higher card volumes and 16% growth in bancassurance sales. CIB ARO increased 23%, or 15% in constant currency, with strong growth in the ARO Markets business and solid growth in ARO Corporate customers and transactional accounts.

Underlying cost growth well contained

Our operating expenses increased 6%, or 5% in constant currency, to R22bn.

However, this includes R400m of incremental run costs due to separating from Barclays, plus restructuring costs of R500m. Excluding these items, our underlying cost growth was closer to 2%. Implementing IFRS 16 and prior year WIMI disposals reduced our costs by 1%, which is similar to the impact of a weaker Rand.

Staff costs grew 8%, or 6% in constant currency, and remain the biggest component at 57% of the total. Salaries grew 12%, or 10% in constant currency, with restructuring costs about half of this growth. Incentives decreased 13%, with bonuses and share-based payments down a similar amount.

Our headcount in South Africa declined by 1700 colleagues YoY, or 5%, largely due to RBB SA's restructuring.

Non-staff costs increased 4%, including 21% lower marketing, 2% higher professional fees and 5% growth in cash transportation costs.

IT costs grew 17%, due largely to R200m of post separation run costs and annual contract increases. Our total IT spend, including staff and depreciation, grew 13% to R4.5bn, which is 20% of group expenses.

The 54% growth in depreciation and 43% lower property-related costs were due to adopting IFRS 16, which added R500m in depreciation for right-of-use assets, with a corresponding decrease in property operating lease expenses. Our total property costs continued to benefit from optimizing our corporate and retail branch portfolios and was flat YoY.

Amortisation of intangible assets grew 29% due to a R1.1bn increase in software development costs to R5bn.

The 21% growth in communication costs reflect higher market data costs in CIB after separating from Barclays.

We see further savings opportunities in operations and technology, ARO's cost base, and WIMI, while also reducing discretionary costs. Given management actions, the incremental run costs I mentioned in

March are coming through much lower than we expected. It's important to highlight that the benefits from our restructuring over the past year should become more evident in 2020.

Credit impairments trended upward off a low base ...

As expected, our credit impairments increased off a relatively low base, rising 19% to R3.7bn and increasing our credit loss ratio slightly to 79 basis points.

Our YoY credit impairment comparison is now like-for-like, after adopting IFRS 9 last January. You may notice that we reduced our comparative first half 2018 net interest income and credit costs by R300m after the International Financial Reporting Interpretations Committee announced its conclusion on how to treat interest in suspense recovered on cured stage 3 assets. The change had no impact on our bottom line and is consistent with our treatment at year end in 2018.

RBB SA's credit impairments grew 20%, resulting in a 112 basis point credit loss ratio. Home Loans almost trebled, off a very low base of just 5 basis points. Everyday Banking, the largest component, increased 19% to R2bn, slightly ahead of its 10% loan growth, in part due to a one-off recovery in a storecard portfolio in the base.

Vehicle and Asset Finance's charge increased 7%, in line with book growth, as improving early arrears offset some pressure in the late cycle and legal portfolios. Relationship Banking's credit loss ratio increased slightly, reflecting normalizing losses in commercial asset finance and macro-economic pressure on SMEs, partially offset by recoveries in Wealth and commercial property finance.

CIB SA's credit impairments fell 25% and reduced its credit loss ratio to 18 basis points. This was largely due to the non-recurrence of a single name charge in the comparative base.

ARO's credit charge rose 64% year on year, off a low base, particularly in CIB.

Lastly, stage 3 assets improved to 4.8% of total loans from 5.3% and we consider our 44% cover on this appropriate.

... although at low end of through-the-cycle range

Our group credit loss ratio of 79 basis point is at the bottom end of the through-the-cycle annual charge we expect under IFRS 9. We expect our charge to range between 75 and 100 basis points over time, although it can obviously beat or exceed this in trough or peak years.

We constructed this range bottom up, based on a range of 110 to 155 basis points for RBB SA. Its first half charge was at the bottom end of this range. Home Loans is a key driver here given its size, and we expect it to range between 25 and 35 basis points.

We expect CIB overall to range between 20 and 30 basis points, so its 22 in the first half is at the bottom end, having been at the upper end last year.

ARO's charge should be between 100 and 140 basis points, so it was slightly below this in the first half.

Capital levels remain strong

Moving onto our capital base, which remains strong, our common equity tier 1 ratio was stable, despite our improved loan growth.

Group risk-weighted assets grew 10% to R844bn, slightly less than our customer loan growth.

We remain strongly capital generative, as profits added 2% to our CET1 ratio year on year, while dividends reduced it by 1.1%.

Our resulting normalised CET1 ratio of 11.9% is at the top end of our Board target range.

Of course, our capital levels are stronger on a statutory basis, which includes another 50 basis points for what remains of the separation contribution from Barclays.

Our total normalised Group capital ratio is healthy at 15.4%.

Divisional returns stable besides CIB SA

Our divisional returns remained broadly consistent except for CIB SA.

RBB South Africa's return on regulatory capital was stable and remains attractive at 23%.

CIB South Africa's low return on regulatory capital was all due to its lower Markets revenue.

ARO's RoE was stable at 19% and remains far higher than the 13% when we acquired it six years ago.

Continue to benefit from a well-diversified portfolio

Our group earnings remain well diversified by product, activity and geography.

RBB South Africa, which now includes the Insurance Cluster, grew 4% to contribute 60% of our earnings. RBB SA itself is well diversified.

ARO's earnings increased 8% to account for 21% of group earnings, from 13% in 2013.

These two outweighed the 10% fall in CIB South Africa's earnings due to its negative JAWS on the back of lower Markets revenues.

On a total view, CIB's earnings declined 5%, or 8% in constant currency, and accounted for over a third of group earnings.

Pre-provision profit growth stronger outside of CIB SA

Positively, the group's pre-provision profits grew 7%, well ahead of last year's 1% growth.

RBB SA's positive JAWS produced 8% higher pre-provision profits, given its improved topline growth.

ARO's pre-provision profits grew strongly, driven by its 18% revenue growth.

CIB SA's pre-provision profits fell 16%, again due to 28% lower Markets revenue.

CIB's total pre-provision profits were 3% lower.

Everyday Banking and VAF underpinned RBB SA growth

This slide shows the earnings from RBB SA's new operating segments in the manner set out at our investor day last December. There have been several changes from our previous segments. For instance, Vehicle and Asset Finance is considerably smaller, as it excludes commercial asset finance that moved to Relationship Banking. Its earnings increased to R122m, largely due to positive JAWS on 8% net interest income growth and 2% lower costs.

Everyday Banking incorporates Transactional and Deposits, Personal Loans and Card issuing, to create a large business that made R4bn last year. Its earnings grew 11% to R2bn, due to 14% higher pre-provision profits on solid balance sheet and non-interest income growth, which outweighed 19% higher credit impairments.

Relationship Banking is another large segment that includes Business Banking, card acquiring, commercial asset finance, Private Banking, Wealth and Financial Advisory. It grew 4% to R1.7bn, as pre-provision profits increased 6%, largely due to cost containment. It also achieved 14% balance sheet growth. Relationship Banking produces a strong RoE of 24%.

RBB's Insurance Cluster includes life and short-term insurance. Enhanced products and collaborating with RBB saw new business sales reach 100 000 a month in SA. Earnings increased 7% to almost R600m, with Life up 14% while Short-term declined 11%. Life net premiums grew 10% and its embedded value of new business rose 8%. In Short-term, weather-related claims increased materially and reduced the underwriting margin.

Home Loans earnings decreased 7%, as credit impairments increased materially off a very low base. Its pre-provision profits increased 2%. Home loans gets a lot of attention, because it accounts for 29% of group loans, although it's only 15% of RBB SA's earnings.

Momentum continues in retail loan production

Maintaining momentum in our loan production is an important part of regaining leadership in RBB SA.

As I mentioned, our loan production strategies saw us maintain above-market growth in retail lending, in a tough economy and compared to a higher base, because we started improving our loan production in the second half of 2017.

Home Loan registrations grew 16%, well above the market's 7% growth in registrations, improving our flow market share to 22% from 20%, as we focused on granting higher LTV loans to low risk customers. Our average LTV on new mortgages increased to 87% from 84%.

In vehicle finance, production slowed to 2%. However, this growth came in a contracting market with new sales down 4% and new and used financed vehicles declining 9% and 7% respectively. We strengthened our dealer relationships and improved our share in the used segment by 2%.

Personal loan production grew 20%, largely through improved operational processes and without changing our risk appetite. There is further scope to increase our low market share here of just 11%.

Credit card turnover grew 9%, largely due to increasing limits for existing customers.

We get many questions about our retail loan pricing as we gain share of new business in a subdued market. Importantly, as you can see on the right, our new business pricing improved by 15 basis points in Home Loans and 67 in Personal Loans, while credit cards was flat. Pricing remains tight in Vehicle and Asset Finance, with increased competition in a weak market.

IB SA reduced CIB's total earnings

Moving onto CIB, we show the components of CIB in total, in line with how we run it on a Pan-African basis.

CIB's earnings decreased 5%, or 8% in constant currency, to R2.8bn. In total, Corporate declined 4%, while the Investment Bank decreased 5%, as they both made R1.4bn.

Including ARO improves CIB's return on regulatory capital to 18%, although this is down from 22% last year.

CIB's earnings in SA declined 10% to R1.5bn, as 5% lower revenue produced negative JAWS that outweighed 25% lower credit impairments off a high base.

Within this, Corporate earnings declined 4% to over R500m, due to significantly higher credit impairments. Nonetheless, Corporate extended its track record of double digit revenue growth, which increased its pre-provision profits 27% given flat costs. Its underlying revenue momentum was strong with significant growth in debt and trade finance, and working capital, although a decline in the collections business dampened its transactional revenue. Its average loan growth was 14%, while deposits were flat.

Investment Banking includes Markets, Banking and Commercial Property Finance. Its SA earnings fell 13% to R1bn, with the opposite drivers to Corporate. Revenue fell 16% and costs rose 10%, outweighing a material decline in its credit impairments off a high base.

As mentioned, Markets revenue declined 28%, with Fixed Income and Credit down 21%, FX and commodities fell 11%, and Equities and Prime Services dropped 71%.

Banking revenue declined 5%, with Global Finance and Advisory down. These offset a favourable performance in resource and project finance and strong growth in the preference share business.

Commercial property finance continued to perform well, with revenue up 31%, although it remains small compared to peers. Our CPF book is well diversified, with a rising proportion of investment grade loans that saw a small net reversal in credit impairments. We expect CPF's growth to slow.

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 low returns in SA.

CIB earnings in our Absa Regional Operations grew 3% to R1.2bn, largely due to the weaker average Rand, as it declined 4% in constant currency.

Corporate' earnings declined 4%, as credit impairments normalised off a low base and its JAWS were negative. ARO's IB earnings rebounded, rising 22% or 13% in constant currency, given solid 25% revenue growth, as we continue to build our client franchise and roll out more advanced infrastructure.

Unpacking CIB's Markets performance

Given the negative variance, we thought it important to spend some time unpacking our Markets performance.

The graph on the left gives a different view of our SA trading operations. It shows that our client franchise remains healthy, as we maintained our share of a declining institutional market and grew our corporate trading revenue. Markets client facilitation risk was the swing factor, given its negative contribution in the first half of 2019.

On the right we show ARO's Markets revenue, which grew 25% off a relatively low base, reducing our overall trading revenue decline to 11%.

The key takeaway is that CIB's core client franchise remains healthy and that ARO diversification remains intact.

Africa Regions enhances our earnings growth and returns

It is very evident from the graph on the left that Africa Regions has enhanced our earnings growth, particularly given South Africa's low growth for the past three years.

Africa Regions' earnings grew 12% to almost R1.8bn, although this was closer to 4% in constant currency. It accounted for 21% of our earnings and 24% of group revenue.

Its pre-provision profits grew 21%, partly offset by normalising credit impairments.

I covered CIB earlier, which accounts for three-quarters of its earnings. RBB's earnings grew 2%, due to its positive operating leverage and the weaker Rand.

ARO's RoE has improved materially since we bought it in 2013, to around 19%. We believe this should increase further medium-term, as we grow our CIB franchise, where returns are attractive, and reduce RBB's high 70% cost to income ratio once we have concluded the separation.

Separation to date

There is nothing material to add on our separation from Barclays since our market update in June. As the graph shows, we have delivered another 9 projects and terminated 3 services contracted with Barclays since then.

To date, we have spent R9bn on separation execution, almost half on platinum projects, and R1.8bn on Transitional Services Agreement costs. Year to date costs included HR and compliance, rebranding, corporate channel and FX systems, and programme support costs. We continue to expect that separation will be capital and cash flow neutral over time.

Outlook for 2019

I will finish by updating our guidance for the rest of 2019.

In South Africa, we expect 0.5% real GDP growth this year, well below the 1.7% we expected when I presented to you in March. We have also reduced our expectations for our regional operations particularly Mozambique, although they should still average almost 5%.

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

We continue to expect stronger deposit growth this year, which should exceed our loan growth. We expect better loan growth from ARO in constant currency than from South Africa. RBB SA's momentum should continue, although CIB is likely to slow to mid- to high single digits.

We previously also expected flat rates in SA this year and last month's cut will reduce our net interest income by R200m in the second half. Our net interest margin is likely to decline this year, given higher wholesale funding costs and our funding mix. Our margin will probably be similar to first half levels.

Costs will remain well controlled and we are targeting flat to positive operating JAWS for the full year.

Our credit loss ratio is likely to be similar to 2018. Given the usual seasonality, it should remain slightly below our target range, barring any large corporate defaults.

Our RoE is likely to be marginally lower in 2019, given our weak Markets performance YTD. However, we remain committed to our target of 18% to 20% in 2021.

Also, it's important to note that the second half of 2018 was a relatively weak base from an earnings perspective.

Lastly, our CET1 ratio should remain at the top end of our Board target range and we remain comfortable with our dividend cover at 2018 levels.

Thanks very much for your attention and we'll answer your questions now on Slido.