



# Absa Group Limited

Fixed Income Investor Roadshow

# Table of Contents

1. Group Performance Update
2. Liquidity and Capital Position
3. Fixed Income Overview
4. Appendix

**Group  
Performance  
Update**

**( 1 )**

# Normalised performance in line with guidance

Rm	1H18 <sup>1</sup>	1H19 <sup>1</sup>	Change (%)	Normalisation adjustments
Net interest income	20 874	22 667	9	113
Non-interest income	15 854	16 404	3	(32)
Total income	36 728	39 071	6	81
Impairment losses	3 117	3 695	19	-
Operating expenses	20 834	22 136	6	(863)
Other*	832	760	(9)	(40)
Taxation	3 322	3 385	2	181
Non-controlling interest	651	837	29	(24)
Headline earnings	8 043	8 267	3	(617)
CET1 (%)	12.2	11.9	(0.3)	-
CAR (%)	15.7	15.4	(0.3)	-
RWA	766.6	844.3	10	-

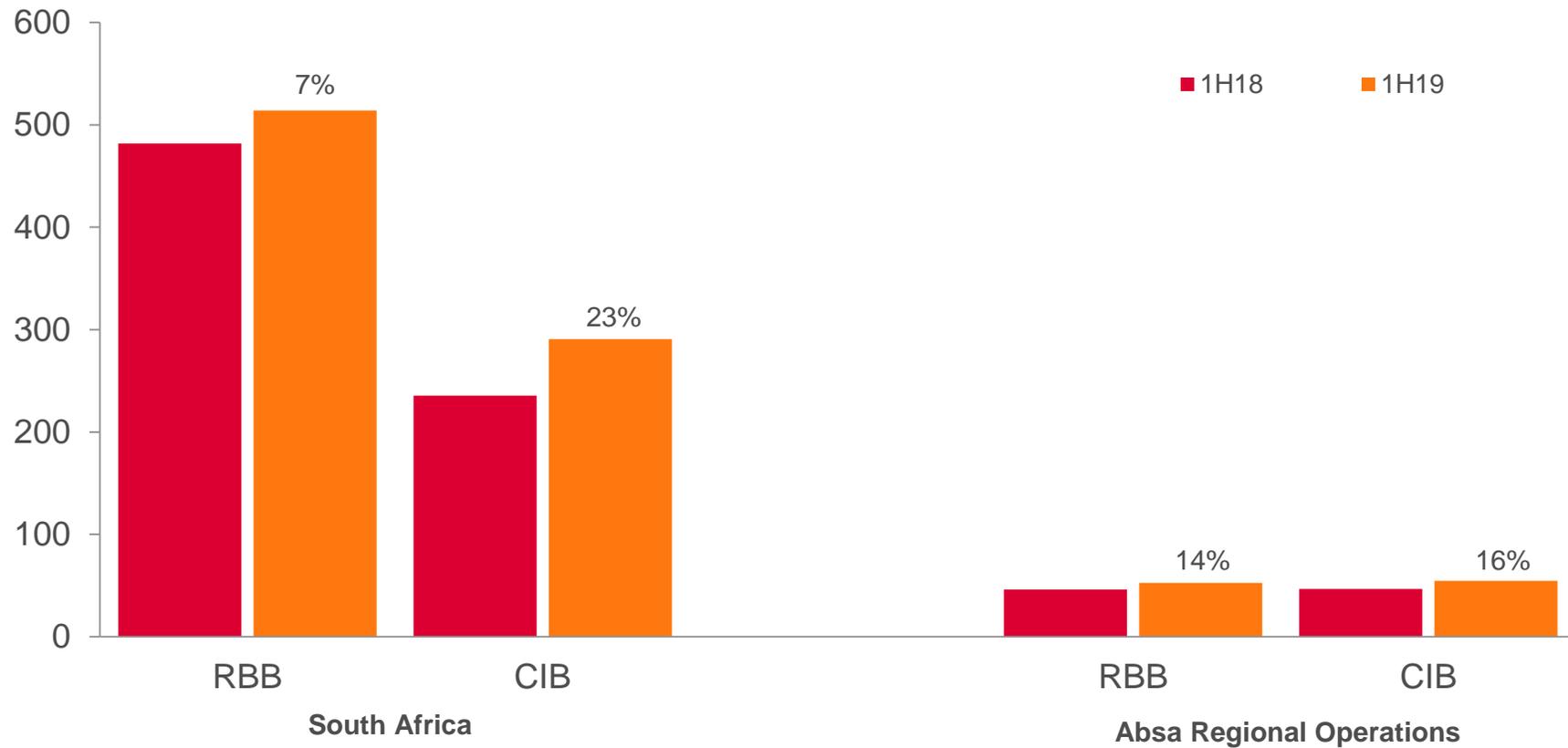
Notes: 1. Source: Absa Group Limited Results Booklet 30 June 2019

\* Includes other impairments, indirect tax and associates' and JVs share of post tax results

Source: Absa Group Limited Results Booklet 30 June 2019

# Loan growth momentum maintained

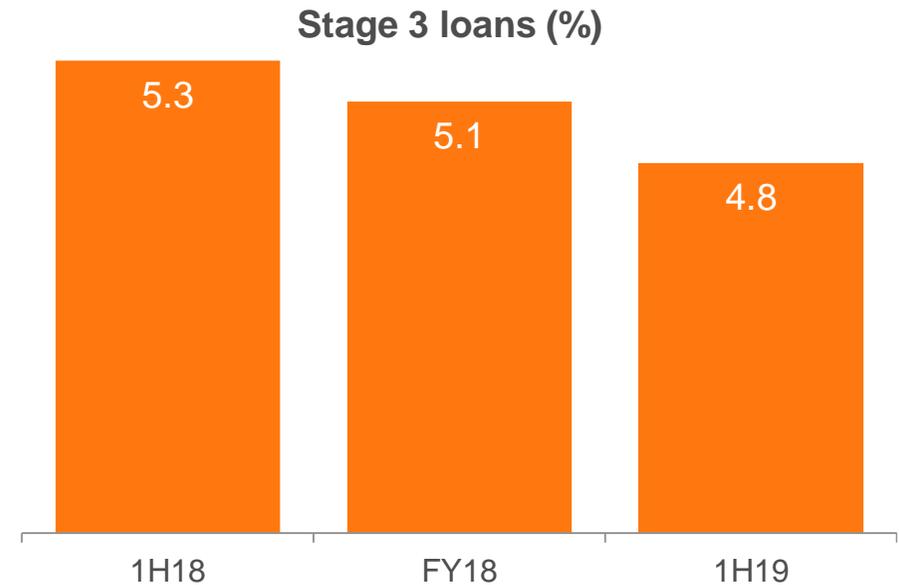
Gross customer loans (Rbn)



Source: Absa Group Limited Results Booklet 30 June 2019

# Credit impairments trended upward off a low base

Credit loss ratio (%)	1H18	1H19
RBB SA	0.99	1.12
Everyday Banking	4.58	4.93
VAF	1.42	1.39
Home Loans	0.05	0.13
Relationship Banking	0.28	0.32
CIB SA	0.30	0.18
Absa Regional Operations	0.72	0.94
<b>Group</b>	<b>0.75</b>	<b>0.79</b>

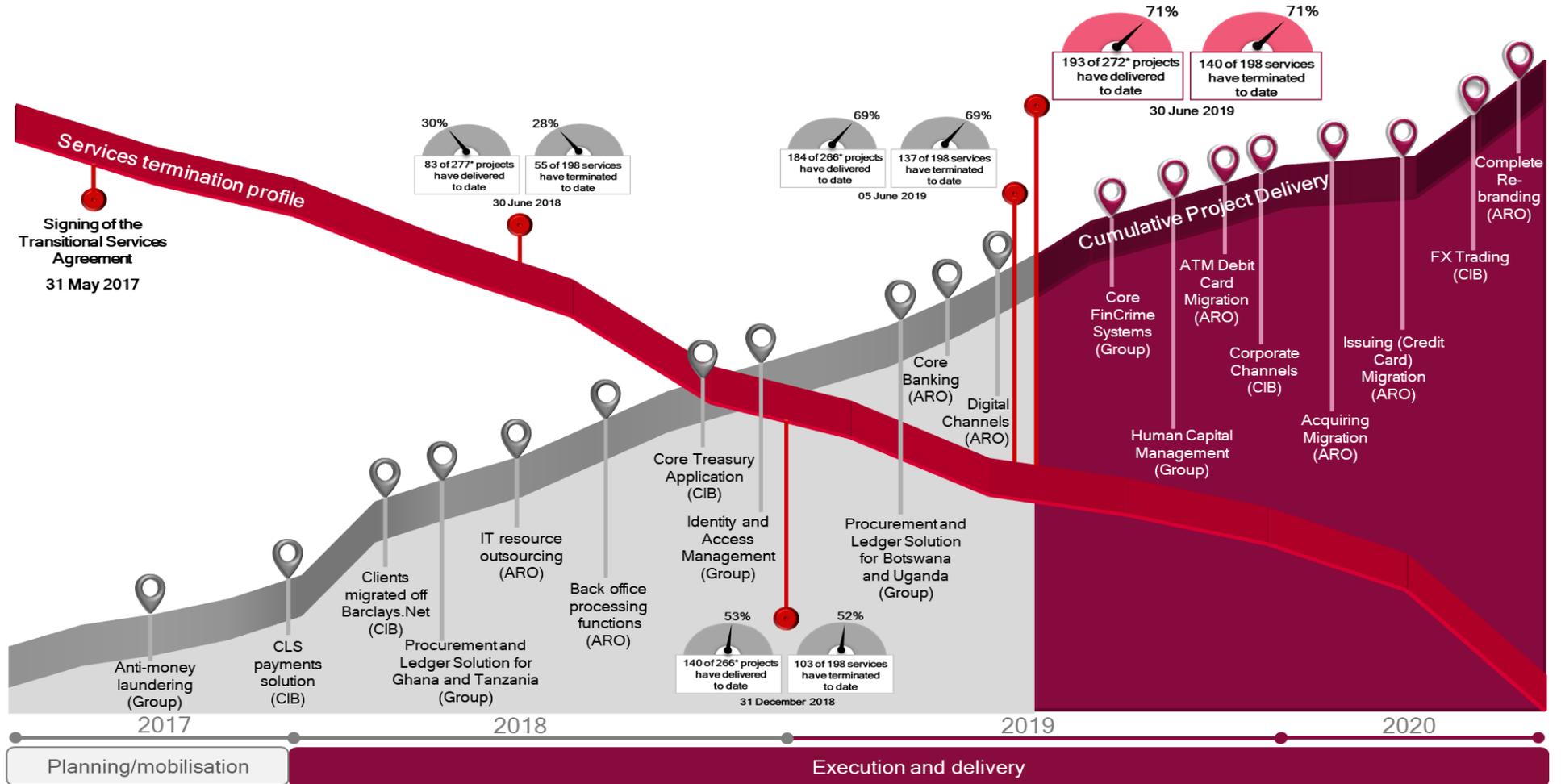


## Expected range through-the cycle (bps):

- RBB SA 110 to 155
- Total CIB 20 to 30
- ARO 100 to 140
- Group 75 to 100

Source: Absa Group Limited Results Booklet 30 June 2019

# Separation to date



\*Total project numbers are under constant review and subject to change

# Separation update in ARO



**Olá**

*Bem-vindo ao banco  
que o ajuda a fazer  
as coisas acontecerem.*

O Barclays Bank Moçambique, SA passará  
a operar como **Absa Bank Moçambique, SA**  
a partir de 11 de Novembro.

Absa Bank Moçambique, SA (registoado sob o número 101220982) é regulado pelo Banco de Moçambique.



# Liquidity and Capital Position

( 2 )

# Asset and liability management position in line with risk appetite

- The liquidity position of the Group remained healthy, in line with risk appetite, and above the minimum regulatory requirements.
- LCR was consistently maintained at a buffer in excess of the regulatory minimum requirement of 100%
- Long-term funding was raised with appropriate tenor to support the growth in long-term assets, while optimising funding cost and complying with the requirements of the NSFR
- Less than 5% of balance sheet requirement is in hard currency
- Each banking entity is self sufficient from a liquidity perspective
- Strong deposit franchise particularly in Retail

BA900 Market Share <sup>2</sup>			Balance sheet Deposit Growth <sup>1</sup>		
Sector	Market Share	Rank	Sector	Y/Y Growth	% of Funding <sup>4</sup>
Retail	22%	2	RBB SA	13%	36%
Corporate	18%	3	CIB SA	13%	22%
Wholesale	18%	4	ARO	10%	15%
			Wholesale <sup>3</sup>	8%	28%

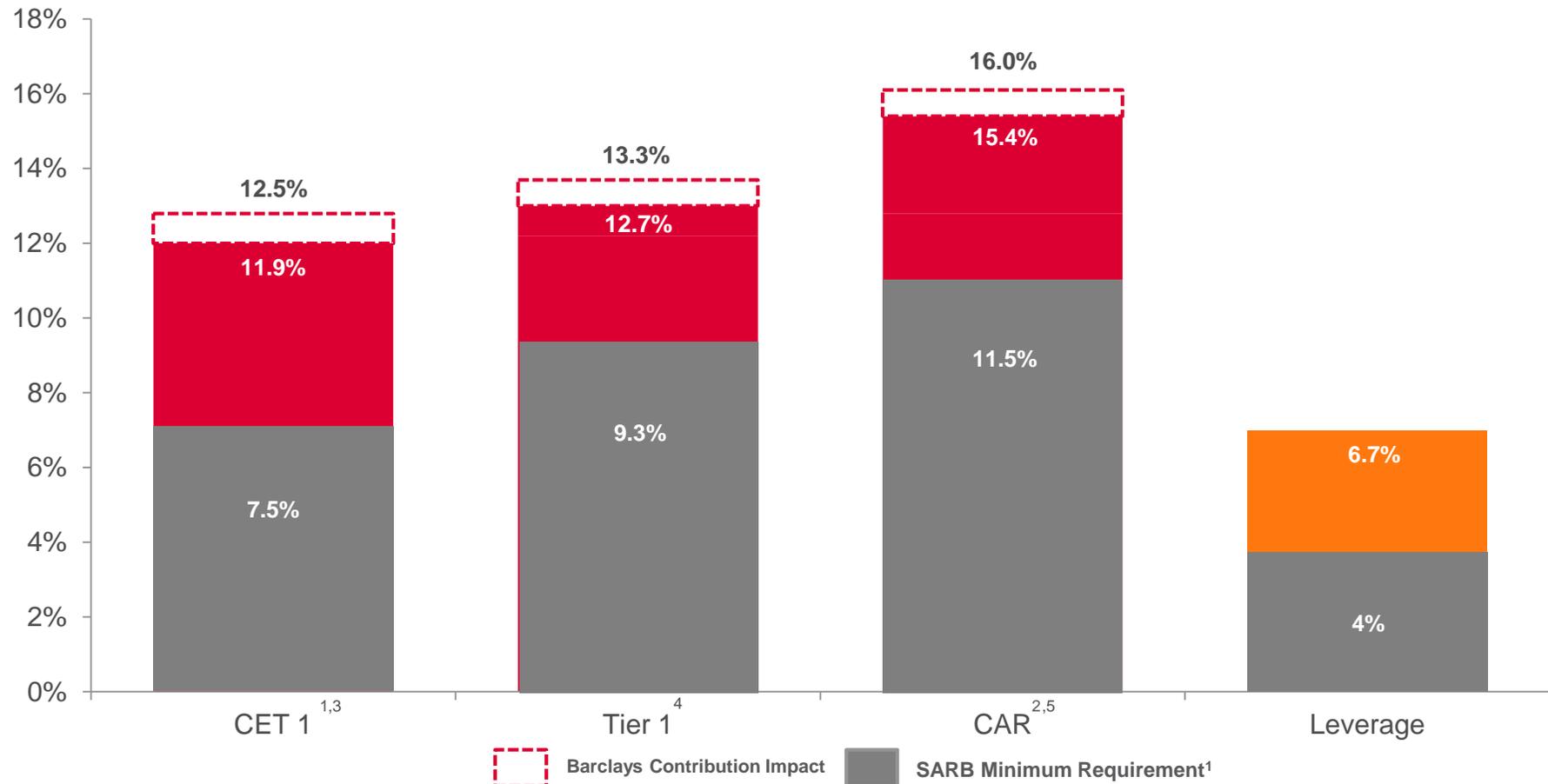
Note: 1. Absa Group Limited Results Booklet 30 June 2019;  
 2. Based on SARB BA900 report data as at 30 June 2019  
 3. Head office, treasury and other operations in SA plus Debt securities in issue  
 4. Deposits due to customers and Debt securities in issue  
 5. Average Balances  
 6. Based on a 200 bps decrease in market interest rates

## Absa Group Key Risk Metrics<sup>1</sup>

	HY 19	HY 18
Net Stable Funding Ratio (NSFR) (%)	111.4	106.0
Liquidity Coverage Ratio (LCR) (%)	127.0	108.6
Loans and advances to customers and banks (R'bn) <sup>5</sup>	918.0	809.1
South Africa	805.0	719.9
Absa Regional Operations	113.0	89.2
Deposits from customers and banks (including debt securities in issue) (R'bn) <sup>5</sup>	1057.5	904.8
South Africa	911.2	785.6
Absa Regional Operations	146.3	119.2
Foreign Currency Deposits Contribution of Total Deposits (%)	<5	<5
Loan-to-Deposit ratio (%)	86.8	89.4
	FY18	FY17
Annual Earnings at Risk as a % of NII <sup>6</sup>	6.3%	4.6%

# Capitalised in excess of regulatory requirements

Absa Group Limited can optimise its capital position further through the issuance of AT1



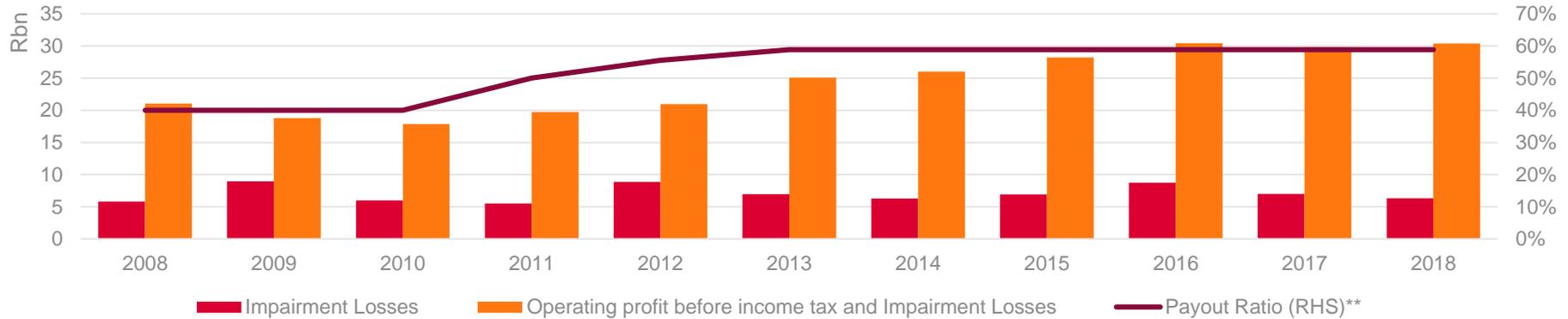
Notes: \* SARB minimum requirements excludes Pillar 2B and D-SIB;

- 1. Common equity Tier 1
- 2. Capital adequacy requirement
- 3. CET1 Board Target: 11% - 12%
- 4. Tier 1 Board Target: 12% - 13%
- 5. CAR Board Target: 14.5% - 15.5%

Source: Absa Group Limited Results Booklet 30 June 2019

# Excess loss absorption capacity c. 8% of RWA

Impairments, Operating profit before income tax and impairments and Payout ratio\*



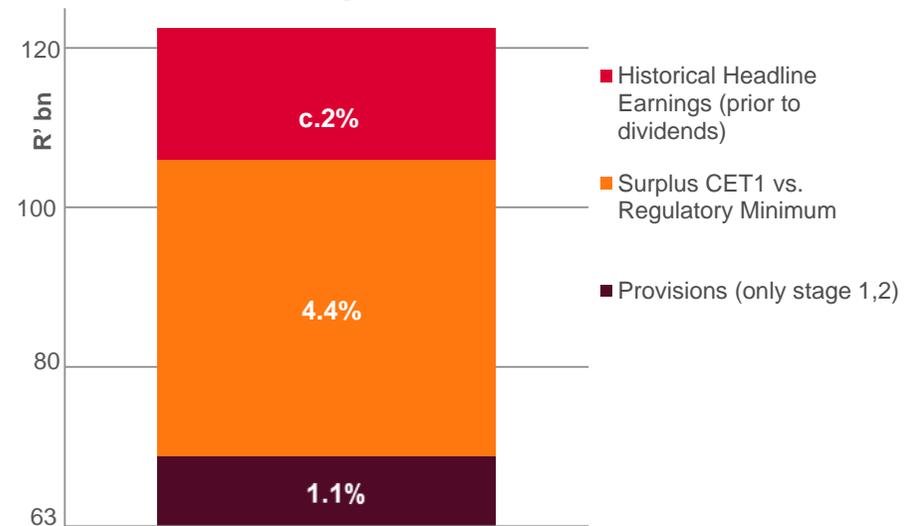
Source: Absa Group Limited Results Booklets \* Normalised Numbers \*\* Excludes Special Dividends

## Key buffers

- Headline Earnings:
  - Consistent earnings delivers approximately 2% capital generation per annum
- Regulatory Buffers in excess of minimum requirements:
  - CET 1 of 11.9% vs Regulatory Min of 7.5%
- Provisions in Stage 1 and Stage 2

## Absa Group loss absorbency capacity

Percentage of RWA

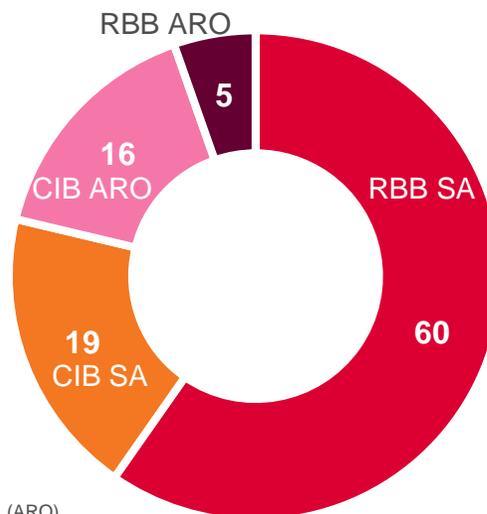


# Group asset and earnings mix

## Group Exposure Split (Rbn and %)

	Absa Group Limited (Holding Company)	Absa Bank Limited	
	Amount (R'bn)	Amount (R'bn)	% Contribution
<b>Assets</b>	R1,373bn	R1,154bn	84%
<b>Income</b>	R39bn	R26bn	67%
<b>RWA</b>	R844bn	R589bn	70%
<b>NAV</b>	R118bn	R90bn	76%
<b>CET1</b>	R95bn	R65bn	68%

## Headline Earnings Mix (%)<sup>1</sup>



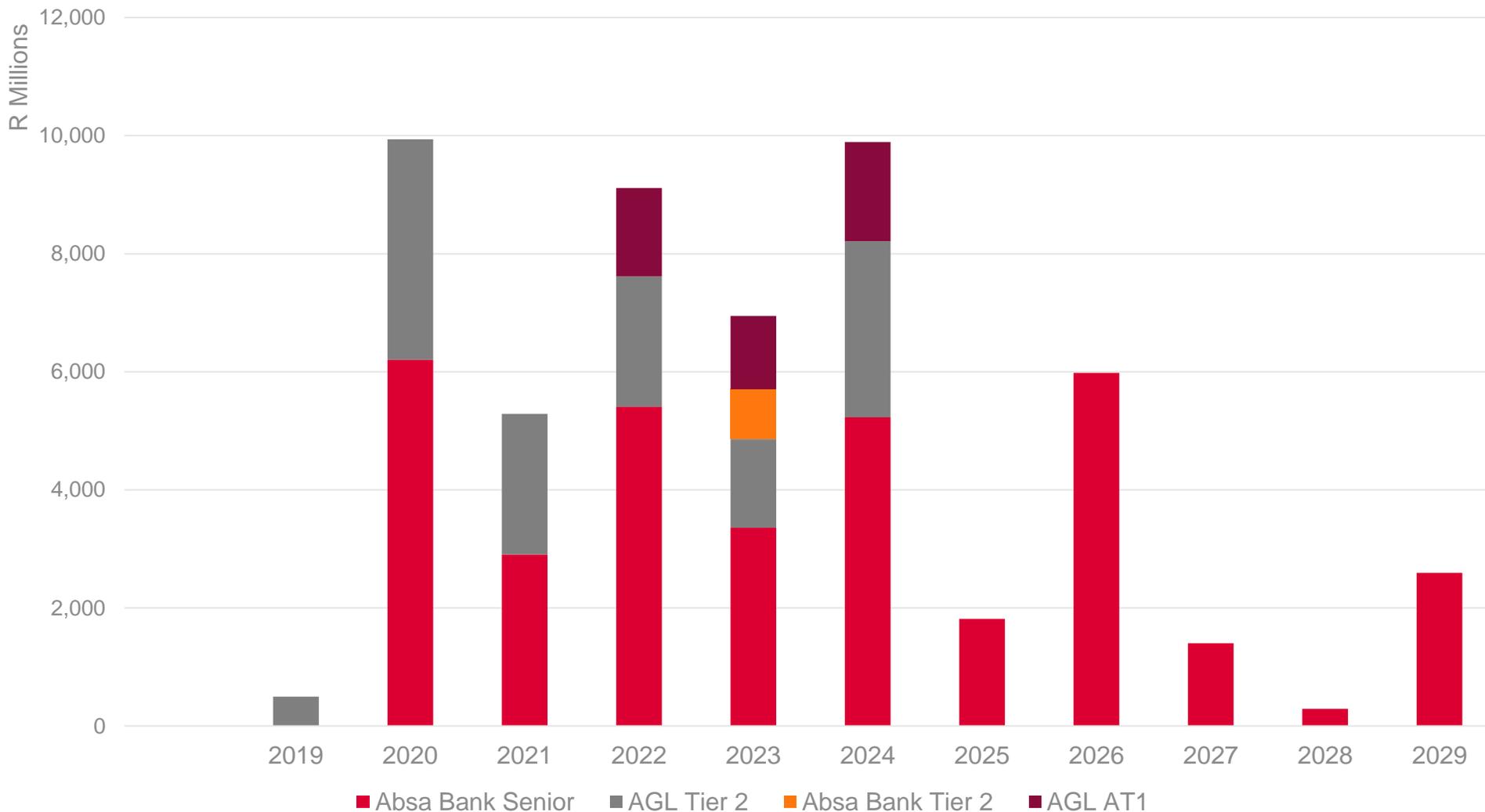
Source: Interim financial results for the reporting period ended 30 June 2019;

1. Excludes Group Centre and adjustments for CIB and RBB Africa Regional Operations (ARO)

# Fixed Income Overview

( 3 )

# Group ZAR debt maturity profile

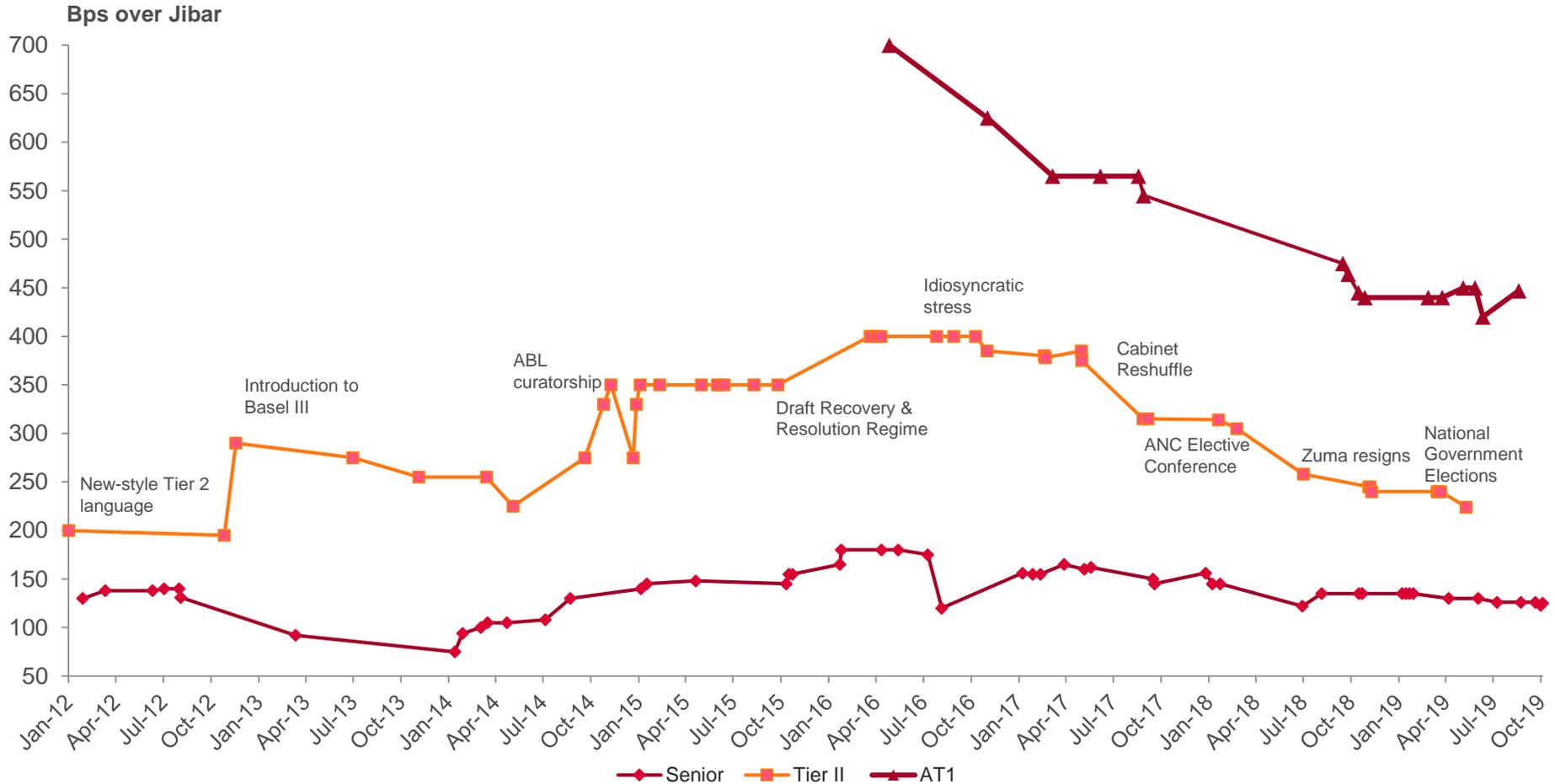


Note: Graph excludes unlisted, NCDs and structured notes  
 Graphed to call date where applicable. The call of subordinated instruments is subject to SARB approval

Source: Absa Group Limited

# Evolution of capital market instrument pricing

## Pricing Points for 5year Senior, Tier II and AT1 Floating Rate Notes<sup>1</sup>



Note: 1. The graph references listed instruments for top 4 banks and banking groups; excludes unlisted notes

Source: JSE, Absa Group Limited

# Additional Tier I vs. Tier II Comparison under SA regulations

Shared Features		Additional Tier 1 & Tier II	
<b>Callable</b>	<ul style="list-style-type: none"> <li>• After 5 years, and every interest payment date thereafter</li> <li>• No explicit or implicit indications that the instruments would or might be called, redeemed or purchased</li> </ul>		
<b>Coupon step-up</b>	<ul style="list-style-type: none"> <li>• Not allowed</li> </ul>		
<b>Point of Non-Viability (PONV)</b>	<ul style="list-style-type: none"> <li>• Current: Contractual trigger               <ul style="list-style-type: none"> <li>• AGL elects to issue instruments that are written off at the Point of Non-Viability (PONV)</li> <li>• The trigger event for Additional Tier I accounted as equity and Tier II capital instruments shall be at the discretion of the Registrar as envisaged in regulation 38(11)(b)(i) and regulation 38(12)(a)(i) of the Regulations</li> <li>• The trigger event for Additional Tier 1 capital instruments, accounted as liabilities, shall be the earlier of the decision by the Registrar as envisaged in regulations 38(11)(b)(i) of the Regulations or when a bank or controlling company's CET 1 ratio is equal to or below 5.875%.</li> </ul> </li> <li>• Potential: Statutory Trigger               <ul style="list-style-type: none"> <li>• The terms of the instrument state that once the statutory resolution regime for South Africa has been implemented, this legislation replaces the contractual terms of the instrument</li> </ul> </li> </ul>		
<b>Point of Resolution (POR)</b>	<ul style="list-style-type: none"> <li>• The institution is not meeting its minimum prudential requirements and the SARB is satisfied that it is unlikely to be able to meet these requirements within a reasonable period.</li> <li>• In the judgment of the SARB, the institution has reached the PONV and the recovery actions available to the institution and the regulator have been implemented without the necessary success, have become depleted or are likely to be ineffective.</li> <li>• No private-sector solution seems likely or feasible</li> </ul>		
Differentiating Features		Additional Tier 1	Tier II
<b>Ranking</b>	<ul style="list-style-type: none"> <li>• Senior to equity only</li> <li>• Subordinated to depositors, general creditors and other subordinated debt of the bank (Tier 2)</li> </ul>	<ul style="list-style-type: none"> <li>• Senior to Equity and AT1</li> <li>• Subordinated to depositors and general creditors</li> </ul>	
<b>Maturity</b>	<ul style="list-style-type: none"> <li>• Perpetual with no step-ups or other incentives to redeem</li> </ul>	<ul style="list-style-type: none"> <li>• At least 5 years</li> </ul>	
<b>Balance sheet treatment for domestic AT1</b>	<ul style="list-style-type: none"> <li>• Accounting: Equity or Debt</li> <li>• Tax and legal: Debt</li> </ul>	<ul style="list-style-type: none"> <li>• Recognised and disclosed as a liability</li> </ul>	
<b>Going / Gone concern</b>	<ul style="list-style-type: none"> <li>• Going concern - see distributions</li> </ul>	<ul style="list-style-type: none"> <li>• Gone concern – see distributions</li> </ul>	
<b>Distributions</b>	<ul style="list-style-type: none"> <li>• Fully discretionary and therefore loss absorbing – Going concern instrument</li> <li>• Non cumulative (cancellation of distribution does not constitute an event of default)</li> <li>• Dividend stoppers are allowed (subject to Recovery &amp; Resolution Framework confirmation)</li> </ul>	<ul style="list-style-type: none"> <li>• Non-discretionary</li> <li>• Not deferrable</li> </ul>	

Source: Basel, SARB, AGL 2018

# Term Sheet Additional Tier 1 Subordinated Notes

## Draft Absa Group Subordinated Additional 1 Term Sheet

Issuer	Absa Group Limited (“Absa Group”)
Manager & Dealer	Absa Corporate and Investment Bank
Documentation	ZAR50bn DMTN Programme*
Issuance listing and settlement	Interest Rate Market of the JSE
Issuer Rating	Moody’s National Long Term: Aa3.za
Target issue size	<b>Up to ZAR[ ]bn with the option to upsize to R[ ]bn subject to volume being within price guidance</b>
Instrument	Additional Tier 1 Subordinated Notes
Interest rate profile	Floating Rate
Bond Code	AGT03
Term-to-maturity	Perpetual non-call 5years
Call Dates	[ ] (and every interest payment date thereafter)
Pricing benchmark	3m Jibar
Price guidance (bps)	[ ]
Coupon months	Mar, Jun, Sep, Dec
Trade/ Auction Date	[ ] December 2019
Settlement/Issue Date	[ ] December 2019 (T+3)
Auction Times	09h00 to 11h00
Auction Methodology	Dutch auction with no feedback
To bid - Contact Details	Absa Fixed Income Sales: +27 (11) 895 5511
Allocation Process	<ul style="list-style-type: none"> <li>• Staggered bids are encouraged</li> <li>• All successful bids to clear at one clearing spread</li> <li>• Conditional bids will be accepted</li> <li>• The Issuer reserves the right in its sole discretion to accept or reject offers made in accordance with the auction process</li> <li>• Allocation will be at the Issuer’s discretion</li> </ul>

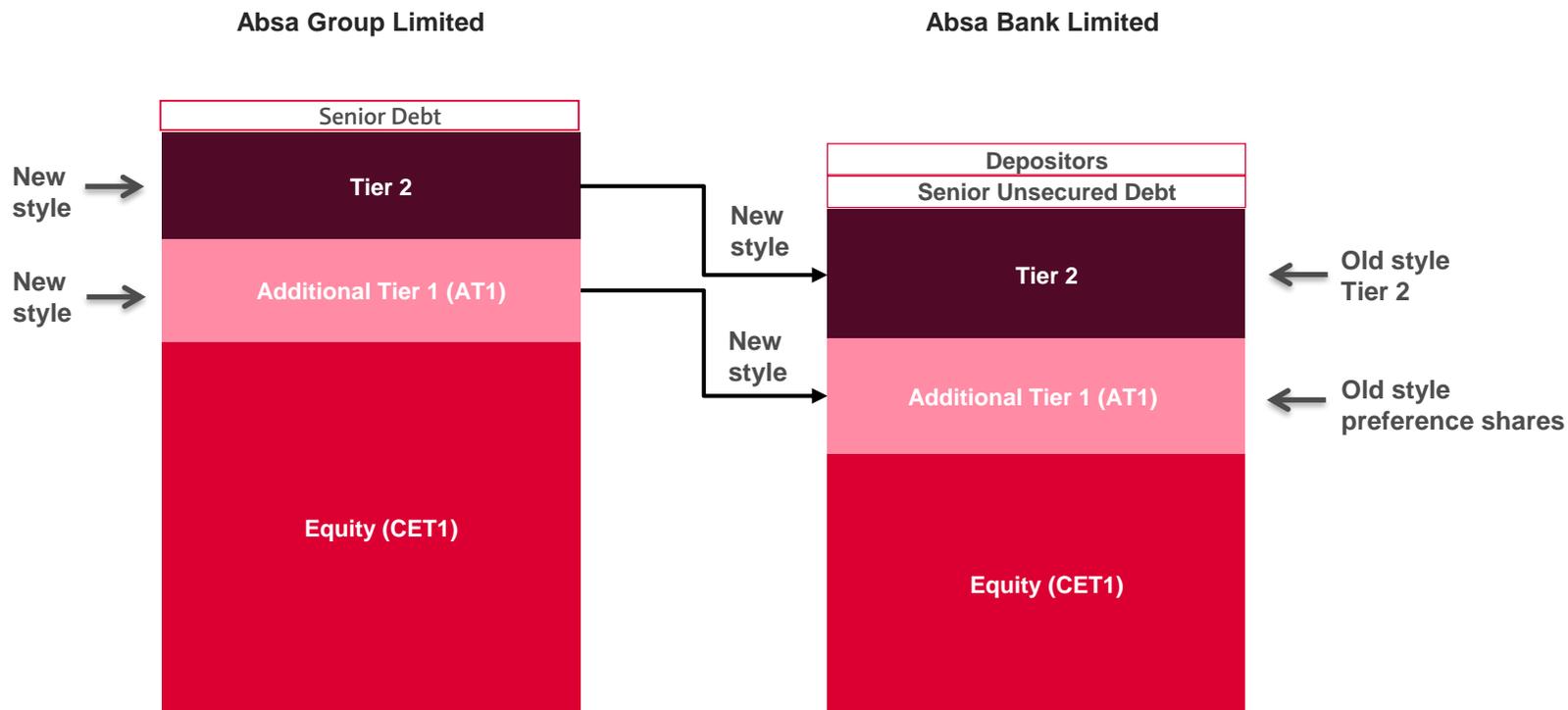
\* Draft Programme Memorandum subject to JSE formal approval. The signed Programme Memorandum will be circulated to investors ahead of auction date

# Appendix

( 4 )

# Proceeds from Issuance at the Group entity is currently invested in Absa Bank Issuance

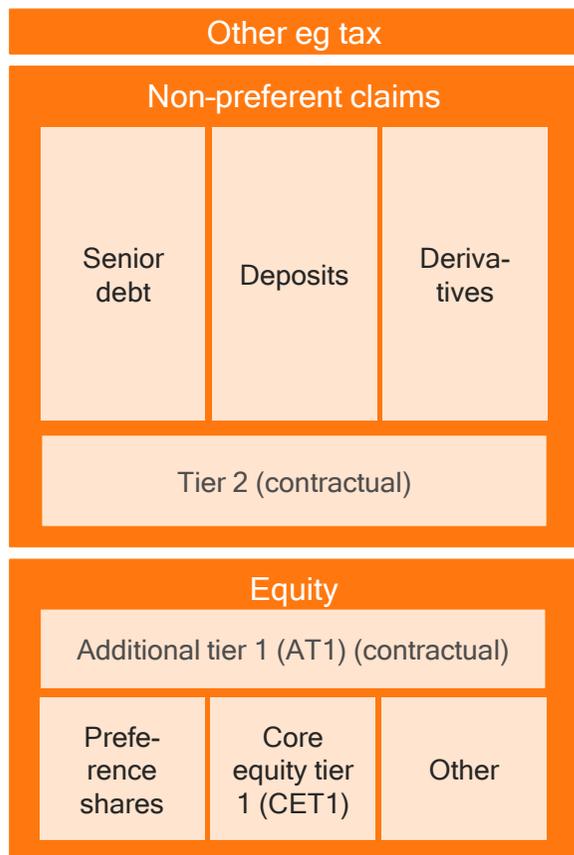
- Due to minority interest rules under Basel III, Absa Group is expected to continue capital issuances at a Holding Company level. All capital issuance at Group are down-streamed to operating entities, on a back-to-back basis.
- The level of Absa Bank Limited senior loans to the Group are limited in line with Moody's double leverage rule and governed by the Africa Treasury Committee (less than 15% of Group NAV).



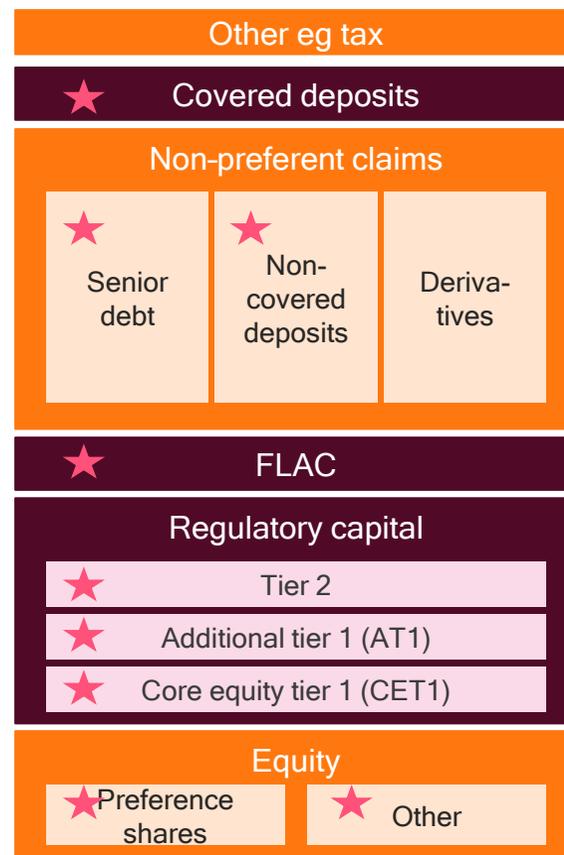
Source: Absa Group Limited

# Implementing the no creditor worse-off (NCWO) than in liquidation key attribute in South Africa via an amendment to the Insolvency Act

## Existing (simplified insolvency hierarchy)



## Proposed (simplified insolvency hierarchy)



## Discussion points

- Covered deposits will be senior to other deposits and can be bailed-in
- All liabilities except derivatives can be used for bail-in to absorb losses
- Regulatory capital, including core equity, will be senior to other book equity
- Treatment of preference shares remains a question. However, as required by the Prudential Authority this resolution framework could be seen as dually enforceable legislation resulting in the eligibility of preference shares as regulatory capital
- The treatment of point of non viability vs point of resolution

**Tier II Applicable Pricing Supplement extract:** “To the extent that a Statutory Loss Absorption Framework is implemented in South Africa, and the Tier 2 Notes are subject to such Statutory Loss Absorption Framework, the Issuer will, following consultation with the Registrar of Banks, dis-apply the non-viability loss absorption Condition referred to in Condition 11.12 [*Absa Group Programme Memorandum*] and this paragraph of the APS, provided that such disapplication would not result in a Capital Disqualification Event.”

■ Change to existing hierarchy ■ Existing hierarchy ★ Can be bailed-in

# Quick Links

## Basel / FSB / EBA

- **Liquidity Coverage Ratio (Jan 2013)** - <http://www.bis.org/publ/bcbs238.htm>
- **Net Stable Funding Ratio (Oct 2014)** - <http://www.bis.org/bcbs/publ/d295.htm>
- **TLAC** - <http://www.financialstabilityboard.org/wp-content/uploads/TLAC-Condoc-6-Nov-2014-FINAL.pdf>
- **MREL** - <https://www.eba.europa.eu/documents/10180/1132900/EBA-RTS-2015-05+RTS+on+MREL+Criteria.pdf>
- **Leverage Ratio** — <http://www.bis.org/publ/bcbs270.pdf>
- **Key Attributes of Effective Resolution Regimes for Financial Institutions** - [http://www.fsb.org/wp-content/uploads/r\\_111104cc.pdf](http://www.fsb.org/wp-content/uploads/r_111104cc.pdf)

## SARB / NT

- **Regulations**
  - Banking Legislation - <https://www.resbank.co.za/RegulationAndSupervision/BankSupervision/BankingLegislation/Pages/default.aspx>
- **Latest Guidance Notes**
  - Committed Liquidity Facility - <https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/6888/G5%20of%202015.pdf>
  - Loss Absorption – <https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/7942/G6%20of%202017.pdf>
- **Working Papers**
  - Resolution Framework - <http://www.treasury.gov.za/publications/other/RFFI/2015%20Resolution%20Framework%20Policy.pdf>

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