



Absa Group Limited

International Fixed Income Non-Deal Roadshow

March 2019

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Overview of the Group

(1)

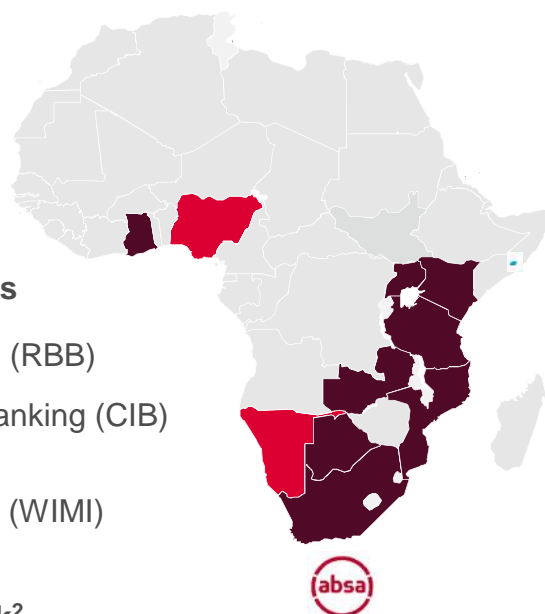
Absa Group Limited at a glance

We are a regional African banking group headquartered in South Africa, offering diversified financial services through an integrated set of products and services, across personal and business banking, corporate and investment banking, wealth, investment management and insurance




We serve **customers** in

12 African countries




- 10 Countries of Operation
- 2 Representative Offices



Providing diverse **financial services**

-  Retail and Business Banking (RBB)
-  Corporate and Investment Banking (CIB)
-  Wealth, Investment Management, and Insurance (WIMI)

By leveraging an extensive **network²**

-  **10,053** ATMs
-  **1,145** branches
-  **41,703** employees³

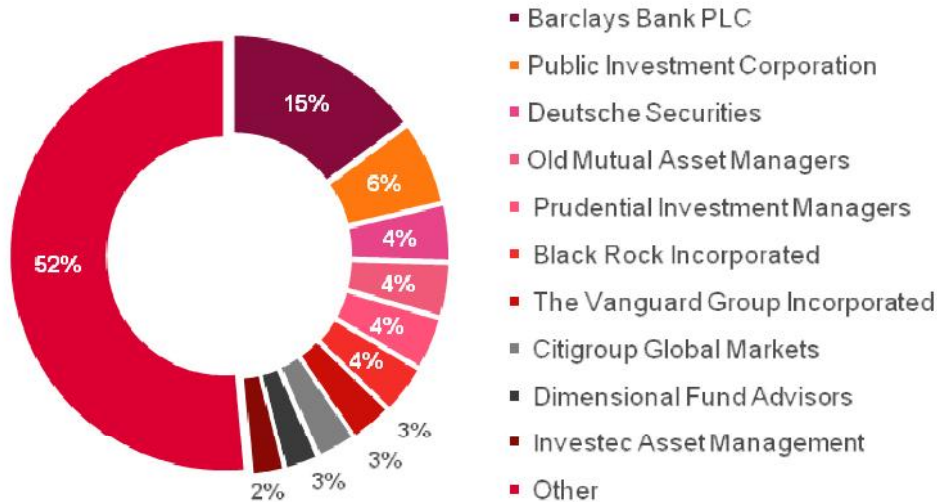
Listed on the **Johannesburg Stock Exchange** and regulated by the **South African Reserve Bank**

	ABSA Group	Absa Bank	Outlook
Moody's	Ba1	Baa3	Stable
Fitch	BB+	BB+	Stable
R1.3 trillion Balance Sheet		R154 billion Market Capitalisation	
16.8%¹ Return on Equity (RoE)		57.7%¹ Cost to income Ratio	
R16.1 billion¹ Headline Earnings		116.7% LCR	
12.0%¹ CET 1 Ratio		15.4%¹ Total Capital Adequacy Ratio (CAR)	

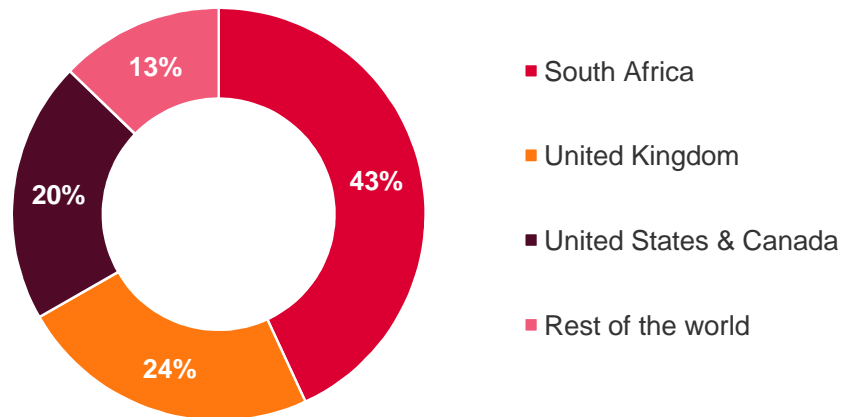
Source: Financial results booklet for the reporting period ended 31 December 2018;
 1. Normalised Ratios. Normalised results are a consequence of the Barclays PLC sell-down;
 2. These numbers are based on 31 December 2017 Integrated Report
 3. Includes permanent and temporary employees

A pan-African group with diverse shareholders and earnings mix

Top 10 Ordinary Shareholders



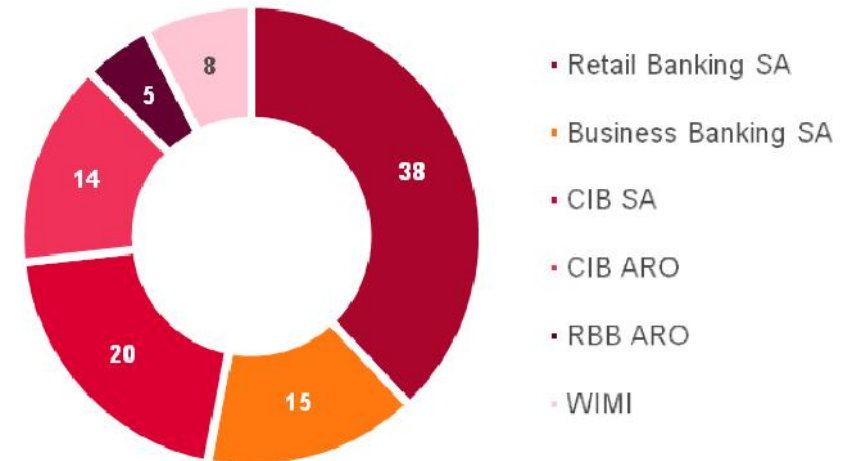
Shareholding by Geography



Group Exposure Split (Rbn and %)

	Absa Group Limited (Holding Company)	Absa Bank Limited (South Africa)
Asset	R1,288bn	R1,080bn (84%)
Income	R77bn	R52bn (68%)
RWA	R819bn	R570bn (70%)
NAV	R121bn	R85bn (70%)
CET1	R99bn	R64bn (65%)

Headline Earnings Mix (%)¹



Strategic Update

(2)

A strategy for growth

Three strategic commitments

- Growing our portfolio while contributing to the growth of the markets we serve
- Reducing costs by creating a more efficient and effective organisation
- Delivering top, sustainable returns that maximise long-term value

Three strategic targets

Revenue

To grow revenue faster, on average, than the South African bank sector from 2019 to 2021, with an improving trend over time and within appropriate risk appetite parameters

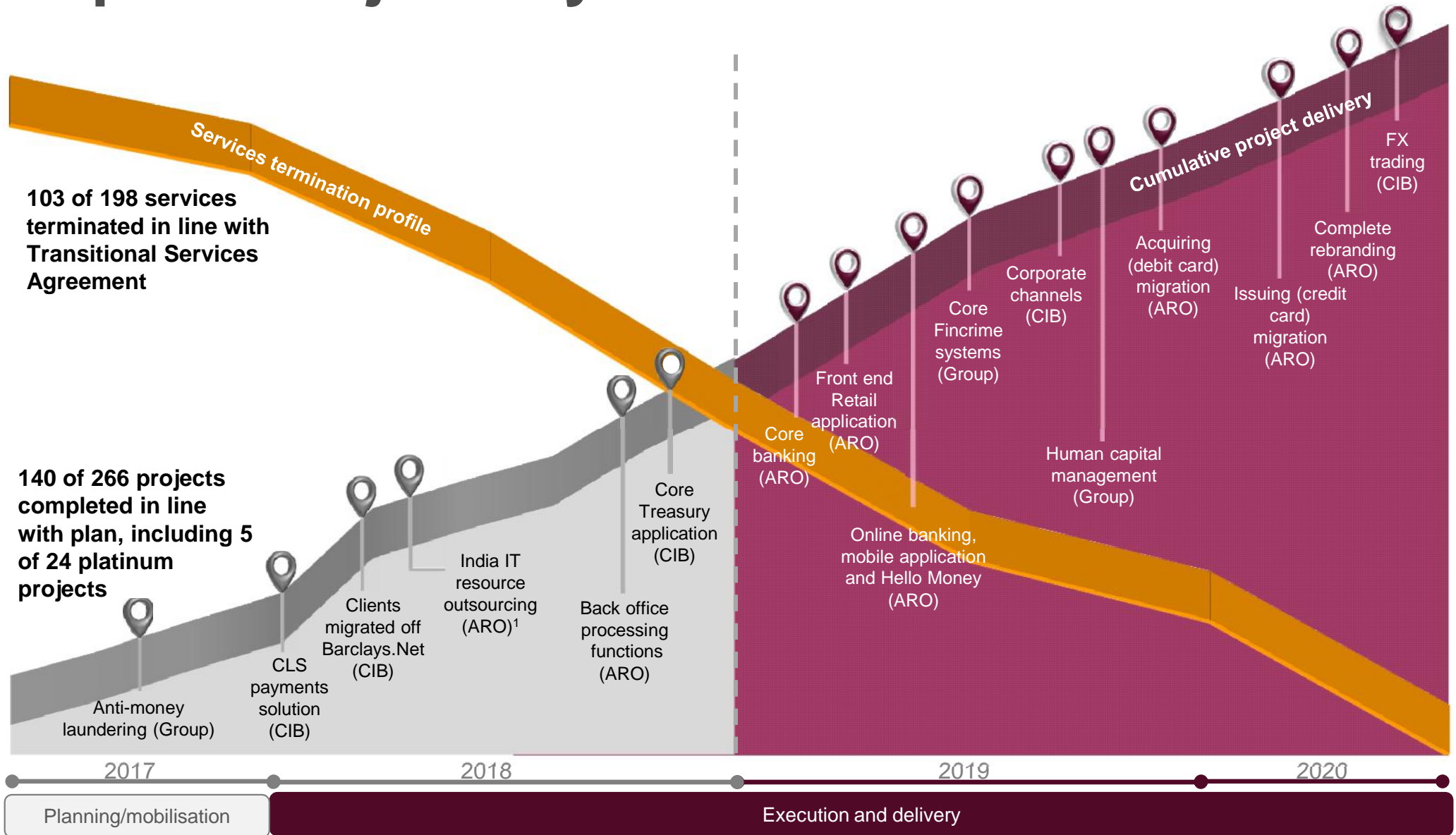
Cost to Income

To consistently reduce our normalised cost-to-income ratio to reach the low 50's by 2021

ROE

To achieve a normalised group return on equity of 18% to 20% by 2021

Separation journey



Separation remains on track

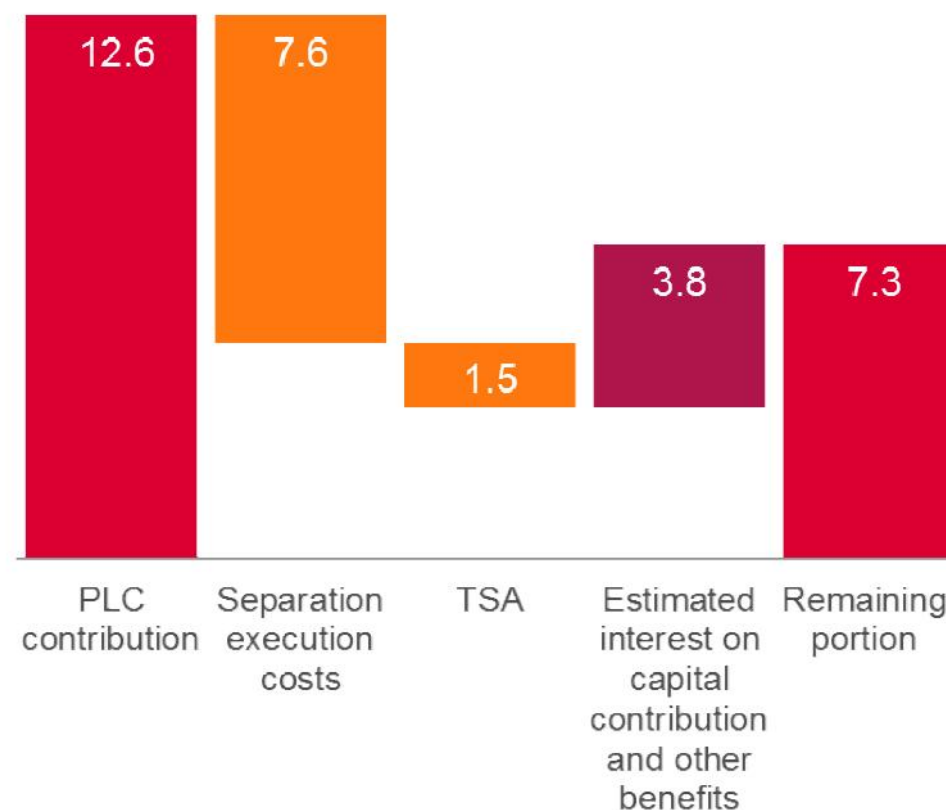
Spend to date

- Project execution and support R7.6bn
 - Group systems rebuild (HR re-platform, Corporate channels and financial crime)
 - Technology infrastructure replacement
 - Localizing contracts
 - Removing 'Member of Barclays' in SA and holding company name change
- Transitional Service Agreement (TSA) payments R1.5bn

Interest on capital contributions and other benefits

- Interest on capital contribution, FX gains on contribution received and other benefits
- Separation expected to be capital and cash flow neutral

Separation spend and remaining contribution (Rbn)



Source: Financial results booklet for the reporting period ended 31 December 2018 (IFRS results)

**Group Financial
and Operating
Performance**

(3)

Normalised performance in line with guidance

Rm	FY16 ¹	FY17 ²	FY18 ²	Change (%)	Normalisation adjustments
Net interest income	42 003	42 319	43 425	3	330
Non-interest income	30 391	30 671	32 235	5	525
Total income	72 394	72 990	75 660	4	855
Impairment losses	8 751	7 022	6 324	(10)	-
Operating expenses	39 956	41 403	43 642	5	(3 161)
Other ¹	(2 005)	(1 706)	(1 653)	(3)	(194)
Taxation	5 835	6 290	6 766	8	484
Non-controlling interest	1 139	1 199	1 372	14	(30)
Headline earnings	14 980	15 623	16 128	3	(2 016)
CET1 (%)	12.1	12.1	12.0	(0.1)	-
CAR (%)	14.8	14.9	15.4	0.5	-

Notes:

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

1. Source: Absa Group Limited Results Booklet 31 December 2017

2. Source: Absa Group Limited Results Booklet 31 December 2018

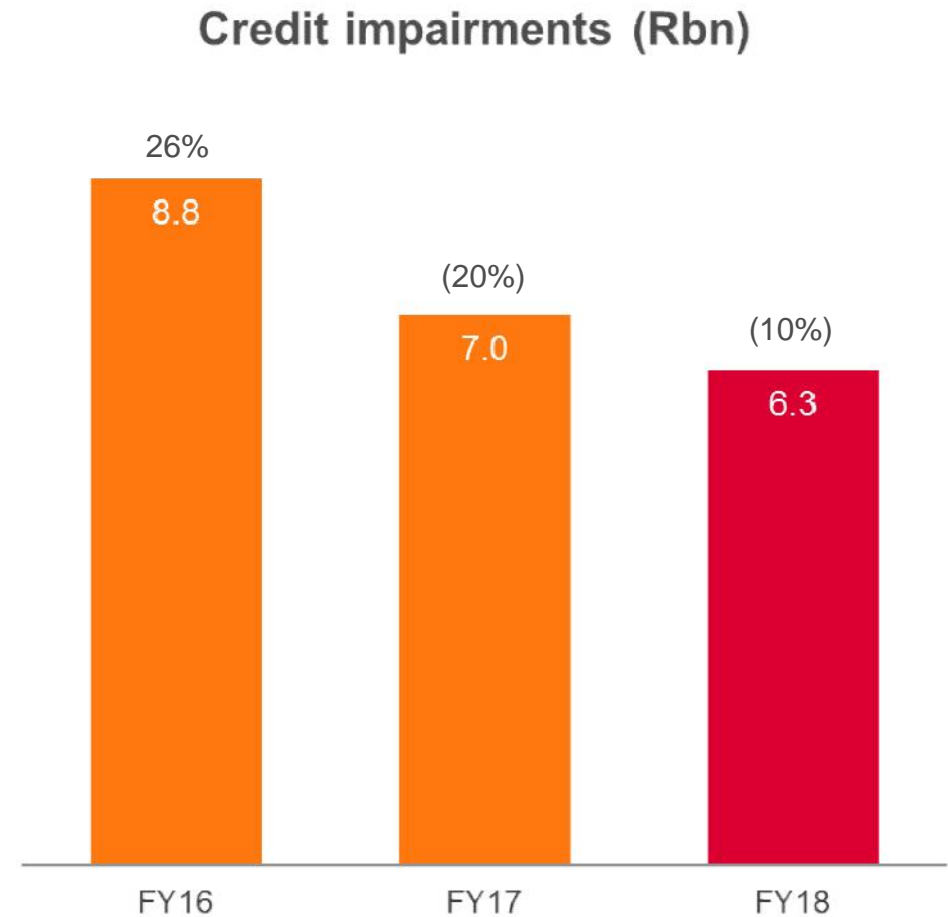
Normalised salient features

	FY17 %	FY18 %
Diluted headline EPS growth	4	4
Dividend per share growth	4	4
Net asset value per share growth	5	4
Return on equity	16.5	16.8
Profit after regulatory capital charge (Rbn)	2.6	2.7
Net interest margin	4.83	4.64
Operating JAWS	(3)	(2)
Cost to income ratio	56.7	57.7
Credit loss ratio	0.87	0.73

Source: Absa Group Limited Results Booklet 31 December 2018

Credit impairments improved further

Credit loss ratio (%)	FY17	FY18	Underlying FY18 ¹
RBB SA	1.10	0.94	1.06
Retail Banking	1.20	1.04	1.15
Card	4.53	3.42	3.58
Vehicle and Asset Finance	0.87	1.02	1.11
Home Loans	0.30	0.05	0.16
Personal Loans	6.09	5.51	5.80
Business Banking	0.43	0.35	0.53
CIB SA	0.24	0.36	0.36
Absa Regional Operations	1.34	0.77	0.77
Group	0.87	0.73	0.80



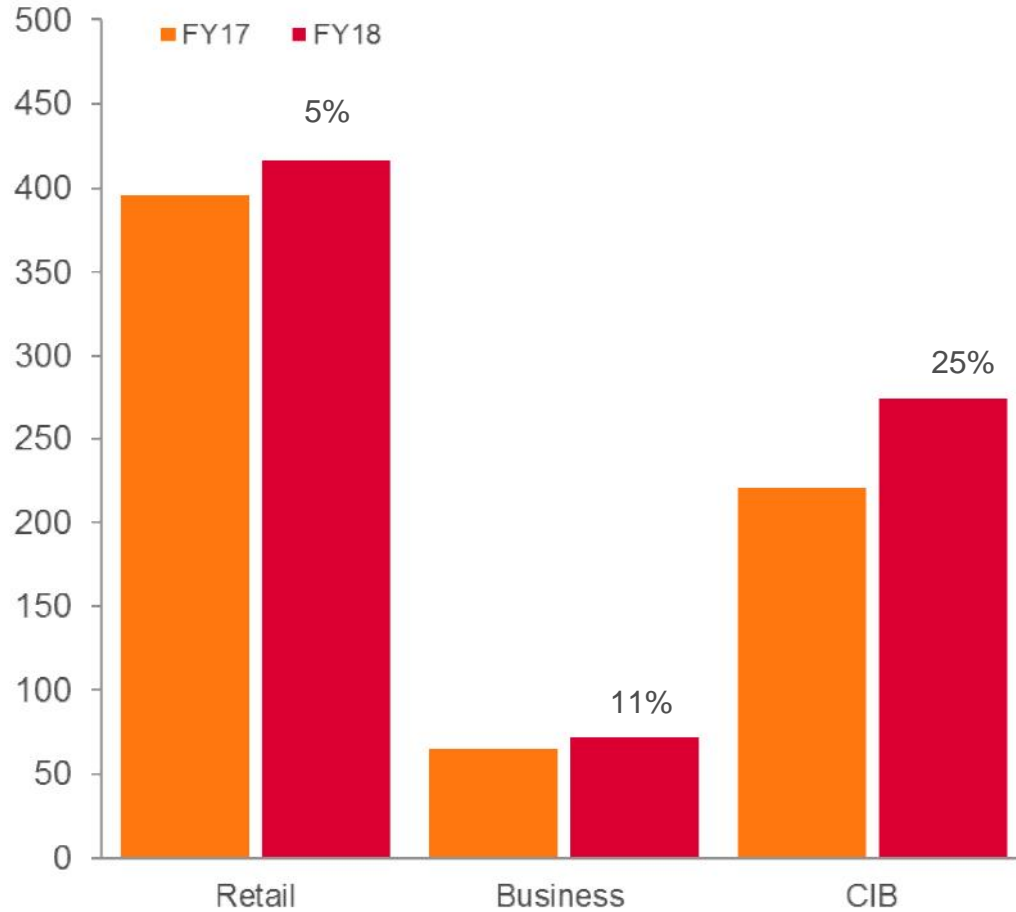
Source: Absa Group Limited Results Booklet 31 December 2018

Note: 1. Excluding impact of International Financial Reporting Interpretations Committee reclassification.

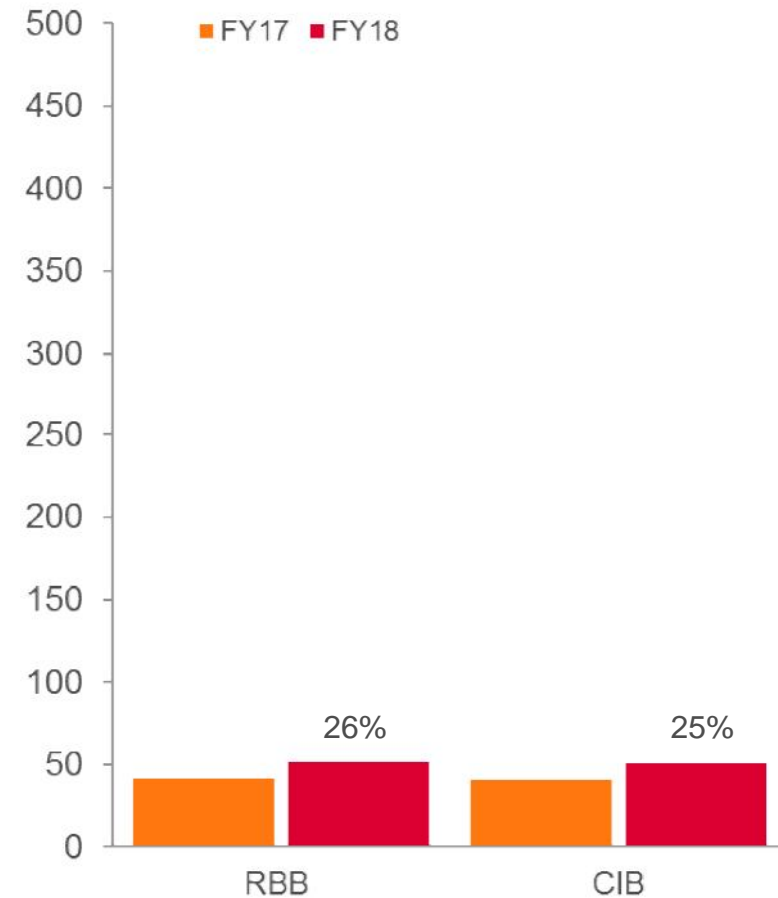
Group loan growth improving

Gross customer loans (Rbn)

South Africa



Absa Regional Operations



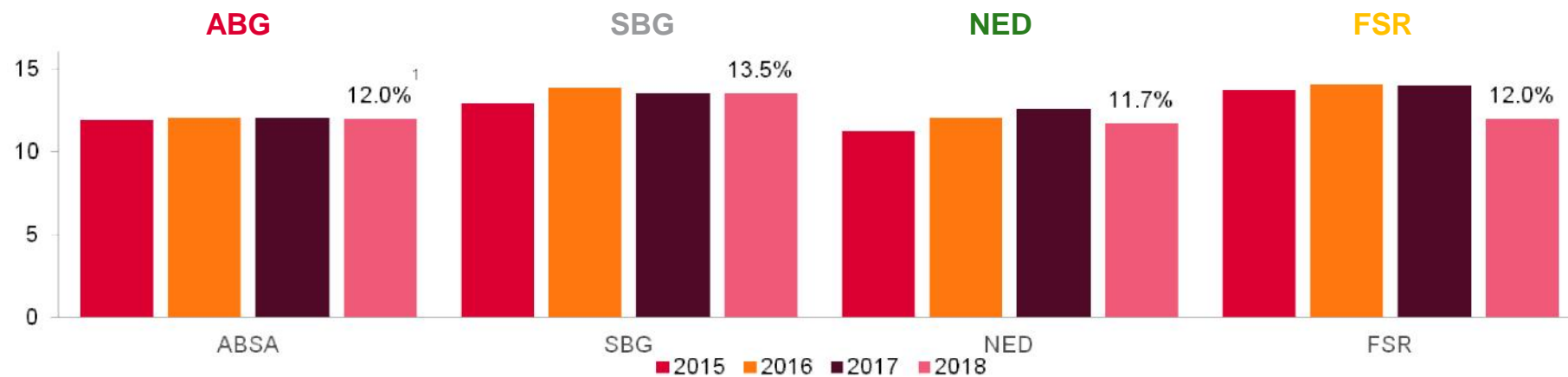
Source: Financial results booklet for the reporting period ended 31 December 2018
* Percentage data points on both graphs represent year-on-year percentage changes

Capital Position and Themes

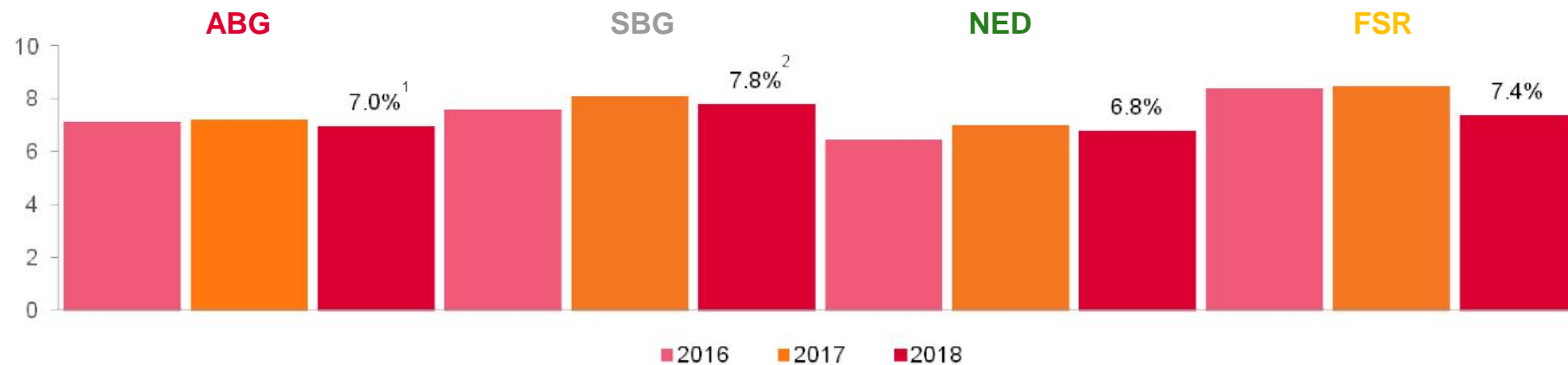
(4)

The Group is strongly positioned in the Market

Common Equity Tier 1



Leverage Ratio



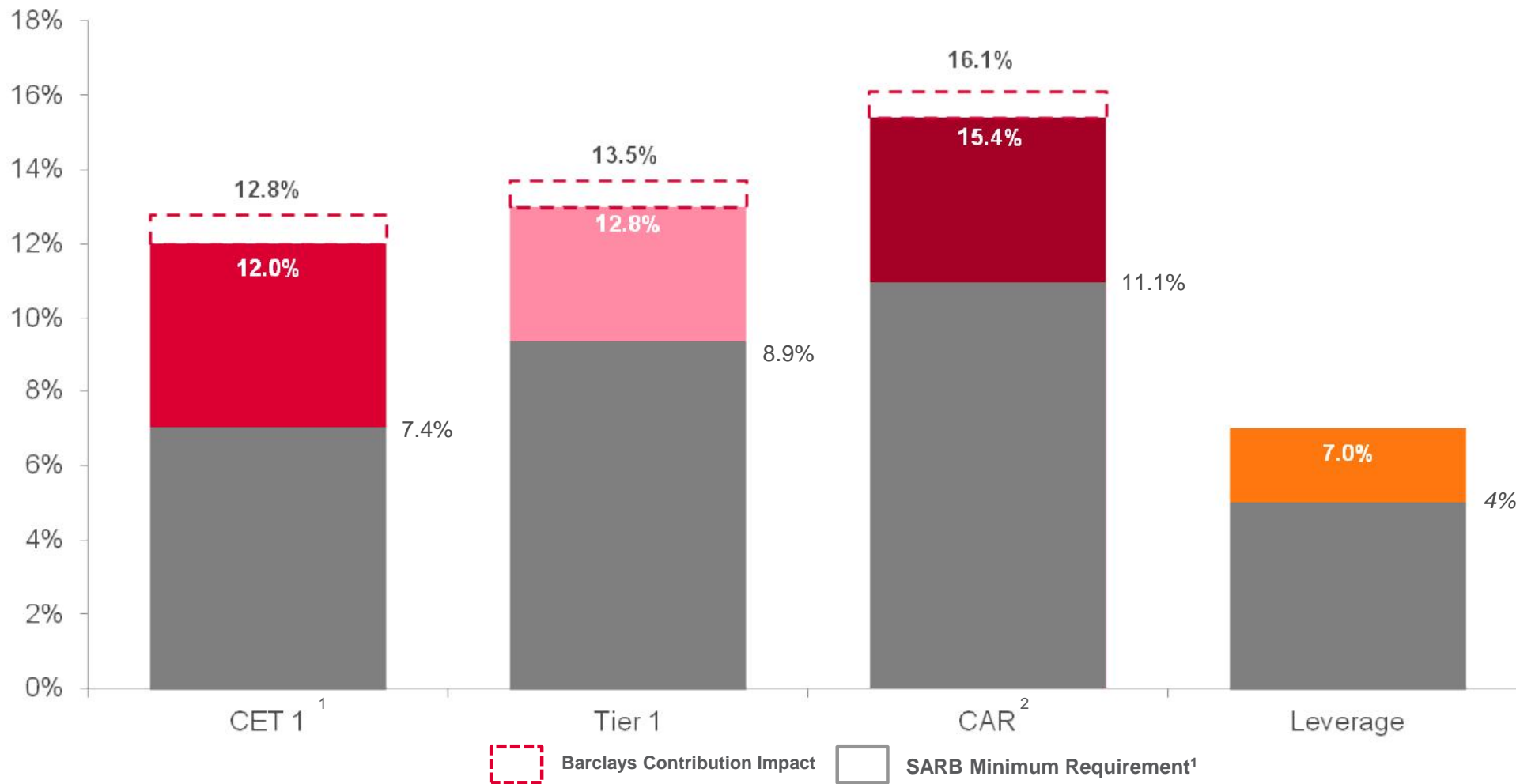
Note: * All peer data is based on financial results for full year 31 December 2016, 2017 and 2018 (with the exception of FirstRand Group which is provided for 6months ending 31 December 2018)

1. Based on Normalised results (i.e. post the impact of the Barclays Plc separation)

2. Data point is provided at 30 September 2018. 31 December 2018 numbers were not available.

Capitalised in excess of regulatory requirements

Absa Group Limited Regulatory Capital Levels



Source: Absa Group Limited Results Booklet 31 December 2018

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

1. Common equity Tier 1

2. Capital adequacy requirement

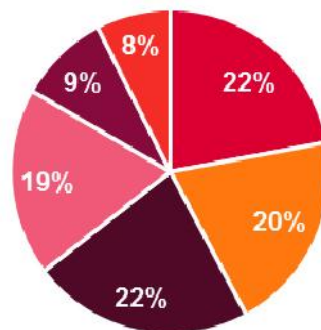
Funding and Liquidity Management

(5)

Asset & Liability Management position in line with risk appetite

- The liquidity position of the Group remained strong, in line with risk appetite, and above the minimum regulatory requirements.
- The NSFR became effective 1 January 2018. Both the Group and Absa Bank were above the regulatory minimum requirement of 100% during the reporting period
- LCR at 116.7%, above minimum regulatory requirements (90%) over the reporting period
- 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

Retail Deposit Market Share²



■ ABSA ■ STANDARD ■ FIRSTRAND ■ NEDBANK ■ INVESTEC ■ CAPITEC

Note: 1. Absa Group Limited Results Booklet 31 December 2018;
2. Based on SARB BA900 report data as at 30 November 2018

Absa Group Key Risk Metrics¹

	FY 18	FY 17
Net Stable Funding Ratio (NSFR) (%)	110.1	-
Liquidity Coverage Ratio (LCR) (%)	116.7	107.5
Loan and advances to customers(R'bn)	841.7	749.8
South Africa	744.5	671.9
Absa Regional Operations	97.2	77.9
Deposits and Debt Securities in Issue	897.3	827.8
South Africa	762.3	718.8
Absa Regional Operations	135.0	109.0
Foreign Currency Deposits Contribution of Total Deposits (%)	<5	<5
Loan-to-Deposit ratio (%)	93.8	90.6
Annual Earnings at Risk as a % of NII	6.3%	4.6%

Appendix

(6)

South African Bank Credit Ratings



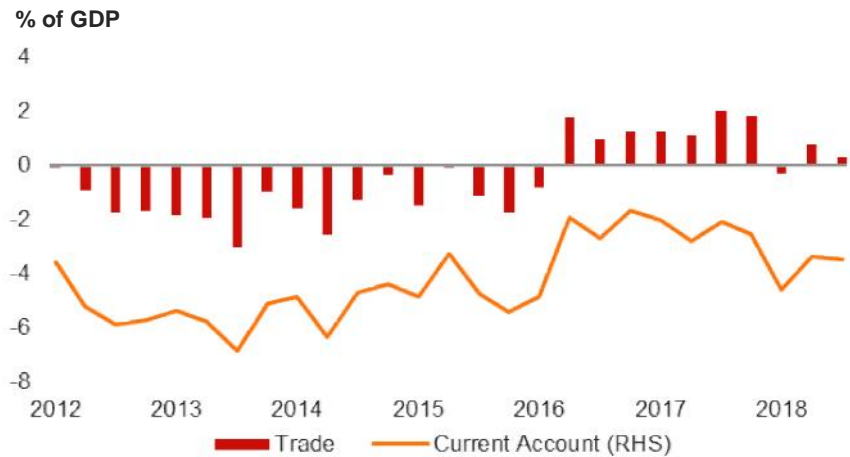
Comparable Senior Credit Ratings

Rating Agency	Category	Rating	absa	FIRSTRAND	NEDBANK	Standard Bank
MOODY'S	Global LT Foreign Currency	Baa3	Group: Ba1 Bank: Baa3	Bank: Baa3	Bank: Baa3	Group: Ba1 Bank: Baa3
	Global LT Local Currency					
	Nat'l LT National Scale	-	Bank: Aa1.za	Bank: Aaa.za	Bank: Aa1.za	Bank: Aa1.za
STANDARD & POOR'S	Global LT Foreign Currency	BB		Group: B+ Bank: BB	Bank: BB	
	Global LT Local Currency	BB+				
	Nat'l LT National scale	zaAA+	Bank: zaAA+	Group: zaBBB+ Bank: zaAA+	Bank: zaAA+	
FitchRatings	Global LT Foreign Currency	BB+	Group: BB+	Bank: BB+	Group: BB+	Group: BB+
	Global LT Local Currency					

Source: Moody's / S&P / FitchRatings

South Africa Macroeconomic Fundamentals

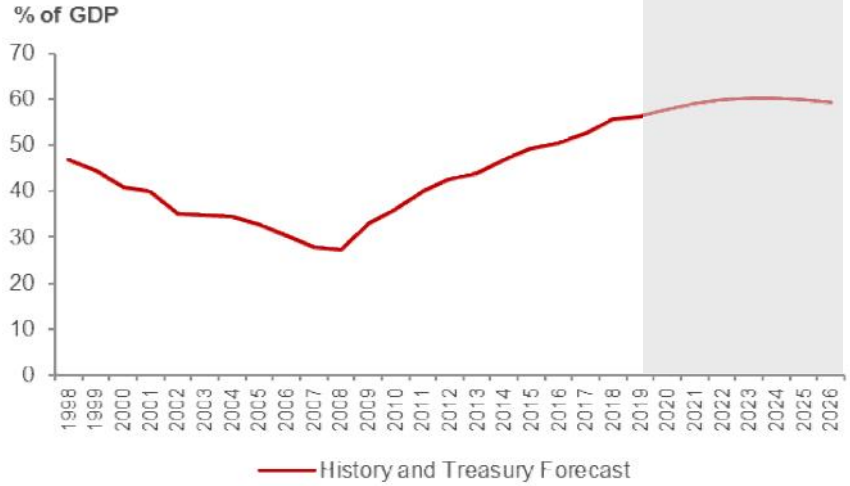
Trade and Current Account



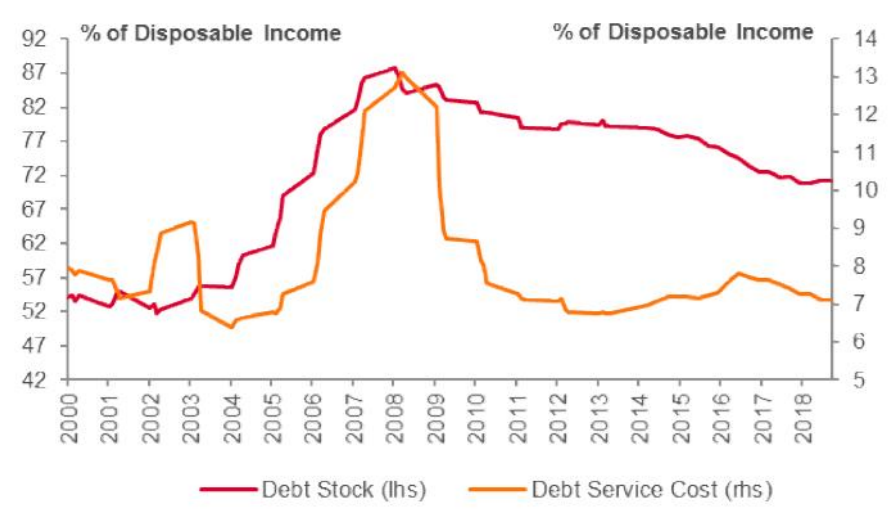
South African GDP Shows Muted But Stable Growth



Government Debt



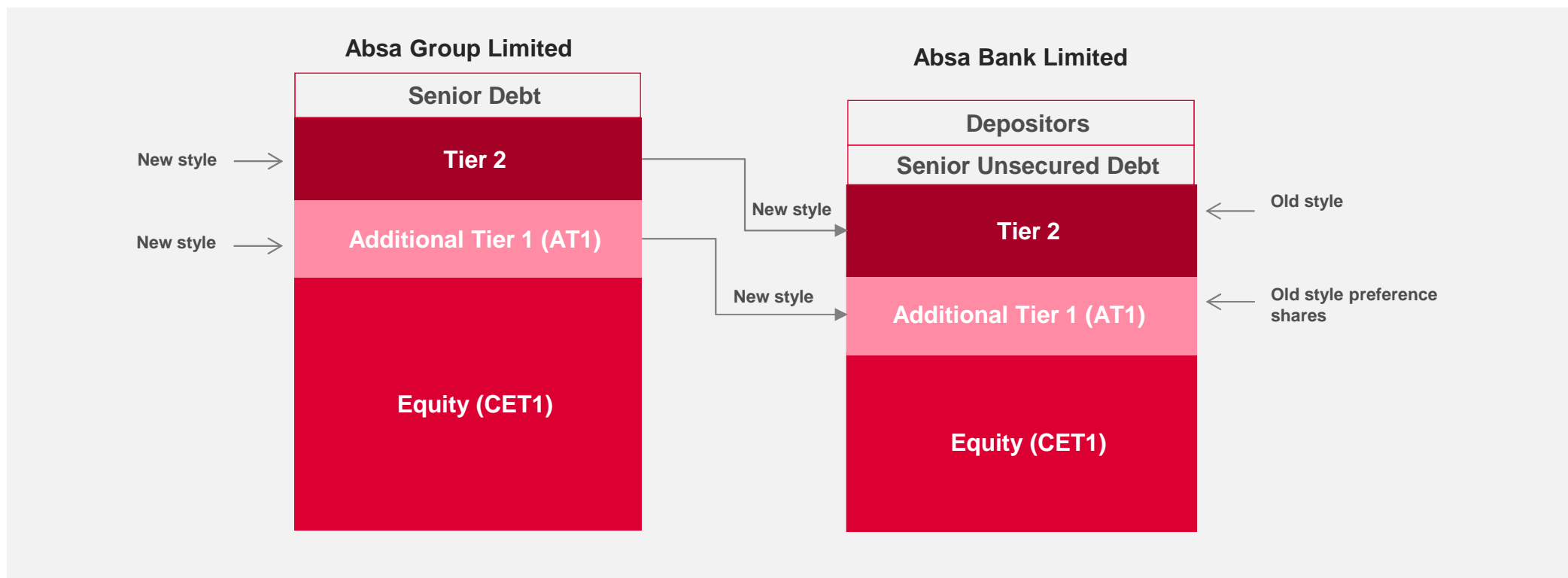
Household Debt



Source for all charts: StatsSA, SARB, BER, Bloomberg.

Issuance at the Group entity is currently down-streamed to Absa Bank Limited

- Losses follow the hierarchy of claims, as they arise in the operating entities. No creditor is worse off (NCWO) than in liquidation, as ascribed by the FSB Key Attributes of Effective Resolution Regimes
- Due to minority interest rules under Basel III, it is expected for capital issuances to continue at a HoldCo level. All capital issuance at Group are down-streamed to Absa Bank, on a back-to-back basis



Key features of the proposed Resolution Framework

The resolution framework will be implemented via amendments to amongst others the Insolvency Act (IA) and the Financial Sector Regulation Act (FSRA). Some of the key proposed features of the framework are listed below:

Key feature	Highlights	Observations / Reference
1 Resolution authority	<ul style="list-style-type: none"> The Reserve Bank is the resolution authority (RA) Upon recommendation from the Governor only the Minister of Finance can place a designated institution in resolution 	
2 Scope of bill	<ul style="list-style-type: none"> Banks or holding company of a bank Systemically important financial institutions (SIFI) or holding company of a SIFI Payments system operator and participants of a systemically important payments system 	Broader scope than in Europe where only banks are included
3 Point of resolution	<ul style="list-style-type: none"> Institution is or will likely be unable to meet it's obligations Orderly resolution of entity is required to maintain financial stability 	EU failure definition wider No mention of point of non-viability (PONV)
4 Tools available in resolution	<ul style="list-style-type: none"> Creating a bridge company; Restructuring the institution; and Bail-in; write-off of shares (zero value) and converting liabilities into equity in order to absorb losses and/or recapitalise the institution 	Aligns with tools available in other jurisdictions to allow for orderly resolution
5 Resolution strategy	<ul style="list-style-type: none"> Single point of entry vs multiple point of entry still needs to be determined for designated institutions 	HoldCo vs OpCo impact
6 New instrument class to absorb losses	<ul style="list-style-type: none"> Introduces concept of FLAC instrument that will be senior to regulatory capital and subordinated to non-preferent claims 	
7 Implementation of the NCWO key attribution	<ul style="list-style-type: none"> The no creditor worse-off (NCWO) than in liquidation principle is introduced in the Bill where liabilities ranking equally should be treated pari passu during resolution Waiver: RA has a discretion to waive pari passu treatment if necessary 	
8 Deposit insurance scheme	<ul style="list-style-type: none"> Deposit Insurance Scheme (DIS) will be created with the establishment of the Corporation for Deposit Insurance 	

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

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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