Group Chairman's message

2018 was a year of good progress in terms of the Separation and of transformation as we embed the Group's growth strategy throughout the business.

2018 was a year of strategic change for the Group and a year in which the United Kingdom's Prudential Regulatory Authority confirmed that, as of 30 June 2018, regulatory deconsolidation from Barclays had been achieved.

We once again became the Absa Group, still listed on the JSE, however, under our new legal entity name and refreshed brand – a development that became effective on 11 July 2018.

This was a year in which we redefined ourselves through a new corporate strategy and announced resultant changes to our Executive Committee in March and April. Shortly thereafter, we began the restructuring of our South African Retail and Business Banking (RBB) business. RBB is critical to our growth ambitions and its new strategy was presented to investors in December 2018.

We provided our Group guidance to the market on our medium-term financial targets in December (page 23). These targets are based on our current expectations for economic growth and the current regulatory landscapes in our presence countries.

The Separation is proceeding well with the transition of services from Barclays to Absa, through the delivery of a combination of (i) replacement systems (assessed as fit for purpose) to deliver the same functionality on the most appropriate platform; and (ii) transformational systems which offer new and substantially better features for our customers and employees. By year-end, 52% of services contracted with Barclays had been terminated, with 52% of the Separation projects completed (including five of the 24 most complex and interdependent projects). Our Board and its Separation Oversight Committee are regularly updated on all material pieces of work (including major technology implementations), spend relative to forecast, the status of the overall programme, and related assurance reviews.

Good progress has been made on the rebranding of subsidiaries outside of South Africa carrying the Barclays brand. While continuing to use Barclays as their main identity for the time being, these entities now carry an additional "Member of the Absa Family" identifier. We expect the process of changing to Absa to be completed by mid-2020.

A shifting macro environment

We are pursuing our objectives in the context of complex and challenging global and local environments, which may influence our progress.

Africa, along with other emerging market economies, is under pressure, driven by depreciating currencies, rising indebtedness, slowing growth and tighter global financing conditions.

The strength of democratic institutions and rule of law continues to improve across Sub-Saharan Africa – with recent electoral disputes in some countries successfully resolved through legislated processes.

In South Africa, our largest single market, President Ramaphosa has prioritised solving many of the binding constraints to investment and economic growth.

We welcome the steps being taken thus far to expose systemic corruption that has plagued the public and private sectors.

There remain many critical priorities that the government must urgently address, notably South Africa as an investment destination, and the stability and sustainability of the state owned companies, in particular Eskom's capacity to provide power to the country.

While the appointments of new boards of state owned companies and the new management teams are welcomed, many of these companies have significant financial and operational difficulties that require political resolve in a challenging socio-political environment. Most of the banks, like Absa, are key stakeholders in the financing of state owned companies and in the important decisions that need to be made regarding their sustainability. The extent of their challenges requires intricate policy coordination and active management of state owned companies' finances and deep and meaningful structural reforms.

We have observed the development of the land expropriation constitutional amendment process. Absa prepared a comprehensive submission to Parliament, and shared it with various key stakeholders ahead of the Parliamentary vote. In addition to expressing our full support for sustainable land policy reform and restitution, this submission contained well-researched proposals on how to do this in the context of current needs and development trends.

Since a decision has been taken to amend the Constitution to make provision for a more explicit expression of expropriation of land without compensation, it is very important that this process is carefully managed so to encourage the investment climate and to ensure positive economic outcomes, including sustainable food production. Absa will make further submissions as the process moves to drafting of the constitutional amendment and related legislative changes.

Absa supports and contributes to various initiatives to drive sustainable economic growth that leads to the creation of employment opportunities.

Increasing operational risks

In addition to the macro developments and risks referred to above, we are beginning to see the acceleration of some operational risks that are confirmed by the World Economic Forum's Global Risks Report. For example, we had to contend with acute water shortages in the Western Cape and areas of the Eastern Cape. While the rains brought some relief in certain areas, strategic solutions are still not in place and we urge local, provincial and national government to continue the focus on sustainably solving the water crisis.

We know that this is directly related to climate change and that this is increasingly being felt across the continent, affecting our operations, that of our customers and society at large. Our response is threefold.

Firstly, we continue to use water in the most responsible and efficient way possible across our business, not just in the areas where there are acute shortages. Secondly, we will continue to drive environmentally-sustainable ways of operating, including energy usage; water recycling; and green buildings wherever possible. Thirdly, acknowledging the concerning issue arising from climate change and the resulting pressures on future sustainability, we have embarked on a group-wide sustainability programme to consider the potential implications on the Group's operating model, products and services, our customers' businesses and society at large. We are working with independent experts and other stakeholders.

In strained economic times and, in particular given the high rates of unemployment and financial difficulties encountered by state and other private sector-owned companies, we remain acutely aware of the need to lend responsibly to adequately address credit risks. As we advance as a standalone organisation, we will continually adjust our credit risk parameters to achieve a fair balance between growth and sustainable lending.

Furthermore, we continue to observe risks in the financial sector environment, such as the discussion about the independence of the South African Reserve Bank. Our view is that the independence of the Reserve Bank is sacrosanct, regardless of shareholding, and this is stated clearly in the South African Constitution. It will be helpful for this discussion to be concluded as soon as possible, in order to provide certainty to investors and international partners.

CEO succession

In January 2019, we announced Maria Ramos' retirement as the Group's CEO at the end of February 2019 when she turned 60.

Maria had been the Chief Executive Officer since 2009 and had led the Group through significant milestones, including: acquiring Barclays' Africa subsidiary banks and thereby giving the Group much needed geographical diversification; securing a significant Separation settlement from Barclays, driving the subsequent Separation and the finalisation of a new corporate strategy. The strategy was followed closely by a brand refresh in South Africa that foreshadows the complete conversion of our African operations from Barclays branding to Absa, a standalone financial African financial services business.

The Board appointed René van Wyk as the Group's Chief Executive Officer with effect from 1 March 2019 for an interim period. René has been a non-executive director on the Board since February 2017. He was previously the Registrar of Banks within the South African Reserve Bank and has 19 years of experience with Nedbank, as an executive director of risk for then listed Nedcor Investment Bank. He was also Chief Executive Officer of Imperial Bank. René remains on the Group and Bank Boards as an executive director effective from 1 February 2019.

Our ambition is to announce a permanent appointment to the position at our interim financial results in August 2019, following the finalisation of the process of appointing a new CEO and the requisite regulatory approvals. The successor is likely to take over in 2020.

On behalf of the Boards, I wish to thank Maria for a decade of dedicated service to our Group and wish her all the best in her future endeavours. Absa is a different business to the one Maria joined in 2009. Instead of a South African bank it is now a pan-African financial services provider with a footprint in 12 countries in Africa. She left the Group with the Separation on track and clear medium-term targets aligned to the new strategy.

Several changes to the Board

Trevor Munday retired at the annual general meeting in 2018, having joined the Board in 2007. David Hodnett resigned from the Group and the Board after 12 years with the Group, and eight years on the Board. Monwabisi Fandeso was on our Board for a year before stepping down for personal reasons. We thank them for their valuable contributions and wish them well in their future endeavours.

Paul O'Flaherty stepped down from the Board in November 2018, while taking up an executive position as Chief Executive: Engineering Services (covering technology, security and Separation portfolios).

As stated earlier, René was appointed as the Group's Chief Executive Officer from 1 March 2019 and is now classified as an executive director.

Finally, we have appointed Sipho Pityana as an independent non-executive director of the Group effective from 1 May 2019 and he brings strong commercial, corporate, human resources, strategy and leadership skills to the table.

In conclusion

We remain determined to grow our top-line income and regain our market share as we execute our new strategy and effectively manage the Separation. To deliver on our commitments, we rely on the support and commitment of all our stakeholders. We thank our management and employees for their focus and delivery and our customers for their ongoing support and for entrusting us with their financial prosperity. Following another challenging year, I wish to thank my colleagues on the Board, Board committees and the boards of our subsidiaries.

Wendy Lucas-Bull
Group Chairman