

Message from the Executive Committee

We have made a firm commitment to the African continent . . . to bring possibility to life. We are obsessed with the customer and our people are our strength.

Headline earnings rose **3%** to **R16.1bn**

Return on equity improved slightly to **16.8%** from **16.5%**

Revenue grew **4%** to **R75.7bn**

Operating expenses rose **5%** to **R43.6bn**

Dividend increased **4%** to **R11.10 per share**

In July 2018, the UK's Prudential Regulatory Authority communicated to us that, effective 30 June 2018, regulatory deconsolidation of Barclays and Absa had been achieved. To those unconnected to the rigorous process of getting to that pronouncement, this probably did not mean much, but to Absa it was significant.

From that point onwards we became a standalone organisation, free to pursue our own path and to grow according to our ambitions across Africa. With all the work that had been done in 2017 to prepare a forward-looking corporate strategy, our organisation was ready for it.

In March, we set out a growth ambition that we followed up with a new Group operating model and revised executive committee structure.

The proclamation of regulatory deconsolidation provided us with added impetus to pursue the commitments we had made for 2018. Importantly, we had to continue to run the Group, deliver to our customers and meet the guidance we provided to the market.

Our results were achieved in an increasingly challenging operating environment. South Africa, our largest market, barely escaped a sovereign credit rating downgrade and recession, while geopolitical developments continued to adversely affect global trading conditions.

The transformation of the business continued

When we launched our new strategy in March 2018, we promised a comprehensive reset of our business. A chief executive heads each of our core businesses (RBB South Africa, CIB, ARO and WIMI), and are accountable for strategic delivery.

We prioritised RBB, and completed a comprehensive review in June, followed by a new structure and Executive Committee. The new leadership conducted further bottom-up reviews, developed new strategies and agreed to new, ambitious targets for each of the business lines therein. By the end of the year, we had presented a comprehensive strategic review and targets to investors – clearly mapping the way we intend to meet our targets in the future.

Since we had advanced strategic reviews to reset all four core businesses, we were also able to publish medium-term financial targets for the Group. These are based on our current expectations for economic growth in South Africa and our Absa Regional Operations countries.

As part of our strategy emphasising growth and regaining leadership in our core businesses, we aim to:

- 1 Grow our revenue faster, on average, than the South African banking sector from 2019 to 2021, with an improving trend over time and within appropriate risk appetite parameters;
- 2 Given this growth and continued cost management, we aim to consistently reduce our normalised cost-to-income ratio to reach the low 50s by 2021; and
- 3 We aim to achieve a normalised Group return on equity of 18% to 20% by 2021, while maintaining an unchanged dividend policy.

To meet these targets, we will continue to drive an ambitious transformation programme underpinned by a new, entrepreneurial culture throughout our organisation. The business operating models and governance frameworks, which we are now able to set

afresh in line with our standalone status, are designed to bring our employees closer to our customers. Customer-related decision-making is being devolved to speed up service delivery but with the support of a robust Enterprise Risk Management Framework.

Leading digital innovations

Our ambition is to become a scalable and digitally-led bank. When we launched our new strategy for growth, we set out to become technology pioneers and be ahead of the tech curve.

For us, this means transforming our current business by making it more open and connected, improving our ways of working to become faster and more efficient, orientating for customer growth with digital, pre-emptive customer engagement and simpler, customised offerings and selectively pushing the innovation envelope.

There are already several proof-points where we are bringing this ambition to life. Our retail franchise has taken the lead in providing first-to-banking digital solutions for our customers.

We were first to launch ChatBanking on Facebook and we collaborated with one of the largest and most popular messaging platforms, WhatsApp, to launch ChatBanking on WhatsApp – the first bank in the world to offer this service.

We also launched Samsung Pay, an innovative payment system that allows customers to store their bank details on a Samsung smartphone and make payments at point of sale – a first in the South African market.

Because we aspire to become a banking group which Africa can be proud of, we are also mindful of our responsibility to serve our customers in the most remote areas in the continent. This is why we collaborated with retailers, post offices and similar organisations in Kenya, Tanzania and Uganda to meet the cash needs of our customers.

We have collaborated with fintechs and start-ups through our innovation hub, based in Cape Town, South Africa, giving them the support, resources and access to develop best-in-class technology solutions in Africa.

Continued delivery against new strategy

We have committed to grow faster than our peers in South Africa, beginning in 2019. We are pleased with the momentum that is building in retail lending, as well as the quality of new business, which bodes well for improved annuity business. RBB South Africa is progressing its restructuring, and will focus on building momentum towards its targets. It is a very significant and important component of our Group and we are pleased that we have completed its structural transformation. By the end of 2019, we will have completed the transformation of all core business and Group support functions in support of our strategy.

Cost management will remain a top priority. With the structural reset of the organisation due to be completed during 2019, we expect to see positive cost outcomes in future reporting periods. We continue to challenge ourselves to develop simpler, faster and nimbler structures that give us both agility and cost efficiency in all areas of our business.

Separation programme

By the end of 2018, we had successfully achieved Separation on 140 out of 266 projects, which is the

halfway mark of our Separation work. ARO successfully migrated the core banking platforms from the United Kingdom to South Africa in April 2019.

Our Separation projects are interdependent, which means the timeous and efficient completion of each project is crucial for completing subsequent pieces of work. We have developed ways of managing challenges quickly and efficiently. These include a risk mitigation team as well as a function to focus on large and systemically important projects. We continue to assess our project status regularly and respond proactively to potential challenges. We remain confident that we can deliver Separation on time and within budget.

Conclusion

2018 was a defining year for the Absa Group. We announced a new strategy, and began the process to restructure and re-engineer our business, an effort that will continue into 2019.

In 2018, we also achieved regulatory deconsolidation and introduced a refreshed brand in South Africa.

We also began the work of embedding a new culture in our organisation, developing an understanding of engagement levels and putting strategies in place to make the experience of working for Absa enriching for each of our colleagues.

We know that the targets we have set for our business are ambitious and it will take a huge effort from every last one of our employees to achieve them, but the extent of the collaboration on this journey so far leaves us with little doubt that our employees are up to the task.

We are grateful to our Board for their continued support and guidance; we are thankful to all our colleagues for their consistent commitment to our customers and above all, we want to thank our customers for their ongoing business.

Arrie, August, Bobby, Bongwiwe, Charles R, Charles W, Jason, Maria, Nomkhita, Paul, Peter and Yasmin¹

¹ Maria retired on 28 February 2019, Yasmin took up a position in CIB and stepped down from the Executive Committee on 17 April 2019. Roze joined Executive Committee on that date.

A new brand and Values



In July, we were proud to introduce a refreshed Absa brand identity in South Africa, united under a single purpose – Bringing possibility to life. It repositioned Absa as a youthful, exuberant brand that resonates with Africa's young, energetic population.

Out of this process, we developed new Values that now underpin our culture change, our entrepreneurial spirit and the role we are going to play in society and the communities we serve in particular. Our new Values and supporting behaviours are:



We drive high performance to achieve sustainable results

- We play to win and are accountable for results.
- We innovate, we are decisive and we act quickly.
- We learn from our failures, we are bold enough to change course.



We are obsessed with the customer

- We are curious, we anticipate the customer's needs.
- We take ownership of delivering the One Absa customer experience.
- We outperform by going beyond customer expectations.



Our people are our strength

- We integrate diverse perspectives to invent the future.
- We collaborate with courage, honesty and powerful energy.
- We trust, value and grow our people to achieve their full potential.



We have an African Heartbeat

- We deliver a uniquely Absa experience, across Africa.
- We co-create across Africa to deliver better solutions.
- We actively engage our communities to bring people's possibilities to life.

These Values were a result of an extensive collaboration by colleagues across our business. As we roll out the change in the visual identity of the organisation across Africa during 2019 and 2020, these Values will inform the cultivation of a new ethos that underpins who we are and how our customers and stakeholders experience us in the future.