

ABSA GROUP LIMITED

Incorporated in the Republic of South Africa

Registration number: 1986/003934/06

ISIN: ZAE000255915

JSE share code: ABG

("Absa Group" or "the Group")

**VOLUNTARY TRADING UPDATE FOR THE TEN MONTHS ENDED 31 OCTOBER 2021
AND TRADING STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2021****Trading update**

This trading update provides information on Absa Group's financial performance for the ten months ended 31 October 2021. The commentary throughout refers to the percent change year-on-year (unless otherwise noted) in the Group's normalised financial results, which adjust for the consequences of separating from Barclays PLC.

On average, the Rand was 16% stronger year-on-year against currencies in our Absa Regional Operations (ARO) during the period, reducing Group revenue, operating expenses and earnings, although it was only a slight year-on-year drag from a balance sheet perspective.

Growth in gross customer loans improved from the first half, rising by mid-single digits year-on-year, with stronger growth from Retail and Business Banking (RBB) than Corporate and Investment Banking (CIB), and from South Africa than ARO. Within RBB, solid growth in Home Loans and Vehicle and Asset Finance was well above moderate Relationship Banking growth and lower Personal Loans. Customer deposit growth remains robust, increasing by low double digits, with good growth across our businesses and geographies.

Total revenue for the ten months grew by mid-single digits year-on-year, improving on the first half, or by high single digits in constant currency. Net interest income rose by high single digits, given solid deposit growth and an improved net interest margin, which was similar to the first half level and noticeably higher year-on-year.

Non-interest income was broadly flat year-on-year, an improvement from the first half. As in the first half, net fee and commission income growth was modest. Global Markets' growth remains robust, particularly in South Africa, albeit slower in the second half, given the stronger second half 2020 base. Total insurance non-interest income was down materially, although by significantly less than it was in the first half. RBB's non-interest income declined, largely reflecting Absa Life's significant first half Covid-19 provisions, as well as targeted fee reductions. CIB's non-interest income rose materially, due to non-recurring negative items in the first half of 2020 and Global

Markets. Operating expenses grew by low single digits, slightly less than the first half, reflecting continued cost management partially offset by considerably higher performance costs.

This resulted in positive operating JAWS and an improved cost to income ratio. The Group's pre-provision profits for the ten months grew by mid-single digits, or low double digits in constant currency, a noticeable improvement from the first half.

Credit impairments improved materially year-on-year, off a high base, resulting in a credit loss ratio in the middle of our through-the-cycle target range of 75 to 100 basis points. The credit charge in RBB and CIB reduced significantly. The percent of stage 3 loans improved slightly from the first half. Our total loan coverage remains strong.

Lastly, our return on equity improved significantly and was similar to first half levels, comfortably exceeding our cost of equity.

From a business unit perspective, RBB's headline earnings more than doubled year-on-year due to significantly lower credit impairments, while CIB's increased considerably, given strong pre-provision profit growth and substantially lower credit impairments.

Our capital remains strong. Absa Group's common equity tier 1 (CET1) capital ratio improved to 12.5% at 30 September 2021, at the top end of our 11.0% to 12.5% Board target range, from 12.4% at 30 June 2021.

Trading statement

Based on our performance for the first ten months and our current expectations for the operating environment, our financial guidance for 2021 is updated as follows:

We expect high single-digit growth in net interest income, given an improved net interest margin. We continue to benefit from rising interest rates. Our interest rate sensitivity is an almost R700m uplift in net interest income per 100 basis point rate increase.

Non-interest income is likely to be broadly flat, given Absa Life's elevated first half Covid-19 related claims and provisions, with positive growth expected excluding insurance.

We continue to manage operating expenses carefully, while maintaining investment in systems and digitization. Despite increased variable and performance costs on the back of higher earnings, we expect low single digit cost growth.

As a result, we expect positive operating JAWS in 2021 and our cost-to-income ratio is likely to be slightly better than last year's 56.0%. We expect mid-single digit growth in pre-provision profits.

After last year's significant build in coverage, our credit impairments are expected to decrease substantially, resulting in a credit loss ratio in the bottom half of our through-the-cycle range of 75 to 100 basis points.

Consequently, we expect our return on equity to improve substantially this year, to above our cost of equity and similar to first half levels.

Given our strong CET1 ratio, we expect to increase the payout ratio for our second half dividend to 40% from 30% in the first half.

In accordance with section 3.4(b) of the JSE Listings Requirements, shareholders are advised that the Group's IFRS headline earnings per share (HEPS) and earnings per share for the year ending 31 December 2021 are expected to be more than double the comparatives for 2020 of 730.9 cents and 711.8 cents, respectively. Normalised HEPS for the year ending 31 December 2021 is expected to be more than double the 946.5 cents for 2020. Risks to our guidance include a significantly more severe fourth wave of Covid-19 than we currently expect, plus any material unforeseen political, macroeconomic or regulatory changes. We will provide a more specific guidance range once there is reasonable certainty regarding the extent of the earnings increase.

Shareholders are advised that the financial information contained in this trading update and trading statement have not been reviewed or reported on by our auditors.

We will release our 2021 financial results on 14 March 2022, when we will provide guidance on our expectations for next year.

Johannesburg
3 December 2021

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Lead Independent Sponsor:

J.P. Morgan Equities South Africa Proprietary Limited

Joint Sponsor:

Absa Bank Limited (Corporate & Investment Bank)

Editor's Note:

Normalised reporting

Given the process of separating from Barclays PLC, Absa Group continues to report IFRS-compliant financial results and a normalised view. The latter adjusts for the consequences of the separation and better reflects its underlying performance.