ABSA GROUP LIMITED
Incorporated in the Republic of South Africa
Registration number: 1986/003934/06
ISIN: ZAE000255915
JSE share code: ABG
JSE bond issuer code: ABGI
(“Absa Group” or “the Group”)

VOLUNTARY TRADING UPDATE FOR THE TEN MONTHS ENDED 31 OCTOBER 2022 AND OPERATIONAL OUTLOOK FOR THE YEAR ENDING 31 DECEMBER 2022

Trading update

This trading update provides information on Absa Group’s financial performance for the ten months ended 31 October 2022. 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 broadly in line with our Absa Regional Operations (ARO) currencies during the period and had a limited impact on our revenue and earnings, although it increased cost growth slightly.

Gross customer loans grew by low double digits, reflecting solid loan growth across all the divisions. Customer deposits rose by high single digits, driven by strong growth in Relationship Banking and Retail and Business Banking (RBB) ARO in particular.

Revenue growth for the ten months was broad-based, with the total increasing by low teens, a similar rate to the first half. Reflecting strong loan growth and the margin benefit of rising interest rates, net interest income grew by low teens. Non-interest income also increased by low teens. The rebound in life insurance revenue, off a low base that included significant Covid-19 claims and provisions, and mid- to high single digit growth in fee and commission income, offset slightly lower Markets revenue.

Operating expenses rose by high single digits, although excluding performance costs the increase was mid-single digit.

Hence, operating JAWS were strongly positive and our cost-to-income ratio improved to the low 50s. Pre-provision profit growth for the ten months was in the low 20s.

Credit impairments increased, with our credit loss ratio in the upper half of our through-the-cycle target range of 75 to 100 basis points. Corporate and Investment Bank (CIB) and Product Solution

Cluster's credit impairments grew noticeably off low bases, while RBB ARO and Relationship Banking decreased.

Our return on equity for the period improved noticeably to 17%.

Our capital levels remain strong. Absa Group's common equity tier 1 (CET1) capital ratio was 12.4% at 30 September 2022 (including unappropriated profits) after paying our interim dividend.

Operational outlook

Based on our performance for the first ten months and our current expectations for the operating environment, barring any major unforeseen political, macroeconomic or regulatory developments (particularly in our large markets South Africa and Ghana, which is experiencing a sovereign funding crisis), our guidance for 2022 is as follows:

Revenue for the year is likely to increase by low teens year-on-year, driven by strong non-interest income growth in part due to a recovery in life insurance revenue off a low base. We expect low double digit net interest income growth, benefiting from rising interest rates, high single digit growth in gross customer loans and mid-single digit growth in customer deposits.

Operating expenses are expected to increase by high single digits year-on-year, reflecting higher performance costs, some Rand depreciation and continued technology investment.

We expect wide positive operating JAWS to produce substantial pre-provision profit growth in the low 20s. Consequently, our cost-to-income ratio is likely to improve noticeably to the low 50s, albeit slightly above the first half level given seasonal factors.

Given higher policy rates and the uncertain macroeconomic outlook, we will maintain strong loan coverage. Our credit impairments are expected to increase year-on-year, resulting in a credit loss ratio in the upper half of our through-the-cycle range and above our first half charge of 91 basis points. Within our South African retail portfolio, higher inflation and the 325 basis point rise in policy rates are expected to increase credit impairments. Vehicle finance credit impairments are expected to grow materially, despite improving noticeably in the second half, while Home Loans should normalise off a reversal in the previous year. Personal Loans credit impairments are also expected to increase materially, in part due to new business strain. Relationship Banking and RBB ARO's charges are expected to decline, with CIB increasing to within its through-the-cycle target range.

Our return on equity is likely to improve substantially year-on-year to around 17%, well above our cost of equity. Given our strong CET1 capital ratio, we expect to increase our dividend payout ratio to at least 50% for the year.

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

We will release our 2022 financial results on 13 March 2023.

Johannesburg
7 December 2022

Enquiries:
Alan Hartdegen
E-mail: alan.hartdegen@absa.africa

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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.