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 FIVE MONTHS ENDED 31 MAY 2022 AND TRADING STATEMENT FOR THE SIX MONTHS ENDING 30 JUNE 2022

Trading update

This trading update provides information on Absa Group's financial performance for the five months ended 31 May 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 the currencies in our Absa Regional Operations (ARO) during the period, and had a limited impact on our revenue, operating expenses and earnings.

Growth in gross customer loans was high single digit, reflecting improved growth in Corporate and Investment Banking (CIB), with Retail and Business Banking (RBB) also growing high single digits, driven largely by Home Loans and Vehicle and Asset Finance. Customer deposit growth slowed to mid-single digits, with solid RBB growth partially offset by lower CIB deposits due to a large reduction in low-margin national government deposits.

Total revenue growth for the five months improved strongly, increasing by low double digits year-on-year. South Africa's revenue grew by low double digits and Africa regions was higher. Reflecting solid loan growth and the margin benefit of rising interest rates, net interest income was higher than we expected, increasing by low double digits year-on-year. As expected, non-interest income growth improved materially, rising by low double digits year-on-year. Life insurance revenue rebounded very strongly off a low base that included significant Covid-19 claims and provisions. Fee and commission income grew mid-single digit year-on-year, while trading revenues were at similar levels to the high base recorded in the prior year.

Operating expenses grew by high single digits year-on-year, in part due to considerably higher incentives, reflecting our improved performance.

Operating JAWS were positive and our cost-to-income ratio improved to the low 50s. Pre-provision profit for the five months increased by mid-teens year-on-year.

Credit impairments grew materially year-on-year, off a relatively low base that included substantial model enhancement benefits in RBB South Africa. Our credit loss ratio was slightly above our through-the-cycle target range of 75 to 100 basis points. RBB South Africa's charge increased significantly, due to higher Vehicle and Asset Finance credit impairments and the model enhancement benefits in the base. CIB's credit charge decreased materially.

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

Our capital levels remain strong. Absa Group's common equity tier 1 (CET1) capital ratio at 31 March 2022 was 12.6% after paying our final 2021 dividend, and our total capital adequacy ratio was 16.5%.

Trading statement

Based on our performance for the first five months, and our current expectations for the operating environment, our financial guidance for the first half of 2022 is as follows:

We expect revenue for the half to increase by low teens year-on-year, driven by strong non-interest income growth due in part to improved life insurance revenue off a low base. We expect low double digit net interest income growth, benefiting from rising interest rates.

Operating expenses are expected to increase by high single digits year-on-year, reflecting performance costs, plus continued growth in marketing and technology investments.

We expect wide positive operating JAWS for the half to produce substantial pre-provision profit growth, while our our cost-to-income ratio is likely to improve noticeably to the low 50s.

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, versus 88 basis points in the first half of 2021. Given the uncertain macroeconomic outlook, our loan coverage remains strong, with conservative forward-looking provisions.

We expect our return on equity to improve substantially year-on-year to around 17%, well above our cost of equity.

As previously guided, given our strong CET1 ratio, we expect to increase our dividend payout ratio to 50%, from 30% in the first half of 2021.

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 six months ending 30 June 2022 are expected to be more than 20% above the comparatives for the first half of 2021 of 986.2 cents and 983.3 cents respectively. Normalised HEPS for the six months ending 30 June 2022 is also expected to exceed the 1019.7 in the first half of 2021 by more than 20%. Risks to our guidance include 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 our 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 first half 2022 financial results on 15 August 2022, including guidance on our expectations for rest of the year.

Johannesburg
21 June 2022

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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.