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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020 AND TRADING STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2020

Shareholders are advised that due to the significant uncertainty created by the covid-19 pandemic and economic downturn, Absa Group will host a market update today. It will include the following update on the Group's financial performance for the first nine months of 2020 and guidance on its 2020 earnings.

Trading update

The Group experienced the following financial trends for the first nine months of 2020, on a normalised basis:

Revenue growth was similar to the 3% increase in the first half.

The Rand was 11% weaker year-on-year (YoY) than our Absa Regional Operations (ARO) currencies for the period, in line with the first half's 12%.

In line with our guidance, the growth in gross Group loans slowed slightly to 5% YoY. In South Africa, Retail and Business Banking (RBB) and Corporate and Investment Bank's (CIB) gross loans grew 3% and 5% respectively YoY, while ARO increased 11%.

Overall deposit growth was in line with the first half at 15% YoY, with particularly strong third quarter growth from Relationship Banking and CIB in South Africa, while Retail in South Africa grew 11% YoY. The Group liquidity coverage ratio averaged 139% in the third quarter.

Net interest income growth for the first nine months was similar to the first half's 6% YoY. Given strong growth in average interest bearing assets in the third quarter, our net interest margin for the nine months declined to 4.13% from 4.23% in the first half. Lower rates were a drag, although the structural hedge released over R700m in the third quarter. Balance sheet construct was the main cause of the third quarter margin compression, as substantial surplus liquidity was placed into low-margin government bonds and loans to banks. Moreover, low-margin deposit growth was strong, while higher margin loans declined and mortgages increased.

Our non-interest income trajectory for the first nine months improved slightly from the 2% decline in the first half. Although fee and commission income recovered strongly from the weak second quarter, it remained down YoY in the third quarter and below first quarter levels, particularly in RBB South Africa. While net insurance premium income grew by high single digits YoY for the first nine months, claims increased in the third quarter due to higher mortality and credit life claims. Trading revenue in Global Markets grew substantially for the period, and was strong in the third quarter, particularly in South Africa off a low base.

Operating expenses remain very well managed, decreasing by a similar amount for the nine months to the first half's 2% decline. Headcount fell by 1200 year-to-date, while performance costs dropped substantially YoY during the nine months. South African costs declined YoY, while ARO's increased due to incremental run costs after separating from Barclays PLC.

Lower operating expenses supported positive JAWS for the nine months similar to the 5% recorded in the first half, despite the modest YoY revenue growth. As a result, our cost-to-income ratio improved noticeably YoY, and YoY pre-provision profit growth for the nine months was the same as the first half's 9%.

Credit impairments for the nine months trebled YoY given the substantial first half charge. However, third quarter credit impairments were better than expected, with a credit loss ratio slightly above the 100 basis point top end of our through-the-cycle target range. As a result, the credit loss ratio for the nine months improved to 219 basis points from the first half's 277 basis points. No material adjustments were made to the substantial macroeconomic variable coverage built in the first half.

RBB South Africa's third quarter credit loss ratio increased substantially YoY, although it improved noticeably from the first half, particularly in mortgages. Of the R154bn in payment relief granted to RBB South Africa customers, 24% by value extended payment relief when it expired. Of the R116bn in RBB South Africa relief book that expired, 91% are paying and 9% have missed one or more payments. Missed payments on the expired payment relief book are lowest in Relationship Banking and home loans at 4% and 8% respectively, and higher in unsecured. As part of the government loan guarantee scheme R1.8bn in business loans have been approved, from R0.5bn at 30 June 2020.

CIB South Africa's third quarter credit loss ratio was below CIB's through-the-cycle target range of 20 to 30 basis points. Its lending subject to payment relief increased to R38bn from R37bn at 30 June 2020.

While ARO's credit charge improved in the third quarter, it doubled YoY. CIB ARO's payment relief loans increased to R15bn from R11bn at 30 June 2020. In Retail outside of South Africa, 13% of the payment relief granted was extended, while 5% of the portfolio that expired has missed a payment.

The Group delinquency profile and non-performing loans deteriorated slightly in the third quarter. Stage 2 loans increased to 11.6% from 10.0% at 30 June 2020, while stage 3 increased to 5.89% from 5.65%, despite CIB South Africa and ARO improving. RBB South Africa's stage 3 loans rose, largely due to personal loans. The group's balance sheet credit provisions as a proportion of loans was 4.62% at 30 September 2020, from 4.46% at 30 June 2020.

As a result of these factors, the group's return on equity for the first nine months was more than double the first half's 2.6%, as the third quarter return on equity improved to low double digits.

The Group common equity tier 1 (CET1) ratio increased to 11.3% at 30 September 2020, within the board target range of 11% to 12%, and its net asset value per share grew 6% YoY.

Focusing on our third quarter, YoY revenue and cost growth were similar to the first half, producing positive JAWS. Credit impairments improved noticeably from the first half, but were still substantially higher YoY, although the credit loss ratio was only slightly above the group's through-the-cycle range. The group's return on equity improved considerably to low double digits. Division-wise, RBB South Africa's revenue declined, albeit far less than its costs, and its credit impairments increased substantially, although its credit loss ratio improved noticeably from the first half. CIB South Africa's substantial YoY revenue growth off a low base, together with lower costs and credit impairments produced a strong third quarter. Meanwhile, incremental run costs after separating from Barclays and substantially higher credit impairments YoY dampened ARO's third quarter performance.

Most of these third quarter trends continued into October.

Outlook and trading statement

Our latest forecast is for South Africa's real GDP to fall 8.7% this year and grow 2.6% next year. We expect another 25 basis point cut in South Africa's prime rate today, although this remains finely balanced. Thereafter, it is likely to remain flat until a 25 basis point increase in the fourth quarter of 2021. As a whole, our ARO markets' real GDP is expected to be largely flat this year, well below our pre-Covid-19 forecast of 5.7% growth and slightly lower than our estimate of 0.9% in August. We see limited scope for further large rate cuts across the ARO portfolio.

Excluding any further major unforeseen political, macroeconomic or regulatory developments, our 2020 guidance is as follows:

The Group's net interest margin is expected to decline noticeably this year, with the second half lower, largely due to a change in balance sheet construct. Annual revenue sensitivity to further rate cuts in South

Africa is a R250m reduction per 50 basis points. Despite the expected reduction in margin, YoY net interest income growth in the second half is expected to be similar to the first half growth.

Loan growth should slow in the second half, while deposits are expected to grow far faster than loans.

Operating expenses are expected to decline YoY, producing positive JAWS, although pre-provision profit growth is likely to slow slightly from the first half.

The credit loss ratio for the full year is expected to exceed global financial crisis levels. The second half credit loss ratio is likely to improve noticeably compared to the first half, but remain above the through-the-cycle range of 75 to 100 basis points.

The group's return on equity is expected to remain well below cost of equity this year, although it is likely to improve considerably in the second half.

With improved second half capital generation, the Group CET1 ratio is expected to remain resilient. Due to our focus on preserving capital, we do not envisage declaring an ordinary dividend for 2020.

Shareholders are advised that Absa Group's IFRS headline earnings per share (HEPS) and earnings per share (EPS) for the year ending 31 December 2020 are expected to decline by more than 40% from the 2019 comparatives of 1750.1 cents and 1717.6 cents respectively. Normalised HEPS for the year is also expected to decline by more than 40% from the 1926.0 cents for 2019. We will provide a more specific guidance range once reasonable certainty regarding the extent of the decline has been obtained.

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

Johannesburg
19 November 2020

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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. The Group will present normalised results for future periods where the financial impact of separation is considered material.