ABSA GROUP LIMITED
Incorporated in the Republic of South Africa
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ISIN: ZAE000255915
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("Absa Group" or "the Group")

VOLUNTARY TRADING UPDATE FOR THE FIRST FOUR MONTHS OF 2020 AND TRADING STATEMENT FOR THE SIX-MONTH PERIOD ENDING 30 JUNE 2020

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

Trading update

The covid-19 pandemic started as a public health crisis, but has triggered an unprecedented disruption of markets and economies worldwide. Our response has been guided by the principles of wanting to ensure the health and safety of our staff, to support our customers and to ensure the resilience of our franchise from an operational and financial perspective. We have also been involved in humanitarian efforts to support vulnerable communities across all the markets in which we operate.

Although Absa Group's earnings for the first quarter of 2020 were somewhat impacted by covid-19 towards the end of March, our return on equity was slightly lower than the comparative period in 2019, and we were on track to achieve the guidance we had issued.

However, the national lockdown in South Africa had a substantial impact on our financial performance in April 2020 and accordingly affecting the first four months of the year.

The Group experienced the following financial trends for the first four months of 2020:

We had some benefit from a weaker Rand versus currencies in our Absa Regional Operations (ARO). On average, the Rand was 8% weaker than our ARO currencies during the period versus the comparable period in 2019.

Despite slowing materially in April, the year-on-year growth in customer loans to 30 April 2020 was low double digit, while customer deposit growth was in the high teens. Group customer loans declined slightly month-on-month in April, across Retail and Business Banking (RBB) SA, Corporate and Investment Bank (CIB) and ARO.

Absa Group's net interest margin declined year-on-year, due to the rate cuts in South Africa and most of our ARO markets. Net interest income growth was high single digits year-on-year, but is expected to slow.

Non-interest revenue growth was mid-single digit year-on-year, despite RBB SA declining due to substantially reduced transaction volumes during the national lockdown. There was a material decline in RBB SA's fee income in April, with ATM volumes, bancassurance sales, card turnover and point of sale volumes decreasing significantly month-on-month. However, there are signs of some recovery in transactional volumes in May, as parts of the economy gradually re-open.

CIB's non-interest income for the period increased, with strong Markets revenue growth off a low base. Markets corporate client flows reduced noticeably in April while institutional flows remained intact.

Operating expenses were well contained, producing positive JAWS for the first four months and strong pre-provision profit growth.

However, credit impairments for the period doubled year-on-year, with large increases in personal loans and credit cards. The Group credit loss ratio was similar to 2009 financial year levels of 1.7%, well above our through-the-cycle target range. The substantial increase in credit impairments occurred largely in April.

Consequently, Absa Group's return on equity for the first four months fell materially year-on-year.

Trading statement

It is difficult to provide guidance for the rest of the year, given the significant uncertainty about the impact of covid-19, national lockdowns and the macroeconomic outlook. These have a material impact on customer loan and transaction volumes and credit impairments, in particular.

We currently expect South Africa's real GDP to fall 10% and our ARO portfolio to decline slightly on average. We expect lower average policy rates for 2020 across the board. Based on these assumptions, and excluding further major unforeseen political, macroeconomic or regulatory developments, our guidance for 2020 is as follows:

We see limited customer loan growth year-on-year and customer deposits are likely to increase by more than customer loans.

The 275 basis points (bp) lower interest rates in South Africa is expected to reduce the group's net interest income by approximately R1.6bn in 2020, after factoring in the meaningful benefit of its structural hedge. We believe there could be another 50bp rate cut in South Africa this year. The annual sensitivity to further rate cuts in South Africa is a R250m reduction per 50bp.

Revenue growth is expected to slow from the first four months, reflecting reduced customer loan production and transactional activity on the back of the impact of the lockdowns and negative GDP.

Operating expenses for the year are expected to decline slightly year-on-year, reflecting a hiring freeze, lower short-term incentives, significant project reprioritization and material reductions in marketing spend.

On credit impairments, IFRS 9 requires the use of forward looking assumptions when determining the level of provisions required. These assumptions have a basis in historical information, but will require additional levels of management judgement in this unprecedented stressed environment.

Coverage is expected to significantly increase as the macroeconomic base case has deteriorated, resulting in lower realizable collateral values, higher likelihood of default and a greater proportion of defaults impacting significant increases in credit risk. Judgement regarding the financial health of clients will need to be based on a multitude of factors.

To assist customers experiencing challenges as a result of covid-19, RBB SA launched a comprehensive payment relief plan on 30 March 2020. It provides three months of payment relief across all credit products for wealth, business bank, private bank and retail customers. Take up has been substantial and to date we have provided R8bn of payment relief over three months to 398 thousand customers on 584 thousand accounts, covering R146bn of customer loans.

We expect a significant increase in credit impairments this year, to well above the Group's through-the-cycle target range of 75bp to 100bp. Given the substantial uncertainty, we will provide additional disclosure on the judgements we have made and more guidance on the Group's likely credit impairment for the year when we report first half results on 24 August 2020.

Absa Group's return on equity for 2020 is likely to decline materially from last year's 15.8%.

We expect the Group's Common Equity Tier 1 ratio to remain resilient. It may decrease to below our board target range of 11% to 12% as a consequence of the crisis; however, stress testing confirms that it should remain well above regulatory requirements. Given our focus on preserving capital, we currently 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 six-month period ending 30 June 2020 are expected to be more than 20% below the comparatives for the first half of 2019 of 920.0 cents and 918.9 cents, respectively. Normalised HEPS for the six-month period ending 30 June 2020 is expected to be more than 20% lower than the normalised HEPS of 977.5 cents for first half of 2019. We will provide a more specific guidance range once there is reasonable certainty regarding the extent of the decline.

We are reviewing the Group's medium-term financial targets and will update the market when there is greater certainty in the macroeconomic outlook.

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.

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Lead Independent Sponsor:
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Editors 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.