# Absa Group

FY22 results presentation

13 March 2023

# Arrie Rautenbach

Chief Executive

# Operating environment remained uncertain

## Global environment

- Rising geopolitical tension
  - Russia/Ukraine conflict
  - US/China tension
- Supply chain disruption
- Elevated inflation
- Tighter monetary policy
- Pressure on financial assets

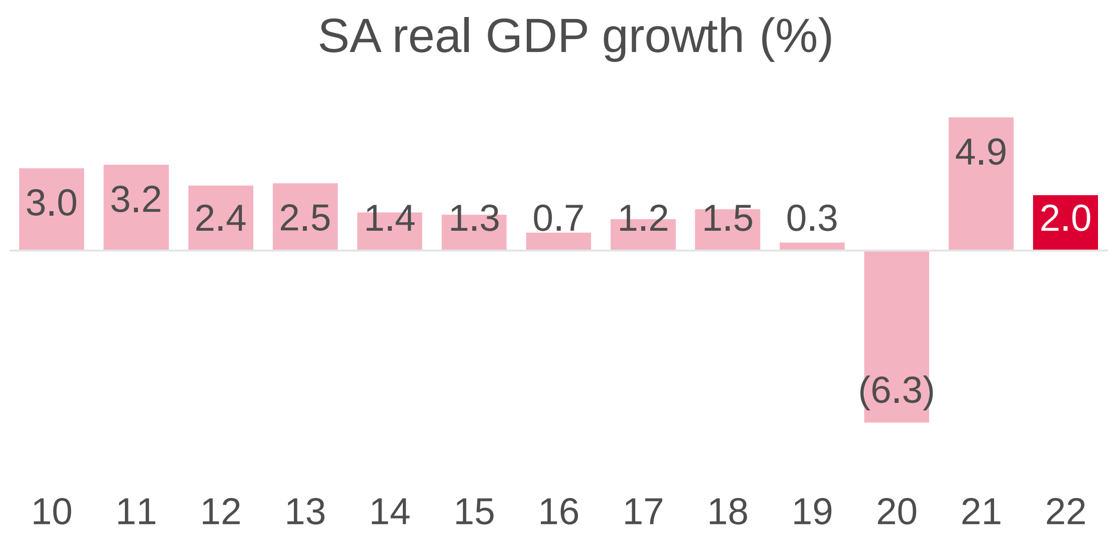
## Sub-Saharan Africa

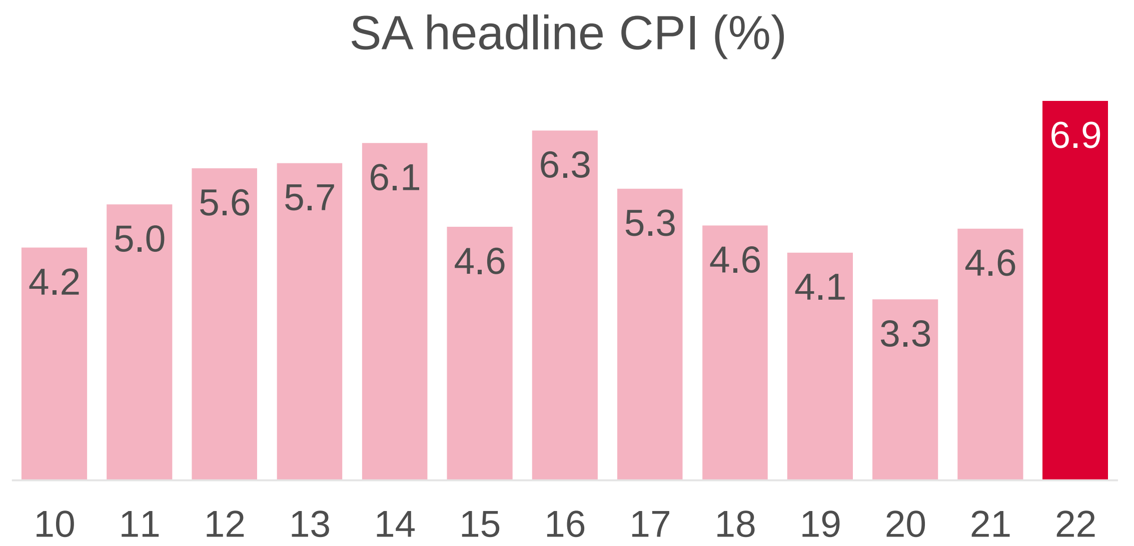
- Inflationary pressures
- Increased policy rates
- Higher country risk premium
- Some sovereign debt challenges
- Portfolio diversity supported growth

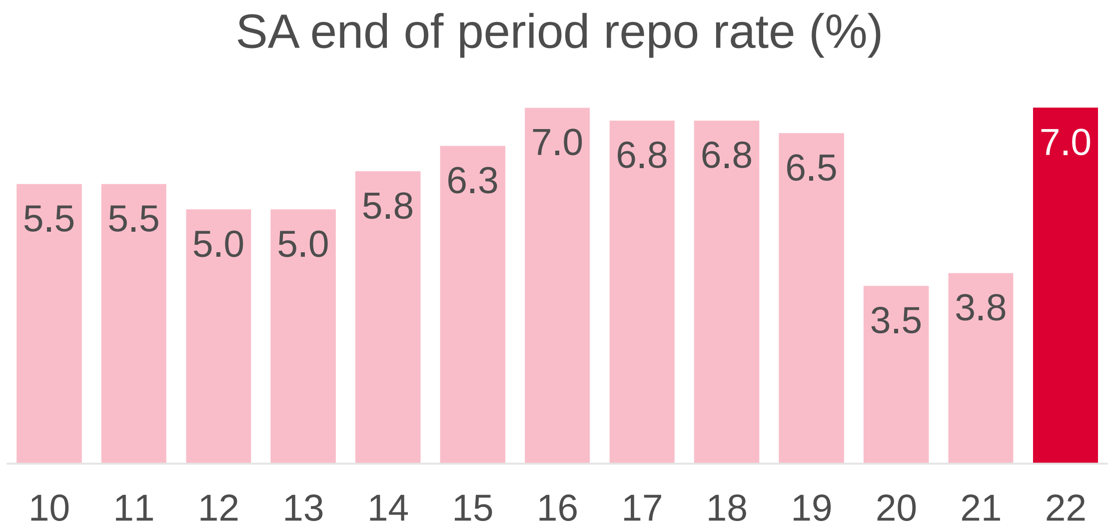
## South Africa

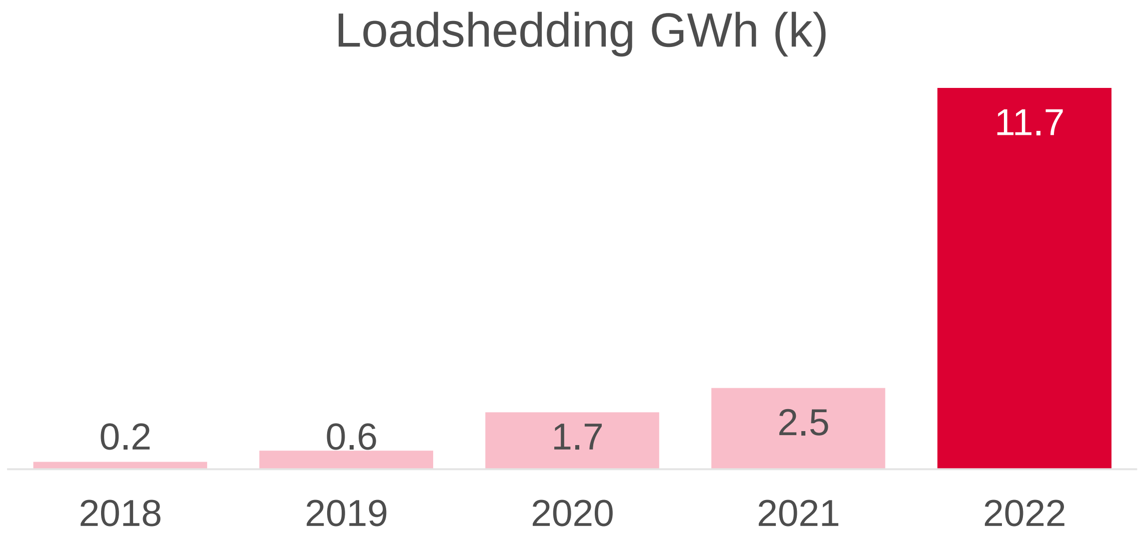
- Commodity price benefits
- Slowing GDP growth
- Rate increases exceeded expectations
- Higher inflation
- Power and infrastructure challenges
- Consumer strain building
- FATF grey listing

# Headwinds continue to build in South Africa



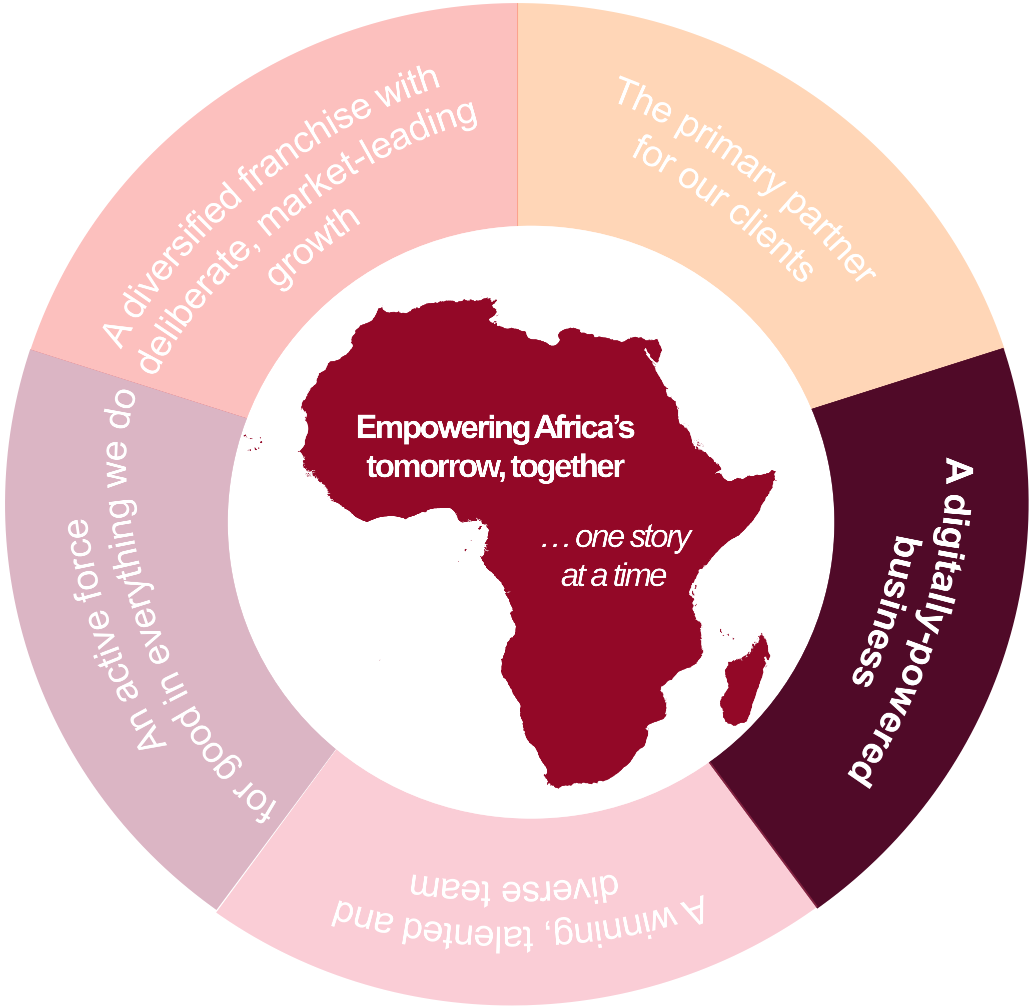

Source: Stats SA, SARB, Eskom, Bureau for Economic Research, Absa Research

# Building the foundation for sustainable growth

- Successfully navigated Barclays separation and Covid-19
- Evolved our group structure
- Diverse leadership team in place
- With the right group strategy
- Consistent execution showing results
- Strong balance sheet (capital, coverage, liquidity)
- Investing for growth
- Redefined our purpose statement, putting it at the centre of everything we do


**Entering 2023 with solid momentum**

# Digitally-powered business

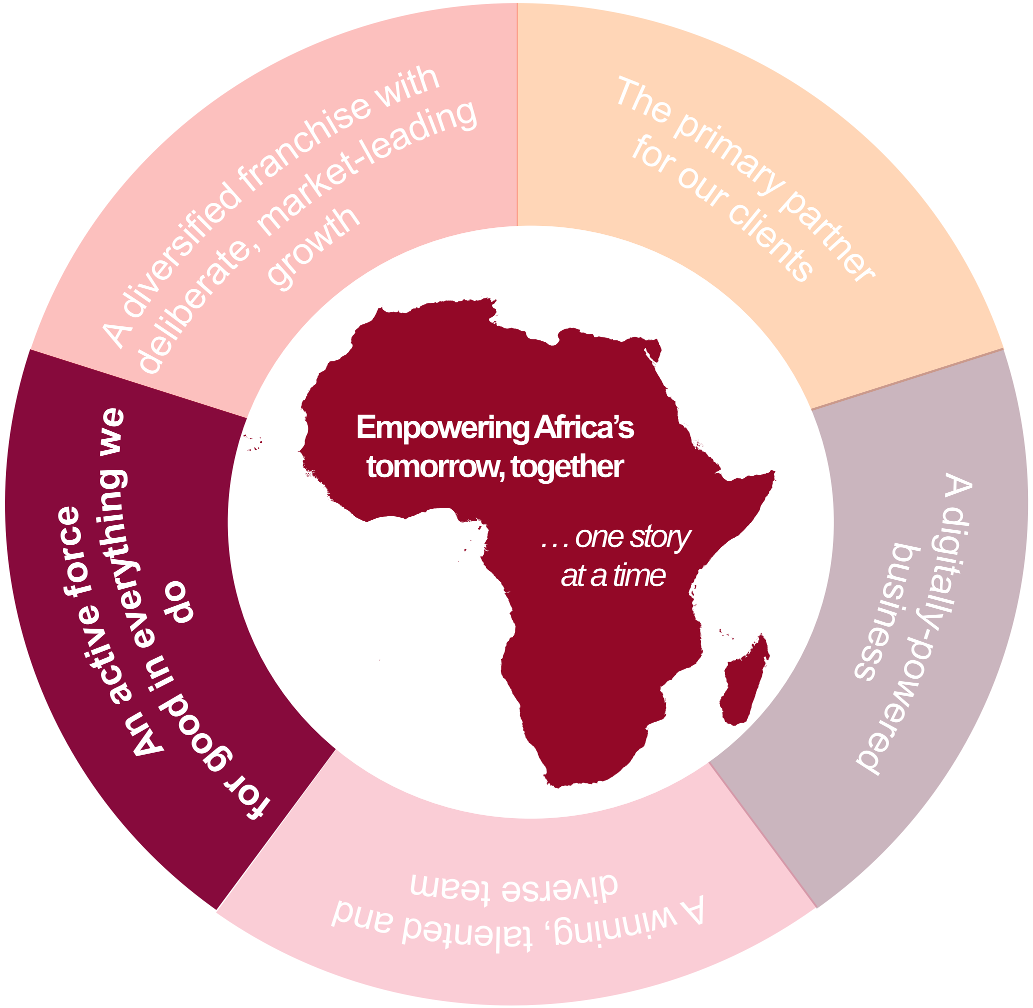



- Digitally active customer numbers increased:
  - 11% growth in South Africa
  - 60% of ARO customers now digitally active
- Over 75% of Core Middle Market and Retail Affluent customers entirely digital
- More than two-thirds of CIB customers on Absa Access
- Digitised insurance product suite
- c.20% of Home Loan and Personal Loan sales on the Absa App
- Continued to lead in digital payments

# Winning, talented and diverse team

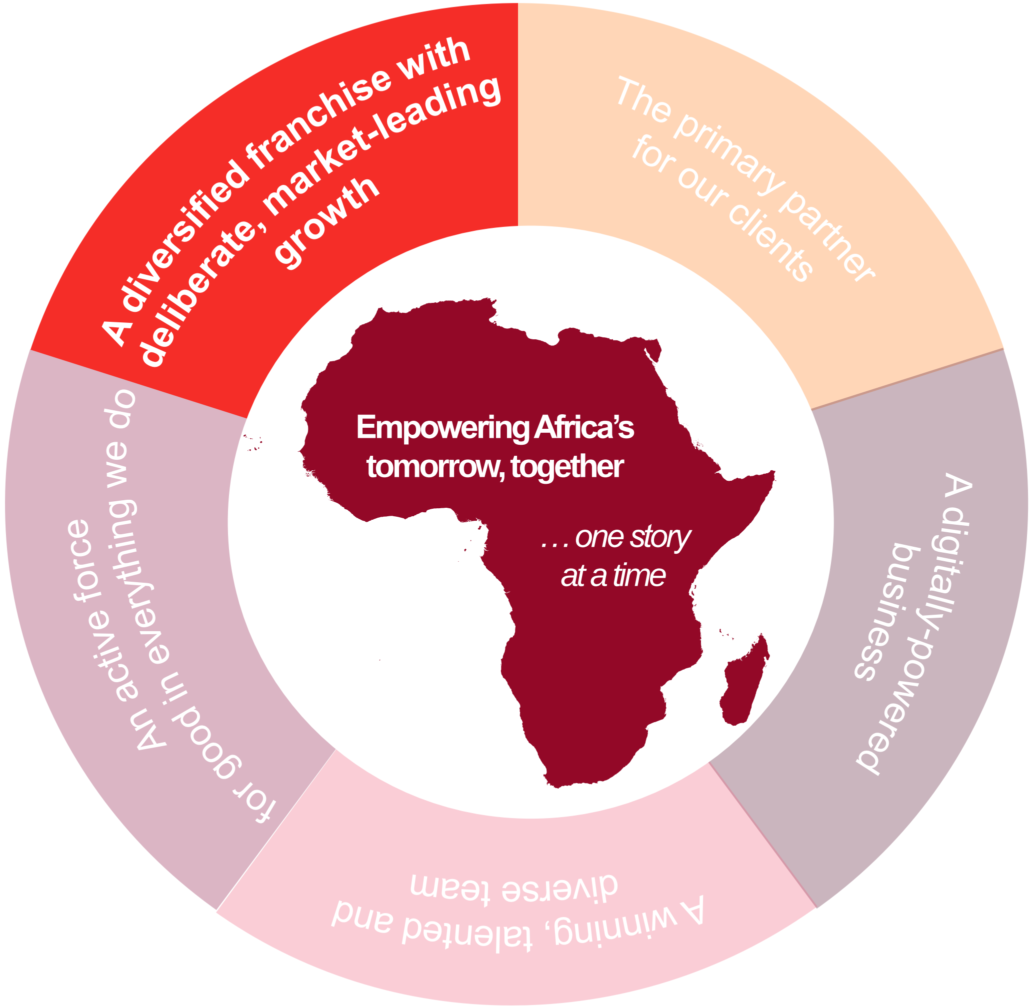

- Developed strong Employee Value Proposition
  - Fair pay principles
  - Invested R590m in employee training
- Employee Net Promoter Score almost doubled
- Attracting and retaining top talent
- Certified a Top Employer for second year running
- Top African company in the Forbes 2022 World Top Female-Friendly Companies survey

# Active force for good in everything we do



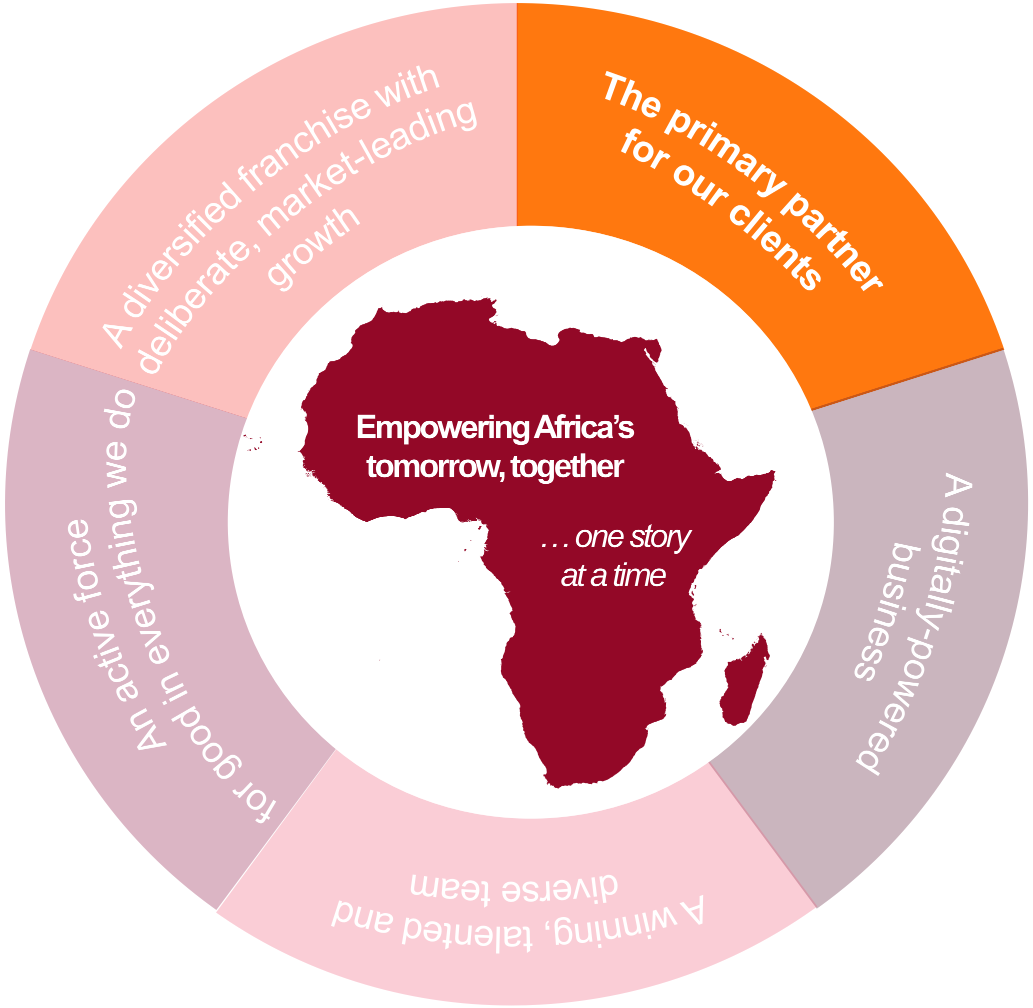

- Elevated ESG as a strategic priority with focus on:
  - Climate change
  - Financial Inclusion
  - Diversity and Inclusion
- Continue to lead in South African renewable finance
- Leaders in agriculture finance
- Promoting inclusive finance across the continent
- Issued inaugural Green Bond and sustainability-linked syndicated loan
- Increased community investment 37%, with focus on education and skills development

# Diversified franchise with deliberate market leading growth



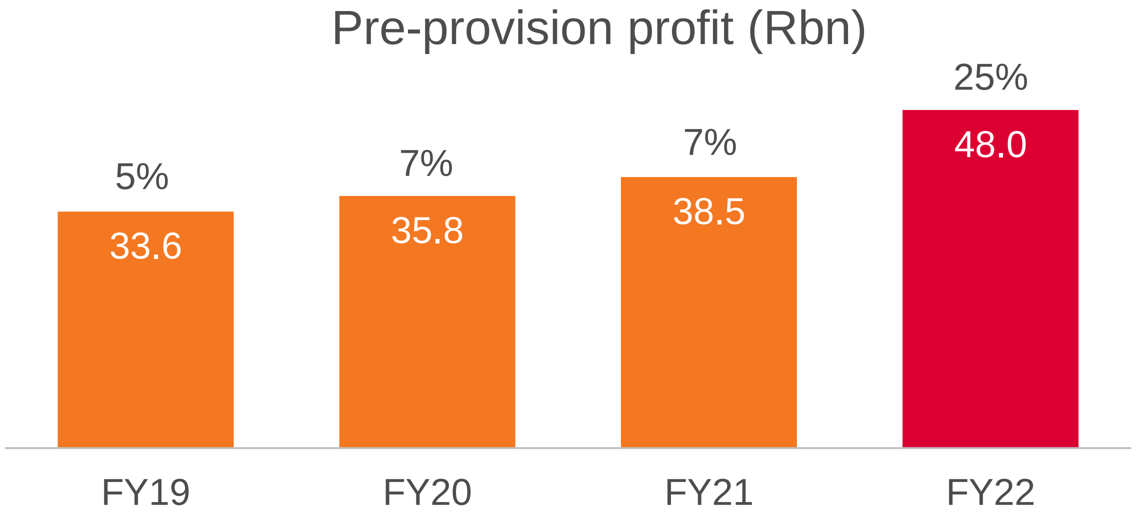

- Leveraging the full Absa ecosystem
- Bancassurance product set fully integrated into product journeys
- Customer numbers growing in key segments
- SMEs a key opportunity
- Higher contribution from underlying ARO business
- Momentum maintained in Corporate transactional franchise

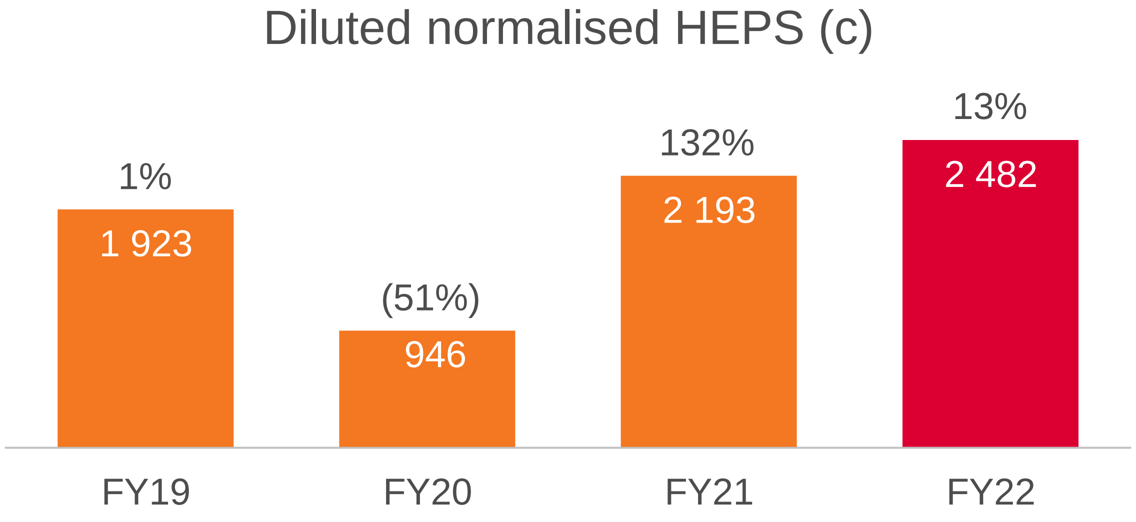
# Primary partner of our clients

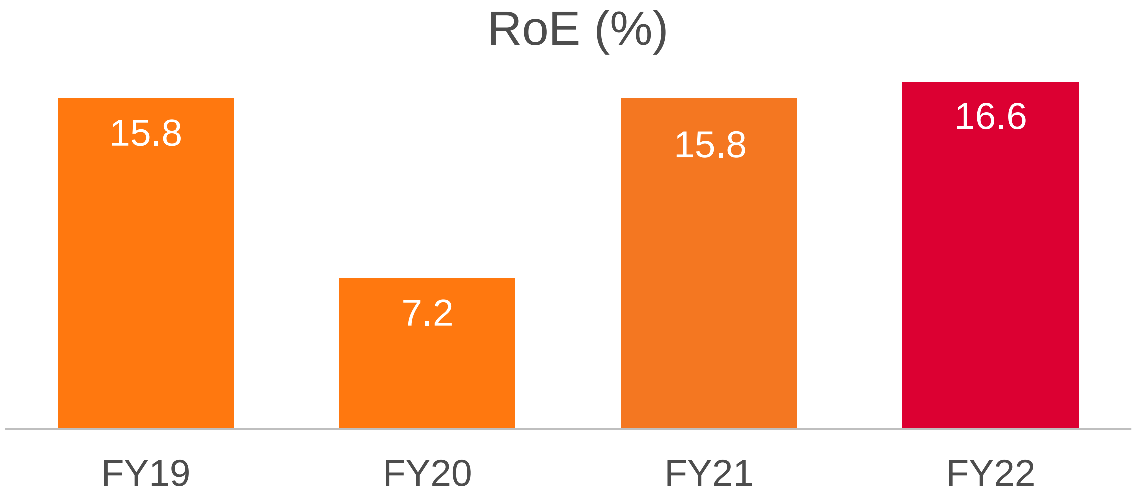


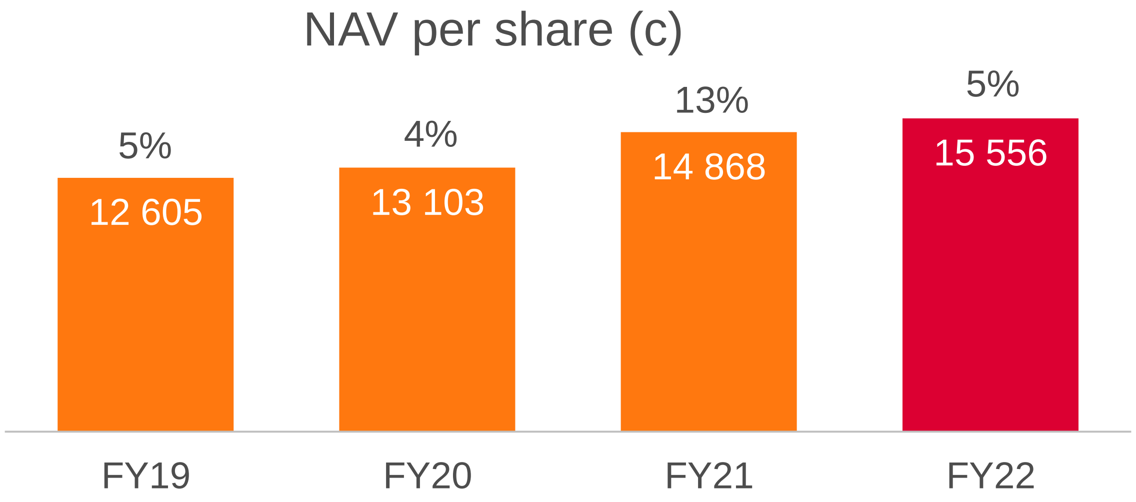

- Deepened retail customer relationships:
  - Lowest Ombudsman complaints for 3 years
  - Converting Reward customers
  - Improved average product holding
- Absa Life 1st in the SA-csi Consulta survey for second year running
- Relationship Banking shifted to a customer-centric segment model
- >100 new to bank CIB customers in SA

# Maintained our positive momentum



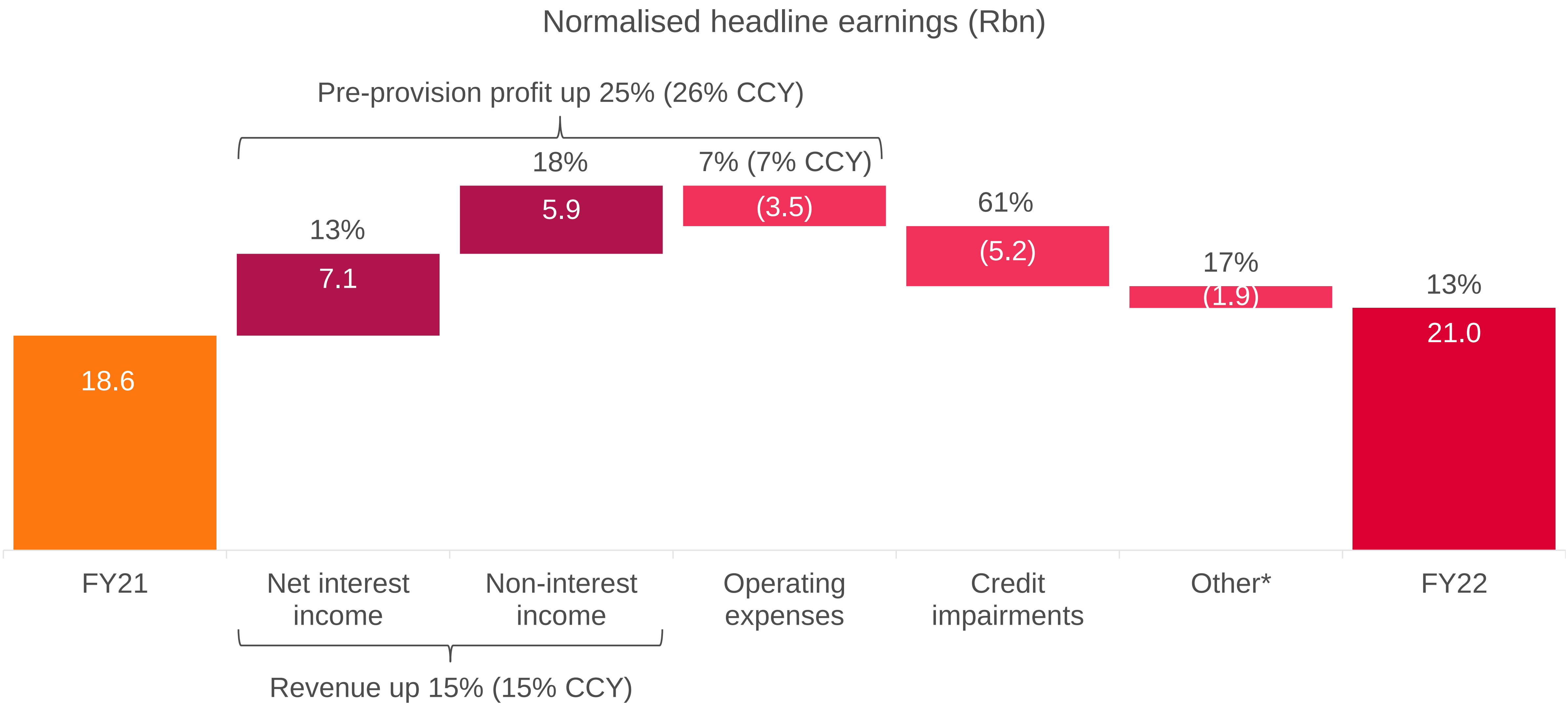



# Jason Quinn

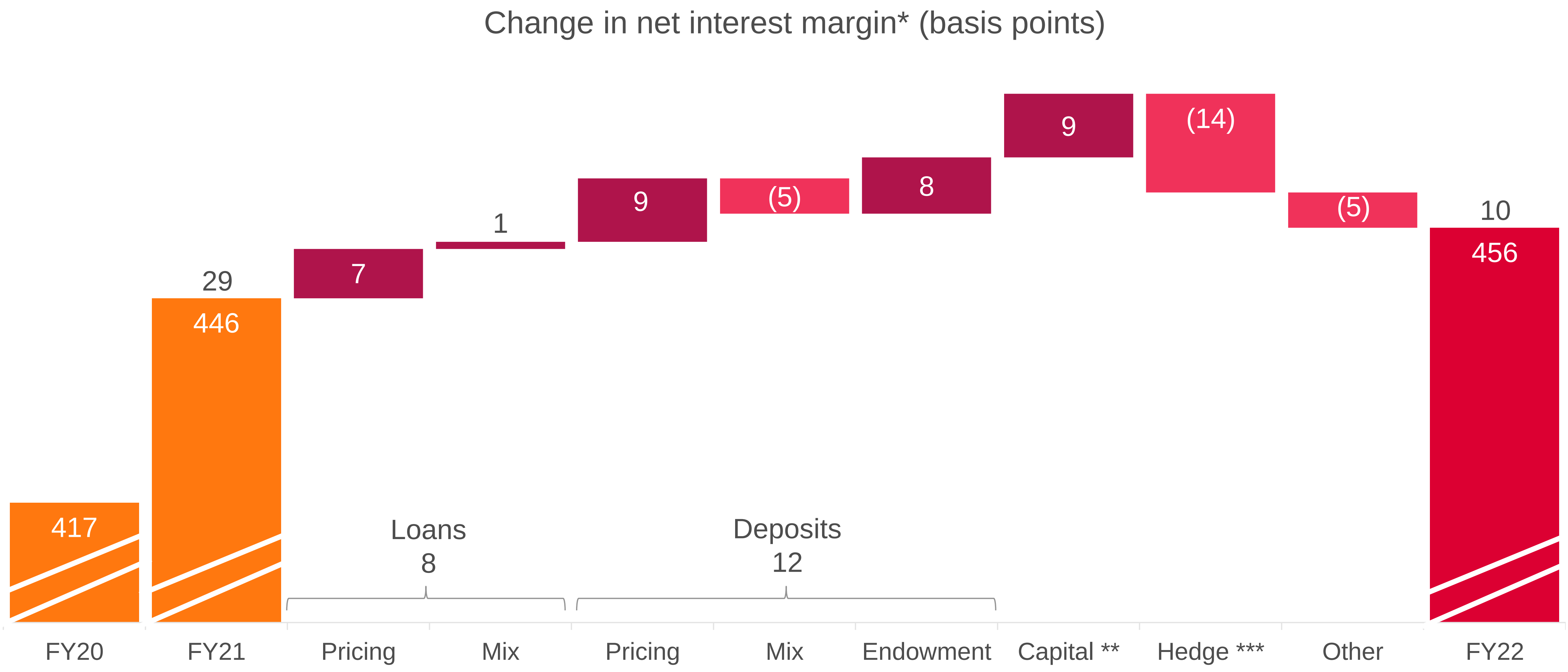
Financial Director

# Earnings growth underpinned by very strong revenue



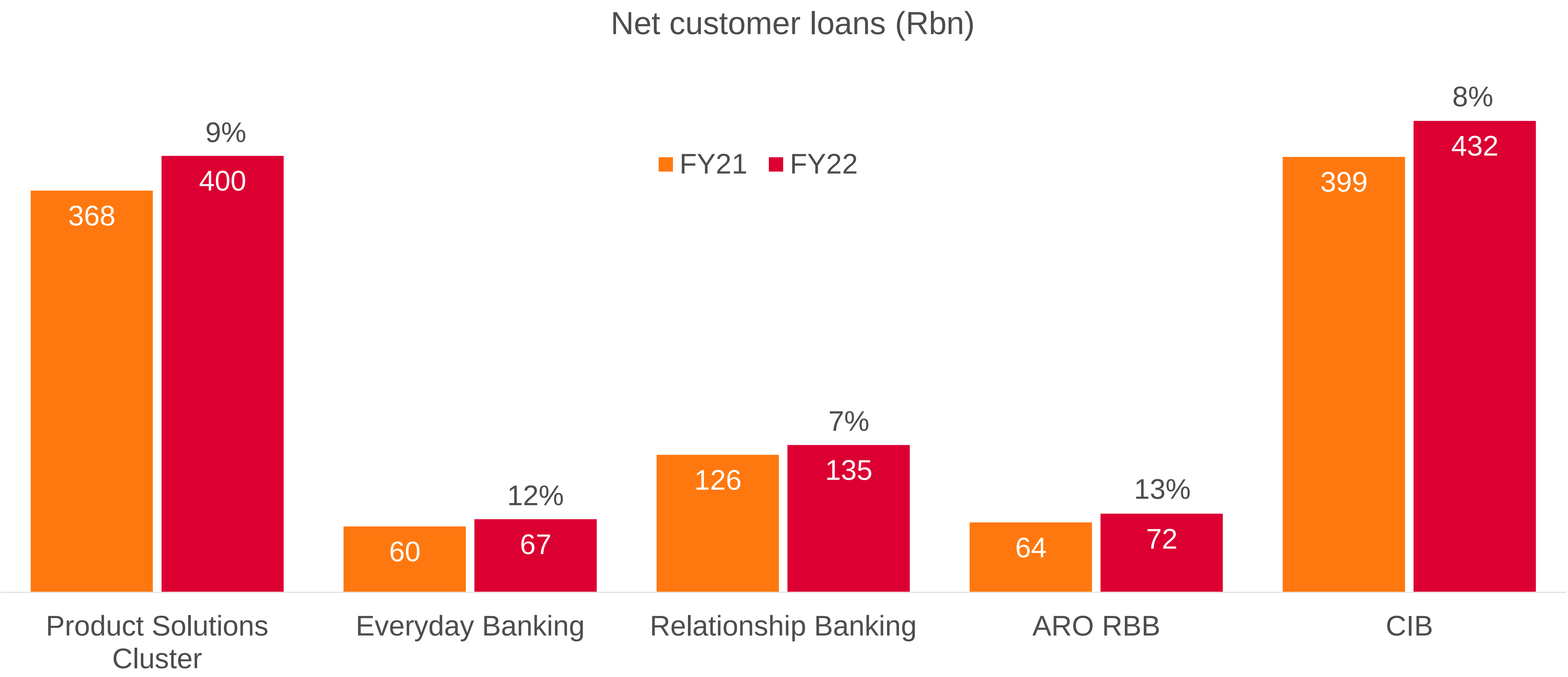

Note: * Includes other expenses, JVs and associates, taxation, non-controlling interests, headline earnings adjustments; CCY refers to in constant currency

# Margin benefited from pricing and higher interest rates



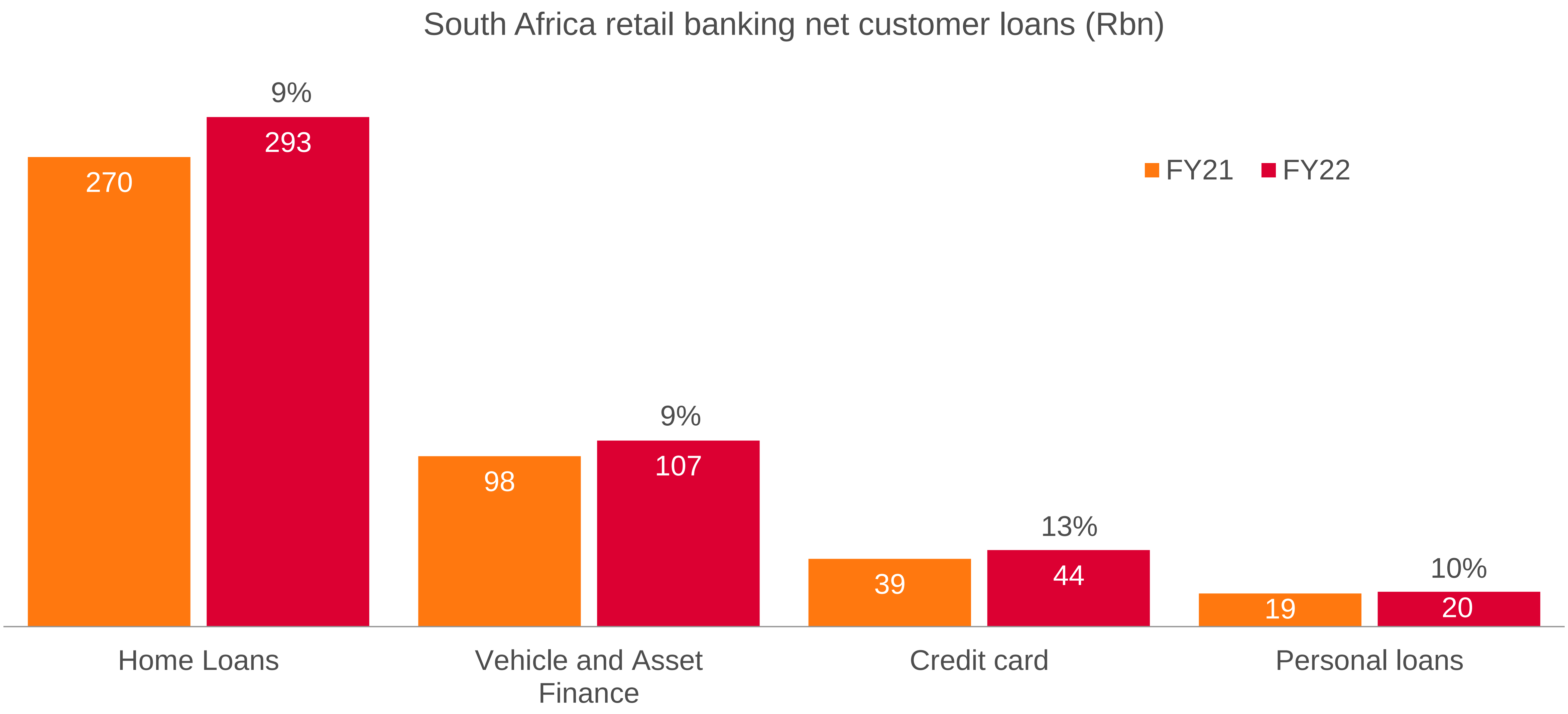

Note: * average interest bearing assets; ** group equity endowment; *** interest rate risk management

# Well diversified loan growth …

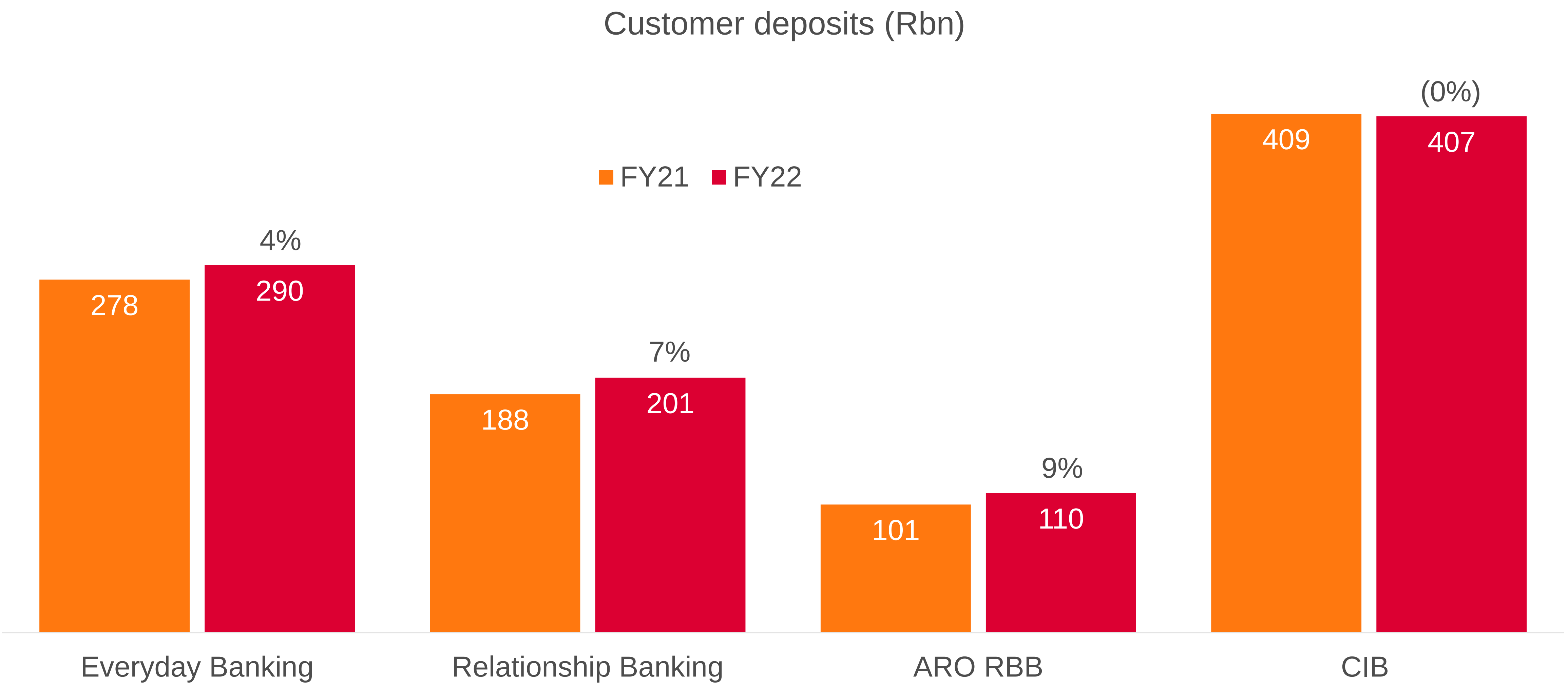



Note: ARO RBB grew 16% and CIB 9% in constant currency. Including loans to banks, CIB grew 14% to R514bn.

# … with competitive retail loan growth

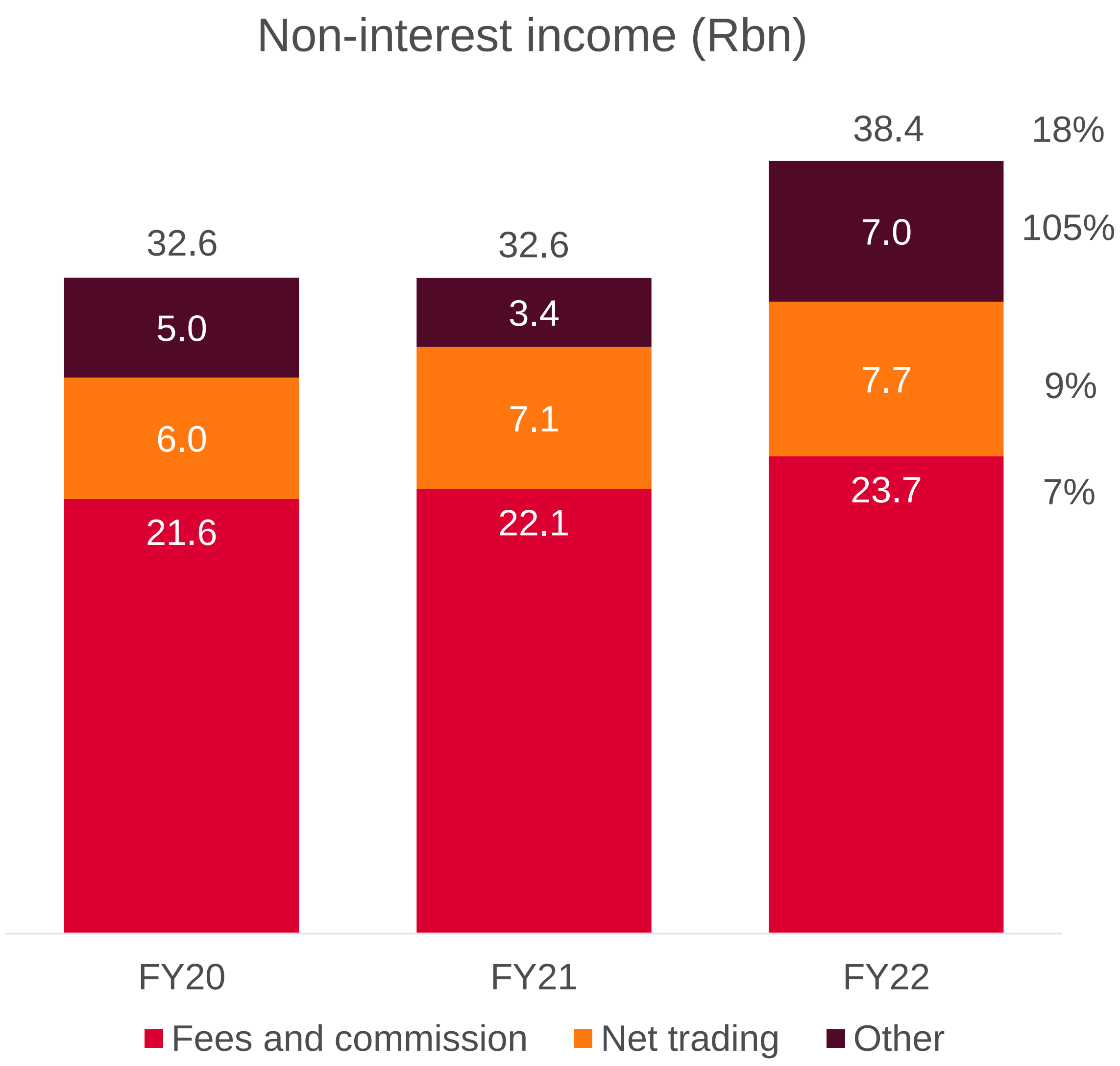


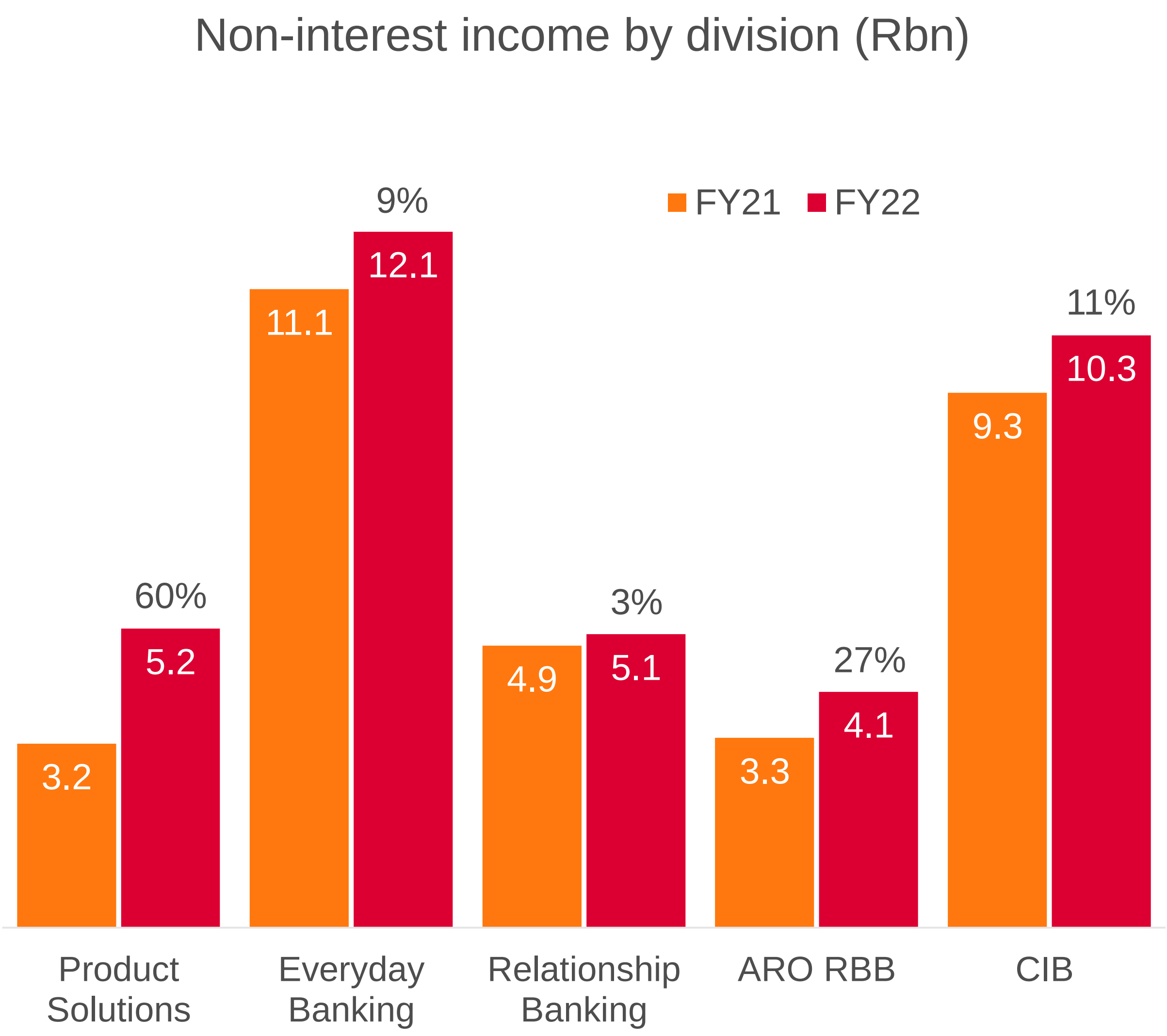
# Deposit growth slowed




Note: In constant currency, ARO RBB grew 13% and CIB was flat. Including bank deposits CIB grew 4% to R500bn.

# Insurance SA drove non-interest income rebound



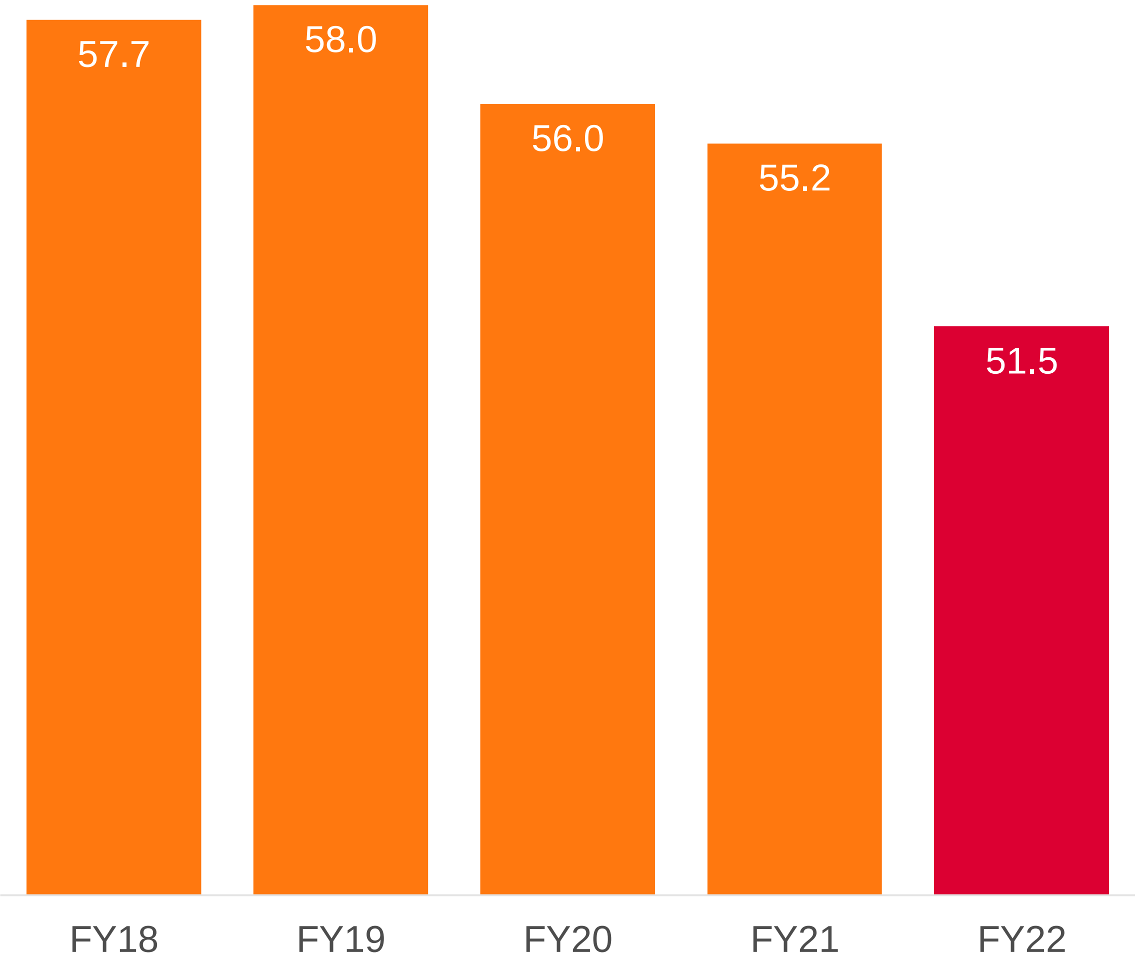




Note: Net trading excludes the impact of hedge accounting

# Costs well controlled as we continue to invest

| | FY22 Rm | Change % | Mix % |
|---|---|---|---|
| Staff | 27 873 | 7 | 55 |
| Property | 1 862 | (1) | 4 |
| Technology | 5 541 | 12 | 11 |
| Depreciation | 3 133 | (10) | 6 |
| Professional fees | 2 884 | 22 | 6 |
| Marketing | 1 720 | 34 | 3 |
| Communication * | 1 486 | 3 | 3 |
| Cash transportation | 1 123 | (1) | 2 |
| Amortisation | 1 668 | 15 | 3 |
| Other ** | 3 617 | 9 | 7 |
| **Total** | **50 907** | **7** | **100** |

Cost-to-income ratio (%)

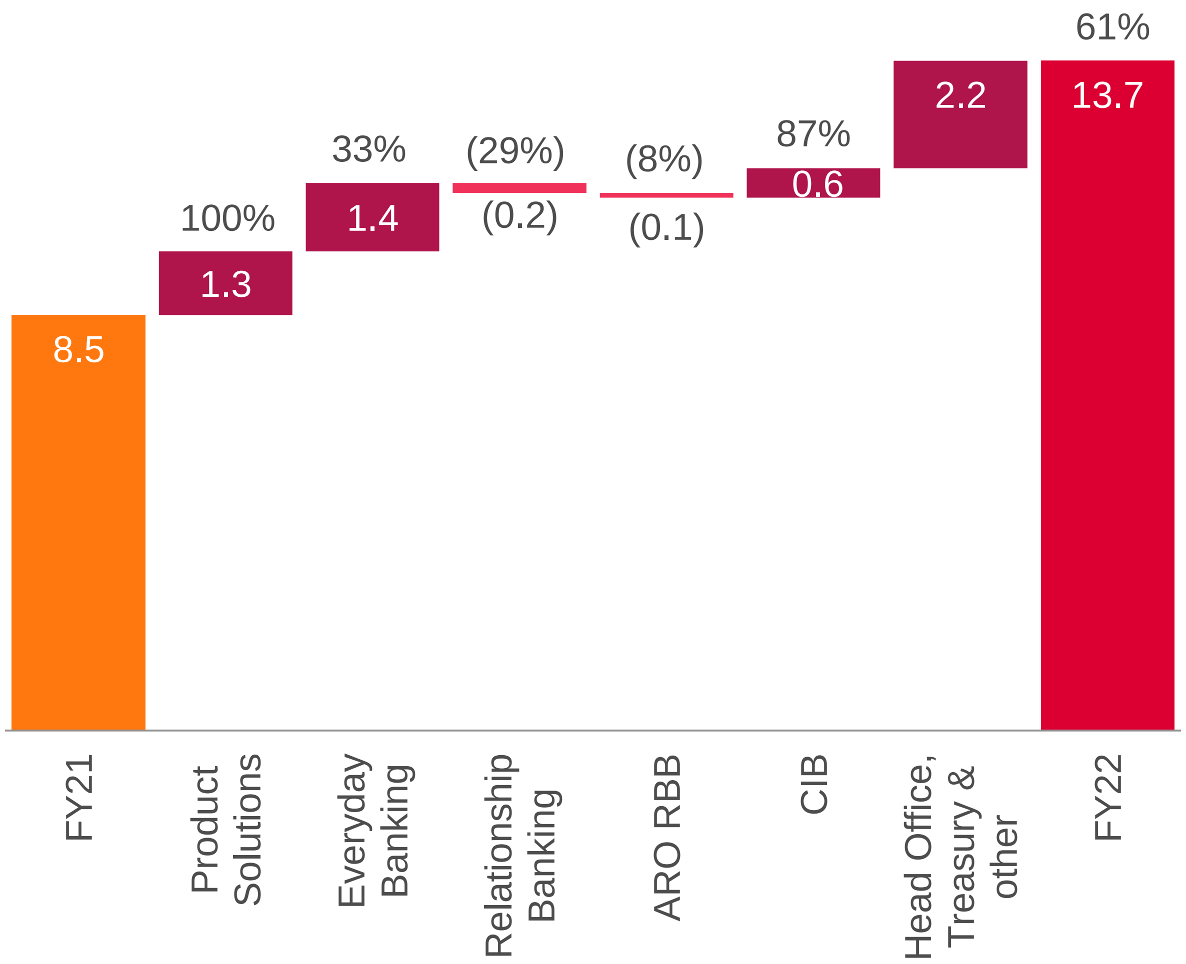



Note: * printing and stationery plus telephone and postage; ** includes administration fees, equipment costs, fraud, travel and entertainment, auditors, other costs etc.

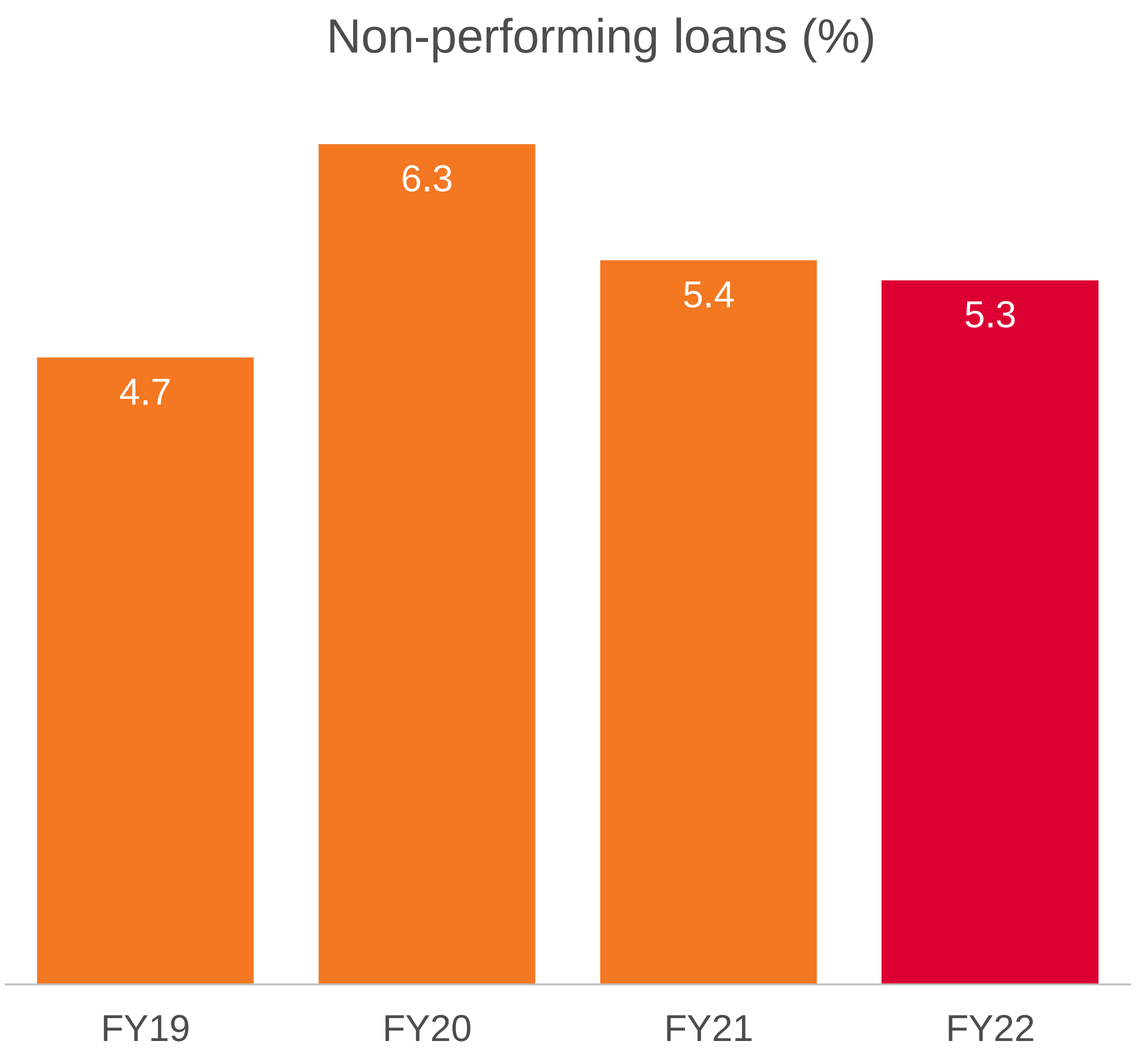
# Credit loss ratio increased off a relatively low base

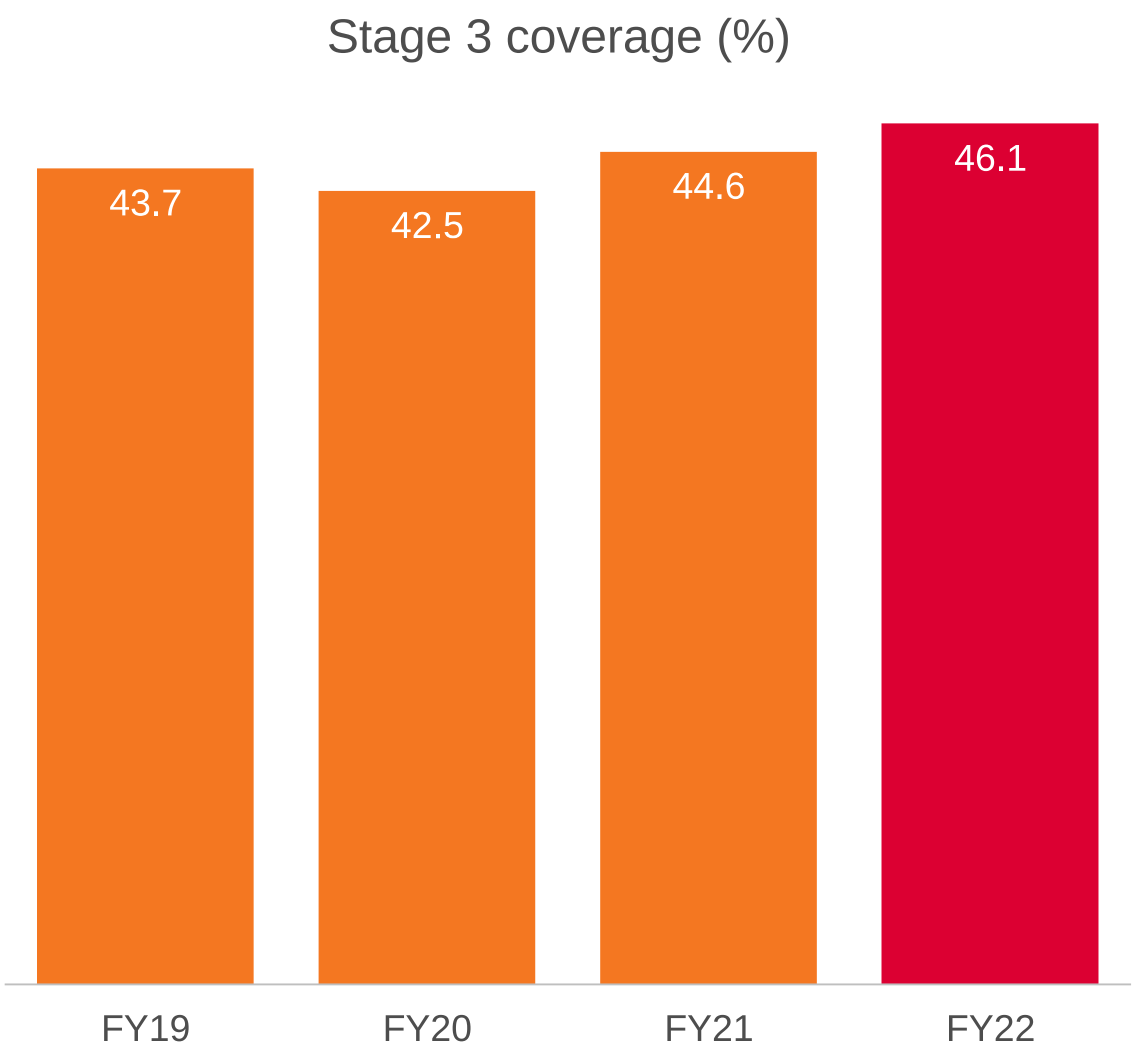
| Credit loss ratio (%) | FY21 | FY22 |
|---|---|---|
| Product Solutions | 0.35 | 0.65 |
| Home Loans | (0.05) | 0.24 |
| Vehicle and Asset Finance | 1.45 | 1.76 |
| Everyday Banking | 4.99 | 6.45 |
| Relationship Banking | 0.67 | 0.45 |
| ARO RBB | 2.03 | 1.64 |
| CIB | 0.17 | 0.27 |
| **Group** | **0.77** | **0.96** |

Credit impairments (Rbn)

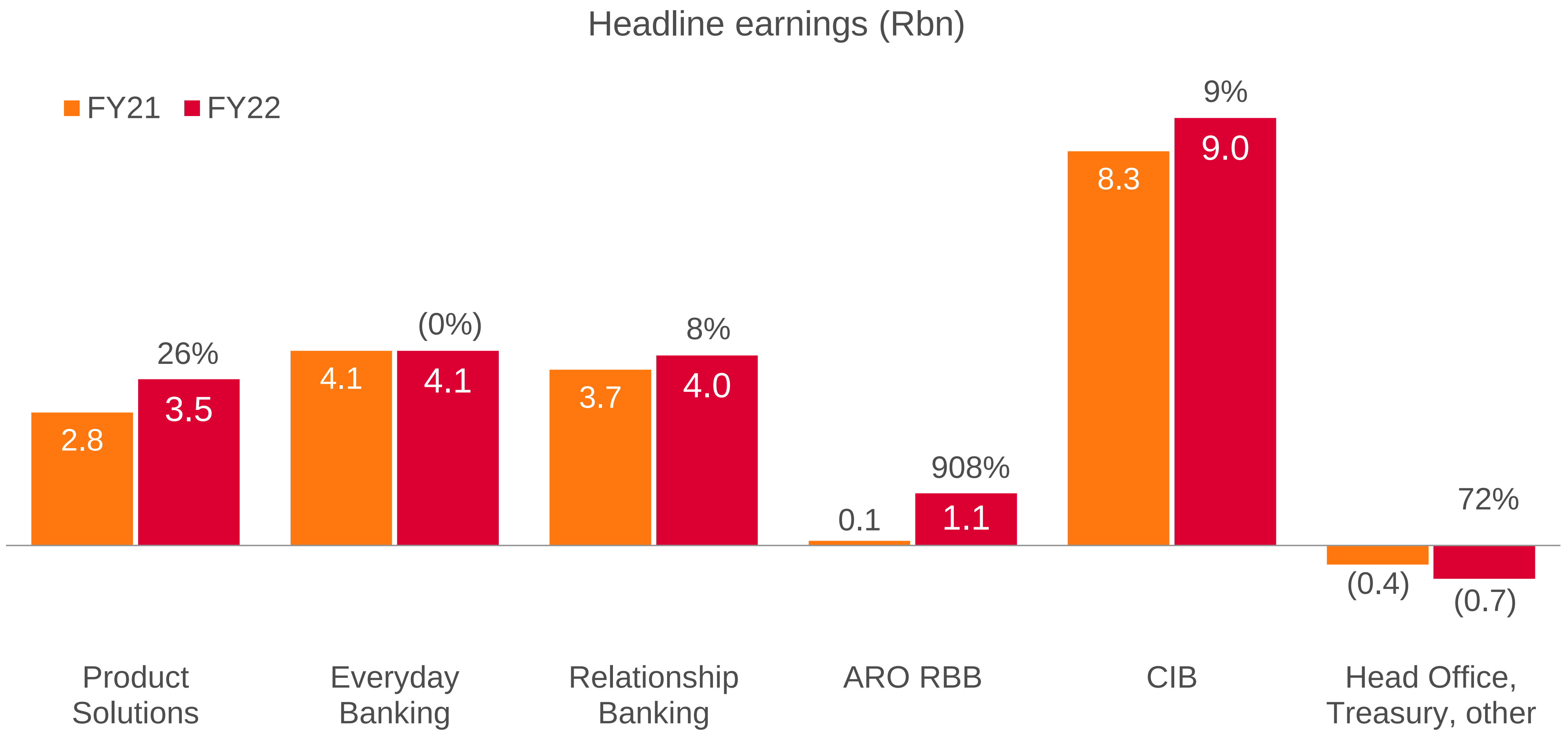


# NPLs improved and stage 3 coverage increased



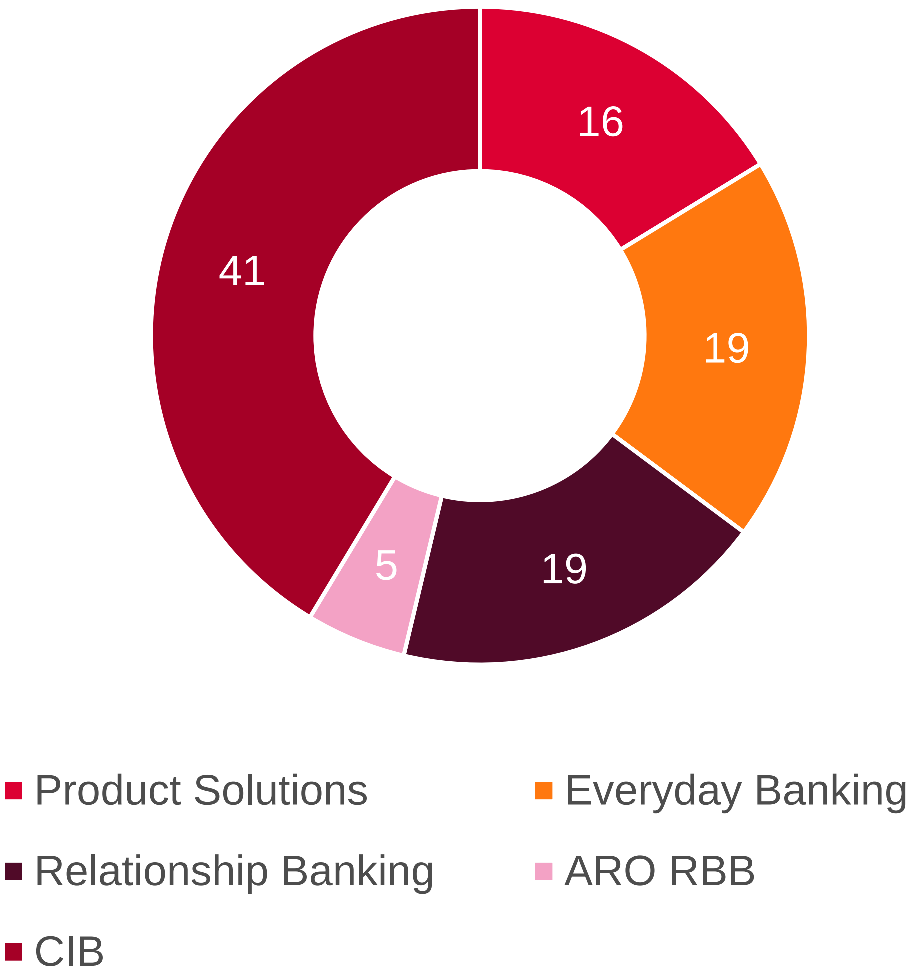
# Performance broad-based, benefitting from diversification



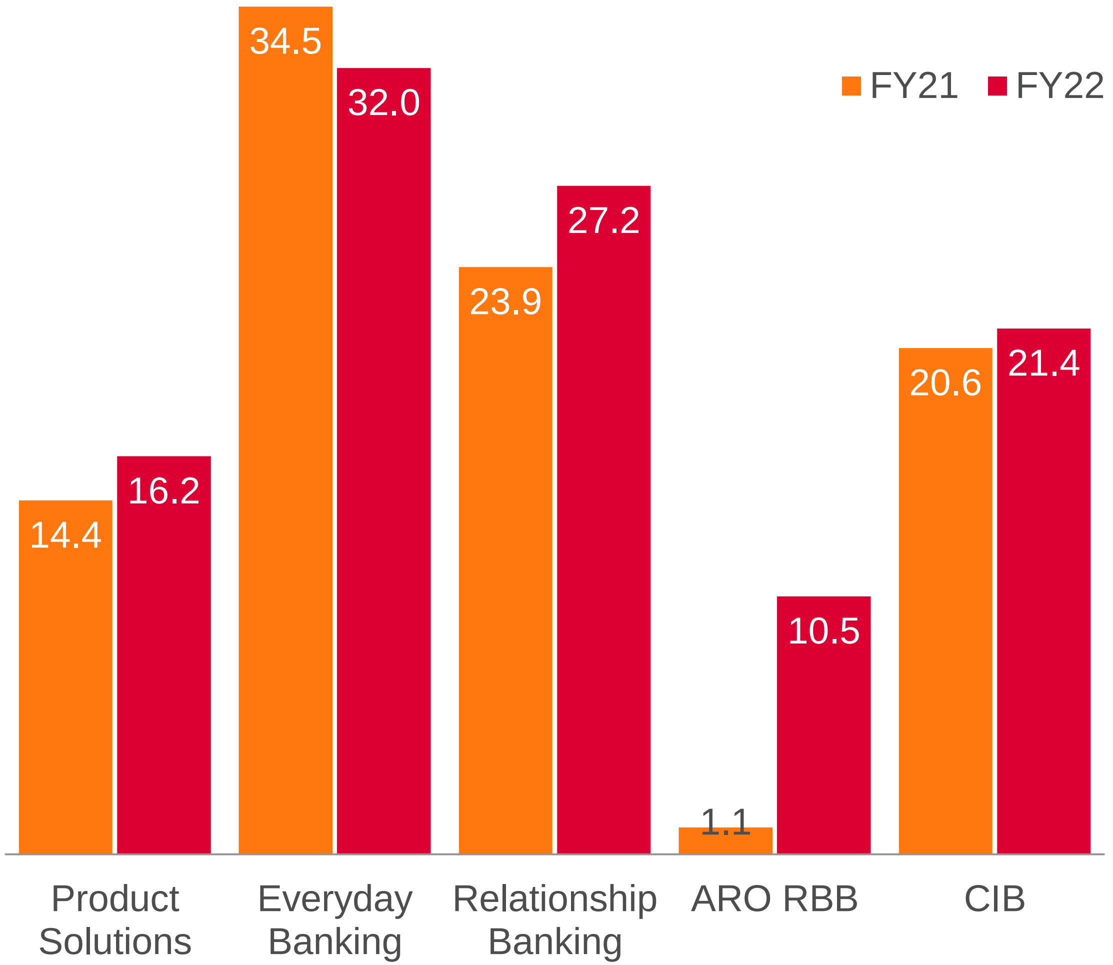

| Pre-provision profit growth: | 42% | 17% | 4% | 30% | 13% | - |
|---|---|---|---|---|---|---|

# Large businesses all generated returns well above CoE

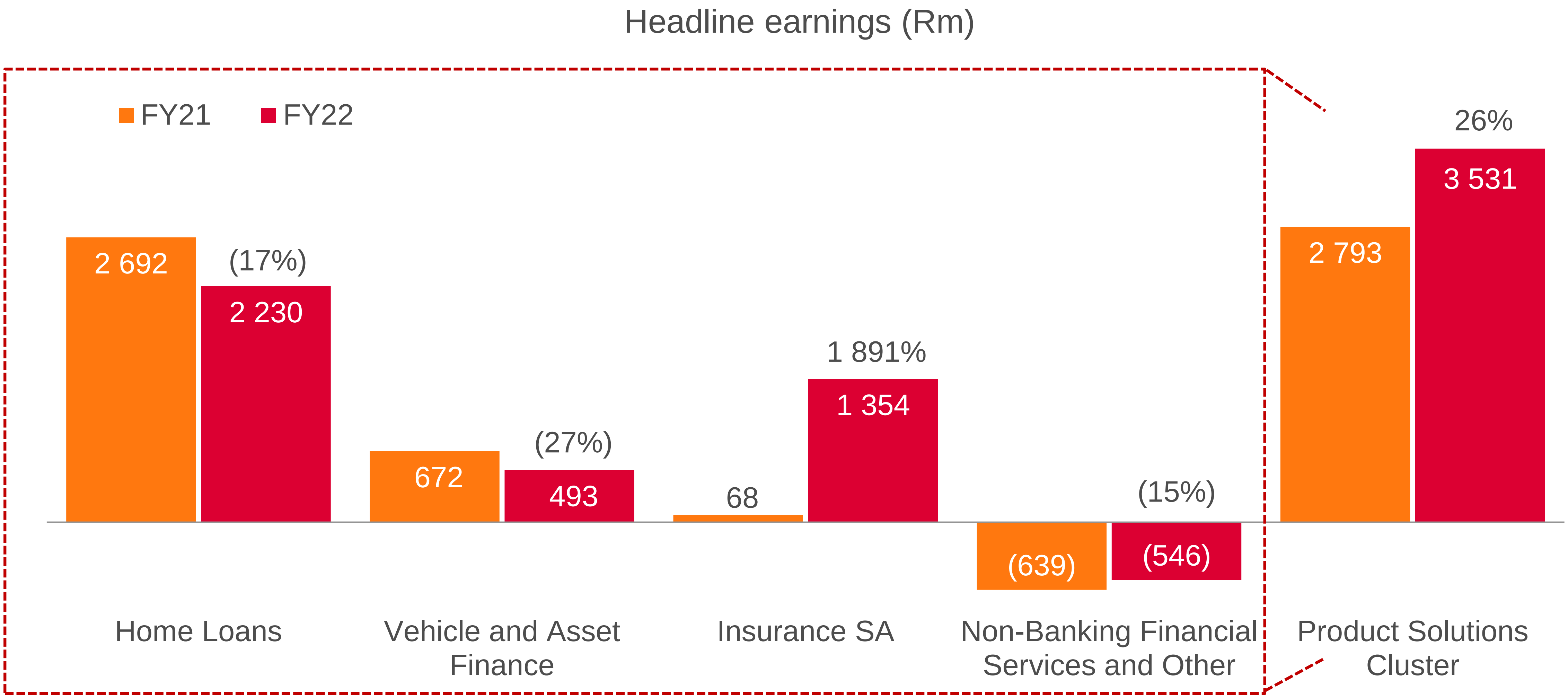
## Group earnings mix (%)




## Return on regulatory capital (%)

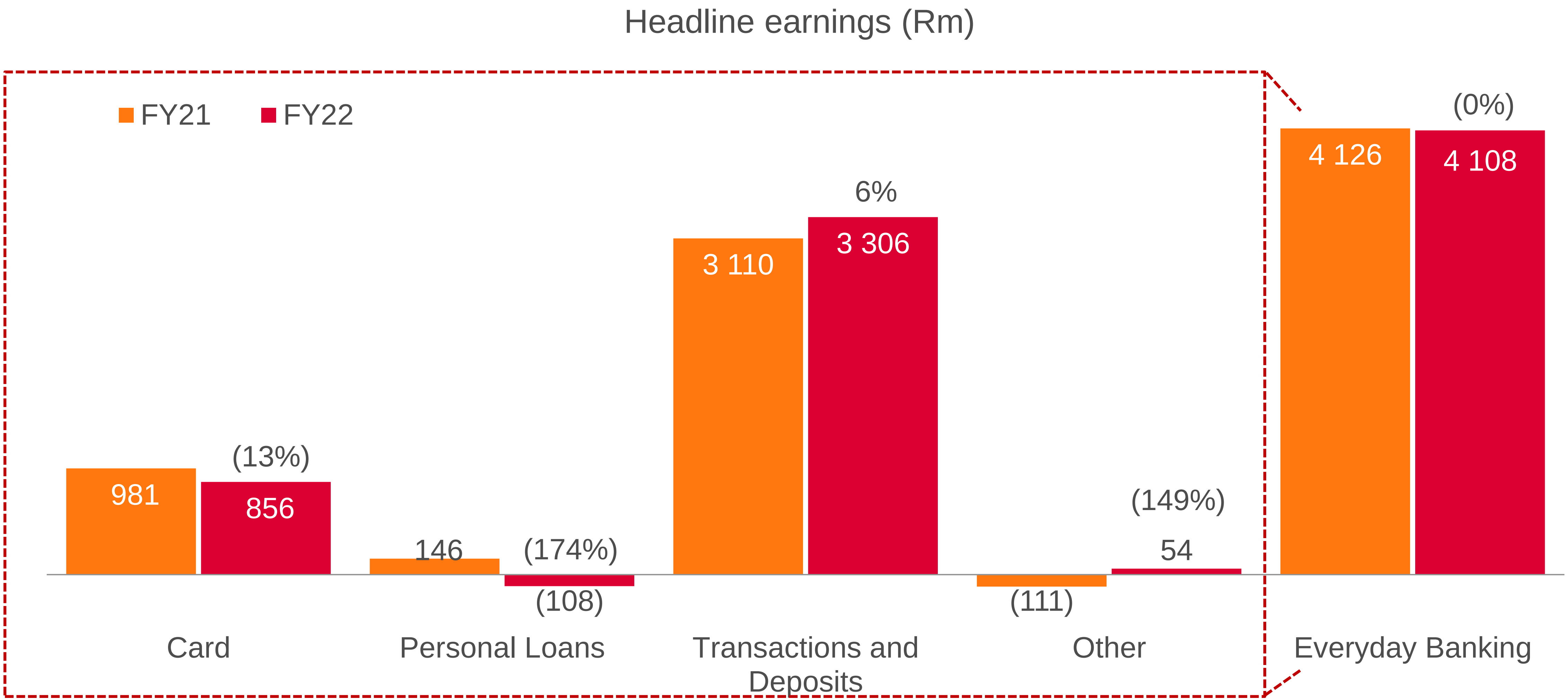


# Insurance SA rebound drives strong PSC growth



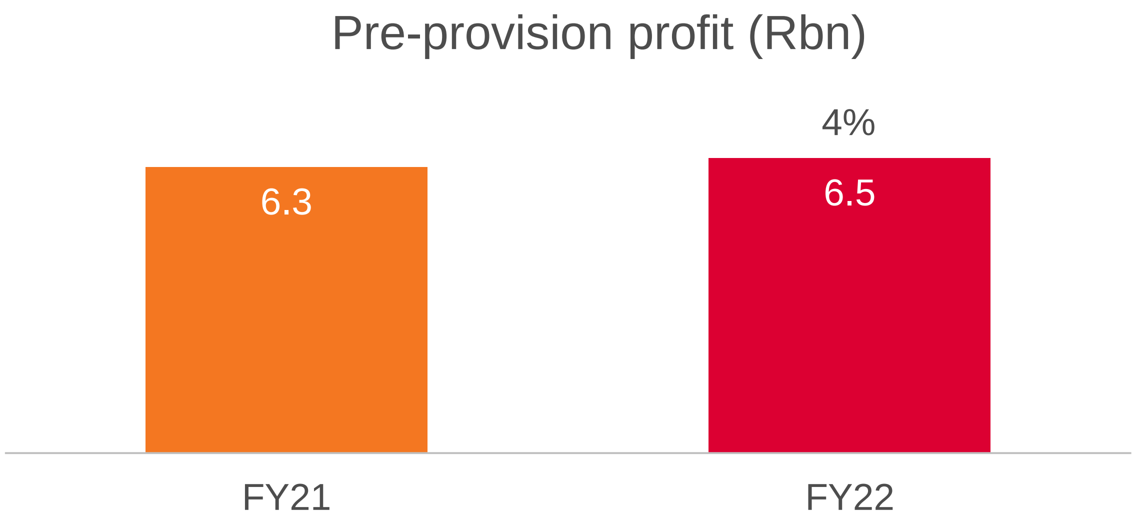

| Pre-provision profit growth: | 5% | 13% | 485% | - | 42% |
|---|---|---|---|---|---|

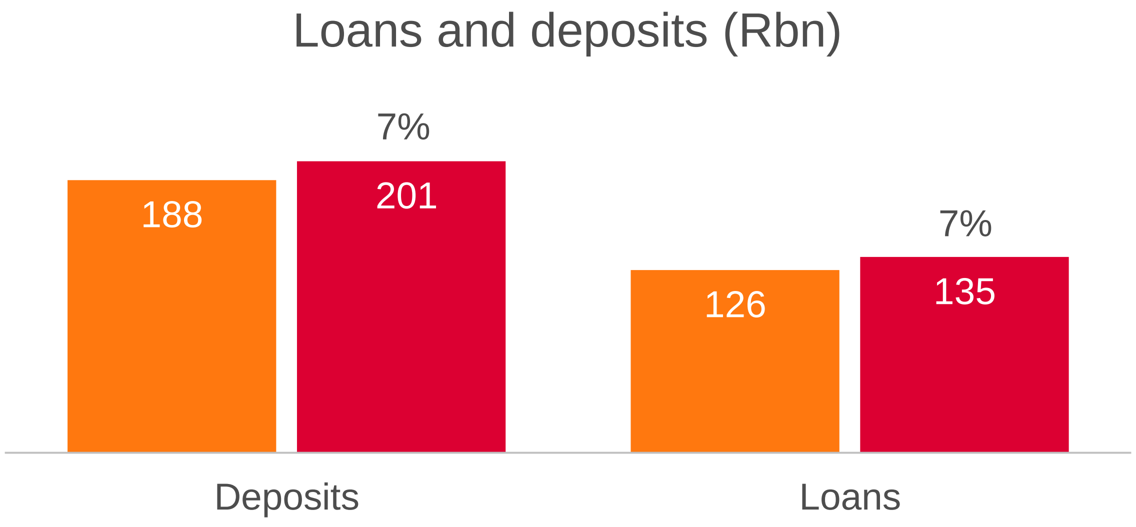
# Credit impairments dampen Everyday Banking earnings

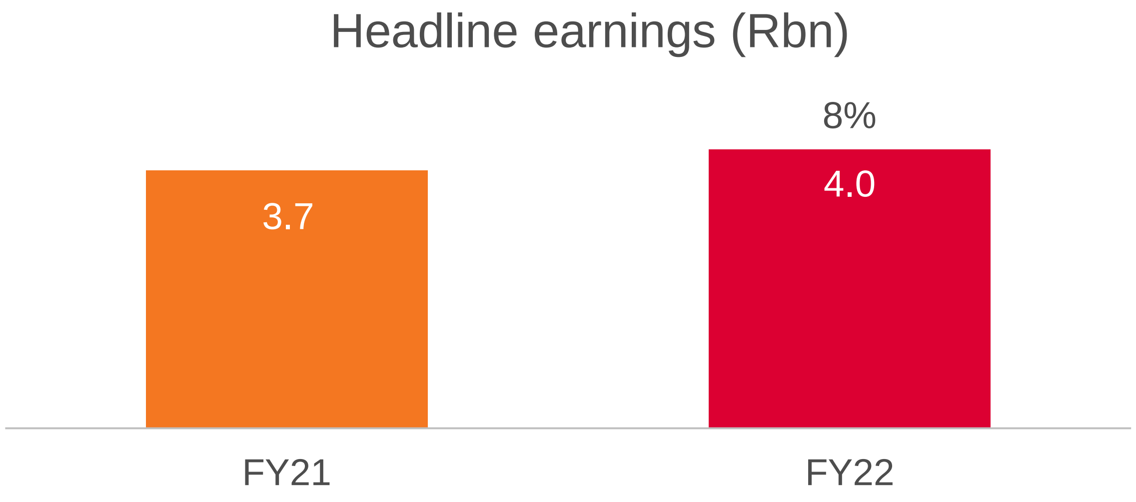


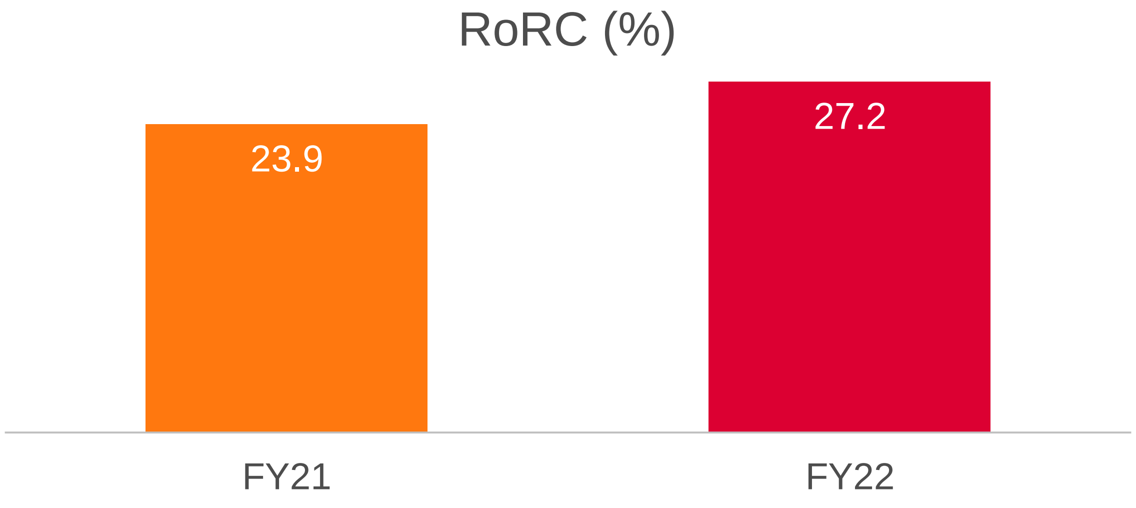

| Pre-provision profit growth: | 14% | 26% | 9% | - | 17% |
|---|---|---|---|---|---|

# Relationship Banking generates strong returns

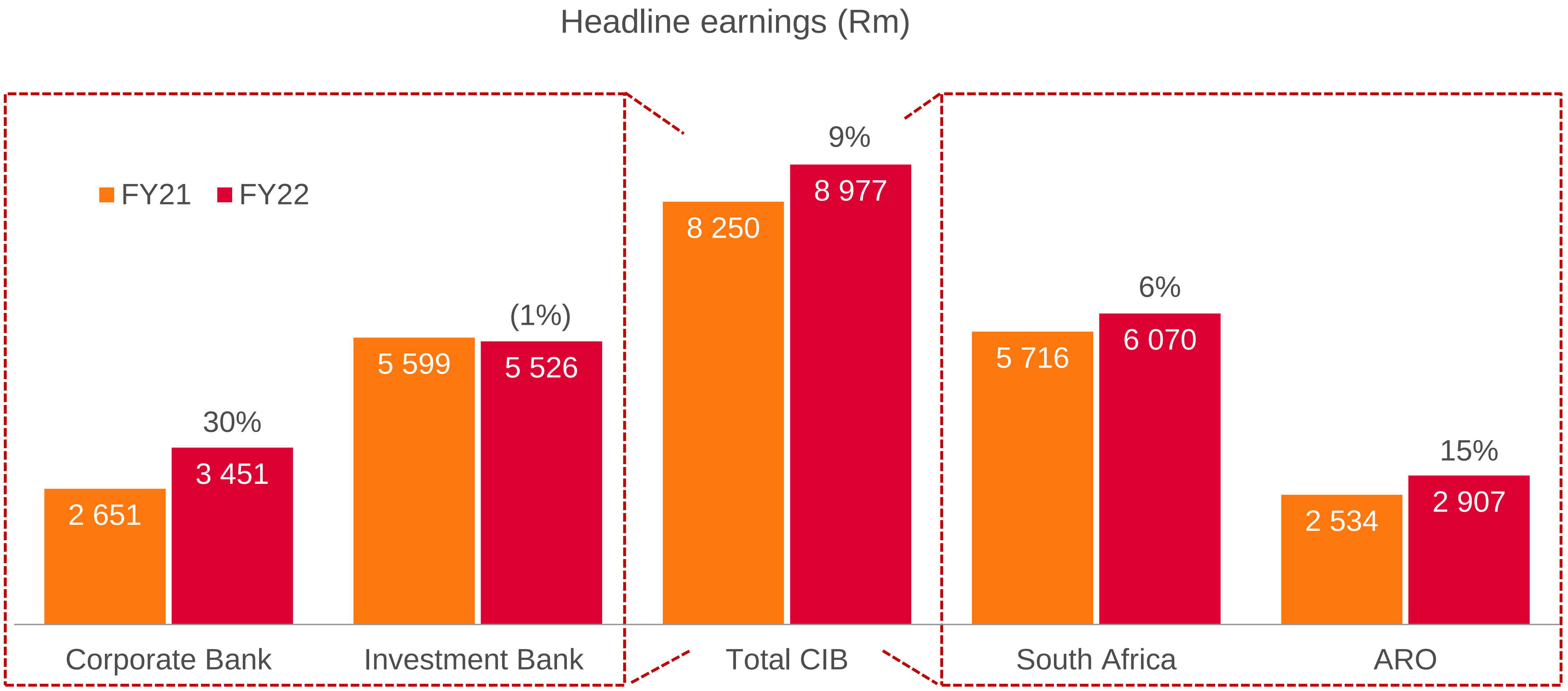


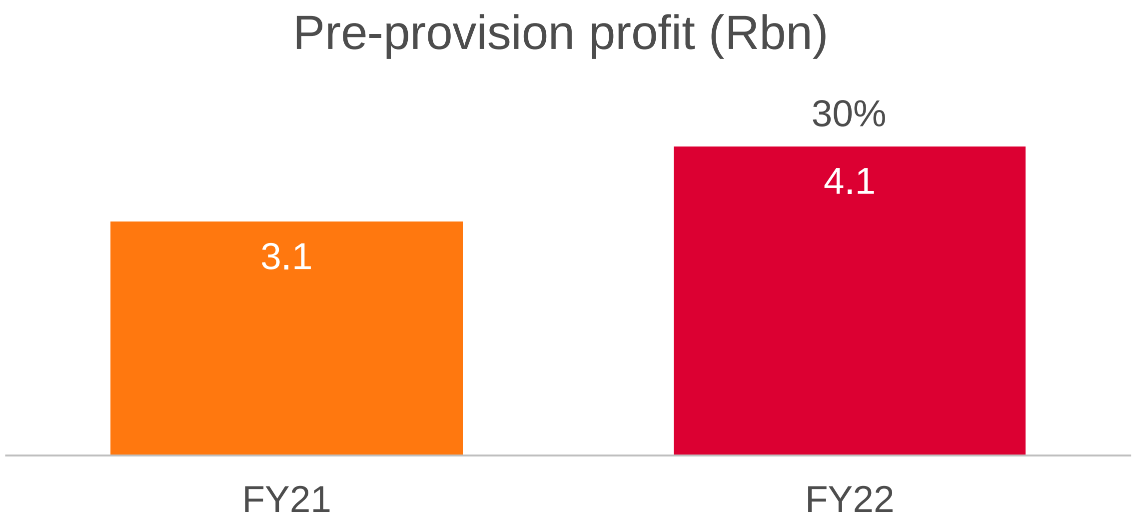



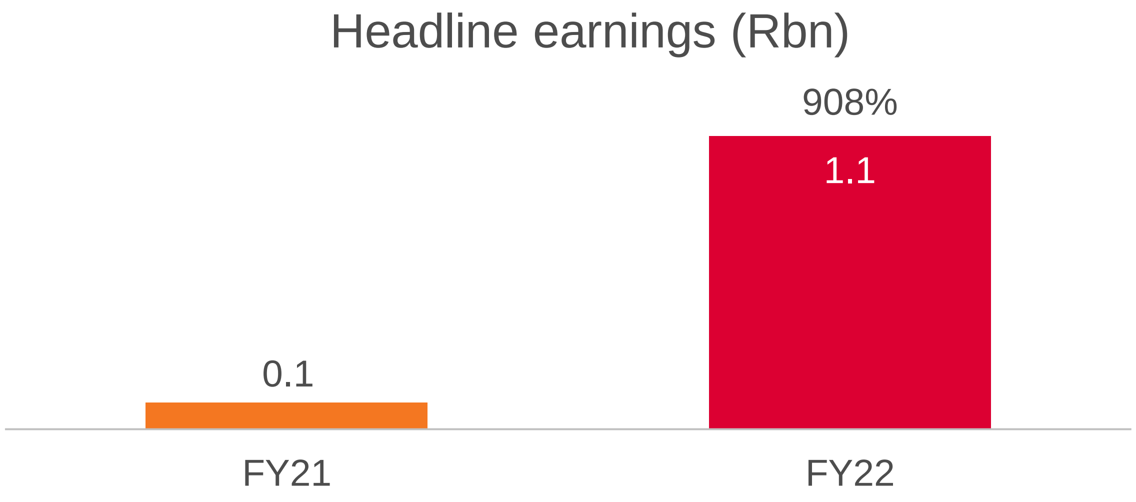
# CIB benefits from its improving scale and diversification

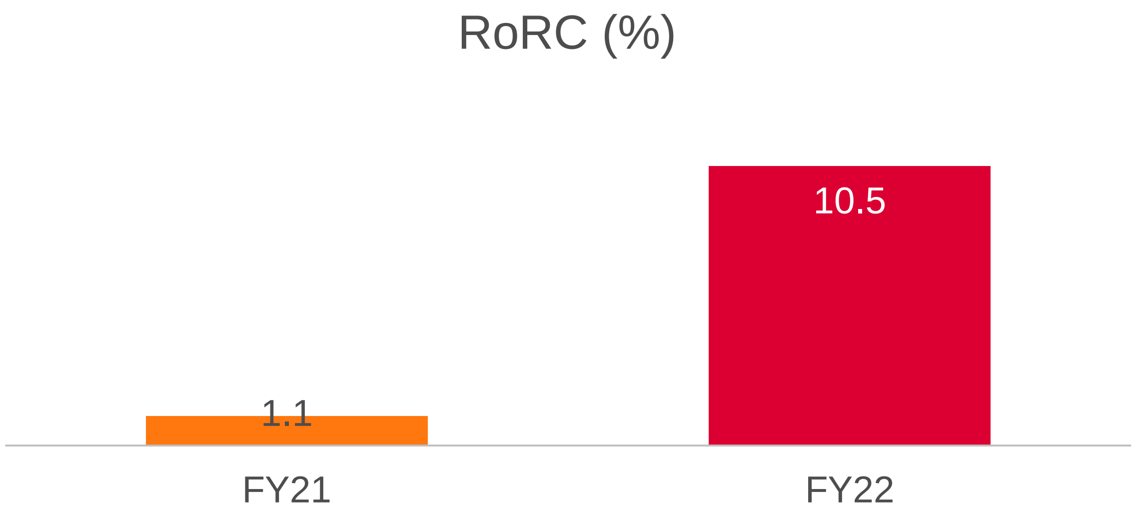


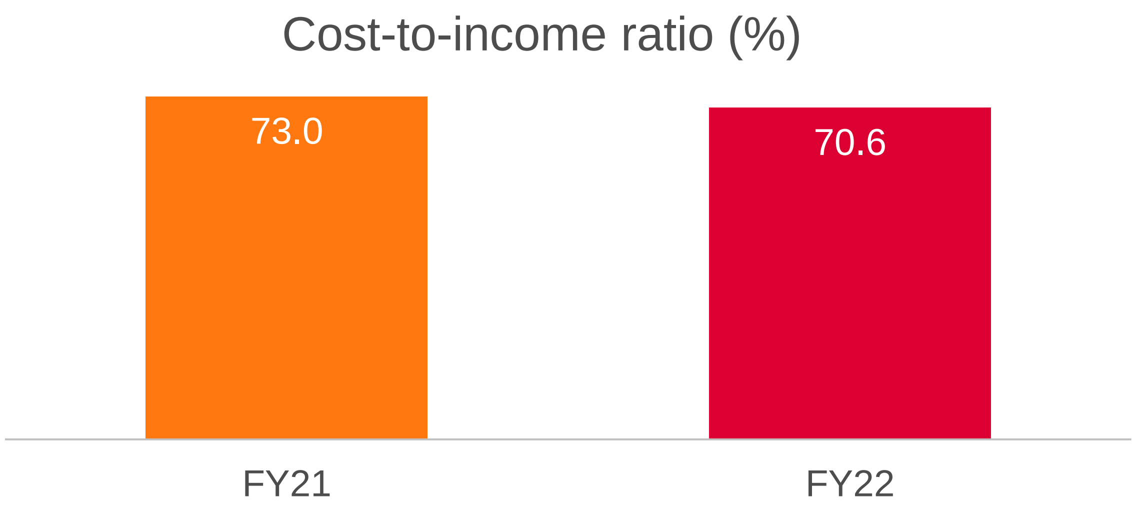

| Pre-provision profit growth: | 36% | 1% | 13% | 2% | 33% |
|---|---|---|---|---|---|

# ARO RBB revenue drives strong earnings growth

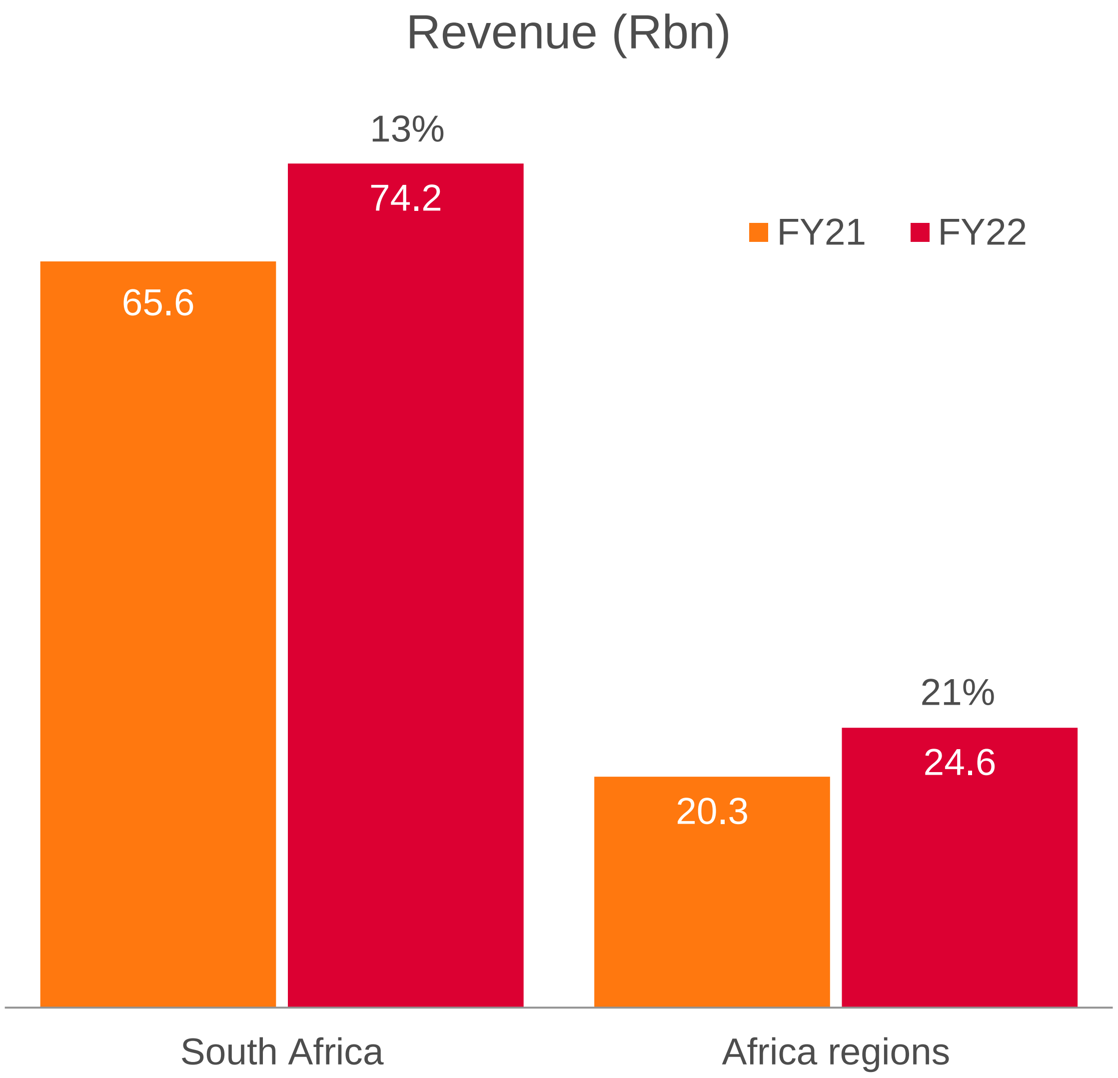


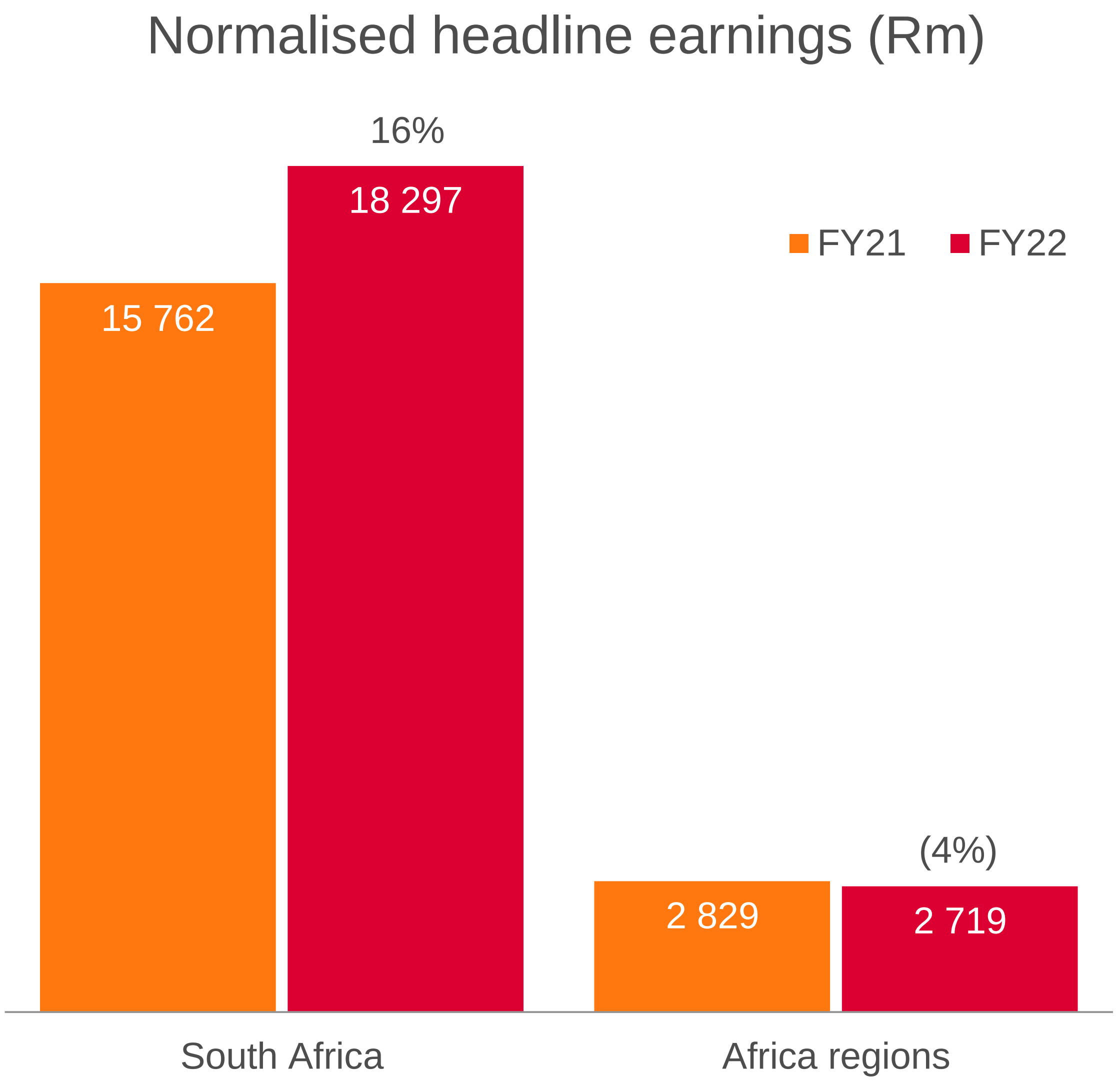



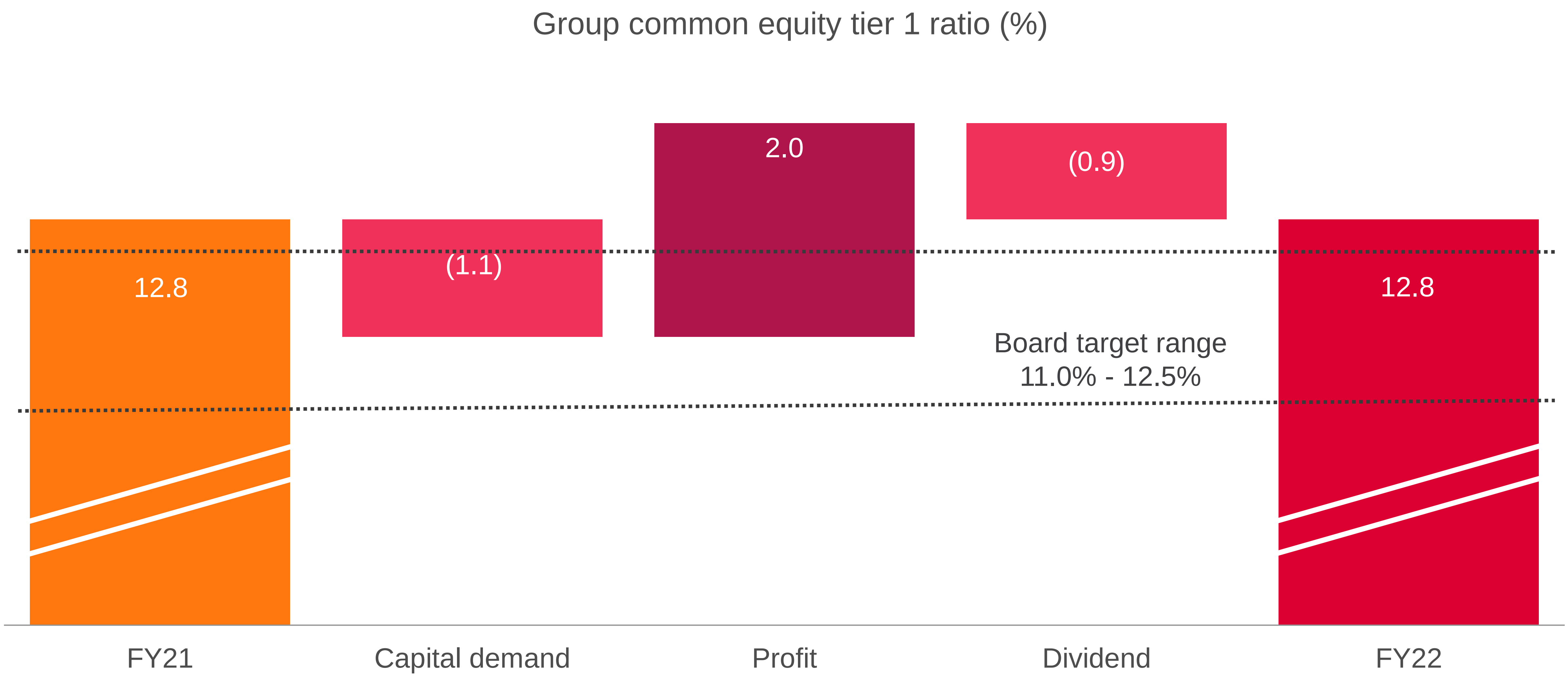



# Ghana sovereign charge reduced Africa regions earnings

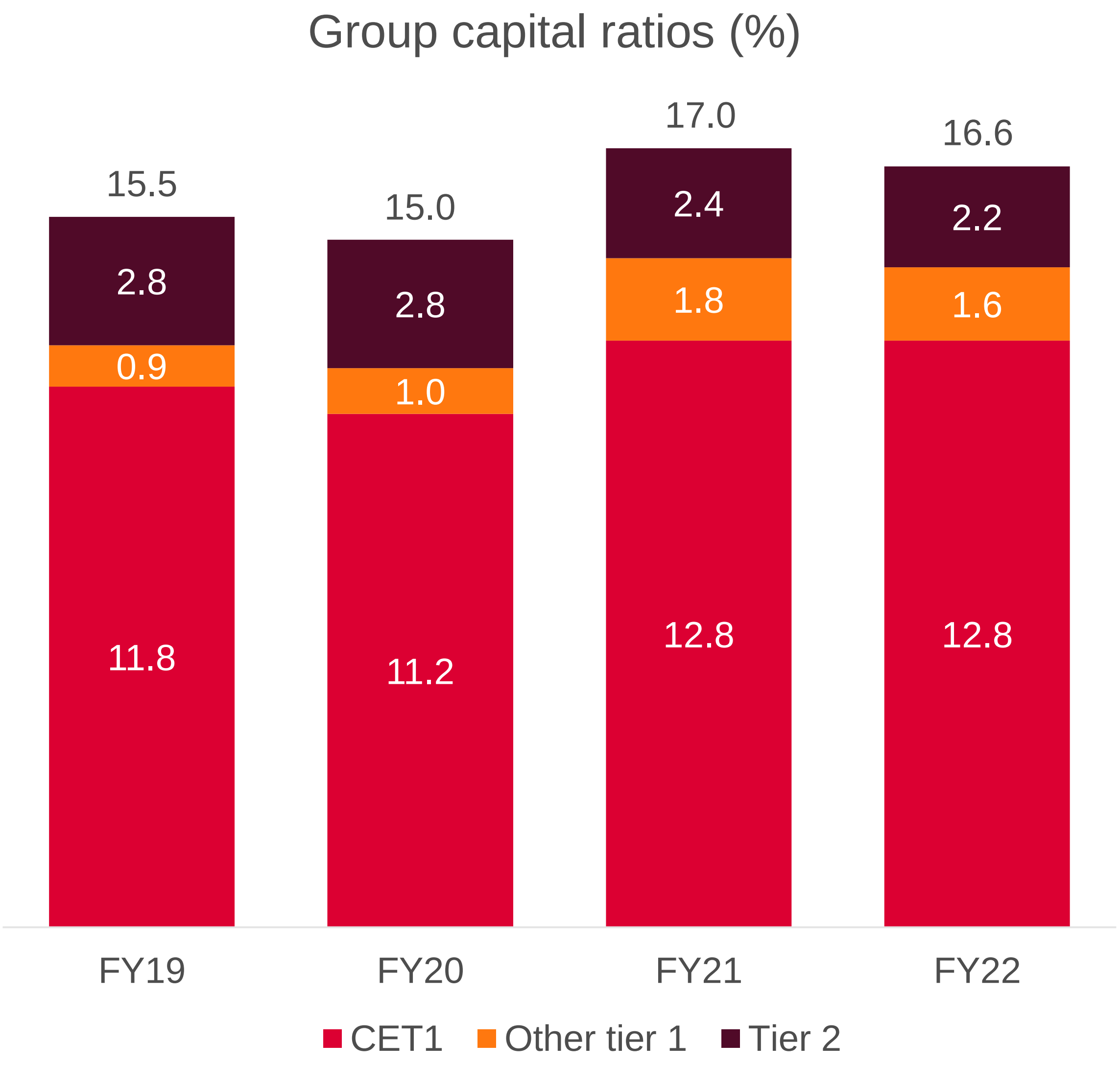


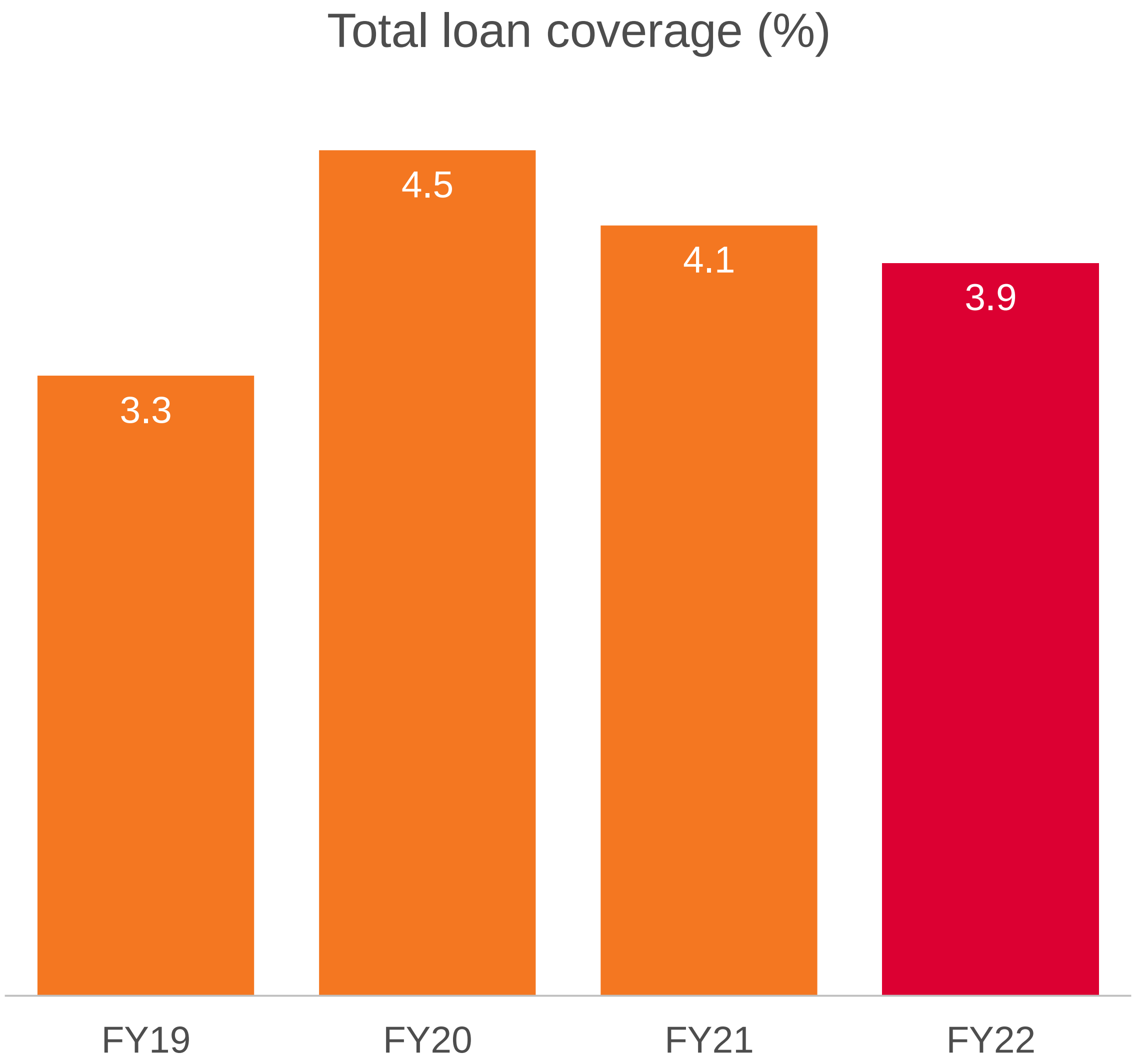



# CET1 ratio remains strong and above Board target range



# We remain well positioned for a tougher macro backdrop



# 2023 outlook

| | 2023 expectations |
|---|---|
| Revenue | High single digit revenue growth, driven by net interest income given balance sheet growth and higher policy rates. |
| Balance sheet | High single digit growth in customer loans and deposits. |
| Credit impairments | Credit loss ratio (CLR) likely to be at top end of our through-the-cycle target range of 75 to 100 basis points. |
| Operating expenses | Mid- to high single digit growth in operating expenses, resulting in a similar cost-to-income ratio to 2022. Mid- to high single digit pre-provision profit (PPP) growth. |
| Returns | Return on equity around 17%. |
| Capital | Group CET1 ratio at top end of board target range of 11.0% to 12.5%.<br>Dividend payout ratio at least 52%. |
| Impact of 2022 base effects | Given 2022 base effects, stronger revenue and PPP growth in first half, although CLR likely to exceed target range and dampen earnings growth off a relatively high base. Slower second half revenue growth off a high base, but impairments expected to decline substantially YoY and support stronger second half earnings growth. |

# Disclaimer

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