Absa Group

1H21 results presentation

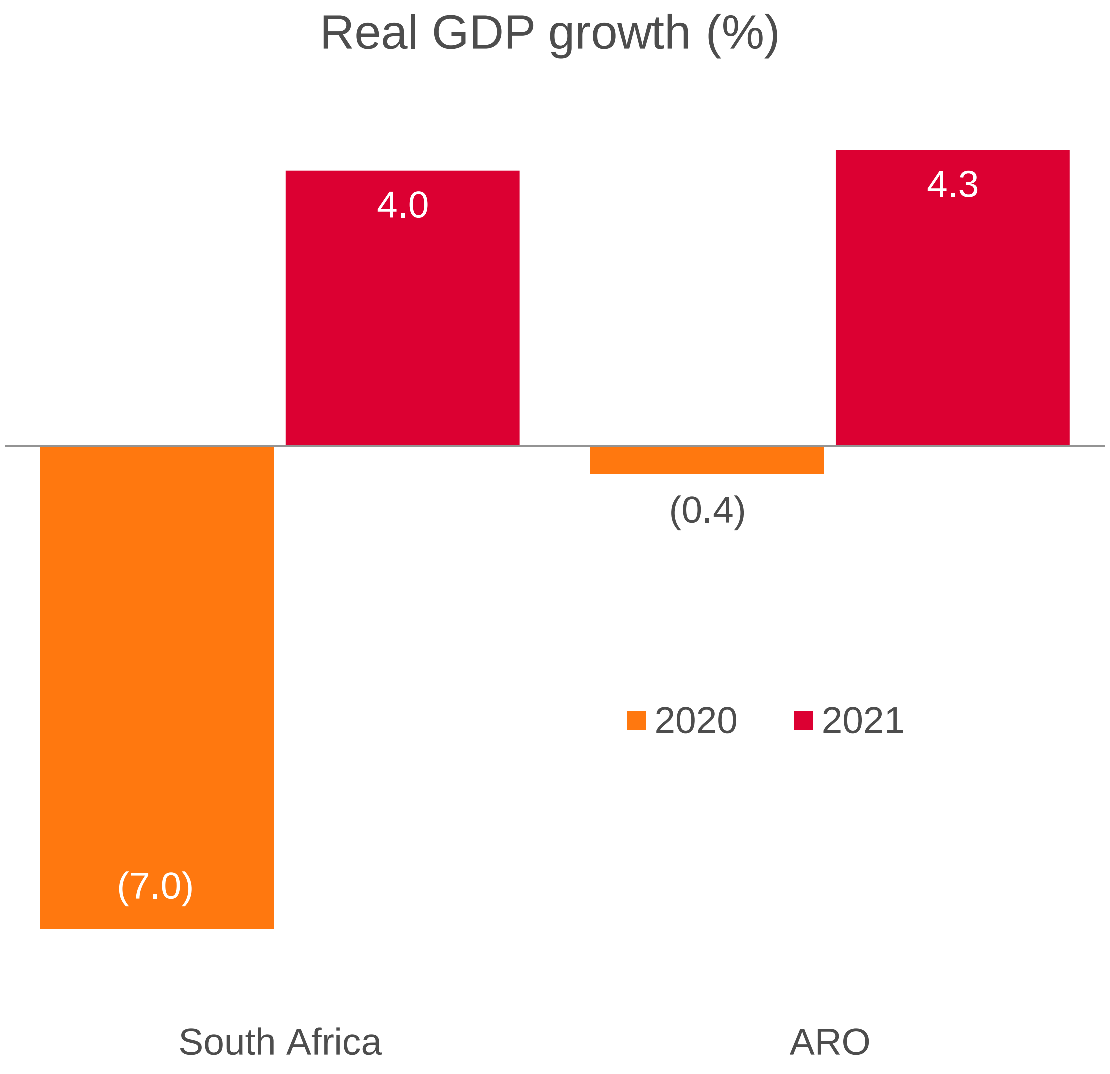
16 August 2021

Jason Quinn

Interim Chief Executive

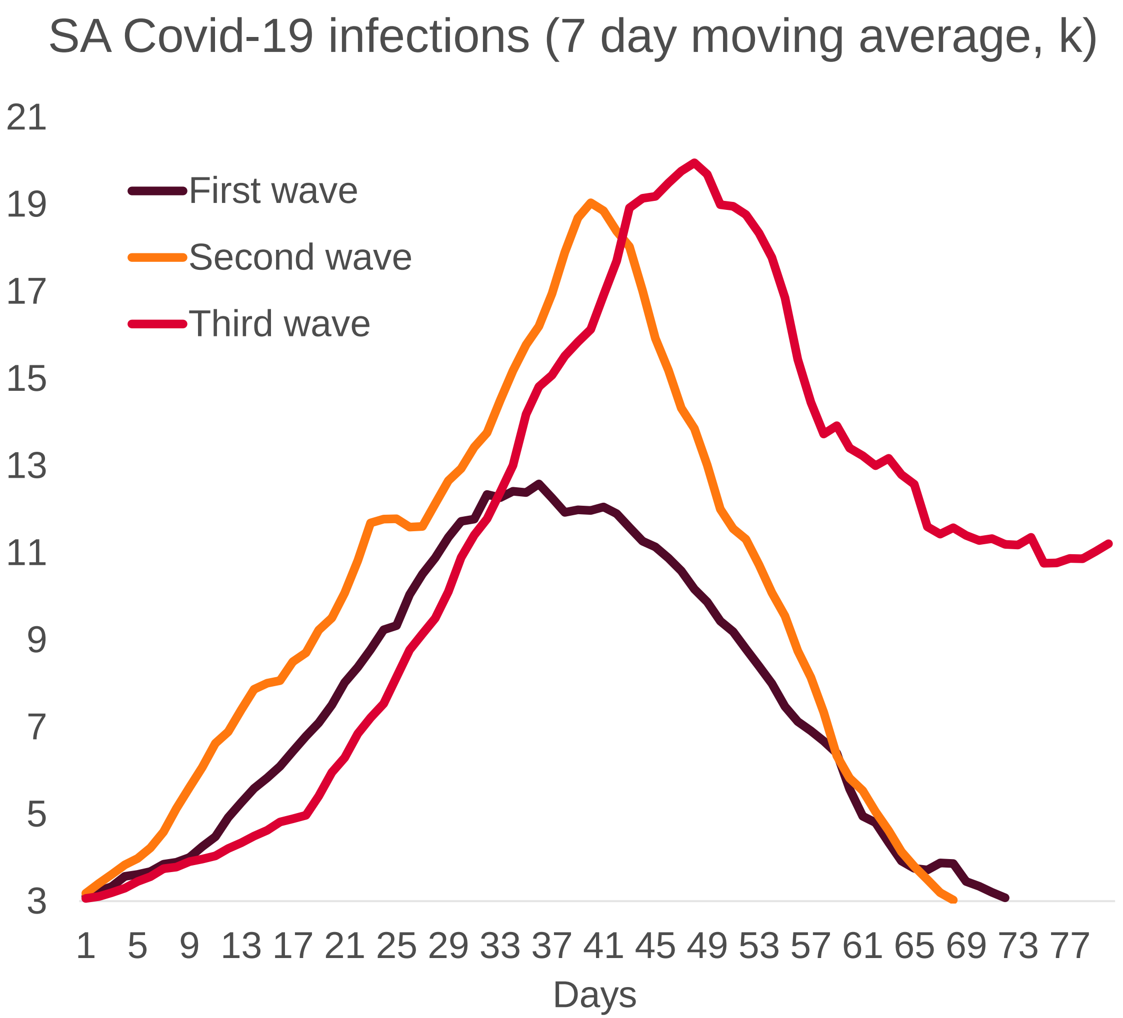
Macro backdrop improved, but remains challenging

- Strong **global** rebound from historic decline
- **South Africa** recovery better than expected
- Strong 1Q growth, signs of softening in 2Q
- Growth uneven across sectors
- Consumer and business confidence remains fragile
- GDP to exceed 4Q19 levels in 1Q23
- Interest rates remain very low into next year
- Solid **ARO** growth slightly lower than expected
- Recovery uneven across countries
- Expect policy rates to rise in many ARO countries
- Strong Rand a drag on ARO's 1H21 contribution

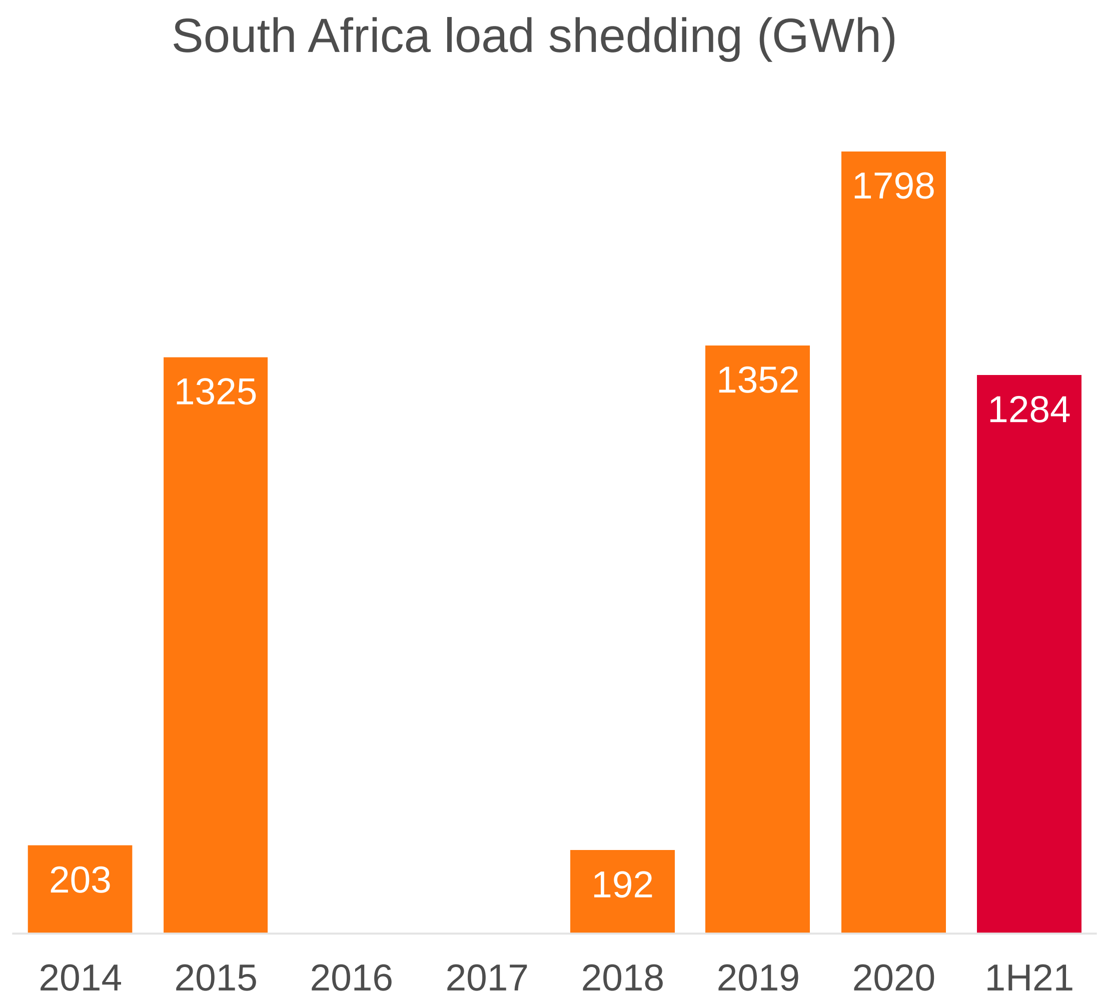


Source: Absa Research

Covid-19 pandemic and load shedding pose risks



Source: Absa Research



Source: CSIR analysis

Impact of recent South African civil unrest

Limited near-term direct impact on Absa

- Focus on safety of colleagues and customers
- 22 branches, 233 ATMs damaged or vandalised
- Some impact on sales. 252 branches closed at peak

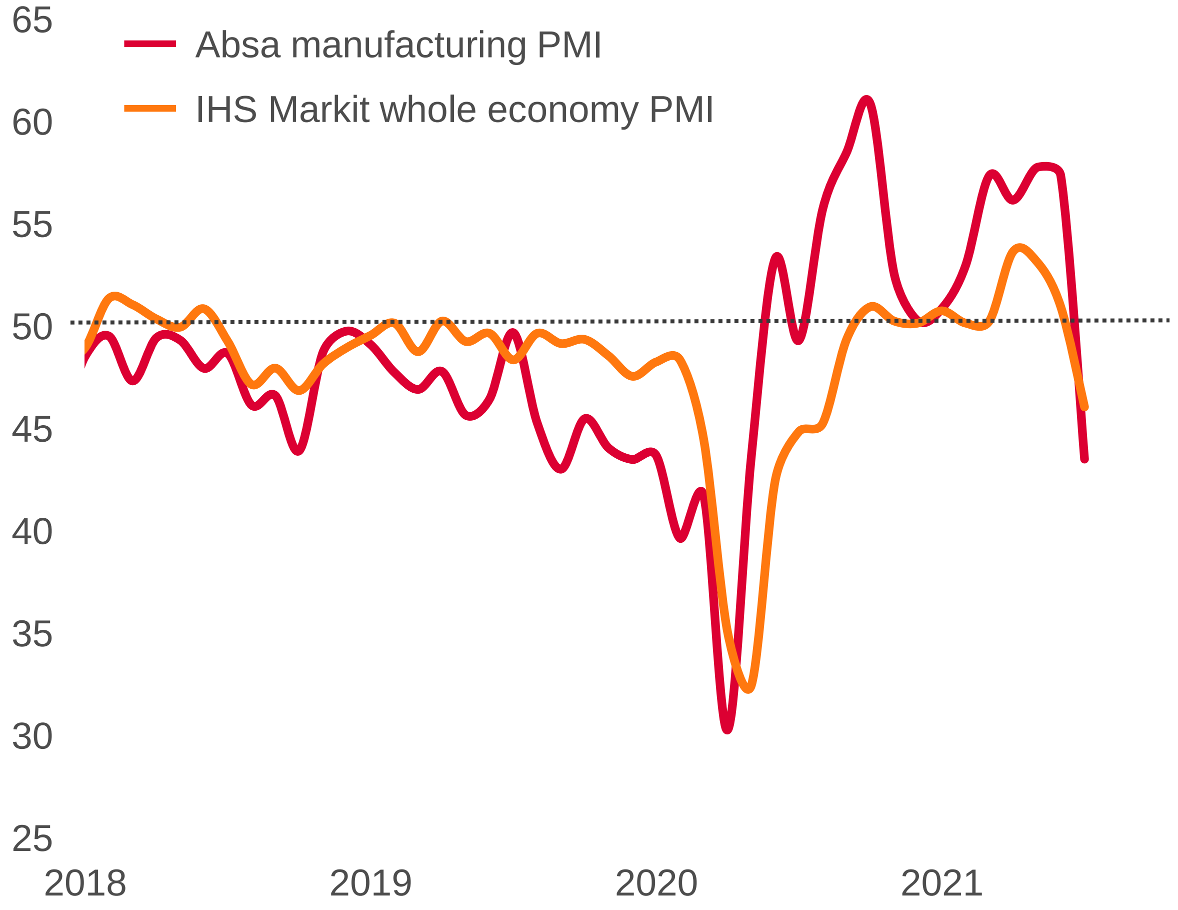
Near-term economic impact relatively limited

- Expected to reduce 2021 GDP by c.0.5%
- 139 CIB clients impacted

Medium-term impact hard to quantify

- Increases country risk, reduces investor confidence

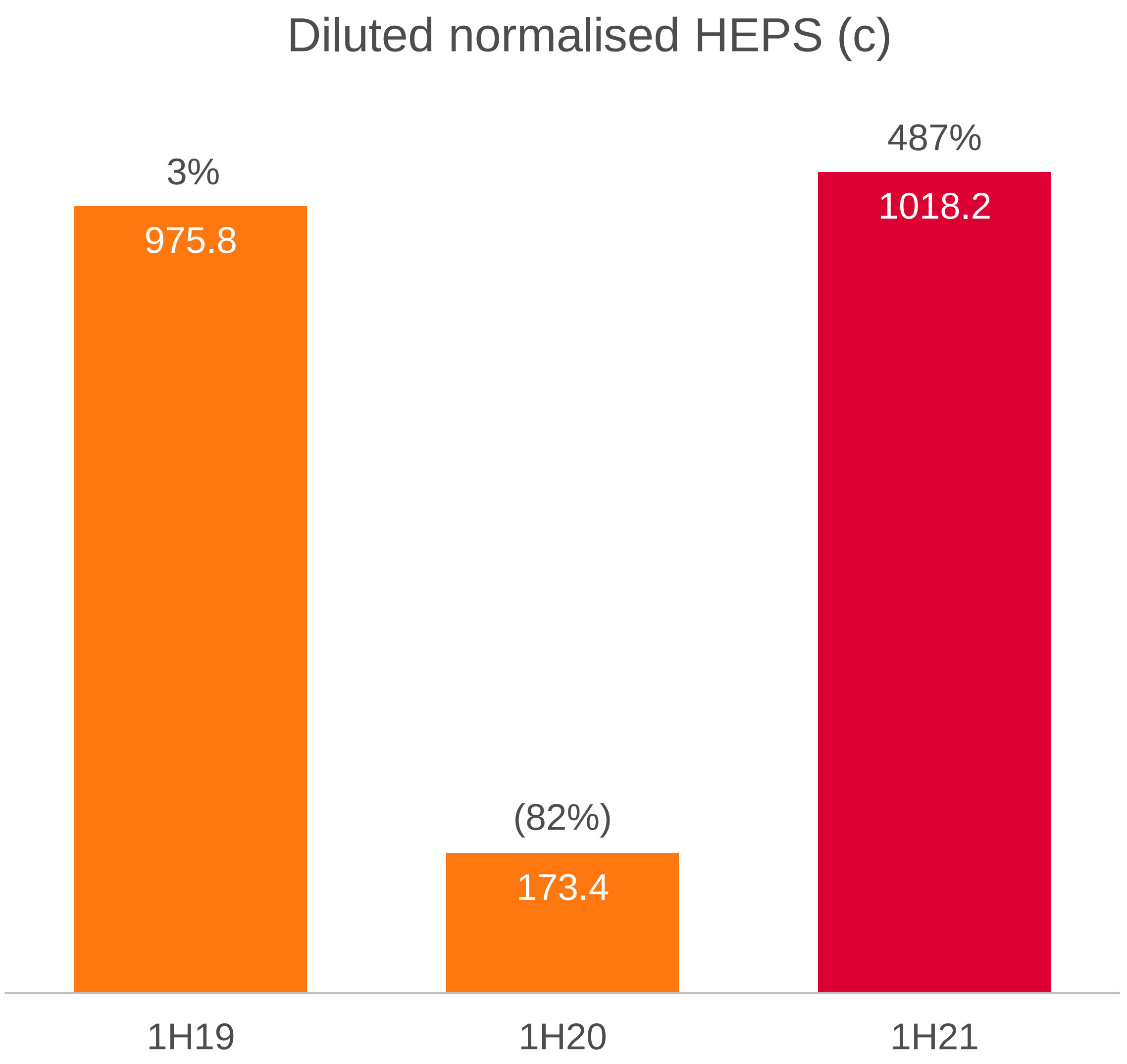
Purchasing Managers' Indexes (50 = neutral)



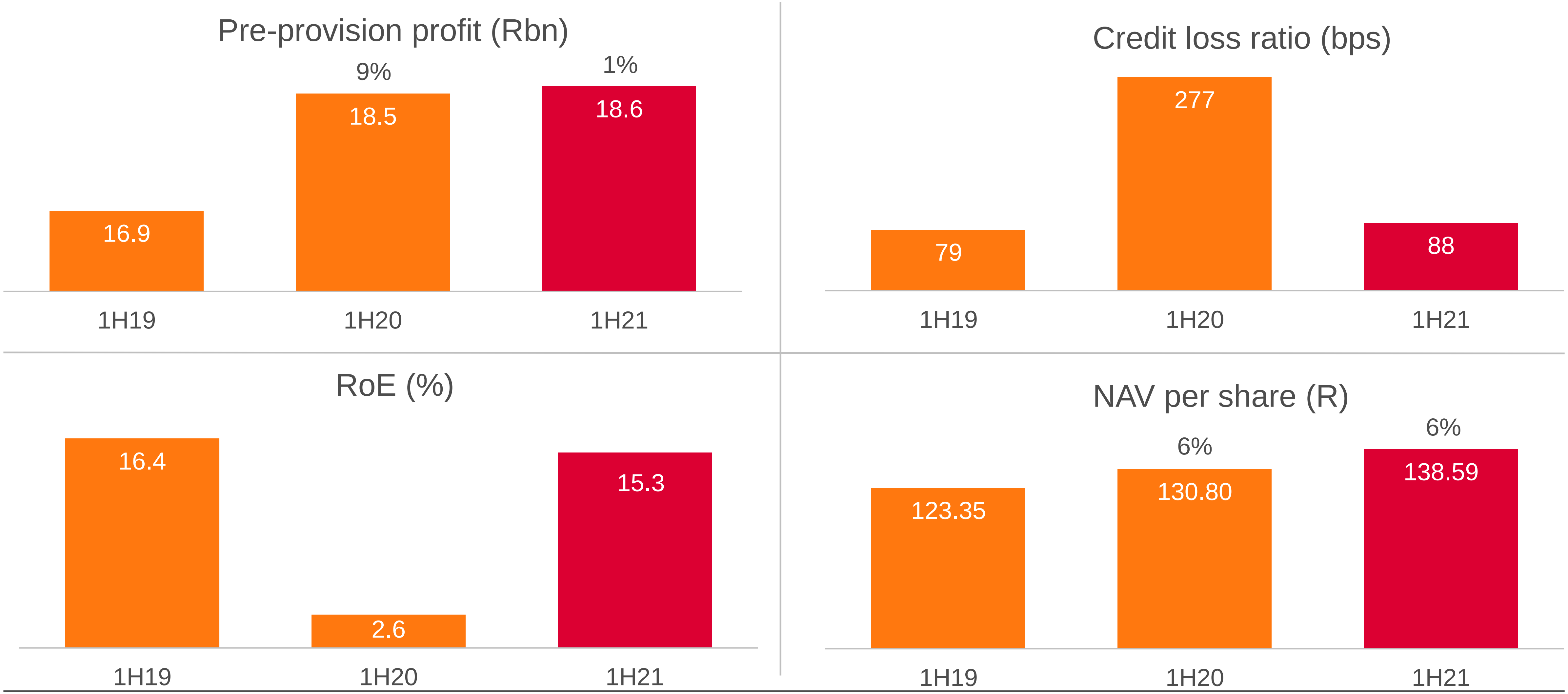
Source: Absa Research

We are well positioned

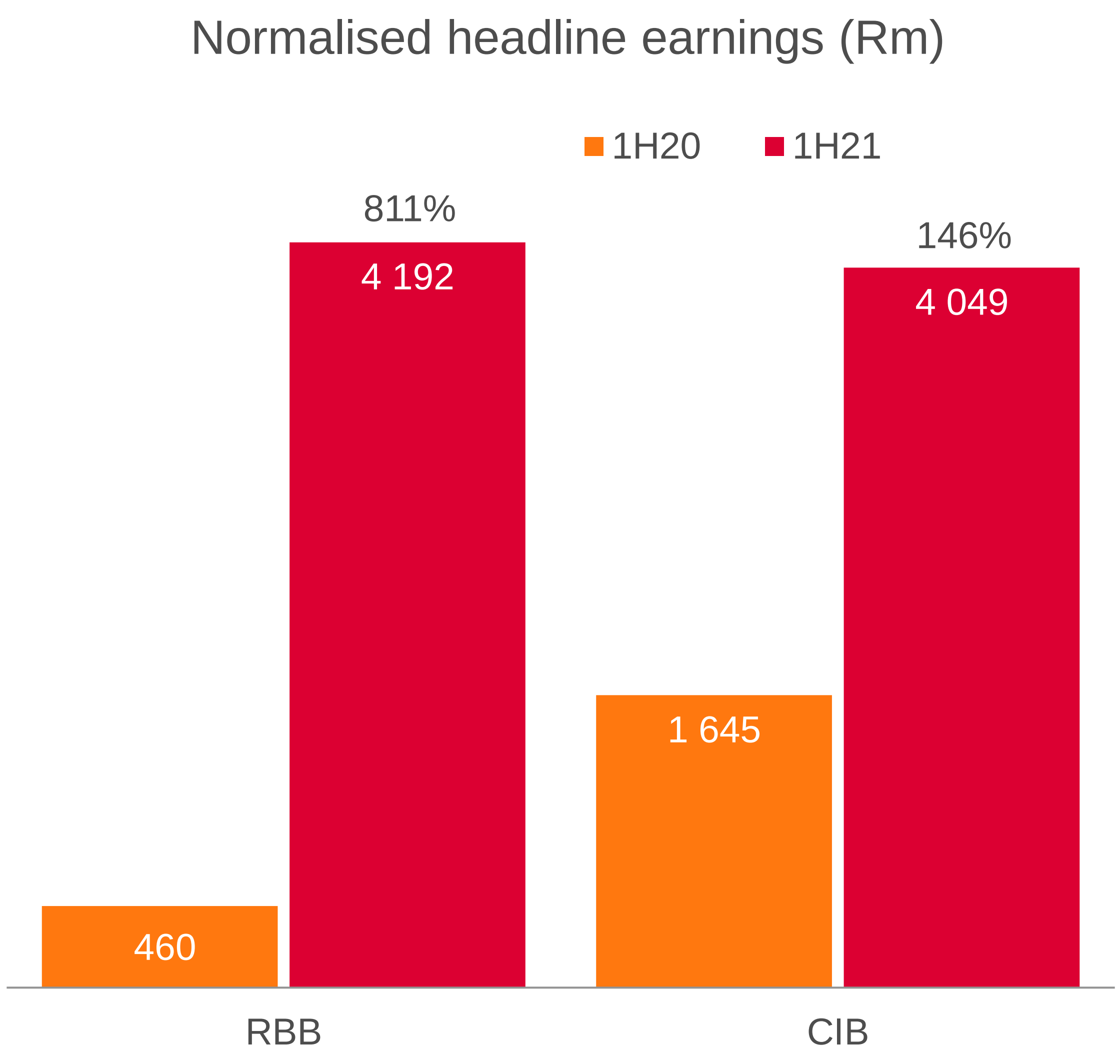
- We have demonstrated resilience in delivering
    - Barclays separation is firmly behind us
    - Earnings rebound to above pre-Covid levels
    - Strong underlying performance
    - Leading balance sheet coverage
- Capital and funding to support our growth ambitions
- Clear strategic priorities
    - Divisional strategies shift to smart growth
    - Re-anchoring to and refreshing 2018 strategy
- Strong sense of urgency on executing

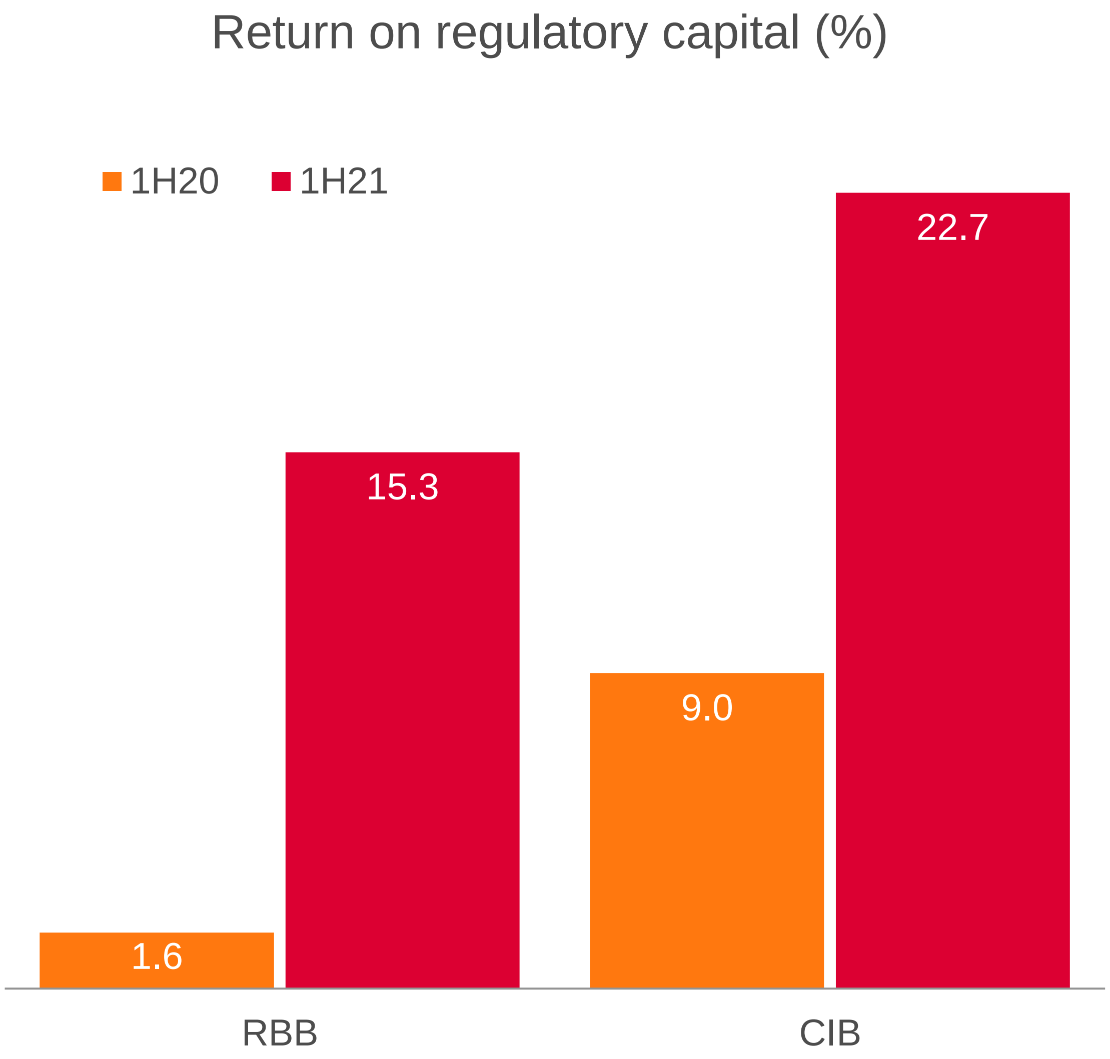


1H21 salient features



Material recovery in divisional earnings and returns

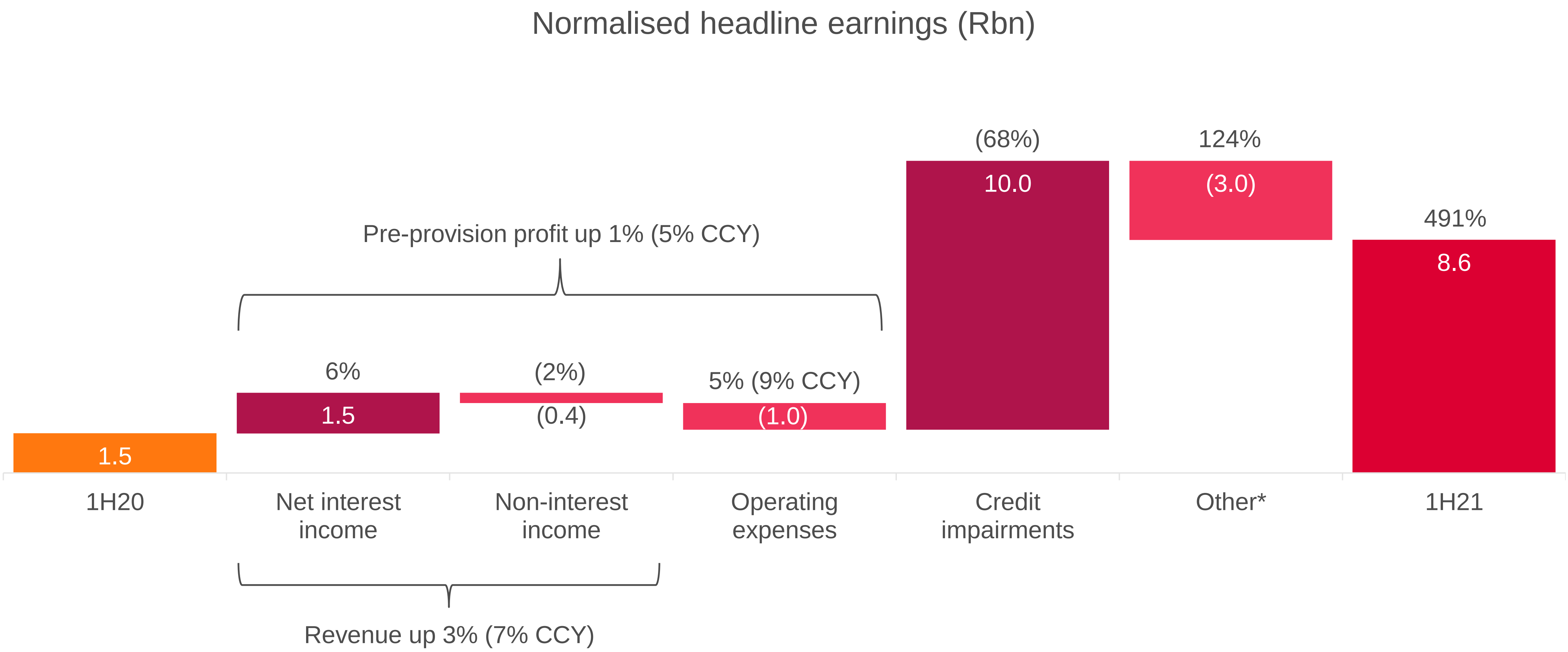




Punki Modise

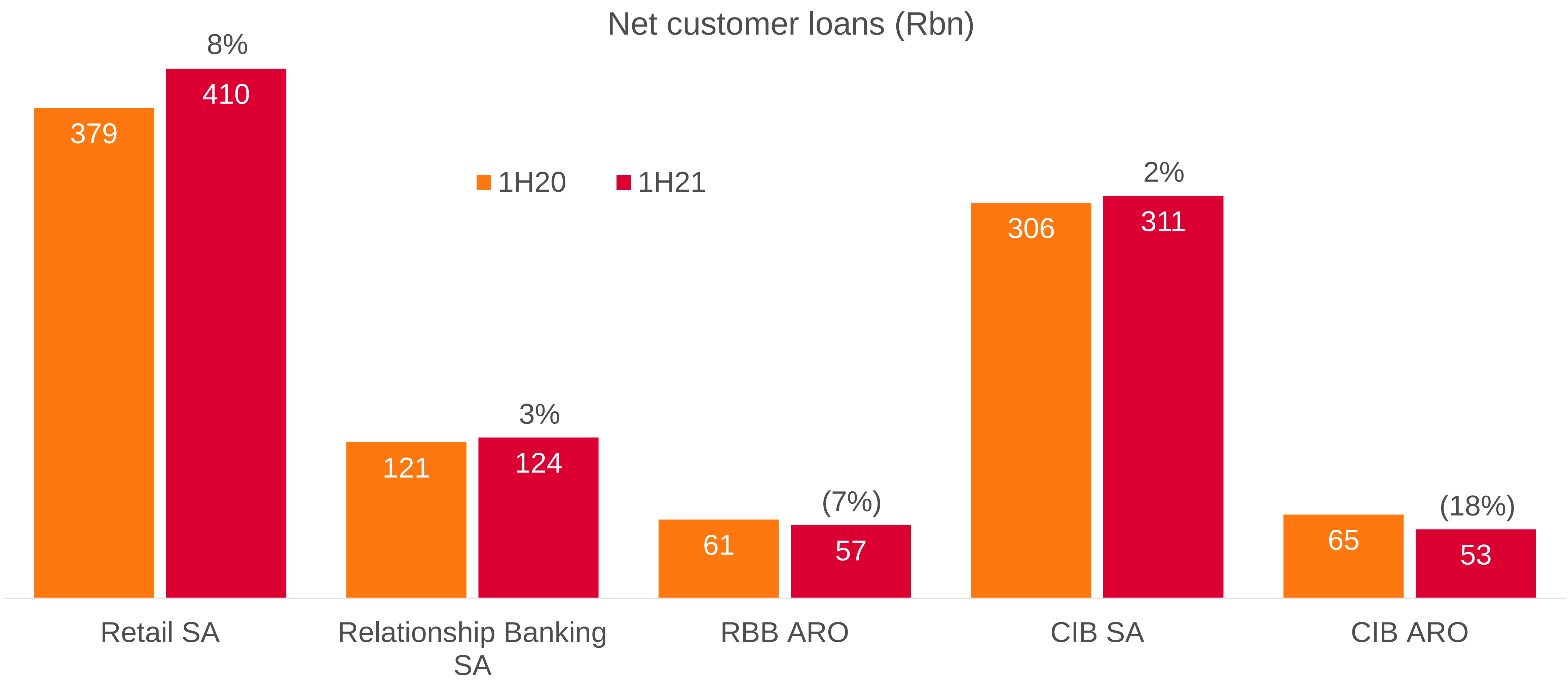
Interim Financial Director

Significantly lower credit charge drove earnings growth



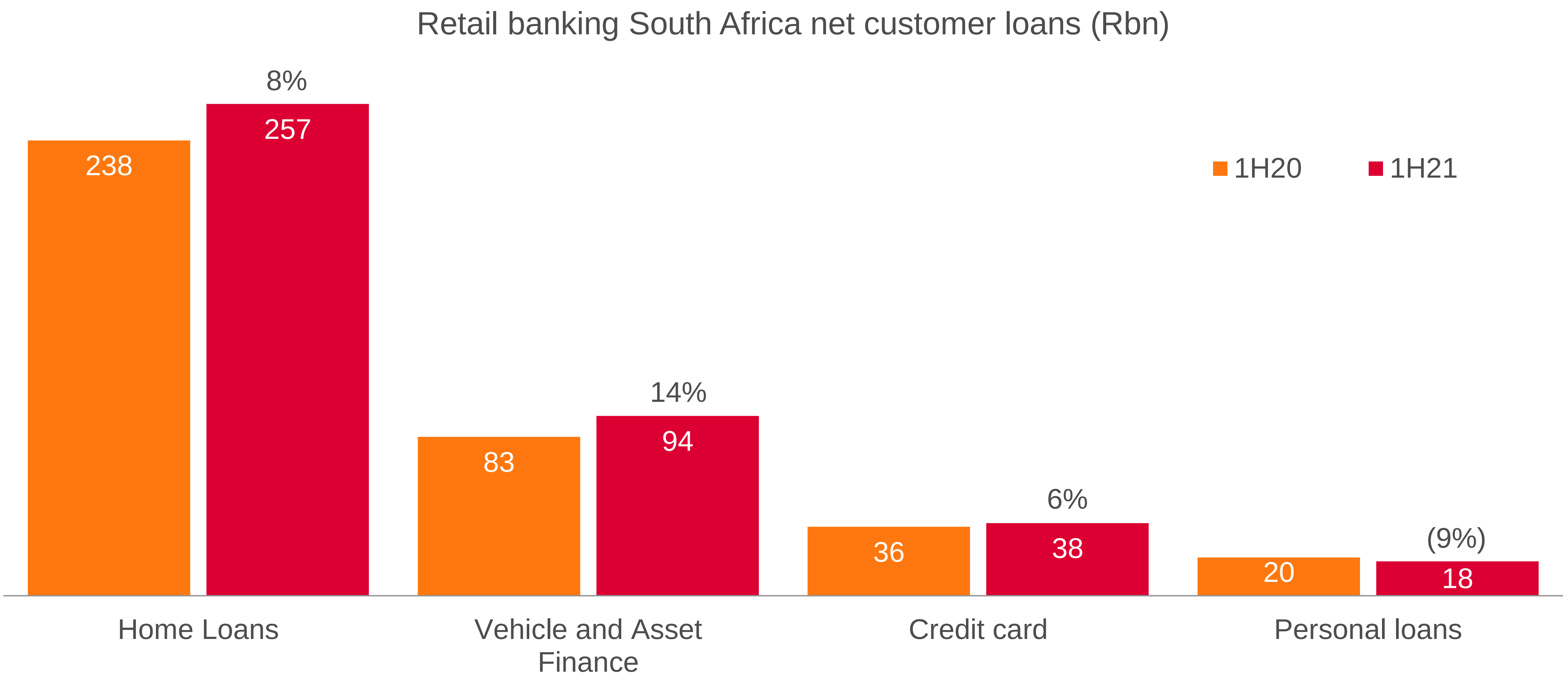
Note: * Includes other expenses, JVs and associates, Taxation, non-controlling interests, headline earnings adjustments; CCY refers to in constant currency

Moderate group customer loan growth …

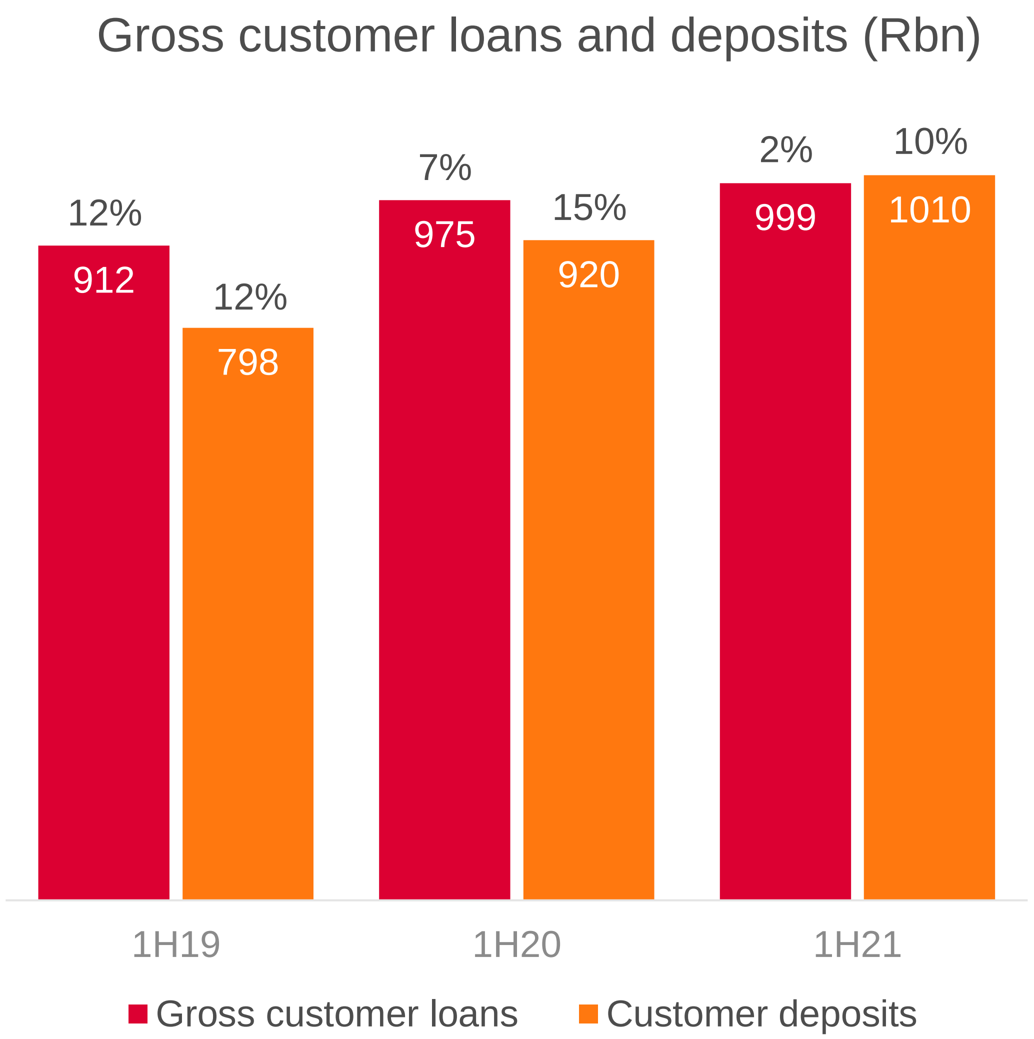


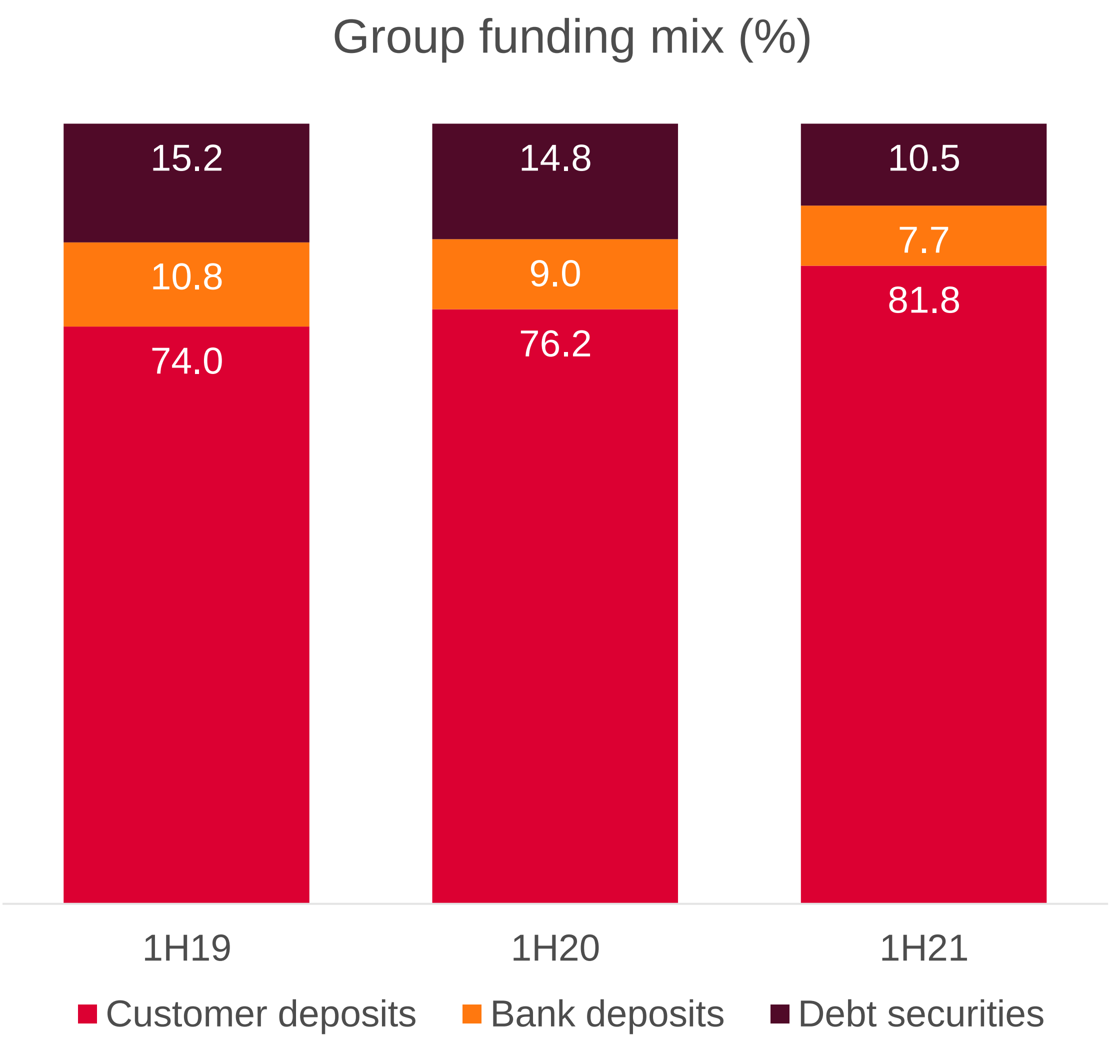
Note: *RBB ARO grew 12% in constant currency and CIB ARO 1%

… despite targeted production in secured retail lending

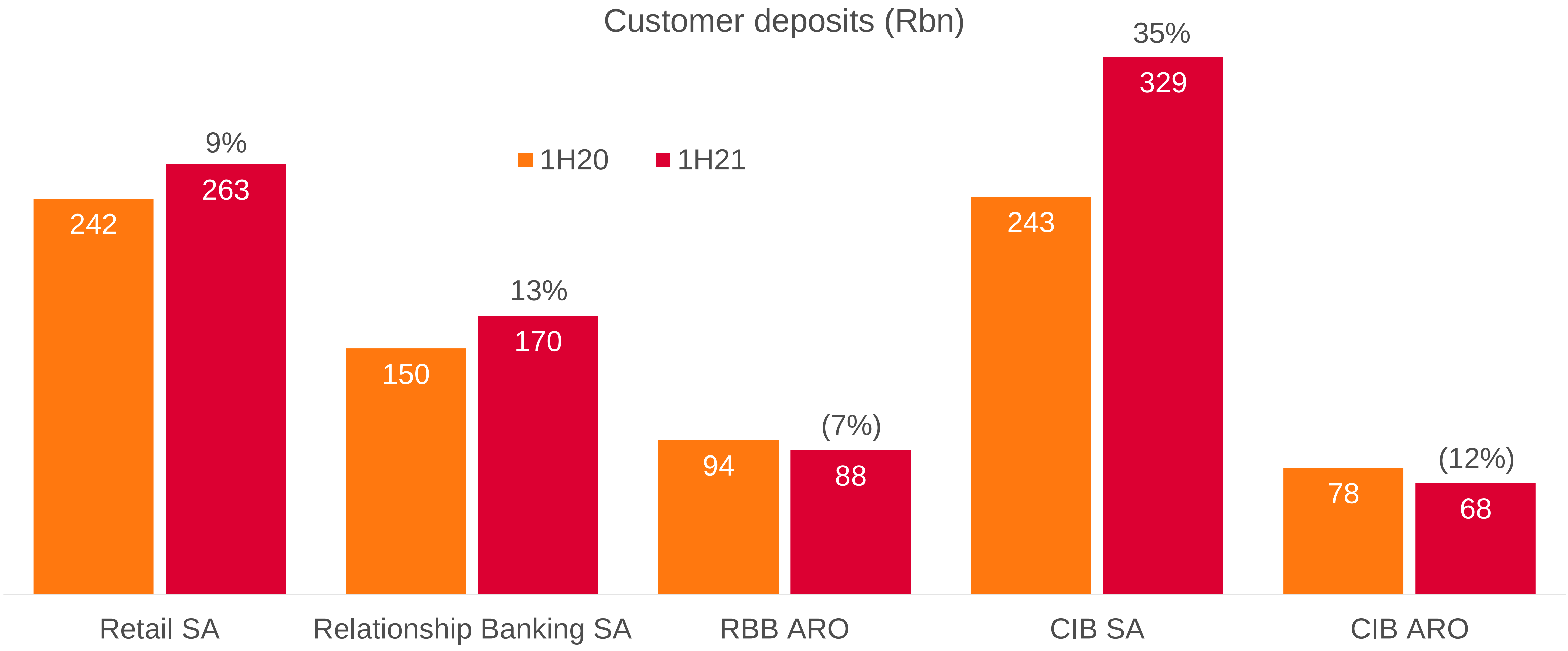


Deposit growth outstrips loans and improves funding mix



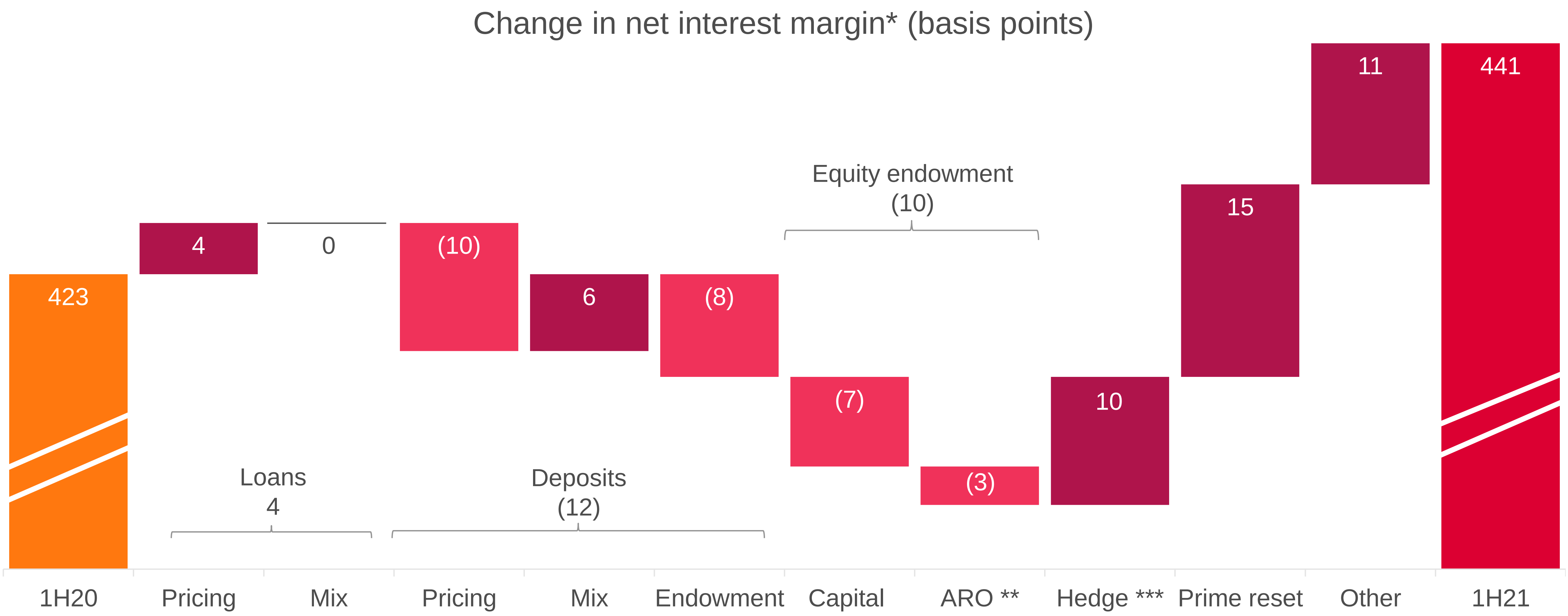


Strong growth in South African deposits



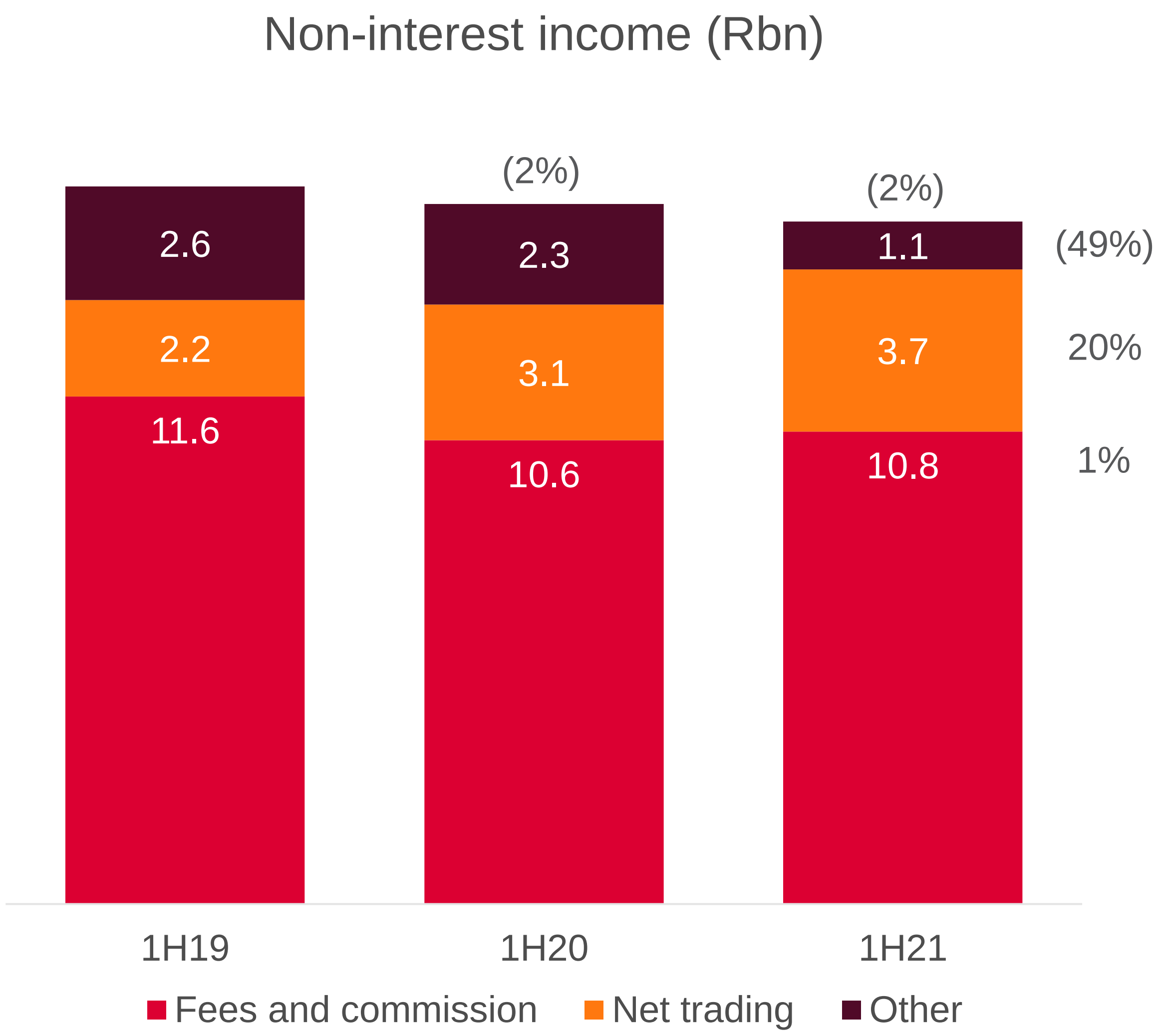
Note: *RBB ARO grew 13% in constant currency and CIB ARO 7%

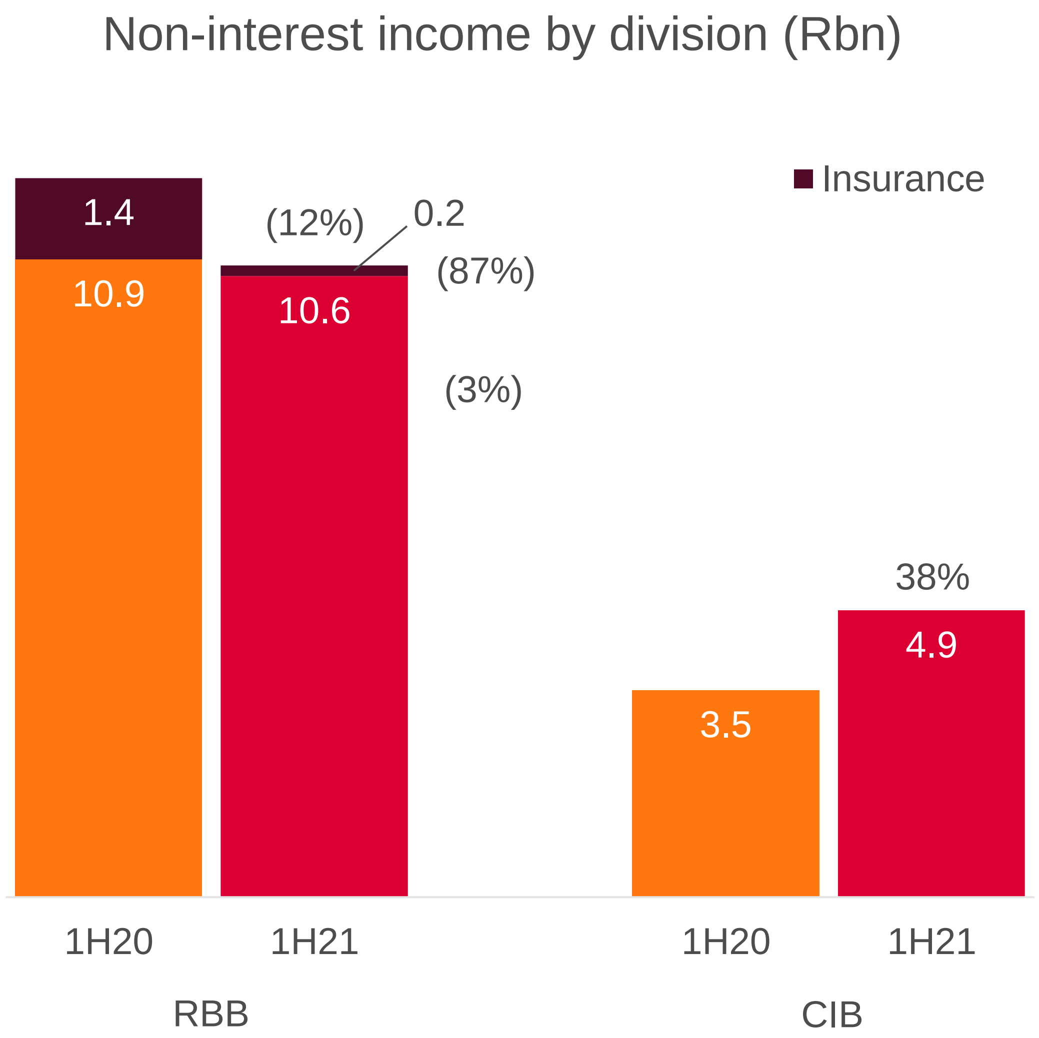
Net interest margin increased noticeably



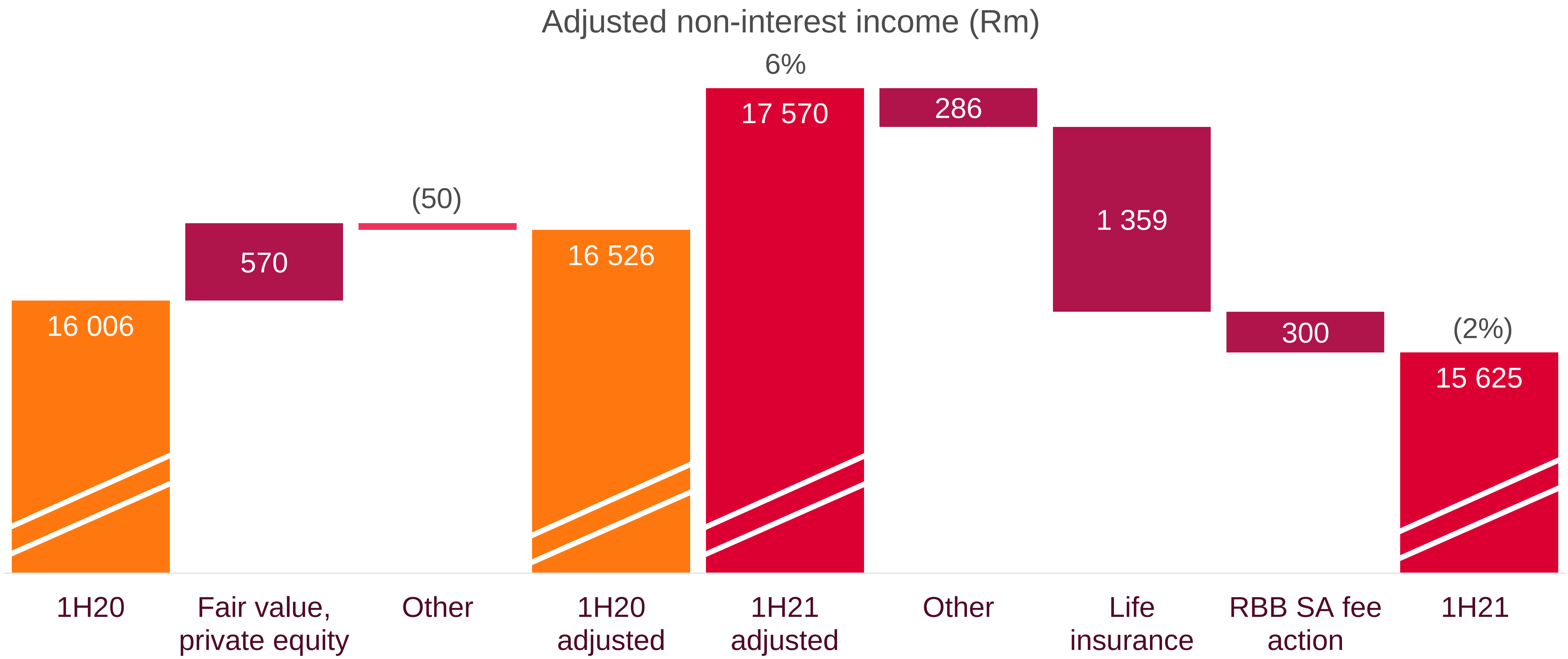
Note: * average interest bearing assets; ** Absa Regional Operations equity endowment; *** interest rate risk management

Insurance reduced non-interest income materially

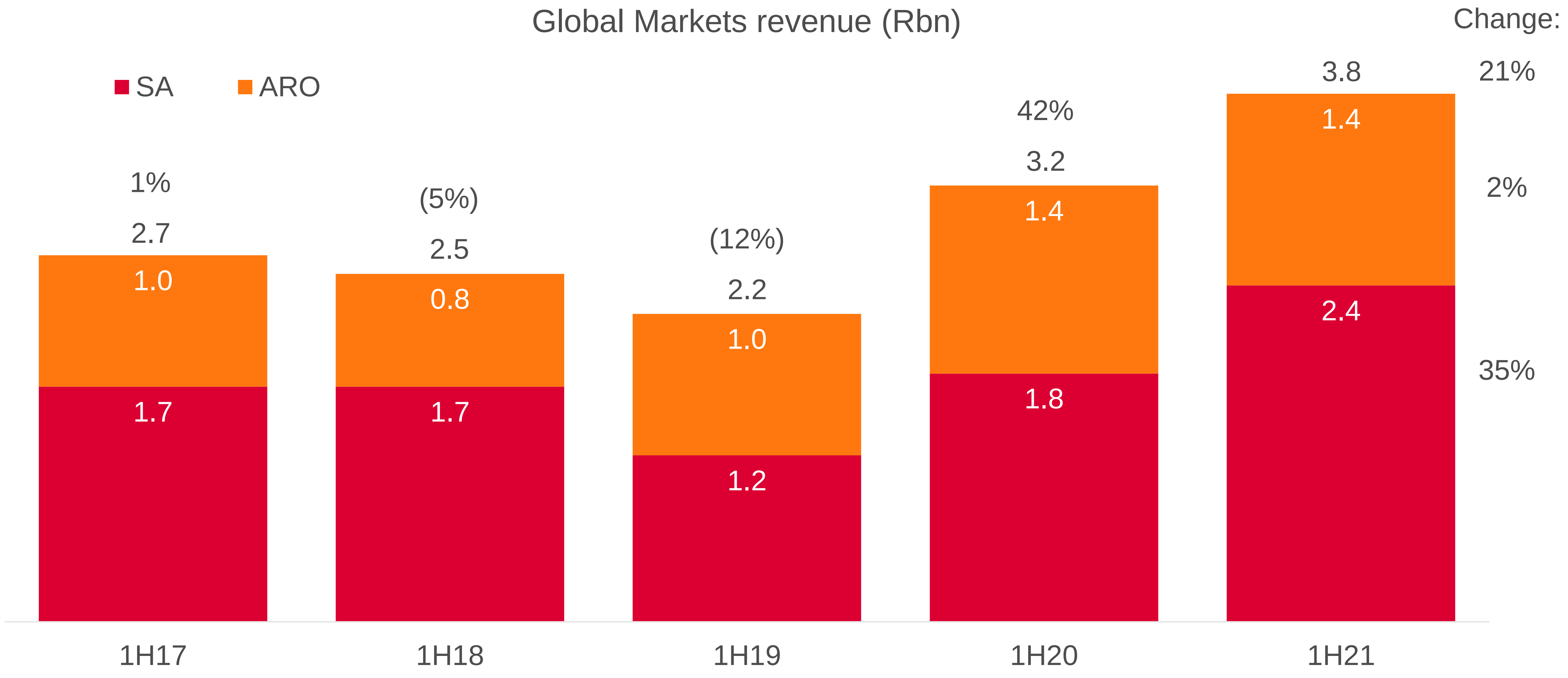




Solid underlying non-interest income performance



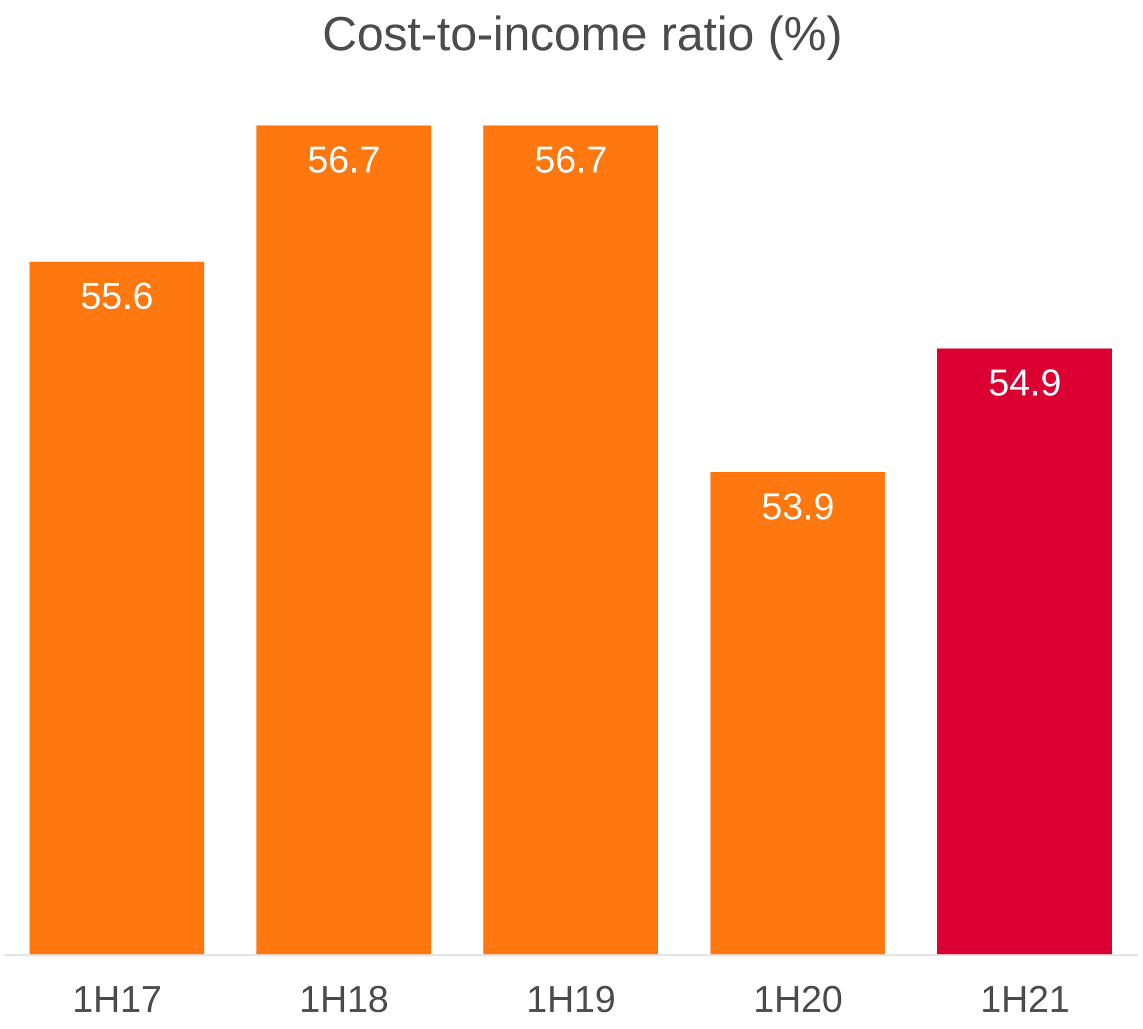
Strong Global Markets revenue growth, particularly in SA



Note: Markets ARO grew 22% in constant currency in 1H21

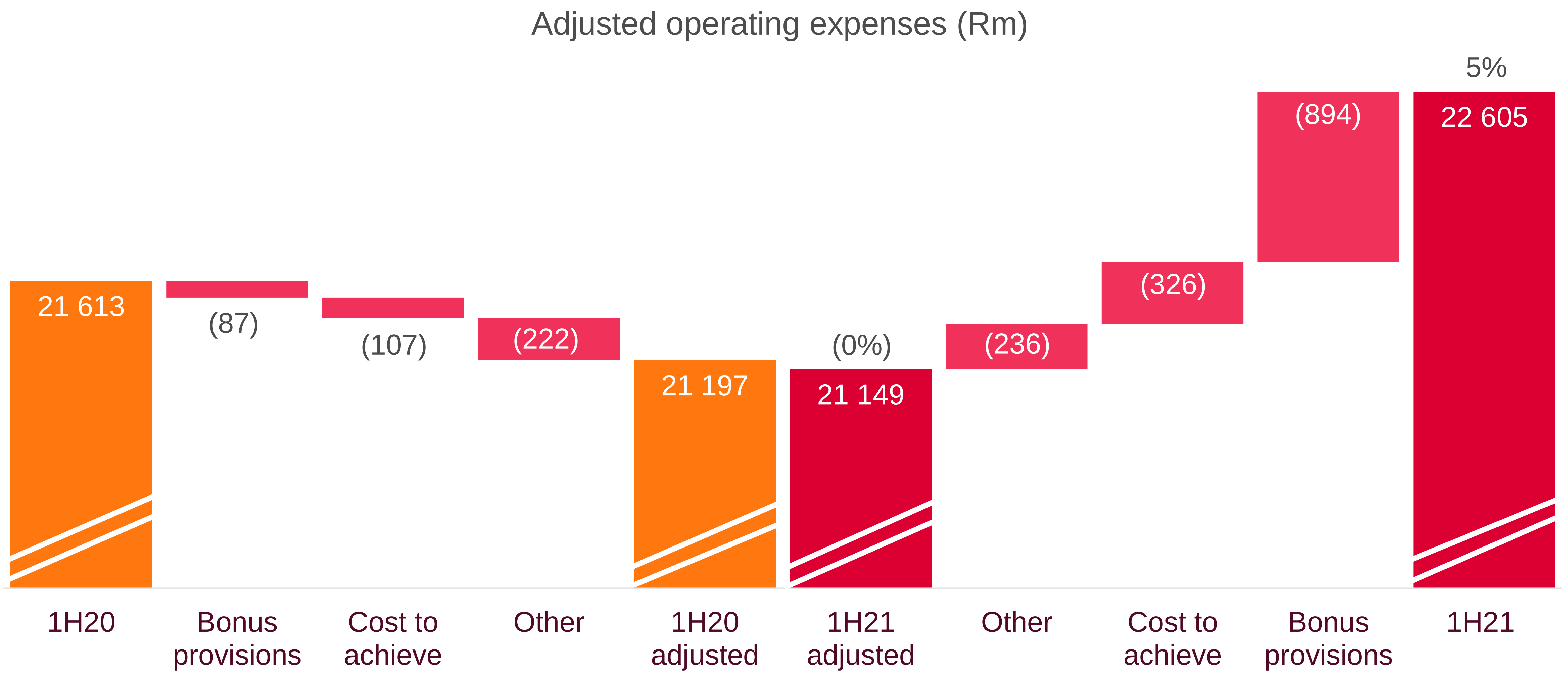
Operating expenses remain well managed …

	1H21 Rm	Change %	Mix %
Staff	**12 667**	6	56
Property	**902**	(3)	4
Technology	**2 368**	18	10
Depreciation	**1 691**	(6)	7
Professional fees	**985**	2	4
Marketing	**522**	(2)	2
Communication *	**691**	(2)	3
Cash transportation	**606**	9	3
Amortisation	**638**	12	3
Other **	**1 535**	(6)	7
Total	**22 605**	**5**	**100**



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

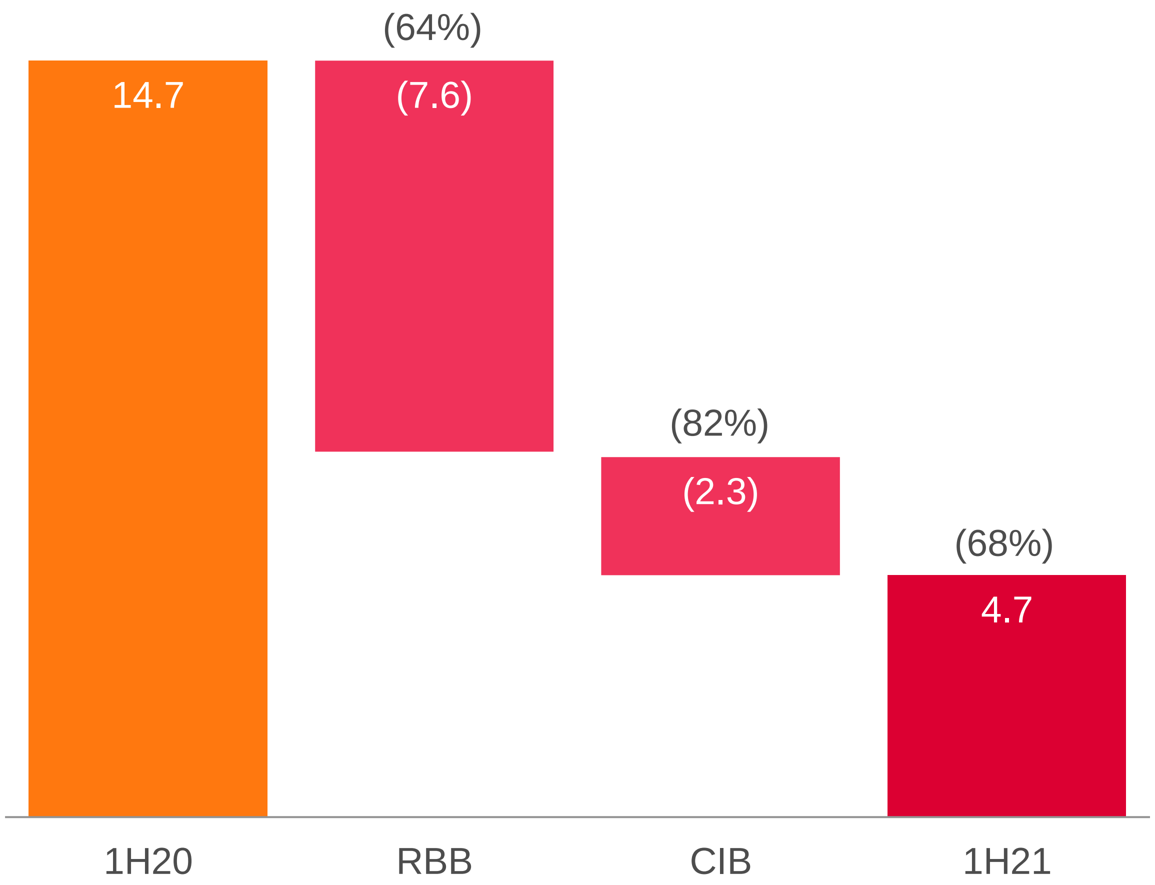
… with sub-inflationary underlying cost growth



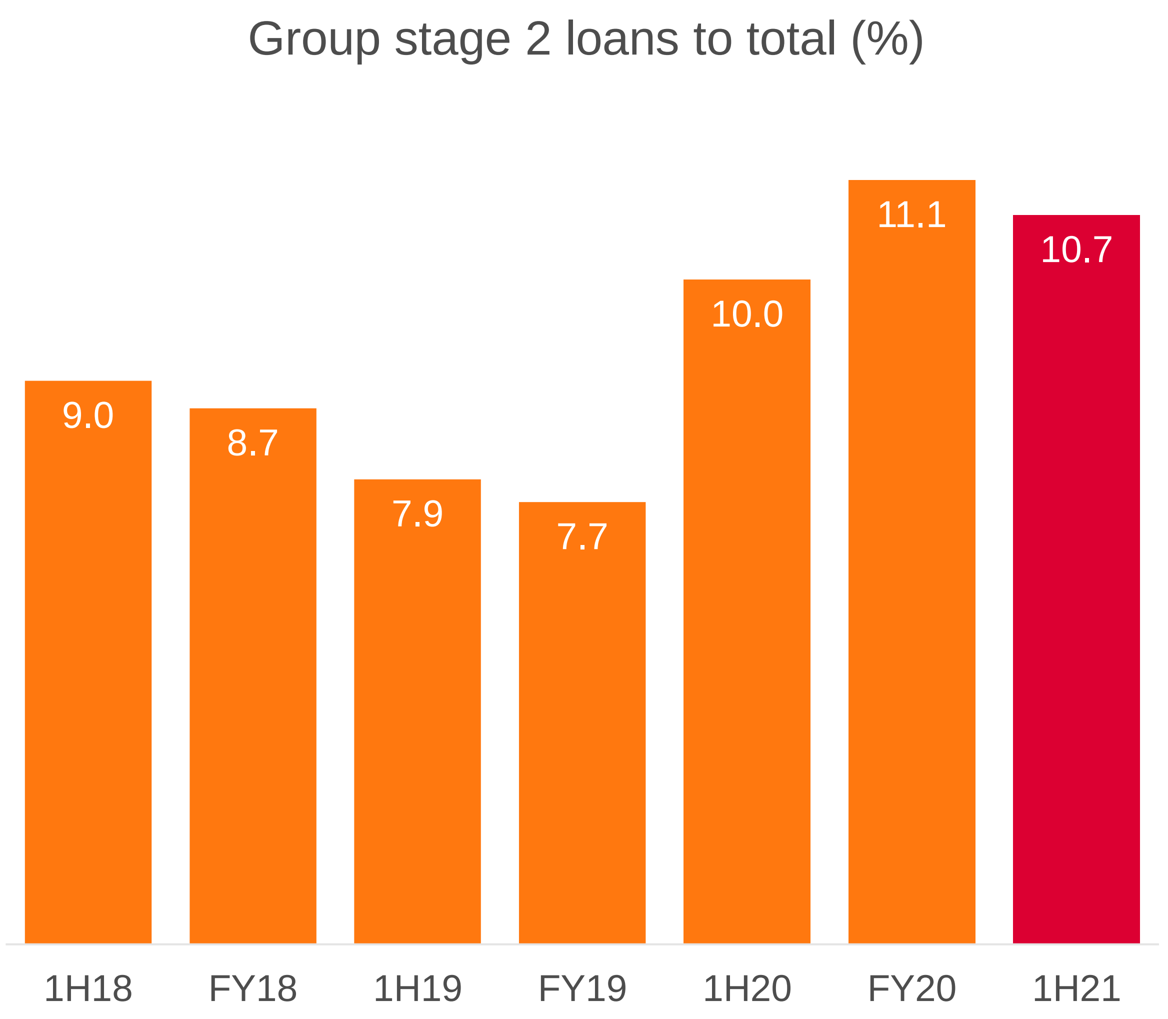
Credit impairments improved materially across the board

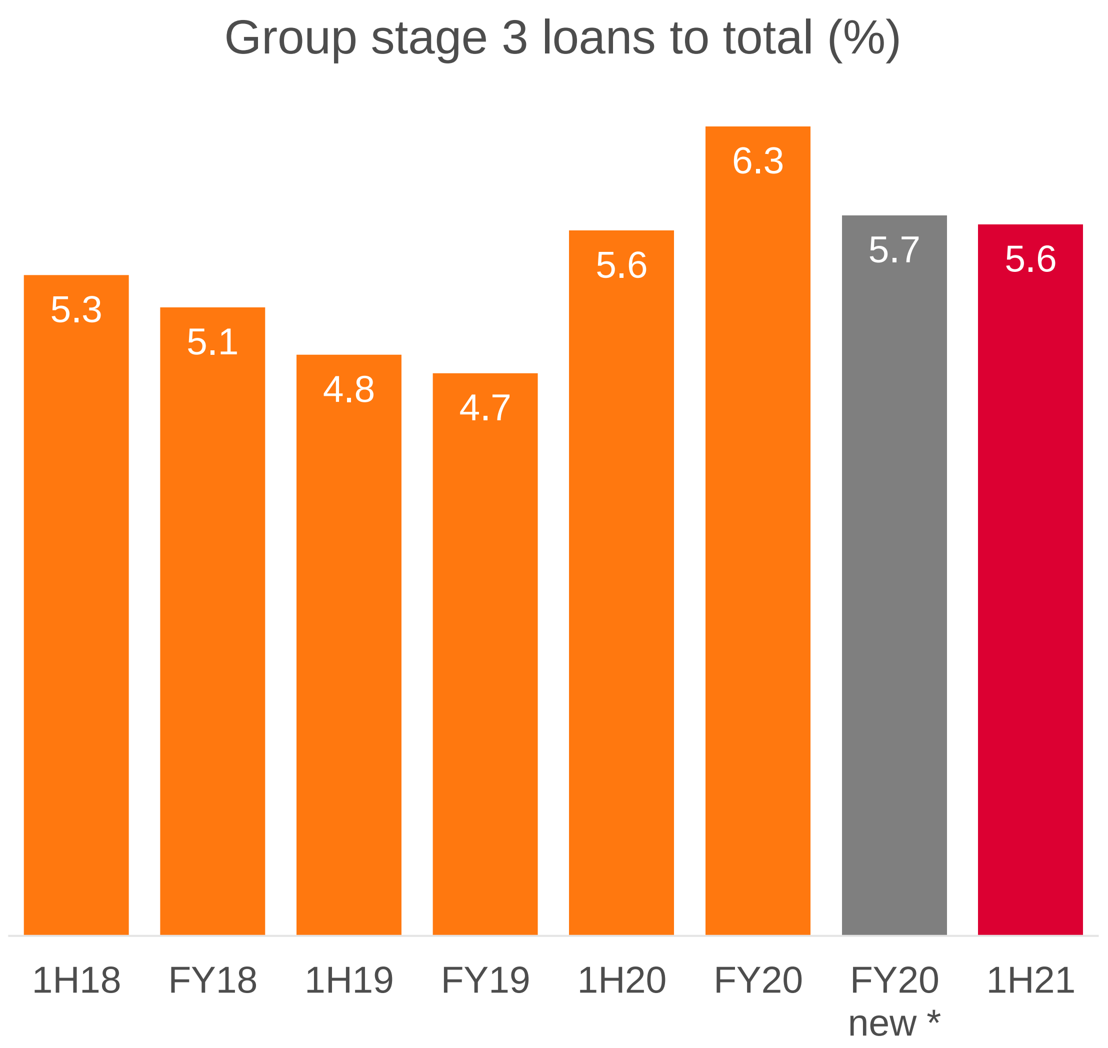
Credit loss ratio (%)	1H20	1H21
RBB	3.88	1.33
Everyday Banking	11.76	5.72
Vehicle and Asset Finance	4.91	1.58
Home Loans	1.43	(0.22)
Relationship Banking	2.15	1.14
RBB ARO	4.61	1.74
CIB	1.30	0.24
Group	**2.77**	**0.88**

Credit impairments (Rbn)



Delinquency stages improved slightly year-to-date

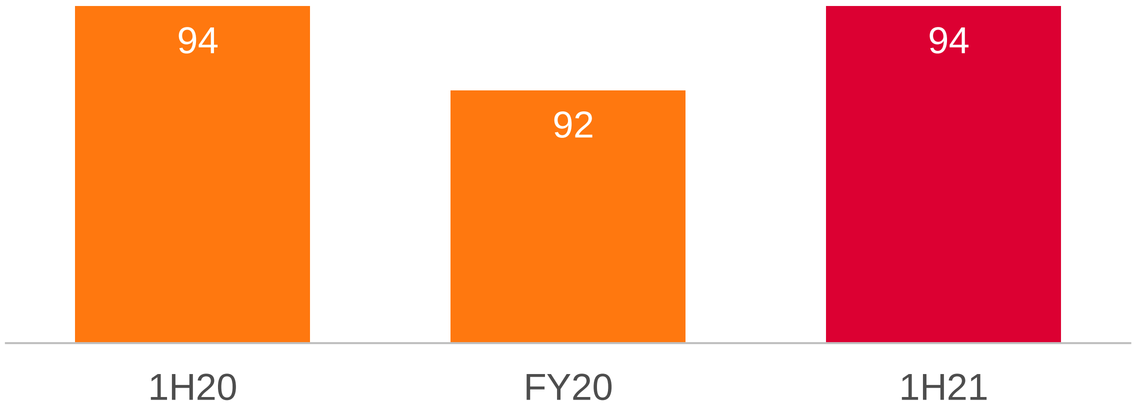




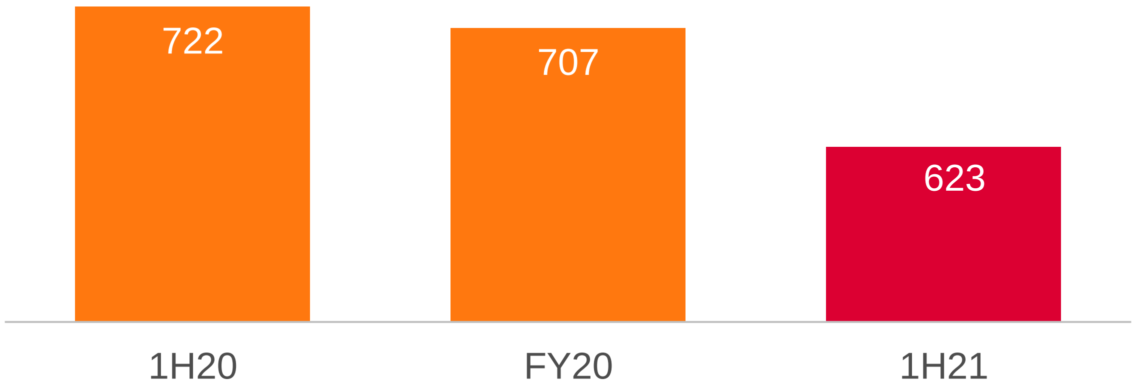
Note: * FY20 new uses the new definition of default

While total loan coverage remained robust

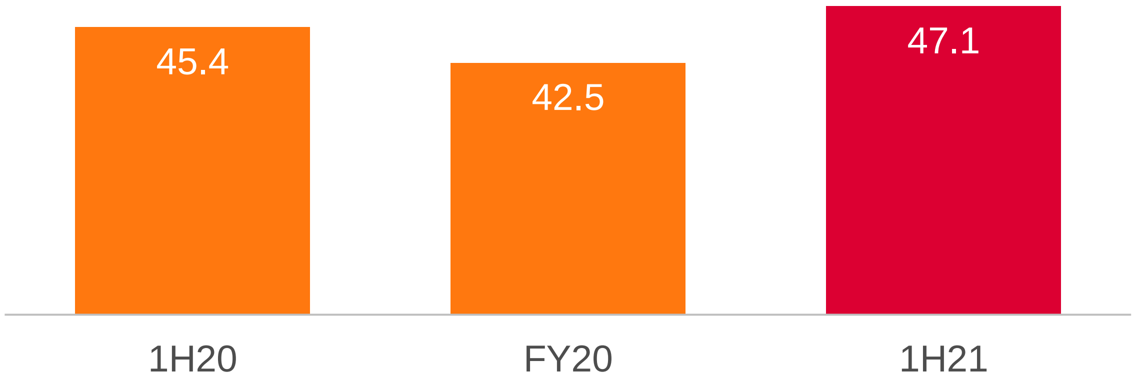
Stage 1 loan coverage (bp)



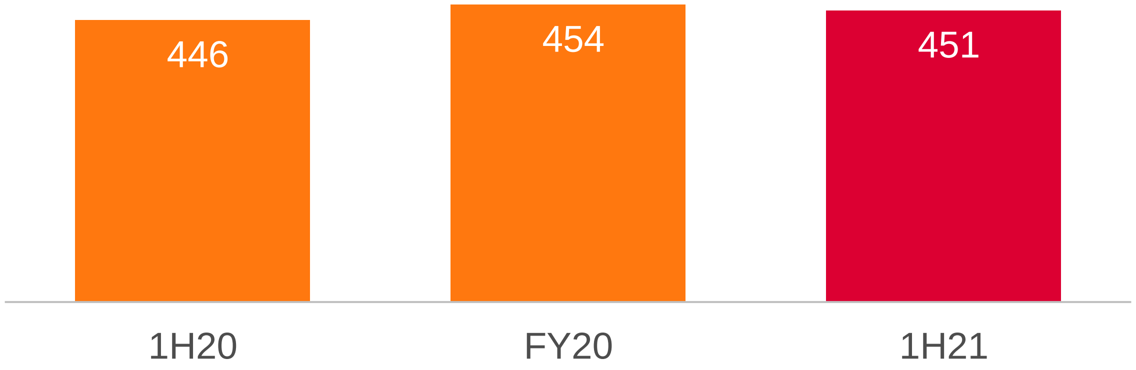
Stage 2 loan coverage (bp)



Stage 3 loan coverage (%)

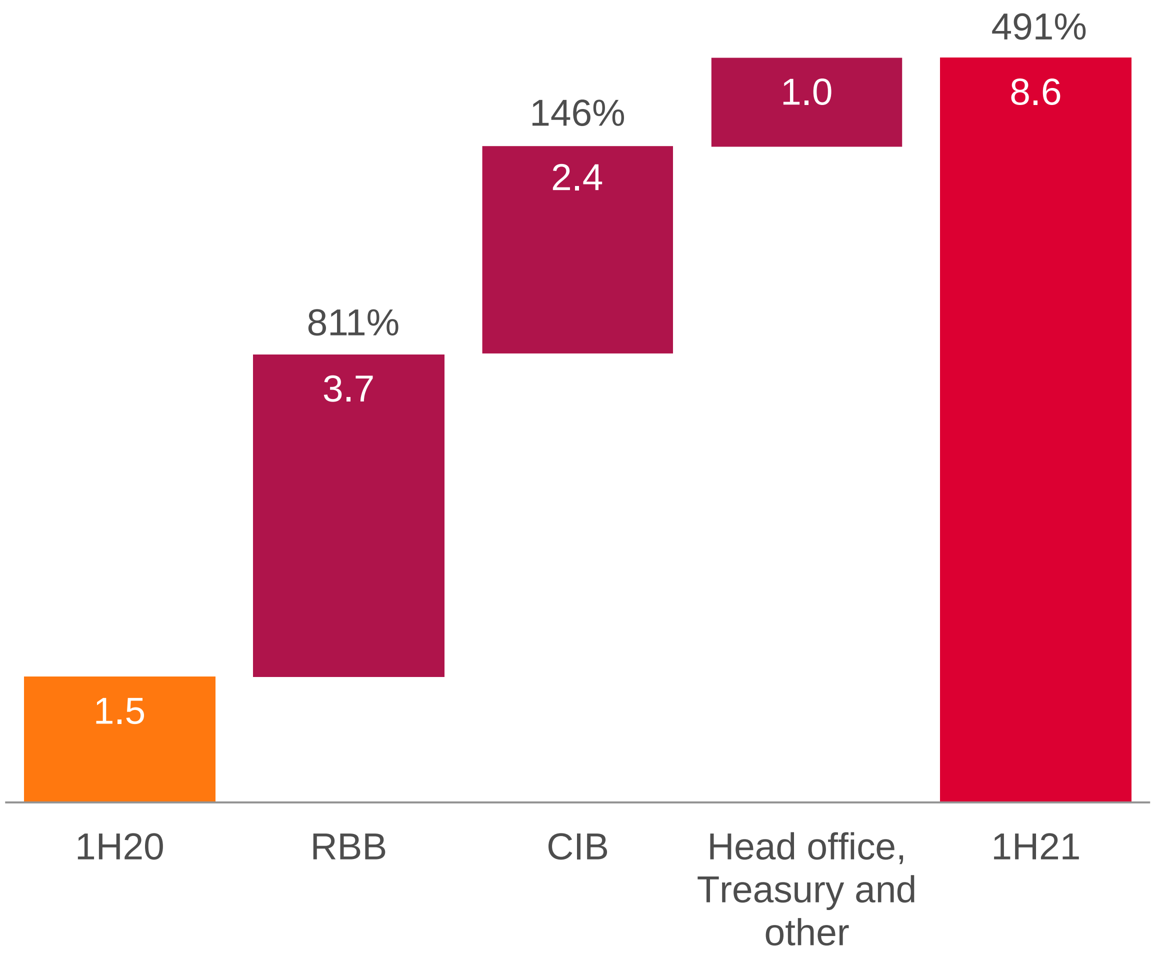


Total loan coverage (bp)

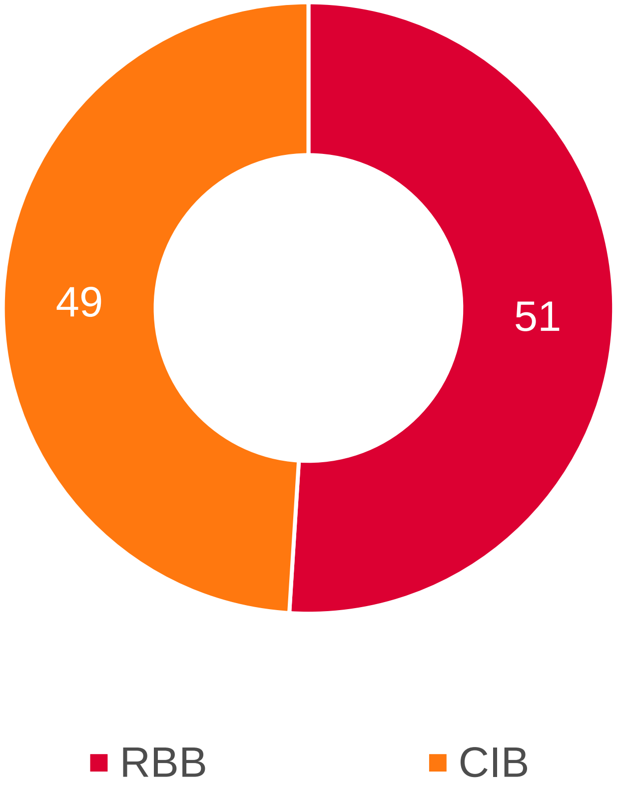


Strong divisional earnings growth

Normalised headline earnings (Rbn)

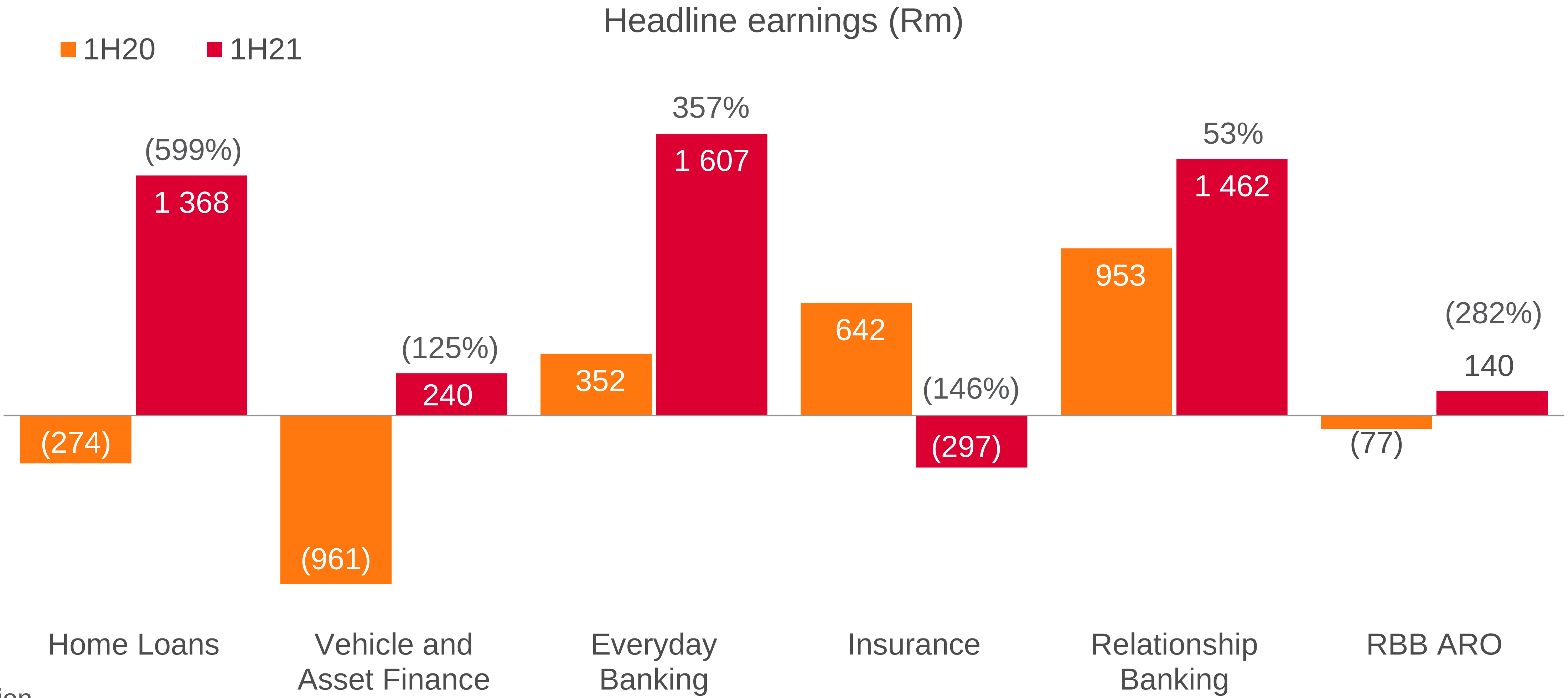


Group normalised headline earnings mix (%)



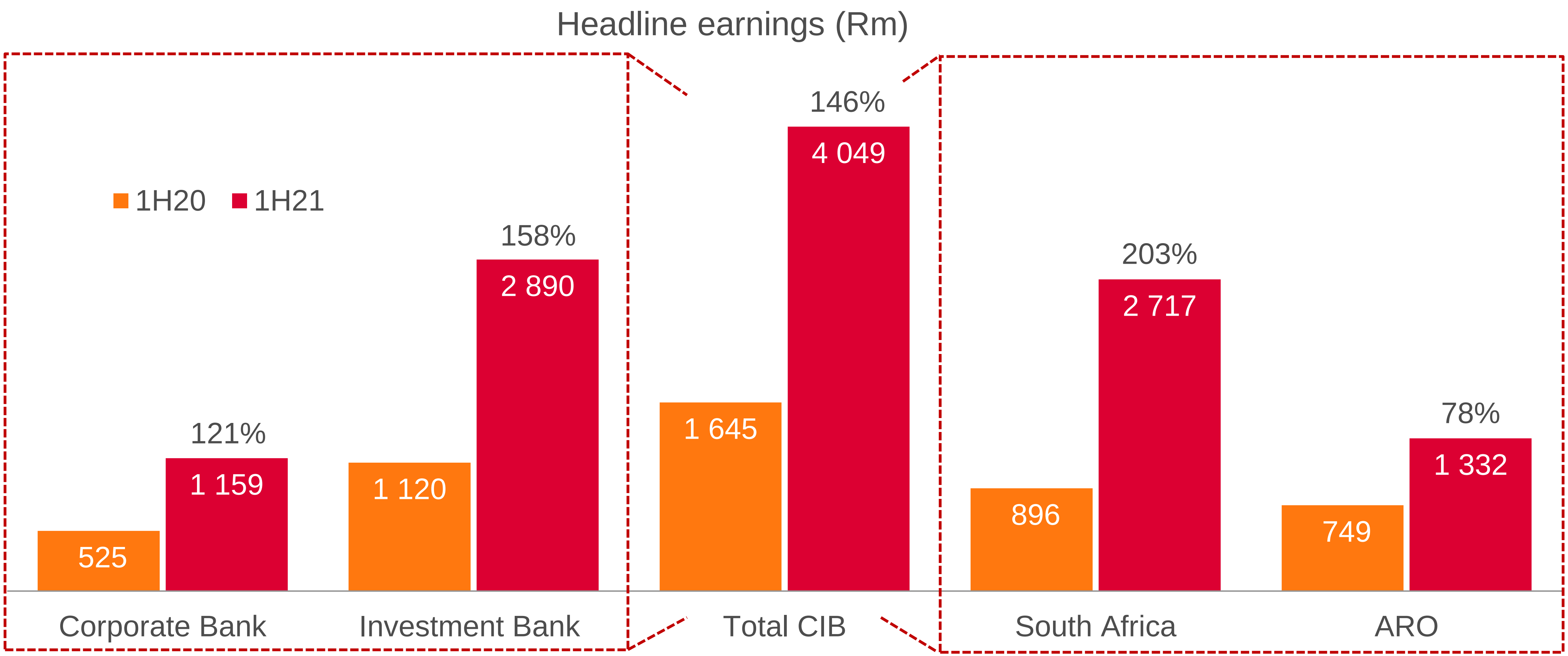
Note: Group normalised headline earnings mix excludes Head office, Treasury and other

RBB franchises all rebounded sharply, besides Insurance



Pre-provision profit growth:	15%	27%	(15%)	(128%)	4%	(18%)

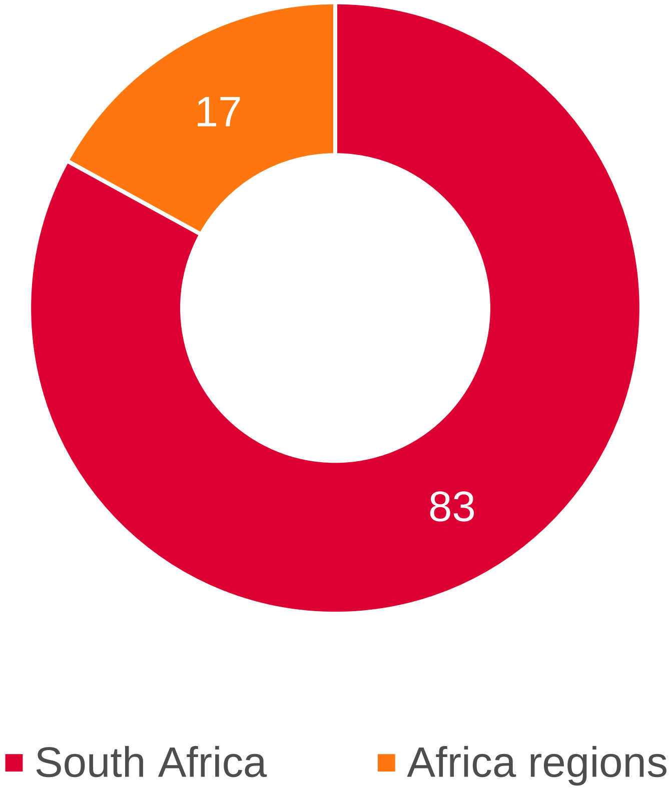
Strong earnings growth across CIB franchises



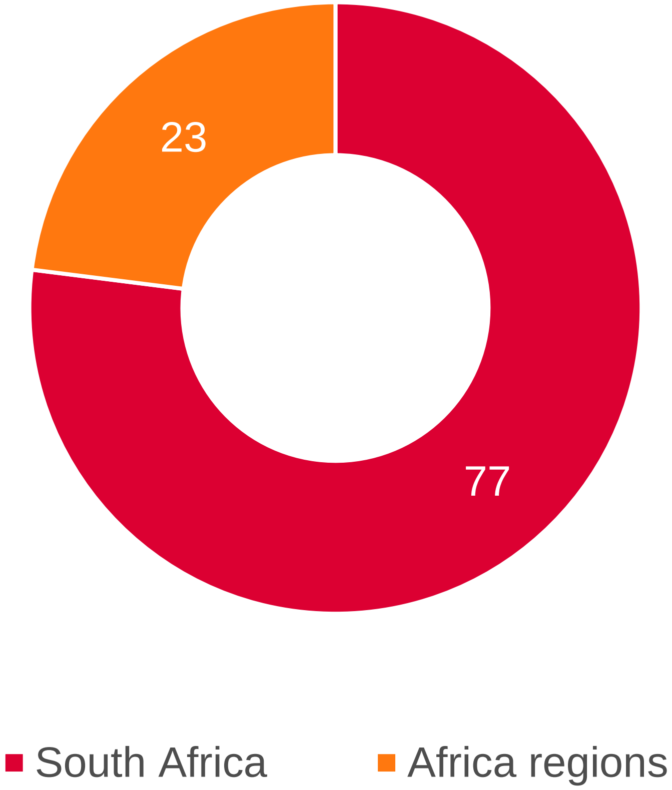
Pre-provision profit growth:	(4%)	26%	15%	39%	(13%)

Opportunity remains in Africa regions

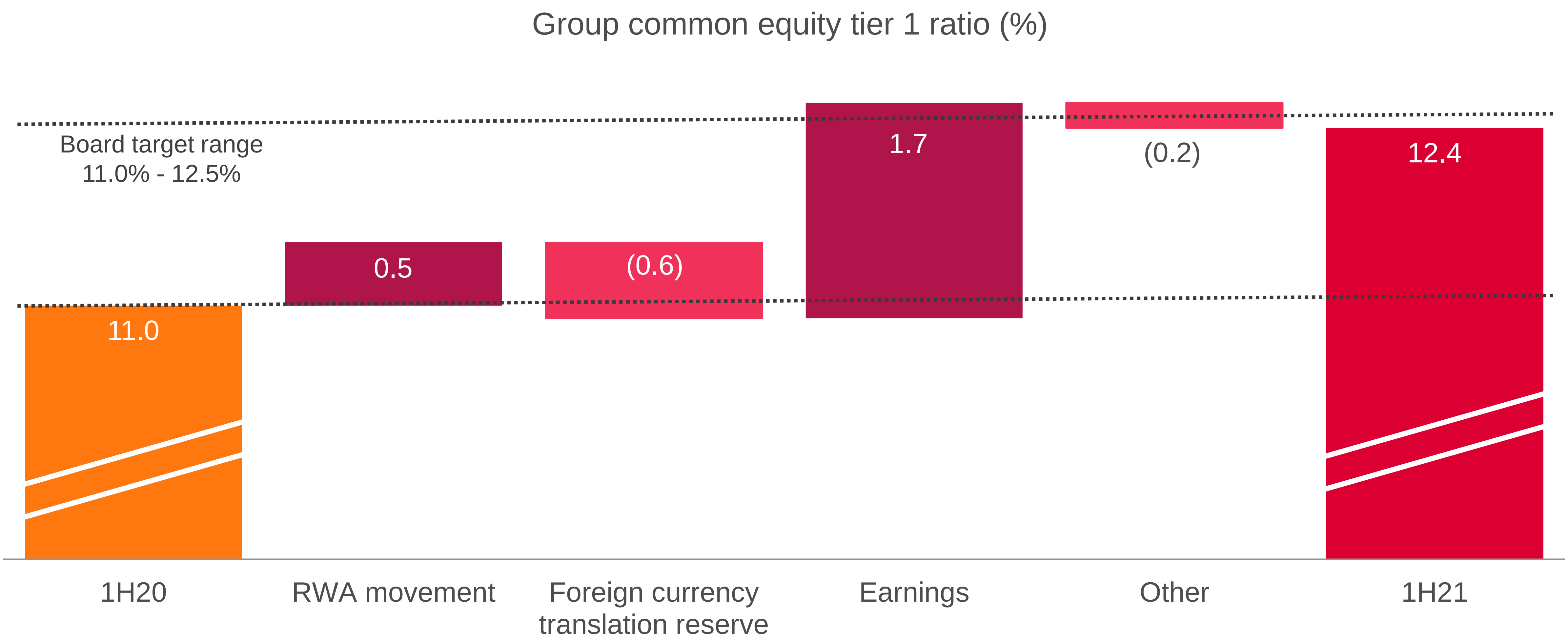
Group earnings mix (%)



Group revenue mix (%)



Capital at the top end of board target range



Jason Quinn

Interim Chief Executive

2021 outlook

- Mid-single digit growth in net interest income, based on an improved net interest margin
- Non-interest income growth is expected to decline slightly due to elevated Insurance claims and reserving
- We expect low single digit growth in operating expenses, resulting in broadly flat operating JAWS
- Our credit loss ratio is likely to decrease substantially to around the mid-point of our through-the-cycle range
- RoE is expected to improve materially to in line with our cost of equity
- Group CET1 capital ratio should increase to above the mid-point of our 11.0% to 12.5% board target range
- We expect a dividend payout ratio of 30% for 2021, increasing to 50% over the medium-term

Disclaimer

Forward-looking statements

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