Absa Group

1H23 results presentation

14 August 2023

Arrie Rautenbach

Chief Executive

Operating environment remains challenging

Global environment

- Continued geopolitical tension
- Persistently high inflation
- Monetary policy tightening nearing an end
- Financial sector collapses

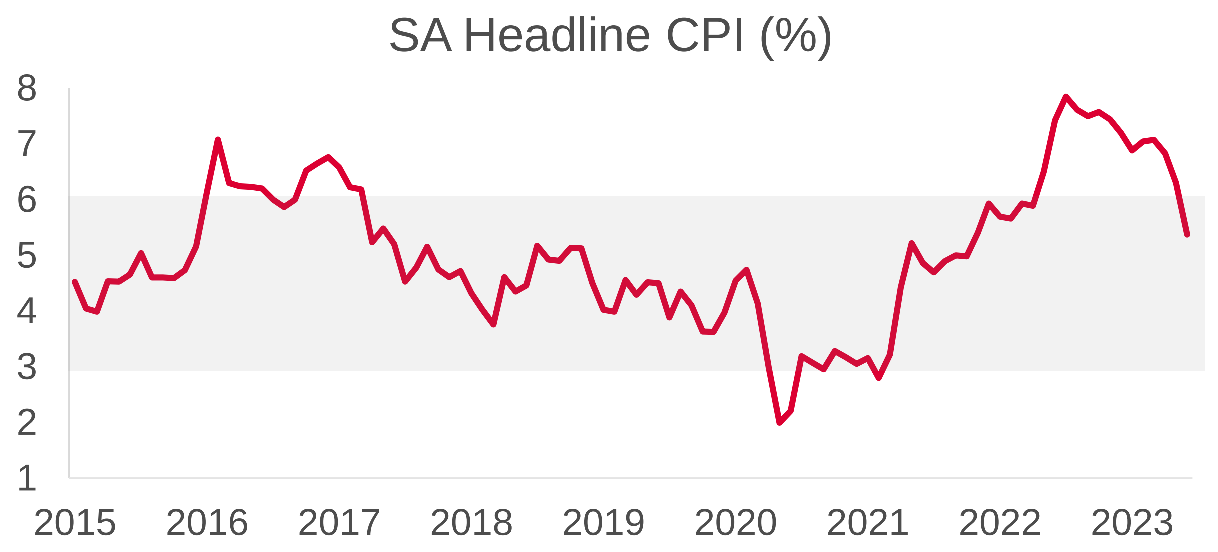
Sub-Saharan Africa

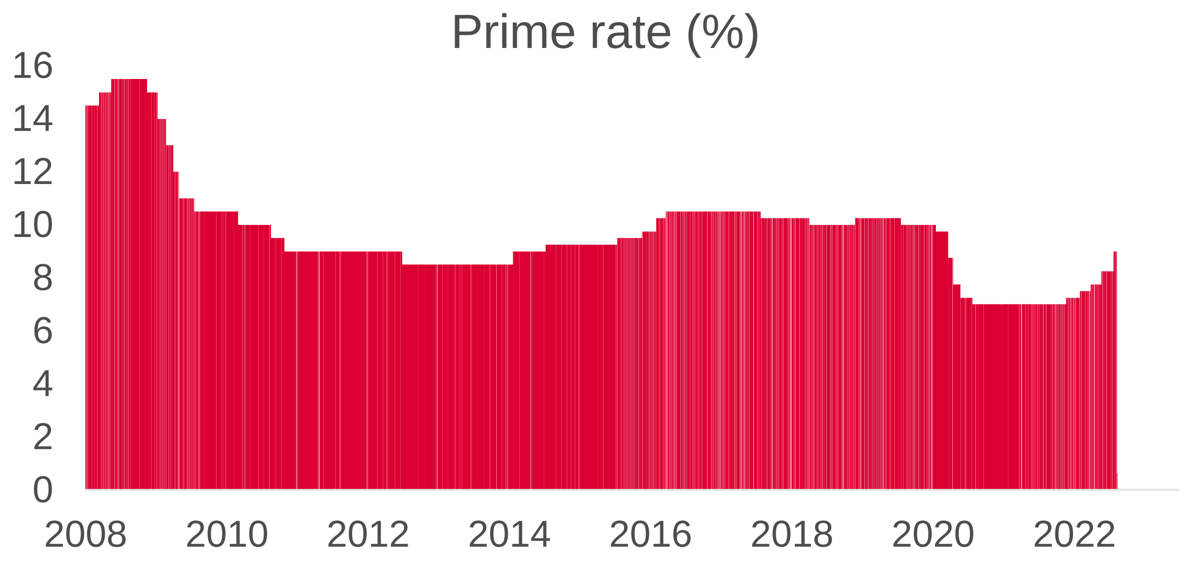
- Growth expectations lowered
- Inflation pressures remain
- Policy rates elevated
- Sovereign debt challenges across certain markets

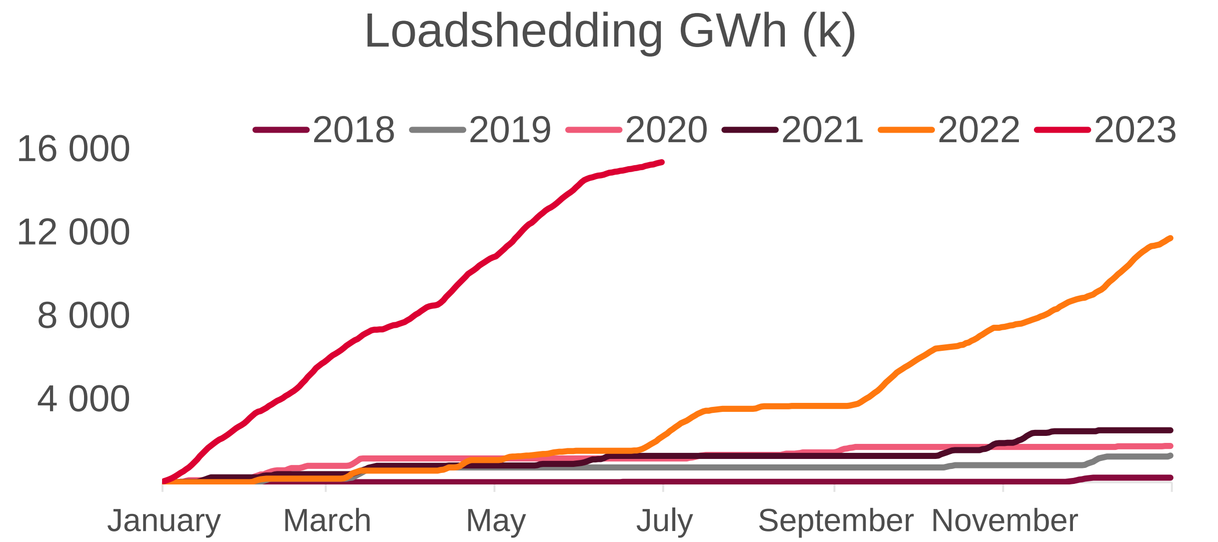
South Africa

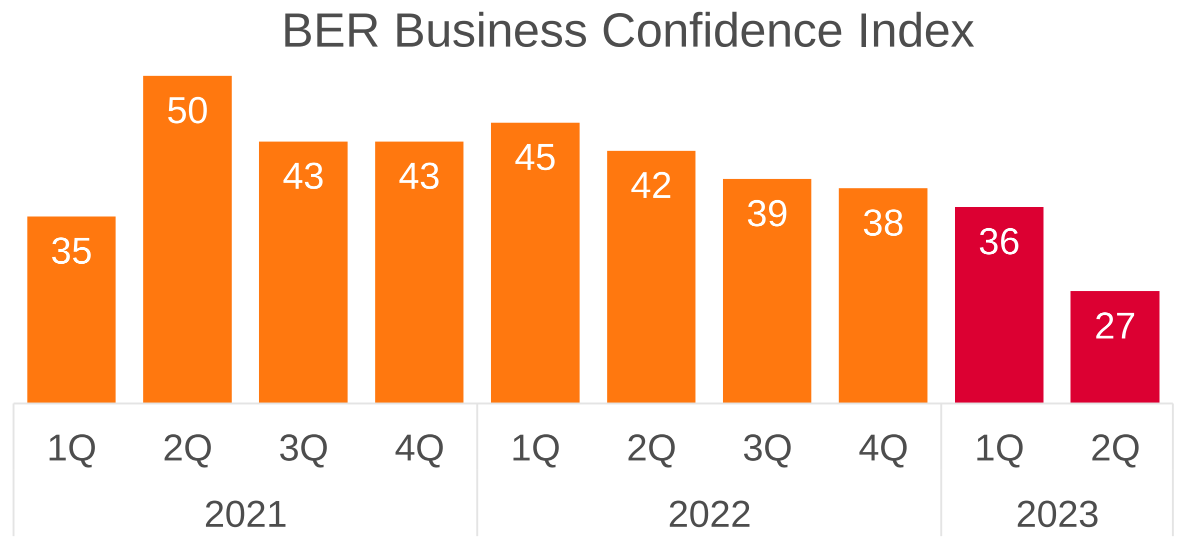
- Persistently higher inflation
- Interest rates higher than expected
- Record levels of loadshedding
- Consumer stress emerged
- Structural reform underway albeit slowly

South Africa is under pressure

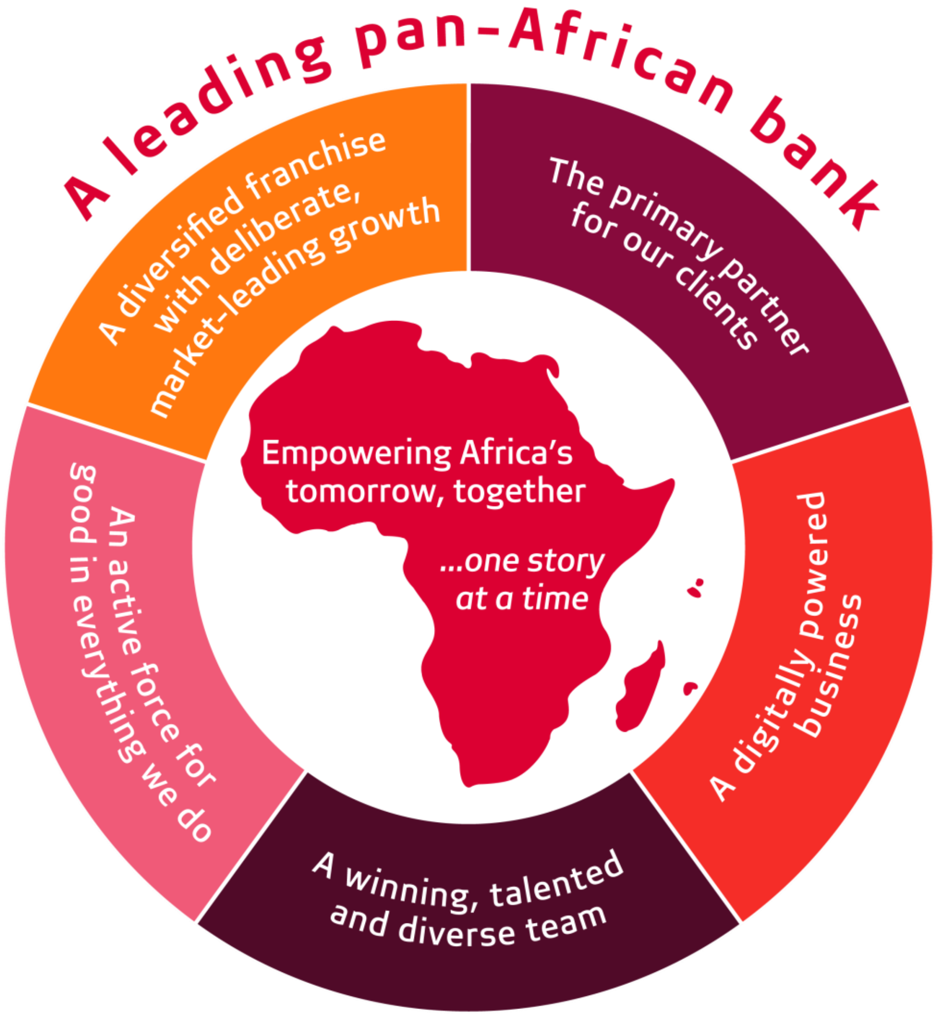


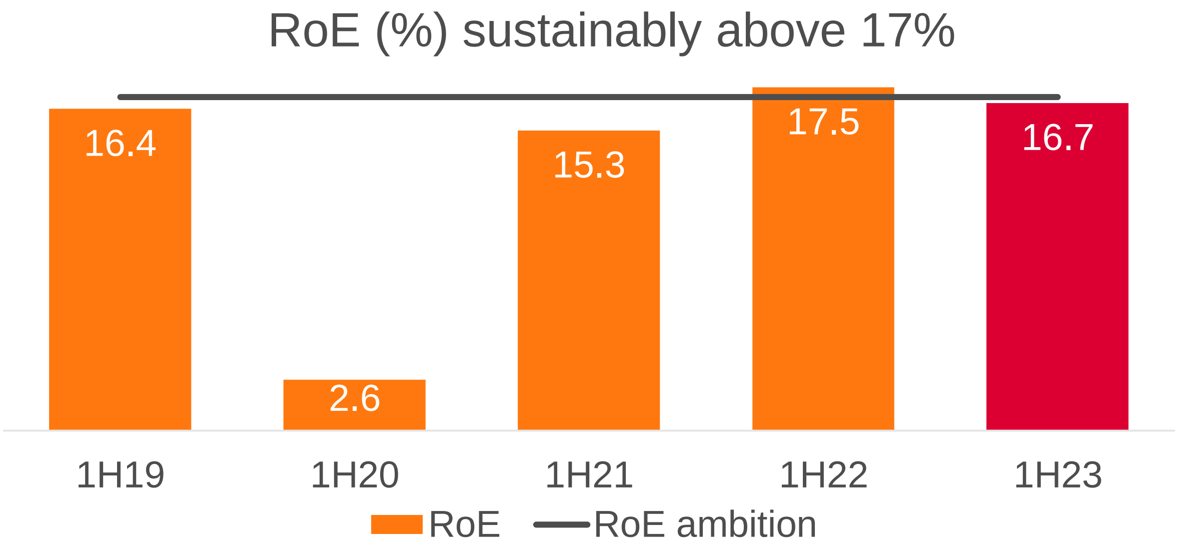


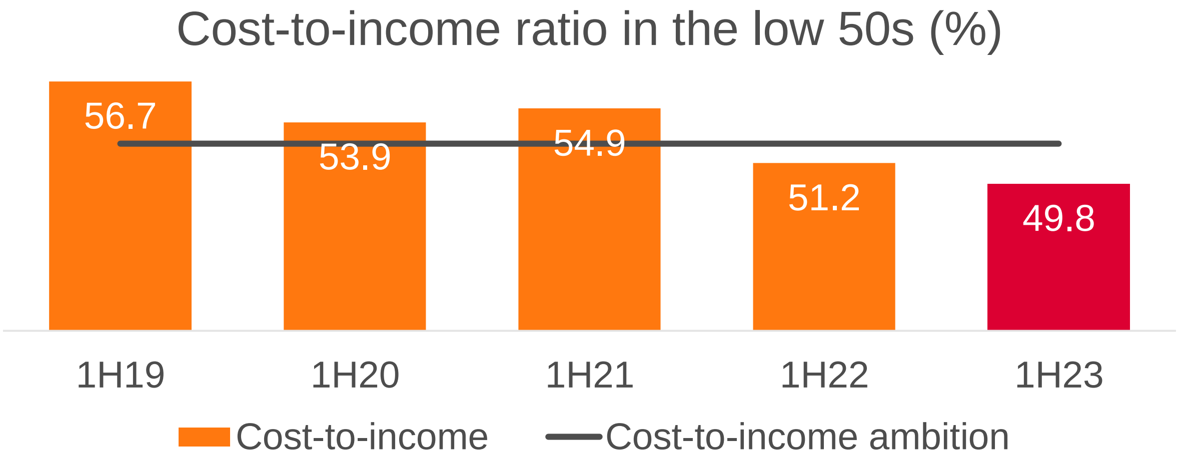




Delivering on strategy as we make progress on targets

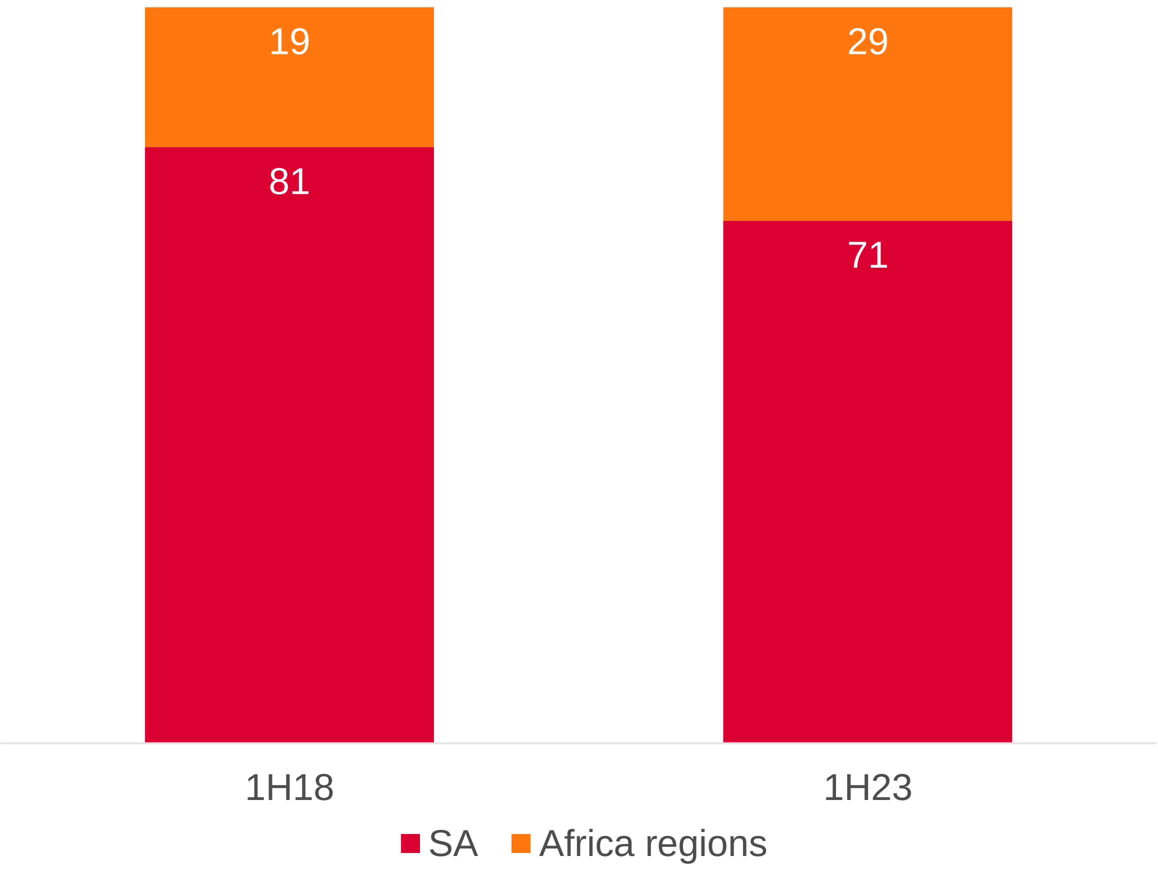




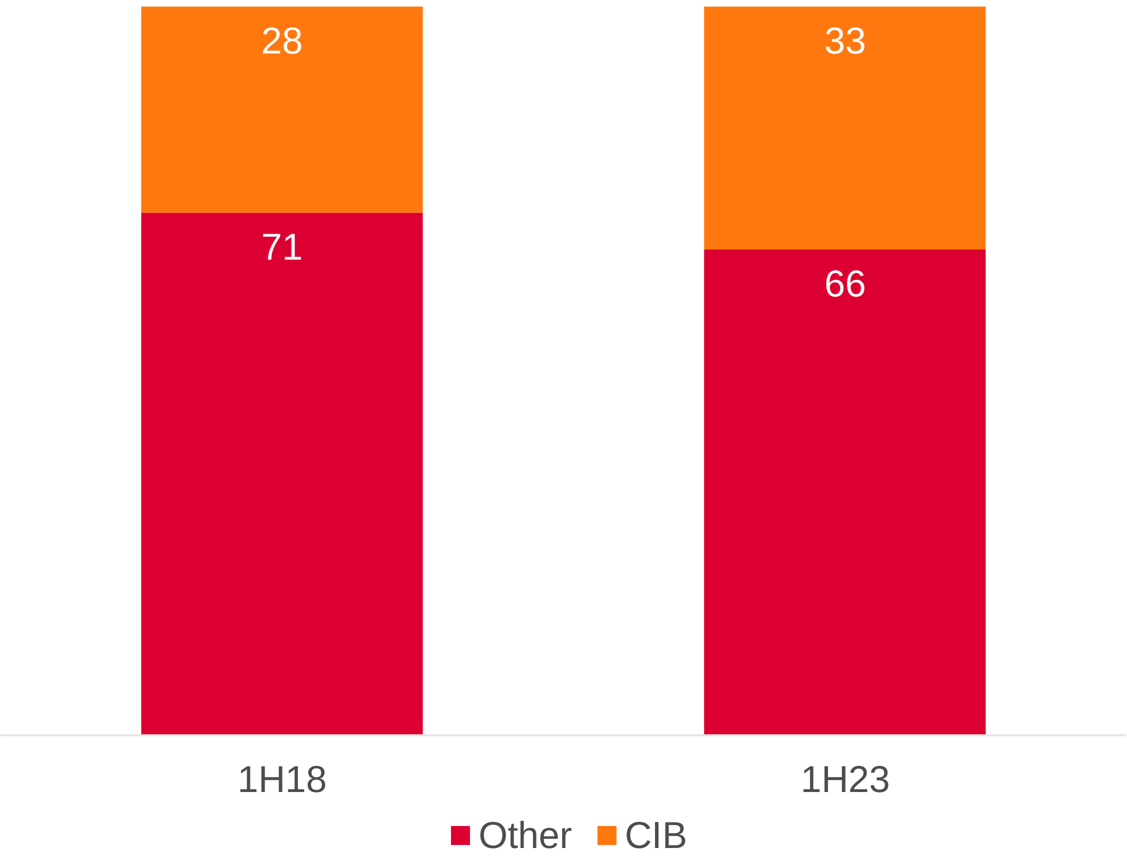


We are diversifying our construct …

Pre-provision profit geographic split (%)

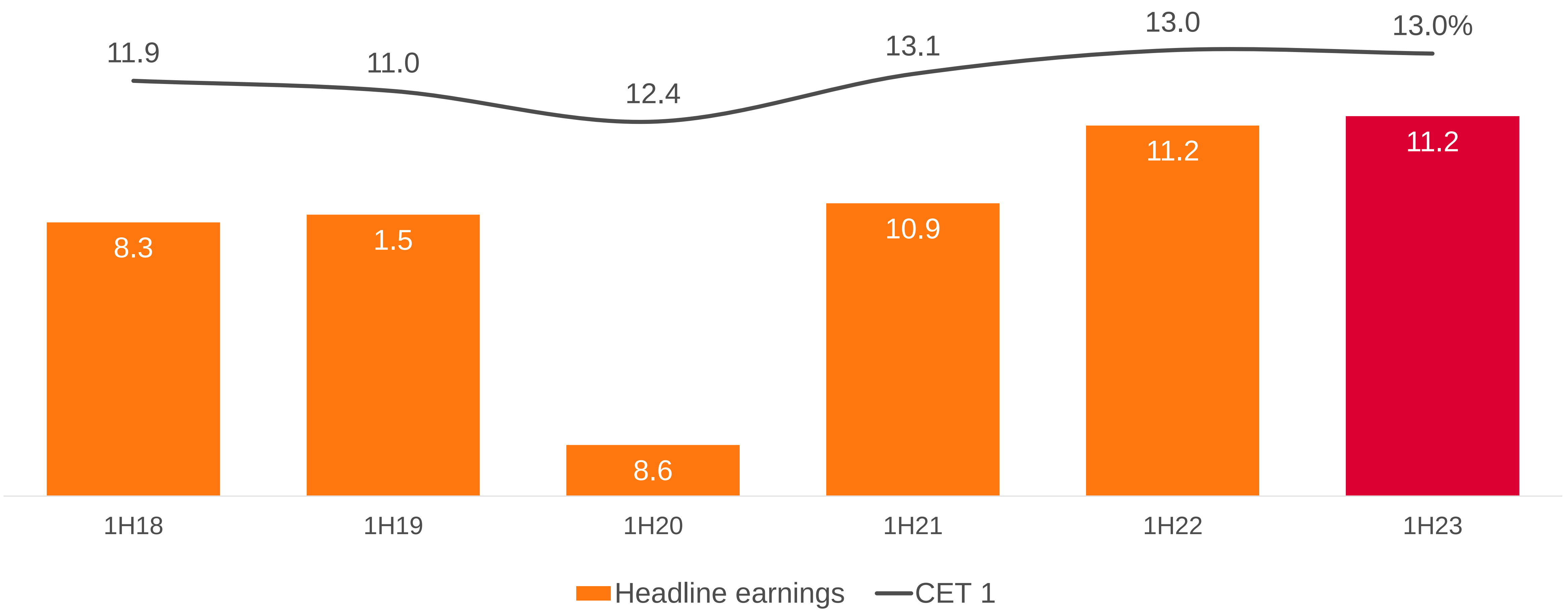


Pre-provision profit business split (%)



… while growing our business and generating capital

Headline earnings (Rbn) and Group CET1 (%)



Primary partner of our clients

New to bank

Transactional accounts acquisitions

▲29% in 2023

Pricing changes have deepened relationships

Rewards

Registrations ▲4x

18% of members tiered up in 2023

Flexi account

40% improvement in account usage in majority of accounts

Bancassurance

78% of SA retail loan applicants selected a linked credit life product

Client mandates

273 new Corporate client mandates won YTD

Targeted acquisition

Youth sales

▲ 40% in SA

SME sales

▲ 56% in SA

ARO RBB active customers

▲10% to 1.9m

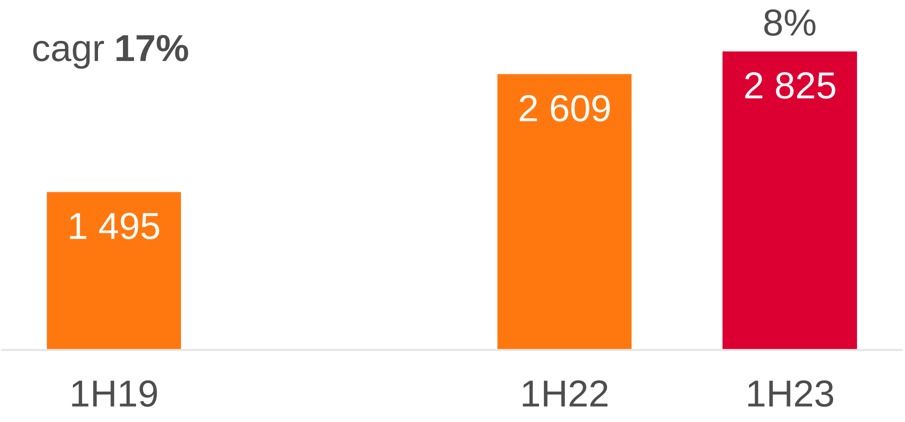
Increasing our presence

Aim to establish a presence in China

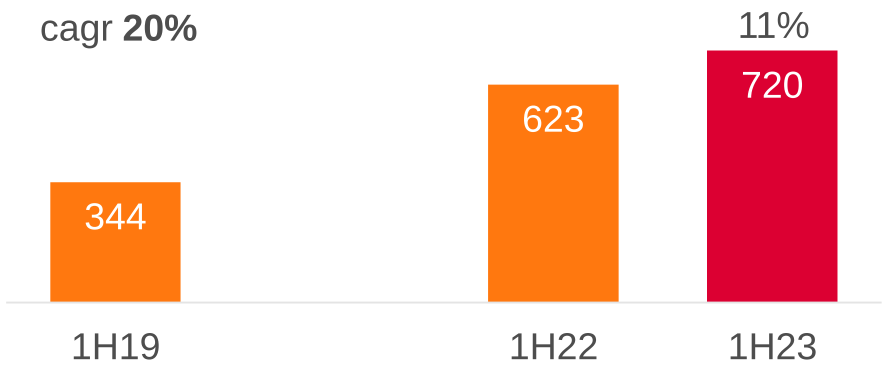
Digitally powered business

Digitally active customers

SA (millions)



ARO (millions)



Everyday Banking digital sales

▲57% to account for 18% of all sales

Self-service

ATM Value-Added-Services ▲ 91%

Over-the-counter branch transactions ▼ 20%

Insurance

Activate new business volumes ▲18%

Digital transaction volumes

▲11% with financial value ▲19%

Payments

Continue to lead in payment solutions across SA and ARO e.g. first to launch MobiTap

System stability

System availability >99.9%

No severity 1 or 2 incidents the past 18 months

Winning, talented and diverse team

- Colleague engagement at record levels
  - Retaining top talent
  - Rated best South African company to work and grow a career (Linkedin)
- Investing in a future fit workforce
  - >50% of training spend focused on critical, scarce and future skills
- Diverse and Inclusive workforce
- Culture of ownership with B-BBEE scheme to launch on 1 September 2023

Active force for good in everything we do

Market leader in renewable energy deals
(53% of REIPP)

Committed to net zero emissions by 2050

R3.6bn in mobile lending disbursements in ARO RBB
▲44%

Climate

Active force for good

Financial Inclusion

R4.5bn IFC loan to promote green building financing

Partnered with Khula! to promote inclusion of SME farmers in the agriculture value chain

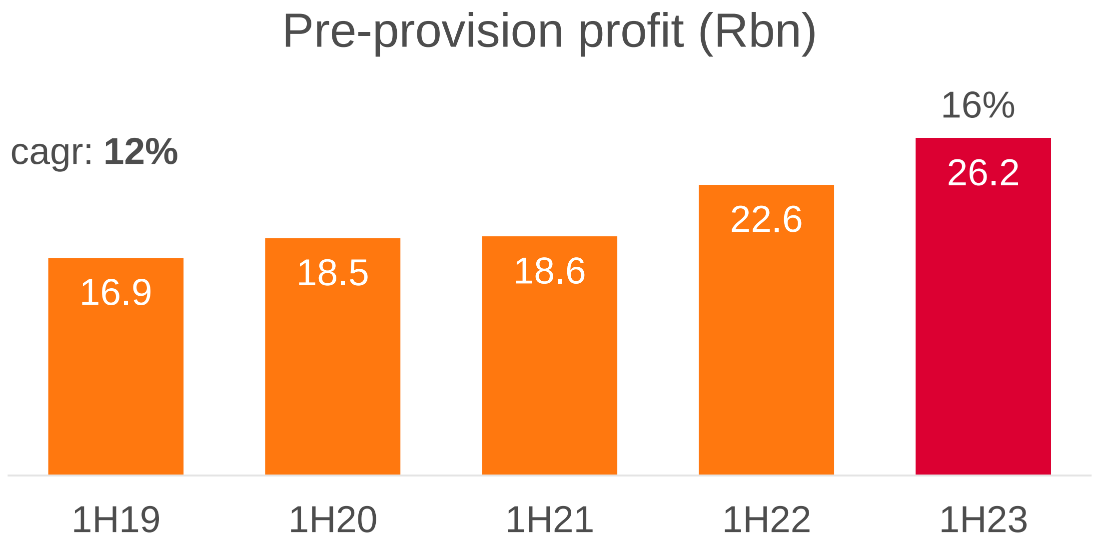
Diversity and Inclusion

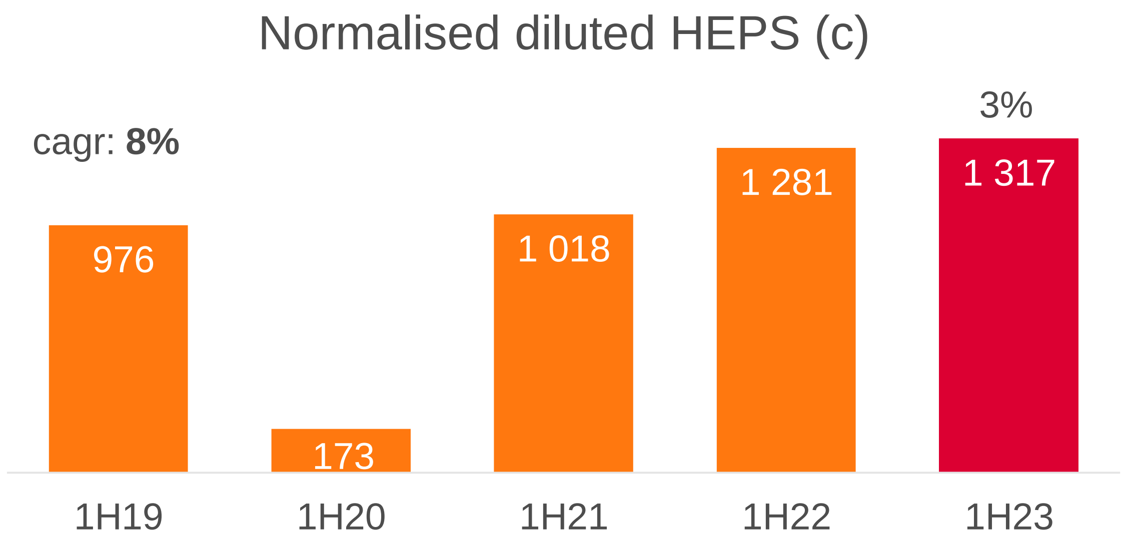
B-BBEE Scheme recently approved

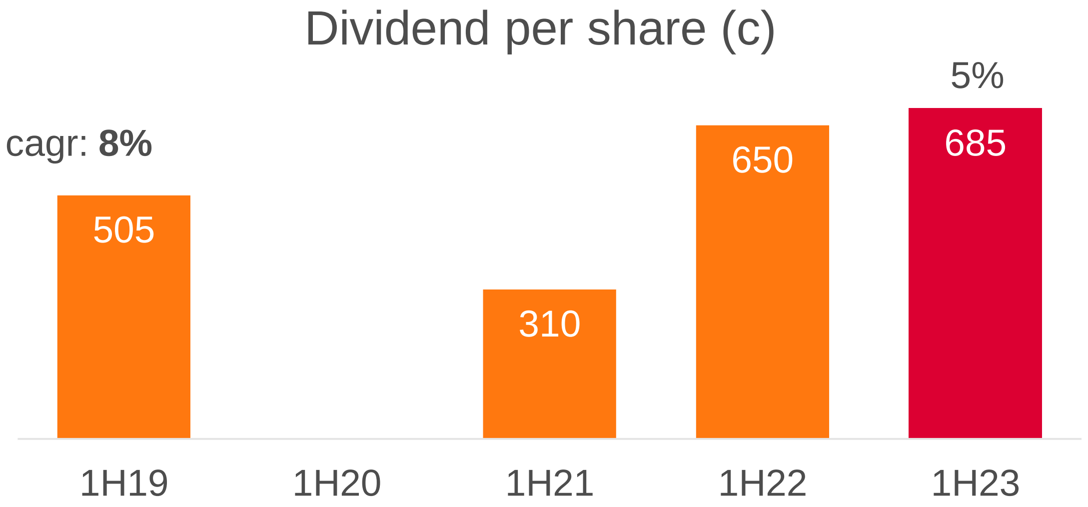
Zero rated student account

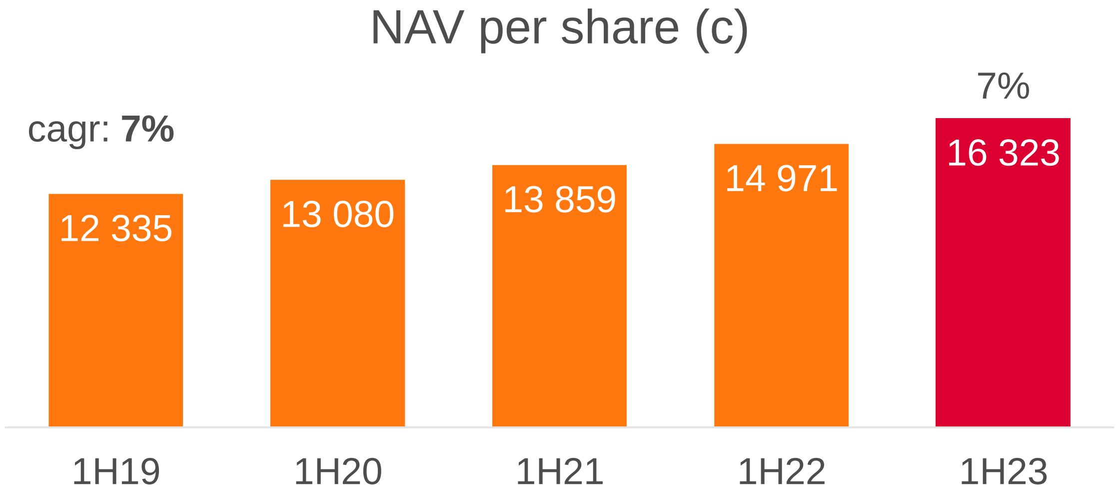
Human rights statement updated to reaffirm commitment to upholding human rights

Continued to deliver shareholder value





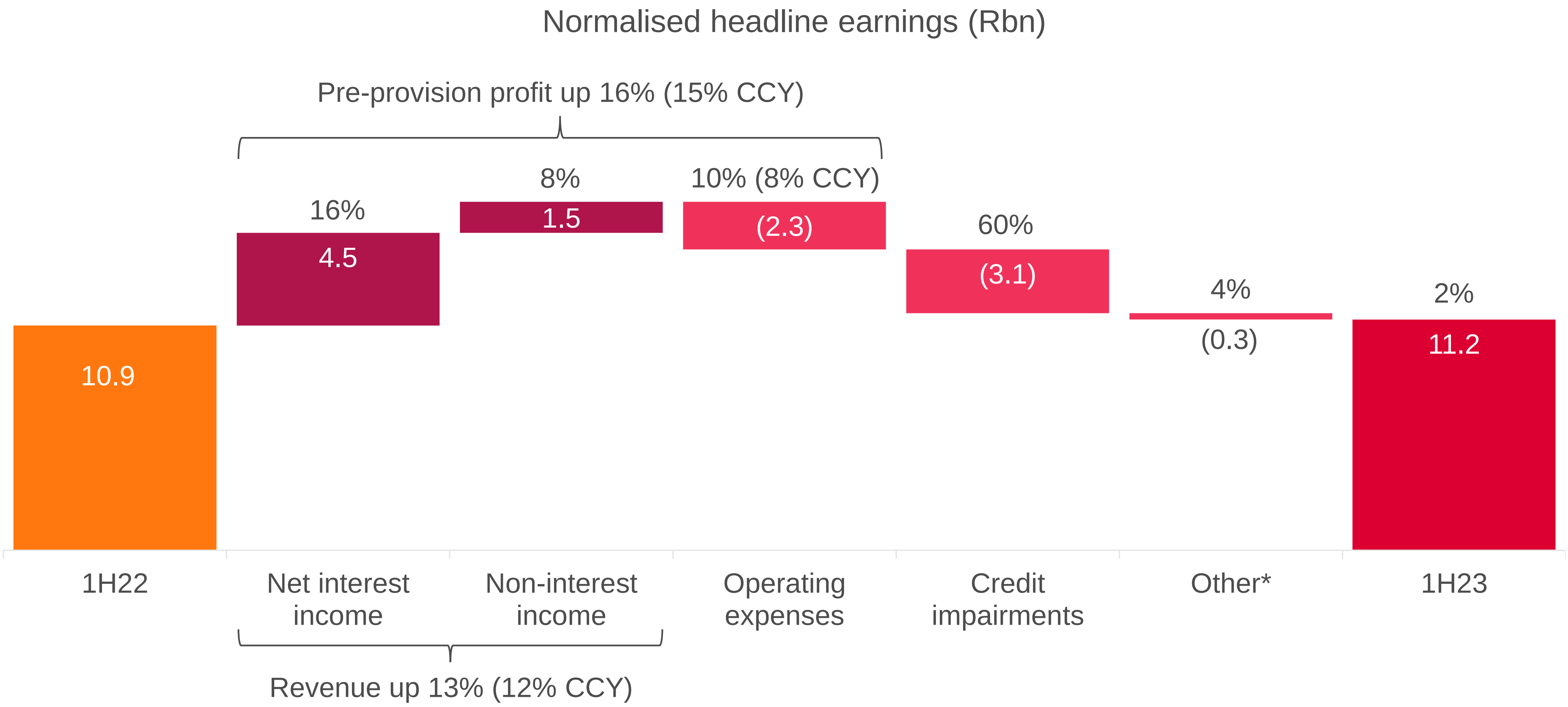




Jason Quinn

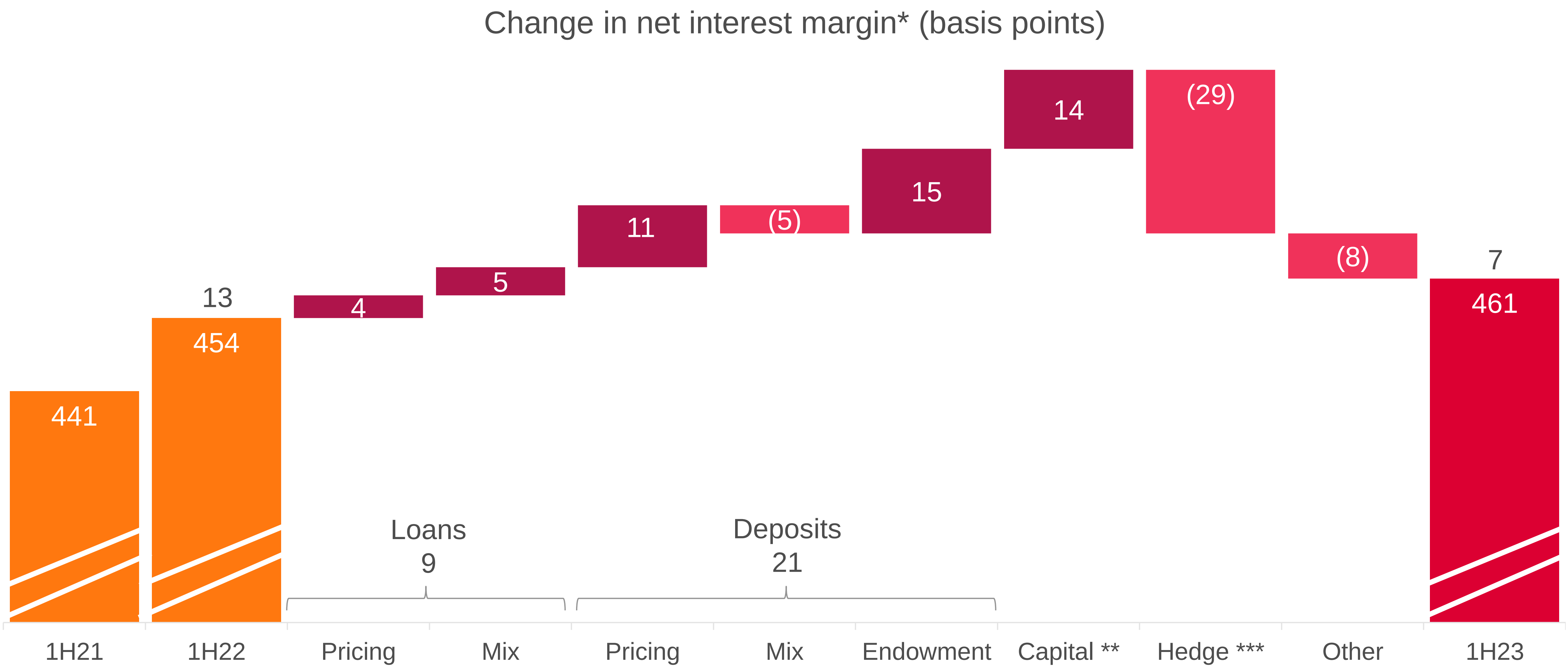
Financial Director

Strong revenue underpinned earnings growth



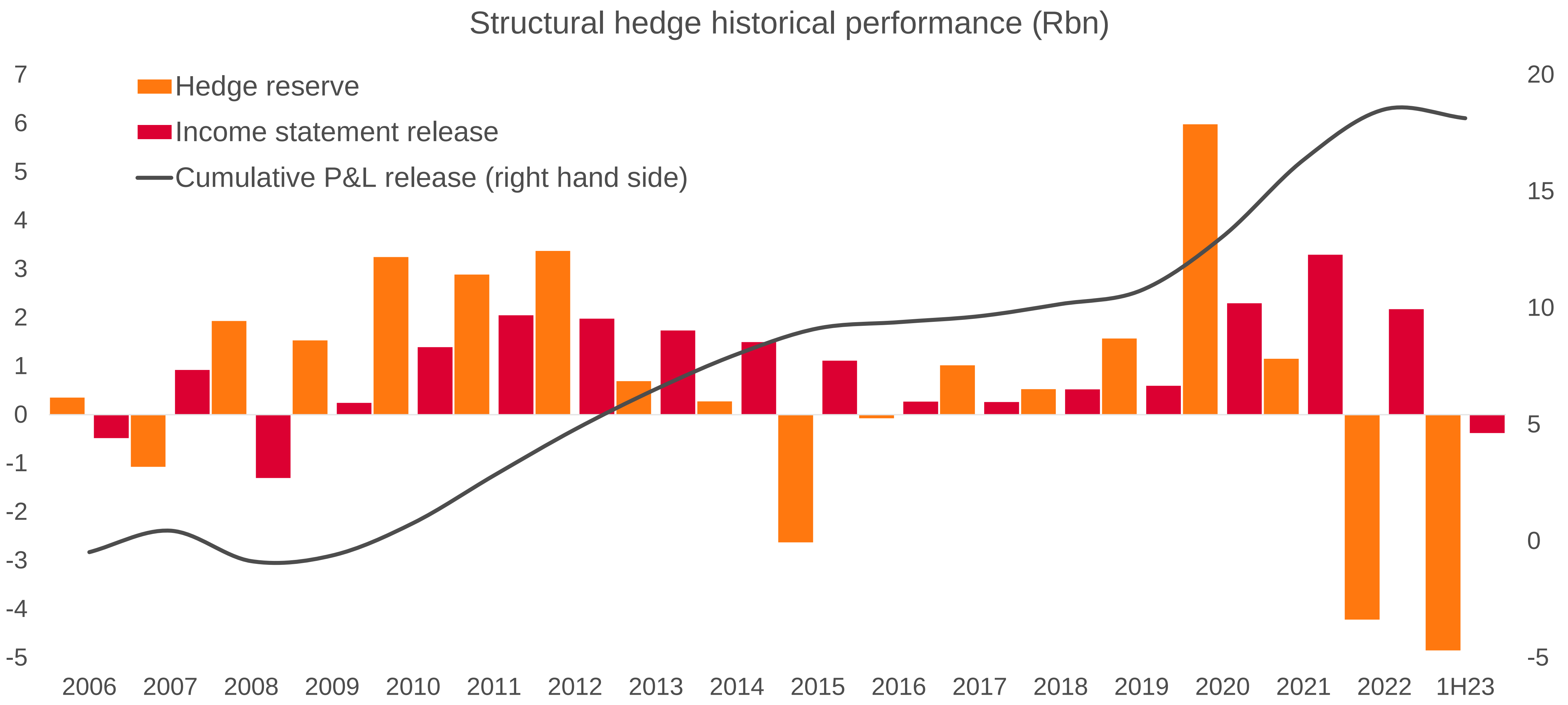
Note: * Includes other expenses, JVs and associates, taxation, non-controlling interests, headline earnings adjustments; CCY indicates constant currency

Healthy net interest margin widened further

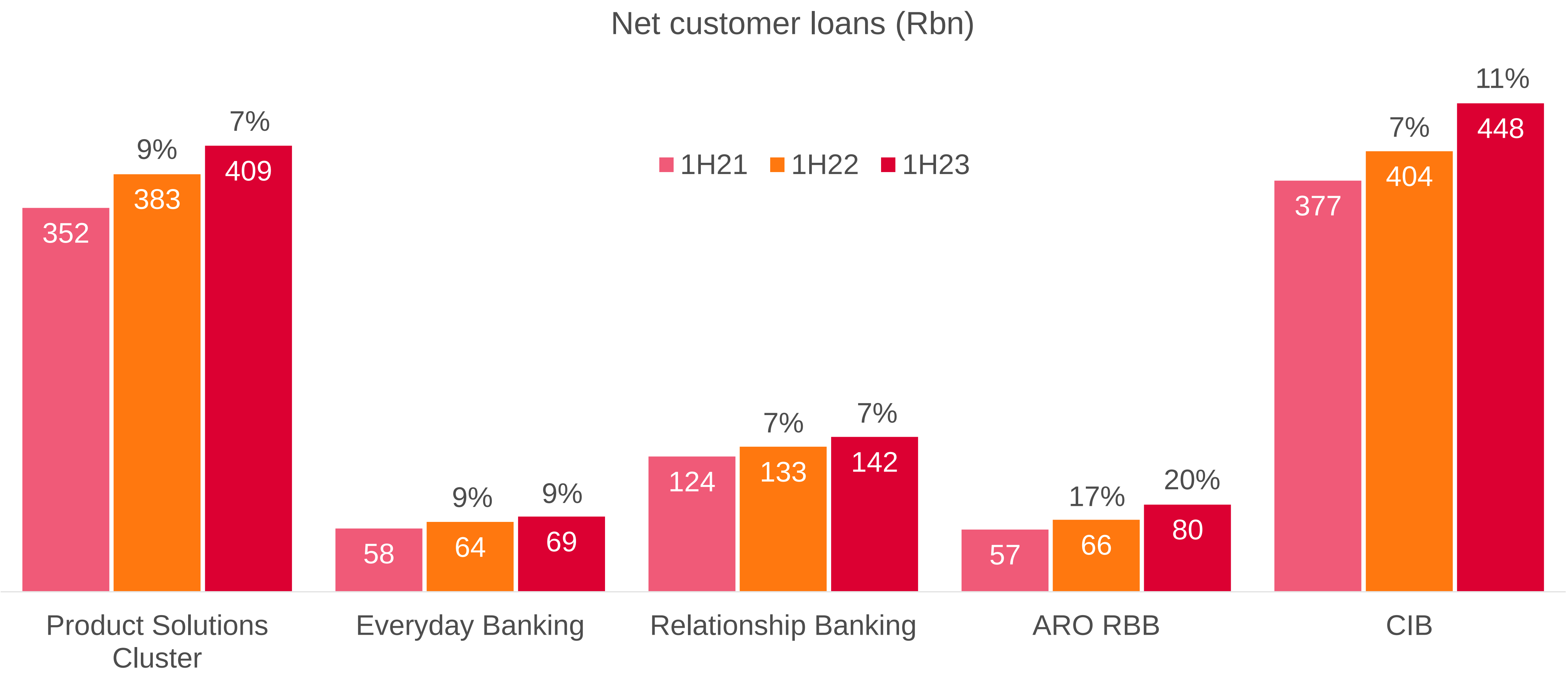


Note: * average interest bearing assets; ** group equity endowment; *** interest rate risk management

Structural hedge generates value through-the-cycle

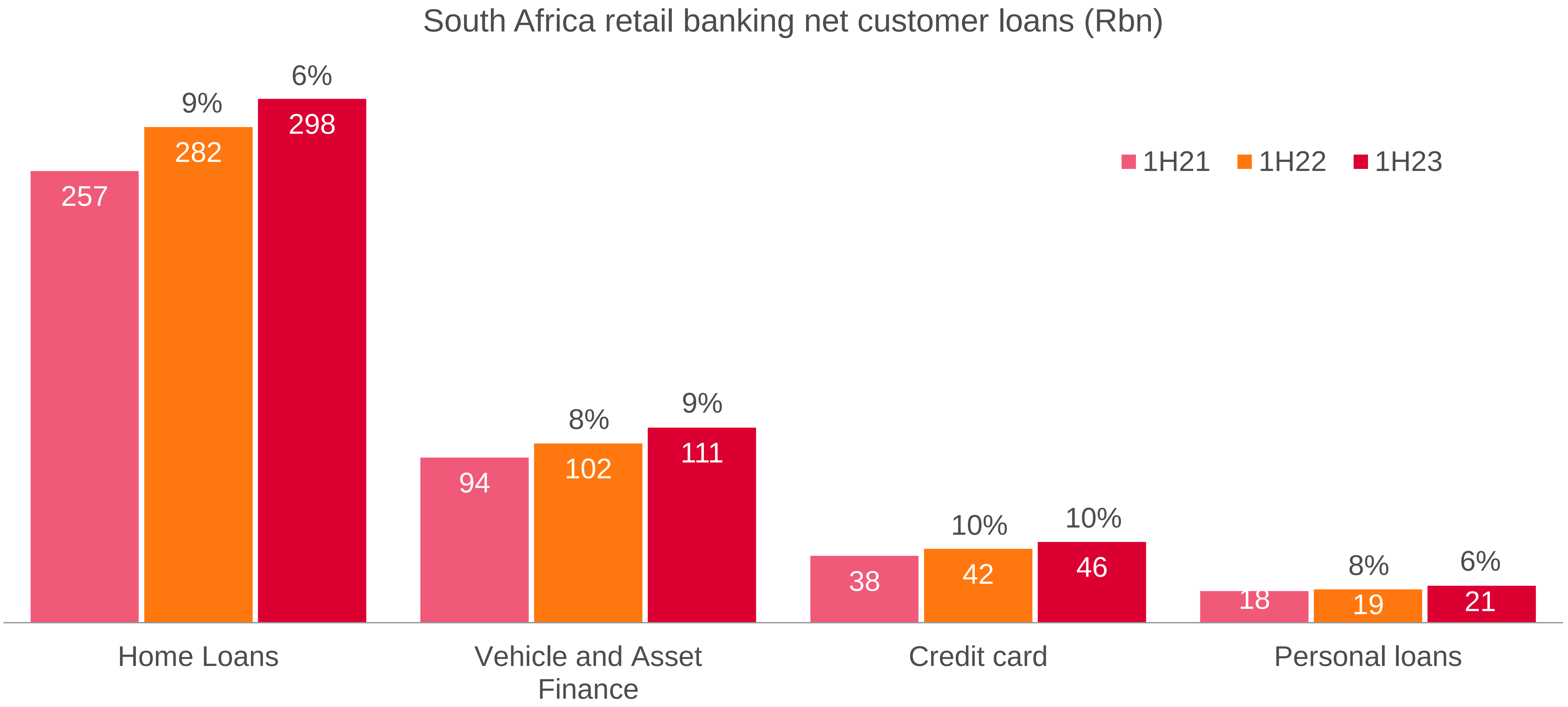


Continued targeted customer loan growth

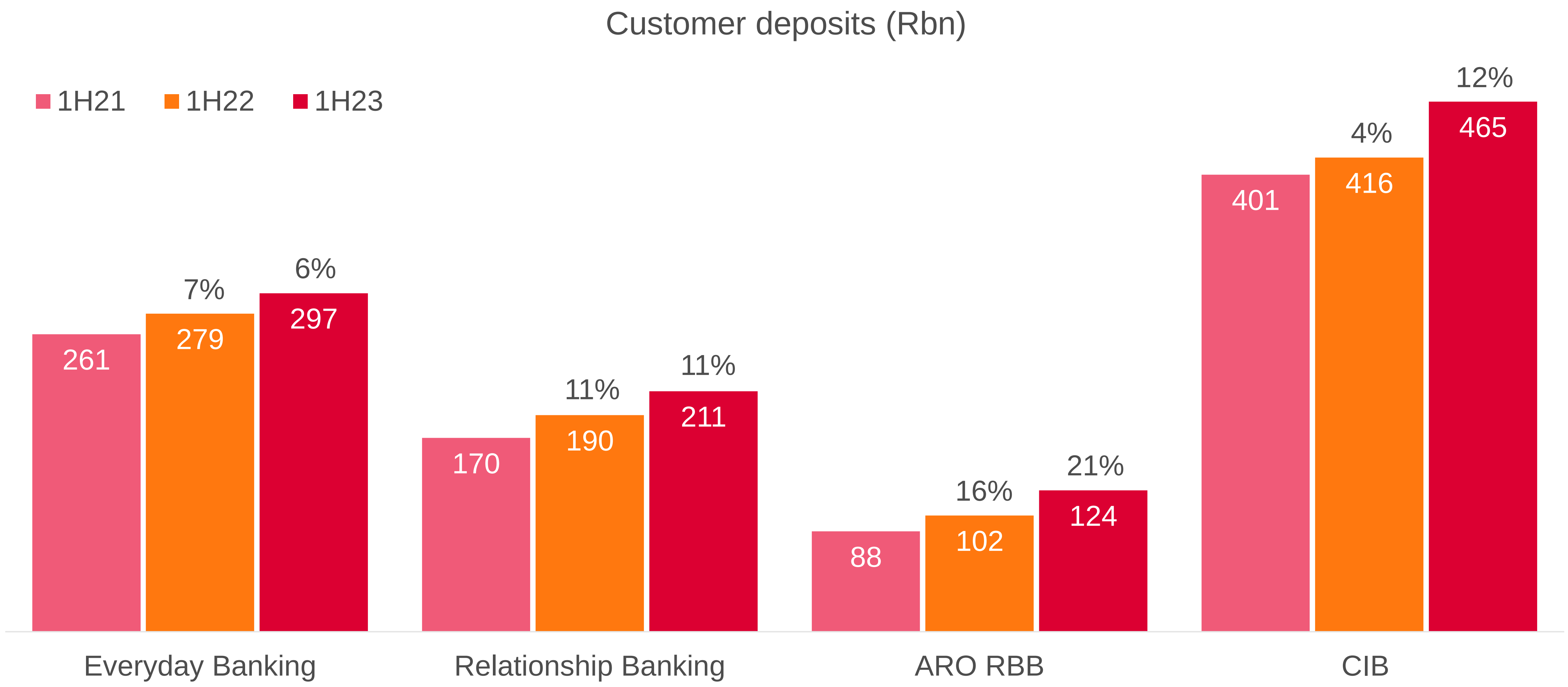


Note: ARO RBB grew 16% and CIB 10% in constant currency.

Home Loans production is slowing, in line with market

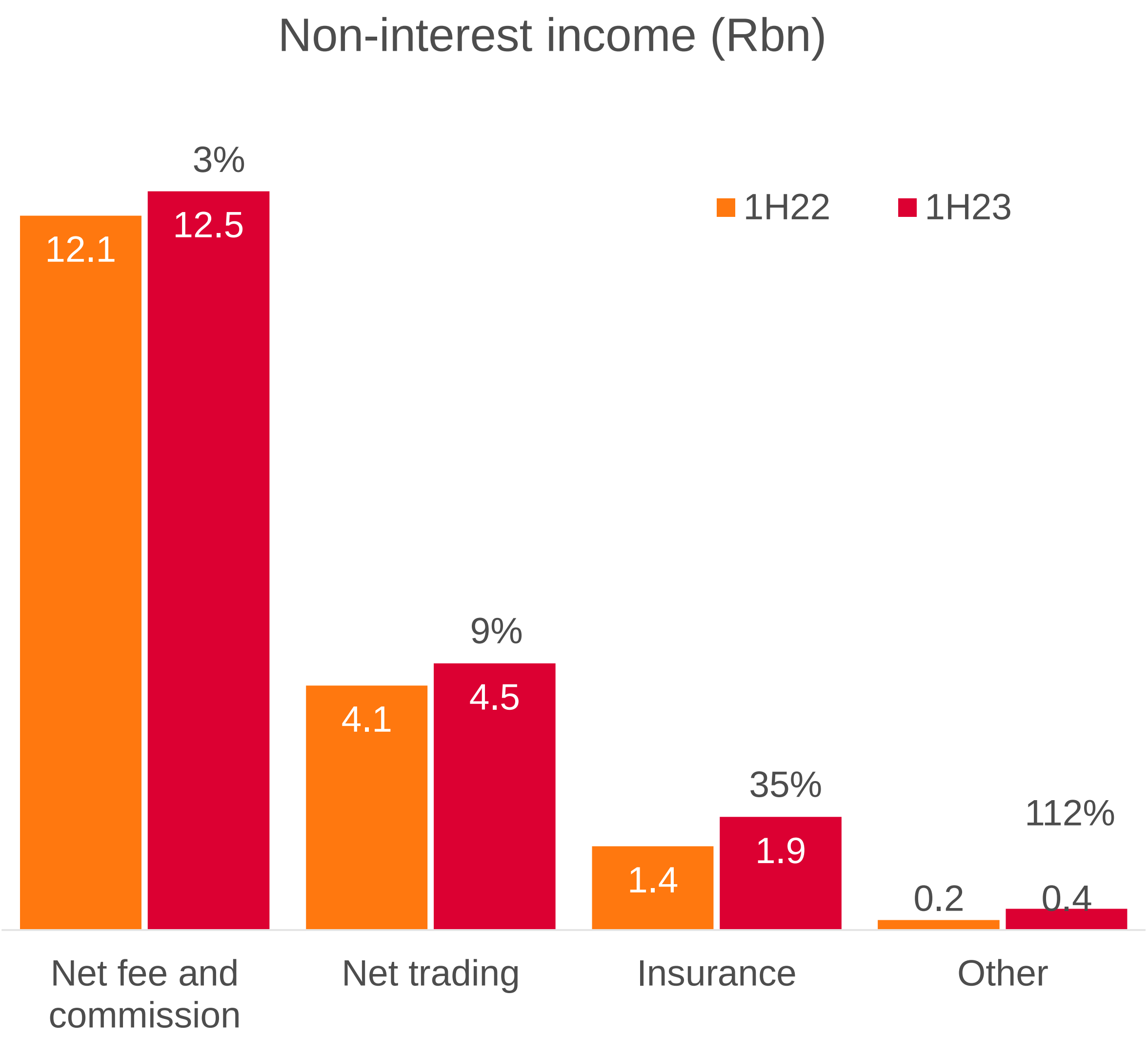


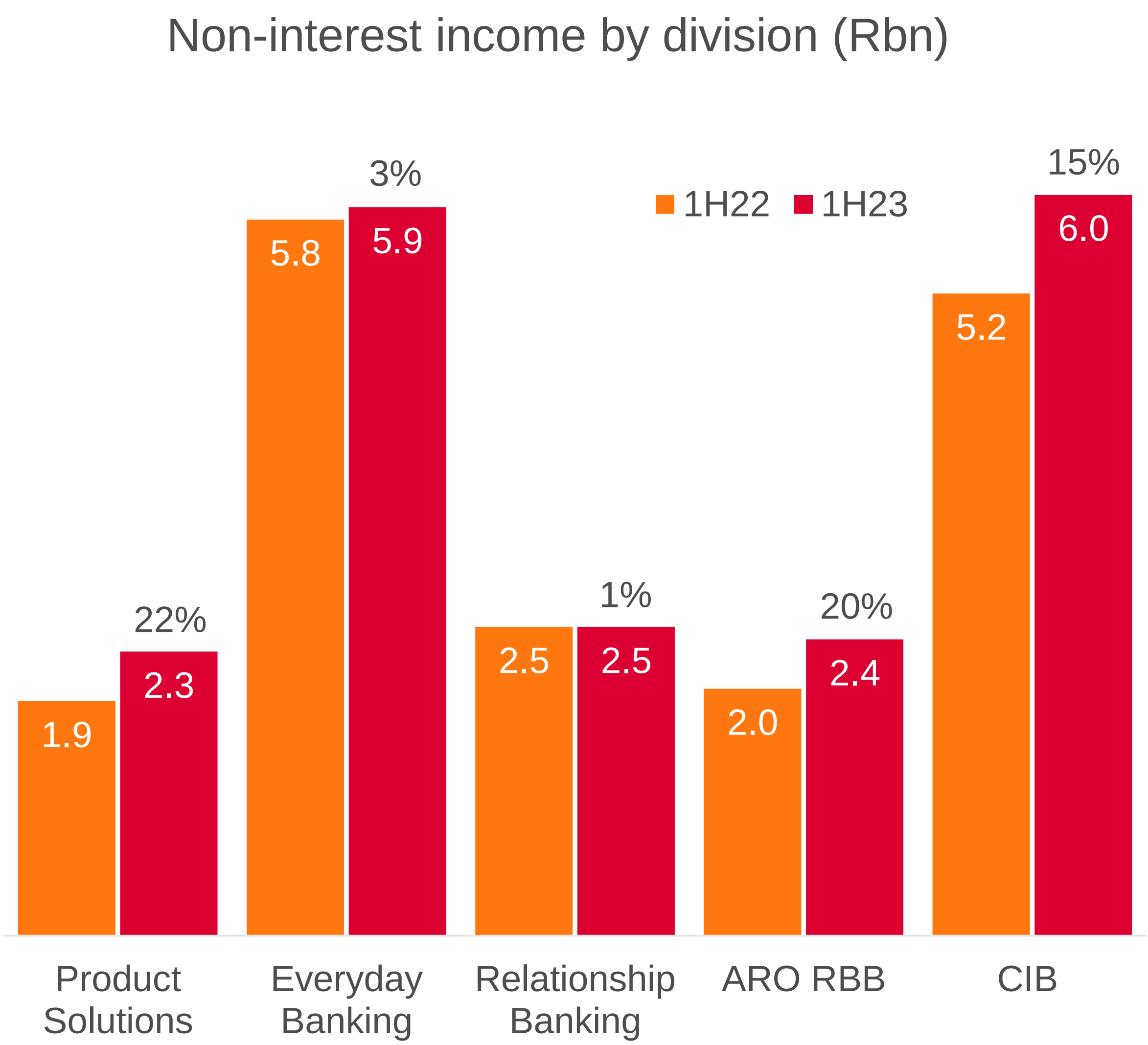
Broad based deposit growth remains an opportunity



Note: In constant currency, ARO RBB grew 16% and CIB 10%.

Insurance drove non-interest income growth

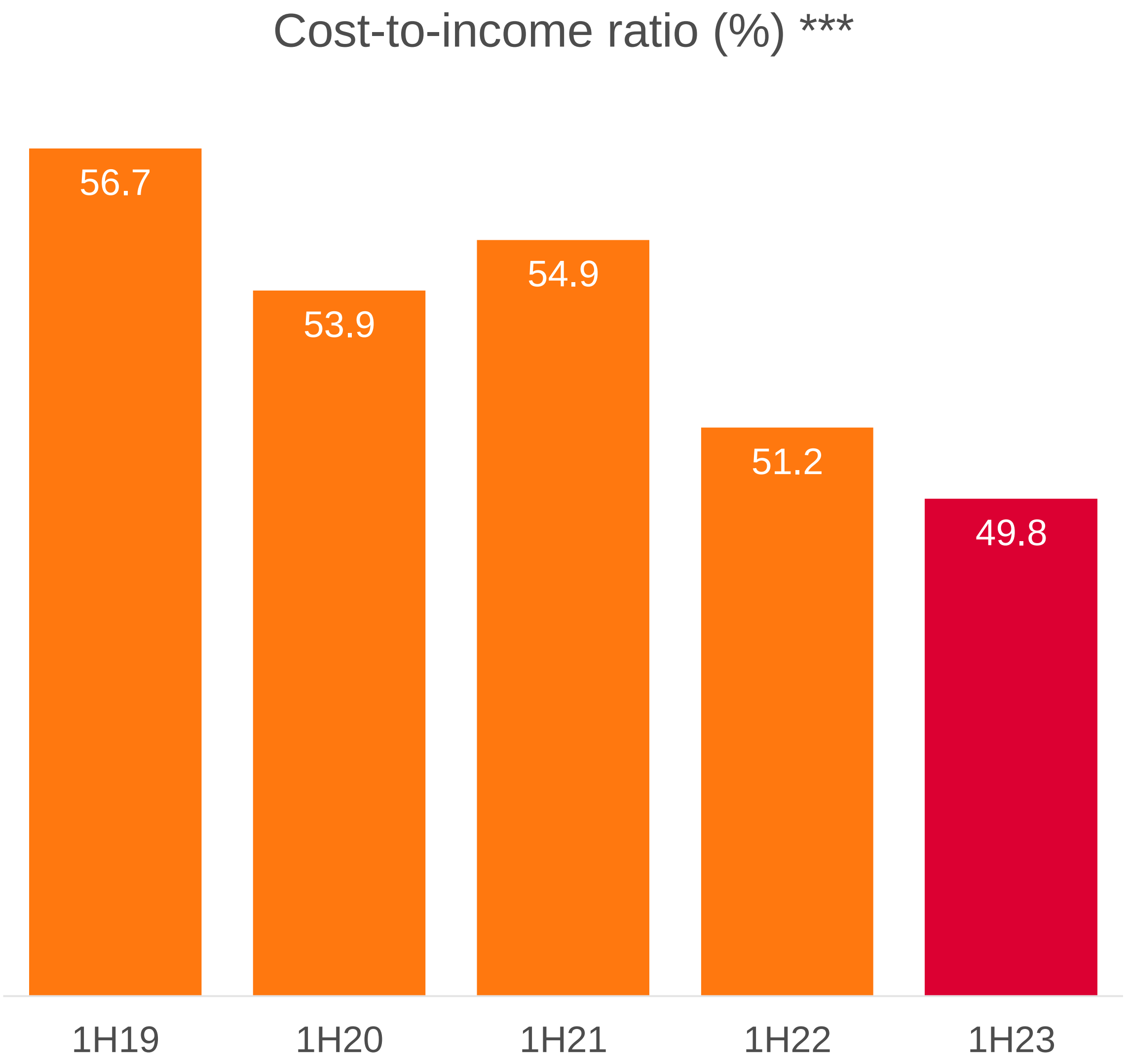




Note: Net trading excludes the impact of hedge accounting

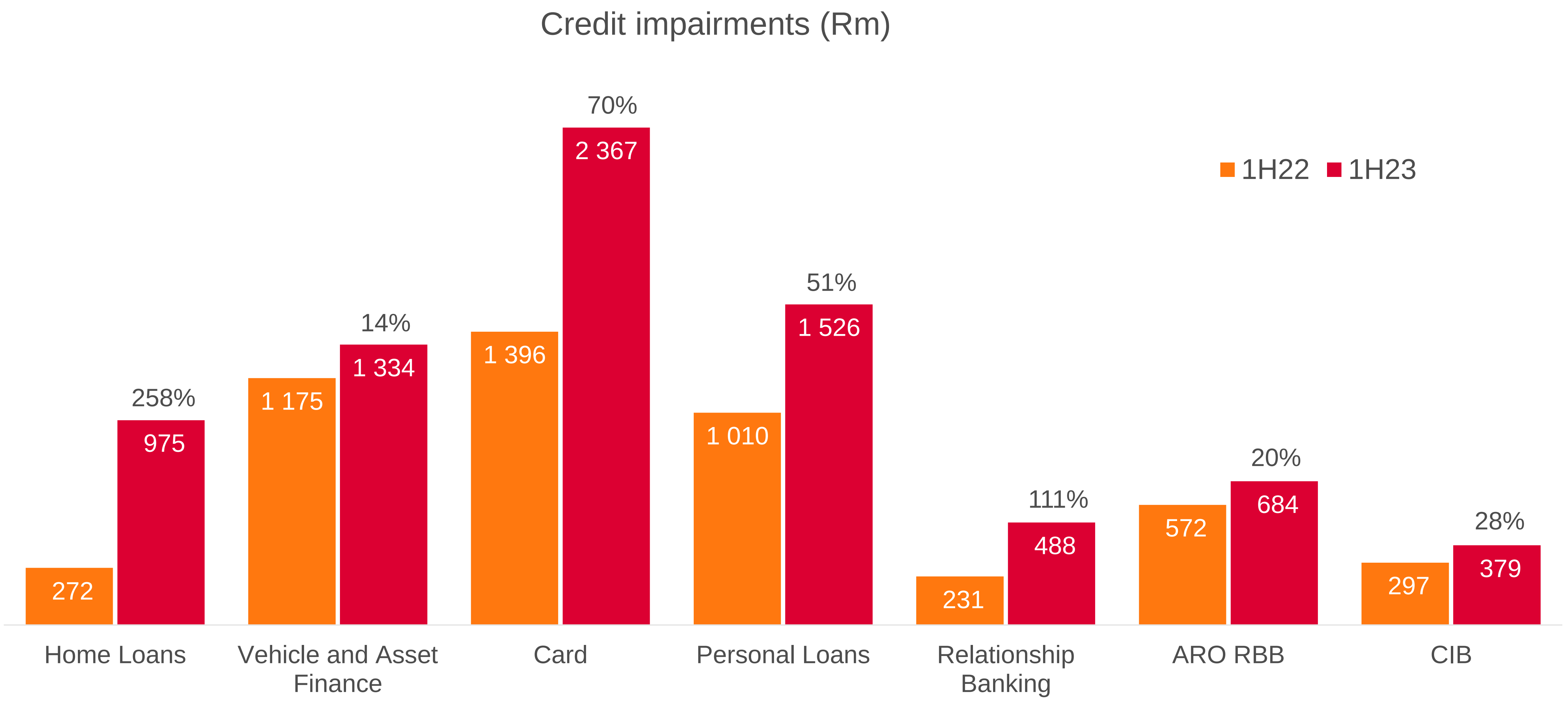
Costs well managed with focus on franchise investment

	1H23 Rm	Change %	Mix %
Staff	**14 710**	12	56
Property	**930**	4	4
Technology	**2 915**	10	11
Depreciation	**1 509**	(3)	6
Professional fees	**1 215**	(9)	5
Marketing	**936**	21	4
Communication *	**778**	8	3
Cash transportation	**580**	1	2
Amortisation	**741**	1	3
Other **	**1 749**	29	7
Total	**26 063**	**10**	**100**



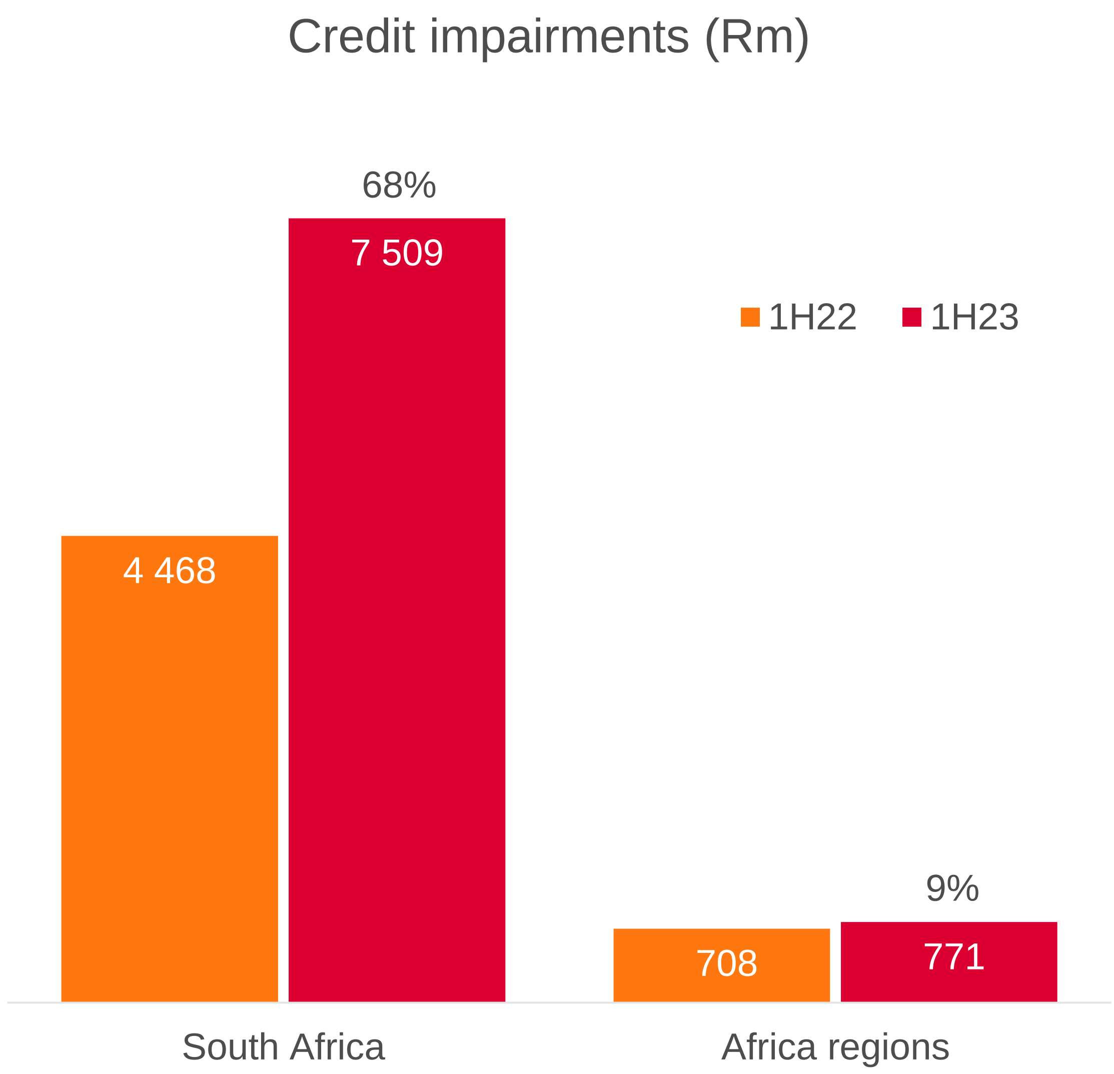
Note: * printing and stationery plus telephone and postage; ** includes administration fees, equipment costs, fraud, travel and entertainment, auditors, other costs etc; *** 1H22 and 1H23 adjusted for IFRS 17

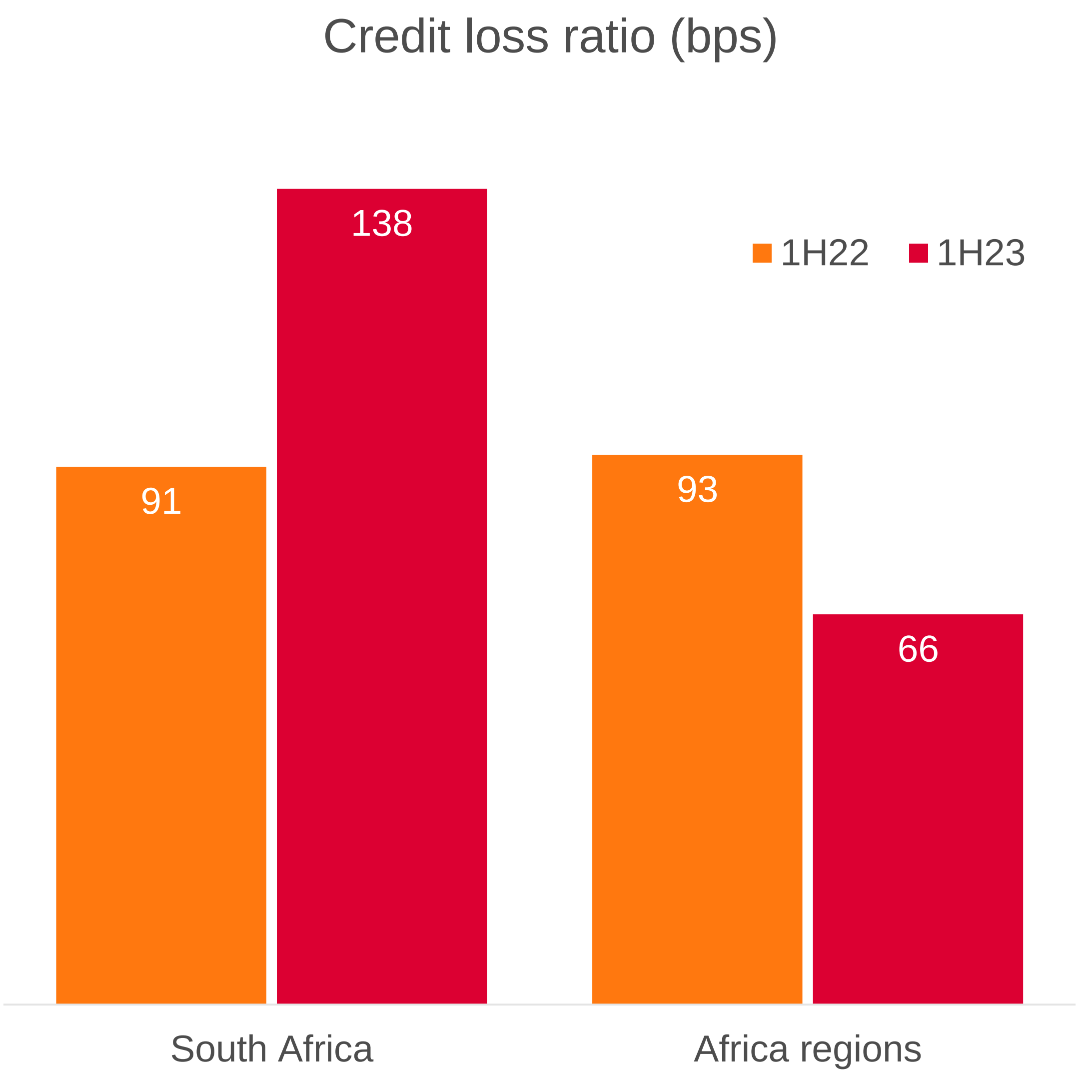
Increased credit charge, particularly in RBB SA



Note: Excludes Head Office credit charge of R161m and Transactions and Deposits R366m (up 66% YoY) in Everyday Banking.

South Africa's credit impairments substantially higher

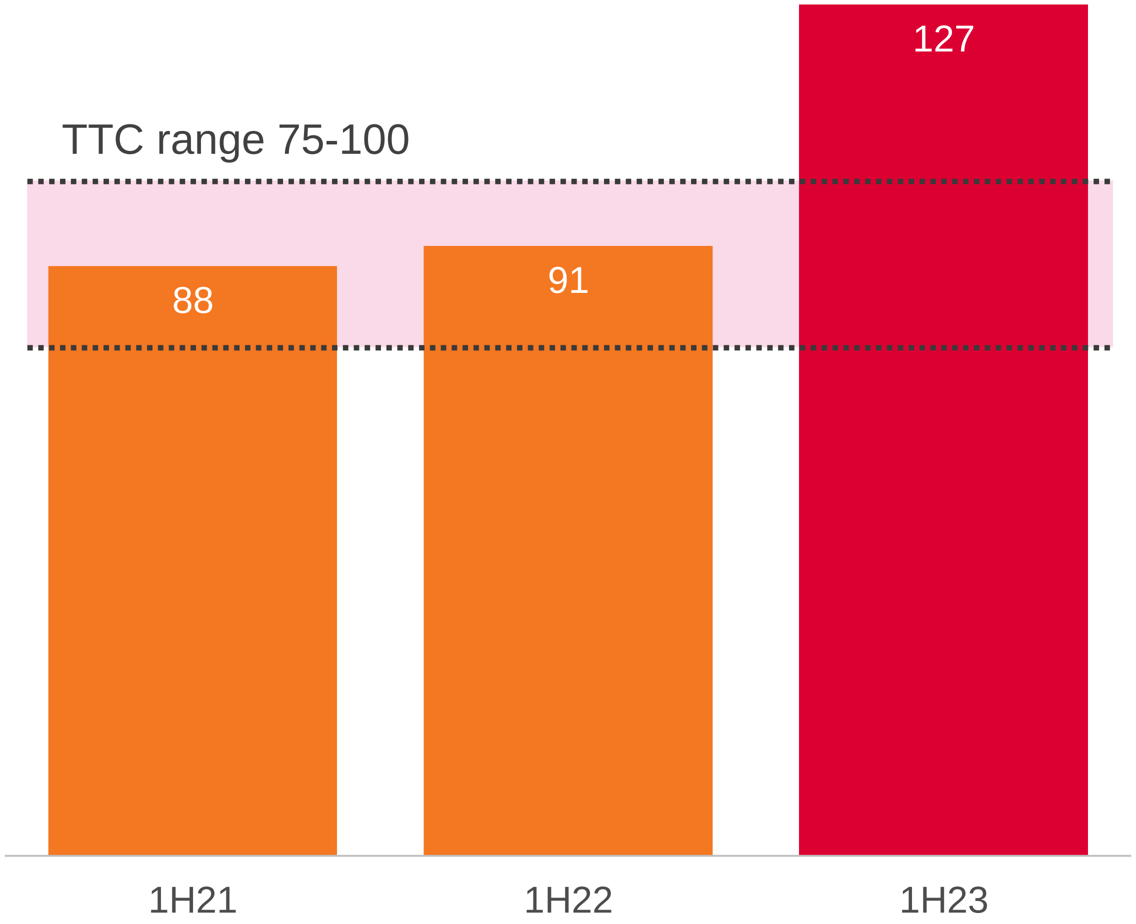




Credit loss ratio well above through-the-cycle range

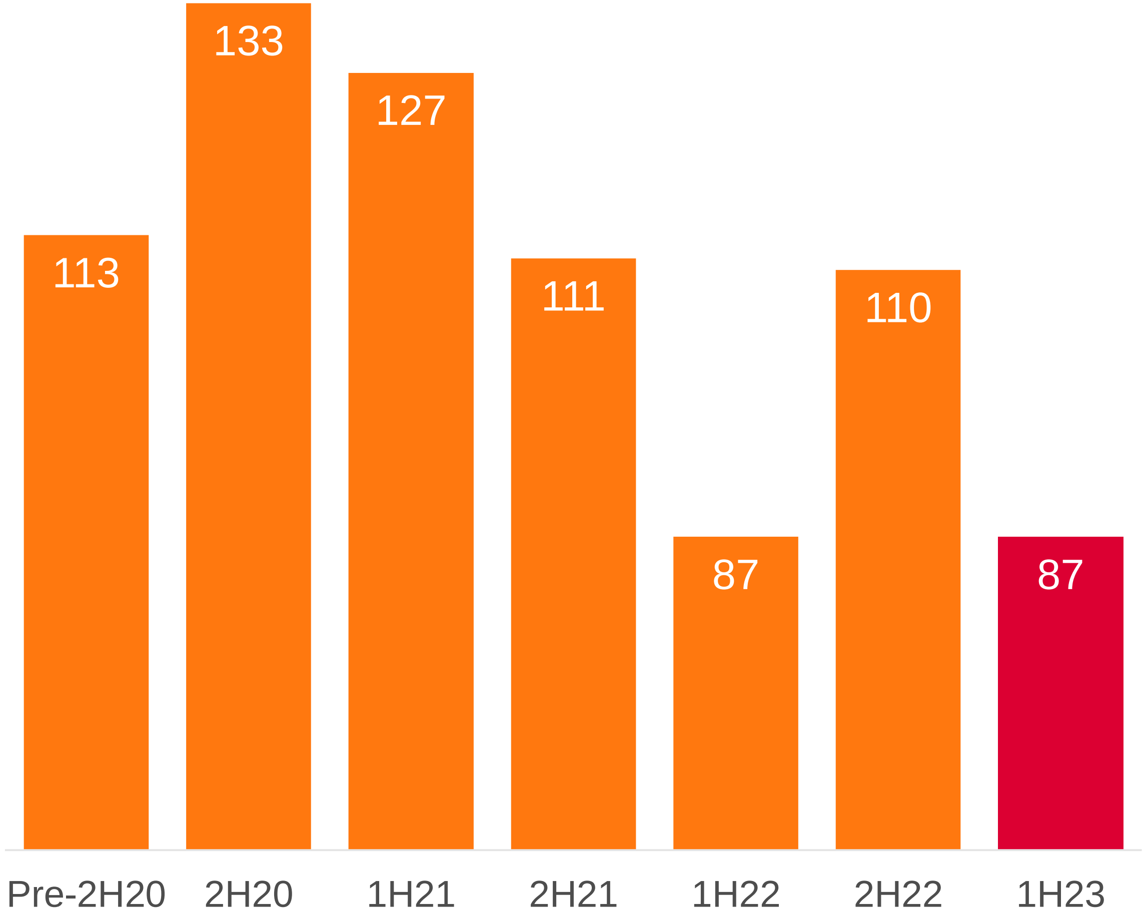
Credit loss ratio (%)	**1H22**	**1H23**
Product Solutions Cluster	0.75	1.11
Home Loans	0.19	0.65
Vehicle and Asset Finance	2.24	2.34
Everyday Banking	5.97	9.22
Relationship Banking	0.35	0.68
ARO RBB	1.70	1.69
CIB	0.13	0.16
Group	**0.91**	**1.27**

Group credit loss ratio (bps)

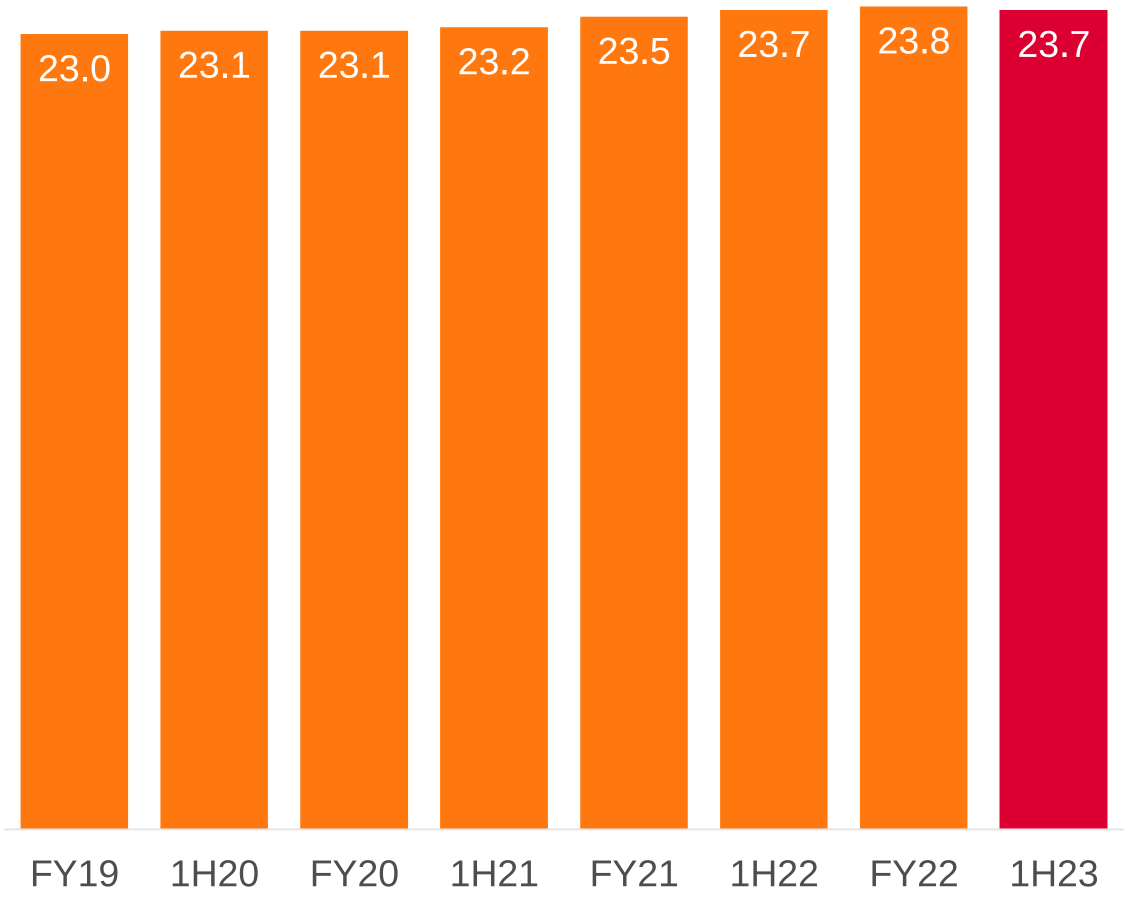


Consistent Home Loans origination strategy

Home Loans risk-adjusted NIM by period originated (bps)

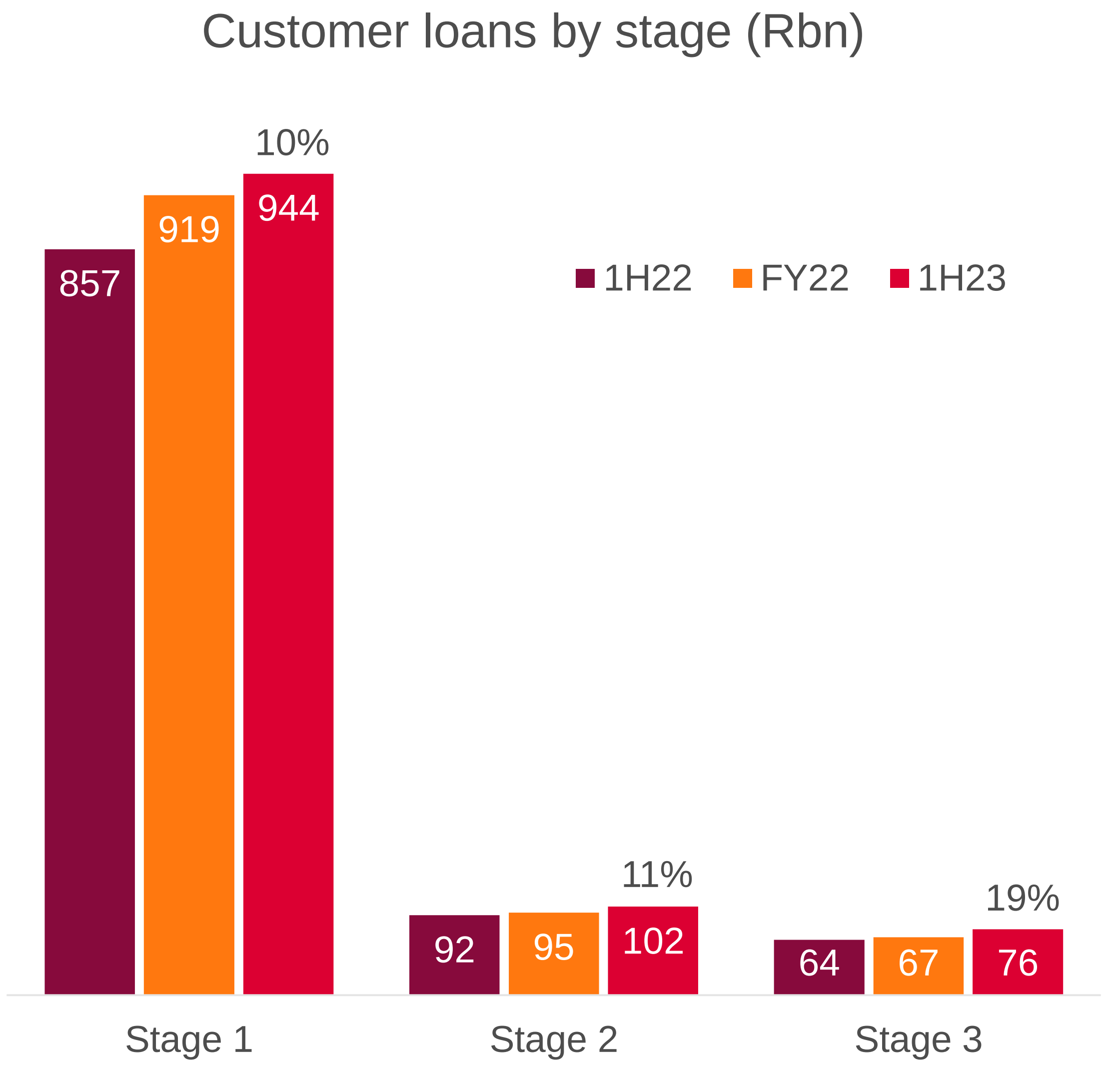


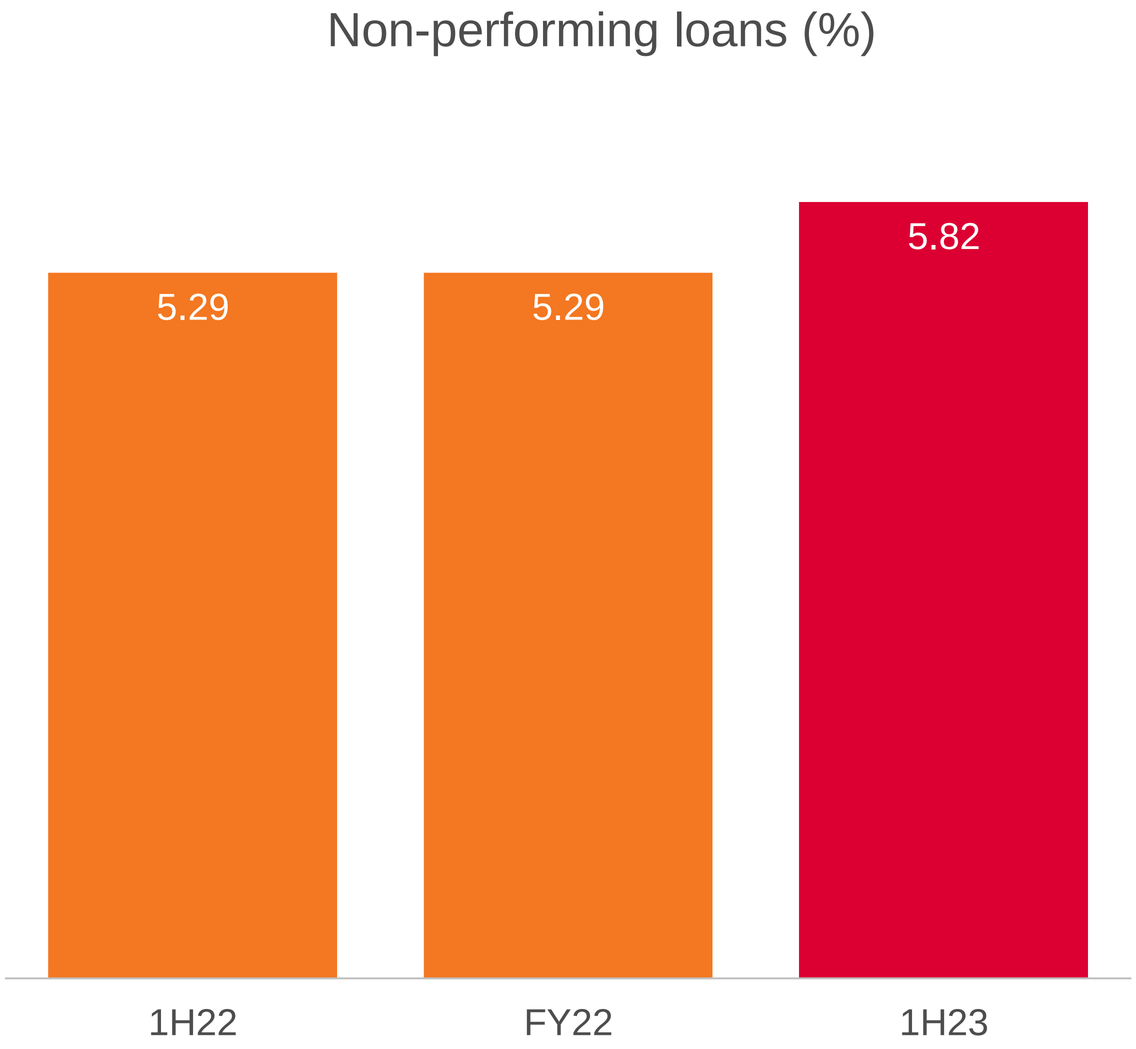
Home Loans market share (%)



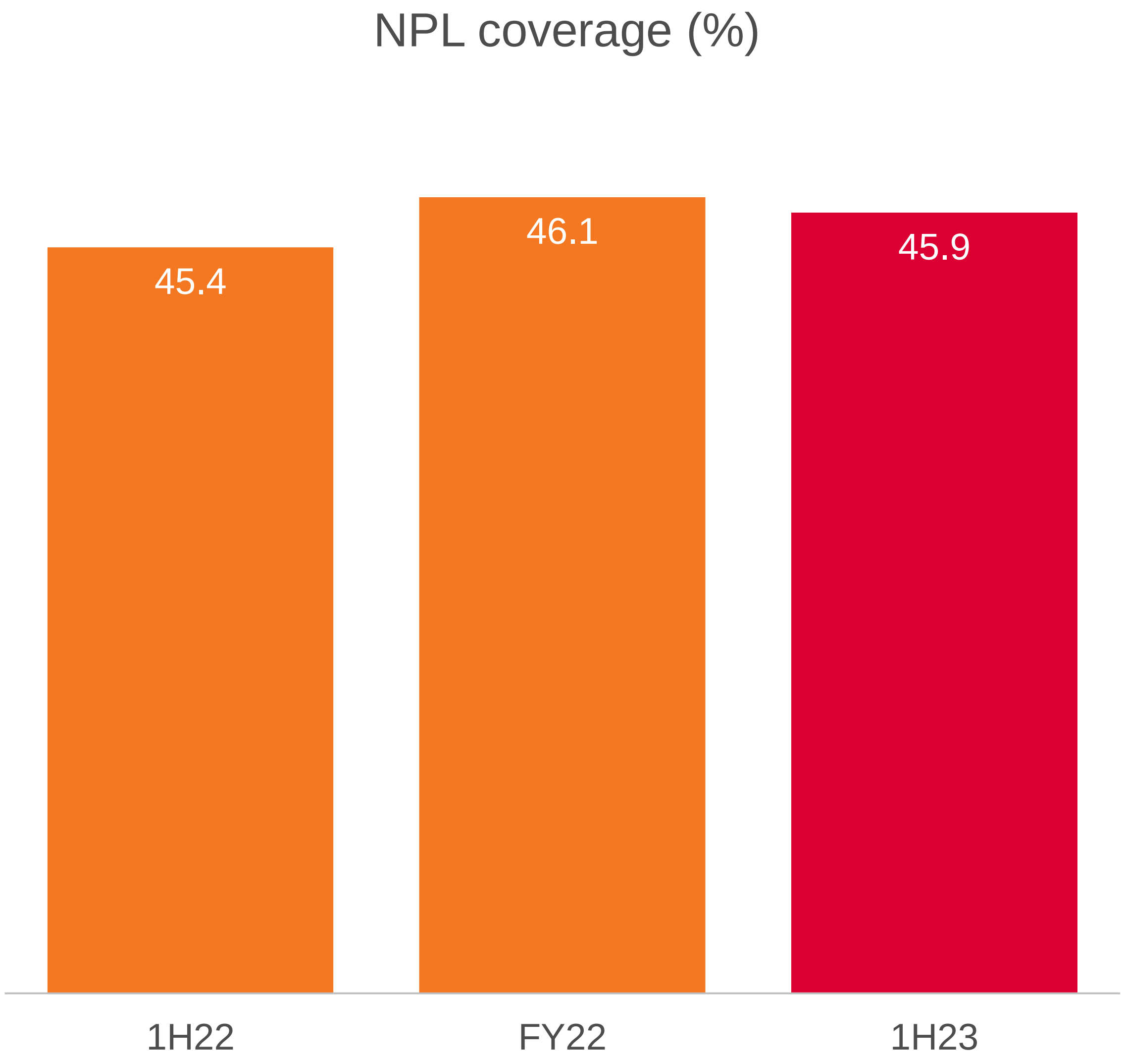
Source: Statutory returns

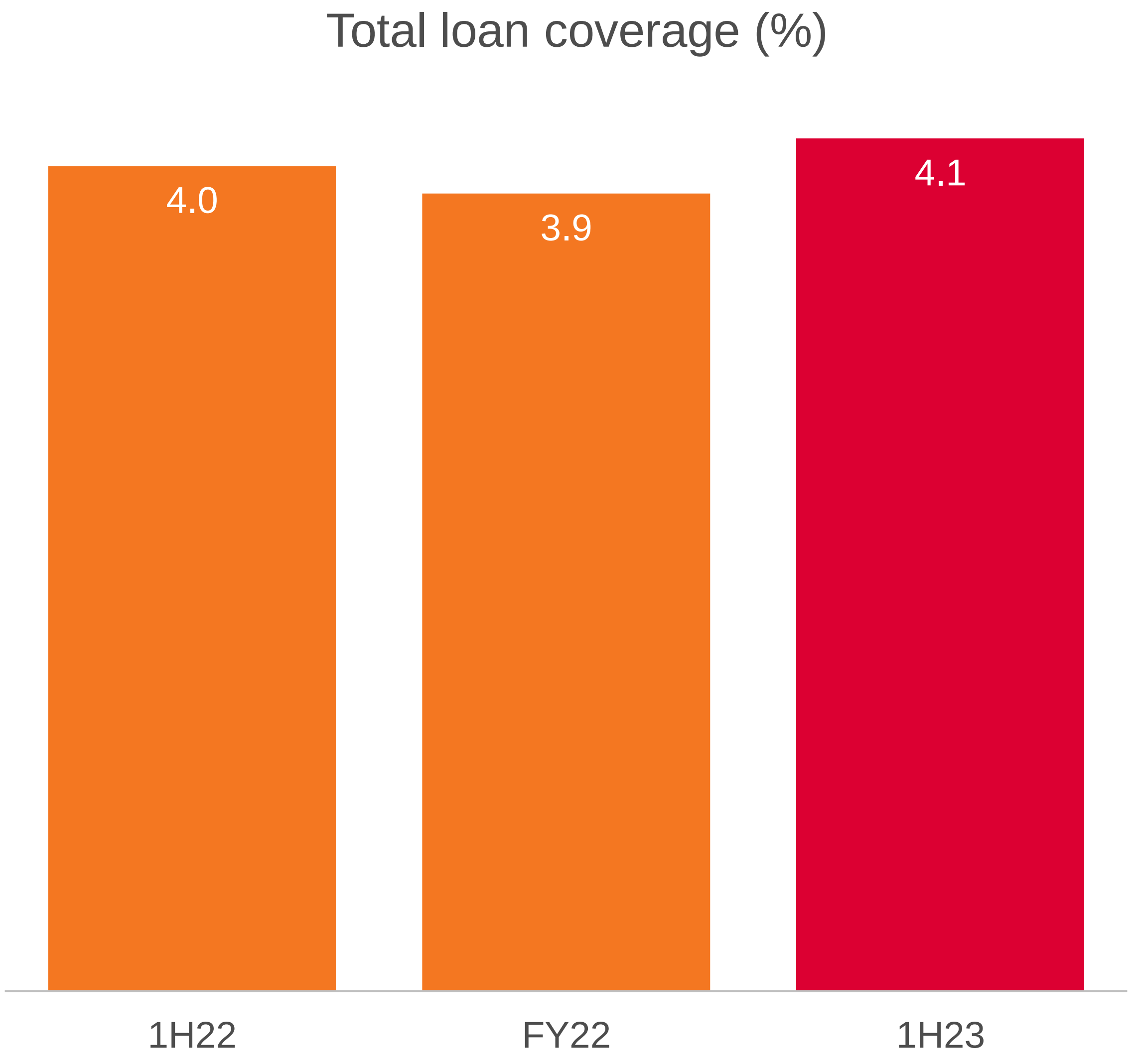
Credit impairments reflect stage migration



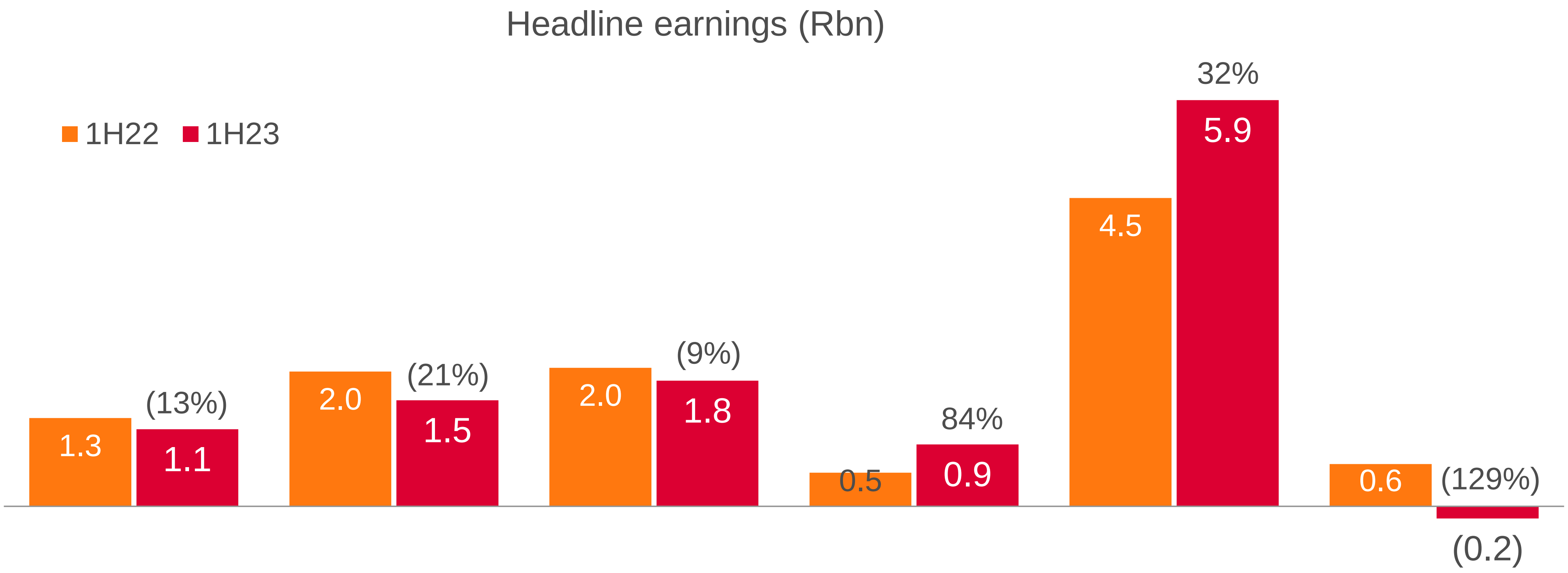


NPL and total loan coverage remain strong



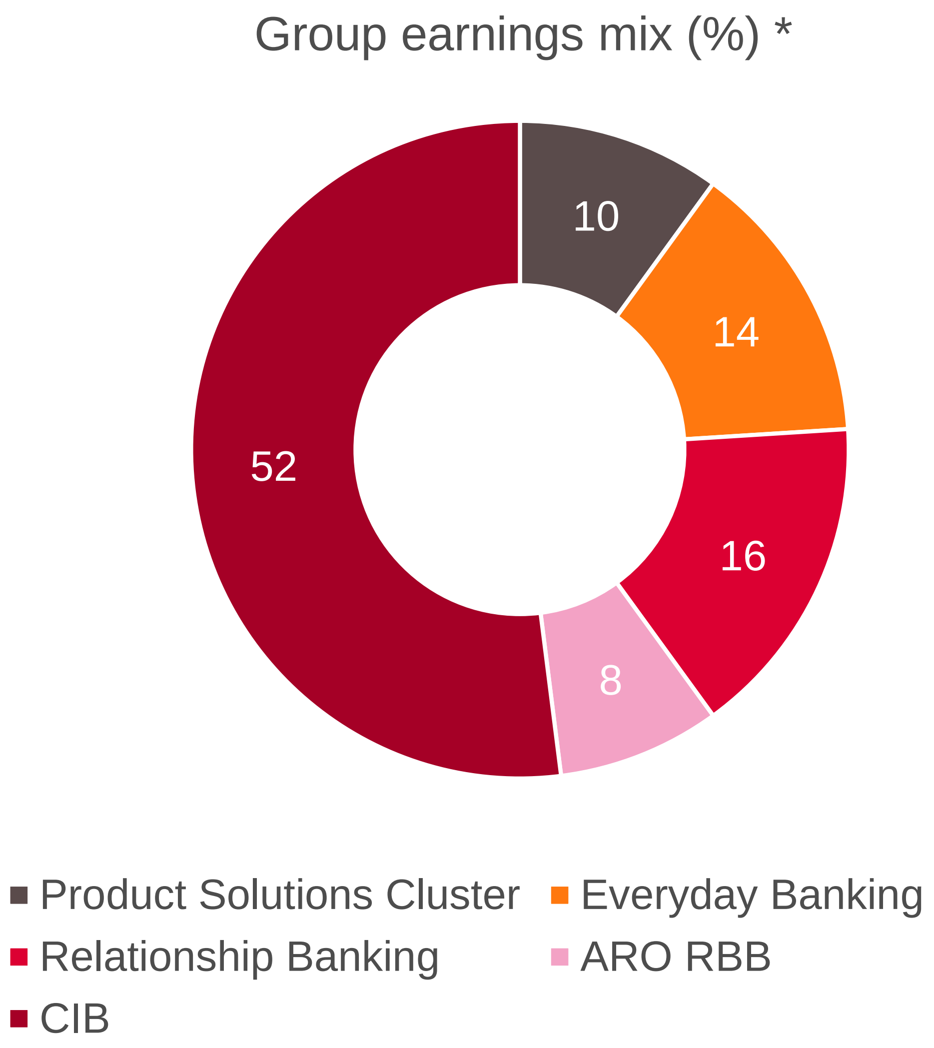


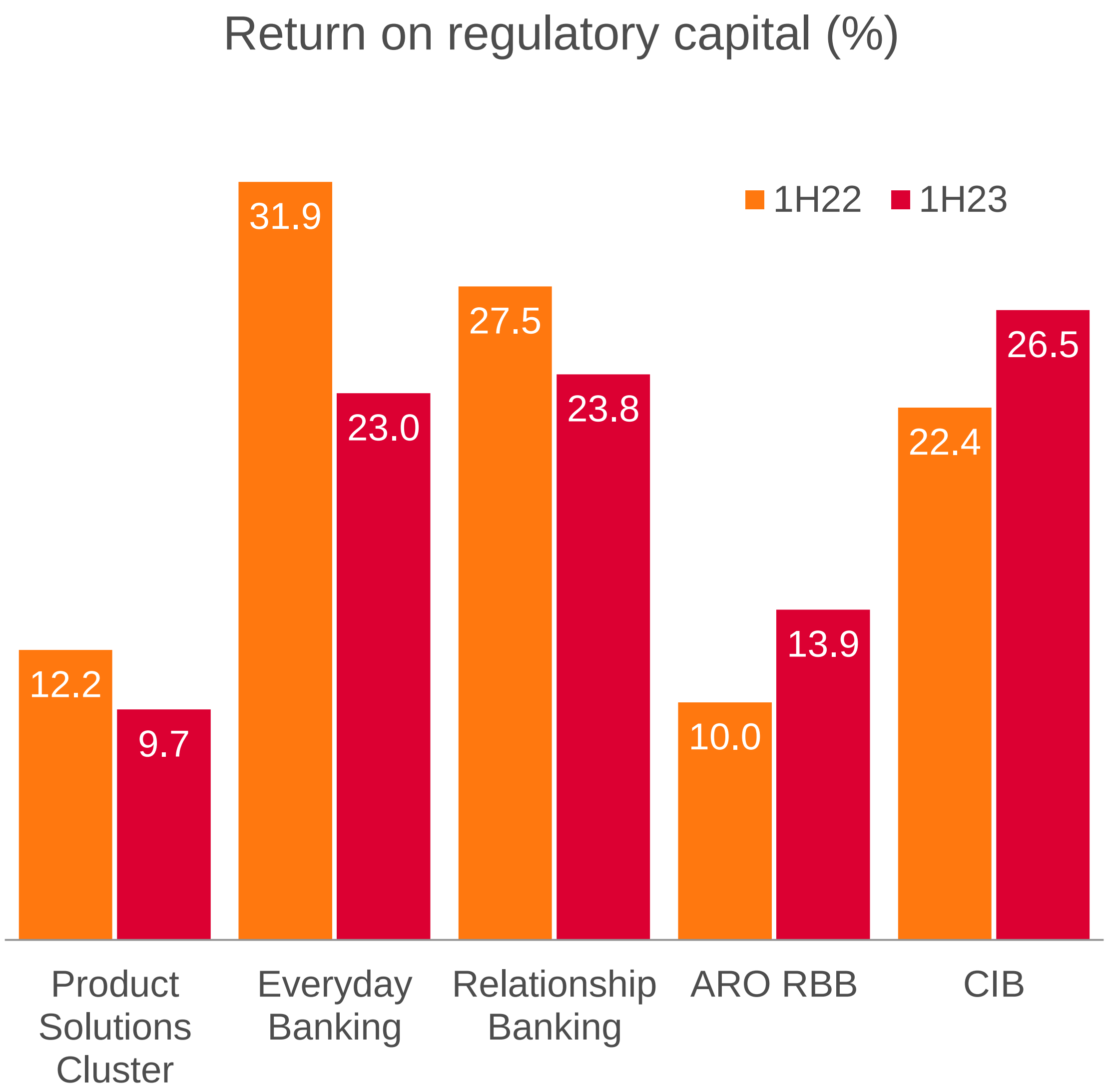
Tangible benefit from portfolio diversification …



	Product Solutions	Everyday Banking	Relationship Banking	ARO RBB	CIB	Head Office, Treasury, other
Pre-provision profit growth:	18%	17%	0%	44%	25%	-

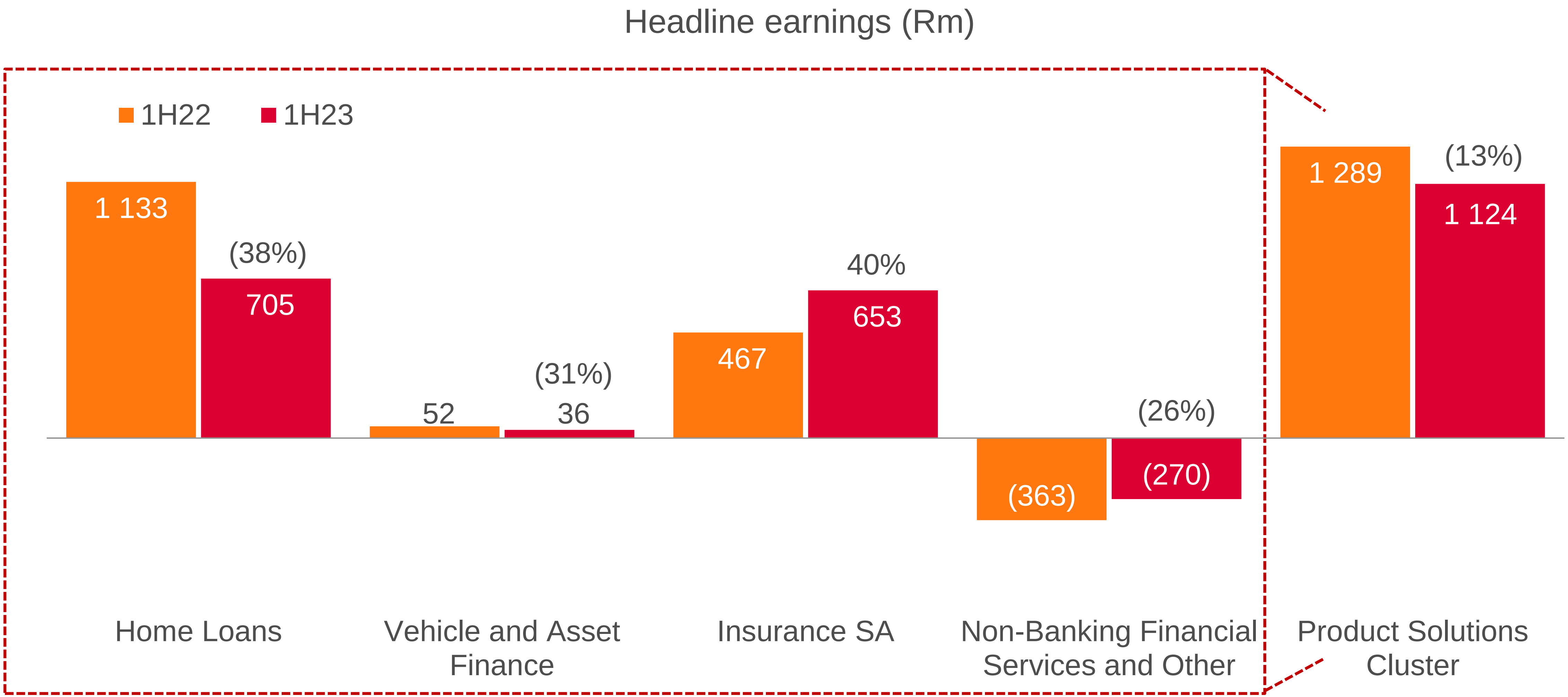
… evident in earnings contributions and returns





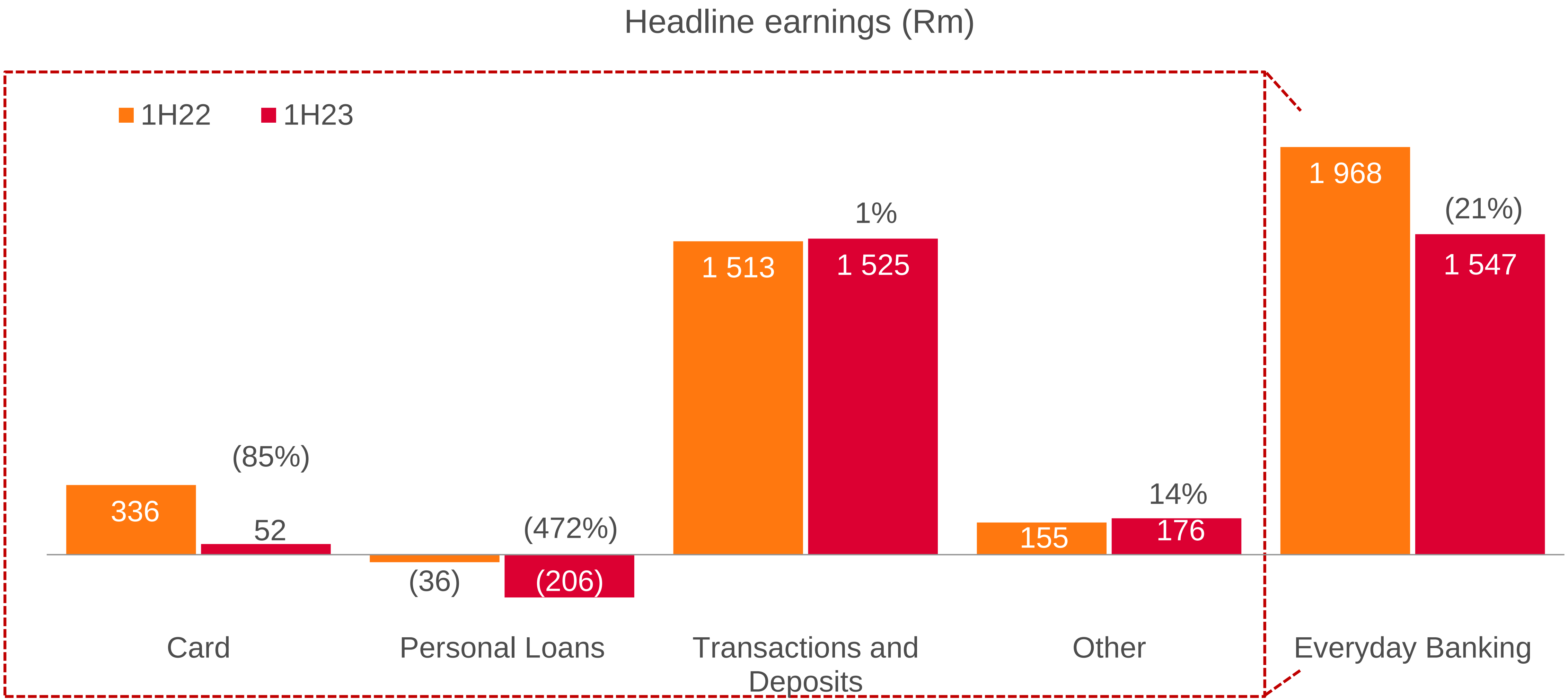
Note: * excludes Head Office, Treasury and other.

Secured lending credit charge reduced PSC earnings



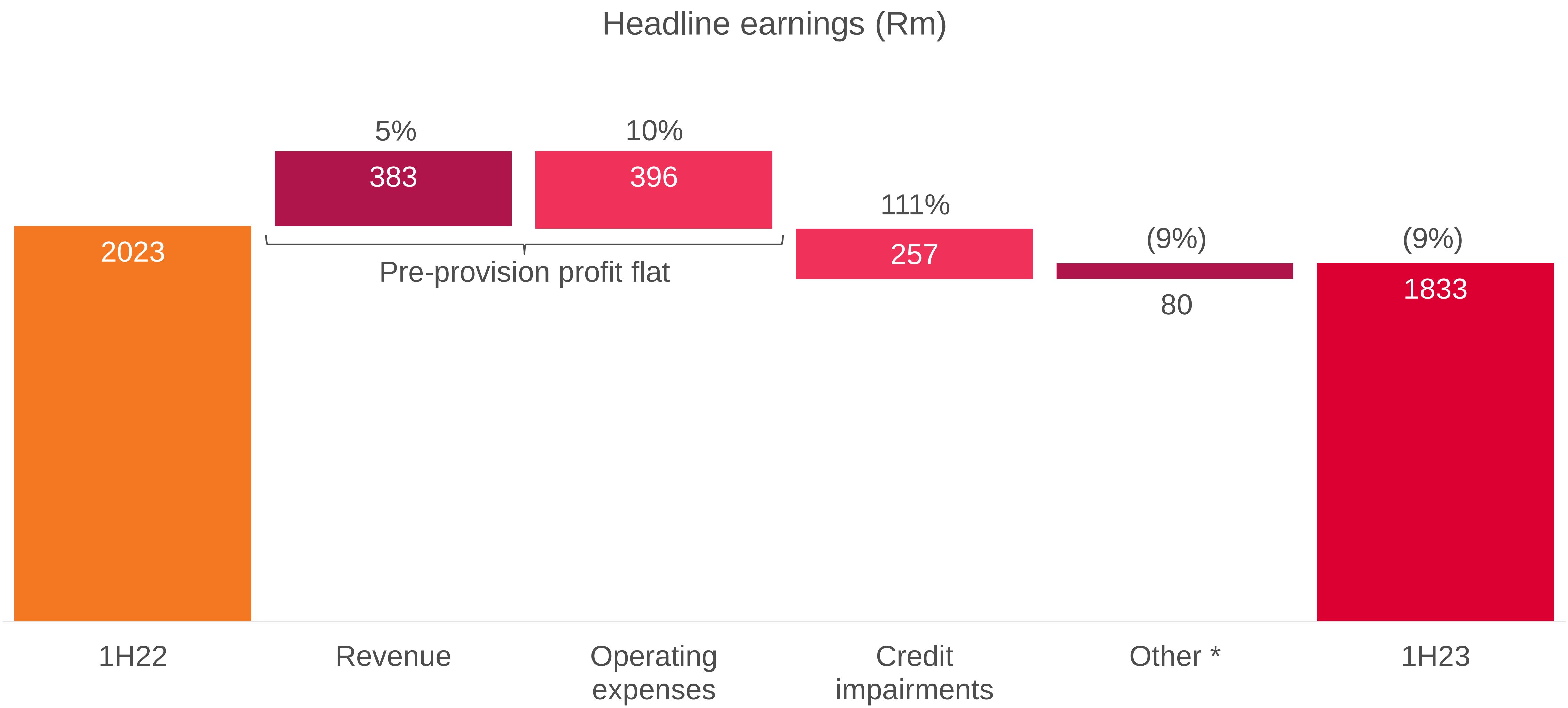
Pre-provision profit growth:	7%	13%	33%	-	18%

Lending businesses reduced Everyday Banking earnings



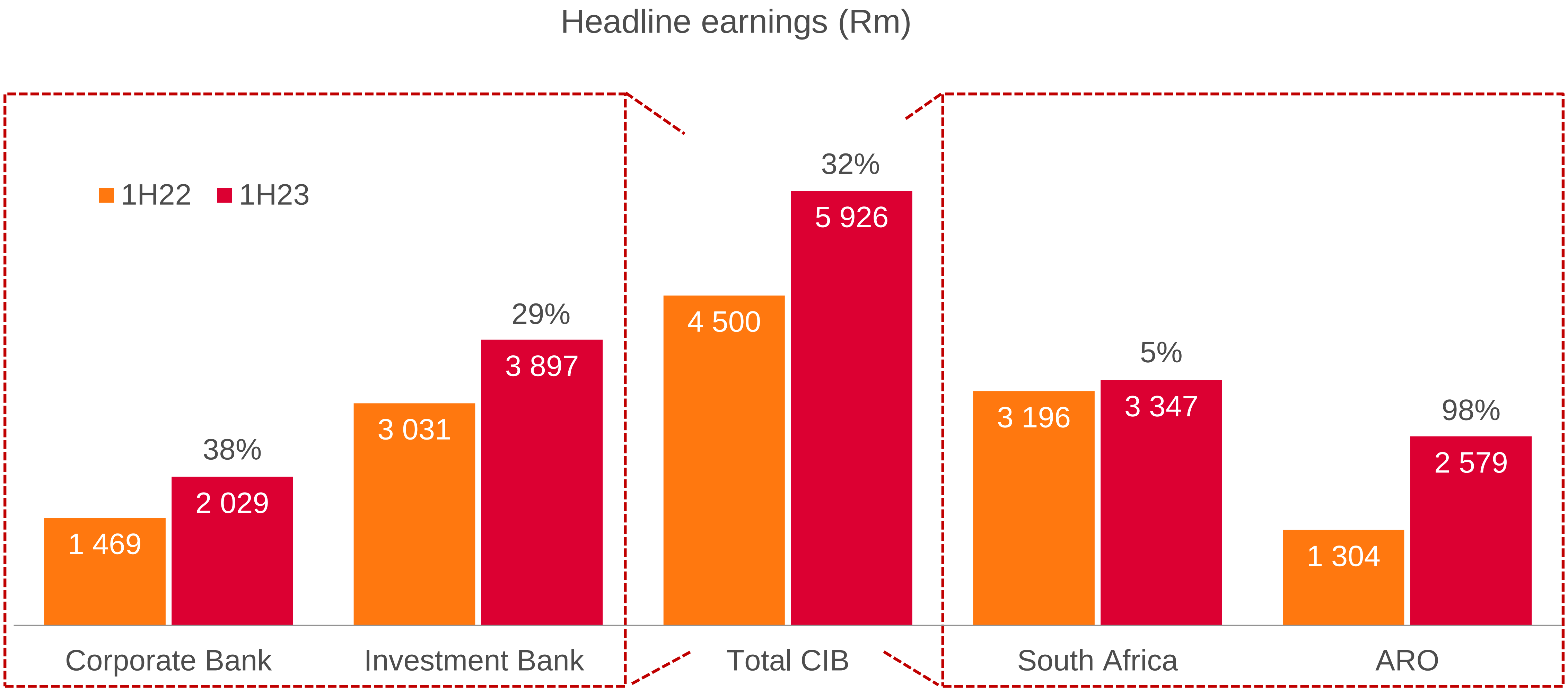
Pre-provision profit growth:	Card	Personal Loans	Transactions and Deposits	Other	Everyday Banking
	26%	30%	5%	-	17%

Relationship Banking investing for growth



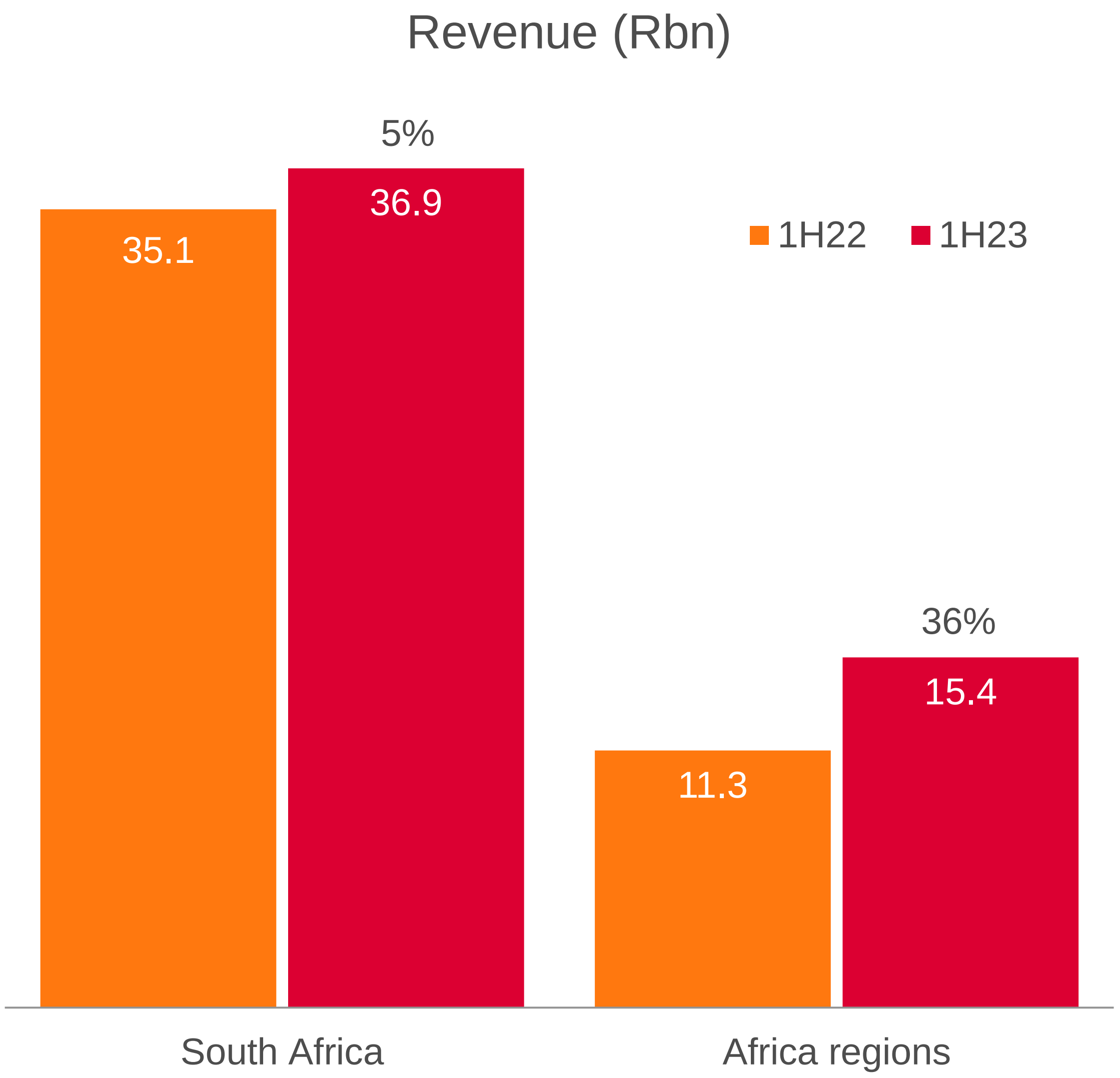
Note: * Includes other expenses, JVs and associates, taxation, headline earnings adjustments

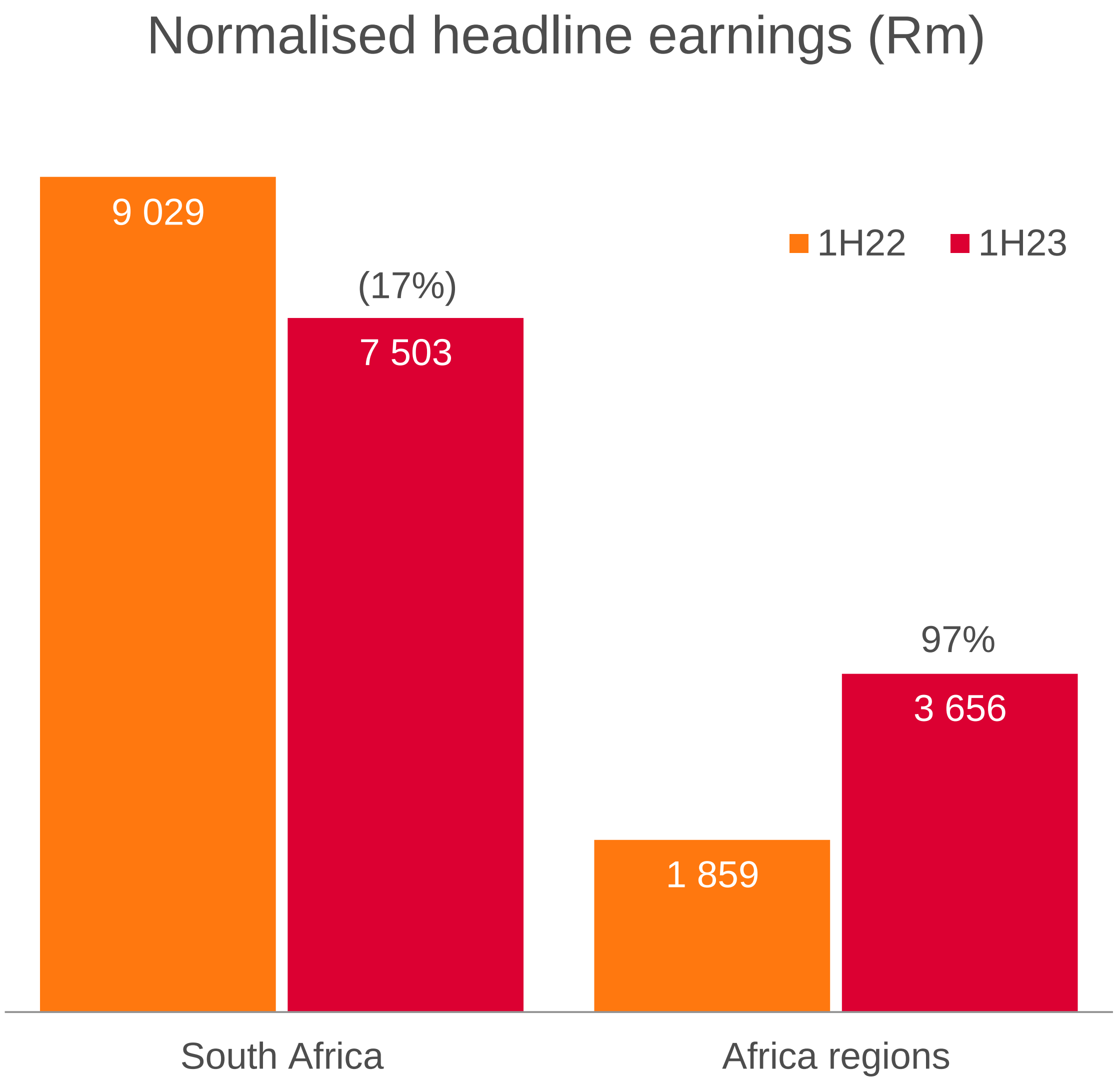
CIB benefits from its improving scale and diversification



Pre-provision profit growth:	42%	16%	25%	4%	64%

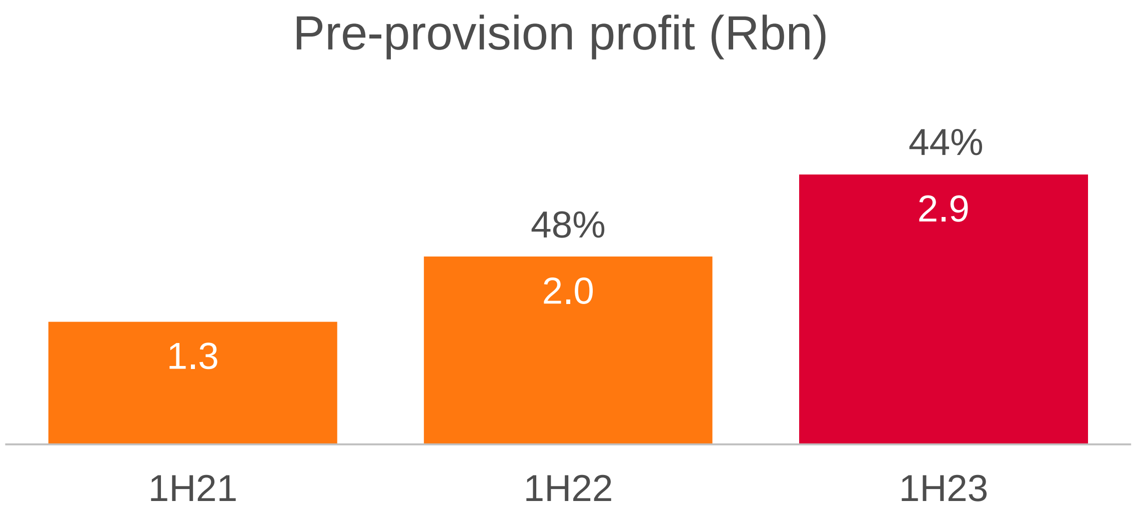
Africa regions drove group revenue and earnings growth

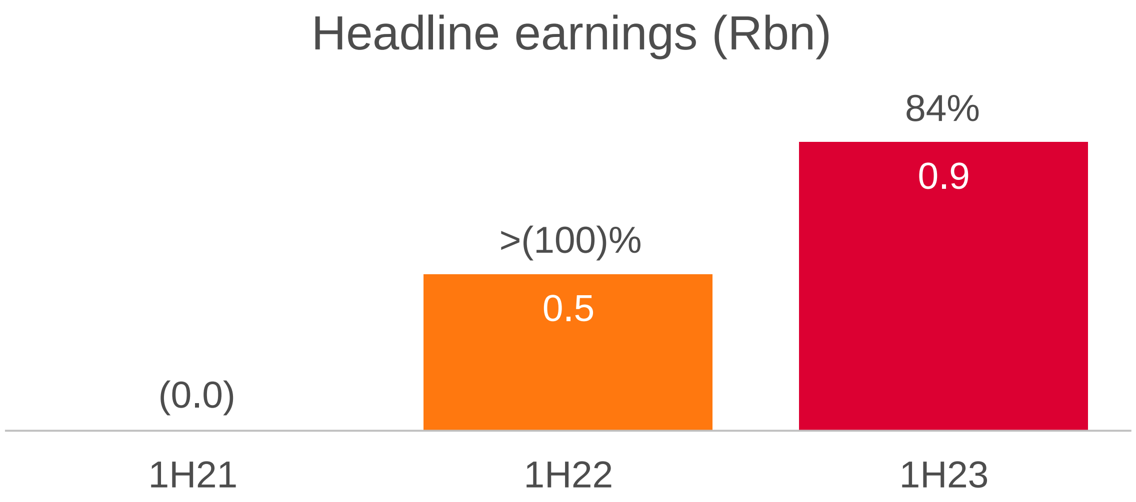


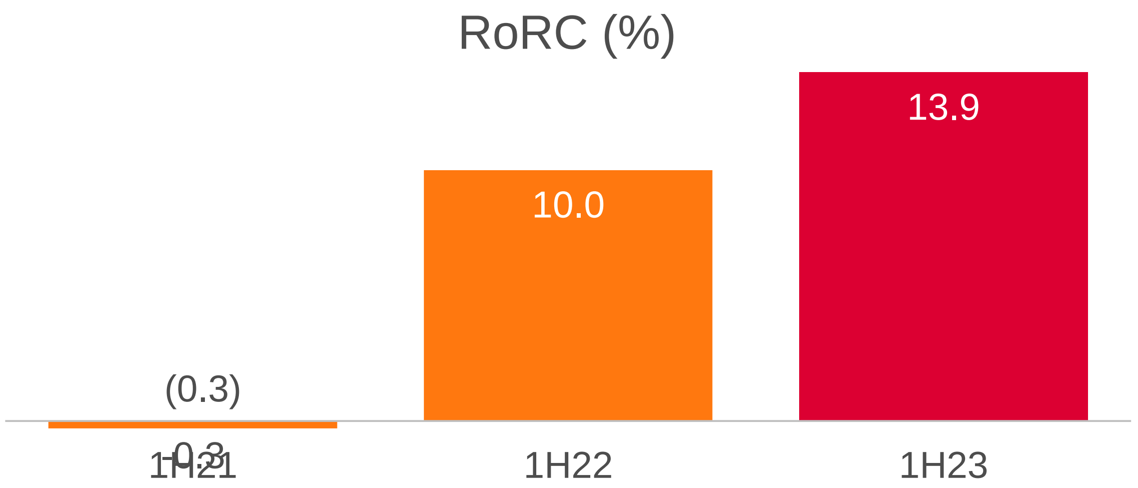


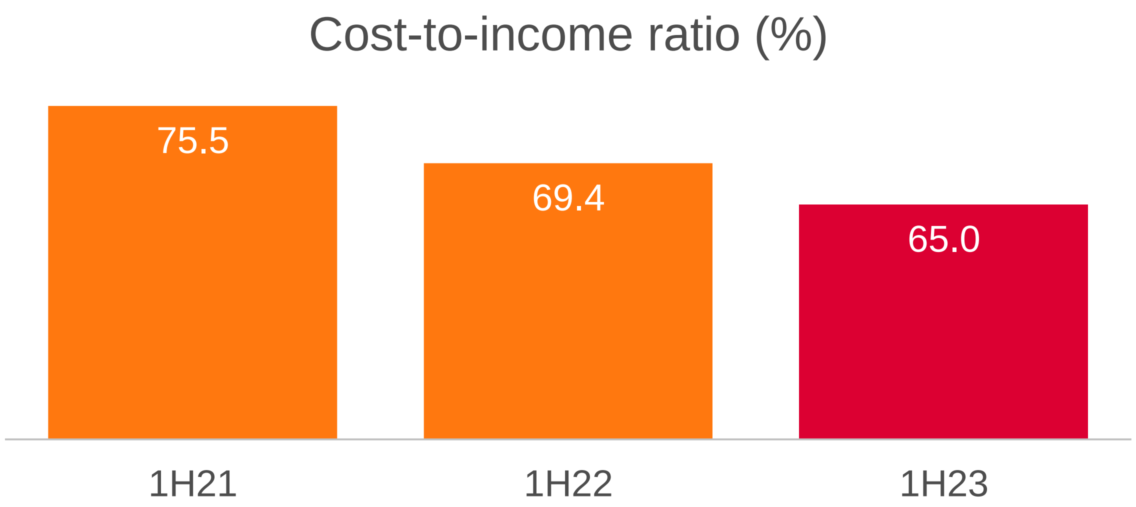
Note: In constant currency, Africa regions revenue grew 31% and headline earnings rose 87%.

ARO RBB substantial operational improvement

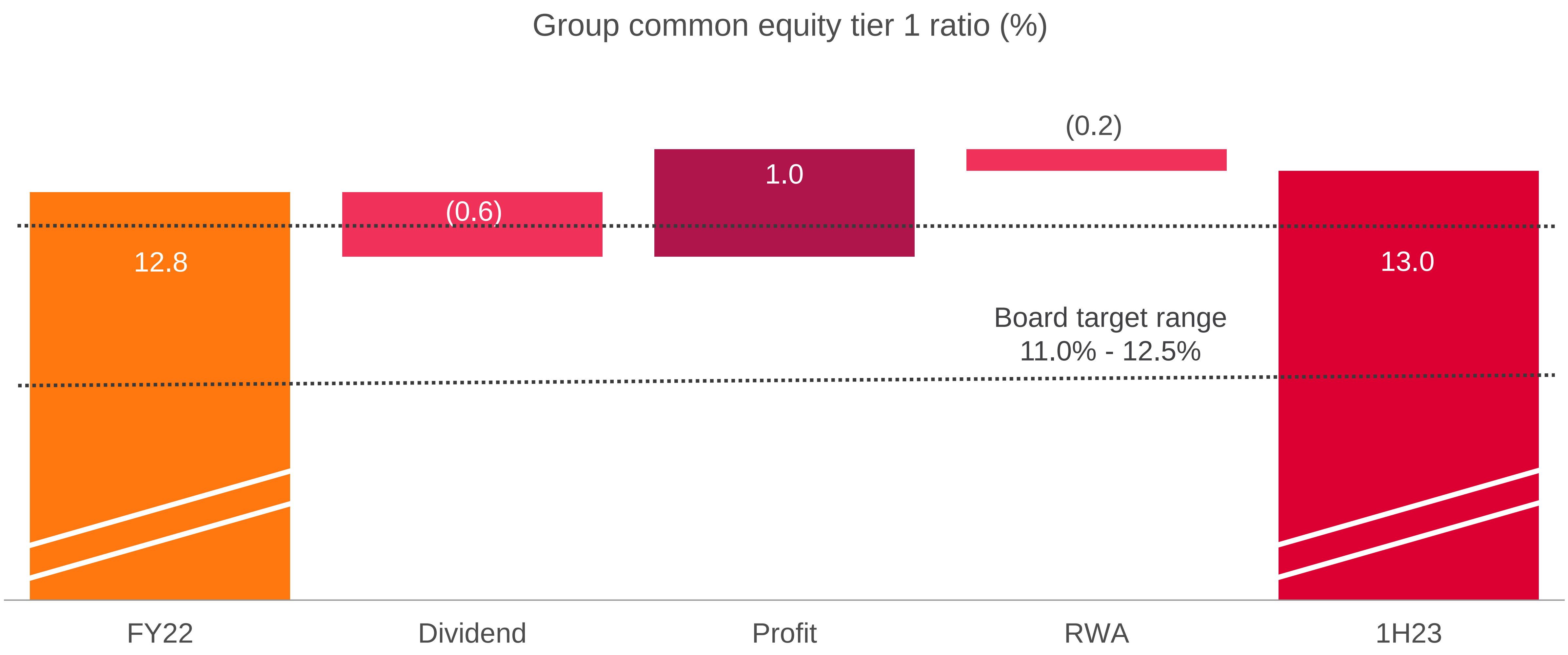








CET1 ratio remains strong and above Board target range



2023 outlook

	2023 expectations
Revenue	Revenue growth expected to slow in 2H23, partly due to material base effects. High single digit revenue 2023 growth, driven by net interest income given balance sheet growth and higher policy rates.
Balance sheet	Low double-digit growth in customer loans and deposits.
Credit impairments	Credit loss ratio expected to exceed our through-the-cycle target range of 75 to 100bps. Second half likely to improve substantially to slightly above this range.
Operating expenses	High single digit growth in operating expenses, resulting in a similar cost-to-income ratio to 2022's 51.4%. High single digit pre-provision profit growth.
B-BBEE transaction impact	Included for four months. Currently expected to reduce 2023 earnings by approximately 1%.
Returns	Return on equity similar to 2022's 16.4%.
Capital	Group CET1 ratio expected to remain above Board target range of 11.0% to 12.5%. Dividend payout ratio at least 52%.

Disclaimer

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