ABSA GROUP LIMITED
Incorporated in the Republic of South Africa
Registration number: 1986/003934/06
ISIN: ZAE000255915
JSE share code: ABG
JSE bond issuer code: ABGI
(“Absa Group” or “the Group”)

VOLUNTARY TRADING UPDATE FOR THE YEAR ENDING 31 DECEMBER 2024

Shareholders are advised that Absa Group will host a pre-close call today, during which management will update the market on Absa’s expected financial performance in 2024, their expectations for the shape of our performance in 2025, as well as guidance on our RoE target for 2026.

In terms of 2024, the operating environment in South Africa and our Africa regions countries has been largely as expected year-to-date, although conditions in Kenya, Zambia and Mozambique are more challenging. Weaker average exchange rates versus the Rand remain a drag on Group revenue and headline earnings for the period and are expected to reduce both by about 3%.

Against this backdrop, we provide shareholders with guidance for our financial performance in 2024. The commentary below refers to the percent year-on-year change in our IFRS financial results versus the equivalent 2023 period.

Based on our current assumptions, and excluding further major unforeseen macroeconomic, political or regulatory developments, our guidance for 2024 is as follows:

In line with previous guidance, we expect materially stronger earnings growth in the second half of 2024, off a relatively low base.

Our 2024 guidance is unchanged, besides that we expect a slightly better credit loss ratio now than we did previously. Conversely, the impact of applying hyperinflation accounting in Ghana is slightly more than we expected.

We continue to expect mid-single digit revenue growth, with broadly similar growth in net interest income and non-interest income.

Hence, we expect net interest income growth to slow in the second half of 2024, due to lower growth in South African retail lending, the introduction of deposit insurance in South Africa in April 2024, and the impact of higher cash reserving requirements in some Africa regions countries.

We expect mid- to high-single digit customer loan and deposit growth for the year.

Non-interest income growth should improve noticeably in the second half of 2024, in part reflecting non-recurrence of the Naira losses in the second half of 2023, but also due to better growth in fee and commission income and insurance revenue.

We expect mid-single digit growth in operating expenses, down from 8% in the first half of 2024, given cost actions that we took in the first half of 2024 and base effects of higher Barclays PLC separation costs.

As a result, we expect low- to mid-single digit growth in pre-provision profit and a similar cost-to-income ratio to the 53.2% in 2023.

Our credit loss ratio is expected to improve to midway between 2023's 118 basis points and the top end of our through-the-cycle target range of 75 to 100 basis points. We expect our credit loss ratio in the second half of 2024 to decline noticeably to within the upper half of our through-the-cycle range.

As guided, trends across our retail books in South Africa are positive, particularly Vehicle and Asset Finance and Personal Loans, reflecting actions taken in collections and new business origination. In line with our first half performance, Corporate and Investment Bank's credit loss ratio is expected to slightly exceed its through-the-cycle range of 20 to 30 basis points. Africa regions' charge is expected to increase off a low 2023 base.

Consequently, we continue to expect an RoE of 14% to 15% in 2024, versus 14.4% in 2023.

We expect our Group CET 1 ratio to end 2024 in the upper half of our Board target range of 11.0% to 12.5%, and we plan to maintain a dividend payout ratio of 55% for 2024.

Lastly, from a geographic perspective, South Africa is expected to drive Group earnings growth in 2024, mostly on lower credit impairments in retail lending and Relationship Banking. Africa regions earnings is likely to decrease slightly, due to the stronger Rand, increased cash reserve requirements in certain countries, higher credit impairments off a low base, plus a challenging operating environment in several markets. However, we expect strong revenue and pre-provision profit growth from Africa regions in constant currency.

In addition, we are providing high-level guidance on the expected shape of our results in 2025.

Revenue growth is expected to be moderate in 2025, which means our operating JAWS is likely to be slightly negative. We expect the stronger Rand to remain a drag on revenue next year. We expect our credit loss ratio to improve further to within the top end of our through-the-cycle target range of 75 to 100 basis points next year, largely reflecting continued improvement in our retail charge in South Africa. The normal seasonality is likely to be evident in our 2025 credit loss ratio again next year, with our credit loss ratio in the first half of 2025 above the second half of 2025. Ghana hyperinflation accounting is currently expected to end in the middle of 2025. These factors should improve our RoE in 2025.

Finally, given a broadly supportive macroeconomic backdrop medium-term, we expect our RoE to improve to 16% in 2026, with several key drivers. Firstly, we expect further recovery in our credit impairments, particularly in our South African retail books. Secondly, we have launched a productivity programme that should improve our cost-to-income ratio medium-term. The benefits are predominantly in efficiency gains, to fund further investment across the group. Thirdly, improving our non-interest income growth is a key priority for the Group. Lastly, while Africa regions will be a drag on our earnings growth in 2024, we expect better growth and improving returns from it medium-term.

Management will host a pre-close call at 5.30pm (SA time) on 5 December 2024. For details thereof, please see our investor relations website.

Shareholders are advised that the financial information contained in this trading update has not been reviewed or reported on by our auditors. The forecast financial information above is the sole responsibility of the Board.

We will release our 2024 financial results on 11 March 2025.

Johannesburg
5 December 2024

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