FY21 speaker notes

Jason Quinn – Interim Chief Executive

Good morning and thank you for joining us for Absa's 2021 results presentation.

I am going to start with the operating environment we faced during the period and give my perspective on our performance.

Thereafter, Punki will unpack our numbers, following which I will take you through our strategy refresh, focusing on sustainability. And at the end, I will provide our guidance for 2022 and our medium-term targets, and then we will take your questions.

Improved operating environment …

At a headline level, the macroeconomic backdrop was better than we expected last year.

As you can see, South Africa grew 4.9% last year, rebounding from the depths of the downturn in 2020. This growth is ahead of the 3% that we expected a year ago. On the production side, agriculture recovered strongly, while construction shrunk for the third consecutive quarter. It is worth noting that the fourth quarter real GDP was 1.7% below pre-pandemic levels.

South Africa's economic recovery has been uneven and remains incomplete. Its recovery has had two phases. The first started in the second half of 2020 and continued through the first half of 2021. It saw a robust, expectations-beating rebound in economic activity due to strong policy support, improving global economic activity and a surge in export commodity prices. Unfortunately, the next phase – commencing in the second half of 2021 – has been less inspiring, including some adverse supply shocks.

With inflation increasing towards the upper end of the Reserve Bank's target in late 2021, the MPC increased policy rates by 25 basis points in November. The rate increase was slightly earlier than we expected and signals the start of a rising cycle.

Turning to our Africa regions, all our presence countries look to have returned to positive economic growth during 2021, with those countries hardest hit by the Covid-19-related economic slowdown the previous year generally recovering faster. From 2020's slight recession, we expect strong GDP growth of 5.7% from our ARO countries in 2021, somewhat more than we forecast a year ago.

I should mention that, despite weakening in the second half, the Rand was 14% stronger on average against our ARO currencies during the year, causing a 2% drag on group revenue growth.

… not without challenges

While South Africa's GDP recovered materially, the macro backdrop faced a number of challenges that we highlighted in August.

For starters, South Africa's stretched power supply remained a challenge. As we cautioned in August, last year's load shedding was considerably worse than the previous highs of 2020, with some intense bouts, particularly in the second half. Moreover, the current load shedding is concerning and a clear risk to sentiment and this year's growth.

Second, 2021 had three waves of Covid-19, including the tail end of the second wave in the first quarter, the third wave in winter and the Omicron wave in the fourth quarter. The third wave was worse than we expected, particularly in Gauteng. Fortunately, the Omicron wave abated very quickly with relatively mild virulence, and government eased lockdown restrictions in late December.

Lastly, the unrest and looting in parts of Kwa-Zulu Natal and Gauteng in July were deeply concerning, hitting not only economic activity, but also damaging fragile consumer and business confidence.

Record FY21 performance

We navigated this challenging operating environment, and the sudden departure of our Chief Executive in April, particularly well to produce record results.

Pleasingly, revenue increased 6% to R86bn, driven by 9% higher net interest income. Revenue growth was better in constant currency, up 8%, our strongest performance for several years. Revenue growth is an area where we have generally lagged peers in the past, so it's been good to see the improvement. As Punki will show, excluding one-offs, our revenue growth was around 2% higher on an underlying basis.

Our diluted normalised HEPS rebounded strongly, up 132% off the low 2020 base impacted by Covid-19 and the significant economic downturn. Importantly, it was also 14% above pre-Covid 2019 levels. It is worth mentioning, that consensus HEPS for us increased by 33% in the past year, and today's results are 4% ahead of consensus at the time when we released our trading statement recently.

Within these numbers, our second half performance was particularly strong, with 9% higher revenue in constant currency, and record earnings of R10bn. Our RoE was 16.3% in the second half, compared to 15.3% in the first.

Reflecting this positive momentum and improved equity markets, our total shareholder return improved to 30% last year, our best performance since 2014.

FY21 salient features

Looking at the salient features, these all showed very positive trends.

Given solid revenue growth, pre-provision profits increased 7% to over R38bn. Pre-provision profit grew 10% in constant currency and even more on an underlying basis.

Our credit loss ratio improved more than we expected, falling significantly from last year's high base to the bottom end of our through-the-cycle target range. While it benefited from model enhancements in RBB and some release from our macro overlay, our coverage remains strong and still includes R4.8bn of macroeconomic variable overlays.

Our RoE improved to 15.8%, returning to 2019 levels and exceeding our 14.5% cost of equity.

We achieved this while increasing our CET1 ratio materially, which when combined with strong loan coverage, positions our balance sheet with tremendous resilience and a strong opportunity to fund our growth ambitions.

Lastly, our NAV per share increased by a robust 13%, given our strong earnings growth.

Stronger momentum evident in the second half

This slide highlights the strong second half momentum within our overall 2021 pre-provision profits.

During the second half, our net interest income increased 12% year-on-year, well above our first half growth, in particular to the weaker Rand during the second half. Similarly, Covid-19 related claims and provisions in Absa Life were significantly less of a drag on group non-interest income during the second half.

As a result, our revenues grew 8% year-on-year in the second half, or 9% in constant currency, well above the 3% in the first half.

Cost growth was also slightly lower in the second half, largely due to the split of bonus accruals in the prior year.

Combined with stronger revenue growth, our second half pre-provision profits grew 14% year-on-year, or 16% in constant currency.

Positive balance sheet trends

During 2020 we focused on preserving capital and liquidity, and protecting our balance sheet and client franchise, rather than on growth. While shifting more to growth last year, the balance sheet trends remained very resilient.

Firstly, our capital ratios strengthened further. Given strong earnings growth, our CET1 capital ratio improved strongly to 12.8%, above our board target range, from 11.2%, which was at the bottom end of the target range. Besides capital generation, low risk-weighted asset growth also contributed to our capital ratio. This benefited from substantial RWA optimization totaling R45bn, in CIB and RBB, which we have worked on for some time.

Our very successful issuance of $500m of Basel III compliant additional tier 1 capital is evident in the graph. It was heavily oversubscribed and a hugely successful debut issuance for our region.

At 17%, our total capital adequacy ratio comfortably exceeds our target of 'above 14.5%', so there is scope for us to optimize our capital stack.

Strong deposit growth was another feature of our results. Total customer deposits grew 12% to R1.1tn and continues to exceed our customer loans. Deposit growth contributed to our revenue momentum and net interest margin.

We show our RBB SA deposits here, because it is a good indicator of our customer franchise health. It has grown low double digits for four consecutive years now. Our share of retail deposits in SA improved slightly to almost 22%. CIB’s deposits rose 11%, excluding repos, with average deposits 19% higher, another strong performance.

Substantial recovery in divisional earnings and returns

Looking at our divisional performance, normalised headline earnings recovered very strongly from 2020 lows, with RBB more than doubling and CIB up 54%.

CIB is 30% above pre-Covid levels in 2019 and RBB SA is 1% lower.

Significantly lower credit impairments drove RBB’s earnings growth, since its pre-provision profits declined 3% given Absa Life’s elevated mortality claims, customer-centric price cuts and higher performance costs.

CIB’s pre-provision profits grew 10%, or 16% in constant currency, and its credit charge dropped 78%.

Our divisional returns rebounded to well above cost of equity.

RBB’s return on regulatory capital improved to 18.5%, with RBB SA’s higher at 21%. RBB ARO remains low at 5%, indicating the substantial opportunity for improvements there. Having stabilized its franchise, RBB SA is in the second phase of its 2018 strategy, focusing on smart growth. Its priorities are to improve customer primacy, progress with digitisation and grow capital light revenues, including in our integrated bancassurance operations.

CIB’s return on regulatory capital improved to almost 22%. Having completed the balance sheet led phase of its strategy and separation from Barclays, it is also successfully prioritising customer primacy, plus deposit and non-interest revenue growth, carefully balancing growth and returns. CIB did well to complete its separation from Barclays, and replace the lost revenue that came from PLC connectivity, as well as implementing new technology platforms and capabilities, which will benefit our client franchise nicely going forward.

I will now hand over to Punki to take you through our financial performance in more detail.

Punki Modise – Interim Financial Director

Thanks Jason and good morning everybody.

Throughout my presentation I will talk to our normalised results, which better reflects our underlying performance because it adjusts for the consequences of separating from Barclays. We reconciled these with the reported IFRS results in our booklet.

Significantly improved credit charge drove earnings

Starting with our income statement, it is very evident that our strong earnings growth was largely driven by far lower credit impairments, although net interest income growth also contributed.

Given the tough operating environment, revenue growth of 6% was solid, considering the large impact of Covid-19 on Absa Life that I'll unpack later. And in constant currency, our topline grew 8%, which better reflects our underlying performance.

Net interest income grew 9%, or a strong 13% in constant currency, largely due to margin expansion. South Africa's net interest income grew 14%, while Africa regions was down 3%, although it increased 8% in constant currency.

Non-interest income was flat, or up 2% in constant currency and higher on an underlying basis.

As you have come to expect of us, operating expenses remain well controlled, growing 4%, largely due to higher bonuses given our improved performance. Excluding bonuses, group costs grew 1%, or 3% in constant currency.

These combined to produce 7% higher pre-provision profits, or 10% in constant currency. Excluding Insurance, our group pre-provision profits increased 12%.

Our credit impairments fell 59% or R12bn, somewhat more than we expected, as our credit loss ratio improved to the bottom end of our through-the-cycle target range, following last year's significant charge.

The large increase in "Other" is mainly driven by higher taxation, given the improvement in pre-tax profit.

These drivers combined to produce normalised headline earnings of R18.6bn, which was up 133% relative to last year.

Moderate group customer loan growth

Turning to our balance sheet, average interest-bearing asset were up 2%, given modest growth in average customer loans.

South African customer loans grew 7% to R893bn and Africa regions increased 15%, or 7% in constant currency.

RBB customer loans rose 9% to R618bn, while CIB grew 7% to R398bn.

Our largest book, Retail South Africa increased 9% to R429bn, largely driven by solid growth in secured lending.

Relationship Banking grew 3%, as muted demand for commercial asset finance and commercial property finance dampened continued solid growth in Agri.

RBB ARO's loans grew 15%, or 8% in constant currency, mostly due to growth in personal lending.

Total CIB customer loans increased 7% to R398bn, given improved second half production, even though most of the growth was due to 39% higher reverse repurchase agreements. Excluding these, CIB's loans grew 3%.

CIB SA grew loans 6% to R338bn, mostly due to reverse repurchase agreements. Given reduced demand for short-term funding, its average book decreased slightly.

CIB ARO customer loans grew 14%, or 6% in constant currency, with strong growth in trade loans. Also, its average loans were somewhat lower over the year.

Targeted production in secured retail lending

Our retail market share continued to increase slightly to over 22%, as we grew our secured books.

Home Loans grew 9%, reflecting strong new business production for the previous six consecutive quarters. Total applications rose 18% and new mortgages registered increased 49%, given healthy demand, improved turnaround times and enhanced originator relationships. Our market share increased slightly to almost 24%.

Vehicle and Asset Finance grew 10%, on 24% higher production, increasing our market share to over 23%. Embedding our digital application system across dealer, branch and virtual channels resulted in industry leading turnaround times.

Credit card grew 7%, largely due to 3% in total limits and higher utilization, with card turnover 13% higher albeit flat on pre-Covid 2019 levels.

Personal Loans increased 1%, given our tighter risk appetite until the second quarter, when this was released. Production improved materially in the second half. Personal loans remain a small portion of our overall retail lending and our market share is very low at just 10%.

Deposit growth outstrips loans and improves funding mix

Growing core deposits remains a priority and is a good indicator of the health of our franchise.

Strong deposit growth has produced positive balance sheet JAWS over the past 3 years. Our deposits grew 12%, ahead of 7% growth in gross customer loans. Our average loan-to-deposit ratio reduced to 84% from 86%.

It is pleasing that customer deposits increased to 82% of our total funding, reducing the proportion of bank deposits and debt securities.

Managing our liquidity has been a priority over the past two years, and our sources of liquidity remain strong, growing 16% to over R300bn.

Lastly, our liquidity coverage ratio of 117% and net stable funding ratio of 116% are both comfortably above regulatory requirements.

Solid deposit growth across the board

Total customer deposits grew 12%, or 10% in constant currency, with average deposits 12% higher. Excluding repurchase agreements, the growth was 11%.

SA deposits increased 10% to R880bn. Within this, Retail rose 12% to R280bn, improving its market share slightly to 22%. Transactional deposits grew 11%, while investment deposits rose 13%, which benefited from the migration of the Absa Money Market Fund.

Relationship Banking grew 13%, a solid performance. Growth was similar in transactional and savings products, reflecting customers building up liquidity and the migration of the money market fund respectively.

Deposits are also a priority for CIB South Africa, particularly Corporate, and rose 11% to R321bn.

Corporate South Africa grew 9%, or 28% on average, driven by strong growth in notice, savings and foreign currency deposits. It also benefited from the migration of the money market fund. These were partially offset by a reduction in national government balances.

Investment Bank South Africa increased 17%, on strong Markets and repos growth.

African regions deposits grew 23% to R195bn, in part due to the weaker spot Rand, as it increased 12% in constant currency.

RBB ARO deposits increased 21% or 9% in constant currency. Its growth was largely in transactional balances and foreign currency deposits, rather than investment products where some competitors are pricing aggressively.

CIB ARO deposits grew 25%, or 15% in constant currency, as strong growth in call and cheque deposits outweighed lower fixed deposits.

Net interest margin recovered strongly

In 2020, our net interest margin fell 33 basis points, predominantly due to significant policy rate cuts, which had a negative endowment effect that our structural hedge only partly offset.

With rates largely flat in South Africa during 2021, the substantial negative prime reset did not recur, and our margin widened by 29 basis points to 4.46%. Our second-half margin of 4.5% was back at 2019 levels.

Unpacking the drivers, our lending margin continues to improve, again due to improved client pricing in Home Loans, Vehicle and Asset Finance and CIB SA. Mix-wise, faster growth in Home Loan and VAF than in unsecured retail and our overall interest-bearing assets was a drag.

Our deposit margin decreased in RBB South Africa, Corporate South Africa as well as Africa regions, reflecting lower rates and competitive pricing. This was partly offset by reduced reliance on wholesale funding, which has a positive composition impact.

With the average prime rate in South Africa down 82 basis points, there was a drag on the endowment income on lazy deposits and our equity.

Our structural hedge released R3.2bn to the income statement, 8 basis points more than in 2020. The net impact of lower endowment on equity, deposits as well as the structural hedge was a 4 basis points drag. The cash flow hedging reserve reduced to R800m from R4.3bn.

The non-recurrence of prime rate reset losses from the 300 basis points of rate cuts in the prior year, improved our margin by 13 basis points, whilst higher yields on the liquid asset portfolio were also positive.

Insurance reduced non-interest income

Growing non-interest income is a priority. Looking at the graph on the right, however, 2020 was impacted by the Covid-19 lockdowns and the sharp reduction in economic activity, which dampened our fee income. Insurance was a significant drag this year, offsetting the improving growth in our banking non-interest income, particularly in Global Markets.

Total non-interest income was flat and increased 2% in constant currency, given an improved second-half performance.

Looking at the components, the largest, net fee and commission income grew 2% or 4% in constant currency. Within this, transactional income increased 1%, with muted growth in RBB South Africa. Merchant income grew 10%. It was pleasing to see 12% growth in CIB's fee income.

Net trading excluding hedge ineffectiveness grew 17%, given a strong performance from Global Markets, which I will cover shortly.

'Other' non-interest income dropped 31%, reflecting significantly higher life insurance claims and further reserving for the third and fourth waves of Covid-19 in South Africa.

At a divisional level, RBB's non-interest income decreased 4%, largely due to reduced insurance income. Excluding this, it was flat, reflecting customer-centric pricing actions, the shift to digital from traditional channels and subdued economic activity, given Covid-19 lockdowns and July's unrest.

CIB's non-interest revenue grew 22%, or 28% in constant currency, an excellent performance. The growth was driven by the Investment Bank, given a combination of strong Global Markets and non-recurring fair value losses in the base.

Strong Global Markets revenue growth, particularly in SA

Global Markets revenue grew 14%, or 20% in constant currency, to over R7bn, which is a credible performance.

The Markets histogram in our booklet shows a material YoY decline in ‘loss days’ and a shift right to positive days.

Markets SA rose 24%, with fixed income and credit up 20%, due to strong client flows and a couple of large client trades. After a strong second half, FX and Commodities decreased 6%, off a high base that benefited from significant volatility. Its underlying client activity was 13% higher. Equities and Prime Services rebounded from a low base, with improved client flows and tight risk management.

Although Markets ARO grew 2%, it was 14% higher in constant currency, off a high base, as it continues to diversify by product, client segment and geography.

Operating expenses remain well managed …

Moving to costs, our operating expenses increased 4%, or 7% in constant currency.

Much of this growth was due to the sizeable increase in bonuses off a very low base last year, given our improved performance. Excluding bonuses, costs were up 1%, or 3% in constant currency.

Total staff costs grew 4%, or 7% in constant currency, and remain the largest component at 55% of group costs. However, salaries decreased 1%, as headcount reduced by 4% or almost 1500. Provisions for bonuses rose materially, in line with group earnings.

Non-staff costs also increased 4%, or 7% in constant currency.

Calling out areas of high growth, IT costs grew 19% and amortisation increased 12%, reflecting continued investment in digital platforms. Marketing increased 16% due to higher campaigns spend, particularly in RBB SA. Fraud and losses also rose materially in ‘other’, which was partially offset by reduced travel and entertainment costs.

Of the other large items, property costs were flat, given our property optimization strategy and lower spend on Covid-19 protective equipment. Depreciation fell 9%, on lower depreciation of physical IT infrastructure.

Lastly, pro fees grew 2%, reflecting higher change and technology services spend, partially offset by insourcing our IT staff in Prague.

It is very pleasing that our cost-to-income ratio has improved for the past two years.

… while continuing to invest in technology

I want to give you a longer-term perspective of the main components of our cost growth.

Since 2018 our group costs grew 3% compounded annually. Within this sub-inflation growth, we have continued to invest heavily in technology. In fact, our total IT-related spend, including technology costs, associated staff costs, amortisation and depreciation, grew 16% compound. We continued to invest, even in 2020, when our total costs declined. At over R11bn in 2021, total IT spend constitutes 24% of our group costs, from 18% three years ago.

The offset has come from areas such as marketing. Despite growing 16% in 2021, it has decreased 7% compound since 2018, largely due to a significant reduction in our sponsorship spend. Also, our cash transportation costs declined 4% compound, reflecting muted economic activity, the shift to digital and increased cash recycling.

We have also managed our property costs well for several years. These grew just 2% compound over the period, given our optimization strategy, and we see scope for further efficiencies here.

Lastly, our biggest item, staff costs, grew 3% compound since 2018, largely due to headcount reduction.

Credit impairments improved materially across the board

Turning to credit impairments, our charge dropped significantly from the exceptionally high base of R21bn in 2020. I will spend some time unpacking the improvement.

Both RBB and CIB’s credit impairments dropped materially, by 54% and 78% respectively, resulting in a R12bn or 59% lower group charge.

This reduction was largely due to the non-recurrence of the substantial R5.4bn macroeconomic variable provision we raised in 2020, a net R1.2bn MEV release this year, plus improved collections and model enhancements in RBB. Although single name impairments decreased 13% to R2.4bn, these remain elevated, with certain sectors still under pressure.

Our group credit loss ratio improved substantially to 77 basis points, at the bottom end of our expected through-the-cycle target range of 75 to 100 basis points, from last year's high of 192 basis points. The reduction exceeded our expectations.

RBB's credit loss ratio fell significantly from 278 basis points to 121, which is within RBB SA's through-the-cycle target range of 110 to 155 basis points. It benefited from better underlying performance, model enhancements in the South African retail portfolios, and improved collections.

RBB SA's models were also enhanced to achieve greater consistency between regulatory and IFRS models and to refine certain assumptions, including the mortgage loss given default model to reflect empirical workout behaviour. These model changes decreased our first half charge by R916m, with the largest reduction in Home Loans.

RBB SA's NPL ratio has historically been an outlier to the sector due to a more conservative application of the definition-of-default in determining the staging of advances. Aligning our definition to the industry, specifically on curing and the treatment of restructures, resulted in lower NPLs, particularly in the secured portfolios. The change reduced our credit charge by R166m.

Home Loans credit loss ratio improved to negative 5 basis points, from 88 basis points, due to the improved macroeconomic outlook, model updates and improved collections.

Vehicle and Asset Finance's credit loss ratio fell significantly to 145 basis points for the same reasons.

Everyday Banking's credit loss ratio dropped to 5% from 8.4%. Within this, Card's charge fell 39%, due to model enhancements, the revised definition of default and the improved macroeconomic outlook. Personal Loans credit impairments decreased 43%, given strong collections, the improved macroeconomic outlook and a reduction in SICR charges as customers cured from stage 2. These were partly offset by model enhancements that increased its charge.

Relationship Banking's credit loss ratio fell to 67 basis points, as arrears improved and it released some MEVs. However, single name charges increased as we proactively managed the sectoral risk within the portfolio.

RBB ARO's credit loss ratio dropped considerably to 2% from almost 4%, given non-recurrence of the coverage built last year and improved collections.

Lastly, CIB's credit loss ratio improved from 75 basis points to 17, which is slightly below its 20 to 30 basis point through-the-cycle target range. The decrease was due to lower single name charges, a partial release of its macroeconomic overlays and an improved portfolio construct in the performing book.

Several drivers of lower non-performing loans

Our group non-performing loans, or stage 3 loans, declined to 5.4% from 6.3%.

Unpacking the improvement, part of it was aligning our overly conservative definition of default with our peer group.

Implementing a revised definition-of-default produced a significant reduction in NPLs, particularly in Home Loans and Vehicle and Asset Finance.

We also sold some Personal Loans and Card legal balances, while write-offs increased in our unsecured portfolios and the backlogs in legal processes in secured lending started to clear.

Of course, 7% loan growth in the denominator also reduces the ratio.

These positives were partially offset by increased delinquencies and higher NPLs following the expiry of payment relief.

Loan coverage remained robust

After our significant increase in total loan coverage in 2020, it decreased slightly last year. However, our coverage remains comparatively high at 4.1%, which we believe is appropriate for the operating environment, based on our current expectations.

In these graphs, we also show our 2020 loan coverage after we changed the definition of default in the first half of last year, to show the underlying trend in coverage.

Stage 1 loan coverage decreased to 81 basis points, largely due to the better macroeconomic outlook relative to 2020 expectations, which saw some release in macroeconomic overlays in both RBB and CIB.

Stage 2 loan coverage rose from our adjusted level due to a change in mix, as CIB SA balances, where coverage is lower, decreased the most last year. This offset higher coverage in Home Loans and Everyday Banking.

Stage 3 loan coverage increased to over 44%, in part due to our new definition of default, as loans with lower coverage migrated to stage 2. It also reflects a shift of macro overlays to stage 3 as the payment relief book matures, some ageing in the Home Loans and Vehicle and Asset Finance legal books, and additional cover on distressed names in CIB SA.

Strong divisional earnings growth

Moving to our divisional performance, RBB's earnings rebounded strongly off a very low base, more than doubling to R10.2bn.

Its growth was largely due to 54% lower credit impairments, as its pre-provision profits decreased 3%, impacted by Insurance's significantly higher claims and Covid-19 provisions. Excluding Insurance, pre-provision profits grew 2% and were substantially stronger in the second half, increasing 10% YoY. During the year, RBB cut fees by R600m to alleviate strain on customers. Excluding this and total Insurance, its revenue grew 3% and its pre-provision profit grew 5%.

CIB's earnings grew 54% to R7.8bn, or 64% in constant currency. Its pre-provision profits grew 10%, or 16% in constant currency, and its credit impairments fell 78%, off a high base. CIB's earnings were almost a third higher than 2019 pre Covid-19 levels. As noted, its non-interest income grew 22%, or 28% in constant currency, well above 10% cost growth.

The R2bn improvement in ‘Head office, Treasury and other’, was due to non-recurrence of the large prime reset losses in the base, higher yields on the liquid asset portfolio and lower funding costs.

RBB franchises all rebounded sharply, besides Insurance

Unpacking RBB’s franchises, all rebounded significantly, with the exception of Insurance.

Home Loans produced an excellent performance, with record profits of R2.5bn. Strong 12% net interest income growth was well ahead of 3% cost growth, generating 15% higher pre-provision profits. As mentioned, its credit impairments improved considerably to a small release, mostly due to model refinements.

Vehicle and Asset Finance continued to generate strong pre-provision profit growth, up 18% on the back of 16% higher revenue due to 10% book growth and improved margins. Its credit impairments also dropped 53%, although its credit loss ratio remains above the through-the-cycle target range. These combined to increase its headline earnings by R1.5bn year-on-year from last year’s substantial loss.

Everyday Banking earnings grew 63% to almost R4bn, largely due to substantially lower credit impairments in Card and Personal Loans, which both rebounded from losses in 2020. The business faced several revenue headwinds, including moderate first half loan production, while the low interest rate environment compressed margins across the balance sheet. Continued lockdowns in 2021, together with fee reductions and the shift to digital channels weighed on fee income. These revenue headwinds resulted in lower pre-provision profit.

Customer numbers increased slightly to 9.6m, primarily in the middle market and retail affluent segments, which grew 3% and 2% respectively. Primary customers decreased slightly to 2.8m, largely due to reduced transaction activity and income, particularly in entry level banking. Digitally active customers grew 11% to 2.1m and the products per customer improved marginally to 2.4.

SA Insurance earnings dropped by over R900m to R68m, given significantly higher mortality claims and increased reserves in Absa Life due to Covid-19. Life Insurance lost R174m, as the second and third waves of Covid-19 were worse than expected, and it increased reserves to R423m for the expected impact of the fourth and potential fifth waves. Life's net premiums grew 7% to R4bn, with growth in funeral and Instant Life business resulting from integration into the bank. Short-term insurance earnings decreased 35% to R242m, as motor vehicle accident claims normalized off a low base, and investment income decreased given lower interest rates and a reduction in excess capital.

Relationship Banking's earnings increased 49% to R3.5bn due to 57% lower credit impairments and 5% higher pre-provision profits. Strong deposit growth and 14% higher card acquiring volumes supported 4% revenue growth, offsetting customer-centric fee reductions and lower cheque income. Relationship Banking's returns remain very attractive.

Lastly, RBB ARO's earnings improved by R700m YoY, from a loss due to a 49% reduction in credit impairments and 8% increase in pre-provision profits. Within this, the banking operations rebounded strongly, with 15% pre-provision profit growth, while Insurance ARO was loss-making, given significantly higher Covid-19 claims and reserving.

Strong earnings growth across CIB franchises

Turning to CIB, this slide splits it by business and geography, although we run it on a Pan-African basis.

Corporate's earnings grew 69% to R2.3bn, or 88% in constant currency. Credit impairments were the main driver, declining significantly off a high base to a small reversal. Its pre-provision profits were flat, although this was 7% higher in constant currency. Corporate's revenue grew 5%, or 10% in constant currency, with South Africa up 9% and ARO down 1%, albeit up 10% in constant currency. Corporate SA's growth reflects strong increases in deposits and trade finance, partially offset by subdued demand for short-term funding. Costs grew 8% or 11% in constant currency, largely due to higher bonus provisions.

Investment Bank earnings grew 48%, or 55% in constant currency, to R5.5bn. This reflects the combination of 15% pre-provision profit growth and 61% lower credit impairments. Its revenue grew 14%, or 18% in constant currency, with solid growth in all business units. As mentioned, Markets revenue rose 14%, or 20% in constant currency, while Commercial Property Finance grew 13%. South Africa's revenue increased 22%, while ARO declined 1%, although it grew 11% in constant currency.

Costs rose 13%, due to higher bonus provisions and incremental run costs. Its cost-to-income ratio remains low at 39%.

Using a geographic lens, CIB South Africa earnings grew 62% to R5.1bn, given 66% lower credit impairments and 18% higher pre-provision profits, on the back of 17% revenue growth. Its return on regulatory capital improved to 19%.

CIB ARO earnings grew 39% to R2.6bn. The strong Rand weighed on its performance, because in constant currency its earnings grew 67%, and revenue was 11% higher, rather than down 1%. Its credit impairments decreased 94%, resulting in a low credit loss ratio of 12 basis points. CIB ARO's return on regulatory capital remains high at 30%.

Opportunity remains in Africa regions

The 14% stronger average Rand was a headwind for ARO's contribution in 2021, although it was less in the second half and the spot Rand ended the year weaker.

ARO's revenue decreased 2% to R20bn, although it was up 9% in constant currency. Its earnings grew 107% to R3.1bn, given 67% lower credit impairments and 3% growth in pre-provision profit.

ARO's earnings are still 9% below pre-Covid 2019 levels, while South Africa is 20% above 2019.

However, it remains a meaningful contributor, accounting for a sixth of our group earnings and almost a quarter of our revenue.

We see significant scope to grow our existing portfolio over the medium-term.

In particular, we aim to improve RBB ARO's 70% cost-to-income ratio and its low 5% return on regulatory capital.

Common equity tier 1 ratio above board target range

We remain well capitalized.

Our CET 1 ratio increased to 12.8% from 11.2%, which is better than we expected a year ago, given strong capital generation and lower risk weighted assets. This is above the top end of our board target range of 11 to 12.5%, and comfortably exceeds regulatory requirements.

RWAs increased 2% to R932bn, with the largest component, credit risk up 1%. As Jason mentioned, we had substantial optimization benefits of R45bn, across RBB and CIB.

We remain capital generative, with profits adding 2% to the CET 1 ratio over the year.

'Other' includes 9 basis points for the final phasing in of IFRS 9, which was completed in January 2021. There's also a 21 basis points increase in our foreign currency translation reserve, which offsets the currency-driven RWA growth.

The strong CET 1 ratio allowed us to resume dividend payments, initially at a payout ratio of 30% and increasing to 40% for the final dividend, which amounts to 43 basis points of CET 1.

Thanks for your attention, I'll hand you back to Jason.

Jason Quinn – Interim Chief Executive

Thank you Punki.

Completed strategy refresh

Clarifying our strategy was one of our biggest priorities as a leadership team last year. We refreshed it based on the latest market context, while re-anchoring it to our 2018 strategy. We are confident that most of our key strategic calls in 2018 were the right ones, that we have delivered well against and which remain very relevant today.

Our purpose, of being a leading African bank "bringing possibilities to life", has five key strategic themes.

First, creating a winning, talented and diverse team is obviously a prerequisite.

Second, as I mentioned, both RBB and CIB aim to be the primary partner for our clients, a priority for us medium-term.

Third, deliberate, market-leading growth includes targeted growth and allocating capital to attractive segments, based on risk-adjusted returns.

Fourth, we prioritised digitisation, which is a megatrend that has accelerated due to Covid-19 and a greater opportunity than we previously envisaged. We will continue to invest heavily there. Becoming a digitally-powered business means creating a superior digital experience for clients and colleagues at the front end, while using data as a strategic asset, continuously evolving our technology architecture, embedding state of the art security and a 'digital culture' and ways of working. We will continue to digitise key business processes and leverage digital partnerships to accelerate delivery.

Lastly, the significant focus on ESG in recent years makes being "an active force for good in everything we do" even more important now, so I am going to spend a bit more time on that aspect today.

ESG strategy: active force for good in everything we do

Along with digital, ESG was elevated to even more of a priority from our 2018 strategy.

This slide shows our refreshed ESG strategy.

Climate change is the main theme in the Environmental agenda. We aim to become Africa's "sustainable finance leader", and we will soon publish an ambitious net zero carbon target, while managing climate change risk.

"Inclusive finance" is our main impact area within the Social agenda, while promoting diversity and inclusion is also a priority.

Making solid progress on sustainability

Given its importance, I want to spend some time on the progress we are making on sustainability.

For starters, our ESG ratings suggest we are doing well. All seven of our global ratings improved last year, some materially.

To highlight a few, we are particularly pleased with continued improvement to the 86% percentile among banks globally in our S&P SAM ESG rating.

Also, our CDP climate change rating jumped by two notches, the only SA bank to improve last year.

We are one of only two banks in the JSE Responsible Investment top 30 index, which uses FTSE Russell scores. We entered Corporate Knight's "Most Sustainable Corporates" rating for the first time, ending up in the top 2% of banks globally.

Lastly, we were tied first in Citigroup's CEEMEA bank ESG ranking, and first among SA banks in Integram's ESG rating.

In our view, sustainable finance offers a significant growth opportunity, which is larger than the risks from climate change, at least near-term.

We were the first SA bank to announce sustainable finance targets. CIB aims to finance R100bn of ESG-related loans and debt by 2025. On top of this, Relationship Banking plans to finance R2.5bn or 250 megawatts of embedded power in South Africa by 2025.

Last year, CIB provided R19bn of ESG-related financing, almost double its target for the year, while Relationship Banking's renewables finance grew 80% to around R460m.

Given South Africa's carbon-intensive economy, there's a huge opportunity to finance renewable energy. We are the leader here, after dominating the 5th round of renewables, where our clients won over 80% of the deals. Cumulatively, we have been involved in deals totaling 5GW. The 6th round is expected to close next month, and the 7th by September.

Government increased the cap on embedded power generation to 100 megawatts last June, and we see substantial interest from corporates to generate their own power, particularly in mining, which we are well positioned to finance.

You would have seen our partnership with African Rainbow, which created South Africa's largest black-owned renewables fund, with over R6bn in renewable assets.

We have made good progress in embedding climate change into our risk management framework, including publishing a sustainability risk policy and rolling out an environmental and social management system.

We are also focusing more on inclusive financing, including the mass market and SMEs, affordable housing mortgages and so forth.

There is a big opportunity in funding, where DFIs and other funders expect banks to have strong ESG credentials and proper ESG systems and controls. For instance, the IFC provided us with an attractively priced $150m green loan last May, which was Africa's first certified green loan.

I was particularly that our B-BBEE status returned to level 1 and we expect to bring details to you on our proposed BEE deal in due course.

Modest growth expectations, with downside risk

Before getting to our guidance, I will cover the macro prospects as we see them.

The outlook for the global economy in 2022 is particularly uncertain. Events in Ukraine are acute, and sharp moves in commodity prices and potential interruptions to supply are likely to trigger significant re-assessments. Furthermore, higher inflation in many developed markets is expected to result in moves to start normalizing accommodative policies, with uncertain consequences for asset prices and flows into emerging markets.

Against this highly uncertain global backdrop, we currently expect South Africa's economy to grow by 2.1% in 2022, getting back to pre-Covid absolute GDP levels by the end of the year. We see some increase in fixed investment spending and exports being offset by higher imports, fiscal consolidation and limited household income growth. Sectoral differences are likely to remain elevated, with high commodity prices boosting parts of the mining sector, while households face the steep headwinds of increases in fuel and other commodity prices.

We see more downside than upside risk to South Africa's economic outlook. Downside risks could snowball quickly, while upside performance would be a slow grind stronger. Eskom's operational challenges and debt burden remain a key risk to growth and investor sentiment. Moreover, a fifth Covid-

19 wave is expected to emerge as soon as next month and its impact is uncertain at this point. And, of course, the global outlook could deteriorate given events in Ukraine.

Consumer price inflation is likely to remain elevated, particularly in the first half, and we expect the Reserve Bank to continue increasing rates in a measured way that is slower than markets are pricing in. We think prime rates will increase to 10% in 2024, back to 2016 levels and well below the previous 15% peak in 2008.

Moving to ARO, we forecast strong 5.3% GDP-weighted economic growth for our presence countries. Policy rates are likely to rise in many of them, albeit gradually.

2022 outlook

Based on these assumptions, and excluding further major unforeseen political, macroeconomic or regulatory developments, our guidance for 2022 is as follows:

We expect high single digit revenue growth, driven by improved non-interest income growth, in part due to lower Covid-related life insurance claims. We expect high single digit growth in customer loans and deposits, while our net interest margin will benefit from rising rates. The banking book net interest income sensitivity for a 1% rise in rates is about R600m, post the structural hedge on an annualized basis.

We expect mid-single digit operating expense growth, resulting in positive operating JAWS and high single digit growth in pre-provision profits.

Our credit loss ratio is likely to increase, although remain in the bottom half of our through-the-cycle target range of 75 to 100 basis points.

Consequently, we expect our RoE to be similar to 2021's.

Lastly, our Group CET1 ratio is expected to decline, but remain above 12%. We aim to increase our dividend payout ratio to at least 50% in 2022.

Medium-term targets – 2024

I will now finish with our medium-term guidance, once again highlighting the unprecedented levels of uncertainty in the global macro environment.

As you saw earlier, we expect modest GDP growth and gradually rising interest rates in South Africa medium-term, with stronger economic growth from our ARO portfolio.

To the extent that this macro scenario materializes, we aim to reduce our cost-to-income ratio to the low 50s and improve our RoE to over 17% by 2024.

Thanks very much for your attention, we'll move to your questions on Slido now.