1H22 speaker notes

Arrie Rautenbach – Chief Executive

Good morning and thank you for joining us for Absa's 2022 interim results presentation.

Firstly, I will share my thoughts on where we are as a group in terms of our strategic execution, before giving my perspective on our first half performance.

Thereafter, Jason will unpack our numbers, following which I will provide some context to the focus areas going forward and then we will take your questions.

Consistent execution delivering strong performance

Five months into my role as Chief Executive, I feel that the Group is in a very positive space.

We continue to consistently deliver against our group strategy. Although we revisited our strategy last year, based on the latest market context, we re-anchored it to our 2018 strategy. We are confident that the majority of our key strategic decisions in 2018 were the right ones and remain relevant, with the strong results we are presenting today a testament to this.

Our strategic execution journey was split into two clear phases, with the first phase specifically focused on "fixing" or the turnaround of the business. As I will show in the next few slides, we have delivered on this across our businesses and we are now moving into the outperformance phase of our execution plan.

We have been clear over the past few years that we need to grow our own "timber" within the organisation and across the Group our leadership teams have been very stable since 2018. The experience gained by this leadership group over the past three years, in fixing the business as well as navigating the organization through the pandemic, gives me the comfort that the organization is in the right hands for the next phase.

As we emerge from the impact of the pandemic, it is the opportune time to refine our operating model, adopting a flatter structure, bringing management closer to customers and allowing us to accelerate strategy execution. Effective 1 July, we moved from two divisions to five. Corporate and Investment Banking remains unchanged as a Pan-African business. However, we "unbundled" Retail and Business Banking into four areas: Everyday Banking, Relationship Banking, Product Solutions and RBB ARO, that

are all represented on our Group Exco. Given the elevated importance of ESG and the clear linkage to the strategy, we have created a new Exco role of Group Chief Strategy and Sustainability Officer. We see clear commercial benefits flowing from this change to our operating model. Our Exco, which has over 200 years of Absa service, an average of 16 years per member, are completely aligned behind the single purpose of delivering the strategy.

We recognize that the macro backdrop has deteriorated noticeably in the past six months. Global growth expectations have reduced materially, there are considerably higher inflationary pressures across most of our markets, and policy rates are increasing far faster than we expected. Given this, 2023 looks relatively tough from a macro perspective. However, as Jason will show, we are well positioned for the tougher operating environment. Our balance sheet remains strong, with high levels of capital and provisioning. Post our structural hedge, we also benefit from rising policy rates, and our ARO portfolio provides some diversity.

Overall, as a group we are on the front foot again.

Strategy to regain RBB leadership gaining traction

Moving onto our divisions, RBB is in the second phase of its 2018 strategy, focusing on smart growth.

The initial “fixing” stage laid a strong foundation. Crucially, we restructured RBB early in the process, delayering the business and bringing management closer to customers. This reduced bureaucracy, while improving accountability, efficiency and agility.

A key component of the restructure was bringing the end-to-end accountability for product propositions and risk management into each business. The completion of this ecosystem was a key enabler for the fix phase and ensured that delivery accountability rested within the appropriate businesses whilst being a precursor to regaining market share across the balance sheet with our share of retail loans and deposits at 22%.

Improving customer experience was a vital part of RBB’s strategy and this started with the cultivation of a new culture of being “closer to customers”. RBB followed a phased approach which started with the launch of a first of its kind Digital Fraud warranty and then focused on improving customer complaints processes, where we have improved from worst in the annual Ombudsmen rankings to first for the past two years. We then enhanced our Absa Rewards programme before making customer-centric pricing

changes, where we cut R500m in fees last year. The outcome of these actions is becoming evident in our customer net promotor score which improved to 58% in the first quarter, from 46% in 2021.

Retail's customer base has stabilized and our customer numbers increased 1% year-on-year to 9.6m, including 7% growth in Retail Affluent. Youth customers growing 4% since December was also pleasing. As another indicator, Transactions and Deposits non-interest income grew 8%, while our deposit share remains strong at 22%. Lastly, our product per customer improved to 2.4, which indicates deepening customer relationships.

Our decision to integrate bancassurance into RBB was a good one that significantly improved our offerings to customers and our cross-selling strike rates.

Lastly, RBB has made significant investments in digital, resulting inconsiderable progress across the estate. We were pleased to be recently awarded the Best Digital Bank in SA by the Global Banking and Finance awards. Improved stability and enriched functionality saw our digitally active customers grow 10% to 2.2m, primarily driven by increased app usage. Digital volumes have grown by 86% compared to 2019 levels whilst branch and ATM volumes have declined substantially.

During the second phase of our strategy, the business is focusing on smart growth and outperforming peers. This includes acquiring customers in very specific segments. While we have gained momentum with core middle market and affluent customers, we aim to grow our entry level and inclusive banking base, as well as Youth and SMEs.

Improving customer primacy is a key pillar of the strategy. While our primary customers declined slightly to 2.7m, this was in entry level customers, where income level volatility increased materially and reduced primacy.

Growing capital light revenues, including fees and bancassurance income, is another crucial component of our strategy, which is closely linked to customer primacy.

Acceleration of digitization is important, specifically within the current competitive landscape and the business will continue to invest across products to ensure consistent customer experience and continuous improvement in product and channel journeys.

CIB has a solid foundation for further growth

Although completed two years ago, CIB's separation from Barclays was such as pivotal event that it's still relevant to the business. CIB replaced several key systems and its digital platforms like Absa Access are in place and competitive, although they still require continued investment. CIB has done well to replace the 15% of revenues that came from PLC connectivity, and to absorb substantial incremental run costs to replace capabilities lost.

CIB has benefited from stable leadership over the past three years, specifically as it embedded the Pan-African model across its businesses.

Having completed the initial, balance sheet-led phase of its strategy last year, CIB is now prioritizing growth with sustainable returns with a focus on capital light non-interest revenue. Corporate Bank is building a strong track record here, with double digit non-interest income growth, driven by transactions and trade finance. Like RBB, CIB aims to improve customer primacy, where it is making progress, particularly in ARO. As part of this process, accelerating the migration and digital activation of clients onto our strategic platforms is key. Client migration onto Absa Access is ongoing, with all ARO clients completed, and the focus moving to South African and Pan-African clients this half. CIB continues to grow its new to bank customers too. We also see scope to build out CIB ARO further over the medium-term. ESG is a megatrend that provides CIB numerous growth opportunities, including in financing renewable energy, where we are the leaders in South Africa to date. Including the 5th REIPPP round, we have been involved in deals totaling over 5 gigawatts. In the first half we were sustainability coordinator on South Africa's largest syndicated sustainable finance transaction to date, at over R10bn.

Divisions grew earnings and improved returns

Both divisions performed well in the first half.

RBB earnings grew 34% YoY, off a relatively low base to R5.6bn, which is 3% above pre-Covid levels in the first half of 2019. Importantly, its return on regulatory capital improved materially to 20%.

While CIB earnings increased just 5% YoY, to R4.3bn, it is 46% above pre-Covid levels, a very strong recovery. And its return on regulatory capital improved further to a credible 24%.

Hence it is evident that both divisions' strategies are delivering strong performance.

Maintained our positive momentum

Moving to salient features of our first half performance, we have recovered strongly from the Covid-19 lows in 2020. In fact, the key measures are all significantly above the pre-Covid levels of the first half of 2019.

Importantly, our performance is based on strong pre-provision profit growth, which in turn reflects solid revenue growth. Our pre-provision profit is 35% higher than the first half of 2019, a 10% compound annual growth rate.

Our diluted normalised HEPS have rebounded from the lows two years ago, including 27% growth YoY this half. This a third higher than pre-Covid levels, also up 10% compound.

Similarly, our strong RoE of 17.7% is well above pre-Covid levels and significantly above our cost of equity.

Strong capital generation improved our CET 1 ratio significantly, to above our Board target range.

For shareholders, our first half dividend per share more than doubled, [off a relatively low base], given our HEPS growth and increased 50% payout ratio. Our dividend per share has grown 9% compound since the first half of 2019.

We are building a consistent track record, which gives us confidence.

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

Jason Quinn – Financial Director

Thanks Arrie and good morning everybody.

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

Revenue growth drove strong increase in earnings

Starting with our income statement, headline earnings increased 27% to R11bn, our strongest half yet.

It is very clear from this graph that our earnings growth was due to significantly higher pre-provision profit, which in turn was driven by very pleasing revenue growth.

Revenue grew 14%, or 13% in constant currency, to R47bn.

Within this, net interest income increased 12%, or 11% in constant currency, reflecting further margin expansion and solid 8% growth in average interest-bearing assets.

Non-interest income grew 18%, or 17% in constant currency, in part due to a substantial recovery in Insurance revenue, while fee income growth was strong.

As you have come to expect of us, operating expenses remain well controlled, growing 7%, or 6% in constant currency, mostly due to increased accruals for performance costs and investment in digital. Non-performance related costs grew only 4%.

These combined to produce 23% higher pre-provision profit. Excluding the rebound in Insurance revenue in South Africa, our pre-provision profit still increased by 16%.

Our credit impairments rose 10% to R5.2bn, predominantly due to non-recurring model enhancement benefits that RBB South Africa realized in the comparative period. Our credit loss ratio increased to 91 basis points, slightly above the middle of our through-the-cycle target range, and marginally higher than last year's 88 basis points.

The large decrease in "Other" reflects a 31% higher taxation expense, with our effective tax rate increasing to 28%, and higher minorities.

Net interest margin recovery continued

In the first half of 2020, our net interest margin fell 29 basis points, predominantly due to significant policy rate cuts that our structural hedge only partly offset. After improving further in the first half this year, it is back to pre-Covid-19 levels of 4.5%, mainly on the back of higher policy rates in South Africa and ARO. Unpacking the moving parts, our lending margin continued to improve, with higher rates and reduced suspended interest in RBB South Africa. Deposit mix contributed positively, with a reduction in low-margin Corporate SA deposits and less reliance on wholesale funding. The Equity endowment added 6 basis points, with South Africa's average prime rate 0.7% higher and higher equity balances. This was partially offset by a smaller release from our structural hedge of R1.3bn from R1.5bn. The cash flow hedging reserve decreased to a R3.2bn debit from a credit of R0.8bn at 31 December last year. Within

'other' the largest items are investing excess liquidity in low-margin instruments in ARO, partially offset by the reset impact of South Africa's rising prime rate during the current period.

Broad-based loan growth

Turning to our balance sheet, total loans grew 12% to almost R1.2tn. Excluding reverse repurchase agreements, the growth was slightly higher at 14%. Group loans to customers rose 9%, while loans to banks increased 60%. South African customer loans grew 7% to R922bn and Africa regions increased 17%, or 10% in constant currency, to R129bn.

Division-wise, RBB customer loans rose 9% to R647bn, while CIB grew 7% to R404bn.

Our largest book, Retail South Africa increased 9% to R447bn, with solid growth across all segments.

Relationship Banking grew 7%, with continued momentum in Agri and some improvement in commercial asset finance and overdrafts.

RBB ARO loans grew 17%, or 10% in constant currency, with similar growth in personal lending, mortgages and commercial loans.

CIB SA customer loans increased 5% to R341bn, with strong growth in Corporate short-term financing and trade finance, partially offset by modest Investment Banking growth.

CIB ARO customer loans grew 18%, or 9% in constant currency, with strong Corporate loan growth particularly in trade finance.

Consistent loan growth across Retail Banking SA

Our retail market share increased slightly to just over 22%, with continued momentum in secured lending and improved production in unsecured.

Home Loans grew 9%, improving our market share to 23.7%. Average loan values and registrations both increased 7%.

Vehicle and Asset Finance grew 8%, on 7% higher production, increasing our market share to just over 23%. Embedding our digital application system across dealer, branch and virtual channels resulted in industry leading turnaround times. Margins are stable, with some pressure emerging on new business pricing due to increased competition.

Credit card grew 10%, reflecting 7% higher sales, together with increased limits and utilization, with turnover volume up 13%.

Personal Loans increased 8%, with production up 36% and back to 2019, pre-Covid levels. The increase reflects significant improvement in digital sales on our mobile banking app and marketing campaigns. New business pricing improved. Personal loans remain a small portion of our retail lending and our market share is very low at just 10%.

Continued deposit momentum across the board

Total customer deposits grew 7%, or 5% in constant currency to R1.1tn.

SA customer deposits increased 5% to R898bn. Within this, Retail rose 7% to R281bn, to maintain its market share of 22%. Transactional deposits grew 5%, while investment deposits rose 8%, which benefited from the migration of the Absa Money Market Fund, although from July this is now in the base.

Relationship Banking increased 11%, a very good performance. Transactional deposits increased 10%, due to customers building up liquidity, although this is tapering off as businesses start to invest. Investment deposits grew 12%, supported by migrating the money market fund.

Deposits are also a priority for CIB South Africa and rose 1% to R336bn.

Corporate South Africa grew 5%, despite reduced national government balances. It also benefited from migration of the money market fund.

Investment Bank South Africa decreased 15%, given 23% lower fixed deposits and repurchase agreements down 18%.

African regions deposits grew 16% to R188bn, in part due to the weaker spot Rand, as it increased 7% in constant currency.

RBB ARO deposits increased 16% or 7% in constant currency, with growth in cheque and investment products.

CIB ARO deposits grew 17%, or 7% in constant currency, with growth in call, cheque, fixed and foreign currency deposits.

Substantial deposit growth improved liquidity

Growing core deposits remains a priority and is a good indicator of the health of our franchise. Our total deposits have grown 10% compound since the pre-Covid period.

I am pleased that customer deposits increased to 78% of our total funding, reducing the proportion of bank deposits and debt securities. The benefit of lower reliance on wholesale funding is very evident in our net interest margin.

Lastly, our liquidity coverage ratio of 121% and net stable funding ratio of 113% are both very strong and comfortably above regulatory requirements.

Insurance drove non-interest income rebound

Growing non-interest income is also a key priority for us, with improving underlying trends.

Total non-interest income grew 18%, or 17% in constant currency, and accounted for 39% of our revenue.

There were three drivers of this growth. Firstly, 'other' non-interest income rebounded strongly, after dropping significantly last year. Within this, SA Insurance increased by R1.3bn from last year, when its claims and provisions were elevated due to the third and fourth waves of Covid-19 in South Africa. Excluding this rebound, group non-interest income grew nicely by 10%.

Second, the largest component, net fee and commission income grew 7%, with transactional income up 8% and merchant income increasing 11%. It was pleasing to see RBB's growth improve to 8%, while CIB remained robust at 10%.

Thirdly, net trading excluding hedge ineffectiveness grew 12%, which is higher than the 1% increase in Global Markets income off a high base.

At a divisional level, RBB's non-interest income grew 22%, or 10% excluding the rebound in SA Insurance revenue. This reflected growth in customers and normalising economic activity, with low double-digit growth in digital and card turnover. The migration to digital channels continues to dampen non-interest income, with ATM and branch volumes down 6%.

CIB's non-interest revenue grew 6%. Corporate Bank increased 12% due to transaction growth and trade finance, while Investment Bank growth was lower at 4% given a high base in Global Markets in the corresponding half.

Costs well managed as we continue to invest

Moving to costs, our operating expenses increased 7%, or 6% in constant currency.

Staff costs rose 4%, accounting for 55% of total operating expenses. Salaries and other staff costs were flat, largely due to a lower headcount and reduced restructuring costs offsetting salary inflation. Bonuses grew 47%, given improved performance and a higher proportionate first half accrual, which added 2% to total group costs.

Non-staff costs grew 10%, or 9% in constant currency. Calling out areas of higher growth, IT costs increased 12% due to continued investment in digital platforms requiring additional software, cybersecurity and licensing spend. Total IT spend, including staff, amortisation and depreciation, grew 11% to almost R6bn, or 25% of Group expenses. Professional fees rose 35%, mainly from higher spend on strategic initiatives. Marketing costs grew 48%, due to increased campaign spend, mostly in RBB. Amortisation of intangible assets increased 15%, given investment in new digital, data and automation capabilities.

Costs also reduced in several areas. Depreciation decreased by 8% primarily due to continued optimisation of property and physical IT infrastructure. Property costs declined 1%, reflecting ongoing property optimisation. And cash transportation costs fell 5%, given migration to digital banking and benefits from increased cash recycling.

I am very pleased that our cost-to-income ratio has improved to 51%.

Credit loss ratio increased slightly

Turning to credit impairments, our charge grew 10% to R5.2bn, increasing our credit loss ratio slightly to 91 basis points from 88. The credit loss ratio is just above the mid-point of our through-the-cycle range of 75 to 100 basis points.

In the first half 2021 base, model enhancements and a change in the definition of default to align with peers reduced RBB SA credit impairments by R1.3bn. During the first half of 2022, we recognized a net

release of R1.1bn, mainly attributable to the consumption of the macro-overlay, as more of the anticipated risks are captured via incurred losses or recalibrated IFRS 9 models that reflect the Covid-19 loss experience.

RBB credit impairments grew 16%, resulting in a 1.44% credit loss ratio, from 1.33%.

Everyday Banking credit impairments (including Personal Loans, Card and Overdrafts) grew 6%, in line with book growth, given enhanced digital collections capabilities and concerted efforts to manage NPLs.

Vehicle and Asset Finance rose 56%, producing a 2.2% credit loss ratio. The increase reflects higher delinquencies largely due to operational issues we experienced post-DebiCheck implementation, an ageing legal book, and an increased number of customers in debt review.

Given large model enhancement benefits in the base, Home Loans swung from a R290m reversal to a R272m charge, although its 0.19% credit loss ratio remains low.

Relationship Banking's charge fell 68%, improving its credit loss ratio materially, due to an improved book construct.

CIB credit impairments decreased 42%, resulting in a credit loss ratio of 0.13% from 0.24%. The decline reflects reduced single-name charges in South Africa and a net impairment release on the performing book due to an improved portfolio construct

Coverage of declining NPLs remains robust

It is pleasing that group non-performing loans, or stage 3 loans, declined further to 5.3% from 5.6%. The improvement was due to loan growth in the denominator, and concerted efforts to manage our NPLs in our South African unsecured lending portfolios.

NPLs reduced across Home Loans, Everyday Banking and Relationship Banking, while Vehicle and Asset Finance increased due to customers in debt review and some pressure on the legal book. Africa regions NPLs rose in Business Banking and CIB, given pressure on the tourism sector.

Our stage 3 coverage remains appropriately positioned, improving slightly year-to-date to over 45%.

Within this, RBB's coverage was stable, with increased cover in Home Loans due to an ageing legal book.

CIB's coverage increased due to additional stage 3 impairments on single names.

Broad-based earnings and pre-provision profit growth

Moving to divisional performances, RBB earnings grew 34% to R5.6bn, driven by 24% higher pre-provision profit, with 14% revenue growth well ahead of 7% higher costs. Excluding the rebound in Insurance SA, RBB earnings still grew 11%. RBB contributed 57% of group earnings excluding Head Office, Treasury and other operations.

CIB earnings rose 5% to R4.3bn after a very strong first half last year, due to a combination of 42% lower credit impairments and 6% pre-provision profit growth. Revenue growth of 7% was slightly below 8% cost growth, producing a very good 46% cost-to-income ratio.

'Head office, Treasury and other' earnings increased considerably to R1.1bn, given significantly higher net interest income, as SA Group Treasury had increased endowment revenue, reset benefits from rising policy rates and strong investment returns.

RBB franchises all grew pre-provision profit

Focusing on RBB, the franchises all grew pre-provision profit, particularly Insurance SA off a very low base and RBB ARO.

Unpacking the franchises, Home Loans earnings fell 23%, because credit impairments normalised from a net release due to substantial model enhancement benefits in the prior year. Its pre-provision profit growth of 6% was solid, largely driven by loan growth.

Similarly, Vehicle and Asset Finance earnings decreased 90% due to 56% higher credit impairments that I covered earlier. However, net interest income rose 13%, on strong loan growth and improved margins, to produce 11% higher pre-provision profit.

Everyday Banking earnings rose 4%, with 8% higher pre-provision profit partially offset by 6% growth in credit impairments. Of its businesses, Transaction and Deposit earnings grew 4% and Personal Loans improved, while Card reduced 8% due to higher credit impairments, as large model enhancement benefits did not recur.

Insurance SA headline earnings rebounded to R640m from a R300m loss, as SA life insurance revenue and earnings recovered due to lower Covid-related mortality claims and provisions, and pleasing underlying 7% net premium income growth. Short-term insurance headline earnings dropped 75% to R40m, reflecting significantly higher flood claims and surge claims related to electricity load-shedding.

Relationship Banking earnings grew strongly, up 34%, due to the combination of 7% pre-provision profit growth and 68% lower credit impairments.

Lastly, RBB ARO headline earnings increased significantly, due to 42% higher pre-provision profit on the back of strong 18% revenue growth. This is an encouraging performance from that franchise, as we seek to reposition its growth trajectory and returns.

CIB benefits from its diversity

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

Starting with Corporate, which performed very well, earnings rose 22%, due to 29% pre-provision profit growth, that outweighed significantly higher credit impairments off a very low base. Revenue grew 13%, with pleasing growth in transactional revenues and improved customer primacy.

Investment Bank earnings declined 1%, as pre-provision profit decreased 2% and its tax expense increased. Revenue was resilient, increasing 4% off a demanding base, particularly in Global Markets. Credit impairments reduced materially.

Using a geographic lens, CIB South Africa earnings increased 7%, given 71% lower credit impairments and 2% higher pre-provision profit. Revenue grew 4%, with non-interest income up 6%. CIB SA constituted over two-thirds of CIB earnings.

Lastly, CIB ARO earnings rose 2%, with 15% pre-provision profit growth, as 14% higher revenue exceeded 12% cost growth. Impairments increased as we expected, following on from a net credit in the base.

Africa regions improved earnings and returns

The average value of the Rand was slightly weaker against the basket of ARO currencies during the period, adding 2% to Africa regions' revenue and earnings.

Africa regions earnings grew 32%, or 30% in constant currency, driven by strong 27% growth in pre-provision profit. Its earnings are now above pre-Covid levels.

Revenue growth of 17% exceeded 11% cost growth, improving its cost to income ratio to just below 60%. Credit impairments increased 47%, largely in CIB ARO off a very low base as discussed previously.

Africa regions is a meaningful contributor to the group, accounting for a sixth of earnings and almost a quarter of revenue.

We continue to see significant potential to grow our existing portfolio and further enhance its returns over the medium-term.

Common equity tier 1 ratio above Board target range

We remain very well capitalized.

Our CET 1 ratio increased further to 13.1% from 12.4%, which is better than we expected, and reflects strong capital generation combined with moderate growth in risk-weighted assets. This is above the top end of our board target range of 11 to 12.5%, and comfortably exceeds regulatory requirements.

Group risk-weighted assets increased 6% to R949bn, with the largest component, credit risk up 5%.

We remain strongly capital generative, with profits adding 2% to the CET 1 ratio over the year, partially offset by paying 70 basis points worth of dividends.

The strong CET 1 ratio allowed us to increase our dividend payout ratio to 50% from 30%, resulting in a 110% higher ordinary dividend of R6.50 per share, our highest on record.

Modest GDP growth expectations, with downside risk

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

The outlook for the global economy is particularly uncertain. Geopolitical events in Eastern Europe are acute, and sharp moves in commodity prices and potential supply interruptions are difficult to predict. Moreover, dramatic increases in inflation are being felt across most economies, triggering in many the most rapid monetary policy tightening in decades. Economic growth is widely expected to fall, although the extent remains unclear.

Against this highly uncertain global backdrop, we expect South Africa's economy to grow 2.3% in 2022, as a better-than-expected first quarter is tempered by the impacts of second quarter flooding in

KwaZulu-Natal, ongoing electricity supply shortages and an increase in strike action in some sectors. Eskom's operational challenges remain a key downside risk to economic growth and investor sentiment.

Moving to our ARO presence countries, we forecast 4.5% GDP-weighted growth. However, the risks are also tilted to the downside, given the more depressed global environment, rising domestic inflation, and tighter monetary policy in most ARO countries. Ghana's near-term outlook is clouded by its fiscal challenges and elevated inflation, although the prospect of an IMF-led intervention is encouraging. We generally expect East African countries, along with Botswana and Mozambique, to record better growth this year.

Rates rising faster with increased inflationary pressure

These graphs show the significant increase in our forecasts for South African policy rates and inflation compared to our expectations in February, when there was little expectation of a big push in inflation globally.

Back then, most expected Covid-era supply chain challenges to ease and inflation to moderate. However, the Russia-Ukraine conflict and a reassessment of whether Covid-era inflationary pressure would be short-lived, increased inflation forecasts everywhere.

And, led by the Fed, so too have interest rate expectations. In February, we expected a gradual rise in South Africa's prime rate, with total increases of 75 basis points this year and next, peaking at 10% in 2024. Now, however, we expect hikes totaling 325 basis points this year to 10.5%, before peaking at 11% early next year, followed by modest reductions, bringing the terminal rate to similar levels.

As we evaluate the interest rate environment, it's important to note how low interest rates went during the Covid crisis and from many perspectives the latest outlook represents a normalization broadly to pre-Covid expectations, albeit at a steeper pace.

Headline consumer price inflation breached the SARB's 6% upper target in May and we expect inflation to remain elevated until mid-2023. Households face steep increases in fuel, food and other important items.

We are well positioned for a tougher macro backdrop

Significantly higher rates and inflation will dampen loan growth and increase credit impairments.

We are well positioned for a tougher macro backdrop.

In particular, I would like to reiterate our strong capital levels. Our Group total capital adequacy ratio of 17% is comfortably above our target of ‘over 14.5%’. Moreover, we remain very capital generative. And our CET1 ratio of 13.1% is above the top end of our Board target range, and well above pre-Covid levels.

Importantly, we are also appropriately provisioned, having built considerable coverage during 2020. While our total coverage has reduced slightly, it remains very strong at 4.0%, again well above pre-Covid levels. Our strategies of growing customer deposits have worked out well and thus we have very strong levels of liquidity, also in hard currency, with less reliance on wholesale funding.

2022 outlook

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

We expect low double-digit revenue growth, with non-interest income growth slightly higher than net interest income.

We see high single-digit growth in customer loans, while customer deposits will likely grow by low to mid-single digits.

Our net interest margin benefits from rising rates, with a R500m uplift on an annualised basis for a 1% rise in policy rates, post the structural hedge, as discussed earlier.

We expect low to mid-single digit operating expense growth, resulting in positive operating JAWS and growth in pre-provision profits in the teens.

Our 2022 cost-to-income ratio is expected to improve from 2021, but increase slightly from the first half.

Given rising policy rates and inflationary pressures, our credit loss ratio is likely to increase, to the upper half of our through-the-cycle target range of 75 to 100 basis points, broadly in line with the first half charge.

Consequently, we expect our RoE to improve to around 17%.

Lastly, our Group CET 1 ratio is expected to remain very strong. We aim to increase our dividend pay-out ratio to at least 50% for 2022.

Medium-term targets – 2024

I will finish with our medium-term guidance.

As you saw earlier, we expect modest GDP growth in South Africa with higher interest rates into 2024. We continue to see stronger economic growth from our ARO portfolio.

To the extent that this macro scenario materializes over the medium term, we aim to achieve a low 50s cost-to-income ratio in 2024 and to sustainably maintain our RoE above 17%.

Thanks very much for your attention, I'll hand you back to Arrie.

Arrie Rautenbach – Chief Executive

Thanks Jason.

In concluding, I would like to make the following remarks:

I am confident that our strategy is delivering results.

We have the right leadership in place and we have strong momentum behind us.

We are conscious that the operating environment is uncertain, but we are well positioned across the balance sheet to withstand it.

Lastly, it would be remiss of me to not express my heartfelt gratitude to our 35,000 colleagues, without whom this performance would not have been possible.

We will now take your questions on Slido.