

Speaker notes

Maria Ramos – strategic review

Good morning everyone.

Today's interim results presentation is our first since achieving full regulatory deconsolidation from Barclays PLC and the first as Absa Group Limited.

This morning I will cover three elements in my remarks before handing over to Jason Quinn, our Financial Director, to go through the detail of the results:

First, I will briefly highlight our financial performance for the first half of 2018

Second, I will provide an update on how we have progressed against the commitments we made in March, when I presented our new strategy

Finally, I will set out our priorities for the next six months as we continue to implement the strategy.

Whilst the political situation in South Africa has improved and we have seen new hope and optimism, significant economic challenges remain.

We have revised our 2018 South African GDP growth forecast downwards from 1.8% to 1.2%. In addition, the South African economy has shed a further 103,000 jobs in the second quarter of the year, as the official unemployment rate increased from 26.7% to 27.2%

More importantly, the youth unemployment rate is now 38.8%. I will return to this topic a little later.

Subdued business confidence and ongoing pressures on consumer spending, driven by increases to the VAT rate and fuel prices amongst others, are headwinds to a robust recovery.

Pleasingly, our markets outside South Africa have continued to prove more buoyant and we predict strong growth, around 5.0%, this year.

Let me now turn to our results for the first half:

Despite the challenging macro-economic backdrop, we saw normalized headline earnings growing by 3%. The revenue momentum we saw in the latter part of last year has continued with revenue growing by 3%. Ongoing cost discipline, saw our costs increase by 4% which was in line with inflation across our markets. Costs slightly outpaced revenue, resulting in negative JAWS of 1%. Credit impairments fell 9%. Return on Equity improved to 16.9%, as we benefited from a lower equity base following the adoption of IFRS 9. Finally, capital levels remain strong, with our common equity tier 1 ratio increasing to 12.2%.

As you can see, we have delivered to our guidance, but there is clearly more we have to do.

In March, I presented a strategy for growth – growth for our shareholders, customers, clients as well as colleagues. I said that growth would be our primary measure of success.

Our ambition is to double our share of banking revenues in Africa to 12%, whilst continuing to deliver solid returns.

Our strategy is focused on one goal of growth; three priorities and three enabling capabilities.

Our three priorities are:

- Creating a thriving organisation
- Restoring leadership in our core businesses, and
- Building pioneering new propositions.

These are supported by three enabling capabilities:

- Building a scalable digitally led business
- Playing a shaping role in society, and
- Pursuing growth opportunities.

In April, I announced a new group structure that aligned the business behind the strategy. We now have four core businesses with empowered leadership teams that have the license to run those businesses and have full accountability for delivery.

I said that we would be focused and deliberate in our execution. And that is exactly what we have done!

Let me highlight two key examples of this.

First, our primary focus has been on Retail and Business Banking in South Africa.

RBB SA is our largest business and is a key growth engine for us. We have to re-establish leadership in the market at pace.

That is why we have moved quickly to introduce a new management structure with reduced layers. This allows for agility, faster decision making and brings the management team closer to customers and colleagues.

We are bringing greater energy, intensity and urgency into RBB. The business has a new operating tempo and will compete more aggressively to regain a leading market share in South Africa.

Importantly we have executed these changes efficiently and are building on the momentum we have: the growth we saw in the second half of last year has carried through into the first half of 2018.

Revenue and earnings were both up 4% for the first half, supported by strong new business growth across Retail asset portfolios.

These include:

- Growth in new Home Loans of 14% in the first half – against a context where market growth was 4%. Our Home Loans book has increased by 1% overall, reversing 4 years of contraction.
- Vehicle Asset Finance production growth of 19% where the market contracted 1% over the same period.
- Card turnover increasing 9%.
- Personal loans growth of 29% due to enhancements to the acquisition strategy.

We will be providing an investor update on RBB Strategy in November.

“Being Digital” journey

The second example is digital. We have made it clear that our ambition is to become a business which is digitally led, digitally capable and scalable. It is fundamental to our future success!

The Retail franchise has taken the lead in providing digital solutions for our customers.

We were first to launch ChatBanking on Facebook. Last week, we launched ChatBanking on WhatsApp and became the first bank in the world to offer this service.

On 1st August we were the first to launch Samsung Pay, an innovative payment system that allows you to store your bank details on a Samsung smartphone and make payments at point of sale, where previously you would have used a card.

In Kenya, we launched Timiza – an app-based personal loans platform that has disbursed 4 billion Kenyan Shillings to 2 million customers in just over 4 months!

We have unlocked the power of digital technologies to change how we interact with each other in the organisation. We launched WorkPlace by Facebook – an internal social media platform to drive colleague engagement and collaboration.

Six months ago, I said that I wanted us to be ahead of the tech curve and become digital pioneers.

ChatBanking on WhatsApp and SamsungPay are “first-to-banking” propositions. Expect to see more from us here. Winning in digital is mission-critical for Absa, and a key source of competitive advantage for us.

Separating successfully from Barclays PLC remains a key priority. We are managing the complexity and risks associated with an undertaking of this scale.

Our focus has been on maintaining the pace of execution. We remain on track against our separation budget and timetable. In the last six months, we achieved several significant milestones. I want to touch on two of them.

First, we have been granted full regulatory deconsolidation from Barclays PLC, effective from 30 June 2018.

This is an important moment in the separation program and further acknowledgement from both UK and South African regulators of the progress we are making.

This means that from a regulatory perspective Absa and Barclays PLC are no longer considered a single entity. In practical terms, it means that we no longer operate under any policy frameworks set by Barclays PLC. For example we are now free to set our own risk appetite.

It also means that we are not subject to regulatory oversight from UK regulators.

In addition, UK and EU remuneration rules no longer apply, which means we can now finalize a new remuneration policy that is in line with our strategy and we expect will enjoy the support of our shareholders.

Second, on 11th July, we renamed our holding company to Absa Group Limited. In South Africa we also launched a new and contemporary brand identity, which is fit for the digital age.

We have already begun to introduce the new Absa to our markets outside South Africa. We will begin the full roll out in 2019, subject to all the appropriate regulatory requirements. We intend to complete the rebranding by 2020.

For us the rebranding is more than a change in identity. It has been the moment we unlocked the potential of all our people, energising 41,000 colleagues, who embraced the challenge to think and behave differently – to become more innovative, more entrepreneurial and more dynamic.

We said we would bring fresh thinking and thought leadership to societal issues and enhance economic growth.

This year, we are providing 3,000 new full university scholarships across 10 countries on the continent. This is in addition to the 6,500 we have already funded over the last two years.

As a business, we are making practical interventions to address the youth unemployment challenge I referred to earlier.

In South Africa, we're committed to the YES initiative and it is in keeping with our current programs. We are already working with partners across the continent to upskill young people in order to improve their employability.

Through our Ready to Work program, we have successfully delivered skills based learning modules to 28,000 young people. In addition, we have delivered employability work opportunities and placements to 8,000 young people in partnership with TVET colleges.

This is what we mean by addressing societal issues and enhancing economic growth.

Let me now outline our priorities for the next 6 months.

First, we are confident that our guidance for the full year remains appropriate and we are committed to delivering that.

We remain focused on driving the growth momentum we see in Retail and business Bank SA and the Rest of Africa, and in addressing the opportunities we see in the WIMI and CIB portfolios.

Jason will provide more detailed comments on these focus areas a little later.

Secondly, completing the separation from Barclays PLC in line with our established timetable, remains a key priority.

Our approach continues to be one of minimizing the impact of the separation on business as usual delivery, whilst using the opportunity to create a step change in our operating rhythm and cost base.

We are on track to complete the separation by 2020.

Thirdly, continuing to execute against our new strategy. We have a lot to do and so we will be deliberate and determined in our execution.

To conclude, we have an ambitious plan for our business. We are now actioning that plan at pace. It's unlocking an energy, drive and competitive edge that are becoming the hallmarks of the new Absa.

Let me now hand over to Jason to talk you through the detailed financial results.

Jason Quinn - Performance review

Thanks Maria. I'll start with a review of our financial performance for the first half of 2018 and then update you on the progress we are making on the separation from Barclays PLC.

Our interim performance should be considered against the tough macro backdrop in South Africa that Maria highlighted and the comparatively high first half base in 2017.

I would like to highlight three aspects of our first half results right up front.

Firstly, currency movements again impacted our results. The Rand was 7% stronger on average YoY, which reduced our earnings by 2%. The recent Rand weakness in June softened some of this impact.

Second, IFRS9 replaced IAS39 on 1 January 2018, which means our credit impairments moved from an incurred basis to a lifetime expected credit loss approach. We have applied it retrospectively, with an adjustment to our retained earnings and other reserves as at 1 January, and we elected not to restate comparative periods. I'll cover more of this impact later and we provide significant transitional detail in our booklet.

Lastly, given our separation from Barclays PLC, we continue to show a normalised view of our financial results, with adjustments to better reflect our underlying performance. We reconcile our normalised and reported IFRS results in detail in our booklet.

Normalised performance in line with guidance

This table shows the income statement items we normalised for, with the largest being R1.4bn of costs for the separation. We also excluded R600m in revenue, mostly endowment income and foreign currency revaluation gains.

At a headline earnings level, we added back R719m for the period, compared to R152m in the first half of 2017. We expect this quantum to peak in the coming years as the separation gains momentum.

Once again the shape of our normalised income statement was as we guided.

Revenue growth improved from last year, but remains modest. Our underlying growth was slightly better, with revenue up 4% in constant currency and 5% if we also exclude the increase in interest in suspense due to IFRS9.

Costs remain well controlled. Although our operating JAWS were slightly negative, these improved YoY, resulting in 1% higher pre-provision profits, or 3% in constant currency.

Credit impairments fell 9%, which was better than we expected, particularly in the rest of Africa.

The 20% rise in non-controlling interest was due to us issuing R1.5bn of additional tier 1 capital in the second half of 2017.

Salient features

Throughout the rest of the presentation I will refer to our normalised financials.

Turning to our salient features, diluted headline EPS rose 3%, or 5% in constant currency.

We declared a 3% higher dividend per share, in line with the growth in our earnings and consistent with our dividend guidance.

Our NAV per share grew 4%, despite the impact of IFRS9 on equity.

As we guided, return on equity improved slightly to 16.9%.

Net interest margin compressed a little, which was expected, as were the negative JAWS and slightly higher cost to income ratio.

Slight net interest margin compression

Net interest margin declined slightly, in line with our guidance, falling 5 basis points to 4.76%.

Before going into the underlying drivers of our net interest margin, please note that we adjusted our comparative margin for the first half of 2017 by 12 basis points as we moved R20bn of South African liquid assets in the trading book into interest earning assets.

Our lending margin reduced by 4 basis points, largely because IFRS9 increased RBB's interest in suspense by about R300m. Despite stronger CIB growth, loan mix improved our margin given slow growth in mortgages.

Our deposit margin narrowed slightly, due to pricing competition and the endowment impact of lower interest rates on our 'lazy deposits'.

We continue to hedge structural balances on about 13% of our South African capital and liabilities. Our structural hedge released R230m to income, 3 basis points more than last year, to largely offset the negative endowment impact on our margin.

Rest of Africa's margin widened slightly to 7.2%, as a lower proportion of wholesale funding and higher average equity offset lower rates across all of our markets. However, Rand strength reduced rest of Africa's contribution and decreased our group margin by 1 basis point.

With 3% higher average interest-bearing assets, our net interest income rose 2% to R21bn, or by 3% in constant currency.

Group loan growth improving

Our gross loan growth improved to 8% from 4% in 2017, increasing our total to R811bn. Excluding retail mortgages, the growth was 12%.

Annualized loan growth YTD improved to 11%.

South Africa, which accounts for almost 90% of our loans, increased 8%.

Our largest book, Retail in South Africa, grew 5%, slightly better than last year's growth.

Business Banking's gross customer loans rose 9%, driven by low teen growth in term and Agri loans.

CIB's gross loans increased 14% or 9% on average, with continued strong growth from commercial property finance.

Rest of Africa's gross loans grew 14% or 10% in constant currency, with CIB growing slightly faster than RBB, so the books are now the same size.

On the right hand graph we show the growth in our key retail products in South Africa, which account for half of our total gross loans.

Home Loans, which is almost 60% of this, grew for the first time in several years. New registrations rose 14%, as we selectively increased our loan-to-value for low risk customers, which improved our share of sector new flows to 20% in May.

Vehicle and Asset Finance grew 12%, well ahead of the market, including continued strong growth in our Ford Financial Services joint venture.

Card increased 1%, although excluding one of our store card portfolios it rose 6% with 9% higher turnover.

Lastly, Personal Loans rose 10%, given strong production growth, as our share of flows increased to 11% in the first quarter.

Increase in annuity non-interest income

Our non-interest income growth improved from 1% in 2017 to 4% for the first half, or 5% in constant currency. At almost R16bn, it increased to 43% of our total revenue.

Annuity income is a large component, as net fee and commission income grew 4% and accounts for almost 70% of the total.

Net trading fell 8%, due to a large first half base in the rest of Africa, which contained significant one-off event trades, and the stronger Rand. In South Africa, Markets only rose 1%, as strong growth in equities

offset subdued client flows in fixed income. The half also included a successful round of renewables hedging.

'Other' benefited from a non-headline gain on disposing of non-core subsidiaries.

Looking at our divisions, RBB South Africa grew its non-interest income 5%, reflecting strong volume growth in merchant acquiring and card transactions, plus growth in current accounts.

CIB's non-interest income increased 7%, with Corporate's transactional revenue up 10%.

Although Rest of Africa Banking's non-interest income decreased 2%, this was entirely due to the stronger Rand, as it rose 5% in constant currency.

WIMI's non-interest income grew 11%, with life insurance net premium income up by the same amount given improved retail loan growth. WIMI's non-interest income did benefit from R160m of gains on disposals of businesses in the half.

Continued to manage costs while investing

Our operating expenses increased 4%, or 5% in constant currency, to R21bn.

This was despite incremental run costs arising as a result of separation of 2%. Remember that we are only normalizing for costs that are clearly and directly related to the separation and not for any indirect overheads. For example, on branding we normalised for any costs incurred with respect to work on brand design and for the removal of 'Member of Barclays' in South Africa, but not for advertising and marketing related to the new brand launch in July.

Staff costs grew 4%, remaining the largest component at 56% of the total, rising in line with inflation on a constant currency basis.

Our headcount decreased 1%, largely due to reductions in rest of Africa and a disposal in WIMI.

Non-staff costs also grew 4%, as structural cost programmes continued to produce efficiency gains.

Our total property-related costs declined 1%, as we continue to optimise head office and branch costs.

We continue to see further savings opportunities in operations, our rest of Africa cost base and technology, and remain focused on discretionary costs.

We reduced our communication costs 6%, with telephone and postage down 9%.

Professional fees fell 6%, which excludes external consultants working on separation activities.

Marketing was unchanged, as we delayed some spend into the second half for our brand launch in July.

Depreciation increased 20%, reflecting IT investments and new property that was brought into use.

Amortisation of intangible assets grew 4% and remains relatively low at R360m.

Our direct IT costs rose 1%, although our total IT spend – including staff and depreciation – increased 13% to R4bn, which is 19% of group expenses.

We are pleased that our constant currency cost growth has been in line with inflation for the past three years.

Credit impairments improve across most portfolios

IFRS9 brings forward the recognition of credit provisions, although our charge should not differ over the long run. Provisioning is however likely to become more volatile and harder to compare across banks.

Our credit impairments fell 9% to R3.4bn, improving the credit loss ratio to 83 basis points from 96.

If you exclude R141m of collection costs as some of our peers do, our credit charge was 80 basis points.

In South Africa, the retail credit loss ratio improved further, due to reduced store card balances in one of our portfolios and a low charge in Home Loans. These offset underlying strain in overdrafts and retail vehicle finance. The Business Banking credit impairments rose in line with book growth, resulting in an unchanged credit loss ratio.

CIB's credit impairments increased 79% off a low base due to a single exposure to a Retailer.

Rest of Africa's credit impairments were better than we expected, dropping 47% to result in a 72 basis point credit loss ratio, reflecting a fairly benign macro backdrop including lower interest rates in most markets, proactive risk management and strengthened collections. CIB's credit loss ratio of 5 basis points is well below its through-the-cycle levels.

Looking at retail credit impairments in South Africa, Home Loans fell 61% reflecting improved collections. At 16 basis points it is also below through-the-cycle levels. Card credit impairments declined 21%, largely due to reducing one of our store card portfolio and recoveries. Personal Loans credit losses rose 3%, slightly less than its book growth. The credit impairments in Vehicle and Asset Finance grew 25% with some portfolio seasoning after strong production in recent years, an ageing legal book and increased early arrears.

Implementing IFRS9 impacted credit impairments ...

We have worked extensively over the past 4 years to prepare for IFRS9. I won't go into the minutiae here, as we have 25 pages on the transition in our results booklet, but it is worth highlighting some of the main changes in moving to IFRS9 from IAS39.

This is a fundamental change to our provisioning, using a stage methodology and introducing the concept of lifetime losses. The previous categories of performing and non-performing loans are replaced with 3 stages.

The first graph shows that our IAS39 balance sheet provisions and interest in suspense increased from R22bn to R28bn under IFRS9. The main drivers were extending emergence periods to 12 months for stage 1 assets, applying life time expected losses to stage 2 assets and changes to the default definition. Changes to the default definition include classifying all debt counselling and performing forbearance accounts as stage 3.

Many of the old terms such as non-performing loans are no longer comparable. The second graph illustrates that our stage 3 ratio under IFRS9 is higher than our NPL ratio. Stage 3 includes interest in suspense, all debt counselling accounts, all restructured retail accounts and applies a prudent one year cure period to all defaulted assets. Note that our stage 3 ratio improved slightly in the first half.

We think IFRS9 may make it harder to compare provisioning across banks, as their policies may differ.

... and coverage ratios

Including debt counselling account less than 90 days in arrears and performing forbearance loans with relatively low cover into our stage 3 loans, reduced the cover of our stage 3 assets under IFRS9 relative to our previous NPL cover. Note that our stage 3 cover increased in the first half to 42%, a level we are very comfortable with.

As you would expect, applying a 12 month emergence period for stage 1 loans and lifetime expected losses to the stage 2 loans increased our cover relative to our performing loan cover in IAS39. IFRS9's earlier provisioning introduces a degree of 'new business strain' during periods of improving loan growth, which we experienced in our first half.

It also introduces greater volatility, as there is a "cliff effect" when loans move between stages. For instance, our June 2018 coverage on retail mortgages in South Africa ranged from 10 basis points in stage 1, to 2.3% in stage 2 and 25% in stage 3.

Maintaining strong capital levels

Our capital levels remain strong, with our common equity tier 1 ratio increasing 15 basis points YoY to 12.2%.

Group risk-weighted assets grew 6% to R771bn, slightly less than our loan and asset growth, given the execution in RWA optimization, largely in CIB.

IFRS9 reduced our CET1 ratio by 5 basis points, which is less than we originally expected, as we phase it in over 3 years.

We remain strongly capital generative, with earnings of R15bn YoY adding 2% to our CET1 ratio, while dividends reduced our CET1 by 1.2%.

Our resulting normalised CET1 ratio of 12.2% remains above the 11.5% top end of our Board target range.

Of course our capital levels are much stronger on a statutory basis, which will deal with the effects of separation costs and investments.

Our total normalised Group capital ratio remains healthy at 15.7%, which includes the \$400m of Basel III compliant Tier 2 capital we issued this April.

Group returns have trended upwards

These graphs show how our returns have improved over the medium-term.

Our 1.4% return on assets is back to the levels before the global financial crisis 10 years ago, when our RoE was almost 10% higher, due to considerably higher leverage.

Our RoE increased slightly, although this was more due to implementing IFRS9, which reduced our equity base.

Solid underlying divisional returns

Most of our divisions produced solid returns for the period, with RBB South Africa's return on regulatory capital increasing to 23%.

CIB South Africa's lower return on regulatory capital was entirely due to reduced earnings following its single name provision, excluding which it would have exceeded 19%.

Rest of Africa Banking's RoE improved further, as its return on assets increased to 2%.

Lastly, WIMI's 22% return on equity remains strong.

We benefit from a well-diversified portfolio

Our group earnings remain well-diversified both by activity and geography.

RBB South Africa grew 4% to contribute over half our first half earnings, and you'll see shortly that it is well diversified itself.

In total, CIB across the continent accounted for 36% of our first half earnings, which is very evenly split between Corporate and the Investment Bank. CIB South Africa's earnings decreased 6%, following the base effect of strong 84% growth in the first half of 2017.

Rest of Africa increased to 20% of group earnings, with banking earnings up 8%, including strong 38% growth from RBB.

Regaining RBB leadership in SA a group priority

Regaining RBB's leadership in SA is a group priority, and as Maria discussed we have recently recalibrated its operating model to improve its growth and agility.

Our returns here are healthy, although its earnings and revenue growth have been low in recent years. Revenue growth improved to 4% from 1% a year ago, but remained below 7% higher costs, which resulted in unchanged pre-provision profits.

Investments have been aimed to improve customer experience, strengthen our physical and cyber channels and enhance our IT infrastructure.

Credit impairments reduced 6% to produce 4% earnings growth.

Although retail deposits grew 7%, we lost market share and most of our growth came in low margin deposits. We aim to regain share in retail deposits, despite strong competition. This remains a key franchise health indicator for us.

Retail SA maintained loan production momentum

Our asset strategies maintained the momentum in our retail loan production from the second half of last year, which is starting to translate into overall book growth.

I spoke about mortgages earlier, while new business in vehicle and asset finance new business grew 19%, significantly ahead of the market's 1%. Within this, the retail vehicle finance increased 30%.

Our personal loans production rose 29%, off a low base. We remain underweight personal loans and there is scope to increase our 10% market share materially.

Importantly, our new business pricing improved on all three of these products, and we see scope to further increase Home Loans, in particular.

We enhanced our Rewards programme, adding new retail partners such as Woolworths, Checkers, Food Lovers Market and Spar. Our Rewards members grew 9% to 2.8m, which should encourage growth in our primary relationships.

Nonetheless, our customer primacy remained under pressure and we have further work to do to improve our retail net promoter score, which declined in the first half.

Home Loans and Card drove RBB SA earnings growth

Unpacking RBB South Africa's earnings growth, Home Loans increased 16%, given the significant decline in its credit impairments that outweighed lower income following the interest in suspense impact after adopting IFRS9.

Despite positive JAWS, Vehicle and Asset Finance earnings declined 6% due to 25% higher credit impairments as early arrears increased and the book seasoned after solid book growth.

Card and Payments earnings rose 19%, primarily because of 21% lower credit impairments due to the reduction in one of our store card portfolios, which also dampened our revenue.

Transactional and Deposits earnings fell 9% on higher credit impairments and negative operating JAWS. Its non-interest income grew 10%, although this was closer to 5% underlying after removing the effect of fee write offs included under the impairment line.

Personal Loans earnings increased 10%, largely due to improved 7% net interest income growth.

Business Banking's earnings rose 1%, as its top line growth increased to 5% on 7% loan growth and 9% higher current account fee income.

Positive underlying momentum in WIMI

Maria mentioned earlier that we are relooking at our bancassurance and Wealth operating model to ensure deeper alignment and collaboration with RBB.

WIMI's earnings from continuing lines grew 8% to R636m.

In SA, our Life embedded value of new business increased 25%, given significant growth in standalone new business through bank branches, while credit life sales benefited from improved retail loan production. As a result, Life's underlying operating income also increased, while earnings decreased due to a deferred tax benefit in the base.

Although our assets under management grew 8% YoY to R319bn, they declined from December due to outflows in derivative products in our Alternative Asset Manager. Customers shifting to lower fee products also compressed the Investment Cluster's margins.

In South Africa, Short-term Insurance's underwriting margins rose to 9.8%, after re-pricing and improved claims management. It benefited from considerably lower catastrophe claims.

We continued to dispose of non-core operations, such as Employee Benefits, which did not achieve the requisite scale. We aim to conclude our refocus on core lines by the end of the year after finalizing the disposal of the Short-term advisory business.

Credit impairments dampen CIB SA earnings

CIB SA's earnings declined 6% off a relatively high base, largely due to materially higher credit impairments and 1% lower pre-provision profits.

Revenue grew 5%, thanks to CIB's diversified business mix.

Corporate maintained its double digit growth, with continued delivery in target areas. Trade revenue increased 18% and transactional banking revenue 10%, while deposit revenue rose 9%. Corporate's average advances grew 10% and its net interest margin widened.

We still see growth potential in Trade and International banking, plus term lending, where we remain underweight. We also aim to win primary relationships to increase our transactional revenue and deposits. Doing so should improve CIB's returns.

Investment Banking's revenue growth ranged from 14% in commercial property finance, to Markets increasing 1% and stable Banking revenue.

After years of low growth, CIB's costs grew 10%, mostly due to investment in technology.

Rest of Africa Banking continues to enhance our growth

Rest of Africa Banking continues to enhance our growth with earnings of R1.6, up 8%, or 20% in constant currency.

Although its pre-provision profits grew 3% in constant currency, significantly lower credit impairments were the primary reason its reported earnings increased.

CIB's earnings grew 3%, or 15% in constant currency, and accounts for almost three-quarters of our Rest of Africa Banking earnings. Corporate's earnings increased 18% to R940m, which is considerably larger than our South African earnings. Investment Banking's earnings fell 25%, given large trades in the first half 2017 base.

RBB Rest of Africa's earnings grew 38%, or 54% in constant currency, on lower credit impairments and positive operating leverage.

Rest of Africa Banking's RoE has improved materially since we bought it in 2013, to almost 20%. We believe this should increase further medium-term, as we reduce RBB's high 70% cost to income ratio and grow our CIB franchise.

Progress to date in line with plan

While today's presentation is predominantly about our interim results, I want to update you on our separation from Barclays. We will provide more detail at an investor day planned for November.

We are now in full execution of the separation. This updates the slide I showed you in March, which illustrates the cumulative projects we need to deliver, matched to the roll off in services that Barclays will provide us until 2020. Our Transitional Services Agreement covers 129 material services and as of 30 June we had terminated 22 of them.

We are progressing well, having delivered the vast majority of projects planned for the first half, on time and all within budget. We are transforming rather than just replacing many of our systems and platforms. As Maria mentioned, we have completed 80 of the 300 projects and have a further 70 projects earmarked for delivery by year end. To date, notable projects include establishing a payment capability independent of Barclays, securing outsourced technology resources for rest of Africa and successfully migrating clients off the Barclays.Net cash management system.

It is evident in this delivery profile that there will be a number of key projects due from the second half of 2019 onwards. These include migrating core banking applications for rest of Africa to South Africa from the UK, which should reduce complexity and improve customer experience.

Our channels project aims to replace PLC and legacy corporate service channels, plus migrate some from the UK to South Africa. We expect to complete this by 2020 and it is on track, with pilot testing complete and the roll out underway.

Separation journey is on track

Barclays contributed R12.6bn to enable separation. As at 30 June, we had spent R4.9bn on project execution and support, and TSA costs. We continue to closely monitor the execution of all the projects and the related costs, and evaluate the return on investment for each.

One benefit of receiving the contribution up front is the foreign exchange gains and interest earned on the contribution, which cumulatively total R1bn so far.

We believe the remaining R8.7bn is sufficient and will leave us cash flow and capital neutral after separating.

We have established a robust governance structure to oversee the separation, with an effective risk management framework to minimize the major risks. We recognise the scale and complexity of the separation, with execution risks that include people capacity, relatively limited contingency windows and interdependent projects, plus a major rebranding.

As things stand, separation remains well in hand.

Outlook for 2018

I will end by reiterating our guidance for 2018, all on a normalised basis.

In South Africa, we have reduced our real GDP growth expectation to 1.2% this year and we expect interest rates to remain flat. We forecast real GDP growth of 5% in our rest of Africa portfolio, although monetary policy easing may have now bottomed. At current levels, the rand would dampen our earnings less in the second half than it did in the first half.

Based on these assumptions, and excluding any major unforeseen political, macroeconomic or regulatory developments, I am able to reiterate our previous guidance.

We expect higher loan and deposit growth than in 2017. We again see stronger loan growth from the rest of Africa in constant currency and CIB compared to Retail in South Africa, which should also improve.

Our net interest margin is likely to decline slightly this year.

Costs will remain well controlled, which should improve our operating JAWS from last year's, but these are unlikely to be positive.

We now believe our credit loss ratio should improve and that our RoE should increase slightly in 2018.

Lastly, our CET1 ratio should remain strong and we are comfortable with our current dividend cover ratio, allowing us to grow dividends in line with our normalised earnings.