1H21 speaker notes

Jason Quinn – Interim Chief Executive

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

I will cover the tough operating environment we faced during the period, explain why we are quietly confident that we are well positioned as a Group and then give my perspectives on our first half performance.

Thereafter, Punki will unpack our numbers, following which I will provide our guidance for the rest of the year, and then we will take your questions.

Macro backdrop improved, but remains challenging

At a global level, the IMF expects a strong rebound from last year's historic decline of 3%, with worldwide GDP growing 6% this year.

We expect South Africa to grow 4% this year, from last year's 7% decline. This is slightly higher than the 3% we expected back in March. We should benefit from strong global growth, higher commodity prices, and supportive monetary policy.

South Africa's economy has generally recovered faster than expected since the depths of the hard lockdown in the second quarter last year, with the last three quarters beating consensus materially.

Real output grew 4.6% in the first quarter, although most sectors remain below pre-pandemic levels, particularly construction, transport and hospitality, with some exceptions such as agriculture. First quarter GDP was still 3% below the fourth quarter of 2019, and growth momentum softened somewhat in the second quarter. We still only see the economy exceeding fourth quarter 2019 levels in early 2023.

Confidence remains fragile. While up significantly YoY, the consumer confidence index remains negative and weakened in the second quarter. And business confidence recovered to a neutral level in the second quarter, although this could decline in the third.

Policy rates remain low and we only expect them to start rising next March, with a total increase of 75bp next year.

We expect weighted 4.3% growth from our ARO countries this year, slightly less than we forecast in March. Economies that depend on tourism, such as the Seychelles, Mauritius and Botswana are likely to recover more slowly than the more diversified East African countries. Policy rates are likely to rise, albeit gradually, in many of our ARO countries.

I should highlight that the Rand was 20% stronger on average against our ARO currencies during the first half, which was a drag of 4% on our group revenues.

Covid-19 pandemic and load shedding pose risks

There are a number of risks to our growth forecasts.

Firstly, the impact of Covid-19 remains a significant uncertainty. South Africa's third wave of Covid-19 and the adjusted level 4 lockdown were worse than we expected. The third wave is the worst so far, exceeding the previous waves as new infections topped 26 thousand on 3 July. Although infections have peaked, the third wave is lasting far longer than the previous waves, with the epicenter shifting to coastal regions just as Gauteng improves.

Our life insurance business had significantly higher mortality and retrenchment claims in the half and increased its provisions for Covid-19 materially.

The socioeconomic impact of the prolonged nature of the pandemic and the associated fatigue is becoming evident.

Despite accelerating in the past month, the pace of vaccinations remains too slow to quickly deliver herd immunity. At last count, 10% of adults had been fully vaccinated and 18% partially. South Africa's vaccination rate is significantly behind most other emerging markets.

Second, load shedding has been quite prevalent this year, particularly in March, and there was load shedding on 40% of the days in June, including stage 4 outages.

The graph on the right shows that load shedding in the first half was high, and at this rate could exceed last year's elevated levels.

While government increasing the cap on embedded power generation to 100 megawatts in June was a very positive move, it will probably take a few years to have much impact.

We believe that South Africa's stretched power supply remains a downside risk to growth for the rest of this year.

Impact of recent South African civil unrest

The unrest and looting that erupted in parts of Kwa-Zulu Natal and Gauteng from 9 to 17 July were deeply concerning.

The immediate, direct impact on Absa was limited. Our immediate priority was ensuring the safety and security of colleagues and customers. Thankfully, none of our colleagues were injured. During the unrest, 22 of our branches and 233 ATMs were damaged, and 2 500 point of sale devices damaged or stolen. At the peak on 13 July we closed 252 branches mostly in Gauteng and KZN. We are covered by SASRIA and we have submitted a claim to them. We are making R13m available to support relief, recovery and rebuilding efforts. We distributed 2 thousand food parcels to staff and their families in KZN and provided data and airtime to over a thousand colleagues in KZN and Gauteng.

The unrest poses risk to 3Q GDP growth, by reducing economic activity in two of the largest provinces. Most estimate it will take 0.5% off this year's GDP. We saw the Absa and Markit PMIs drop sharply in July. While our card transactions in July were up on June, what is usually a strong month for purchasing activity was disappointing relative to forecast. Bankserv data shows that transactions going through the SA banking system fell 0.6% month-on-month in July, after decreasing 0.4% in June. No doubt these indicators were impacted by the unrest and level 4 lockdown for Covid-19. We expect the adverse shocks to produce a 2% decline in quarter-on-quarter third quarter GDP.

Of our Corporate and Commercial clients, about 420 were impacted, either directly, or via supply chain, production and trading interruptions. Retailers and commercial property clients were most affected.

Medium-term, the unrest will have a substantial negative impact on already fragile consumer and business confidence, which could dampen investment in infrastructure and inventory rebuilding. It also probably increases South Africa's credit risk and deters foreign investors, although it is hard to quantify this.

We are well positioned

Despite the difficult operating environment, we are quietly confident that we are well positioned for success.

As a golfer, an analogy to where I think Absa is, would be that having just made the turn after a tricky first nine representing our journey to the beginning of this year, we have managed to play back into being in contention. Our tee shot on 10 has landed squarely in the middle of the fairway, well positioned against our competitors. Looking ahead to the flag, we can see a strong treacherous swirling breeze, but we're confident that our practicing over the last few years will enable us to commit to a solid swing that will put us on our way to topping the leaderboard on the back nine.

We take much confidence from completing our separation from Barclays – the largest ever globally – on time and below budget. That is no longer a distraction, which it was for three years, for management and especially CIB and ARO.

Our first half performance was better than expected. It is particularly pleasing that our earnings are above pre Covid-19 levels. Also, our first half normalised HEPS is our highest ever, 4% above the previous record in the first half of 2019.

Our results were somewhat noisy, given significant one-offs in our revenue, costs and credit impairments, which Punki will cover in some detail. Excluding these, the underlying trends in our performance were better than they appear on the surface.

We remain very well provided for, with last year's large R5.4bn macroeconomic overlay still intact to protect us from any future distress, and total cover of 4.5%.

We take great confidence from our strong balance sheet. Our capital levels are healthy, with our CET1 better than expected, and at the top end of our board target range, which allows us to resume dividend payments. I should mention our very successful issuance of $500m of Basel III compliant additional tier 1 capital in May, which was heavily oversubscribed and a debut issuance for our region. Strong deposit growth has also further improved our liquidity.

We are very clear on our strategic priorities.

At a divisional level, RBB is now in the second phase, or Horizon 2, of its 2018 strategy, focusing on smart growth. The core to its first horizon was stabilizing the franchise and enhancing end-to-end risk management, to enable it to regain market share in secured lending. Restructuring to improve efficiency and bring management closer to customers and colleagues was also crucial. Retail's customer base has stabilized, with continued growth in the middle market and affluent segments and strong deposit growth for the last 3 years and we have successfully taken share in secured lending, while improving pricing. RBB's priority now is to improve customer primacy, progress with digitisation and grow capital lite revenues. We have provided tangible support to customers during the pandemic, providing the largest payment relief programme and being voted the SA bank most responsive to the pandemic in a Consulta survey. Importantly, focusing on customer service saw us improve from worst to best in the annual Ombudsmen complaints rankings. RBB has invested heavily in digital, and has made considerable progress here, including launching Apple Pay recently. Improved stability and enriched functionality saw digitally active customers grow 16% YoY to 2m, with considerable opportunity and further investment required going forward. Lastly, the decision to integrate bancassurance into RBB has created the opportunity for significant upside potential. RBB has benefited from stability in its leadership team over the past 3 years.

CIB has also gone through substantial change. Separation from Barclays was enormously disruptive, considering how integrated it was with Barclays Capital. It lost about 15% of its revenues that came from PLC connectivity, while at the same time taking on new incremental run costs to replace capabilities lost and technology platforms. CIB's digital platforms like Absa Access are now in place and competitive, although they will require continued investment and client migrations and activations are ongoing. CIB also strengthened its capital allocation practices. Having completed the 'lead with balance sheet' phase of its strategy, CIB is now prioritizing customer primacy, deposit growth and non-interest revenue growth, balancing growth and returns. CIB will conclude the foundation phase of the commitments it made in terms of its strategy reset at its 2019 investor day by the end of this year.

We are now confident, in hindsight and considering the improvements in our financial momentum over the last few years and also evident in our numbers today, that most of our key strategic calls back in 2018 were good ones, which we have been delivering against and which and remain very relevant today. It's also clear that much opportunity still remains and the management team has a strong sense of urgency around re-anchoring and refreshing our strategy against the latest market context and executing against our priorities including making further and deliberate progress on our culture journey.

For starters, we prioritized investing in digital, which has only accelerated post Covid-19 representing a bigger potential opportunity than previously envisaged. As you can see, we're very focused on customer-centricity and primacy, with a customer and business-led approach to innovation.

The significant focus on ESG in recent years makes being "an active force for good" even more important today. You may have seen the IPCC's sobering climate change report last week, and you will be aware of the record temperatures, wildfires and floods globally recently. We consider climate change an urgent global challenge. I am pleased by several successes on this front in recent months.

In March, we published our first TCFD report. We were also the first South African bank to announce sustainable finance targets, aiming to finance or arrange over R100 billion for ESG-related projects by 2025. In May, we announced Africa's first certified green loan from the IFC, a $150m deal. We were also the lead arranger, senior lender and hedge provider for one of South Africa's largest concentrated solar tower projects, with an estimated cost of R12bn. And this month, we partnered with African Rainbow Energy & Power to establish South Africa's leading black-owned renewable energy fund, with assets of about R6.5bn. Lastly, we are establishing an environmental and social management system for our business lending.

Our ARO portfolio is a quality asset that remains a core part of our strategy. Following a strategic review of that business over the last few weeks, we changed our operating model for ARO bringing our processes and decisions closer to our customers to capture the substantial growth opportunity we see from it over the medium-term. Both our RBB and CIB businesses will be run as Pan-African franchises going forward, leveraging off our strong foundations and improving collaboration around digital innovation. In particular, we expect to execute against the significant opportunity to improve the efficiency of our RBB ARO business as a result of this change.

Lastly, I should update you on the closure of the Absa Money Market Fund, which we completed on 6 July. Pleasingly, we retained R54bn, 68% of the starting balance, which was above our expectation. We retained 90% of RBB funds and 46% of corporate and institutional. About R43bn went onto our balance sheet, while R11bn was placed in our new money market fund.

As you can hear, we've had a very busy past 4 months, and we continue to execute at pace on our priorities in the second half.

1H21 salient features

Turning to the salient features, pre-provision profits grew 1% to R18.6bn. The increase was up 5% in constant currency, and even more an underlying basis, excluding large one-offs in costs and non-interest income.

Our credit loss ratio improved more than expected, falling significantly from last year's high base to the mid-point of our through the cycle target range, without utilizing our sizeable MEV management overlay and while maintaining our strong coverage.

This all culminated in our normalized HEPS beating the first half of 2019.

Pleasingly, our RoE improved materially to over 15%, exceeding our cost of equity of 14.25%. We achieved this while increasing our CET1 ratio materially.

Lastly, our NAV per share grew 6% again.

Material recovery in divisional earnings and returns

Looking at our divisional contributions, normalised headline earnings recovered strongly off last year's lows, with RBB over 8 times higher and CIB 1.5 times. They were also comfortably above their second half 2020 earnings, up 11% and 19% respectively.

Significantly lower credit impairments drove RBB's earnings growth, since its pre-provision profits declined 15%, or 6% excluding Insurance.

CIB's pre-provision profits grew 15%, or 26% in constant currency, and its credit charge dropped 82%.

Our divisional returns both rebounded to above cost of equity. RBB's return on regulatory capital improved substantially to 15.3%, with RBB SA's somewhat higher at 17.7%while RBB ARO's was just 3.1% indicating the scale of opportunity in that business.

I will now hand over to Punki to take you through our financial performance in detail, in her first results presentation.

Punki Modise – Interim Financial Director

Thanks Jason and good morning everybody.

I will cover our first half performance and then hand you back to Jason to provide guidance for the rest of the year.

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 significant growth in our earnings was driven by far lower credit impairments.

Revenue growth was reasonable against the tough backdrop at 3%, particularly considering the large impact of Covid-19 on our life insurance business that I'll unpack later. Also, our topline grew 7% in constant currency, which better reflects our underlying performance.

Net interest income grew 6%, or 12% in constant currency, largely due to margin expansion. South Africa's net interest income grew 13%, while Africa regions declined 10%, although it was up 7% in constant currency.

While non-interest income decreased 2%, it was up 1% in constant currency and even better on an underlying basis.

As you have come to expect of us, operating expenses remain well controlled, growing 5%, almost all due to higher incentives. While operating expenses rose 9% in constant currency, the underlying trajectory was better.

These combined to produce 1% higher pre-provision profits, or 5% in constant currency. Importantly, our pre-provision profits grew 8%, or low double digits in constant currency, excluding Insurance.

Our credit impairments fell by two-thirds or R10bn, as our credit loss ratio normalised after last year's substantial charge.

Materially higher taxation was the bulk of the large increase in "Other", while minorities also increased off a very low base.

All this combined to increase our normalised headline earnings by almost 500% to R8.6bn.

A number of large items impacted the YoY comparisons of non-interest income, costs and credit impairments that I will unpack throughout my presentation.

Moderate group customer loan growth …

Turning to our balance sheet, average interest bearing asset growth was 2%, largely due to moderate 3% net loan growth, or 5% in constant currency.

South African loans grew 5% to R845bn and Africa regions decreased 13% due to the stronger Rand, as it grew 6% in constant currency.

RBB SA, our largest book, grew 7% to R534bn, largely due to solid 8% growth in retail loans.

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

Although RBB ARO's loans declined 7%, its book was 12% higher in constant currency.

CIB SA's loans rose 2% YoY, although this was due to a substantial increase in reverse repurchase agreements. Excluding this, CIB decreased 8%, in line with the market, given reduced demand for short-term funding and lower foreign currency loans.

CIB ARO's loans fell 18%, although these were up 1% in constant currency.

… despite targeted production in secured retail lending

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

Home Loans grew 8%, reflecting strong new business production for the previous 4 consecutive quarters. New mortgages registered were 110% above 2020 levels and 47% higher than 2019, reflecting healthy demand, improved turnaround times and enhanced originator relationships.

Vehicle and Asset Finance increased 14%, as our share of new vehicles rose to 29% from 25%, following the embedment of our new application system into dealer and branch channels.

Credit card grew 6%, largely due to small limit increases and higher utilization, with card turnover 17% higher than the first half of 2020 and 6% above 2019 levels.

Personal Loans declined 9%, given our tighter risk appetite until the second quarter, when this was released and production improved. While production was up 13% for the half, this was still 27% below the first half of 2019. Our market share remains low here at just 12%.

Deposit growth outstrips loans and improves funding mix

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

Strong core deposit growth has produced positive balance sheet JAWS over the past 3 years, with 12% compound annual growth, well ahead of 7% growth in gross customer loans. In the past year, deposits increased by R90bn, compared to loan growth of R24bn.

Pleasingly, customer deposits have increased to 82% of our total funding, from 74% two years ago, reducing the proportion of bank deposits and debt securities.

Managing our liquidity has been a priority over the past 15 months, and our sources of liquidity remain strong at R284bn, while our liquidity coverage ratio of 124% and net stable funding ratio of 118% are both comfortably above regulatory requirements.

Strong growth in South African deposits

Total customer deposits grew 10%, or 14% in constant currency. Excluding repurchase agreements, the growth was 8%.

SA deposits increased 14% to R849bn. Within this, Retail rose 9%, resulting in a flat share of 22% in a competitive market. Transactional deposits grew 13%, reflecting strong market liquidity.

Relationship Banking grew 13%, a strong performance with 24% growth in cheque deposits, in part due to customers maintaining high liquidity in an uncertain environment.

Although RBB ARO's deposits decreased 7%, it was 13% higher in constant currency, given good growth in call and current accounts.

Deposits are also a priority for CIB SA, particularly Corporate, and rose 35% to R329bn. Corporate SA grew 31%, or 43% on average, driven by strong growth in cheque deposits due to significant national government balances as well as notice deposits. Excluding the national government deposits, which are likely to decrease, Corporate was 15% up. Investment Bank SA increased 55%, on strong Markets and repos growth.

CIB ARO deposits decreased 12% due to the stronger Rand. In constant currency it increased 7%, as strong growth in call and cheque outweighed lower fixed deposits.

Net interest margin increased noticeably

Last year our net interest margin compressed by 29 basis points in the first half, largely due to material policy rate cuts during the period, which had a negative endowment effect only partly offset by our structural hedge.

With flat interest rates in South Africa this year, the large negative prime reset did not recur, and our margin widened to 4.41% from 4.23%.

Looking at the components, our lending margin continues to improve, again due to improved client pricing in Home Loans, Vehicle and Asset Finance and Investment Banking in SA. Mix-wise, faster Home Loan and VAF growth was offset by reduced CIB loans, where margins are lower.

Our deposit margin decreased mostly due to the impact of lower rates on lazy deposits, partially offset by reduced reliance on wholesale funding.

Additionally, the lower rates in South Africa and most ARO countries were a 10 basis points drag on our margin, by decreasing endowment income on equity.

We continue to hedge structural balances of 12% of the South African equity and liabilities. Our structural hedge released R1.5bn to the income statement. The net impact of endowment on equity, deposits and the structural hedge was a 5 basis points drag. The cash flow hedging reserve, reduced to R1.8bn after tax, from R4.3bn at year end, although we expect further benefit in the second half.

Non-recurrence of prime rate reset losses from the 275 basis points of rate cuts in the prior year improved our margin by 15 basis points, while a wider prime-JIBAR differential and higher yields on our liquid asset portfolio were also positive.

Insurance reduced non-interest income materially

Growing non-interest income is a priority. Last year 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 pleasing growth in the banking non-interest income, particularly in Global Markets.

While total non-interest income declined 2%, this was due to Rand strength, as it increased 1% in constant currency.

Looking at the components, the largest, net fee and commission income grew 1%, or 4% in constant currency. Within this, transactional income increased 1%, with muted growth in RBB South Africa. Merchant income grew 14%.

Net trading, excluding hedge ineffectiveness, grew a pleasing 20% or 31% in constant currency, given a strong performance from Global Markets, which I will cover shortly.

'Other' non-interest income halved, 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 12%, largely due to reduced insurance income. Excluding this, it was flat in constant currency, reflecting customer-centric pricing actions, the shift to digital from traditional channels and subdued economic activity.

CIB's non-interest revenue grew 38%, or 50% 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.

Solid underlying non-interest income performance

Several moving parts mask the underlying momentum in our non-interest income.

Life insurance's R1.4bn higher mortality claims and additional provisions for Covid-19 is the main item. That alone reduced our group non-interest income by 8%.

Other drags this year include our fee actions in RBB South Africa and hedging ineffectiveness in our cash flow hedging. Against these, we added back R570m of negative fair value adjustments in Investment Banking in the base.

Based on these adjustments, our underlying non-interest income growth was closer to 6%, or 9% in constant currency.

Strong Global Markets revenue growth, particularly in SA

Global Markets revenue grew 21%, or 30% in constant currency, a creditable performance. Our markets histogram shows a material YoY decline in 'loss days' and a shift right to positive days.

Markets SA rose 35%, with fixed income and credit up 32%, due to strong client flows and a couple of large client trades. FX and Commodities decreased 25%, off a very strong base that benefited from significant volatility, underlying client activity was up year on year. Equities and Prime Services rebounded from a low base, with improved client flows and tight risk management.

Although Markets ARO grew 2%, it was 22% higher in constant currency, off a high base, and it continues to diversify by product and geography.

Operating expenses remain well managed …

Moving to costs, our operating expenses increased 5%, or 9% in constant currency.

This largely reflects the significant increase in bonus provisions off a very low base last year, given our improved earnings.

Staff costs grew 6% and remain the largest component at 56% of the total. However, salaries decreased 1%, reflecting reduced headcount outweighing staff restructuring costs. Provisions for bonuses and deferred cash and share-based payments rose materially, in line with group earnings.

Non-staff costs increased 3%, or 7% in constant currency.

Some of the growth came in variable costs, such as cash transportation, which increased 9%, given improved economic activity and the hard lockdown in the prior year. Obviously such growth came with an increase in associated revenue.

Property costs declined 3%, due to our property optimization strategy, coupled with lower spend on Covid-19 protective equipment in the current year.

We continue to invest heavily in digital platforms and our technology costs grew 18%. Our total IT spend, including staff, amortization and depreciation, grew 11% to R5.3bn, which is 24% of group expenses. Investment in digital, data and automation resulted in a 12% increase in amortisation of intangible assets.

Depreciation fell 6%, on lower physical IT infrastructure.

Pro fees grew 2%, reflecting change and technology services spend.

Marketing costs decreased 2%, as reduced sponsorship spend outweighed significantly higher advertising spend.

Communication costs declined 2%, given 13% lower printing and stationery costs, while telephone and postage grew 1% to support remote working.

'Other costs' fell 6%, largely due to reduced administration fees after disposing of the Edcon store card portfolio in the prior year, plus significantly lower travel and entertainment costs. These offset higher fraud charges.

As we cautioned in our guidance, subdued revenue growth resulted in negative operating JAWS for the half and a 55% cost-to-income ratio. We see opportunities to improve our efficiency in the medium-term through new ways of working and digitalization.

… with sub-inflationary underlying cost growth

As mentioned, our underlying cost growth was better than it seems.

Significantly higher bonus accruals were the main contributing factor, which added 4% to our total cost growth.

Excluding this and smaller items such as restructuring costs (particularly in RBB SA) and other one-offs in both this half and the base, produces a slight decline in underlying costs YoY. In constant currency that equates to just over 3% growth.

On this basis, our operating expenses remains well managed.

Credit impairments improved materially across the board

Turning to credit impairments, our charge dropped significantly from last year's exceptionally high base of almost R15bn, which was 4 times the first half of 2019. I will spend some time unpacking the improvement.

Both RBB and CIB's credit impairments reduced materially, by 64% and 82% respectively, resulting in a R10bn lower group charge.

In last year's first half we raised a sizeable R5.5bn macro overlay, given the deteriorating forward-looking macroeconomic variables. Despite the improving macro outlook in the first quarter, our judgmental overlay was retained, because of the uncertainty created by the Covid-19 third wave and the potential for a protracted lockdown, plus the threat of further load shedding in South Africa. We provide details of the macro scenarios used and a sensitivity analysis in our booklet.

We raised R1.3bn for single names, which constituted 28% of our total credit impairments. This charge was 29% lower YoY, given no single names in CIB ARO, although Relationship Banking, Business Banking ARO and CIB SA all increased YoY.

Turning to our group credit loss ratio, it improved considerably to 88 basis points, the mid-point of our expected through-the-cycle range of 75 to 100 basis points, from last year's high of 277 basis points. The improvement exceeded our expectations.

RBB's credit loss ratio fell to 133 basis points, from 388 basis points, which included R4.2bn of MEV management adjustments. The current period benefited substantially from improved underlying performance, model enhancements and a new definition of default in the South Africa retail portfolios, as well as enhanced collections effectiveness.

RBB SA's models were also enhanced to achieve greater consistency between regulatory and IFRS models and refine certain assumptions, including the mortgage loss given default model to reflect empirical workout behaviour. These model changes decreased our first half charge by R1.1bn, with substantial reductions in Home Loans, Card and Vehicle and Asset Finance.

RBB SA's NPL ratio has 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 R200m.

Home Loans' credit loss ratio improved to negative 22 basis points, from 143 basis points, due to strong collections and the model updates that better account for improvements in recoveries. The MEV overlay raised last year was retained.

Vehicle and Asset Finance's credit loss ratio fell significantly to 158 basis points, again due to improved collections and the model updates.

Stage 3 coverage for Home Loans and VAF increased to 29% and 54% respectively, from 27% and 44% based on the revised definition of default last December.

Everyday Banking's credit loss ratio fell significantly to 5.7% from 11.8%. Within this, Card's charge improved, due to the model enhancements and revised definition of default, plus reduced early-stage delinquencies. Personal Loans' credit impairments dropped 48%, given the non-recurrence of last year's MEV as well as improved underlying performance, partly offset by the model enhancements that increased the charge.

Relationship Banking's credit loss ratio improved to 114 basis points, as the MEV raised last year was not repeated. Its single name impairments remain elevated and pressure on the SME portfolio persisted.

RBB ARO's credit loss ratio dropped considerably to 1.7% from 4.6%, given non-recurrence of the coverage built last year and an improved risk profile across most portfolios.

Lastly, CIB credit loss ratio improved to 24 basis points, which was within its through-the-cycle range, from 130 basis points in the prior year. CIB SA benefited from improving default grades, although its single name provisions remain elevated. CIB ARO reduced significantly to a small credit, given substantial MEV build and single names in 2020.

Delinquency stages improved slightly year-to-date

The impact of the Covid-19 pandemic and resulting economic downturn on our stage 2 and 3 loans is very evident. After improving consistently for the previous two years, both increased materially in the first half of 2020. Although less pronounced than we expected, they rose further in the second half of last year.

However, the proportion of stage 2 loans declined this year, with early arrears reducing across most portfolios, particularly Personal Loans and CIB SA.

While the level of stage 3 loans improved noticeably HoH, this was largely due to RBB SA's new definition of default for the period, which reduced its FY20 stage 3 loans to 8.5% from 9.7% previously. The revised definition, which aligns our definitions with the peer group, reduced Home Loans and VAF's stage 3 loans in particular. On a comparable basis, our stage 3 ratio was only slightly better than last December's, particularly in CIB.

While total loan coverage remained robust

Our total loan coverage remains comparatively high at 4.5%, which we believe is appropriate for the operating environment, based on our current expectations.

Stage 1 coverage was flat at 94 basis points, as slightly higher RBB coverage was offset by lower coverage in CIB.

Stage 2 coverage decreased to 6.2% from 7.2%, mostly due to mix in RBB SA, where Home Loans balances rose while VAF and Everyday Banking decreased, even as their coverage all increased. CIB SA's coverage also declined, as single names with higher coverage migrated to stage 3.

Stage 3 coverage increased to 47% from 45%, mostly due to mix changes as a result of the new definition of default, because loans with lower coverage migrated to stage 2, while higher risk VAF and Home Loans accounts were kept in stage 3 for longer. CIB was flat at 33%, as SA increased due to higher coverage on certain distressed names, while ARO declined as fully impaired exposures were written off.

Strong divisional earnings growth

Moving to our divisional performance, RBB's normalised headline earnings rebounded strongly from last year's low base to contribute over half of our YoY growth.

RBB's earnings grew eightfold to R4.2bn, largely due to 64% lower credit impairments. Its pre-provision profits decreased 15%, impacted by Insurance's significantly higher claims and Covid-19 provisions. Excluding Insurance and the R300m of fee cuts, RBB's revenue was flat, and pre-provision profit was 3% down.

CIB's earnings grew 146% to R4bn, due to strong 15% higher pre-provision profits, or 26% in constant currency, and 82% lower credit impairments, off a high base. CIB's earnings were above 2019 pre Covid-19 levels. As noted, its non-interest income grew 38%, or 50% in constant currency, well above 13% cost growth.

The R1bn improvement in 'Head office, Treasury and other', was due to non-recurrence of the large reset losses in the base, higher yields on our liquid asset portfolio and lower funding costs.

While our group earnings are evenly split between RBB and CIB, we expect RBB's proportion of earnings to increase from here.

RBB franchises all rebounded sharply, besides Insurance

Looking at RBB's franchises, all rebounded significantly, with the exception of Insurance.

Our secured lending operations recovered materially from their first half losses last year. Home Loans produced an excellent performance, with record profits of R1.4bn. Strong 12% net interest income growth was well ahead of 3% cost growth, generating 15% higher pre-provision profits. As mentioned, its credit impairments were a release of R300m, mostly due to model refinements. Hence this is not a sustainable earnings base for Home Loans.

VAF continues to generate strong pre-provision profit growth, up 27% on the back of 20% higher revenue due to strong 14% book growth and improved margins. Its credit impairments also dropped

65%, although its credit loss ratio remains above through-the-cycle levels. These combined to increase its headline earnings by R1.2bn YoY from last year's substantial loss.

Everyday Banking earnings more than quadrupled, due to significantly lower credit impairments in Card and Personal Loans, which both rebounded from last year's large first half losses. The business faced several revenue headwinds, including lower production, given our reduced risk appetite which was only released recently, whilst the low interest rate environment compressed margins across the balance sheet. Continued lockdowns in 2021 together with fee reductions to support customers and the shift to digital channels weighed on fee income. These revenue headwinds resulted in a decline in pre-provision profit.

Insurance earnings dropped by almost R1bn to a R297m loss, given significantly higher mortality claims and increased provisions in the life business due to Covid-19. Life Insurance lost R449m, while Short-term insurance earnings decreased 3% to R153m. Net insurance premiums grew 6% to R3.5bn, with Life up 8% from improved integration into the bank, while short-term rose 3%.

Relationship Banking's earnings increased 53% to R1.5bn due to 46% lower credit impairments and 4% higher pre-provision profits, despite slightly negative operating JAWS. Strong deposit growth and 18% higher acquiring volume supported 4% revenue growth, offsetting customer-centric fee reductions and lower cheque income. Relationship Banking's returns remain very attractive.

Lastly, RBB ARO made a small profit compared to last year's loss, thanks to 64% lower credit impairments. The stronger Rand was a significant drag. Pre-provision profits decreased 18%, or 2% in constant currency. Its operating JAWS were negative given higher bonus provisions and investment in digital, while higher insurance claims reduced topline growth.

Strong earnings growth across CIB franchises

Turning to CIB, this slide shows its split by business and geography, although it is run on a Pan-African basis.

Corporate's earnings more than doubled, as credit impairments reduced significantly to negligible levels. Its pre-provision profits declined 4%, although it increased 7% in constant currency. Corporate's revenue grew 2%, or 10% in constant currency, with South Africa up 13% and ARO down 11%, or up 6% in constant currency. Corporate SA's robust growth reflects strong growth in deposits and trade finance, partially offset by subdued demand for short-term funding. Costs grew 7% or 12% in constant currency, largely due to higher bonus provisions.

Investment Bank earnings grew significantly, given the combination of strong 26% pre-provision profit growth and 73% lower credit impairments. Its revenue grew 24%, or 33% in constant currency, with double digit growth in all business units, and non-recurrence of negative fair value losses in the base. As mentioned, Markets revenue rose 21% or 30% in constant currency, while Commercial Property Finance grew 14%. Costs increased 22%, or 27% in constant currency, due to higher bonus provisions and incremental run costs.

CIB South Africa produced an excellent performance, with earnings trebling. Substantial 31% revenue growth produced 39% higher pre-provision profits, while credit impairments fell 66%.

The strong Rand dampened CIB ARO's performance, as 13% lower pre-provision profits were actually 7% higher in constant currency. As mentioned, Markets ARO was robust, growing 22% in constant currency. CIB ARO's credit impairments swung from R1.1bn to a small release, which drove its strong earnings growth.

Opportunity remains in Africa regions

The strong Rand was a noticeable headwind for Africa regions' contribution in the first half. For instance, its revenue grew 8% in constant currency, rather than the 10% decline we report in Rand.

Nonetheless, Africa regions remains a meaningful contributor. It accounts for a sixth of our group earnings and almost a quarter of our revenue.

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

Capital at the top end of board target range

We remain well capitalized.

Our Group core equity tier 1 ratio increased to 12.4% from 11.0% in the past year, which is better than we expected, given strong capital generation and lower risk weighted assets.

Our CET1 ratio is right at the top end of our board target range of 11 to 12.5%, and comfortably above regulatory requirements.

Our RWAs decreased 5% to R892bn, due to 5% lower credit risk RWAs due to the stronger Rand and some optimization, plus a 17% drop in Market risk.

This was offset by a R5.4bn reduction in our foreign currency translation reserve, also due to the stronger Rand.

We remain capital generative, with profits adding 1.7% to our CET1 ratio over the year.

'Other' includes the phasing in of IFRS 9, which is was completed in January 2021.

Our strong CET1 ratio allows us to resume dividend payments, initially at a payout ratio of 30%. Post our interim dividend of 310 cents, our CET1 is expected to be 12.1%, still above the mid-point of our board target range.

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

Jason Quinn – Interim Chief Executive

Thank you Punki.

2021 outlook

Before we take your questions, I will finish with our guidance for 2021, starting with the macro prospects.

We expect South Africa's economy to grow 4% this year after last year's 7% decline. The positive effects of strong global growth, higher commodity prices and supportive domestic monetary and fiscal policies, will be dampened by further waves of Covid-19, fragile business and consumer confidence, stretched electricity supply and the impact of last month's civil unrest. We expect policy rates to remain on hold into next year.

We forecast GDP-weighted growth of 4.3% for our ARO presence countries following last year's small contraction.

Based on these assumptions, and excluding further major unforeseen political, macroeconomic or regulatory developments, our guidance for financial year 2021 is updated as follows:

We expect mid-single digit growth in net interest income, given an improved net interest margin.

Non-interest income is likely to decline slightly due to elevated Insurance claims and reserving for mortality and disability liabilities, with positive growth expected excluding these items.

We will continue to manage operating expenses carefully, while maintaining investment in systems and digitization. Despite increased variable and performance costs on the back of higher earnings, we expect low single digit cost growth.

As a result, we expect stable operating JAWS in 2021. Our cost-to-income ratio is likely to be in line with last year's 56% which will result in low to mid-single digit growth in pre-provision profits.

After last year's significant build in coverage, our credit impairments are expected to decrease substantially, resulting in a credit loss ratio around the mid-point of our through-the-cycle range of 75 to 100 basis points.

Consequently, we expect our RoE to improve materially this year to broadly in line with our CoE, although second half returns are likely to be lower than the first half.

Finally, our Group CET1 ratio is likely to remain above the mid-point of our 11% to 12.5% board target range. We currently expect a dividend payout ratio of 30% for 2021, increasing to 50% over the medium-term.

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