FY22 speaker notes

Arrie Rautenbach – CE

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

Before I get into the results, I would like to begin with thanking all our stakeholders. Our customers for believing in us, our colleagues for their dedication throughout the year, the Communities we operate in across the continent for giving us the license to operate, our Board of directors for their guidance and our shareholders for their unwavering support.

Turning to our results, I will first share my thoughts on the operating environment that we faced last year, and where we are as a group in delivering our strategy, before briefly giving my perspective on our strong 2022 performance.

Thereafter, Jason will unpack our numbers in detail and provide our guidance for 2023, and then we will take your questions.

Operating environment remained uncertain

The global, regional and domestic environments remained unusually uncertain throughout 2022.

Covid-19 receded as an immediate threat to the economy, although it remained a key driver of the Chinese outlook. Geopolitical issues rose to the fore, particularly surrounding the ongoing Russia/Ukraine conflict and rising tension between the US and China.

Energy and food markets were particularly disrupted, adding to broader supply chain pressures globally and pushing inflation to multi-decade highs in many countries, including the UK and the US.

Central banks responded by increasing policy rates materially, from a very low level. As global financial conditions tightened materially through the year, it placed pressure on many categories of financial assets, including emerging markets.

Turning to our ARO presence countries, inflation surprised to the high side in most markets during 2022, pushed up by the same fuel and food price pressures that are evident globally. Increased inflation, tighter global financing conditions, and higher country risk premiums in some ARO countries, saw average policy rates rise in all our ARO countries besides the Seychelles.

These headwinds to economic growth further complicate efforts to reduce fiscal deficits and improve debt sustainability, and some ARO countries are engaging with the IMF for support. Zambia continues to work through its sovereign debt default, while notably Ghana restructured much of its domestic public debt. We continue to actively monitor sovereign risk across our portfolio.

However, given good economic and geographic diversity across our ARO portfolio, we expect real GDP growth of 4.4% from it in 2022.

Headwinds continue to build in South Africa

In South Africa, the economy initially benefited from strong commodity prices and a resilient Rand in 2022.

Nonetheless, consumer price inflation rose faster than expected and breached the Reserve Bank's 6% upper target early in the year, largely due to sharply higher food and fuel prices. The Reserve Bank responded by increasing rates 350 bps from November 2021 through to November 2022. While faster and more than we initially expected, importantly rates increased off record lows and current levels are not too dissimilar to pre-Covid interest rates.

Significantly higher loadshedding, in the fourth quarter of 2022, became an increasing drag on South Africa's economy as GDP contracted 1.3% in the fourth quarter, with the overall growth of just 2% in 2022 as a result.

Consumer financial distress has escalated, as the cost of living has increased sharply, with inflation at highs last seen in the global financial crisis. While the recently published Business Confidence Index for first quarter 2023 shows a further deterioration in private business sentiment, with 64% of survey respondents reporting the prevailing business conditions as unsatisfactory.

As a systemic financial institution within South Africa, we see the impact of all of this on all South Africans, and despite how resilient the country has been to this point, the time for decisive and cohesive action has come.

As Absa, we are committed to forging partnerships across the social compact to drive sustainable solutions to the challenges that plague our country. To this end, we welcome President Ramaphosa's call for decisive action and a zero tolerance to corruption, during his recent cabinet announcement. We view the reaffirmation of Operation Vulindlela as absolutely vital and urgent.

Building the foundation for sustainable growth

While our separation from Barclays Plc was completed some time ago, Barclays sold their remaining 15% last year in two accelerated bookbuilds in April and September, ending any ownership of Absa. We continue to see benefits from the successful separation, including a contribution to our planned BEE deal, enhanced systems in CIB and ARO and our refreshed brand, while management capacity was freed up after the separation.

Last year was the right time to refine our group operating model, to adopt a flatter structure and bring management closer to customers, while allowing us to accelerate strategy execution. In the second half, our structure changed to five divisions from two, as we split Retail and Business Banking into four businesses with the Executives joining my Group Exco. CIB is unchanged and still runs as a Pan-African business. We expect the change in our operating model to generate clear commercial benefits over time.

Given the importance of ESG and its clear link to the strategy, we established a new Exco role of Group Chief Strategy and Sustainability Officer.

We have a diverse leadership team in place, with our Exco completed by the three final appointments. The Exco's track record in navigating the Covid-19 pandemic and fixing the business over the past three years gives me confidence that we have the right leaders in place to deliver our strategy.

Transformation is a priority for us, as we aim to be a leader in shaping a business that fosters diversity, equity and inclusion. Our new Exco demonstrates our commitment to a fully transformed and representative organization. As a group, we also aim to "grow our own timber" and nearly 80% of the Exco were internal appointments.

We continue to consistently deliver against our group strategy. As you know, we re-anchored it to our original 2018 standalone strategy, while emphasizing digital and sustainability more. We are confident that we have the right strategy, which is evident in our 2022 performance.

Our strategic execution journey had two clear phases. The first, fixing and turning around the business, particularly Retail and Business Banking is complete, and we are now in the outperformance phase of our execution plan.

As Jason will show, our balance sheet is strong. We have ample capital to support our growth ambitions, with our CET1 capital ratio of 12.8% above our board target range and healthy deposit growth in recent years. Given the fact that 2023 looks tough from a macro perspective, we are well positioned for a difficult operating environment. In particular, along with strong capital levels, our provision coverage remains appropriate. Moreover, even with our structural hedge, we continue to benefit from rising rates and our ARO portfolio provides some diversification from South Africa's low GDP growth.

Importantly, we continue to invest in growth, with R3.3bn of strategic investment spend last year, and with substantial growth in our marketing. Savings in other areas enabled this investment, while maintaining comparatively low overall expense growth. We also invested in systems stability, which is evident. Last year we had no severity 1 and 2 IT incidents, down from 3 in 2021 and considerably better than the 30 back in 2015.

Despite the dearth of macro tailwinds, consistent strategy execution produced strong 2022 results, with strong underlying earnings growth and returns, particularly excluding the significant Ghana sovereign debt-related credit impairments.

The market is starting to recognise our performance. Our 34% total shareholder return last year was the best among the large SA banks and well ahead of the market, following on 30% TSR in 2021.

We recently completed a collaborative process to redefine our group purpose, which involved all our staff and generated significant excitement and energy. Our new purpose statement of "Empowering Africa's tomorrow, together … one story at a time," reflects collective commitment to all our stakeholders in contributing to Africa's growth, now and in the future. This revised purpose is being embedded at the centre of all that we do, given our vision of being a purpose-led organization.

My message is that we enter a tough 2023 with solid momentum and full of confidence that we will deliver once again.

Next I want to cover the strategic progress that we made in 2022. I will share some examples of what we delivered across our five strategic focus areas.

Digitally-powered business

Firstly, we continue to accelerate our digital transformation, although there is considerably more to do here. For example, Everyday Banking aims to become a digital bank with an empathetic front line. Over three quarters of our Core Middle Market and Retail Affluent customers bank remotely and entirely digitally. Absa Advantage challenges in our app encouraged digital adoption, with customer participation up 90%. We also launched Absa Abby, an AI-powered virtual assistant to help customers navigate our banking app. Rolling out Absa Abby and Absa ID saw over 2 million enrolments in the first year, which reduced call centre volumes for in-scope queries by a third. In ARO RBB, 60% of customers are digitally active, up from 53%. In total, improved stability and enriched functionality saw our digitally active customers grow 11% to 3m.

CIB's Absa Access, a single sign-on transactional banking platform with global market products integrated, has won numerous awards including Best Online Portal by Global Finance recently. After migrating all ARO clients onto it in the first half, two-thirds of CIB's total client base are active on it. While behind our original targets for migrating South African and Pan African clients, we opted to focus on client experience during the migration process.

We have rolled out numerous digital products. For example, Instant Life is one of South Africa's first fully digital underwritten life products. It continues to perform well, with 15% growth in digital sales, while our non-life insurance digital product, Activate, reported growth of over 200% in policy sales. Moreover, about a fifth of Home Loans and Personal Loans sales were on the Absa app. In payments, we were one of the first to launch Google Wallet, following Apple Pay and QR pay in 2021. Relationship Banking also rolled out MobilePay to enable its SME customers to use Android mobile phones as point of sales devices through the app.

One indicator of our progress is that The Digital Banker ranked Absa the best Digital Bank in South Africa, while several other groups ranked us the best digital bank in Ghana, Zambia, Mauritius and Tanzania.

Winning, talented and diverse team

Secondly, we have ensured that our winning, talented and diverse team is our competitive advantage. Simply put, looking after our colleagues enables us to better service our customers.

Over the past few years we have developed an Employee Value Proposition that both engages our colleagues and has put Absa at the forefront of attracting top talent. We have been deliberate in pay distribution, specifically in 2022, where the majority of the increase in our short-term incentives was directed at our frontline staff. Investment in our colleagues' development is critical and we increased staff training by 55% to R590m last year.

These changes are becoming tangible within the organization and as evidence of our progress, colleague advocacy improved materially, as our employee net promoter score almost doubled last year, while our ability to retain top talent remains above the industry benchmark. We are attracting top talent to our organization, with our recent Exco appointments a testimony to that.

Our progress is being recognized externally and we were recently awarded Top Employer Africa certification for the second consecutive year in South Africa, Zambia, Kenya, Botswana and Ghana with our overall score of 87% above the best practice benchmark of 85%. More broadly, we were rated the top South African company and 36th globally out of 400 for championing women at work, by Forbes.

Active force for good in everything we do

Thirdly, we further elevated ESG as a priority in our strategy, as we aim to be an active force for good in everything we do. Within this, we have identified three focus areas: climate change, financial inclusion and promoting diversity and inclusion.

Under combatting climate change, we published fossil fuel financing standards and caps last year, as well as our second TCFD report. We are the leader in renewable finance in South Africa, having participated in almost 4.2GW of closed deals to date, including 55% of the REIPP projects. We see significant growth in the captive power market over the medium-term, where about 3GW of projects are likely to reach close in the next year, mostly in the industrial and mining sectors. We were mandated lead arranger and lender to the first two utility scale projects that reached financial close during the fourth quarter of 2022.

We also made progress in inclusive finance. For instance, Home Loans housed almost seven thousand households through a R2bn social loan secured from the IFC. Our total affordable housing book in South Africa increased to R17bn. In ARO RBB, our mobile lending to under- and unbanked customers grew 54% to R6.7bn. In Kenya, we drove social inclusivity as the sole lender in Acorn's KES6.7bn green loan to increase student housing.

In total, CIB's ESG-related financing and arranging totaled R31bn, up 66% YoY. Of note, we were the sustainability coordinator for the largest syndicated sustainable finance deal in South Africa to date, a R10bn loan to a gold miner.

We are proud to be the leaders in financial solutions for agriculture – one of Africa's largest and most employment-intensive sectors, and vital for food security and inclusive growth. Across our African markets, we are empowering businesses all along the agriculture value chain to mitigate climate change and raise productivity and yields – for example, by funding water and irrigation projects and investing in technology solutions for farmers. We are also keenly aware of our societal role in agriculture, and we are prioritising our support of Black, women- and youth-owned agribusiness

On the funding side, we published a Sustainable Finance Issuance Framework and issued our inaugural R2.6bn green bond, with use of proceeds earmarked for solar and wind renewable projects. We also concluded our first sustainability-linked syndicated loan, a $400m facility where rates depend on us achieving specific renewable financing targets and using a proportion of renewable power in our own operations.

Finally, our community investment increased 37% to R267m, almost three-quarters of which went to education and skills development, including youth employability, financial literacy training, university scholarships and school initiatives.

Our redefined purpose statement is especially critical to our sustainability journey and being purpose-led. Putting this at the centre of everything we do will create a sustainable organisation.

Diversified franchise with deliberate market leading growth

Fourth, as we shift from the fixing to the outperformance phase of our strategy, we are purposeful on competing in attractive growth areas by geography, segment and product. The shift to 5 business units with a deep commercial focus will highlight these areas of growth, for us to leverage the power of our group ecosystem.

Integrating bancassurance into our retail franchise is a good example of this, with improved customer offerings and cross-selling strike rates. Net life insurance premiums in South Africa grew 8% to R4.3bn, as we continue to see strong uptake of funeral, digital and fully underwritten life products by our customers. Absa Life sold 950 thousand policies last year.

We also maintained our loan momentum in secured lending in PSC, with solid 9% growth in home loans and vehicle finance, where our market shares are 24% and 23% respectively.

Our total retail customers grew 1% to 9.7m, with solid 8% growth in the Retail Affluent segment. Importantly, our transactional account sales rose 21%, with substantial growth in cheque accounts. Pleasingly, in line with our strategy, Youth account sales more than doubled and this segment grew 4% in total.

While Relationship Banking has a strong franchise in the Commercial segment, we view SMEs as a material opportunity. Clients are able to select the Extended Business Evolve proposition that meets their requirements, and we launched an SME rewards program – SME Friday – that is gaining traction, along with our MobilePay product.

ARO is a key part of our strategy, particularly given its structural growth prospects versus the more mature South African market. It is also important for our CIB franchise. Excluding Ghana, the rest of our ARO portfolio performed strongly, with substantial revenue and earnings growth. We see scope to improve ARO RBB earnings and returns over the medium-term.

Finally, our Corporate Bank has focused on trade finance and transactional activities, where it has grown strongly for some time. For example, last year its meaningful revenues in transactions grew 19%, due to higher volumes and increased customer primacy, while trade finance in SA rose 21%.

Primary partner for our clients

Lastly, being the primary partner for our clients is a crucial part of our strategy, particularly in growing capital light revenue. Doing so requires understanding our clients' needs and I am particularly pleased with the progress we have made on customer experience across the group. I will highlight some of the progress we are making here.

Improving customer experience is a key part of Everyday Banking's strategy, including embedding a culture of being closer to customers. It continues to reduce customer complaints and we received the least Ombudsman complaints of the big five banks for the third consecutive year, having improved from being the worst. Everyday Banking's pricing strategy focuses on offering value for money, while addressing customer pain points, with a focus on offering unrivalled value to primary customers. This year we reduced fees by another R500m, taking the cumulative reduction since 2021 to R1bn. Absa Rewards is an effective platform to drive primacy and 80% more Rewards customers became primary last year. Rolling out free Absa Rewards this year will further address the value perception and improve customer experience and cross-sell. In South Africa, our average product holding in retail improved to 2.46 from 2.39, indicating a deepening of customer relationships.

The Product Solutions Cluster plays a valuable role in deepening our client relationships, with home loans an anchor product for middle market customers. Bancassurance also plays an important role in ensuring we become customers' primary partner and PSC provides integrated propositions that lower the acquisition cost and provide more value to our customers. Pleasingly, Absa Life came first for the second consecutive year in the SA-csi Consulta survey, which highlights its excellent customer service levels.

Given its focus on customer primacy, Relationship Banking changed its operating model, shifting to a client segment centric model, across SME, Commercial and Private Wealth, from a region-based model. The change will bring customer experience into sharper focus across channel and product, among other benefits. We are hiring over 100 bankers to increase capacity on the front line. We have also put new leadership into Private Bank and Wealth, which we view as a growth opportunity.

Lastly, having completed the initial, balance sheet-led phase of its strategy, CIB is prioritizing growth with sustainable returns and a focus on capital light non-interest revenue. Corporate Bank is building a strong track record here, with strong non-interest income growth, driven by transactions and trade finance. Increasing customer primacy is a crucial part of this strategy, and CIB continues to improve customer primacy in both South Africa and ARO. In South Africa, it added over 100 new to bank clients last year, with the majority of them primary.

Maintained our positive momentum

Moving to the salient features of our 2022 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 2019.

Importantly, our performance is due to strong pre-provision profit growth, which is driven by solid revenue growth and a relentless focus on efficiency. Our revenue is 24% above 2019 levels with our pre-provision profit 43% higher, a 13% compound annual growth rate. This resulted in our cost to income ratio reducing to 51.5% and achieving our medium-term target of low 50's ahead of schedule.

Our diluted normalised HEPS has recovered well and is 29% higher than pre-Covid levels. The impact of the Ghana Sovereign debt crisis was material and our earnings performance has been resilient to be able to absorb this impact and still show this level of growth.

Similarly, our 16.6% RoE is higher than pre-Covid levels and well above our cost of equity whilst our NAV per share is 23% above 2019.

As you can see, we are building momentum as well as a consistent track record of delivery and this gives us confidence as we move into 2023.

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.

As usual, 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.

Earnings growth underpinned by very strong revenue

Starting with our income statement, headline earnings increased 13% to R21bn.

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 strong revenue growth of 15% to just under R100bn, which is now 24% above pre-Covid levels in 2019.

Within this, net interest income increased 13%, reflecting further margin expansion and 11% growth in average interest-bearing assets.

Non-interest income grew 18%, in part due to a substantial recovery in Insurance revenue, while fee income growth was also strong at 7% and net trading up 9%.

As you have come to expect of us, operating expenses remain very well controlled, growing 7%, while excluding performance costs the increase was only 6%.

These combined to produce 25% higher pre-provision profit. Excluding the rebound in Insurance in South Africa, our pre-provision profit still increased very nicely by 20%.

Our credit impairment charge rose 61% to R13.7bn, reflecting the impact of higher interest rates and inflationary pressures in South Africa and significant Ghana sovereign debt related impairments. Half the increase was due to the Ghana sovereign debt related impairments, which totaled R2.7bn. There was also R1.1bn of non-recurring model enhancement benefits realized in 2021, which had set a slightly softer base.

The increase in “Other” largely reflects our higher taxation expense, as well as higher minorities and headline earnings adjustments.

The Ghana sovereign debt related impairment reduced our headline earnings by R1.8bn. Excluding this charge, our headline earnings would have increased by 23% and our RoE would have been 18%.

Margin benefited from pricing and higher interest rates

Our net interest margin recovered back to pre-Covid-19 levels of 4.5%, mainly on the back of higher policy rates across our business.

Unpacking the moving parts, our lending margin continued to improve, with higher rates and reduced suspended interest in Everyday Banking.

Deposit margins widened, largely due to the impact of higher policy rates in Corporate and Everyday Banking, which offset faster growth in wholesale funding that was negative for composition.

Higher average policy rates and growth in South African endowment balances added 8 basis points to the overall margin. Prime increased by 325 basis points during the period, with average rates 160 basis points higher.

The endowment uplift was partially offset by a smaller release from our structural hedge of R1.6bn from R3.2bn in the prior year.

The cash flow hedging reserve decreased to a R3bn debit balance from a credit of R0.8bn at 31 December 2021.

Within 'other', investing excess liquidity in ARO was a drag, while the reset gains of South Africa's rising prime rate during the current period enhanced our margin, with these items having a small 5 basis point impact.

Well diversified loan growth …

Turning to our balance sheet, total loans grew 11% to over R1.2tn. Excluding reverse repurchase agreements, the underlying growth was higher at 16%. Group loans to customers rose 9%, while loans to banks increased 38%. South African customer loans grew 8% to almost R970bn and Africa regions increased 14%, or 17% in constant currency, to R140bn.

Looking at our divisions, loan growth was pretty well diversified.

Product Solutions Cluster loans grew 9% to R400bn, with healthy production levels across the portfolios.

Everyday Banking increased 12% to R67bn, due to improved customer activity levels.

Relationship Banking grew 7% to R135bn, given continued momentum in the Agri portfolio, plus better growth in Commercial Asset Finance and Overdrafts, where improved business investment confidence was evident in some sectors, particularly in transport and logistics.

ARO RBB loans grew 13%, or 16% in constant currency, to R72bn, with growth evident across personal lending, mortgages and Commercial.

CIB customer loans grew 8% to R432bn, driven by 14% growth in Corporate Bank as demand for short-term funding improved, while Investment Bank loans increased 7%, or 15% excluding reverse repos.

CIB South Africa loans grew 7%, or 15% excluding reverse repos, with CIB ARO double that at 14%, or 17% in constant currency.

… with competitive retail loan growth

Our retail market share remains strong at 22% in South Africa, with continued momentum in secured lending and focused improved production in unsecured.

Home Loans grew 9%, improving our market share to almost 24% on strong first half production. We saw a mix shift in customers from first time homeowners to more affluent customers, which together with competition saw some pricing pressure.

Vehicle and Asset Finance also rose 9%, with 5% higher production, maintaining our market share at just over 23%. Margins are stable, with some pressure emerging on new business pricing due to increased competition more recently.

Credit card grew 13%, reflecting strong new account sales, together with increased limits and utilization, with turnover volume up 13%. We remain the largest by market share at just over 26%, which excludes our large Woolworths Financial Services book.

Personal Loans increased 10%, with production up 30%, with strong growth in digital sales on our mobile banking app. Personal loans remain a small portion of our retail lending and our market share is very low at just 10%.

Deposit growth slowed

Having increased our total customer deposits by 15% and 12% the previous two years, growth slowed to 3%, or 4% in constant currency, to R1.1tn. Including strong 30% bank deposit growth, overall deposits rose 6% to over R1.2tn.

Everyday Banking customer deposits grew 4% to R290bn, driven by 9% growth in fixed deposits and 4% higher savings and transmission deposits, while cheque account deposits decreased 1%. Growth slowed in part because the Absa Money Market Fund migration to our balance sheet is now in the base. Our market share decreased slightly to 21.4%.

Relationship Banking deposits increased 7% to R201bn, on the back of 8% higher savings and investments, with transactional deposits up 6%, where customers have built up liquidity the past two years.

ARO RBB deposits rose 9%, or 13% in constant currency, to R110bn, with transactional deposits 11% higher and investments up 23%.

Deposits also remain a priority for CIB. While its customer deposits were unchanged at R407bn, the underlying picture is better. Core cheque deposits grew 17%, largely offset by reduced national government balances that are more short-term in nature. CIB SA deposits decreased 1%, although excluding repos and National Treasury deposits it grew 4%. CIB ARO deposits were flat, or up 4% in constant currency and 6% on average.

Insurance SA drove non-interest income rebound

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

Total non-interest income grew 18% to account for almost 40% of our revenue.

There were three drivers of this growth. Firstly, the largest component, net fee and commission income grew 7%, with transactional income up 9% and merchant income increasing 10%. It was pleasing to see Everyday Banking's growth improve to 9%, while CIB remained robust at 11%, or 13% in constant currency.

Second, 'other' non-interest income rebounded strongly, after dropping significantly last year. Within this, SA Insurance increased by R1.8bn from 2021, given significantly lower Covid-19 claims and reduced reserves. Excluding this rebound, group non-interest income still grew very nicely by 13%.

Thirdly, net trading excluding hedge ineffectiveness grew 9%, which is higher than the 3% increase in Global Markets income, which was coming off a high base.

I should note that sundry income included over R750m profit on disposal of the Absa Investment Cluster, which is a non-headline item.

At a divisional level, Product Solutions Cluster non-interest income grew 60%, reflecting the large rebound in SA Insurance revenue, as well as 8% growth in life net premiums.

Everyday Banking grew 9% to R12bn, driven by growth in customers and normalising economic activity that outweighed the continued drag from migration to lower margin digital channels. Card issuing turnover grew 13% and digital transactions 15%, while cash withdrawals from branches and ATMs decreased noticeably.

Relationship Banking increased 3%, due to 4% growth in digital volumes, plus 12% higher acquiring volumes, partially offset by 10% lower cash volumes industry-wide, as customers continue migrating to digital channels.

ARO RBB rose 27%, or 25% in constant currency, due to growth in active customers and improved cross selling, plus strong growth in foreign exchange and card revenue up 51% and 42% respectively. These outweighed limited fee increases and the shift to digital transactions.

CIB's non-interest revenue grew 11% or 13% in constant currency. Drivers included very strong 21% growth in Corporate Bank trade finance in South Africa and transactional revenue up 19%. Global Markets ARO increased 20% in addition to strong Investment Banking Division fees, and a one-off litigation recovery. Global Markets SA decreased 8% off a high base, given reduced client activity in fixed income.

Costs well controlled as we continue to invest

Moving to costs, our operating expenses increased by 7%.

Staff costs also rose 7%, accounting for 55% of total operating expenses. Within this, salaries and other staff costs increased, as reduced restructuring costs partly offset salary inflation. Provisions for bonuses grew 20%, linked to our improved performance, while deferred cash and share-based payments increased 25%.

Non-staff costs grew 8%, or 7% in constant currency. Calling out areas of higher growth first, IT costs increased 12% due to continued investment in digital platforms requiring cybersecurity and licensing spend. Total IT spend, including staff, amortisation and depreciation, grew 8% to almost R13bn, which is now 25% of Group costs. Professional fees rose 22%, mainly from higher investment on strategic initiatives. Marketing costs grew 34%, due to increased campaign spend, sponsorship and corporate social investment spend, all off a low base. Amortisation of intangible assets increased 15%, given investment in new digital, data and automation capabilities.

Costs also reduced in several areas. Depreciation fell 10% primarily due to continued optimisation of property and physical IT infrastructure. Property costs declined 1%, reflecting ongoing property optimisation. And cash transportation costs fell 1%, given migration to digital banking and benefits from increased cash recycling.

We spent R80m on diesel last year to keep our infrastructure running during loadshedding, with more than half of that in the fourth quarter. If loadshedding stays at February's level and the price of diesel doesn't change, we could spend around R200m this year. Should loadshedding average stage 6 this year, the cost would increase to over R350m.

Standing back, I am very pleased that our cost-to-income ratio has improved to 51%, from 58% pre-Covid in 2019. You can expect continued focus from us on this effort.

Credit loss ratio increased off a relatively low base

Turning to credit impairments, our charge grew 61% to R13.7bn, largely due to substantially higher credit charges in the South African retail lending portfolios and coverage raised against Ghana sovereign investment securities and related exposures in the banking book.

Rising interest rates and higher inflation, plus non-recurrence of 2021 model enhancement benefits totaling R1.1bn, saw South African retail credit impairments increase across all loan categories.

Product Solutions Cluster credit impairments doubled to R2.6bn, a 65 basis point credit loss ratio. Within this, Home Loans swung to a R688m charge, from a R134m credit, although its 24 basis point credit loss ratio remains comparatively low. Vehicle and Asset Finance's credit impairments grew 33% to R1.9bn, a 176 basis point credit loss ratio. Its charge improved materially in the second half, as we resolved DebiCheck implementation issues that I mentioned in the first half, with its credit loss ratio well back within its target range in the second half.

Everyday Banking credit impairments grew 33% to R5.8bn, a 645 basis point credit loss ratio. Card credit impairments increased 23% to R2.9bn, off a base with significant model enhancement benefits. Personal Loans' charge rose 49% to R2.4bn, a 10.2% credit loss ratio. Its credit impairments reflect book growth and pressure on consumers, particularly in the second half of 2022.

Relationship Banking's charge fell 29% to R618m, due to an improved book construct, reducing its credit loss ratio to 45 basis points.

ARO RBB credit impairments decreased 8%, to R1.2bn, reducing its credit loss ratio to 164 basis points. The decline reflects a better retail book construct, improved collections and single name releases in Business Bank.

CIB credit impairments grew 87% to R1.4bn, a credit loss ratio of 27 basis points. Corporate Bank credit impairments swung to a R441m charge from a net R35m credit, increasing its loss ratio to 40 basis points. The increase was due to a single name impairment in South Africa and higher charges in Ghana. Investment Bank credit impairments increased 22% to R937m, a 24 basis point credit loss ratio, as higher Ghana-related charges outweighed lower stage 3 and performing impairments in South Africa. CIB South Africa credit impairments dropped 36% to R424m, a 12 basis point credit loss ratio. However, CIB ARO's credit charge increased substantially from R76m to R954m, a 109 basis point credit loss ratio, due to Ghana-related charges.

Lastly, we took a R2.2bn impairment at Head Office and Treasury due to a stage 3 impairment recognized on investment securities issued by the government of Ghana.

We do not include impairments on investment securities in our credit loss ratio calculation. Had we included them, our group credit loss ratio would have increased to 114 basis points, rather than the 96 basis points we report. Excluding all the Ghana sovereign related charges, our credit loss ratio was 91 basis points, slightly above the mid-point of our through-the-cycle target range of 75 to 100 basis points and similar to first half levels.

NPLs improved and stage 3 coverage increased

It is pleasing that group non-performing loans, or stage 3 loans, declined further to 5.3% from 5.4%.

The improvement was due to loan growth in the denominator, and concerted efforts to manage NPLs in our South African consumer lending portfolios.

NPLs reduced across Home Loans, Card and Relationship Banking, while Vehicle and Asset Finance increased due to customers in debt review and some pressure on the legal book, while Personal Loans inflows into NPLs grew in the second half.

Relationship Banking NPLs decreased due to recoveries and higher write-offs.

Strong loan growth improved ARO RBB’s NPL ratio.

Lastly, CIB’s NPL ratio increased, reflecting loans to the government of Ghana.

Our stage 3 coverage remains appropriately positioned in this environment, improving slightly to over 46%, due to an ageing legal book in Home Loans and additional stage 3 impairments in CIB on specific names.

As you would expect, given the sharp increase in loadshedding from the fourth quarter of 2022, we’ve done substantial work on its impact on our customers and credit impairments. To date, we have not seen loadshedding directly cause a noticeable increase in credit impairments, although its severity only worsened from September, so it is relatively early days. The impact differs across sectors, provinces and client size. SME’s ability to absorb the additional cost and disruption tends to be lower, although our SME book is relatively small. Given that loadshedding has occurred for several years, often larger clients have already invested in alternative sources of energy such as generators, but many are now looking at solar solutions, given the extent of loadshedding and high cost of fuel. Across sectors, the primary Agri portfolio has the most direct correlation between power supply and stress, but this is not observed in other sectors. While at current levels, loadshedding may be manageable, the confluence of cost pressures and other disruptions including water and transport will continue to weigh on marginal businesses. Water supply is also starting to be a major issue in several areas. In many cases clients have not passed on the additional costs to their customers, but this is likely to change in future.

Loadshedding also has an impact on our service providers, including courts, attorneys and collectors that could increase costs and slow down recoveries and the collections process across our portfolios.

Performance broad-based, benefitting from diversification

Moving to divisional performances now, most produced strong pre-provision profit growth, although earnings trends were more mixed and show the benefit of our diversification.

Product Solutions Cluster earnings grew 26% to R3.5bn, driven by 42% higher pre-provision profit. Revenue grew 25%, including 60% higher non-interest income growth, as Insurance SA revenue rebounded from elevated Covid-19 claims and reserving in 2021. Costs grew 9%, resulting in a 45% cost-to-income ratio. Credit impairments were a drag, doubling in large part due to one-off model benefits in 2021.

Everyday banking earnings were unchanged at R4.1bn, as 33% higher credit impairments offset 17% growth in pre-provision profit. Revenue grew 10%, with net interest income up 11%, in line with the growth in customer loans. Non-interest income increased 9%, given growth in customers and transactional activity. Costs rose 5%, improving its cost-to-income ratio to 53%.

Relationship Banking earnings rose 8% to R4bn, as pre-provision profits increased 4% and credit impairments dropped 29%. Revenue grew 5%, with net interest income up 7%, in line with balance sheet growth. Non-interest income was muted, growing 3% despite 12% higher acquiring turnover, given lower cash volumes. Costs grew 6%, producing a 55% cost-to-income ratio.

ARO RBB earnings grew ninefold to R1.1bn from R106m, due to a combination of 30% pre-provision profit growth and 8% lower credit impairments. Revenue grew 19%, with particularly strong non-interest revenue up 27% with higher active customer numbers and activity levels, plus growth in targeted areas such as Cards and foreign exchange. Costs rose 15%, slightly above the 11% average inflation across our ARO markets, reflecting performance costs and investment in digital.

CIB, our largest division now, increased earnings 9% to R9bn, driven by 13% higher pre-provision profit. Revenue increased 12%, with an improved second half. Net interest income grew 13%, in line with 14% loan growth. Non-interest income increased 11% to account for almost 40% of total revenue, given strong growth from Corporate Bank. Costs grew 12%, reflecting higher performance costs, inflationary pressures across several countries, increased travel spend and strategic investment in digital capabilities. CIB's cost-to-income improved to just below 47%.

Head Office, Treasury and other earnings fell 72% to a R692m loss, as credit impairments swung from a small credit in 2021 to R2.2bn, due to Ghana sovereign debt charges. The charge offset strong revenue growth, as net interest income more than doubled because Treasury had reset benefits from rising policy rates in South Africa, higher investment returns and increased endowment revenue. Non-interest income also more than doubled, largely due to the substantial profit on selling down our asset management business, which is excluded from headline earnings.

Large businesses all generated returns well above CoE

The diversity of our earnings is very evident, particularly when you consider that the businesses themselves are all diversified by activity and/or geography.

Our large businesses generated returns comfortably above our 14.5% cost of equity, with Everyday Banking and Relationship Banking producing very attractive returns.

ARO RBB's return on regulatory capital increased materially off a low base and we expect to improve it further over the medium-term.

We allocate capital based on sustainable expected returns, with a focus on continuing to grow capital light revenue over the medium-term.

Insurance SA rebound drives strong PSC growth

Unpacking the Product Solution Cluster, Home Loans earnings declined 17% to R2.2bn, as credit impairments increased off a very low base to outweigh the 5% pre-provision profit growth. Home Loans net interest income grew 6%, reflecting loan growth, partially offset by increasing pricing pressure and higher funding costs. Its cost-to-income ratio remained efficient at just below 33%.

Similarly, Vehicle and Asset Finance earnings fell 27% to R493m, because credit impairments grew 33% to offset 13% higher pre-provision profits. Net interest income grew 12%, in line with loan growth. Its cost-to-income ratio is also relatively attractive at 36%.

Insurance SA earnings rebounded to almost R1.4bn from just R68m. Life Insurance earnings recovered to R1.2bn from a R174m loss, on the back of 8% net premium growth, 36% lower net claims and a R423m release from the COVID-19 reserve. Non-life insurance earnings dropped 36% to R155m, due to higher weather-related and loadshedding surge claims.

Credit impairments dampen Everyday Banking earnings

Moving to the Everyday Banking franchises, higher credit impairments offset strong pre-provision profit growth in its unsecured lending businesses.

Card earnings declined 13% to R856m, as credit impairments rose 23% off a low base, to outweigh 14% growth in pre-provision profit. Card revenue grew 12%, with net interest income up 13%, in line with book growth, while non-interest income increased 9%, benefiting from growth in customers.

Personal Loans swung from a R146m profit to a R108m loss, as credit impairments rose 49% to offset 26% higher pre-provision profit. Revenue growth was strong, up 18%, driven by 19% higher net interest income. This business remains relatively sub-scale, given its low market share of just 10%.

The largest business here, Transactions and Deposits, grew headline earnings 6% to R3.3bn, due to 9% higher pre-provision profit on the back of pleasing 9% non-interest income growth. Cost growth of 6% was well contained, considering large investment in digital, marketing and fraud detection and prevention activities.

Relationship Banking generates strong returns

I covered Relationship Banking's performance earlier, but want to make three key points here.

Firstly, it is a strong contributor to group deposit gathering, as a large net originator of customer deposits and we see further potential here.

Secondly, reflecting this and our large card acquiring business, Relationship Banking generates attractive returns in the mid-20s.

Third, we see several growth opportunities in this division. While we have a large SME franchise, we aim to grow this segment, using our digital offerings. We also view the Wealth franchise as an area that we can improve materially and have put new leadership in place to do that. We also have plans to improve the relatively low cross sell of commercial asset finance into our Relationship Banking client base.

We expect to see benefits from changing Relationship Banking to a more client centric model.

CIB benefits from its improving scale and diversification

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

Starting with Corporate, which performed very well, headline earnings grew 30% to almost R3.5bn, as 36% higher pre-provision profit outweighed a substantial swing in credit impairments from a small net credit in the prior year. Revenue grew 19%, with pleasing growth in transactional revenues and improved customer primacy, wider deposit margins, good execution of its Pan African trade strategy and a one-off litigation recovery.

Investment Bank earnings declined 1% to R5.5bn, as 22% higher credit impairments offset 1% pre-provision profit growth. Revenue grew 7%, driven by 21% growth in ARO, where Global Markets revenues were strong, while South African global market revenues were flat.

Using a geographic lens, CIB South Africa earnings grew 6% to over R6bn, reflecting 2% higher pre-provision profits and 36% lower credit impairments. Revenue growth of 6% was below 11% cost growth, resulting in a 49% cost-to-income ratio.

Conversely, CIB ARO earnings rose 15%, or 9% in constant currency, to nearly R3bn, as substantially higher credit impairments partially offset strong 33% growth in pre-provision profit. Strong 23% revenue growth was well ahead of 12% cost growth, improving its cost-to-income ratio to below 43%.

ARO RBB revenue drives strong earnings growth

ARO RBB's improved revenue momentum and strong earnings recovery is an encouraging performance, as we seek to reposition its growth trajectory and returns.

While its profitability increased significantly, its return on regulatory capital remains well below its cost of equity. Its cost-to-income ratio remains above 70%, which we expect to improve materially over the medium-term. We see opportunities on both the cost and revenue front, with scope to continue growing our customer base, roll out enhanced digital products including in payments, integrate our insurance business, and extract opportunities from our corporate client ecosystems.

Ghana sovereign charge reduced Africa regions earnings

In total, our Africa regions revenue grew 21%, or 22% in constant currency, off a relatively low base to almost R25bn. As such, it grew ahead of South Africa's 13% and now accounts for a quarter of our group revenue. Revenue growth was strong across ARO RBB and CIB ARO, up 19% and 23% respectively.

Strong Africa regions revenue growth drove 34% higher pre-provision profit. However, its credit impairments more than trebled because of the significant Ghana sovereign debt related charge. As a result, Africa regions earnings fell 4% to R2.7bn, reducing its return on regulatory capital to 10% from 12%. Its contribution to group earnings also decreased to 13%.

Nonetheless, the other countries besides Ghana performed very well last year, illustrating the benefits of having a portfolio of countries across the continent. For instance, excluding Ghana's sovereign debt related impairments, Africa regions earnings would have been up 60% and its RoE well above cost of equity.

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

CET1 ratio remains strong and above Board target range

We remain very well capitalized to fund our growth opportunities.

Our CET 1 ratio was consistent with the prior year at 12.8%. It is higher than the top end of our board target range of 11 to 12.5%, well above pre-Covid levels and comfortably exceeds regulatory requirements.

Group risk-weighted assets increased 8% to R1tn, with the largest component, credit risk also up 8%. These are slightly less than the growth in group gross loans and total assets of 11% and 9% respectively, indicative of continued optimisation efforts.

We remain strongly capital generative, with profits adding 2% to the CET 1 ratio over the year, partially offset by paying 90 basis points worth of dividends.

The strong CET 1 ratio allowed us to increase our dividend payout ratio to 52% from 36%, resulting in a 66% higher ordinary dividend of R13.00 per share, our highest on record. It is 16% above pre-Covid levels in 2019.

We remain well positioned for a tougher macro backdrop

We are deliberately well positioned for the tough macro backdrop that we expect this year.

Specifically, I want to emphasize our strong capital levels. Our Group total capital adequacy ratio of 16.6% is comfortably above our target of 'over 14.5%'. Moreover, we remain very capital generative.

Importantly, we are also appropriately provisioned, having built considerable coverage during 2020. While our total coverage has reduced slightly, it remains very strong at 3.9%, 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, including in hard currency.

2023 outlook

The outlook for the global, regional and domestic macro environment remains very uncertain. Geopolitical concerns, particularly the Russia/Ukraine conflict and rising tension between the West and China look likely to impact the outlook for some time. We expect global financial conditions to tighten further, as central banks continue to express concern over underlying inflation pressure, even as headline inflation eases. We expect global financial markets to remain volatile and financial flows into emerging markets will remain vulnerable.

We expect the South African economy to grow by less than 1% in 2023. Electricity supply is likely to remain a significant risk for the economy for the foreseeable future. We believe that the Reserve Bank will increase rates by 25 basis points this month, given the more hawkish Fed, January's large increase in food price inflation, and the weak Rand. We see the repo rate ending the year at 7.5% with prime at 11%, with rate cuts pushed out to at least next March.

We forecast 4.4% GDP-weighted economic growth for our ARO presence countries in 2023. On balance, the risks to growth are to the downside, as the more depressed global environment, high domestic inflation and tighter monetary policy in most ARO countries are likely to provide a headwind to growth. Ghana's near-term outlook is clouded by its debt and structural adjustment challenges. We expect East African markets, along with Mozambique, to generally perform strongly.

Based on these assumptions, and excluding further major unforeseen political, macroeconomic or regulatory developments, our guidance for 2023 is as follows:

We expect high single digit revenue growth, driven by net interest income, given high single digit growth in customer loans and higher policy rates.

Our net interest margin benefits from rising rates, with a R550m uplift on an annualised basis for a 100 basis point increase in policy rates, post the structural hedge.

Given higher rates and inflationary pressures, our credit loss ratio is likely to be at the top end of our through-the-cycle target range of 75 to 100 basis points.

We expect mid-to high single digit operating expense growth, resulting in a similar cost-to-income ratio to 2022. We expect mid- to high single digit growth in pre-provision profit.

Consequently, we expect to generate an RoE of around 17%.

Lastly, our Group CET 1 capital ratio is expected to remain at the top end of the board target range of 11.0% to 12.5%. We expect to maintain a dividend payout ratio of at least 52%.

Given material base effects in 2022, we see differing trends between the first and second half of 2023. In the first half, we expect stronger revenue and pre-provision profit growth, although our credit loss ratio is likely to exceed our through-the-cycle range in the half and dampen earnings growth, off a relatively high base. Conversely, despite slower second half revenue growth, credit impairments are expected to decline substantially to support stronger earnings growth in the second half.

In terms of medium-term guidance, we still aim to achieve a cost-to-income ratio in the low 50s and an RoE above 17% on a sustainable basis, which is heavily dependent on the macro backdrop globally and in our presence countries.

Thanks very much for your attention and support, and I look forward to meeting many of you over the coming week.

I'll hand you back to Arrie.

Arrie Rautenbach – CE

Thanks Jason.

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

We are conscious that the macro environment is tough and is expected to get tougher, but we have a well-positioned and resilient balance sheet to withstand it.

We believe in our strategy and we have momentum behind us. Along with a stable and experienced leadership team, I am confident that we will be able to sustainably achieve our targets.

We will now take your questions on Slido.