1H23 speaker notes

Arrie Rautenbach – Chief Executive

Good morning and thank you for joining us for our 2023 interim results presentation

Before I get into the results, I would like to begin with thanking all our stakeholders, without whom these results wouldn't have been possible. Our customers for their ongoing loyalty, our colleagues for their commitment in a difficult operating environment, and our shareholders for their continued belief in Absa.

Looking at our results, I will share my thoughts on the operating environment that we faced in the first six months of the year, and where we stand as a group in delivering our strategic ambition, before briefly focusing on our financial performance for the half.

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

Operating environment remains challenging

The global, regional and domestic environments entered the year on an uncertain footing. Persistently high inflation prompted global central banks to continue increasing policy rates as fears of a sharp economic slowdown were moderated by stronger than expected labour indicators and financial markets.

The failure of several regional banks in the US and a very large European bank raised market concerns over potential financial sector fragility, although this largely subsided in the second quarter. It is important to acknowledge that South Africa's banking regulatory framework has largely protected the local market against the issues experienced by the US regional banks.

Geopolitical tensions remained a concern as the Russia-Ukraine conflict intensified and Western relations with China remained strained. The collapse of the Russia/Ukraine grain deal, along with the emergence of a strong El Nino weather system, created further uncertainty for food prices, particularly in developing countries.

Turning to our ARO presence countries, the tight global financial conditions and weaker commodity prices, high inflation and policy rates continued to weigh on economic activity and growth prospects. Debt sustainability challenges in some markets saw large outflows from the region, weakening currencies and further eroding business and consumer confidence levels. Economic performance in our presence countries remained well above South Africa, although performance was varied, with East African economies generally faring best.

The South African economy faced this difficult external environment along with its own internal challenges, although it seems to have avoided a recession despite the gloomy outlook at the start of the year.

South Africa is under pressure

Looking at South Africa more closely - given its position as our biggest market - it is evident that the operating environment has worsened in the first half.

The cost of living increased sharply with headline inflation consistently above the SARB's upper target range. This led to a further 125 basis points in rate increases since January and placed more pressure on consumers and consumer-focused businesses. Positively, headline inflation fell back to within the target range in June.

Loadshedding reached record levels with over 15 thousand gigawatt hours lost in the first half, which exceeds all the cumulative loadshedding since 2007. We have seen an improvement in Eskom's generation capacity recently, as since April, the monthly Energy Availability Factor improved from 51.5% to 57.5% in July.

Despite the record levels of loadshedding, first quarter GDP expanded in 8 of the 10 reported sectors of the economy, suggesting that parts of the economy are becoming more resilient to the electricity shortages.

The recently published second quarter Business and Consumer Confidence Indexes show further deterioration in sentiment, with 73% of businesses surveyed reporting unsatisfactory business conditions, while consumer sentiment is at its second lowest level since 1994.

This is expected to weigh on growth prospects going forward. Despite this mixed bag of news, we continue to focus on our priorities as a business.

In our March results presentation, I said that a sustainable solution to South Africa's economic challenges is rooted in forging a strong common cause among key socio-economic role players. We have seen commendable progress in this regard.

In March, we welcomed President Ramaphosa's reaffirmation of Operation Vulindela as a vital part of this journey.

A closer alignment between government and business over the past few months has resulted in progress around the delivery of key priority interventions needed in the areas of energy, transport and logistics, and crime and corruption.

The recent signing of the CEO pledge initiative further reaffirms the commitment of business to work with relevant stakeholders to rebuild the country.

The partnership, which Absa is a part of, has mobilized teams to start delivering meaningful progress towards South Africa's economic growth. This shows the importance that we ascribe to rebuilding our economy and creating a conducive environment that we can all thrive in.

As Absa, we are encouraged to play a meaningful role in our society to help improve our economy for all citizens, including our customers and colleagues, among many of our key stakeholders.

These partnerships are integral to our new organisational purpose of "Empowering Africa's tomorrow, together … one story at a time" and our strategic ambition of Being an Active Force for Good.

What is critical now is that we continue to work closely together to facilitate urgent implementation of these reforms, as we strive towards creating a sustainable and inclusive economy.

Delivering on strategy as we make progress on targets

Our strategy remains consistent and we are confident that it remains relevant, and as I will show a bit later, we are executing consistently against our five strategic focus areas, as we strive to become a leading Pan-African bank.

Our consistent delivery against our strategy is evident in the continued progress we have made towards our medium-term targets of:

- An RoE of sustainably above 17%, and
- A cost-to-income ratio in the low 50s

Our RoE of 16.7%, which is lower than our strong first half in 2022, remains above our cost of equity and is commendable, given the particularly tough operating environment I discussed earlier.

Our cost-to-income ratio has continued to improve since we started the separation process and is below 50%, although I should note that our first half ratio is generally lower than our full year.

We are diversifying our construct …

As we implement our strategy, we are purposeful in our efforts to create a more diversified business across geography, segment and product, as we look to areas with attractive growth prospects.

Since 2019, we have significantly improved the contribution of our ARO operations from 19% of pre-provision profit to 29%, aligning with the more attractive economic growth, while our CIB components increased to 33% from 28%, with growth in SA and ARO.

This diversification stood us in good stead in 2023, given the pedestrian economic growth and the pressures on the SA consumer.

We will increase this diversification going forward by deploying capital to attractive growth prospects on the continent, which provides a natural performance hedge for the group.

… while growing our business and generating capital

While we are successfully diversifying our group, it has been done through a period of sustained growth for the organization, which was a deliberate focus for us.

Our earnings have grown 8% compound since 2019 through one of the most uncertain and trying times, given the impact of Covid and the subsequent global uncertainty, including the heightened geopolitical issues and stagnating growth across the globe.

Our growth has been measured and hasn't come at the expense of capital as we deliberately strengthened our balance sheet in this period, demonstrated by the improvement in our Group CET1 capital from 11.9% to 13%.

Primary partner of our clients

Turning to our customer franchise, I am pleased to say that we continue to see tangible progress on becoming a primary partner for our customers. This is specifically important in growing capital light revenue and it requires the power of our group ecosystem, as we understand and satisfy our customers needs.

Since we implemented our strategy, we have been deliberate that we first needed to fix our propositions in the Everyday Banking and Relationship Banking areas. We are now starting to see the benefits of the work we have done, as our new-to-bank transactional account sales increased by 23% in SA, with our overall SA customer numbers growing to 9.8m.

Growth in new account sales was driven by our focus areas on Youth and SME. Our Youth sales grew by 40% in a segment that creates a future pipeline for the business and ensures the sustainability of revenue over time. SME transactional account sales increased by 56%, an area that we have not traditionally been strong in, which again creates a pipeline for future revenue sustainability.

In Everyday Banking, we enhanced our pricing and propositions with a further R250m in price reductions for primary banked customers, bringing our cumulative pricing reduction to R750m since 2020. Key among these changes was making Absa Rewards free and eliminating some price pain-points on our Flexi account offering. These changes have proven effective in deepening our relationships with customers, with new to Reward signups increasing by over 300%, while over 18% of our Rewards members have “tiered up” since January. On our Flexi account, we have seen improved customer usage with the majority of customers increasing usage by 40% on average. The culmination of changes we have made in this business has seen our Customer Experience measurements improve significantly to 97 points from 81 in 2019, with improvement seen across all our segments, but particularly strong in Youth, which is now at 101 points.

Within Product Solutions Cluster, our bancassurance model continues to grow, and we have seen the benefits of creating integrated customer journeys. Specifically, in credit life where 78% of SA retail loan applicants selected a linked credit life product.

In RBB ARO, our new propositions improved customer acquisition across the franchise with active customers growing by 10%. This helped drive further revenue diversity, with non-interest revenue growing by 15% in constant currency.

While in CIB we have added over 270 new-to-bank clients, with ARO providing most of the growth. Pleasingly, we have seen strong primacy within these relationships.

In line with our CIB strategy of building global corridors for our customers, we intend to establish a Wholly Foreign Owned Enterprise in China, which will connect trade, investment flows and clients into Africa, where we will serve them across our extensive continental footprint.

Digitally powered business

We continue to accelerate our digital transformation efforts, although we know there is always more we can do here.

Our digitally active customer base continues to grow across SA and ARO. In SA, digitally active customers grew 8%, taking the compound growth to 17% since June 2019. In ARO, our digitally active customers grew 16% in 2023, while more than doubling since June 2019.

Customer adoption of Absa Access, CIB's single sign-on transactional banking platform, has grown with 75% of those migrated onto the system being active users.

The growth in digitally active customers in SA has been enabled by the digitization of customer onboarding across Everyday Banking's product suite. This has driven a 57% increase in digital sales volumes, which now account for 18% of all product sales.

Customers are becoming more comfortable with digital as a channel, as seen in the continued digital transaction migration where digital volumes increased by 11%.

To align with our customers' increasing comfort in using non-branch channels, we increased the number of value-added services on our ATM estate. These increased by 91%, including the innovative Tap and Go functionality, as well as the first-to-market UIF customer banking details certification.

This is augmented by our digital payment capabilities, with digital device payments from Apple Pay, Samsung Pay and Google Wallet increasing by 154%. We were also among the first cohort of banks to launch PayShap, a ground breaking low-cost payment system. And, to date, we have captured approximately 40% market share. In ARO, we were the first to market with MobiTap, which allows merchants and SMMEs to use their smartphones as point of sale devices to process contactless card transactions.

Our short-term digital insurance product, Activate, continues to show strong momentum with new policy sales increasing 18% YoY.

This improvement in our customers' digital activity hasn't come at the cost of stability. Our system availability for the past six months was 99.9% and, pleasingly, we haven't seen a severity 1 or 2 incident for over 18 months.

Winning, talented and diverse team

We believe our colleagues are our competitive advantage, and we want to attract Africa's top talent as we create a Winning and Diverse team.

Our colleague engagement levels are at their highest ever and this is translating into our colleague retention, as our retention of top talent is at 98%, again the highest on record and well above the industry standard. Our efforts are being recognized externally and we were recently rated the best South African company to work for and grow a career in by LinkedIn.

We have invested heavily in our staff, with over 50% of our R271m in training spend focused on critical, scarce and future skills to ensure we have future-fit colleagues.

We have made significant progress on diversity and inclusion, with our black senior management representation improving by 5% year on year to 58%, while we increased focus on strengthening our female representation, which increased by 3% to 38% at a senior management level.

The culture of ownership we have driven in recent years will be further supported by the launch of our recently approved staff incentive scheme, which has created much excitement within the organisation.

Active force for good in everything we do

We want to be a force for good in everything we do, specifically within our three focus areas of climate, financial inclusion, and diversity and inclusion. We have made progress across all three of these areas in the past six months.

Our leadership position in renewable finance in South Africa has continued, as we built a signature competence and participated in 53% of REIPP projects with over 4.3GW of projects to date. We continue to see significant growth in this space over the medium-term, as we contribute to this national and global imperative.

We recently partnered with the International Finance Corporation on a loan of up to R4.5bn to support our financing of certified green buildings in South Africa.

In March, we announced our long-term ambition to achieve net zero emissions by 2050 for Scope 1, 2, and 3 emissions.

We have made progress on inclusive finance. For instance, in ARO, we disbursed R3.6bn in mobile lending to underbanked or unbanked customers, a 44% increase. We also partnered with Khula in South Africa to promote the inclusion of SME farmers into the agriculture value chain.

Lastly, our recently approved B-BBEE scheme has an evergreen CSI component that will benefit a broad range of beneficiaries from previously disadvantaged communities in South Africa, with a focus on education and youth employability.

Continued to deliver shareholder value

Moving to the salient features of our performance. Our performance in the first half has been resilient in light of the constrained operating environment, with all key measures continuing to grow and significantly above pre-Covid levels.

Importantly, our performance is due to strong pre-provision profit growth, which in turn is driven by solid revenue growth. Our pre-provision profit is 55% higher than 2019 levels, and has grown at a compound rate of 12%, with 40% growth since 2021.

Our diluted HEPS continues to grow and is 35% above 2019 levels, having grown 8% compound since then.

For shareholders, our first half dividend per share increased by 5%, as we increased our payout ratio to 52%. Our dividend per share is now 36% higher than 2019, while our NAV is 32% higher.

I will now hand over to Jason to cover 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 reflect our underlying performance as it adjusts for the remaining consequences of separating from Barclays. We reconcile these with the reported IFRS results in our booklet.

We also adopted IFRS 17 in the period and restated all relevant comparatives, but the impact was not material at a group level.

Strong revenue underpinned earnings growth

Starting with our income statement, headline earnings increased 2% to just over R11bn, with diluted HEPS up 3%.

It is very clear from this graph that our earnings growth was driven by pleasing growth in pre-provision profit, which in turn was due to strong revenue growth of 13% to R52bn.

Within this, net interest income rose 16%, reflecting further margin expansion and 14% growth in average interest-bearing assets.

Non-interest income increased 8%, in part due to strong growth in Insurance revenue, as well as 9% higher net trading revenue.

Operating expenses remain well controlled, growing 10%, or 8% in constant currency, while we continue to focus strongly on franchise investments, which will generate future benefits.

These combined to produce 16% higher pre-provision profit.

Our credit impairment charge rose 60% to R8.3bn, largely due to the impact of higher interest rates and inflationary pressures in South Africa, mostly in our consumer facing businesses.

The small increase in ‘other’ losses was due to higher minorities, pref share and AT1 capital payments and headline earnings adjustments offsetting a lower taxation expense and strong associate income growth.

Healthy net interest margin widened further

Our strong net interest margin widened further to 4.6%, mainly on the back of higher policy rates across our business.

Unpacking the moving parts, our lending margin continued to improve by 9 basis points, reflecting better pricing in Everyday Banking and the favourable composition impact of slower Home Loans growth.

Deposit margins also widened, by 21 basis points, predominantly due to the impact of higher policy rates, which offset faster growth in wholesale funding in South Africa that was negative for composition.

Higher average policy rates and growth in South African endowment balances added 12 basis points to the overall margin before hedging. Prime increased by 450 basis points from the start of 2022, with average rates 336 basis points higher in the first half.

Higher policy rates and equity balances across Africa Regions also widened our margin by 2 basis points.

The endowment uplift was offset by a smaller contribution from our structural hedge. It released a debit of R568m to the P&L, 29 basis points less than the R1.3bn benefit in the prior year.

The after-tax cash flow hedging reserve decreased to a R3.5bn debit balance from a R3bn debit last December. The total endowment impact after hedging in South Africa was a reduction of only 2 basis points, due to slower growth in endowment balances than our interest-bearing assets, indicating that the hedge is operating as designed.

Other factors had an 8 basis point negative impact, including lower yields on our SA liquid asset portfolio, faster growth in investment securities, and a reduced basis differential between prime and JIBAR.

Structural hedge generates value through-the-cycle

The significant rate increases over the past 18 months mean that this results season will show a big difference in margin trends between hedged and unhedged banks. The inverse occurred between 2020 and 2021 on the back of substantial monetary policy easing at the time.

Due to our rolling structural hedge programme in South Africa, our group margin is less volatile through-the-cycle. It provides protection against low rates, although we are still positively geared to higher rates, albeit less so than unhedged banks. While unhedged bank margins will rebound materially this year off lower levels, ours has been stable and superior for some time now.

To date, our hedge programme has proven effective through rate cycles, and its substantial cumulative contribution has exceeded our original expectations, having released R18bn to our income statement since inception.

Looking forward, in isolation, given the aggressive monetary policy tightening over a relatively short period, we expect a debit of over R1bn to our P&L from our structural hedge this year, with another sizeable debit next year. However, its overall investment rate is increasing, as we roll over hedges at fairly elevated rates compared to those that are maturing. We believe that this will contribute to net interest income expansion at a slow and steady pace over the medium-term.

Importantly, post our hedge, our group net interest income sensitivity is R650m per 100 basis points higher rates, with about R200m of that in South Africa.

Continued targeted customer loan growth

Turning to our balance sheet, total loans grew 8% to R1.25tn. Group loans to customers rose 10%, while loans to banks fell 12%, although these were 27% higher on average. South African customer loans grew 8% to almost R1tn and Africa regions increased 23%, or 18% in constant currency, to R160bn.

Loan growth was pretty well diversified across our divisions.

Product Solutions Cluster loans grew 7% to R409bn, in part due to good production levels in the second half of 2022.

Everyday Banking increased 9% to R69bn, due to sustained production momentum, particularly in Cards.

Relationship Banking grew 7% to R142bn, given continued momentum in the Agri portfolio and Commercial Asset Finance, particularly in the transport and logistics sector.

ARO RBB loans grew 20%, or 16% in constant currency, to R80bn, with growth across personal lending, mortgages and Commercial.

CIB customer loans grew 11% to R448bn, driven by strong fourth quarter 2022 growth in Investment Banking, solid growth in Commercial Property Finance and increased demand for short-term finance in Corporate.

CIB South Africa loans grew 8%, with CIB ARO up 27%, or 21% in constant currency.

Home Loans production is slowing, in line with market

Our retail loan growth in South Africa remained resilient considering the unfavourable economic backdrop. Our market share improved slightly to 22.5%, with continued momentum in vehicle finance and focused production in unsecured.

Home Loans – our largest book – grew 6%. However, our production dropped by 26%, as applications fell materially across the industry, given the subdued property market. Approval rates also deteriorated.

Vehicle and Asset Finance rose 9%, with 4% higher production, as new car sales remained resilient. Our market share improved slightly to 24%. Margins are stable, although pressure on new business pricing continued, due to increased competition.

Credit card grew 10%, reflecting strong new account sales, and increased utilization, and 7% higher turnover. We remain the largest by market share at 26%, excluding our large Woolworths Financial Services book.

Despite reducing our risk appetite from the fourth quarter of 2022, Personal Loans increased 6%, with production up 7%, due to strong growth in digital sales on our mobile banking apps. Personal loans remain a small component of our retail lending and our market share is very low at just 10%.

Broad based deposit growth remains an opportunity

Deposits rose 9% to R1.3tn and accounted for 86% of our funding. Customer deposits grew 11%, to R1.2tn, while bank deposits declined by 6%. Excluding 29% lower reverse repurchase agreements, total deposits were up 13% to R1.25tn.

Everyday Banking customer deposits grew 6% to almost R300bn. Low-margin deposits grew faster, with investment deposits up 9%, in part due to a successful marketing campaign in the second quarter, which remains in place. Higher margin transactional deposits declined 3%, reflecting the adverse cost of living pressures, particularly in the entry level segment, while the affluent segment was relatively resilient despite significantly higher debt instalments. Our retail deposit market share decreased slightly to 20.8%.

Relationship Banking deposits increased 11% to R211bn, with a similar shape to retail, given strong 20% growth in savings and investment deposits, while transactional deposits reduced slightly.

ARO RBB deposits rose 21%, or 16% in constant currency, to R124bn. Transactional deposits, the largest category, grew 14% and investment deposits 28%.

Deposits also remain a priority for CIB. Total CIB customer deposits rose 12%, or 10% in CCY, to R465bn. CIB SA customer deposits grew 7% to R369bn, driven by strong 18% growth in core cheque and 45% higher fixed deposits, partially offset by lower National Treasury deposits. CIB ARO customer deposits rose 33% to R106bn, up 23% in constant currency, with strong growth across all markets.

Insurance drove non-interest income growth

Growing capital light revenue remains a key priority for us and the underlying trends were encouraging. Total non-interest income grew 8%, or 7% in constant currency, to account for 37% of our revenue.

The largest component, net fee and commission income grew 3%, although the underlying was 6%, excluding our disposal of Absa Asset Management, where the economics are now reflected in the associates line. The shift to digital channels dampened Everyday and Relationship Banking fee growth, while ARO RBB increased 25% and CIB 16%.

Net trading, excluding the impact of hedge accounting, grew 9% to R4.5bn. Global Markets rose 16%, which I will unpack later, with Markets SA down 7%, while Markets ARO increased 54%.

Growth in our insurance revenue remains strong, up 35%, with the largest component, SA Insurance, increasing 31%.

At a divisional level, Product Solutions Cluster non-interest income grew 22%, reflecting strong growth in SA Insurance, Absa Trust and Home Loans.

Everyday Banking grew 3% to R6bn, driven by growth in customers and activity levels that outweighed the continued drag from migration to lower margin digital channels, and price reductions and investments in Absa Rewards. Card issuing turnover grew 7% and digital transactions 8%, while branch usage fell 20%.

Relationship Banking increased 1% to R2.5bn, due to 6% growth in digital volumes, offset by 9% lower cash volumes, that declined industry-wide, as customers continue migrating to digital channels. Card acquiring volumes grew 6%. We remain the largest card acquirer in Africa, and just outside the top 50 globally, with over 40% share in South Africa.

ARO RBB grew 20%, or 15% in constant currency, to R2.4bn, driven by 10% growth in active customers and increased activity. Banking revenue rose 28%, with strong growth in foreign currency revenues and Cards. ARO Insurance revenue declined 9%, as Life declined 16% due to higher claims and an increase in onerous business.

CIB's non-interest revenue grew 15% or 13% in constant currency to R6bn. Drivers included a strong Markets performance in ARO, plus continued growth in trade finance and transactional revenue in Corporate. These were partially offset by 11% lower revenue from Markets SA, where client flows were hard to monetize in relatively volatile and illiquid markets.

Costs well managed with focus on franchise investment

Moving to costs, our operating expenses increased by 10%, or 8% in constant currency, as we continue to invest in our franchise.

Staff costs rose 12% to R14.7bn, reflecting salary increases and people investments. Staff numbers grew 5%, predominantly in frontline business areas, mostly in Relationship Banking. Total incentives were flat, with bonuses down 3%, while deferred cash and share-based payments increased by 10%.

Non-staff costs grew 7% to just over R11bn. IT costs increased by 10% to almost R3bn, due to further investment in digital platforms and cybersecurity spend. Amortisation of intangible assets rose 1%, reflecting continued investment in digital, automation and data capabilities. Total IT spend, including staff, amortisation and depreciation, increased 10% to R6.5bn, or a quarter of group costs.

Marketing rose 21%, on increased advertising and sponsorship spend, as we reinvested in our brand and product presence in the market. Equipment costs grew 70%, as power costs grew significantly due to worsening load shedding in South Africa.

Depreciation declined 3%, from reduced utilisation of physical IT infrastructure and further optimisation of our property footprint. Professional fees fell 9%, as we used less external resources on strategic projects. Cash transportation costs increased 1%, reflecting lower merchant cash volumes given the migration to digital banking and increased cash recycling.

I am very pleased that our cost-to-income ratio improved to below 50%, although this is seasonally a bit higher in the second half, given salary increases in April.

Increased credit charge, particularly in RBB SA

Turning now to credit impairments, I will spend a bit more time on this today, given our charge grew 60% to R8.3bn.

It is very evident that this large increase stems from higher credit charges in our South African retail lending portfolios and Relationship Banking, due to significantly higher interest rates and inflationary pressures. While credit impairments grew materially across these portfolios, Home Loans, Relationship Banking and Card all increased off a relatively low base in the prior year.

For its part, ARO RBB's 20% higher credit charge was in line with its strong loan growth.

CIB's charge was also off a low base and its credit loss ratio remained below through-the-cycle levels.

South Africa's credit impairments substantially higher

The next slide shows that South Africa drove the increase in our group credit impairments and loan loss ratio.

Given the difficult macro backdrop, South Africa's charge increased by two-thirds to R7.5bn, pushing its credit loss ratio to 138 basis points, well above our group through-the-cycle range.

Conversely, Africa regions grew just 9%, improving its credit loss ratio significantly to a low 66 basis points. Its first half charge was flattered, however, by a R85m release in CIB ARO, largely due to performing book construct improvements.

Credit loss ratio well above through-the-cycle range

Combining these drivers, our credit loss ratio increased materially to 127 basis points, well above our through-the-cycle range of 75 to 100, from around the mid-point in the previous two comparable periods. Nonetheless, our credit loss ratio remains well below GFC and Covid levels of 170 and 280 basis points respectively. We believe our current period charge represents a 1 in 10 year event from a credit risk perspective, mostly on the back of the rapidly rising rate cycle.

Unpacking the portfolios, Product Solutions Cluster's credit loss ratio increased to 111 basis points from 75 basis points. Within this, Home Loans rose from a low 19 basis points to 65 basis points, given higher delinquencies, sustained pressure on the legal book and inflows into debt review. Vehicle and Asset Finance increased to 234 basis points, on higher arrears, inflows into legal and debt review, and reduced consumption of the macro-economic overlay. The prior year first half was also high, but impacted by DebiCheck implementation issues that were resolved in the second half of 2022.

Everyday Banking deteriorated to 9.2% from a comparatively low 6%, reflecting elevated roll rates into late delinquency cycles, although early arrears are improving due to proactive risk management and collection actions. With this, Card rose to 8.8% from 5.7%, as seasonal inflows in the fourth quarter of 2022 and first quarter of 2023 migrated through arrears buckets. Similarly, Personal Loans credit impairments increased to 11.7% from 8.8%, due to high inflows into arrears in the second half of 2022 that rolled into late arrear cycles and legal.

Relationship Banking increased to 68 basis points, from a relatively low 35 basis points, due to higher defaults in the second quarter and reduced collateral values on NPLs.

ARO RBB was flat at 1.7%, below its through-the-cycle range, reflecting targeted retail lending and improved collections, partly offset by higher single name charges in Business Banking.

CIB increased slightly to 16 basis points from 13 basis points, but also remains below its through-the-cycle range of 20 to 30 basis points. However, the trends within CIB differed, with South Africa increasing to 23 basis points from a low 9 basis points that included a net release on the performing book. Conversely, CIB ARO credit impairments reduced to a net R85m reversal, primarily due to performing book construct improvements.

Consistent Home Loans origination strategy

I now want to address a question we have heard from a few investors on whether we grew Home Loans “aggressively” when rates were at record lows from mid-2020 to late 2021, which could result in elevated credit impairments on mortgages originated during that period. Many customers would have seen their monthly home loan instalment increase by 40% since then.

Importantly, our strategy in Home Loans is one of consistency, including being there for our mortgage originator partners and our primary customers, for whom home loans are an anchor product, balanced by proactive risk management.

We did not increase our risk appetite or approval rate during that period. Various comparative indicators such as Delphi scores indicate that our mortgage book is high quality relative to peers. And, although rates rose far faster than we expected, we increased the rate stress buffer we applied to 300 basis points at that time, albeit less than the rise that subsequently occurred. We can see that the average monthly instalments across our transactional base increased 29% from late 2021 to May this year, so there has been some customer deleveraging at play.

During that period, we benefited from some competitors withdrawing from the market, which allowed us to write attractively priced new business, at well above current historical margins. As you can see, the risk-adjusted margin on the mortgages written then is high, even after adjusting for our first half credit impairment experience.

Moreover, we grew mortgages by 4% in 2020 and 9% in 2021, which isn’t excessive, and our market share has remained between 23% and 24% for several years now. So our growth was not “aggressive” and the stress is being experienced relatively consistently across our portfolio and across vintages.

Credit impairments reflect stage migration

Our credit impairments reflect stage migration of our customer loans overall, with non-performing loans increasing 19% YoY and 14% growth YTD, while stage 1 loans grew 10% YoY and 3% YTD.

As a result, NPLs increased slightly to 5.8% of total loans, from 5.3% in the prior year and last December, although it remains below 2020’s 6.3% high.

NPLs increased most YoY across the SA retail portfolios, particularly Personal Loans and Home Loans, while Relationship Banking and ARO RBB improved.

NPL and total loan coverage remain strong

We remain well provisioned for a tough operating environment.

Our NPL or stage 3 coverage remained strong at 46% due mainly to single name charges in our Relationship Banking and ARO Business banking portfolios.

And our total loan coverage also rose slightly to 4.1%, which remains well above pre-Covid levels of 3.3%.

The increase was driven by higher total coverage in our South African retail lending portfolios, as well as a change in mix.

Tangible benefit from portfolio diversification …

Moving to divisional performances now, our results again show the benefit of diversification, as earnings trends differed materially, despite almost all businesses producing strong pre-provision profit growth.

The higher South Africa retail and business banking credit impairments that I highlighted earlier were a material drag on these divisions' earnings, offset by strong earnings growth from CIB and ARO RBB.

Product Solutions Cluster earnings declined 13% to R1.1bn, as credit impairments rose 60%. Revenue grew 12%, driven by 22% higher non-interest income with Insurance SA up 31%. With costs increasing just 3%, its cost-to-income ratio improved further to 42%, and pre-provision profit grew 18%.

The picture is similar in Everyday Banking, where earnings fell 21% to R1.5bn, as 62% higher credit impairments outweighed 17% growth in pre-provision profit. Revenue grew 9% on the back of 14% higher net interest income, while migration to digital channels constrained non-interest income growth to 3%. Costs were well managed, increasing 2%, to improve its cost-to-income ratio to 51%.

Significantly higher credit impairments also reduced Relationship Banking earnings, which fell 9% to R1.8bn, although in its case, pre-provision profit growth was muted, given investments we are making in that franchise.

ARO RBB earnings increased 84% to over R900m, largely due to strong 44% pre-provision profit growth. Revenue grew 26%, or 21% in constant currency, driven by 29% higher net interest income, as loans rose 20% and margins widened. Non-interest income grew 20%, slightly ahead of costs.

CIB earnings grew 32%, or 30% in constant currency, to R5.9bn, as pre-provision profit increased 25%. Revenue rose 19%, or 17% in constant currency, again driven by strong net interest income on volume growth and better margins. Non-interest income grew 15%, accounting for 39% of total revenue. With costs up 11%, CIB's cost-to-income ratio improved to 43%.

Lastly, Head Office, Treasury and other earnings fell by almost R800m to a loss of nearly R200m. The decline reflects increased funding costs and lower investment returns in SA Treasury, adverse fair value movements on our structural hedge, and higher impairment charges on sovereign exposures in ARO.

… evident in earnings contributions and returns

CIB's contribution to group earnings increased noticeably to 52% from 44%, while ARO RBB almost doubled to 8% of the total, excluding Head Office, Treasury and other.

Given their elevated credit impairments and lower earnings, Product Solutions Cluster, Everyday Banking and Relationship Banking decreased to 40% of earnings from 51%.

Nonetheless, our earnings remain well diversified, especially because the divisions are themselves all diversified by activity and/or geography.

Lower earnings reduced Everyday Banking and Relationship Banking's returns, although they remain relatively attractive at 23% and 24% respectively. Product Solutions Cluster's return on regulatory capital remains below our cost of equity, although its returns are sensitive to credit impairments.

Given its significant earnings growth, ARO RBB's returns improved materially to 14%.

Lastly, CIB's return on regulatory capital improved materially to over 26%, a very strong performance.

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

Secured lending credit charge reduced PSC earnings

Unpacking the Product Solution Cluster, its lending businesses were a material drag on earnings, offsetting strong growth from Insurance SA.

Home Loans earnings fell 38% to R700m, as credit impairments increased significantly off a relatively low base, to negate 7% higher pre-provision profit. Revenue growth slowed to 4%, with 3% higher net interest income reflecting lower loan production and margin pressure due to increased funding costs and competition. However, with costs decreasing 1%, its cost-to-income ratio improved further to 31%.

Vehicle and Asset Finance earnings fell 31% to a small profit, as 14% higher credit impairments offset solid 13% pre-provision profit growth. Its net interest margin widened, producing 11% net interest income growth. Revenue growth of 11% exceeded 8% cost growth, improving its cost-to-income ratio to below 36%.

Insurance SA earnings grew 40% to R653m, with Life Insurance up 35% to R579m, in part due to significantly higher investment income, given higher interest rates. Non-Life insurance earnings increased 90% to R74m, as net premium income grew 10% and its underwriting margin improved.

A strong performance from Absa Trust reduced the loss in Non-Bank Financial Services, where the cluster's head office costs also reside.

Lending businesses reduced Everyday Banking earnings

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

Given 70% higher credit impairments of a relatively low base, Card earnings fell 85% to just R52m. Strong 16% revenue growth combined with well managed 5% cost growth to produce 26% higher pre-provision profit and improve its cost-to-income ratio to just over 40%.

Personal Loans pre-provision profit grew even more – up 30%, as revenue increased 19%, while costs only rose 3%. However, 51% higher credit impairments increased its loss to over R200m. This business remains sub-scale, given its low market share of just 10%, and we continue to test the market for selective growth opportunities over the medium-term.

Credit impairments are less of a factor for Transactions and Deposits, where headline earnings grew 1%, on 5% higher pre-provision profit. Revenue growth slowed to 3%, given continued migration to digital channels. Costs growth was well contained, growing 1% despite continued investment in digital, marketing and fraud detection and prevention.

Relationship Banking investing for growth

Some may consider Relationship Banking's first half performance pedestrian. Its earnings declined 9%, as credit impairments more than doubled off a low base, while muted 5% revenue growth produced flat pre-provision profit.

However, we are upbeat about this business and its prospects.

Firstly, we expect to see benefits from it shifting to a client-centric operating model, rather than a province-based one.

Second, it remains a strong contributor to group deposit gathering, as a large net originator of customer deposits. While deposits grew 11%, we see significantly more growth here medium-term.

Loan production also improved in target growth areas such as Commercial Asset Finance and term lending.

Third, it is investing for growth. For instance, its 10% cost growth was due to significant investment hires in front staff in Private Banking and SMEs, where together with Wealth, we see substantial growth potential medium-term. Transaction account sales grew materially off a low base.

Relationship Banking continues to invest in its digital capabilities, and digitally active customers grew 5%.

Fourth, it generates revenue for other areas of the group, such as Private Bank lending and transactions reflected in Product Solutions Cluster and Everyday Banking.

Lastly, we expect Relationship Banking to continue generating attractive returns in the mid-20s.

CIB benefits from its improving scale and diversification

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

Starting with Corporate, which continues to perform extremely well, earnings grew 38% to R2bn, as very strong 42% pre-provision profit growth outweighed substantially higher credit impairments. Revenue grew 27%, with pleasing growth in transactional revenue and strong net interest income, particularly in ARO.

Investment Banking earnings grew 29% to R3.9bn, due to a combination of materially lower credit impairments and 16% pre-provision profit growth. Revenue grew 13%, with ARO up 44% on significantly higher Global Markets revenue, while South Africa decreased 1% due to lower Global Markets revenue.

Using a geographic lens, CIB ARO earnings were exceptionally strong, growing 98%, or 90% in constant currency, to R2.6bn, reflecting 64% growth in pre-provision profit and a net release in credit impairments. It contributed 44% of CIB's total earnings. CIB South Africa earnings grew 5% to R3.3bn, driven by 6% income growth and sustainably lower taxes, which offset significantly higher credit impairments.

Africa regions drove group revenue and earnings growth

Africa regions contributed significantly to our overall group growth during the period.

For starters, its strong 36% revenue growth accounted for more than two-thirds of our total group absolute revenue growth, given South Africa's moderate 5% higher revenue. As a result, Africa regions increased to 29% of group revenue from 24%.

Moreover, its contribution to earnings was even more notable, as South African earnings fell by 17% to R7.5bn, mostly due to the elevated credit impairments I highlighted earlier.

With Africa regions earnings almost doubling to R3.7bn, it accounted for a third of group earnings for the period, from 17% the prior year.

While the weaker Rand added 5% to Africa regions revenue and 10% to its earnings growth, its constant currency revenue and earnings growth of 31% and 87% respectively remain very strong.

Aspects of its contribution may not be fully sustainable, such as ARO Markets 54% growth and CIB ARO's very low credit impairment. We also continue to monitor sovereign risks in some of our key ARO countries. However, we still see compelling growth opportunities across our existing Africa regions portfolio over the medium-term, in part due to far stronger economic growth in these markets than in South Africa.

ARO RBB substantial operational improvement

ARO RBB's strong revenue momentum and earnings recovery is very encouraging, given its significant revenue-driven growth in pre-provision profit, which in turn produced its substantial earnings recovery over the past two years.

Although its profitability improved dramatically, as its cost-to-income ratio reduced materially, its return on regulatory capital remains an ongoing opportunity. We see room to improve its efficiency ratio further over the medium-term, with opportunities on both the cost and revenue front.

CET1 ratio remains strong and above Board target range

We remain very well capitalized to fund our growth opportunities.

Our CET 1 ratio improved slightly YTD to 13% and it remains above our 11% to 12.5% board target range, and comfortably exceeds regulatory requirements.

Group risk-weighted assets increased 7% YoY and 1% year-to-date to R1tn. Credit risk RWAs grew less than gross loans and total assets, due to RWA reductions as new regulatory models were implemented.

We remain strongly capital generative, with profits adding 1% to the CET 1 ratio over the year, partially offset by paying 60 basis points worth of dividends.

The strong CET 1 ratio allowed us to increase our dividend payout ratio, resulting in a 5% higher ordinary dividend of 685 cents per share.

2023 outlook

Turning to our guidance for the remainder of the year, the economic environment remains very uncertain. Geopolitical concerns, particularly surrounding the Russia/Ukraine conflict and rising tension between the West and China look likely to impact the outlook for some time.

Headline inflation has softened considerably, helped by significant base effects, and global central banks have signaled that policy rates are likely at or near the peak of the cycle. Markets will watch for evidence that these tight financial conditions are causing undue strain or risk a sharp slowdown in activity.

For South Africa, we expect real GDP growth of 0.7% in 2023. Electricity supply remains a significant risk for the economy for the foreseeable future, and higher rates are placing significant pressure on interest-sensitive parts of the economy, such as many consumer-facing sectors. In addition, degrading rail and port infrastructure present material downside risks to these expectations.

Helpfully, headline inflation is expected to continue to fall, and to oscillate in the 4.5-5.0% range for much of the next year. Hence, we believe that the current policy rate is the peak for this cycle and that the Reserve Bank is likely to be in a position to deliver a measured pace of cuts beginning in the first half of 2024.

We forecast that GDP-weighted economic growth for the ARO presence countries will slow to 4.3% in 2023. The impact of relatively tight monetary policy in most ARO countries is likely to provide a headwind to growth, and hard currency scarcity may also continue to generate downside risks for economic activity in several markets, with sovereign risks still high on the agenda.

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

Revenue growth is expected to slow in the second half, in part due to material base effects, as we guided in March. We continue to expect high single digit revenue growth in 2023, driven by net interest income growth, with low double-digit growth in customer loans and deposits, and higher policy rates.

Given significantly higher rates, our credit loss ratio is expected to exceed our through-the-cycle target range of 75 to 100 basis points. However, our second half credit loss ratio is likely to improve substantially, to slightly above this range.

We expect high single digit growth in operating expenses, resulting in a cost-to-income ratio similar to last year's 51.4%, and high single digit growth in pre-provision profit.

Our broad-based black economic empowerment transaction will be included in 2023 financial results from next month, and we currently expect the transaction to reduce earnings by approximately 1% in 2023.

Combining the above, we expect to generate an RoE similar to 2022's 16.4%.

Lastly, our Group CET 1 capital ratio is expected to remain above 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%.

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.

We have always said that we will normalise our financial results for the separation from Barclays for as long as the consequences are material. Since the impact will be relatively small from next year, we expect to stop reporting normalised results in 2024.

We also won't normalise the impact of our BEE transaction, so we will return to pure IFRS reporting next year.

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 now.

Arrie Rautenbach – Chief Executive

Thank you Jason.

To conclude, I would like to add the following remarks:

The macro environment has been tough, particularly in South Africa, and we don't expect it to provide any tailwinds for a while, but we have a well-positioned balance sheet to withstand it.

We continue to believe in our strategy and as we have shown throughout the presentation, we are seeing the tangible benefits of our consistent execution. Together with an experienced leadership team, we are confident in our ability to deliver over the medium-term.