FY23 speaker notes

Arrie Rautenbach – Chief Executive

Good morning and thank you for joining us for Absa's 2023 results presentation.

Before getting into the results, I would like to begin by thanking our over 37 thousand colleagues who have served our 12.2m customers with distinction in a difficult operating environment. I would also like to thank our external stakeholders for their ongoing loyalty and support of our business.

Turning to our results and I will first share my thoughts on the current operating environment, before giving an update on how our organization has fared strategically. I will then spend time on our financial performance before handing to Chris to go through our performance in detail and provide our guidance for 2024. Thereafter we will provide an update to our medium-term guidance and take your questions.

Challenging operating environment

The Global, sub-Saharan and South African economies entered the year on increased uncertainty. At the beginning of the year very high inflation prompted central banks to continue raising interest rates, though fears of an economic slowdown were moderated by the continued stronger than expected labour indicators and financial markets. Inflation has moderated recently, but remains persistently high and will likely see policy rates remaining higher for longer.

Geopolitical tensions remain elevated across the globe with the Russia/Ukraine conflict, strained relations between the US and China and, more recently, the conflict in the Middle East. Supply chains were already constrained by the Russia/Ukraine conflict and the recent attacks in the Red Sea have only added to these pressures.

Turning to our ARO markets and the tight global financial conditions, weaker commodity prices and high inflation and policy rates weighed on economic activity. Debt sustainability remained a key focus in some large markets although the appetite for recent bond issuances as well as recent progress in debt restructuring negotiations has seen some improvement in the outlook. Foreign currency scarcity has been a particular challenge for several countries across the continent.

Economic performance was varied with East African economies generally faring best although performance in our presence countries remains well above growth in South Africa.

The South African economy faced this difficult external environment along with its own internal challenges, although it avoided a recession in 2023, albeit with growth of only 0.6%.

South Africa pressures remain elevated

I will look at South Africa more closely, given its position as our biggest market, and it is evident that the operating environment remained challenging throughout 2023.

Loadshedding reached record levels in 2023 although the reconnection of 3 units at Kusile in the second half of last year has seen a reduction in loadshedding levels with levels in the 3 months to the end of January being 45% less than the prior year. Business has also responded strongly to the lifting of the generation licensing threshold, and we expect this to further alleviate the pressure on Eskom going forward.

Unfortunately, the logistics infrastructure constraints are likely to drag on for longer. Freight rail volumes in 2022/23 were down a third from the highs of 2017/18. While the recent port congestion at the Durban and Cape Town ports highlighted the potential devastating impact on other sectors of the economy like resources, retail and agriculture.

These infrastructure challenges are weighing on business confidence with the latest private sector sentiment, published by the Bureau for Economic Research, at 30 which implies that 70% of businesses are dissatisfied with the prevailing business conditions.

Pressure mounted on SA consumer and expected to persist

The SA consumer came under increasing financial strain in the year.

Headline inflation remained above the SARB’s target range for the majority of the first half of the year before falling below 6% by mid-year, and subsequently oscillated in the top half of the central bank’s target range for the rest of the year.

In response to this, the SARB increased the repo rate by a further 125bps in the first 5 months of 2023, in addition to the cumulative 350bps increase in 2022. This together with the higher cost of living and muted wage growth further eroded consumer disposable income.

Consumer pressure is likely to remain elevated in the near term, at least until interest rates start to reduce.

In August, I mentioned the alignment between government and business on delivery of key interventions in the areas of energy, transport and logistics and crime and corruption. This collaboration has seen progress since its inception 9 months ago, but we need to capitalize on the momentum and urgently implement the necessary reforms to see tangible progress in creating a sustainable and inclusive economy.

Our strategy and medium-term targets remain relevant

Our strategy remains consistent, and we are confident that it remains relevant and, as I will show later, our consistent execution against it has created a solid foundation as we strive to become a leading Pan-African bank.

Furthermore, we remain confident that medium-term targets supporting the strategy remain relevant and I will spend more time on this at the end of the presentation.

Strategic execution highlights since 2018

Before getting into the 2023 results, it is important to unpack what has fundamentally changed within the business following our separation from Barclays PLC. I will do this on a business-by-business basis.

The RBB SA business in 2018 was in material decline across all major metrics including customer numbers, digital usage and balance sheet market shares, with performance supported by unsustainable pricing structures. The business followed a systematic approach in correcting the fundamentals starting with regaining our fair share of the balance sheet market while our customer experience, pricing and proposition and digital channels were redeveloped. In addition, the bancassurance business was integrated to create seamless customer journeys.

Our CIB business in 2018 was primarily a South African business, following an asset led approach and required a shift to becoming a more diversified Pan-African business with a stronger client franchise.

In ARO RBB, business was heavily focused on 4 key Retail markets with our product proposition out of date as consumers within the ARO markets increasingly became more digitally focused.

RBB SA renewal across 3 differentiating capabilities

The systematic approach to fixing the businesses within the old RBB SA construct focused on 3 key areas. These being creating value for money propositions, integrated digital and data enhancements, and creating a seamless and empathetic customer experience.

Over the past 3 years the business has eliminated R1bn in fees that were punitive to customers and redeveloped the product propositions across the spectrum. This has seen a dramatic turnaround in customer perceptions with 65% of surveyed customers rating Absa as best value for money.

Our digital efforts have been noticed by customers and they have become more comfortable transacting on our digital channels. Transactions on our Absa App have increased by over 200%, since 2018, to 2.7bn transactions in 2023 while digital sales have increased significantly to account for 22% of retail sales from 3% in 2020.

These changes together with a more empathetic customer engagement, have been recognized by customers and have seen customer experience scores, a key measure of how customers perceive our services and products, improve by 30% since 2020.

RBB SA acquisition momentum and activation on track

Our efforts on franchise health are translating into tangible progress in the customer franchise, as we are seeing growth in customer numbers as well as deeper relationships with our existing customers.

Acquisition levels have improved across all areas of the business with new to bank retail transactional accounts increasing by 21% in 2023 with growth in the youth segment, a key focus area, growing by 38%. Turning to our Relationship Banking business it is pleasing that new account sales have increased by 42% largely driven by the SME segment which increased 48% year on year. The integration of the bancassurance model across both the Life and Non-Life businesses, into the banking customer journeys has seen continued traction with over 978 thousand standalone policies sold in 2023.

These improvements in acquisition levels are converting into customer number growth with our active customer numbers increasing to 9.8m, having increased each year since 2020. This has been supported by active transactional customer growth which grew by 4% to 5.8m customers in 2023.

These systematic changes have proven effective in deepening our relationships with customers, with new to Reward signups increasing by 81% since 2018, with 31% of existing customer moving up a tier in

2023. While the number of digitally active customers has increased by 20% annually since 2018 to 3m customers. This has all translated into the average product holding per customer improving to 2.64 in 2023 and indicating that customers on average have 0.2 products more than in 2018.

CIB delivered on its 2019 commitments

In line with the strategic ambition announced in 2019 our CIB business has diversified into a Pan-African business with a stronger client franchise.

This has been anchored by the buildout of the Corporate Banking franchise over the past 5 years with this business now constituting 47% of revenues in 2023, while client acquisition continues to be strong with about new 500 clients added in 2023.

The diversification into a Pan-African CIB business has gained traction with CIB ARO now 42% of revenues although there is still some way to go to achieve our 50% target.

The business continues to build global corridors for our clients and the imminent opening of our office in China will allow us to be closer to existing clients as well as establish new relationships with clients across our markets in Africa, as we connect trade and investment flows into Africa.

The diversification of the business into transactional banking and Africa has led to an improved returns profile with a RoRC of 23.9% compared to the 17.8% in 2019.

ARO RBB delivering a more diversified and sustainable business

Our ARO RBB business has seen a strong turnaround since 2018 as we have created a more diverse and sustainable business although there is some way to go still.

We have successfully diversified the business from a reliance on our top 4 markets and our efforts to grow business banking are on track with its contribution growing to 28% of revenues.

Improved propositions as well as focus on customer experience has seen customer numbers grow by 11% on a compound annual basis since 2018. Customers in our ARO markets are consistently becoming more digitally focused and our efforts to reinvigorate our digital propositions through various initiatives including digital onboarding, have seen digital customers more than double since 2018.

Reducing the cost-to-income ratio in ARO RBB has been a key focus over the past 5 years and I am pleased to say that we are starting to see progress from our efforts to leverage our existing infrastructure and digitizing client interactions, where possible. This has seen our cost-to-income reduce from the mid 70s to 66.7% in 2023, although we see further productivity benefits within this space.

Colleague efforts creating an engaged workforce

An engaged colleague franchise is one of our competitive advantages and our efforts over the past few years are being recognized.

The launch of our Group purpose, values and the eKhaya staff incentive scheme in September, whereby over 35 thousand colleagues became shareholders in our group, has created an increased sense of commitment and accountability across the business.

This has been reflected in our colleague engagement survey where we saw further improvement across our various categories for the third straight year. Our colleague engagement levels are at their highest ever as evidenced by our employee NPS improving to +36% from +12% in 2021 whilst we have seen retention of top talent improve.

We have invested heavily in our employee development, with 65% of our spend focused on critical, scarce, and future skills to ensure we have the required capabilities now and in the future.

We have made progress on diversity and inclusion with our black senior management representation improving by 2% year on year to 58.5% while we increased our female representation by 1% to 39% at a senior management level.

Our progress in advancing our organizational culture and people practices to sustain Absa as a great place to work has been recognized through various awards including the Top Employer certification in five countries for the 3rd year in succession, with a score of 87.1% against the global benchmark of 85.2%.

Our ESG agenda has progressed

As I said in August, we want to be an active force for good in everything we do, specifically within our 3 focus areas of climate, financial inclusion and diversity and inclusion. Pleasingly, we have made progress across all three of these areas over the recent past:

We continue to maintain a leading position in sustainability-linked financing with over R84bn originated in the last 2 years. We see significant growth in this space over the medium-term as we contribute to this national and global imperative.

We have made progress since our net zero commitment by setting 2030 targets to reduce our financed emissions in the coal, oil and gas sectors.

Our commitment to assist the unbanked and underbanked populations to achieve financial inclusion and accessibility saw the launch of ChatWallet, a secure WhatsApp-based digital product with no monthly charges, while our mobile branches, digital solutions for small businesses, UIF support on our ATMs and affordable housing loans have also made an impact.

Lastly, our efforts in diversity and inclusion included a program in Kenya where over 35 thousand women participated in a mentorship program for women led micro, small and medium-sized enterprises.

Resulted in a very different business to 2018

All of this has resulted in an Absa Group in 2023 that is a very different business to 2018 and is in a much more resilient position to weather tough economic impacts.

Looking at this in a bit more detail.

We have strengthened our balance sheet with both capital and funding and liquidity ratios having improved since 2018, with these now at the top end our board target ranges despite our balance sheet growing by 43% since 2018.

Since 2018, we have significantly improved the contribution of our ARO operations from 20% of pre-provision profit to 29%, aligning with the more attractive economic growth while our CIB business increased to 32% from 28% with growth in both Africa regions and South Africa.

These focused efforts to diversify our business stood us in good stead in 2023 given the pressure on the SA consumer and the muted economic growth in South Africa.

A key strategic shift in 2018 was to re-ignite revenue growth that had been relatively pedestrian in the period leading up to that point. Over the last 5 years we have grown revenues at 7% on a compound annual basis while ensuring that we create an appropriately efficient business as can be seen by our cost-to-income ratio declining to 52.1% from the 58% levels in 2018 and 2019.

2023 performance overview

Moving to our 2023 performance and it is fair to say that our earnings were below the expectation we had set for ourselves as we entered the year, as the operating environment deteriorated more than we initially anticipated.

Earnings growth was muted at 1% but it was pleasing to see pre-provision profit grow by 6% driven by 8% revenue growth which is similar to our trajectory in the recent past and highlights the positive growth momentum we have created. Our cost-to-income ticked up slightly in the year to 52.1% largely driven by investments in the sustainability of the franchise with growth in marketing and frontline staff hires.

Our credit loss ratio increased to 118bps from 96bps and was above our through-the-cycle range of 75 – 100bps, largely from increased consumer strain in the SA Retail portfolios. I will spend a bit of time on our credit performance, but Chris will unpack it in more detail.

To understand our credit performance, we need to reflect on the trajectory of the Retail portfolios pre-separation from Barclays. As I explained earlier, we were losing market share across customers and the balance sheet in the period leading up to 2018. In fact, our retail advances flow market share in the period between 2012 and the end of 2017, was only 4.5% resulting in our overall market share declining by over 3% in that period. To arrest the decline and reconnect with customers, we needed to grow our balance sheet, and this was done in a measured way with our flow market share in the period from 2018 to 2023 at our deemed fair share of 24.5%, which is similar to the starting market share position in 2012.

This means that our retail lending books are relatively young and need to mature, which they started to do in an orderly manner in 2021 as the rate environment gradually reverted towards a hiking cycle. However, the impact of rates increasing from 7.75% to 11.75% from March 2022 to May 2023 as well as inflation averaging 7.5%, created a shock for consumers which is evident in the current delinquency profiles. Whilst our impairment charges are elevated, these vintages are still profitable on a risk-adjusted margin basis and we expect them to be profitable over time.

That doesn’t mean that we haven’t taken proactive action in the portfolios. On our front books, we have responded with appropriate risk management cuts to higher-risk categories within our unsecured portfolios while affordability buffers have been increased, particularly in secured lending. We also proactively invested in our collection capabilities in 2022, as we built capacity as well as rolling out digital capabilities to support our collections and recovery teams.

Chris will spend some time on it later, but it is important to note that while our structural interest rate hedge provides margin stability over time and has been profitable for the group since its implementation. The very stability it provides, was a headwind to earnings given the rapidly increasing rate environment as we couldn't offset the elevated impairments with the positive endowment impact. Despite this our hedging strategy remains a key component of our long-term financial architecture.

Our RoE of 15.3% was lower than 2022's 16.4%, reflecting the low earnings growth, but remains above our CoE. However, we believe our underlying returns were better than the 15.3% given the impact of some significant items in 2023 that Chris will touch on shortly.

For our shareholders, the dividend per share increased by 5%, which is faster than earnings growth, as we increased our payout ratio to 55% in line with our guidance.

Business unit performance

Looking at our business units briefly the benefit of having a diversified franchise is clear when looking at earnings performance.

The Product Solutions Cluster had a divergent performance with the secured lending business impacted by the higher impairments. The Insurance businesses grew strongly on new business volumes and lower claims. Market sentiment in secured lending remains low and the businesses are focusing on quality production while working out the non-performing loans. At the same time the insurance businesses continue to further integrate and leverage the bancassurance opportunity.

Everyday Banking has seen traction in customer acquisition and is deepening relationships, through the empathetic customer experience and its revised propositions, I discussed earlier. However, the focus is on accelerating this trajectory now that the "fix phase" of its strategy is over.

The re-organisation of the Relationship Banking business into a segment led business was completed in 2023. The segment led approach along with the investment in additional frontline capabilities in 2023 has shown some improvement in its leading indicators and this is expected to continue into 2024.

The CIB business continued to show strong momentum in 2023 and its diversified construct helped deliver strong earnings growth despite the impact of currency dislocations, particularly in Nigeria. The business has momentum behind it specifically in the Africa regions and will look to continue growing in its key focus areas.

Momentum in the ARO RBB business continued into 2023, with strong customer acquisition and improved efficiency. However, the returns in this business remain below its CoE and the focus in the medium-term is to generate a return above CoE.

We remain committed to our strategy

As I said earlier, we remain committed to our strategy, and we continue to consistently execute against it. We maintain our orientation towards growth as we work towards delivering our medium-term targets.

I will now hand you over to Chris to discuss the financial results in more detail.

Chris Snyman – Interim Financial Director

Thanks Arrie and good morning everybody.

My presentation covers 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 IFRS results in our booklet. However, it is important to note that since the impact is relatively small, we will no longer publish normalised financials in 2024.

Net interest income drove earnings growth

Starting with our income statement, headline earnings increased 1% to R20.9bn, with diluted HEPS up the same amount. This outcome was lower than our expectation, but resilient given the operating backdrop and the items that we dealt with in these results.

It is clear from this graph that our earnings growth was driven by net interest income growth, which underpinned 8% revenue growth to R105bn.

Net interest income increased 12%, reflecting 10% higher average interest-bearing assets and slightly higher margins.

Non-interest income rose 1%, which I will unpack later, as the underlying growth was higher.

Operating expenses increased 10%, as we continue to invest in the business, which will generate future revenue.

These combined to generate 6% higher pre-provision profit that exceeded R50bn for the first time.

Our credit impairment charge rose 13% to R15.5bn, largely due to the impact of higher interest rates and inflationary pressures in South Africa, mostly in our retail businesses, which outweighed a large Ghana sovereign impairment charge in the base.

The increase in 'other' included a loss on net monetary position that reduced our earnings by about 2% on a net basis, as we applied hyperinflationary accounting in Ghana.

Healthy net interest margin improved slightly

Our strong net interest margin widened slightly to 4.66% from 4.56%, mainly due to higher policy rates across our business.

Unpacking the moving parts, our lending margin improved by 2 basis points, as a favourable composition impact (largely due to slower Home Loans growth) outweighed lower margins in ARO retail.

Deposit margins widened noticeably by 22 basis points, largely due to the impact of higher policy rates and deposit endowment, which offset faster growth in wholesale funding in South Africa that was negative for composition.

Higher average policy rates and growth in South African equity endowment balances added 10 basis points to the overall margin before hedging, as prime increased by 125 basis points during the year to average 11.4%, 2.8% higher than in 2022.

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

The endowment uplift was offset by a material reduction in the contribution from our structural hedge.

Considerably lower contribution from structural hedge

It is worth covering our structural hedge release separately, given the sizeable swing in its contribution. Since inception in 2006, this hedge in South Africa has released about R17bn to our income statement.

Due to the rolling nature of the hedge programme, 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.

Our structural hedge has performed exactly as it was designed to in recent years. It provided significant protection to our net interest margin when SA policy rates were very low in 2020 and 2021, releasing R5.7bn to our income statement during those years.

Given the significant 475 basis point increase in policy rates from November 2021, our hedge released a debit of R1.6bn to our income statement in 2023, a R3.2bn year-on-year reduction.

The after-tax cash flow hedging reserve relating to the programme reflected a debit balance of R1.4bn as at 31 December 2023, from a debit of R3bn a year earlier.

However, the overall investment rate on our programme is increasing as we roll over hedges at higher rates compared to those that are maturing, particularly swaps entered into during 2020 and 2021.

Post our structural hedge, our interest rate sensitivity is a 1% decrease in policy rates will reduce our net interest income by almost R950m, of which ARO countries constitute just over R700m and South Africa is almost R250m.

Loan growth slowing, particularly South African retail

Turning to our balance sheet, total loans grew 5% to R1.27tn. Group loans to customers rose 8%, while loans to banks fell 28%. South African customer loans grew 7% to over R1tn and Africa regions increased 14%, or 17% in constant currency, to R160bn.

Given higher policy rates, loan growth slowed slightly across most of our divisions.

Product Solutions Cluster loans grew 4% to R415bn, although the average was 7%.

Everyday Banking increased 7% to R72bn, largely driven by growth in Cards.

Relationship Banking grew 8% to R146bn, given continued momentum in the Agri portfolio and commercial asset finance, particularly in the transport and logistics sector, while overdraft utilisation remained muted.

ARO RBB loans grew 9%, or 13% in constant currency, to R79bn, with growth across personal loans, retail mortgages and commercial lending.

CIB customer loans grew 12% to R484bn, up 13% in constant currency.

CIB SA grew 11% to R402bn, with foreign currency loans and commercial property finance both up 12%, while term loans rose 4%.

CIB ARO increased 19%, or 21% in constant currency, to R82bn.

Reduced Home Loans production, in line with market

While our retail loan growth in South Africa slowed due to the difficult economic environment, our market share remained flat at 22%.

Home Loans – our largest book – grew 3%, as our market share remained stable at just below 24%. However, our production dropped by 27%, as applications fell materially across the industry, given the subdued property market. Approval rates also reduced.

Vehicle and Asset Finance rose 6%, with 5% higher production, despite new car sales declining 3%. Our market share improved slightly to 25%. Margins are stable, although pressure on new business pricing continued, due to increased competition.

Credit card grew 8%, reflecting strong new account sales, limit increases and higher utilisation, and 5% growth in turnover. We remain the largest by market share at 26%, excluding our large Woolworths Financial Services book.

Personal Loans increased 3%, despite production declining 6%, as we reduced our risk appetite. Personal loans remain a small component of our retail lending and our 11% market share is very low. We are managing our risk appetite carefully in a difficult environment for the SA consumer.

Broad based deposit growth remains an opportunity

Deposits rose 8% to R1.3tn and accounted for 86% of our funding. Customer deposits grew 9%, to R1.2tn, while bank deposits declined by 3%. Excluding 7% lower repurchase agreements, total customer deposits were up 9%.

Everyday Banking customer deposits grew 7% to R309bn. Low-margin deposits grew faster, with investment deposits up 10%, mainly due to our Dynamic Fixed Deposit. Higher margin transactional deposits declined 5%, reflecting the adverse cost of living pressures. Our retail deposit market share decreased slightly to 21%, although it increased marginally in the second half.

Relationship Banking deposits increased 15% to R231bn, with a similar shape to retail, given strong 24% growth in savings and investment deposits, while transactional deposits were flat.

ARO RBB deposits rose 10%, or 14% in constant currency, to R121bn. The largest category, transactional deposits grew 10%, while investment deposits increased 17%.

Deposits are also a priority for CIB. Total CIB customer deposits rose 7% to R435bn, with average deposits 10% higher. CIB SA customer deposits grew 3% to R327bn, and were flat excluding repurchase agreements, despite strong growth in foreign currency and notice deposits. Cheque deposits fell 18% due to a substantial reduction in a low-margin National Treasury tax and loan deposit. Excluding this reduction, cheque deposits grew 1%. CIB ARO customer deposits rose 21% to R107bn, up 22% in constant currency, with strong growth across all markets.

Insurance underpinned non-interest income growth

Growing capital lite revenue remains a priority for us. Total non-interest income grew 1% and was flat in constant currency to R36.6bn, to account for 35% of our revenue. While non-interest income growth was muted, the underlying trends were better. Excluding the impact of selling Absa Asset Management, total non-interest revenue increased 4%.

The largest component, net fee and commission income grew 2%, reduced by the asset manager fees in the base, which is now reflected in the associates line. Within this, transactional fees and commissions increased 4%. Cheque accounts and credit card fees grew 5% and 9% respectively, while electronic banking fees increased 5%, partially offset by the investment management sale. Merchant income rose 5%, reflecting higher volumes.

Net trading, excluding the impact of hedge accounting, decreased 5% to R7.3bn. Overall Global Markets income declined 3%, largely due to dislocations in foreign currency markets, particularly the naira, mostly in December.

Growth in our insurance revenue remains strong, up 16%, highlighting the benefits of integrating our bancassurance business.

This is evident at a divisional level too, as Product Solutions Cluster non-interest income grew 15%, with strong growth in SA Insurance, Absa Trust and Home Loans.

The largest component, Everyday Banking was flat at R12bn, reflecting migration to lower-margin digital channels and R500m in price reductions and investments in Absa Rewards that offset growth in transactional activity and customers. Everyday Banking non-interest income growth was 5% excluding these pricing reductions.

Relationship Banking increased 1% to R5bn, due to 4% growth in digital revenue, offset by 7% lower cash volumes, that declined industry-wide, as customers continue migrating to digital channels. Card acquiring revenue declined 8%, as increased transaction processing fees offset higher turnover. Despite 4% customer growth, transactional revenue was flat, given pricing initiatives in the SME segment.

ARO RBB grew 12%, or 10% in constant currency, to R4.5bn, driven by 16% growth in active customers and increased activity. Banking revenue rose 15%, with 24% growth in foreign currency revenue and Card up 25%. ARO Insurance revenue declined 17%, due to increased claims and higher reserving for some products.

CIB's non-interest revenue was flat at R10bn, 1% down in constant currency, largely due to lower trading revenue in South Africa and a non-recurring litigation recovery in the prior year. These offset increased volumes in transactions and trade finance in Corporate, solid client franchise growth in Markets ARO and positive revaluations in non-core Private Equity.

Cost growth reflects substantial investment in franchise

Moving to costs, our operating expenses increased by 10%, or 10% in constant currency, as we continue to invest in our franchise. Although our cost-to-income ratio increased slightly to 52%, it remains significantly lower than the 58% in 2019.

Staff costs rose 13% to R31.5bn, accounting for 58% of total expenses, reflecting salary increases and people investments. Staff numbers grew 5%, predominantly in frontline business areas, mostly in Relationship Banking. Bonuses grew 9% given a slightly lower incentive pool offset by a prior year under-accrual and lower deferrals. Our BEE transaction was completed on 1 September 2023 and included for four months, adding R241m to costs.

Non-staff costs grew 7% to R23bn. IT costs increased by 9% to R6bn, due to further investment in digital platforms and cybersecurity spend. Amortisation of intangible assets rose 2%, reflecting continued investment in digital, automation and data capabilities. Total IT spend, including staff, amortisation and depreciation, increased 6% to R13.4bn, or a quarter of group costs.

Marketing rose 18%, on increased advertising and sponsorship spend, as we reinvested in our brand and product presence in the market. Equipment costs grew 32%, as power costs grew significantly to about R200m 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 also reduced 3%, as we used less external resources on strategic projects. Cash transportation costs increased 3%, reflecting growth outside South Africa offsetting lower volumes in South Africa due to the migration to digital banking and increased cash recycling.

Other operating costs increased 27% given higher fraud and operational losses, plus increased business travel.

Lastly, we see opportunities to tactically reduce our discretionary spend in the near-term given the current operating backdrop. We also see an opportunity to strategically improve our productivity, extract value from investments made and reduce legacy costs. Examples of this include our corporate real estate and our retail banking distribution network, where we have seen some benefits already. We have mobilized a group-wide programme to co-ordinate these efforts, which we expect to deliver value over the next 2 to 3 years.

Credit charge increased across divisions, besides CIB

Moving to credit impairments, all our divisions besides CIB saw materially higher charges. Consequently, our credit impairment charge grew 13% to R15.5bn.

Given significantly higher policy rates and inflationary pressures, South African consumers remain under pressure, which is very evident in the large increases across our retail lending. There were also increased credit charges in CIB and Relationship Banking, as the consumer stress impacted consumer facing sectors adversely.

While credit impairments grew materially across some portfolios, Home Loans, Relationship Banking and Card all increased off relatively low bases in the prior year. Similarly, although ARO RBB's credit impairments grew 30%, its credit loss ratio remains below its through-the-cycle range.

Within CIB, credit impairment trends differed noticeably, as CIB South Africa doubled off a low base, but CIB ARO improved significantly from an elevated level to a net reversal. CIB's credit loss ratio is also below its through-the-cycle range.

Credit impairment trends diverge significantly

Credit impairment trends also diverged geographically.

Given the difficult macro backdrop, South Africa's charge increased 45% to R13.8bn, pushing its credit loss ratio to 125 basis points, well above our group through-the-cycle range.

Conversely, driven by CIB ARO, Africa regions credit impairments fell 58%, improving its credit loss ratio significantly to a low 80 basis points. Africa regions' prior year charge included the large R2.7bn related to Ghana's sovereign debt default, versus a R0.3bn charge in 2023.

Credit loss ratio well above through-the-cycle range

Combining these drivers, our credit loss ratio increased materially to 118 basis points, well above our through-the-cycle range of 75 to 100. However, our credit loss ratio improved from 127 basis points in the first half to 109 basis points in the second, reflecting normal seasonality as well as intense collections efforts.

Unpacking the portfolios, Product Solutions Cluster's credit loss ratio increased to 99 basis points from 65 basis points. Within this, Home Loans rose from a low 24 basis points to 58 basis points, while Vehicle and Asset Finance increased to 208 basis points. Both books had increased delinquencies, sustained pressure on the legal book and inflows into debt review.

Everyday Banking rose to 8.35% from 6.45% and 9.22% in the first half, reflecting elevated roll rates into late delinquency cycles. Card rose to 7.8% from 5.8%, while Personal Loans increased to 10.6% from 10.2%.

Relationship Banking increased to 56bps, which is within its through-the-cycle range, from a relatively low 45bps. The increase was due to higher single name charges in 2023 and non-recurring model enhancements in the prior year.

ARO RBB rose from 164bps to 184bps, which remains below its through-the-cycle range. Its charge reflects higher retail credit impairments in certain markets and increased single name charges in Business Banking.

CIB's credit loss ratio improved from 27bps to 17bps, also below its through-the-cycle range of 20 to 30bps. CIB South Africa credit impairments doubled resulting in a 22bps credit loss ratio from 12bps. The increase was largely due to a net release on the performing book in the base. Conversely, CIB ARO credit impairments dropped materially off a high base to a net reversal, primarily due to reduced performing book charges.

Credit impairments reflect stage migration

Our credit impairments reflect stage migration of our customer loans overall, with non-performing loans increasing 20%, while stage 1 loans grew 7%, slightly less than customer loans.

As a result, NPLs increased to 6.1% of total loans, from 5.3% in the prior year and 5.8% at interim stage.

Almost all the increase in NPLs came in the South African retail portfolios, with Product Solutions and Everyday Banking rising 31% and 26% respectively to account for 92% of the growth. The late stage, legal and debt counselling portfolios within these books remain under pressure.

NPL and total loan coverage remain robust

We remain well provisioned for a tough operating environment.

Our NPL or stage 3 coverage is appropriate at 45%. It reduced slightly due to elevated Product Solutions Cluster inflows that produced a younger mix of NPLs that carry lower cover.

Total loan coverage rose slightly to 4.1%, which remains well above pre-Covid levels of 3.3%. The increase was due to a higher proportion of NPLs.

Stage 1 coverage reduced to 66 basis points from 70 basis points, due to macroeconomic variable refreshes across the retail portfolio in South Africa, loan growth and higher quality new business origination.

Material benefit from portfolio diversification …

Moving to divisional performances now, our results again show the benefit of diversification, as differing credit impairment trends produced divergent earnings growth, although all the businesses grew pre-provision profits.

Higher retail and business banking credit impairments in South Africa were a material drag on these divisions' earnings, offset by strong earnings growth from CIB and ARO RBB.

Product Solutions Cluster earnings declined 24% to R2.4bn, as credit impairments rose 64%. Revenue grew 5%, driven by 15% higher non-interest income with Insurance SA up 17%. Net interest income increased 1%, reflecting competitive pressure on new business margins in Home Loans and higher interest in suspense. With costs increasing just 1%, its cost-to-income ratio improved further to 42.5%, and pre-provision profit grew 9%.

Everyday Banking was similar, with earnings down 17% to R3.4bn, as 36% higher credit impairments outweighed 7% growth in pre-provision profit. Revenue grew 6% driven by 11% higher net interest income, while migration to digital channels and targeted price reductions meant non-interest income was flat. Costs were well managed, increasing 5%, to improve its cost-to-income ratio to just below 53%.

Higher credit impairments also reduced Relationship Banking earnings, which decreased 1% to R4.1bn. Pre-provision profit growth was muted, as 1% higher non-interest income constrained revenue growth to 5%. Costs grew 9%, given investments in digital and frontline staff.

ARO RBB earnings increased 27%, or 31% in constant currency, to R1.5bn, largely on the back of strong 27% pre-provision profit growth. Revenue grew 18%, driven by 21% higher net interest income, as loans rose 9% and margins widened. Non-interest income grew 12%, benefiting from 16% growth in active customers. Costs increased 15%, in part due to higher inflation. Although credit impairments rose 30%, its credit loss ratio remained relatively low.

CIB earnings grew 23% to R11bn, as pre-provision profit increased 13% and credit impairments fell 45%. Revenue rose 12%, again driven by strong net interest income on volume growth and better margins. Non-interest income was flat, largely due to lower trading revenue in South Africa. With costs up 10%, CIB's cost-to-income ratio improved to 46%.

Lastly, Head Office, Treasury and other earnings reduced 90% to a loss of R1.4bn, despite a significant reduction in Ghana sovereign debt impairment charges to R270m from R2.1bn. Hyperinflationary accounting in Ghana reduced Head Office earnings by R403m, while costs related to our BEE transaction amounted to about R200m post-tax in the second half. Increased cost of funds and a lower reset benefit

in Treasury South Africa were also a drag. Head office also included a R152m profit from the investment management business for eleven months of 2022.

… evident in earnings contributions and returns

CIB's contribution to group earnings increased noticeably to 49% from 42%, while ARO RBB rose to 7% 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 44% of earnings from 52%.

While lower earnings reduced Everyday Banking and Relationship Banking's returns, they remain relatively attractive at 24% and 26% respectively. Product Solutions Cluster's RoRC remains well below our CoE, reflecting its sensitivity to credit impairments.

Given its strong earnings growth, ARO RBB's returns improved further to 11%, although this remains well below its CoE.

Lastly, CIB's RoRC improved to 24%, a very strong performance.

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

CIB benefits from its improving scale and diversification

Starting with CIB, we show it by activity and region, although it is run on a Pan-African basis.

Corporate continues to perform extremely well. Earnings grew 30% to R4.3bn, on very strong 27% pre-provision profit growth and 10% lower credit impairments. Revenue grew 19%, due to 24% higher net interest income. While Corporate's non-interest income growth was muted at 2%, it rose 15% excluding a non-recurring litigation recovery in the base.

Investment Banking earnings grew 18% to R6.7bn, mostly due to 61% lower credit impairments, as well as lower taxation. Pre-provision profit grew 5%, although 8% higher costs exceeded 6% revenue growth, as net interest income rose 13%. Investment Banking's non-interest income decreased 1%, due to lower Markets SA revenue.

With a regional lens, CIB ARO earnings were exceptionally strong, increasing 63% to R4.7bn, on 26% growth in pre-provision profit and a net release in credit impairments off an elevated base. It contributed 43% of CIB's total earnings. CIB South Africa earnings grew 3% to R6.3bn, driven by 5% income growth and lower taxes, which offset significantly higher credit impairments off a low base.

Secured lending credit charge reduced PSC earnings

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

Home Loans earnings fell 36% to R1.3bn, as credit impairments increased 160% off a relatively low base, to negate 2% higher pre-provision profit. Revenue growth slowed to 1%, dampened by flat net interest income on lower loan production and margin pressure. However, healthy 17% higher non-interest income and flat costs improved its cost-to-income ratio further to 33%.

Vehicle and Asset Finance earnings fell 48% to R236m, as 29% higher credit impairments outweighed solid 12% pre-provision profit growth. Revenue growth of 10% exceeded 6% cost growth, improving its cost-to-income ratio to below 36%.

Insurance SA earnings grew 13% to R1.2bn, with Life Insurance up 14% to R1bn, driven by 22% revenue growth, partly offset by higher technology costs and amortisation. Non-Life insurance earnings increased 7% to R192m, as 6% revenue growth outweighed higher claims.

Lending businesses reduced Everyday Banking earnings

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

Given 49% higher credit impairments, Card earnings fell 56% to just R369m. Solid 12% revenue growth combined with well managed 6% cost growth to produce 16% higher pre-provision profit and improve its cost-to-income ratio to 41%.

Similarly, Personal Loans pre-provision profit increased 14%, as revenue grew 11%, while costs rose 5%. However, 16% higher credit impairments increased its loss 27% to R98m. Personal Loans remains sub-scale, given its low market share of just 11%, and we continue to test the market for selective growth opportunities over the medium-term.

Transaction and Deposits earnings declined 5% to R3.4bn, on a combination of 61% higher credit impairments and 3% lower pre-provision profits. Non-interest income fell 2%, given targeted fee reductions and continued migration to digital channels. However, excluding the former and the R126m SASRIA insurance proceeds in the base, underlying non-interest income grew 5% in line with costs.

Relationship Banking investing for growth

Similarly, Relationship Banking's earnings reduced 1% to R4.1bn, as 33% higher credit impairments outweighed muted 1% pre-provision profit growth.

Revenue rose 5%, driven by 8% higher net interest income, in line with 8% customer loan growth, while deposits increased 15%. Non-interest income grew 1%, with lower acquiring revenue and cash volumes offsetting 4% higher digital revenue. Costs rose 9%, as Relationship Banking continues to invest in future growth through hiring frontline staff in SME and Private Banking, and higher investment spend on digital.

Africa regions drove group revenue and earnings growth

Shifting to a geographic lens, Africa regions contributed significantly to our overall group growth during the period.

For starters, its strong 26% revenue growth accounted for 81% of our total group absolute revenue growth, given South Africa's muted 2% higher revenue. As a result, Africa regions increased to 29% of group revenue from 25%.

Given wide positive JAWS, Africa regions pre-provision profit grew 37% to R14.5bn, while South Africa decreased 3% to R35.5bn.

Combining its lower credit impairment charge that I flagged earlier, Africa regions' contribution to earnings was even more notable, as South African earnings fell by 18% to R14.7bn, mostly due to the elevated credit impairments I highlighted earlier.

With Africa regions earnings more than doubling to R6.3bn, it accounted for 30% of group earnings for the period, from 13% the prior year, when Ghana's sovereign debt default dampened its earnings by R1.8bn.

Some aspects of its contribution may not be sustainable, such as CIB ARO's very low credit impairment. We also continue to monitor sovereign risks in some of our key countries, while relative currency movements were less favourable in the second half. Moreover, most of our subsidiaries benefited from noticeably higher policy rates, which contributed to its 30% net interest income growth.

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. We expect to see the contribution from Africa regions increase over time.

Substantial operational improvement in ARO RBB

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 RoRC 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 at the top end of Board target range

We remain well capitalized to fund our growth opportunities.

While our CET 1 ratio reduced slightly to 12.5%, it remains at the top end of our 11% to 12.5% board target range, and comfortably exceeds regulatory requirements.

Group risk-weighted assets increased 5% YoY to almost R1.1tn, in line with the growth in gross loans and total assets.

We remain strongly capital generative, with profits adding 1.9% to the CET 1 ratio over the year, partially offset by paying 1.1% worth of dividends.

The strong CET 1 ratio allowed us to increase our dividend payout to 55% from 53%, resulting in a 5% higher ordinary dividend of R13.70 per share.

The reduction in other reflects a decrease in foreign currency translation reserve, a regulatory change on the treatment of investment in insurance entities and an increase in capital deduction for the rise in intangible assets.

No longer normalising for Barclays Separation in FY24

That concludes my 2023 commentary.

Looking forward, the financial consequences for separating from Barclays PLC is no longer material, so we will no longer normalise our results for the first time since 2017. Nor will we normalise for the impact of our BEE transaction, which is expected to reduce earnings by approximately R600m.

As a result, our 2024 guidance is based on our 2023 IFRS results, highlighted here on the far right. The main adjustment in 2023 was the R1.2bn in costs, predominantly for the amortisation of intangible assets created under separation. The remaining intangible assets plus property, plant and equipment on our balance sheet totals R1bn and we expect amortisation and depreciation charges to continue until 2027. However, the impact is no longer material. We expect it to reduce headline earnings by about R300m in 2024.

2024 outlook (on an IFRS basis)

Turning to our guidance for the remainder of the year, the economic environment remains tough and very uncertain.

For the global economy, softer inflation should provide space for central banks to signal a turn in the rate cycle, though any reductions are likely to be delivered slowly and markets remain sensitive to both upside and downside surprises to inflation and economic growth.

For South Africa, we expect the economy to grow by 1.1% in 2024. Infrastructure shortfalls, both electricity and transport-related, remain a significant risk, while there is clear evidence that higher interest rates are placing significant pressure on many consumer-facing sectors.

Helpfully, headline inflation is expected to moderate towards the mid-point of the central bank's target band in the latter part of the year. We believe that the current policy rate is the peak for this cycle and that the SARB is likely to deliver a measured pace of cuts beginning in the second half.

We forecast that GDP-weighted growth for our ARO presence countries will rise to 4.8% in 2024, led by East African markets. Ongoing infrastructure investment, strong multilateral support, and expectations

of improving demand as the interest rate cycle turns more favourable, are likely to underpin growth even as foreign currency scarcity in several markets is expected to improve slowly.

Based on these assumptions, and excluding further major unforeseen political, macroeconomic, or regulatory developments, our guidance for 2024 is as follows:

As mentioned, our guidance is relative to our 2023 IFRS financials rather than our normalised figures.

We expect high single digit revenue growth, driven by both net interest income and non-interest income growth, with slower YoY revenue growth in the first half, given a high base in the first half of 2023.

We expect high single digit growth in customer loans and customer deposits.

Reflecting higher average policy rates, our credit loss ratio is likely to remain above our through-the-cycle target range of 75 to 100 basis points, but improve slightly YoY. Within this we expect a lower SA consumer loss rate offset by higher ARO RBB and CIB charges off a low base. We expect elevated first half credit impairments, with a credit loss ratio similar to 127bps in the base, although the second half is likely to improve to the top of our target range.

We expect mid- to high single digit operating expense growth, resulting in an improved cost-to-income ratio from 2023's 53.2%. As a result, we expect high single digit pre-provision profit growth.

We expect to apply hyperinflation accounting in Ghana again, with a somewhat larger earnings impact than 2023.

Consequently, we expect to generate an RoE of 15% to 16% in 2024, with the first half RoE below this range.

Lastly, our Group CET1 capital ratio is expected to end 2024 in the top half of the Board target range of 11.0% to 12.5%. We expect to maintain a dividend payout ratio of around 55%.

Given material base effects in 2023, we expect elevated credit impairments, plus slower revenue and pre-provision profit growth in the first half to dampen earnings growth off a relatively high base. Conversely, we expect higher second half revenue growth to support stronger pre-provision profit growth that, combined with a lower credit loss ratio, should support better second half earnings growth versus a relatively low base in the second half of 2023.

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

Arrie Rautenbach – Chief Executive

Pathway to our medium-term targets

Thanks Chris.

As I said earlier, we remain committed to our medium-term targets of a cost-to-income ratio in the low 50s and an RoE sustainably above 17%. While our cost-to-income is already in the low 50s, and we

expect this to improve. We are confident that our underlying performance trends provide an improving pathway to achieving our RoE target, on an IFRS basis, by 2026 with the delivery of 4 key drivers.

Firstly, growing our capital lite revenues remains the key battleground for us. As I discussed earlier, we are seeing positive momentum in our customer metrics across the group. In our Product Solutions Cluster, the bancassurance business continues to integrate into the banking journeys and improving credit life strike rates, our digitally underwritten life insurance product and the traction of non-Life insurance in partnering with our vehicle partners provide significant opportunities. In Everyday Banking, we have seen encouraging growth in our active customer numbers and with our pricing revisions behind us, as well as a healthy deposit franchise, we will see better growth here. The investments we have made in increasing our banker capacity in Relationship Banking has already seen improving customer acquisition trends and along with consistent innovation in our payments business, will provide a momentum shift. Our Corporate and Investment Bank has seen strong client acquisition over the recent past and we expect this to continue. While in ARO RBB we see our recent acceleration in active customer numbers continuing, while we deepen our relationships with customers through our increased product propositions. Together these will provide increasing momentum behind our capital lite revenues over the medium-term.

Secondly, is a credit loss ratio within our through-the-cycle range. We have continued to take the necessary risk mitigation actions through 2023 and while we expect that the first half of 2024 will remain difficult, we see this starting to turn in the second half as interest rates are eased and we see a return to a more normalized credit loss ratio as consumer stress is eased.

Thirdly, we see opportunity from improved productivity. Since we started our separation from Barclays we have shown a strong track record for removing unproductive costs from our business. While our focus remains on growth, we are conscious that our operating environment is evolving rapidly and provides further opportunity to remove unproductive costs. We have identified opportunities across the Group and have mobilized a group-wide program to co-ordinate our efforts as we look to extract value from our recent investments, optimize our property portfolio and leverage new technologies, to name a few.

And lastly, we see faster growth in our Africa business given the more attractive economic growth expected in these markets and our positive momentum within them. Over the past 18 months, I have visited each of our markets across the continent and each time I have come back more assured on the

growth opportunities present in each of these markets and more specifically, that our businesses are appropriately positioned to deliver on these opportunities.

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

The macro environment has been particularly tough in 2023 and we expect it to remain so for at least the first half of 2024, but we have shown that we can withstand it.

We continue to believe in the long-term benefits of our strategy and, as we have shown, it has created a much more resilient organisation since 2018 and we are confident that it will deliver over the medium-term.

We will now take your questions on Slido.