1H25 speaker notes

Kenny Fihla – Group Chief Executive

Good morning and thank you for joining us for Absa's 2025 interim results presentation. It is a real privilege for me to present for the first time as Group Chief Executive.

Our presentation will start with Charles covering the operating environment and how we fared on our strategic execution priorities in the first half. It is appropriate that he provides this context, given that he led the group as Interim CEO for most of the period. Charles will assume a very senior role at Absa, which we will announce shortly.

Deon will then unpack our financial performance and set out our guidance for the rest of 2025.

Thereafter, I will share my thoughts on the organisation and then we will field questions.

Before handing over to Charles, I want to acknowledge his efforts and that of the management team over the past six months in delivering these results. They have steered the organisation through a challenging period, including a tough economic macro environment, especially in South Africa, to deliver on the objectives for the half.

Thank you, I will now hand over to Charles.

Charles Russon

Thank you Kenny, and good morning everyone.

Macro backdrop more uncertain, worse than planned

Starting with the macro backdrop. As you are all aware the operating environment remains volatile, uncertain and tougher than we expected. But of course, we all operate in the same environment.

The global economy entered 2025 on an uncertain footing, as the new US administration heralded an unprecedented flurry of highly consequential domestic and global policy announcements, including dramatic increases in tariffs on goods entering the US. The US Fed left policy rates on hold, whereas the UK, the EU and many other western countries cut rates, while China introduced several measures to support economic growth. In addition, geopolitical tensions remained significant, with the conflicts in Ukraine and the Middle East continuing.

In South Africa, economic data has disappointed, with just 0.1% first quarter GDP growth. Business and consumer confidence slipped early in the year, given noticeable tension within the government of national unity, with two failed attempts to agree a national budget, and as trade tensions with the US ratcheted higher. On a positive note, consumer inflation remained low through the first half of the year, providing space for the Reserve Bank to continue reducing rates.

Economic growth was mixed across our other African markets. Ghana’s economy has strengthened further, with strong gold export revenues supporting a sharp rally in the Cedi, resulting in rapidly decelerating inflation and a large policy rate cut. Zambia’s economy is also rebounding from last year’s devastating drought, while East African markets continued to perform strongly even as fiscal concerns remain for Kenya (with lingering social tensions and an inability to raise tax revenues). Meanwhile, the crisis in the global diamond industry impacted Botswana’s economy, deepening the country’s fiscal challenges. And the fiscal crisis in Mozambique also continues to weigh on the economy.

Except for Ghana, we have reduced our growth expectations for all the countries in which we operate, some of them materially relative to what we planned in our original 2025 budgeting. Despite these cuts, we still expect 4.8% growth across our Africa regions countries this year, well above South Africa’s muted growth.

Progress continued in 1H25

Looking at the salient features of our interim results, we continue to deliver on our market guidance.

Diluted HEPS grew 16%.

Dividends per share increased 15%, based on a 55% payout ratio.

Importantly, our RoE improved to 14.8%, albeit slightly below our 15.1% cost of equity for the period.

Net interest margin narrowed (by 11 basis points) year on year, mostly due to compression in our deposit margin, but having stabilized since the second half of 2024.

Muted net interest income (an industry-wide trend) meant costs grew faster than revenue, producing a slightly higher cost-to-income ratio.

Pleasingly, our credit loss ratio improved materially off an elevated base, to the top end of our target range.

NAV per share grew 11% to R200, (in part due to higher reserves that was a drag on RoE).

Lastly, our CET1 capital ratio declined slightly to 12.5%, but remains at the top end of our Board target range.

While our earnings increased materially and our RoE improved –- we continue to focus on our recovery given that our RoE remains below our cost of equity

You should expect further improvement from here.

We aim to improve our execution and consistently deliver on our guidance, in the immediate, short and medium-term, to regain investor confidence.

Focus on execution priorities

I will now cover our first half execution. In line with what I referenced in March, I will update you on progress on our four strategic execution priorities.

Firstly, in terms of sustainable franchise driven growth, the half saw disciplined balance sheet growth and improved risk origination, a focus on client profitability, whilst staying true to reducing the delinquency back book. We have embedded return targets as a priority in business unit scorecards to ensure we are originating the right business with an increased focus on transactional activity. Growth in active transactional customers in Personal and Private Bank was 4%, while digitally active customers grew 13%. ABSA Reward customers increased 40%, which in due course will help drive usage and resultant fee income. In ARO RBB, we grew new-to-bank transactional customers 15%, as digital onboarding and partnering agents supported our ability to acquire customers. Finally, across the region we saw pleasing growth of 32% in digitally active customers, as upgraded digital platforms increased usage and customer engagement.

Secondly, we are driving the pivotal change across the organization from product focus to client franchise focus with product excellence. We concluded the reorganisation of Personal and Private Bank on 2 June, bringing Everyday Banking, Product Solutions and Private Bank & Wealth together into a single client segment focused on our retail customers in South Africa.

This also resulted in a now re-focused Business Banking segment. These teams have prioritised the management mindset shift required to ensure we focus on ultimately delivering client value, having removed the artificial barriers across the client segment, which we believe will provide sustainable franchise benefits over time. Our CIB and BB teams are now also fully managing their client segments from a client franchise lens regardless of where the product sits, with the revenues now following client. This ensures that we take a holistic view of our client to deeply understand their needs such that we show up in the right way, regardless of where the product sits in the firm. This significantly raises our expectations of the business coverage teams to ensure client relevance through providing value add to our clients.

Thirdly, we have invested further in our capital allocation capability at Group and business unit levels and have refined the top-down capital allocation processes across the Group to better measure the performance of each business. As we drill down, we expect to spotlight areas of value or drag by bringing in the client franchise lens. These processes will continue to mature. We have already commenced the build out of customer profitability analytics in PPB, which has a strong data foundation and will require modest investment as this lens becomes a primary lens in our decision making. We have further increased the capital allocation rates for each business unit to 12% of RWAs to closer align each business unit's return on regulatory capital with the group RoE. This reduces the RoE drag from the Head Office. Furthermore, we have also reallocated certain costs that are directly attributable to each business unit's activity to better measure and understand franchise value. And on 21 July we successfully concluded the buyback of our preference shares, which will reduce our cost of funding going forward.

Lastly, and of great importance, we remain on track with our productivity programme, with close to half of the R5bn gross cumulative benefits delivered to date. Deon will speak further to this point in his section.

Most businesses grew earnings and Head Office trimmed

Unpacking our segmental performances, all our divisions grew earnings besides Business Banking.

CIB maintained its positive momentum, again benefiting from its diversification, with a strong showing from the Investment Bank.

Earnings in our newly established Personal and Private Banking business continue to recover, driven largely by lower credit impairments, as revenue growth remained muted.

Business Banking earnings declined, due to a combination of higher credit impairments and lower pre-provision profit given flat revenue growth. We expect a better revenue-driven performance from this business medium-term.

ARO RBB maintained strong positive underlying momentum, with pleasing growth in customers and revenue.

The reduced loss in Head Office largely reflects higher earnings in Treasury South Africa and discontinuing hyperinflationary accounting in Ghana this year.

CIB momentum from diversified franchise

Moving on to the individual businesses, I'll start with our largest franchise, CIB. As usual, we show CIB's earnings by activity and region, although it is run as a Pan-African business.

Corporate Banking earnings declined 7%, as pre-provision profit decreased 9% given lower revenue, partially offset by a material pull back in credit impairments.

Highlighting the benefit of diversification, Investment Bank earnings grew 20%, on the back of strong pre-provision profit growth and 30% lower credit impairments.

From a geographic perspective, CIB South Africa grew strongly, largely due to 58% lower credit impairments and strong Markets growth.

Conversely, significantly higher credit impairments constrained CIB ARO's earnings growth to 3%.

PPB lending businesses drove earnings recovery

Now I will cover our new PPB business. Earnings grew materially, driven by 16% lower credit impairments. Margin compression and modest loan growth production resulted in lower net interest income, which offset improved non-interest income growth, resulting in lower pre-provision profit.

Negative operating JAWS produced lower Transaction and Deposits earnings.

However, earnings across the lending franchises continued to recover, with substantial rebounds in Vehicle and Asset Finance and Unsecured lending due to significantly lower credit impairments outweighing muted top line growth.

Insurance SA earnings rose 12%, improving its RoE to 21%. Life profits increased 5%, while Non-Life grew 25%, mostly due to improved claims.

Muted Business Banking revenue growth

Our Business Bank performance disappointed, as earnings declined 12% on 23% higher credit impairments and 7% lower pre-provision profit given flat revenue.

Revenue was under pressure as a result of muted demand for credit, margin compression from higher interest in suspense and deposit mix, plus reduced transactional revenue and lower cash volumes.

Positively, card acquiring revenue grew 9% on 7% volume growth.

ARO RBB Banking operations produced strong growth

And lastly, ARO RBB earnings grew significantly, as the Banking operation maintained its strong underlying franchise momentum in transactional customers, revenue, pre-provision profit and earnings.

Unlike last year when the stronger Rand was a material drag on ARO RBB's earnings, this year it was a tailwind, although earnings still rose 28% in constant currency.

As you know, we switched to a bancassurance distribution model with key partners across our Africa regions. Hence, we sold our insurance businesses in Botswana, Zambia and Mozambique during the period, resulting in a small earnings drag for the half.

Solid growth across South Africa and Africa regions

Finally, looking at the geographic performance, South Africa and Africa Regions both produced solid earnings growth. However, it is clear that South Africa's 19% earnings growth mainly reflects lower credit impairments, with revenue growth remaining muted at 3% given flat net interest income. As a result, pre-provision profit was flat and whilst return on regulatory capital improved to 14.3%, it remains below cost of equity.

By contrast, Africa regions delivered strong growth in pre-provision profits, which generated a 16.9% return on regulatory capital despite higher credit impairments

For the full year, we expect the diversification benefit from our Africa regions to continue, with noticeably stronger earnings growth than from South Africa.

I will now hand over to Deon to take you through our financial performance and guidance for the rest of the year. Thank you for your attention.

Deon Raju – Financial Director

Thanks Charles and good morning everyone.

I will unpack our interim results before closing with our guidance.

Pre-provision profit, lower CLR drove earnings growth

Starting with our income statement drivers, headline earnings grew 17% to almost R12bn. Earnings growth was due to increased pre-provision profit and lower credit charges. A weaker average Rand increased earnings slightly during the period.

Net interest income grew 3%, reflecting 5% higher average interest-bearing assets and slight margin compression.

Non-interest income rose 10%, with most businesses producing resilient growth.

Total revenue grew 5% to R56bn.

Operating expenses increased 6% which was mostly inflationary, resulting in slightly negative operating JAWS, and 4% higher pre-provision profit.

Our credit impairments decreased 14%, driven by lower charges in PPB and CIB.

'Other' includes several items, such as a slightly higher effective tax rate, no longer applying hyperinflationary accounting to Absa Bank Ghana.

Modest South African net interest income growth

Turning to net interest income, as expected, overall growth was modest at 3% and was similar to our 2% growth in the second half of last year.

Growth remained slow in PPB, due to muted loan growth and margin compression in Unsecured lending, while secured lending margins held up well.

Business Banking's NII slowed noticeably, reflecting slower loan growth, higher interest in suspense and margin compression.

ARO RBB's 15% growth was strong, on the back of 9% loan growth and improved margins as the cash reserving drag reduced.

Net interest income in CIB grew 3%, with its ARO NII rising 9% while South Africa declined 1% due to margin contraction.

South Africa's NII was flat, due to margin compression, while Africa regions grew 9%, given a more resilient margin.

Deposit margin the main drag on Group NIM

Our overall net interest margin declined 11 basis points to 4.58% as compared to June 2024. However, it was stable relative to the 4.57% in the second half of 2024, when most of the compression occurred. This reflects some of the hedging protection conducted at a Group level against lower rates which was evident in the first half of this year.

Customer loan pricing had a 5 basis point negative impact from tighter pricing and higher suspended interest Business Banking. Changes in the loan mix were a small drag, given faster loan growth in CIB than Unsecured lending in PPB.

Customer deposits reduced the overall margin by 17 basis points, reflecting pricing pressure, particularly in Corporate Banking SA. Deposit composition was slightly positive, given lower wholesale funding and faster growth in higher margin deposits in ARO RBB. Lower policy rates reduced the deposit endowment by 6 basis points.

The equity endowment impact improved by 3 basis points. In South Africa it reduced the margin by 3 basis points given lower rates, while Africa regions improved it by 6 basis points due to growth in equity.

In South Africa, the charge from our structural hedge was 8 basis points less offsetting the South African deposit and equity endowment underlying movement. The average structural rate earned on the programme increased 14bps to 7.25% and is now higher than Jibar.

Broad-based deposit growth, CIB and ARO RBB strong

Turning to our balance sheet, deposit growth remains broad-based, with strong growth continuing in CIB and ARO RBB.

PPB growth remained solid, due mainly to faster growth in low-margin deposits.

Business Banking's growth was due to 9% higher transactional products.

ARO RBB reflected strong growth in transactional products.

CIB grew 15% or 10% excluding significantly higher tax and loan deposits, largely in investment deposits given client build up of surplus liquidity.

Relatively moderate loan growth …

Our total loan growth remained relatively moderate at 7% with a large portion of the growth coming late in the half.

PPB's muted growth reflects active risk management decisions and increased competition in a market that is growing slowly.

Business Banking saw mid-single digit growth across most segments sectors. Agri loans, the largest component, was impacted by a delayed season, although it grew strongly in July.

ARO RBB loans grew 9%, with growth across mortgages, Card and mobile lending.

CIB increased 12%, however excluding reverse repos it grew 6% with broad-based growth in general corporate, infrastructure and commercial property finance.

… with muted Private and Personal Banking loan growth

Despite PPB's muted loan growth, our retail market share in South Africa remained broadly stable at 22%.

Low Home Loans growth reflected a subdued market. Production decreased 8%, given competition and our shift towards higher quality customers.

Vehicle and Asset Finance's growth reflects improved production and an industry wide recovery in car sales.

Within Unsecured lending, credit cards grew 3%, given higher utilisation, while limit increases reduced. Personal loans declined 4% due to lower production aligned with strategic risk management actions.

Strong Markets drove non-interest income growth

Unpacking our non-interest income, it grew 10% to account for 36% of group revenue.

Net fee and commission income grew 5%, representing two-thirds of the total. Within that, gross fee and commission income rose 7%, as transactional fees and commissions increased 4% and merchant income grew 27%.

Net trading income excluding the impact of hedge accounting grew strongly, given substantial Markets SA growth. Excluding base effects, growth was still strong at 25%.

Net insurance income rose 5%, driven by strong growth in Non-Life, while Life Insurance declined slightly due to lower unsecured loan production.

'Other' fell materially because of lower income from unallocated funds and losses on disposal of assets and liabilities held for sale under IFRS 5.

Inflationary cost growth

Operating expenses grew 6%, resulting in a slightly higher cost-to-income ratio of 53.2%.

Staff costs rose 7%, largely due to inflationary salary increases with higher growth rates in ARO due to higher inflation.

Non-staff costs grew 5%, moderated by the efforts of the productivity programme. IT costs increased 7% and pro fees 6% given further investment in new digital capabilities and cybersecurity. Amortisation of intangible assets grew 3%, helped by higher base effects. Marketing cost growth also reflects inflationary growth.

Growth in property costs and depreciation were low, given continued optimisation of our property portfolio that offset retail branch upgrades.

Our productivity programme remains on track with delivery of R700m of cost savings in the first half that helped contain non-staff cost growth. The savings were broadly spread across third party spend, property optimization, channel, and technology. Some of this was re-invested in new digital, data and cybersecurity investments. We expect delivery of another R800m in the second half. Furthermore, we are close to the peak of the intangible asset build and expect this to reduce over time from here.

Lower CIB and PPB charges reduced credit impairments

Turning to credit impairments, our group charge declined 14% off a high base.

PPB decreased 16%, with lower charges across all books, particularly Vehicle and Asset Finance and Unsecured lending.

Business Banking rose, primarily due to single name provisions.

ARO RBB’s increase largely reflects book growth and higher retail charges, partially offset by improved macros in some markets and Business Banking collections.

CIB reduced materially off a high base, driven by lower single names charges.

Credit loss ratio improved materially

Our credit loss ratio improved noticeably from 123 basis points to 100, at the top end of our through-the-cycle target range of 75 to 100 basis points.

Unpacking the portfolios, PPB improved materially. Within this, Home Loans improved slightly due to better performance in its pre-legal book given higher quality new business, improved collection initiatives and the use of assisted sales to support distressed customers. Nonetheless, pressure remains on its late cycle book.

VAF improved materially, reflecting revised credit policies, exiting specific higher risk segments and collections actions.

Cautious risk selection, enhanced collections and late stage portfolio sales reduced the charge in Unsecured lending.

Business Banking increased to slightly above its through-the-cycle target range, while ARO RBB remained below its range.

Lastly, CIB improved to slightly below its target range.

NPLs improved slightly, coverage remains strong

Stage 3 loans, or non-performing loans, grew 4% to R86bn, due to inflows in CIB and Home Loans. The NPL ratio improved marginally from December.

We remain appropriately provisioned for a tough operating environment. Total coverage declined slightly, but remains well above pre-Covid levels of 3.3%.

Stage 1 coverage declined marginally, mostly due to improved new business performance in PPB. Stage 2 coverage reduced, driven by PPB, while the other businesses increased. Stage 3 coverage also decreased slightly because of single name write-offs with high coverage in CIB and BB, which offset higher PPB coverage due to pressure on late stage NPLs in the secured books.

Head office loss improved significantly in 1H25

As previously mentioned the Head Office numbers have been restated due to the reallocation of costs directly attributable to Business Unit activity. In addition, the Head Office loss improved significantly in the half. As noted, we have ceased hyperinflation accounting of ABSA Bank Ghana. We also an improved ALM position in South Africa, as cost of funding was optimized and the bond investment portfolio returns improved. Despite lower rates in Africa regions, the ALM position has held up well given pre-hedging conducted in 2024 in anticipation of falling rates. We also benefitted from rate and FX timing movements, some of which may reverse in the second half. Finally, outside of inflationary growth in Head Office costs, we experienced higher dividend withholding tax in the half.

CET1 ratio at top end of our Board target range

Turning to capital, we remain well capitalized to fund the balance sheet growth opportunities that we see.

Our CET1 ratio decreased slightly to the top end of our Board target range, comfortably above regulatory requirements.

We remain capital generative, with profits adding 1% to our CET1 ratio during the half. Further improving our RoE medium-term will of course increase our capital generation.

Risk-weighted asset consumption and dividend payments reduced our CET1 by 0.6% and 0.5% respectively during the half.

Our Group RWAs grew 5% during the half, slightly ahead of our total assets, mostly due to market risk growth.

2025 outlook

Lastly, I'll cover our guidance for the rest of the year.

The global economic environment is likely to remain very uncertain. For South Africa, we have reduced our GDP growth forecast to 0.9% in 2025. Although inflation is likely to rise during the second half, it is not expected to place undue pressure on consumers, or cause the Reserve Bank to raise rates. Our baseline forecast is for 4.8% GDP growth across our African region countries in 2025.

Based on this backdrop, and excluding further major unforeseen political, macroeconomic, or regulatory developments, our guidance for 2025 is largely unchanged:

We expect mid-single digit revenue growth, with stronger growth in non-interest income than net interest income.

We expect mid- to high single digit customer loan growth and mid-single digit deposit growth.

Our credit loss ratio is expected to improve to the top end of our through-the-cycle target range of 75 to 100 basis points.

We expect mid-single digit growth in operating expenses, producing a slightly higher cost-to-income ratio from the 53.2% in 2024 and low to mid-single digit growth in pre-provision profit.

Consequently, we expect an RoE of around 15% from 14.8% in 2024. Other reserves have increased our equity more than we expected as at June 2025, modestly reducing our RoE while supporting our NAV.

We expect the Group CET 1 ratio to finish 2025 at the top end of our Board target range of 11.0% to 12.5%. We expect to maintain a dividend payout ratio of around 55% for 2025.

We expect a weaker Rand to underpin earnings slightly and Africa regions earnings growth should be noticeably stronger than South Africa.

The first half results are an important stepping stone to our target of 16% RoE by 2026.

I will now hand over to Kenny for his concluding remarks.

Kenny Fihla – Group Chief Executive

Thank you, Deon.

I have been in my role for two months and the transition between Charles and I was smooth.

While I had my own perceptions of Absa from the outside when I joined, I have extensively engaged with key stakeholders across the continent, including some large clients, investors, regulators and colleagues in order to get a better view of the group.

There has been a common thread across much of the feedback on the issues Absa faces, such as it having gone through a period of substantial change, including high management churn and consequently some parts of the business are rather inward-focused.

I have also encountered a few positive surprises. Since people lay the basis for everything the organisation does, I have spent a lot of time with our executives, visited some branches, regional offices and countries. Absa has some exceptionally good people, comparable to the best in the market, with similar depth and experience. Nonetheless, it is also clear that we need to strengthen the leadership team overall, which is my number one priority in the near-term.

Moreover, my view has shifted on the strength of Absa's client franchise, whether in CIB or in sectors where it dominates like Agri in Business Banking. Absa also has a strong retail client base in the middle market in South Africa, while Africa regions is a good quality franchise, albeit one that hasn't been fully leveraged.

As you heard from Charles and Deon, we have made some progress on key elements of the recovery and we remain fully committed to achieving our guidance, including delivering a steady improvement in our RoE. However, more needs to be done to accelerate the pace of execution in specific areas.

Firstly, although Absa has a large and loyal client franchise, we are still too product-focused and need to shift the orientation to be clients first and products second. Everything must start with the client, and I plan to spend around 30% of my time engaging directly with clients, as a signal to the organisation, particularly to senior leaders that we need a far greater client focus.

Secondly, our diversified Pan-African portfolio provides a fantastic footprint and opportunity. However, this hasn’t been appropriately leveraged. For instance, ARO RBB is largely run separately from the rest of the group. To fully unlock the potential across the continent, we need to run all our business on a connected Pan-African basis. We have just received board approval to move to a group structure where all three business units – CIB, Business Banking, and Personal and Private Banking align to a Pan African model. While the shift might introduce new complexities, we will make the changes quickly, and we see significant upside from this move. We will also invest in the appropriate talent to lead the businesses, where necessary.

Thirdly, we need to sharpen our strategy and be clear on the markets and segments we want to win in. This is crucial so that we can better allocate our capital and resources to the areas that give us the biggest impact. We can’t play everywhere, and be everything to everyone. Absa’s change the bank investment spend is substantial, but rather fragmented and spread across too many small things, which inevitably dilutes the impact. Greater strategic clarity will enable us to focus all our efforts on key priorities. We will share our revised strategy with the market in the coming months.

Fourth, Deon spoke to our productivity programme, which is on track to deliver planned savings over the medium-term. My sense though is that there are several areas where we can remove additional ‘bad costs’ and improve our cost-to-income ratio.

Absa has generated a sub-15% RoE on average over the past three years, which is broadly in line with its cost of equity. This is not acceptable for an organisation like ours. We intend to accelerate the delivery of improved returns over the medium-term.

I would like to reiterate our commitment to see through the stabilisation initiatives that were started a year ago and heighten attention on the aforementioned focus areas.

Thank you for joining us today and we will now take questions.