1H21 Results presentation

19 August 2021

Transcript

Sim Tshabalala, Chief Executive Officer

Good morning, ladies and gentlemen.

Thank you for joining us as we present our results for the first half of 2021.

I'd also like to thank all my colleagues for their courage, dedication and hard work over another very challenging six months. We're hopeful that the worst of the pandemic is now behind us.

If you are joining us on Blue Jeans and would like to ask a question, please do so by clicking the Q&A link on the right-hand side of your screen.

Despite the additional uncertainty and restrictions caused by the Delta variant, the world economy began to recover from the pandemic during the first half as wide vaccine coverage enabled a return to a more normal way of life and level of economic activity.

The economies of Sub-Saharan Africa contracted less than most in 2020, but the continent's recovery from the pandemic may be prolonged by the slow vaccine rollout in most of the continent.

In South Africa, a very deep contraction in 2020 has been followed by a fairly rapid recovery, supported by strong commodity prices. The vaccine programme in South Africa has now gained good momentum, even I had my jab this Sunday, the second one – I am delighted to report - and it is reasonable to expect that most adults will have been vaccinated by the end of the year, which should enable a more rapid and more inclusive short-run recovery.

The intense and large-scale unrest experienced in South Africa in mid-July has caused significant economic and social damage and has powerfully reinforced the case for further structural and governance reforms. However, while these events have been extremely destructive, and distressing, we are encouraged that South Africa's constitutional democracy has survived – and even been reinforced – by this severe stress test. It's clear that the vast majority of South Africans are committed to peace, to our democracy and to the rule of law. The shock we've received may also help us to speed up the structural reforms that our economy so desperately needs.

As we did during 2020, we continued to manage the pandemic using the three-phase approach we introduced last year – first respond to the immediate threat;

second recover and help to accelerate the return to growth; and third, re-imagine to adapt to the new normal.

Fortunately, as you will see today – and then in more detail if you care to join us at our strategy day tomorrow – the balance of our work has shifted away from 'respond' and we are firmly focussed on 'recover' and 're-imagine.'

We have made good strategic progress over the half. Our colleagues have adapted well to our new structures, and remain highly engaged, with our employee Net Promoter scores remaining well above the industry average. Our disbursement volumes, activity levels and franchise have all developed positive momentum and are all growing again.

The single most notable strategic development over the half was, of course, the announcement of our intention to achieve 100% ownership of Liberty and to integrate Liberty's capabilities more tightly into the broader Group. I will say a bit more about this in a minute.

We're pleased with the strong recovery in our earnings over the past six months. We're making good progress. However, as we've said before, full recovery from the effects of the pandemic will take more than a year.

Returns have improved throughout the Group. Group ROE is up 440 basis points on the prior period, and we are pleased to be able to declare an interim dividend of 360 cents per share

We intend to draw Liberty's formidable capabilities more closely into the wider Standard Bank Group. This will enable both Liberty and Standard Bank to better compete against our peers by providing both sets of clients with more relevant and attractive set of services and solutions. In other words, this transaction completes the foundations of our platform business.

Our proposed buyout will be by way of a share and cash offer. Once the transaction is completed, Liberty minority shareholders will hold approximately 3.5% of Standard Bank's shares. The combination of Liberty and Standard Bank will produce greater revenues accompanied by better operational and capital performance than if they had remained as they are now.

I must emphasise that Liberty remains a listed entity and quite independent until the transaction is complete, and indeed the same applies to Liberty Two Degrees, but we do expect Liberty to be delisted in the first quarter of next year.

We delivered many new solutions for our clients during the half, ranging from easy ways to make payments; to further add-ons to our mobile banking app, allowing clients to access all their solutions on a single platform; to innovative, unified digital platforms.

For instance, clients enjoyed the convenience of making peer-to-peer payments using QR codes, with payments growing to more than R60 million per month. And our Clients are now able to buy shares in top US companies and ETFs from the

Shyft app. Unayo, a unified digital platform which operates across our segments and the continent, has been launched in three countries and will launch soon in a number of others.

Two examples of innovation from our Wholesale business are PowerPulse, which is a digital platform that links electricity producers and consumers in South Africa and beyond; and OneHub, an online marketplace where our Wholesale clients can access digital solutions provided by the bank, as well as third party solutions provided by our trusted partners.

You will hear more about these – and many other new services and solutions – in more detail if you are able to join us tomorrow. Indeed, we announced just this morning a fantastic partnership with Pick 'n Pay.

The growth we are seeing in the number of active clients in our Consumer & High Net Worth and Business & Commercial client franchises, in both South Africa and Africa Regions, is a positive reflection of the changes we have made to improve our client experience.

We're proud to have arranged a number of sustainable finance firsts over the half. We partnered with Netcare to launch Africa's first sustainability-linked bond; and with Woolworths to execute South Africa's first sustainability-linked loan in the retail sector. We were the sole arranger for Investec Property Fund's sustainability-linked bond, the first South African REIT to issue such a bond. And we partnered with TUHF to list the first Social Bonds on the JSE's Sustainability Segment.

We're also pleased to report that SBSA launched its debut JSE-listed Social Bonds last week. The bonds were issued under the Group's Sustainable Bond Framework and their proceeds will be used to fund mortgage lending in affordable housing, with a focus on women borrowers.

Our CFO, the inimitable Dr Arno Daehnke, will now describe our financial results for the half year in more detail. Over to you, Arno.

Arno Daehnke, Chief Finance and Value Management Officer

Thank you, Sim, and good morning ladies and gentlemen.

I am now going to take you through the financial outcome for the group for the six months ended 30 June 2021, starting on slide 9.

In the first half of 2021 the group delivered headline earnings of R11.5 billion, up 52% on the prior period and a strong common equity tier 1 capital ratio of 13.5%. This robust result allowed the declaration of a dividend of 360 cents per share, after no dividend was declared in the prior period due to regulatory constraints. Return on equity recovered to 12.9% from 8.5% in the prior period.

Headline earnings growth was supported by a significantly lower credit charge, shown here as a credit loss ratio of 88 basis points, recovered from 169 basis points in June last year. Negative jaws for the period resulted in a higher cost-to-income ratio of 58.3%.

On slide 10 we show some of the underlying drivers of revenue growth in the period. On the left you can see targeted lending book growth continuing in our retail portfolios. In the middle, we have shown transactional activity levels recovering meaningfully from lows in the pandemic period last year. And on the right-hand side, we show franchise momentum, illustrated by the number of active clients increasing by 5% in Consumer and High Net Worth clients and 6% in Business and Commercial Clients.

Increased activity levels translated into strong underlying revenue growth. This is masked in reported revenues, however, by 3 large impacts in the period.

Firstly, on NII, shown in the first chart, we continued to feel the endowment impact of lower rates across most of the markets in which we operate. While we are reporting NII down 4%, excluding the impact of endowment, NII would have been up 3%. We are encouraged that margins have now stabilized.

Secondly, on non-interest revenue, in the middle chart, the impact of an outsized performance in trading revenue in the prior period has resulted in non-interest revenue being flat overall. We are encouraged by a 3% increase in fees and we can see that trading revenue is 21% up on a more normalised base in the first half of 2019.

Thirdly, which we will discuss later in the pack, the strong Rand diluted revenues earned from outside of South Africa.

Lower credit impairment charges in the 3rd chart drove performance, and this result was better than what we had anticipated.

Slide 12 walks through our headline earnings growth by income statement line item, to end at R11.5bn. The standout performance is clearly the recovery in credit impairments, shown as the large gold bar in the centre of the chart.

At the bottom of the chart we have shown the Rand and the constant currency growth rates for the various income statement line items. As you can see, the strength of the Rand had a large impact in dampening results from non-SA entities in the period. Headline earnings growth of 52% in Rand translates to growth of 64% when measured in constant currency.

Slide 13 is our usual income statement table, but we have included a column for the first half of 2019 for comparison against a more normalised period. Using this analysis, we can see that revenues are back at 2019 levels, costs are slightly higher, and the credit charge is still higher than 2019 levels.

This slide also illustrates the impact of constant currency on this period's results – and, while translating revenues into the relatively stronger rand dampened revenue growth, the currency impacts also flattered cost growth. Pre provision profit is up by 1% on a constant currency basis. This is despite the endowment impact and despite the high base of trading in the prior period I mentioned earlier.

Standard Bank activities headline earnings growth was 41% in Rands and 49% in constant currency and, after including ICBCS and Liberty, this improves Group earnings growth to 52%.

Using this slide as an anchor as we move through the income statement, I am now going to discuss the 4% decline in NII.

As you can see within loans, average retail balances grew 7% with the large portfolios of mortgages up 7%, and Vehicle and asset finance up 5%. This contributed, at a group level, to average interest earning assets up 3% on the prior period. Average corporate loans were lower, given high lending balances this time last year.

You can also see that average interest earning liabilities were up 5% in this period. And within deposits, strong growth in current, savings and cash man deposits were experienced, and lower reliance was placed on comparative, expensive, capital market funding as a result.

The balance growth that we have discussed helped drive NII growth, but declining margins more than offset the balance growth to result in NII down 4%. Compared to 1H20, margins declined 26 basis points to 361 basis points, with the main driver clearly being endowment, a 27-basis point impact or R2.2 billion reduction in NII. As anticipated, the second half of 2020 was a low point for margins.

I am now going to cover non-interest revenue, which was flat period on period, despite the excellent trading performance in the prior period.

Within NIR, net fee and commission income increased 3% as consumer activity levels and transactional volumes improved. In South Africa, fee income was negatively impacted by pricing adjustments, on account and ATM fees, as well as lower cash-related fees as customers switched from branch to ATM and electronic channels. While the latter had a negative impact on fees, it is in line with our strategy to drive our clients to digital channels and de-cash our branches, where possible. Reducing branch sizes and removing cash are key to our ongoing drive to lower distribution costs. Electronic banking fees recorded 14% growth as clients increasingly embraced our innovative and convenient digital solutions.

Trading revenue declined from record levels last year. Volatility-related gains were replaced with strong client flows in Angola, Ghana, South Africa, Uganda, and Zambia. In the prior period, other revenue and other gains and losses were dampened by equity revaluation losses, hence the high growth rate this year.

I am now going to discuss the largest driver of our results: the halving of our credit impairment charge.

On slide 20 we show that the growth in provisions matched the growth in balance sheet for the period. Balance sheet provisions of R51.6 billion resulted in a total coverage ratio of 3.8%, flat on the year end position. Stage 3 loans as a % of the loan book remained at 5.5% and as you can see here, the Stage 3 coverage ratio improved slightly to 47%. Forward looking provisions have remained largely intact since year end.

On slide 21 we compare the first half of 2021 with prior periods. Net provisions raised in the period have reduced as lower forward-looking provisions were required and customers resumed payments or repaid loans. Offsetting this somewhat, the South African card portfolio saw continued strain in the expired payment holiday book, and this required increased provisions.

Write offs increased period on period. This was the result of the write off of certain legacy assets in the corporate portfolio and due to a resumption of bad-debt book sales in card and personal unsecured portfolios.

The credit impairment charge for the period of R5.8 billion is an 88-basis point credit loss ratio – back inside the group's through the cycle target range of 70 to 100 basis points. This ratio (the 88-basis point) is lower than anticipated and flattered by a net recovery in the wholesale client segment.

The financial impact of the unrest and riots in South Africa in July this year on our customers is yet to be finalised. However, the impact is expected to be limited predominantly due to client insurance.

On slide 23 we can see the credit impairment charge split by client segment.

A net release in Wholesale amounted to R278 million, as client exposures matured or were paid down. A large decline in credit provisions of 31% in Consumer and High Net Worth clients is evident, given the expiration of payment holidays and a generally improved operating environment.

In the Business and Commercial portfolio, provisions declined by 20% compared to the prior period, masked by prior year recoveries.

The CHNW and BCC charges include the current period impact of provisions relating to the client relief portfolios. Active client relief portfolios, and you will remember, a year ago when we spoke about it, these amounted to R118 billion and R21 billion as at December, have further reduced to R6 billion. Within the client relief portfolios, we continue to provide for performing loans that have been identified as high risk or permanent distress as Stage 3 loans, and we will continue to do so until 6 months of performance has been re-established.

We have retained the R500 million judgmental credit provision held in the centre in the prior period, given the uncertain environment.

The CHNW segment's credit loss ratio of 165 bps for the 6 months remained slightly above the through the cycle target range of 100-150 bps for this portfolio.

BCC (at 167 bps) is also above the range of 100-120bps.

The Wholesale client segment was below target, bringing the group to 88 bps, and as I indicated, this is within our 70-100bps CLR range.

I'm now turning to operating expenses which grew 1% period on period, or 8% in constant currency. The 8% constant currency growth is lower the group's weighted average rate of inflation which we calculated to be 9.5% for the period.

In the first half of 2021, the largest drivers of cost were staff costs up 2% and information technology costs up 9%.

Staff costs were impacted by overnight increases and an increase in variable remuneration expected for the 2021 financial year. IT costs increased as we continued to invest in new capabilities, and I will expand on that later.

Other opex, this is the last bar in the waterfall, benefited from an insurance recovery on a card fraud event in Japan in 2016, of around R240 million.

On slide 27 we illustrate trends in the shape of our operating expenses. As you can see here, expense line items of amortisation, premises costs as well as headcount have all been impacted by our continued digitisation efforts. Amortisation has slowed down as big projects close and fewer projects are capitalised. Premises are being optimised and branch costs are reducing as more transactions move to digital channels. Headcount is reducing as we digitise and automate our operations.

The savings illustrated on the previous slide have allowed us to invest in technology and capabilities to compete in the fourth industrial revolution. While IT cost growth is slowing compared to prior periods, we continue to invest in cloud, in productivity tools and in data & analytics capabilities to drive personalisation and an even better client experience. We are investing in critical skills development and are reducing our reliance on contractors to deliver change programs.

Our new operating model, you will hear more about it tomorrow, consolidates technology, operations, security, data and real estate into one Engineering portfolio. We do this to identify and leverage synergies and deliver value. Through this operating model change, we have already started to see the benefits of the combined portfolio and will also see many more in periods to come.

Through the use of technology, our operations function is seeing a decrease in costs compared to the same period in 2020. This is driven through the usage of more than 100 Robotic process Automations across 145 processes.

We have freed up capacity to deliver on new platforms, including the launch Unayo in Africa Regions, which Sim referred to, and the launch of OneHub as a platform for connecting our corporate clients, which Sim also referred to. In addition to this, we now have more than 1,000 VAF dealerships on our new VAF platform.

Through our resolute focus on customer experience, we have seen a marked improvement in our Mobile banking app ratings in South Africa, and a 19% increase in volumes period on period.

Finally, through continued digital enablement of our customers and employees, and a shift to hybrid working spaces, we continued to reduce our real estate services and in this period had a 5% reduction.

I am now turning to the results from ICBC Standard Bank Plc and Liberty.

ICBCS recorded a profit of USD72 million in the period. The business continues to make good operational progress and is becoming more integrated with ICBC. The group’s 40% share of earnings equated to USD29 million or R420 million after translation into Rands.

Liberty’s performance in the reporting period was much improved from the prior year, albeit still negatively impacted by the pandemic. In the period, additional prospective pandemic reserves raised, together with excess risk claims, amounted to R1.1 billion post tax. Improved global and South African financial market conditions positively impacted the Shareholder Investment Portfolio performance. As you can see here Liberty reported IFRS headline earnings of R222 million compared to a loss of R2.3 billion in the prior period. After adjusting for treasury shares, the group’s share of the earnings amounted to R163 million. Liberty remains well capitalised, with a Solvency Capital cover ratio of 1.73 times as at end June this year.

As Sim mentioned earlier, on 15 July 2021, the group and Liberty jointly announced the group's intention to buy out the Liberty minority shareholders and to integrate Liberty more closely into the greater group. The transaction is expected to close in the first quarter of 2022, obviously subject to Liberty shareholder and regulatory approvals.

Moving to capital and liquidity. Slide 33 provides an overview of the group's capital stack and CET1 ratios over the last four years as well as our liquidity ratios. Over this period the group has maintained robust capital and liquidity positions. Our capital levels increased to R207 billion with a strong CET1 ratio of 13.5%.

The group's liquidity position remained strong with a net stable funding ratio in excess of the 100% regulatory requirements. Similarly, the group's Basel III liquidity coverage ratio amounted to 141%, also above regulatory requirements.

As we saw on the previous slide, the group ended the period with a CET1 ratio of 13.5%, you can see this is up from 13.2% at year end. The waterfall graph provides a summary of the key drivers of the increase in CET1 ratio in the period. As you can see, the increase in profit for the period was the key driver. Risk-weighted asset growth was R30 billion in the period spread across most risk types.

The group ROE recovered to 12.9% in the period and, while improved on the prior period, remains below our cost of equity of 14.5%. This recovery in returns and robust capital levels shown earlier, enabled a faster than expected recovery in the dividend payout ratio to 50%.

Over the last 40 years, half of which are shown here, we have an unbroken record of dividend payments.

On slide 37 we have sliced earnings 3 ways. The first, and primary segment, is client segments, based on client types. We have recently changed our operating model and organised ourselves into 3 new client segments. The Consumer and High Net Worth client segment includes all revenues, credit charges and costs related to individual clients. The Business and Commercial client segment covers small- and medium- sized enterprises; and the Wholesale client segments covers large local corporate and regional corporates, as well as sovereigns and multinational clients. This disclosure pivots our reporting to a pure client view as, for example, Vehicle and Asset Finance is now split between all the segments depending on the client, where previously it was housed as a product in the old PBB. Retail fx is another example that was previously housed in CIB, now reflected in each client segment where a client takes up that offering.

Of course, we do still show a product view, or we call it a client solution view, shown here in the middle chart. In this view, banking products dominate. In our detailed booklet we break down banking further into home services, vehicle and asset financing, transactional banking, global markets, investment banking etc. In our current reporting, Liberty is excluded from insurance and investments products and we intend changing this in future periods, should the proposed minority buy-out transaction be successful.

Most of you will already be familiar with our regional segmental split, where we use legal entities as a proxy for regions. In this period Africa Regions comprised 35% of Standard Bank Group earnings. The top six contributors to Africa Regions' headline earnings remained Angola, Ghana, Kenya, Mozambique, Nigeria and Uganda.

The pie charts clearly demonstrate the diversity and breadth of our client franchise across client segment, client solution and geography. The diversity and breadth of our franchise has proven to provide exceptionally resilient performance, even during a one in a hundred-year pandemic stress event.

Here we show client segment income statements.

Our CHNW client segment delivered a good set of results in a difficult environment. Headline earnings improved by 132% to R2.4 billion and ROE increased to 9.7%, from 4.3%. An improving trend in client experience scores, growth in active clients, increase in digital capabilities and robust balance sheet growth are indications of the underlying franchise momentum.

Our BCC segment's headline earnings increased 1% to R2.2 billion, and ROE improved to just under 21%. The decline in revenues in BCC was driven principally by lower NII due to a sizeable negative endowment impact. Client transactional activity and turnover increased; and client demand for lending, to support business growth, was evident. Improvements in global trade supported the trading environment across most markets.

Our Wholesale client segment delivered headline earnings of R6.6 billion, an increase of 27% on an already strong first half of last year, and an ROE of 20.0% was achieved. Revenue pressures were more than offset by tailwinds from impairment releases, equity fair value write downs suffered last year, and good cost containment.

This slide shows our income statements by solution.

Banking solution headline earnings of R9.8 billion improved considerably, up 39% period on period. Banking solution revenue declined 2%. Costs within banking were well contained, increasing only 2% after absorbing annual salary increases, ongoing work-from-home costs, higher digital capability development costs and the normalising of performance-related incentive costs. Negative jaws were mitigated by lower credit charges. The franchise grew clients and balances, and transactional and account activity improved relative to the low levels seen during the lockdowns last year. A Return on Equity of 14.9% was achieved.

The insurance business recorded growth on policies and gross written premiums and revenues were up 6% to R2.3 billion. Revenue growth more than offset higher claims leading to headline earnings growth of 4% to R1 billion. Long-term insurance Gross Written Premiums increased by 13%, with Funeral Gross Written Premiums growing by more than 20%, supported by strong growth in the underlying policy base. Short-term insurance recorded a 2% increase in Gross Written Premiums.

Claims increased across almost all products due to the Covid 19 pandemic as well as the difficult economic environment, resulting in higher loss ratios in both short-term and long-term insurance results. Our capital light insurance business continues to deliver a strong ROE.

The investment business continued to grow assets under management (AUM) and headline earnings. Total AUM as end of June this year, amounted to just under R500 billion, split approximately 50% South Africa, 40% Africa Regions and 10% International. Africa Regions AUM relates primarily to Nigeria; and International, to Isle of Man and Jersey. Due to the sizable non-Rand-denominated AUM and revenue contribution, the stronger Rand impacted period-on-period performance. Headline earnings grew 6% to R427 million (up 39% in constant currency) and an ROE of 40% was achieved.

As previously mentioned, the excellent results achieved in the Insurance and Investments businesses are inextricably linked to our large and diversified banking businesses.

Finally, by region, the group's regional performance reflects the underlying recovery trends in the countries of operation. The group's South African business rebounded strongly, recording earnings of 2.8 times those of the prior period. Client demand and activity improved, disbursements and fees recovered, and credit charges declined from elevated levels. Standard Band of South Africa's ROE recovered to just under 12%.

Africa Regions' performance was significantly impacted, as you can see here, by currency movements. As an example, revenue declined 11% in Rands but grew 10% in constant currency. Underlying growth was underpinned by ongoing balance sheet and client franchise growth.

Constant currency cost growth of 27% in Africa Regions warrants explanation. The largest drivers in this cost growth were:

Overnight staff increases averaging 8%, compounded by cost of living adjustments in Zimbabwe;

IT cost growth of 27% as a result of increased digitisation efforts to support client and balance growth; a proportion of these IT costs are USD denominated which further exaggerated growth rates in costs;

Thirdly, depositor insurance, and AMCON costs in Nigeria and Ghana, linked to balance sheet size of these growing businesses, increased significantly.

This level of negative jaws is not sustainable, and we are confident that they will be expected to continue.

Credit impairments declined, by 20% in constant currency. You can see here also, the Africa Regions ROE dropped to 17%.

In East Africa, revenues held up well in constant currency and credit impairments improved. IT costs drove up cost growth in constant currency and, despite negative jaws, headline earnings grew 3% in constant currency. In Rands headline earnings declined by 9% and ROE dipped to just below 15%

In South and Central Africa, revenues grew strongly despite low interest rates. Fees bounced back after the lifting of waivers in most markets in the prior period. Credit impairments declined as operating environments improved. Costs increased meaningfully in constant currency due the translation impact of USD denominated costs, cost of living adjustments in Zimbabwe, I mentioned already and higher IT costs. Headline earnings reduced in constant currency but increased in Rands to R1.8 billion. Return on Equity was a strong 19.2%.

In West Africa, strong balance sheet growth was not enough to offset the impact of declining interest rates and therefore NII declined. Fee income growth was strong, but trading revenues declined given the excellent trading performance in the prior period. Credit losses in West Africa were lower. Operating expense growth was high in constant currency, driven by depositor insurance costs in Nigeria and Ghana. West Africa headline earnings declined to R1.4 billion, and ROE reduced to 16.3%.

That brings the interim results analysis to a conclusion, I will now hand over to Sim to discuss the outlook for the remainder of the year. Thank you.

Sim Tshabalala, Chief Executive Officer

Thank you, Arno.

Looking at the macros for the second half of this year, barring the arrival of a very dangerous new variant – which, as we understand it, isn’t likely – we expect that the world economy will continue to recover rapidly from the pandemic. China’s economy, for instance, is expected to grow at 8.4% this year, while the US economy is forecast to expand by 6.4%, the UK by 5.3% and the Euro area by 4.4%.

Of course, these growth rates reflect the sharp contractions experienced in 2020 as well as the rapid recovery this year. The base effect is less pronounced in sub-Saharan Africa, which contracted relatively less in 2020, and will grow relatively less quickly in 2021 as a result, probably at around 3.4%. Further waves of the pandemic are also likely in much of the continent, but it's also likely that vaccine coverage will improve over the next year.

As I said, at the start, we think that the recent unrest – while extremely disturbing and destructive – has also demonstrated that South Africa's democracy and rule of law are well consolidated.

Unless similar events recur, we expect that the negative effects on confidence and investment will fade, and that South Africa's economy will continue to recover quickly in the short term, supported by strong commodity prices, accommodative monetary policy, and accelerating investment in public infrastructure. There are of course fiscal risks to the downside but, on balance, we expect that the fiscal outlook will slowly continue to improve.

As has been the case for more than a decade, the medium and long-run prospects for the South Africa depend to a large extent on the pace and scale of structural reform. We've been encouraged by the reforms made over the past six months in the energy and logistics sectors, and by the positive signal sent by the partial privatisation of SAA.

Since we last reported to the market in March this year, there has been more certainty about how we expect the full year to shape up. We're optimistic that the positive momentum in our business will accelerate. We are therefore able to provide an updated and clearer outlook for certain of our key drivers.

We expect that our net interest margin for the full year 2021 should be similar to the first half of 2021, which as you have seen was 361 basis points.

Six months ago, we expected our credit loss ratio for 2021 to improve from the 151 basis points reported for the full year of 2020, but to remain above our through-the-cycle range. Given the improvements we have seen in our book, we now expect that the full-year credit loss ratio will be within our through-the-cycle range of between 70 and 100 basis points.

The full year 2021, we expect to deliver more than 20% headline earnings growth and an ROE which is higher than last year, but still lower than the cost of equity. We anticipate the trends we've announced today will continue, demonstrating progress towards full recovery.

Lastly, we have updated our outlook for the dividend payout ratio for the full year to approximately 50%, a return to pre-pandemic levels.

Looking beyond the next year or so, we remain firmly bullish on Africa's medium and long-term prospects. This confidence is based on the fact that Africa's population will continue to rise quickly, become healthier, better educated, more urbanised, more digitally connected, and more productive. This will be happening just as populations elsewhere are getting older and more dependent.

We believe that Africa has the potential to become the breadbasket, the workshop and services centre of the world over the next thirty years, particularly in those countries which have the right policy settings.

Our corporate purpose – as always – remains unchanged: Africa is our home, we drive her growth.

We therefore remain committed to three things:

> Firstly, accelerating Africa's recovery from the pandemic
>
> Secondly generating market-beating, sustainable returns for our investors
>
> And third supporting inclusive and sustainable growth and development over the long term

Our strategic priorities are also unchanged, but we have radically reorganised our structure and extended our capabilities to ensure that we are more able to meet these three goals. We look forward to describing our strategic progress and plans in detail tomorrow and we hope you can join us.

We will now go to questions. I will invite Funeka, Arno, Kenny and David, to join me on the stage. And some may ask: "Why David?". We recently announced the retirement of Zweli. We're in the process of finalising his replacement as a consequence, we have asked David to act as a CE of Business and Commercial, as we finalise the process with the regulatory authority and make the appropriate announcement in due course.

With that, let me turn it then to Q&A. Just as a reminder, to submit a question on Blue Jeans, please do so by clicking on the Q&A link on the right-hand side of your screen. If you have joined us on the conference call, I will in fact now hand you over to the operator for that purpose