Pre close call Transcript – 28 November 2022

Arno Daehnke – Standard Bank Group Financial Director

Good afternoon and thank you for joining us this afternoon.

Starting with the macro environment and particularly how things have evolved since we released our results in August.

Since reporting in August 2022, sustained elevated inflation globally has prompted further monetary tightening. Between August 2022 and October 2022, interest rates increased in all our markets of operation except Angola and Zambia. In Angola interest rates declined by 50 basis points in September 2022 and in Zambia, interest rates were flat. In addition, Ghana has experienced some sovereign stress. The Ghanaian cedi has declined by over 50% relative to the South African Rand year to date and inflation has spiked.

In South Africa, inflation ticked up over the course of the first six months. It is broadly considered to have peaked in July at 7.8%. Inflation has moderated slightly to 7.6% in October and Standard Bank Research expects inflation to average 6.9% for 2022.

The South African Reserve Bank's Monetary Policy Committee decided at this November's meeting to increase the repo rate by 75 basis points to 7.00% - this is the third consecutive 75 basis point increase. This takes the cumulative year-to-date increases to 325 basis points. It was interesting to note that the members voting changed from 3 to 2 for 75 basis points and 100 basis points in September to 3 to 2 for 75 basis points and 50 basis points in November. While the governor highlighted ongoing inflationary risks to the downside, we expect interest rate increases to be limited from here on. At this stage, Standard Bank Research expects a further 25 basis points in January 2023.

From a currency perspective, on average, over the ten-month period, the South African Rand has been weaker relative to the group's basket of currencies. This has favourably impacted the group's reported earnings growth year to date.

Turning to our performance and trends for the ten months to the end of October this year.

Starting with revenue.

In the ten months to 31 October 2022, relative to the ten months to 31 October 2021, robust average balance sheet growth, combined with positive endowment tailwinds from higher average interest rates, resulted in strong double-digit net interest income growth period on period. All three client segments recorded growth in average loans and advances year on year.

Non-interest revenue growth remained robust supported by growth in transactional activity, trading revenue and insurance earnings. Transactional fee growth benefited from fee increases combined with a larger client base. Trading revenue growth was still double digit

but slowed relative to the 21% increase in the first half of the year. I remind you that the second half of 2021 was a record performance, setting a high base.

Insurance earnings growth was underpinned by higher fees, mainly due to annual fee increases, continued good funeral policy performance, and lower credit life claims compared to the prior period.

Moving to costs.

Cost growth was higher than expected, driven by higher inflation and higher levels of activity, particularly in Africa Regions. Despite upward pressure, cost growth was contained to below the group's weighted average rate of inflation and the group continued to record strong positive jaws.

With regards to credit, group credit impairment charges increased period on period, influenced by the low base in the second half of last year (2H21).

The Consumer and High Net Worth portfolio continued to benefit from better collections and the ongoing normalisation of previous payment holiday portfolios. This was partially offset by increased impairment charges from new business strain as well as pockets of customer strain.

The Business and Commercial Client segment's credit impairment charges were broadly flat. Credit charges in South Africa declined as provisions raised on the covid guarantee lending in the prior year did not repeat. Charges in Africa Regions increased period on period driven by new book growth and lower write off recoveries in the current year.

Corporate and Investment Banking credit charges continued to normalise; with additional provisions raised due to portfolio growth, internal rating downgrades and client-specific provisions.

The group remains well provided and can weather an uptick in delinquencies.

Turning to Liberty.

Pleasingly Liberty's earnings continued to recover, as the pandemic impact waned and Liberty remains well capitalised.

The Liberty integration is going well, and we remain confident we will deliver the R600 million revenue synergies as well as the capital synergies previously outlined. We are taking actions to reduce Liberty's solvency capital requirement cover ratio to within its new target range. For reference, the new target range was revised down in August this year from 1.5 to 2.0 times to 1.3 to 1.7 times.

On ICBC Standard Bank plc (ICBCS), it continued to report a positive operational performance for 10M22.

The improved performance in Liberty combined with the insurance settlement received by ICBCS in January 2022, boosted group earnings growth to above that recorded at a Standard Bank activities level.

Year to date the group's return on equity remained above the group's cost of equity and improved relative to the ROE of 15.3% reported in the first half of this year (1H22).

As noted in our Pillar 3 report released last Friday, the group's common equity tier 1 ratio as at 30 September 2022 remained robust at 13.2%.

Turning to our guidance for 2022.

We expect 2022 total income growth and cost growth to be higher than guided in August 2022. This is largely due to faster than expected increases in interest rates and higher inflation rates.

We expect continued positive jaws for the year.

The group's credit loss ratio is expected to remain in the lower half of the group's through-the-cycle target range of 70 to 100 basis points.

We will provide guidance for 2023 when we report in March next year.

Lastly, while there are some clouds on the horizon in terms of slowing growth, the group continues to benefit from strong momentum across all its businesses and geographies.

And we remain confident that we are on track to deliver against the targets we committed to at our Strategy Update in August 2021.

More specifically, these targets over the 4 year period to 2025 include:

- A revenue CAGR of 7% to 9% over the 4 year period;
- A cost-to-income ratio of **approaching** 50%; and
- An ROE in our target range of 17% to 20%.