Standard Bank Group 2023 Interim Results Presentation Transcript

17 August 2023

Sim Tshabalala – Chief executive

Cover slide

- A very good morning to everyone. On behalf of the board and management of the Standard Bank Group, it's my pleasure to welcome you to the presentation of our interim results for the first half of 2023.

Agenda

- Here is today's agenda.

DIVIDER: 1H23 highlights

1H23 highlights – continued strong earnings growth, higher returns, and increased dividend per share

- We want to emphasise that these results are the product of the Group doing what we said we would do. At our full year 2022 presentation, we announced four focus areas for 2023.
- Three of these focus areas were strategic and the fourth was financial.
- The three strategic focus areas are listed under point 1 on this slide.
- These are: Improve our competitiveness – which is reflected in our growing numbers of active clients and increased transaction volumes.
- Next, maintain strong momentum in our sustainable finance business. We retain our leadership in sustainable finance with a growing number of market-leading deals during the period.
- Third, optimise capital and integrate Liberty. Liberty has paid R6 billion in dividends since the deal was announced. And a highlight of the first half was the establishment of our integrated Insurance and Asset Management business.
- Moving to our financial focus area, which is point 2 on this slide. At the end of 2022, we announced that we were determined to continue to progress towards our 2025 financial targets.
- This half's financial results are well in line with our 2025 commitments on profitability, efficiency and ROE.
- We announce this morning that the Group's revenues were strongly up, moderated by higher credit charges and elevated cost growth. Nevertheless, we achieved positive 'jaws' of more than 11%.
- Turning to point 3. The Group's headline earnings grew by 35% on the prior first half.
- As a result, the Group's Return on Equity for the first half of 2023 is 18.9%, well inside our target range of 17 to 20%.
- We are declaring an interim dividend of 690 cents per share, which is a 34% increase, in line with the growth in headline earnings per share.

Against a difficult geopolitical and macroeconomic backdrop

- Starting with the global backdrop. The tragic and destructive war in Ukraine, and its wider consequences, continued to reduce confidence and place upward pressure on prices.
- Tension between the United States and China clearly reduced towards the end of the half As US Treasury Secretary Yellen said in April, 'China and the United States can, and need to, find a way to live together and share in global prosperity.' This perspective gained traction over the half, as evidenced by the establishment of new China-US working groups at the start of August. To quote Professor Li Haidong of the China Foreign Affairs University, 'the handling of this relationship by both sides is gradually maturing and entering a relatively predictable stage.'
- Central banks continued to raise policy rates over the half, and it now seems likely that the inflationary pressures created by the pandemic and the war are starting to be brought under control.

- In sub-Saharan Africa, most economies continued to be both resilient and dynamic, although public debt continued to rise and inflation remained high. The probability of further sovereign restructurings this year reduced over the half. The most notable policy change over the period was the liberalisation and devaluation of the Naira. This move, although negative for inflation in Nigeria in the short term, is promising for growth and investment in the medium to long term. As noted in the Fitch/BMI sub-Saharan reform tracker, reforms also accelerated in Kenya, Angola, and Ethiopia. Kenya and Angola improved their fiscal policies, while Ethiopia continued to liberalise its telecoms sector.
- Expectations for the South African economy were very low for the first half, and were slightly exceeded. Progress continued to be made in growing and diversifying the electricity supply. Based on what is known about investment in new generation, it is reasonable to hope that the power shortage will ease considerably over the next year or two. We also note that Eskom's Energy Availability Factor has improved since the lows reached in January, and that the economy is becoming increasingly resilient to Eskom's declining performance, thanks to rapid growth in private and household generation and storage. For instance, according to Eskom, the private sector has installed a remarkable 4 400 megawatts of rooftop solar since the start of 2022.
- South Africa continued the unbundling of Eskom and concessioned Durban Container Terminal Pier 2, which handles 46% of South Africa's port traffic. We hope that ambitious structural reforms of this sort will continue to accelerate.
- Another positive development since we last reported is that, in our view, the risk of South Africa losing AGOA preferences – or of sanctions being imposed – has receded. During the half, President Ramaphosa visited both Kyiv and Moscow to encourage negotiations, and senior government representatives visited Washington to clarify South Africa's stance. Earlier this month, US Deputy Secretary of State Victoria Nuland is reported as having said that, while she did not want to pre-empt the decision by US lawmakers on whether South Africa would retain AGOA status, President Ramaphosa's statements would help to motivate for an extension. To quote Secretary Nuland directly, 'When South Africa stands up and says Russia's war against Ukraine must be settled in a manner that defends the UN Charter, that defends sovereignty and territorial integrity of nations, that says 'no' to taking land by force, that [statement] has unique weight….'
- Inflation remained high over the half, and the repo rate increased a further 125 basis points since the start of the year. We think that inflation in South Africa peaked at the end of the half.

All our regions delivered robust growth

- The robustness and long-term competitiveness of our business is illustrated by the graph on the left. This shows that, over 10 years, the Group's earnings grew by 9% on average, a period that includes the pandemic, a once-in-a-century disruption, and several environmental catastrophes, including the devastating Kwa-Zulu-Natal floods of 2022.
- On the right of the slide, our winning geographical and market diversity is illustrated by the half-on-half change in headline earnings.
- As mentioned, Group headline earnings were up 35%.
- Within this, Africa Regions earnings were up 65%, International earnings were up more than 100%, and South Africa banking earnings were up 17%.
- We submit that 17% earnings growth in the current South African context speaks to a very strong business with an enviable client base.

Reorganised our business into four business units

- Taking advantage of the opportunity for rationalisation created by the Liberty integration, we reorganised our operating model.
- The Group is now structured into the business units described on this slide.
- We have also made some slight name changes for clarity. The business units are now Personal and Private Banking; Business and Commercial Banking; Corporate and Investment Banking; and Insurance and Asset Management.

Our client franchise continued to grow driven by attractive offerings and excellent service

- The fundamental drivers of our performance are the competitive strength and growth of our client franchises.
- To list some highlights for each business unit:
    1. Our Personal and Private Banking business unit grew its number of active clients by 9% half-on-half and increased digital transaction volumes by 15%.
    2. Our Business and Commercial Banking business unit expanded its client base by 5% and grew digital banking volumes by 9%.
    3. Corporate & Investment Banking grew its client revenues by 32%
    4. We have more than 7.5 million active insurance policies. Our Insurance and Asset Management businesses grew new business value by 32%.

We supported our clients and created inclusive value…

- We do everything in our power to support our clients through good times and bad. We are always looking for ways to increase the financial and economic inclusion of our fellow Africans.
- Everything we do emerges from this perspective, and all our activities aim to create sustainable growth and inclusive value.
- We safeguard and grow our clients' assets.
- There is a strong correlation between savings rates and economic growth in our countries of operation – an economic fact very salient given our purpose: Africa is our home, we drive her growth.
- Together, assets under management and deposits make up a large part of the capital available to governments, SOEs, and businesses to build infrastructure, fund production, and create long-term jobs. In countries with low savings rates, like South Africa, saving is a scarce and highly valuable social good, and we support this very real form of national service.
- We kept R1.8 trillion in deposits safe for our clients over the half, and we paid R45 billion in interest on those deposits to the individuals, corporates and governments who entrusted their savings to us. Interest paid to clients was up 70% on the prior half.
- We managed R1.4 trillion in assets over the half – which is mostly money that people are saving for their pensions or that they are relying on in retirement.
- Talking of assets under management, and as August is Women's Month in South Africa, we'd like to mention that the Standard Bank-sponsored African Women's Impact Fund has so far raised USD 85 million for women fund managers to invest in Africa.
- Risk management and insurance are also major creators of value for society, enabling people and businesses to plan and invest more confidently. For example, a big part of what our Global Markets business does is reduce uncertainty for our clients. Like banking, insurance is also an intensely human business, helping people at their times of greatest personal need. Over the half, we paid out more than R11 billion to clients in annuities and for death and disability claims.
- Safeguarding deposits is one of the most important ways in which we create value for society – and that's why we are so careful about how we lend out depositors' funds. Declined loan applications aren't a symptom of a lack of humanity. They follow, always with regret, from our primary duty as a deposit-taking institution to keep our clients' deposits secure and available.
- Charging interest on loans is, of course, less popular than paying it. But the interest paid to savers comes from interest charged, as do the provisions we use to ensure that depositors' funds are safe with us.
- Talking of loans, at the end of the first half of 2023, we held a stock of R1.4 trillion in loans. Our aim is that each loan brings people closer to realising their aspirations.
- For instance, we lent R22 billion to small and medium enterprises across Africa to grow their businesses.
- Another example: Over the half, we registered R1.4 billion of affordable housing loans, bringing the number of clients we have provided loans to for affordable homes to more than 98 000. We helped more than 20 000 clients in South Africa to manage their debt obligations.

- After lending and taking deposits, our next most valuable role is to facilitate transactions – enabling people to buy and sell safely and reliably. Over the half, we processed over R8 trillion in domestic payments in South Africa alone, and over R4 trillion in cross-border payments across all our markets and segments. Within this, one particularly important category is international remittances – a significant contributor to national and household income in many African countries. This half, we enabled R41 billion in international remittances across all our countries.
- Finally, we contribute to Africa's economies directly through the taxes we pay. We make a substantial contribution to the tax revenues of the countries in which we work, both in terms of the tax we pay and the tax we collect from our clients and our staff on behalf of governments.

… with a particular focus on sustainable finance

- Our commitment to sustainability of course also means that we will strongly support sustainable energy, along with other energy projects that generate net positive social and environmental outcomes.
- For instance, so far:
    - We have mobilised R83 billion in sustainable finance for large corporations, and are well on our way to meet our commitment to have mobilised over R250 billion in sustainable finance by the end of 2026.
    - We raised a USD 250m 7-year sustainable finance loan with the International Finance Corporation, which we will use to fund a portfolio of green and social assets. On the green side, the focus is on renewable energy. On the social side, these funds will be applied to social housing, with a focus on first-time women borrowers.
    - We disbursed R458 million to help individuals in South Africa to install solar solutions in their houses or to buy houses that have been built in a green and resource-efficient way.
    - We provided R1.1 billion to support renewable energy installations for small and medium enterprises and larger commercial businesses. Within this, we partnered with a leading provider of subscription-based solar solutions to support its ambition to expand access to reliable renewable energy solutions for South African households.
    - Insurance and Asset Management has more than R13 billion of infrastructure assets under management, of which just over half is renewable energy assets.

We prioritise our technology investment to deliver

- Technology is – and remains – the foundation of everything we do, literally the platform on which we build our business.
- It underlies our capacity to serve and support our clients now. It enables us to grow market share by winning new clients. It provides the advanced digital capabilities that will enhance our future competitiveness.
- Our technology has to work as close to perfectly as we can get it.
- We've had our share of technology challenges in the past, and we're not perfect now. But we're building a formidable track record of robustness, rapid innovation in service of our clients, and increasing efficiency. A few examples:
    - Our ATMs were up more than 98% of the time and our mobile app was up more than 99% of the time.
    - System downtime was 72% less than in the prior half and mean time to repair – which is what really affects our clients' experience – improved by 50%.
    - Over the half, we released more than 14 000 system updates to improve client experience and security. Both our mobile app and internet banking net promoter scores rose strongly over the half.
    - Our number of ATMs and branch square meterage continue to fall in line with changing client preferences, and more than a third of the processing selected for migration is now in the cloud.

We continued to execute on the strategy outlined in August 2021

- The current management team is standing on the shoulders of giants as we execute the Group's long-term strategy, which was established by our great predecessors.
- These results reflect our commitment to our clients over many years, including some very difficult times.
- We see these results as a stepping stone towards meeting our long-term obligations to our clients, our shareholders, and the communities in which we work.
- As always, we're here to serve our clients, to win in our markets for our shareholders, and to drive growth for all the people of Africa.
- I will now hand over to Arno to take you through the results in detail.

DIVIDER: 1H23 financial performance and 2023 outlook

DIVIDER: 1H23 Group financial performance

Arno Daehnke – Chief Financial Officer

I am now going to take you through the group's financial performance for the six months ended 30 June 2023.

Strong performance and progress across all key group metrics[1]

In the six months, Standard Bank Group recorded headline earnings of R21.2 billion, up 35% relative to the prior six months and delivered a return on equity of 18.9%.

This performance was underpinned by robust earnings growth across our banking business and our insurance and asset management business.

The group ended the period with a strong common equity tier 1 ratio of 13.4% and net asset value grew by 10%.

DIVIDER: Banking

Banking performance strong despite higher credit charges and costs

The slides that follow cover our banking business results.

I will then cover Insurance & Asset Management, followed by a business unit and regional split of the results.

Our banking business benefitted from continued client franchise growth, larger balance sheets and increased transaction volumes, as well as certain market and interest rate tailwinds.

Revenue growth (at 27%) was well ahead of cost growth which supported strong positive operating leverage and, as Sim mentioned, a decline in the cost-to-income ratio to 50.5%.

Credit impairment charges increased across all portfolios, reflective of the difficult macroeconomic environment and the credit loss ratio increased to 97 basis points. This ratio remains within our through the cycle target range.

Banking operations recorded headline earnings growth of 42% to R18.7 billion and ROE improved to 19.0%.

Despite significant changes in exchange rates at period end, average rates were similar period on period and constant currency growth rates were therefore similar to growth rates translated into rands.

Strong loan growth driven by CIB

Looking at balance sheet growth, gross loans and advances to customers grew by 9% to R1.4 trillion, boosted by strong growth in the corporate and sovereign portfolio, up 17%.

On a regional basis, SA lending growth was 8% and Africa Regions was 16% on a constant currency basis.

In South Africa disbursements slowed

In CIB we saw increased drawdowns on existing facilities and good origination in Investment Banking in the half, led by client demand in the Energy & Infrastructure and Consumer sectors. Investment Banking in SA originated R81 billion in the period.

In contrast, disbursements declined across other product categories in South Africa.

The overall mortgage market declined by around 20% given customer affordability constraints, and we therefore saw mortgage disbursements coming off a high base in 2021 and 2022.

Vehicle and asset finance, personal unsecured lending and business lending disbursements slowed too, more so in personal finance than in commercial finance.

We continue to see lending opportunities in South Africa and stand ready to support client demand.

Deposit growth across both SA and Africa Regions

Deposits increased by 7%, driven by ongoing underlying client franchise growth. Current, savings and call accounts grew by 7% and term deposits growth outpaced this.

On a regional basis, we are encouraged by strong deposit growth of 14% on a constant currency basis across our network of banks in Africa Regions.

Strong balance sheet momentum continued

On an average balances basis, assets grew by 10% and liabilities by 9%, consistent with longer-term trends.

Bigger balances and margin expansion drove a 34% increase in net interest income

On the graph on the left hand side, you can see Net interest income growth of 34% which was driven by

- strong average balance sheet growth seen on the previous slide and
- wider margins linked to higher average interest rates across South Africa, Africa Regions and International.

Weighted average interest rates across our network were 4% higher in the first six months of this year than the first six months of last year.

Net interest margin (shown in the graph on the right hand side) increased by 87 basis points to 477 basis points, of which 66 basis points related to positive endowment.

- This movement equates to a positive endowment impact of R6.5 billion in the period and South Africa contributed R2.8 billion of this impact.
- The negative impact of tighter asset pricing, due to increased competition in home loans, vehicle and asset finance, and corporate lending in South Africa, was more than offset by a mix benefit, from stronger loan growth in Africa Regions

Excluding the impact of endowment in the current period, NII growth would have been 15.5%.

A growing client franchise, higher trade, transactional and FX related activity

Net fee and commission revenue increased by 6%.

Transaction fees were supported by a growing client base, higher client trade and transactional activity, and annual price increases.

Ongoing investment in our digital capabilities drove higher adoption rates, growth in activity and, in turn, revenues from digital platforms.

- Card-based commissions revenue grew by 12%, linked to higher card turnover and
- Electronic banking fees grew by 9%.

Fewer advisory deal opportunities resulted in a decline in knowledge-based fees. Some deals were delayed and there is a strong deal pipeline for the remainder of the year.

Continued strong client flows drove trading revenue growth

Trading revenue grew by 36% to R11.7 billion. Fixed income and currencies recorded an exceptional performance driven by increased and widespread foreign exchange related client activity.

Within CIB trading revenue, client revenues grew by 27% to R7.5billion. In our market making activities in CIB we benefitted in the current period from African currency devaluations, which is unlikely to be repeated, as well as sizable structured equity trades in Investment Banking.

Turning now to credit provisions on slide 25.

Provisions and total coverage bolstered further

This slide reflects our balance sheet provisions held against credit impairments over a long period.

It shows a steady build up in provisions and total coverage ratios through

- the implementation of IFRS9 which introduced forward looking provisions,
- the covid-19 pandemic where business activity was severely interrupted and clients were offered payment holidays,
- and now a period of rapidly rising inflation and interest rates.

Our stock of balance sheet provisions is now R61.7 billion and represents a prudent 3.8% of our loan book.

Total coverage increased as increase in provisions outpaced balance sheet growth

On the left-hand side of this slide you can see an analysis of our loan book. It shows that the percentage of our book which we classify as non-performing, or stage 3, has increased to 5.8%. Our early arrears, or stage 2 book, has remained at similar levels at 7.0%.

In the middle graph you can see how we have responded to these changes in terms of provisioning

- Stage 3 provisions have increased to R43 billion, or 70% of our R62 billion of provisions.
- As a percentage of the stage 3 book, this has reduced to 46% coverage, largely due to a higher weighting of highly collateralised mortgages and corporate lending in the stage 3 book.

Provisions increased in all business units

This slide expands the middle graph on the previous slide and analyses balance sheet provisions by business unit. The June 2023 bars on this slide add up to R62 billion.

In PPB, provisions for Stage 3 loans increased by 14% as customers battled to keep up with interest rate increases in SA. Many of these customers are part paying but are classified as stage 3 and provisions are raised accordingly. We also saw an increase in customers under debt review in the period. The Stage 3 coverage ratio dipped slightly in PPB but remains prudent at 47%. The overall coverage ratio in PPB increased to 5.9%, higher than pre-Covid levels of 4.3%.

In BCB, Stage 2 provisions were increased to account for pressure evidenced in the small business segment driven by affordability and electricity supply constraints. Stage 3 provisions were increased for new NPLs in South Africa as well as west and east Africa. Total coverage ratios increased in BCB.

Corporate provisions and coverage ratios are determined on a case by case basis. In the current period, new stage 3 loans are either highly collateralised or have firm work out plans in place, hence a lower stage 3 coverage ratio.

Credit charges up across the board

Credit impairment charges in the income statement increased by 42% to R8.4 billion.

Credit impairments on financial investments (shown in light blue on the left hand graph and which includes impairments on sovereign exposures) were R584 million in the period.

In the current year we raised additional sovereign provisions in relation to risks in Malawi and Zambia.

The overall credit loss ratio increased from 82 basis points to 97 basis points, remaining inside the group's through-the-cycle credit loss ratio target range of 70 to 100 basis points.

On the right hand side of the slide we show the income statement charge against customer loans by business unit.

Personal & Private Banking charges were up 26%, particularly in mortgages in SA, and the loss ratio (as flagged in our trading update) is temporarily outside of the PPB target range.

In Business & Commercial Banking the charge was up 42% due to a few key watchlist exposures in East and West Africa, as well as pressure evidenced in the small business segment in South Africa. The loss ratio is just inside the target range for this business unit.

In Corporate & Investment Banking charges increased but the loss ratio remained below the target range.

Operating expense growth elevated due to inflation[1]

Banking operating expenses grew by 16% for the period. Our largest expense category is staff costs which grew by 19%. After many years of headcount reduction, we grew headcount by 2% to cater for business growth, bolster risk management and grow digital capabilities. Our staff received inflationary increases across our network where weighted average inflation was 12.5% for the period. Variable remuneration increased on the back of the strong business performance, contributing to the higher staff cost growth.

Costs related to technology investment grew by 13% and I will spend some time on this on the following slides.

Premises expenses grew by 10% overall. Loadshedding in South Africa increased fuel costs and municipal and cash security costs were also higher. A reduction in our physical footprint helped contain expense growth.

All other costs, when aggregated, grew in line with weighted average inflation.

South Africa – continue to optimise our infrastructure based on client activity

Our investment in infrastructure aims to support our 11m clients and their activities on the channels of their choice in South Africa. Based on their usage patterns shown here, our increased investment in digital infrastructure is appropriate to support the increased volumes and values flowing through these channels.

In PPB in South Africa, we saw a 5% increase in digital value transactions and a 23% increase in total digital transactions. Our customers are converging their usage on our mobile app from USSD banking and internet banking. In the month of June 2023 we recorded more than 100 million log ons to the app, up from 55 million this time last year.

Our access to clients has been improved by reconfiguring our branch network over the last couple of years. We continue to increase points of representation via the deployment of Pick n Pay in store branches, kiosks and branches on wheels, as we right-size and close traditional bank branches.

Africa Regions – fit-for-purpose footprint and driving digital adoption

Outside of South Africa, our clients are showing the same digital adoption patterns with digital transaction volumes growing by 14% in BCB and 27% in PPB.

Total IT spend in targeted areas

Total IT spend which includes staff costs was up 12% for the period. As covered by Sim earlier, this spend has resulted in improved system stability and resilience; and significantly improved response and recovery times. Our client experience score in South Africa have benefitted as a result.

Our cloud migration journey remains on track with 34% of planned cloud migrations now complete. Our call centres and public facing websites are now fully deployed and running on the cloud in SA contributing to 100% up time.

IT intangible assets on balance sheet are valued at R11.5 billion at 30 June, compared with R21 billion in 2018, illustrating a steady replacement of on-prem, owned and bespoke technology to utilising cloud-based software as a service.

<u>DIVIDER: Insurance and Asset Management</u>

That completes our banking analysis, I am now turning to Insurance and Asset Management

Insurance & Asset Management (IAM) – Liberty integrated into the group[1]

Our acquisition of the minority shares in Liberty last year triggered a change in the way we organise and run the group.

Sim has shown you how we have organised ourselves into 4 business units.

As illustrated on this slide, the IAM business unit combines all the insurance and asset management businesses across the group into one business unit and this integration is now complete. Inter business unit attributions have also been agreed, to incentivise distribution of products manufactured in an adjacent business unit.

In terms of capital optimisation, Liberty declared R3bn in dividends as part of the transaction in early 2022 and we have received a further R3bn in dividends since the transaction. This increased dividend flow is linked to improved performance and a lower targeted capital coverage ratio in Liberty.

The potential buy-out of L2D minorities announced recently will deliver sizable capital synergies. Opportunities for structural realignments within the group exist, which, once effected, will deliver additional capital optimisation.

These combined synergy benefits exceed the expectations we had at the time of the transaction.

Good underlying growth across insurance and asset management

Insurance businesses across all our operations generated new business value of R1.4 billion in the period which is significantly increased compared to prior periods. The increase was driven by all the South African insurance business lines.

Group assets under management increased to R1.4 trillion making us the 3rd largest asset manager in Africa.

IAM delivered headline earnings growth and improved returns

Insurance operations overall delivered R1.8bn in headline earnings which was 26% up on the prior period.

In the long term insurance business in South Africa underwriting risk has largely stabilised to pre pandemic levels and retail mortality experience is now broadly normalised within expectation. Client persistency has deteriorated on certain books particularly on investment propositions and solutions offered into the middle and mass market.

Asset management operating earnings increased by 4% to R601 million. Within South Africa, earnings decreased largely because of higher planned operating expenditure within STANLIB. Africa Regions recorded a strong performance, with earnings up 27% in the period driven by higher assets under management and related fees.

IFRS17 has prompted a change to the composition of the assets and exposures that previously resided within the Shareholder Investment Portfolio; and this has been renamed to Shareholder Assets and Exposures. The portfolio is particularly sensitive to long term bond yields and unlisted property valuations; and landed on a loss of R14 million in the current period compared to a loss of R265 million in the prior period.

IAM recorded improved operational performance and, after attributions to banking business units, increased headline earnings of R1.4 billion.

IAM's ROE of 13.1% is improving but remains below the group's cost of equity. By 2025 we expect IAM's ROE to be within the group's target range of 17-20%.

<u>DIVIDER: Capital and returns</u>

Continued strong capital and liquidity ratios

The group's capital position remains robust. As at 30 June, the group had capital of almost R270 billion.

The group's CET1 ratio was 13.4%.

Strong uptick in ROE and dividend growth in line with headline earnings per share growth

The group's annualised ROE of 18.9% is well above the group's cost of equity.

Our board approved an interim dividend of R6.90 which equates to an interim dividend payout ratio of 54%. The dividend growth of 34% is in line with the growth in headline earnings per share.

DIVIDER: Segmental disclosures

Continued strong earnings growth across our diversified portfolio

On the following slides we look at the Standard Bank Group franchise results split by

1. Business unit; and
2. Legal entity – where we use legal entity as a proxy for region

The left-hand pie shows headline earnings by business unit excluding the centre and ICBCS. Here you can see our 4 business units and their relative contributions to the group. CIB remains the largest contributor.

On the right hand side, we show a legal entity view of group earnings. In this half SBSA contributed 40% of the group's earnings and Africa Regions contributed 44%, up from 36% this time last year. International's large contribution in the half stems from significantly increased revenues in our operations in Jersey and the Isle of Man.

All businesses delivered positive contributions to headline earnings growth[1]

This waterfall chart illustrates the business unit contributions to the group's earnings growth and shows that all four business units contributed positively.

- PPB grew headline earnings to R4.6bn for the half and generated an ROE of 19.4%.
- BCB improved ROE to 37.6% on the back of 61% headline earnings growth.
- CIB added R3bn in earnings to end at R10.7bn, up 41% and generated a 24.5% ROE.
- I have already covered the key drivers of IAM performance.
- ICBCS recorded a strong operational performance and our share thereof in Rands was R1.1 billion. Earnings were lower than the prior period given a once-off insurance claim receipt in January 2022.
- Central costs increased due to higher withholdings tax paid on dividends received from subsidiaries, as well as forex losses crystallised between dividend declaration and receipt dates. The centre benefited in the prior period from a release of a Covid-related credit overlay provision of R151 million.

Our South Africa banking franchise is growing and delivering improving returns

As noted by Sim earlier, our South African banking franchise headline earnings grew by a strong 17% to R8.4 billion and ROE improved to 15.2%.

Despite a difficult operating environment, demand for renewable energy financing and trade facilities, continued strong transactional activity and a volatile foreign exchange environment helped this business drive balance sheet and income growth.

Importantly, within the 11% NIR growth shown here, PPB grew fee and commissions by a strong 8%.

Our Africa Regions portfolio continued to grow and delivered ROE well ahead of COE

Our Africa Regions franchise performed particularly well with headline earnings up 65% in Rands and by 63% in constant currency and ROE improved to 28.4%. Excellent income growth was enough to absorb increased costs and elevated credit impairments in the period.

Credit impairments almost doubled, driven by book growth and higher inflows into stage 3 across most countries linked to higher interest rates, and provisions related to sovereign credit risk migration in certain African markets.

Our African Regions franchise delivered an outstanding performance across all 3 regions

Our Africa Regions financial performance was excellent across all 3 sub-regions and you can see from the map that all countries grew earnings by more than 10%, other than Angola.

The top six contributors to Africa Regions headline earnings were Ghana, Kenya, Mozambique, Nigeria, Uganda and Zimbabwe.

Our Africa Regions franchise is a well diversified portfolio which supports the sustainability of earnings

The graph on the left shows the earnings contribution by sub-region over the last 11 interim periods, delivering average earnings growth of 20%.

The graph on the right shows the same data but by country. As you can see, it is a well diversified portfolio that has delivered robust earnings growth over time.

DIVIDER: FY23 outlook

2H23 outlook - murky but looking more constructive

From a macro perspective, the outlook remains murky, but seems more constructive than at the beginning of the year.

The resolution of the US debt ceiling standoff and strong action by authorities to contain turbulence in US and Swiss banking, reduced the immediate risks of financial sector turmoil.

We are cognisant that risks to global growth remain. Geopolitical tensions, slower growth from China and "higher for longer" inflation and interest rates all weigh on the global growth outlook.

During 2023, we have welcomed positive actions in Ghana, Kenya, Nigeria and Zambia which have reduced sovereign credit risks in these markets. Sovereign credit risk remains high, however, in Malawi; and has increased in Angola and Mozambique.

In South Africa we are encouraged that inflation is back within the target range and the next move in interest rates is likely to be down, sometime in 2024. We currently expect that the South African economy will grow slowly, at 0.8%. This is somewhat faster than most other forecasts for 2023, but we believe that growth will be supported by continued rapid investment in electricity generation and storage and by accelerating structural reform.

FY23 updated guidance

For the twelve months to 31 December 2023, banking revenue growth is expected to be stronger than previously guided in March 2023 but slower than the strong first half performance. As shown here, off the back of our stronger than expected first half performance, we have upgraded our NII and NIR guidance for the full year.

Despite continued management focus, banking cost growth is likely to remain elevated in a high inflation environment and continued investment in our franchise will be required to ensure our client propositions remain competitive.

Banking revenue growth is expected to remain ahead of cost growth resulting in positive jaws.

The credit loss ratio is expected to remain in the upper half of the group's through-the-cycle target range of 70 to 100 basis points driven by year-on-year increases in credit impairment charges across all three banking business units.

IAM's recovery should continue at a similar pace to the first half, barring extreme weather and other unforeseen market events.

The group's 2023 ROE will be lower than the first half but is expected to remain inside the 2025 target range of 17% to 20%.

Towards 2025

I would like to re-emphasise what Sim said earlier – these results should not be seen as a once-off moment. They emerge from our long-term strategy, and are a stepping stone towards meeting our longer-term commitments to our clients, our shareholders, and the people of Africa.

We appreciate analysts concerns regarding some of the impacts in this particular set of results and would like to address them now to avoid any doubt about the sustainability of our financial outcomes towards 2025 and beyond.

1. Firstly, on Endowment
    a. Yes, endowment impacts will fade as rates stabilise and start to fall
    b. But lower interest rates are good for growth and will be supportive of our clients' needs and abilities to transact and lend
    c. We have part-hedged our endowment exposure to mitigate some of the downside risk and our NII sensitivity in SA has been reduced to R1.2bn for every 100-basis point cut in rates.
    d. We will continue to closely monitor and, where applicable, manage this exposure going forward
    e. NII growth excluding endowment for the half was a strong 15.5%
    f. Most importantly, our client franchises are large and robust and continued strong lending and deposit growth, particularly in our Africa Regions franchise, bodes well for NII growth
2. Trading revenue
    a. We acknowledge an outsize trading performance in this half
    b. Market volatility and our access to fx flows allowed us to generate additional revenues following the Naira and Kwanza dislocations
    c. This is unlikely to repeat
    d. But we have a widespread underlying client franchise giving clients access to markets and risk mitigation solutions, which also had an excellent half
    e. In fact, it is this client-led business that has allowed us to grow trading revenues by, on average, 17% a year for the last 10 years

We are confident that our revenue growth targets remain achievable towards 2025.

3. Translation impact of weaker currencies
    a. Towards the end of the half, we saw a significant weakening in currencies, particularly in Nigeria and Angola
    b. These market-set valuations are welcomed and positive for investment and growth in these countries
    c. At the end of the reporting period the assets and liabilities of our subsidiaries are translated into Rands at the new, lower spot rate and impacts accounted for in the Foreign Currency Translation Reserve in equity. These impacts were large, but minimised by the portfolio effect of dollar, pound and other subsidiary balance sheets denominated in a strengthening country.
    d. Going forward, these new market rates will used to translate these earnings
    e. Africa Regions has, over the last 10 years, grown earnings translated into rands by, on average, 20%; demonstrating its resilience, diversity and ability to deliver.

Medium-term ROE drivers unchanged

Our primary measure of shareholder value remains return on equity and in line with our 2025 commitments, we remain focused on delivering an ROE sustainably within our target range.

Many of you will be familiar with this slide. Our drivers to deliver improved ROE have not changed and we look forward to delivering returns that will exceed market expectations.

In the short term we continue to monitor the impacts of high inflation and interest rates, electricity supply constraints in South Africa, sovereign vulnerabilities in certain African markets and global geopolitical tensions; all of which pose risks to our outlook.

Regardless of the scenario which unfolds, we stand ready and able to serve the needs of our 18 million customers and to support the growth of the economies in which we operate.

Thank you for your attention I will now hand back to Sim to conclude.

Sim Tshabalala – Chief executive

DIVIDER: Delivering against our 2025 targets

- Many thanks Arno.

Our strategy and 2025 targets remain unchanged

- People who have followed Standard Bank know that our purpose doesn't change: Africa is our home, we drive her growth.
- Our medium-term strategic priorities are certainly just as valid now as when we announced them in 2021.
- Our financial targets also remain in place. As we have said, it is noteworthy that we have achieved our revenue, cost-to-income and ROE targets this half, and we are absolutely confident we will achieve them for 2025.
- But, once again, we can't promise only upward movement all the way. Many of our clients are under strain. The world is highly volatile and unpredictable.
- These realities – combined with our commitments to soundness, to supporting our clients, to sustainability and inclusion, and to fulfilling our purpose – mean that the path to 2025 will be more winding and bumpier than in a perfect world.

2H23 – focussed on continued delivery

- Just as we delivered on our commitments for the first half as seen on the left-hand side of this slide, we will deliver on our priorities for the full year of 2023.
- These immediate priorities for the next half are listed on the right-hand side of this slide. They are:
    1. Manage costs tightly and credit responsibly, supporting our borrowers to the best of our ability, consistent with our duties to our depositors and to our shareholders.
    2. Provide excellent service both in person and on consistently stable systems
    3. Continue to expand our leadership in promoting intra-African trade and investment, and in connecting Africa to China, Europe, and the United States
    4. Continue to expand our leadership in inclusive and sustainable finance
    5. Remain within our ROE target range

'Most valuable banking brand in Africa'

- Recently, the Group was recognised as the 'Most Valuable Banking Brand in Africa' by *Brand Finance* for the second year in a row, increasing in value by nearly 30%. *Brand Finance* also awarded us 'Most Admired Financial Services Brand' in both South Africa and Africa as whole.
- As always, our sincere gratitude to our policy makers and regulators for the world class regulatory environments they create for us and for our sector.
- We're equally grateful to our shareholders for their continued support
- We would like to thank our 18 million clients for their continued trust in us. Last but certainly not least, we thank our 50,000 employees across Africa and beyond for their incredibly hard work.
- Thank you all. That concludes our presentation.

Q&A – please refer to webcast recording