SBG FY23 Pre-close call

November 27, 2023

Sarah Rivett-Carnac – Head of Investor Relations

Good afternoon, everybody and thank you very much for joining the Standard Bank group pre-close call this afternoon. My name is Sarah Rivett-Carnac and I'll be managing the call today.

As you will be aware, we issued a SENS announcement this morning providing a brief update with regards to our 10 months performance and the reconfirmation of our guidance for 2023.

On the call today we have Arno Daehnke, the Group Financial Director, Brooks Mparutsa, Barbara Bell, Thembelihle Ngema and Willa van den Berg, the business unit CFO's. I will now hand over to Arno.

Arno Daehnke- Group Financial Director

Thank you, Sarah.

Hello everyone, thank you for your interest in the Standard Bank Group and it's great to have you all on the call. I will start with some brief comments on the macroeconomic environment. I will then turn to the trends we are seeing in our business and our guidance for 2023.

As you understand the global economic and geopolitical environment remains difficult and global growth has slowed. While global inflation is showing signs of moderating, we understand interest rates remain high.

Let’s first turn to Africa and our portfolio of countries. We have seen mixed movements in terms of currencies, inflation, and policy rates across our 20 countries of operation on the continent. In terms of currencies, as many of you are aware, we saw a large devaluation of the Angolan Kwanza in May and June and a reset of the official rate of the Nigerian Niara in June as well.

Since July, these two currencies have stabilised, but we've seen pressure in the Malawian Kwatcha and the Zambian Kwatcha.

Turning to the inflation trends and policy rates, actions across our 12 bigger markets outside of South Africa, the trends have been mixed since June this year.

In 3 of our countries, mainly Ghana, Malawi and Nigeria, inflation has remained high, at above 20%, and policy rates have increased marginally from already high levels.

In 2 of our countries, namely Angola and Zambia, inflation has increased and is now in the teens. In response, policy rates have increased by 100 and 150 basis points respectively.

In Namibia, underlying inflation moderated, and interest rates have been flat.

And in the other 6 countries, Botswana, Kenya, Mauritius, Mozambique, Tanzania and Uganda, inflation was already below 8% in June and has trended down since then. In Botswana, Tanzania and Uganda inflation is around 3%. Across these 6 countries, policy rates have remained steady in all but Uganda. Uganda cut its policy rate by 50 basis points in August and has been steady since then.

In South Africa, interest rates have been flat since May and inflation is moderated and is now inside the South African Reserve Banks's target range of 3 to 6%.

In summary, across our portfolio, average inflation has moderated but remains high and policy rates are marginally higher in October relative to June.

Let's now turn to our performance and trends for the 10 months to the end of October 2023.

The group's results for the period ended 31 October 2023 were robust, underpinned by a healthy and growing franchise. Africa Regions continue to perform very well and delivered strong earnings growth period on period in both reported and in constant currency.

Africa Regions contribution to group headline earnings for the 10 months was 44% and this was consistent with the first six months of the year.

Moving to the income statement and starting with revenue.
Banking revenue growth has slowed, but remained above 20% period on period, driven by continued strong net interest income and non-interest revenue growth.

While higher average interest rates period on period continued to support net interest margin, net interest margin expansion has slowed in recent months given that the interest rate increases seen in the second half of 2022 are now embedded in the base.

The loan growth from 31 October 2022 to 31 October 2023 was slower than that from June 2022 to June 2023. This was due to the increase in loans and 2H22 and the general slowdown in 2023. However, on an average balances' basis, the growth in the second half of 2022 continued to support average loan balances and this supported net interest income growth period on period.

In Personal and Private Banking and Business and Commercial Banking, disbursements to retail and business clients slowed on the back of lower client demand linked to confidence, reduced affordability on the back of higher interest rates and competitive pricing pressure, particularly in mortgages in South Africa.

It is worth noting that in South Africa our risk criteria and risk appetite have not changed. We

remain focused on lending to our existing clients who we know well. In Corporate and Investment Banking, origination remained strong, driven by energy-related opportunities.

Non-interest revenue growth was low-to-mid teens period on period supported by ongoing client acquisition, higher transaction volumes, annual price increases and volatility which continued to support trading revenues. Trading revenue growth has slowed in the 4 months to October relative to the 36% growth reported in June 2023.

Moving to costs. Cost growth remained elevated but was slower than the 16% reported in the six months to June 2023. The group continued to record strong positive jaws.

Turning to credit. Growth in credit impairment charges also slowed but remained elevated due to a combination of balance sheet growth, client strain linked to the rapid increase in interest rate, sovereign risk migrations in Africa Regions, and provisions linked to specific corporates in South Africa.

The group's credit loss ratio for the 10 months to October 2023 remained below the top of the group's through-the-cycle target range. Relative to the levels reported as at 30 June 2023, balance sheet provisions remain high, and coverage remains strong. Both are deemed appropriate at this stage of the cycle. We will review our IFRS9-related macro-economic assumptions as part of our year-end reporting process.

All other trends were as reported in the group's announcement dated 17 October 2023.

Now turning to our guidance for the 12 months to 31 December 2023. As stated in the announcement this morning, we are happy to confirm that the group's guidance for the twelve-month period to 31 December 2023 remains intact.

- Banking revenue growth year on year is expected to be robust, underpinned by strong momentum across the franchise.
- Banking cost growth is expected to remain elevated, but the group expects to deliver strong positive jaws.
- Growth in credit impairments is expected to moderate in the six months to 31 December 2023 and the group's credit loss ratio for the full year is expected to remain within the group's through-the-cycle target range, but above the mid-point of 85 basis points.
- And lastly, but importantly, we expect our return on equity to remain well anchored in our 2025 target range of 17 to 20%.

Thank you – Sarah, I will hand back to you for questions.

Sarah Rivett-Carnac – Head of Investor Relations
Thank you, Arno. And we will now move to questions. If you would like to ask a question, please raise your hand.

Q: <u>Kevin Harding - Investec</u>
Just on credit impairments you're reasoning underpinning the elevated impairments remains

largely the same as you disclosed in 1H23 results. Maybe if you could just comment on the development of the following factors since June this year: i) sovereign credit risk migrations, has this accelerated, decelerated or stable, ii) collections and recoveries in South Africa. Africa Regions across your various business lines, iii) and then perhaps if you can give any information on provisions linked to specific corporates in South Africa, perhaps a particular sector, iv) and then lastly, could you comment on specific impairments raised on corporate clients in Africa Regions, was that only in the first half or did you see additional impairments raised in the second half? Thank you.

A: Arno Daehnke, Group Financial Director

On sovereign credit risk there are some elevated sovereign credit risk exposures, we do have, but they're not materially context of the group and they haven't materially impacted of our forecasts and our earnings projections. But clearly some of the countries that we've spoken about those earlier on for example, Malawi, Mozambique, Zambia, possibly Angola as well, do run heightened indebtedness levels and we we're very cautiously approaching those countries. But largely not that different to what we had communicated to you in June this year so to answer your question specifically.

Collections recoveries in the retail business are certainly doing well and we are tracking back within our credit loss ratio for the retail business, we remind you our target range is 100 to 150 basis points. So we're tracking back within that range like we had indicated to you in June which is pleasing. There is slightly higher pressure in the business and commercial business, particularly in Africa Regions. Some long standing NPLs which we are working out and taking some provisions on those. So BCB is actually slightly outside of the credit loss ratio range. And then CIB continues to track quite favorably, in fact, below there, through the cycle range of 40 to 60 basis points. So that's a pleasing performance. On specific sectors, you know, obviously we don't disclose anything name by name. But Brooks, are there any comments on any specific sectors you'd like to highlight in CIB?

A: Brooks Mparutsa, Corporate & Investment Banking CFO

I think we have some Real Estate exposures particularly in West Africa where we had to take some additional provisions in those sectors and then some of the legacy assets in our Power and Infrastructure exposure in East Africa. They are not new exposures, but as the matters conclude we have had to raise additional provisions, but certainly not anything in excess of what we thought at half year, which is why Arno mentioned that we will be slightly below the bottom of the through-the-cycle range of 40 to 60 basis points.

Q: Harry Botha

Thanks very much for the update.
I just wanted to get a sense of the lending growth that you're seeing, is it similar between Africa Regions and South Africa between CIB and Retail.
Regarding the net interest margin, could you maybe just unpack some of the moving parts, the interest rate sensitivity as well as any other key considerations for the second half of the year.

A: Arno Daehnke, Group Financial Director

The lending growth as I mentioned has slowed down in South Africa. We unpack it there first, disbursements have come off quite significantly as we had already commented in June. So those trends continue and obviously the information is publicly available in the BA900 data. Africa Regions continues to grow faster, but the Rand is relatively stronger so there is a translation impact as well. You need to bear in mind, translated into ZAR, the lending does not look as strong in Africa Regions. On a constant currency basis, it's quite good.

On NIM, we are sort of topping out in terms of our NIM. We've seen continued slight widening but topping out. The interest rate sensitivity has reduced in South Africa. We spoke about our structural endowment hedge. Of the hedging program, we indicated previously we are probably going to hedge around 2/3 of the exposure, we are roughly halfway through the 2/3 hedging program. So we are roughly 33% done of entire exposure. And then, of course, we do have heightened interest rate exposure in our offshore operations. So when the USD and GBP rates come down we will be exposed there and in Africa Regions as well. Those sensitivities are still largely as we have discussed them as at June. South Africa will continue to come down in terms of interest rate sensitivity.

Q: Konopi, Keamogetse - Citi

Following up on Harry's question on loan growth, how is growth in Africa Regions trended relative to expectations in June? Can you maybe unpack in which regions across the continent have you been seeing growth? Can you also touch on loan growth and the offshore business? And on costs, which cost categories supported loan growth from the half year? Where do you see scope for further cost optimization are going into the end of the year.

A: Arno Daehnke, Group Financial Director

There's no specific region standing out in terms of Africa Regions loan growth. As I indicated, overall the portfolio is growing within our expectations and there is nothing specific to highlight in specific country.

Cost growth has come down but continues to be elevated. We continue to focus on where we can extract cost savings and prudently deploying our resources. And that includes thinking about a technology costs, our premises costs as we have discussed in the past. Carefully thinking about staff-related costs, which is our biggest cost item. The increases are now coming through in March next year, planning for those already and then of course variable incentives are up and that is setting a higher base for two reasons. Firstly, the company is doing very well and obviously we have to compensate our teams through the variable expense line in that manner. But also, we have come off a low base in terms of LTIPs and other variable schemes and they have now vested and obviously need to be accrued for in our income statement. So cost growth continues to be a focus. And to present leavers to reduce costs, we've just been through our planning cycle for next year and we can

see continued reduction in costs going into next year. Cost growth reduction, that is.

Q: <u>Ross Krige - Investec</u>
My question is on NIR. It looks like the run rate to October is well ahead of your FY23 guidance, so I was hoping you could unpack that in terms of what is surprising to the upside. Please comment on trading and how that's tracking versus your prior guidance.

A: <u>Arno Daehnke, Group Financial Director</u>
Indeed, it is higher than we've guided. I think initially we guided as high single digit and I mentioned now low to mid-teens.

So two components there. Our fee and commission generation in South Africa in the retail business, is tracking well. We already commented on that at the June results and that continues to perform very well actually through client acquisition and through client activity, cross sell. And we are very pleased with some of the NIR generation in the retail business in South Africa.

Trading has also performed well. As you know throughout the year and we've kept on guiding that it would come off quite substantially, but it's still producing very good results, but at a lower pace, at a lower growth rate, than we had in the first half of the year. So trading continues to be robust but not as strong as in the first half and those factors combined actually has resulted in better than expected NIR.

Q: <u>Stephan Potgieter - UBS</u>
Thanks very much for the update. You sort of answered my question in terms of the, NIR progression, but just to maybe focus a bit on the trading income line.
You mentioned it continues to moderate, but it's still growing. I think in the first half booklet in the prospect statement, you mentioned that it could decline by lower teens I think that's what I saw there. And then in the third quarter update, I think you said it is growing in the mid-teens or lower teens I can't remember, but so quite a big shift from declining to growing. I think you're qualified it if volatility subside, would subside, then it would decline. But if it looks like it's growing, so just to get a sense to what extent is a normalising and it seems to be holding up much better than expected.

A: <u>Brooks Mparutsa, Corporate & Investment Banking CFO</u>
It is normalising. I think we certainly saw a much better third quarter than what we had anticipated. I think we saw some of the volatility underpinning the client trades that we had. As we articulated, often the trading income, although it's articulated as trading, it's off the back of client engagement. So we've continued to see very good mid 20s client revenue growth in our Global Markets business, better than we anticipated to see in a lot more of the markets. We've also continued to see some muted growth in South Africa. But particularly in East and West Africa, I think our forecast said at the half year we were expecting (particularly in West Africa) a significant slowdown. We've only started to see that slowdown more towards the fourth quarter of this year. So we've seen much stronger in East and West

Africa with continued growth in South Africa, but really a good strong client franchise growth, which is in the mid 20s. We had anticipated that wouldn't grow as strongly in the second half, but it has continued to grow strongly in the second half of the year.

Q: Charles Russell – SBG Securities
Just a point of clarification, the cost-to-income ratio for the full year, is that guided to be higher than at the interim? The second question, which countries are the better performers within the African portfolio in 2023 so far and what are the key drivers there?

A: Arno Daehnke, Group Financial Director
The cost-to-income ratio we recorded 50.5% cost to income ratio, for the full year, it might be fractionally or slightly higher than that.

Then on the countries performing particularly well, obviously I don't want go into too much detail there but it is across the network really. We had disclosed at half year that many of the countries are doing very well, and we are actually seen strong growth across South and Central Africa (I'm looking at the 10 months this year), East Africa, as well as particularly West Africa. So we seeing strong performance across all of the regions, with an emphasis I would say on West Africa.

Q: Kevin Harding - Investec
Please comment around how we should think about hyperinflation accounting in Ghana impacting your 2023 Results or is this a 2024 issue?

A: Arno Daehnke, Group Financial Director
A topical question at the moment. Currently the only entity we have in our network which we account for under a hyperinflationary regime is Zimbabwe. We think it's likely that we will also have to include Ghana as hyperinflationary accounting adjustment. Obviously we currently working with external audit on the final assessment thereof, but it is quite likely that when we report to you in March for the 2023 financial year, Ghana will be included as hyperinflation.

Questions in the chat
Chris, you were asking about comments on ICBCS and Insurance and Asset management.

A: Arno Daehnke, Group Financial Director
ICBCS continues to operate well operationally and continues to deliver positively towards the group, so we're pleased with the performance coming from ICBC.

Questions in the chat
There is a question on Liberty performance in terms of new business volumes, risk experience, and persistency.

A: Willa van den Berg, Insurance & Asset Management CFO

I think the second half has seen similar trends to the first half and in terms of risk experience. The risk experience continues to normalise. Just keep in mind that 1H23 had better than normalised experience, so that's come back to be normalised overall.

Persistency, we continue to see a tale of 2 sides. The one is on complex risk, persistency continues to improve, whereas in the investment book, persistency continues to be under pressure given the economic circumstances.

The sales volume momentum has continued into H2, particularly on the guaranteed-type products on the investment side.

One extra thing to call out for insurance and asset management is the rise in interest rates since half year will have a material impact on the shareholder portfolio returns. There is a R10 billion long bond position there that is maintained for the capital stability which will be impacted by the rise in the rates H2 but will allow us to keep the capital coverage stable, which is important for the dividend.

Sarah Rivett-Carnac – Head of Investor Relations

I can't see any more hands on the line. We will draw the call to a close. Arno would you like to make any closing comments?

Arno Daehnke, Group Financial Director

Thanks very much everyone for dialing in and listening to our update.

As a reminder, we will report our groups full year results for 2023 on the 14 March and we'll provide guidance for 2024 at that time.

Thank you for joining us today.

For those of you taking some time off, enjoy your festive season. But otherwise, we are very much looking forward to seeing you in March next year and giving you the full colour of our 2023 financial performance.