**Absa Group 1H24 pre-close call**

**Arrie Rautenbach – Chief Executive**

Good evening and thank you for joining us for Absa Group's first half 2024 pre-close call.

You may have seen the trading update that we just released.

I'll hand you over to Deon Raju, our Group FD, to take you through our trading update and then we'll answer your questions.

**Deon Raju – Financial Director**

Thank you Arrie and good evening everyone.

Recognising that you may not have had time to go through the detail of our trading update, I will cover the key points.

Starting with our operating environment, as many of you will be aware, the macro backdrop remains challenging for South African banks.

Firstly, given elevated interest rates, South African consumers remain under pressure. Retail credit growth is also slowing. As you know, we have a large retail franchise that obviously reflects the state of the South African consumer.

Secondly, while economic growth is more robust in our Absa Regional Operations, which I will refer to as ARO, some central banks have maintained restrictive monetary policies, including increasing reserve requirements materially.

Finally, weaker average exchange rates versus the Rand have been a 1% to 2% drag on Group revenues, operating expenses and headline earnings for the period, and are likely to remain so into the second half.

Turning to our performance for the first half of 2024, my comments refer to the percent YoY change in our IFRS financial results versus the equivalent 2023 period.

We cautioned in March that our first half 2024 earnings growth was expected to be weaker than the full year. This was driven by our first half 2023 earnings base being 14% higher than the second half. This was different from our usual pattern whereby our second half earnings are typically larger than the first. As a result, our first half 2024 comparisons are weaker versus the equivalent period last year, but we expect the second half 2024 to be stronger.

We also guided that some items which negatively impacted the second half of 2023 would continue into the first half of 2024. These include firstly applying hyperinflation accounting in Ghana; secondly further losses on the Naira as we exited that position; and thirdly costs related to our broad-based black economic empowerment transaction. None of these items impacted the first half 2023 base.

Since we no longer normalise our results for the impact of separating from Barclays PLC, we also have the final elements of those costs to absorb, although they are expected to be significantly lower YoY. In total, the combined impact of these four items is expected to reduce first half 2024 earnings by approximately 3%.

For the first half of 2024, we expect low single digit revenue growth. Within that we expect high single digit net interest income growth, which is broadly in line with our customer loan and deposit growth. However, we expect non-interest income to decrease by low single digits.

Within non-interest income, we expect modest growth in fee and commission income, outweighed by noticeably lower net trading income (predominantly due to the Naira losses) and net insurance income partially due to increased lapses given the consumer strain mentioned earlier. In addition, we experienced lower investment income in this business.

Turning to operating expenses, we expect high single digit growth, resulting in slightly lower pre-provision profit in the first half of 2024 versus the equivalent period last year.

As previously guided, our first half credit loss ratio is expected to be similar to the 127 basis points in the first half of 2023. Within this, we expect lower credit impairments in Product Solutions

Cluster, Everyday Banking and Relationship Banking. These reflect the substantial actions that we have taken in collections and also some reduction in risk appetite in personal loans. In South African retail overall, we have seen a trend of improving early arrears, while late stage delinquencies remain sticky and will take time to work out.

We expect increased charges in Corporate and Investment Bank, as it dealt with some consumer facing single names, and in ARO Retail and Business Banking both coming off low bases.

Overall, we continue to expect our credit loss ratio for 2024 to improve slightly from the 118 basis points incurred in 2023.

Combining these drivers, we expect Absa Group's headline earnings to decrease by mid- to high single digits in the first half of 2024, with basic earnings declining by high single digits to low double digits.

As a result, we expect to report an RoE of around 14% for the first half, down from 15.7% in the first half last year.

Our Group CET1 capital ratio remains strong and at the top end of our board target range, and as a result, we expect to declare a flat interim dividend per share.

For the rest of the year from a macro perspective, in South Africa we see delayed interest rate cuts in the second half, with one 25 basis point reduction in the fourth quarter and a further 50 basis points in the first half of 2025. We currently also expect muted GDP growth of 0.9% in 2024, slightly less than we did in March. In addition, and importantly, we expect ARO currencies to remain weaker versus the Rand.

Based on our anticipated first half performance and on these macroeconomic expectations, we make the following changes to our full year 2024 guidance.

For 2024, we now expect mid-single digit revenue growth, with an improved non-interest income performance in the second half, while net interest income growth is likely to slow somewhat, in part due to higher reserve requirements in some ARO countries. Previously our revenue growth guidance was for high single digits for the year.

In response to lower revenue growth expectations, we are taking appropriate actions on costs, and expect mid-single digit operating expense growth for the year. Our previous cost guidance was mid- to high single digit growth.

As a result, we expect our cost-to-income ratio to be broadly similar to our 53.2% in 2023.

Lastly, we expect an RoE of 14% to 15% for 2024 from 14.4% last year. Our previous RoE guidance was for 15% to 16% this year.

Thank you for your attention, I will hand you back to Arrie.

**Arrie Rautenbach – Chief Executive**

Thank you Deon.

In closing, let me summarize the key reasons that we are not going to meet our previous guidance and expectations, which is something we don't take lightly.

Lowering our expected revenue growth is the main reason, largely due to reduced non-interest income, specifically in insurance, and lower growth in fees and commissions than originally anticipated, despite stronger customer growth in the first half. Moreover, we expect some net interest margin compression in the second half of 2024, because of increased cash reserving requirements in certain ARO countries and lower growth in personal loans.

Given this lower revenue outlook, we have taken appropriate cost actions in the first half that will manifest in the second half.

Lastly, it is pleasing to see that the credit loss ratio in our South African retail portfolios has responded to the actions we implemented on risk appetite and collections and has largely reduced in line with our expectations.

We are taking action and seeing the businesses responding.

We will now take your questions.

**Q&A**

**Harry Botha – Anchor Capital**

Thanks very much for the call and the updates. You've answered a few of my questions with your fairly detailed comments, thank you. I just had a question about the pre-provision profit growth that you're seeing in the Retail and Business Banking segments in the first half of the year and how they're trending compared to your expectations? Particularly if you could comment on Everyday Banking, non-interest revenue growth that would also be helpful.

**Deon Raju**

Given that this is an interim trading update for half year and full year outlook, we don't give detailed guidance at a business unit level. I think if you look at our NIR commentary which we said for the first half was down low single digits, I can give you some data points there. Insurance income is where we're seeing a drag, particularly in areas of investment income returns, we've also made risk cutbacks in personal loans, so you see some of that cross-sell not come through as expected. And generally there's been higher lapses given the overall consumer environment. So that's a data point I'll pull out for you.

Fee and commission income has generally been growing in that environment. The one area I will call out is Relationship Banking, where we are seeing pressure on cash and acquiring volumes and revenues. We did anticipate some of that, but it has been higher than expected, as volumes have come off faster than we thought given the economic environment. So those are the data points I'd probably call out that can help you in that particular area.

**Arrie Rautenbach**

Thank you Deon. Harry, I trust that helps you as you've indicated. And we'll focus today's call clearly on our guidance for first half and full year without going into the detail, we'll have the opportunity in August to go into the detail on a segment and business unit level basis.

**Charles Russell – SBG Securities**

Good afternoon and thanks for the opportunity. Just three questions if I may. To clarify, what sort of range do you expect your full year guidance to be on earnings growth? Second question is what are some of the cost initiatives that you've employed to lower your cost growth and is any of this FX related? And then finally, if you could just elaborate on loan growth expectations into the full year and if you can maybe just make some comments on where you see this political outcome sort of being positive or negative for your business?

**Arrie Rautenbach**

Thank you very much for those questions. I'm going to ask Deon to cover ranges in terms of earnings and possibly even touch maybe on some of the balance sheet items.

Charles, let me start on the cost side because I think this is obviously a big focus for us as I've indicated and I think if we look at the first half of this year let me lift out for us, five drivers that was underlying to that cost growth.

The first one is the highest, staff costs which reflects the 3% rise in headcount and also the salary increases of 4.5% in April. The investment in frontline staff was made during 1H23 and came through fully in 2H23. This higher headcount remained in the business for the first half of 2024. So of course the headcount investment was a big one for us. However, we've also invested in higher marketing efforts to support our new brand investments in the first half. We've got our increased amortization and as Deon indicated earlier, the BEE deal costs that weren't in the first half of last year.

And then lastly to your point, higher inflation in some of our ARO countries was also a factor. As I've indicated in my comments, we have taken appropriate actions in the first half that will manifest in the second half, so we now expect mid-single digit cost growth for the full year.

Our near-term actions included a headcount lock which will result in flat headcount in the second half and also significantly reducing discretionary spend across our franchise. We have started a group-wide productivity programme, which has a longer term lead time and we will provide an update on this programme in the second-half of the year. However, we do have some base

tailwinds as we see separation costs are much lower in the second half and the BEE costs started to be incurred in the second half last year.

We have considered the impact on our franchise of our cost actions and are comfortable that we are not creating performance headwinds with the cost actions. Our efforts in 2024 are focused on discretionary costs and freezing headcounts and we have invested in the right areas previously and aren't reversing these decisions now.

Our cost programme is a longer term programme and we will come back to you in the second half on the plan in the medium-term. However, we don't expect any cost to achieve in the second half of this year. Deon, touch on the range for us and loan growth. And then maybe we can make some comments on the GNU.

**Deon Raju**

Charles, thanks for those questions. We don't specifically guide on full year earnings. The data points we give is an RoE of 14% to 15% for 2024. I think we've shared the mid-single digit revenue growth is a full year expectation. As Arrie mentioned, he's giving you the reasons why we get to mid-single digit operating expense growth for the year. So we've pulled the cost lever given the revenue growth slow down. We've said cost-to-income ratio broadly similar to our 53.2% in 2023. So I think that gives you a sense of the data points around your question on earnings.

In terms of balance sheet, Charles, we're actually seeing pretty good customer loan growth across most segments, particularly in CIB and in our ARO RBB business. Similarly, we're seeing good deposit growth, it's broad-based, strong growth in ARO RBB and Relationship Banking, although there is more growth in lower-margin deposits in our Relationship Banking business.

**Arrie Rautenbach**

Charles, just on your question around political environment, I think it's safe to say that it's very early days for us to try and make predictions. I think the big risk for us is obviously uncertainty. However, clearly it will have a positive impact and has had a positive impact on the Rand already, as well as our equity markets and has also reduced bond yields. So it could drive improved growth

in South Africa, specifically in the shorter to medium-term which is a big part of our franchise. So obviously that gives you a sense of just the early thinking as far as the political landscape is concerned.

**James Stark - RMB Morgan Stanley**

Two questions from my side. You mentioned investment returns, the source of the underperformance on the NIR. Perhaps you can just clarify, is that in any way linked to shares or return on shareholder funds in your insurance business or is it entirely separate? The second question on fees and commission, I know you already mentioned cash and acquiring under pressure, could you expand and comment on some of the other fee and commission streams more generally and how you're finding things going there?

**Deon Raju**

James, your first question was investment returns. Just to be clear, that is in our insurance type business, specifically in Life and I think the investments there that we make are in fixed income instruments, where we've seen the yields reduce quite significantly year-on-year, so that gives you a sense of the investment returns.

Maybe just a couple of comments on NIR, because I think that was the key basis of the second part of your question. So, in terms of fees and commission, we said up low single digits, but let me just give a broader sense. You know the main drag on half year revenue performance as I see it was non-interest income decreasing by the low single digit year-on-year, there was a noticeable decrease in trading income, but that's predominantly due to the continued Naira losses. But as I mentioned in my remarks, we exited that position, but that we knew about.

The net insurance income drag was higher than we expected in that business. Also the Relationship Banking non-interest income decrease, given the pressure on cash and acquiring revenues was higher than expected. We also have quite a strong Rand versus ARO currency, which is much higher than expected, about a 2% drag on revenue generally and it also impacts NIR, so that was also much higher than expected.

**Arrie Rautenbach**

Just to add, we are encouraged with what we've seen coming out of some of our retail businesses on fees and commission.

**Keamogetse Konopi – Citi**

Can you provide a sense, I think that you've already answered parts of this, but can you provide a sense of the SA and ARO performance year-to-date and the expectation and could you touch on constant currency performance within your ARO business. And for SA, are you expecting earnings to bounce back given the low base that last year presented? And the second question is can you please touch on the nature and quantum of non-headline earning items that you expect in the first half and how should we think about this line item going forward? Just given the discrepancy between earnings and headline earnings growth guidance.

**Deon Raju**

Around your SA:ARO split, we don't actually share the data in our update. But I think the trends you saw at the end of last year continued, in terms of SA being weaker and the regions outside South Africa being better than SA. That being said, the regions outside of South Africa are impacted by this currency drag that I mentioned. Reported versus constant currency in our region of 1% to 2% drag across all the line items, revenue, opex and headline earnings. So that was higher than we expected. The regions outside South Africa also are impacted by cash reserves that have increased across three markets and it's fairly substantial for us. If you look at Ghana, you know that's gone from 15% to 20%. And these are high yielding markets and we earn zero on these cash reserves in place. In Mozambique, this has gone up to 39%. So basically 39% of your asset base is now earning zero in a very high yielding market. And in Zambia, it's gone from 17% to 29%. So once again, you know, even though the balance sheets are probably not big in a Group context, you can imagine the impact on net interest income that that has. Now, central banks may reduce cash reserves in future. We have not assumed that in our forecast, we assume that that continues for the rest of the year and that's part of the, let's call it NIM drag for the full

that we see in the second half of the year. But you are right that we've got a very low base in the second half. So just to give you a sense, the shape of our earnings last year, we made R10.7bn in the first half and we made R9.4bn in the second half. So that's a 14% difference, just in the base. So the base is very undemanding in the second-half, you know. A large part of the recovery in NIR we see in the second half is in CIB, for example, who can grow strongly given that they have the bigger Naira losses at the end of last year. So hopefully that gives you a sense of earnings and base.

In terms of the non-recurring items, those are a bit lumpy and a bit incidental. The example for the first half would be sale of property in downtown Johannesburg, one of our head office properties. You'll remember that it was part of our ongoing CRES programme to optimize our head office property portfolio. And you know the pricing pressures in the CBD of Johannesburg. You can understand what that looks like. What that does, it gives you run rate benefit into the future, as we don't have to maintain and run those properties. So I think it's important strategically that we get those done. So typically those would be the examples of what sits between headline earnings and earnings.

**Arrie Rautenbach**

But again, I think we'll provide a lot more color on that when we get to the August results update.

**Ross Krige - Investec**

Most of my questions are answered. I just have one more two part question. Just on the NII line, it sounds like based on your commentary, that it's mainly the net interest margin that's driving lower expectations and so I don't know if you can talk a bit about the run rates of loan growth into 2H and apologies if I missed this earlier. Then maybe the shape of NIM and how it's going to look relative to the prior year. If we can just get some context on that.

**Deon Raju**

Ross, just coming back to our guidance, which you might not have had time to study, we said for half year we expect high single digit net interest income growth, which is broadly in line with our customer loan and deposit growth. So that's what we said about the first half.

In terms of the second half we said, net interest income growth is likely to slow somewhat. So maybe just some data points around that. If you look at elements in the second half that cause slowing, we think the momentum remains on balance sheet. A couple of things impact NIM. The cash reserving item, I don't know if you heard when I answered Keamo, that's quite a big drag. Given the high margin markets that we function in, I think the second bit is this currency effect from regions outside South Africa, like I mentioned that’s a 2% drag on its own.

And the last bit on NII is that we did make risk cutbacks on some high margin products in retail like personal loans. Now we're seeing the improvement in impairments, but we've certainly seen the top line effect, which comes through on NIM and it comes through on my comment on insurance NIR, where there was a strong cross-sell into that product.

We're also seeing far better and strong growth out of CIB. So the mix, there's a bit of a mix effect with retail a little bit slower, but CIB proving still to be strong. And I think if you look at the BA data that comes out of the SARB, you'll see that's the case. Retail is slowing, but the wholesale sector is remaining fairly strong. The loan and deposit momentum remains good outside South Africa.

**Kevin Harding - Investec Wealth and Investment**

You've spoken to good loan growth momentum in CIB. Perhaps if you could just provide some color in terms of where you're seeing that growth coming from, whether it's ARO or within SA? And if you're able to give any commentary around which sectors are driving that? And then, I know it might be early days, but perhaps if you could provide any updated views on your Kenyan operations? Just given what's going on in the country.

**Arrie Rautenbach**

We will provide a lot of that color as we go into the August update. Let me also just say that I think we're very close to the Kenyan matter and operationally there's no impact on our business in Kenya. We're just watching the political environment very closely. In fact, I saw an update just now that it looks like some of those tax actions may have been reversed. So Kenya is a focus market for us and the team is very focused on the ground there. It's one of our bigger markets and of course, you would expect that we stay very close to that. But on the actual detail, we will provide you that once we come back in August. Thanks Kevin.

**Arrie Rautenbach**

Let me just conclude by saying thank you for joining us. We look forward to having conversations with you post this and as we build up to the August results. Thank you for joining us tonight. We really appreciate your time.

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