Absa Group 1H24 results speaker notes

Arrie Rautenbach – Chief Executive

Introduction

Good morning and thank you for joining us for Absa Group's 2024 interim results presentation.

The agenda for today will start with me providing my thoughts on the current operating environment before spending some time looking at the salient features of our first half performance. I will then hand over to Deon Raju, our group Financial Director, to unpack our financial performance in detail.

Operating environment was tough

The global, sub-Saharan and South African economies entered the year on increased uncertainty. The fall in the global inflation slowed and until very recently, had restrained expectations on the timing and pace of interest rate normalization.

Geopolitical tensions were elevated for the period and have escalated recently and together with the number of national elections taking place this year, continue to create uncertainty within the global economy.

Turning to our Africa markets, and tight financial conditions, a still high cost of living, and significant fiscal constraints continued to weigh on economic activity, as did the El Nino weather conditions that saw significant flooding in some parts of the continent and drought in others. Economic performance varied across the markets, although once again East African economies generally fared best, with growth across our presence countries remaining well above growth in South Africa.

South Africa's economy shrank marginally in the first quarter, with broad-based weakness offset by agriculture. The suspension of loadshedding since the end of March and the continued gradual reduction in inflation, have been a welcome relief with the economy expected to have grown in the second quarter. Consumers however have continued to show financial strain, particularly as the repo rate remained at fifteen-year highs in the period. Business and consumer confidence levels reflected a wait-and-see approach ahead of the elections in May

and have started to improve after the announcement of the formation of the government of national unity. We are cautiously optimistic about the potential benefits of the GNU, specifically after it reaffirmed its commitment to the structural reforms under Operation Vulindela.

Key performance metrics

Turning to the salient features.

While our diluted HEPS is at the upper end of our pre-close guidance, it decreased 5%, due to lower non-interest income and several substantial items that remained a drag on our earnings.

Despite the decline, the five-year cagr in our diluted HEPS is 6%.

As guided, we declared a flat interim ordinary dividend of 685 cents a share, given a slightly higher payout ratio of 56%.

Our RoE reduced to 14% and was below our cost of equity for the period.

Positively, our net interest margin widened slightly, largely due to improved loan pricing.

Combining our muted 3% revenue growth and 8% higher operating expenses, our cost-to-income ratio increased to 52.7%, although it remains in the low 50s.

Our NPLs rose slightly, while our credit loss ratio improved marginally to 123 basis points, reflecting lower retail and Relationship Banking credit impairments in South Africa. Nonetheless, our charge remains above our through-the-cycle target range and is expected to remain so for the full year.

Our NAV per share grew 6% to R180, taking its five-year cagr to 8%.

Lastly, although our CET1 capital ratio declined slightly YoY to 12.7%, it is above our board target range and up from 12.5% last December.

I will now hand you over to Deon.

Deon Raju – Financial Director

Thanks Arrie and good morning everyone.

Just a reminder that we no longer normalise our results for the financial consequences of separating from Barclays PLC, as it is no longer material. Nor do we normalise for the impact of our BEE transaction.

Decline in non-interest income a drag on earnings

Unpacking our income statement drivers, headline earnings decreased 5% to R10.2bn, a disappointing outcome, notwithstanding the challenging operating environment and the items that we dealt with in these results.

A stronger average Rand was a slight drag on group earnings during the period. On a constant currency basis, earnings declined 4%.

As previously guided, some sizeable items have negatively impacted the second half of 2023 and these continued into the first half of 2024, including applying hyperinflation accounting in Ghana, further losses on the Naira and costs related to our broad-based black economic empowerment transaction. These were partially offset by a substantially lower Barclays PLC separation impact in the first half. Excluding the combined earnings impact of the three items, our earnings declined 2%.

Given the quantum of these items, particularly on the second half of 2023, we provide a slide in the appendix laying out their impact on our results for the past three halves.

Net interest income increased 7%, reflecting 5% higher average interest-bearing assets and a slightly wider margin.

Non-interest income was a drag, decreasing 2% on lower insurance and Markets trading revenue.

Total revenue grew 3%, or 5% in constant currency, to almost R54bn.

Operating expenses increased 8%, or 9% in constant currency, as we continue to invest in the business, to ensure sustainability of future revenue generation.

As a result, our operating JAWS were 5% negative and pre-provision profit decreased 1%.

Our credit impairment charge was flat versus an elevated base, although it was pleasing that our retail charge in South Africa reduced, even though consumers remain under pressure given a higher average prime rate over the period.

The increase in 'other' included the impact of applying hyperinflationary accounting to the results of Absa Bank Ghana. Conversely, our taxation expense fell 14%, given a higher proportion of exempt income, resulting in an effective tax rate of 23.8% from 25.6%.

Loan pricing improved net interest margin

Our net interest margin widened by 7 basis points to 469 basis points, mainly on a substantial improvement in Africa regions' margin given higher policy rates. However, our margin narrowed slightly from the second half of 2023, reflecting reduced personal loan production and increased reserve requirements in some ARO countries.

Unpacking the moving parts, lending improved our overall margin by 9 basis points, largely due to improved pricing in CIB, partially offset by a slight negative composition impact from faster growth in Investment Banking, Relationship Banking and Corporate ARO.

Conversely, customer deposits reduced our margin by 3 basis points, reflecting a negative price impact from the higher ARO cash reserving with a similar impact due to the lower liability endowment impact. These outweighed the positive composition impact from reduced low-margin CIB deposits and wholesale funding in ARO.

The impact of endowment on equity in South Africa was flat, as average equity balances decreased, offset by the impact of the higher average prime interest rate.

Our structural hedge released a R923m charge to the income statement, 4 basis points more than the R568m charge in the first half of 2023.

The after-tax cash flow hedging reserve relating to the programme reflected a debit balance of R1.1bn as at 30 June 2024, from a debit of R3.5bn at 30 June 2023.

The impact of the total endowment after hedging in South Africa was minus 7 basis points YoY, as endowment balances grew slower than interest bearing assets, which was partially offset by a higher rate earned on our hedge.

Africa regions equity endowment contributed 2 basis points to our margin, as a result of higher rates and equity balances across most markets.

Several factors within 'other' added a net 3 basis points to our overall margin, offsetting a small drag from the introduction of deposit insurance in South Africa from 1 April, which we expect to cost between R250m and R300m a year on an annualized basis, or about 2 basis points.

Lastly, our interest rate sensitivity is a reduction of around R370m in net interest income on an annualized basis for every 1% rate cut in South Africa. ARO's sensitivity is R600m, since we can't hedge in those markets.

Moderate loan and deposit growth

Turning to our balance sheet, total loans grew 4% to R1.3tn. Within this, loans to customers rose 7%, or 8% in constant currency, while loans to banks fell 24%. Excluding reverse repurchase agreements, total net loans grew 6%.

South African customer loans grew 7% to almost R1.1tn and Africa regions increased 5%, or 12% in constant currency, to nearly R170bn.

Total deposits rose 5% to R1.4tn and accounted for 86% of our funding. Customer deposits grew 5%, to R1.3tn and bank deposits increased 10%.

Geographically, customer deposits grew 6% in South Africa to over R1tn. Africa regions increased 3%, or 12% in constant currency, to almost R250bn.

Solid SA retail and RB deposit growth

Delving into deposits, retail and Relationship Banking in South Africa posted solid growth. However, both had a similar shape, with low-margin deposits growing significantly faster than high margin deposits.

Everyday banking's 8% growth saw 12% growth in fixed deposits, with savings and transmission deposits up 11%, while cheque account deposits declined 6%. Our market share of retail deposits increased slightly to 21%, supported by competitive propositions, backed by marketing campaigns.

Relationship Banking customer deposits rose 11%, as savings and transmission deposits grew 14% and fixed deposits increased 25% and cheque account deposits rose 2%.

ARO RBB customer deposits increased 4%, or 13% in constant currency, with 12% growth in transactional products.

Lastly, CIB customer deposit growth was better than it looks. Constant currency growth was 3% and excluding a substantial drop in low-margin National Treasury tax and loan deposits, CIB SA customer deposits grew 6%. CIB ARO customer deposits rose 4%, or 14% in constant currency, driven by growth in current and savings accounts.

Loan growth remained robust across most businesses …

Considering higher policy rates in many markets and selective risk appetite cuts, loan growth remained robust across most of our divisions.

Reflecting market trends, Product Solutions Cluster loan growth slowed noticeably, increasing 4%.

Everyday Banking increased 7%, largely driven by growth in Cards.

Relationship Banking grew 7%, given strong growth in commercial asset finance, particularly in the transport and logistics sector, while overdraft utilisation remained muted.

ARO RBB loans grew 5%, or 12% in constant currency, driven by strong growth in commercial lending.

CIB customer loans grew 10%, with the largest component South Africa up 12%, while ARO increased 4%, or 12% in constant currency.

… although retail South Africa slowed

Our market share in South Africa remained flat YTD at 22% despite the slowdown in retail loan growth.

Our largest retail book, Home Loans, grew 3% as our market share remained stable just below 24%. However, our market share of flow increased, particularly among first time home buyers. Nonetheless, our production reduced, given the subdued property market. New business margins remain under pressure, particularly for low-risk customers.

Vehicle and Asset Finance loans rose 5%, despite new car sales declining 8% and slightly lower approval rates. Margins are resilient, although pressure on pricing continued, due to increased competition.

Credit card grew 8%, reflecting strong new account sales, limit increases and higher utilisation, and 7% growth in turnover.

Personal Loans grew just 1% due to 14% lower loan production, as we reduced our risk appetite given the pressure on consumers. The book remains a small part of our retail lending and our market share is very low.

Lower retail and RB charge in SA offset by CIB increase

Turning to credit impairments, our overall charge was flat at R8.3bn for the half.

Within this, our retail and Relationship Banking charges in South Africa all reduced YoY from elevated levels in the prior year.

While South African consumers remain under pressure, our overall retail charge declined 5% to account for 75% of our group charge.

Product Solutions Cluster impairments declined 6%, due to a 21% fall in Home Loans, while Vehicle Finance increased 6% off a relatively high base.

Everyday Banking decreased 4% as Personal Loans dropped 15% and Card rose 2%.

Relationship Banking fell 10%, due to the resolution of legacy cases and favourable post write-off recoveries.

ARO RBB credit impairments increased 4%, or 10% in constant currency, largely driven by the Retail portfolio, partially offset by improved collections and recoveries in Business Banking.

CIB credit impairments more than doubled off a low base. CIB South Africa rose 84% mostly due to higher stage 3 single name impairments.

CIB ARO credit impairments increased from a net reversal in the base, although its charge remains relatively low.

Note that our Head Office credit impairments was a small reversal versus R161m in the first half of 2023, including charges on local currency bonds in Ghana.

Credit loss ratio remains above through-the-cycle target

Our credit loss ratio improved slightly to 123 basis points from 127 basis points, although the charge remains above our through-the-cycle target range of 75 to 100 basis points over a calendar year.

Unpacking the portfolios, we saw the impact from our significant collections efforts and selective risk cut backs in lower retail credit losses in South Africa.

Product Solutions Cluster improved to a credit loss ratio of 100 basis points. Within this, Home Loans improved from 65 basis points to 49 basis points. Vehicle and Asset Finance improved slightly to 232 basis points, but remains elevated. Early arrears improved across both books and their impairments were driven by their NPL portfolios with inflows into debt review and legal.

Everyday Banking improved to 847 basis points, due to deliberate risk cutbacks and enhanced collection strategies, plus an improved macroeconomic outlook. Early-stage delinquencies improved, while late stage remained elevated with increased flows into debt counselling. Credit losses for Card improved slightly to 834 basis points and Personal Loans reduced noticeably to 940 basis points.

Relationship Banking improved to 57 basis points, which is back to within its through-the-cycle target.

ARO RBB's credit loss ratio improved slightly to 161 basis points and remains comfortably below its through-the-cycle range.

Finally, CIB increased to 33 basis points, slightly above its 20 to 30 basis point target range, from a low 16 basis points. CIB South Africa's credit loss ratio rose to 37 basis points, while CIB ARO remains low at just 14 basis points.

NPLs increased slightly, total coverage remains strong

Stage 3 loans, or non-performing loans, grew 10% to R83.4bn, largely reflecting the pressured late cycle, legal and debt counselling books within the retail portfolio in South Africa, particularly Home Loans. However, the increase in NPLs slowed during the period, rising only slightly YTD.

We remain appropriately provisioned for a tough operating environment.

Our NPL coverage rose to 47%, mostly due to higher CIB single name charges and increased Home Loans cover, given its ageing legal book. Our overall stage 1 and 2 loan coverage reduced slightly because of favourable macroeconomic outlooks across the retail portfolio in South Africa and higher quality new business origination.

Total loan coverage rose slightly to 4.2%, which remains well above pre-Covid levels of 3.3%. The increase was due to a higher proportion of NPLs.

Lower trading and insurance reduce non-interest income

Returning to our top line, growing capital lite revenue remains a group priority.

However, total non-interest income reduced 2%, down 1% in constant currency, to R18.4bn and accounted for 34% of our revenue.

The largest component, net fee and commission income grew 2% and accounted for over two-thirds of the total.

Our gross fee and commission income rose 4%, as transactional fees and commissions increased 6%, with broad based growth across electronic banking, cheque accounts and service charges. Merchant income grew 2% on 8% turnover growth.

However, fee and commission expenses rose 25%, mainly due to higher rewards costs and 28% growth in clearing and settlement charges.

Net trading, excluding the impact of hedge accounting, dropped 17%. Global Markets income declined 10%, as Markets SA fell 25% largely due to further losses on the Naira in the first quarter. This was partially offset by Markets ARO growing 5%, or 11% in constant currency. Excluding the Naira loss our group non-interest income was flat.

Net insurance income dropped 12%, as Life SA declined 15% and ARO Insurance fell 35%, while Non-Life SA grew 35%.

The strong growth in 'Other' was due to gains on the sale of buildings and positive revaluations in our non-core Private Equity and Infrastructure Investments.

Non-interest income growth was mixed at a divisional level.

Product Solutions Cluster grew 5% as 15% higher Advice and Investments plus 10% growth in Vehicle and Asset Finance outweighed flat Insurance SA non-interest income.

The largest component, Everyday Banking grew 2%, as price reductions and migration to lower-fee digital channels dampened the 2% growth in customers and increased transactional activity.

Relationship Banking declined 5%, as cash revenue fell 15% due to lower volumes and acquiring revenue decreased 2% on higher scheme fees and margin compression. Despite 6% growth in active customers, transaction income was low given faster growth in low-margin products.

ARO RBB Banking grew 8%, or 15% in constant currency, driven by 19% growth in transactionally active customers. Growth was broad-based, across transactional revenue, Card revenue and trade fees. ARO Insurance revenue dropped 35% due to higher weather-related claims, reinsurance write-offs and a challenging operating environment.

Lastly, CIB fell 2%, although it rose 1% in constant currency, largely due to lower Global Markets revenue, which outweighed 13% higher net fee and commission income and positive revaluations in Private Equity and Infrastructure Investments. Excluding the Naira loss, CIB's non-interest would have increased 5%.

Cost growth reflects continued investment

Moving to costs, operating expenses grew 8%, or 9% in constant currency, increasing our cost-to-income ratio to 52.7% from 50.6%.

The largest component, staff costs, rose 10% and accounted for 57% of the total, reflecting salary increases and people investments. Most of our hiring came in the first half of 2023 and our headcount has reduced marginally YTD.

Share-based payments grew 80% due to our eKhaya employee share scheme costs that were not in the base.

Non-staff costs grew 5%, or 6% in constant currency.

IT costs increased 14%, given continued investment in new digital capabilities and increased cybersecurity spend.

Amortisation of intangible assets grew 8%, due to further investment in digital, automation and data capabilities that increased goodwill and intangible assets to R15bn.

Total IT spend, including staff, amortisation, and depreciation, increased 12% to account for 28% of group expenses.

Marketing costs rose 17% on brand campaigns and sponsorship spend.

Professional fees grew 11%, given spend on strategic projects.

Depreciation was flat, reflecting reduced utilisation of physical IT infrastructure and further optimisation of our corporate and branch property footprint.

Within ‘other’, equipment costs fell 27%, due to lower power costs as loadshedding reduced in South Africa.

We continue to tactically reduce our discretionary spend in response to the pressure on revenue growth.

We also see an opportunity to strategically improve our efficiency, extract value from investments made and reduce legacy costs. We have started a group-wide initiative to drive these efforts, which should deliver substantial value over the medium-term.

CET1 ratio slightly above our Board target range

I will now make a few comments on our capital.

We remain well capitalized to fund the balance sheet growth opportunities we see.

Our CET 1 ratio improved slightly YTD to 12.7%, and it is above our 11% to 12.5% Board target range, while comfortably exceeding regulatory requirements.

We remain very capital generative, with profits adding 0.9% to our CET 1 ratio in the first half.

Risk-weighted asset consumption reduced our CET 1 by 0.2%, as our Group RWAs increased 2% YTD to almost R1.1tn, due largely to 3% higher credit risk RWAs.

Our final 2023 dividend reduced our ratio by 0.5%.

Our strong CET 1 ratio allowed us to increase our dividend payout to 56% from 53%, resulting in our flat interim ordinary dividend.

Thank you, I’ll hand you back to Arrie.

Arrie Rautenbach – Chief Executive

Divisional earnings growth dampened by central losses

Thanks Deon.

Unpacking our divisional performances, our business units grew earnings 1%. However, this growth was outweighed by increased losses at the centre, due to many of the items Deon flagged earlier, including our eKhaya BEE scheme costs, Ghana hyperinflation accounting adjustments, Barclays separation costs and a lower contribution from Treasury.

CIB earnings were flat off a high base and contributed 51% of our group earnings. Revenue-driven pre-provision profit growth of 7% absorbed significantly higher credit impairments, off a low base.

Relationship Banking earnings grew 1% on the back of 10% lower credit impairments and 1% higher pre-provision profit, despite continuing to invest in frontline staff and digital capabilities.

Pleasingly, our South African retail businesses returned to growth after their earnings fell last year.

Everyday Banking earnings rose 9%, driven by 4% lower credit impairments, as its pre-provision profit was flat.

Product Solutions Cluster also benefited from improved credit impairments as its pre-provision profit declined slightly given muted revenue growth.

Lastly, the 12% decline in ARO RBB earnings was entirely because of the stronger average Rand, as its constant currency earnings grew 1%, with the banking operations continuing to show strong growth.

CIB continues to benefit from its diversification

Despite CIB taking further Naira losses in the period, CIB earnings were flat off a high first half of 2023 that grew 31%.

We show its earnings by activity and region, although as you know it is run on a Pan-African basis.

Clearly CIB continues to benefit from its diversification.

Corporate performed very well again with earnings up 16%, on a combination of 12% higher revenue-driven pre-provision profit and 38% lower credit impairments.

Conversely, Investment Bank earnings fell 8%, due to significantly higher credit impairments that offset 4% pre-provision profit growth. Excluding the Naira losses, IB's earnings were only slightly lower.

Using a geographic lens, CIB SA earnings fell 6%, as 84% higher credit impairments outweighed 1% pre-provision profit growth and lower taxes.

CIB ARO earnings rose 7%, or 12% in constant currency, reflecting 14% higher pre-provision profit and a small credit impairment charge from a net release in the prior period.

CIB's operational priorities include growing its client base and further improving primacy. Client revenues grew 13% and primacy increased slightly during the period. CIB is focusing on low cross-sell, low revenue clients as well as new client acquisitions. Importantly, it has added 325 new to bank clients year on year.

The business continues to make progress in its digital channel usage with South African migrations onto Absa Access increasing by 9% this year, with initiatives in place to accelerate the remaining migrations in the second half.

CIB grew capital lite revenues 2%, driven by deposit growth and 14% higher Corporate non-interest income, partially offset by lower trading revenue in Markets SA. Pleasingly, Corporate's non-interest income has grown 13% on a compound basis since the first half of 2021.

The business continues to diversify geographically, with CIB ARO constituting 47% of first half earnings. Moreover, to capture flows into Africa, CIB opened a Beijing office in May and aims to establish a Middle East office in the first half of next year.

Lastly, CIB has maintained its leading role in renewable energy financing in South Africa and has arranged R96bn in sustainable finance deals, putting it on track to easily surpass its R100bn goal by 2025.

Relationship Banking continues to invest for growth

Relationship Banking earnings grew 1% as its credit loss ratio improved to within its through-the-cycle target range.

Its revenue grew 6%, thanks to solid 11% higher net interest income. However, non-interest income declined 5%, due to continued contraction in cash volumes, compression in its acquiring revenue margin and growth in low-margin products.

Cost growth of 10%, was driven by investment in digital and hires in frontline staff across Wealth and the SME segment. We expect these hires to generate revenue, which we are starting to see already.

Turning to Relationship Banking's strategic priorities, firstly it is focusing on diversifying Commercial, its largest business, beyond its leading Agri franchise. It gained some momentum here, with strong growth in non-Agri sector revenue, including Transport and Logistics, the Public Sector and Manufacturing. Active Commercial customers grew 3% overall.

We continue to see SMEs as a key growth opportunity and our efforts to scale our business have seen active client numbers growing 7% and transactional accounts up 11%. Euromoney awarded us Best Bank for SMEs in South Africa.

The turnaround in our Private Banking and Wealth segment has lagged our efforts in Commercial and SME, but recent changes to our propositions has accelerated growth in these segments with active customers up 7% year on year.

We also continue to grow Islamic Banking, where deposits grew 30%.

Lastly, further investment in digital capabilities saw digitally active customers grow 10%, and we launched several new digital value-added services and products both on our app and online.

Card and Personal Loans drove EB earnings growth

Moving to Everyday Banking, where earnings grew 9%, largely due to 4% lower credit impairments off a high base.

Transactions and Deposits earnings fell 10%, on 7% lower pre-provision profit and 4% higher credit impairments. Its non-interest income grew 3%, as continued migration to digital channels and targeted price reductions partially offset growth in customers and transactional activity.

Card earnings grew significantly, given 10% higher pre-provision profit on the back of 4% revenue growth.

Personal Loans improved noticeably albeit still a small loss, as our risk mitigation initiatives led to 15% lower credit impairments, while pre-provision profit grew by 2%.

While consumers remain under substantial pressure, Everyday Banking continues to deliver on its strategy. Importantly, customer experience scores improved further during the half.

Moreover, it launched Ultimate Banking, an account that offers market-leading value for money, which has been well received by the market and is showing positive sales momentum since launch.

Our active transactional base grew 5%, with pleasing double-digit growth in targeted segments such as young adult and retail affluent. Moreover, after scrapping Absa Rewards fees last year, membership grew 15%, which is positive for retention and cross-selling.

We continue to enhance our digital capabilities, which is evident in 12% growth in digitally active customers, while customers using our banking app increased 20% to 2.4m, supported by strong growth in our app downloads, which grew by 43%. In response, to this digital migration we continue to optimize our branch operations with our traditional branches reducing by a further 5% to 452 branches, while we have increased our Sales and Service outlets by 30% to 99.

Lastly, given the difficulties facing South African consumers, we further reduced our risk appetite in personal loans where we cut production by 14% and consequently, we have seen a reduction in the credit loss ratio in the business.

Home Loans underpinned PSC earnings growth

Product Solutions Cluster grew earnings 7%, due to 6% lower credit impairments off a high base, while its pre-provision profit declined slightly given muted 3% revenue growth.

Recovery in Home Loans earnings drove the division's growth, again driven by improved credit impairments that offset lower pre-provision profit. Conversely, Vehicle and Asset Finance earnings rose significantly as pre-provision profit grew 7% to outweigh still-elevated credit impairments.

Insurance SA earnings fell 10% off a very high base, with Life Insurance down 23% due to higher insurance service expenses. Non-Life Insurance earnings almost doubled, given solid revenue growth and an improved underwriting margin.

The increased loss in Advice and Investments that includes central costs for the division reflects significant investment in people and technology. The underlying business has seen improved advisor productivity and assets under management.

We continue to focus on integrating bancassurance across our retail franchise. This was evident in 11% new business growth in Life Insurance, while digital sales rose 34% driven by an increase in digital funeral sales.

During the period, Vehicle and Asset Finance launched Renault Financial Services, a partnership with the Motus Group, as part of its strategy to become the Bank of the Automotive Industry.

With consumers under pressure, we continue to enhance collections strategies including pre-delinquency and operations, and we have seen a reduction in early cycle roll rates, which is starting to positively impact rolls into late stage and legal books. We also continue to actively manage our front book risk and we have significantly reduced our vehicle finance origination risk appetite in higher risk segments and certain dealer groups.

Lastly, PSC has strengthened collaboration with the rest of the group, building integrated propositions with Everyday Banking, and Private Banking and Wealth in Relationship Banking. For example, our new Ultimate Banking solution contains embedded life cover and the value of new mortgages originated through our internal channels improved over the period.

ARO RBB earnings declined off a high base

As mentioned, the stronger average Rand was a substantial drag on ARO RBB earnings, which grew 1% in constant currency. In fact, Banking operation earnings grew 12% in constant currency, rather than the 2% decline you see here. Banking pre-provision profits grew 7%, partially offset by 4% higher credit impairments.

ARO Insurance earnings fell 78%, as revenue dropped 35% due to higher weather-related claims, reinsurance write-offs and a challenging operating environment.

We believe that a bancassurance distribution model with key partners is a more sustainable model for us in ARO going forward, as shown with our recently announced proposed transaction with Hollard.

Growth and increasing returns are priorities for ARO RBB, with positive momentum across several strategic imperatives.

Our focused customer acquisition initiatives, refreshed Retail customer value propositions and improved digital onboarding capabilities saw new-to-bank transactional customers grow by 23%, with a 27% increase in digitally onboarded customers. This resulted in total active customers increasing by 7% to 2.5m with 11% compound growth since June 2020.

Further enhancing our digital capabilities to improve convenience and accessibility is key, and we continue to see positive take up of our digital services with digitally active customers growing 10% to over a million, taking the 5-year compound growth to 17%.

Card is a group area of strength that we can leverage in our Africa operations, and the recent launch of commercial cards in three of our markets and new Infinite and Signature cards for our retail affluent customers resulted in a 31% growth in new credit cards, off a low base.

Lastly, in driving financial inclusion, our small ticket, short-term mobile loan disbursements grew 17% to almost R4bn.

Scope to improve PSC and ARO RBB returns

Looking at our divisional returns, the two highest return businesses decreased. CIB off a very high base, whereas we believe that Relationship Banking can improve noticeably from current levels medium-term, as its investments pay off and it grows capital lite revenue.

Pleasingly, Everyday Banking's return on regulatory capital improved slightly to 22%, although we aim to increase this further through the medium-term, when credit impairments normalise and fee income growth picks up.

Product Solutions Cluster remains well below our cost of equity and we expect it to improve materially from these levels, particularly given it includes Insurance and Home Loans that generate attractive returns though-the-cycle.

ARO RBB's return on regulatory capital remains well below ARO's cost of equity. We see scope to improve this materially medium-term, by reducing its cost-to-income ratio from 65%, driven by revenue growth and better efficiency.

I will now hand you to Deon.

Deon Raju – Financial Director

2024 outlook

Turning to our guidance for the remainder of the year.

For the global economy, the IMF projects real GDP growth of 3.2% in 2024. We also believe softer inflation provides space for central banks to reduce policy rates and the US Fed has signaled that it is likely to start easing rates soon.

For South Africa, we expect real GDP growth of 1.1% in 2024. The initial reaction to the government of national unity has been positive, reflected in somewhat lower government financing costs and a firmer Rand. The strained consumer remains a central focus. Helpfully, we expect headline inflation to moderate further, which is likely to open the way for a measured pace of cuts beginning as early as September. We project that the prime rate is likely to fall to 10.75% by mid-2025.

We forecast that GDP-weighted growth for our ARO presence countries will rise to 4.7% in 2024, led by East Africa. Fiscal and debt sustainability will remain a central focus for countries like Ghana, Kenya and Zambia, while weather conditions are important for all ARO markets. For many ARO presence countries inflation and foreign exchange developments are likely to enable some monetary policy easing.

Based on these assumptions, and excluding further major unforeseen political, macroeconomic, or regulatory developments, our guidance for 2024 is as follows:

We continue to expect mid-single digit revenue growth, with broadly similar growth in net interest income and non-interest income.

Net interest income is expected to slow in the second half, given lower growth in South African retail lending and the impact of higher cash reserving requirements in some ARO countries.

Non-interest income growth should improve noticeably in the second half of 2024, in part due to our Naira losses in the second half of 2023.

We expect mid- to high single digit customer loan and deposit growth.

Our credit loss ratio is expected to improve slightly from 2023's 118 basis points and exceed our through-the-cycle target range of 75 to 100bps again.

We expect mid-single digit growth in operating expenses, producing a similar cost-to-income ratio to the 53.2% in 2023 and low to mid-single digit pre-provision profit growth.

Consequently, we expect an RoE of 14% to 15%, from 14.4% in 2023.

We still expect our Group CET 1 ratio to end 2024 in the upper half of our Board target range of 11.0% to 12.5%, despite the fact that Kenya's recent credit rating downgrade will likely be a drag. We expect to maintain a dividend payout ratio of around 55% for 2024.

Given material base effects, we expect stronger pre-provision profit growth and a lower credit loss ratio than the first half to support better second half earnings growth off a low base in the second half of 2023.

Pathway to our medium-term targets

Finally, looking at medium-term guidance, given the Group's first half 2024 results, it is more challenging to achieve an RoE of above 17% by 2026.

However, we continue to firmly believe that an RoE of over 17% is an appropriate target for the Group over the medium-term.

Moreover, we still see a clear pathway to achieving this, with the same drivers previously highlighted, including growing capital lite revenue, a normalising credit loss ratio, improving productivity and faster growth from Africa regions.

Nonetheless, we will update the market in the fourth quarter of 2024 on when we expect to achieve our RoE target, after completing our medium-term budgeting process.

Thank you, I will now hand back to Arrie.

Arrie Rautenbach – Chief Executive

Thanks Deon.

In concluding, I would like to make the following remarks.

While the operating environment in the first half of 2024 was tougher than we predicted, the management team are focused on specific plans to turnaround our current performance which are already gaining traction.

In closure, you would have seen the announcement this morning of me taking early retirement from April 2025 after 27 years with this incredible organisation. I look back over my career with fond memories and want to thank the Board, the Executive Committee and every colleague across the organization for helping me to enjoy a wonderful career in Absa.

We will now take your questions.