Standard Bank Group 1H24 Pre close call script – 20 June 2024

Good afternoon and thank you for joining the Standard Bank Group pre-close call this afternoon. My name is Sarah Rivett-Carnac and I will be managing the call.

As you will be aware, we issued a voluntary trading update on SENS this morning. The purpose of this call is to cover the highlights of that announcement and then we will open up for questions.

On the call today we have Arno Daehnke, the Standard Bank Group financial director and Brooks Mparutsa, Barbara Bell, and Thembelihle Ngema, the business unit CFO's in the room and Willa van den Berg online.

I will now hand over to Arno. Thank you very much, Arno.

Arno Daehnke – Standard Bank Group Financial Director

Thank you Sarah, and thank you everyone for attending our update and our preclose call. We much appreciate that.

I will start with the macro-economic trends in the markets in which we operate and the operational trends we have seen in our business in the 5 months ending 31st of May 2024 and we will compare that to the 5 months ending 31st of May 2023.

Thereafter I will provide some comments on the macro-economic outlook and our guidance for the full year.

Starting with the macro-economic trends across our Africa Regions' portfolio of countries.

On average, period on period, many African currencies have devalued relative to the Rand, inflation is higher in West Africa but has moderated in East Africa, and policy rates are higher.

The most notable currency devaluations have taken place in Angola, Malawi, Nigeria, and Zambia. In addition, Zimbabwe adopted a new local currency, the ZIG, effective from early April. In relation to Zimbabwe, it is worth noting that the group changed its reporting and functional currency from ZWL to USD prior to the introduction of the ZIG. The change in functional currency to USD is premised on the economic environment in which the group operates. On a USD reporting basis, Zimbabwe is no longer hyperinflationary. This change was effective from 1 January 2024 and has been applied prospectively.

In terms of interest rates from the end of May 2023 to the end of May 2024, we have seen interest rates increase in 9 countries, namely Angola, Cote D'Ivoire, DRC, Kenya, Lesotho, Malawi, Namibia, Nigeria, Tanzania, and Zambia and we have seen interest rates cuts in 4 countries, namely Botswana, Ghana, Mozambique, and Zimbabwe.

Turning now to South Africa.

Inflation has moderated period on period and is well anchored within the South African Reserve Bank's 3 to 6% target range. The average policy rate is higher following the interest rate increases in the five months to May 2023.

In summary, on the overall macroeconomic trends across our portfolio, inflation has moderated but remains high, policy rates are marginally higher and African currencies are weaker relative to the Rand in May 2024 compared to December 2023.

Turning to the business and starting with the overall headline earnings trends

In summary:

- Banking activities headline earnings grew by mid-single digits.
- The increase in Insurance & Asset Management headline earnings was more than offset by the decrease in earnings attributable from ICBCS off a high base in the prior period.
- Combined, the group's headline earnings grew by low-to-mid single digits in Rands.
- On a constant currency basis, group headline earnings grew by mid-teens.

From a regional perspective, SBSA delivered a respectable performance growing earnings period on period. Africa Regions delivered strong organic growth in constant currency, but earnings declined marginally in Rands period on period. Despite the decline in Africa Regions earnings, Africa Regions still contributed 43% to group headline earnings for the five-month period.

Moving onto the operational trends and starting with our banking activities

As noted previously, the group amended the methodology for recognising interest on Stage 3 loans and applied the change retrospectively. This change resulted in an increase in net interest income and an equal and opposite increase in credit impairment charges as well as an increase in the group's net interest margin and credit loss ratio. I refer you to the detailed restatement reconciliation available on the group Investor Relations website.

Accordingly, the commentary that follows reflects the trends relative to the restated 5 months of last year.

Income growth was supported by higher average interest rates and higher client transactional volumes but dampened by lower trading revenues. Balance sheet growth has slowed year to date in Rands, driven by heightened competition, particularly in mortgages, as well as customer affordability constraints and limited demand in South Africa. The Africa Regions' portfolio reported continued underlying organic growth.

It is worth noting that during the second half of 2023, we instituted alterations to the accounting classifications of instruments within the financial investments portfolio to reduce earnings volatility arising from accounting mismatches. This has resulted in a movement of income reported as non-interest revenue in the prior period to net interest income in the current period.

Operating expenses growth was well contained, supported by cost containment initiatives, for example on discretionary spend, as well as lower performance-linked incentives.

Banking income growth and operating expenses growth were both dampened by currency movements and translation effects period on period. Total income growth exceeded operating expenses growth, and this resulted in positive jaws.

As expected, credit impairment charges were marginally higher period on period. Higher charges in Business & Commercial Banking and Personal & Private Banking were partially offset by lower charges in Corporate & Investment Banking.

In the current period, growth in PPB early arrears and NPLs has slowed. Sovereign debt provisions in Africa Regions, specifically Ghana and Malawi, were the key driver of higher CIB credit charges in the prior period.

The elevated credit charges resulted in the credit loss ratio for banking for the period being above the top of the group's through-the-cycle credit loss ratio target range of 100 basis points. This is not unexpected considering the stage of the cycle and the fact that the CLR is traditionally higher in the first six months of the year relative to the second.

Turning to Insurance & Asset Management

IAM operating earnings increased driven by an improved insurance result in South Africa, more specifically from improved risk claims experience in the corporate and short-term insurance businesses.

This was partially offset by a reduction in the African Regions' Asset Management earnings following the devaluation of the Nigerian Naira.

The Shareholder Asset and Exposures portfolio is impacted by market movements, principally interest rates. Recent trends have positively impacted the valuation thereof.

Moving on to capital and returns

The group remains well capitalised and liquid. The group's ROE, while lower than the prior period, remained within the group's target range of 17% to 20%.

Turning to the 2024 outlook

Group headline earnings in the six months to 30th of June 2023 was R21.2 billion, boosted by a strong June in 2023. This sets a high base off which to grow in the six months to 30 June 2024.

Looking forward, we still expect some interest rate cuts across our portfolio of countries in the second half of the year, however they are likely to be delayed.

In South Africa, post the election outcome, we expect a continued commitment to the fiscal consolidation plan and ongoing traction with the growth-supportive reforms underway. This should support moderating inflation and monetary policy easing. Our latest house view, based on Standard Bank Research, remains 100 basis points of cumulative interest rate cuts, but we expect them to be spread with 2 cuts of 25 basis points in the second half of 2024, starting in September this year, and 2 cuts of 25 basis points in the first half of 2025 (previously, we expected 75 bps in the second half of 2024 and 25 bps in the first half of 2025).

In line with previous guidance for the twelve months to 31st of December 2024, we remain committed to delivering positive jaws and a return on equity well anchored inside the group's target range of 17% to 20% for the full year.

We will release our financial results for the six months to 30th of June 2024 on the 15th of August 2024.

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

Q&A

Jacques Conradie

Hi there, Arno and team. Thanks for the update, I think I'd be interested in your view on how the SA outlook changes with this very positive election outcome that we receive. I mean, it's obviously hard to know at this stage, but I guess there could be some immediate confidence boost and then maybe post rate cuts it could add on to that. But I'd be interested in what your internal view is and what the team thinks after debating the last few days, what impact this could have over the next year or two?

Arno Daehnke

Thanks Jacques, obviously it's early days and we're still processing everything, but no doubt this will boost confidence as I'm sure you will agree. I think it will also possibly move interest rate cuts further forward and again that improves our affordability constraints and should overall bolster some credit disbursements and further loans and advances growth.

So, it clearly, goes without saying a very positive development and certainly puts us in a good position to monetize the opportunities we see in South Africa in this instance.

Harry Botha

Thank you, good afternoon, everyone. Thanks for opportunity.

I just wanted to ask about the balance sheet growth in the first half, you noted that it's slowed down. You did guide to slow growth. So is the first half in line with your expectations and are you still on track to see improved growth in the second half?

Obviously, noting the comments you just made for an improved outlook with positive South Africa developments and then I'd like to get a sense also of the CIB deal pipeline, what it looks like if it's changed in the last three months since you reported. Thanks.

Arno Daehnke

Right. Thank you, Harry.

I will hand over to my CFVOs to be specific on their portfolios. Lihle on your side in the Personal & Private Banking side, are you seeing loans and advances growth?

Thembelihle Ngema

Thanks Harry, for the question. On our side, slower than originally anticipated a few months ago and really it is the more delayed rate reductions that's had an impact on us, particularly on the home loan book. We do anticipate that we'll start seeing more traction in the second half as well as into next year.

Brooks Mparutsa

Thanks good afternoon, Harry.

So from an investment banking CIB point of view, our investment banking franchise has actually done very well in South Africa. We've shown high single digit growth in loans and

advances, so that's done very well. And when we look at the outlook, our due pipeline is quite strong both on the lending side, in investment banking as well as sort of the advisory side and with the election outcome, we certainly see that coming stronger with more confidence.

If you look at transactional banking in South Africa, also single digit growth/mid-single digit growth for transaction banking on the asset side. What has been disappointing and part of that is the currency, impact is the growth in Africa Regions. So, for both Investment Banking and Transactional Banking, it's quite positive in the mid-single digit range.

In terms of deal pipeline, I've already talked about Investment Banking. On the Global Market side, we are certainly forecasting to see improved performance in the second half of the year, particularly when it comes to structured products in Global Markets.

So, we're looking for a much more positive second half of the year in Global Markets than what we had in the first half of the year.

Barbara Bell

Thanks Sam. From a BCB perspective, yeah, it's similar to PPB, I think you see a lot of what happens in the PPB environment translates into BCB. So it has been softer growth in the first half than we had anticipated.

We are optimistic that the second half is going to see a lot better growth in South Africa where we sort of in very low growth. In Africa Regions, a very strong growth in constant currency terms, but really the currency weaknesses has softened that growth translating into slightly lower growth rates in Africa. Thanks.

Ross Krige

Good evening everyone. Sorry about that.

Just three questions from me on currencies, just wondering if the impact on the for the five months to May, if it's been worse or better than expected. So has the ZAR been stronger or weaker than what you had forecast previously?

And related to that, for the full year, is there any change on your current forecast versus the net 5.8% stronger ZAR?

And the second question is on your FY24 guidance, has there been any changes by P&L, line item or is that something you are not disclosing at this point?

And then finally, just with regard to Ghana and the currency depreciation, that seems to be intensifying there, if you have any commentary on developments, economic developments on the ground in Ghana and how you guys see it.

Thank you.

Arno Daehnke

Thank you. On the currency, slightly weaker than we had expected, so the impact is a bit bigger, but the Rand is largely tracking where we had expected but some of the currencies I mentioned earlier are slightly weaker than we had anticipated.

On the changing guidance, they are a few line item changes. So we expect NII to be slightly stronger and NIR to be slightly weaker and actually the principal driver on them is not so much the underlying operating driver, it's the classification of the investment portfolio typically hold for liquid asset requirements, high quality liquid asset requirements where I mentioned earlier in the call that we have a different accounting treatment and recognize that in NII as opposed to gains and losses, fair value gains and losses. So on the back of that, NII a bit stronger, NIR like overall sort of flattish on that.

On Ghana, we continue to remain optimistic on the developments there. We see inflation coming down and we expect inflation to be further lower at the end of the year.

You would know that we are not treating it as a hyperinflation economy and I think by the end of the year will be quite soon that that's not hyperinflation and the overall outlook is looking somewhat positive for us on Ghana overall.

In the portfolio overall, when we do an assessment on sovereign risk, we see a sovereign risk having improved key parameters on some of our larger economies have improved.

You know, one example for example, is the Kenyan Eurobond refile, which is successful and so it will sovereign risk is somewhat more and somewhat lower than we probably had a year or two years ago.

Ross Krige

Thanks Arno. Sorry, if I may just follow up on the on the second question, just FY24 guidance, so in substance the NII/NIR comment, everything's in line with the March guidance, is that right?

Arno Daehnke

Yeah. So the total revenue guides is in line, but bit more NII bit less NIR.

Ross Krige

And Opex, credit loss ratio?

Arno Daehnke

Yeah, probably in line with the guidance we gave you in March. Opex is tracking as per expectation actually, slightly better than expectation even on an operating expenditure line items. So the we see positive jaws currently and then have to push those through to the end of the year, where as the guidance we had was flat to positive jaws at the moment we've seen positive jaws.

Charles Russell

Good afternoon, Sarah, Arno and team. Thanks very much for the opportunity to ask some questions.

Maybe just following up on one of Ross's questions, just from a credit loss ratio perspective, would you still expect to be in the range by the end of the year? So weaker seasonally in the first half versus second half and would the election outcome have much of a difference on that.

If I could maybe just go to the second question as well, your trading activity results, what would that have been in constant currency? It was down in ZAR, but what would that constant currency impact have been?

And then finally, just on the Zimbabwean property losses that you mentioned at Q1, where are those stacking at the five months, has there been an improvement in this and maybe just the key drivers there? Was that as a result of changing the functional currency to USD?

That's all for me.

Arno Daehnke

Thank you, Charles. So first of all on the credit loss ratio, so I mentioned we're about 100 basis points at the moment. We'll probably be around the 100 basis points by year end hoping for slightly below that obviously, but somewhere at the upper end of our target range, somewhere around that. We previously guided 1H being worse than 2H that remains.

We seeing positive developments in our retail banking portfolio. If you want to go into more detail there, Lihle on my left can give you some detail. Where we seeing as I mentioned in the script that some of the indicators are certainly turning favorable. We still seeing pressure in the BCB book. Typically that would be lagging in the cycle, so retail taking strain first, BCB taking strain 2nd and so BCB I guess is currently the book which is in the eye of the storm. You could use the terminology worse whereas PPB has sort of worked through the worst. And in CIB is actually tracking quite well in terms of impairment analysis and impairment provisioning.

And Brooks, do you want to reflect on trading and then I'll go back to Zimbabwe property.

Brooks Mparutsa

Sure. And thanks, Charles.

In terms of trading income, as you're well aware, we've got trading income in both Global Markets as well as Investment Banking, but I'm sure that the focus is on the Global Markets piece. In constant currency we’re up, I would say high single digits in constant currency, but unfortunately with the depreciation of currencies are down in ZAR.

I hope that answers your question.

Arno Daehnke

Thanks, Brooks.

And then Charles, on the property, there have been no material movements since those losses reported in the quarter one release. And remember, those losses are not really losses they are revaluations, rather, I would call them as opposed to losses. They were based on the switch of the ZWL to the USD, so this was a once over adjustment. We don't expect further adjustments there.

James Starke

Hi, good afternoon everyone, Arno and team. Thanks for the opportunity.

Four questions from me if I can, your net interest margin, if you could just give us a bit more color on how that's trending at what came out of last year pretty strong. We've had quite a few moving parts, FX, rate cuts, etcetera. Perhaps just help us out how you see things trend at the moment.

The second one is on Deposit Insurance. I know it's relatively new. Can you just give us some color on trends you seeing early on, perhaps both on the retail side and perhaps if there any surprises coming out on the corporate side, just on the Opex to further to Ross's question, you say it's trending a bit better than expectation or what is the source of that positive surprise?

And then lastly, given some of the FX moves we've seen on the continent, can you perhaps comment on trends around dividend repatriation? I know you've been quite firm in the past that it hasn't been a problem. Is that still the case in the last few months? Have you been able to get out what you're hoping from your Subs?

Thank you.

Arno Daehnke

Thanks James.

On NIM, with interest rates being higher, NIMs tracking better than expected, endowment is more positive than we had thought and we will have the half year numbers for you in August on the 15th, we will be able to unpack that in detail, but endowment is better than expected NIM is then better than expected. Obviously taking the shine off that is the very competitive pricing we're seeing in South Africa, particularly mortgage portfolio with some of the concession rates relative to prime or really quite sizable and obviously that asset pricing is taking some of the shine off the NIM, but overall the trend is right there.

On Deposit Insurance, we haven't seen any trends. I'm looking at my colleagues here. If you're looking at trends, in other words, are the sort of banks growing because of the positive insurance because they're sort of treated equally now up to R100,000 deposits. We haven't seen those trends. There's obviously a charge to the bank. I don't know if you referring to that, that’s just around the R250 million level, R230 million level per annum, but no trends expected actually going forward either. I don't think we will be seeing some trends too.

On Opex we've been extremely focused on costs and we know we've had some big investments last year into people into growing our teams and so on. So that's been a very serious agenda of going from the top of the house into the organization on managing Opex very, very carefully and there are many costs initiatives underway, looking at each Rand spent and where can we save money on that and obviously that's baring some fruit and but also need to allude to the fact that obviously the bank is not performing as strongly, growing strongly as last year, So incentive charges, variable pay is being cut to some extent and that's obviously also helping our Opex line.

Then on dividend repatriations, we have got some constraints in Angola and in Mozambique where there's currently liquidity tied up on the back of FX constraints. The Angola number is relatively small, in Mozambique, slightly more, slightly bigger, but apart from those two countries, we continue to extract dividends from all of our markets.

You may realise that in Nigeria, for example, the FX backlog has been completely cleared with the new economic reform happening there, so that FX backlog at one stage amounted to $7 billion and then that's been cleared out. So we expect low constraints in Nigeria and then obviously working hard with the authorities on getting our dividends out from Mozambique and Angola.

Clem Goemans

Thank you. Good afternoon, Arno and team. Thanks for the presentation and the opportunity to discuss.

Can you comment on the mortgage market, the effect if any, at this stage of Discovery's entry into the market?

And then further on your infrastructure project where there was previous talk of a target of R500 billion and if I remember correctly, the actual to last year was of the order of R250 billion. How is that progressing?

Thank you.

Arno Daehnke

Alright, for the mortgage markets, I'll hand over to Lihle, but before I do so, we can just to clarify the infrastructure market, perhaps you're referring to the sustainable financing targets we have, which amount to R250 billion by 2026. Just to clarify, Clem if you're referring to that space.

Clem Goemans

Yes that is.

Arno Daehnke

Yeah. Fantastic. Thank you, Clem great to hear from you. Thank you for dialing in.

I'll ask Lihle to run through mortgage market on any Discovery impact. That was the question. Brooks, you can talk about sustainable financing, please, how much we've done and we are tracking relative to the target.

Thembelihle Ngema

Thanks Clem.

From a mortgage market perspective, it continues to be a competitive environment and I think it's wider than just Discovery. We haven't really seen a significant impact from Discovery at the moment but we are doing is really staying close to our clients and making sure that we defend our base, but no significant impact as yet.

Brooks Mparutsa

Afternoon, Clem

So in terms of sustainable finance, I'll goal for 2024 is R55 billion for the year and we're tracking well in terms of that commitment. We are seeing increased availability of projects not just in South Africa, but as well as Africa Regions, so we're seeing our portfolio for sustainable finance in African Regions continue to increase and become a significant contributor to our overall sustainable finance target.

Arno Daehnke

And maybe Brooks, just to add, Clem for your information, we've already financed in 2023, R105 billion cumulatively already, so now we're adding another 55 billion to that, so you can see at the end of this year will be around the R160 billion level, possibly even more. So we're tracking quite well to our 2026 target of mobilising R250 billion of sustainable financing.

Sarah Rivett-Carnac

Thanks Arno, those are all the questions we have. Would you like to make any closing comments?

Arno Daehnke

Yeah, just to thank everyone for dialing in for this update. And as noted, we will release our results on the 15th of August and I'll certainly look forward to hosting you at that point in time, either virtually or on a hybrid basis to deal any remaining questions, which I'm sure will be many of them.

So thank you and wishing you all the best for the coming weeks till then.