Standard Bank Group 1H25 pre-close call script – 19 June 2025

Sarah Rivett-Carnac – Head of Investor Relations

Good afternoon everyone 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 referencing our financial trends for the group in the 5 months ending 31 May 2025 and providing commentary on that relative to the 5 months ending 31 May 2024. We also reaffirmed our guidance across our 3 core metrics for the 2025 year, namely Revenue growth, Cost to income ratio and ROE.

In this call, we will cover the highlights of that announcement and then we will open the line for questions.

On the call today we have Arno Daehnke, the Standard Bank Group CFO and Brooks Mparutsa, Barbara Bell, Sayuri Govender and Willa van den Berg, the business unit CFOs. Sayuri has recently taken over from Lihle as PPB CFO.

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

Arno Daehnke – Standard Bank Group Financial Director

Hello everyone and thank you for joining us this afternoon.

I will assume that most of you have read the announcement we issued this morning, so I will be brief and then turn over to Q&A.

Starting with the macroeconomic developments. In the 5 months to 31 May 2025, uncertainty related to US trade policies and geopolitics impacted macroeconomic dynamics and monetary policy. Globally, this has manifested in weaker demand, a slowdown or pause in monetary policy easing as well as weaker growth.

Across the group's countries of operations, on a blended basis, inflation has continued to moderate from elevated levels and interest rates have declined, albeit more slowly than expected.

While uncertainty has weighed on confidence and GDP growth outlooks have been moderated down, sub-Saharan Africa is still expected to grow at 3.8% in 2025 (International Monetary Fund, April 2025).

In South Africa, while the global uncertainty and the local budget-related wrangles weighed on confidence and demand, higher commodity prices and market volatility have presented opportunities. We were pleased that the budget was approved and that fiscal restraint was maintained.

In South Africa, inflation has been low, providing scope for interest rate cuts, real wage growth and increased disposable income and customer debt capacity. We have seen a 25 basis point cut in January and then in May as well. SA CPI for May was released yesterday and, as you would have noticed, it was flat on April at 2.8%. More broadly, we remain optimistic that the structural reform programme will deliver an uptick in growth over the medium term.

Turning to our headline earnings trends for the first 5 months of the year. Despite the considerable uncertainty and market volatility, the group's established and well diversified franchise continued to deliver a resilient performance in the period.

As highlighted in our announcement:

- Group headline earnings grew at around 10% in ZAR
- On a constant currency basis, headline earnings grew by mid-teens period on period.
- And the group's ROE for the period remained well anchored within the group's 2025 target range of 17% to 20%.

Moving onto the operational trends and key business performance drivers. Starting with our banking activities trends period on period:

- Net interest income was flat
- Non-interest revenue grew by mid-teens
- Costs were well managed
- And credit impairments were lower period on period

Looking at balance sheet trends in more detail. The balance sheet growth has been slower than expected, impacting average balance sheet growth in the period. The uncertainty combined with the delay in interest rate cuts negatively impacted demand for credit, particularly in PPB and BCB both in South Africa.

Looking at trends across the 3 banking business units, CIB recorded strong growth in the period, a trend continuing from last year. This was driven by continued strong Investment Banking origination activity, particularly in the Energy & Infrastructure, Telecommunication, Media & Technology, and Diversified Industrials sectors.

PPB and BCB South Africa have had a slower start to the year than initially expected. BCB South Africa has seen an uptick in disbursements more recently. We need more time to determine if this trend continues. And if it does, it will take time to show up in average balances and net interest income.

Turning to net interest margin drivers. Average interest rates were lower, and pricing has been competitive, particularly in the mortgage market in South Africa thus negatively impacting NIMs. In contrast, the Africa Regions portfolio grew faster than the South African portfolio, providing a positive mix impact.

Non-interest revenue was supported by growth in both key line items – fees as well as trading revenue.

Net fee and commission revenue growth was strong, underpinned by the group's growing and increasingly entrenched client base. The group's strategy of providing a full suite of relevant and appropriately priced solutions to our clients, when and where they want them, continues to resonate with clients.

Market volatility drove client activity which supported robust trading revenue growth period on period.

Turning to banking costs. Staff cost growth was driven by annual increases, higher incentives linked to improved performance and a change in headcount composition to include more specialist skills.

Other operating expenses growth was well contained. We continue to focus on executing our save-to-invest strategy. Activity-related costs were higher, in line with higher client activity. This was offset by slower growth in other areas, such amortisation and premises-related costs. Cost growth was slightly ahead of revenue growth period on period. This is in line with expectations at this point in the year.

Moving on to credit trends. Slower book growth as well as a continued slowdown in early arrears and lower inflows into non-performing loans in Personal and Private Banking led to lower credit impairment charges period on period. As expected, the group's credit loss ratio for 5M25 was just outside the top end of the group's through-the-cycle range of 70 to 100 basis points, but lower than 5M24.

Briefly on Insurance and Asset Management. Growth in operating earnings period on period was supported by improved risk experience and lower short-term claims. Positive market returns and net client inflows supported the asset management business.

Let's move on to capital. The group remains well capitalised and liquid. Share buybacks remain part of our broader capital management strategy. Since March, we have bought back and cancelled R3 billion of shares. Further buybacks will be subject to the capital available and expected business demands.

As you would expect, we continue to model and plan for a variety of scenarios and outcomes. By way of example, a downside scenario includes an escalation of the trade war and/or regional conflicts, lower confidence and slower growth, whereas an upside scenario includes a de-escalation of the conflicts, lower inflation, lower interest rates and faster growth. Importantly, against these modelled scenarios, the group remains appropriately liquid and adequately capitalised.

For the six months to 30 June 2025, headline earnings growth is expected to be slower than the growth recorded for 5M25 due to the particularly strong performance in the month of June 2024. More specifically, in the month of June 2024, we had some large credit provision releases and recoveries. We do not expect these to repeat in June 2025.

Turning to our guidance for the twelve months to 31 December 2025. When we set out our guidance in March for the 2025 year, we did so based on what we knew at

the time i.e. pre the tariff policy announcements and various other geopolitical developments.

As previously mentioned, uncertainty around monetary policy, trade policies and geopolitical developments is currently elevated, and this is weighing on the global and local macroeconomic outlook.

Despite the uncertainty and macro downgrades, we are pleased to confirm our previous guidance for our core metrics. For reference they are as follows:

- Banking revenue growth of mid-to-high single digits in ZAR;
- A banking cost-to-income ratio that is flat to down year on year; and
- A group ROE well anchored in the 2025 SBG target range of 17% to 20%.

Looking more specifically at our NII and NIR outlook in the context of the trends seen to date. You may well ask, does the slow loan growth year to date put full year NII expectations at risk? Yes possibly, but it still depends on demand and interest rate developments from here. We do expect loan growth to pick up in 2H25. And importantly, NIR has been better than expected which supports our confidence in our revenue guidance. We will provide an update in August as part of our interim results.

Subject to market developments, we still expect the currency impact to moderate in the second half of the year as the devaluations experienced in 2024 feed into the base.

We will report our financial results for the six months to 30 June 2025 on 14 August the year.

In closing, in the 5 months to the end of May, the group's operational and financial trends were strong, supported importantly by the continued momentum in our robust underlying transactional franchises in both South Africa and Africa Regions.

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

Q&A

Harry Botha

Good afternoon, Arno and Sarah. Thanks very much.

Just maybe a little bit more clarity around the first half credit impairment charges, if possible please. Should we expect any meaningful financial instruments credit, impairment charges in the first half and can you possibly help quantify the June 2024 recoveries or I guess maybe in terms of the decline that you note in the first five months, can we see a decline for the first half of 2025 as well in terms of credit impairment charges?

Arno Daehnke

Thanks, Harry.

Overall, credit is trending as per expectations and at least trending favourably. Previously, when we met, we spoke about peak credit charges are behind us and that's certainly reaffirmed now. We see continued stronger health of our clients and strong repayment ability. We do expect a continued improvement and for half year, I expect us to be probably within the range of our 70-100 basis points. So continued improvement.

You asked about the large recovery last year, there was a single name in the CIB business where we had a big write back. As you know, we're not at liberty to disclose that, it was fairly material. And then also in our mortgage book, we also have some changes in modelling methodology on loss-given defaults, and that also resulted in a once off recovery. It was fairly material in June 2024 and obviously we don't expect that to repeat in June 2025 this year.

Harry Botha

Maybe in terms of the financial instruments or sovereign credit impairments?

Arno Daehnke

Oh, right. There's some pressure in our Mozambican exposure, exposures we have in Mozambique on the sovereign, but otherwise, fairly positive trends across the continent.

Chris Steward

Could you give a comment on the performance of ICBCS?

Also, please could you give some colour on the trading income outperformance - geographies, asset classes etc...

Arno Daehnke

ICBCS has performed well, particularly the metals business is doing well. They are tracking better than expected and are contributing positively towards the group's performance.

There was another question on the colour of the trading income outperformance. South Africa has done well on trading as well as Africa Regions. A very strong performance in the five months. Asset classes spam across FX, equities, commodities, fixed income. We've generally seen a good performance in the Global Markets business. And then there's another question with regards to the share buybacks.

Riley Warren

Hi, please could you provide indication of total shares bought back since inception of the buybacks (I recall R4bn in FY24 and sounds like R3bn in FY25 to date). What

tailwind is anticipated for headline earnings per share for FY25 from buyback programme?

Arno Daehnke

There was R4 billion in 2024 and indeed this year, between March and now, we did another R3 billion. It's a total of R7 billion. That obviously will give some tailwind on headline earnings per share between one or two percent or so. Bearing in mind that the recent shares we bought only are cancelled recently and obviously are still a big part of our share base this year.

Simon Nellis

Thank you for the opportunity. Just maybe a few questions. First on the growth outlook, you're saying that things are developing slower than expected. Can you just elaborate on which areas have been under pressure and where you see improvement going forward?

And then just on NII, you ere guiding for I think mid-single digit growth, but it was flat year on year in the five months. Can you elaborate again on what needs to happen to get to your guidance?

And then last on the CLR, you're guiding for middle of the range, but it was I think slightly above 100 basis points, right? So how do you get back to middle of the range? Do you expect a material change in CLR in the second half? Thank you.

Arno Daehnke

Thanks, Simon. On the growth, as I indicated in the commentary just now very robust origination in investment banking, strong growth in the corporate loan book. Much more subdued in retail, and also particularly subdued in small enterprises. More so than we had originally expected.

In retail, we see very competitive pricing, particularly in the mortgage book, but we have seen some disbursements pick up there. We also seeing fairly strong disbursements in retail picking up in the personal unsecured lending portfolios. You would know, Simon, that on the VAF strategy, we've changed our strategy and our purposefully dialling back our origination activity in auto loans. In BCB, also, subdued lending growth throughout the beginning part of the year. But again, if I look at some of the business lending activity, it's certainly picking up and we're seeing a much stronger performance in the last two to three months. We are expecting a better performance for the second-half in both the retail and the BCB business.

On NII guidance, I made the comment just now, you know, we initially had guided mid to high single digits. We're probably not going to achieve that. But we are probably going to achieve or outperform on the NIR guidance and that means that overall revenue guidance should be intact. But NII is under pressure certainly on the back of the slow start to the year in our retail and BCB businesses.

Credit loss ratio. We are fully confident will be in the 70 and 100 basis point range, I think, at half year already, but for the full year as well. We normally have a higher charge beginning of the year, so we're not too worried about that. Seasonally, we expect a stronger run into the second half of the year. As I said, should be well anchored in the 70-10 basis points.

Baron Nkomo

Maybe just a quick one, what initiatives are being prioritised to ensure that the cost to income ratio remains flat or declines year on year as per your guidance?

Arno Daehnke

We are always extremely focused on costs. And then there's always multiple cost streams underway in the different business units. And we're currently focusing, as per usual Baron, you would have heard us talk about, the real estate footprint, professional fees only really where they are necessary, technology rationalisation, but still investing in technology where it needs to be. Amortisation charge is coming down and helping us with some tailwinds. And there's also various cost programs in our insurance and asset management business. We're going to extract further efficiency from that business. Headcount is roughly flat at the moment, but we have had to pay and invest in some specialist skills, so we're not seeing our headcount complement growing. And then incentives, will be adjusted relative to the performance of the group. It's a big variable cost, incentives, and if the group performance is more subdued, obviously then there is an impact on incentives. So that’s also a cost lever we have.

At the moment we are comfortable with our cost growth. We are tracking slightly better than expected. The various cost levers we are pulling are bearing fruit and even though we've got negative jaws at the moment, we expected that to be the case, and we expect the jaws to become flat to maybe slightly positive by the time of the full year. And that then will give us a CTI in the lower, very low 50 percentile, maybe slightly below what was printed a year ago.

Radebe Sipamla

Just in terms of your credit loss ratio? If you look at the trends in the BA900, you've been increasing your provisions quite a bit over the past couple of months. And then if you looked at how your credit loss ratio compared to peers for FY24, you guys were looking a lot better. So why now is your credit loss ratio reaching your through the cycle range? And then why have you been increasing your provisioning so much over the past couple of months?

Arno Daehnke

First of all, there's a seasonal impact. We always have a higher credit charge at the beginning of the year. I think that's important. I mentioned to an earlier caller, I think it was Harry possibly, that we have got some pressure in Mozambique where we've downgraded the Mozambique sovereign. It's not a default, but a downgrade and we've provided for that. And then also the macro-outlook has deteriorated, as I'm sure all of you appreciate. And as part of IFRS9 forward-looking modelling, we've done some adjustments on the forward-looking outlook, the macros.

I want to reiterate again, we are prudently provided, our credit loss ratio is marginally above the 100 basis points, the top end range of our credit loss ratio range. We expect it to be within 70-100 basis points by half year and we expect it to be further within that range by full year. It’s not a surprise adverse development when it comes to the credit charges. It's tracking per our expectations.

Radebe Sipamla

If I could ask another question, just in terms of your buybacks, I think in March you mentioned that the buybacks that you've done you were trying to dilute the impact of the shares that you issued to the Liberty minorities. Now with the buybacks that you've done year to date, is that over and above cancelling out the shares that you had to issue to Liberty or is it still trying to work through that dilution?

Arno Daehnke

We issued around R10 billion worth of shares. I mentioned earlier we did R7 billion of buybacks cumulatively now. There's a little bit more to go. But irrespective of getting to R10 billion, you know, if we have got surplus capital and no immediate opportunity to deploy the capital at the right returns, we can continue with that strategy. We'll keep it quite flexible and that's important and that's why we have not actually announced a formal program, because we would like to keep it flexible. And only do buybacks as and when we have surplus capital, and we don't see immediate opportunity for capital deployment.

Radebe Sipamla

And then are you able to share in terms of the approvals that you have, the absolute amount that you can buy or the percentage of your share capital that you can buy up to, can you share that, or you can't share?

Arno Daehnke

We need approval, obviously from the board, but also from the prudential authority. As a matter of routine, we do request those approvals to give us the necessary flexibility. I don't think it's important for me to share the absolute quantum because that just gives us a headroom. It's certainly not the indication of how much we would

want to buyback. We just get those approvals for some headroom built in and then we execute them depending on our capital position.

Maybe I also just want to emphasise one more thing. Further buybacks for the rest of the year are less likely because we are seeing growth opportunities.

Sarah Rivett-Carnac

There was an additional question around the anticipated impact of the buybacks on headline earnings per share. It's relatively small. I don't know if you want to add to that Arno?

Arno Daehnke

I think I mentioned, bit of a tailwind between 1 and 2% once the buybacks are in the base. An additional 1 to 2% HEPS growth.

Charles Russell

How did the capital raise go in Nigeria? Was there an opportunity to increase your stake? Any other opportunities to increase stake in Angola / Kenya?

Arno Daehnke

The capital raise (in Nigeria) went fine. We put additional capital in. Also importantly, just recently I think one or two weeks ago, the Central Bank of Nigeria completed the capital verification process. This capital can qualify now as equity. All of the banks had to go through the capital verification process, so that's all done. We did not increase our stake, so the rights issue was taken up by all of the shareholders.

We'd like to buy more in Angola, you know about that. We think that it's an attractive proposition, regrettably it's taken quite a bit of time working with the Angolan authorities to get that done. We are still working through the IPO of our Angolan entity and getting our shareholding to 75% with the Angolan authorities. There have been no material changes in our Kenya shareholding.

Charles Russell

How do you assess the risk of the recent CBN announcement of potentially halting dividends?

Arno Daehnke

That only applies to certain banks and not to IBTC Nigeria, our bank. It doesn't apply to us

Charles Russell

What gives you confidence that FX headwinds will be lower in 2H?

Arno Daehnke

The big devals were Nigerian Naira and Angolan Kwanza at the beginning of 2024. So that's now sort of being worked into the base. We've also seen fairly strong currencies in the Kenyan Shilling, Ugandan Shilling, and I'm sure you would have noticed the Ghanaian Cedi very strong performance in May. I think a 30% appreciation. So that should all lower headwinds.

We've seen some depreciation year on year in the Nigerian Naira and Angolan Kwanza and Tanzanian Shilling. Remember at the beginning of last year, well, when we reported in March, we had a 9% difference in ZAR and constant currency growth. You can see now already it's much less than that. The trend will continue. I spoke about mid-teen earnings growth in constant currency and around 10% in Rands. There you can see the gap is much less than 9%.

Charles Russell

Can you comment on the impact of global geopolitics on provision levels now vs. December?

Arno Daehnke

Yes, Charles, it's what I said earlier. We have done some adjustments on forward-looking outlooks per our macroeconomic scenarios. We have to do this as part of the IFRS modelling. That's in our base now. The heightened geopolitical uncertainty is fed into our P&L through that mechanism.

Khumbelo Nevhorwa

Could you please provide more detail on where you are seeing increased client base, specifically by segment and region?

Sarah Rivett-Carnac

I would say it's really quite broad based and we will certainly provide more detail at results with regards to client numbers. I don't know if you want to add to that Arno

Arno Daehnke

We focus also on private banking clients, and we continue to grow our client base in private banking. But across the segments in small enterprises, CIB, everywhere else, we're growing our client bases.

Radebe Sipamla

In the SENS I think you made mention of increased competition you're seeing within the mortgage space. Are you able to call out whether or what you're seeing, like which players you're seeing more active in the space and just in terms of the dynamics you're seeing in that segment?

Sayuri Govender

Thank you for the question. So yes, we are seeing more pressure come through and continued pricing pressure actually in the in the mortgage space. And that is across many of our competitors. We're seeing that due to the high levels of ROE in the home services business that is attracting many of our competitors. Both competitors who are already in the space, as well as some of the new players as well. We are seeing competition across the board really, in that space coming through.

And you'll recall just in that home services space, during the COVID period, we were the home services providers who stayed in the market. We do have a lot of that portfolio which remains with us now, at higher margins actually. But as we see the competition come in some of that new business is coming through at low margins because of the pricing pressure with much more competition included there as well.

Radebe Sipamla

So, Discovery's been in active in that space, and I think Capitec is also more active. You haven't seen… you can't say that you've seen them more than the other players. It's across the board?

Sayuri Govender

Yes, we're definitely seeing them. We're seeing Discovery and Capitec, we're seeing some of the other banks as well. It is across the board in general as well.