Standard Bank Group 10M24 Pre close call script – 2 December 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 referencing our financial trends for the 10 months ending 31 October 2024 relative to the 10 months ending 31 October 2023 and reaffirming the guidance across our 3 core metrics, namely Revenue growth, Cost to income ratio and ROE. The purpose of this call is to cover the highlights of that announcement and provide some additional commentary and then we will open the line 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 banking business unit CFOs.

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

Arno Daehnke – Standard Bank Group Financial Director

Hello everyone and thank you for joining us this afternoon.

I am sure most of you have read the announcement we issued this morning, so I will provide a bit more colour on the macroeconomic and operational trends and the impact thereof on our key business performance drivers, as well as on the supplementary metrics and then turn over to questions and answers.

First, I would like to start with the macroeconomic developments.

While there have been positive developments, uncertainty has remained high and certain headwinds have proved stickier than expected.

In the period through to the end of October, we have seen positive developments in South Africa driven by improved electricity supply, a positive election outcome, moderating inflation, and interest rate cuts, all translating into improved confidence, activity and better growth, albeit off a low base.

In Africa Regions, we have seen currency devaluations in various countries in which the group operates on the African continent. Previously, we expected this impact to moderate in the second half of the year, however this has not been the case to date. This has continued to dilute the group's strong organic performance once translated into rands; this has been more than previously expected.

Turning to our headline earnings trends to 31 October 2024

As highlighted in our announcement:

- Banking activities headline earnings grew by low-to-mid-single digits.

- The increase in Insurance & Asset Management headline earnings was largely 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.
- And on a constant currency basis, group headline earnings grew by mid-teens.

From a regional perspective, SBSA delivered a good performance growing earnings period on period. Africa Regions delivered strong organic growth in constant currency, but earnings declined marginally in Rands period on period. Africa Regions still contributed 40% to group headline earnings for the ten-month period.

Moving onto the operational trends and the key business performance drivers

Let's start with our banking activities

While balance sheet growth was expected to moderate in the second half of 2024 (due to the strong origination in the second half of 2023 and the high base set), it has been slower than expected due to larger than expected currency movements in Africa Regions relative to the rand.

In South Africa, the retail and business lending portfolio growth period on period has remained slow. We do expect the recent interest rate cuts, moderating inflation and improved consumer confidence to support client affordability and retail demand into 2025. More recently, business lending has seen an uptick in disbursements, albeit off a low base, aligned to the improvement in business confidence since elections in May 2024. Corporate loan origination has been strong again this year, supported by Africa's energy transition and infrastructure investments.

In terms of net interest margin, while the group's weighted average interest rate remains higher period on period, this is largely offset by increasingly competitive pricing and a negative portfolio mix. Pricing is very competitive across all portfolios and is expected to remain so. The negative portfolio mix impact was driven by the tighter-priced corporate portfolio growing faster than the business and retail portfolios (this impact was as expected), and by the wider-priced Africa Regions growing slower than South Africa (this impact was slightly more than we expected).

The slower balance sheet growth and the margin pressures dampened net interest income growth which slowed to low-to-mid-single digits period on period. Accordingly, for the twelve months to 31 December 2024 (FY24), the group has moderated its net interest income growth expectations from "*up mid-to-high single digits*" to "*up low-to-mid single digits*".

Non-interest revenue declined by low-to-mid-single digits period on period, driven by a decline in trading revenue off a high base in the prior period. Growth in net fee and commission revenue was supported by increased transactional volumes, annual price increases, and good client activity. Insurance revenue grew on the back of continued growth in the policy base driven principally by sales via the retail

distribution network. Non-interest revenue is tracking in line with expectations, i.e. "*down low-to-mid single digits*".

Cost growth has been well contained reflective of continued cost management discipline. Currency translation impacts dampened organic trends. Cost growth is tracking lower than expected. Management continues to target flat to positive jaws for the financial year of 2024. The cost-to-income ratio is still expected to be "*flat or slightly down year on year*".

Credit impairments charges were lower period on period driven by i) lower charges in the current period linked to a slowdown in early arrears and lower inflows into non-performing loans in Personal and Private Banking and ii) elevated charges in the prior period related to once-off sovereign debt charges in that prior period.

The group's credit loss ratio for the first ten months of 2024 (10M24) remained in the top half of the group's through-the-cycle range of 70 to 100 basis points. The group's credit loss ratio is tracking slightly better than expected and therefore we update our credit loss ratio expectation slightly from "*at the top of the range*" to *"in the top half of the range*".

Commenting briefly on Insurance and Asset Management

The IAM business's operational performance has been good. As mentioned previously, PPB and IAM continue to work well together to deliver improved sales. The Shareholder Portfolio remains exposed to movements in interest rate expectations and market movements. I remind you that capital optimisation actions taken previously will support higher ROE going forward.

Commenting briefly on ICBC Standard Bank plc

ICBCS had a particularly strong first half in 2023 on the back of heightened market volatility in the period. Relative to the high base, it remains down year on year.

The growth in headline earnings from the Insurance and Asset Management business was largely offset by the decline in the contribution from ICBCS (which came off a high base in the first 10 months of 2023 as explained).

Moving on to capital and returns

The group remains well capitalised and liquid.

With regards to capital, as disclosed in our Pillar 3 SENS announcement on Friday last week, the group's CET1 capital adequacy ratio including unappropriated profits was 13.6% at 30 September 2024.

On returns, the group's return on equity remained firmly within the group's target range of 17% to 20% for the 10 months to the end of October.

Turning to our guidance for the twelve months to 31st of December 2024:

When we set our guidance in March for the 2024 year, we did so taking into account both the strong base after two years of exceptional growth as well as the outlook based on what we knew at the time.

On the former, I remind you that the group grew headline earnings by 37% in 2022 and 27% in 2023; or cumulatively over 70% since 2022.

On the latter, relative to our expectations in March, and as previously mentioned, the currency headwinds experienced have been stronger than expected.

Taking this all into account, we are pleased to confirm our previous guidance for our core metrics. For reference they are as follows:

- Banking income growth of low single digits in rands and double digits in constant currency.
- A cost-to-income ratio of flat to down year on year.
- And a return on equity well anchored in our 17% - 20% target range.

In closing, despite the headwinds, the business has proved resilient and continued to deliver strong organic growth.

This is testament to the resilience of our client franchise and our people and the value in the diversity of our franchise across our four businesses and three regions.

We will release our financial results for the twelve months to 31st of December 2024 on 13th of March 2025. We will provide guidance for 2025 financial year at that stage.

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

Sarah Rivett-Carnac

Thank you, Arno.

Please may I ask the participants who wish to ask a question to use the ‘raise your hand’ function and we will unmute your line.

Q&A

Harry Botha

So yeah, I guess it's the first question is really what changed from the nine month update to the 10 month update? I think you were still talking about mid single digit earnings growth.

Second one is if you can elaborate on where you're seeing some of the improved activity and a bit of growth in South Africa and and lastly, just maybe a sense of the split between the fee and commission growth versus the guidance on interest revenue.

Arno Daehnke

Oh great. Nine months to 10 months Harry I wouldn't say there was a substantial change. The overall guidance we give is very similar to the SENS we are released just a month ago. So there's not material changes in the business outlook since then.

Elaborate on South Africa growth. I think that was a question we did indicate some additional increased activity and interest and disbursements we are seeing in business banking. We also are seeing some trends in the mortgage portfolio which points to increased activity in the home loans business. And of course, our CIB business continues to do well, particularly the investment banking business. Significant disbursements in the last two months, significant appetite from our clients and we continue to see a record year for investment banking in terms of disbursements and as well as obviously earnings. Fees and commission in South Africa continue to track strongly, particularly in the retail business. Those were trends we are already commented at in the first half of the of the year when we had our August announcements and we're seeing that trend improving all the time and continuing rather all the time. Trading continues to be relatively robust. Last year we had a quite a poor trading performance in December, particularly December. And we expect continued moderate growth in trading and that that will obviously support the overall year on year trading growth overall, but obviously not as good as last year where we had an exceptional performance. So we mustn't forget about that base.

Charles Russell

Thanks very much for the opportunity. Just two questions from our side. The first one relates to the movements of the currency basket that the group is exposed to. It seems that November has been more favourable than the trend up until October. If you could maybe just make some comments on the additional month that we've seen since this 10 month period. And then secondly, if you could perhaps break down the trends on credit cost growth by segment, PPB, BCB and CIB, thank you.

Arno Daehnke

Yeah, thanks, Charles. Just on the currency, you must bear in mind, we translate our earnings at the average currency for the year. So we do this on a monthly basis, average exchange rates for the month and then we translate our earnings at that exchange rate. So you know, it's not just based on the year end position, I think that's important. The main driver in November, as you would have expected, Charles and I think the comments on that earlier today and the note you released was that the rand was a bit weaker in November. And obviously that would improve some of the currency translation just on the on the back of the rand being a bit weaker. That's sort of the main trend, we'll have to see how we go into December now and currencies, how they play out.

On the credit side, yeah, I've got some some thoughts on that here. On the retail side, we're seeing an improvement in credit, continued as we had seen already in half year. We're seeing a slowdown in early arrears. We're also seeing a slowdown

in inflows into NPLs, that's also on the back of improved collection strategies, which have borne fruit on that. Broadly in South Africa, in line with expectations, which was a better second-half in credit than the first half. So SA broadly in line and we had telegraphed that are really in half year. And in Africa regions slightly better than expectations. Credit performance continues to drive actually quite good outcomes in Africa Regions with fairly benign credit charges coming through the retail business in Africa regions. On BCB we have a more marked improvement compared to prior year, so that quite positive. Again, improved post write-off recoveries, improved collection strategy and the outcome thereof. Improved performance in East Africa, where we had some seen some pressure in the half year. But then this was offset by some additional provisions we had to take in trade, specifically in the West Africa regions and also some additional charges we had to take in our offshore business. And then in CIB, a very strong performance from a credit point of view. We are below, quite materially by through the through the cycle range, which is 40 to 60 basis points. So quite a bit below that. And also bear in mind please Charles, we did have in the prior period a sovereign risk charges. You remember in 2023 we had sovereign charges in Ghana, Malawi and Zambia and those have not been repeated now. We've also had some successful restructures in the business in CIB. So overall, tracking quite good in credit. And as I mentioned in my script just now slightly better than expectations.

Ross Krige

Thanks Arno, Sarah and team, appreciate your time. Just three from me. Firstly, on inflation in Nigeria, what's the likelihood that you have to implement hyperinflationary accounting there? Secondly, just with regard to the weaker than expected FX movements that you flag, could you maybe give a brief overview of the countries most affected, in terms of challenges that you face there and the outlook? And then thirdly, just with regarding the SA credit side. You talked about the better arrear and NPL performance, just wondering if the two-pot system had any impact on that. If you’re seeing any flows into payments of arrears or any other transactional activity. Thanks.

Arno Daehnke

Thanks. Thanks Ross. On inflation Nigeria, you may have noted, or possibly not, I'll give you an update: in an assessment done by the global auditing firms, where for 2024, they said Nigeria is not hyperinflationary. So that has been publicly announced and however they have flagged that Nigeria remains at risk, right, but for 2024, we certainly don't expect to apply hyperinflation accounting in Nigeria.

On weakening FX, Angolan Kwanza is weak. Obviously, we all know the Nigerian naira is also much weaker compared to the prior period and those are the main drivers. We've also seen weaknesses obviously in Malawi. Seeing the new Zimbabwean currency, they introduced the zig some time ago. Yeah, and then

obviously the much stronger rand we saw in, following our half year results but slightly weaker now in November as was pointed out earlier.

On the SA credit side, oh, on the two pot system. Yeah, I mean, we're following this very closely, we saw the note this morning. I think it was again south, around 35 billion rands of drawdowns across South Africa. You know, having spoken to our retail credit experts, we haven't seen a direct translation into material improvements in credit quality of some of our non performing counterparties in that respect. So it hasn't been material, but small changes have been noted and some improvement has been noted. But I wouldn't say it's material yet, that we can see a substantially impact in our NPL portfolio. And what I suggest is that we give you more comprehensive update when we release our March numbers and when we have more comprehensive data to understand the broader impact. So to summarise again on two pot, small improvements noted but not material in context of the group overall.

Matthew Pouncett

Thank you so much for your time and sorry if you mentioned this in your opening remarks, but can you just elaborate on how much of the endowment effect you've managed to hedge out in, in rands and in dollars and what the tenor of those hedges?

Arno Daehnke

The tenor of the hedges are around three to five years. Probably around 65 to 70% done with the hedging strategy. This is reduced the interest rate sensitivity for SBSA to just under a billion Rand to 100 basis point rates cut, annualized over a period. So, 100 basis point rate reduction is now a billion Rand. If you wouldn't have hedged, it would have been over 2 billion Rand. So roughly half the interest rate sensitivity and yeah, we continue to execute the hedging until we probably have around 75% of the book hedged, this is rand South Africa. In dollars, we do have exposure in Standard Bank Offshore and Matthew, we previously mentioned that we have got some constraints on how much we can hedge in offshore, considering we have got relatively little capital there and the hedging limit is limited to the amount of capital you have in those entities, and we reduced the sensitivity about 30% in offshore. As it turns out in dollars and pounds, that sensitivity is also around a billion Rand for 100 basis point basis cuts. In Africa regions, hedging is much more difficult. The instruments are less accessible, we've hedged in small pockets, but not materially so. And again, to summarise, overall an instantaneous decrease of all currencies in Africa regions 100 basis points was again, coincidentally, a billion Rand of NII at risk. So overall, the group, if all of the interest rates would go down instantaneous by 100 basis points, that would be 3 billion rands less NII on an annualised basis.

Chris Steward

Thanks very much, Sarah, and good afternoon Arno. Just a quick one for me, I guess. Can you give us a sense, you know, clearly when you're operating in inflationary environments or environments where there's higher inflation perhaps than the domestic rate of inflation, you would expect to see higher rates of nominal revenue cost and indeed earnings growth and in some periods you might benefit in that the currency translation doesn't necessarily take that away commensurately with the inflation differential between your reporting currency and the currency in which you're operating, and then in other periods, I guess such as now, there would be elements of currency catch up, where in fact what you are benefiting from in terms of operating in a higher nominal environment, you in fact are more than punished for in terms of relative currency depreciation. And you've obviously pointed out some of the currencies that are having the bigger effect. And could you give us a sense of where you see real rates of growth are in revenue, costs and indeed headline earnings for the group. I mean you've indicated you know somewhere around the low to mid single digits headline earnings growth, but that will be largely due to currency translation effects. Which probably are outweighing inflation differentials over the period. And do you have a sense of where you think the real underlying rate of growth for the bank is at the moment, not an easy one to answer? Understand that.

Arno Daehnke

Yeah. Chris, maybe just a few data points. So I think your analysis is 100% right, we are being punished this year, particularly with a catch up of currency weakness, specifically the Nigerian naira and Angolan Kwanza. Over the last 10 years, I think about sustainable growth for the group, OK, the group earnings CAGR over 10 years has been 10% per annum. Typically, the currency impact if you look into our numbers would be between 2 and sort of 6% dilution because of currency weakness so constant currency's always higher. But in Rand terms, it has been 10% growth. This year, the currency impact is more than 10%. We translate constant currency into rands. So, you know, we see sustainable growth continue of the group of around 10%, if not even slightly better, because certainly South Africa I think has got a better outlook and these last 10 years we all know that South Africa contributed very little towards the group's earnings growth. So, if South Africa outlook continues to be constructive and as our base case suggests, it would be, with GDP growth of 1.8% next year, over 2% the year thereafter, there's no reason why the group couldn't have sustainable growth over 10%. If you take that into, what that real growth is, then you can take off SA inflation, I guess, I think it's some real growth number coming out of it.

Sarah Rivett-Carnac

Thanks. I've got two questions on the Q&A so I'll read those out. Firstly, thank you for the update. This is from Donata Sibanda. Please can you provide further comments on Liberty and any specific metrics for the 10-month period?

Arno Daehnke

Yeah, Liberty continues to do well. I must say the integration with the group is proceeding well. And we are very comfortable with how the bankers and insurers are working together and are incentivised to manufacture and distribute insurance products. And we are tracking carefully metrics such as new business value. Where we have got still some way to go for the complex products in terms of growing our new business value up to a billion Rand and more and we put various initiatives in place to do that. We've continued to invest heavily into Liberty in terms of technology such that our sales force is as competitive as they can be and that will support our increasing new business value over the coming years.

Other key dimensions we've spoken about previously was the capital optimization. We've been able to extract more than 11 billion rands of capital out of Liberty as a consequence of the transaction and that has resulted in quite a material increase in return on equity. Up to now we've been, for some years below, the group's cost of equity and we're progressing that above the group's cost of equity and higher beyond that into the group's target range. So overall, we think we've done well in Liberty.

We also rationalising certain business, as you may know and the Liberty health business, which has been loss making for some time now. We are busy closing that and incurring the costs of that as well. Those are quite substantial costs, we will update you on those in March, but that sets a good base for next year, we're expensing all of those costs are most of those costs now. So for next year, again, we should have a stronger performance there. Yeah, and SA retail, improved earnings, improved persistency, good margins and corporate benefits portfolio is having a particularly good year. Higher earnings on the back of also favourable risk experience in that business. And then you already mentioned the shareholder portfolio, following the US election outcomes, we did see bond deals sell off, we saw that globally. And that obviously did also have an impact on the share of that investment portfolio, but that is normal market volatility we take through that portfolio

Sarah Rivett-Carnac

Thanks. The next question is from Gerald Van Rooi. Thanks for the opportunity. Please can you comment on the factors driving trading revenue? In the past ten months, please can you shed light on the book growth, especially in home loans? As data points to an increase in volumes of property transactions.

Arno Daehnke

OK, I'm gonna call on Lihle to do the second question and then Brooks to do the first question. Let's start with you, Brooks. If you don't mind, please, on the trading colour.

Brooks Mparutsa

Good afternoon, everybody and thank you for the question. I think our trading revenues, as Arno has mentioned, had a high base in 2023. We've obviously not seen the same level of trading volumes across, in particular African regions and thereby we are sort of high single digits down in African regions. For the 2024 financial year. Obviously there was a significant base that was built in, as I've mentioned in 2023, but we've certainly seen in the second-half of the year, a significant recovery and we're looking that the second-half of the year is probably likely to match the first half of 2024. In South Africa, we've actually seen very good trading revenue growth across our global markets business. I think with sentiment around the GNU and around sort of the overall economic outlook in South Africa, we've seen very good trading revenue in South Africa. So the headwinds have largely been in African regions, but in the second-half of the year, we've certainly seen those reduce whereby we will probably match the first half results. That's all. I'll hand over back to you, Sarah.

Thembelihle Mafuya

Thank you, thank you for the question. Our asset growth, particularly in home loans, remains within expectation. We had guided that it will remain muted in the second half and that's what we've seen. Even if you compare quarter on quarter in terms of those disbursements, they remain quite flat. We do anticipate that will see the pickup in 2025 as we get more rate cuts, so no changes in terms of expectation. Thanks.

Sarah Rivett-Carnac

Thank you, Arno. We have no more hands and no more questions on the Q&A. Would you like to make any closing comments before we close?

Arno Daehnke

Yeah. Thank you, Sarah, and thank you for everyone on the call. As I mentioned earlier on, we release our results on the 13th of March next year. Of course, we're looking forward to engaging with you at that time.

And then I wish you all the best for the festive season or the holidays if you can take a break and a restful break and looking forward to meeting up with you next year.

Thank you again for joining us today and thank you also to my team for arranging all of the preparation of the materials. Thank you and goodbye.