

Standard Bank Group Investor Call Transcript
31 March 2020

Speakers:

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Arno Daehnke - Group Financial Director of the Standard Bank Group

SIM TSHABALALA:

Good afternoon everyone and thank you to the operator. We appreciate everyone dialling in this afternoon and thank you for the interest in this call. I also have with me, on the phone, the group financial director, Arno Daehnke.

The purpose of today's call is to provide you with my views on where we find ourselves and the actions we, as Standard Bank, have taken. Arno will comment on the accounting implications of the actions taken, the group's capital and liquidity position and the Moody's downgrade. I will provide some closing remarks and then we will take questions.

I would like to start by emphasising that there is no doubt that the strong public health measures adopted by governments against the spread of Covid-19, including country-wide lockdowns in South Africa, many African countries and elsewhere - are urgently necessary.

As a good corporate citizen, the Standard Bank Group strongly supports these measures to preserve people's health and lives.

It is up to all of us, individually and collectively, to do everything in our power to slow the spread of the virus, to create time for health systems to respond effectively, and to keep the social and economic damage caused by the pandemic to a minimum.

As we are being harshly reminded, pandemics have huge economic costs. I have spoken to Chief Executives in a number of industries and sectors including Retail; Services: Logistics; Travel; Food and Beverages; Mining; Oil and Gas; Telecoms; Pharmaceuticals and Hospitals. It is clear we are headed for extremely difficult economic times in the short term. We are seeing sharply reduced business and consumer confidence, reduced revenues for many types of business, and sudden and immense pressure on the prices of many assets.

As Africa's largest bank by assets, we are very much aware that we work at the centre of the economy and that it is our duty to do everything we can to help our clients to keep their businesses and their lives on track.

While doing everything we can to keep our staff and clients safe, and to flatten the curve, we have also taken all the necessary steps to ensure that our essential services, will be able to function. Our teams are ready to serve our individual, business and corporate clients as usual.

Turning to what Standard Bank is doing.

We first took action in early January in our Beijing office. Some of our colleagues returned home while others converted to working from home. Since then we have triggered business continuity plans across all our countries of operation, and I am pleased to report that they are working well.

In early March we suspended all cross-border business travel and strongly discouraged personal travel. We implemented the World Health Organisation guidelines in terms of social distancing and other infection prevention behaviours. And we have actively promoted and supported working from home, wherever possible.

We have broadly split our workforce into those who can work from home and those who need to be physically in the “office”, so to speak, to provide essential services and support.

For those who can, or are required to work from home, they are doing so. Our IT colleagues have worked tirelessly to make this work in a relatively short period of time. We are leveraging our IT tools, in particular, Microsoft Office 365, to connect, collaborate and meet online. This is well embedded and working incredibly well. Last week we had over 14 500 Teams meetings in just one day. And connected with colleagues across 28 countries and 98 cities.

Turning to those employees who are performing essential services and are required to come into work. Firstly, and most importantly, we thank them enormously for their ongoing commitment to servicing our customers in these trying times. We have taken a number of steps to protect them including, amongst others, splitting teams, restricting the number of people in our branches and insisting on appropriate distancing as well as the distributing of sanitiser across our branches, call centres and offices. I know from first hand customer reports that our people continue to assist our customers with empathy, efficiency and excellence.

We are encouraging our clients to minimise visits to branches and to rather make use of our efficient digital channels such as Internet Banking, the Standard Bank App, Mobile Banking, ATMs and our telephone banking facilities.

In addition, we have also implemented a number of protocols to ease the burden on our employees who are juggling the practicalities of home and work whilst in lockdown and those on special leave whilst in self-quarantine and self-isolation. Our thoughts are with our colleagues who are in self-quarantine and self-isolation at this time.

On the actions we have taken.

In South Africa, as far as payment holidays and customer difficulties are concerned, we have announced automatic 90-day instalment holidays for qualifying small enterprises, with turnover of less than R20 million, low income clients, earning R7 500 or less, and fulltime students. The instalment holiday will run from 1 April 2020 to 30 June 2020. Clients will only qualify for the instalment holiday if they are in good standing with the bank as at 31 March 2020.

With regards to our corporate clients, our coverage and client service teams are in regular contact with their respective clients. Our clients will be impacted by the economic developments in each of the countries in which they operate, both on the continent as well as elsewhere across the world. We are, and will continue to, engage with each of our clients based on their individual needs on a client-by-client basis.

We have also encouraged all our clients to contact us as soon as possible if they are concerned that they are facing, or will face, financial distress. We have committed to do everything in our power to assist.

Importantly, since our clients are also depositors, savers and investors, people paying insurance premiums and people needing to claim, the normal credit, underwriting and general risk disciplines will continue to apply.

I am confident that Standard Bank is taking all the appropriate steps to maintain business continuity in order to continue to serve our clients across all the markets in which we operate.

The private sector has a vital role to play in supporting the government and doing what we can to contain the spread of COVID-19 and we must all play our part to protect the most

vulnerable within our society.

To this end, in South Africa we have donated R10 million to several non-governmental organisations that are working closely with the South African government to combat the spread of COVID-19. The funding will go towards securing supplies of hand sanitiser, water sachets, soap, gloves, masks, testing kits, and towards equipping testing and quarantine facilities. We will continue to work closely with our stakeholders to assess the situation and how we can provide further support.

ARNO DAEHNKE:

Thank you Sim, and welcome everyone to our conference call

As mentioned by Sim, we have provided our small enterprise, low income and student clients with an automatic 3 month payment holiday from 1 April 2020 to 30 June 2020. Together the extended portfolios equate to approximately R35 billion. Student accounts, which account for a small portion of the total, will be charged zero interest and zero fees over the period. All other accounts will be charged interest and fees over the period and the interest and fees will be capitalised to the loan balance. Only those in good standing at 31 March 2020 will qualify for the payment holiday.

This brings me to my first point, IFRS 9. Based on the SARB and IFRS guidelines issued on 26th of March and 27th of March 2020, the provision of a payment holiday to a specific subset of borrowers alone should not trigger a move from Stage 1 to Stage 2.

Secondly, and importantly, both to the uncertainty of the effects of Covid-19 and the significant government support measures being undertaken should be taken into account in IFRS 9 modelling.

Turning to capital and liquidity.

Over the past few years we have built up increased capital levels in line with Basel requirements. As at 31 December 2019, the Standard Bank Group had a Common Equity Tier 1 ratio of 14% and a total capital adequacy ratio of 16.7%. The group also had R427 billion of contingent liquidity. The group continues to meet its capital and liquidity requirements across all the markets in which we operate.

As you would expect, in times like these, we are in regular contact with the regulator and the level of engagement has been encouraging. The SARB is considering special directives with respect to capital adequacy, loan restructuring and liquidity regulations under Basel 3.

These include a temporary reduction of the LCR requirement to 80% from 100%, the reduction of the pillar 2A capital requirement to 0% and the treatment of restructures under Directive 7. The Prudential Authority allows banks to draw against the capital conservation buffer, however this would come with restrictions.

In addition, the SARB has implemented various liquidity measures which have assisted the market.

As one would expect we have seen drawdowns and requests for drawdowns from corporate clients against existing facilities in addition to requests for further credit extension as our clients look to access additional funds that they may require to accommodate cash flow pressures arising from COVID-19 and exacerbated by lockdowns across multiple jurisdictions.

In addition, we have observed a shortening in tenor of funding in the South African market, particularly from professional market participants.

Client demands and funding capacity are being very closely monitored and managed to ensure that the group will continue to have sufficient liquidity to meet its business and regulatory requirements.

On the downgrade by Moody's.

As you know, on Friday, 27 March 2020, Moody's downgraded South Africa to sub-investment grade. The downgrade was expected and considered to have been largely priced-in a while ago. It is difficult to differentiate between the movements related to the downgrade and those related to Covid-19. We are of the view that concerns around the downgrade have largely been overtaken by those related to the pandemic.

We have been asked about the capital and risk weighted asset impact of the sovereign downgrade. The downgrade alone does not trigger an overnight step change in RWA. Ratings agency actions are one of a number of inputs in our modelling. Counterparties are rated and risk-weighted according to our internal models, which had already taken into account a sub-investment grade rating by rating agencies.

Standard Bank Group and The Standard Bank of South Africa are expected to be similarly downgraded.

On guidance, you would have noted that we issued a SENS announcement this morning.

While the COVID-19 pandemic continues to unfold and countries respond to this crisis in different ways, there is a high degree of uncertainty regarding the impact it will have on Standard Bank's financial performance in the 2020 financial year.

Accordingly, the outlook and guidance we provided at the time of releasing our results a few weeks ago, has been withdrawn. We will update the market as and when we are able to do so.

Turning to dividends.

As you are aware, as part of our 2019 results announcement, we noted that the board had approved a final dividend of 540 cents per share. It is currently our intention to pay the dividend on the payment date. The last day to trade is the 21st April 2020.

It is too early to comment on dividends in respect of the 2020 financial year. At the appropriate time, we will follow our normal processes of reviewing our capital and liquidity position as well as our expected future business needs and then take a decision.

Lastly, we will provide the market with our normal first quarter update via SENS in late April.

I will now hand back to Sim to close. Thank you.

SIM TSHABALALA:

Thank you Arno.

In closing, we cannot predict exactly what will happen in the difficult weeks that undoubtedly lie ahead. Please be sure of this: every Standard Bank employee is trying their very best, every day to manage a very difficult and fluid situation. And I thank them for that.

I hope that you have found this call very useful and that we have provided you with some comfort that we are acting in a responsible manner and with all stakeholders' interests in mind.

Thank you again for your ongoing interest.