Standard Bank Group Investor Call

Date: 4 June 2020

Time: 17:00 (SA time)

This call is not intended to replace, or provide an update further to, the voluntary trading update and trading statement announcement issued on Monday, 1 June 2020.

Arno Daehnke, the Group Financial Director of the Standard Bank Group:
Good afternoon everyone. We appreciate everyone dialling in this afternoon and thank you for the interest in this call. I have with me on the line Brooks Mparutsa, the CFO of CIB, Barbara Bell, the CFO of PBB, Douglas Hendry, the Group Treasurer and Sayuri Govender, the Head of Group Reporting & Analytics. I will comment on the operating environment in the countries in which we operate, including the Covid-19 impact, and the impact on our businesses year to date.

We started the year cautiously optimistic. The global outlook was promising, and economic growth in South Africa, and across sub-Saharan Africa, was expected to improve. Much has changed since then.

As you know, by March, Covid-19 had taken hold in parts of China and hot spots were developing elsewhere. Globally borders were closed, travel and transport were halted, and global supply chains were disrupted. On 11 March 2020, the WHO classified Covid-19 as a pandemic. Initial analyses focused on the human impact and medical capacity. However, as the possible scenarios were built out, the gravity of the economic implications started to emerge, and markets reacted negatively. Volatility spiked, liquidity dried up and emerging market risk-off drove EM outflows and currency weakness.

This was followed swiftly by a broad range of government interventions, which proved to provide some comfort to the market. While global financial markets partially recovered from the lows seen in late March, a degree of emerging markets' risk aversion remained. In sub-Saharan Africa, many countries entered this crisis with limited fiscal capacity, restricting their ability to implement large scale interventions. This has weighed on currencies and impacted government financing costs. From a business perspective, while the volatility supported our trading activities, the lockdowns, and ensuing economic threat, have negatively impacted confidence, demand and activity levels.

Across our markets, the lockdowns have had, and continue to have, a significant impact on our clients. While the lockdowns in some of our markets started to ease or be lifted in early May, South Africa's lockdown has continued to constrain large parts of the economy. We welcome the South African Government's decision to transition to level 3 and open-up more of the economy from the 1st of June.

2020 Outlook

The outlook for the twelve-month period ending 31 December 2020 has continued to deteriorate since we last spoke. In sub-Saharan Africa, the human impact of the Covid-19 pandemic is growing. Standard Bank recognises the need to "flatten the curve". We will continue to prioritise the safety and wellbeing of our employees and our customers, while also supporting community initiatives in the countries in which we operate.

Standard Bank

Turning to Standard Bank.

On our investor call on 31 March, Sim Tshabalala, the Standard Bank Group Chief Executive, outlined the business continuity plans which had been invoked across the business. These largely remain in place. As at the end of May, more than 75% of our employees were working from home, leveraging our digital tools. While we are planning a gradual, phased return to the office, this will be subject to certain risk assessments and country-specific regulations, including social distancing requirements.

Governance & risk management

Before I comment on the actions we have taken, I want to provide some context with regards to Standard Bank's approach to governance and risk management at a time like this. Firstly, we remain systematic in our approach and our decision making. We have established risk management frameworks, policies and procedures and committee structures. This ensures an appropriate flow of information between business, risk, finance and treasury and, as appropriate, up to the executive and the board.

Secondly, we have built a series of plausible scenarios and considered the impact of each on our clients and, in turn, on our businesses. This drives our expectations in terms of business pipelines and capital demand. We balance this against liquidity and capital supply. These are managed dynamically and updated regularly and mitigating actions implemented when required.

Thirdly, Central Banks across our footprint have introduced a variety of interventions to support affordability and credit capacity. These have included cutting interest rates and temporarily relaxing regulations and lowering reserving and liquidity requirements. We welcome and support these actions.

Client actions

Now turning to what we have done for our clients.

In Personal and Business Banking, otherwise referred to as PBB, we have implemented a number of instalment relief measures, fee waivers and restructures. We have also encouraged our clients to contact us should they find themselves in financial difficulty.

By the end of May, we had provided R92 billion in relief to individuals, SMMEs and commercial clients in SA across 285 000 accounts. This represents approximately 15% of the PBB SA portfolio. In addition, the bank has also supported several private and government-driven initiatives. These include the SME Covid-19 Guarantee loan scheme, the payment of SASSA grants, reduced ATM fees, support of the payment of the special grant through our Instant Money solution, the distribution of South African Future Trust loans and reductions in cash and acquiring fees.

The SME Guarantee loan scheme was launched in mid-May and we are accepting applications and making disbursements to those who qualify and who meet our credit requirements. We will provide the market with an update on the amount disbursed when we report in August.

Moving to PBB Africa Regions. We have introduced country-specific debt relief programs to aid the recovery and sustainability of the sectors most affected by the pandemic. High risk sectors have been identified and support is being provided on a case-by-case basis. In some instances, Central Banks have mandated banks to offer relief to distressed customers. This includes Lesotho, Eswatini, Kenya and Nigeria, amongst others. These relief mechanisms included, amongst others, repayment moratoriums, loan tenor extensions and restructures. By the end of May, the PBB Africa Regions debt relief taken up by customers, totalled approximately R11 billion. This represents less than 13% of the PBB Africa Regions portfolio.

In Corporate & Investment Banking, otherwise referred to as CIB, we have worked closely with our clients to proactively assess their liquidity and capital needs to structure appropriate solutions. We have provided a range of solutions including instalment holidays and loan restructures, working capital limits and term extensions as well as advice on restructurings, including market solutions. In terms of Origination, we have prioritised lending of new facilities and new draw-downs on existing uncommitted facilities to critical COVID-19 response services in positive impact sectors. By the end of May, we had concluded restructures for eligible clients with risk exposures amounting to approximately R30 billion. To date, the CIB requests have largely originated in SA.

While we wish to support our clients in these difficult times, we have no intention of acting recklessly. We have to assess both our client's short-term needs and their medium-term viability.

FY20 Guidance

There remains a high degree of uncertainty regarding the impact that the Covid-19 pandemic and the associated governmental responses will have on the economies in the markets in which the group operates, and in turn, on the group. As most of you on this call know, on 31 March, we withdrew our guidance for the 2020 financial year. While we remain, at this stage, unable to provide guidance, we provided some high-level commentary on the factors influencing the FY20 outlook in our announcement on Monday.

On macro trends and outlook, year to date, all the currencies across the 20 markets in which the group operates on the continent have weakened relative to the USD. The South African Rand, Zambian Kwacha and Zimbabwean Dollar have weakened the most. In contrast, the countries in the group's East Africa Region have held up relatively well. While the Rand is expected to strengthen by year end, it is likely to be weaker on average relative to the USD and the Africa Regions currencies year on year. This will support the earnings contribution from Africa Regions.

Inflation has remained relatively subdued despite currency weakness. There have been policy interest rate cuts in all but three markets, with South Africa seeing the largest cumulative decline to date at 275 bps. The group's current assumption is that there will be no further policy rate cuts in South Africa in 2020.

In 2020, the economies in 12 of our 20 Africa countries are expected to contract; South Africa, Botswana and Namibia are expected to see the biggest declines. Our current expectation for South Africa is an 8.5% decline in real GDP in 2020, followed by a recovery of 6.5% in 2021. The East Africa Region economies, comprising Kenya, Tanzania and Uganda, are currently expected to avoid a contraction.

Balance sheet trends and outlook

Moving to the balance sheet trends for the 4 months to the end of April. Loan growth in the first 4 months of 2020 was robust. The combination of higher digital disbursements, corporate facility drawdowns and a weaker Rand led to strong double-digit growth period on period. CIB grew faster than PBB. In PBB, the unsecured lending book grew faster than secured lending book.

Loan growth is expected to slow from current levels. Low business and consumer confidence levels are expected to continue to be a constraint on the secured portfolio growth. While instalment relief is likely to temporarily support portfolio levels, this is likely to be offset by lower new business disbursements. Unsecured lending growth will be subject to individual affordability and business and sector viability over the medium term.

Deposit growth remained strong period on period, in particular demand deposits. Corporates drew down on facilities to access liquidity and placed it back on deposit. Deposit growth is also expected to slow.

Revenue

Turning to revenue. Balance sheet growth will partially offset a meaningful decrease in net interest margin on the back of higher funding costs and negative endowment following the significant policy interest rate cuts seen across the continent to date. In South Africa, a 25 bps movement equates to an annualised R300 million net interest income impact.

Non-interest income growth, while supported by trading income in the 4 months to the end of April, will depend on the pace and magnitude of the recovery in the second half of 2020. The lockdowns negatively impacted sales, disbursements and transaction activity levels. In South Africa, deeds offices and dealerships were closed in April, which halted mortgage disbursements and resulted in a more than 70% decline in VAF disbursements compared to March. In addition, ATM and branch volumes were down 38% and 61% respectively. While there was an improvement in activity levels during the course of May, they remained below those seen prior to the lockdown.

Fee income growth is closely aligned to activity and spending levels, which in turn, is subject to the easing of lockdown restrictions and an improvement in confidence levels.

Operating expenses

Turning to costs. We have seen cost savings in areas such as travel, training and conferences. However, we also have incurred some unforeseen Covid-19 related costs. These include additional IT spend, to enable staff to work from home, and additional Operations spend, to procure protective equipment, such as sanitisers, to protect our employees and our customers.

Containing operating expense growth remains a focus. Where possible, cost levers will be pulled, but not at the expense of the resilience of our systems or our ongoing digital customer journeys.

We have been asked about broader structural cost savings arising out of the so called “new normal”, for example reduced real estate needs as staff opt to continue to work from home. We are considering these however, any impact is likely to be more medium term rather than in the short term.

Credit impairment charges

Credit impairment charges have the greatest potential for variability and depend on the depth of the recession and pace of the recovery. In the modelling of expected credit losses, IFRS 9 requires the consideration of the current portfolio performance, comprising individual counterparty and portfolio performance, and a forward-looking view. In determining the latter, one is required to apply judgement and make a number of macro-economic and forward-looking assumptions.

We continue to monitor macro-economic variables closely and amend both our forward-looking expectations as well as forecasting models to align accordingly. We do so with due consideration for the accounting requirements and regulatory guidance.

We note the guidance provided by the SARB in Guidance Note 3/2020 and clarification provided in Guidance Note 6/2020 in this regard. Guidance note 6/2020 states that payment holidays and restructured credit exposures, granted as part of Covid-19 related relief measures, should not be the sole or automatic trigger for transfer to either Stage 2 or Stage 3 in terms of IFRS 9. However, it goes on to state that, in an effort to determine the staging

of accounts subject to Covid-19 relief, banks should consider all reasonable and supportable information, including that which is forward-looking. Other factors that could be considered, include the impact of Covid-19 on the industry that the client is engaged in and the effects of extended lockdown measures.

In summary, (i) relief actions alone should not automatically trigger transfer to Stage 2 or 3, however (ii) if there are other circumstances which may indicate a significant increase in credit risk, then an exposure/portfolio should transfer to Stage 2 or 3.

PBB assesses risk on a portfolio basis, taking into account a variety of factors including geographic location and industry. Where it is anticipated that exposures in a portfolio may have experienced a significant increase in credit risk, a subset or proportion of the group will transfer to lifetime expected credit losses, in other words, Stage 2 or Stage 3. In addition, where it is possible to perform an individual account level assessment, and an individual client is deemed to have experienced a significant increase in credit risk, that account will also transfer to Stage 2 or Stage 3.

In terms of the PBB restructure population, the guidance provided by local regulators as well as accounting bodies will be applied in the IFRS 9 and capital treatment of these exposures. To this end, the restructure in isolation will be insufficient to reflect distress as indicated already. Additional factors such as transactional account behaviour, non-payment scoring factors and potentially portfolio level adjustments will be applied. This will ensure that an appropriate distinction is made between temporary and permanent distress and that coverage remains appropriate.

CIB assesses risk on a geography, sector and on an individual client basis. Clients are individually risk-rated. We have been pro-actively re-rating customers that have been impacted, and will likely be impacted, in the short to medium term. The recent developments have resulted in an increase in client balances in Stage 2 and Stage 3. Whilst acknowledging that the current environment is challenging on many fronts, CIB's overall, portfolio remains healthy, benefitting from the client, sector, region and product diversification.

Our current scenario analysis indicates that the group's credit loss ratio for FY20 will be above the group's through-the-cycle range of 70 bps to 100 bps and may exceed the peak recorded in the Global Financial Crisis of 160 bps.

Other banking interests

Turning to Other Banking Interests and Liberty.

The group ceased accruing earnings from its 20% stake in ICBC Argentina post the decision to sell its stake in August 2019. We are still awaiting regulatory approval of the sale.

On ICBCS, I remind you that the business incurred a significant single client loss in 2019 which should not repeat in FY20. ICBCS' ability to break even remains subject to better integration with ICBC's client base.

Liberty

With regards to Liberty's performance, we refer you to Liberty's voluntary operational update dated 14 May 2020 and its trading statement dated 29 May 2020.

Capital, funding & liquidity

Turning to capital, funding and liquidity. The group's capital and liquidity levels remain above minimum regulatory requirements and our internal risk appetite levels. The group's Pillar 3

report for the period ending 31 March 2020 was published on the Investor Relations website last week.

As at 31 March 2020, the group's common equity tier one ratio was 12.9% on a transitional basis, significantly above the regulatory minimum, excluding bank specific requirements, of 7.5%. In the 3 months to the end of March, the CET1 ratio declined 110 bps as risk weighted assets grew faster than capital supply. On the supply side, 1Q20 earnings and the positive FCTR movement, on the back of the weaker ZAR, were partially offset by the accrual of the final 2019 ordinary dividend. Risk weighted assets grew as a result of COVID-19 related asset growth and the depreciation of the ZAR.

In response to the COVID-19 crisis, the SARB reduced the Pillar 2A buffer requirements to 0% with effect from the 6 April 2020. This reduces the group's minimum CET1 requirement from 7.5% to 7% and the group's total capital requirement from 11.5% to 10.5%. Both ratios exclude any bank specific requirements.

On liquidity, for the 3 months to 31 March 2020, the group's LCR was 142%, significantly above the regulatory minimum of 100%. From April onwards, the SARB proactively provided temporary liquidity relief to banks through reducing the LCR requirement from 100% to 80%. In April, issuance of bank paper improved and during May it largely returned to pre-COVID-19 levels.

As at 30 April 2020, the group remained well capitalised and liquid. Based on our scenario analysis, the group's capital ratios are expected to remain strong and above required minimum levels. In line with the Prudential Authority's guidance on dividends, the group is not planning to declare a 2020 interim ordinary dividend. It is too early to comment on whether the group will declare a final ordinary dividend in March 2021. The Board will give this due consideration ahead of the release of our 2020 results in Q1 2021.

We are reviewing the group's medium-term financial targets and will provide an update as and when we are able to do so.

Trading statement

As noted in the Standard Bank SENS announcement to shareholders on Monday 1 June 2020, the group's earnings for the six-month period ending 30 June 2020 are expected to be more than 20% lower than the comparable period. We will issue a further trading statement with more specific guidance ranges once there is reasonable certainty regarding the extent of the decline relative to the comparable period.

Standard Bank's results for the six months ended 30 June 2020 are expected to be released on 20 August 2020.

Closing

The complexity and uncertainty surrounding the crisis has been stressful for our employees and we thank them for their ongoing commitment. In a dynamic and broad crisis such as this, the depth of skills and experience across the group has proven invaluable.

In addition, the group is confident it has the governance and risk management structures in place to ensure the appropriate and timely flow of information required to support agile and effective decision-making. A large proportion of the group's employees across the continent, and in our international offices, continue to work productively from home. This would not have been possible without our strategic partnerships and the systems investments the group has made in recent years. Our digital customer channels have also proven resilient.

In closing, there is no doubt that the human, social and economic impact of this pandemic is going to be significant. However, we are of the view that the diversity of our operations, the strength of our balance sheet, and the depth of our skills, position us well to weather this storm. Our strategy remains valid and intact. And we remain determined to emerge from this crisis as a stronger, Africa-focused, financial services group.