



FINANCIAL RESULTS

for the half-year ended 31 March 2020

 **African Bank**
We are you



SETTING THE SCENE


Chief Executive Officer
Basani Maluleke

What you will hear **today**

- **Resilient and adaptable** in the face of uncertainty
- Leveraging internal capabilities to **meet stakeholder needs**
- **Steadily progressing our strategic imperatives** during extraordinary times
- **Strong growth in retail deposits** showing increased confidence in our brand
- **Steady take-up of MyWORLD offering** since launch
- **Staying on course** despite the challenges
- Remaining a **strong investment proposition** for our stakeholders
- Preparing for a **new normal**

Worsening economy

ALJAZEERA Live



AJ IMPACT / Bloomberg **AN RESERVE BANK**

Rand falls: Moody's warns investors about South Africa's economy

A downgrade by Moody's could generate outflows from South Africa's bond and stock markets.

by Robert Brand
17 Feb 2020 GMT+3

[f](#) [t](#) [s](#)

South Africa hit by record blackouts, raising recession risk

W N

HOME LOCAL CORONAVIRUS SPORT LIFESTYLE



2' 0

SOUTH AFRICA'S GROWTH FORECASTS SLASHED, RECESSION RISK HIGH

that they see clear downside when the ongoing decline in the bank's leading indicator for

BusinessDay

31 MARCH 2020 3 MIN READ

The price SA will pay for being downgraded to junk

What the loss of the last investment-grade rating means to the country

in Economy by Paul Wallace

[e](#) [f](#) [p](#) [t](#) [s](#)

QUARTZ AFRICA

South Africa's economy is in a perilous state and is running out of time to get fixed

August 7, 2019

CREAMER MEDIA'S ENGINEERING NEWS MENU

Unemployment rate remains at 29.1%

11th February 2020 BY: [MARLENY ARNOLDI](#)
CREAMER MEDIA ONLINE WRITER




Photo by: Reuters

South Africa's unemployment rate remained unchanged at 29.1% in the quarter ended December 31.

Global pandemic



Photo: AdobeStock

Breaking: South Africa's repo rate has been slashed again

business news

22.5.2020 01:44 pm

SA's auto industry will be in a fight for its survival post-pandemic

BL BusinessDay

OPINION

Covid-19 is set to delay the recovery of an already sick economy

The pandemic cannot be viewed in isolation, but as an unexpected contagion of a world economy already in the ICU

31 MAY 2020 - 10:30 by BARRY STANDISH



The impact of COVID-19 South Africa's economy

May 13, 2020



BL BusinessDay

A guide to flattening the Covid-19 curve – not the economy

SA urgently needs to ease the lockdown restrictions, which are among the most severe globally, writes Arshad Abba

18 APRIL 2020 - 07:34 by ARSHAD ABBA



BUSINESS CORONAVIRUS

Not all of Jo'burg's street traders can sell their wares under lockdown

Dennis Webster 18 May 2020



fresh produce market before sunrise.

BUSINESSTECH

April data shows how deep Covid-19 has cut into South Africa's economy

Resilient and adaptable in the face of uncertainty

- Constituted our **Covid-19 response team** with daily Executive Committee check-ins and weekly Board updates
- Activated our **comprehensive business continuity plans**
- Engaged our **employees, customers, regulators and Board**
- Evaluated a range of **lockdown and post-lockdown scenarios**
- Reviewed our **business and strategic imperatives**



Leveraging internal capabilities to meet stakeholder needs

OUR EMPLOYEES

- Covid-19 safety, health and wellness guidelines implemented across our operations
- Introduced work-from-home measures for the majority of our employees

OUR INVESTORS

- Robust scenario-planning and strategy review
- Focused cost containment measures
- Remaining a strong investment proposition

OUR CUSTOMERS

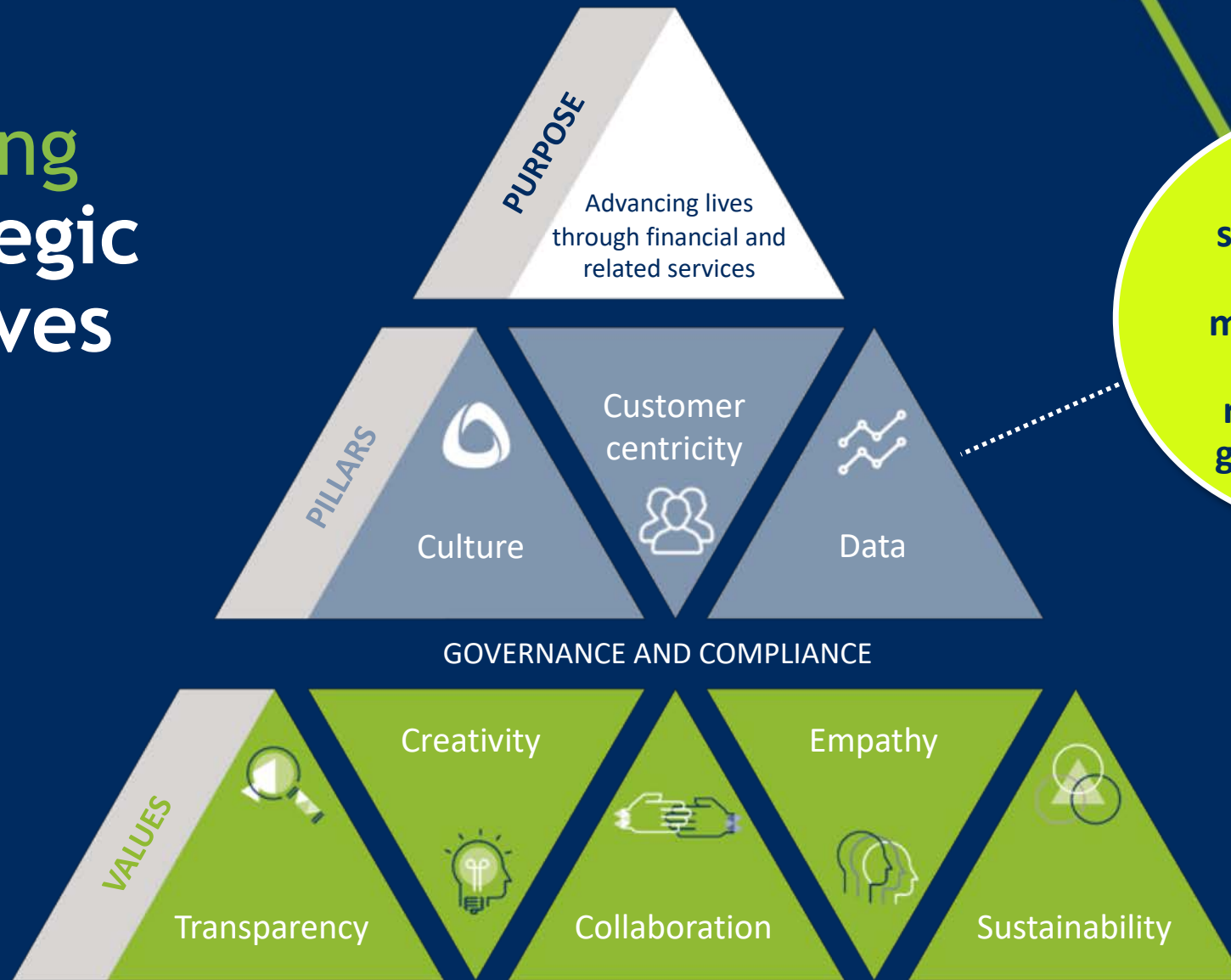
- Quick to assist with key customer financial support measures including 'Choose your Break' and credit life insurance
- R263 million in instalment relief provided

SOCIETY AS A WHOLE

- R3 million toward Covid-19 relief measures
- Contributed to over 100 000 food relief meal packages and student remote learning initiatives

ENHANCED ASSURANCE THROUGH
REGULATORY REPORTING

Steadily progressing our strategic imperatives



WE ASPIRE TO CREATE SOLUTIONS TOGETHER, TO ADVANCE LIVES

Advancing lives through culture



Leveraging a **people engagement score of 60%** (well ahead of the SA 38% average)

Living our values - transparency, creativity, collaboration, empathy, sustainability



Driving conscious and intentional leadership, regardless of level

Ensuring sound corporate governance and ongoing compliance



Placing our people and customers at the centre of everything we do

Developing our people to drive digital innovation to ensure long-term value creation



Advancing lives through customer-centricity



Rated #1 in customer service in the 2019 SA-csi - an important advantage in a Covid-19 environment where service and value matter

Proactively and empathetically engaging with our customers during these challenging times



Exceeding customer needs through quality, price, innovation and service

Empowering customers to help them make better financial decisions



Solidifying our understanding of our existing, new and prospective customers

Enhancing our Omni-channel while ensuring a seamless and user-friendly digital experience



Advancing lives through our capture and analysis of data



Executing on a **dual bureau strategy** to differentiate between **customer groupings** and their needs



Implementing **voice analytics** in contact centres to **improve customer experience** and **efficiencies**



Using **data** to better understand our customers and to **predict their behaviour**

Promoting early adoption of **enhanced digital customer experiences**



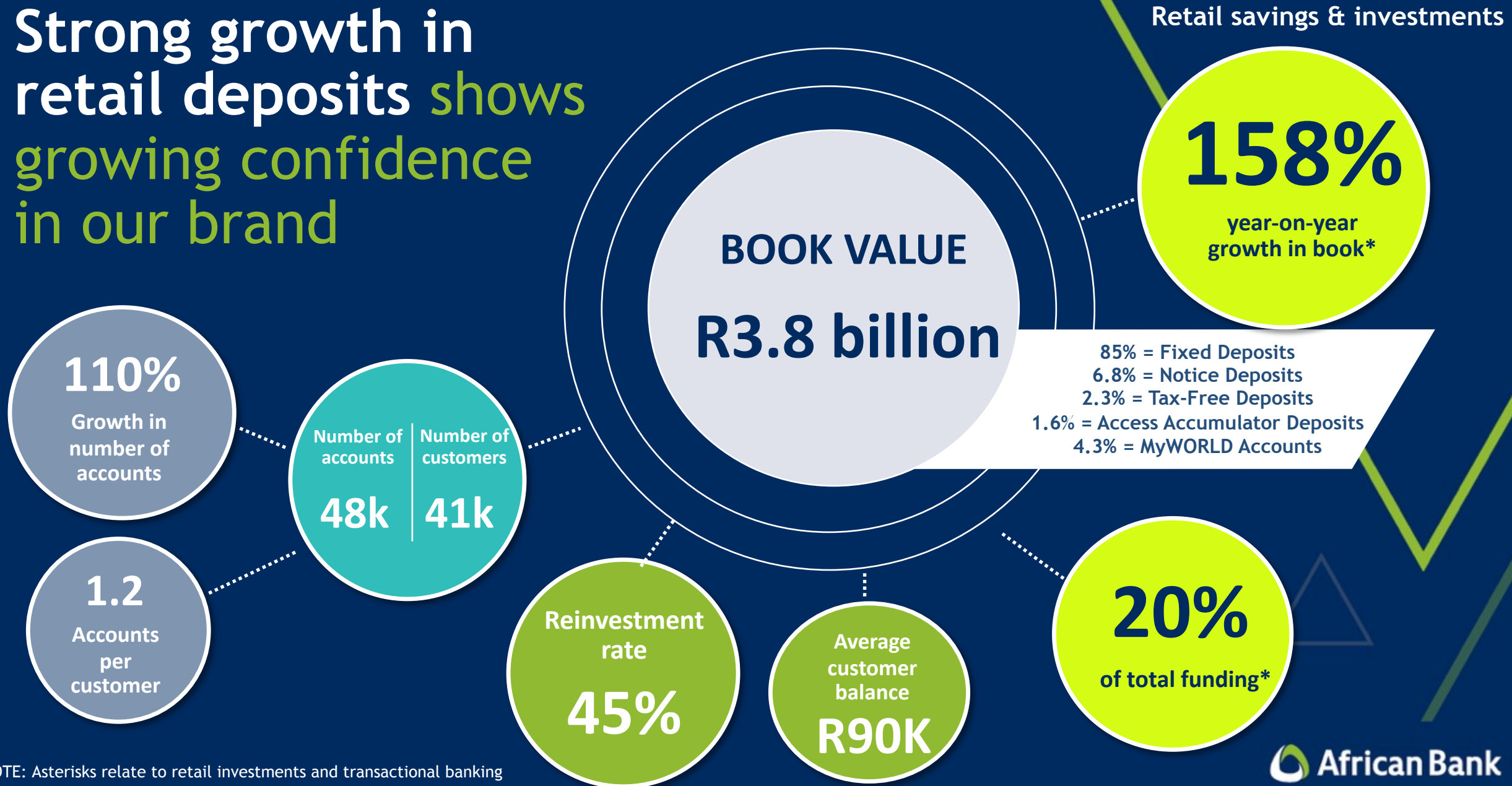
Long-term investment in appointing and developing **data scientists** for the 4th Industrial Revolution



Gearing up for **digital banking** in the **post-Covid-19** era including **capacity and productivity enhancements**



Strong growth in retail deposits shows growing confidence in our brand



NOTE: Asterisks relate to retail investments and transactional banking

Steady take-up of MyWORLD offering since launch



NOTE: Values reflected in this slide are for the period May 2019 to 31 March 2020
NOTE: Asterisks denote current rates

Staying on course despite the challenges

- Subdued set of financial results, pre-Covid-19 impairment charges of R853 million
- Pre-Covid-19 adjustment, net profit after tax, **decreased to R503 million** (6% down, year-on-year)
- **Post-Covid-19 adjustment**, net loss after tax of R111 million
- Advances growth **increased by 3%** year-on-year
- Group's total income increased to **R3.5 billion** (up 5%)
- **Customer balances are conservatively provided for**
- Total customers increased by **10%** to **1.2 million** over the past 6 months

Remaining a strong investment proposition

- Robust balance sheet with a strong liquidity profile and high available cash resources of R5.4 billion
- High Group equity capital levels of R10.5 billion
- Group total capital adequacy ratio of 40.1%
- Disciplined cost management
- Supporting customer needs during trying times, through loan, savings and investment products
- Recognised for our exemplary customer service



FINANCIAL PERFORMANCE

Chief Financial Officer
Gustav Raubenheimer

Basis of presentation of the pre- and post-Covid-19 analysis










- **Key metrics and ratios have been presented on a pre- and post- Covid-19 adjustment basis**
- **Pre-Covid-19 adjustment includes:**
 - **Ageing of advances book** with performance up to and including 31 March 2020 (includes start of South Africa's level 5 lockdown from 26 March to 31 March)
 - **Reduction in credit-specific regulatory provisions** due to delay in the implementation of the Credit Amendment Bill and Debi-Check
- **Post-Covid-19 adjustment includes:**
 - **Bank-specific impairment charge** of R550 million
 - **Insurance entity's additional IBNR charge** of R303 million
 - Covid-19-specific adjustments based on managements' estimation and view of the **impact of the economic consequences of the global pandemic on customer cash flows**








Financial results at a glance

For the six months ended 31 March 2020 (compared to H1 19)

PERFORMANCE PRE-COVID-19 ADJUSTMENT

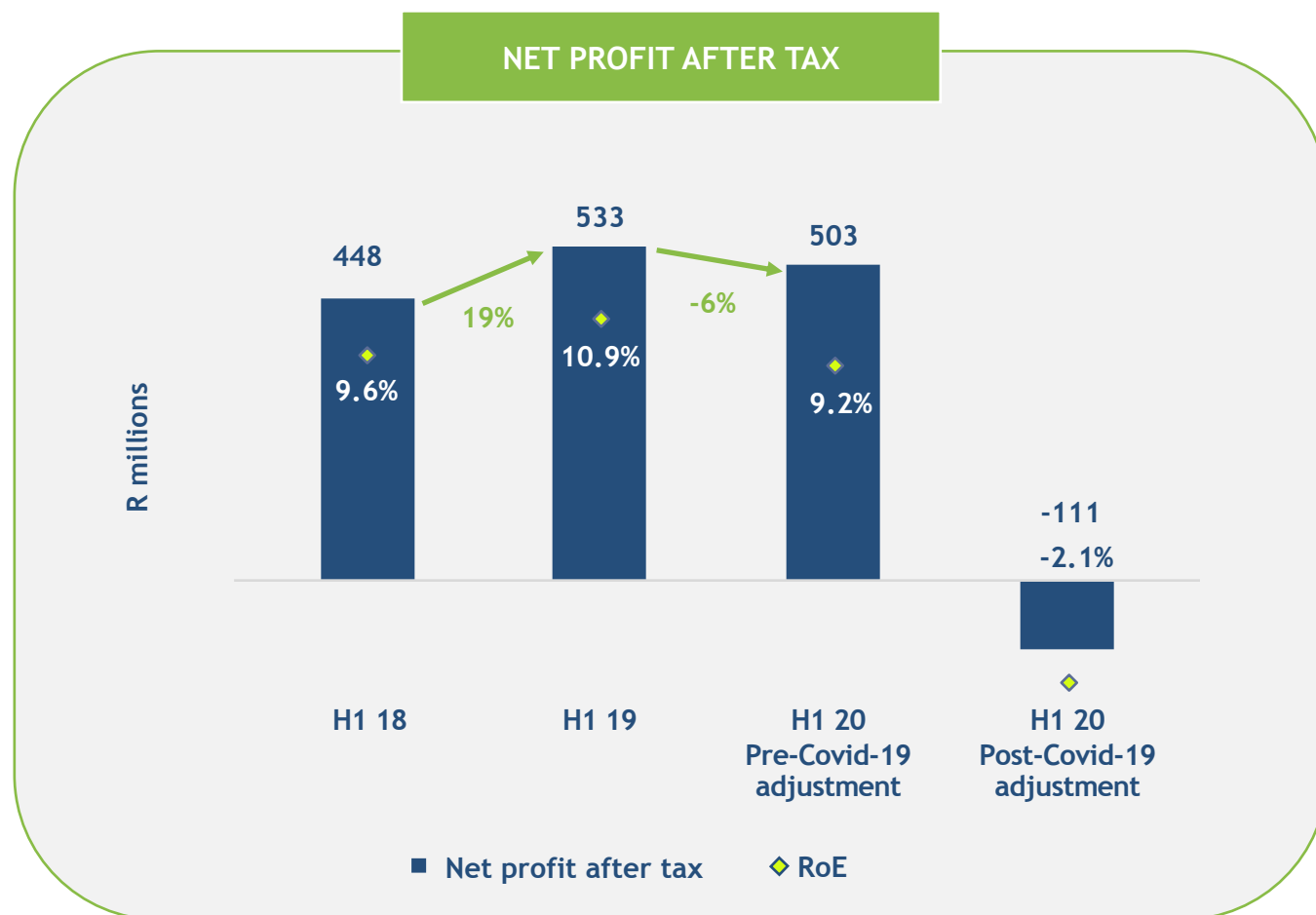
-  **R503 million** (down 6%)
Net profit after tax
-  **9.2%** (H1 19 10.9%)
Return on equity
-  **R30 093 million** (up 3%)
Gross loans and advances
-  **8.8%** (H1 19 7.9%)
Credit loss ratio
-  **38.3%** (H1 19 35.2%)
Non-performing loan ratio
-  **34.7%** (H1 19 34.5%)
Coverage ratio
-  **40.7%** (H1 19 37.3%)
Group total capital adequacy ratio

PERFORMANCE POST-COVID-19 ADJUSTMENT

-  **-R111 million** (down 121%)
Net loss after tax
-  **-2.1%** (H1 19 10.9%)
Return on equity
-  **R30 093 million** (up 3%)
Gross loans and advances
-  **12.5%** (H1 19 7.9%)
Credit loss ratio
-  **38.3%** (H1 19 35.2%)
Non-performing loan ratio
-  **36.4%** (H1 19 34.5%)
Coverage ratio
-  **40.1%** (H1 19 37.3%)
Group total capital adequacy ratio

Operating profit

Cautious lending (pre-Covid-19 adjustment); conservative Covid-19 impairments



Positive contribution

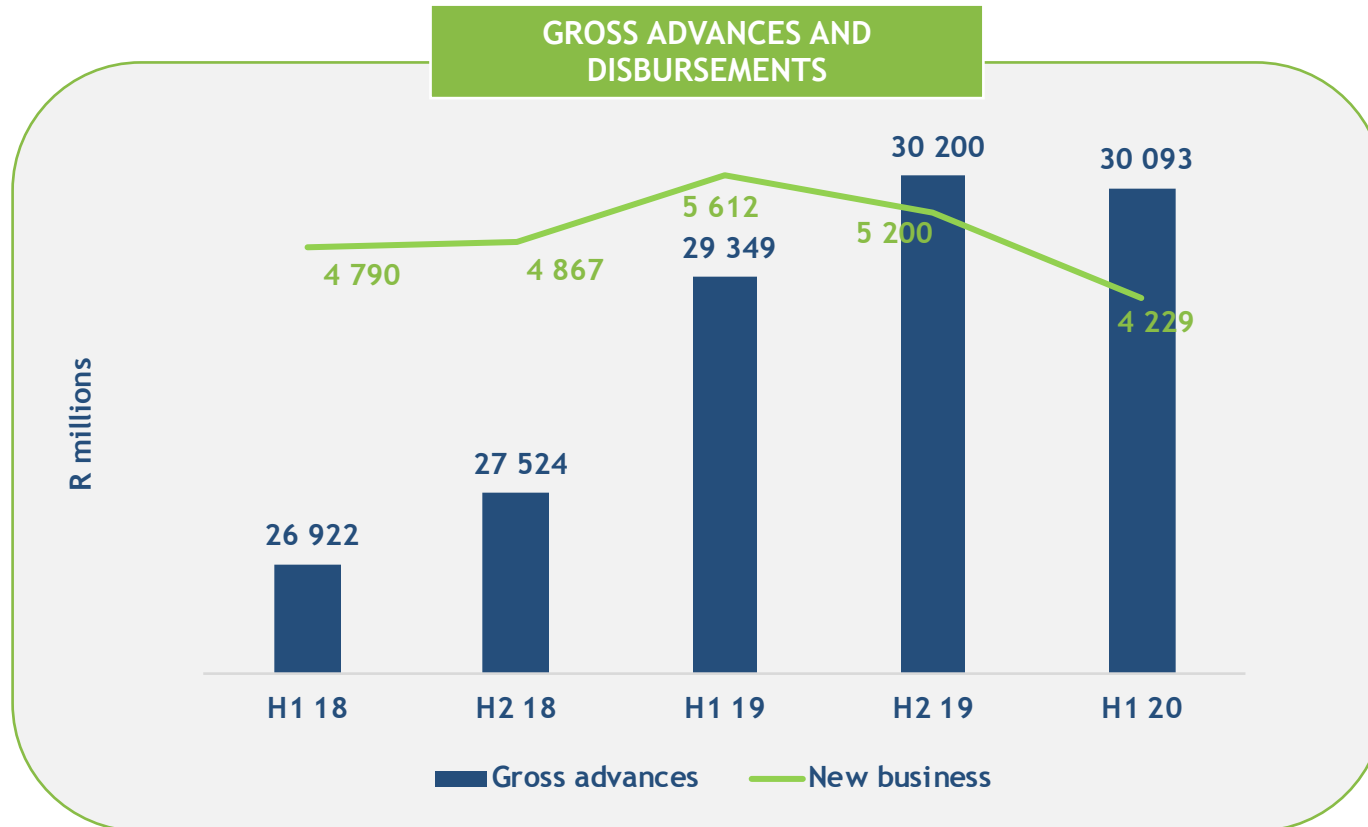
- Conservative loan book growth
- Higher interest income earned
- Reduced net interest expense
- Increased coverage ratio
- Operating costs flat
- Retail investment deposit inflows increased by 158%

Negative impacts

- Increased provisioning (pre-Covid-19 adjustment) due to downturn in macroeconomics, offset by credit regulation impairments reduction (Credit Amendment Bill & Debi-Check)
- Lower insurance income (pre- and post-Covid-19 adjustment) - R66 million actuarial reserve once-off in H1 19

Retail advances

Gross advances growth slows; conservative disbursements



ADVANCES BOOK UP marginally

3%

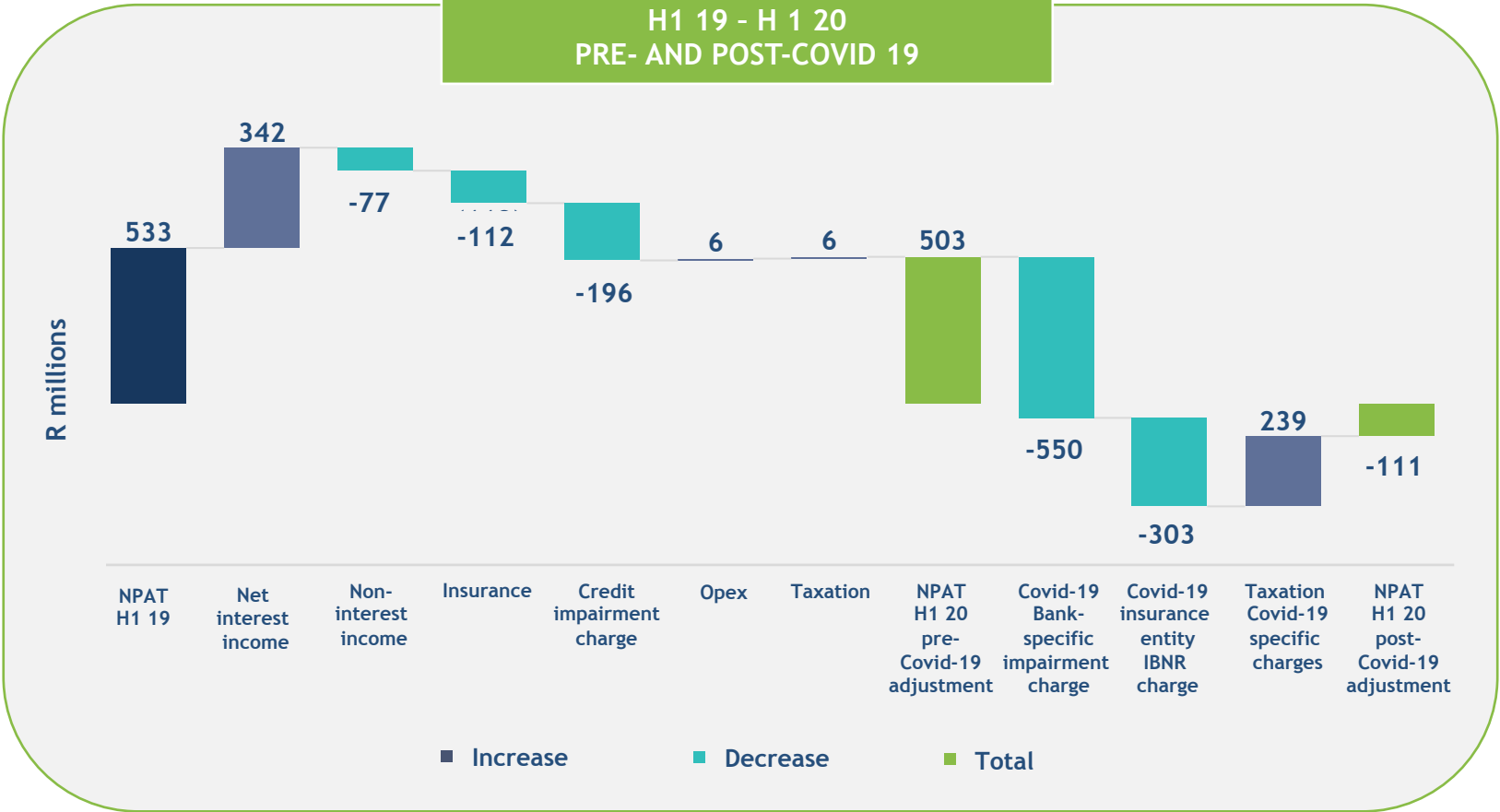
YEAR-ON-YEAR

- **Advances book** steady (0.5% lower than FY19)
- **Conservative disbursements** 25% lower than a year ago due to tightening credit underwriting

Net profit after tax composition

Subdued pre-Covid-19 adjustment; negative impact of post-Covid-19 charge

NET PROFIT AFTER TAX WATERFALL
H1 19 - H 1 20
PRE- AND POST-COVID 19

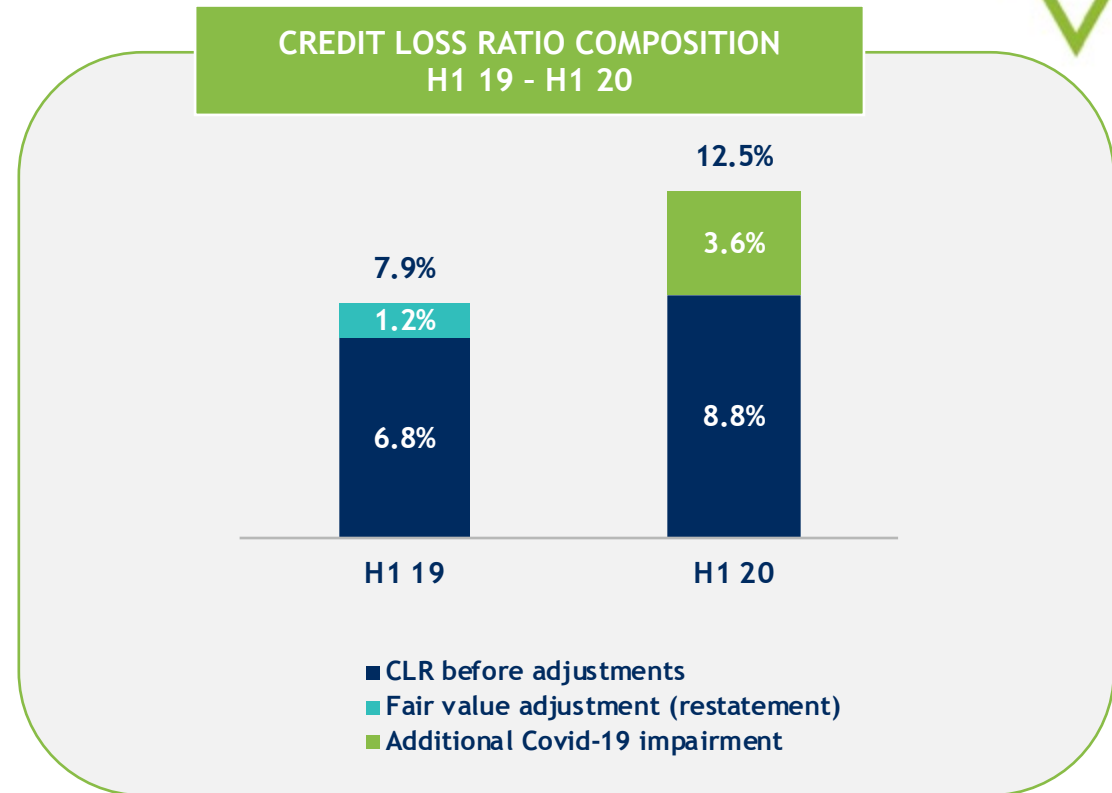
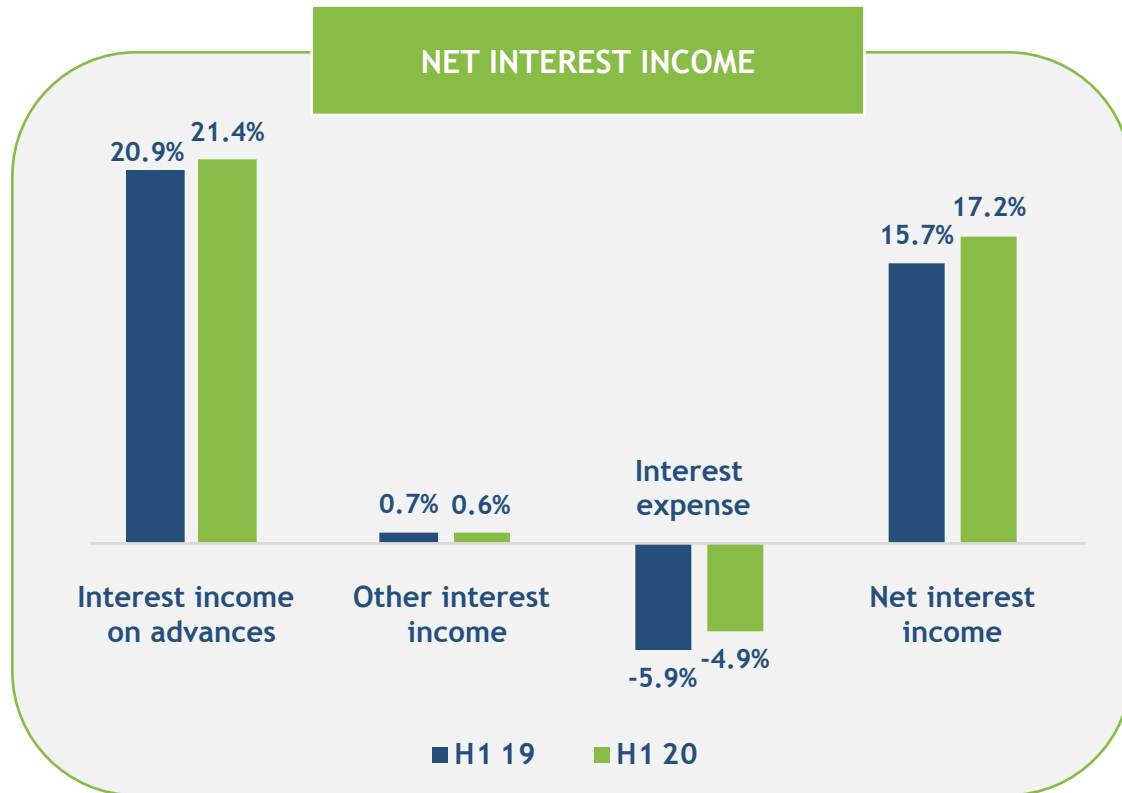


COVID-19 CHARGE NEGATIVELY IMPACTS RESULTS BY

R853m

Return on average gross advances

Net interest income growth, while CLR negatively impacted by Covid-19 charge

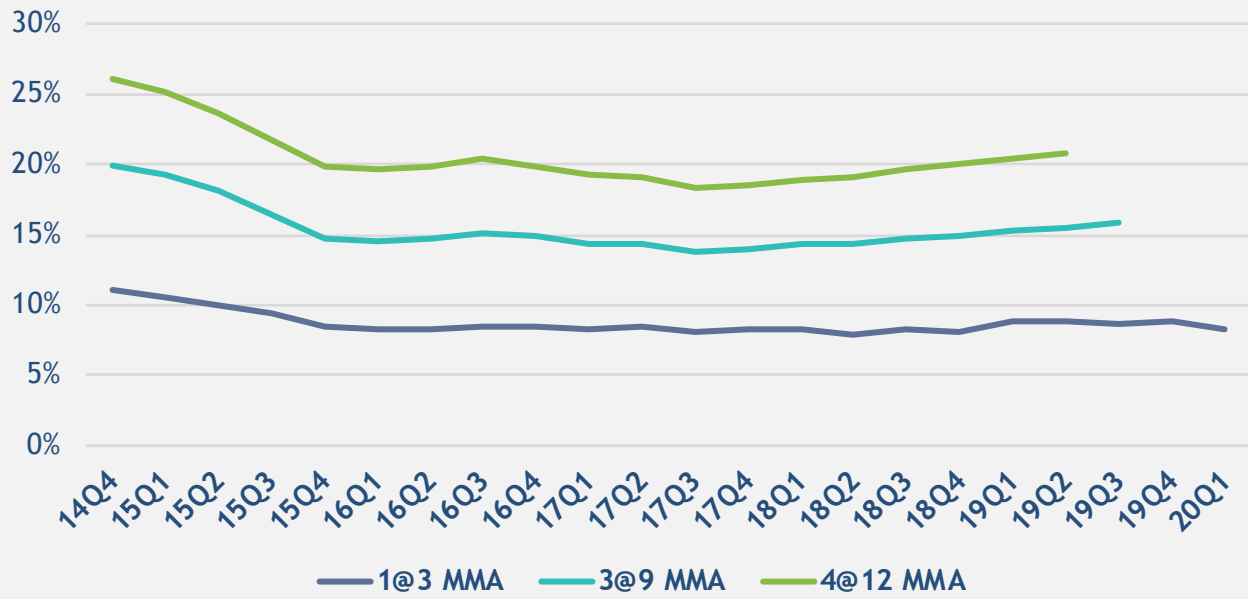


- Interest income on advances 8% higher than prior year
- Reduction in interest expense due to liabilities maturing

- CLR before Covid-19 adjustment of 8.8% includes credit regulatory-specific impairment reduction of R299 million (-2.0%)
- CLR post Covid-19 adjustment of R550 million increases to 12.5%

Risk emergence trends

CREDIT RISK - EARLY RISK EMERGENCE

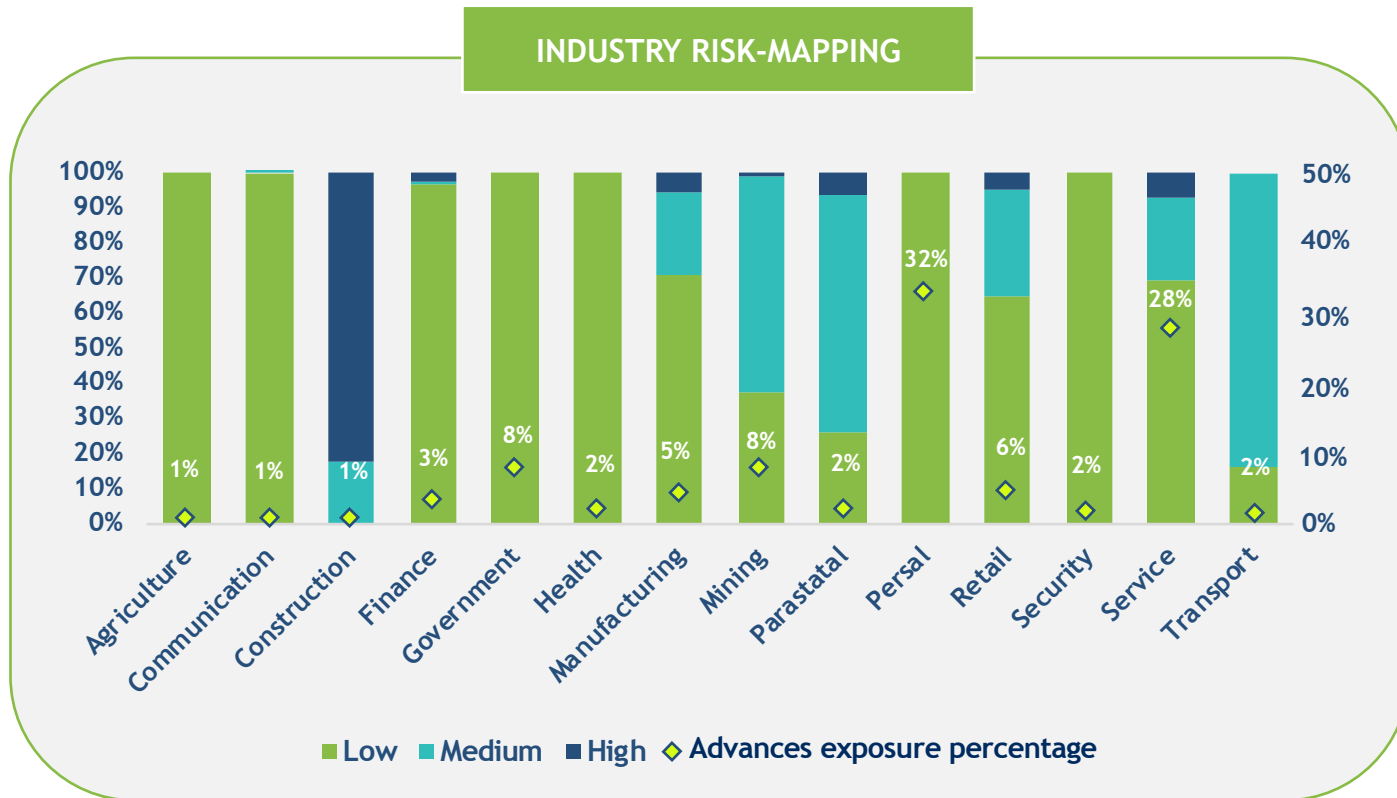


VINTAGES STRAIN
INDICATIVE OF
WEAKENING
MACROECONOMICS

- Increase in **early risk emergence** for loans with 9 and 12 months on book, due to macroeconomic stresses, resulting in tightening of credit-granting criteria
- Possible early evidence of improved risk in 3 months on book; however, this is pre-Covid-19

Covid-19-specific provisioning adjustments totalling R853 million

Determined by analysing each employer



Employer analysis

- Assessed and ranked in terms of low, medium and high impact as a result of Covid-19 pandemic and lockdown restrictions
- Also informs Post-Covid-19 underwriting

Conservative Covid-19 adjustments totalling R853 million

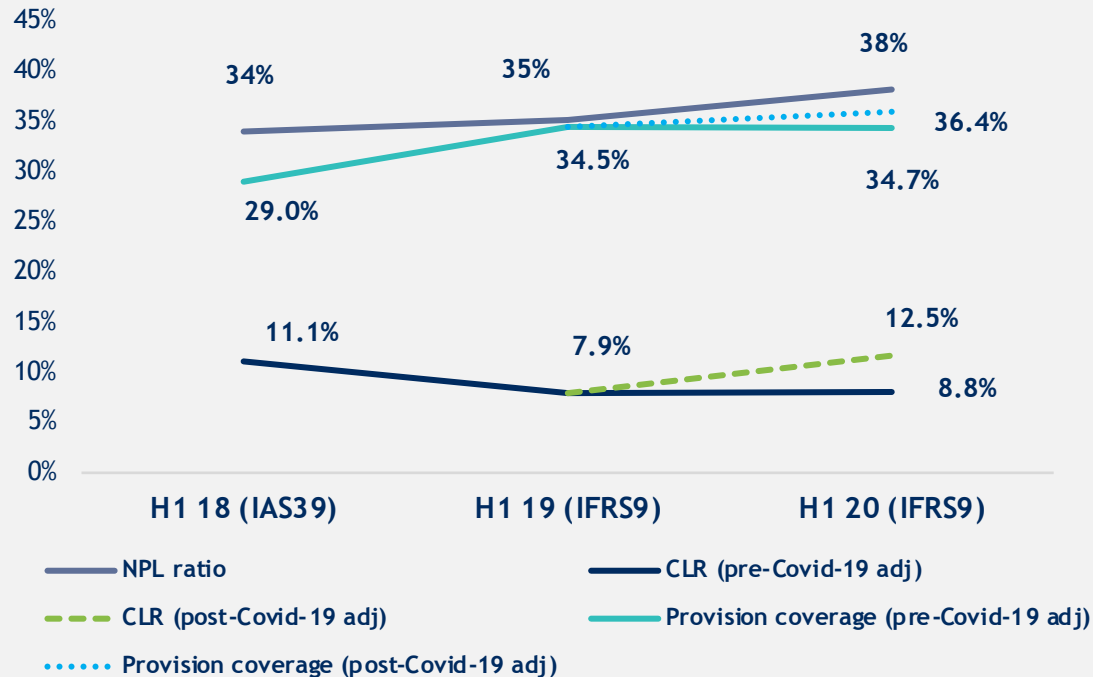
- Additional African Bank credit impairment charge of R550 million
- Additional Insurance IBNR provision R303 million
- Resulting in net profit after tax reduction of R614 million

Key advances and credit-related ratios

Macroeconomic strain compounded by Covid-19 pandemic effects



NPL, CREDIT LOSS & COVERAGE RATIOS



- **NPL ratio** rising to 38% as macroeconomic stresses take hold
- **CLR pre-Covid-19** increased to 8.8% notwithstanding reduction of credit regulatory provisions
- **CLR** rises to 12.5% post-Covid-19 impairments of R550 million
- **Coverage** steady at 34.7% (post-Covid-19 adjustment increased to 36.4%)

Credit quality - Book split and credit coverage

Pre-Covid-19 provisioning steady; Covid-19 charge for expected increase in defaults

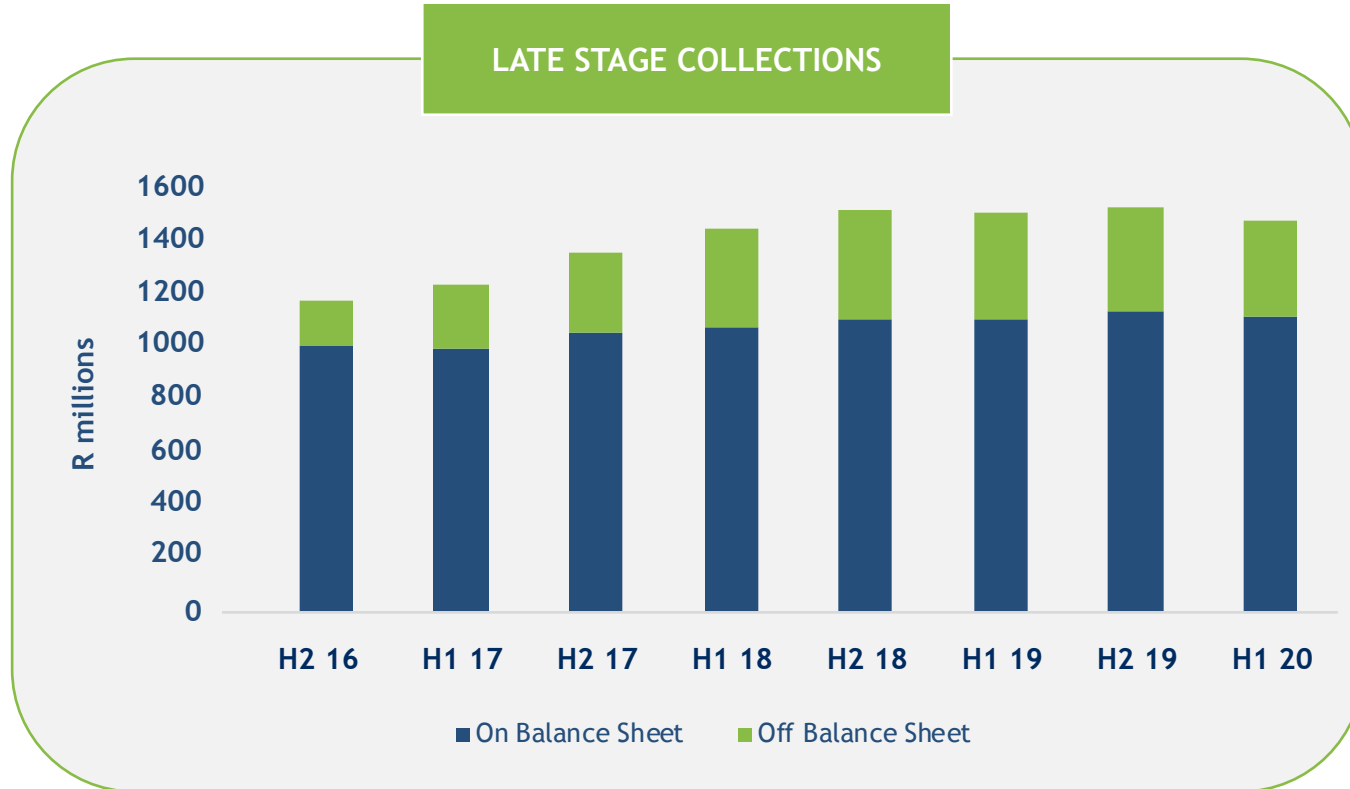
Book Split				
R millions	30 September 2019	31 March 2019	Pre-Covid-19 31 March 2020	Post-Covid-19 31 March 2020
	Stage 1	10 077	9 537	9 528
Stage 2	9 264	9 486	9 084	10 221
Stage 3	10 859	10 325	11 532	11 488
TOTAL	30 200	29 348	30 145	30 093
Percentage Stage 3	36%	35%	38%	38%
WRITTEN-OFF BOOK	12 720	12 678	13 935	13 935

Coverage				
Percentage	30 September 2019	31 March 2019	Pre-Covid-19 31 March 2020	Post-Covid-19 31 March 2020
	Stage 1	6%	7%	6%
Stage 2	27%	26%	27%	26%
Stage 3	65%	67%	65%	68%
TOTAL	34%	34%	35%	36%

- **Pre-Covid-19 adjustment** coverage of 34.7% in line with prior year at 34.5%
- **Covid-19 provisioning** totalling R550 million provided (in addition to IBNR cover in insurance operations)
- **Advances** in excess of R1.1 billion moved from Stage 1 to Stage 2 (includes Stage 1 SICR) due to Covid-19 analysis
- **Post-Covid-19 coverage** increased to 36.4%
- Nil value assigned to **gross written-off book** (R13.9 billion)

Collections on Stage 3 and written-off book

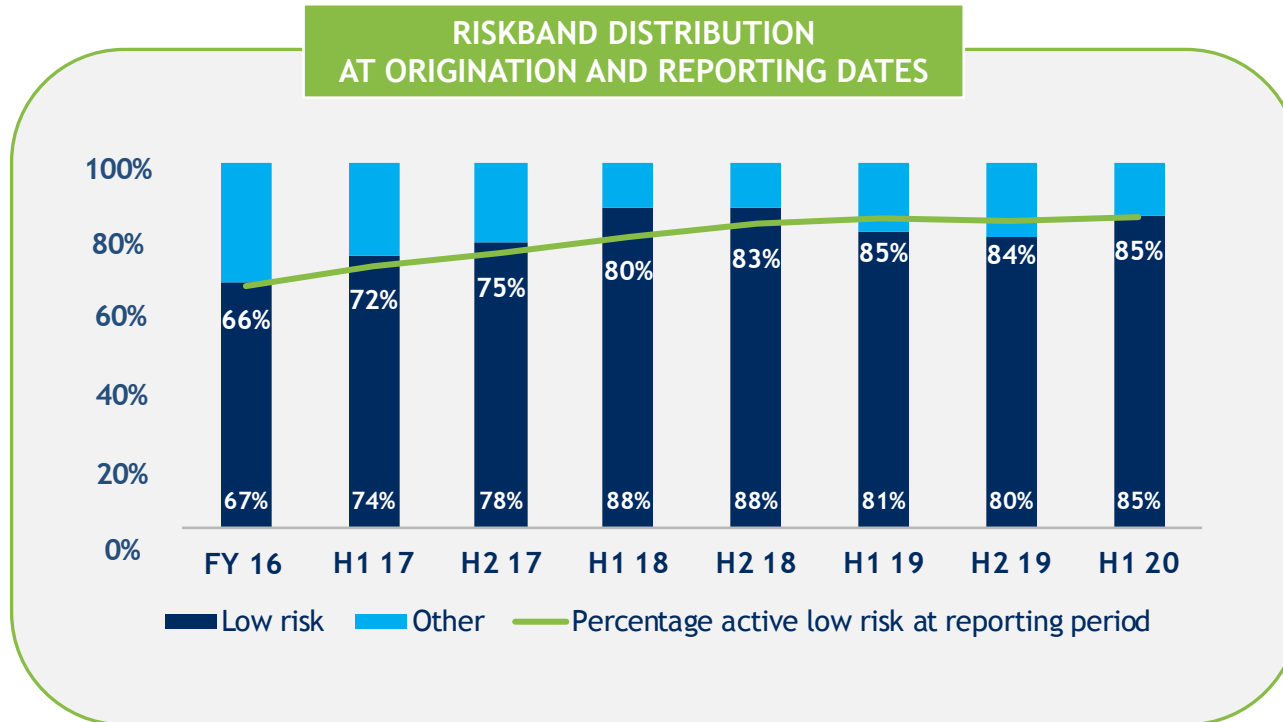
Consistently high payments by customers in late stage collections



- **Total collections** R1 410 million
 - On balance sheet R1 066 million
 - Off balance sheet bad debt recoveries R345 million
- **Pandemic** expected to negatively impact these collections

Consistent focus on lower risk customers

Risk band distribution at origination and reporting date



PERCENTAGE DISBURSEMENT TO LOW-RISK CUSTOMERS

> 85%

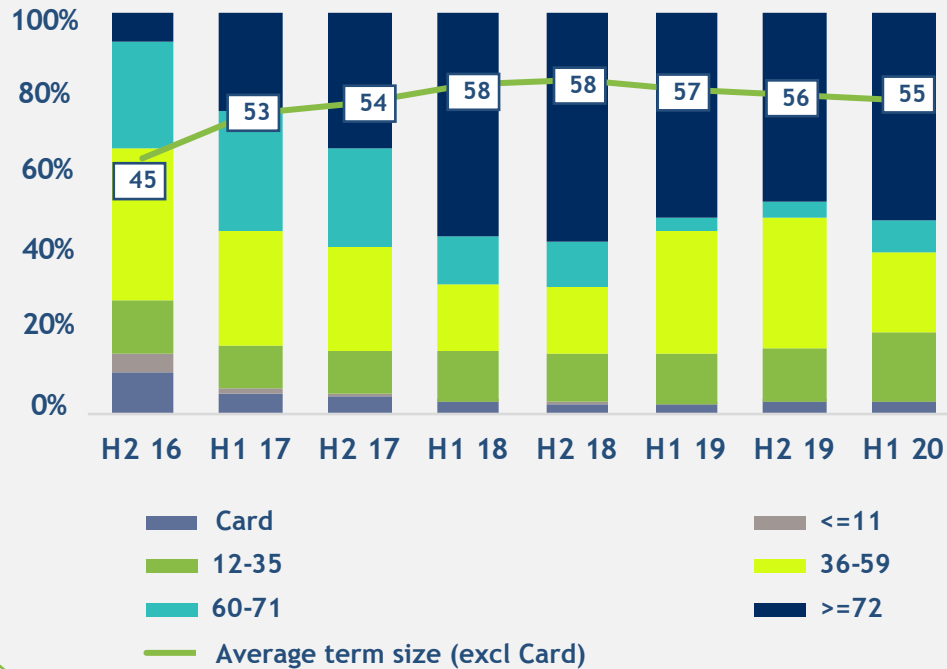
- Above 85% disbursement to low-risk customers (best 5 of 22 risk bands)
- Percentage disbursements used to settle existing African Bank debt at 11%
- Scorecard recalibration in October 2018 moved some previous low-risk to high-risk

Term and loan size distribution

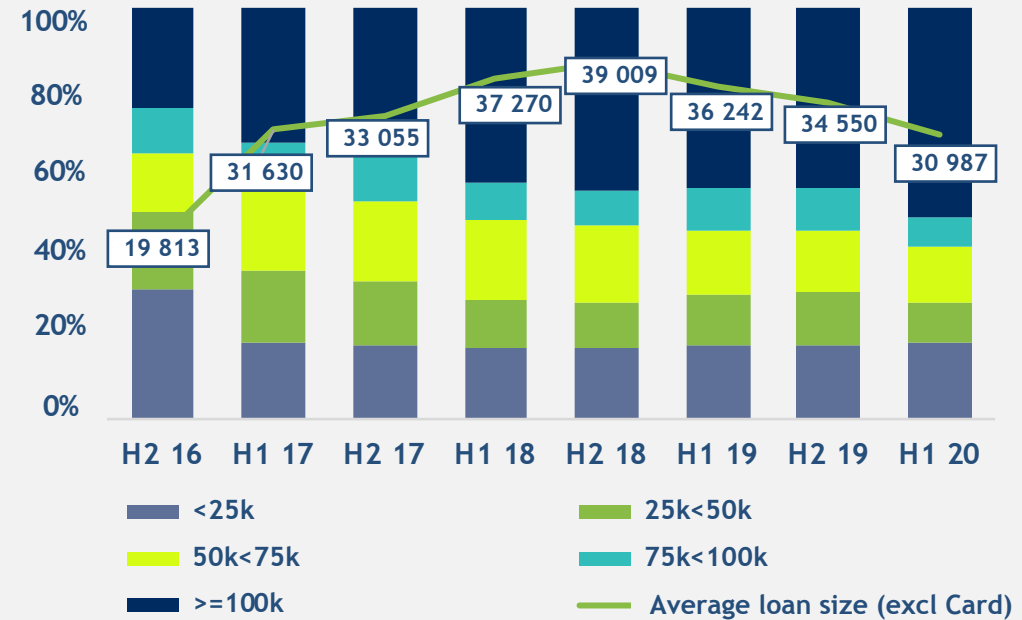
Recalibrated scorecards reduced loan term and size



LOAN TERM DISTRIBUTION IN MONTHS BY HALF-YEAR



LOAN SIZE DISTRIBUTION IN RANCS BY HALF-YEAR



Abridged statement of financial position

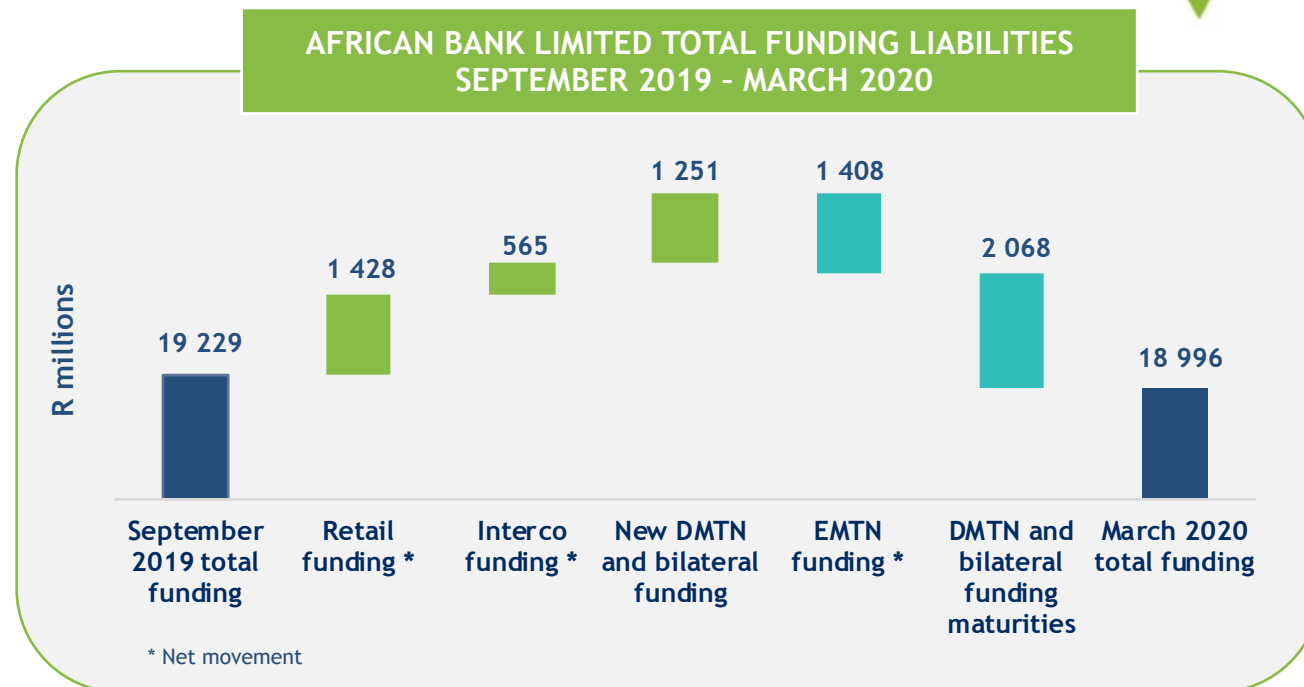
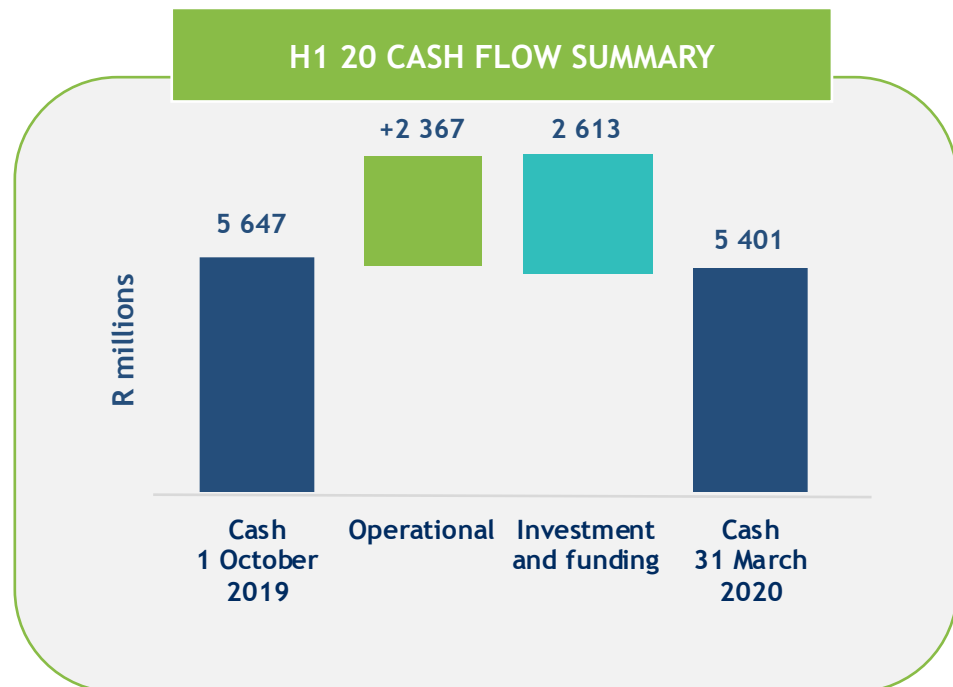
Solid liquidity and well-capitalised, notwithstanding Covid-19 adjustments

R millions	H1 2020	H1 2019	% Change
ASSETS			
Net Advances	18 995	19 182	(1%)
Gross advances	30 093	29 349	3%
Provisions	(11 099)	(10 167)	9%
Minimum regulatory assets and securities	1 127	1 184	(5%)
Cash reserves	5 401	5 993	(10%)
Other assets	2 964	2 288	30%
TOTAL ASSETS	28 487	28 647	(1%)
LIABILITIES AND EQUITY			
Senior liabilities	16 407	17 078	(4%)
Wholesale liabilities	11 320	15 099	(25%)
Retail deposits	3 836	1 489	158%
Other	1 251	490	155%
Capital	12 080	11 569	4%
Subordinated debt	1 532	1 531	0%
Equity and reserves	10 548	10 038	5%
TOTAL LIABILITIES AND CAPITAL	28 487	28 647	(1%)

- **Net advances** steady, provided for at 34.7% pre-Covid-19 adjustment (H1 19: 34.5%) and 36.4% post-Covid-19 adjustment
- High **cash reserves** at R5.4 billion (including surplus statutory assets)
- **Retail saving and investment deposits** increased by 158% to R3.8 billion (including transactional banking)
- **Other assets and other liabilities** include new IFRS16 leases right of use assets (R703 million) and lease liabilities (R736 million)

Cash reserves and liabilities movement

High cash balance with strong new inflows from retail investments and wholesale

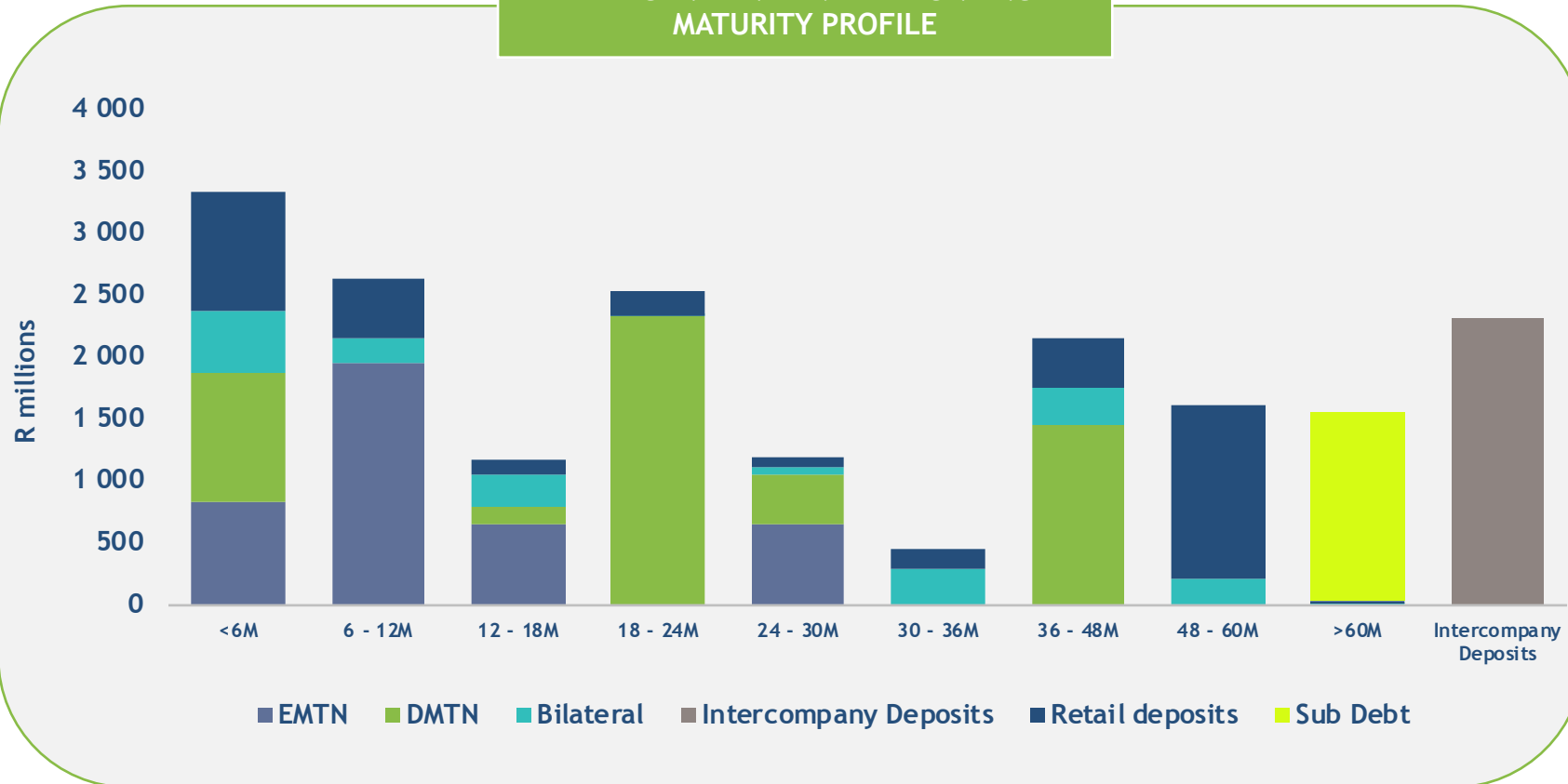


- **Cash positive operational inflows** of R2.4 billion (collections greater than disbursements and strong retail savings inflows)
- **Total new funding** raised in excess of R3 billion from retail savings (R1.4 billion), DMTN bond issuance and bilateral deposit (R1.3 billion) and intergroup funding (R0.5 billion)

Maturity profile of funding liabilities

Diversified funding improving with strong longer-term retail savings deposits

AFRICAN BANK LIMITED FUNDING MATURITY PROFILE



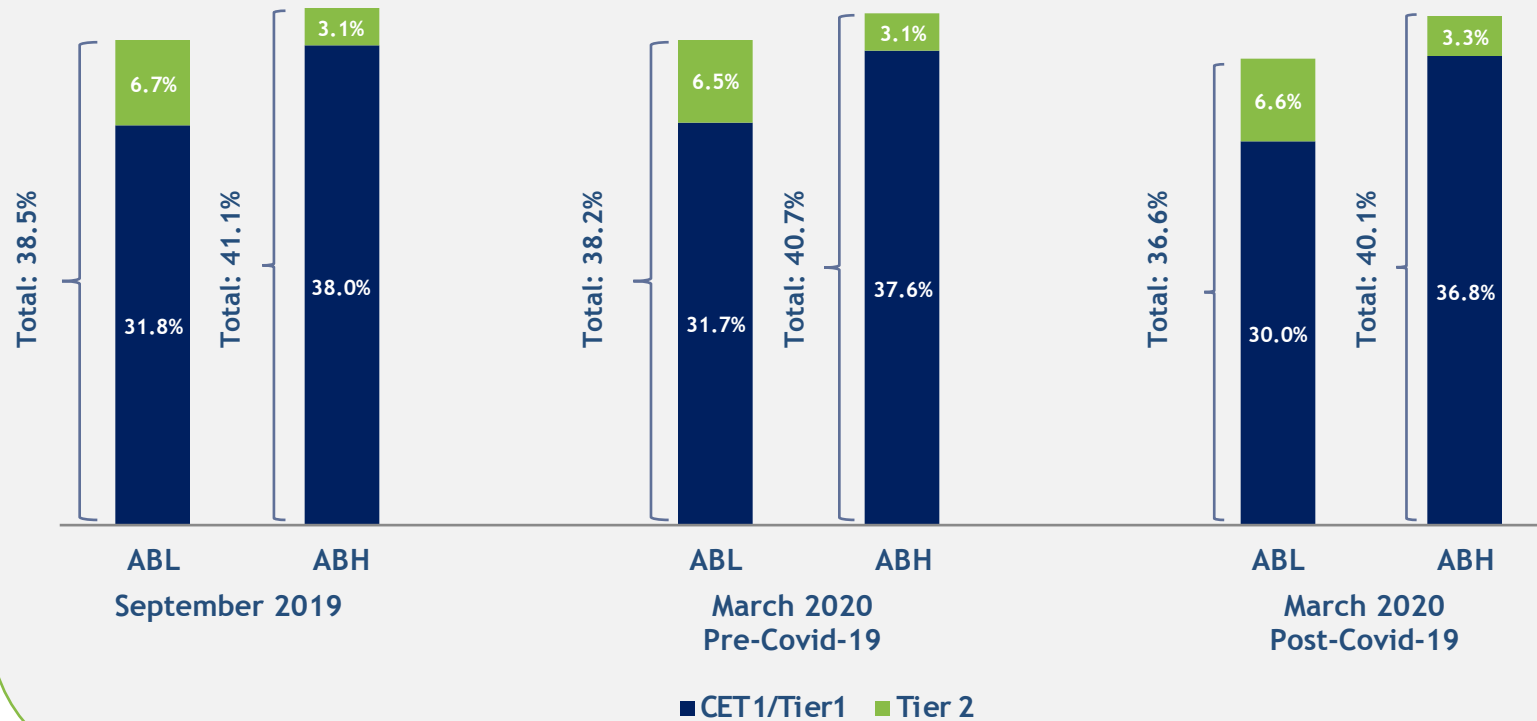
- **Cash resources** total R5.4 billion
- **Liquidity buffers** maintained, with positive operational cashflows
- **S&P Global Ratings** affirmed national scale rating of zaA- in April 2020
- **Development of shareholder-backed liquidity facility** continues
- **Retail savings deposits** longer term in nature (57% in 60-month fixed deposit), with a re-investment roll over rate of greater than 45%
- **Sub debt maturity profile** as per contractual term (and not early call date - April 2021)

Solid capital levels

Regulatory capital adequacy



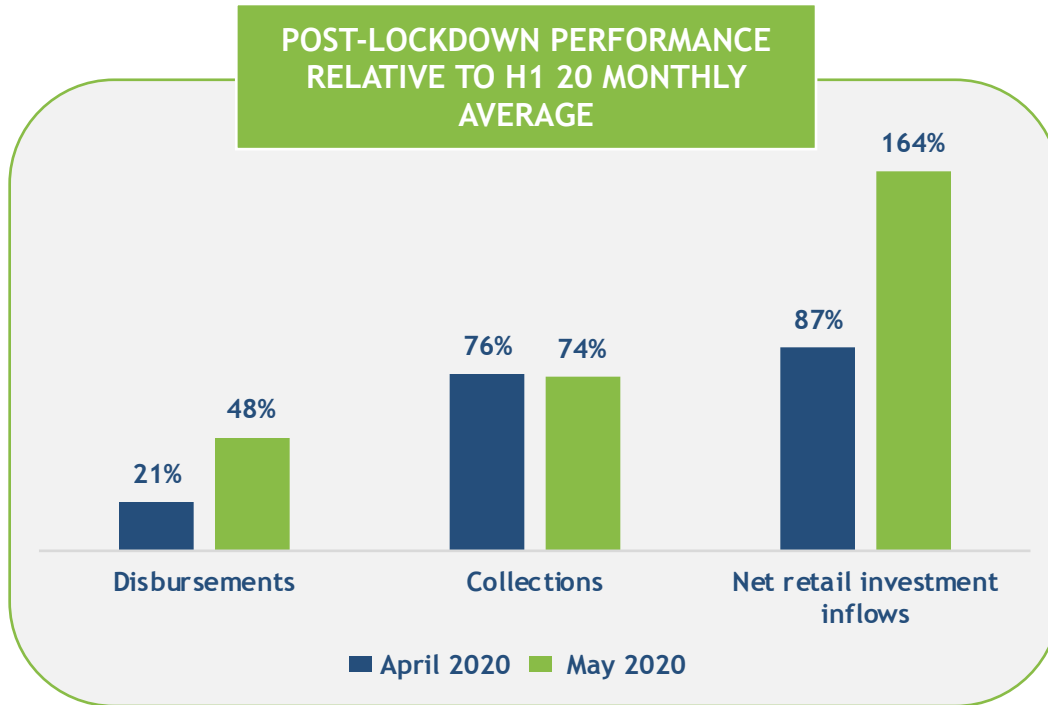
REGULATORY CAPITAL ADEQUACY
PRE- AND POST-COVID-19



- Strong capital levels maintained
- Group total capital adequacy reduced slightly to 40.1% (FY19: 41.1%) post Covid-19 adjustment
- Bank's CET1 capital ratio post-Covid-19 adjustment at 30.0% is well above internal and regulatory minimums

Recent business trends post-Covid-19 lockdown

April and May 2020



Disbursements

- Significant reduction in new loan applications (79% down in April 2020) due to lockdown restrictions
- Digital platforms seeing increased activity

Collections

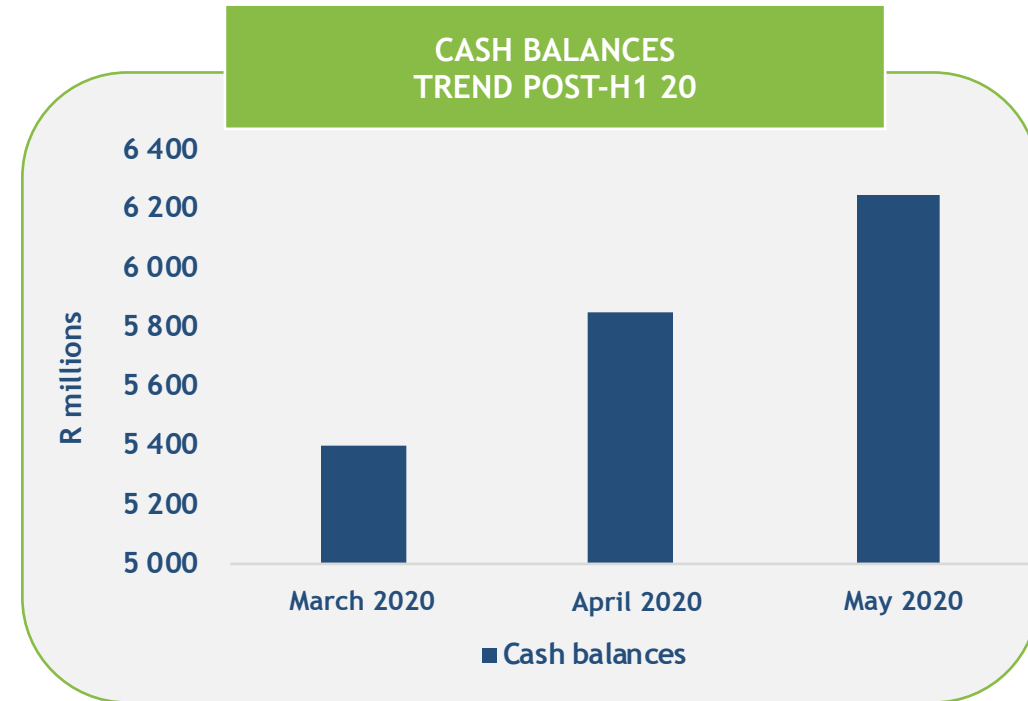
- 'Choose your Break' instalment relief reduced collections by 9%
- Collections reduced by a further 16% as a result of short-pay implemented by employers and macroeconomic stress
- Collections could worsen as the lockdown is extended

Retail savings

- Strong inflows in March 2020 in lead-up to lockdown
- April 2020 inflows somewhat subdued but May 2020 inflows robust once again - R506 million net inflows for the two months
- Deposit tenor shortening slightly of late - repo rate reductions enabled lower cost of funding

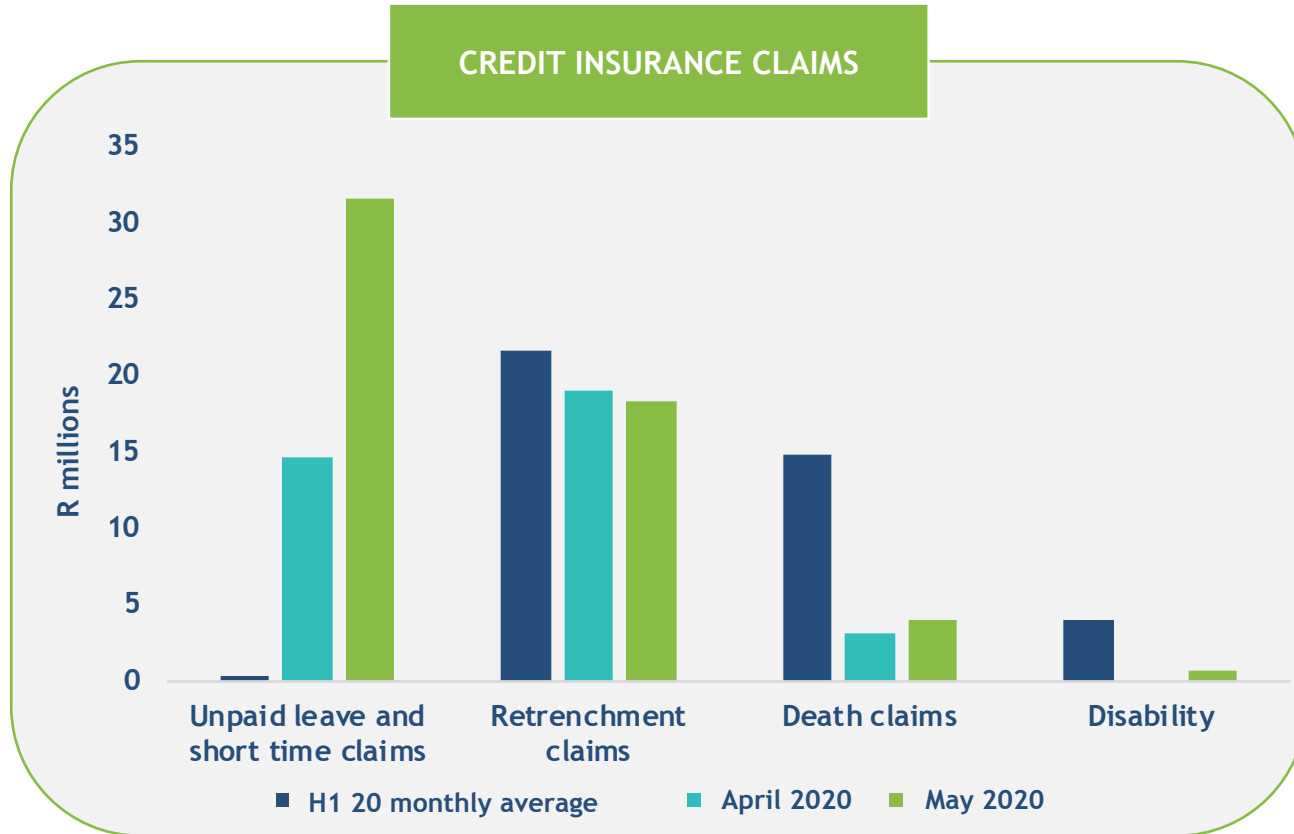
Recent business trends post-Covid-19 lockdown

NPL% continues to rise; cash balances also rising



Covid-19 assistance to customers

April and May 2020



Insurance claims

- Significant increase in unpaid leave and short-time claims
- Retrenchment claims have not yet increased materially
- Offset by significant reduction in death and disability claims - Home Affairs offline

Customer debt relief

- Payment holidays ('Choose your Break' - CYB) offered to hundreds of thousands of customers in good standing in April and May 2020
- Take-up percentage less than 15%
- Credit life insurance cover up to 12 instalments
- R263 million in cashflow relief provided (CYB and instalments settled by insurance) over April and May 2020



LOOKING AHEAD

Chief Executive Officer
Basani Maluleke

Staying on course by managing the factors in our control

EFFECTIVE MANAGEMENT OF THE CONTROLLABLES

- Ensuring a safe environment for our people and our customers
- Engaging in robust short-term and longer term scenario-planning exercises
- Continuing to adopt successful liquidity management measures
- Reviewing and updating conservative credit-granting criteria
- Driving prudent liability management
- Supplementing cost discipline measures; limiting discretionary spend
- Adapting longer term strategy and operating model, taking into account the post-pandemic new world order

Remaining a strong investment proposition for our stakeholders

A SOUND INVESTMENT CASE

- Robust balance sheet with strong liquidity
- Well-capitalised
- Actively diversifying our funding base
- Steadily progressing our strategic imperatives
- Leveraging our capabilities to address our stakeholders' needs
- Future-proofing the Group, in adapting our overarching strategy and in adjusting our operating model

Preparing for a new normal

PEOPLE PRIORITIES

- Safety, health and wellness remain paramount
- Virtual and interconnected ways of working
- Enhanced stakeholder communications

OPERATIONAL PRIORITIES

- Robust scenario-planning
- Focused cost containment
- Data analytics provide competitive edge

CUSTOMERS PRIORITIES

- Innovative and best-in-market products
- Final implementation of Omni-channel
- Elevating the customer experience

FINANCIAL PRIORITIES

- Prudent provisioning coverage
- Conservative liquidity buffers
- Maintaining high capital levels

STRATEGY RECALIBRATION