

African Bank Holdings Limited  
and African Bank Limited

Public Pillar III Disclosures  
in terms of the Banks Act,  
Regulation 43  
as at 31 December 2019

# CONTENTS

|  |    |
|--|----|
| 1. Executive summary.....                                    | 3  |
| 2. Basis of compilation.....                                 | 7  |
| 3. Supplementary information including risk management ..... | 7  |
| 4. Period of reporting .....                                 | 8  |
| 5. Scope of reporting .....                                  | 8  |
| 6. Regulatory capital adequacy .....                         | 9  |
| 7. Leverage ratio.....                                       | 11 |
| 8. Liquidity measurements .....                              | 13 |
| 9. The net stable funding ratio (NSFR).....                  | 15 |
| 10. Qualitative disclosures and accounting policies .....    | 17 |



# 1. EXECUTIVE SUMMARY

## 1.1. OVERVIEW

African Bank Holdings Limited (ABH or the ABH Group) and its 100% held banking subsidiary, African Bank Limited (“ABL” or “the Bank”) commenced business on 4 April 2016. ABH was capitalised with a cash subscription for ordinary shares in the amount of R10 billion and, in turn, ABH elected to capitalise ABL with the same amount, also in return for ordinary shares. An extended liability term structure was established as a result of the restructuring of the old African Bank that was placed under curatorship on 10 August 2014 and subsequently renamed Residual Debt Services Limited (in curatorship) (RDS), (the Restructuring). ABL acquired a portfolio of assets and liabilities from RDS in terms of the Restructuring, which included the more credit-worthy retail advances book.

Significant improvements in the credit underwriting and provisioning methodologies were immediately applied and continue to be applied in ABL, based on the changing dynamics of the market, the customer profile and the risk experience in respect of the retail advances on book.

The overall balance sheet of ABL remains strong, with advances well provided for, strong capital adequacy and available cash holdings, including surplus liquid assets of R6.3 billion. Liquidity risk, interest rate risk and foreign exchange risks are managed within a conservative risk appetite framework.

The overall impact of the strong balance sheet structure, as expressed in the conservative risk

appetite, is evidenced in the various sections of this report which, as of 31 December 2019, include CET1 ratio of 31.0%, a leverage ratio of 25.2%, a liquidity coverage ratio of 933% and a net stable funding ratio of 132% at the ABL level.

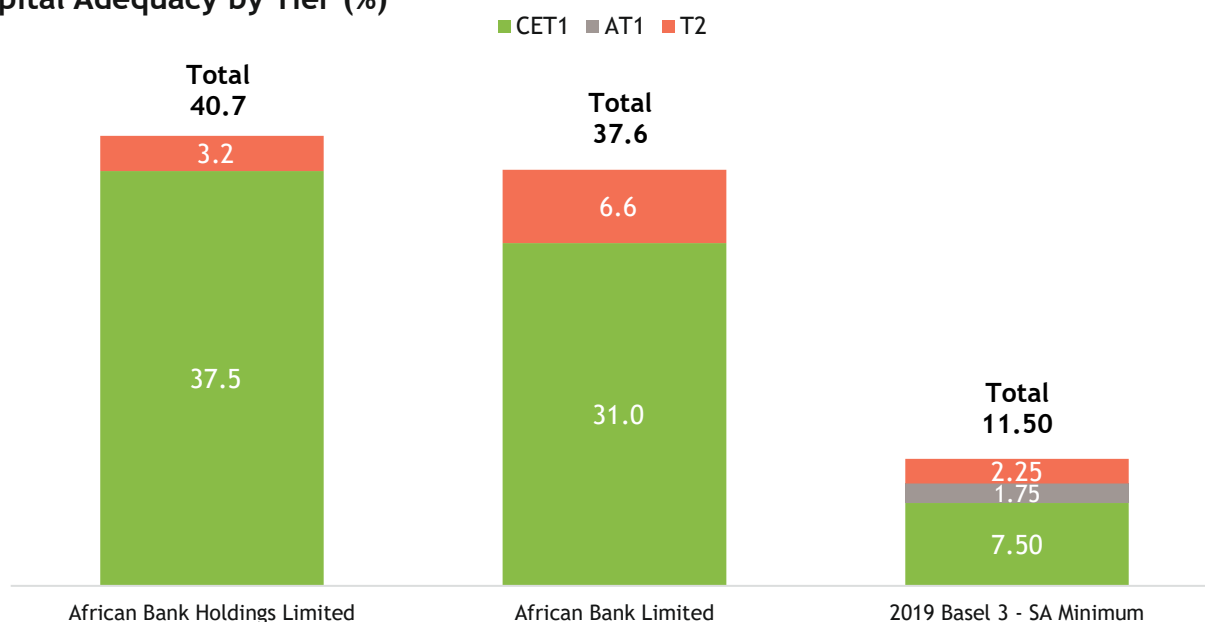
## 1.2. GOVERNANCE

This Pillar III disclosure report complies with the Prudential Authority’s requirements as stipulated through the Banks Act (Act No. 94 of 1990), and through the relevant regulations, directives and guidance notes issued, with specific reference to Directive D1 of 2019. The Board is satisfied that in line with African Bank’s prudent governance processes, relevant executive management and Board executives have reviewed this document. The information provided in this report was subject to a similar and appropriate level of internal review as the information provided for financial reporting purposes.

## 1.3. CAPITAL ADEQUACY RATIOS

The capital adequacy ratios and qualifying regulatory capital for ABH and ABL as at 31 December 2019 are set out in the graph and table below. The Group remains well capitalised with CET1 and Tier 1 ratios of 37.5% and 31.0% at a consolidated Group and Bank level respectively. The corresponding total capital adequacy ratios are 40.7% and 37.6% respectively.

Capital Adequacy by Tier (%)



The following table sets out the composition of the qualifying regulatory capital

| R million   | African Bank Holdings Limited |               | African Bank Limited |              |
|---|-------------------------------|---------------|----------------------|--------------|
|   | Dec-2019                      | Sep-2019      | Dec-2019             | Sep-2019     |
| <b>Composition of qualifying regulatory capital</b> |                               |               |                      |              |
| Ordinary share capital & accumulated profit         | 10 051                        | 10 110        | 10 000               | 10 000       |
| Regulatory adjustments                              | (137)                         | (191)         | (1 897)              | (1 746)      |
| <b>Common Equity Tier 1 capital (CET1)</b>          | <b>9 914</b>                  | <b>9 919</b>  | <b>8 103</b>         | <b>8 254</b> |
| Total qualifying subordinated debt                  | 586                           | 564           | 1 485                | 1 485        |
| Portfolio Impairments                               | 247                           | 247           | 247                  | 247          |
| <b>Tier 2 capital (T2)</b>                          | <b>833</b>                    | <b>811</b>    | <b>1 732</b>         | <b>1 732</b> |
| <b>Qualifying regulatory capital</b>                | <b>10 747</b>                 | <b>10 730</b> | <b>9 835</b>         | <b>9 986</b> |

Refer to 6.2 of the detailed disclosure for a detailed breakdown of the above table.

## 1.4. LEVERAGE RATIO

The Basel III leverage ratio is defined as the capital measure (Tier 1 capital) divided by the exposure measure (total exposures) and is expressed as a percentage. This measure acts as a backstop to the capital adequacy ratio, by acting as a floor to restrict the build-up of excessive leverage by banks.

The decrease in the Group leverage ratio from the prior reporting period is largely due to an increase in the total exposure resulting from an increase in interbank placements and the IFRS16 impact on assets. The decrease in the leverage ratio at ABL level was further impacted by a decrease in Tier 1 capital.

| R million  | African Bank Holdings Limited |              | African Bank Limited |              |
|--|-------------------------------|--------------|----------------------|--------------|
|  | Dec-2019                      | Sep-2019     | Dec-2019             | Sep-2019     |
| <b>Capital and total exposures</b>                             |                               |              |                      |              |
| Tier 1 capital   | 9 914                         | 9 919        | 8 103                | 8 255        |
| Total exposures  | 31 945                        | 31 505       | 32 102               | 31 473       |
| <b>Basel III leverage ratio</b>                                | <b>31.0%</b>                  | <b>31.5%</b> | <b>25.2%</b>         | <b>26.2%</b> |
| <b>Basel III leverage ratio regulatory minimum requirement</b> | <b>4.0%</b>                   | <b>4.0%</b>  | <b>4.0%</b>          | <b>4.0%</b>  |

Refer to 7.2 of the detailed disclosure for a detailed breakdown of the above table.

## 1.5. LIQUIDITY COVERAGE RATIO (“LCR”)

The LCR is a 30-day stress test, which requires the Bank to hold sufficient high-quality liquidity assets to cover envisaged net outflows. These outflows are calibrated using prescribed Basel factors applied to assets and liabilities in a static run-off model. Basel definitions are used to identify high-quality liquid assets.

The increase in the LCR from the previous reporting period was as result of the decrease total net cash outflows, primarily as a result of higher maturing liability balances for the quarter ended 30 September 2019 as opposed to during the quarter ended 31 December 2019.

| African Bank Limited                | Total                                | Total                                |
|-------------------------------------|--------------------------------------|--------------------------------------|
| R million                           | weighted value (average)<br>Dec-2019 | weighted value (average)<br>Sep-2019 |
| Total high-quality liquid assets    | 1 190                                | 1 187                                |
| Total net cash outflows             | 151                                  | 240                                  |
| <b>Liquidity coverage ratio (%)</b> | <b>933%</b>                          | <b>511%</b>                          |
| Regulatory minimum requirement      | 100%                                 | 100%                                 |

Refer to 8.1 of the detailed disclosure for a detailed breakdown of the above table.

## 1.6. NET STABLE FUNDING RATIO (“NSFR”)

The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding, over a one year period. This ratio is required to be greater than or equal to 100% on an on-going basis.

“Available stable funding” is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet exposures.

The NSFR is designed to ensure closer matching of long-term asset cash flows with long-term funding cash flows. Full compliance for NSFR became effective since January 2018.

The NSFR decreased slightly from the previous reporting period as a result of both, a slight decrease in available stable funding and a slight increase in required stable funding.

| African Bank Limited     | Dec-2019    | Sep-2019    |
|--------------------------|-------------|-------------|
| R million                |             |             |
| <b>NSFR (%)</b>          | <b>132%</b> | <b>135%</b> |
| Available stable funding | 23 010      | 23 240      |
| Required stable funding  | 17 389      | 17 234      |

## 1.7. REFERENCES OF QUANTITATIVE STANDARDISED TABLES AND TEMPLATES

Refer to the attached Annexure A to this document for ease of reference for the quantitative standardized tables and templates as prescribed in the revised pillar 3 disclosure requirements published in January 2015 by the Basel Committee on Banking Supervision.

## 1.8. OVERVIEW OF RISK MANAGEMENT, KEY PRUDENTIAL METRICS AND RWA

The following table presents a summary of key prudential metrics related to regulatory capital, leverage ratio and liquidity standards. Banks are required to disclose each metric's value using the corresponding standard's specifications for the reporting period-end (designated by “T” in the template below) as well as the four previous quarter-end figures (T-1 to T-4). Please note that the table below reflects the capital and leverage numbers at an ABH Group level, whilst the LCR and NSFR numbers are at an African Bank level.

Overview of risk management, key prudential metrics and RWA

| Period ended:   | Dec19  | Sep19  | Jun19  | Mar19  | Dec18  |        |
|---|--|--------|--------|--------|--------|--------|
| R million   | (T)  | (T-1)  | (T-2)  | (T-3)  | (T-4)  |        |
| <b>Available capital (amounts) <sup>(1) (3)</sup></b>             |  |        |        |        |        |        |
| 1   | Common Equity Tier 1 (CET1)  | 9 914  | 9 919  | 9 300  | 9 113  | 8 717  |
| 1a  | Fully loaded ECL accounting model  | 9 914  | 9 919  | 9 300  | 9 113  | 8 717  |
| 2   | Tier 1   | 9 914  | 9 919  | 9 300  | 9 113  | 8 717  |
| 2a  | Fully loaded accounting model Tier 1   | 9 914  | 9 919  | 9 300  | 9 113  | 8 717  |
| 3   | Total capital  | 10 747 | 10 730 | 10 110 | 9 967  | 9 612  |
| 3a  | Fully loaded ECL accounting model total capital                                | 10 747 | 10 730 | 10 110 | 9 967  | 9 612  |
| <b>Risk-weighted assets (amounts)</b>                             |  |        |        |        |        |        |
| 4   | Total risk-weighted assets (RWA)   | 26 381 | 26 078 | 25 654 | 26 717 | 26 724 |
| <b>Risk-based capital ratios as a percentage of RWA</b>           |  |        |        |        |        |        |
| 5   | Common Equity Tier 1 ratio (%)   | 37.5   | 38.0   | 36.3   | 34.1   | 32.6   |
| 5a  | Fully loaded ECL accounting model CET1 (%)                                     | 37.5   | 38.0   | 36.3   | 34.1   | 32.6   |
| 6   | Tier 1 ratio (%)   | 37.5   | 38.0   | 36.3   | 34.1   | 32.6   |
| 6a  | Fully loaded ECL accounting model Tier 1 ratio                                 | 37.5   | 38.0   | 36.3   | 34.1   | 32.6   |
| 7   | Total capital ratio (%)  | 40.7   | 41.1   | 39.4   | 37.3   | 36.0   |
| 7a  | Fully loaded ECL accounting model total capital ratio (%)                      | 40.7   | 41.1   | 39.4   | 37.3   | 36.0   |
| <b>Additional CET1 buffer requirements as a percentage of RWA</b> |  |        |        |        |        |        |
| 8   | Capital conservation buffer requirement (2.5% from 2019) (%)                   | 2.500  | 2.500  | 2.500  | 2.500  | 1.875  |
| 9   | Countercyclical buffer requirement (%)   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |
| 10  | Bank D-SIB additional requirements (%)   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |
| 11  | Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)    | 2.500  | 2.500  | 2.500  | 2.500  | 1.875  |
| 12  | CET1 available after meeting the bank's minimum capital requirements (%)       | 30.1   | 30.5   | 28.8   | 26.6   | 24.6   |
| <b>Basel III Leverage Ratio <sup>(3)</sup></b>                    |  |        |        |        |        |        |
| 13  | Total Basel III leverage ratio measure   | 31 945 | 31 505 | 29 538 | 30 935 | 32 063 |
| 14  | Basel III leverage ratio (%) (row 2/row 13)                                    | 31.0   | 31.5   | 31.5   | 29.5   | 27.2   |
| 14a   | Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13) | 31.0   | 31.5   | 31.5   | 29.5   | 27.2   |
| <b>Liquidity Coverage Ratio <sup>(2) (3)</sup></b>                |  |        |        |        |        |        |
| 15  | Total HQLA   | 1 190  | 1 187  | 1 199  | 1 150  | 1 114  |
| 16  | Total net cash outflow   | 151    | 328    | 162    | 223    | 164    |
| 17  | LCR ratio (%)  | 933    | 511    | 437    | 877    | 772    |
| <b>Net Stable Funding Ratio <sup>(2) (3)</sup></b>                |  |        |        |        |        |        |
| 18  | Total available stable funding   | 23 010 | 23 240 | 22 472 | 23 299 | 24 205 |
| 19  | Total required stable funding  | 17 389 | 17 234 | 16 883 | 18 119 | 17 327 |
| 20  | NSFR ratio (%)   | 132    | 135    | 133    | 129    | 140    |

(1) The Group has opted not to make use of the transitional arrangements of the ECL accounting provisions for regulatory capital purposes as allowed per SARB Directive 5 of 2017 and has rather opted to take the full impact of IFRS 9 into account with effect from 1 October 2018.

(2) Information reported at African Bank Holdings Limited while the liquidity ratios are at African Bank Limited Level.

(3) Refer to sections 1.3 to 1.6 of the executive summary for reasons on movements from financial year end 30 September 2019 to quarter end 31 December 2019.

## 2. BASIS OF COMPILATION

The information contained in this report is based on the month end and in some instances average balances as contained in the regulatory returns. Accordingly, this information may not agree to the information contained in the respective sets of Annual Financial Statements, which are prepared on an IFRS basis.

The table below shows an analysis of advances to customers as at 31 December 2019.

| Analysis of advances to customers as at 31 December 2019         |               |              |               |
|--|---------------|--------------|---------------|
| R million  | Term loans    | Credit Cards | Total         |
| Gross amount due by customers                                    | 25 988        | 4 315        | 30 303        |
| Impairment attributable to acquired advances and deferred fees   | (2 453)       | (65)         | (2 518)       |
| <b>Gross advances</b>  | <b>23 535</b> | <b>4 250</b> | <b>27 785</b> |
| Impairment and deferred fees attributable to originated advances | (7 114)       | (1 023)      | (8 137)       |
| <b>Net advances</b>  | <b>16 421</b> | <b>3 227</b> | <b>19 648</b> |

Unless where otherwise indicated, all figures reported are reported in ZAR millions ("R million").

## 3. SUPPLEMENTARY INFORMATION INCLUDING RISK MANAGEMENT

Additional information providing context for disclosures contained herein is included in the following documents published by the ABH Group, available on the investor relations portion of the Bank website at <https://www.africanbank.co.za/> which contains information as listed under each report.

*African Bank Holdings Limited Integrated Report 2019*

- ▶ Overview and business model
- ▶ Material matters
- ▶ Strategy
- ▶ Governance and compliance
- ▶ People and remuneration

*African Bank Holdings Limited: consolidated annual financial statements 30 September 2019, and*

*African Bank Limited: annual financial statements 30 September 2019*

*The reference to the various sections are given by way of a reference to the specific note in the annual financial statements of African Bank Limited.*

- ▶ Accounting policies (Note 1)
- ▶ Risk management approach (page 63)
- ▶ Credit risk approach including approach to impairment provisioning (Note 31)
- ▶ Market risk (Note 32)
- ▶ Interest rate risk management (Note 32.1)
- ▶ Foreign currency risk management (note 32.2)
- ▶ Liquidity risk management (Note 33)

The ABH integrated report gives a comprehensive overview of the areas covered while the ABL and ABH Annual Financial Statements give further detail of the approach to risk management and the risk types. This information should be read in conjunction with the detailed information in this report.

## 4. PERIOD OF REPORTING

This report covers the period from 1 October 2019 to 31 December 2019 for the ABH Group and its 100% held banking subsidiary, ABL. Comparative disclosures are as at and for the year ended 30 September 2019.

## 5. SCOPE OF REPORTING

This report contains capital adequacy information for ABH and its 100% held banking subsidiary, ABL. The further disclosures for ABL include the leverage ratio, the liquidity coverage ratio, credit disclosures, liquidity disclosures and foreign exchange exposures, and also materially reflect the position of the ABH Group.

All subsidiaries are consolidated in the same manner for both accounting and supervisory reporting purposes. All companies are incorporated in the Republic of South Africa. The registered banking subsidiary of the Group, ABL, has no subsidiaries.



## 6. REGULATORY CAPITAL ADEQUACY

The capital adequacy ratios and qualifying regulatory capital for ABH and ABL as at 31 December 2019 are set out in the table below. The Group remains well capitalised with CET1 and Tier 1 ratios of 37.5% and 31.0% at a consolidated Group and Bank level respectively. The corresponding total capital adequacy ratios are 40.7% and 37.6% respectively.

### 6.1. OVERVIEW OF RISK WEIGHTED ASSETS

The following table gives an overview of the risk weighted asset requirements at the respective reporting date. The predominant risk exposure for the Group is credit risk, which comprises loans, credit cards and interbank deposits.

| R million |   | African Bank Holdings Limited |               |   | African Bank Limited |               |   |
|-----------|---|-------------------------------|---------------|---|----------------------|---------------|---|
|           |   | RWA                           |               | Minimum capital requirements <sup>(1)</sup> | RWA                  |               | Minimum capital requirements <sup>(1)</sup> |
|           |   | Dec-2019                      | Sep-2019      | Dec-2019                                    | Dec-2019             | Sep-2019      | Dec-2019                                    |
| 1         | <b>Credit risk (excluding counterparty credit risk)</b>                             | <b>20 758</b>                 | <b>20 494</b> | <b>2 387</b>                                | <b>20 758</b>        | <b>20 494</b> | <b>2 387</b>                                |
| 2         | Of which standardised approach (SA) <sup>(2)</sup>                                  | 20 758                        | 20 494        | 2 387                                       | 20 758               | 20 494        | 2 387                                       |
| 4         | <b>Counterparty credit risk</b>   | -                             | 36            | -   | -                    | 36            | -   |
| 5         | Of which standardised approach for counterparty credit risk (SA-CCR) <sup>(3)</sup> | -                             | 36            | -   | -                    | 36            | -   |
| 10        | <b>Credit valuation adjustment (CVA)</b>  | -                             | 20            | -   | -                    | 20            | -   |
| 20        | <b>Market risk</b>  | <b>175</b>                    | <b>223</b>    | <b>20</b>                                   | <b>175</b>           | <b>223</b>    | <b>20</b>                                   |
| 21        | Of which standardised approach (SA) <sup>(4)</sup>                                  | 175                           | 223           | 20  | 175                  | 223           | 20  |
| 24        | <b>Operational risk<sup>(5)</sup></b>   | <b>2 084</b>                  | <b>2 084</b>  | <b>240</b>                                  | <b>2 050</b>         | <b>2 050</b>  | <b>236</b>                                  |
| 25        | <b>Amounts below thresholds for deduction (subject to 250% risk weight)</b>         | <b>2 282</b>                  | <b>2 176</b>  | <b>262</b>                                  | <b>2 049</b>         | <b>2 074</b>  | <b>236</b>                                  |
| 26        | <b>Floor adjustment</b>   | <b>1 081</b>                  | <b>1 045</b>  | <b>124</b>                                  | <b>1 084</b>         | <b>1 065</b>  | <b>125</b>                                  |
| 27        | <b>Total</b>  | <b>26 380</b>                 | <b>26 078</b> | <b>3 033</b>                                | <b>26 116</b>        | <b>25 962</b> | <b>3 004</b>                                |

(1) The minimum capital requirement per risk category for 2019 is 11.5% which comprises the base minimum (8.00%) plus the Pillar 2A systemic risk add-on (1.0%) plus capital conservation buffer (2.5%).

(2) Refer below for a further split of credit risk exposures between Interbank and Retail exposures. The increase from previous reporting period is largely due to increase in Interbank placements and IFRS16 impact on other assets.

(3) ABL currently applies the current exposure method to calculate counterparty credit risk. The decrease to zero is as a result of there being no derivative exposure as at 31 December 2019.

(4) Market risk exposure decreased significantly due to the foreign currency net open position reducing as a result of foreign liabilities being repaid and the remaining foreign liabilities being one year closer to maturity.

(5) ABL currently applies the alternative standardised approach in calculating its operational risk.

| R million   | African Bank Holdings Limited |               |   | African Bank Limited |               |   |
|---|-------------------------------|---------------|---|----------------------|---------------|---|
|   | RWA                           |               | Minimum capital requirements <sup>(1)</sup> | RWA                  |               | Minimum capital requirements <sup>(1)</sup> |
|   | Dec-2019                      | Sep-2019      | Dec-2019                                    | Dec-2019             | Sep-2019      | Dec-2019                                    |
| <b>Of which standardised approach (SA) - Loans and advances</b> | <b>19 779</b>                 | <b>19 715</b> | <b>2 275</b>                                | <b>19 779</b>        | <b>19 715</b> | <b>2 275</b>                                |
| Retail Exposures  | 17 137                        | 17 274        | 1 971                                       | 17 137               | 17 274        | 1 971                                       |
| Interbank Exposures   | 2 642                         | 2 441         | 304   | 2 642                | 2 441         | 304   |

## 6.2. COMPOSITION OF REGULATORY CAPITAL

The qualifying regulatory capital and capital adequacy ratios for ABH and ABL as at 31 December 2019 are set out in the table below. The Group remains well capitalised with CET1 and Tier 1 ratios of 37.5% and 31.0% at a consolidated Group and Bank level respectively. The corresponding total capital adequacy ratios are 40.7% and 37.6% respectively.

| R million  | African Bank Holdings Limited |               | African Bank Limited |                |
|--|-------------------------------|---------------|----------------------|----------------|
|  | Dec-2019                      | Sep-2019      | Dec-2019             | Sep-2019       |
| <b>Section A</b>   |                               |               |                      |                |
| <b>Common Equity Tier 1 Capital</b>                                      |                               |               |                      |                |
| Ordinary share capital & premium   | 10 000                        | 10 000        | 10 000               | 10 000         |
| Accumulated profit   | 51                            | 110           | -                    | -              |
| <b>Total as per Transitional Basel 3 Template</b>                        | <b>10 051</b>                 | <b>10 110</b> | <b>10 000</b>        | <b>10 000</b>  |
| <b>Section B</b>   |                               |               |                      |                |
| <b>Common Equity Tier 1 Regulatory Adjustments</b>                       |                               |               |                      |                |
| - Intangible assets in terms of IFRS                                     | (86)                          | (81)          | (86)                 | (81)           |
| - Other regulatory adjustments, including accumulated losses             | (51)                          | (110)         | (1 811)              | (1 665)        |
| <b>Total as per Transitional Basel 3 Template</b>                        | <b>(137)</b>                  | <b>(191)</b>  | <b>(1 897)</b>       | <b>(1 746)</b> |
| <b>Section C</b>   |                               |               |                      |                |
| Additional Tier 1 capital (AT1)  | -                             | -             | -                    | -              |
| <b>Section D</b>   |                               |               |                      |                |
| Subordinated debt  | 1 533                         | 1 533         | 1 533                | 1 533          |
| Accrued interest not classified as Tier 2 capital                        | (48)                          | (48)          | (48)                 | (48)           |
| <b>Total subordinated debt</b>   | <b>1 485</b>                  | <b>1 485</b>  | <b>1 485</b>         | <b>1 485</b>   |
| Haircut on amounts attributable to third parties                         | (899)                         | (921)         | -                    | -              |
| <b>Tier 2 instruments issued by subsidiary and held by third parties</b> | <b>586</b>                    | <b>564</b>    | -                    | -              |
| Portfolio Impairments  | 247                           | 247           | 247                  | 247            |
| <b>Total as per Transitional Basel 3 Template</b>                        | <b>833</b>                    | <b>811</b>    | <b>1 732</b>         | <b>1 732</b>   |
| <b>Section E</b>   |                               |               |                      |                |
| <b>Summary of Capital Adequacy Ratios</b>                                |                               |               |                      |                |
| CET1%  | 37.5                          | 38.0          | 31.0                 | 31.8           |
| AT1%   | 0.0                           | 0.0           | 0.0                  | 0.0            |
| T1%  | 37.5                          | 38.0          | 31.0                 | 31.8           |
| T2%  | 3.2                           | 3.1           | 6.6                  | 6.7            |
| <b>Total capital adequacy %</b>  | <b>40.7</b>                   | <b>41.1</b>   | <b>37.6</b>          | <b>38.5</b>    |

## 7. LEVERAGE RATIO

Public disclosure of the leverage ratio (calculated using the prescribed leverage ratio template) and its components has been required since 1 January 2015. The Basel III leverage ratio is defined as the capital measure (Tier 1 capital) divided by the exposure measure (total exposures) and is expressed as a percentage. This measure acts as a backstop to the capital adequacy ratio (see section 6 above), by acting as a floor to restrict the build-up of excessive leverage by banks.

The decrease in the Group leverage ratio from the prior reporting period is largely due to an increase in the total exposure resulting from an increase in interbank placements and the IFRS16 impact on assets. The decrease in the leverage ratio at ABL level was further impacted by a decrease in Tier 1 capital.

The exposure used in the calculation of the ratio (see 7.2) differs from the total assets as measured using IFRS as shown below. The disclosures are prepared using figures as at 31 December 2019.

### 7.1 SUMMARY COMPARISON OF ACCOUNTING ASSETS VS LEVERAGE RATIO EXPOSURE MEASURE

| Line # | R million  | African Bank Holdings Limited |          | African Bank Limited |          |
|--------|--|-------------------------------|----------|----------------------|----------|
|        |  | Dec-2019                      | Sep-2019 | Dec-2019             | Sep-2019 |
| 1      | Total consolidated assets as per published financial statements  | 29 498                        | 28 881   | 29 026               | 28 343   |
| 2      | Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | (723)                         | (547)    | -                    | -        |
| 3      | Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure               | -                             | -        | -                    | -        |
| 4      | Adjustments for derivative financial instruments   | -                             | -        | -                    | -        |
| 5      | Adjustment for securities financing transactions (i.e. repos and similar secured lending)  | -                             | -        | -                    | -        |
| 6      | Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)   | 133                           | 137      | 133                  | 137      |
| 7      | Other adjustments <sup>(1)</sup>   | 3 037                         | 3 034    | 2 943                | 2 993    |
| 8      | Leverage ratio exposure  | 31 945                        | 31 505   | 31 102               | 31 473   |

(1) Other adjustments reflect differences between regulatory and accounting basis of preparation (refer Basis of compilation). This impacted the values relating to general provisions and intangible assets.

## 7.2 LEVERAGE RATIO DISCLOSURE

| Line # | R million   | African Bank Holdings Limited |               | African Bank Limited |               |
|--------|---|-------------------------------|---------------|----------------------|---------------|
|        |   | Dec-2019                      | Sep-2019      | Dec-2019             | Sep-2019      |
|        | <b>On-balance sheet exposures</b>   |                               |               |                      |               |
| 1      | On-balance sheet items (excluding derivatives and Securities Financing Transactions (“SFTs”)*, but including collateral)                | 31 898                        | 31 413        | 32 148               | 31 422        |
| 2      | Asset amounts deducted in determining Basel III Tier 1 capital  | (86)                          | (81)          | (179)                | (122)         |
| 3      | <b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)</b>   | <b>31 812</b>                 | <b>31 332</b> | <b>31 969</b>        | <b>31 300</b> |
|        | <b>Derivative exposures</b>   |                               |               |                      |               |
| 4      | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)                              | -                             | 36            | -                    | 36            |
| 5      | Add-on amounts for PFE associated with all derivatives transactions   | -                             | -             | -                    | -             |
| 6      | Gross-up for derivatives collateral provided where deducted from the balance sheet asset pursuant to the operative accounting framework | -                             | -             | -                    | -             |
| 7      | (Deductions of receivables assets for cash variation margin provided in derivatives transactions)                                       | -                             | -             | -                    | -             |
| 8      | (Exempted CCP leg of client-cleared trade exposures)  | -                             | -             | -                    | -             |
| 9      | Adjusted effective notional amount of written credit derivatives  | -                             | -             | -                    | -             |
| 10     | (Adjusted effective notional offsets and add-on deductions for written credit derivatives)  | -                             | -             | -                    | -             |
| 11     | <b>Total derivative exposures (sum of lines 4 to 10)</b>  | <b>-</b>                      | <b>36</b>     | <b>-</b>             | <b>36</b>     |
|        | <b>Securities financing transaction exposures</b>   |                               |               |                      |               |
| 12     | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions                                    | -                             | -             | -                    | -             |
| 13     | (Netted amounts of cash payables and cash receivables of gross SFT assets)  | -                             | -             | -                    | -             |
| 14     | CCR exposure for SFT assets   | -                             | -             | -                    | -             |
| 15     | Agent transaction exposures   | -                             | -             | -                    | -             |
| 16     | <b>Total securities financing transaction exposures (sum of lines 12 to 15)</b>   | <b>-</b>                      | <b>-</b>      | <b>-</b>             | <b>-</b>      |
|        | <b>Other off-balance sheet exposures</b>  |                               |               |                      |               |
| 17     | Off-balance sheet exposure at gross notional amount   | 665                           | 683           | 665                  | 683           |
| 18     | (Adjustments for conversion to credit equivalent amounts)   | (532)                         | (546)         | (532)                | (546)         |
| 19     | <b>Off-balance sheet items (sum of lines 17 and 18)</b>   | <b>133</b>                    | <b>137</b>    | <b>133</b>           | <b>137</b>    |
| 20     | Tier 1 capital  | 9 914                         | 9 919         | 8 103                | 8 255         |
| 21     | <b>Total exposures (sum of lines 3, 11, 16 and 19)</b>  | <b>31 945</b>                 | <b>31 505</b> | <b>32 102</b>        | <b>31 473</b> |
| 22     | <b>Leverage ratio</b>   |                               |               |                      |               |
|        | <b>Basel III leverage ratio</b>   | <b>31.0%</b>                  | <b>31.5%</b>  | <b>25.2%</b>         | <b>26.2%</b>  |

\* SFT's: Securities Financing Transactions (transaction where securities are used to borrow cash, or vice versa).

## 8. LIQUIDITY MEASUREMENTS

### 8.1 LIQUIDITY COVERAGE RATIO (LCR) - COMMON DISCLOSURE TEMPLATE

The LCR is a 30-day stress test, which requires the Bank to hold sufficient high-quality liquid assets to cover envisaged net outflows. These outflows are calibrated using prescribed Basel factors applied to assets and liabilities in a static run-off model. Basel definitions are used to identify high-quality liquid assets.

The increase in the LCR from the previous reporting period was as result of the decrease total net cash outflows, primarily as a result of higher maturing liability balances for the quarter ended 30 September 2019 as opposed to during the quarter ended 31 December 2019.

| African Bank Limited |   | Total<br>unweighted<br>value<br>(average) <sup>(1)</sup> | Total<br>weighted<br>value<br>(average)<br><sup>(1)</sup> | Total<br>weighted<br>value<br>(average)<br><sup>(1)</sup> |
|----------------------|---|--|---|---|
| R million            |   | Dec-2019   | Dec-2019  | Sep-2019  |
| <b>1</b>             | <b>Total high-quality liquid assets (HQLA) (see 10.5.1)</b>                             |  | <b>1 190</b>  | <b>1 187</b>  |
|                      | <b>Cash outflows</b>  |  |   |   |
| 2                    | Retail deposits and deposits from small business customers, of which:                   | 252  | 25  | 21  |
| 3                    | Stable deposits   | -  | -   | -   |
| 4                    | Less-stable deposits  | 252  | 25  | 21  |
| 5                    | Unsecured wholesale funding, of which:  | 419  | 419   | 790   |
| 6                    | Operational deposits (all counterparties) and deposits in networks of cooperative banks | -  | -   | -   |
| 7                    | Non-operational deposits (all counterparties)   | -  | -   | -   |
| 8                    | Unsecured debt  | 419  | 419   | 790   |
| 9                    | Secured wholesale funding   | -  | -   | -   |
| 10                   | Additional requirements, of which:  | -  | -   | -   |
| 11                   | Outflows related to derivative exposures and other collateral requirements              | 123  | 123   | 114   |
| 12                   | Outflows related to loss of funding on debt products                                    | -  | -   | -   |
| 13                   | Credit and liquidity facilities   | 663  | 33  | 35  |
| 14                   | Other contractual funding obligations   | 55   | 3   | -   |
| 15                   | Other contingent funding obligations  | -  | -   | -   |
| <b>16</b>            | <b>Total cash outflows</b>  | <b>1 388</b>   | <b>603</b>  | <b>959</b>  |
|                      | <b>Cash inflows</b>   |  |   |   |
| 17                   | Secured lending (e.g. reverse repos)  | -  | -   | -   |
| 18                   | Inflows from fully performing exposures   | 5 850  | 5 418   | 4 755   |
| 19                   | Other cash inflows  | 25   | 25  | 14  |
| <b>20</b>            | <b>Total cash inflows</b>   | <b>5 858</b>   | <b>5 425</b>  | <b>4 762</b>  |
|                      |   |  | <b>Total<br/>Adjusted<br/>Value</b>                       | <b>Total<br/>Adjusted<br/>Value</b>                       |
| <b>21</b>            | <b>Total HQLA</b>   |  | <b>1 190</b>  | <b>1 187</b>  |
| <b>22</b>            | <b>Total net cash outflows <sup>(2)</sup></b>   |  | <b>151</b>  | <b>240</b>  |
| <b>23</b>            | <b>Liquidity coverage ratio (%) <sup>(3)</sup></b>                                      |  | <b>933%</b>   | <b>511%</b>   |

(1) The average numbers are calculated using the daily LCR figures for the quarter ended 31 December 2019.

(2) ABL has a net cash inflow after applying the run-off factors, outflows for the purpose of the ratio are therefore deemed to be 25% of gross outflows.

(3) There is no material difference between Bank and Group.

### 8.1.1 COMPOSITION OF HIGH-QUALITY LIQUID ASSETS

The high-quality liquid assets include only those with a high potential to be converted easily and quickly into cash. There are three categories of high-quality liquidity assets with decreasing levels of quality: level 1, level 2A and level 2B assets.

| R million   | Dec-2019 | Sep-2019 |
|---|----------|----------|
| Total level one qualifying high-quality liquid assets <sup>(1)</sup>                              | 1 190    | 1 187    |
| Cash  | -        | -        |
| Qualifying central bank reserves  | 372      | 374      |
| Specified debt securities issued in Rand by the central government of the RSA or the Reserve Bank | 818      | 813      |

(1) ABL does not have any investments in level two high-quality liquid assets.

## 9. THE NET STABLE FUNDING RATIO (NSFR)

The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding, over a one year period. This ratio is required to be greater than or equal to 100% on an on-going basis.

“Available stable funding” is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various

assets held by that institution as well as those of its off-balance sheet exposures.

The NSFR is designed to ensure closer matching of long-term asset cash flows with long-term funding cash flows. Full compliance for NSFR became effective since January 2018.

The NSFR decreased slightly from the previous reporting period as a result of both, a slight decrease in available stable funding and a slight increase in required stable funding.

| R million                                  |  | Unweighted value by residual maturity |           |                     |         | Weighted value[1] |
|--|--|---------------------------------------|-----------|---------------------|---------|-------------------|
|  |  | No maturity                           | <6 months | 6 months to <1 year | ≥1 year |                   |
| <b>Available stable funding (ASF) item</b> |  |                                       |           |                     |         |                   |
| 1  | Capital:   | 10 014                                | -         | -                   | -       | 10 014            |
| 2  | <i>Regulatory capital</i>  | 10 014                                | -         | -                   | -       | 10 014            |
| 3  | <i>Other capital instruments</i>   | -                                     | -         | -                   | -       | -                 |
| 4  | Retail deposits and deposits from small business customers:                  | -                                     | 788       | 339                 | 1 898   | 2 913             |
| 5  | <i>Stable deposits</i>   | -                                     | -         | -                   | -       | -                 |
| 6  | <i>Less stable deposits</i>  | -                                     | 788       | 339                 | 1 898   | 2 913             |
| 7  | Wholesale funding:   | -                                     | 4 833     | 2 629               | 7 637   | 10 083            |
| 8  | <i>Operational deposits</i>  | -                                     | -         | -                   | -       | -                 |
| 9  | <i>Other wholesale funding</i>   | -                                     | 4 833     | 2 629               | 7 637   | 10 083            |
| 10   | Liabilities with matching interdependent assets                              | -                                     | -         | -                   | -       | -                 |
| 11   | Other liabilities:   | -                                     | 1 019     | -                   | -       | -                 |
| 12   | <i>NSFR derivative liabilities</i>   | -                                     | -         | -                   | -       | -                 |
| 13   | <i>All other liabilities and equity not included in the above categories</i> | -                                     | 1 019     | -                   | -       | -                 |
| <b>14</b>                                  | <b>Total ASF</b>   |                                       |           |                     |         | <b>23 010</b>     |

(1) The weighted value is determined by applying a prescribed percentage to the gross or unweighted value as per the applicable requirements. The percentage applied is determined by the nature and maturity of the applicable balance.

| R million | Unweighted value by residual maturity   |             |           |                     | Weighted value[1] |               |
|-----------|---|-------------|-----------|---------------------|-------------------|---------------|
|           | Required stable funding (RSF) item  | No maturity | <6 months | 6 months to <1 year | ≥1 year           | Total         |
| 15        | Total NSFR high-quality liquid assets ("HQLA")  | -           | -         | -                   | -                 | 85            |
| 16        | Deposits held at other financial institutions for operational purposes  | -           | -         | -                   | -                 | -             |
| 17        | Performing loans and securities:  |             | 9 244     | 3 187               | 12 307            | 14 687        |
| 18        | Performing loans to financial institutions secured by Level 1 HQLA  | -           | -         | -                   | -                 | -             |
| 19        | Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions                               | -           | 5 685     | -                   | -                 | 853           |
| 20        | Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which: | -           | 3 559     | 3 187               | 12 307            | 13 834        |
| 21        | With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk  | -           | -         | -                   | -                 | -             |
| 22        | Performing residential mortgages, of which:   | -           | -         | -                   | -                 | -             |
| 23        | With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk  | -           | -         | -                   | -                 | -             |
| 24        | Securities that are not in default and do not qualify as HQLA, including exchange-traded equities   | -           | -         | -                   | -                 | -             |
| 25        | Assets with matching interdependent liabilities   | -           | -         | -                   | -                 | -             |
| 26        | Other liabilities:  | -           | -         | -                   | -                 | 12            |
| 27        | Physical traded commodities, including gold   | -           | -         | -                   | -                 | -             |
| 28        | Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs   | -           | -         | -                   | -                 | -             |
| 29        | NSFR derivative assets  | -           | -         | -                   | -                 | -             |
| 30        | NSFR derivative liabilities before deduction of variation margin posted   | -           | -         | -                   | -                 | 12            |
| 31        | All other assets not included in the above categories   | -           | -         | -                   | 2 572             | 2 572         |
| 32        | Off-balance sheet items   | -           | 665       | -                   | -                 | 33            |
| <b>33</b> | <b>Total RSF</b>  |             |           |                     |                   | <b>17 389</b> |
| <b>34</b> | <b>Net Stable Funding Ratio (%)</b>   |             |           |                     |                   | <b>132%</b>   |

(1) The weighted value is determined by applying a prescribed percentage to the gross or unweighted value as per the applicable requirements. The percentage applied is determined by the nature and maturity of the applicable balance.



## 10. QUALITATIVE DISCLOSURES AND ACCOUNTING POLICIES

The regulations require that certain qualitative disclosures and statements on accounting policy be made. These were made in the annual financial statements and integrated annual report for the financial period ended 30 September 2019, in the remuneration report, corporate governance and risk management review and statements on group accounting policy. The disclosures in this report should be read together with the integrated annual report and transitional Basel templates. These disclosures can be found on the ABL website [www.africanbank.co.za](http://www.africanbank.co.za) under Investors, regulatory announcements, Basel Pillar III announcements

Annexure A

|                                     | Tables and templates   | Reference to Pillar 3    |
|-------------------------------------|--|--------------------------|
| Overview of risk management and RWA | OVA – Bank risk management approach  | 3<br>(Referenced to AFS) |
|                                     | OV1 – Overview of RWA  | 6.1                      |
|                                     | KM1 - Key metrics (at consolidated group level)                                  | 1.8                      |
| Leverage ratio                      | LR1 - Summary comparison of accounting assets vs leverage ratio exposure measure | 7.1                      |
|                                     | LR2 - Leverage ratio common disclosure template                                  | 7.2                      |
| Liquidity risk                      | LIQ1 – Liquidity Coverage Ratio  | 8.1                      |
|                                     | LIQ2 – Net Stable Funding Ratio  | 9                        |