Standard Bank

Standard Bank Group FY19 Results Transcript

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ANNUAL RESULTS

Sim Tshabalala
Good morning ladies and gentlemen. On behalf of the Standard Bank Group board of directors, the group Exco and all of us at Standard Bank, welcome to the 2019 results presentation. A particular welcome if this is your first Standard Bank results presentation. If the Standard Bank Group is new to you, we hope that this slide (slide 2) will be a useful summary. The key to understanding this group of companies is our purpose. Africa is our home. We drive her growth. Everything we do emerges from this simple statement of intent.

Slide 3
2019 was of course a very difficult year for the world economy. Sub-Saharan Africa, however, continued to be a bright spot, one of the world's fastest changing and fastest growing regions. The regulatory and business environment for financial services in Africa also continued to develop and change rapidly over the year.

On the positive side, we welcomed the ratification of the African Continental Free Trade Agreement and the removal of interest rate caps in Kenya. On the negative side, some central banks continued to pursue heterodox policies, an example being the Central Bank of Nigeria with their asymmetric application of cash reserving requirements. As always, navigating Africa's complexities requires local knowledge. Growth disappointed in South Africa, to a large extent because of the pace of structural reform which was too slow. As we learned on Tuesday, South Africa grew at just 0.2% in 2019 and was in recession during the second half of the year. According to Standard Bank's economists, the direct impact of load shedding on the economy was enormous. They estimate that without load shedding the economy would have grown at around 0.8%.

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Arno will shortly discuss our numbers in detail, so I will just make a few headline points. Headline earnings in our banking business were up 5% to R27.2 billion. However, the group's earnings only grew by 1% to R28.2 billion, a disappointing outcome. Most of the gap between the banking activities and the group result is attributable to our 40% of the losses incurred by ICBCS. I'd like to make a few points on this.

First, this happened on our watch. The losses incurred were within ICBCS' board approved risk appetite.

Equally though, as a 40% shareholder we have limited influence over ICBCS. Nor can we simply cut our losses. In terms of our agreements with ICBC the option to take a further shareholding is theirs. It is unlikely that ICBC will do this until such time as ICBCS is profitable.

Third, we are acutely aware that shareholders capital is far better deployed in Africa. ICBCS is off strategy for us and outside our purpose.

Fourth, we continued to have robust discussions with ICBC about the way forward for ICBCS. We are for the time being satisfied with the management actions that have been taken this year, including significant reductions in business lines and in headcount. As shareholders we agree that much closer integration of ICBCS into the ICBC group will be required in order for this business to achieve a sustainable profit.

Fifth, it is essential to see ICBCS in the context of our overall strategic partnership with ICBC, which remains of great benefit to both parties. For instance, since 2016 we have jointly supported investment banking deals worth over $3.4 billion. In 2019 CIB's revenues arising from our partnership were up 24% year on year. PBB's revenues from Africa China Banking were up 43% on the prior year. Having said all this, our ROE of 16.8% falls well short of our target range of 18% to 20%.

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Our strategy hasn't changed and is not changing. Our purpose is set in stone and shapes our choices. Our vision is to be the leading financial services organisation in, for and across Africa, delivering exceptional client experiences and superior value. Our key focus areas remain unchanged, as are the value drivers we measure ourselves against. As you will see, we have again structured this presentation by our five value drivers. I will cover client focus, employee engagement, risk and conduct and our CFO, Dr Arno Daehnke, will talk about our financial outcome and our social, economic and environmental impact. I will conclude by discussing our immediate and longer-term priorities.

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Our first, and in many ways most important, value driver is client focus, which we measure in two ways. We measure client experience through surveys, and we measure the extent to which we enable our clients to reach their goals. On the client survey side satisfaction remained constant at a high level in CIB and in PBB Africa Regions. In PBB South Africa a dip in client satisfaction followed the reconfiguration of our infrastructure. The team did well to restore client satisfaction in the second half of the year. Measured by the extent to which we made positive differences in our clients' businesses 2019 was another good year. We were entrusted by households, companies and governments to hold R1.3 trillion in deposits. We paid out R64 billion in interest. We enabled international trade to the value of $138 billion through letters of credit, and lent R49 billion to enable people to buy homes. Across the Wealth business line, Liberty and Stanlib, it was our privilege to manage and administer R1.1 trillion worth of our clients' assets.

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One of the things we are very pleased about this year is the rapid pace of new product releases using our digital capabilities, and particularly new digital products that we have developed in partnerships. Each of these products enables us to serve our clients better and to grow our revenues in new areas. For example, our Africa-China agent proposition and Africa-China export proposition are partnerships with the ICBC to grow trade between Africa and China. We have also made good progress to improve client experiences in ways that clients will never see but that they will feel in a quicker, better and more personal experience. Some of this we have done in partnership with big tech companies such as our cloud partnership with Amazon Web Services, Microsoft and Salesforce. And some of our innovations emerge from our rapidly developing internal big data and intelligent automation capabilities. We are now using more than 250 bots to simplify and accelerate our internal processes, and we have transferred more than 50 workloads from our internal servers to the cloud.

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One of the strongest predictors of client satisfaction and a company's ability to generate superior returns is its level of employee engagement. The building blocks of employee engagement are two. First, having the right skills so that one can do meaningful and rewarding work, and second, working in a welcoming, safe and inclusive workplace. We continue to concentrate on both these building blocks. For example, during 2019 we re-trained 4,200 branch-based employees as universal bankers, meaning that they are able to serve our clients in a more efficient and understanding way and also that their jobs are more interesting and fulfilling. We made speedy progress in making our business more inclusive, more diverse and more representative of the societies in which we work. In South Africa we exceeded our 2019 targets for the representation of black people and black women in middle and senior management. We are now focussing on achieving greater representation of black people in top management in South Africa, and are appointing more women, particularly black women, in top management. Our group board is now ~40% women, of which five are black women.

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In addition to the traditional banking risks which Arno will discuss shortly we carefully monitor and manage ten further emerging risk types. This morning I will discuss only four of these risk types: Cyber risk, climate risk, business disruption risk, and regulatory impact risk. First cyber risk. Cyber-crime remains a major challenge. During 2019 the group's systems were subject to many cyber-attacks every day. The number is astonishing. Constant vigilance is required. Thanks to quicker detection and responses we were able to recover 58% of the money that our clients lost to digital fraud in 2019. This was up from 29% in 2018.

Next business disruption risk. Particularly during the first half of 2019 we had a number of systems outages that took too long to repair. We recognised that prolonged systems outages severely inconvenience our clients. They undermined their trust in us and damaged our reputation. I am pleased to report that we made encouraging progress in restoring systems capability and stability and reducing recovery time in the second half of the year. As a result, and despite the difficult first half, IT stability incidents were down 12% year on year. But we are not declaring victory. We recognise that client expectations on system stability are set by the extremely stable services provided by the big tech firms. Our aspiration is to match these experiences. Over 2019 another large source of business disruption risk was load shedding in South Africa. This year COVID-19 may present an equal or greater risk. We have well developed business continuity plans in place for both. Every year in South Africa every business faces substantial disruption risk ultimately caused by South Africa's appalling levels of unemployment and inequality. Our commitment to supporting inclusive growth isn't a nice to have. It's an essential risk mitigant.

Turning to regulatory risk, and in addition to Africa-specific regulatory risk that I mentioned earlier we are also concerned about the global regulation of digital finance. In our view the guiding principle should be simple. If a company, no matter what it is called, takes deposits, makes loans, offers insurance or provides asset management it should be regulated by the financial sector authorities as a financial sector firm. On climate risk we are committed to fully understanding and accurately reporting on our exposure to carbon-intensive assets in line with the TCFD principles. The Standard Bank Group supports the goals of the Paris Agreement and recognises that climate change is a material risk to our ability to generate value for our stakeholders over time.

In evaluating whether or not to fund coal-fired power generation and thermal coal mining projects we will consider the energy situation in the region concerned, future energy demand in relation to the country's energy strategy, the country's commitments to reducing their greenhouse gas emissions in line with the Paris Agreement, and technically and financially feasible and cost-effective power generation alternatives that are available in the relevant industry and country. We will comply with all the applicable laws and standards including the Equator Principles, the IFC Environmental and Performance Standards, and the UN principles of responsible banking. Our coal-fired power generation policy was published during the year and our thermal coal mining policy was released on SENS this morning.

Last on this slide, conduct. We are always mindful that we earn and maintain our license to operate every day by treating clients fairly. We were pleased by the 6% decline in the number of complaints about us referred to the Ombudsman for Banking Services in South Africa. We were even more pleased to win two awards from the OBS. These were best large bank for resolving banking customer complaint, and the award for innovation in dispute resolution. I now hand you over to our CFO, Arno Daehnke.

Arno Daehnke

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Good morning everyone. It's great being here and it's my pleasure to present the 2019 financial year results to you. This slide illustrates the breadth and diversity of the Standard Bank franchise. The bar chart represents the client revenue we make by client type, product as well as geography. In 2019 our fastest growing client segments were large domestic clients as well as business banking clients. In the middle bar you can see that transactional banking and lending remain our core revenue-generating products, but insurance interestingly was the fastest growing product in 2019. Geographically revenues from Africa Regions increased to R35 billion, growing by 12% in constant currency. They now comprise 32% of the group's revenues, up from 30% in the last year.

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As a management team we will remain committed to driving sustainable value for our investors. This slide illustrates how we think about growth, resilience and returns to drive shareholder value. I will take you through each of these drivers now on the following slides.

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Running through the group's income statement, you can see the total income grew to R110.5 billion from R105.3 billion in the prior period, a growth rate of 5%. Net interest income growth of 6% was supported by strong loans and advances growth as well as strong deposit growth across the portfolio, however offset slightly by declining margins. Non-interest revenue growth of 4% was driven by a strong year in global markets trading.

A rigorous focus on costs was maintained in 2019 resulting in cost growth of 3.7%, and therefore delivering positive jaws of 113 basis points and a reduced cost to income ratio of 56.4%. This cost growth was achieved despite investments in customer experience initiatives, staff re-skilling programmes as well as investments into our IT resilience and the costs associated with the infrastructure reconfiguration in our retail branch footprint in South Africa. You can see the 23% increase in credit impairments to R8 billion, but this was in line with our expectations, off a very low base in 2018. The group's credit loss ratio therefore increased to 68 basis points, which is slightly below our 70 to 100 basis points guidance range. Banking activities headline earnings consequently grew by 5% to R27.2 billion, which is a very pleasing performance considering the current markets.

Slide 17

This slide illustrates the movements in average balances for the year where you can see overall average loans grew by 8% and within that PBB up 6% and CIB up a pleasing 12%. Within Personal & Business Banking the mortgage portfolio grew 4% and the VAF lending portfolio grew 9% as the SA franchise turnaround gathered pace. Personal unsecured lending reflected the highest growth rate at 11%. Within our Corporate & Investment Bank average loan growth of 12% was supported by strong growth towards the end of 2018, and in 2019 investment banking grew further 7% with another record origination year of disbursing R170 billion of loans supporting our clients on their growth journeys.

Average deposit balances continued a solid trajectory and PBB grew deposits by 6% and CIB by 11%, with good local currency account origination and balance growth in Ghana, Kenya and Mozambique specifically.

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NII grew by 6% for the period as volume growth was offset by a slight margin reduction of 7 basis points. Endowment negatively impacted margin in 2019 by 2 basis points as positive endowment in South Africa and in Wealth International offset declining endowments benefit in Africa Regions as interest rates were cut in these markets. Margins on lending increased in 2019 due to a changing mix in our portfolio. Lending growth in Africa Regions outpaced growth in South Africa, as it has done for a past few years, and higher-yielding unsecured lending became a bigger proportion of our book relative to the last year. Deposit margins were squeezed by higher cash reserving requirements in Nigeria mentioned already by Sim and the mix impact of wholesale-priced deposits growing faster than retail priced deposits.

Slide 19
Non-interest revenue grew 4% supported by strong growth in trading income of 12%, an excellent performance. Fee growth remained under pressure where our largest category of fee income – and these are account transaction fees – declined 3% year on year. This is in line with our customers' increasing preference for convenient and more cost-effective digital channels over the traditional channels. The regulatory impact of fee caps and competitive pressures also impacted fee growth. Fee expenses – think about card, cash as well as our loyalty programme called UCount – increased 8% year on year, resulting in a net increase of fees of 1% as shown in this graph. Trading income picked up in the second half of 2019 on the back of increased volatility and ended the year up 12%. Other non-interest revenue was supported by growth in the VAF fleet portfolio and increased bancassurance revenue.

Slide 20
I'm starting the credit discussion by looking at the balance sheet provisions for our Personal & Business Banking business. Good loan growth over the period necessitated an increase in stage 1 and stage 2 provisions as you would expect, but this was more than offset by improvements in credit modelling by PBB and enhanced collections. Stage 3 loans have increased as a percentage of the book, mainly in the secured lending portfolios of mortgages and VAF, which necessitated an increase in stage 3 provisions. And we kept our coverage ratio at 50% as a consequence.

Slide 21
Turning to CIB, as you can see in the graph on the bottom left-hand side, stage 3 loans declined year on year to 1.6% of the book due to the write-off of a few exposures during the year. These write-offs were names where coverage ratios had been particularly high. The required coverage ratio for the remaining stage 3 loans was therefore lower in 2019 which resulted in lower balance sheet provisions. We are comfortable that sufficient collateral is held against stage 3 exposures. Stage 1 and stage 2 exposures and provisions increased in line with loan growth and some deterioration in risk grades.

Slide 22
The income statement charge for credit of R8 billion increased by 23% in 2019 and resulted in a credit loss of 68 basis points, which is just below the disclosed 70 to 100 basis point guidance range. In Personal & Business Banking the charge increased by 17% to an 89 basis point loss ratio and was driven by balance sheet growth across the board and elevated risk in our VAF portfolio due to the difficult economic climate in South Africa. In CIB the charge for credit increased by 52% off a very low base in 2018 to a 32 basis point loss ratio. In South Africa a deterioration of corporate risk quality drove year-on-year increases, offset by recoveries. In Africa Regions credit impairment charges increased off a low base, driven by single name impairments in East and South & Central Regions.

Slide 23
Operating expenses of 3.7% should be considered relative to the weighted average inflation in the markets in which we operate of 5.1% as well as the level of investment required to transform our business for a digital future. A decline in headcount and incentives supported slower staff cost growth. As you can see, other operating expenses increased by 6%, and within this IT costs grew by 17% to R7.5 billion. This is reflecting higher software licensing and maintenance costs, the inflationary impact of a weaker Rand to the US Dollar, an increase in cloud-related costs as well as an increase in outsourcing costs. The adoption of IFRS 16, our new accounting standard, gave rise to an increase in depreciation and a decrease in premises costs. The net impact of IFRS 16 was not material for the group.

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Slide 24

Unpacking the IT costs further, this slide shows the full cost of the IT function including the R7.5 billion element we saw on the previous slide. For the year under review, as you can see here, the total IT function related spend increased by only 5%, which is a better view of how we measure our IT costs. The CAGR in this spend has been 7%. As our group continues to evolve and as IT becomes a bigger driver of our strategy, we expect continued investment in technology. We also expect fewer larger projects capitalised as intangible assets, which means that over the short term our income statement will need to support new investments as well as the amortisation of previous large capitalised projects such as our core banking replacement projects.

Slide 25

Other banking interests recorded a headline earnings loss of R864 million. ICBCS recorded a disappointing set of results for 2019. The loss recorded in the group's headline earnings of R1.4 billion is made up of an operating loss in this entity, a provision relating to business restructuring which Sim already referred to, and a loss of R1.1 billion relating to a single client event which we spoke about at our interim results. In September 2019 we recognised a $163 million impairment in our stake of ICBCS, thereby reducing the carrying value from $383 million to $220 million at the time. This equated to a R2.6 billion impairment which is reported outside of headline earnings. As Sim covered earlier, we have made meaningful progress with ICBCS management as well as the ICBC Group on how best to put the business on a path of sustainable profitability.

ICBC Argentina performed well for the eight months prior to our exercise of our option to sell our stake to the ICBC Group and delivered a headline earnings contribution from the group's 20% stake of R583 million. The sale of our stake remains subject to Chinese regulatory approvals, and we expect to reach completion in the coming months.

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The financial results reported from Liberty are the consolidated results of the group's 56% investment in Liberty adjusted for deemed treasury shares. In 2019 Liberty delivered successful outcomes on their key strategic focus areas. They discussed that at their presentation in this room last week. Liberty grew headline earnings by 23% to R3.3 billion, and the group's share of these earnings as you can see here amounted to R1.9 billion, up 16% on the prior year after adjusting for the treasury shares which I referred to earlier on.

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In 2019 we actively managed our capital stack to optimise returns. During the year we issued R1.9 billion of alternative tier one capital, R1 billion tier two capital in the local market, and successfully placed an attractively priced inaugural USD 400 million tier two bond in the international market, thereby diversifying the group's capital investor base. We have maintained our robust Basel III compliant capital position with a CET1 of 14%. During the year we felt it prudent to maintain our capital buffers ahead of a SA sovereign downgrade, Basel III finalisation, and of course also to continue to cater for Africa Regions growth opportunities. Including the IFRS 9 phasing impact, which should equalise in a year's time, the CET1 ratio dipped slightly to 13.8%. Liquidity ratios are maintained in excess of Basel III requirements.

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Banking return on equity dipped to 18.1% given the capital buffers held at the centre I spoke about just now and the lower CIB ROE which I will cover a little bit later. Group return on equity was dampened by the loss incurred by ICBCS and fell to 16.8%. You would have noted we have declared a final dividend of 540 cents per share, and thus maintaining the same dividend per share as the final dividend declared in 2018. This resulted in a full year dividend of 994 cents per share, up 2% on the prior year.

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Turning to the business line performance, and starting with Personal & Business Banking South Africa, we continued to transform our business to meet our clients' changing needs. Our ability to serve our clients through digital channels took a step up in 2019. As an example, more than a quarter of personal unsecured loans and savings and investments were originated through digital channels in 2019. The pace of digital adoption by our South African customers continues to increase. Digital transactions increased 11% overall. Face-to-face transactions decreased by 16%, and we have right-sized our infrastructure accordingly as the data points on the slide disclose. Branch closures in the first half of 2019 adversely impacted client experience. However, we are pleased to report that PBB SA customer numbers have stabilised and client satisfaction scores have improved in the second half of the year.

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In Africa Regions, where cash remains an important product for us, 92% of customers are now transacting outside of the branch. We continue to roll out our infrastructure and invest in supporting structures to enable the continuation of these digitisation trends. We have improved our client on-boarding processes across our network and have deployed the capability for our clients to either digitally on-board themselves or on-board within minutes at one of our points of representation. Through these efforts, especially where we are using our ecosystems to on-board customers instantly in the workplace, we are seeing much higher account utilisation rates as the improved on-boarding process solves directly and much better for the immediate client needs.

Slide 32

The overall financial result for PBB for 2019 was pleasing with headline earnings up 6% to R16.5 billion. Overall revenue growth for PBB was 5% with Africa Regions now contributing almost a quarter of PBB's revenues. And this is with a steadily increasing contribution. Positive jaws of 210 basis points was achieved despite absorbing costs relating to the SA branch configuration of approximately R500 million. PBB jaws would have been nearly 3% if these once-off costs would have been excluded. The cost-to-income ratio of PBB reduced to below 60%. PBB ROE, as you can see here, increased to a pleasing 22.4% with the ROE in PBB Africa Regions approaching 10%. On a geographic basis PBB South Africa was up 2%. Africa Regions and Wealth continued to deliver a very strong performance as you can see on this slide.

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In CIB, client revenues increased 7%, which was a balanced performance across our diversified franchise. As a result of ongoing Sino-US trade wars there has been a slowdown in multinational corporate client growth. Despite this, our revenue from multinationals still grew 4% and this remains a core part of our franchise. Domestic clients grew by 12% on the back of notable activity in South Africa, West Africa and East Africa. From a sector perspective we saw continued strong performance from financial institutions underpinned by a focussed effort to better serve Non-Banking Financial Institution sectors. Growth in Power and Infrastructure was supported by renewable energy transactions. Mining and Metals growth were driven by change in ownership transactions as some mining majors exited South Africa, and investment into Africa Regions, with Mozambique and Ghana being examples of where investment flows were particularly strong. The Telecoms and Media teams facilitated some key deals in South Africa and Africa Regions.

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From a product lens Global Markets posted a strong second half resulting in a good finish with revenues up 7%. Our Transactional Products and Services business, which has a larger Africa Regions presence compared to South Africa, was impacted by regulatory changes in markets like Nigeria as well as Zimbabwe. Revenue growth was a more muted 3% for this business. In Investment Banking we have seen a continued demand for loans and advances, but a slowdown in knowledge fees resulting in revenues up 2%. CIB overcame significant headwinds to deliver headline earnings growth of 5% for the year to R11.8 billion. Cost growth of 3% led to positive jaws of 128 basis points and improved cost-to-income ratio to 53.7%. Strong growth in Investment Banking assets in Africa Regions and portfolio rating downgrades in South Africa in late 2018 drove higher capital demand, and this was a drag on ROE which declined to 18.1%.

Global Markets earnings grew 15% for the year supported by strong client activity particularly in Africa Regions. Strong lending growth in Investment Banking supported NII and earnings growth. Headline earnings for TPS were down 13%. The regulatory headwinds experienced in some of our key markets, hyperinflation in Zimbabwe and the devaluation of the Angolan Kwanza had a significant impact on TPS relative to the other business units in CIB. TPS performance was further adversely impacted by a spike in credit losses in East Africa and in South & Central Africa. Included in operating expenses for TPS is also material operational risk loss in East Africa which should not reoccur. Over the last five years prior to 2019 the TPS business has reported compound earnings growth of 9% and we are confident that the business will resume operating performance in line with the previous trends.

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Analysing the results by region it can be seen that SBSA grew by 4% and Africa Regions grew by 5%, or 9% on a constant currency basis. SBSA income grew by 2% and cost growth was tightly contained also to 2%. The credit loss ratio ended at a similar position to the last year and a more favourable effective tax rate resulted in headline earnings increasing by 4%. ROE expanded for SBSA to 16.9% for the year. We are expecting a downgrade of the SA sovereign to junk status and we are positioned to absorb the funding impact which is likely to arise thereof. This will continue to mean a difficult operating environment for SBSA.

Turning now to Africa Regions. Given that this region grew by 15% for the first half of 2019 it is evident that a meaningful slowdown in earnings growth occurred in the second half. The slowdown arose from regulatory headwinds in revenue generation, negative endowment in key markets and credit impairments in CIB already referred to. While these impacts are unfortunate, we are encouraged by continued strong balance sheet growth in Africa Regions with lending growing by 15% and our deposits growing by 10% in constant currency. While Africa Regions' contribution to banking headline earnings remained at 31%, their contribution to revenue growth increased from 30% in 2018 to 32% of the group's revenue in 2019. These trends bode well for future strong earnings growth from this region. ROE in Africa Regions was dampened by capital injections in Cote d'Ivoire, DRC, Ghana and Tanzania, and higher risk-weighted assets given sovereign downgrades particularly in Zambia, and healthy increases in lending and trading activities. In East Africa we saw strong revenue growth at 14% constant currency dampened by credit provisions and operational risk losses but assisted by increasing shareholding in Kenya which resulted in headline earnings growth of 16% in 2019 in constant currency terms.

South & Central Region generated good revenue growth of 12% but experienced credit impairments in the mining and construction sectors. The operating environment in Zimbabwe was incredibly difficult in 2019, and this country now qualifies as a hyperinflation economy and we have adjusted our accounts accordingly. We were delighted to list our Namibian subsidiary in the last quarter of 2019. This IPO was executed in a persistent recession in this market and with a high proportion of BBBEE participation. West Africa revenue growth of 9% in constant currency was pleasing, given increased cash reserving costs which Sim referred to and other regulatory changes in Nigeria. Credit impairments in the region appear elevated year on year given the write-backs in the first half of 2018. Headline earnings increased a pleasing 16% in constant currency in this region.

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This slide sets out our medium-term financial targets which you will be familiar with. You will notice we have not altered our medium-term targets. And while we are cognisant of the immediate and significant headwinds facing the global economy, we deem it too early to adjust the targets now. In the medium term we anticipate that balance sheet growth in Africa Regions should continue to outpace that of South Africa, and NII should outpace

NIR. We expect revenue headwinds, but we will continue to manage costs lower to deliver positive jaws. The credit loss ratio should remain at the lower end of our target range of 70 to 100 basis points. Over the medium term we remain committed to delivering sustainable earnings growth and a return on equity in our 18% to 20% target range.

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We are committed to driving sustainable and inclusive growth across Africa. To achieve this, we must ensure that the clients we bank, the projects, partnerships and infrastructure developments we finance create net positive social, economic and environmental impacts. These considerations are front and centre when we make our daily business decisions. Considering the nature of our business and the needs of the geographies in which we operate, we have selected those risks which are most relevant to us and where we can have the biggest impact. We have grouped and defined them as our 7 SEE Impact Areas as you can see on this slide. We measure our progress in terms of the inclusion in the sustainability indices listed below.

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On this slide we have shown some of the demonstrable progress that we have made in four of our seven impact areas. I will just briefly summarise two examples. In line with our SEE impact of Africa Trade and Investment, we partner with ICBC China to help African importers and exporters to build direct relationships with suppliers and buyers in China. In November last year, we hosted 90 export ready clients from six African countries at the China International Import Expo in Shanghai. We help our clients navigate complex and bureaucratic Chinese regulations, language barriers and volatile markets. And importantly, we match our clients with trusted importers from within the client base of ICBC. By acting as a reliable facilitator for these activities we unlock a trade corridor to drive Africa's growth, a great example of how we are driving our purpose.

Another example is in Uganda, which has as you would know one of the lowest electrification rates in Africa. New off-grid affordable energy solutions have the potential to leapfrog old-fashioned electricity grids to electrify households and businesses. In alignment with our SEE objective of driving infrastructure development, we provided finance to one of the world's leading off-grid pay as you go companies based in Kenya. You would know that this company is called Mkopa. As part of this transaction our colleagues in Uganda teamed up with Mkopa to install solar solutions in 22 schools spread across the country. Clean energy solutions for schools on the continent tick many boxes for us as an organisation supporting Africa's growth. I remind you that we are committed to being more than a provider of financial services products. We are a catalyst for economic change in our countries of operation and we strive to make life better for our fellow Africans. I will now hand over to Sim to conclude.

Sim Tshabalala
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Thank you, Arno. Global economic growth is expected to remain slow and downside risks will persist. For example, COVID-19 could disrupt global supply chains and overwhelm Africa's fragile public health systems. Trade tensions could escalate again. Eskom's operational performance could deteriorate further. The South African government could be unable to keep its fiscal promises. Our economists have developed scenarios in which COVID-19 spreads moderately or widely beyond China. In the moderate scenario China's economic growth would fall by around 1% this year. The world economy would grow around 0.5% more slowly, and South Africa's growth would be 0.1% lower than a pre-COVID-19 baseline. In the more severe scenario China's growth would fall 1.6%, the world would fall 1.1% and South Africa 0.3% or 0.4%. We currently forecast 0.4% growth for South Africa in 2020, which incorporates the impact that we see foresee from COVID-19.

More positively, we think that the pace of structural reform in South Africa and in South Africa's electricity industry has finally picked up and that Eskom is now under better management. There should also be some expansion of generation capacity this year. Further, even if power cuts are as bad as last year the impact on growth might be somewhat less severe owing to the lower base and because households and firms have had more time to adjust. We are also hopeful that much of the rest of Africa will continue to grow relatively fast. This year we think that average GDP weighted by our capital allocation in our Africa Regions countries will grow just under 4%, rising to 5% in the medium term. That's an attractive proposition and we are sure that there are very few other firms that can offer their investors or their clients access to this well-balanced and robust portfolio of markets. If we are right about the macros, then the medium- and longer-term future for Africa focussed financial services companies is likely to be bright.

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But there is another much bigger if. The future is only likely to be bright for us if we can remain relevant and competitive in a rapidly changing and digitising world. We have thought hard about what we need to do to ensure that we're able to win in our chosen markets over the medium and longer term. We have concluded that there are four things we need to do over the medium term. We need to ensure that our clients remain at the centre of everything that we do. This means that we must keep improving our client experience scores in all our established areas. But it also means that we have to change and extend the range of products and services that we offer. And it means that we must offer this extended range of services with the speed, agility, reliability and extent of personalisation that people have come to expect from the leading digital companies.

Our next priority is to combine digital technology and human skill to offer an integrated and comprehensive set of products and services, building a platform and creating ecosystems. Here is one example from the Corporate & Investment Banking division. As Mozambique booms over the next decade, we are not thinking only of banking the energy majors. Rather, our intention is to construct a network of relationships that is an ecosystem that will enable the government, firms and people of Mozambique to achieve their aspirations for rapid, fair, inclusive and sustainable human development. Our ecosystem will bring together insurance and health providers, wealth management and education providers, and lenders and home builders. In doing this we will simultaneously fulfil our purpose and profit from a larger share of Mozambique's growth.

Here is another example from our PBB and Wealth business units. We don't just want to be the bank or insurer that funds and protects your home. We want to orchestrate the whole system of goods and services that meet the human need for somewhere safe and comfortable to live. And home services should be just the start. We already provide a range of home services and a concierge service for our high net worth clients. Digital technology is making it possible for us to extend this proposition and work with a wide range of partners from the largest big tech firms to the smallest SMEs to do the same for millions of customers. These imperatives imply the need for big changes to our infrastructure and resources, which is our third medium-term priority. As you have heard this morning, we have already substantially reconfigured our retail infrastructure and offerings in South Africa. We will continue to simplify and update our structure and to make ourselves much more open to a range of partnerships.

I won't dwell on the fourth medium-term priority, which is to create Social, Economic and Environmental value. As Arno has shown, we think that when we are doing our jobs right SEE emerges organically. See Value therefore is both a good thing in itself and an excellent test of our commercial relevance. What do these medium-term priorities add up to? Well, over the long term we want to become a truly human and truly digital services company. Not just financial services. Services. We will understand our clients deeply through long-term relationships built on mutual respect, trust and empathy. And we will efficiently and effectively deliver exactly the services, solutions and opportunities people need to achieve growth, prosperity and fulfilment over the course of their lives. Our technology will be efficient, robust and secure. We will process mostly in the cloud, and most clients will be serviced predominantly online. Our technology will embrace and empower innovation and will be underpinned by our comprehensive and strong data analytics.

Slide 43

So that's the big picture and the long-term ambition. But of course, long-term ambitions are realised by disciplined and detailed execution right here and now. These are our top priorities for 2020. We will deliver consistently excellent client experiences in order to grow market share and revenues, particularly here in South Africa. The absolute bedrock of this system is system stability, and I can assure you that this is the top item on our agenda every single day. We will continue to accelerate our digitisation in partnership with our cloud providers and other big techs, and by continuing to develop and roll out new digital services. We will continue to shift capital and other resources to Africa Regions. We will remain determined to deliver strong positive jaws. Importantly, this isn't just saving for its own sake. We are getting more automated, leaner and more agile. Finally, we will make progress in returning our ROE closer to our target range. With that, ladies and gentlemen, I will open up for questions starting first with the webcast. What about the conference call?

Operator

We have two questions on the conference call. The first question is from James Starke of SBG Securities.

James Starke

Hi. Good afternoon, Sim and the team. Thank you for the opportunity. Two questions from my side. Firstly, on the fees and commissions up 1%, I wonder if you could give some context on breaking that down between how much of the compression came from lower pricing and what the volume component was there. And if we turn to your outlook for IT amortisation you have mentioned the cloud. I'm just trying to get a sense of what it means for your amortisation when compared to where we are at the moment, around R2.5 billion. Where does that go to from here? And if there is any risk around impairment of existing IT capex that has been put in place. Thank you.

Sim Tshabalala

Okay. Arno, have you got them?

Arno Daehnke

I will answer your second question first, James. On the amortisation charge we expect that to increase to around R3 billion and level off there off the current levels. We do a bi-annual basis impairment tests on all our intangibles, and to the extent that the intangibles are redundant and not fit for purpose we obviously are applying the accounting standards which means we have to write them off. In the period under review you would have noticed we wrote off about R230 million of IT intangibles. We can give you the details in our one-on-one discussions on that. On the fee and commission revenue you asked specifically about the volumes. We have some data points in the PBB section of the analyst booklet, and you would see that our volumes continue to be strong, specifically our digital volumes. And it is really driven from the transition of traditional channels to digital channels, which obviously are much more cost-effective for the clients but less revenue-accretive for us.

James Starke

Thank you.

Operator

Thank you. The next question is from Harry Botha of Avior Capital Markets. Please go ahead.

Harry Botha

Hi. Good morning everyone. Just two quick questions please, first on ICBCS. Is there any further downside risk from the single name that had a big impact in 2019? And when would you expect breakeven for this business? Is it in the next year or two for ICBCS? And then in terms of deploying capital into Africa Regions could you give us a sense of which countries specifically you are looking at in the next three years? Thank you.

Sim Tshabalala
Arno, do you want to take both?

Arno Daehnke
On ICBCS we understand there is no further downside risk. This position obviously has been carefully audited externally and the $200 million loss relating to that single client exposure is what we believe is the appropriate provision for that. On the Africa Regions we are certainly interested in considering some of the minority opportunities where we can still buy out minorities. Kenya is an example where we can go up to 75% shareholding. We also are looking at the [WAEMU region as well as the Ethiopian region. Was that all, Harry? Did I miss anything on ICBCS?

Harry Botha
The guidance for breakeven.

Arno Daehnke
In the next year or two.

Sim Tshabalala
Thank you. Then we have no further questions on the conference call. Shall we open it up in GLC? Any further questions? If you don't mind raising your hand, there are microphones roving. And if you could please identify yourself. I can't see the people from here. The lights are too bright. I think there is a hand.

Charles Russell
Thank you, Sim. It's Charles Russell from Citi. Also, two questions from my side. If you could perhaps elaborate on the ZAR impact of the Zimbabwe hyperinflation accounting. And the second point or question would be on the headcount reduction. It looks like you have reduced headcount by another 1,200 people in the second half. Could you break that up into retrenchments and natural attrition, and across the various disciplines, so branch, IT or any other areas? And if you could also allocate a retrenchment cost to the retrenchment component in the second half please?

Sim Tshabalala
Arno, I think there are three there.

Arno Daehnke
On Zim the ZAR impact on headline earnings actually was fairly immaterial. However, we had to adjust for non-monetary items, specifically property, which was an uplift for the group. And then obviously we adjusted for the earnings at the revised closing exchange rate which was much weaker at 16.8 RTGS to the US Dollar. So, the net impact of those two was a fairly minor impact for the group overall. So that's on Zim. On the headcount there were no large retrenchment programmes in the second half. The branch rationalisation was in the first half. The reduced headcount in the second half is mostly due to natural attrition across both the corporate function areas as well as the business unit areas. And there were no severance package costs related to that in the second half of materiality for the group.

Charles Russell
Thank you very much.

Sim Tshabalala
Anybody else? I think there is a hand here. You can press the button.

Clem
Morning Sim. It's Clem.

Sim Tshabalala
Oh Clem, how are you?

Clem Goemans
I'm well thank you and you? May I first of all compliment you and Arno on a very comprehensive and meaningful presentation? I think you've taken us into the picture of the bank as it is in Africa and I found it very interesting and informative. I have some questions if I may. Your slide on page 36 in your strategic targets, if I heard Arno correctly you were indicating or expecting that your credit loss ratios will remain at the lower end of your range of 70 to 100.

Sim Tshabalala
Yes.

Clem Goemans
Now, given the economic climate in which we are and the news that came out earlier this week of another bank's credit loss experience, how – pardon the word – realistic is that expectation?

Sim Tshabalala
I would say it is realistic. But maybe to give Arno a break may I ask Zweli and Kenny just to give some colour to why we're confident that we will remain within 70 to 100 basis points. Just break it up between PBB and CIB. Do you want to start, Kenny, as the younger of the two?

Kenny Fihla
I like that very much. Thank you very much, Sim. Our guidance range for the credit loss ratio is not changing for a very simple reason, that despite the current economic hardship that we are experiencing and the spike in our impairment we are still at the bottom of the guidance range. Within CIB that range is 40 to 60 bps. Our customer credit loss ratio is at 40 bps, so there is enough room to accommodate further impairments without necessarily breaching the guidance range. I think that's the reason why we are sticking with it. I think we've got sufficient room to accommodate further impairment, if at all, without having to necessarily breach that guidance range.

Zweli Manyathi
It's Zweli here. From a PBB perspective we've got a range of between 100 bps and 120 bps and at the moment we're sitting at 89. And we watch the credit loss ratio very tightly. We regularly do deep drills across different businesses to make sure that we understand the risk that we are on-boarding. And we are comfortable that with all of this we should not breach the 120 bps.

Sim Tshabalala
Is there anything else, Clem?

Clem Goemans
Thank you. Interesting. Looking at slide 17 where I saw the average balances per individual, if I'm correct, for personal banking and corporate banking I'm surprised to see the average per customer in personal being higher than in corporate. You must have some fairly wealthy and a fairly high number of depositors and also borrowers.

Sim Tshabalala

Can I ask Arno just to explain?

Arno Daehnke
Clem, I will just clarify that. These are the average gross loans for the entire year, not per client. That's the average for the year, not the average loan to a client.

Clem Goemans
Oh, okay.

Arno Daehnke
So, you need to see it in that context.

Clem Goemans
Thank you. Then if I may, one further point on your employee engagement on slide 10 where you engaged 4,200 people in training and whatever. That against your total complement in the order of 55,000 is a very small proportion. I know one needs to start with small steps. Would you like to indicate how you see this going? I can tell you of my own experience as I mentioned in the past with your lower level staff, I find it very hard to accept that they are either engaged or committed or knowledgeable. Forgive me for those very harsh words.

Sim Tshabalala
No, they are harsh but they are said in a very gentle tone, so we will take them. But I will ask Funeka if she could please address the 4,200, and perhaps Sharon could embellish if Funeka leaves any gaps just to cover the 52,000 and what we do for our staff.

Funeka Montjane
Thank you, Sim. So, in South Africa as part of the work that we've done on the reconfiguration of our branches one of the significant things that we've done was to re-look at the nature of the work that actually happens at branches and realise that 65% of the job descriptions are aligned purely to servicing very specific products. We have had a look at that and have re-looked at all of those job descriptions and have asked people to look after a whole full suite of solutions for customers, and not only from a servicing perspective but from a growth perspective. So to that end every single person in our branch infrastructure as well as in our call centre has been asked to go back to school to go and get a qualification which is equivalent of MQF5 which entails classroom learning as well as e-learning and about six or seven months of practical training to make sure that people actually can apply what they have learnt.

It has entailed quite a significant sacrifice of productivity, because what this has meant is on average two weeks a month people are out on training and we have to bring in extra people. But it is basically in recognition of the fact that because of digitisation the nature of work has changed. Our client queries are much more complex, and the work is a lot more tilted towards growth as 99% of servicing is on digital. The very important thing here is to say this is only the beginning. We expect this to be an ongoing issue. And the 4,200 is simply the first cohort. We have to watch that we don't chew more than we can digest. So once this first cohort comes out – it's a 12 to 18-month programme – we will bring the next cohort to start. But this is what we believe is the right response for helping our people with the reality of the fourth industrial revolution. A vast majority of our jobs basically a machine is doing. We have to figure out new jobs that are suitable for people and train them accordingly.

Sim Tshabalala
Just because it is such an important question can I ask Sharon to give a very brief overview on what we are doing in training and preparing our people for the future?

Sharon Taylor
Thank you, Sim, and thank you Clem for the question. I think Standard Bank has got a long and proud history of investment in our people. And certainly, development of our people is one of our core values which you will see we hold very dear. I don't have the exact number with me, but I think the group's training spend for 2019 financial year across the total global footprint is in the order of R800 million. So, there is a significant investment that we make in staff development. You will see potentially one of the other stats on that slide was more than 200,000 digital learning videos accessed by employees. So, I would not like to create the impression that the 4,200 are the only people we touch. We touch almost every single staff member every year because we have a very big compliance training requirement that our license is dependent on. So, there is an enormous range of training that takes place with staff across the board, to deal with both regulatory issues as well as upskilling for the current job. And to the point that Sim is making, there is a very clear focus on building the skills that staff need for the future. So, I think the 4,200 should be seen in the context of the front-line capability that we were developing that needed a very specific skill refresh in line with the PBB strategy going forward. I hope that answers the question.

Sim Tshabalala
Your very last one, Clem.

Clem Goemans
That's fine. First of all, thank you for those replies. My recent experience – and this goes back quite a while – is that the problem, in my experience, lies in the supervision and management. In my younger days, which was a very long time ago, one could not do anything or issue anything unless one's supervisor had reviewed and signed off what one had done. And if one was then advised to interact with a client or the user on that basis that supervisor made sure that you had the right response. That's the first thing. The second thing is I would suggest you also keep a very close and broad look at your recruitment and your skill levels for recruitment. And that's enough. Thank you.

Sim Tshabalala
Thank you very much, Clem. We will take those comments to heart. Thank you. Any further questions?

Warren Thompson
Hi Sim. It's Warren Thompson from Business Day. I just wanted to talk to you about slide 24 in relation to the IT spend and your stated strategy as this migration takes place in the cloud and cloud delivery. The biggest component is the light grey which refers to IT costs as maintenance and related costs. Obviously, a big increase year on year and then a fairly large annual growth in that line item. Could you give any guidance on how that evolves in the years ahead, and also how the composition of your IT spend changes as you migrate more and more of your offering and your delivery to the cloud? Are you looking at more US Dollar annuity-based contracts with your service providers etc.? Thank you.

Sim Tshabalala
Arno will take that one.

Arno Daehnke
Okay. So, page 23 gives some details of what is specifically in that IT line of R7.5 billion and why that has grown. And you heard me on the podium talking through those components. Going forward we make the point that we have to continue to invest in technology. And we think an overall cost growth, if you look at the overall IT spend of mid to high single digits is probably what we're going to be spending going forward. The composition of that will change as you say. There will be less spend on physical machines and much more on cloud processing. And in the short term there is a short overlap. Thereafter the cloud processing takes over predominantly, and that is in the long term a much more effective and cheaper way of processing our technology. As you can imagine, the

technology landscape is extremely fluid, and year in and year out we will be talking to you about a slightly different make-up of this. So, it will be difficult to project five years out how it is going to be because we continue to adjust our technology to what is required. On the Dollar-based spend, absolutely. We do hedge some of the Dollar costs on a net basis looking at our Dollar revenues vis-à-vis our Dollar expenses. So, you will only always see the Dollar costs in this specific item here. Did I answer your questions?

Sim Tshabalala
Do we have any further questions?

Warren Thompson
Yes

Bruce Williamson
Sim, good day. It's Bruce Williamson, Integral Asset Management. Do you think there is anything that the private banking sector are not doing that has prompted the government to think about establishing a state bank? Where is the conflict and where is the competition?

Sim Tshabalala
I think first of all South African policy on the financial sector and banking is very clear. It follows world best practice. We are at the cutting edge of implementation of Basel. We continue to be highly rated by international bodies including the World Economic Forum. So, there is no market failure I would submit. That's the first proposition. The second one, policy makers want greater inclusion, but they want greater inclusion at some cost, and somebody has to pay for that. The levels of inclusion required cannot reasonably be expected to be paid for by commercial banks and their shareholders, and therefore the authorities have decided that they want to establish a state bank to cover that policy imperative. Our view is that it is perfectly legitimate to do that. Other countries have got very large and successful state banks. The Industrial and Commercial Bank of China for example is a policy bank and a state bank.

Our only requirement – and in fact it is a demand – is that such institutions be regulated like all other financial institutions. In other words, requirements for capital, liquidity, risk management frameworks and so forth, because you don't want to put depositors at risk and you also don't want to put the system at risk. We speak candidly with the authorities on this, and our views are well known to them. We wish them luck. I'm sure we will be competing with them in the market. And one only hopes that they will not be forced into risky ventures as is the case with many state banks globally. The world is littered with failed state banks because of the conflict between commercial imperatives and policy imperatives.

END OF TRANSCRIPT