Standard Bank

Conference Call transcript

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INTERIM FINANCIAL RESULTS H1 2019

Arno Daehnke
Good morning everyone. Welcome to our 2019 Interim Results Presentation and a special welcome to all the participants on the webcast and the conference call. Standard Bank strategy represents our commitment to the shared future that we intend to create for our customers, our stakeholders and for our people, indeed for our continent. We have deep roots in and a unique network across Africa where banking revenue pools are expected to experience the second fastest growth in the world over the next five years, according to a study by Mc Kinsey. Every day, our 52 000 employees help millions of people and companies to achieve their growth ambitions using their unique power of financial services to grow the continent we call our home. Our purpose has always guided our decisions, behaviours and everything we do. Our long term profitability depends on the stability, wellbeing and the growth of our continent. We must be a catalyst for change in Africa and our success is integral to that change.

For the period ended 30th June 2019, our banking activities grew headline earnings by 10% to R12.8 billion. This was a very pleasing outcome. The Group delivered headline earnings of R13.4 billion up 6% on the prior period. The ROE was 16.2%. The Group's capital position remains strong and accordingly an interim dividend of 454 cents per share has been declared. This is an increase of 6% on the prior period. We want to be a simpler and better bank for our clients, supported by engaged employees and strong capabilities to deliver balanced and sustainable outcomes. By now, all of you will be familiar with our five strategic value drivers which we use to measure our progress and today we have structured our presentation around these drivers.

We continue to respond to shifting customer behaviours and expectations. Our focus remains on ensuring we deliver value to our clients by delivering what matters to them. We have increased our cadence of delivering value by delivering new products and features in an agile way. An example of this agility was the launch of MyMo in South Africa. This is an innovative, low cost, paperless account with a built in mobile data offering. An importantly, this took just 16 weeks to deliver. Previously, this would have taken much longer. The pace of digital adoption by South African clients increased even more than we had anticipated to reach 99% of all transaction volumes which is a total of 1 billion transactions in the six month period. We made the decision to consequently reshape our infrastructure to align to our clients' needs. To enable branch reconfiguration, we first needed to digitise transactions that were bringing our clients into the branches. In a 12 week period, we digitised EAP limit changes, statements, real time clearance, debit order reversals and pin view, bringing us to 70% digitised status. Innovative products delivered in the six months include a tiered pricing home loan designed with first time home owner buyers in mind where as you pay you off the loan, your interest rate decreases. Shyft, which has been built with a partnership with a Cape Town Fintech and which I'm sure many of you are familiar with, has been gaining good traction and in the month of June alone we saw 9000 downloads of the app. In the last six months, over R1 billion has been transferred into foreign currencies using this platform.

Customer behaviours and expectations are no different in Africa regions where 92% of customers' transactional activity now happens outside of a branch. 92%! PBB Africa region's strategy of banking the ecosystem around our corporate and business banking clients continues to yield the desired result of attracting good quality, new to bank

retail customers. As part of this strategy, we introduced a new fully digital client onboarding platform called Moby Banker which has radically simplified the client origination process resulting in a 64% reduction in client onboarding time. This same platform allows paperless loan origination and disbursement in two minutes and previously that took between one and five days.

Every day our coverage teams work alongside our corporate customers to help them grow. This commitment to our customer's success, each resulting in deeper partnerships, more activity and larger balances but has also resulted in our recognition, *Africa Leading Investment Bank in the Euromoney 2019 Awards of Excellence*. Some examples of what we have done in the period include the support of expansionary funding for multi-national and large domestic corporates amounting to R92 billion disbursed in the first half of 2019. Notably, partnering with the Oil & Gas sector in West Africa and emerging Oil & Gas opportunities in East Africa and in Mozambique. We also remain a material provider of foreign currency liquidity and risk management solutions across the African footprint. We have facilitated the raising of hard currency funding for African governments to help alleviate hard currency shortages. The success of an oversubscribed Eurobond for Ghana is an example of this. Trade is a key driver of Africa's economic growth and our representation across Sub-Saharan Africa puts us in a good position to benefit from Africa's continental free trade agreement which will be finalised next year. We are an integral participant in financing of trade flows intra Africa and also of course between China and Africa. In South Africa we have the largest share of issuances of letters of credit and our market share in this product amounts to 26%.

As you can see on this slide, corporate client revenues increased by 12% underpinned by strong client activities. In the first half of 2019, revenues from large domestic corporates in South Africa, West Africa and East Africa grew 24% whilst multi-national corporates grew 7% in revenue. From a sector perspective, client revenue growth was driven by client activities in financial institutions, power and infrastructure, metals and mining, oil and gas and telecom sectors. At a regional level, client revenues in South Africa grew by 9% and in Africa regions 14%. From a product perspective, you can see here that revenues in TPS and Investment Banking grew double digits while Global Markets' revenue growth was more subdued.

In our important Wealth segment, we have grown our number of high net worth clients by 6% and deposits in our off shore businesses in Isle of Man and in Jersey were maintained at £5 million. Our MY 360 app has been launched to high net worth clients which is an aggregation tool that provides a daily 360-degree view of net worth across more than 20 000 global financial institutions and across many geographies. The SIL (Standard Bank Insurance Limited) insurance app was also launched this year and the first feature to go live was telematics to inform the price of your insurance premium. Many more features including Uber vouchers, emergency assistance and live assist will be added to the app later this year. Assets under management and under advice across our wealth businesses grew 11% in the six months from December. Now amounting to R432 billion.

We are cognisant that the world of work is changing and while we are digitising our service for clients, we need to be adapting for employees too. Traditional lines of control and silo departments with rigid reporting lines are shifting towards cross functional teams. Structures are becoming flatter with a stronger focus on delivery expertise and agility. We are building skills of deep mastery aligned to those required by the fourth industrial revolution as well as driving a culture of continuous learning and growth. Here you can see we measure employee engagement annually and we are pleased to note an increase in the latest score evidencing highly engaged employees. Helping our people to do their best work is a critical enabler of business strategy and fundamental to delivering our financial targets.

Strong growth over the period necessitated an increase in stage one provisions which has been offset to some degree by improvements in credit modelling and enhanced collections capabilities. Stage 3 loans have remained

fairly consistent in rand terms and a percentage of the book has been unchanged at 3.8%. Here you can also see that stage 1 and stage 2 coverage ratios have remained constant overall and at a business unit level, while stage 3 coverage ratios have dipped in CIB where coverage ratios are more volatile, we are comfortable that sufficient collateral is held against remaining stage 3 exposures.

On this slide you can see that we've maintained a robust Basel III capital with a common equity tier 1 ratio of 14%. We managed our capital levels to support business growth, maintained depositor and creditor confidence, absorb macro and regulatory headwinds and of course create value for shareholders. Material, political, macro and regulatory headwinds emerged in the first half of 2019. For example, in Zimbabwe the government implemented new monetary policy measures, most significant of which was the establishment of the foreign exchange interbank market and announcement that the real time gross settlement dollar, the RTGS$, will be the new functional currency replacing the US dollar. The RTGS US dollar exchange rate continues to depreciate and as we all are aware in-country inflation continues to increase. These factors, while impacting our financial results, have had a far bigger impact on our people in the country and various initiatives have been approved to assist our staff in Zimbabwe during this period of high inflation and currency shortages. Other regulatory changes impacting our results include:

- restrictions on trading of FX derivatives in Mozambique,
- increase in minimum capital requirements in Mozambique, Ghana and DRC,
- regulations impacting on pension fund fees and cash reserving in Nigeria;
- in Zambia, a moratorium on fee increases while a review of banking charges is being undertaken; and
- Angola introduced caps on fees.

Also, here on this slide you can see that the Group continues to support our growth in Africa regions. And during the period, the Group injected a third, $66 million of capital, into Africa regions. Africa regions now represents 23% of our net asset value and you can see here this compared to only 18% three years ago.

We take conduct very seriously and understand that our culture, our values and ethics will underpin the way we do business. We have identified conduct metrics, some of which are shown here and we track these regularly to check our pulse on issues of conduct. As an example, a completion of compliance training where we have set ourselves a bar to achieve 95% completion and you can see here we've actually exceeded that target.

Total income grew to R54.2 billion from R50.7 billion in the prior period and this is a growth rate of 7% in rands and 6% in constant currency. Net interest income growth was supported by strong loan and deposit growth across the portfolio offset by declining margins. Margins were negatively impacted by:

- the impact of lower average rates in some of the African regions' markets,
- higher cash reserving costs - I already commented on Nigeria, and
- the competitive environment in South Africa for loan pricing.

But we also had factors increasing margins during the period and these included:

- stronger growth of higher margin unsecured lending,
- Africa regions growing loans faster than South Africa, and
- positive endowment and effective margin management in our off-shore operations.

Non-interest revenue growth was driven by strong underlying volumes, in particular, new loan originations and electronic banking, card and FX transactions. As clients continue to shift their transactional banking from traditional to digital platforms, growth in electronic banking fees continue to outpace traditional account transaction fees. Trading revenue remains subdued, particularly in South Africa, constrained by low levels of market activity. A strong focus on costs continued in the first half of 2019. Costs were up 6% in rands to R30.9 billion and up 4% in constant

currency. This resulted in both positive jaws in both rands and in constant currency terms. We were pleased with this outcome given the many customer experience initiatives and staff re-skilling programmes underway; as well as importantly, of course, the cost associated with the branch reconfiguration exercise in South Africa. A 20% increase in credit impairments to R14.2 billion was in line with our expectations off a low base in 2018. The Group credit loss ratio then increased to a more normal 76 basis points.

Banking activities headline earnings consequently grew by 10% to R12.8 billion. Other banking interests and Liberty were a drag on group headline earnings growth of 6%. I will cover this later.

This graph shows business line contributions to group earnings. Our large business lines of Personal & Business Banking and Corporate & Investment Banking continue to drive earnings growth and saw good growth of headline earnings of 8% and 9% respectively. Central and other includes costs associated with corporate functions as well as the Group's treasury and capital requirements, management activities and central hedging requirements. Central costs were managed down in this period. Other interests remain small, nevertheless were a drag on group earnings growth. Liberty's excellent operational performance as you would have noted a week ago is dampened in the Group's results due to the treasury share adjustments.

6% loan growth in PBB contributed to NIR growth of 9%. NIR growth was supported by electronic banking fees. The credit loss ratio in PBB of a 105 basis points was well managed to within the anticipated range. Positive jaws of 90 basis points were achieved despite absorbing costs relating to SA branch reconfigurations. These costs amounted to around R500 million. And PBB jaws would have been pleasing, at 330 basis points if this once-off cost had been excluded. PBB ROE increased to 19.9%. On a geographic basis, PBB SA was flat - mainly due to the costs already mentioned on the branch reconfigurations. And as you can see here, Africa Regions and Wealth delivered a strong performance.

In CIB, strong loan growth seen at the end of 2018 continued into 2019 to drive NII. Africa regions contributed more than 50% of revenues with client revenues in West and East Africa driving this performance on the back of strong deal execution and client wins. Forex trading in Africa regions was the main driver of Global Market revenues. The credit loss ratio, as you can see here for the period, was a more normalised 40 basis points at the bottom end of our credit loss range to clients for CIB. CIB achieved positive jaws despite closing the Hong Kong office and right-sizing the London coverage team office during the period. A ROE of 19.3% was noted and this ROE was diluted somewhat by increased capital utilisation due, in large part, to growth in investment banking assets and portfolio ratings downgrades in South Africa.

Analysing the results by region, it can be seen that Africa regions grew by 15% and SBSA, given the sluggish South African environment, by 3%. In SBSA, income grew by 3% and costs grew by 4%. This resulted in negative jaws of 1% but if you exclude the cost of branch reconfigurations, the jaws would have been a positive 1.4%. Cost management in this entity which also houses some of the Group related costs remains a top priority for us. In Africa regions, the first half of 2019 was characterised by sustained balance sheet growth across the portfolio. On a constant currency basis, customer deposits increased 17% and loans to customers grew 15% year on year. The growth in assets which I referred to just now, contributed to an 11% constant currency increase in net interest income despite margin compression and despite negative endowment from some of the markets due to declining interest rates. Non-interest revenue was driven by improved transactional volumes, investment banking fees and increased forex trading revenue. Continued focus on cost containment resulted in 3% positive jaws for Africa regions overall. This allowed headline earnings to grow 11% in constant currency. Most currencies except for the Angolan Kwanza, Zambian Kwacha and Zimbabwe RTGS$, strengthened in value on an average basis compared to the ZAR and this resulted in higher earnings growth when our local currency earnings were translated into rands.

Liberty continues to make good progress against its strategic objectives delivering a pleasing improvement in its normalised operating earnings up 14% to R1.1 billion. Liberty's shareholders' portfolio improved returns significantly supported by better market conditions. Liberty's new business margin improved to 90 basis points. Return on equity and return on embedded value moved in their respective target bands and capital levels for Liberty remain robust. Liberty's IFRS headline earnings increased 31% on the prior period to R2 billion. Headline earnings attributable to the Group adjusted down by R248 million for the impact of treasury shares was R875 million and that is 2% higher than the prior period as consolidated into the Group.

Other banking interests recorded a headline earnings loss of R320 million. Looking at ICBC Argentina, they continue to perform very well delivering a headline earnings contribution to the Group's 20% stake of R430 million. Despite this good performance, this investment as you are aware, remains off strategy. And you would have seen the announcement this morning on SENS that the Group will exercise its option to sell its stake to ICBC in the coming months. ICBC Standard Bank PLC recorded a loss of $129.5 million in the period. This disappointing result comprises two components. One, an operating loss of $19.5 million and two, a provision of $110 million arising from a single client relationship. The operating loss I referred to should be viewed in context of the difficult environment in which the business operated in the period. The single client loss I referred to arose as a result of client, Philadelphia Energy Solutions, being severely disrupted after an industrial incident which in turn impacted its ability to fulfil its contractual obligations. Philadelphia Energy Solutions has since filed for bankruptcy and the matter is in the courts. Standard Bank is comfortable that ICBCS is following due process and ICBCS is keeping Standard Bank updated as appropriate. The Group's 40% share of the ICBCS loss equated to R752 million.

Banking return on equity remained on the same level as the previous year despite headwinds and sluggish conditions in our biggest, and home market, South Africa. Group return on equity was dampened by the loss incurred in ICBCS, dipped to 16.2%. Our common equity 1 ratio remains strong, to end the period at 14%. We remain committed to investing capital in growth markets to support our clients on their growth journeys. We are also cognisant of the increasing levels of capital and have therefore declared an interim dividend of 454 cents per share and that is 6% higher than the prior year allowing dividends to grow at the same pace as earnings.

While there may be headwinds in certain markets, the diversity of business and breadth of our footprint provide us with some shelter. In addition, our underground presence and understanding of the macro, political and regulatory dynamics in each of these markets enable the Group to continue to support our customers and our employees whilst managing risk appropriately. We expect balance sheet growth in Africa regions to continue to outpace that in South Africa. We expect net interest income to outpace non-interest revenue and we expect the credit loss ratio to remain at the lower end of our new range of 70 to 100 basis points. We remain committed to driving operational efficiencies while continuing to invest prudently to deliver a future ready Standard Bank Group. We remain committed to our medium-term targets of delivering sustainable earnings growth and a return on equity in our 18% to 20% target range. Sustainability is embedded in our purpose. We have defined seven focus areas where our core businesses as a provider of financial services converge with the needs of Africa's people and businesses and economies. And we track the impact that we make in each of these areas. We are confident that all our stakeholders will benefit from the transformational changes we are implementing as we work to build the most customer focused, efficient and innovative Standard Bank ever. I'm proud of what we've accomplished in the first six months of 2019 and I'm energised by the opportunities ahead. I will now hand over to Sim to conclude. Thank you.

Sim Tshabalala
Thank you Arno for a very comprehensive presentation as always. I'd like to emphasise a few points emerging from these results. First, our on-strategy businesses, the vast majority of our Group is in excellent health. As Arno showed you, our balance sheet growth has been 11% over the past 12 months and our banking activities headline earnings up 10%. Second, as you've seen, there's great momentum in our client franchise as measured for example, by digital and product innovation, fast growth in retail numbers in our Africa regions businesses, good client revenue growth in CIB and rapid growth in assets under management in our Wealth business. Third, our numbers for the first half have taken a painful hit from our share of our provisions raised in ICBC Standard for Philadelphia Energy Solution's risk event. This is all the more painful and disappointing because this event could detract from the great progress that we're making in our banking activities and in Liberty. I'll come back to this in a minute.

First though, a word about the macros and their implications for our Group. The current US expansion has lasted for a very long time and there are global risks from escalating trade tensions. From the repercussions of a possible hard Brexit and from the continuing slowdown of the Chinese economy as it matures. Much more positively Africa's recovery continues and is likely to accelerate this year. The continent will grow consistently faster than the average of the rest of the world. The light blue line on the graph on the right hand side of this slide isn't the region as a whole but the weighted average forecast for the countries where we have business. Let me put it this way, if you want to invest in the Africa growth story, we think Standard Bank is an excellent choice.

On the South African economy, it's been really difficult for the first half and the outlook for the rest of the year is tepid at best. We expect that the second half will be better than the first but even so, growth for the year will probably be no more than 0.7%. Over the medium term, it's certainly possible that we'll muddle along with growth stabilising at around 2% a year as depicted on this slide or confidence will strengthen and structural reform will accelerate, in which case, according to the IMF, growth could reach as much as 4% a year in five years. On confidence, there are some encouraging signs for the future. In the second quarter, the consumer confidence index stood at double its post 1994 average and South Africa's economic expectations for the next 12 months were three times more optimistic than the post 1994 average. And as reflected in our book growth, asset backed credit to household has grown 18% over the past two years.

On structural reform, the important question of course is how much will actually be implemented? We think that governance will continue to strengthen, that the state owned enterprises will be stabilised and that the regulatory environment for ICT will continue to improve. But we are less confident about the possibility of labour market reforms or rapid improvements in education. We also shouldn't forget that the off shore gas discoveries will boost growth as will freer trade in Africa under the Africa Continental Free Trade agreement. I am highly confident that there are better days ahead for South Africa.

This is the list of priorities that we outlined in the 2018 results presentation in March. Here's an interim update:

- On financial targets, it's clear that we are making good progress in our main business, banking activities and Liberty with African regions remaining the jewel in the crown,
- On costs, we've generated 109 basis points of positive jaws. To remain competitive, we still have a lot more work to do on reducing our fixed costs and this remains a top priority,
- We've already spoken about digitisation, client experience and growth opportunities. These will continue to accelerate,
- On Liberty, you will have seen the great strides made by Liberty in their recovery over the last six months in their results last Thursday. We're particularly pleased that operating earnings are up 14%. Many thanks and congratulations to David and the Liberty team,

- As you know, we have long spoken about exiting the off-strategy business in Argentina so that we can focus our capital and energy entirely on our African businesses. We are therefore very pleased that the Standard Bank board yesterday resolved to exercise our option to put the remaining 20% share in this business to ICBC and to authorise Standard Bank London Holdings to give the requisite notice to ICBC. Subject to approval from the Chinese and Argentine authorities, we expect that the transaction will be complete in the last quarter of this year or the first quarter of 2020. As you can see from their results, ICBC Argentina is a superbly managed business but it's off-strategy for us. We want to commit ourselves and our shareholders' capital fully to growth in Africa. More of that, a little bit later.

Back to ICBC Standard. A distressing fact is that without this risk event, group headline earnings would have grown in line with banking activities headline earnings. As we've emphasised before, one has to see our minority in this business in the context of the history of the Group and in the context of our overall partnership with ICBC, this partnership has brought us great benefits and will continue to do so. We will not, in fact, we cannot do anything sudden. There are no immediate silver bullets. As shareholders in ICBCS, we acknowledge that the risk event rose in pursuit of ICBCS's board approved strategy and we support the intention of the executive to continue to integrate their business into the wider ICBC network. As you know, our capital is always much better deployed on the African continent. But we may be obliged to take a capital injection reluctantly for regulatory or for commercial reasons at some point in the future as we've previously indicated. We remain in a series of detailed discussions with our board and with our partners at ICBC and with the management of ICBCS in respect of its future capital structure and strategy. We are working intensely on finding a solution that is in the best interest of all of Standard Bank's shareholders.

As you saw at the start of Arno's presentation, our strategy hasn't changed and is not changing. And within that, our vision of course also unchanged. We want to be the market-leading African financial services group. Put it another way, we are determined to keep our competiveness by truly understanding what our clients need and by delivering the complete solutions that they require. As you have seen, our on-strategy businesses are doing precisely that.

However, we need to do better on system stability. Thanks to our investments, our network is far more stable and robust than it has ever been but in this digital age our clients expect our systems to be up all of the time, at the very least outages should last only a few minutes. We've put a lot of work into this over this half and I'm determined that we don't subject our clients to prolonged downtimes in the future. Arno has provided examples of some of our new digital products and services. So I'll talk a bit about the backend. Our partnership with Amazon Web Services is well underway. We're using artificial intelligence very effectively throughout our businesses. For instance, to rank leads in Wealth, to process credit applications in Business Banking and to provide early warnings that clients might be under strain in Corporate & Investment Banking. You will have noted that this half, we earned 34% of our banking activities profits in our Africa Regions businesses up from 32% this time last year. We expect that proportion to keep growing for the foreseeable future. We will continue to compete fiercely for market share and to ensure that our businesses have the capital and other resources that they need as they expand. We might also consider further greenfield expansion - particularly digital expansion. Acquisitions are also a possibility.

Our purpose is even more firmly set in stone than our vision. Africa is our home; we drive her growth. In other words, our purpose commits us to support economic growth and promote sustainable human development. We know just how poor Africans still are. We know exactly how bad some of the roads are. We know exactly how often the lights go off. In fact, three weeks ago I, together with the team were in Zimbabwe in the sweltering heat probably caused by global warming, dodging deep potholes and watching thread bare people queue for fuel and food. Or we were in Mozambique, which is doing well, but which is still for the most part desperately poor feeling the hope generated by the Rovuma gas prospects. So our purpose is to help Africa's entrepreneurs to build great

businesses and to create good jobs. Our purpose is to enable African governments to build hard and soft infrastructure and our purpose is to help African people to grow their human and financial capital and therefore to live better and more secure lives. In other words, we are a real economy African financial services group. Our balance sheet exists to serve the pressing needs of our continent.

So we will fund gas and oil pipelines, we will support mineral exploration and extraction and we will, in some circumstances, fund coal fired energy. We will do so in the right way in line with the Equator Principles and in consultations with the affected communities. Over the half, there's been sharp increase in attention from shareholders and stakeholders to environmental issues. Let me be clear, in our view it is just as legitimate to be concerned with global climate change as with African economic and human development. Climate change is unquestionably one of the biggest global issues of our time and the financial sector can and should be central to reducing the carbon intensity of growth to mitigating the effects of climate change and to financing adaptation. As a developing world institution, we regard ourselves as bound by Article 4 of the Paris Agreement to reduce the carbon-intensity of economic and human development in our countries of operation. And indeed, we are doing just that. 86% of our total cumulative underwriting of our energy transactions to date has been for green energy. We have published our highly restrictive policy on coal fired power funding. The board has just approved our signing up to the new UN principles for responsible banking and we are working towards meaningful compliance with the reporting principles outlined by the task force on climate related financial disclosures. We are here to drive Africa's growth today and for generations to come.

Our seven social and economic and environmental impact areas remain as you see them here. What I'd like to emphasise is that these are central to our business operations. Our value-addition emerges organically from our businesses and we're just as proud of our social and economic value addition in areas such as enterprise development and financial inclusion, as we are of green financing. Over the next year we will be focussing on securing our inclusion in global ESG indexes and improving our sustainability ratings. This is obviously a good thing to do and it makes us a more attractive investment, reducing our cost of capital.

By way of a conclusion, this is a sketch of where the Standard Bank Group is heading over the next five years or so. We want to be both a truly digital and a truly human financial services group. We will use data and AI to enable us to see and understand each of our clients as individuals and to respond instantly to their current needs across the full range of financial services and the full range of their business and personal lives. But using these technologies to understand what companies and people might need today is only half the job. The other half is building long term human relationships on a foundation of total integrity, mutual respect, trust and empathy.

This half's results provide compelling evidence that the Standard Bank Group is well on its way to achieving these goals and to meeting our financial targets. Despite the formidable challenges all around us, our businesses are in astoundingly good health. This is a great tribute to the commitment, expertise and empathy of our people and I thank them all very much. With that, let me turn it over to questions here in the auditorium. If you wouldn't mind putting up your hands, there are mics that will be circulated around the room and if you wouldn't mind identifying yourself. Apart from suffering from middle aged challenges, there's a light shining in my eye.

Harry
Hi, it's Harry here from Avior. Just a few quick questions please. Can you possibly quantify the cost savings that you've achieved in South Africa because of the branch reconfiguration? And then, in PBB South Africa it seems like the non-interest revenue growth is very muted. Could you possibly talk to some of the pressures there please considering that some of the lending growth has improved? And then lastly on ICBC Argentina. I understand that it's

been off strategy for a while and you did give some context, but it does seem like the PE multiple on the deal is very low so can you give us a sense on why now essentially? Thanks.

Sim Tshabalala
Could I suggest Arno that you deal with the cost and the Argentina question and if Zweli or Funeka could deal with the South Africa PBB revenue growth. Arno?

Arno Daehnke
Thanks Harry. Is my mic on? It is on, okay great. Harry please bear in mind; the branch reconfiguration was only completed recently. So in these numbers here you would have not seen any cost savings coming through yet. We would have incurred net costs and I mentioned off the podium of R500 million of costs incurred. Some of those obviously are severance packages, some of those are lease cancellations and we are expecting benefits going forward obviously and you hopefully see them in the second half as well as in 2020. The question on Argentina, we had a fairness opinion by JP Morgan put in place taking into account the local environment, the liquidity of our put option and our shareholding with ICBC Argentina and this fairness opinion reinforced that $180 million sale price for our 20% stake is approximately the right price, is within the range and hence, we are quite comfortable that that's the correct price to sell that entity.

Sim Tshabalala
The summary of it is that it's contractual and it's a long standing contractual arrangement.

Arno Daehnke
Yes, the put option originally was struck at that price and hence, it happens to come out at that right price.

Sim Tshabalala
Zweli? It's the young man sitting down here.

Zweli Manyathi
Thank you Sim. Harry, the biggest drivers really you would have seen in Arno's presentation that the digital transactions continue to increase vis a vis the face to face. As I've said before, the margin between those two is very, very big. The second piece as Arno talked to - the CAT event in KZN, that number was actually taken against other revenue and those are two big drivers of the muted growth in the NIR.

Sim Tshabalala
Thank you Zweli. Do I have any more questions in the auditorium? Can I ask if there are any questions on the conference call?

Operator
We have a question from James Clark at SBG Securities.

James Clark
Hi, good afternoon Sim, Arno and team. Thank you for the opportunity. Just one question from my side on ICBC Standard. Just in terms of the outlook for 2H, do you expect the provision to be sufficient or what kind of earnings profile can we see for the second half from here? Thank you.

Sim Tshabalala
Arno?

Arno Daehnke
Hi James. I'll take that. As we have information on hand at the moment, we believe $110 million provision is sufficient but bear in mind James, this is a fluid environment. The exposure relating to that refinery which is currently being sold into the market and that may incur further costs. But there may also be some recoveries through insurances. So we may have an offset on each one of those but for now we think that that's the right provision. The outlook for the second half, we do think there will be an ongoing operating loss in that entity for the second half and from an operational performance, excluding the Philadelphia Energy Solutions event we except a full year loss for ICBCS.

Sim Tshabalala
Thank you. Do we have any more questions on the conference call?

Operator
No further questions on the conference call.

Sim Tshabalala
Thank you so much. Sandra, do we have any from the webcast?

Sandra
We do. So, the question is from Ilan Stermer from Renaissance Capital and that related to ICBCS as well. And it was a question around SBK's obligations and if they would likely be a higher infusion than previously flagged? And then the second question is from Charles Russel at Citi asking around amortisation and in previous communications we highlighted a full year amortisation peak of 3.2 billion in 2020. Do we still expect a strong ramp up?

Sim Tshabalala
Arno?

Arno Daehnke
Hi Ilan. On the obligation, currently ICBCS is in a surplus capital position. The obligation is that we share any regulatory capital injection together with ICBC but business plan capital injection, which you may have been reminded that we did previously contemplate a business plan injection, is on an elective basis. So at the moment, those are the two obligations that we have with ICBCS. Importantly, in terms of business plan capital injections, we are working together with ICBC and ICBCS on the business plan going forward and obviously any further business plan capital support will be contingent on that business plan and the outlook of that.

On the amortisation costs, that will be R2.4 billion we expected… R2.4 billion this year and R3.1 billion we expect to peak in 2021. So that's the trajectory as we've updated it.

Sim Tshabalala
Thank you Arno. Any other questions. There being no other questions on the webcast, all that is left is for me to thank you all so very much for taking time out of your busy schedules to be with us this morning. Thank you very much to those on the line and to those on the webcast. To those that are here at the GLC, please would you join us for refreshments outside. Thank you.

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