

Personal & Business Banking

PBB provides banking and other financial services to individual customers and small- to medium-sized enterprises in South Africa, the rest of Africa and the Channel Islands.

Peter Schlebusch,
Chief executive – PBB



“Our main priority in the current market environment is to redefine customer experiences by understanding and delivering what matters to our customers. With the support of continuous technological advances, we are providing our customers with simpler and more efficient payment and banking products through integrated channels, including mobile banking.”

Overview

PBB delivered another commendable performance in 2015. Between 2010 and 2015, the franchise has achieved 21% compound annual growth in headline earnings, demonstrating the progress we have made in growing our targeted customer base and enhancing our operational platforms in selected countries in Africa. While the overall customer base across South Africa and the rest of Africa declined slightly by 6% to 14,9 million customers, the number of current accounts in our target segments increased by 10% to approximately 656 000.

The resilience of our South African operation resulted in pleasing headline earnings growth from the high base established in recent years. This was achieved despite declining consumer and business confidence, fierce competition and ongoing regulatory pressure. The franchise responded effectively to the increasing demand for mobile banking, to retain customers in the heavily contested personal banking market.

Our franchise in the rest of Africa managed to improve its overall financial performance despite our largest operation in Nigeria being impacted by economic and political challenges. The franchise continued to focus on the acquisition of profitable customers in clearly defined segments.

R11,2 billion

Headline earnings, contributing 51% to group headline earnings.

2014: R9,8 billion and 57% contribution

10%

Growth in targeted retail customer segments.

58

Overall channel net promoter score (NPS) for PBB South Africa.

2014: 56



RECOGNITION: PBB SOUTH AFRICA

2015 SUNDAY TIMES/TNS TOP BRANDS SURVEY

Leading brand in
consumer banking
for the third
consecutive year

ASSEGAI AWARDS 2015

Brand of the Year
awarded to business
and commercial
banking

Overall, PBB recorded headline earnings of R11,2 billion, 15% higher than in 2014, driven by good growth in top line revenue (particularly in net interest income), lower credit impairments and relatively well-controlled costs, despite higher amortisation costs arising from our capitalised core banking transformation programmes. An ROE of 18.1% was achieved (2014: 18.1%).

Strategy

We reviewed PBB's strategy in 2015, to align it with the group's Africa strategy. Our purpose, which should endure for generations to come, is improving lives and fulfilling aspirations across Africa. Our vision, which aims to bring us closer to our purpose in the next five years, is to radically redefine customer experience by understanding and delivering what matters to our customers. We believe we can achieve our vision given our 153-year heritage, during which time we have demonstrated a pioneering spirit, and an ability to make both commercially pragmatic and brave long-term decisions. We also have a large, diverse customer base, great people working for us and a unique presence in and passion for Africa, our home.

The progress we have made against our specific strategic objectives is set out below.

South Africa

Grow our customer base in our chosen segments by delivering an excellent and consistent customer experience

PBB South Africa operates in a fiercely competitive market. An ever-increasing number of banking and non-banking enterprises compete for the business of a relatively static number of bankable customers, who are constrained by a low-growth economy. The rapidly changing digital environment, which offers customers more choice, lower costs and easier mobility in an always-on, always-connected world, compounds these challenges.

Our main priority in the current market environment is to redefine customer experiences by understanding and delivering what matters to our customers. With the support of continuous technological advances, we are providing our customers with simpler and more efficient payment and banking products through integrated channels, including mobile banking.

Building a digital business enables deep insight into customer needs, and provides new ways to fulfil those needs. But this requires a culture that empowers our people to listen to customers and respond with appropriate, effective and innovative solutions. Our strategy recognises that a profound cultural shift and new ways of working are necessary to place our customers at the centre of everything we do.

In the past two years, we have focused on building convenient mobile solutions that give customers control of all aspects of their finances on their smart mobile devices.

Largest provider
of residential mortgages
in South Africa, with a 30%
market share.

90%
Increase in mobile banking
transaction volumes
in South Africa.

73%
PBB customers in the rest of Africa
on the new core banking platform.

This has included launching a banking application (app) on tablet, mobile and smartwatch and a refreshed internet banking platform, as well as mobile payment solutions such as SnapScan, MasterPass, BlueMobi, InstantMoney and WeChat Wallet. Over 22 000 merchants and more than 200 000 customers have signed up for SnapScan, while InstantMoney has processed more than R7,5 billion in money transfers.

In 2015, we continued to strengthen our mobile offerings, achieving several firsts in South African banking. We were the first to launch biometric identification to enhance security on our mobile banking app. We also introduced a balance peek function, allowing customers to check their balances with a single swipe without logging into the app. We listened to customers who wanted to be able to manage their electronic account payment limits themselves, introducing this functionality on internet banking and the banking app.

Other enhancements to the banking app have provided customers the ability to trade shares on the JSE, buy and sell instruments from 29 stock exchanges across the world, view accounts held with the Standard Bank Offshore Group, view wealth and insurance portfolios in South Africa and offshore, view their vehicle and asset finance (VAF) accounts, submit insurance claims for homeowners' cover using photos taken with a smartphone, and calculate bond affordability and repayments easily.

BluMobi, our mobile point of sales solution, allows small businesses, particularly those with mobile workforces or without access to fixed data or telephone lines, to make payments using a smartphone or tablet and a BluMobi device. We have the largest number of Tap and Go cards in issue in South Africa and our point of sales acquiring devices are Tap and Go enabled, a facility that has been well

adopted, particularly by fast food outlets. In the Ethekwini municipality in KwaZulu-Natal, the transit system enables 80 000 commuters to use Tap and Go.

Mobile banking transactional volumes grew by over 90%. During the year, 825 million financial transactions worth R430 billion were processed through the banking app. In contrast, teller and enquiry volumes across all points of representation dropped by 21% and 12% respectively. This demonstrates our progress in transforming from a branch-based bank to a digitalised financial services group able to offer a range of services in real time. Our new internet banking site enabled us to move from fifth to second place in the internet banking user satisfaction index survey, SITEisfaction. The old internet banking site, which we are running concurrently, will be switched off during 2016.

The threat of cybercrime remains a critical focus area of our risk management processes. Our aim is to protect our customers without adding inconvenience. The integrated operational risk unit is involved in the development cycle and at various stages of new product and system launches, to ensure that appropriate fraud mitigation measures are incorporated.

Our technology enables fingerprint scanning, and SIM card and device verification before processing a payment. Combined with MyUpdates text messaging to inform customers that a transaction has been performed on their account, this makes mobile banking our safest channel. In another South African banking first, customers can now use the banking app to activate their cheque or credit card when preparing to travel abroad, so it can be used only during the specific time and within the countries of their travels, thereby improving security.

Following the development of a single repository for all customer queries, leads and complaints in 2014, we completed the next phase of improving the customer experience when we migrated 34 million customer profiles off various legacy systems onto a single customer master file in March 2015. This forms the foundation for capturing and analysing customer data more effectively, which will enable PBB to provide proactive, relevant offers to individual customers.

Our systems availability and stability was less than satisfactory in 2015. We experienced instability in April following the migration of customer files as well as outages in August and September, caused by hardware failures. While some interruption is inevitable given the scale of our core banking

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transformation, we understand the disruption is frustrating for our customers and frontline staff and we are truly sorry for the inconvenience caused. System stability improved markedly towards the end of the year, which bodes well for 2016.

We continue to focus on acquiring primary transaction and deposit accounts. These retail deposits reduce our reliance on expensive wholesale funding and assist in building a track record of customer cash flows and rich customer information to assess risk.

We have kept fee increases for personal customers below inflation, with no bundle fee increases for customers with Access Plus and Elite Plus accounts. The sixth Solidarity Bank Charges Report released by the Solidarity Research Institute in November found that the Elite Plus account was the cheapest of the big four banks for mid-income earners. We introduced new credit card products and value adds in our upper income personal and business banking segments, including the new Prestige professional offering and World Citizen cards. Our reward system, UCount, has been taken up by 628 000 customers, many of whom are earning rewards well in excess of the cost of their banking fees.

A highlight in 2015 was the return to profitability of our personal market VAF business after a period of underperformance. The appointment of new leadership with extensive relevant expertise and experience, together with our investment in online integration with dealer origination platforms, supported this pleasing result. We believe that we are originating quality new business which has resulted in favourable income growth and an improvement in the credit loss ratio in this business.

The business and commercial banking unit, which includes SMEs, serves more

Focus on / **socioeconomic development**

An important part of remaining socially relevant is to offer products and services that include marginalised individuals and small enterprises. This includes providing responsible access to credit and supporting financial literacy initiatives that enable informed financial decision-making.

We are the largest provider of residential mortgages in the affordable housing sector in South Africa, with a 35% market share. Around 10 600 (2014: 12 000) affordable housing loans were financed in 2015 with R1,3 million invested in borrower education, benefiting 2 536 (2014: 2 937) home buyers. The retraction of business in mining towns due to the commodity downturn accounts for the decrease in home loans provided.

During the year, we invested R35 million (2014: R18 million) in consumer education in South Africa and we are investigating opportunities to partner with big retailers and corporates to introduce financial literacy to their employees. Through our partnership with the Global Fund, we provide financial upskilling to the fund's beneficiaries helping them to manage donations effectively.

A strong and growing SME sector is essential to the long-term development and transformation of economies. BizDirect Response Centres in Namibia and South Africa are dedicated facilities that address the primary needs of SMEs. In 2015, we introduced virtual business centres for small enterprises in 11 countries, providing faster turnaround times as a result of banking transactions facilitated through eSignatures and biometrics.

In South Africa, we are working with government departments and other role-players to facilitate owner-investment in Reconstruction and Development Programme township properties, with the aim of raising property values to enable SME owners to use this as financing collateral. At December 2015, our South African lending book to small, micro and start-up businesses was R13,8 billion (2014: R14,3 billion). Towards the end of 2014, we introduced a specialised enterprise development customer proposition. It provides financing solutions to mainly black-owned companies that have gained access to preferential procurement opportunities from corporates or public sector entities. We work to understand each company's financial needs and, where there are inherent risks in operational and financial management, we provide non-financial and technical development support to mitigate these risks. This ensures that the supplier is able to fulfil their contractual obligation and can service the loan. In 2015, we distributed loans of over R450 million to enterprise development customers (2014: >R50 million) and invested R25 million (2014: R26 million) in our enterprise development initiatives. Together with the Johannesburg Chamber of Commerce and Industry, we have launched an SME Export Incubator, a three-year training and mentoring programme for small businesses in the export sector.

Each SME customer in the rest of Africa has access to a dedicated relationship manager, irrespective of the size or life stage of their business. In 2015, SME deposits and funding amounted to R15,8 billion (2014: R12,8 billion) and R4,3 billion (R5,7 billion) respectively.

than 500 000 businesses. According to independent research, it maintained the largest market share in South Africa in 2015. A number of changes to the unit have enabled us to better interpret our customers' aspirations, and partner them in growing their businesses. Technological enhancements, the introduction of a relationship model, industry research and in-depth interviews have enabled a deeper understanding of our customers' needs and an improved customer experience.

Dedicated capabilities aimed at supporting African expansion, as well as international trade, have been established to support our business and commercial banking customers wanting to develop trade relationships with counterparts in other African countries. In addition, the expertise of our sector teams strengthens our ability to provide relevant services in specific sectors such as agriculture, public sector, natural resources and wholesale and retail trade.

The agricultural sector, which comprises 4.2% of PBB's total loans and advances, has seen increased default levels due to the ongoing drought. The defaulted portfolio has been well covered from an impairment perspective and management overlays have been introduced to mitigate further potential portfolio deterioration.

Our key measure of customer loyalty is the globally recognised NPS. In 2015, our overall channel NPS score improved slightly from 56 to 58. Channel NPS covers branches, prestige and private banking, Standard Bank Financial Consultants, business banking, self-service channels and ATMs. The score indicates an improvement in customer service across the group supported by staff training and incentivisation, streamlining of customer processes and the migration to digital platforms.

Use technology to improve efficiency, effectiveness and innovation

Our core banking programme underpins our transformation into a customer-centred, agile and digitally enabled bank. The comprehensive nature of the programme involves overhauling both the back-office and front-end operations simultaneously. It is a lengthy, complex and capital intensive process which continues to receive the highest levels of executive attention to ensure we complete it, with minimal disruption, by the end of 2017. This strategic investment in the future of the bank will remain a significant feature of our costs for the foreseeable future.

We have faced many challenges in our core banking transformation journey. We have had to manage the unexpected complexity of running two systems in parallel to maintain legacy functionality while introducing new capability, the instability which naturally follows large implementations, and the implementation of significant new regulatory requirements. However, the new platform has enabled the introduction of the digital solutions already mentioned, and is allowing us to drive innovation to remain relevant to our customers. The new platform also allows for easy integration of third-party solutions – by partnering with innovative Fintechs we are able to increase the speed at which we launch new services in response to customer needs. SnapScan demonstrates the benefit of this approach to appropriate 'open' innovation. A key feature of these platforms is that we can replicate them to build economies of scale across the group.

The fully functional core banking platform is processing substantial volumes, with approximately 570 million transactions processed in 2015, 27% more than in 2014. The

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platform enables the immediate reflection of the value of transfers which on the legacy system could take days. It has also radically reduced the time taken from development to deployment of new products from months to just six weeks.

During 2015, we began the process of decommissioning legacy systems and to date eight have been decommissioned. By the end of 2017, an estimated 6.3 million savings, investment and complex personal and business accounts will be on the new core banking platform.

Build excellence through engaged and committed people

Engaged and committed people are crucial to delivering excellent customer experiences. In our employee engagement survey for 2015, the overall Connect Index score was 77.2% against a target of 80%, the benchmark for high-performing companies.

In 2015, we strengthened our focus on the cultural shift necessary to change the way we engage with customers, how we work and how our people interact

within the organisation. Our leadership programmes, staff roadshows, forums and conferences focused on achieving clarity in respect of our purpose and vision, and building a culture which empowers our leadership team and people to execute our strategy. In addition to this, we offer entrepreneurial programmes to promote a more agile and innovative culture which encourages learning from mistakes.

PBB South Africa employs the largest staff complement in the group, of which 81.1% of junior management, 70.8% of middle management and 48.3% of senior management are black. We are encouraged by the progress we have made against our internal transformation targets, although we have more work to do in achieving our targets for senior management and particularly women executives. We are committed to working towards achieving the targets set out in the new financial sector codes.

Rest of Africa

PBB's franchise in the rest of Africa increased headline earnings despite the impact of challenging market conditions, including low commodity prices in Nigeria and Angola, and drought in Zambia. The operations in Botswana and Tanzania recorded ongoing losses, albeit at lower levels. These impacts were offset by strong performances in Namibia, where our investment in systems has resulted in improved customer service levels and system stability, while Uganda is benefiting from the positive effect of new leadership. Our other smaller southern African country operations, apart from Botswana which has been subjected to acute liquidity shortages and a three-year regulated cap on fees, sustained their strong growth trends.

Our main focus in 2015 was on maintaining the growth momentum of the past two years in increasingly

challenging market conditions. Compound annual revenue growth for the rest of Africa over the past five years has been a rewarding 27%.

Grow our customer base in our chosen segments by delivering an excellent and consistent customer experience

Our strategy to shift the focus of our core transactional and liability gathering business to higher value middle income and affluent personal customers, as well as higher value enterprises and commercial customers, gained momentum in 2015. This was reflected in strong growth of 6% in the number of total customers, with particularly good sales growth in private banking (75%), the middle and upper income personal banking segment (63%) and commercial banking (17%).

An important contributor to this growth has been the progress we have made in extending our reach into all elements of the value chain in business banking, including business owners and their clients, service providers and staff. Apart from the opportunity this offers to acquire new customers and retain higher levels of deposits, it supports growth in non-interest revenue, which is important to improve our ROE.

Electronic document management was implemented in all countries except Nigeria, which is scheduled for completion in the first quarter of 2016. This has strengthened the processing, storage and retrieval of know your customer and other customer-related documentation for new customers, as well as all existing Standard Bank customers in the rest of Africa. This enhanced process has reduced unnecessary customer frustration while enabling the bank to be fully compliant with customer-related legislation and promptly addressing areas of non-compliance.

We maintained our focus on making it easier for customers to make payments and collect money, using different channels. We increased investment in ATMs, growing the ATM network 13% in the rest of Africa to 1 542 at the end of 2015. The volume of ATM transactions rose by 13%. We postponed the introduction of internet banking, the banking app and other group innovations such as InstantMoney and WeChat Wallet to a further nine countries until 2016. This was to ensure the necessary IT systems were properly bedded down and stable. These delays impacted our plans to further improve our service in payments and collections, which will be a key focus in 2016.

We implemented a plan to take PBB in Nigeria to profitability, which includes improving customer service by empowering branch managers, driving efficiencies by enhancing and streamlining processes, optimising channels to reduce the cost to serve, having robust credit risk management processes which include strong recovery and credit monitoring, and aggressively growing the number of customers in targeted segments.

Use technology to improve efficiency, effectiveness and innovation

Our strategy to grow our customer base depends on the stability and availability of our services and the competitiveness of our offerings in the markets in which we operate. We experienced challenges in both of these areas, with outages caused by power or system failures and the delay in the implementation of digital channels in some countries which affected our customers' ability to make payments and collect money.

As a result, we focused on stabilising all existing IT infrastructure in 2015. Over the past four years, Finacle core banking has been deployed in seven countries. In 2015, Swaziland was the

first country to implement Finacle core banking in a centrally hosted private cloud. Subject to regulatory approval, this cloud enablement will be extended to the remaining operations in the rest of Africa in 2016 and 2017.

We now have 73% of our customers in the rest of Africa on the new core banking platform, which processed R310 million worth of transactions in 2015. This was 24% higher than in 2014. Core banking upgrades were successfully completed during the year in Botswana, Ghana and Namibia, with upgrades in Nigeria, Tanzania and Uganda scheduled for the first half of 2016. The new version of Finacle core banking is more agile, enhances our cybercrime risk mitigation, provides a better user experience and delivers operational efficiencies and flexibility, standardised technology and future cost savings due to shared cloud infrastructure.

These upgrades delayed the implementation of the new core banking solution in Zambia and Zimbabwe to 2016. Angola, Kenya and Mozambique will continue to operate on the existing Temenos core banking system but will be able to introduce Standard Bank's digital channels as these are peripheral to the core banking system. Save for these three operations, all our African franchises

will be migrated to the new core banking platform by the end of 2017.

In 2015, we continued to focus on creating a consistent financial crime management framework in the rest of Africa. SMS Alert, which notifies customers of any activity on their accounts, is available in 14 countries, with 2.4 million subscribers (2014: 2.1 million).

Build excellence through engaged and committed people

We remain focused on ensuring that our businesses are managed by local leadership teams that are committed, competent and empowered to make effective decisions.

Finding and recruiting the right people with a specific set of skills is a challenge in a number of our African countries. We have however worked hard to empower our people to feel a sense of ownership of their businesses, and we believe we have the makings of excellent leadership teams in the rest of Africa.

Leadership changes in Botswana and Uganda have strengthened the staff morale in these operations, and we have focused on building a strong team in Nigeria. We have condensed the regional split of our network from three to two regions, with Nigeria as our biggest country reporting directly to the chief executive of PBB Rest of Africa.

Outside Africa

PBB outside Africa is the group's offshore wealth management business, operating from Jersey, Isle of Man, Mauritius, London and South Africa. The business has a global distribution capability to serve the international banking needs of high net worth and affluent customers and to provide services to trusts and corporates. PBB outside Africa supports the group's liquidity requirements by providing diversified, stable and cost-effective funding and helps African customers and those interested in Africa to create, grow, protect and pass on their wealth.

PBB outside Africa is an integral part of the group's value proposition. During 2015, we were successful in aligning the business to the group's Africa focus, with African-linked customer revenues representing 58% of income from the high net worth business (2014: 48%). In addition, distribution teams for international personal banking were extended to Angola, Kenya and Nigeria. As a result, we grew the deposit book by 22% to GBP3.8 billion.

Financial performance

PBB's headline earnings of R11.2 billion increased by 15% compared with 2014. Net interest income grew by 11% and moderate growth of 7% in non-interest revenue resulted in total income growth of 9%. Credit impairment charges were 5% lower than in 2014 and operating expenses, which were affected by the conversion of temporary employees to permanent employees during the year, increased by 10%. PBB's ROE was maintained at 18.1%. PBB South Africa headline earnings increased by 13% while PBB rest of Africa headline earnings improved to R192 million from R104 million in 2014. Good growth of 51% in PBB outside Africa headline earnings, which amounted to R461 million, was achieved and assisted further by rand depreciation during the year.

“Our strategy to grow our customer base depends on the stability and availability of our services and the competitiveness of our offerings in the markets in which we operate.”

Looking ahead

The economic environment for our customers in South Africa is expected to be more challenging in 2016.

Anticipated weakness in the rand will weigh on the cost of imports and the severe drought across sub-Saharan Africa will impact food inflation, increasing the pressure on already strained personal and business banking customers. Economic growth is expected to slow even further in 2016 and will impact business growth and employment prospects.

PBB has demonstrated its resilience in challenging operating environments. Our strength is underpinned by our strategy that places our customers at the centre of everything we do and that enables responsible lending practices as a consequence of knowing our customers. In addition, we continue to exercise prudent cost management, while still continuing to invest for future growth. Our core banking transformation is enabling us to remain relevant to our customers in the rapidly changing world of financial services.

Work on our architecture platform enabled us to release digital banking services in Namibia, Nigeria and the Standard Bank Offshore Group. In 2016, the banking app will be deployed in Botswana, Ghana, Namibia and Uganda, and customers in South Africa will be able to pay accounts anywhere in the world.

On the back of our successful migration of customer profiles onto our new core banking system, we will strengthen our customer data and analytics capabilities. This will underpin our ability to provide relevant solutions informed by deep and precise insights of what matters to our customers. We will also continue to adapt our people management processes and culture to ensure that the entire organisation is

turned towards our customers, that we truly listen to what matters to them and that we deliver on this in each engagement – be it physical or digital. This is what radically redefining customer experience will mean for us in 2016.

Our powerful on-the-ground presence across the rest of Africa has good momentum and is well positioned to continue to grow profits in spite of the deteriorating economic conditions in Nigeria and challenging operating environments in many of our other markets on the continent. Strong performances by the majority of the operations in this franchise confirm the benefit of our diverse portfolio. Notwithstanding the challenges, we are excited by the opportunity and growth prospects that Africa offers.