

## Personal & Business Banking

“There has never been a more exciting time to be in banking. The digital revolution is driving technology at a pace that has never been seen before. New technologies are bringing about fundamental shifts in client behaviours, and transforming the way individuals and businesses connect. PBB’s transformation is about far more than the right technology. By shaping a highly productive relationship between people and IT, we are empowering our workforce and enabling better business outcomes in pursuit of our vision to radically redefine the client experience by understanding our clients and delivering what really matters to them.”



Peter Schlebusch, Chief executive, PBB and head of digitisation

PBB provides banking and other financial services to individual clients and small to medium sized enterprises in South Africa, the Africa Regions and the Channel Islands.

### Overview

#### Our strategy

PBB’s strategy is closely aligned to the group strategy. Our journey to reorientate the business to centre on our clients, while at the same time meeting the expectations of our other stakeholders, is well underway. We seek to achieve continuous improvement in the execution of our strategy, understanding that it is not our intent but how we execute it that will set us apart from our competitors.

#### PURPOSE

Improving lives and fulfilling aspirations across Africa.

#### VISION

We will radically redefine client experience by understanding and delivering what matters to our clients.

### STRATEGY MAP

#### What our clients want

##### CLIENT OUTCOMES

Understand me and what matters to me.

Provide solutions that matter to me.

See me for who I am becoming and not just who I am now.

Always be available, convenient, simple and easy to deal with.

Constantly reinvent my experience.

#### How we respond

##### EMBEDDING CLIENT FOCUS

- Understand what matters to clients.
- Provide relevant solutions informed by deep and precise insights of what matters to clients.
- Deliver a consistent and integrated client experience across all touch points.
- Leverage group capabilities to deliver to clients.
- Promote a relevant and compelling brand.
- Lead with transactional banking and deposit gathering.

##### FULLFILLING OUR CLIENT COMMITMENTS

- Design and embed simple, paperless and automated end-to-end business processes with the client in mind.
- Leverage a simplified and agile technology platform (safe, reliable and real time).
- Do the right business the right way.
- Allocate and prioritise resources to deliver what matters to clients.
- Structure to create flow across our business units and enable smooth delivery of products and services to our clients.

##### PEOPLE AND CULTURE

- Consistent and continuous clarity of vision and purpose enabled by a united leadership team.
- Collaboration through teamwork.
- Embed an ethos of learning to constantly raise the bar.
- Empowered local leaders who enable our people to execute agreed strategies.
- Recognise the contribution of our employees.
- Embrace our diversity.
- Fulfil our social and ethical responsibilities.

### Our operating context for the year

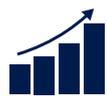
In South Africa, we experienced:

- Sustained economic weakness.
- Rising unemployment across the broader client base.
- Increasing competition for a static number of clients.
- Changing client habits and increasing adoption of digital banking.

In the Africa Regions, trading conditions were similarly difficult with:

- Slower economic growth, severe currency depreciation and foreign exchange shortages.
- An escalation in punitive regulatory changes, which increased the cost of serving clients.
- Increased competition as non-banking enterprises proliferate low-cost mobile banking services.

### Our performance highlights and challenges



In South Africa, despite these challenging conditions, we achieved **11% growth** in headline earnings and a 22.7% ROE (2015: 22.1%) by:

- Focusing on retaining client segments within our risk appetite.
- Growing market share in the upper-income, youth and tertiary education segments.
- Maintaining market share in the business banking segment.
- Stabilising our core market share in the middle-income segment.

In the Africa Regions, we delivered a **66% increase** in headline earnings (58% on a constant currency basis) and a 2.5% ROE, up from 1.8% in 2015, by:

- Maintaining our growth momentum and managing costs.
- Increasing our client base in selected higher-value segments.
- Improving service functionality and introducing digital products and services.
- Growing our balance sheet and improving net interest margins.



We are addressing our key challenges of low financial return and higher levels of credit impairment in some countries by:

- Growing our base of clients who are within our risk appetite.
- Improving client service and growing deposits.
- Maintaining disciplined cost management.
- Regularly reviewing risk appetite.
- Strengthening in-country debt recovery capabilities.

We are focusing on improving client satisfaction and our market shares in certain client segments by:

- Accelerating our response to clients' changing needs and behaviours.
- Addressing areas of friction and frustration that impede client service.
- Improving client experiences by understanding our clients and offering what matters to them.

STRATEGIC VALUE DRIVER	PERFORMANCE METRIC	2016	2015
<b>Client focus</b>	Improved client satisfaction scores were achieved in focused client segments in South Africa. The Africa Regions showed improvement in most geographies.		
<b>Employee engagement</b>	PBB's Experience@Work survey results show a strong improvement.	Group banking activities' results on <a href="#">page 14</a> .	
<b>Risk and conduct</b>	Average risk-weighted assets (RWA) (Rbn)* Return on average RWA (%)	<b>369</b> <b>3.4</b>	352 3.2
<b>Financial outcome</b>	Revenue (Rbn) Cost-to-income (%) Headline earnings (Rbn) ROE (%) Credit loss ratio (%)	<b>67.5</b> <b>60.2</b> <b>12.6</b> <b>18.7</b> <b>1.25</b>	60.6 60.3 11.3 18.2 1.27
<b>Social, economic and environmental (SEE) outcome</b>	SEE results are viewed on a group banking activities basis.	Group banking activities' results on <a href="#">page 14</a> .	

\* Average RWA calculated net of non-controlling interest.

### Performance against strategy

PBB's purpose is to improve lives and fulfil aspirations across Africa, now and for future generations. We believe that we can achieve our purpose given our 154-year heritage, which demonstrates a pioneering spirit and an ability to make commercially pragmatic decisions. These attributes stand us in good stead as we transform the business to focus on our clients. Our fit-for-purpose presence in the markets in which we operate across Africa, committed people, and enabling IT platforms support our large, diverse client base.

Each of our businesses have a clearly defined role to play in the achievement of the group's vision to become the leading financial services organisation in, for and across Africa.

### AWARDS

Best Retail Bank – Banker Africa Southern Africa Awards 2016.

Best Private Banker in Africa – Private Banker International.

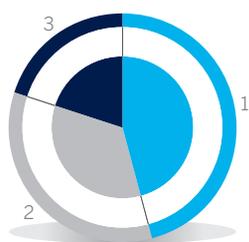
Most Disruptive Innovation, bronze award for foreign exchange mobile wallet, Shyft – Efma, Accenture.

Most Valuable African Banking Brand – The Banker Top 500 Banking Brands 2016.

## South Africa

In South Africa, competition is high for a static number of clients. There has also been a marked change in client habits, most notably the increasing adoption of convenient digital banking, particularly on mobile devices. We focused on improving our quality of service, which allowed us to stabilise market share in our core middle-income segment after some losses, and made valuable gains in the upper-income, youth and tertiary education segments.

Strong revenue performance, on the back of endowment tailwinds and closely monitored and proactively managed credit performance, was partially offset by 11% growth in costs. These were attributable to higher staff costs (which included the conversion of temporary to permanent staff in compliance with regulatory requirements), increased investment in digital capabilities (including core banking amortisation and higher operational losses) and the regrettable Japan card fraud. Despite these cost pressures, headline earnings grew 11% to R11.8 billion for the year.



**Headline earnings by market segment (%)**

	2016	2015
1 Personal markets	46	47
2 Business markets	34	33
3 Bancassurance and Wealth	20	20

We have been proactive in lowering our cost base; for example, we continued to promote lower-cost digital offerings to clients, reduced our branch footprint and are decreasing the size of our branches without inconveniencing our clients. In addition, we paid particular attention to our staff complement. While we invested in our analytical and digital capabilities, we managed our employee complement in other areas with the result that the size of our total workforce remained similar to the prior year, despite the conversion of the temporary workforce to permanent employees.

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

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

As the digital revolution transforms the way people bank, we are providing our clients with simpler, more efficient payment and banking products and services through integrated channels, including mobile banking.

We have introduced a range of new mobile solutions to provide clients with control of all aspects of their finances on their smartphones, and improved the speed and efficiency of delivery on our mobile platforms. There has been steady growth in our clients' adoption of PBB South Africa's digital offerings, with 726 million transactions valued at over R360 billion processed on our mobile banking platform in 2016. Our digital platforms enable our clients to do more of their transactional requirements themselves, which frees up the staff in our branches to manage more complex tasks and provide value-added services to our clients.

New features introduced to improve the quality of service to our South African clients included:

- Making forex payments to international accounts on the banking app.
- Changing ATM, electronic account payment and card limits on the banking app.
- Notifying us of international travel using the banking app.
- A Kidz banking app that teaches children how to save and manage their pocket money.
- BankerChat, an extension of WeChat.
- The eChannel initiative with the Department of Home Affairs, which allows online applications for smart ID cards and passports, as well as collection from selected branches.

We have not lost sight of clients who prefer to use our branches or suites. We continued to ensure our physical network is fit-for-purpose and we train our employees to provide more complex value-added services, while reducing referrals to head office and improves turnaround times and client experience.

Our transition to a digital financial services business is a fundamental transformation. It involves our IT architecture, our systems and processes, and the way we deliver service to clients and protect them and the bank against fraudulent activity. We have made good progress in all these areas and are on track to complete our core banking transformation programme in 2017.

However, client satisfaction ratings in 2016 were below our target, indicating the need to accelerate the pace of change. We are intensifying our efforts to respond rapidly to our clients' changing needs, addressing challenges that impede service and improving client experiences by understanding our clients and offering what matters to them.

To achieve these aims we are restructuring PBB South Africa to create a leaner more focused head office, a stronger client management team and client-facing staff who are empowered to make relevant decisions and are better able to manage their relationships with clients. The restructuring will realign the way all our teams engage with clients and ensure that our commitment to provide excellent service resonates deeply in our organisation. Ultimately, our ability to serve our clients seamlessly, as a cohesive full-service bank with empowered people, will be an important competitive advantage.

A digital business enables deep insight into clients. A single view of clients across all channels enables us to understand them individually and to customise our relationships, offerings and pricing with them based on their specific profiles. Improvements to our data management capabilities during the year included removing outdated and obsolete data, enabling simpler, quicker extraction of data from a single platform and real-time personalisation of offers to clients, as well as implementing data governance functions. Data analysis capability was introduced across our South African branch network and, in instances where we made precise offers based on our knowledge of clients coming into our branches, successful new account origination was on average 60% higher.

Similarly, our mobile platform provides our clients with a single view of our

services, enabling them to access personal, business and wealth accounts anywhere and at any time from a single smart mobile interface.

Our reward programme, UCount, has been taken up by almost 700 000 of our clients, many of whom are earning rewards well in excess of the cost of their banking fees. In November 2016, UCount Rewards for Business was introduced, with a focus on small and medium enterprises (SMEs). All the benefits are designed to facilitate the management and operations of the SME business model.

The business and commercial banking unit, which includes SMEs, serves 855 662 businesses and maintained the largest market share in South Africa in 2016. We have introduced measures to promote the growth of entrepreneurs, based on their potential to facilitate growth in Africa and create new jobs. An example is the strategic partnership we formed with Lioness of Africa, a public benefit corporation, to create a network of one million women entrepreneurs across Africa.

We support our business and commercial banking clients in developing trade relationships with their counterparts in other African countries. Additionally, our expertise in specific sectors enables us to provide relevant services to the agriculture, public, natural resources, and wholesale and retail trade sectors.

### **Use technology to improve efficiency, effectiveness and innovation**

Our IT investment programme is the backbone of our transformation into a client-centred, data driven, digitally enabled bank. The programme has involved overhauling both the back office and front-end operations simultaneously. It has been a lengthy, complex and expensive process, but we

believe critical to our competitiveness in an increasingly digital world.

Our core banking transformation, which will see 95% of our clients on the new platform by the end of 2017, is enabling our teams to originate new accounts faster and to simplify processes. It is supporting the integration of our operations, providing real-time banking, a single view of clients and product rationalisation. It is also strengthening risk management, enabling us to comply with many new regulatory requirements. Other important benefits include a robust anti-money laundering system and improved systems availability and security.

Our advanced digital security capabilities include real-time fraud detection, and enhanced security measures to mitigate the risk of cash loss from ATM attacks, which remain an industry-wide challenge.

The modernisation of our IT platform has provided the basis for many new mobile services. Our mobile platforms are designed to respond to changing client needs with faster, simpler responses and to create a unified banking experience across our channels. Two out of three clients on our mobile app use it on average four times a week.

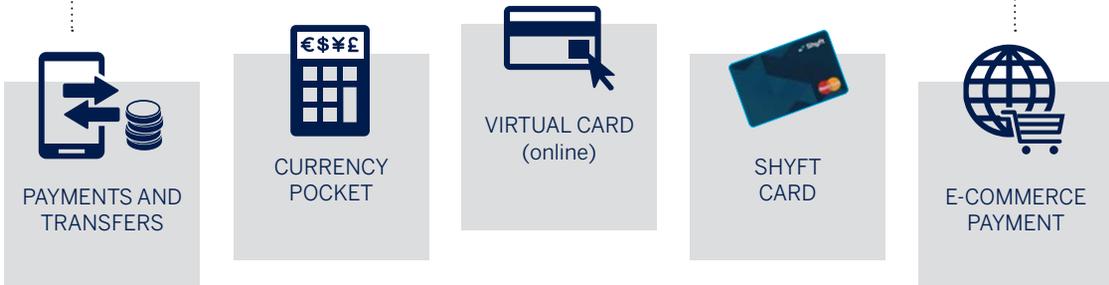
Our focus on innovation has resulted in the development of new products and services, including the award-winning global digital wallet, Shyft, and SnapScan. We partner with various IT start-ups to make these innovations available to our clients.

SHYFT TO CONVENIENT ACCESSIBLE FOREIGN EXCHANGE



A global digital wallet that provides the ability for you to SEND, SPEND and EXCHANGE wherever you are, in four major currencies (USD, EUR, GBP, AUD)

Shyft gives you access to:



Limited to R1 million single discretionary allowance

To use Shyft you must have a Standard Bank current or savings account

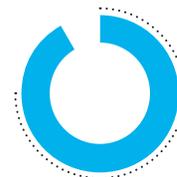
The Shyft app, available for download in Android and Apple app stores, enables clients to do personal foreign exchange transactions from their mobile devices. Shyft simplifies foreign exchange transactions by eliminating paperwork and branch queues.

**Build excellence through engaged and committed people**

We remain focused on ensuring that every one of our employees understands that PBB exists to serve its clients, whether they deal with clients directly or support those who do. We provide best-practice people management and aim to create a workplace in which high performance is expected and recognised. The shift to a more digitally equipped client is requiring that we reskill and upskill our employees, and our training and development expenditure in South Africa was R162 million in 2016 (2015: R88 million). The increase in training expenditure was mostly spent on upskilling our frontline employees, enabling them to better service clients at first point of contact.

Engaged and committed people are crucial to delivering excellent client experiences. In our Experience@Work survey for 2016, 91% of PBB employees said they were proud to be associated with SBSA and 85% would recommend SBSA as a good place to work.

PBB South Africa employs the largest staff complement in the group, of which 82% of junior management, 71% of middle management and more than 54% of senior management are black people (African, Indian or Coloured). We are pleased to have significantly transformed our workforce to more closely reflect the demographics of the markets we serve. One exception is the representation of black female executives and this remains a focus area for us.



91% of employees said they were proud to be associated with SBSA



## Africa Regions

PBB's franchise in the Africa Regions demonstrated its resilience by maintaining steady growth in weak and volatile markets. We grew headline earnings by 66% (58% on a constant currency basis), as we increased our client base, strengthened the functionality in card issuing and acquiring, and introduced new products and services, including digital solutions. The strong balance sheet liability growth, coupled with improved net interest margins and solid non-interest revenue growth, supported the improved financial performance. However, foreign currency shortages in some countries negatively impacted foreign exchange revenue streams, while severe currency depreciation, particularly in the second half of the year, took a toll on rand-denominated growth. These factors, together with a number of regulatory changes, slowed down revenue growth in the second half of the year.

The year-on-year growth was achieved despite challenging trading conditions. In our larger markets in Nigeria, Kenya and Ghana, the franchise was able to cultivate niche growth areas by focusing on high-value segments more nimbly than larger banks. In Nigeria and Kenya, we benefited from our reputation as a quality alternative for clients concerned about the concentration risk in some local banks. These competitive advantages contributed significantly to the increase in client deposits. Nigeria's improved performance was due to strong growth in current account and savings account balances, better net interest margins and significant growth in non-interest revenues, driven by solid growth in card transactions in the first half of the year, coupled with disciplined cost management. However, credit impairments remained high given the economic strain on personal clients and businesses due to a high inflation environment, the scarcity of foreign exchange and reduced government spending.

Most of our operations in the eastern and southern regions of Africa performed well in economies that are more diversified than those of the oil-dependent west African economies. Uganda benefited from the positive effect of strong leadership and focused on achieving further growth in its client base, and Kenya performed well, despite the effect of regulatory interest rate caps on lending rates and floors on deposits introduced in September 2016. Notwithstanding liquidity stresses in Zambia, the Zambian operation increased profitability on the back of its strong business banking segment and the ability of the management team to limit its exposure to the copper mining industry. The DRC continued to report losses as the operation struggled to build its client base in a politically volatile environment, while Tanzania remained a difficult environment.

As the regulatory environment matures in Africa, several new regulations in recent years have increased our costs. This intensified in 2016 with the following notable regulatory developments:

- In Swaziland, regulators abolished cash deposit fees for all clients from July, and reduced the fees levied on return paid cheques resulting in revenue loss.
- The Central Bank of Kenya stipulated maximum rates that banks can charge on loans and advances and minimum rates payable on interest-bearing deposits on new and existing portfolios, resulting in a negative impact for PBB in 2016.
- The Bank of Botswana, which had prohibited banks from charging fee increases in 2014 and 2015, accepted a 3% fee increase on limited services from July 2016.
- Zimbabwe has had a number of challenges as a result of cash shortages. The central bank introduced cash withdrawal limits in May 2016 for both retail and business banking clients and enforced surrender regulations where 80% of all tobacco inflows and 50% of all other exporters were compelled to transact using the retail time gross settlement (RTGS) and interbank system. The fees charged on the RTGS platforms were halved. These restrictions reduced transactional volumes and the negative impact of this on revenue streams.

PBB's progress in executing its strategy in Africa is set out below.

### **Aggressively grow our client base in our chosen segments based on excellent consistent client experience**

During 2016, we continued to strengthen our core transactional and liability gathering business by focusing on higher-value personal and business clients. This was reflected in the 17% (constant currency) growth in deposits as net clients grew 6%, with further success in the growth of the private client (28%) and business banking (8%) segments. Nigeria has been particularly successful at selecting growth segments, which contributed to 27% growth in its net client base. The increased transactional revenue, as well as current and savings account balances, reduce our reliance on expensive wholesale funding and strengthen the bank's liquidity position.

Another increasingly valuable driver of client acquisition is our strategy to extend our reach into all elements of our business and corporate clients' value chains, or ecosystems, including business owners and their clients, distribution channels, suppliers and employees. Apart from the opportunity to acquire new clients and retain higher levels of deposits, this supports growth by generating sustainable non-interest revenue. In 2016, we grew our middle-income market segment by 19%, which will assist in scaling and improving revenue growth.

Business banking in Kenya, Nigeria and Mozambique set up incubators to develop and support entrepreneurs, and Nigeria's focus on the small enterprise sector contributed to growing its client base. We hosted two successful conferences with clients from several countries in sub-Saharan Africa to promote interregional investment opportunities.

### **Clever use of technology to deliver improved efficiencies, effectiveness and innovation**

Over two million clients are now on the Africa core banking systems, which are fully operational in nine countries, namely Botswana, Ghana, Nigeria, Namibia, Tanzania, Uganda, Zimbabwe, Zambia and Swaziland. By providing a full view of clients, the core banking systems address client frustrations by accelerating processing turnaround times, reducing the time it takes to get innovative new products to market, eliminating manual interfaces and automating bulk processes. Straight-through processing has assisted in reducing errors, associated costs and operational risk losses and identifying and closing revenue leaks.

We are leveraging our IT platform by deploying digital capabilities throughout the Africa Regions franchise. These include the rollout of the group's banking app and internet banking (both of which are available in Botswana, Ghana, Namibia, Swaziland, Uganda and Zambia), and enterprise online centres for small businesses. Innovative solutions are encouraged; new services have been introduced, including SlydePay, which has a wider application than SnapScan, and Pay+ for online payment of school fees in Ghana, which reduces long bank queues and enhances client service.

Most of our operations in the eastern and southern regions of Africa performed well in economies that are more diversified than those of the oil-dependent west African economies.

### **Engaged, enthusiastic and committed people**

Our management teams comprise competent, experienced local leaders who base decisions on local knowledge and implement decisions in the interest of the markets they operate in. We have strengthened our teams across the franchise in recent years, resulting in improved continuity, effective strategy execution, and ultimately, better client experiences.

### **PBB International**

PBB International is the group's offshore wealth management business, operating from Jersey, Isle of Man, Mauritius, London and South Africa. The business is an integral part of the group's value proposition and has a global distribution capability to serve the international banking needs of high net worth, affluent clients and to provide services to trusts and corporates. PBB International supports the group's liquidity requirements by providing a stable source of hard currency funding and helps African clients and those with an interest in Africa to create, grow, protect and pass on their wealth.

During 2016, we continued to align PBB International to the group's Africa focus. African-linked client revenues now represent 60% of income from the high net worth business (2015: 58%) and the affluent international personal banking business has grown in both South Africa and the Africa Regions. For 2016, the business's deposit book grew 27% to GBP4.8 billion.

## Looking ahead

The outlook for 2017 is challenging, with sustained economic weakness in South Africa and slower growth expected in many of our other markets in sub-Saharan Africa. Our resilience in South Africa and the strong platform we have established in the Africa Regions will stand us in good stead in these conditions. Our team is focused and committed to achieving our strategic targets by:



### CLIENT FOCUS

- Continuing to leverage the benefits of our IT investment to better serve our clients.
- Growing our client base in South Africa, particularly in key segments.
- Increasing market share in our low market share countries (Ghana, Kenya and Nigeria).
- Growing our client base in our chosen segments in the Africa Regions with a focus on transactional banking.
- Continuing to grow our banking services to high net worth and affluent clients in PBB International.



### EMPLOYEE ENGAGEMENT

- Equipping our people to consistently deliver excellent client experience.



### RISK AND CONDUCT

- Ensuring that we continue to do the right business the right way by continuing to build the culture to do this.



### FINANCIAL AND SEE OUTCOME

- Managing costs stringently to improve JAWs ratio and increase ROE.
- Continuing to improve credit skills across our markets and strengthening the management of credit and recovery.
- Continuing to support the growth of entrepreneurs and the ability of SMEs to drive economic growth and job creation.