Business unit reviews

Personal & Business Banking (PBB)

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.

Headline earnings +17%

R9 834 million

2013: R8 401 million

ROE

18.2%

2013: 18.6%

What we offer

Mortgage lending

- Residential accommodation loans to mainly personal market customers

Instalment sale and finance leases

- Finance of vehicles for personal market customers
- Finance of vehicles and equipment in the business market

Card products

- Credit card facilities to individuals and businesses (credit card issuing)
- Merchant transaction acquiring services (card acquiring)

Lending products

- Lending products offered to both personal and business markets
- Business lending offerings constitute a comprehensive suite of lending products, structured working capital finance solutions and commercial property finance solutions

Transactional products

- Comprehensive suite of transactional, savings, investment trade, foreign exchange, payment and liquidity management solutions made accessible through a range of physical and electronic facilities

Bancassurance and wealth

- Short-term and long-term insurance comprising:
  - simple embedded products, including homeowners' insurance, funeral cover, household contents and vehicle insurance, and loan protection plans sold in conjunction with related banking products
  - complex insurance products, including life, disability and investment policies sold by qualified intermediaries
- Financial planning
- Wealth management services

	2014	2013
Headline earnings contribution to group	**57%**	49%
Headline earnings change	**17%**	14%
Credit loss ratio	**1.41%**	1.47%
Cost-to-income ratio	**59.8%**	59.9%

MOVING FORWARD

- Accelerate our digital journey by leveraging new systems and processing capabilities
- Improve competitive positioning of instalment sale and finance leases
- Ensure rest of Africa profit contribution improves materially
- Invest in committed and enthusiastic teams determined to succeed

PETER SCHLEBUSCH, chief executive – PBB

"The digital enhancements we introduced in 2014 are the continuation of a major culture shift which is fundamentally changing the way we work and engage with customers, and how our people interact within the organisation."

Overview

PBB performed commendably in 2014, achieving significant progress in its strategy to grow its customer base and develop an extensive operational platform in selected countries in the rest of Africa. In South Africa and the rest of Africa, new leadership appointed in 2013 and the empowerment of local management in the rest of Africa contributed to the effective execution of our strategy. Greater accountability for risk management has been one of the important benefits of stronger local management in the rest of Africa.

Our South African business delivered a solid performance in a muted macroeconomic environment and made significant advances in building a strong and evolving digital presence with the agility to respond to the rapidly changing needs of our customers. Our operations in the rest of Africa achieved profitability driven by the acquisition of profitable customers in clearly defined segments. They also made steady progress in the core banking transformation which is enabling us to adapt to market changes and remain competitive.

Overall, PBB recorded headline earnings of R9,8 billion, 17% higher than in 2013, driven by good growth in net interest income and non-interest revenue, combined with well-contained growth in credit impairments from good credit risk management. We achieved an ROE of 18.2% relative to 18.6% in 2013.

Strategy

PBB's strategy in South Africa is to serve the full value chain of customers – from the most basic to the most sophisticated of financial services needs – and to maintain high standards of customer experience and cost-effective delivery channels. We believe that by delivering an excellent customer experience we can make a real difference in the lives of our customers by supporting their business and personal aspirations.

We are building a bank that we believe will drive the growth of the South African economy, and will be the bank to beat in our chosen markets, while delivering superior returns to shareholders. We are leveraging our investments in technology to deliver on this strategy and provide better customer service. The consistent application of this strategy has created a strong foundation for retaining existing customers and acquiring new customers.

Our focus areas for 2014 are discussed below.

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

PBB SA operates in a fiercely competitive market, where the bankable market of customers is relatively static in line with slow South African economic growth. The digital revolution continues to transform our competitive landscape. Customers want to transact whenever and wherever they like and we need to be able to offer them cost-effective, convenient and integrated channels to suit their needs.

In responding to this fast changing environment, we maintained our focus on remaining relevant to our customers and efficient in delivering services. We made significant progress in providing customers easy offerings through integrated channels, which included launching new payment and banking products, strengthening our mobile offerings and empowering our people through technology to engage better with customers, whether at point of sale or when managing complaints.

The new banking app for iOS and Android smartphones and tablets and a refreshed, responsive internet banking platform were launched, enhancing customers' control over their banking world. By the end of 2014, the banking app had been taken up by approximately 765 000 customers, transacting approximately R4,5 billion through this platform in December 2014. Our banking app now allows customers to open an AccessSave account within minutes, and is also linked to our UCount loyalty programme. We launched innovative

Business unit reviews | Personal & Business Banking continued

payment solutions SnapScan and MasterPass which provide faster, more secure payment at tills and online using a smartphone. At the end of December, 118 000 cardholders had downloaded SnapScan and 14 000 merchants are accepting it, giving us access to a new revenue stream. During 2014 we re-launched InstantMoney and a new innovation, AirTaxi. InstantMoney is a fast, easy and cost-effective payment solution that allows a sender to transfer funds to a beneficiary without a bank account or credit card using their cell phone. Our customers completed over 7,5 million transactions, moving close to R6 billion in total value. AirTaxi allows customers to pay taxi fares with mobile phone airtime. Both InstantMoney and AirTaxi effectively service our inclusive banking market.

These new payment solutions are as safe as they are convenient, and eliminate the risk of cash being stolen or cards being cloned. They assist in reducing fraud, especially the growing incidence of cybercrime, which remains a key concern and continues to receive the highest level of attention through a multi-layered prevention, detection and response system. While we are confident that our security model is robust, the constantly evolving nature of fraud and cybercrime requires that we continuously review and invest in our security systems and processes to ensure our customers are well protected. During the year we rolled out the 'tap and go' contactless card feature on credit cards, which is convenient and assists in reducing card fraud as customers can make purchases for amounts less than R200 without handing over their card to the merchant. The number of customers registered to use MyUpdates (SMS notification of transactions on the customers' account) increased 9% to almost 10 million, allowing early detection and prevention of fraud.

The first phase of enhancing our customer service functionality was rolled out during the year and provided a single repository for all customer queries, leads and complaints. Additional functionality will ultimately integrate customer management across all channels in the group and provide a single view of the customer. This will improve our speed, accuracy and responsiveness and make it easier for our customers to interact with us, as well as making it easier for our staff to service customers.

These enhancements are shifting the way we engage with customers from a branch and contact centre dominated model to an 'always on, always connected' approach, supported by the rollout of stable digital and other self-service channels. We continued to optimise our physical branch network during the year, and the number of branches in South Africa (including lower cost loan centres) dropped by 8% to 665. We opened six 'new generation' branches in addition to the eight opened in 2013, expanding our self-service facilities, as well as customer education and advice. The total number of ATMs in South Africa declined from 6 452 in 2013 to 5 991, although the number of automated note acceptors increased to 1 268 (2013: 936). Teller and enquiry volumes across all points of representation declined 7% and 6% respectively, while mobile banking transactions increased 53%, indicating the change in customer behaviour to self-service channels.

Unfortunately, our customers and frontline staff were adversely impacted by a systems failure on 1 September 2014 when a technical malfunction triggered a shutdown – intended to protect against data corruption – of the mainframe. We were able to respond decisively based on the scenario planning we undertake as part of our risk management processes, which included rapid communication with stakeholders through the media and other channels. We restored critical services to customers within 90 minutes without compromising data, and no such outages have occurred since then.

PBB SA maintained its focus on primary transaction and deposit accounts. We believe our simplified, highly focused portfolio of products offers value to customers. Since the launch of our loyalty programme UCount in 2013, approximately 553 000 customers have registered for the programme, in total receiving R60 million per month in benefits for using their Standard Bank personal debit, cheque or credit cards. We increased fees for personal customers in 2014 by less than inflation. This was the first fee increase for personal customers in two years.

In business banking, PBB SA maintained its leading position in the commercial market, based on an independent survey conducted by Galactica. The franchise maintained its strength in the public sector and an increased drive to secure more customers in the medium to large business sector resulted in some significant new corporate accounts, including the mandate for Shoprite Checkers' cash management and card acquiring business, in collaboration with CIB.

In 2014 we deepened our focus on business banking, a key driver of job creation and economic development. We also made progress in developing inter-regional relationships between our business banking teams in South Africa and the rest of Africa, to facilitate the entry of South African businesses into the rest of Africa and vice versa. There were notable achievements in assisting franchise customers, such as KFC, to expand their presence beyond South Africa.

PBB SA's inclusive banking market continues to be serviced by our AccessBanking suite of products. Our cost structure to service the low-value, low-volume transacting accounts in this market is still too high. Our approach therefore is to maintain our position without significant further investment. To achieve this we are leveraging the investment made in prior years and continuing to move to a lower-cost model that encourages customers to use mobile platforms, ATMs and point of sales devices in combination with third-party infrastructure.

More direct engagement with our customers enables us to achieve two important objectives: a more effective response to customer needs and more efficient management of credit risk. Our strategy to target primary transaction accounts facilitates the responsible extension of credit by providing detailed insight into customers' cash flows and risk profiles. Unsecured credit extension was sensibly managed given the economic pressure on customers. In the middle market, unsecured revolving credit plan account balances grew by 10% while personal overdraft facilities remained at a similar level to 2013, compared with 22% and 24% growth respectively in the prior year. We continued to be very selective in our credit extension to the inclusive banking market and the book declined to approximately R2,1 billion (2013: R2,9 billion).

Our personal market instalment sale and finance lease book was an area in which PBB SA underperformed and did not deliver value to customers or shareholders. Our distribution model has been weak with poor integration into dealers in the industry and a slow turnaround time. This resulted in negative selection and as a result the business we wrote was to customers with elevated risk profiles at higher pricing. We believed that our pricing would be sufficient to compensate for this negative selection; however, our scorecards were not appropriately calibrated to deal with this and as a result our total credit impairment charges for the year increased by 56%. During the year, we have rectified our scorecards and enhanced some of our processes to improve our turnaround times and ease of doing business for the dealers. We have appointed new leadership, with deep instalment sale and finance leasing expertise and experience and have a clear strategy to carve out profitable niches for ourselves, focusing on industry integration with a tighter quality focus. Investment and commitment will be required as this will not be a quick fix but we believe that we will show good progress in turning around this business in 2015.

PBB SA was recognised as the leading brand in consumer banking in the 2014 Sunday Times/TNS Top Brands survey for the second consecutive year. The value of this award is that the ranking is based on a representative consumer survey. The globally accepted net promoter score, which we introduced in 2013 as our key measure of customer loyalty, improved to 36 during the year. This remains below our target, and is being addressed by ongoing programmes to improve service through staff training, more efficient processes and the migration of more basic transactions to digital platforms.

Using technology to improve efficiency, effectiveness and innovation

Our IT investment is transforming our bank to become more customer-centric, agile and digitally enabled. Our core banking transformation is a lengthy, complex and capital intensive project. However, to date we have successfully delivered four releases, which have built the foundation, ensuring that the system is able to support PBB into the future, as well as migrated all banking customers onto the new platform. We currently have 8,6 million customers on our core banking platform and processed almost 430 million transactions on the platform in 2014.

As mentioned earlier, during 2014 we successfully delivered the first phase of the customer relationship management solution and implemented the leads and service request management functionality. The customer service application has enhanced customer experience with 2,6 million service requests, up more than a 100% over legacy processes, and 140 000 leads being logged for the six months since implementation. The completion of this 'customer first' journey is expected in 2015. Once delivered, PBB SA will be able to provide a significantly improved customer experience.

The replacement of our core banking system is a key enabler of the PBB SA vision and allows us to be agile and responsive in meeting the needs of our customers. The new system offers less complex, more efficient and customer-centric infrastructure. Ultimately, we believe that the comprehensive nature of our core banking transformation, which involves the overhaul of both back-office and front-end functions simultaneously, will afford us a powerful competitive advantage and underpin the optimisation of our business and operating model. The programme receives the highest level of executive attention and we have a clear plan to achieve completion in 2017.

Build excellence through engaged and committed people

Our people are critical to our strategic priority of delivering excellent customer experiences. We remain focused on ensuring that each individual understands that PBB exists to serve our customers. We are committed to best practice people management and offer a workplace where high performance is expected and rewarded. Our training and development expenditure to improve competence for 2014 in South Africa was R56 million.

An external survey conducted during the year found that almost 80% of our people are engaged and committed. This indicated high levels of satisfaction and meets the benchmark for a high-performing company. We believe that our people should have an owner-manager orientation with a focus on making a difference and putting our customers at the centre of everything we do.

The digital enhancements we introduced in 2014 are the continuation of a major culture shift which is fundamentally changing the way we work and engage with customers, and how our people interact within the organisation. We have achieved a number of important milestones in our journey to prepare our people for this shift through staff roadshows and forums, conferences for top leadership, and programmes on innovation, entrepreneurship and agility within the organisation. There are specific initiatives to strengthen client engagement and user experience capability.

PBB SA employs the largest staff complement in the group. 78% of junior staff, 69% of middle staff and 54% of senior staff are black. The executive team remains the most transformed in the local banking sector with 23% being women and 50% being black.

Rest of Africa

PBB's franchise in the rest of Africa achieved overall profitability for the first time – a significant milestone in the group's strategy. While still only a small profit, it is encouraging that 12 of the 14 countries in which we operate achieved growth in headline earnings, with nine growing headline earnings more than 30%. Pleasingly, PBB in Kenya, Mozambique and Zambia made a profit for the first time during 2014. The majority of operations in our portfolio made solid progress in executing their strategic plans and responding to the myriad challenges of competition and regulatory pressure in their markets. We continued to focus on our businesses in the larger

Business unit reviews | Personal & Business Banking continued

and potentially high-growth markets of Nigeria, Kenya, Angola and Ghana, where our operations are sub-scale but which we believe will drive growth in group earnings in years to come. We remain vigilant regarding the potential adverse impact of sustained low oil prices in oil exporting countries – especially Nigeria and Angola.

Strategy

PBB's vision in the rest of Africa is to build a portfolio of personal and business banking franchises across sub-Saharan Africa which is a bank of choice for customers and clients in their countries and is driven and managed by an empowered local leadership. We aim to deliver profitable customer-centred, relevant, easy-to-use and accessible financial solutions to customers in our chosen segments.

Key objectives on which we are focusing to maintain growth momentum in the rest of Africa are discussed below.

Grow our customer base in our chosen segments based on excellent consistent customer experience

At the core of our strategy in the rest of Africa is transactional banking and liability gathering. In 2013, to grow customer numbers we chose to shift our segment focus to high-value middle income to affluent clients and higher value enterprises and commercial customers, with the aim of acquiring their valuable primary transaction accounts. During 2014, this focus evolved slightly and we have begun to lead with business banking and high-value personal segments. This means that we have insight into all elements of the value chain in business banking, which includes business owners and their clients, service providers and staff.

We have seen encouraging signs of growth in our chosen segments. PBB in the rest of Africa recorded 7% growth in total number of customers, showing particularly good growth in sales to commercial (45%), SME tier 1 (62%), private banking (11%) and executive client base (36%). Valuable retail-priced deposits from customers in the rest of Africa grew 20% on a constant currency basis, after several years of consistent growth.

This growth was achieved despite some challenges which threatened to damage customer relationships, including IT system instability in Angola, Namibia and Nigeria, slow turnaround times particularly on credit requests, and poor document management in some countries. Remedial actions have been implemented to resolve these challenges and system stability has been improved. The processing of credit requests has improved substantially following a redesign of the system and people practices. The implementation of electronic document management in 2015 will strengthen this service further, particularly the processing, storage and retrieval of Know Your Customer compliance documentation.

We continued to focus on delivering a superior and consistent experience to our customers during the year, using our multi-channel approach to improve our customer proposition. We further increased investment in ATMs, with the number available to customers increasing 12% to 1 364 at the end of 2014. The volume of ATM transactions rose by 8% after a significant uptake during the prior year. The deployment of the tablet-based sales application was a significant contributor to the improved performance in business banking, with both commercial banking and SME tier 1 reflecting good growth in new client acquisition, as well as improved cross-selling to existing clients.

Using technology in a smart way to improve efficiency, effectiveness and innovation

Our strategy to grow our customer base is heavily dependent on technology. We continued to roll out the Finacle core banking platform in the rest of Africa and have now completed implementation in Namibia, Nigeria, Uganda, Botswana, Tanzania and Ghana, which together have 2,5 million customers on the new platform. We are improving with each successive implementation, with the Ghana implementation being particularly smooth as we could plan better for potential issues. Our aim was to ensure minimal disruption to customers and to achieve this staff participated in simulation exercises to familiarise themselves with the system, while the Africa core banking teams shared their knowledge and made necessary amendments as required.

We implemented specific system enhancements in Botswana, Namibia and Tanzania during the year to stabilise and optimise existing installations and facilitate the introduction of internet and mobile banking services. The smartphone app is being launched in the rest of Africa, with the rollout of the new banking app for tablets being investigated on a per country basis, as Finacle comes online.

We anticipate that a hub will be developed to serve the smaller southern African franchises that do not have sufficient critical mass to warrant a full deployment of the core banking system in country.

Become the best employer to work for

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

Our research and independent surveys conducted in the rest of Africa confirmed significant improvements in the engagement of our people, which will stand us in good stead as we pursue our growth strategy. This was largely as a result of clarity and consistency in the execution of our strategy, stable and strong leadership after a number of changes during the preceding years and the turnaround to profitability.

The only exceptions were the operations in Botswana, Tanzania and Uganda, where financial underperformance in challenging market conditions and new leadership changes had an impact on staff morale.

Financial performance

Total income and headline earnings by product

	Total income			Headline earnings		
	Change %	**2014 Rm**	2013 Rm	Change %	**2014 Rm**	2013 Rm
Mortgage lending	12	**7 025**	6 295	14	**1 935**	1 704
Instalment sale and finance leases	9	**3 209**	2 943	(50)	**165**	333
Card products	16	**5 846**	5 046	15	**1 420**	1 236
Transactional products	15	**23 867**	20 668	13	**3 037**	2 679
Lending products	12	**9 630**	8 570	98	**1 247**	631
Bancassurance and wealth	14	**5 833**	5 099	12	**2 030**	1 818
Personal & Business Banking	14	**55 410**	48 621	17	**9 834**	8 401

PBB achieved headline earnings of R9 834 million, 17% higher than 2013. Robust revenue growth in net interest income and non-interest revenue of 15% and 13% respectively was offset by higher credit impairments of 5%. PBB's cost-to-income ratio was stable at 59.8% as operating costs grew by 14% due largely to the commissioning of major IT systems. ROE declined marginally to 18.2% from 18.6% in the prior period due to higher average capital allocated. PBB SA headline earnings grew by 10% in a difficult operating environment and PBB rest of Africa recorded headline earnings of R105 million from a loss of R366 million in 2013.

Transactional products grew headline earnings by 13% over the prior period to R3 037 million. Higher domestic interest rates and good growth in savings, investment and transactional accounts as well as transactional volumes supported good growth in total income of 15%.

Mortgage lending grew headline earnings by 14% to R1 935 million. Although net asset growth was muted as prepayments increased, income growth of 12% was supported by higher new business registrations and disciplined new business pricing. Credit impairments and the credit loss ratio were flat relative to 2013.

Instalment sale and finance leases' headline earnings fell by 50% during 2014 to R165 million on a marginal increase in customer advances. Although reasonable income growth of 9% was achieved, substantially higher credit impairments resulting from adverse credit selection in 2013 in the retail portfolio had a material impact on risk-adjusted revenue.

Card product headline earnings grew by 15% to R1 420 million. Income growth of 16% was supported by 11% growth in average balances and higher domestic interest rates, together with increased activity by cardholders and merchants. Credit impairments increased by 38% due to earlier recognition of impairments and a reduction in post write-off recoveries. These were partially offset by a moderate increase in operating costs which resulted in a credible overall performance.

Lending products' headline earnings almost doubled to R1 247 million. Total income increased by 12% due to growth in revolving credit and overdraft products, as well as business lending.

There was a significant impact from the 8% reduction in credit impairments due to reduced risk appetite in the low-income segment of the unsecured loan market as well as lower impairments from the rest of Africa, particularly Tanzania and Zambia. The blended lending product credit loss ratio fell to 2.05% from 2.83% in 2013.

Bancassurance and wealth delivered headline earnings of R2 030 million, a 12% improvement on 2013. Total income grew by 14%, benefiting from an increased active insurance policy base and higher assets under management in Nigeria's wealth business. Underwriting margins were under pressure due to claims arising from adverse weather conditions but total underwriting profit was slightly higher than the prior period.

Looking ahead

Despite our expectations for continued subdued economic growth in South Africa, we expect that customers can look forward to real income growth in 2015 as a result of a lower inflation outlook from a lower oil price. It also appears as though interest rates will remain lower for longer. However, this is likely to offer a short-term reprieve and we will continue to use rigorous criteria for lending with appropriate risk-based pricing per customer.

We have made significant advances in our plan to build a leading customer-centric bank, including changing the culture to compete in an always on, always connected world. In 2015 we will complete and embed our new customer relationship platform, and continue to enhance our digital channels and data and analytics capabilities to deliver simpler, more convenient solutions to our customers. Our core banking transformation, which is the foundation for these advances, is unique in South Africa and is geared to secure our competitiveness now and in the future.

We have built a powerful on-the-ground presence in the rest of Africa where our combined operations are delivering profits, and we believe that our focus on the larger high-growth markets and high-growth segments will continue to drive good revenue generation across our portfolio. PBB in the rest of Africa is positioned to materially increase its contribution to the group's financial performance.

Business unit reviews | continued

Corporate & Investment Banking (CIB)

CIB provides corporate and investment banking services to clients, including governments, parastatals, larger corporates, financial institutions and international counterparties.

Headline earnings – continuing operations +26%

R8 728 million

2013: R6 919 million

Headline earnings -23%

R4 983 million

2013: R6 500 million

ROE

10.2%

2013: 14.1%

What we offer

Relationship management, client coverage and sector expertise

Global markets

- Fixed income and currencies
- Commodities
- Equities

Investment banking

- Advisory
- Debt products
- Structured finance
- Structured trade and commodity finance
- Debt capital markets
- Equity capital markets

Real estate

- Real estate finance
- Principal investment management (PIM)

Transactional products and services

- Transactional banking
- Investor services
- Trade finance

	2014	2013
Headline earnings contribution to group	**29%**	38%
Headline earnings change	**(23%)**	47%
Credit loss ratio	**0.22%**	0.41%
Cost-to-income ratio	**54.6%**	57.3%

MOVING FORWARD

- Macroeconomic features
  - continued strong growth
  - oil price and asset price dislocation will cause volatility and opportunity
- ICBC Standard Bank remains a key part of our business
- Confidence from our client base
  - growing client franchise
  - pace of growth and development of our clients' business

DAVID MUNRO, chief executive – CIB

"2014 has been an extraordinarily busy year for CIB. We have maintained the momentum of our Africa strategy and our compliance with regulatory changes, while preparing our London-based global markets business for sale to ICBC and reshaping the balance of our international operations for a singular focus on Africa."

Overview

CIB serves a wide range of clients in their banking, finance, trading, investment and advisory requirements. Our presence and experience across Africa underpins our ability to connect African markets to each other and to international markets. This, combined with our diversified product expertise and strong reputation, affords the franchise a unique competitive position.

The overall CIB result is a combination of a strong performance from CIB's continuing operations, which represent its core franchise, and a disappointing performance from its discontinued operation, being the GMOA business, 60% of which has been sold to ICBC. Although total headline earnings declined by 23% to R5,0 billion, the continuing operations improved headline earnings from R6,9 billion to R8,7 billion, driven by robust revenue growth in our operations on the continent. ROE declined to 10.2% (2013: 14.1%). This is ahead of our current planning assumptions which our strategy was designed to deliver by 2016, and was achieved by disciplined deployment of capital despite our ongoing investment in IT.

Strategy

We dream of Africa realising its potential and we aspire to be the leading corporate and investment banking business in, for and across Africa with deep specialisation in natural resources. Africa's relatively strong economic growth, together with our position on the continent gives us the unique opportunity to partner with our clients, forming long-term, well-coordinated relationships that help them achieve their strategic objectives.

Africa's growth and development is underpinned by three main industry sectors: oil and gas, mining and minerals, and power and infrastructure which in turn are supported by investment in exploration, production, transport infrastructure, facilities management and other downstream activities. All of these sectors depend on financial services to facilitate foreign investment and trade.

The challenges we face in the rest of Africa include intense competition in the financial services industry across the continent, increasing regulatory pressure and, although rapidly improving, immature debt and capital markets. We are, however, excited about the future of Africa and we believe that the legitimacy that comes from our 152-year heritage in and passion for the continent makes us a trusted partner to both global and domestic clients conducting business in Africa.

Our Africa strategy has allowed us to develop a powerful on-the-ground presence across the rest of Africa, which today contributes 45% to the franchise's total revenues compared to 27% in 2011.

In 2011 Africa was confirmed as the nucleus of our growth strategy. Since then, we have disposed of our operation in Russia and controlling interests in our operations in Turkey and Argentina, we are working hard to complete the sale of Brazil and we have scaled back other operations that did not offer a clear strategic link to Africa. The group completed the disposal of a 60% controlling interest in Standard Bank Plc to ICBC with effect from 1 February 2015, a major milestone in our strategic journey. This transaction achieves two important objectives: it unlocks the potential and capacity of our global markets business as part of China's leading banking group; and it allows us to support all the trading requirements of our existing customers with full and uninterrupted access to all distribution channels as they partner with us to finance growth and development in Africa.

Client coverage

Our client coverage model represents a cornerstone of our strategy and defines our deliberate approach to how we offer value to clients. It includes a strong focus on clients whose business strategies align with our Africa strategy, coordinates the way we engage with these clients across CIB and promotes a deep understanding of their needs and objectives. This enables us to provide them with the solutions they require.

Business unit reviews | Corporate & Investment Banking continued

Our most valuable differentiator is the established on-the-ground presence we have built across the African continent which, together with our presence in global capital markets, provides us with a clear understanding of how to manage the risks of doing business in these markets. This is further enhanced by ongoing improvements in the integration of our services across business units and geographies to support our domestic, pan-African and multinational clients in conducting business in Africa, and providing them with access to international capital markets.

We have been refining the client coverage model to ensure that we deliver fit-for-purpose client services with suitable structures, forums and integration across business units and geographies and we are currently in the middle of this five-year strategic journey. We aim to have the right people serving the right customers to deliver commercial success. In 2014, we reviewed our client base and put in place a framework for effective client service teams. We hired a number of key people in strategic client coverage portfolios and will implement a learning and development academy. This will ensure that we have increased insight and knowledge of clients, sectors and industries and an improved understanding of their needs.

A number of hallmark transactions concluded in 2014 offer tangible evidence of the successful execution of our strategy.

In Nigeria, our largest market outside South Africa, we participated in the USD535 million initial public offering (IPO) on the London and Nigerian stock exchanges by Nigerian oil and gas exploration and production company, Seplat. The IPO ranks as the largest concluded in sub-Saharan Africa (excluding South Africa) since 2008 and will enable Seplat to proceed with its strategy of acquiring and developing new assets in the Niger Delta. Standard Bank was the joint global coordinator and book runner while our Stanbic IBTC team acted as joint lead issuing house in Nigeria. We worked with regulators in Nigeria and London to harmonise listings requirements and managed an extensive marketing campaign for Seplat, including hosting over 130 investor meetings in Nigeria, UK, Europe, USA, South Africa and Asia to maximise investor attention. The offering was significantly oversubscribed with almost 50% of the demand originating in Nigeria, an indication of the growing depth of African capital markets and the increased attention they are attracting from foreign investors, as well as the importance of our distribution capability in London.

CIB's participation in the acquisition by Woolworths in South Africa of David Jones in Australia highlighted the capacity of our South African franchise to support the growth strategies of its domestic clients. Standard Bank acted as the financial co-advisor, transaction sponsor, joint book runner and co-underwriter for this transformational transaction, arranging both debt and equity funding for the acquisition which will establish Woolworths as a leading retailer in the southern hemisphere.

Securing the sole cash management mandate for Shoprite – the largest cash management mandate in South Africa – was another significant award for the domestic franchise and showcased a successful collaboration between CIB and PBB.

The R1,46 billion green bond raised by the City of Johannesburg to fund environmental and social sustainability projects was the first green bond to be listed on South African debt capital markets.

We have a R20 billion funding support agreement with ICBC for renewable energy projects in South Africa. Under the agreement ICBC will co-lend into renewable energy projects with Standard Bank, where we are mandated as the lead arranger, through to 2025. ICBC's involvement will help to reduce liquidity and capital pressure and will provide further diversification of our sources of funding, in addition to domestic asset managers who are keen to invest in such projects.

We are co-financing the 300 megawatt Lake Turkana wind project in northern Kenya, together with a group of commercial banks and development finance institutions. Once complete, this will be the largest wind farm on the continent. We have also provided a R500 million facility to the Zimbabwe Power Corporation, part of the Zimbabwe Electricity Supply Authority group of companies, to fund the 300 megawatt extension of the Kariba South Hydro Power Plant.

A number of international awards during the year recognised CIB's leading position in key markets on the continent and in selected product lines:

World's Best Sub Custodian Bank in Africa	Most Innovative Investment Bank from Africa	Best Investment Bank in Africa
Global Finance Magazine Regional Award 2014	The Banker 2014 Investment Banking Awards	EMEA Finance African Banking Awards 2014

Passionate and committed people and culture

Our people remain the critical success factor in our efforts to strengthen and maintain excellent client service. We offer rewarding careers to our people and we are dedicated to their ongoing development. In return, we expect their commitment to a culture of high performance, honesty, transparency, teamwork and collaboration.

Human capital interventions included graduate development, talent management and staff advancement programmes. A highlight for the year was our CIB conference in September where, for the first time, we brought together people from across all geographies. Together, we captured our purpose in the statement: 'We dream of Africa realising its potential' which is closely aligned with the group purpose to be a significant part of Africa's growth story by helping people participate meaningfully in the economies in which we operate. We used similar interventions to create networking opportunities for our staff throughout the year to ensure they understand and are aligned to CIB's strategy and future ambitions.

Our employment equity survey offers a strong platform to facilitate change within CIB and we work to ensure we understand and respond constructively to employee feedback. Some of the key areas for action include employment equity, diversity and inclusion, empowerment, reward, and performance accountability, and learning and development. Transformation remains a priority and we are developing an action plan to attract, develop and retain black leaders in the business. Our people have made a significant effort to execute our strategy, with many requesting additional responsibilities and redefined roles, thereby creating new opportunities to develop and build their careers.

The most powerful outward expression of CIB's culture and identity is the campaign: 'They call it Africa. We call it home.' We have sought to increase our market exposure with carefully selected campaigns at locations relevant to our target market, including gateways to and within the rest of Africa such as Oliver Tambo International Airport in Johannesburg and Murtala Muhammed International Airport in Lagos, Nigeria.

Efficient business operations

2014 has been an extraordinarily busy year for CIB. We have maintained the momentum of our Africa strategy and our compliance with regulatory changes, while preparing our London-based global markets business for sale to ICBC and reshaping the balance of our international operations for a singular focus on Africa.

Preparing the business for sale has been a complex and costly process, requiring a number of regulatory approvals, including those of the SARB, the China Banking Regulatory Commission and the Prudential Regulation Authority of the United Kingdom. The activities acquired by ICBC include commodities, fixed income, currencies, credit and equity products, in addition to operations in New York, Dubai, Singapore, Shanghai, Hong Kong and Tokyo. Our other activities conducted outside Africa (investment banking, transactional products and services and client coverage) were deliberately excluded from the sale. We incurred significant restructuring costs in carving out the assets and business operations excluded from the transaction and transferred these into new wholly-owned legal entities with advising and arranging licences in the major financial centres of London, New York, Dubai, Hong Kong, Beijing and Sao Paolo. These entities have the advantage of being capital-light and will focus exclusively on originating business and facilitating trade and investment into, from and across Africa, to further enhance our strategic positioning and competitiveness.

During the year an unforeseen matter arose which impacted on the business being disposed. The group instituted legal proceedings against several parties with respect to its rights to physical aluminium held in bonded warehouses in China. The aluminium represents collateral held for a series of commodity financing arrangements undertaken in Standard Bank Plc, otherwise referred to as reverse repurchase agreements (repos). We believe that the financing arrangements were impacted by fraudulent activities in respect of the physical aluminium. The exposure on the group's balance sheet at 31 December 2014 in respect of the repos is USD167 million, against which USD210 million of aluminium collateral is held and is subject to this legal process. A valuation adjustment of USD147 million (R1 624 million) was recognised in the discontinued operation against the repos, representing our best estimate of the risk adjustment required in determining the fair value of the group's net exposure. We continue to pursue various alternatives to recover the client exposure, including claiming under the group's insurance policies.

At this time, the precise quantum and timing of recoveries remains uncertain. Since the purchase price is dependent on the consolidated net asset value of Standard Bank Plc at closing, which in turn is impacted by the valuation of the aluminium exposure, ICBC and the group agreed on a pragmatic and fair approach to determining this value. Standard Bank retains the right to any net recoveries on these exposures when they are received.

One of our main priorities in 2014 was to enhance our online capabilities across our markets and product lines. We continued to invest in our signature IT programmes and have made progress with the electronic distribution of cash management, foreign exchange, and equity and commodity products across Africa. Improved functionality of our online channels has contributed to our competitiveness, particularly in Kenya and Nigeria. We are also adding functionality to our new online channels for South African clients.

The deployment of international trade capability into our African country operations and a trading platform for the global markets business has also been a priority. This capability and trading platform will provide a single integrated solution for trade services, and has already improved our transactional products and services capabilities.

The compliance environment for banks has tightened and we have embedded governance, compliance and risk management standards across our operations to ensure that we fulfil our principle of 'doing the right business the right way'. A staff campaign was run for most of the year, requiring monthly online learning to ensure our employees understand their regulatory obligations. Where we have received fines for failures in our anti-money laundering controls, we have implemented remedial actions to prevent future transgressions and to ensure that our business meets the highest regulatory standards.

Business unit reviews | Corporate & Investment Banking continued

Financial performance

Total income and headline earnings by product

	Total income			Headline earnings		
	Change %	**2014 Rm**	2013 Rm	Change %	**2014 Rm**	2013 Rm
Global markets	13	**10 783**	9 528	19	**3 268**	2 755
Investment banking	6	**7 382**	6 961	22	**2 534**	2 080
Transactional products and services	18	**10 525**	8 929	21	**2 692**	2 229
Real estate and PIM	80	**776**	431	>100	**234**	(145)
Continuing operations	14	**29 466**	25 849	26	**8 728**	6 919
Discontinued operation – GMOA				(>100)	**(3 745)**	(419)
Corporate & Investment Banking	14	**29 466**	25 849	(23)	**4 983**	6 500

CIB's headline earnings of R4 983 million declined by 23% in 2014 due to a combination of a headline loss of R3 745 million incurred in the discontinued operation and headline earnings of R8 728 million achieved by CIB's continuing operations.

In addition to the valuation adjustment outlined earlier, the discontinued operation suffered losses from trading operations amounting to R1 674 million. This was due mainly to the high volatility and dislocation displayed in key international markets in the final quarter of 2014 during which time liquidity in asset classes related to oil and oil-producing countries reduced substantially as many participants withdrew from these markets. The poor operating performance was exacerbated by R447 million of mainly systems costs required to separate and prepare for the sale of GMOA business.

The continuing operations headline earnings growth of 26% represents a pleasing underlying performance across the continuing CIB franchise. Total income increased by 14% with net interest income up by 18% and non-interest revenue growing by 11%. Credit impairments declined by 40% due to reduced specific credit impairments and a release of portfolio provisioning to the income statement due to the improved risk profile of credit exposures. Costs were well controlled, with staff costs flat on 2013 due to lower incentive payments, and a 12% increase in other operating costs.

Transactional products and services recorded another successful year, growing revenue by 18% and earnings by 21% to R2 692 million with significant client mandates awarded across all business lines. Cash management, trade finance and investor services all recorded good revenue growth primarily due to a strong performance in the rest of Africa as well as in the more mature South African business.

Global markets operated in an extremely volatile environment during the year but performed well, increasing revenue by 13% and headline earnings by 19% to R3 268 million. Higher levels of activity in money markets, cash equities, structured solutions and foreign exchange all contributed to the good revenue performance. Operating costs were well-controlled despite further investment in electronic platforms to deliver consistent product capabilities for clients.

Investment banking increased headline earnings by 22% to R2 534 million notwithstanding the moderate overall 6% growth in revenue, which recovered well in the second half of the year. A sharp reduction in specific credit impairments due to better loan quality assisted the growth in earnings. An improved performance in debt markets in South Africa, as well as continued growth in the African franchise, contributed to the strong earnings performance.

Real estate and PIM achieved headline earnings of R234 million mainly due to profit earned on the disposal of real estate investments and valuation adjustments on the property portfolio. The PIM portfolio and private equity activity continues to be wound down with minimal remaining net distressed debt exposure.

Looking ahead

The sale of 60% of our London-based global markets business to ICBC marks the final stage in repositioning CIB to perform to its full potential. We have journeyed from operating as three CIB businesses based on geographic location to now firmly being 'one CIB', with one common culture working towards our dream of Africa realising its potential.

Overall, the IMF reduced its global growth forecast for 2015 to 3.5%, which indicates that global economic recovery is still slow. However, many economies in Africa are expected to grow much faster. The slowing of China's growth rate has impacted global demand for natural resources, and oil-exporting economies are undoubtedly vulnerable to the sharp decline in oil prices. However, while this may lead to a decline in our activities related to mining and minerals, oil and gas-producing economies such as Nigeria and Ghana are progressively more diversified and robust, and on the counter side, many oil-importing economies will gain significant benefit from the lower price trend.

In 2015, we will continue to focus on growing our client franchise with a relentless focus on client excellence, leveraging our unique geographic footprint and product capabilities, and optimising cross-selling opportunities in, for and across Africa. We will maintain cost discipline, absorbing increasing regulatory and compliance costs, and our focus on managing the risks in our business will continue, while investing in technology that enables greater efficiency and consistency in delivering services to our clients.

Liberty and Wealth

Provides life insurance and investment management activities through group companies in the Liberty Holdings Group.

Liberty headline earnings – attributable to SBG -2%

R2 158 million

2013: R2 211 million

Liberty ROE

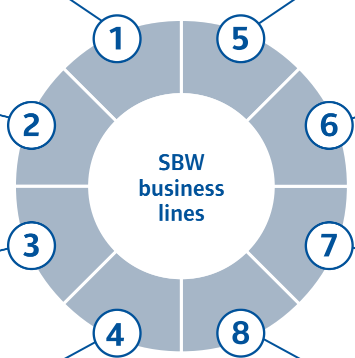
20.9%

2013: 24.7%

Overview

During the year the group established Standard Bank Wealth (SBW) to focus on its non-banking financial services across its existing operating segments. SBW will be responsible for aligning the strategies of these businesses to best leverage the group's existing competitive advantages in the wealth markets of South Africa and the rest of Africa. These advantages include the group's ownership of both manufacturers and distributors of the wealth product suite which gives it deep insights into the wealth industry, the ability to participate in the full wealth value chain and the capability to manage the inherent risks.

Standard Bank's exposure to the wealth industry is derived from its 54.3% effective interest in Liberty and a comprehensive range of wealth offerings within its banking business units, primarily PBB. The primary lines of business managed by SBW are set out below.



High net worth wealth management

- Private clients
- Melville Douglas
- PBB International (PBBI)

Short-term insurance

- Standard Insurance Limited
- Liberty

Long-term insurance

- Direct Life
- Liberty

Brokerage and distribution

- Standard Bank Insurance Brokers
- Standard Bank financial consultancy
- Direct Life
- PBB rest of Africa
- Liberty

Asset management

- STANLIB
- IBTC Nigeria
- Melville Douglas

Employee benefits

- IBTC Nigeria
- Liberty

Trust and fiduciary

- PBBI
- Standard Trust Limited

Offshore services

- PBBI

Business unit reviews | Liberty and Wealth continued

SBW will manage these businesses under one leadership structure to ensure they receive the appropriate managerial focus and investment to grow at a sufficient rate. SBW will also partner with PBB and CIB to allow the group to compete more effectively through enhanced customer value propositions, underpinned by appropriate risk management. While SBW will enhance the group's service offerings to the PBB client base and drive additional penetration, it will also attempt to realise the potential that exists between CIB and the wealth businesses. SBW will also be responsible for high net worth wealth management, which is a business serving a segment across all of Standard Bank's geographies. A small central team of highly skilled executives has been established to strengthen the group's focus on developing the wealth franchise in partnership with PBB, CIB and Liberty.

The SBW team has conducted a strategy planning process with each of the wealth businesses within Standard Bank. These plans include building additional capacity to grow market share, identifying opportunities for collaboration across the group, providing the investment necessary to grow and respond to changing regulatory requirements, and creating scale to attract the quality of talent capable of moving the businesses forward. Liberty has undergone its own business planning process and has redefined its strategy and business model in line with its aspiration to become more customer-centric.

Strategy

SBW has a well-defined purpose, vision and strategy that are aligned with those of the group. Our purpose is to build a more prosperous Africa by helping to manage, grow and protect what is important to our customers, with our vision to be the leading provider of financial solutions across insurance, investment, wealth management and advisory services in sub-Saharan Africa. We aim to build successful wealth businesses by focusing on customer-centricity and innovation, collaboration across wealth business units and targeted investments, and creating commercially differentiated and sustainable partnerships with PBB, CIB, Liberty and others. SBW's strategy is underpinned by understanding wealth-specific risks and developing a framework to mitigate these risks.

Standard Bank's decision to place more focus on wealth management is supported by the significant business opportunity that exists in its markets. Standard Bank is well-positioned to capture this opportunity given that:

- The group has a 28% share of total banking earnings in South Africa but only a 5% share of the earnings of the wealth market. Typically, the profit pool generated by the wealth sector exceeds that of the banking sector. The primary opportunity in the wealth sector in SA therefore lies less in the absolute growth of the market, which is mature, and more in growing market share.
- The financial markets in the rest of Africa are less developed than in South Africa, but are demonstrating far greater growth potential, particularly in the wealth-related markets. This is as a result of relatively high rates of economic growth, improving financial literacy and increasing product penetration.

Capturing the growth potential in the rest of Africa

Much of the wealth opportunity in the rest of Africa is being captured through bancassurance which operates in 14 countries and sells its insurance products primarily to PBB's banking customer base. While the initial focus has been on personal banking clients (including private clients), SBW is building the necessary skill and capability to serve the upper segments of business banking and, ultimately, the more sophisticated insurance requirements of CIB clients.

The group's wealth business in Nigeria, which comprises three Stanbic IBTC companies, is the largest pension fund administrator in the country and currently presents a significant wealth opportunity for the group in the rest of Africa.

Under the leadership of SBW, the wealth management businesses are projected to contribute significantly to the group's future earnings as a result of strategic initiatives to increase market share and capture the growth opportunity in the rest of Africa. In addition to earnings growth, SBW is expected to strengthen shareholder value by achieving earnings stability through enhanced risk management and diversification of revenue, and higher quality earnings due to the higher margin and capital light profile of wealth revenue.

Challenges

Realising this opportunity will not be without its challenges, including the increase in regulatory reform for financial services, multi-jurisdictional compliance issues, growing customer sophistication, intense competition and rapidly advancing technology.

In keeping with the global move to restore faith and stability in the financial sector, a wave of regulatory and legislative reform is impacting the industry and is the most significant of these challenges. While these regulatory changes may appear daunting, there is an opportunity to turn them to our advantage relative to other smaller market participants that may not have the group's capacity to appropriately reposition the SBW-managed businesses and comply in a more regulated environment.

Importantly, in some instances, regulatory reforms have been catalysts for new opportunities. A good example of this is in Nigeria where legislation was passed requiring companies to provide pensions and group life cover to their employees. Our Nigerian subsidiary seized the opportunity to develop a business which is now the industry leader.

The focus on our wealth services will enable the group to strengthen its capacity to capture these opportunities while managing the risks appropriately and providing the strategic vision and leadership to drive the wealth business. The SBW leadership team will also ensure that the group is able to leverage and benefit from Liberty's expertise as a pioneer in the domestic insurance and investment industry in response to regulatory reform.

Financial results

The financial results reported in this section are the consolidated results of the group's 54.3% effective interest in Liberty. Standard Bank's direct share of bancassurance and wealth results is included in PBB.

Liberty's operating earnings for the year ended 31 December 2014 amounted to R2 586 million, up 18% on 2013. Liberty's BEE normalised headline earnings for the year ended 31 December 2014 amounted to R3 968 million, 3% down from 2013. Headline earnings attributable to the group were 3% lower at R2 158 million. The strong performance in operating earnings was muted by the lower return on the shareholder investment portfolio, which was broadly in line with decreased market returns partially offset by the growth in the average asset base invested. Liberty delivered an ROE of 20.9% for 2014 (2013: 24.7%).

The performance of the individual segments within Liberty is shown in the table below. Full commentary for these segments can be found in Liberty's annual integrated report.

BEE normalised headline earnings by segment

	Change %	2014 Rm	2013 Rm
Insurance		**1 888**	1 600
Individual arrangements (Retail segment)	15	**1 689**	1 467
Liberty Corporate	40	**170**	121
Liberty Africa	13	**59**	52
Liberty Health	25	**(30)**	(40)
LibFin Markets	61	**220**	137
Asset management		**478**	461
STANLIB	5	**662**	633
Liberty Properties	(7)	**41**	44
Other	(4)	**(225)**	(216)
Total operating earnings	18	**2 586**	2 198
LibFin Investments – shareholder investment portfolio	(26)	**1 382**	1 878
BEE normalised headline earnings	(3)	**3 968**	4 076

Looking ahead

To achieve the growth targets for the wealth businesses, SBW will have to negotiate a dynamic and complex environment with numerous operational challenges and significant regulatory changes.

Notwithstanding these challenges, there is substantial opportunity to leverage the group's wealth capabilities in South Africa and to capture the significant growth potential in the wealth market in the rest of Africa.

The SBW leadership team has been created with the primary objective of aligning the group's wealth businesses, with a clear strategy to achieve competitive advantage and enhanced ability to manage wealth-specific risk, as well as the significant regulatory developments reshaping the industry. SBW aims to improve the growth and quality of earnings and to contribute significantly to the further development of the group's franchise in the rest of Africa in a meaningful way.