

# 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

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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

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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						
	Change %	Total income		Change %	Headline earnings	
		2014 Rm	2013 Rm		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
<b>Personal &amp; Business Banking</b>	14	<b>55 410</b>	<b>48 621</b>	17	<b>9 834</b>	<b>8 401</b>

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.