

PERSONAL & BUSINESS BANKING

“It is not so much our strategy but how well we execute it that will set us apart from our competitors. We have made pleasing strides in leveraging our investment in technology, equipping and empowering our people and streamlining our operations. This is enabling us to measurably change the lives and fulfil the aspirations of our clients.”

Peter Schlebusch
Chief executive, PBB and head of digitisation



OVERVIEW

OUR STRATEGY

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

Purpose

Changing lives and fulfilling aspirations across Africa.

Vision

Radically redefine client experiences by understanding and delivering what matters most to clients.

WHAT OUR CLIENTS WANT

The bank that knows me

A single and complete connection with every client.

A personalised bank for every moment in life.

The bank that empowers me

An entire bank in every client's pocket.

A toolbox for every financial need.

The bank that delivers for me

A reliable partner for life.

A frictionless and dependable payment experience.

HOW WE RESPOND

THE BANK THAT KNOWS ME

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

THE BANK THAT EMPOWERS ME

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

THE BANK THAT DELIVERS FOR ME

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



OUR OPERATING CONTEXT FOR 2017

South Africa

- Low consumer and business confidence, stagnant growth and high unemployment.
- Volatile political environment and rating agency downgrades.
- Declining real consumer spending and credit demand.
- Strong competition for a static number of clients.
- Increasing adoption of digital banking.

Africa Regions

- Slower economic growth, high inflation and declining interest rates.
- Foreign currency shortages.
- Punitive regulatory changes.
- Accelerated credit impairments in Nigeria.
- Strong growth and adoption of digital channels in a competitive digital environment.



OUR PERFORMANCE IN BRIEF

Despite our challenging operating context, PBB achieved a **pleasing 10% growth** in headline earnings and a **20.0% ROE** (2016: 18.8%), largely due to the resilience of the South African franchise and a growing client base in the Africa Regions.

South Africa

- Implemented a leaner, more locally empowered operational structure focused on delivering consistently excellent client service.
- Improved NPS scores in most client segments.
- Growth in targeted private, business and entrepreneur client segments.
- Strengthened credit and risk management capabilities, contributing to lower impairments.
- Jaws remained flat in a constrained revenue environment.

Africa Regions

- Grew local currency current accounts.
- Improved efficiency and cost management.
- Improved client service in Nigeria, supporting growth in target client segments.
- Continued to introduce digital channels, which are being adopted.
- Continued to successfully bank the ecosystems – the suppliers, service providers, shareholders and employees – of our business, commercial and CIB clients.

AWARDS

MTN Business App of the Year

- Winner – SHYFT

Ombudsman Annual Awards

- Best of the Top 5 Banks at Resolving Customer Disputes

Private Banker International

- Winner – Outstanding Philanthropy Offering (Feenix Trust that supports tertiary education)

Global Finance

- Safest Bank in Kenya

African Banking Awards 2017

- Best Bank in Botswana, Uganda, Zambia and Zimbabwe

Efma-Accenture Innovation Awards 2017

- Nominee – Best Global Innovations in the New Business Ecosystems category. Nominees comprise the six best global innovations in the category.

Digital Impact Awards 2017

- Best Mobile Banking and Best Promoter of Financial Literacy in Uganda

PERFORMANCE AGAINST STRATEGY

We are transforming our business to ensure a singular focus on our clients: to understand their needs and to gain, and keep, their trust by delivering complete solutions, helping them to bank, earn, insure and save. Our fit-for-purpose presence in 14 countries across Africa, combined with our committed people and enabling IT platforms, supports our large, diverse client base. Each of our businesses plays a clearly defined role in achieving the group's vision to become the leading financial services organisation in, for and across Africa.

Our key focus areas of client centricity, digitisation and universal financial services align to the group strategy, and the pages that follow discuss our progress against the five strategic value drivers.



CLIENT FOCUS

Performance metrics	2017	2016	2015
Net promoter score			
South Africa – channel	66	53	58
Africa Regions	16	15	30

Our drive to deliver consistently excellent client service contributed to the improvements in PBB's overall NPS scores for South Africa channels and the Africa Regions.

In the Africa Regions we exceeded the scores of a significant majority of our competitors and, in Nigeria, the KPMG 2017 Banking Industry Customer Satisfaction Survey confirmed that banks are improving customer experience, with Stanbic IBTC ranked third in the retail banking segment.

PBB SA remains the market leader in residential mortgages and retail-based deposits, and moved from second position to market leader in credit card balances from November 2017. We grew in our target segments which are private, prestige, business, commercial, and entrepreneur, and achieved significant growth in our public sector client base, with the acquisition of the banking relationship and student disbursement platform of a major provider of financial aid for students. We bank five provincial governments and have almost doubled our medium-term lending book in secondary cities – reflecting the group's commitment to infrastructure development in smaller centres. Our personal VAF business strengthened its focus on the middle and affluent client segments. A proactive response to slowing new car sales, including a shift in focus to used car sales, embedded insurance options for used cars and a new dealer servicing model gained traction in 2017, resulting in 24% growth in dealer volumes despite market growth of vehicle sales of 2%.

These gains were achieved at the same time as we completed a significant restructure of the South African operation. The aim was to create a leaner and more focused operation with enhanced digital capabilities, rationalised branches and reskilled local client management teams accountable for client service and empowered to make decisions that enable us to keep our promise of consistently excellent client service. The restructure, undertaken in consultation with SASBO, the Finance Union, required all senior provincial and area

managers to reapply for their jobs as their roles changed in line with our digitally enabled client-focused strategy.

In the Africa Regions, net new client accounts grew by 24% in our target segments, while initiatives were implemented to retain clients, reduce account dormancy and increase transactional activity to ensure strong growth in the existing portfolio. We maintained our focus on growing market share in Nigeria, Kenya and Ghana and achieved a 43% market share growth across our target client segments in these large markets, led by our Nigerian operation. Significant investments were made in digital channels, including ATMs and cash deposit machines, and an online business centre for small and medium enterprise (SME) clients to conduct their banking remotely. In addition, we rolled out credit card and bancassurance businesses to countries that lacked these service offerings.

We continue to source alternative revenue streams. In the Africa Regions, our focus on the ecosystems of PBB and CIB business and commercial clients and CIB banking clients yielded almost 27 000 new transactional banking clients who accounted for revenue growth of R294 million for the group.

Our reward programme, UCount, has been effective in supporting client retention and encouraging client adoption of cashless channels.

Our progress over the year shows that PBB's transformation into a client-centred, data-driven, digitally enabled universal financial services organisation that delivers secure, personalised, relevant experiences to clients and employees in real time, all the time, is well underway.

We achieved major milestones in our digital journey during 2017.

The following key concepts are guiding our digitisation journey.

Single consistent user experience – ensuring that whatever services our clients or employees need are consistently available anywhere, anytime, irrespective of channel.

Leveraging data – being smart in our use of data to guide our decisions, create valuable insights and deliver personalised experiences. Sound management and analysis of our data resources not only improves client service, but also our sales performance and universal offering, while strengthening risk management and compliance in an increasingly regulated environment.

Leveraging enterprise technology – building enterprise assets that can be leveraged across the group and keeping these up-to-date and relevant. The major elements of our IT transformation are complete, and our modernised platforms are enabling operational integration, product rationalisation and a single view of our clients. The benefits to our clients include service delivery improvements such as real-time banking on mobile channels, faster account origination and new products becoming available more rapidly.

Making it easy to interact with the group – removing friction, paper-based processes and waste to ensure intuitive, easy-to-use, reliable interfaces for clients, employees and third parties.

Accelerating digital execution – being proactive in understanding client needs, embracing solutions from other industries and geographies and integrating these into our environments. The increasing adoption of digital banking methods and channels is enabling our clients across our footprint to bank more conveniently and cost effectively.

New ways of working – embracing new ways of working to remove barriers to fast, effective client service by ensuring that our environment encourages curiosity, digital thinking and continuous improvement by our people. This enables quick and frequent refinement of ideas and brilliant delivery.

CORE BANKING TRANSFORMATION

South Africa

- Replacement of the core banking system as a stand-alone programme (completion in early 2018).
- Nearing completion of the migration of clients to the new core banking platform.
- Nearing completion of the roll-out of transactional products.
- Opening new SME transactional accounts on the platform.

Africa Regions

- Core banking solution deployed in 13 countries. Rollout in DRC is scheduled for 2018.
- Started the phased migration of Namibian commercial clients to the new core banking platform (completion in 2018).
- Enterprise Online for business banking clients live in ten countries; Business Online internet solution in 12 countries; smart app in four countries and SBG Mobile app in ten countries.
- Five countries migrated onto cloud solution which optimises the core banking platform.
- Know your client (KYC) compliance reporting digitised, making it easier to monitor.

GROWING ADOPTION OF DIGITAL CHANNELS

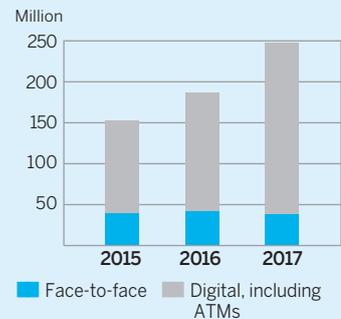
- Digital transactional banking volumes:
 - 32% growth in mobile phone transactions.
 - 2% increase in internet banking transactions.
- 3.3% decline in ATM usage and 14.4% in branch transactions, as a result of increasing digital transactions.

PBB SA transactional volumes



- 33% increase in transactional banking volumes due to:
 - Increase in client numbers and net active client base.
 - Increase in digital adoption.
 - Increased use of smart apps.
- 44% increase in digital banking volumes.
- 60% increase in point-of-sales devices to 24 538.

PBB Africa Regions' transactional volumes



INNOVATIVE NEW FEATURES TO IMPROVE CLIENT SERVICE

- Re-engineered processes contributed to more efficiencies, including faster account openings and turnaround times.
- Driving cost-effective origination, for example:
 - Online origination of new savings and investment products.
 - ATM origination of personal loan products.

- Introduced point-of-sale devices at a major retailer in Angola.
- Faster account opening and service turnaround times.
- Rolled out Instant Money across the Finacle platform.
- Focused on SME business development and mentorship programmes across the Africa Regions.
- Extended the single card multi-currency capability of SHYFT to Botswana and Mobi Banker to Uganda.



EMPLOYEE ENGAGEMENT

Performance metrics	2017	2016
eNPS	+13	n/a*
Voluntary turnover (%)	5.1	5.4
Voluntary regrettable turnover (%)	1.3	1.2
Black representation (including executives) SA	%	%
Senior management	54.6	51.8
Middle management	72.4	71.7
Junior management	85.3	84.5

* Not comparable as the method used to determine eNPS changed in 2017. Refer to page 80 for further information.

To realise our client-focused strategy, we are developing an energetic and supportive culture, with the following features:

- Collaborative and effective team work, where we are empowering employees who work closely with our clients to make decisions, and holding each other accountable to our vision and strategy.
- Acknowledging and being purposeful in our role to fulfil the aspirations of all our clients, drive entrepreneurial activity and help business owners create jobs.
- Becoming the bank that exceeds client expectations by radically redefining traditional client experiences and providing innovative digitally enabled experiences that make our services simpler, better, faster.

To compete successfully as a digitised universal financial services organisation, our people and operations need to be aligned across the group, collaborating and working in teams across traditional boundaries and ensuring that each employee is empowered to adopt new ways of working within their areas of responsibility. To support this transition, we have amended the performance and incentive scorecards of our frontline employees to include services across the group, not only in their specific areas of activity.

The successful adoption of new ways of working is enabling PBB to address areas of inefficiency and improve client experience. New ways of working have been embedded in several insurance and wealth offerings and the process enhancements will be implemented in 2018. In the Africa Regions, the Namibian operation has adopted new ways of working to optimise its branch capacity and reduce the time taken to address client concerns.

We are transforming our workforce to more closely reflect the demographics of the markets we serve. In South Africa, black representation improved across all management levels. In the Africa Regions, we focus on employing competent and experienced local people and prioritise black and African female appointments. Diversity and inclusion programmes were accelerated across PBB during 2017.

In addition to routine training and development, we are also reskilling and upskilling employees to enable them to make the transition to digitisation. We have introduced a capability academy to provide frontline employees the skills and authority to address client needs, overcome areas of frustration, increase productivity and offer consistently excellent service. Cross-functional analytics teams have been established to personalise client experiences and an analytics academy will attract, develop and retain top analytics talent for this purpose.

We started a new graduate development programme to attract and retain local talent in the Africa Regions and support our plan to grow to scale in large markets that offer significant growth potential. The first cohort of ten graduates has been recruited in Angola and are participating in a structured leadership development programme in South Africa.

Our leadership development programmes continue to provide a pool of talented people for senior management roles. During 2017, 300 of our people attended our accelerated development programmes for black and African women, which will continue in 2018.

Engaged and committed people are crucial to delivering excellent client experiences. An Organisational Health Index (OHI) survey conducted in South Africa rated us marginally below the global median but noted that we are shifting from 'bureaucratic' to 'agile'. PBB operations have implemented plans to improve the OHI score.



RISK AND CONDUCT

Performance metrics	2017	2016	2015
Average RWA (Rbn)*	382	369	352
Return on average RWA (%)	3.7	3.5	3.2

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

We reinforce a culture of doing the right business the right way throughout PBB by ensuring that, through collaboration and personal accountability, our people and teams develop trusting relationships with each other.

This, in turn, supports their ability to build, and maintain, the trust of clients by understanding and responding to client needs and making them responsible offers based on their risk profiles.

During 2017, PBB strengthened key areas of compliance and operations across PBB improved the status of their internal audits. The Africa Regions maintained a strong focus on IT stability and KYC compliance, and PBB SA introduced a monthly reputational risk monitoring system.

To mitigate market and client risk, we manage risk within an agreed risk appetite and regularly review and amend our risk appetite across all client segments and products. Digitisation and the development of a single view of clients across all channels enables us to identify the early signs of financial distress and respond proactively, seeking solutions for clients while protecting our own financial position. We have improved our collections capability and will further

strengthen our portfolio management processes to enable our operations to respond proactively to emerging risks.

To ensure that core strategic initiatives such as new ways of working, new product development and associated change management have the desired effect, risk managers closely monitor and evaluate the progress of these initiatives.

Digital technology represents one of our greatest competitive advantages, but it also poses significant risk to our operations. Most service interruptions have a data-related cause, while cybercrime continues to threaten the integrity of our industry and the safety of our clients' information. We continue to strengthen our IT security capabilities, including remediation plans to address credit card fraud, digital channel fraud and account takeover or impersonation. We have experienced a significant reduction in digital channel fraud as a consequence of our disciplined and thorough management of cyber risk.

We continue to respond proactively to the raft of regulatory changes impacting the financial services industry, including the impending Retail Distribution Review, Consumer Credit Insurance, Protection of Personal Information Act and Twin Peaks. In a developing regulatory environment in Africa, additional regulations in many markets continue to impact adversely on our revenue and challenge our operations to source alternate revenue streams. The most notable of these impacts in 2017 were:

- Significantly elevated cash reserving requirements in Nigeria.
- Caps and floors on interest rates in Kenya effective from September 2016.
- Suspension of management fees on salaried accounts in Angola from 1 May 2017.
- Capping of interest rates on productive assets in Zimbabwe from 1 April 2017, to stimulate economic activity.
- Suspension of account maintenance fees on savings and personal current accounts in Malawi from 1 January 2017.



FINANCIAL OUTCOME

Performance metrics	2017	2016	2015
Revenue (Rbn)	69.5	67.6	60.6
Cost-to-income (%)	60.3	60.1	60.3
Headline earnings (Rbn)	14.0	12.7	11.3
ROE (%)	20.0	18.8	18.2
Credit loss ratio (%)	1.20	1.25	1.27

Improved client service and growth in PBB's target segments contributed to revenue growth.

Another resilient performance by the South African operation enabled PBB to achieve strong growth in headline earnings and ROE, more than offsetting the negative impacts of regulatory changes in the Africa Regions and accelerated impairments in Nigeria.

In South Africa, improved collection strategies, payment capabilities and risk

management contributed to lower impairments. A headcount ceiling was implemented as one of several measures to minimise growth in staff costs.

The Africa Regions' portfolio continued to reflect positive revenue momentum but was impacted by lower levels of non-interest revenue due to the non-recurrence of US dollar-related credit card revenue

earned in 2016 and lower volumes in physical channels as digital volumes grew significantly. Although they yield lower revenue, digital solutions are more accessible and improve client experience, while enabling rationalisation of the branch footprint over time. Emphasis on optimally growing the balance sheet, improving net interest margins and a focused sales drive contributed to 15% growth in current and savings account balances in constant currency.

Accelerated provisioning and write-offs of NPLs in Nigeria contributed to a significant increase in impairments. High impairments were also experienced in the business banking sector in Malawi through a single counterparty write-off. Collection efforts were increased in these countries to recover write-offs; however, these may only be received during the 2018 financial year.



SEE IMPACT

Financial inclusion

Instant Money is an affordable, safe and reliable way to send money to anyone with a basic cellphone, regardless of whether the sender or recipient has a bank account. Some 78% of the people who use the service across six countries, including South Africa, are not Standard Bank clients. There are approximately 1.7 million transactions a month on Instant Money, with transaction values of over R1 billion in the second half of 2017. Money can be sent from an ATM, via the banking app, online banking, cellphone banking or through our retail partners, and is delivered instantly.

SBSA's affordable housing book is valued at around R25 billion. As the largest lender to this sector, we have assisted almost 100 000 families in the R3 501 to R23 500 a month income group to purchase a home. As clients in this sector often struggle to pay a deposit, most of

our affordable housing loans are full loans.

We work closely with the Department of Human Settlements and provincial housing departments to help our clients access the Finance Linked Individual Subsidy Programme (FLISP) offered by government. The programme helps first-time home buyers that find it difficult to qualify for housing finance, as their income is regarded as too low for traditional mortgage finance from banks, and too high to qualify for the government free basic house subsidy scheme. The FLISP subsidy, which ranges between R20 000 and R87 000, may be used to reduce the initial mortgage loan amount, or to cover the shortfall between the qualifying loan and the total house price, or it can be used as a deposit.

Innovation, entrepreneurship and enterprise development

Given the potential of entrepreneurs and small businesses to facilitate growth in Africa and create new jobs, and as part of our commitment to the Financial Sector

Code in South Africa, we provide these clients with extensive transactional, advisory and funding support. This includes online channels for SMEs across the continent, which enable online account management and transactional activities, funding and enterprise development for black-owned enterprises in South Africa, as well as business and skills development centres throughout Africa. PBB participates in group incubator and mentoring programmes for SMEs, youth start-up initiatives and the Lionesses of Africa online network of more than 460 000 African businesswomen.

African economic development

We support our business and commercial banking clients in the development of trade relationships with counterparts in other African countries. Similarly, the expertise of our sector teams enables us to provide relevant services to the agriculture, public sector, natural resources and wholesale and retail trade sectors.

LOOKING AHEAD

PBB's ability to sustain strong performance in difficult business conditions is largely due to the ongoing support of our clients and the commitment of our people.

The economic outlook for our markets in the year ahead is improving, with indications of growth momentum, but these are likely to take some time before we will see a significant uplift in client activity. Competition will remain intense from incumbents and potentially disruptive newcomers. We have, however, demonstrated the effectiveness of our client-focused strategy and believe that, by continuing to deliver what matters most to our clients, we will be able to protect and continue growing our target client segments.

Priorities in respect of our strategic value drivers

