



# Annual **integrated** **report 2016**

Standard Bank Group



**Standard Bank** Moving Forward™  
Also trading as Stanbic Bank



# AFRICA IS OUR HOME

– we drive her growth



All our reports are available online at **[www.standardbank.com/reporting](http://www.standardbank.com/reporting)**. Financial and other definitions, as well as a list of acronyms and abbreviations used in this and our other reports are also available online.

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For the latest financial information, including the latest financial results presentations, booklets, SENS and results announcements, refer to our investor relations page at **[www.standardbank.com/reporting](http://www.standardbank.com/reporting)** or scan the QR code to be taken there directly.

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We welcome the views of our stakeholders on our reports. Please email your feedback to **[InvestorRelations@standardbank.co.za](mailto:InvestorRelations@standardbank.co.za)**.

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For important information on forward-looking statements in this report, refer to the inside back cover.



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### About our 2016 annual integrated report

This report covers the period 1 January 2016 to 31 December 2016, and includes material issues up to board approval of the report on 1 March 2017. The report discusses our banking operations both throughout Africa and outside Africa. Financial information has been prepared on an International Financial Reporting Standards (IFRS) basis. Material non-financial information has also, where relevant, been included. Any restatements of comparable information have been noted as such.

The six capitals categorisation of the International <IR> Framework are implicit in the value drivers on page 12 that underpin our strategy, and in our material issues on page 18 that affect our commercial and social relevance. These are comprehensively discussed in the report, explaining our dependence and impact on the forms of capital that are fundamental to our ability to achieve our performance expectations in the short

term, and our vision in the medium term, within the context of our multi-generational purpose to drive Africa's growth. The boundary of the report extends, therefore, to our relationships with entities outside the organisation that underpin our ability to create value over time.

Management of the group's business units and corporate functions have approved the relevant content in the annual integrated report, and the group audit committee reviewed and recommended the report to the group's board of directors (board) for approval.

#### Statement of the board of Standard Bank Group Limited

The board acknowledges its responsibility to ensure the integrity of the annual integrated report and is of the opinion that the report addresses all material issues that it believes to have a bearing on the group's capacity to create value over the short, medium and long term.

The report was unanimously approved by the board on 1 March 2017 and is signed on its behalf by:



**Thulani Gcabashe**  
Chairman



**Sim Tshabalala**  
Group chief executive



**Ben Kruger**  
Group chief executive



# Our reports

We produce a full suite of reports to cater for the diverse needs of our stakeholders.

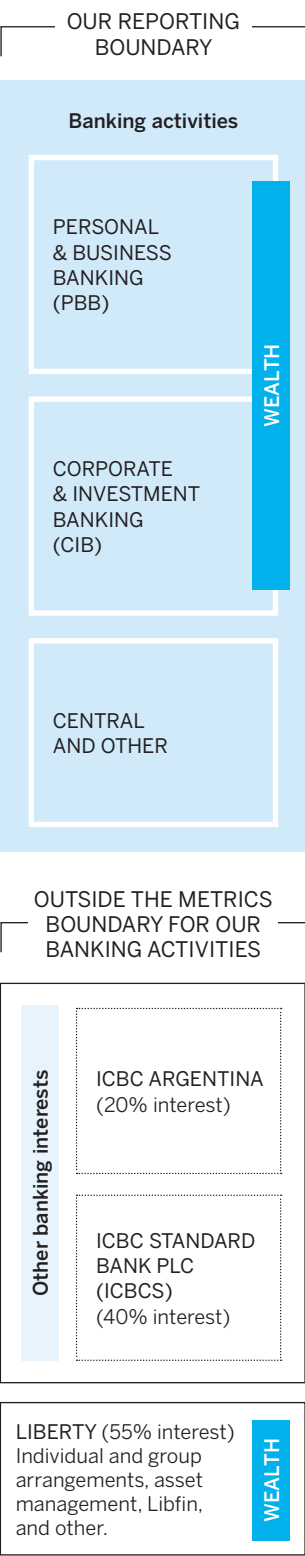
The reporting boundary for our reports covers the group's banking activities, which includes our banking operations and subsidiaries. It also covers our Wealth strategy, which connects to our broader financial services offering and pertains to the businesses within PBB, CIB and Liberty. Unless indicated otherwise, all data has been reported according to this boundary.

Liberty, a subsidiary, and ICBC Standard Bank Plc and ICBC Argentina, as associates, are included in the report where they pertain to the group's strategic value drivers, but are not included in the metrics that relate to our banking activities.

Group data that includes Liberty is indicated using the following icon



Information specific to only our South African banking operations is indicated using the following icon



OUR REPORTS	
<div><div>THIS REPORT</div><div><div><b>Annual integrated report</b></div><div>As the group's primary report, our annual integrated report provides a holistic assessment of the group's ability to create value over time. It considers the issues that are material to maintaining the commercial viability and social relevance required to achieve our strategy in the medium to long term, including the macroeconomic and socio-political conditions within which we operate. Where applicable, information has been extracted from the reports listed below.</div><div><i>Intended readers: principally providers of financial capital but also considered to be of interest to our other stakeholders.</i></div></div><div><div><b>Governance and remuneration report</b></div><div>Provides a detailed review of the group's governance and remuneration practices, including the group's remuneration policy. The report also provides shareholders with the notice of the group's annual general meeting, together with the associated proxy forms.</div><div><i>Intended readers: providers of financial capital and regulators.</i></div></div><div><div><b>Risk and capital management report and annual financial statements</b></div><div>Provides a detailed discussion of the management of strategic risks related to the group's banking and insurance operations, and sets out the group's full audited annual financial statements, including the report of the group audit committee.</div><div><i>Intended readers: providers of financial capital and regulators.</i></div></div><div><div><b>Report to society</b></div><div>Provides an analysis of the issues material to the group's sustainability and to its stakeholders.</div><div><i>Intended readers: the group's broad base of stakeholders, particularly clients, employees, business partners, regulators, government and civil society organisations.</i></div></div><div><div><b>The Standard Bank of South Africa Limited annual report</b></div><div>The Standard Bank of South Africa (SBSA) is the group's largest subsidiary. The group's other subsidiaries also produce their own annual reports and audited annual financial statements.</div><div><i>Intended readers: bond investors, offshore lenders and regulators.</i></div></div><div><div><b>Liberty Holdings Limited (Liberty)</b></div><div>As a separate listed entity Liberty prepares its own integrated report which assesses its governance, strategy, performance and prospects, and is available at <a href="http://www.libertyholdings.co.za">www.libertyholdings.co.za</a>.</div></div></div>	<div><div><div></div><div><b>Frameworks applied</b></div><div><ul style="list-style-type: none"><li>International &lt;IR&gt; Framework of the International Integrated Reporting Council</li><li>South African Companies Act 71 of 2008 (Companies Act)</li><li>JSE Limited (JSE) Listings Requirements</li><li>King Report on Corporate Governance (King Code)</li><li>South African Banks Act 94 of 1990 (Banks Act)</li></ul></div><div><b>Assurance</b></div><div>While the annual integrated report is not audited, it contains certain information that has been extracted from the audited consolidated annual financial statements, on which an unmodified audit opinion has been expressed, and from the group's report to society on which assurance has been provided on selected information.</div></div><div><div></div><div><b>Frameworks applied</b></div><div><ul style="list-style-type: none"><li>Companies Act</li><li>JSE Listings Requirements</li><li>King Code</li><li>Banks Act</li></ul></div><div><b>Assurance</b></div><div>Certain information in the governance and remuneration report has been extracted from the group's audited annual financial statements.</div></div><div><div></div><div><b>Frameworks applied</b></div><div><ul style="list-style-type: none"><li>Various regulations relating to financial services, including Basel III</li><li>IFRS</li><li>Companies Act</li><li>JSE Listings Requirements</li><li>King Code</li><li>Banks Act</li></ul></div><div><b>Assurance</b></div><div>KPMG Inc. and PricewaterhouseCoopers Inc. have audited selected information in the risk and capital management report and have audited the annual financial statements for the year ended 31 December 2016, on which they have expressed an unmodified audit opinion.</div></div><div><div></div><div><b>Indices and frameworks applied</b></div><div><ul style="list-style-type: none"><li>JSE Listings Requirements</li><li>King Code</li><li>FTSE/JSE Responsible Investment Index Series and Dow Jones Sustainability Index</li><li>Carbon Disclosure Project</li><li>United Nations Sustainable Development Goals</li><li>Equator Principles</li></ul></div><div><b>Assurance</b></div><div>KPMG Inc. has provided assurance over selected information in the report to society.</div></div><div><div></div><div><b>Frameworks applied</b></div><div><ul style="list-style-type: none"><li>Various regulations relating to financial services, including Basel III</li><li>IFRS</li><li>Companies Act</li><li>JSE Listings Requirements</li><li>King Code</li><li>Banks Act</li></ul></div><div><b>Assurance</b></div><div>KPMG Inc. and PricewaterhouseCoopers Inc. have provided assurance over selected information in SBSA's annual risk and capital management report and have audited the annual financial statements for the year ended 31 December 2016, on which an unmodified audit opinion has been expressed.</div></div></div>

These icons refer readers to information elsewhere in this report or in other reports that form part of the group's suite of reporting publications:







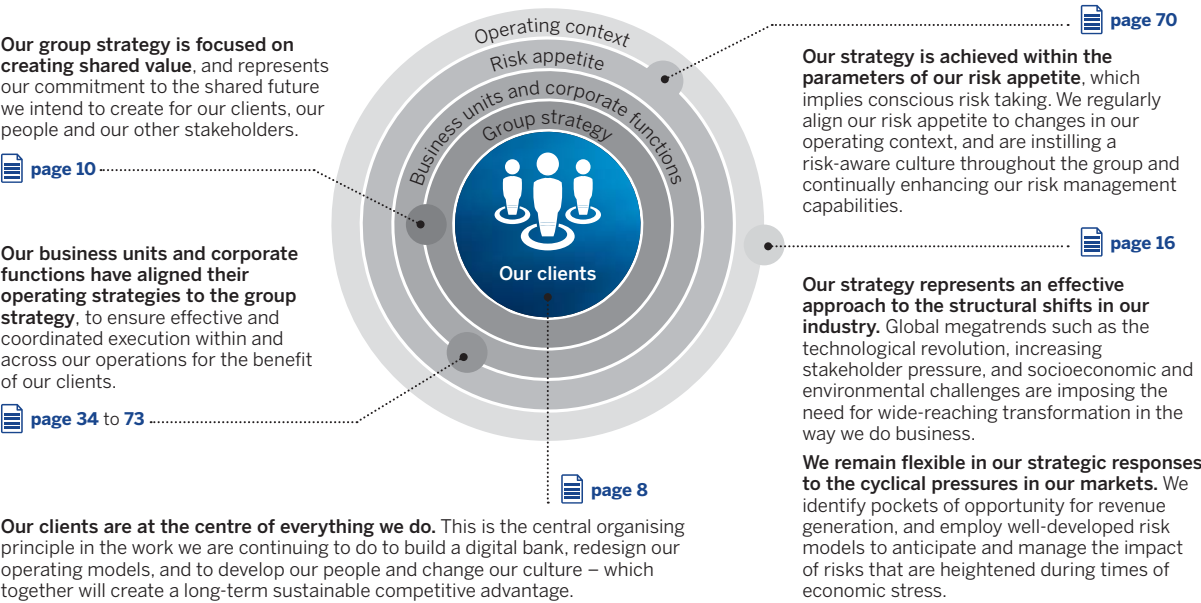
# Our business

One of Africa's potential growth areas is renewable energy. McKinsey estimates Africa's potential capacity for solar energy as 10 terawatts, with hydro and wind at 350 gigawatts and 109 gigawatts respectively. Kenya is the world's ninth largest producer of geothermal energy, Ethiopia has one of Africa's largest wind farms, Ghana is building the world's fourth largest solar facility and South Africa is recognised for its fast rate of growth in renewable energy investment through the government's Renewable Energy Independent Power Producers (REIPP) programme. 85% of the power infrastructure projects funded by Standard Bank over the past four years have been solar, wind or hydro projects, with only 15% of our energy investment portfolio financing fossil fuel projects. In total, we've helped to finance 2 516 megawatts of energy across Africa since 2012.

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Our value creation story



The outline of our strategic value drivers is discussed on [page 12](#). The chief executives' review on [page 28](#) assesses our strategic performance for the year. The financial review on [page 74](#), analyses the key financial aspects of the group in the context of the group's medium-term aspirations and macroeconomic conditions.

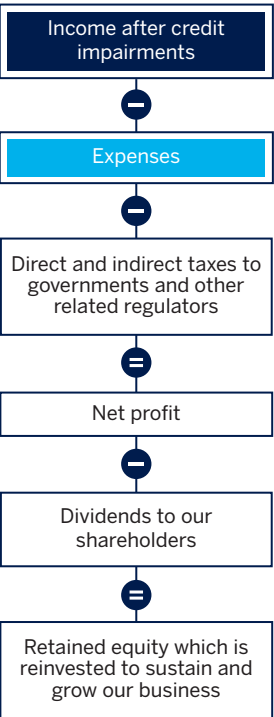




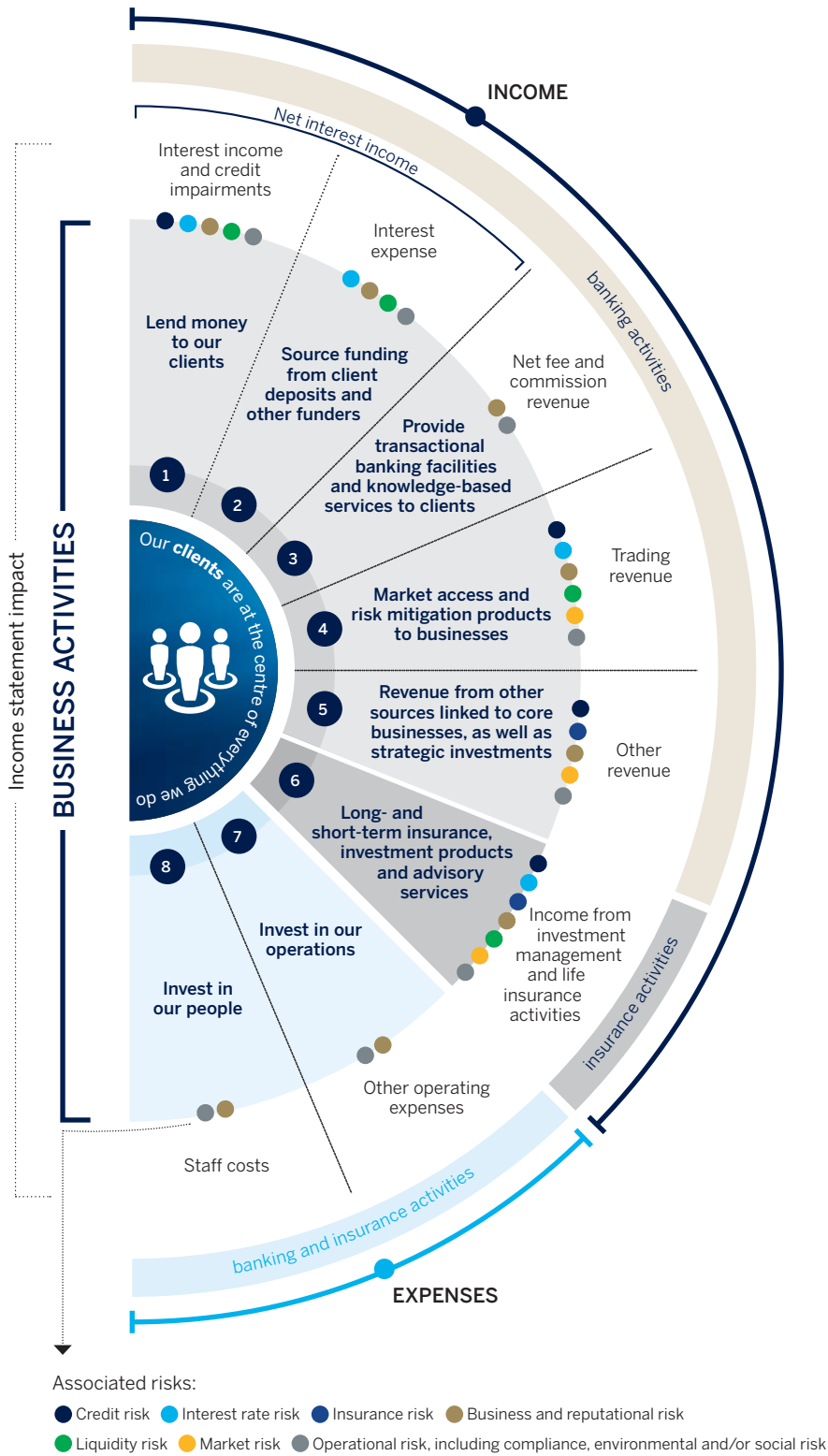
What we do

As a financial services organisation with a broad offering of products and services, our goal is for all of our business units and corporate functions to work together to seamlessly deliver on our clients' financial needs.

How we make money



Refer to **pages 82 to 85** for further detail.



What this means for the group

- 1 Creates assets from which we derive interest income over time.
- 2 Costs associated with funds raised from depositors and other funders, used to enable the bank to lend.
- 3 Generates income through fee and commission revenue.
- 4 Creates trading revenue through participation in foreign exchange, commodity, credit, interest rate and equity instruments.
- 5 Generates other sources of revenue, including income from property, private equity and investments.
- 6 Generates brokerage fees and underwriting profits from a comprehensive range of wealth offerings, as well as commission earned on Liberty and Stanlib risk and investment products.
- 7 Investment in strategic IT infrastructure, to enhance our capabilities and improve efficiency, deliver relevant products and services that meet our clients' needs and strengthen our competitive position.
- 8 Investment in our people to equip them to consistently deliver exceptional client experiences and to deal with a changing world of work.

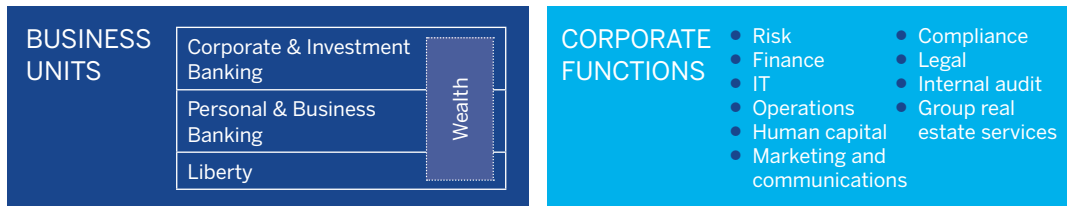
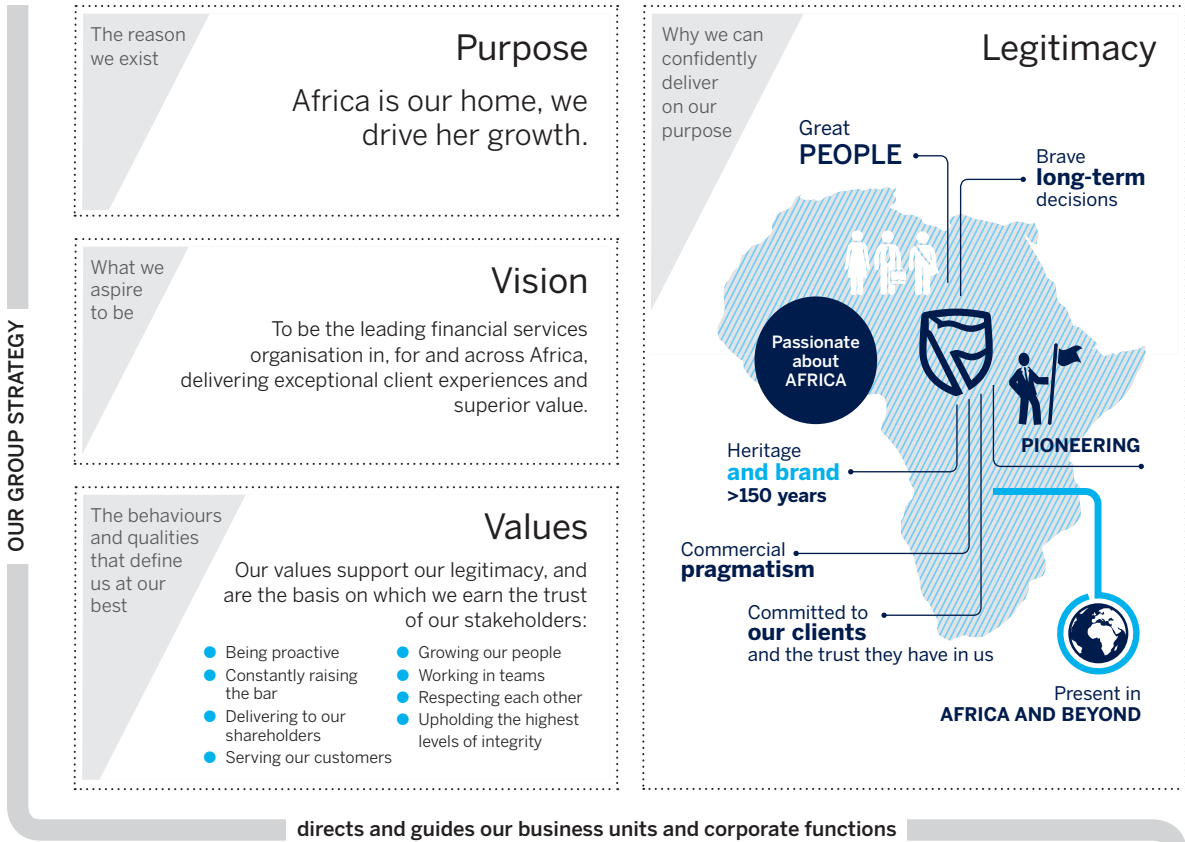
What this means for society

- 1 Enables individual clients to borrow to create wealth and generate income, helps business clients remain sustainable and supports employment and inclusive economic growth in Africa.
- 2 Provides our depositors with long-term returns, while mitigating the erosion of their capital due to inflation.
- 3 Transactional banking facilitates the movement of wealth, providing clients with convenient access to their funds. Our knowledge-based services, which include corporate advisory and loan structuring services, allow our clients to benefit from our experience and track record on the continent, and enables us to connect them to global pools of capital.
- 4 Market access enables businesses to grow, provides a conduit for investment into Africa and helps economies monetise resources and diversify. Risk mitigation products enable financial protection and diversification through risk transfer.
- 5 Strategic investments support inclusive economic activity and enable wealth creation, while also contributing to investments that drive the socioeconomic development of Africa.
- 6 Insurance, investment products and advice enable clients to build, diversify and protect their wealth and offer protection from loss of income due to illness, retirement and death.
- 7 Developing innovative products and meeting our clients' needs, supports our social relevance and legitimacy and maintains our positive contribution to African economies.
- 8 We hire locally wherever possible and, through our activities, sustain other jobs in local economies. Training and development enhances the level of financial services and related skills in Africa.

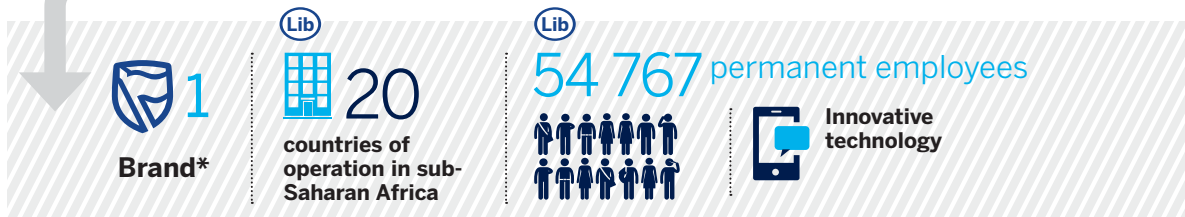


# Our strategy

Our strategy is centred on our commitment to Africa and directs our growth and evolution for the shared benefit of our clients, our people and all our stakeholders. It drives us to lead with purpose, to build a better business, and to position our footprint and platform for the future.



who leverage our presence and diverse capabilities to deliver on our strategy



\* Brand Finance: Africa's most valuable banking brand, September 2016.



## Allocating our capital resources

In order to create a shared future for our clients, our people and our stakeholders, our strategy is consistent with integrated thinking, which we continue to deepen as we implement our strategy within the group. As part of this work, we have developed a formal approach that aligns our allocation of capital resources to our strategy.

The decision making framework at the centre of this approach, which is outlined alongside, guides us to efficiently deploy the resources and effectively direct the relationships required to create shared value.



The capitals we depend on are outlined below, both in terms of the inputs to our activities and our strategy, and the outcomes that we aspire to in fulfilling the expectations of our stakeholders.



How the capitals link to our strategic value drivers are shown on [pages 12 and 13](#).

### Social and relationship capital / SRC

The relationships with our clients, capital providers, regulators and other stakeholders required to remain commercially and socially relevant. The quality of these relationships underpins our legitimacy, our reputation and the trust our stakeholders have in us, forming the basis on which we compete and win.

### Human capital / HC

Our people are our strongest competitive advantage. We focus on selecting, managing and developing, and inspiring them to apply their expertise to serve our diverse clients and fulfil the expectations of our other stakeholders, within the boundaries of risk appetite and compliance. This correlates directly to our ability to create and protect value.

### Intellectual capital / IC

Our intellectual property – the products and services we develop to meet our clients' evolving needs. The new ways of working that combine the capabilities of our people and our technology to place our clients at the centre of everything we do. It also pertains to our high-performance and ethical culture – the ultimate determinant of our sustainability.

### Manufactured capital / MFC

The tangible and intangible infrastructure that we use to conduct our business activities, which relates to our modernised IT platforms and digital channels, our extensive fit-for-purpose branch networks, and the national infrastructure of the countries in which we operate.

### Natural capital / NC

Our indirect impact on natural resources through our financing activities. We work with our clients to promote the preservation of natural capital in their projects, and invest in renewable energy projects. As a responsible corporate citizen, we work to minimise our direct environmental impact wherever possible, within the constraints of a stable supply of national utilities in Africa.

### Financial capital / FC

The funding from the providers of capital used to run our business and invest in our strategy, which includes reserves generated through share capital, other equity-related funding and retained profits, and debt capital. As an outcome, it includes interest payments to debt providers, and returns to shareholders in the form of share price appreciation and dividends.



# Measuring our strategic progress

## Strategic value drivers



### CLIENT FOCUS



### EMPLOYEE ENGAGEMENT

#### What this means

Placing clients at the centre of everything we do

Creating a great place to work

#### Connection to the capitals

#### /FC – WE INVEST IN:

- /SRC** • Strong client relationships based on trust
- /HC** • Providing exceptional client experiences
- /IC** • Client-focused ways of working
  - Digitisation and innovation
- /MFC** • A fit-for-purpose branch network
- /NC** • Utilities (direct) and financing activities (indirect).

- /HC** • Strongly engaged and capable employees
- /SRC** • Good relationships with employee representatives
- /IC** • Aligning human capital management to strategy
  - A high-performance, ethical culture
  - Client-focused ways of working
- /MFC** • Physical work environment
- /NC** • The utilities (direct).

#### How the driver aligns with our strategy

Clients are at the heart of our business and by focusing on our clients we will achieve a profitable and sustainable business.

Our focus is to consistently create excellent client experiences, by understanding our clients and by offering the products, services and solutions they need.

We strive to create a great place to work where our people feel deeply connected with our purpose and our clients, are empowered and recognised for delivering against our strategic objectives, and given opportunities to reach their full potential. How our people think and feel about work directly correlates with our client satisfaction levels and our ability to deliver our strategy.

#### How we measure our progress and performance

To understand our clients better we measure their satisfaction in terms of:

- Net promoter score (NPS) for PBB
- Client satisfaction index (CSI) for CIB.

These scores are determined from client surveys conducted in phases throughout the year to obtain an annual result.

To determine engagement levels, we consider the following:

- Employee promoter score, determined through our Experience@Work survey\*
- Voluntary employee turnover rate (VET)\*\*
- Voluntary regrettable employee turnover rate (VRET)\*\*.

#### What we are working toward

Over and above these existing measures, the group is looking to develop a holistic client experience measure across segments, business units and geographies. This will provide more detail on accessibility, ease of doing business, personalised offerings, staff engagement, brand value and reputation, executional excellence and value for money.

To inform and enhance the effectiveness of our employee engagement, the Experience@Work survey will be conducted annually across the group, and the VET and VRET will continue to be tracked monthly.



The premise for our shared value strategy is the need to connect commercial and social realities in a dynamic environment of competing stakeholder expectations, complex competitive forces and fluid regulatory changes. Our ability to deliver sustainable returns to our shareholders is contingent on this holistic view of value creation and includes defining and measuring the key strategic value drivers required to generate a suitable financial outcome, as well as positive broader social outcomes.



## RISK AND CONDUCT

### Doing the right business the right way

#### /FC – WE INVEST IN:

- /SRC** • Constructive relationships with regulators
- /HC** • Embedding risk-aware, compliant and ethical conduct
- /IC** • Risk and compliance frameworks, standards and policies
- Embedding an ethical and risk-aware culture, and internal control systems.

Governments and central banks in the markets in which we operate, create and enforce regulatory frameworks to ensure a safe financial system, conducive to economic development, while protecting our clients. We undertake to ensure compliance with all regulatory requirements, relevant to different parts of our business.

All employees are required to complete compliance training and follow group policies and procedures, to maintain and strengthen our control environment, and to operate within our risk appetite. In addition to this, we consider the following measures for compliance:

- Common equity tier 1 ratio (CET 1)\*\*
- Liquidity coverage ratio (LCR)\*\*
- Average risk-weighted assets (RWA)
- Return on risk-weighted assets (RoRWA).



RCM/AFS

Refer to the risk and capital management report for additional detail on these measures.

These metrics will continue to evolve as a result of both accounting and regulatory changes, such as IFRS 9 Financial Instruments, Basel III, and other regulatory changes. These ratios will continue to be used to monitor the resilience of the group's balance sheet.



## FINANCIAL OUTCOME

### Delivering value to our shareholders

- /HC** • Rewarding our employees for the value they deliver
- /SRC** • Our good standing in the investment community
- /FC** • Returns to shareholders.

Value creation for our shareholders is an important part of our strategy and this is measured by the group's financial outcomes which are directly driven by and dependent on client satisfaction, employee engagement and risk value drivers.

The primary measures describing our financial outcome include:

- Headline earnings (HE)
- Return on equity (ROE)
- Cost-to-income ratio (CTI)\*\*
- Credit loss ratio (CLR)\*\*.



Refer to the group financial review on [page 74](#) for further detail.

The financial outcomes remain key measures to assess our value creation for our shareholders. Our focus is to maintain the CTI at acceptable levels and the CLR within the group's risk appetite, and to continuously drive growth in HE and ultimately, our ROE to deliver superior returns to our shareholders.



## SEE OUTCOME

### Creating and maintaining shared value

- /SRC** • Supporting socioeconomic development
- /NC** • Managing environmental risk.

Our strategy centres on sustainability. We achieve our purpose of driving Africa's growth by delivering social, economic and environmental value.

#### Social value:

This is the value for society, both internally with staff and externally with other stakeholders.

#### Economic value:

We drive economic growth in Africa through supporting innovative and profitable ways of doing business.

#### Environmental value:

This is the value for the environment, created through conscious and responsible lending.



RTS

Refer to the report to society for a detailed explanation of our SEE strategy and the progress we have made during the year.

All measures relate to the group's banking activities only, unless indicated otherwise.

\* Currently, SBSA and Uganda only. \*\* Definitions of these metrics are available online.



✓ Satisfactory results    ⚡ Progress to be made

Strategic value drivers

Our performance against our strategic value drivers

CLIENT FOCUS

✓ Client satisfaction scores have indicated that we have improved in servicing our clients:

- PBB client satisfaction scores have improved in focused client segments in South Africa, as well as in most geographies in the Africa Regions. Scores were, however, below our target, indicating the need to accelerate change. We are, therefore, intensifying our efforts to respond more rapidly to our clients' needs and improving overall client experience.
- CLB client satisfaction scores have improved in terms of client service levels and stronger relationships with client service teams. A number of key focus areas have been identified to further improve overall client experience.

Refer to the business unit reviews starting on **page 34** for further detail.

EMPLOYEE ENGAGEMENT

✓ Our Experience@Work survey provided pleasing results for South Africa and Uganda, with an overall employee promoter score of 86% (2015: 77%), and 89% respectively. This will be used as the base to compare results going forward. The survey will be extended to the rest of the group in 2017.  
✓ Our VET and VRET rates have both decreased marginally from the prior year and are well within the industry average.

Refer to the human capital report on **page 58** for a detailed discussion on our performance for the year.

RISK AND CONDUCT

✓ We are compliant with laws and regulations and have built a resilient balance sheet and reputational capital, allowing us to take carefully considered risks in the search for alternative opportunities for growth and the continuation of doing the right business the right way.

- CET 1: 13.9% (2015: 12.9%)
- LCR: 117.1% (2015: 93.7%)
- Average RWA: R839 billion (2015: R819 billion)
- RoRWA: 2.7% (2015: 2.7%).

FINANCIAL OUTCOME

✓ Our results demonstrate the group's resilience during the year despite the global and local economic challenges.

CTI: 56.3% (2015: 56.5%)

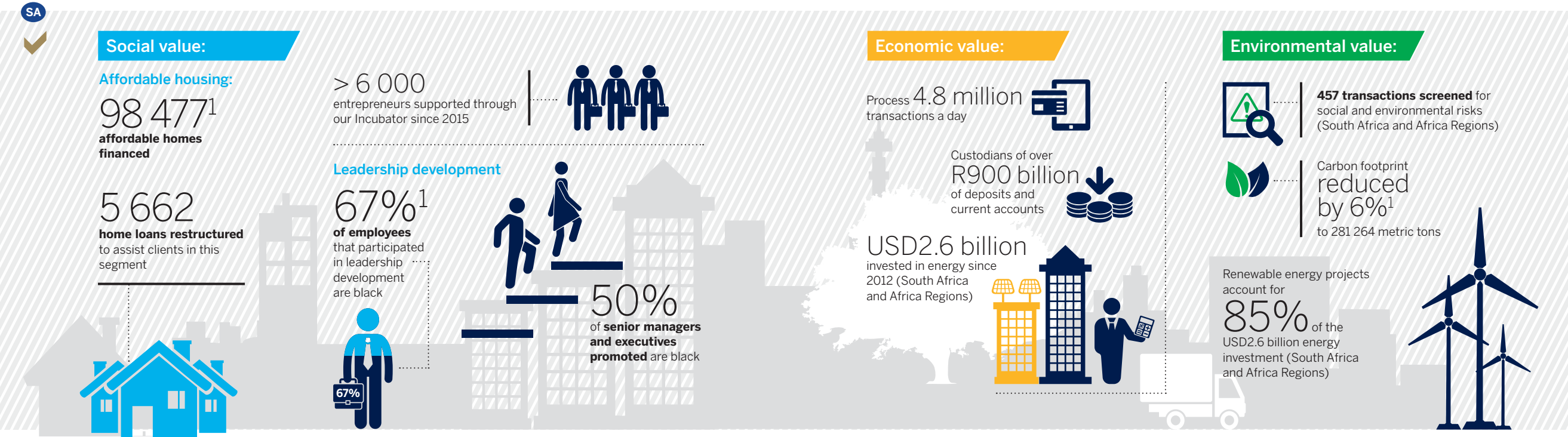
CLR: 0.86% (2015: 0.87%)

ROE: 15.3% (2015: 15.6%)

HEADLINE EARNINGS: R23 009 million (2015: R22 187 million)

Refer to the group financial review on **page 74** for a detailed discussion on our performance.

OUR KEY STRATEGIC VALUE DRIVERS AND FINANCIAL OUTCOME SUPPORTS OUR SEE OUTCOME, SUMMARISED BELOW.



<sup>1</sup> KPMG provided limited external assurance on selected performance data in the report to society. The scope of the assurance engagement and the statement of assurance are provided on pages 79 to 80 in the report to society.



# In, for and across Africa

Our purpose-led strategy is designed to realise the opportunities presented by Africa's longer-term structural trends.

Our diverse portfolio of operations has demonstrated resilience in withstanding cyclical pressures of generally slower economic growth and low commodity prices, and the spill-over effects of currency dislocation, regulatory reactivity and socio-political instability. Our contribution to driving more inclusive growth and promoting policy reform that supports economic diversification and development over the long term, will assist in extending Africa's structural growth path notwithstanding the immediate economic challenges.

## Driving Africa's growth

We are well-positioned to drive and facilitate the growing interregional trade and investment flows across the continent, to assist the economic growth of African countries and the expansion of multinationals into Africa.

**136% increase in inter-Africa trade from 2005 to 2015<sup>5</sup>**

Inter-Africa trade increased from USD28.8 billion in 2005 to USD68 billion in 2015.

**5.4% average GDP growth in sub-Saharan Africa from 2005 to 2015<sup>6</sup>**

GDP growth in Africa as a whole for the same period was slightly lower at 4.0%. This compares to the global average of 3.8% and 1.5% growth in developed economies over the same period.

**50% of Africans will live in cities by 2030<sup>1</sup>**

Africa's rapid rate of urbanisation is expected to continue rising from 36% in 2010 to 50% in 2030. This conglomeration of people provides governments and businesses with an opportunity to lower the cost of providing products and services.



**28.7% of Africans are online<sup>2</sup>**

Africa's relative underdevelopment enables the implementation of the latest technologies, leapfrogging older technologies such as fixed-line communications with mobile networks, and coal-fired power with renewable energy.

**1.5 billion Africans will be of working age (15 to 64) by 2050<sup>3</sup>**

Africa's working population is currently 659 million people, expected to grow to 861 million by 2020 and 1.5 billion by 2050.

**200 million Africans will be aged 15 to 24 by 2050<sup>4</sup>**

Africa's population is expected to double by 2050. With an estimated median age of 20, Africa's youthful population will place increasing pressure on governments and businesses to drive employment growth as a greater number of Africans reach working age.



Standard Bank  
Representative office

## Facilitating China-Africa trade and investment

China remains Africa's largest trading partner and an increasingly important source of foreign investment across Africa. Our strategic partnership with ICBC provides us with a unique opportunity to provide financial services to clients operating in the China-Africa corridor.

**47.8% growth in China-Africa foreign direct investment (FDI)<sup>7</sup>**

FDI into Africa from China is shifting from extraction to manufacturing industries.

## Connecting Africa to developed world economic centres

Our presence in, and connection with, global financial centres enables us to facilitate investment and development flows into Africa, and to access international capital to facilitate growth, diversification and development in Africa.

**USD929 billion in world trade with Africa in 2015<sup>7</sup>**

This represents a 178% increase from USD334 billion a decade ago. About 70% of Africa's exports are metals and minerals, indicating the need for economic diversification.

**31% of capital flowing into Africa is from worker remittances<sup>8</sup>**

Remittances replaced foreign aid as the largest external inflow to Africa in 2009, as Africa's dependence on official development assistance eased by 18.7% to USD83.7 billion in 2015 from USD103 billion in 2014.



**60% of the world's arable land is in Africa<sup>9</sup>**

The underutilisation of arable land across the continent holds vast potential for increased commercial agriculture and production of agricultural goods. Mitigating the impact of climate change will be an essential part of realising this potential.

**38.4% less Africans living below the international poverty line over the last decade<sup>10</sup>**

Africans living below USD1.9 a day has fallen to 39.1% compared to 63.5% a decade ago.

**1/3 of the world's mineral reserves are in Africa<sup>11</sup>**

The continent also has 10% of world oil reserves, the largest cobalt and diamond reserves in the world, and 95% of the world's platinum reserves are located in South Africa. Commodities remain fundamental to modern economies, and Africa's resources remain largely either undiscovered or underexploited.

- 1 African Development Bank – Urbanization in Africa (2012).
- 2 Internet World Stats (June 2016) – [www.internetworldstats.com](http://www.internetworldstats.com).
- 3 UN Population Statistics.
- 4 Africa Economic Outlook – Promoting Youth Employment in Africa (2012).
- 5 International Trade Centre.
- 6 International Monetary Fund; Standard Bank Research.
- 7 Annualised compound growth Overseas Development Institute (ODI, 2016).
- 8 African Development Bank – Organisation for Economic Cooperation and Development.
- 9 World Bank.
- 10 African Development Bank.
- 11 Economics Intelligence Unit – African Development Bank.



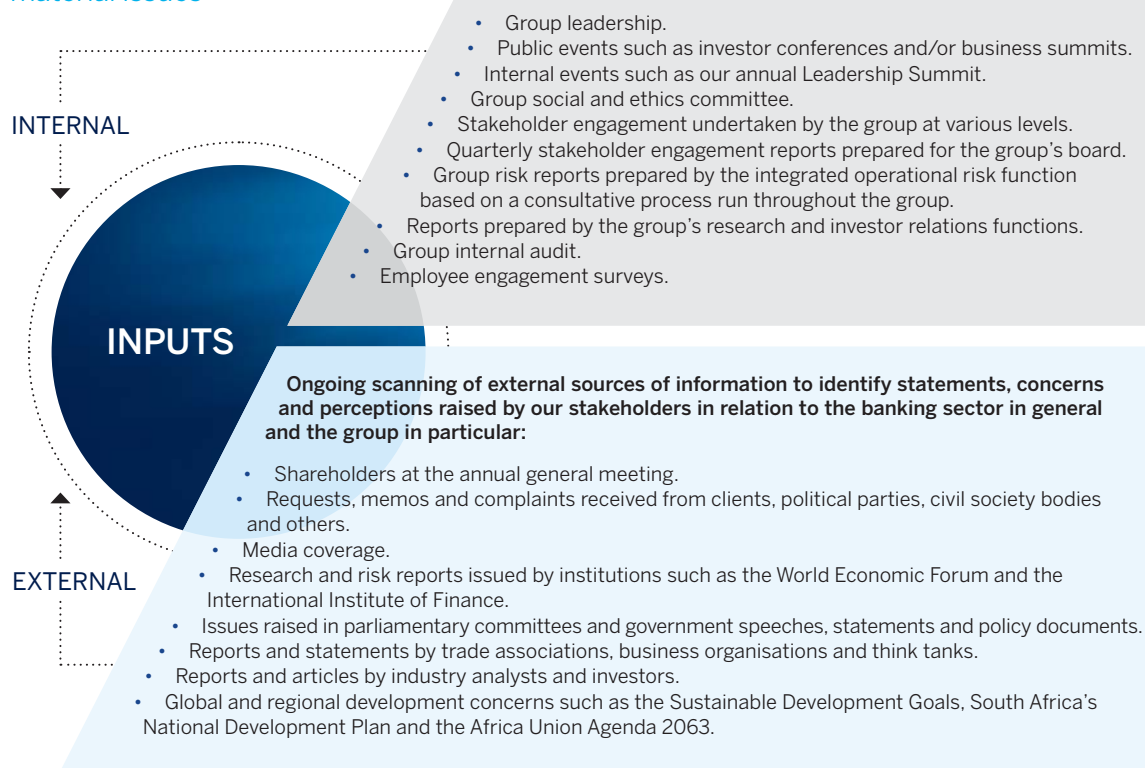
## Our material issues

We consider an issue to be material if it has the potential to substantially impact on our commercial viability, our social relevance and our relationships with our stakeholders. Our material issues are informed by the expectations and concerns of our stakeholders, and the social, economic and environmental context in which we operate.

We view the materiality determination process as a business tool that facilitates integrated thinking. The process draws on our ongoing stakeholder engagements, for instance, with clients and regulators, and the work we are doing to revise the measures that underpin our strategic value drivers –

specifically our assessments of client and employee satisfaction. It also considers the views of key stakeholders, obtained through engagements undertaken to assess the quality of our relationships with them.

### How we determine our material issues



The identified concerns of our stakeholders and how we are responding are discussed on [pages 20 to 24](#).

Based on this review, we identify the themes and issues that appear to be of greatest interest and concern to our stakeholders, and summarise, consolidate and align these as a list of material issues. In 2016, we undertook a fresh assessment of the issues and concerns raised by our stakeholders, which confirmed that the themes identified in our 2015 annual integrated report, remain pertinent. The group social and ethics committee examined and confirmed our material issues in July 2016.



## LINK TO VALUE DRIVERS

<p>1</p> <p><b>Managing economic headwinds</b></p>	<p>We remain confident in Africa's long-term prospects, despite slower economic growth in certain countries in which we operate, and are committed to the expansion and deepening of our business across the continent. Slower economic growth in certain countries in which we operate, has been a headwind. We support Africa's growth by carefully managing risk across our portfolio, and we work with our stakeholders to support job creation and inclusive economic growth. This includes investment in infrastructure development and emerging manufacturing and services industries, and support for the broadening and diversification of trade relationships.</p>	<ul style="list-style-type: none"> <li> Client focus</li> <li> Risk and conduct</li> <li> Financial outcome</li> <li> SEE outcome</li> </ul>
<p>2</p> <p><b>Understanding our clients</b></p>	<p>We aspire to build long-term, fulfilling relationships with our clients by understanding, and effectively and efficiently responding to their needs. We strive to continually improve the client experience at our branches, and on our online and mobile banking platforms. Our culture, underpinned by our values, aims to ensure that our clients are treated fairly at all times and that their best interests are placed first in every decision we take.</p>	<ul style="list-style-type: none"> <li> Client focus</li> <li> Employee engagement</li> <li> Risk and conduct</li> <li> Financial outcome</li> <li> SEE outcome</li> </ul>
<p>3</p> <p><b>Motivating our people</b></p>	<p>We must ensure that our people are empowered and recognised for living our values and for delivering on our strategic objectives: to drive Africa's growth, to treat our clients as individuals and deliver relevant solutions that fulfil their needs and to do the right business the right way. We provide our people with the opportunity to realise their full potential, and to develop the skills and adaptability needed to thrive in a rapidly changing world of work.</p>	<ul style="list-style-type: none"> <li> Client focus</li> <li> Employee engagement</li> <li> Risk and conduct</li> <li> Financial outcome</li> <li> SEE outcome</li> </ul>
<p>4</p> <p><b>Managing regulatory change</b></p>	<p>Global regulatory frameworks are becoming far more principles-based and outcomes-driven, requiring banks to ensure that every decision they take is appropriate to individual client interests, while maintaining the stability and integrity of financial markets. We are committed to treating clients fairly, lending responsibly, exercising effective risk management controls and being transparent and accountable in all our business dealings. We support regulatory reform that contributes to stable financial systems and that facilitates inclusive economic growth in Africa.</p>	<ul style="list-style-type: none"> <li> Client focus</li> <li> Risk and conduct</li> <li> Financial outcome</li> <li> SEE outcome</li> </ul>
<p>5</p> <p><b>Embracing innovation</b></p>	<p>The technological revolution sweeping through the financial services industry is causing profound disruption. To prove our relevance in an increasingly digital world, we are actively embracing disruption and innovation, and working with innovation partners to deliver better value for our clients. We strive to find ways that make financial services more cost-effective, convenient and relevant. This includes tailoring solutions to meet diverse needs and preferences, and delivering services that make life easier and better for Africa's people.</p>	<ul style="list-style-type: none"> <li> Client focus</li> <li> Employee engagement</li> <li> Financial outcome</li> <li> SEE outcome</li> </ul>
<p>6</p> <p><b>Leveraging our investments in IT</b></p>	<p>We want to be Africa's leading full-service digital bank. Over the past couple of years we have made major investments in modernising our IT platforms, replacing our ageing systems with best-of-breed, integrated solutions. This has enhanced our capacity to offer digital products and services, and has strengthened our capacity for data analytics which enables us to improve and personalise the service we provide to our clients. It has also strengthened our resilience against cybercrime and improved integration across our business units and countries of operation.</p>	<ul style="list-style-type: none"> <li> Client focus</li> <li> Employee engagement</li> <li> Risk and conduct</li> <li> Financial outcome</li> <li> SEE outcome</li> </ul>



Our material issues and how they are managed are comprehensively discussed in the report to society.

RTS











# Responding to our stakeholders

To protect our legitimacy, which is necessary to compete effectively and create value, we work hard to build and maintain relationships of trust with our stakeholders based on open and proactive engagement.

Our stakeholders are those individuals or organisations that have an interest in our success or failure and whose opinions and actions can impact on our ability to execute our strategy and conduct our business activities. Outlined below are the top issues raised by our key stakeholders and our strategic initiatives that respond to these concerns.



Clients			
CONCERN	OUR STRATEGIC INITIATIVES	MATERIAL ISSUE	DETAILED INFORMATION
<p>Improving client service levels and providing cheaper, more convenient banking options.</p> <p>Increasing process efficiency and automation of payments to reduce delays, errors and complexity.</p>	<p>Groupwide focus on enhancing client experience through:</p> <ul style="list-style-type: none"> <li>IT platform modernisation programme.</li> <li>Innovative digital services that provide relevant banking and wealth solutions per client segment.</li> <li>Empowering client-facing staff to make relevant decisions.</li> <li>Changing organisational structures and ways of working.</li> </ul>	<p>2</p> <p>5</p> <p>6</p>	<p> Business unit reviews and IT report: <b>pages 34 and 66.</b></p> <p> <b>Pages 36, 58, and 66.</b></p>
<p>Managing the impact of compliance requirements on client experience.</p>	<ul style="list-style-type: none"> <li>Technologically-enabled compliance and risk solutions.</li> <li>Digital services developed for client convenience and to meet regulatory requirements.</li> </ul>	<p>2 4</p> <p>5 6</p>	<p> IT report: <b>page 66.</b></p> <p> <b>Page 50.</b></p>
<p>Preserving multi-generational wealth and delivering solutions for younger high net worth individuals.</p>	<ul style="list-style-type: none"> <li>Integrated multi-generational wealth solutions.</li> <li>Leadership Academies to guide this client segment.</li> </ul>	<p>2 5</p>	<p> Wealth review: <b>page 52.</b></p>
<p>Higher expectations of personalised, relevant advice from financial advisors.</p>	<ul style="list-style-type: none"> <li>New client-focused operating model in Wealth.</li> <li>Goals-based investment philosophy where product and advisory services are aligned to the principles of the pending Retail Distribution Review.</li> </ul>	<p>2</p> <p>4</p>	<p> Wealth review: <b>page 52.</b></p>
<p>Concerns with respect to cybercrime and fraud.</p>	<ul style="list-style-type: none"> <li>Sophisticated fraud detection and mitigation tools.</li> <li>Regular client and staff awareness campaigns.</li> </ul>	<p>2</p> <p>5</p> <p>6</p>	<p> IT report: <b>page 66.</b></p> <p> <b>Pages 38 and 69.</b></p>









Our ongoing stakeholder engagement initiatives and those specifically related to determining the group's material issues are outlined on **page 18**, and discussed comprehensively in the report to society.



## Employees and their representatives

CONCERN	OUR STRATEGIC INITIATIVES	MATERIAL ISSUE	DETAILED INFORMATION
The need to develop new skills in a changing operating environment due to the rise of digitisation and automation.	<ul style="list-style-type: none"> <li>• Wide range of continuous learning programmes.</li> <li>• Leadership, youth and specialised skills development programmes.</li> <li>• University partnerships to develop IT curricula.</li> <li>• Initiatives such as upskilling, retraining and redeployment to assist employees affected by changes to business operating models and the introduction of new ways of working.</li> </ul>	<div>3</div> <div>6</div>	<div>  Human capital and IT reports: <b>pages 58 and 66</b>.         </div> <div>  <b>Pages 42 to 49.</b> </div>
Driving diversity and inclusion to create a workforce that is locally relevant.	<ul style="list-style-type: none"> <li>• Diversity and inclusion framework.</li> <li>• Employment equity targets in South Africa.</li> <li>• Accelerate the development of local talent pipelines in operating countries, and the advancement of black employees in South Africa.</li> </ul>	<div>1</div> <div>3</div> <div>4</div>	<div>  Human capital report: <b>page 58</b>.         </div> <div>  <b>Page 46.</b> </div>



## Suppliers

CONCERN	OUR STRATEGIC INITIATIVES	MATERIAL ISSUE	DETAILED INFORMATION
Aligning the group's procurement practices to support transformation in South Africa.	<ul style="list-style-type: none"> <li>• Proactive and deliberate approach with clear targets to ensure the equitable participation of black-owned businesses in our supply chain.</li> <li>• Redirecting goods and services previously procured from foreign suppliers to local black suppliers, where feasible.</li> <li>• Supplier development programmes for small businesses, including access to financing, where relevant.</li> </ul>	<div>1</div> <div>4</div>	<div>  <b>Page 73.</b> </div>





## Governments and regulators

CONCERN	OUR STRATEGIC INITIATIVES	MATERIAL ISSUE	DETAILED INFORMATION
Rebuilding trust and maintaining stability in the financial sector, and compliance with various legislative changes.	<ul style="list-style-type: none"> <li>Adoption of global best-practice in financial standards.</li> <li>Strong relationships with local banking regulators and central bank officials.</li> <li>Standardised groupwide compliance model.</li> <li>Cooperation between compliance teams at group and country level.</li> <li>Skills sharing through cross-jurisdictional secondments.</li> <li>Automated compliance monitoring and reporting.</li> <li>Standardisation of the methodology to assess and prepare for the impact of new regulation.</li> </ul>	1 4 6	Business unit reviews: <b>page 34</b> .  <b>Pages 50 to 57</b> .
Improving the control environment in the Africa Regions.			
Embedding compliance and risk-aware behaviour.	<ul style="list-style-type: none"> <li>Strong focus on employee conduct and values.</li> <li>Regulatory awareness initiatives and compulsory compliance training.</li> </ul>	1 3 4	<b>Pages 18 and 55</b> .



## Shareholders and investment analysts

CONCERN	OUR STRATEGIC INITIATIVES	MATERIAL ISSUE	DETAILED INFORMATION
The group's resilience to challenging economic conditions.	<ul style="list-style-type: none"> <li>Leverage our diversified portfolio at sector, regional and client levels, by allocating capital to select growth opportunities.</li> </ul>	1 2	Group financial review and business unit reviews: <b>pages 74 and 34</b> .  <b>Pages 26 and 40</b> .
Managing asset quality and impairments.	<ul style="list-style-type: none"> <li>Regular risk assessments and adjustment of risk appetite.</li> <li>Retain quality client segments and grow select client segments in PBB.</li> <li>Increase CIB's exposure to growth sectors and economies, offsetting declines in commodity sectors.</li> <li>Support clients facing difficulties through appropriate debt restructuring.</li> </ul>		
Managing costs and improving the cost-to-income ratio.	<ul style="list-style-type: none"> <li>Maintain disciplined cost management.</li> <li>Achieve global benchmarks for IT expenditure from 2018.</li> <li>Focus on delivering positive JAWs<sup>1</sup>.</li> </ul>	1 6	Group financial review and IT report: <b>pages 74 and 66</b> .

<sup>1</sup> JAWs is a measure of the extent to which the total income growth rate exceeds the operating expense growth rate.

<sup>2</sup> CEO Initiative: [www.ceopledge.co.za](http://www.ceopledge.co.za).










## Shareholders and investment analysts continued

CONCERN	OUR STRATEGIC INITIATIVES	MATERIAL ISSUE	DETAILED INFORMATION
Strategic value of other banking interests.	<ul style="list-style-type: none"> <li>The strategic cooperation agreement with ICBC remains an important element in both our Africa strategy and in the future of the group's other banking interests.</li> </ul>	<p>1</p> <p>2</p>	<p> CIB review: <b>page 44.</b></p> <p> <b>Page 37.</b></p> <p><small>RTS</small></p>
Unclear executive pay and long- and short-term incentive structures.	<ul style="list-style-type: none"> <li>Review the current remuneration policy and how it links to the group's strategic value drivers to provide stakeholders with a better understanding of executive remuneration structures.</li> </ul>	<p>3</p> <p>4</p>	<p> Remuneration report: <b>page 106.</b></p>



## Communities and civil society

CONCERN	OUR STRATEGIC INITIATIVES	MATERIAL ISSUE	DETAILED INFORMATION
Contributing to alleviating societal challenges across the continent.	<ul style="list-style-type: none"> <li>Business activities facilitate financial inclusion, infrastructure investment, entrepreneurship, enterprise development and job creation.</li> </ul>	<p>1</p> <p>2</p> <p>5</p>	<p> PBB review: <b>page 34.</b></p> <p> <b>Pages 37, 45, 62, 64 and 75.</b></p> <p><small>RTS</small></p>
Contributing to initiatives that address unemployment, inequality and education in South Africa.	<ul style="list-style-type: none"> <li>Contribute to the CEO Initiative<sup>2</sup> to address barriers to economic growth and avert a sovereign ratings downgrade in South Africa.</li> <li>Initiatives and digital solutions that support small businesses to become sustainable.</li> <li>Support for civil society organisations.</li> <li>Learnership programmes that provide on-the-job experience for matriculants and graduates.</li> <li>Standard Bank Tutuwa Community Foundation's focus on initiatives and projects that advance education.</li> </ul>		
Contributing to initiatives that address South Africa's macroeconomic and socio-political challenges.			
Funding for higher education in South Africa.	<ul style="list-style-type: none"> <li>Standard Bank bursary programmes.</li> <li>Work with government, corporates and universities to develop sustainable tertiary education funding solutions.</li> </ul>	<p>1</p> <p>3</p>	<p> Human capital report: <b>page 58.</b></p> <p> <b>Pages 45 and 64.</b></p> <p><small>RTS</small></p>
The group's efforts to mitigate the impact of climate change.	<ul style="list-style-type: none"> <li>Managing environmental and social risk related to financing activities.</li> <li>Standard Bank-financed renewable energy projects, including a funding agreement with ICBC for renewable energy projects in South Africa.</li> <li>Adoption of green building principles and measures to reduce the direct environmental impact of activities.</li> </ul>	<p>1</p> <p>2</p>	<p> <b>Pages 32, 40, 53 and 72.</b></p> <p><small>RTS</small></p>



# Our performance

Our transformation into a fully-fledged digital bank accelerated in 2016. We provided our clients with an ever-richer set of banking features from the convenience of their smartphones, and they are embracing our digital offerings – our mobile banking platform processed 726 million transactions this year, totalling over R360 billion in transaction value. We've also made the app available in several of our operations in the Africa Regions. This pan-African rollout comes at a time when smartphone adoption is accelerating on the continent. The GSM Association believes that sub-Saharan Africa will add 400 million new smartphones by 2020, spurring massive economic and social change, for which we as a bank will be prepared.



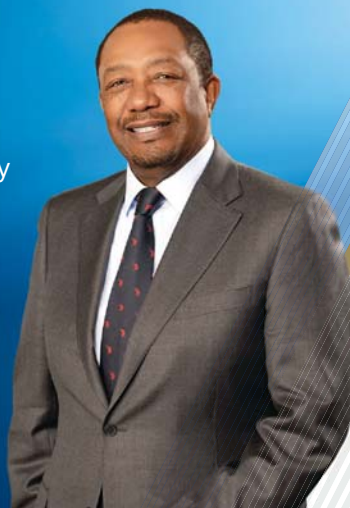
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## Chairman's statement

"I care deeply about ethical outcomes. As a board, we strive to establish an ethical culture and to set the right tone from the top. Our contribution to society encompasses maximising sustainable shareholder value, empowering communities and supporting sustainable development. These goals are inextricably linked."

Thulani Gcabashe



↑ 16%  
**780 cents**  
DIVIDEND PER  
ORDINARY SHARE  
2015: 674 cents

*Dear Stakeholder*

It's often useful to remind oneself what boards are for. As economists put it, they exist to solve the "principal-agent" problem. Our job, in other words, is to ensure that the executive management and staff of the group are working in the company's long-term best interests. Under South African company law and the King Code, the long-term best interests of the company are clearly understood to encompass the interests of shareholders, other material stakeholders, society as a whole and generations yet to come.

This perspective guides me to the questions I regularly ask myself, my fellow board members, and our management.

**Does our strategy generate sustainable competitive advantage? Does it respond to the needs of the societies in which we operate?**

My answer to these questions is a confident "yes." As you will see from our financial results, our group's Africa-

centred strategy has produced pleasing returns in our banking activities. I am particularly encouraged to note that our South African operations demonstrated particular resilience in a very difficult year. In addition, our businesses across the continent, beyond South Africa, generated strong results in an exceptionally slow year for Africa's economies, demonstrating the remarkable strength and excellent balance of that portfolio.

In 2016, the management team put a great deal of time and energy into ensuring that our group is centred on meeting the financial services needs of our clients with consistent excellence. Equally, the team's efforts have been directed at ensuring that those needs are met sustainably and responsibly, while taking full account of our regulatory obligations and our duty to be good and constructive corporate citizens.

For example, we were closely involved in finding solutions to the university

student funding crisis in South Africa, in the successful joint effort with government and organised labour to prevent a sovereign ratings downgrade, in the successful negotiations on a national minimum wage and on measures to reduce the frequency and severity of strikes. During 2017, we will be extending our rigorous assessment of the social, economic and environmental impacts of our financing beyond CIB, to incorporate our PBB and Wealth businesses.

**Is our culture right? Are we determined to serve our clients, shareholders and other stakeholders to the best of our ability? Are we managing our risks and meeting our regulatory obligations in ways that guarantee our long-term sustainability?**

I am certain that the answer to these questions has been "yes" for 2016 – but I am equally certain that these are areas in which constant vigilance is required.



The board and I constantly aim to foster an organisational culture of doing the right business the right way. We require that all employees are guided by, and actively live out, the group's vision and values. In South Africa in particular, it is also necessary to keep reinforcing our commitment to transformation and to building a country where growth and development reach all its citizens.

The management's programmes to communicate our strategy and to reinforce our culture are innovative and systematic, and survey evidence demonstrates that they are having large positive effects on our employees' attitudes and willingness to go the extra mile.

The quality of our risk management was thoroughly tested in 2016 as economic conditions in several of our key markets deteriorated. The board engaged management about the group's exposures and resilience, and – as borne out by the relevant metrics – our robust debates made for an effective response that simultaneously defended our businesses, supported our clients and helped to mitigate the economic strain experienced in various markets.

The pace at which digital technology is advancing in our industry and our group inevitably increases the risk of cybercrime and, therefore, the importance of maintaining the stability of our IT systems and of keeping our clients' information safe. Our group IT committee has maintained focus on IT risk throughout the year. The board is briefed regularly on the performance of our systems to detect, avoid or remediate threats to our IT systems.

The board spends a great deal of time making sure that all the group's regulatory requirements are met. Of course, full and proper compliance requires a rigorously ethical and engaged response to the spirit of the laws, regulations, standards and codes that apply to us.

We are clear that we will never turn a blind eye to wrong-doing in the public or private sectors, but equally that we will

never be drawn into partisan politics. In taking a rigorous and determined stand against corruption, we recognise that it is necessary to ensure that our own business practices are beyond reproach.

This year, the group chief executives and I focused, in particular, on sharing our strategy and general approach to risk management and compliance with the chairmen of our subsidiary companies across the continent. This is essential for the consistent oversight of strategy and execution in our markets in order to best serve our clients.

#### **Does the board contain the necessary skills and experience to defend and advance shareholder and other stakeholder interests?**

I have sought to align the board's collective knowledge and experience to the group's strategic direction. Accordingly, I thought it important that the board accurately embodies and expresses the interests of the shareholders and stakeholders in Africa's largest financial services group by assets. Succession planning to cater for directors due to retire over the next three years was also a focus during the year. Another priority for the board was to bolster the group's IT governance structures with additional non-executive oversight, and to ensure the ongoing implementation of more robust IT governance, particularly in the Africa Regions.

To this end, we appointed five new non-executive directors to the board during 2016. I am now satisfied that the board better reflects the geographic and sector diversification of the group's portfolio, and that the board's diversity in racial, gender and age offers an appropriate and valuable mix of perspectives. The new members are:

- Mr John (Jacko) Maree, chairman of Liberty and former chief executive of Standard Bank Group from November 1999 until his retirement in March 2013, who will assume the role of deputy chairman of the board alongside Dr Shu Gu.

- Ms Geraldine Fraser-Moleketi, former special envoy on gender at the African Development Bank, former director of the United Nations Development Programme's Democratic Governance Group, former South African cabinet minister and Member of Parliament from 1994 to 2008.
- Ms Gesina Kennealy, chairperson of the Accounting Standards Board, and formerly the chief financial officer of the South African Revenue Service and chief operating officer of ABSA Corporate and Business Bank.
- Ms Nomgando Matyumza, non-executive director of Sasol, WBHO and Hulamin, and formerly the deputy chief executive of Petronet and general manager of Eskom Distribution (Eastern Region).
- Mr John Vice, non-executive director of Anglo American Platinum and former senior partner at KPMG. Mr Vice was an independent advisor to our group's IT board committee for the four years prior to joining our board.

Having reached the mandatory retirement age of 70, Mr Ted Woods retires from the board at our annual general meeting in May. Ted has made an enormous contribution to the governance of the group, notably as chairman of the group remuneration committee. His deep expertise and total commitment to doing the right business the right way have decisively shaped our board and the group, and his influence will endure.

I would like to thank all my fellow directors on the board for their wise counsel and support during the year. The board continues to play the all-important role of providing ethical leadership and good governance for the group. This can only happen with committed and wise executive and non-executive directors, leading energised teams of management and employees.



## Group chief executives' report

"We look back on 2016 with gratitude to all our clients and employees. We look forward to 2017 with confidence and optimism. The Standard Bank Group is firmly on track towards executing our strategy, achieving our vision and fulfilling our purpose".

Sim Tshabalala, Ben Kruger

# R23 009 million

## HEADLINE EARNINGS

2015: R22 187 million



# 15.3%

## RETURN ON EQUITY (ROE)

2015: 15.6%



Over the 154 years of our history, the Standard Bank Group has become a byword for trustworthiness, stability and principled commitment to driving Africa's economic growth and socioeconomic development.

We are equally committed to providing consistently excellent service to our clients and to earning a consistently good profit for our shareholders.

During 2016, our group demonstrated resilience and character while making steady progress towards fulfilling our commitments to our clients, shareholders and other stakeholders. We are always mindful that clients and shareholders are not abstractions. Behind client segments, institutional investors and multinational corporations are always people – people who have

entrusted us with their hard-earned money and with their hopes.

In our home economy, South Africa, the year began with a period of severe political uncertainty, leading to a dramatic fall in asset prices, in the external value of the currency, and in business and investor confidence. Working closely with business and labour, the government moved quickly and effectively to restore confidence in South Africa's fiscal discipline and to make a start on necessary structural reforms. Growth remained disappointingly slow during 2016 but, by the end of the year, the country had convincingly demonstrated the strength and quality of its most important institutions, had avoided both a sovereign downgrade and a recession, and looked set to enter a subdued recovery.

Mostly owing to weak commodity prices, sub-Saharan Africa as a whole grew at just 1.4%, its worst performance in 22 years. The region's largest economies fared particularly poorly and Nigeria slid into recession. The commodity price slump caused severe foreign currency shortages in Nigeria, Angola, Zambia and Mozambique giving rise to liquidity constraints and macroeconomic policy challenges for the authorities. African economies also had to contend with tighter global financing conditions, inflationary pressures arising from a strengthening dollar, and in many cases, high food prices due to the drought in the southern and eastern regions of Africa. However, several countries continued to grow fast and steadily, including Ethiopia and Ghana, and the members of the east African community.

Global markets were surprised by the United Kingdom's (UK) decision to leave the European Union in June and by the outcome of the United States (US) presidential election in November. The longer-term consequences of these developments remain to be seen but, we remain committed to our strategy and supporting sustainable real economic growth and inclusive development.

By the end of 2015, our group had completed the work necessary to ensure that our resources and energies were entirely focused on Africa and on connecting Africa to the wider world. We had also agreed that we would organise our strategy execution around our commitment to providing consistently excellent client service. If a structure or a process clearly helps us to serve our

clients, it is earning its keep. If not, it needs to be rethought.

We do not expect our strategy to change any time soon. We understand, however, that a strategy focused on our dynamic continent and on exceeding clients' expectations in the digital age means that we can't afford complacency. We need to combine the agility and responsiveness of a digital start-up with the reliability and reach of a universal financial services group.

During the year, for example, PBB continued to make good progress in improving client experience through digitisation and – just as important – by modernising and streamlining our ways of working to remove unnecessary obstacles and delays that frustrate our clients.

CIB continued to ensure that its digital face to the world is up-to-date, and demonstrated its commitment to our corporate clients in the most practical way possible – by helping them to grow significantly faster than the surrounding economies while standing by those going through tough times. CIB also made good progress in developing a joint client franchise with the Industrial and Commercial Bank of China (ICBC) to meet the needs of the companies developing China-Africa trade and investment.

Liberty had a difficult year but the Wealth businesses within the group's banking activities did well in financial terms by radically improving service in our short-term insurance business in South Africa and by launching a new high net worth wealth management business in Ghana.



We are proud of the deep expertise and local knowledge contained in our business units, our 20 African banks, and our international and offshore businesses. But we also understand that our clients generally have very little interest in whether they are being served by PBB, CIB or Wealth, or whether the product they need comes from the Standard Bank of South Africa (SBSA) or from, say, Stanbic Bank Zambia. We are determined to deliver a universal banking and financial services experience to all our clients. During the year, we worked hard to lower internal barriers and to link up our businesses and we will put a lot more work into this over the years to come.

Our core banking replacement programme in South Africa and a number of the African countries is a key differentiator in our peer group comparisons. We made good progress during the year with new implementations going live in Nigeria, Zambia, Zimbabwe and Swaziland, with the remaining countries scheduled to go live during 2017. In South Africa, we achieved numerous new releases and are intending to close the programme successfully by the end of 2017. At present, spend on these programmes creates large intangible assets on our balance sheet and has a concomitant negative impact on ROE. Although we will continue to carry an annual amortisation charge once these programmes are completed, we will free up capital to be deployed in the business. We are acutely aware of the possibilities that our new platforms will provide to better serve our clients through faster digital deployment, better use of data analytics to improve sales and service, and improved risk and cost control.

Measurements and incentives matter a great deal. You will see that this year we have reported against five value drivers

(client focus, employee engagement, risk and conduct, financial outcome and social, economic and environmental outcome in the communities in which we operate). We intend to create more direct links between each of these and the remuneration of our senior executives.

We need Standard Bank's people to care, to be energetic, to be frank and accurate, to work well together, and to be decisive. Our regulatory compliance, our trustworthiness and soundness, our clients' satisfaction and our profitability all directly depend on the extent to which Standard Bank's people embody these habits and values. We invest a lot of time and energy into signalling, modelling and reinforcing the idea that we need to be responsive, commercially minded, entirely reputable professional bankers who always do the right business the right way, and who want our clients to succeed.

We are pleased by the results of the 2016 SBSA employee experience survey. This found that 80% of employees agreed with the statement that "Standard Bank energises me to go the extra mile", up from 67% two years ago, that 91% felt proud to be associated with the bank (up from 85%), and that 86% would recommend SBSA as a good place to work, up from 80% two years ago. 82% of employees agreed that our commitment to employment equity has become more visible over the past two years.

We continue to make steady progress on transformation in South Africa, having reached our targets for black representation in middle and junior management, and being close to target for senior and top management. During 2016, we continued to take every opportunity to press for, and to achieve, more rapid transformation of senior and top management. This is

reflected in the composition of the new group executive and management committees announced in November. We will continue to make internal transformation and diversity a top priority in 2017.

Arno Daehnke has established himself with great success as our group financial director, and is building and modernising with confidence, accuracy and flair on the excellent foundations established by his distinguished predecessor. We were delighted to be able to appoint Sola David-Borha as chief executive of our Africa business and Margaret Nienaber as chief executive of Wealth.

There is sometimes confusion about what bankers mean by "risk appetite" or "taking risks". We certainly don't mean behaving rashly or irresponsibly. But – as any entrepreneur or business owner will confirm – there's no growth without risk. A major part of our business is lending, which involves taking carefully judged risks on our clients' ability to succeed. When we get this right we make it possible for young people to study, for families to buy homes, and for businesses to grow and create jobs.

Despite a tough year in most of our markets, the group's credit portfolio remained steady. The group credit loss ratio improved slightly to 0.86%, and all group-level credit metrics were on steady or improving trends over the year. As was to be expected given persistently weak commodity prices, some shareholders wanted to better understand our concentration on natural resources and the potential impact on CIB's credit portfolio. CIB's client credit loss ratio was at the higher end of our target range during the middle months of the year, but we were able to manage our portfolios swiftly back to comfortable levels, well within



our target range by year end, while also continuing to fulfil our purpose by supporting our private and public sector clients in difficult times.

Group and SBSA regulatory and economic capital positions remained within risk appetite throughout the year. With total capital adequacy at 16.6%# and common equity tier 1 capital adequacy of 13.9%#, the group remains well-capitalised. Group and SBSA long- and short-term liquidity positions were conservatively managed, taking into account both likely and remotely possible demands for liquidity. However, there were persistent shortages of hard currency liquidity in several important African markets, most notably Nigeria and Angola.

People often ask us what “keeps us up at night”. The answer is almost always cybercrime and fraud. Along with every other major financial institution, our group is subject to very frequent and increasingly sophisticated attempts at digitally assisted fraud. This year, for instance, we suffered a sophisticated multinational fraud that cost the group R300 million. This was painful and embarrassing for us but, crucially, our clients were unaffected. Vigilance against cybercrime remains an absolutely top priority. We will continue to do everything we can to ensure that our clients and our group are as well-protected as possible.

Throughout the year – as every year – we continued to set the tone from the top by placing an extremely strong emphasis on our values, on compliance with all applicable regulation, and on doing the right business the right way.

We spent a substantial amount of time on making contributions to public policy and regulatory development in South Africa and internationally. We regard this as a duty that flows directly from the

group’s purpose and values; as a responsibility that Africa’s largest financial services group, in terms of assets, must accept; and – most importantly – as a commercial imperative in support of our clients’ and shareholders’ interests. The group’s cost structure, revenue possibilities, client service, profitability and sustainability are all greatly influenced by the quality of the institutions responsible for economic policy, governance and financial sector regulation.

Group headline earnings were R23 billion in 2016 with group ROE at 15.3%#. Although our ROE is within our target range of 15% to 18%#, we had aimed to be higher up in our target range. While our banking activities ROE of 16.8% was pleasing, we had aimed for our group ROE of 15.3% to be higher up in our target range of 15% – 18%. The dilution of the group’s ROE was as a result of the inclusion of the group’s share of Liberty’s earnings (which was 61% down from the previous year) and the combination of the minority interests in our other banking interests, being ICBC Standard Bank Plc (ICBCS) and ICBC Argentina (which together recorded a loss of R8 million for the year).

We are pleased to report that, despite difficult market conditions, banking activities’ headline earnings grew by 9% to R22.1 billion, generating an ROE of 16.8%. The strong growth in revenue reflects the positive momentum in our franchises while our costs include further investments in our people, technology, infrastructure, digital transformation and starting a new business in Côte d’Ivoire.

PBB produced headline earnings of R12.6 billion, up 12%, at an ROE of 18.7% – continuing the strong trend of recent years. PBB’s results reflect our decision to shift the centre of gravity of

↑12%

**R12.6 billion**

**PBB HEADLINE EARNINGS**

at an ROE of

**18.7%**

↑16%

**R10.6 billion**

**CIB HEADLINE EARNINGS**

at an ROE of

**20.0%**



the business towards serving medium-sized corporations, entrepreneurs and Africa's rapidly growing middle class. PBB's results also reflect good cost discipline and effective credit control.

CIB grew headline earnings by 16% to R10.6 billion at an ROE of 20%. This year marks the completion of a five-year journey following the decision to dispose of our international operations in order to restore profitability and returns for shareholders. CIB's performance reflects its balanced sectoral and country portfolios; its ability to partner with clients that are able to outperform the surrounding economies; its unique strengths as a banking partner for multinationals doing business in Africa and along the China-Africa trade and investment route; its capacity to assist African sovereigns and corporations to raise funds efficiently and at good prices on global capital markets; and its sectoral expertise in power and infrastructure, mining and metals, oil and gas, telecoms, diversified industrials and retail.

The group's other banking interests (being our 40% share in ICBCS and the 20% holding in ICBC Argentina) produced a small loss for the group of R8 million. While a loss can never be good news, we are pleased that losses attributable to the group from ICBCS have halved compared to 2015. We remain convinced that the group's strategic partnership with ICBC helps to position us in a unique way as evidenced, for example, by the progress we are making in developing and delivering renminbi-denominated capabilities for our clients. We expect that our investment in ICBCS will achieve a breakeven financial result in the near term.


Considering the weak performance of the South African economy over the year, the high levels of uncertainty and volatility over the period, intense and ever-increasing competition, and our high market shares, we believe that SBSA did well to achieve a 9% increase in headline earnings to R14.6 billion at an ROE of 15.8%, exceeding the prior year's return of 15.5%.

The group's businesses in Africa beyond South Africa generated headline earnings of R5.7 billion, 3% up on 2015, adjusted for once-off gains on principal investment management in west Africa in the prior year. In a year when sub-Saharan Africa's GDP grew slowly, we believe that the ROE of 20.6%, of the respective businesses, represents a strong set of results.

Liberty's earnings attributable to the group were R955 million for 2016, down 61% on the prior year. The immediate causes of Liberty's poor performance are the weak South African economy and its effects on persistency and on the performance of Liberty's shareholder investment and policyholder portfolios; abnormally high risk claims; operational losses and poor investment performance in Stanlib; and the negative accounting effects arising from the consolidation of the recently listed Liberty Two Degrees REIT, as more fully discussed in the group finance review on page 90.

Our measures of success include our relevance and value to our diverse stakeholder groups, including our clients, employees and regulators. In South Africa, for example, we have been closely involved in the CEO Initiative, through which the business sector has partnered with government and organised labour to develop shared responses to slow growth, inequality and unemployment. We partnered with solar energy providers to enable the generation of 190 megawatts of solar photovoltaic energy – enough to power 92 500 homes. And by restructuring the loans of a number of our agricultural clients, who were hard hit by prolonged drought, we kept more than 50 000 hectares of land in production, secured a number of permanent and seasonal jobs, and enabled affected clients to sustain turnover.

You will have seen media coverage of the Competition Commission's referral to the Competition Tribunal of its complaint that a group of banks colluded in the trading of foreign currency pairs during 2007 to 2013. While we would like to reassure you that we will engage fully with the relevant authorities in relation to this serious matter, the group has not yet been given access to the information relied on by the Competition Commission in making its referral and cannot comment further at this time.



Our measures of success include our relevance and value to our diverse stakeholder groups, including our clients, employees and regulators.



## Looking forward

We expect a slight acceleration in global growth, particularly in emerging markets, in 2017. For most African countries, growth prospects look set to improve in 2017 as commodity prices gradually rise. We expect that the South African economy will perform better than it did in 2016, but that growth will still be too slow to reduce unemployment significantly or to increase real income per capita. The surprising outcomes of the UK referendum on EU membership and the US presidential election add some uncertainty to the outlook, as does the likelihood of continued turbulence in South Africa's political economy as the ruling party prepares to elect a new leader.

We remain committed to improving our ROE up through our target range.

In line with our strategic value drivers (see pages 12 to 15 for more detail), we will execute our strategy by placing our clients at the centre of everything we do; working to earn and keep our clients' and stakeholders' trust by doing the right business the right way; and implementing a simple, routine and easily executed universal financial services' operating model that supports the delivery of a consistently excellent client experience and generates shared value for the communities in which we live and work.

We will do this with the support of dynamic and engaged teams, who live the group's values (page 10); who are deeply connected with our purpose and our clients; and who hold themselves personally accountable and responsible for our business.

During 2017, we will be focusing particularly on the following:

- **Efficient allocation of capital and human resources to selected African countries, sectors, and clients:** during 2016, we sharpened the tools we use to allocate resources and we expect our returns on capital, expertise and effort to rise as a result.
- **Agility:** we are pleased with the increasing leanness and responsiveness of the group, and will intervene quickly again during the year as necessary in response to changing market conditions.
- **Cost efficiency:** our longer-term focus remains on ensuring that IT and other infrastructure costs are within industry benchmarks and, even more importantly, that they make a growing positive contribution as measured by client satisfaction, shareholder return and support of Africa's growth.
- **Completing the modernisation of our core banking systems:** we will continue to create a fully digital bank. We are, however, also increasingly turning our attention to ensuring that our people use the new systems with efficiency, agility and creativity to keep up with – and exceed – our clients' expectations for expert, accurate and thoughtful service.
- **Increasing the simplicity and efficiency of our reporting lines and structures** and helping our employees to do excellent work, to enjoy what they do, and to feel stimulated and rewarded by their part in implementing our strategy and fulfilling our purpose.
- **Working closely with our colleagues in our Wealth business which includes Liberty:** we will assist Liberty to recover as quickly as possible and we will support its management as they execute a longer-term strategy to restore Liberty's competitiveness.
- **Delivering shared value** by carefully measuring and steadily growing our contribution to the social, economic and environmental wellbeing of the communities we serve, and by participating in debates on matters of relevance to the group, our clients and our stakeholders.

It is a great privilege to lead our group and to help drive Africa's growth and development.

We look back on 2016 with gratitude to all our clients and employees. We look forward to 2017 with confidence and optimism. The Standard Bank Group is firmly on track towards executing our strategy, achieving our vision and fulfilling our purpose.



## Personal & Business Banking

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

Peter Schlebusch, Chief executive, PBB and head of digitisation



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

### Overview

#### Our strategy

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

#### PURPOSE

Improving lives and fulfilling aspirations across Africa.

#### VISION

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

### STRATEGY MAP

#### What our clients want

##### CLIENT OUTCOMES

Understand me and what matters to me.

Provide solutions that matter to me.

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

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

Constantly reinvent my experience.

#### How we respond

##### EMBEDDING CLIENT FOCUS

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

##### FULFILLING OUR CLIENT COMMITMENTS

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

##### PEOPLE AND CULTURE

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



Our operating context for the year

- In South Africa, we experienced:
- Sustained economic weakness.
  - Rising unemployment across the broader client base.
  - Increasing competition for a static number of clients.
  - Changing client habits and increasing adoption of digital banking.

- In the Africa Regions, trading conditions were similarly difficult with:
- Slower economic growth, severe currency depreciation and foreign exchange shortages.
  - An escalation in punitive regulatory changes, which increased the cost of serving clients.
  - Increased competition as non-banking enterprises proliferate low-cost mobile banking services.

Our performance highlights and challenges



In South Africa, despite these challenging conditions, we achieved

**11% growth**

in headline earnings and a 22.7% ROE (2015: 22.1%) by:

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




In the Africa Regions, we delivered a

**66% increase**


in headline earnings (58% on a constant currency basis) and a 2.5% ROE, up from 1.8% in 2015, by:

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










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

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



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

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

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

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

Performance against strategy

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

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

AWARDS

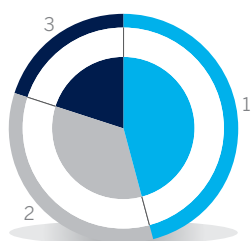
- Best Retail Bank – Banker Africa Southern Africa Awards 2016.
- Best Private Banker in Africa – Private Banker International.
- Most Disruptive Innovation, bronze award for foreign exchange mobile wallet, Shyft – Efma, Accenture.
- Most Valuable African Banking Brand – The Banker Top 500 Banking Brands 2016.



## South Africa

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

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



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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

believe critical to our competitiveness in an increasingly digital world.

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

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

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

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

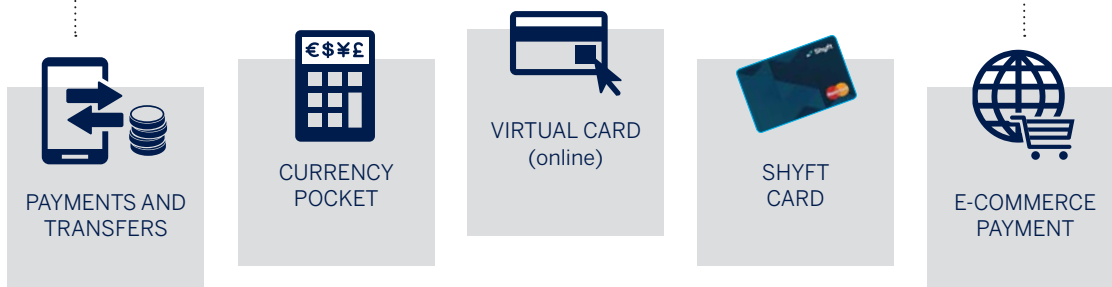


## SHYFT TO CONVENIENT ACCESSIBLE FOREIGN EXCHANGE



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

Shyft gives you access to:



Limited to R1 million single discretionary allowance

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

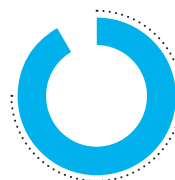
The Shyft app, available for download in Android and Apple app stores, enables clients to do personal foreign exchange transactions from their mobile devices. Shyft simplifies foreign exchange transactions by eliminating paperwork and branch queues.

### Build excellence through engaged and committed people

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

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

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



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





## Africa Regions

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

### **PBB International**

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

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



## Looking ahead

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



### CLIENT FOCUS

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



### EMPLOYEE ENGAGEMENT

- Equipping our people to consistently deliver excellent client experience.



### RISK AND CONDUCT

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



### FINANCIAL AND SOCIAL OUTCOME

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



# Corporate & Investment Banking

“Our strategy to grow revenue is based on the careful selection of clients, with whom we develop long-term partnerships in support of their growth plans in, for and across Africa. Our client relationships remain our primary competitive lever, and our ability to sustain revenue growth during periods of low growth demonstrates the resilience of our client franchise.”



David Munro, Chief executive, CIB

CIB serves the banking, finance, trading, transactional, investment and advisory needs of a wide range of multinational companies and local and regional businesses, financial institutions, governments and parastatals.

Overview

Our strategy

CIB's strategy is aligned to the group's strategy. The consistent execution of our strategy is moving us closer to our medium-term aspiration to be the leading corporate and investment banking business in, for and across Africa. We are refining our core focus to ensure that our clients remain at the centre of everything we do, driving efficiency and profitability, and creating a culture based on confidence and client excellence, and that supports and motivates our highly talented people to drive Africa's growth.

PURPOSE

We dream of Africa realising its potential.

VISION

We aspire to be the leading corporate and investment banking business in, for and across Africa.

STRATEGY MAP

What our clients want

CLIENT OUTCOMES

- Understand my business and the challenges and opportunities I have.
- Develop a proactive partnership.
- Deliver solutions that meet my business needs.
- Make it easy for me to access the bank.
- Deliver consistent, reliable service.

How we respond

EMBEDDING CLIENT FOCUS

- Partner our clients on their growth journey.
- Drive collaboration and connectivity within CIB and the broader group.
- Acknowledge our clients as real people.
- Bring urgency to our processes to continually evolve and enhance our focus on our clients.
- Purposefully allocate resources to support client needs and priorities.

BUSINESS OPERATIONS

- Do the right business the right way.
- Fulfil our promises to our clients through an efficient, effective and consistent operating model.
- Enterprise-wide and end-to-end business processes aligned to the CIB strategy.
- Promote an environment of proactivity, responsiveness and reliability.
- Establish efficient allocation of financial resources and direct spend.

PEOPLE AND CULTURE

- Recognise the contribution of our employees and provide competitive, performance-based compensation.
- Promote an environment that enables collaboration.
- Establish clear mandates and accountabilities, while working to simplify everything we do.
- Cascade our desired high-performance leadership culture.
- Embrace diversity.
- Fulfil our social and ethical responsibilities.



Our operating context for the year

- Sustained economic weakness and market volatility.
- Subdued oil prices and commodity prices continued to impact commodity exporting economies.
- Less commodity-intensive economies continued to benefit from the lower oil prices.
- Heightened financial and regulatory risk in key markets due to liquidity and currency shortages, and policy missteps.
- Unfavourable investor sentiment towards emerging markets.

Our performance highlights and challenges



Despite the difficult conditions, we achieved **16% growth** in headline earnings to R10.6 billion and a 20% ROE (2015: 18%), largely as a result of:

- The resilience of our diverse portfolio across clients, geographies and sectors.
- Operations in the east, south and central regions of the Africa Regions franchise mitigating the impact of the fall in earnings in the oil-dependent west region.
- Increased exposure to a range of other growth sectors offsetting declines in the oil, mining and minerals sectors.
- Strengthening our partnerships with multinational clients based on our unrivalled capacity to support their strategies in Africa.



We responded to the sector stresses in commodity-intensive countries, which increased our credit loss ratio to 0.30% from a low ratio of 0.24% in 2015 (albeit within our target range), by:

- Adjusting our credit appetite to reflect country and sector risk.
- Managing the impact of market stresses on our portfolio while taking advantage of opportunities presented by our more stable clients.
- Increasing our exposure in selected economies and sectors.
- Supporting our clients through-the-cycle as they navigate these economically challenging times, including several key restructurings for clients during the year.

STRATEGIC VALUE DRIVER	PERFORMANCE METRIC	2016	2015
<b>Client focus</b>	The client surveys undertaken indicate that, on average, client experience has improved, particularly in terms of client service levels and stronger relationships with client service teams.		
<b>Employee engagement</b>	CIB's Experience@Work survey shows positive results.	Group banking activities' results on <a href="#">page 14</a> .	
<b>Risk and conduct</b>	Average risk-weighted assets (RWA) (Rbn)* Return on average RWA (%)	<b>401</b> <b>2.6</b>	397 2.0
<b>Financial outcome</b>	Revenue (Rbn) Cost-to-income (%) Headline earnings (Rbn) ROE (%) Credit loss ratio (%)	<b>35.2</b> <b>53.2</b> <b>10.6</b> <b>20</b> <b>0.30</b>	31.4 55.8 9.1 18 0.24
<b>Social, economic and environmental (SEE) outcome</b>	SEE results are viewed on a group banking activities basis.	Group banking activities' results on <a href="#">page 14</a> .	

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

Performance against strategy

We build long-term, well-coordinated relationships with our clients, enabling us to deliver integrated solutions that help them achieve their strategic objectives. This, in turn, powers the growth and diversification of Africa's economies. The reorganisation of our operations beyond Africa in recent years, and our strategic partnership with ICBC, provides us with access to a network of financial centres around the world that supports our ability to facilitate growth and development in, for and across Africa.

While natural resources have continued to underpin economic growth in Africa in recent years by facilitating trade, the stimulation of infrastructure investment and attracting multinational investors to the continent has provided a range of other sectors with growth opportunities at this point in the cycle. CIB has deep experience in sectors such as consumer goods, financial services, manufacturing, telecommunications, retail and real estate that serve the needs of rapidly growing populations. We regularly assess country, sector and client risk, aligning our risk appetite accordingly and allocating our resources to the growth opportunities available.

AWARDS

Best FX Services in Africa – EMEA Finance.

Best Emerging Markets Banks in Africa 2016:  
Best bank in Africa – Global Finance World.

Best Trade Finance Bank 2017 –  
Global Finance World:  
• Best trade finance provider in Africa.  
• Best trade finance provider in South Africa.

Best Sub-Custodian Banks 2016:  
Best sub-custodian bank in Africa –  
Global Finance World.

Best Transactional Bank in Africa – The  
Banker Transaction Banking Awards 2016.

Best Investment Bank Africa – EMEA Finance.



In response to the lower commodity price environment since 2014, we have been selective in our exposure to producers, local banks and governments in commodity exporting countries. At the same time, we increased our risk appetite in other sectors, local currency products and commodity importing countries that have benefited from the depressed commodity prices, particularly oil. At year end, our exposure to the mining and metals, oil and gas, and power and infrastructure sectors had declined by 3% relative to 31 December 2015, while our exposure to industrials, real estate and telecoms and media had increased by 9%.

This selective approach supports our resilience in economically challenging conditions, delinking our performance from the GDP growth rates in certain markets. Ultimately, our ability to sustain revenue growth during periods of low economic growth bears testimony to our strong franchise of global and domestic clients conducting business across the continent.

We set yearly goals aligned to our strategic objectives, and our progress in 2016 against these goals is discussed below.

### **Purposefully partner our clients in their growth journeys, while continuing to support them in tough times**

Our broad client base, operating across our target sectors, and the depth of our relationships with a growing number of multinationals, is unparalleled in Africa. The growth of our multinational client base, which contributes over half of the revenue earned from our total client franchise, has been the primary driver of our consistent growth in revenue.

During the year, client satisfaction surveys were conducted in 16 of our operations in the Africa Regions. On average, client experience across these countries improved to a rating of 7.8 (2015: 7.6). Most of the countries surveyed showed

improved levels of client service and stronger relationships with client service teams. A number of key focus areas were identified based on our clients' feedback, which we will prioritise in 2017 to further improve our score.

We facilitated several significant acquisitions, disposals and capital-raising activities for our clients during the year, and managed the full range of routine financial services, including cross-border trade. Sharp changes in the availability of foreign currency liquidity, coupled with ongoing market volatility, gave rise to several opportunities for our Global Markets business. Our commitment to our clients extended to those who had difficulty in the challenging socioeconomic conditions, and we managed rights offers and debt restructuring processes to preserve enterprises and manage our risk deals.

### **IN 2016, WE WORKED WITH OUR CLIENTS TO COMPLETE SEVERAL HALLMARK TRANSACTIONS THAT INCLUDED THE FOLLOWING:**

#### **ABInBev**

The acquisition of SABMiller by **Anheuser Busch Inbev** (ABInBev) was the third largest merger in corporate history and the largest-ever merger and acquisition transaction in the consumer goods sector. We acted as financial advisor and transaction sponsor to ABInBev on its R3.1 trillion secondary listing on the JSE. CIB's experience in Africa, specifically our understanding of the regulatory landscape, enabled us to navigate ABInBev's entry into South Africa and its access to the rest of Africa. We were SABMiller's banker in 16 countries on the continent and the transaction preserved this relationship and extended it to ABInBev, the world's largest brewer, demonstrating our ability to support the growth aspirations of major international investors in Africa.



We advised **Dis-Chem** on its initial public offering (IPO), facilitating a seamless transition into the listed environment, and raising R4.3 billion. Our comprehensive understanding of the consumer sector, together with our corporate finance expertise and knowledge of the equity capital markets enabled us to provide a multi-product solution that resulted in one of the largest and most anticipated IPOs ever undertaken on the JSE.



We acted as mandated lead arranger and underwriter in an acquisition finance and debt restructure facility for **GZ Industries**, a pioneer in manufacturing in Nigeria. GZ Industries is a strategic client for CIB given its presence in both Kenya and Nigeria, as well as its plans to expand across Africa. The success of the deal demonstrated our ability to mobilise teams and functions from across our footprint and to provide our client with the highest levels of expertise and experience.





Our role in the R2.1 billion acquisition of UK-based Gourmet Burger Kitchen by **Famous Brands**, demonstrated our capacity to facilitate the international expansion strategies of South African clients. Famous Brands is Africa's largest food service franchise group and the ground-breaking international transaction is its largest acquisition to date. CIB acted as investment bank, hedge provider, sole underwriter and sponsor to Famous Brands on this landmark transaction, enabling and supporting this home-grown South African icon to realise its international business ambitions.



In partnership with ICBC, we raised a R3.3 billion term loan facility for **MTN** as joint mandated lead arrangers and lenders. The transaction demonstrated the importance of our strategic relationship with ICBC, showcasing our ability to facilitate transactions within the China-Africa investment corridor and to leverage Chinese capital for African development.



Our relevance to clients that are focused on African expansion is illustrated in our facilitation of domestic and foreign money flows for **Shoprite**, Africa's largest retailer. This entails servicing Shoprite's rapidly expanding movement of high-volume, time sensitive, physical and electronic money flows in designated countries through our global market and transactional banking services that include customised, large-scale cash handling, client domestic money transfer, card acquiring, international money flows and centralised, coordinated foreign exchange hedging and dealing.

banking initiative to share and learn from compliance lessons.

## Prioritise the delivery of transformation and diversity

Our people are the critical success factor in our efforts to maintain excellent client service and we continue to focus on attracting and retaining quality employees, who are appropriately resourced, developed and empowered to fulfil the commitments we make to our clients.

We have intensified our focus on transformation and diversity. Based on feedback we received from employees about obstacles to creating an inclusive work environment in our South African operations, we introduced numeric targets to hasten the transformation of CIB's culture and its demographic make-up.

To improve the representation of black people and women in senior positions, we have the following targets:

- A minimum of 70% of all new appointments are black people.
- A minimum of 50% of promotions into senior or executive positions are reserved for black employees.
- We strive to keep the attrition rate of black employees below 30% of the total attrition rate at senior levels.

## Reinforce the culture of doing the right business the right way

As a regional financial institution that clears other currencies, particularly US dollars, and has a presence in the US, our operations are required to adopt global best-practice in financial standards. This approach spans our compliance with regulatory requirements, including the enforcement of measures to combat money laundering, financing of terrorism or other fraudulent practices, and our ethical conduct as individuals and as a financial services organisation.

In 2016, we strengthened our capacity throughout our operations to ensure that our compliance and conduct are consistent with relevant legislative requirements and the group's ethical standards.

In addition to our significant investments in training and systems to ensure that we fulfil the expectations of our regulators, we developed a CIB compliance app to guide and update employees in compliance-related matters, as well as an investment

The 2016 Experience@Work survey registered encouraging improvements in most scores, and particularly in two important areas of assessment. In the first, there was an increase from 83% to 89% in the number of employees who would recommend CIB as a place to work. The second assessed CIB's attitude to transformation, and registered an improvement from 74% to 84%, although the overall score masked varying degrees of approval across different demographic groups.



The strongest improvement was in the personal alignment of employees to the strategy. It is clear that CIB's strategy has become an important anchor for employees who have gained a clearer understanding of CIB's purpose within the group and their individual role in fulfilling it.

### Focus our attention and resources on initiatives that will get the basics right

We continue to refine our processes to ensure a seamless experience for our clients, while mitigating operational risk. In 2016, we improved the efficiencies in our account opening and client on-boarding processes, client service and query handling and payments processing.

We are leveraging the group's investment in IT in several ways. The three signature programmes below that we have invested in to improve the efficiency of client services and strengthen our competitiveness across all our markets and product lines are functioning well and will be completed in 2017.

- **New Business Online** enables both CIB and PBB clients to manage their cash, payments and collections electronically in multiple countries across Africa. In 2016, the channel facilitated over 8.7 million payments for more than 20 000 clients. A focused drive to enhance functionality and utilisation resulted in more clients adopting the channel, driving a 40% increase in transactional volumes.
- Our electronic **FX Pricing Engine** connects into a number of distribution channels across and outside the bank. Our signature trading platform, **eMarket Trader**, provides access to pricing and a continuous link to the global markets and, importantly, liquidity in our franchise markets. This connectivity enables our clients to trade in the full range of Standard Bank asset classes across time zones. The trading platform is live in all our markets in Africa and offers access to the best onshore liquidity, as well as all major global currencies. We have seen a 25% increase in the number of clients who use the platform from the prior year.
- Our **International Trade and Payments System** facilitates cross-border payments in all of CIB's international operations.

These programmes form the backbone of our digital offering. We actively drive digitisation of our products and channels in line with changing client requirements and expectations. An example of the adoption of leading-edge innovation in global markets is the Shyft smartphone application for cross-border foreign exchange payments.

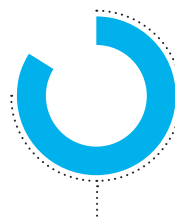
### Continue to develop the strategic partnership with ICBC

Our strategic partnership with ICBC has seen us conclude several joint transactions in 2016 in line with our strategic cooperation agreement. This has allowed us to leverage our African presence and experience, and ICBC's financial resources as the world's largest financial services organisation. In addition, we are working on a project linked to the internationalisation of the Chinese currency, the renminbi (RMB), aimed at developing and implementing RMB-denominated cross-border capabilities for our clients operating along the China-Africa corridor. Given the significance of RMB internationalisation, and the increasing adoption and usage of the RMB globally and across Africa, ICBC and the group are in a unique position to take advantage of this opportunity.



# 89%

of employees recommend CIB as a place to work.



84% of employees felt that CIB's attitude to transformation has improved.



## Continue to deliver strong and resilient financial results

- Global Markets posted a good performance as a result of robust client activity across all regions and the ability to take advantage of market dislocations due to currency shortages and market volatility.
- Transactional Products and Services (TPS) grew revenue mainly through its liability lead strategy which increased balances, and growth in the Trade and Investor Services businesses. Conservative cost management, which resulted in single digit cost growth, and ongoing investment in the business, supported this performance.
- Growth in loans and advances within selected segments and an improved net interest margin lifted Investment Banking revenue. However, fees and commissions were lower than expected as difficult market conditions dampened client confidence and delayed the closing of transactions. While higher impairment charges eroded earnings, stringent cost control countered this impact.
- Operations in the Africa Regions continued to contribute materially, with east, south and central regions delivering growth. Despite sustained low oil prices, our west Africa region continued to deliver revenue growth. Growth in the Africa Regions is largely attributable to our clients utilising our Global Markets and TPS services and solutions.
- The South African franchise, though more mature, performed impressively with double digit growth achieved in an economy whose GDP grew by less than 1% in 2016.

## Looking ahead

The 2017 outlook for many of our markets remains subdued. We will continue to focus on achieving our strategic objectives by:



### CLIENT FOCUS

- Maintaining our commitment to partner our existing and new clients as they grow.
- Continuing to focus on opportunities to digitise our processes and leverage the full potential of our universal financial services offering to create an improved client experience.



### EMPLOYEE ENGAGEMENT

- Continuing to equip our people to effectively deliver on our promises to our clients.
- Continuing to focus on our transformation targets.



### RISK AND CONDUCT

- Ensuring that we continue to do the right business the right way.



### FINANCIAL AND SEE OUTCOME

- Managing costs through productivity and improved efficiencies to consistently achieve a positive JAWs ratio, and lowering our cost-to-income ratio.
- Continuing to invest in future growth opportunities through strategic partnerships.
- Applying the Equator Principles more extensively to our financing activities, to effectively manage social and environmental risks and opportunities.



## Wealth

“Our wealth strategy leverages the full capacity of the group as Africa's largest financial services organisation – its trusted brand, resilient balance sheet, global footprint and 16 million existing clients. We are strategically positioned to contribute significantly to the group's growth as we increase our share of the wealth markets in South Africa and outside Africa, and capture the growth opportunity in the Africa Regions.”

Margaret Nienaber, Chief executive, Wealth



Wealth service and product offerings span the group, offering insurance, investment, fiduciary, specialised banking and lending, and multi-generational wealth preservation solutions to high net worth, retail, business and commercial, and corporate clients, across the group's footprint in sub-Saharan Africa, London, Jersey, Isle of Man and Mauritius.

## Overview

Standard Bank's exposure to the wealth industry is derived from its 55% effective interest in Liberty and a comprehensive range of wealth offerings within the group's banking operations, primarily that of PBB. The primary lines of business managed by Wealth are set out below.

**1 Wealth Sales and Distribution** provides services to address the wealth needs of PBB, CIB and third-party clients. It encompasses the following seven distribution businesses:

- Standard Bank Insurance Brokers.
- Wealth Africa Regions.
- Standard Bank Financial Consultancy.
- Standard Bank Direct Life Insurance Services.
- Online Share Trading.
- International Personal Banking.
- Wealth CIB collaboration.

**2 Wealth and Investment** caters to high net worth clients (those with the potential for USD1 million investable assets) and has over 10 000 current clients across Africa. It offers bespoke banking, specialised lending, trust and fiduciary, global investments, financial planning and philanthropy services.

**3 Investments and Fiduciary Services** provides four offerings across our onshore and offshore distribution channels:

- Global asset management offering through our boutique investment firm, Melville Douglas.
- Comprehensive range of portfolios of multi-asset funds.
- Advisory and discretionary stockbroking solutions.
- Integrated fiduciary services including trusts, wills, beneficiary care and estates.

**4 Standard Insurance Limited (SIL)** provides short-term insurance solutions to our PBB client base. As the sole short-term insurance licence in the group, Liberty will leverage the SIL license from 2018 to offer short-term insurance to its clients (SIL was rated third in the Sunday Times' Top Rated Insurance Brands for 2016, and is the 10th largest short-term insurer in South Africa).

**5 Wealth International**, which is based in Jersey, London, Isle of Man and Mauritius, provides offshore financial services focused on African clients in the high net worth, mass affluent and corporate sectors. This provides a stable and cost-effective source of

hard currency funding for the group.

**6 Wealth Nigeria** is the largest asset manager and pension fund administrator in Nigeria, and includes:

- Stanbic IBTC Pension Managers Limited.
- Stanbic IBTC Trustees Limited.
- Stanbic IBTC Asset Management Limited (which includes Wealth and Investment Nigeria).
- Stanbic IBTC Insurance Brokers Limited.

**7 Liberty partnership**

Through our partnership with Liberty, we:

- Distribute long-term insurance underwritten by Liberty and embedded in Standard Bank products (e.g. credit life and funeral).
- Sell insurance and investment products developed and administered by Liberty (e.g. Lifestyle Protector and Agile).
- Distribute single need, low advice products developed and administered by Liberty (e.g. Direct Life).
- Develop and distribute investment products in partnership with STANLIB (e.g. GoalStandard™ Range of Funds).



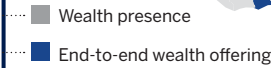
Strategy

Our vision flows from the group’s purpose and our focused strategy is closely aligned to that of the group. This ensures that Wealth understands its overall role in realising the group’s strategy, while delivering on the significant future growth potential of our business units, which are at different stages of development.



VISION

Thoughtfully enabling legacies and dreams through outstanding expertise in insurance, investments and fiduciary.



CONTRIBUTION TO THE GROUP

To position Standard Bank as a fully integrated financial services group.

1

Enhancing ROE

Exceptional revenue growth due to potential market share and businesses with low capital requirements.

2

Earnings diversification

Allow the group to grow earnings from advisory services and other diverse financial services.

3

Earnings growth

Opportunity to grow market share due to double digit sector growth on the continent and cross-selling into well-established client base already loyal to the Standard Bank brand.

THE UNIQUE INGREDIENTS FOR SUCCESS THAT SET US APART



We are part of Africa’s largest financial services group

- with a trusted brand
- strong balance sheet
- significant footprint.

Alignment with our strategic partners PBB, CIB and Liberty, as well as internal alignment.

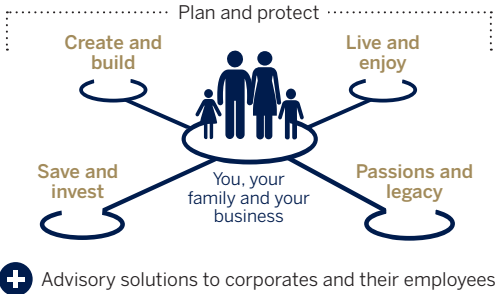
Thoughtful client centricity focusing on “Before the sun sets” service and digital innovation.

Ability to leverage the group’s existing 16 million client base to position our diverse product and skill set.

OUR PEOPLE

are passionate, driven, diverse, delivering exceptional performance.

Underpinned by our philosophy of helping our clients create, grow and preserve their wealth for generations to come



Supported by a business model that delivers end-to-end client centricity and innovation across the African region and internationally

Client segments	Distribution channels	Brands	Solutions
High net worth	Wealth and Investment	Standard Bank  Liberty  Stanlib	Insurance
Corporates	Wealth Sales and Distribution		Investments
Personal, business and commercial			Fiduciary
			Banking and lending solutions



## Our operating context for the year

- Sustained economic weakness in South Africa and slower economic growth throughout the Africa Regions.
- Increasing pressure on consumers resulting in reduced spending on retail insurance and investment products.
- Market volatility and consequent weakness in equity markets impacted stockbroking and investment services.
- Increasing regulatory constraints, currency volatility and political upheaval in South Africa influencing investor sentiment.

## Our performance highlights and challenges

Despite these challenging conditions, we accelerated the execution of our strategy and achieved an impressive ROE by:

- Accessing the group's extensive client base.
- Leveraging the advantages of product and geographic diversity.
- Achieving superior investment returns relative to the JSE and industry benchmarks.
- Embedding a new client-focused operating model.
- Engaging with our clients and offering appropriate solutions, informed by client data and insights.
- Extending our Wealth and Investment Leadership Academies to the corporate sector.
- Launching new goals-based investment products aligned to clients' needs, thereby addressing the material strategic risk of the pending Retail Distribution Review (RDR<sup>1</sup>).
- Offering clients access to all of their financial services on a single online platform.
- Improving efficiency of claims processing and seeking alternative revenue sources to mitigate market saturation in the South African short-term insurance industry.

## Performance against strategy

With assets of more than R1.1 trillion under management, Wealth leverages the group's full capacity to offer integrated multi-generational wealth creation and preservation solutions to a wide range of clients across the financial services businesses of the group's banking activities and Liberty.

We work in partnership with PBB, CIB and Liberty to market wealth products and services through their distribution channels, and share the group's support functions to achieve economies of scale. We are leveraging these partnerships to unlock significant additional value by designing relevant solutions for clients and cross-selling products and services.

Our strategy is executed through a new client-focused operating model which was implemented in 2016 and is now fully embedded. The model uses data analysis and servicing and distribution capabilities to enable a deeper understanding of our clients' behaviours and needs. Based on this knowledge, our award-winning teams develop innovative products and customised portfolios that are comprehensive, transparent and best suited to the individual needs of our clients.

Wealth is strategically well-positioned to increase its share of wealth markets in South Africa and capture the growth opportunity in the Africa Regions. We expect to deliver significant shareholder value by contributing to the stability of group earnings through enhanced risk management and diversification of revenue sources, and enhancing the quality of group earnings with higher-margin wealth revenues that have lower capital requirements. This will ultimately increase the group's ROE.

Our progress during the year against our key strategic initiatives is set out below.

## Knowing our clients

Knowing our clients and building trusted advisor relationships with them enables us to understand their life goals and ambitions, and create financial plans and investment strategies in partnership with them at various stages of their lives –

## AWARDS

Most outstanding private bank in Africa – Private Banker International.

Best private bank in Kenya and Nigeria – PWM/The Banker.

Africa's best bank for wealth management – Euromoney.

Best private bank in Africa, South Africa, Kenya – Global Finance.

South Africa's Top Stockbroker – Intellidex.

Best International Structured Products Provider – International Fund and Product Awards.

Runner-up Private Bank of the Year – Channel Islands – Citywealth IFC Awards.

<sup>1</sup> The RDR will reform the regulatory framework governing the distribution of wealth products and services and aims to introduce more transparency and fairness to the financial services sector.



from funding their children's education and providing for their retirement, to protecting business assets, and ultimately ensuring that they create value for future generations. We encourage our business units to design new and relevant solutions, based on the insight they gain from client data, and we recognise innovation in our annual Wealth Challenge employee recognition programme.

In 2016, we amended our product and advisory services to ensure that they serve the unique needs of individual clients and are aligned with the principles of the RDR. A key initiative was the launch of a range of new funds aligned with our goals-based investment philosophy and advisory processes.

Working in partnership with Stanlib's multi-manager investment team, we designed the new **GoalStandard™ range of funds** for investors. Actively managed by top fund managers from around the world, the funds are expected to deliver superior investment returns more consistently than through a single manager or mandate approach.

Of the nine actively-managed funds in the GoalStandard™ Fund range, five are risk-profiled funds of funds that have a targeted risk profile and four are single asset class, multi-managed building block funds in which the funds of funds invest. By choosing to invest in the GoalStandard™ Funds, clients will achieve greater diversification in their investment portfolio together with a higher likelihood of meeting their investment goals.

Several digital solutions were developed in 2016 to enable our clients to conduct their investment activities and engage with us in a more holistic way. This included the first phase of a digital platform aligned with the group's multi-channel IT architecture, enabling our local and international clients to view an aggregated portfolio of their financial service and investment activities, and raise queries or submit investment requests to financial advisors who also have access to the platform.

To improve the client experience, we worked with PBB on a programme to re-engineer specific areas that clients had expressed dissatisfaction with. As an example, we achieved a notable improvement in the handling of geyser related insurance claims (which account for 70% of claims), reducing the average time to repair a geyser from more than 12 days to under a week for in-warranty geysers and less than three hours for out-of-warranty geysers. An additional benefit of this process was that 60% of our geyser maintenance and repair service providers became Standard Bank clients. In 2017, we will look to apply the same process to improve the client service experience associated with our Funeral Plan, Credit Life, Stansure, Accident and Health offerings.

### Capturing the growth opportunity

There is significant opportunity for Standard Bank to generate growth from its wealth activities. In South Africa, the group's share of the domestic banking market is approximately 28% and its wealth activities account for approximately 5% of the market's wealth earnings. The opportunity for growth in the Africa Regions is far greater. While Africa's growth momentum has slowed, its longer-term prospects remain strong.

One of the major contributors to future growth will be a growing middle class who expect a broader range of financial solutions, from insurance to wealth management. We expanded our Wealth and Investment business in Ghana in 2016, building on our success in South Africa, Nigeria, Kenya, Namibia and Mauritius. We have appointed

an executive to introduce an integrated wealth offering in each of the group's markets, to consolidate our position on the continent.

Family and business succession is one of the leading wealth concerns globally. Research shows that 70% of wealth is lost by the second generation and up to 90% by the third generation. Our Leadership Academies were developed for the children of high net worth clients to ensure the successful transfer of wealth to future generations. Originally developed to advise older children on financial planning and wealth preservation, with a focus on developing entrepreneurial skills, the academies now include children as young as 10 years old and have been offered in Johannesburg, Durban, Cape Town and London, with plans to expand in Africa later this year. We have also extended this offering with the addition of our Women's Wealth Academy. The academies have become a valuable differentiator in a competitive market where the ability to understand individual clients' needs and develop solutions to meet those needs is a distinct advantage.

In 2016, we were awarded a contract to provide financial and investment planning advice, based on our Leadership Academies model, to a CIB client. This demonstrated our ability to leverage our competitive advantages and provided an opportunity to showcase the group's retail offerings, particularly our offshore, share trading and broking solutions.

### Motivating our people

We instil a culture of high performance and create opportunities for continuous learning through on-the-job training, mentoring programmes, specific product training programmes and regular team meetings. Our talent retention and succession plans take into account the high level of expertise required of our advisory staff.

Our people, like our clients, have financial needs and ambitions and we apply the same goal-based approach to



them. We partner with our employees in the achievement of their personal goals and will extend our Leadership Academies to them from 2017. This will allow us to engage personally with each employee and create individual programmes to accelerate their performance and embed our organisational culture more deeply. The academies will help employees to build core competencies, understand and reinvigorate their roles and apply their learnings to innovative strategically aligned initiatives that strengthen our competitive advantage while enhancing their future prospects.

Furthermore, our staff have frequent opportunities to travel on global secondments, and accompany senior leaders on international trips. We have a number of initiatives throughout Wealth where top performers from across our global business are offered the opportunity to travel to international destinations to explore global best-practice and share insights with leading organisations around the world. These initiatives aim to groom future leaders, retain talented employees, and ensure that we are able to compete globally.

### Managing regulatory change

Financial services businesses continue to be impacted by a wave of regulatory and legislative reform intended to restore faith in the stability of our industry. In South Africa, in addition to the pending RDR, we will also be affected by other new regulations, such as the Twin Peaks, Treating Customers Fairly, Financial Intelligence Centre (FIC) amendment bill and Conduct of Financial Institutions (COFI) Act.

We remain well-informed on all pending regulations that are likely to impact our business and participate in discussions regarding new regulatory changes, particularly in markets where the wealth industry is still in an early stage of development. In 2016, we strengthened our leadership capacity in legal and risk, and established a wealth governance committee to monitor our regulatory universe and our compliance with regulations.

Although onerous, regulations that aim to protect the client are entirely reconcilable with our client-focused strategy and we are well-positioned to implement them, given the group's capacity and resources and the benefit of Liberty's expertise as a pioneer in the domestic insurance and investment industry. Our approach is to respond proactively to the changes, as we have done with the RDR in South Africa. In the Africa Regions, we have restructured our insurance brokerages in line with evolving bancassurance regulation and our operations are compliant and licensed under the new requirements.

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 and it is now the industry leader.

### Looking ahead

With a weak economic outlook, the challenge of increasing regulatory change and an uncertain political environment, we will remain focused on achieving our strategic objectives by:



#### CLIENT FOCUS

- Growing our share of the wealth market in South Africa.
- Growing our wealth markets in the Africa Regions.
- Investing in digital technology and data analytics to improve the client experience.



#### EMPLOYEE ENGAGEMENT

- Equipping our people with the necessary skills to execute our strategy.



#### RISK AND CONDUCT

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



#### FINANCIAL AND SEE OUTCOME

- Managing costs prudently and unlocking new revenue potential by revising distribution and product strategies.
- Strengthening our collaboration with PBB, CIB and Liberty in the development and execution of opportunities to achieve growth or economies of scale.
- Continuing to leverage our core competitive advantages to grow our earnings, strengthen our ROE, and contribute to shared growth.
- Leveraging our unique Leadership Academies offering to ensure the preservation of multi-generational wealth.





Sharon Taylor, Head  
of human capital

“We are striving to create a great place to work where our people feel deeply connected with our purpose and our clients, are empowered and recognised for delivering against our strategic objectives, and are making the most of every opportunity to achieve their full potential.”

## Human capital report

Our strategy clearly articulates the need to attract, develop and retain smart, independent thinkers who are focused, tenacious and energetic, who will keep our business agile and innovative, and who are motivated to deliver exceptional client experiences.

This section of our report sets out the progress we have made against our seven human capital priorities.



More information on our approach to human capital management can be found in the report to society.

### Key strategic human capital challenges for the group based on our operating context:

Fierce competition for highly specialised financial sector **skills**.

**Leadership capability** that enables our strategic intent and the required culture shifts.

**New capabilities** required in a changing work environment.

A **diverse, multi-generational workforce** where employees expect their individual needs to be met.



## OUR EMPLOYEE BASE

### NUMBER OF EMPLOYEES



**Permanent employees**

**48 622**

(2015: 47 958<sup>1</sup>)

(2014: 42 642<sup>1</sup>)



**Non-permanent employees**

**5 726**

(2015: 8 135)

(2014: 12 595)

### EMPLOYEE TURNOVER<sup>2</sup>

	2016	2015	2014
Overall turnover	<b>9.1%</b>	9.9% <sup>1</sup>	10.5%
Voluntary turnover	<b>5.6%</b>	6.7% <sup>1</sup>	7.4% <sup>1</sup>
Voluntary regrettable turnover	<b>2.1%</b>	2.9%	3.0%
Voluntary turnover at executive level	<b>5.6%</b>	7.7%	10.3%

Note: overall turnover in 2014 has remained as reported given that Liberty's turnover for 2014 was in line with that of the group's banking operations.

<sup>1</sup> Restated to exclude Liberty and now covers banking activities only.

<sup>2</sup> Calculated for permanent employees only.



## 1 Enhancing the employee experience

### OUR KEY PRIORITIES

Ensure our employees are deeply connected with our purpose and place the client at the centre of everything they do.

Listen to our employees by enabling them to share their insights in real time.

Encourage our employees to be passionate consumers and advocates of Standard Bank's products and services.

### CHALLENGES ADDRESSED



- Skills
- Leadership capability
- Diverse, multi-generational workforce

### ACHIEVED IN 2016

- Launched a new employee brand across the group, encouraging each employee to recognise how their role contributes to driving Africa's growth and inspiring them to do more to enable the group to deliver on its strategy.
- Our leaders encouraged productive conversations across the group to convey our strategic intent.
- Conducted the Experience@Work survey in South Africa and Uganda to better understand what drives employee engagement.
- Introduced a refreshed exit interview methodology in South Africa to better understand why employees choose to leave the group.
- Delivered a range of health and wellness initiatives and services to employees across our geographies.

Looking forward we will:

- Continue to track employee feedback and insights in relation to our strategic priorities.
- Roll out the new exit interview system to all operations in 2017.
- Increase employee awareness around the banking products and benefits that are available to them and focus on enhancing the value proposition for employees as clients.

### HIGHLIGHT

The employee promotor score is a key measure of the Experience@Work survey and serves as an overall indicator of engagement levels. It aggregates employee responses to three questions: "I would recommend Standard Bank as a good place to work"; "I am proud to be associated with Standard Bank" and "Standard Bank energises me to go the extra mile". The participation rates and engagement outcomes of both surveys are encouraging.

#### South Africa

Employee  
promoter score of  
**86%**

**55%** of the  
workforce participated.

#### Uganda

Employee  
promoter score of  
**89%**

**75%** of the  
workforce participated.

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### HEALTH AND WELLNESS

**1.2%<sup>1</sup>**

Cost of total sick leave as a percentage of total payroll in South Africa. This is below the local financial sector norm of 1.7%<sup>2</sup> (2015: 1.3%).

<sup>1</sup> Calculated for permanent employees only.

<sup>2</sup> Source: Alexander Forbes.



## 2 Enabling a digital workforce

### OUR KEY PRIORITIES

Provide access to advanced technology and tools that support the future world of work and fulfil the promises we make to our clients.

Empower our employees and managers to conduct routine human capital transactional activities through self-service functionality.

Standardise our human capital services and practices across the group to ensure consistent and fair employment practices aligned to regulatory requirements.

Deliver reliable and consistent employee data and set the foundation for predictive capability.

### CHALLENGES ADDRESSED



- Skills
- New capabilities
- Diverse, multi-generational workforce

### ACHIEVED IN 2016

- Enabled the automation of our human capital transactional processes and the standardisation of our policies and processes across our operations.
- Enhanced the self-service experience for employees and line managers by providing single sign-on access to our performance management, learning and development, reward and recruitment system solutions.
- Introduced a new talent management technology solution across our operations, which supports an agile response to talent challenges and opportunities.
- Piloted a new human capital portal in Namibia and South Africa providing employees with easy access to consolidated employee-related information.
- Started rolling out a new employee relations management system that automates disciplinary management, grievance resolution and the management of poor performance.
- 350 employees from various business areas participated in design thinking workshops to inform the digital transformation required to provide excellent client services.
- Provided training for human capital practitioners, upskilling them to leverage employee-related data to analyse trends and proactively address potential human capital risks.

### Looking forward we will:

- Drive adoption of automated processes in 2017.
- Complete the roll out and uptake of the new employee relations management system to all operations in 2017.
- Continue to activate the new human capital portal in additional countries in 2017.
- Introduce enhanced technology solutions to better enable our employees in their daily work.
- Build a diverse repository of data by integrating all sources of employee insights for the application of advanced analytics in the medium term.

### HIGHLIGHTS

More than **35** globally-aligned processes have been automated through the self-service portal, significantly reducing manual, paper-based processing.

More than **51 000** banking employees have access to the self-service portal, facilitating easier activation and approval of human capital-related transactions.



### 3 Provide relevant and progressive learning opportunities to adapt to the evolving work context

#### OUR KEY PRIORITIES

Encourage a culture of continuous development through access to relevant anytime, anywhere learning experiences.

Develop learning solutions that support the development of the organisation's future skills and capability requirements.

Contribute to the future employability of our employees by offering market-ready learning that is accredited and recognised within Standard Bank and outside the financial services sector.

#### CHALLENGES ADDRESSED



- Skills
- New capabilities
- Diverse, multi-generational workforce

#### ACHIEVED IN 2016

- Implemented learning programmes on a range of client service and sales solutions, and to support key client management systems.
- Effectively used our global learning management system to provide employees with access to a range of online learning catalogues and programmes. This enables employees to build their careers and enhances our business performance and client service.
- Delivered demand-driven specialised skills development and executive development programmes.

#### Looking forward we will:

- Use the lessons learned from the new ways of working introduced in select business areas to inform our future learning methodologies, including on-the-job training.
- Continue to optimise skills development spend in South Africa to align with broad-based black economic empowerment skills development targets.
- Develop innovative learning solutions to upskill and reskill employees, enabling them to adapt to a new world of work.
- Link individual personal development plans to the learning management system, making it easier for employees to access relevant training.

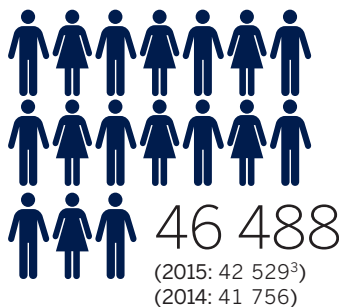
#### TRAINING INVESTMENT <sup>1</sup>

##### TRAINING SPEND

**R890 million**

(2015: R828<sup>2</sup> million)  
(2014: R699<sup>2</sup> million)

##### NUMBER OF EMPLOYEES TRAINED



Number of women employees trained  
**27 458**  
(2015: 24 411<sup>3</sup>)  
(2014: 23 770)



Participants on leadership development programmes  
**4 307**  
(2015: 2 622<sup>2</sup>)  
(2014: 2 714<sup>2</sup>)

<sup>1</sup> Calculated for permanent employees only.

<sup>2</sup> Restated to exclude Liberty and now covers the group's banking operations only.

<sup>3</sup> Restated to include permanent employees only.



## 4 Ensuring the appropriate growth and mobility of diverse talent across our business

### OUR KEY PRIORITIES

Deliberate and accelerated development of a diverse talent pipeline.

Deepen the local leadership pipelines across our operations to lead and operate with a deep understanding of local markets and client needs.

### CHALLENGES ADDRESSED



- Skills
- New capabilities
- Leadership capability
- Diverse, multi-generational workforce

### ACHIEVED IN 2016

- Achieved good talent pool depth. The accelerated development of black talent in South Africa and local talent in the Africa Regions is positively contributing to the diversity profile of our succession pool.
- 51% of appointments were internal transfers and promotions, supporting the career progression of our people.
- 207 graduates from seven countries participated in our pan-African graduate programmes, enabling us to build a strong, young talent pipeline.
- Assisted 1 516 learners in South Africa to gain workplace experience and the possibility of full-time employment.
- Invested R31.7 million in our bursary programmes, benefiting 864 students, including Standard Bank employees (2015: R32.3 million assisting 736 students).
- Reviewed our human capital policies to ensure that our diversity and inclusion requirements are clearly outlined and potential bias is mitigated.
- 83% of employees participating in the SBSA Experience@Work survey agreed that we are making progress in building an inclusive work culture that promotes diversity, although there is room for improvement.

Looking forward we will:

- Continue to identify and develop individuals with the potential to occupy critical strategic and operational roles in the medium to long term.
- Introduce a skills exchange programme with ICBC to augment international experience.
- Extend our diversity and inclusion work to ensure that this is a focus across all our operations.

### HIGHLIGHT

**Awarded** the Employer of Choice in the Retail and Commercial Banking sector at the 2016 South African Graduate Employers Association awards.

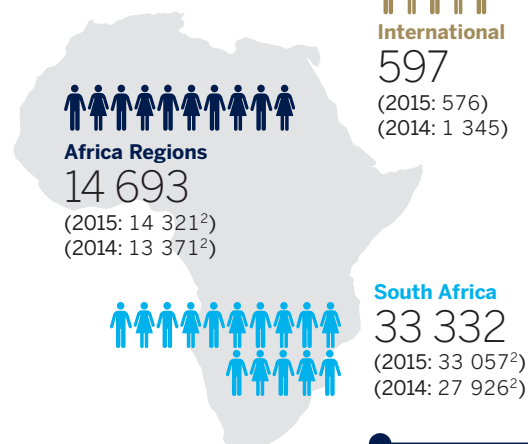
### DIVERSITY

#### LOCAL HIRING<sup>1</sup>



**97.9%**  
of our employees are citizens of the country in which they are employed.

#### GEOGRAPHICAL BREAKDOWN<sup>1</sup>



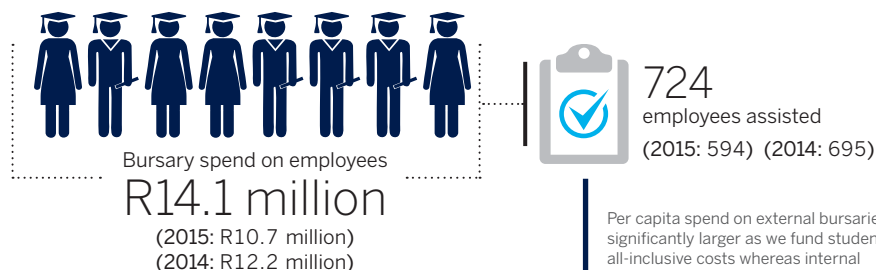
<sup>1</sup> Calculated for permanent employees only.

<sup>2</sup> Restated to exclude Liberty and now covers the group's banking operations only.



## INVESTMENT IN YOUNG TALENT

### BURSARY SUPPORT



### GRADUATE PROGRAMMES

**New intakes on graduate development programmes: 207**

(2015: 163<sup>1</sup>) (2014: 148)

**Women as a % of total graduate intakes**

**46%**  
(2015: 43%)  
(2014: 49%)



**SA**

**% black graduate intakes**

**81%**  
(2015: 71%)  
(2014: 68%)

**8 students**

from five African countries pursuing a post-graduate degree abroad, are receiving support from the Standard Bank Derek Cooper Scholarship programme.

<sup>1</sup> Restated to reflect new graduate intakes instead of total number of participants on graduate programmes.

**SA**

### LEARNERSHIP PROGRAMMES FOR MATRICULANTS AND GRADUATES

**Successfully completed learnerships**

**660**  
(2015: 400)

**% of learners subsequently employed by SBSA**

**72%**  
(2015: 92%)



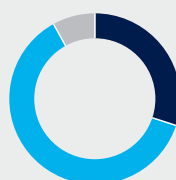
## SERVICE



**Length of service<sup>2</sup> (%)**

	2016	2015
<3 years	38	38
3 – 5 years	16	16
6 – 10 years	23	23
>10 years	23	23

## DIVERSITY



**Age profile<sup>2</sup> (%)**

	2016	2015
<30 years old	30	30
30 – 50 years old	62	62
>50 years old	8	8

### GENDER PROFILE<sup>2</sup>

**% of employees that are women**

**57.9%**  
(2015: 57.7%)



**% of management that are women**

**45.4%**  
(2015: 45.6%)

**Women 28 128**  
(2015: 27 680)

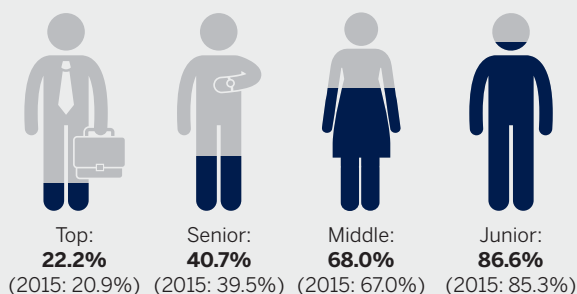
<sup>2</sup> Calculated for permanent employees only.



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## DIVERSITY continued

### BLACK REPRESENTATION AT MANAGEMENT LEVEL



## 5 Reward and celebrate outcomes and behaviours linked to superior client experience and commercial success

### OUR KEY PRIORITIES

Develop fit-for-purpose performance management which encourages a high-performance culture.

Develop fit-for-purpose reward practices which incentivise the right behaviours and a culture that puts the best interests of the client first, and encourages collaboration by rewarding team and individual successes.

### CHALLENGES ADDRESSED



- Skills
- New capabilities
- Leadership capability
- Diverse, multi-generational workforce

### ACHIEVED IN 2016

- Completed the roll out of the performance management system across all operations with the exception of the PBB branch network in Nigeria.
- Agreed retention strategies for key employee groups.
- Recognised individuals and teams for exceptional contributions that added value to the business through the Beyond Excellence and Mark of Excellence initiatives.
- Started reviewing our reward policies and practices to remain at the forefront of a highly competitive market.



Detailed information on our reward philosophy and practices can be found in the remuneration report on [page 106](#).

### Looking forward we will:

- Implement a new fit-for-purpose performance management approach in 2017, incorporating best-practice thinking and stakeholder feedback.
- Introduce flexible benefits options that better suit individual employee preferences.



## 6 Ensure bold and inspirational leadership to deliver on our purpose

### OUR KEY PRIORITIES

Clearly understand what leadership behavioural attributes and competencies are required in the future.

Develop our leaders to be accountable role models and catalysts for change.

### CHALLENGES ADDRESSED



- New capabilities
- Leadership capability
- Diverse, multi-generational workforce

### ACHIEVED IN 2016

- Engaged with the top 350 leaders across the group to embed the group strategy.
- Started the process to define what good leadership means for the group in the context of our purpose, strategy and the culture we wish to build for our people.
- 4 307 employees participated in management and leadership programmes at our Global Leadership Centre.
- 872 leaders attended 12 customised leadership development programmes.

Looking forward we will:

- Define and assess the behavioural leadership aspects of our management teams in 2017.
- Deliver a groupwide flagship leadership development programme supplemented with coaching and personal development support in 2017.
- Continue to provide leadership development programmes tailored to specific business needs.

### ACCOLADES

We pride ourselves in attracting and retaining world-class leaders. During the year, a number of our chief executives were awarded accolades by various global and local industry bodies.

**Sola David-Borha, chief executive of Stanbic IBTC in Nigeria**, won Business Woman of the Year West Africa, at the 2016 All Africa Business Leaders Awards.

**Stanbic Bank Uganda chief executive, Patrick Mweheire**, won the Ai 50 SRI CEO of the Year at the 9th annual African Investor Awards.

**PBB South Africa chief executive, Funeka Montjane**, was recognised as Business Woman of the Year in the Corporate Category at the 2016 Business Woman of the Year Awards.

## 7 The culture we wish to build for our people

### OUR KEY PRIORITIES

Build a strong client-focused culture supported by clearly defined behaviours.

### CHALLENGES ADDRESSED



- Leadership capability
- Diverse, multi-generational workforce

### ACHIEVED IN 2016

- Rolled out new ways of working in specific parts of our business to empower our employees to be more responsive to clients' needs.
- Embarked on an extensive process to define a set of behaviours that will build on the strengths of our existing culture and enable the shifts required to enable our strategy.

Looking forward we will:

- Further test and enhance new ways of working in 2017.
- Introduce new values-based behaviours as part of the culture programme in 2017.
- Continue to work towards an ideal organisational structure that will better enable a client-focused universal banking model.



Brenda Niehaus, Group  
chief information officer and  
head of data management



## Information technology report

**“We have completed the third year of our IT transformation journey and have made significant progress in placing the client at the centre of everything we do. In 2016, we improved the cadence of our delivery, added real value to our clients and improved the affordability of IT. In 2017, we plan to further entrench our agile ways of working and shift our focus to simplification, personalisation and data led decision making, while continuing to digitise our business processes and enhance the security of our systems for both our clients and the group.”**

### Overview

2016 was a landmark year for Standard Bank Group Information Technology (group IT). We completed the third year of our transformation journey, with all key milestones achieved, and we remain on track to complete our objectives by the end of 2017. Key to our success has been a consistent strategy throughout the three-year period. This strategy places our clients at the centre of what we do and, coupled with a consistent and relentless drive for continued improvement, has been pivotal in transforming group IT.

The most noticeable achievement during this period has been the implementation of the first phase of our agile adoption, where more than 2 000 employees shifted from the traditional “waterfall” approach to work towards “new ways of working”. This is characterised by smaller collaborative multidisciplinary teams (“you build it, you run it”) working together to deliver frequent and meaningful value to our clients, at a more affordable cost.

We are well on our way to completing our core platform modernisation programmes and are seeing benefits in our ability to exploit and innovate on our new agile platforms. We have shown

significant improvement in our resilience and client engagement across all facets of our business and have continued to achieve our affordability targets.

### Our strategy

Our IT strategy has remained consistent throughout our transformation journey and is anchored in four key pillars.

- **Quality of service through brilliant basics:** achieving continuous improvements in the quality of service to clients in terms of availability, reliability and security.
- **Responsiveness to market:** leveraging innovative technology and new ways of working to achieve higher levels of agility, flexibility and responsiveness.
- **Affordability:** managing costs by driving a lean IT operation and by embedding commercial pragmatism.
- **Sustainability as the foundation of client excellence:** making group IT an aspirational destination for IT professionals and embracing our diversity, and social and ethical responsibility.

### Our operating context for the year

The saying, “in the world of IT, the only constant is change” rings true for most of 2016. The significant transformation that took place in our organisation, together with sustained economic weakness and unwavering client expectations, placed pressure on our need to continue delivering high-quality IT systems at an affordable price. It is this context that shaped our activities, focus areas and responses for 2016, and will inform our planned activities for 2017 and beyond.

- 1 Our clients increasingly expect all banking features to be available at their fingertips. They expect real-time offers, 24/7 online availability and that all functionality should be enabled digitally. Meeting these expectations aligns to the key focus of our strategy to place the client at the centre of everything that we do.
- 2 Our environment is heavily regulated through a multitude of local and global legislative requirements, which continually evolve and require that we embrace regulation in our business-as-usual activities.



- 3 Our industry presents continual opportunities and threats from new disruptors to banking, both in the form of new banks and Fintechs. This requires that we rapidly deploy new solutions, have systems that are efficient and agile, and partner with Fintechs in a near real-time manner.
- 4 Our unique opportunities present a few key opportunities outside of that already mentioned, that are manifesting in the financial services industry and include:
  - **Data as a strategic asset for the group:** data enables us to deeply understand our clients' needs and preferences, and drive real personalisation.
  - **Threat of cybercrime:** the increasing sophistication and extent of cybercrime affecting our industry, coupled with our own experience of a material incident during the year, require focus and priority in accelerating the further development of our cybersecurity capability.
  - **Artificial intelligence and robotics:** the emergence of artificial intelligence and robotics in the broader IT industry, creates an opportunity for us to gain deeper client insights quicker, and enhance existing processes by eliminating redundant and inefficient manual processes.

## Performance against strategy

The digital revolution is changing the way in which business is conducted. The rapidly growing role of IT in our business is creating a direct connection between the group and our clients, employees and suppliers. With this in mind, our purpose is to provide a great client experience and sustainable value to stakeholders, embed leading risk management practices, create a vibrant, high-performing and aspirational workplace and optimise IT organisational efficiency.

Our ambition is to digitally enable every aspect of our business across the group, and we are making significant progress against this objective which is set out in the four pillars that follow.

### Quality of service through brilliant basics

Quality of service which includes availability, reliability and security remains our top priority. We are committed to fulfilling clients' growing expectations of anywhere, anytime and always-on banking.

During the year, we established our IT resilience programme to drive resilience engineering, and identify and mitigate risks affecting system stability and recovery capabilities. The primary focus of the resilience programme is to identify technology, process and people constraints that may be affecting the reliability, resilience and recovery time of critical systems. Issues identified are prioritised and remediated. This initiative has yielded positive outcomes with a reduction in IT-related incidents experienced over the year and improved recovery times when incidents did occur. This will continue to receive specific focus going forward.

While improving, the power and telecommunication infrastructure remains challenging in many African countries with some disruption to business services being a business norm. Our investment into redundant power and telecommunication services remains a priority to ensure our ability to continue operating during these disruptions.

We have successfully implemented the "DevOps" philosophy where teams carry accountability for both the development and effective operation of the systems they own. This philosophy has a proven track record of positively influencing system reliability, and will underpin our drive to maximise stability and the quality of client experience.

Inherent in the advances of digitisation is the growing risk of cybercrime. Our cybersecurity strategy has been reviewed with an emphasis on accelerating the delivery of security capabilities to counter the growing sophistication of cybercrime. A number of actions have been completed and a focused programme is in place to enhance security defences in response to the heightened risk. This is an area that we take extremely seriously and is considered a top priority.

Complexity is a key factor affecting risk in our IT estate, therefore, simplification is a key imperative in further improving quality of service. The completion of our core banking modernisation programmes (SAP in South Africa, and Business Online and Finacle across the Africa Regions) provides an opportunity to simplify our IT estate. This will reduce risks associated with system stability and security, as well as reduce operating costs. To this end, we continue to drive architecture governance across our estate to standardise core systems and rationalise duplicate capabilities.

### Responsiveness to market

The digital revolution has unleashed a growing wave of change. Cloud computing, big data and advanced analytics, blockchain, artificial intelligence, robotics and quantum computing are just a few examples of new technologies that have the potential to transform the financial services industry. Leveraging technology will remain at the heart of realising the group's strategy, and is pivotal for us to remain relevant and competitive.

Client behaviours and needs are changing, and a key pillar of our strategy is to be responsive to these changes to ensure we deliver a superior client experience. Our design principles are to deliver what matters to clients, make decisions based on data, design for mobile, and provide continuous improvement, innovation, simplicity and safety.



Our strategic investments in IT include the core banking platforms in South Africa and in the Africa Regions, Business Online across Africa, SBG Mobile and eMarket Trader. These platforms form the backbone of our new IT architecture and include client, account and product management, and payment and transactional processing capabilities.

Investing in our core IT platforms has been a bold strategic move – and counter to the strategy of many of our competitors. We are convinced that our strategic investments enable our rapid response to client needs and the ability to deliver leading digital banking solutions, driving benefits for our client-focused strategy, agility, integration of operations and risk optimisation. For example, there has been an excellent adoption of our universal digital platform.

In 2016, we moved from a project-based delivery model to a continuous delivery model where smaller integrated, collaborative multidisciplinary teams work together to continuously deliver value to our clients. This transition was cemented during 2016 and has become our new way of working for system engineering, which encompasses a number of frameworks, including the internationally recognised Scaled Agile Framework with Agile, Lean and DevOps principles. Our teams deliver features and functionality in smaller increments, enabling a quicker response to market. The benefits of this approach are evident in the pace at which we have delivered changes in 2016, including the following:

- Launched the universal mobile banking app in Botswana, Ghana, Namibia, Swaziland, Uganda, Zambia and Zimbabwe, as well as in our offshore financial services operations in Jersey and the Isle of Man.
- In South Africa, more than 18 releases were delivered by the core banking programme in 2016, and a further 1.4 million clients were migrated onto the platform, bringing the total to over 7 million migrated clients.
- New investment and savings products were introduced onto the South Africa core banking platform.
- Completed Business Online with eight successful releases.
- Implemented the Finacle private cloud solution in Swaziland, Zambia and Zimbabwe, and completed a number of key Finacle core banking upgrades in the Africa Regions.
- A bespoke internet banking solution (Finacle E-Banking) was implemented for small enterprise clients in Botswana, Ghana, Namibia, Nigeria, Swaziland, Uganda and Zimbabwe, based on the multi-channel shared architecture between South Africa and the Africa Regions.
- Launched the Shyft app on iOS and Android devices which enables clients to buy, store, send and spend foreign currency.
- Finalised eMarket Trader, an advanced cross-asset electronic trading platform bringing together market intelligence, research, real-time pricing, trade execution and post-trade services through a single web-based platform.
- Completed the International Trade and Payments system development, covering traditional trade products, open account trade finance and an electronic client channel.
- Introduced several technologically enabled compliance and risk solutions, speeding up processing times and improving client experience.

## Affordability

We remain on track to bring IT affordability within benchmarks through the transformation of our IT function. Specific and sustainable savings opportunities totalling R2.5 billion have been identified and implemented over the past three years. The sustainability of these savings is a key imperative for us, and is a function of innovating the way in which we operate.

Our substantial investments in the core modernisation programmes will be completed during the course of 2017. These capital investments will yield amortisation charges that will peak in 2018 and then standardise at lower levels after 2025. The net book value of investments was R21.2 billion at 31 December 2016 and the annual amortisation currently exceeds R2 billion. Investment in IT change is expected to reduce in 2018 and, thereafter, future investments in IT change will be aligned with global benchmarks.

Our new ways of working have yielded substantial improvements in the efficiency of the development and enhancement of systems. In areas where this approach has matured we have measured reductions of over 80% in the cost of delivering features, creating capacity for more features to be delivered. Our transition to new technologies and next generation infrastructure will deliver substantial cost savings in our infrastructure layers in coming years. Our programme to simplify our IT estate through decommissioning redundant applications and infrastructure will also yield savings.



## Sustainability as the foundation of client excellence

An engaged workforce is a critical factor in the successful delivery of our sustainability objectives. There has been a strong drive to enhance the culture in group IT and make it a great place to work. Several initiatives support this, including leadership development, Lean IT adoption (the removal of unnecessary waste while maintaining overall delivery), continuous improvement initiatives, innovation campaigns and our drive to elevate the status of engineering skill.

We have invested extensively in reskilling for the future by building capability on three levels: internally in group IT with customised skills development programmes, partnering with universities to influence and align the IT curricula, and industry-level collaboration on the agile and DevOps methodologies. Our ambition is to ignite our people to a common purpose (the client), and reskill and “future proof” them for emerging technologies and new ways of working.

In 2013, the Organisational Health Index (OHI) ranked us in the bottom quartile. A number of initiatives to improve this metric have taken place over the last three years, and the overall OHI has improved, placing us in the second quartile when compared to other global organisations.

To achieve our transformation and diversity objectives, our employee growth and retention strategies aim to accelerate the development of talented black employees. In line with our strategy to have a more permanent workforce, non-permanent to permanent conversions are in favour of black employees, specifically black women. We have also developed a focused intervention to transform our

executive and management committees over the coming years and have implemented cross-functional rotational experiences for black employees and executives.

Group IT is well-placed to contribute to the group's preferential procurement objectives. In 2016, 12% of our preferential procurement was from black women-owned businesses. In collaboration with the group procurement function, we are assisting qualifying and emerging small enterprises with supplier development programmes that address technical supplier requirements, in addition to traditional business development support.

### Looking ahead

2017 is a key stage in our transformation and we expect to realise the sustainable benefits of the initiatives outlined above, as well as achieve our affordability targets. We will:

- Further embed and leverage our new ways of working, expanding this to all operations within South Africa and more operations in the Africa Regions.
- Leverage next generation infrastructure, enabling us to utilise more cost-efficient and powerful technology capacity to deliver on our objectives.
- Move towards a more normalised level of investment as the level of spend on our signature programmes tapers, enabling our ability to leverage the investment in our modern core banking estate.
- Complete the core banking transformation in South Africa in 2017 with more than 95% of clients on the modernised platform.
- Accelerate the digitisation of all business services to improve client experience.
- Continue to progress our data journey, using data to better understand our clients and enable a personalised client experience.
- Drive the radical simplification of our systems post the completion of our core modernisation programmes.



Neil Surgey,  
Chief risk officer



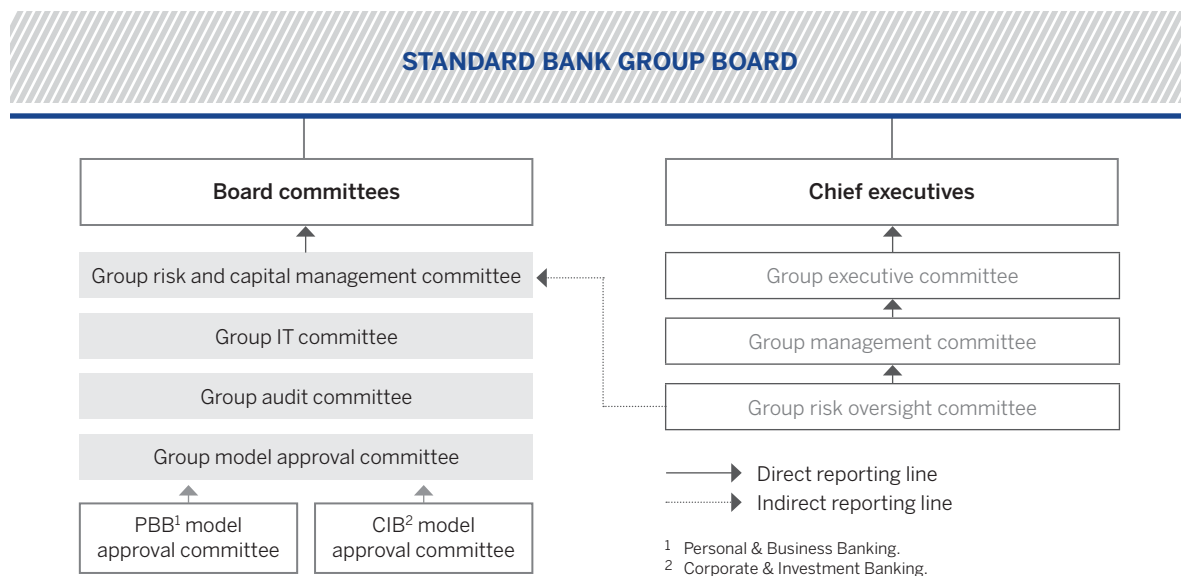
“As a leading financial services organisation in Africa, managing risk is integral to our everyday activities. In 2016, the risk function played a vital role in working with the group’s businesses to navigate an extremely complex environment and manage the associated risks. This was done in a manner that balanced the interests of clients and other key stakeholders with protecting the safety and soundness of the group. Key to Standard Bank’s long-term sustainable growth and profitability is to manage risk on a consistent basis across the group, and to ensure our risk appetite is clear and aligned to our strategy.”

## Risk report

### Risk governance

Our approach to managing risk and capital is set out in the group risk, compliance and capital management governance framework, which is approved by the group risk and capital management committee. The framework has the following two components:

- Governance committees
- Governance standards, frameworks and policies.





## Risk strategy

Our risk strategy aims to instil conscious risk taking throughout the group as we pursue our identified growth opportunities. Our well-developed risk management framework and clear risk appetite, which describes the levels of risk we are willing to accept in executing the group strategy, ensures a consistent approach to managing risk across the group. We take a holistic and forward-looking view of the risks we face, continuously assessing both current and emerging risks. This is critical to our long-term sustainability, enabling us to deliver what matters most to our clients in balance with our obligations to our other stakeholders, thereby protecting the group's legitimacy and reputation.

## Enterprise-wide view of risk

Risk is everyone's business. We take an enterprise-wide view of material risks, which are monitored, managed and mitigated according to the three lines of defence model. Key business lines are primarily accountable for identifying and addressing their respective risks, and the group risk function provides the necessary oversight and challenges businesses where necessary to ensure robust responses. Group internal audit provides independent assurance on the effectiveness of the first and second lines of defence.

Our risk appetite is regularly reviewed in response to changes in our operating environments, and clearly articulated to those responsible for managing risk. We regularly assess and enhance our risk management framework to ensure that it is fit-for-purpose and that we have adequate capacity to manage risk in unpredictable operating environments.

In 2016, we developed a quantitative risk appetite statement which is aligned with our strategy and values. This will assist us in further embedding the risk appetite

framework and serve as a guide for strategic and operational decision making across the group.

In addition, the external environmental factors identified in 2015 were closely monitored. These potential risks included managing the business in a turning credit cycle given the tightening of monetary policy in key markets, a possible downgrade of the South African sovereign credit risk rating to sub-investment grade, stalling growth in South Africa, persistent drought conditions in sub-Saharan Africa, continued low commodity prices and the threat of cyber risk. In response, we enhanced our collections capability and conducted stress tests to assess our ability to withstand these risks. We anticipated sovereign weakness and the associated foreign currency liquidity shortages as a secondary result of low commodity prices, and were able to proactively manage our exposure to concentration in any sector. We were also aware of the increased risk faced by local banks in terms of exposure to the sovereign and commodity sectors, particularly in oil exporting countries, and rigorously managed our exposures in this regard.

## Stress testing

Stress testing has evolved from a regulatory oversight to an internal risk management tool that informs decision making at various levels within the group. We continue to refine our internal models to determine the impact of stress scenarios, building closer alignment between risk and financial planning. We conducted stress tests as a matter of course during the year, to assess our ability to withstand prevailing and emerging risks. Our risk appetite was reviewed regularly to guide decision making in relation to our exposures and capital allocation at client, sector and country levels.

## Knowing our clients

Knowing our clients is central to effective risk management. In line with this, data analytics has been a feature of our risk management, credit extension and fraud detection capabilities for many years. Improving data management by removing outdated and obsolete data, enabling simpler and quicker extraction of data from a single platform, real-time personalisation of client profiles and predictive analytics, and implementing data governance functions continue to be a focus. In 2016, the group further developed the capacity of our people, processes and technology to ensure data accuracy and integrity, in compliance with the Basel Committee on Banking Supervision's (BCBS) principles for effective risk data aggregation and risk reporting. These principles are intended to improve the quality of information that banks use in decision making, particularly in risk management.

## Risk culture

Ultimately, it is the strength of our risk culture that determines how effective we are at managing risk at all levels of the group. There has been a consistent improvement in our risk culture in recent years, founded on risk awareness, compliance with laws and regulations, and ethical behaviour. Increased capacity in risk roles and our focus on embedding the group's values and principles, related policies, compliance training programmes and a whistle-blowing programme, have resulted in meaningful behavioural changes and empowered our employees to act with confidence in doing the right business the right way. The three lines of defence model, which promotes transparency, accountability and consistency through clear identification and segregation of duties, has reinforced our efforts in this regard.

The table that follows on page 72 sets out our risk types and key developments in 2016.



## Looking ahead

Global economic growth was slow in 2016, with headwinds adversely affecting both developed and emerging markets. Although the IMF predicts increased economic activity in 2017 and 2018, especially in emerging and developing economies, we anticipate that challenges will continue in 2017 due to recent political developments, geopolitical risks, regulatory uncertainty, and the risk of a downgrade of the South African credit risk rating to sub-investment grade.

With this in mind, and through the continuous assessment of current and emerging risks, the group is equipped to identify, manage and mitigate risks more effectively. Increased attention will be placed on mitigating portfolio risks related to variable commodity prices, foreign currency liquidity concerns in certain jurisdictions, and political volatility. More broadly, country-specific risks and country risk appetite will continue to be managed prudently. Cyber risk remains a key focus and, given the increase in the number and sophistication of cyber-attacks against financial institutions, we will continue to invest in our capabilities to mitigate such attacks.


In line with our focus on improving group ROE, we will continue to optimise financial resource allocation, including capital and liquidity, between product lines, legal entities and industry sectors.



Detailed information on risk and capital management is contained in our separate risk and capital management report available online.

RISK TYPE	KEY DEVELOPMENTS IN 2016
<b>Credit risk</b> The risk of loss arising out of the failure of obligors to meet their financial or contractual obligations when due.	<ul style="list-style-type: none"> <li>Reduced our exposures to certain sectors, and conversely increased our risk appetite for others, in line with macroeconomic expectations.</li> <li>The credit loss ratio for the group's banking activities was 0.86% (2015: 0.87%).</li> <li>Enhanced the effectiveness of our collections capability.</li> </ul>
<b>Country risk</b> The uncertainty that obligors will be able to fulfil their obligations given political or economic conditions in the host country.	<ul style="list-style-type: none"> <li>Increased our focus on local currency product and other factors to mitigate foreign currency liquidity risk.</li> <li>Our leaders actively participated in promoting policy reform and multilateral efforts to address poverty, inequality and higher, more inclusive growth.</li> </ul>
<b>Compliance risk</b> The risk of legal or regulatory sanction, financial loss or damage to reputation that the group may suffer as a result of its failure to comply with laws, regulations, codes of conduct and standards of good practice applicable to its financial services activities.	<ul style="list-style-type: none"> <li>Continued to instil a risk-appropriate, compliance- and client-focused culture.</li> <li>Increased our resources, including the expansion of our compliance teams in the Africa Regions and our anti-money laundering (AML) teams.</li> <li>Completed implementation of advanced AML and anti-terrorism surveillance systems.</li> <li>Continued to embed structures and processes for market integrity and business conduct.</li> <li>Engaging with the Competition Commission regarding its complaint against SBSA with respect to the possible contravention of the Competition Act in relation to USD/ZAR trading.</li> </ul>
<b>Funding and liquidity risk</b> The risk that an entity, although solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.	<ul style="list-style-type: none"> <li>Successfully maintained a Basel III liquidity coverage ratio in excess of the 70% minimum regulatory requirement.</li> <li>Implemented certain mitigating strategies to address the risks identified under a sovereign sub-investment grade scenario.</li> <li>Further enhanced our systems to ensure compliance with liquidity regulations, focusing specifically on daily liquidity reporting across all entities.</li> <li>Made material progress in complying with the BCBS risk data aggregation and risk reporting principles (BCBS 239).</li> </ul>



RISK TYPE	KEY DEVELOPMENTS IN 2016
<p><b>Market risk</b></p> <p>The risk of a change caused by adverse movements in market variables.</p>	<ul style="list-style-type: none"> <li>Continued to advance interest rate risk management and enhanced global markets and market risk technology.</li> <li>Provided comment on proposed changes to regulations impacting trading and banking book positions.</li> </ul>
<p><b>Insurance risk</b></p> <p>Insurance risk arises due to uncertainty about the timing and amount of future cash flows from insurance contracts.</p>	<ul style="list-style-type: none"> <li>Made good progress in embedding the Solvency Assessment and Management (SAM) programme, responding to the impending RDR regulations with the introduction of goal-based investment funds and preparing for Twin Peaks.</li> <li>Continued to develop a strategic response to changes that are negatively impacting persistency.</li> </ul>
<p><b>Operational risk</b></p> <p>The risk of loss suffered as a result of the inadequacy of, or failure in, internal processes, people, systems or from external events. This risk type includes:</p> <ul style="list-style-type: none"> <li>Model risk</li> <li>Tax risk</li> <li>Legal risk</li> <li>Environmental and social risk</li> <li>IT risk</li> <li>Information risk (including cyber risk)</li> <li>Financial crime risk.</li> </ul>	<ul style="list-style-type: none"> <li>Strengthened cyber security capability across the group and raised awareness with employees.</li> <li>The group's South African banking operations were the victim of the Japan card fraud.</li> <li>Implemented early warning systems, enhanced detection rules and new preventative strategies to mitigate the threat of fraud.</li> <li>Continued to adapt our ways of working, skills base and human resource practices to meet the requirements of a different future.</li> <li>Started evolving our environmental and social risk appraisal system and broadening the remit of the environmental and social risk business unit to strengthen our capacity to identify, mitigate and manage associated impacts.</li> </ul> <p> Detailed information on the progress we have made in managing our operational risks can be found in the business unit reviews starting on <a href="#">page 34</a>, the human capital report on <a href="#">page 58</a> and the IT report on <a href="#">page 66</a>.</p>
<p><b>Business risk</b></p> <p>The risk of loss due to earnings variability, resulting in operating revenues not covering operating costs after excluding the effects of market risk, credit risk, structural interest rate risk and operational risk. This includes strategic risk which is the risk that the group's future business plans and strategies are inadequate to prevent financial loss or protect the group's competitive position and shareholder returns.</p>	<ul style="list-style-type: none"> <li>Achieved an acceptable return for shareholders despite significant challenges.</li> <li>Cascaded the strategy throughout the group to ensure our people understand what we aim to achieve.</li> <li>Business units and corporate functions aligned their strategies to the group strategy and risk appetite.</li> <li>Defined our new strategic value drivers and are developing appropriate measures to guide strategic execution. Over time, these measures will be aligned to performance management and remuneration.</li> <li>The group and its employees are undergoing a significant change process to ensure that we are adequately equipped to execute a client-focused strategy.</li> </ul>
<p><b>Reputational risk</b></p> <p>The risk of potential or actual damage to the group's image which may impair the profitability and/or sustainability of its business.</p>	<ul style="list-style-type: none"> <li>SBSA terminated its banking relationships with companies owned and controlled by the Oakbay Group.</li> <li>SBSA supported the Minister of Finance in his High Court application for an order to declare he has neither the power nor the obligation to intervene in a bank's decision to terminate a banking relationship.</li> <li>Continued to improve stakeholder engagement processes, including a pilot study to assess relationship quality with key regulatory, political and social stakeholders.</li> </ul>



## Group financial review

### Demonstrating value creation

"ROE is our most critical measure of shareholder value creation. The group's ROE was 15.3% in 2016. We are focused on driving this measure to the upper end of our 15% to 18% target range over the medium term. To this end, we remain steadfast in our commitment to partnering with our clients on their growth journeys and we will concentrate on optimising resource allocation across the group, coupled with tighter management of capital supply and a diligent focus on improving our JAWs ratio."



Arno Daehnke, Group financial director

### Highlights of the group's 2016 results

**↑ R23 009 million**  
SBG headline earnings  
FY15: R22 187 million

**↑ 780 cents**  
DPS  
FY15: 674 cents

**↑ R22 062 million**  
Banking headline earnings  
FY15: R20 323 million

**↑ 13.9%**  
CET 1 ratio  
FY15: 12.9%

**↑ 1 440 cents**  
HEPS  
FY15: 1 389 cents

**86bps**  
Credit loss ratio  
FY15: 87bps

**0.3%**  
JAWs  
FY15: (2.0%)

**↓ 15.3%**  
SBG ROE  
FY15: 15.6%

**↑ 16.8%**  
Banking ROE  
FY15: 16.3%



Group headline earnings and headline earnings per share increased by 4% to R23 009 million and 1 440 cents respectively#. The board declared a final dividend of 440 cents per share, bringing the total dividend for the year to 780 cents, up 16% on 2015. At year end, the group's capital position was above the upper end of the group's target range, which supported our decision to grow dividends faster than earnings.

We were particularly pleased that our banking activities' headline earnings grew by 9% to R22 062 million and achieved an ROE of 16.8%, an improvement from 16.3% in the prior year. Strong income growth, a benign credit loss ratio of 0.86% and a positive JAWs ratio supported this result. Group ROE was 15.3%, down from 15.6% in 2015#.

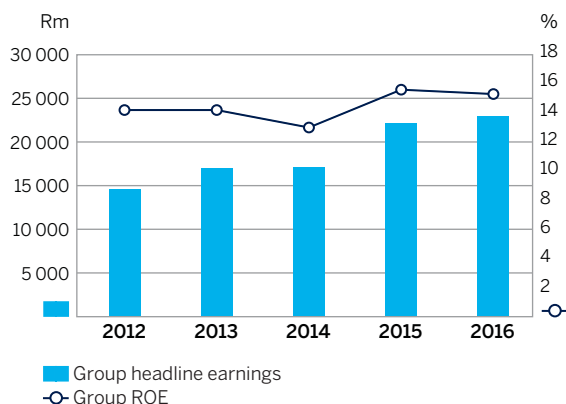
Despite the elevated levels of macroeconomic, political and policy uncertainty experienced in many of the markets in which the group operates, we continued to grow our businesses in South Africa and in the Africa Regions, the latter contributing 25% to both the group's total income and headline earnings in the 2016 financial year.

**Note:** Up to the end of December 2015, the group normalised its results. From 1 January 2016, the group reverted to IFRS as its primary reporting basis.

Refer to [www.reporting.standardbank.com/reporting](http://www.reporting.standardbank.com/reporting) for further details on the group's normalised results.

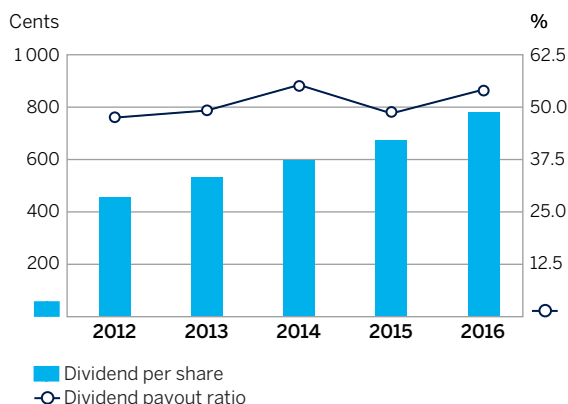
### Headline earnings and ROE

CAGR (2012 – 2016): 12%



### Dividend per share and dividend payout ratio

CAGR (2012 – 2016): 14%



### HEADLINE EARNINGS BY BUSINESS UNIT

	Change %	2016 Rm	2015 Rm
Personal & Business Banking	12	12 630	11 280
Corporate & Investment Banking	16	10 558	9 076
Central and other	(>100)	(1 126)	(33)
<b>Banking activities</b>	9	<b>22 062</b>	20 323
Other banking interests	99	(8)	(569)
Liberty	(61)	955	2 433
<b>Standard Bank Group</b>	4	<b>23 009</b>	22 187

# 



## Key drivers of our performance for the year

Despite the difficult operating environment, the group's banking activities delivered strong headline earnings growth and an improved ROE of 16.8% from 16.3% the year before. This was mainly attributable to continued net interest income growth, the resilience of our balance sheet, and our diversified footprint across Africa.

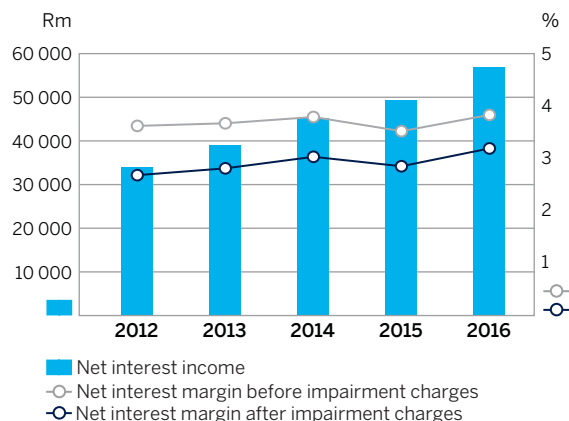
### 1. Continued net interest income growth

Net interest income (NII) has continued to increase and, over the period since 2012, has grown by, on average, 14% per annum. In 2016, NII grew 15% due to a growing average loan book and expanding margins. Average interest-earning assets grew by 6% for the year under review and average interest earning loans to customers grew by 8.5%. Margins on interest-earning assets widened by 44 basis points to 477 basis points, mainly attributable to:

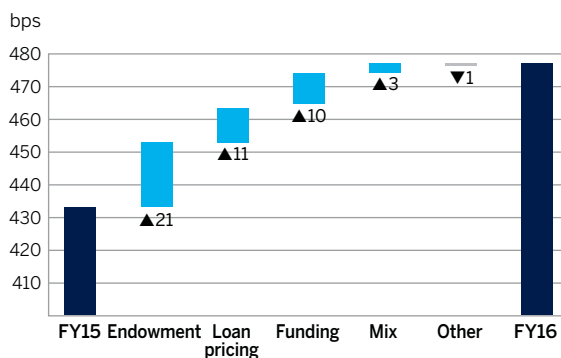
- A positive endowment impact totalling R2.6 billion or 21 basis points
- Increased loan pricing of 11 basis points, mainly in PBB, with good portfolio concession management in home loans and higher rates on new revolving credit plans in South Africa
- A positive impact of 10 basis points on the funding margin as reliance on wholesale-priced funding reduced.

#### Net interest income and net interest margin

CAGR (2012 – 2016): 14%



#### Margin analysis on interest-earning assets






## 2. Resilience of our balance sheet

After a year of macroeconomic challenges in the countries in which we operate, our balance sheet remained resilient, both in terms of its stability given the difficulties our clients faced and in meeting our various regulatory requirements.

### KEY BALANCE SHEET INFORMATION

<p>NPLs of</p> <p><b>R33 billion</b></p> <p>(2015: R35 billion)</p>	<p>Non-performing loans (NPLs) at year end reduced from R35 billion in 2015 (or 3.2% of the book) to R33 billion (3.1% of the book). A material component of the decrease in NPLs arose in CIB where we actively managed the impact of market stresses on our portfolio, decreasing our exposure to the financial institutions, oil and gas, and mining and metals sectors to ensure that our exposures remained within our risk appetite. We also managed rights offers on behalf of our clients and restructured debt to assist our clients and manage our risk.</p>
<p>Specific provision coverage ratio of</p> <p><b>44%</b></p> <p>(2015: 45%)</p>	<p>We carry specific balance sheet provisions of R15 billion to account for the credit risk in these NPLs, after considering available collateral and other types of security. This results in a specific impairment coverage ratio, being the proportion of our NPLs covered by specific impairment provisions, of 44%, which is similar to that of the prior year. We also carry additional provisions for performing loans of R7 billion for loans that we expect to default in future but for which the impairment event is not yet known. This brought the total impairment provisions carried on our balance sheet to R21.8 billion.</p>
<p>Total impairment provisions of</p> <p><b>R21.8 billion</b></p> <p>(2015: R22.7 billion)</p>	<p>Credit loss ratio of</p> <p><b>0.86%</b></p> <p>(2015: 0.87%)</p> <p>The charge for specific credit impairments increased by R284 million in 2016 and the charge for portfolio impairments decreased by R122 million. The net increase in the credit impairment charge resulted in a credit loss ratio of 0.86%, one basis point lower than the prior year. PBB's credit loss ratio of 1.25% benefited from lower credit losses in the secured lending books, which outweighed the higher credit loss ratios reported for personal unsecured lending and card of 4.6% and 4.7% respectively. CIB's credit loss ratio improved in the second half of the year to 0.3%.</p>
<p>Common equity tier<sup>1</sup> ratio rose to</p> <p><b>13.9%</b></p> <p>(2015: 12.9%) </p>	<p>The group remains well-capitalised with the group's common equity tier 1 capital ratio increasing from 12.9% in 2015 to 13.9%. This is above regulatory requirements and our internal targets. The group's total capital adequacy ratio was 16.6% at December 2016 compared to 15.7% a year earlier. Since 2014, the group has managed to absorb Basel III's additional capital requirements and, at the same time, increase capital adequacy ratios.</p>
<p>Total contingent liquidity of</p> <p><b>R335.9 billion</b></p> <p>(2015: R312.7 billion)</p>	<p>The group maintained its liquidity positions within its approved risk appetite and tolerance limits. As at 31 December 2016, the group's total contingent liquidity amounted to R335.9 billion (2015: R312.7 billion), and remains adequate to meet all internal stress testing, prudential and regulatory requirements. At 31 December 2016, the group's quarterly average Basel III liquidity coverage ratio (LCR) amounted to 117.1%, exceeding the 70% minimum phased-in Basel III LCR requirement. We continue to evaluate the funding impact relating to the Basel III net stable funding ratio (NSFR) with a focus on balance sheet optimisation to ensure NSFR compliance from January 2018.</p>
<p>Deposits and current accounts from customers</p> <p><b>up 4%</b> to R1.1 million</p>	<p>Deposits and current accounts from customers increased 4% year-on-year; and 12% on a constant currency basis<sup>1</sup>. The retail-priced component of total deposits declined by 1% from the prior year. Within this decline, the group's South African retail franchise continued to show its strength by growing deposits by 7% while other jurisdictions declined, mainly due to the translation impact of currency weakness.</p>

<sup>1</sup> In order to make a more informed assessment of performance, we disclose a constant currency measure to remove the effects of currency volatility. This is done by adjusting the comparative financial results for the difference between the current and previous years' cumulative average exchange rates. Refer to page 128 for details.

## 3. Our diversified Africa footprint

In 2010, we announced our intention to refine our strategy to focus on Africa. In the subsequent six years we have reduced our global presence and net asset value (NAV) exposure outside Africa and, at the same time, we have grown our group headline earnings at a compound annual average rate of 13%. Over this period, our total income from our Africa Regions has tripled, lifting their contribution to group total income from 16% to 30%. Global economic conditions affect our operations differently at



different times, and local conditions are idiosyncratic in their movements. Our diversified footprint across the 20 countries in which we operate in sub-Saharan Africa has contributed to the 24% average year-on-year growth in headline earnings in our Africa Regions since 2011.

During 2016, our Africa Regions grew overall headline earnings by 3% to R5.7 billion from R5.5 billion in 2015 – on a constant currency basis this growth was 7%. Our Africa Regions' headline earnings now represent a quarter of the group's headline earnings.

Our east Africa region delivered positive results in 2016, growing total income by 17% to R6.1 billion despite interest rate caps in Kenya that negatively impacted NII. Credit impairments rose sharply by 60% to R425 million and headline earnings grew by 12% to R1.2 billion.

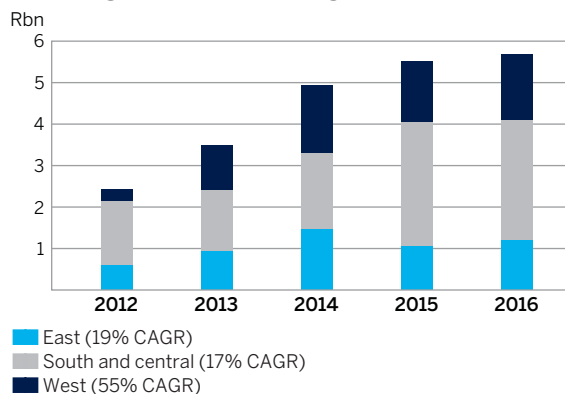
Our largest and most mature grouping of banks in the south and central region grew revenues by 8% to R11.6 billion, and by 14% on a constant currency basis. After accounting for higher credit impairments, particularly in Mozambique, increased costs and a higher tax charge, this region's headline earnings declined by 3% to R2.9 billion, but grew by 2% on a constant currency basis.

Our west Africa region grew headline earnings by 8% to R1.6 billion. Excluding gains on property investments in the prior year, headline earnings increased 28%. This result was achieved despite absorbing a higher credit impairment charge in this commodity rich region, an increased tax charge and our investment in the Ivory Coast, which was granted a banking licence in 2016.

Our operations in Nigeria returned to being the largest contributor to our Africa Regions' headline earnings, closely followed by Mozambique and Uganda.

The ROEs in our Africa Regions dropped overall as countries, on average, increased their capital adequacy ratios to build resilience and continued to invest in partnering our clients on their growth journeys.

#### Africa Regions' headline earnings



## 4. Volatile currencies

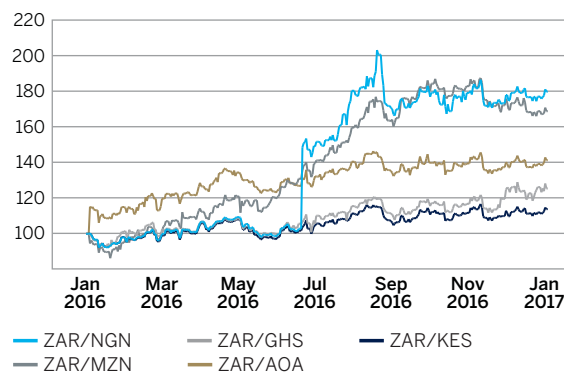
Global markets were unsettled by the UK's decision to leave the European Union in June ("Brexit") and by the outcome of the US presidential election in November, both of which led to currency volatility. Our home and reporting currency, the rand, was impacted by this volatility, as well as by local political and economic issues.

The rand ended 2016 at 13.69 to the US dollar, much stronger than the opening position of 15.50 after the change in the Finance Minister in December 2015. This, together with the rand strengthening against other currencies, led to the translation of our foreign currency-denominated balance sheets at a stronger rand exchange rate, which resulted in the group's foreign currency translation reserves (FCTR) decreasing by R11.4 billion#. The group's FCTR is discussed in further detail on page 93.

During 2016, the group's results were materially affected by the variability of major African currencies relative to the rand. Two markets saw significant dislocations in their currencies: Nigeria, when it floated its currency in June, and Mozambique, which steadily lost value in its currency. This created a difficult operating environment for our Africa Regions' operations which was further diluted when translating those operations' results into rands.

Although our diversified African footprint is delivering pleasing results, these currency movements during 2016 significantly impacted our operations. Headline earnings growth was diluted and, on a constant currency basis, our Africa Regions reported a net asset value increase of 32%, compared to a reported decrease of 15% in rand terms.

#### Depreciation of major African currencies





## Looking ahead

The momentum in economic growth seen towards the end of 2016, driven by China and the US, has continued into 2017. The International Monetary Fund (IMF) is forecasting an improvement in global growth from 3.1% in 2016 to 3.4% and 3.6% in 2017 and 2018 respectively. Global trade activity is expected to increase due to policy stimulus and a gradual normalisation of large economies, such as Brazil and Russia. However, uncertainty surrounding US policy direction under the new administration, Brexit negotiations and the broader European macroeconomic outlook may pose downside risks to global growth prospects.

Sub-Saharan Africa's GDP growth is expected to be 2.8% for 2017, buoyed by global trade, resource demand and generally improved economic prospects. Agriculture sectors in drought-stricken countries benefited from rains in late 2016 and early 2017. Commodity exporters will benefit from the commodity price recovery in late 2016 and into 2017. Nigeria is expected to return to growth, after a contraction of 1.5% in 2016, subject to oil supply and an easing of foreign exchange restrictions. South Africa's growth forecast of 1.5% is an improvement, but remains subject to idiosyncratic event risk, such as rating agency and political decisions in the coming year. Lastly, the South African Reserve Bank has indicated that it expects interest rates to remain flat, subject to inflation and exchange rate developments, and household consumption and fixed investment are likely to stay constrained.

We measure our strategic progress as a group using five value drivers, as discussed on page 12 in this report. Looking forward, we will focus on all five value drivers as described below.

### CLIENT FOCUS

With the macroeconomic dynamics in mind, we look to our clients, to the challenges and opportunities they may face, and seek ways to partner with them on their journeys in 2017 and beyond. As we focus on delivering market-leading client experiences, we continue to invest in our client-facing digital capabilities to enable our clients to transact independently and safely anytime, anywhere. We recognise and value the trust that our clients place in us and remain vigilant in our efforts to protect our clients' resources and data. Accordingly, we continue to monitor developments and potential threats, engage with industry bodies and invest in our defences to enhance our resilience.

### EMPLOYEE ENGAGEMENT

The businesses we operate are complex and we rely on our people across our network to navigate the challenges each business faces and make appropriate decisions in line with strategic priorities. To this end, we continue to invest and equip our people with the skills required, empower them to make decisions, hold them accountable and celebrate their successes. Furthermore, we are seeking opportunities to use technology to leverage our data to inform decisions, deliver client specific solutions and drive process efficiency and productivity gains.

### RISK AND CONDUCT

We remain steadfast in our commitment to doing the right business the right way. In this context, we continue to embed a culture of responsible business practices. We recognise the need to balance prudent capital management with appropriate return-based resource allocation and leverage.

### FINANCIAL AND SEE OUTCOME

We remain committed to delivering through-the-cycle headline earnings growth and driving ROE to the upper-end of our target range of 15% to 18% over the medium term<sup>#</sup>. With regards to Liberty, we are working closely with its board and management and are supportive of their efforts to address their shorter term challenges relating to sales, the competitiveness of Liberty's product suite and ongoing cost management.

As a bank we play an important role in society which is broader than creating shareholder value. We seek to create value for all our stakeholders - clients, employees, shareholders, government and communities alike. In doing so, we continue to contribute meaningfully to the social, economic and environmental prosperity and wellbeing in the markets in which we operate.



RTS

For further discussion of our social, economic and environmental outcomes refer to the group's report to society available at [www.sustainability.standardbank.com](http://www.sustainability.standardbank.com).

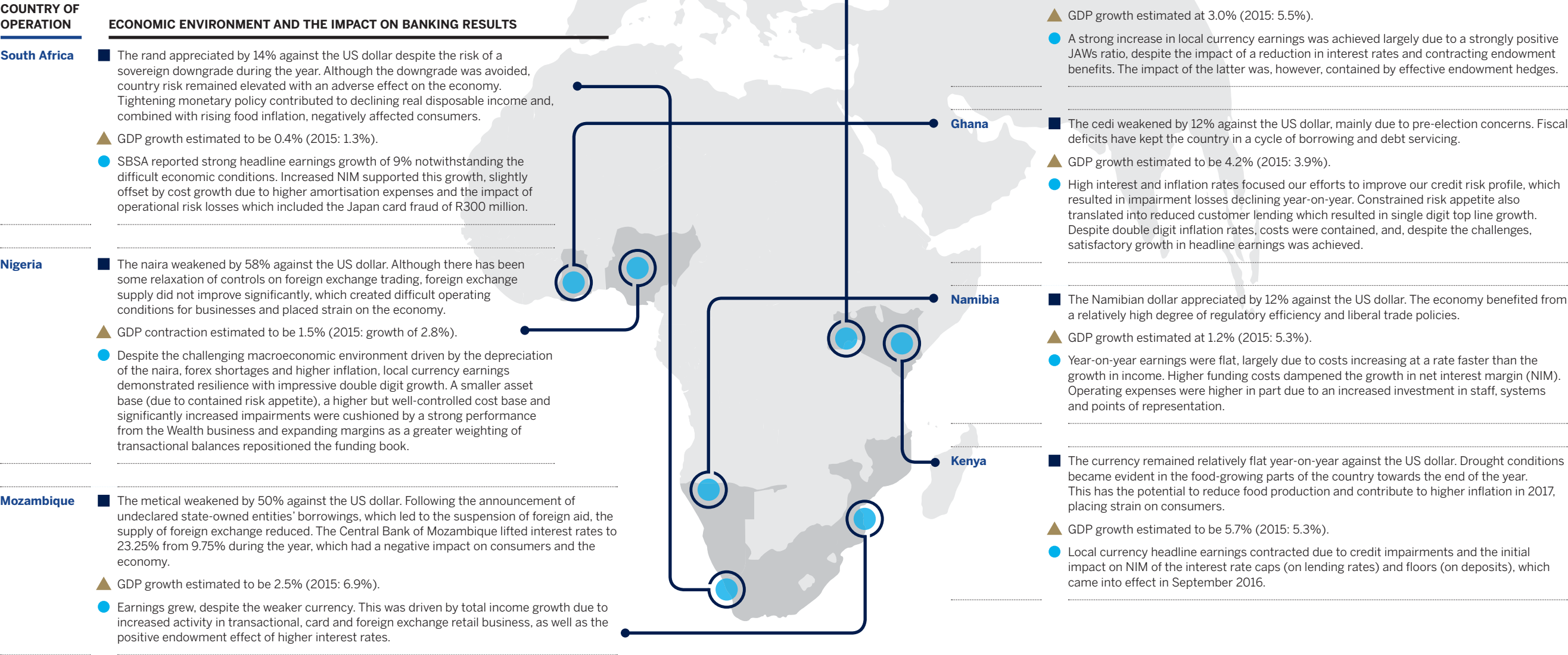


## Economic environment impacting our banking activities

Below we provide a summary of the economic environment of the top seven countries, as measured by headline earnings contribution to the group.

The commentary below has been written from a local currency perspective.

■ Currency impact    ▲ GDP result    ● Commentary on our operation's results in the country



Economics data obtained from the group's internal research team.



## Measuring our financial outcome

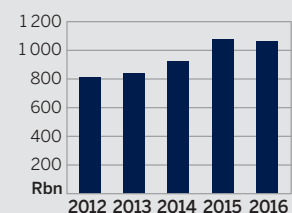
### Headline earnings\*

The group's headline earnings is one of the components used in the determination of the group's ROE and represents the major lever in lifting the group's ROE to continue to meet our medium-term target. Headline earnings is used as a key reference point in decision making throughout the group.

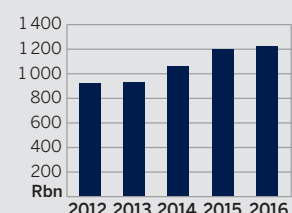
#### Banking activities' balance sheet drivers

Growth in deposits and debt funding and loans and advances have provided the group's banking activities with the ability to increase its headline earnings between 2012 and 2016 by a compound annual growth rate (CAGR) of 15%.

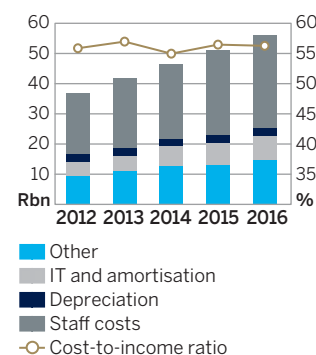
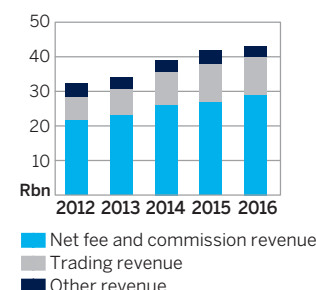
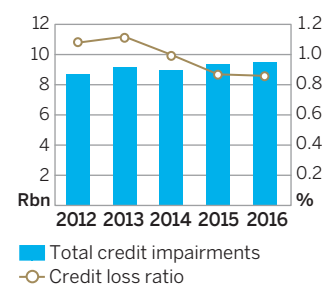
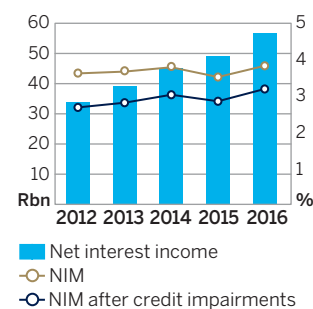
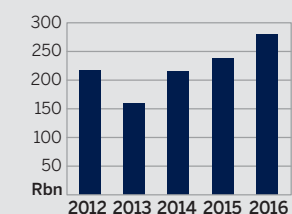
#### Net loans and advances (CAGR: 7%)



#### Deposits and debt funding (CAGR: 7%)



#### Trading and pledged assets, net derivatives and financial investments (CAGR: 7%)



## BANKING ACTIVITIES

### Net interest income (CAGR: 14%)

The cumulative effect of improved risk-based pricing strategies, optimisation of funding composition and growth in the group's Africa Regions has supported the growth in the group's NII. During the year, NII grew 15% on the back of a growing average loan book, widened margins and the positive endowment impact of lower average interest rates.

### Credit impairments (CAGR: 2%)

While the credit impairment charge increased on average by 2% since 2012, the credit loss ratio has declined to 0.86%. The decline in the credit loss ratio followed an improvement in recoveries due to rehabilitation strategies, recovery effectiveness and more stringent credit criteria. During 2016, credit impairments increased marginally by 2%.

### Non-interest revenue (CAGR: 7%)

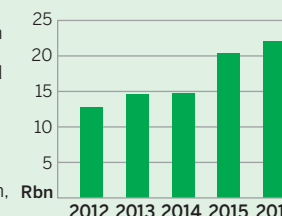
Growth in NIR over the period is attributable to the increase in interchange fee income as a result of growth in the group's customer base, transactional volumes and points of representation, notably in the Africa Regions. During the year, NIR grew by 3% through higher card-based commissions together with strong organic volume growth, new merchant acquisitions and terminal price increases in South Africa, increased account transaction fee income from a larger customer base and increased transaction volumes, and double digit growth in electronic transaction fees.

### Operating expenses (CAGR: 11%)

Operating expenses increased over the period as a result of inflation, increased headcount to expand our footprint across the Africa Regions, a weaker exchange rate, increased amortisation of intangible assets entering production and higher associated IT support costs. Total operating expenses increased by 9% in 2016 following growth in headcount and higher operational risk losses. The cost-to-income ratio, however, decreased as a result of total cost growth being lower than the growth in total income.

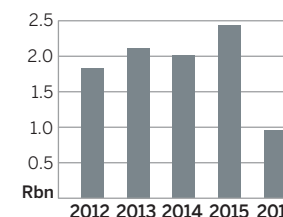
### Banking activities' headline earnings (CAGR: 15%)

Contributing to the 15% compound growth from 2012 to 2016 in banking activities' headline earnings is the growth in our Africa Regions' headline earnings of 24% and the 5% growth in SBSA's headline earnings. The strong growth in NII and NIR, which exceeded the growth in credit impairments and operating expenses, contributed to this growth in headline earnings. This growth was, however, offset by losses post the global financial crisis in the group's London based operation, SB Plc, of which 60% was disposed of effective 1 February 2015.



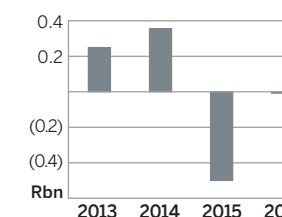
### Liberty's headline earnings – SBG share (CAGR: -15%)

Between 2012 and 2015, Liberty's headline earnings benefited from a steady improvement in its operating earnings but this moderated as a result of lower shareholder investment portfolio gains. Liberty's headline earnings attributable to the group decreased in 2016 by 61% to R955 million as a result of lower investment returns, a challenging consumer environment and the accounting mismatch of R167 million that arose as a result of the listing of its REIT structure during December 2016.



### Other banking interests' headline earnings

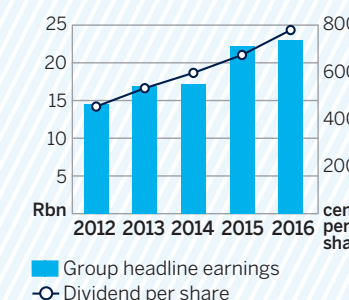
The reduction in the headline earnings loss from the group's other banking interests to R8 million in 2016 was as a result of the loss from the group's 40% interest in ICBCS more than halving in 2016.



### Group headline earnings (CAGR: 12%)

Group headline earnings growth of 12% over the period, has enabled the group to deliver growth in dividends per share of 14%.

(Lib)

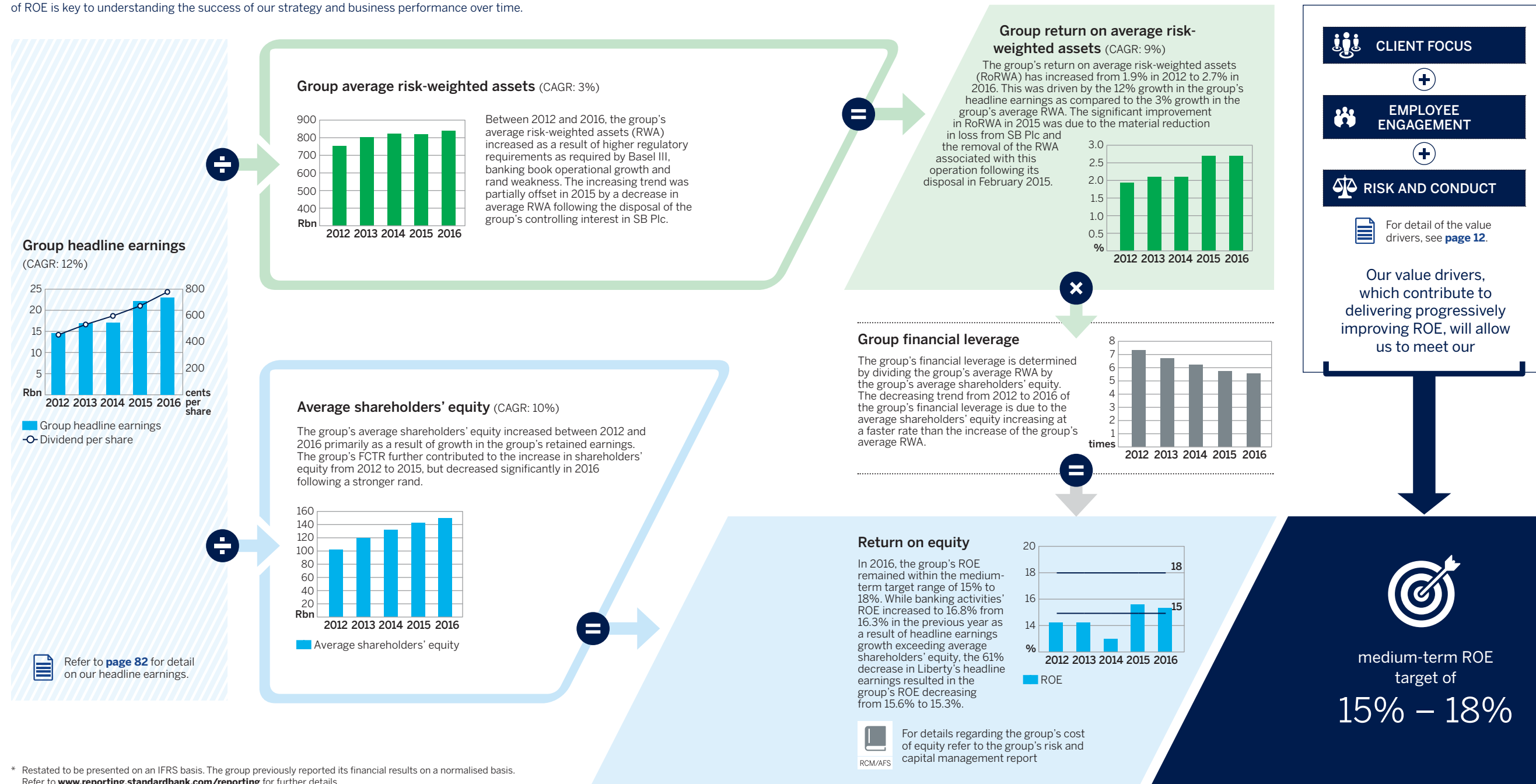


\* Restated to be presented on an IFRS basis. The group previously reported its financial results on a normalised basis. Refer to [www.reporting.standardbank.com/reporting](http://www.reporting.standardbank.com/reporting) for further details.



## Return on equity\*

Our ROE is the most relevant measure of our financial performance over time as it combines all of our critical drivers, including earnings growth and capital utilisation, into a single metric. Internally, we also measure our return on risk-weighted assets (RoRWA) as a more direct measure of earnings relative to regulatory capital utilisation. Understanding the drivers of ROE is key to understanding the success of our strategy and business performance over time.



\* Restated to be presented on an IFRS basis. The group previously reported its financial results on a normalised basis. Refer to [www.reporting.standardbank.com/reporting](http://www.reporting.standardbank.com/reporting) for further details.



## Income statement analysis

The income statement reflects the revenue generated by the group and the costs incurred in generating that revenue. The analysis that follows discusses the group's financial performance and the principal headline earnings drivers for growth in our ROE as explained further on page 82. We have also explained other material income statement line items.

### GROUP INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

	Change %	2016 Rm	2015 Rm
Net interest income	15	56 892	49 310
Non-interest revenue	3	42 965	41 803
Net fee and commission revenue	8	29 012	26 920
Trading revenue	(0)	10 988	11 016
Other revenue	(23)	2 965	3 867
<b>Total income</b>	10	<b>99 857</b>	91 113
Credit impairment charges	2	9 533	9 371
Specific credit impairments	4	8 382	8 098
Portfolio credit impairments	(10)	1 151	1 273
<b>Income before operating expenses</b>	10	<b>90 324</b>	81 742
Operating expenses	9	56 235	51 434
Staff costs	11	30 976	27 968
Other operating expenses	8	25 259	23 466
<b>Net income before equity accounted earnings</b>	12	<b>34 089</b>	30 308
Share of profit from associates and joint ventures	(25)	172	229
<b>Net income before non-trading and capital related items</b>	12	<b>34 261</b>	30 537
Non-trading and capital related items	20	(1 123)	(1 402)
Goodwill impairment	(45)	(482)	(333)
Impairment of intangible assets	46	(654)	(1 220)
Gains on disposal of group entities	(80)	61	311
Other non-trading and capital items	70	(48)	(160)
<b>Net income before indirect taxation</b>	14	<b>33 138</b>	29 135
Indirect taxation	(6)	1 865	1 981
<b>Profit before direct taxation</b>	15	<b>31 273</b>	27 154
Direct taxation	30	7 631	5 873
<b>Profit for the year from continuing operations</b>	11	<b>23 642</b>	21 281
Profit from discontinued operation	(100)		2 741
<b>Profit for the year</b>	(2)	<b>23 642</b>	24 022
Attributable to non-controlling interests	16	1 977	1 704
Attributable to preference shareholders	8	406	377
<b>Attributable to ordinary shareholders – banking activities</b>	(3)	<b>21 259</b>	21 941
Headline adjustable items – banking activities	>100	803	(1 618)
<b>Headline earnings – banking activities</b>	9	<b>22 062</b>	20 323
<b>Headline earnings – other banking interests</b>	99	<b>(8)</b>	(569)
<b>Headline earnings – Liberty</b>	(61)	<b>955</b>	2 433
<b>Standard Bank Group headline earnings</b>	4	<b>23 009</b>	22 187



## Net interest income

Net interest income is the difference between interest received on lending products and investments, and the interest paid on our deposits and debt funding. The interest margin expresses net interest income as a ratio to total average assets. The movement in benchmark lending rates, such as the prime rate in South Africa, is a key factor that causes the net interest margin to vary.



Refer to [page 76](#) for further detail.

## Non-interest revenue

Non-interest revenue comprises net fee and commission revenue, trading and other revenue. The net fee and commission revenue is closely linked to transactional banking volumes, which are a function of economic activity and competition for banking services. Trading revenue is a function of trading volumes and market volatility that affects trading spreads. Other revenue consists of other banking activity-related revenue, including property-related revenue and income derived from bancassurance agreements.

The **net fee and commission revenue** growth of 8% was largely due to the following:

- Account transaction fees increased by 5% to R11.4 billion, due to higher transactional volumes and overnight increases on cash withdrawal, cash deposits and cheque encashment fees on business and commercial transactions, as well as strong transactional growth in the upper-income personal segment and the introduction of a service fee within the Access account portfolio in South Africa. Further contributing to the increase was the growth in the client base and higher transactional volumes in Nigeria, Ghana, Malawi and Mozambique.
- Electronic banking fees growth of 14% to R3.2 billion was attributable to increased business online activity and the optimisation of ATMs in South Africa, growth in instant money transactions and higher online transactional volumes in Zimbabwe, Uganda and Nigeria. The impact of lower transaction fees in Nigeria due to the abolishment of ATM charges coupled with a reduction in fees charged to the customer as required by the Central Bank of Nigeria, partly offset this growth.
- The growth of 12% in card-based commissions to R6.3 billion was attributable to competitive pricing and higher Mastercard and Visa commissions earned in Nigeria, strong organic volume growth, new merchant

acquisitions and annual terminal price increases in South Africa, as well as continued merchant acquisitions and higher transaction volumes in Namibia, Zimbabwe, Mozambique and Zambia. The impact of interchange fee reforms introduced in South Africa from March 2015 partly offset this growth.

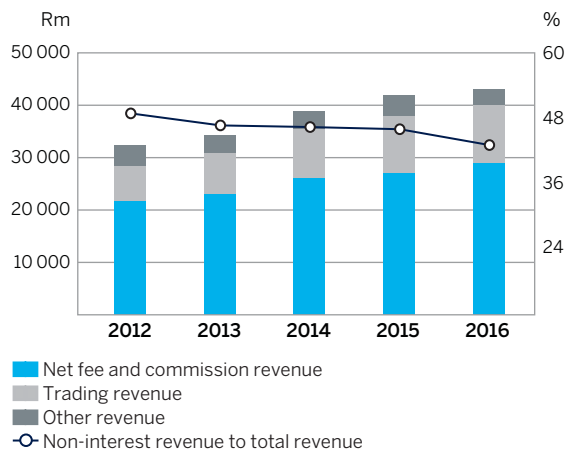
- Other fee and commission revenue growth of 16% to R5 billion was achieved through continued growth in assets under management in Nigeria, higher securities lending fees and growth in guarantees, arrangement and commitment fees in South Africa.
- Knowledge-based fees and commissions decreased by 4% to R2.2 billion due to reduced capital markets activity in the Africa Regions.

While **trading revenue** was flat year-on-year, CIB's client franchise trading revenues were up 8%. The group's trading revenue continues to be generated from its diverse client base active in sub-Saharan Africa and benefited from volatility in financial markets as clients took a more active stance in protecting themselves against risk. Trading revenue further benefited from higher client activity in equities and foreign exchange trading due to increased foreign exchange volatility in Uganda, Ghana, Nigeria and South Africa. These gains were, however, offset by foreign currency-related losses on the group's strategic currency hedging initiatives in the Africa Regions.

**Other income** was down 23% to R3 billion due to gains on the disposal of certain property investments, together with the associated rental income not repeated in the year under review.

### Analysis of non-interest revenue

CAGR (2012 – 2016): 7%





## Credit impairment charges

Credit impairments represent the losses incurred due to the inability of our clients to repay their debt obligations. The credit loss ratio expresses these impairment charges as a percentage of average loans and advances.

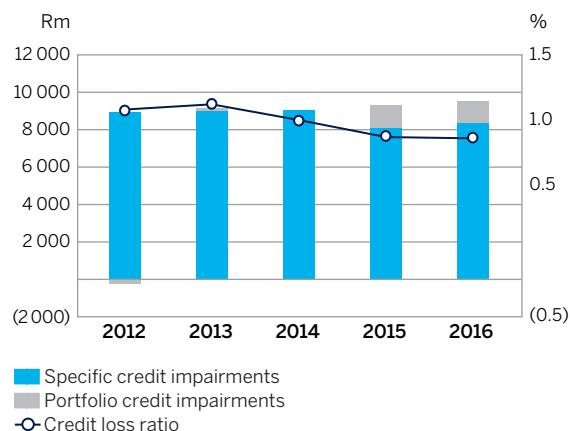
Overall total credit impairment charges were largely flat and the total credit loss ratio (CLR) of 0.86% was in line with the 0.87% recorded in the prior year. In South Africa, the CLR declined on the back of lower impairments in mortgages and vehicle and asset finance, as the performance of those portfolios continued to improve. In contrast, the CLR in the Africa Regions deteriorated primarily due to higher impairments in Nigeria and Mozambique.

In CIB, we have been actively managing the impact of market stresses on our portfolio. During the year, we decreased our exposure to financial institutions, oil and gas, and mining and metals sectors. CIB's credit impairment charges rose to R1 603 million and its CLR to clients increased to 0.44%, driven by higher provisions in the Africa Regions portfolio, in particular, Nigeria. CIB's NPLs declined, reflecting a combination of write-offs, successful restructurings and the impact of currency translation. CIB's portfolio impairment provisions increased to R811 million during the year, after several counterparties' credit ratings were downgraded, specifically in sectors and markets sensitive to commodity prices.

PBB's CLR reduced marginally to 1.25%, driven predominantly by a decline in mortgage-related impairment charges year-on-year, reflecting the good performance of the book and collection-related actions. Vehicle and asset finance impairments declined by 11%, while business and commercial lending impairments were 41% higher, primarily in the Africa Regions. PBB's impairment charges also benefited from post write-off recoveries following higher debt sale proceeds from card debtors, personal overdrafts and revolving credit plan portfolios. Overall personal unsecured impairments rose, reflecting constrained consumer affordability. Low commodity prices, foreign exchange rate volatility and political uncertainty contributed to higher credit impairment charges in PBB's Africa Regions, notably in Nigeria, Kenya, Mozambique and Zambia.

## Credit impairment charges

CAGR (2012 – 2016): 2%



## Operating expenses

Operating expenses represent the costs that are incurred to generate current and future revenues. Inflation and foreign exchange rates are key external variables that contribute to the increase in operating expenses. Many internal factors also affect the growth in operating expenses, such as our staffing levels and investments in our branch and IT infrastructure.

Operating expenses increased by 9% year-on-year and the group's cost-to-income ratio improved from 56.5% to 56.3%. Staff costs increased 11% due to several factors: salary increases, the conversion of temporary staff to permanent employment, increases in headcount in the Africa Regions to support business growth, innovation and digital banking and wealth and investment initiatives, and the increased amortisation of the previous year's incentive awards. Other operating expenses rose 8% due to higher premises costs from refurbishments and branch closures, higher electricity charges and additional maintenance spending in the branch network in South Africa, Ghana, Kenya and Uganda. Other factors contributing to the higher operating expenses were operational risk losses due to the increased frequency of impersonation fraud, ATM bombings and the R300 million loss related to the card fraud in Japan, an increase of R496 million in the amortisation of capitalised software assets and the adverse translation impact of a weaker rand exchange rate in the first half of 2016. Our focus on IT cost saving initiatives helped contain growth in IT-related costs to 2% over the year. Despite inflationary pressures, the group delivered a positive JAWs ratio of 0.3%.



The currency-related headwinds in the first half of 2016 due to the weak rand largely reversed in the second half of the year on the back of a strengthening rand and weakness in various African currencies. On a constant currency basis, the group recorded a positive JAWs ratio of 0.6%.

## Non-trading and capital related items

This line item comprises of gains and losses on the disposal of businesses and property and equipment, and impairment of goodwill, intangible assets, and associates and joint ventures.

Non-trading and capital related items decreased during the year by 20% to a loss of R1 123 million. Included in the non-trading and capital related items were impairments of intangible assets of R654 million, which arose largely due to certain intangible assets no longer being used as intended. A goodwill impairment of R482 million was recognised on the group's investment in Nigeria, due to the weakening of the naira. These items were excluded from the group's headline earnings.

## Taxation

Taxation includes both direct income taxes and indirect taxes such as withholding taxes and the residual portion of value-added tax (VAT).

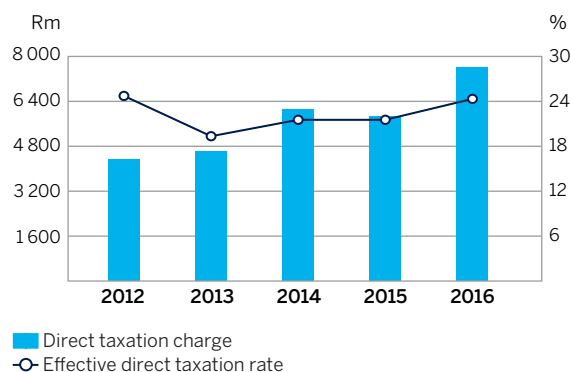
The effective direct tax rate increased by 2.8% from 21.6% to 24.4% due to the non-recognition of deferred tax assets in various Africa Regions, increased withholding taxes and non-tax deductible items.

The total tax paid by our banking operations amounted to R9.9 billion (2015: R9 billion) and tax collected from third parties and employees amounted to R12.3 billion (2015: R12.0 billion).



Refer to the group's report to society for further information.

## Direct taxation charge and effective direct taxation rate



## Headline earnings – other banking interests

From a segment reporting perspective, the group's 20% interest in ICBC Argentina, previously included in the group's Central and other segment, and 40% interest in ICBC Standard Bank Plc (ICBCS), previously included in CIB's segment results, now comprise the group's other banking interests and represent the group's vestigial associate interests in previously consolidated entities that are held in terms of strategic partnerships with ICBC. CIB and Central and other's previously reported results have accordingly been restated to exclude the equity accounted earnings relating to these entities.

Headline earnings from the group's other banking interests improved to a net loss of R8 million from a net loss of R569 million in the previous year. The headline earnings contribution from the group's 20% interest in ICBC Argentina declined 3% year-on-year to R583 million due to a weaker Argentinian Peso (37% increase on a constant currency basis). Equity accounted losses from the group's 40% interest in ICBCS more than halved in 2016 to R591 million from R1 294 million in 2015 (excluding once-offs related to the insurance recovery and the Deferred Prosecution Agreement costs).



## Headline earnings – Liberty

The group has a 55% interest in Liberty, which comprises life insurance and investment management activities. Consistent with the boundary of this annual integrated report, the group's share of Liberty's earnings is reflected in this financial review as a single line item to ensure a clear distinction from the group's banking activities. Liberty's earnings are dependent on both earnings from insurance operations and from the performance of investment markets.

Headline earnings for Liberty amounted to R2.2 billion, down 46% compared to R4.1 billion in 2015.

The main contributors to the reduction in earnings include lower returns on the shareholders' investment portfolio in the second half of the year (due to poor portfolio returns, rand strength and the write-down of infrastructure investments held in the alternatives portfolio), the net negative actuarial assumption changes in the Individual Arrangements business relating mainly to worsening persistency, abnormally higher risk claims in the South African Individual Arrangements and Liberty Corporate businesses, contributing to reduced risk profits in the second half, reduced earnings from STANLIB relating mainly to once off operational write-offs in both the South African and East African asset management businesses and the costs incurred on the implementation of the outsourcing of the local retail administration function.

Liberty's 2016 headline earnings were also impacted by the first time consolidation of the listed Liberty Two Degrees (L2D) REIT. This resulted in a negative earnings impact of R304 million at a Liberty level, which represents an accounting mismatch that arose on consolidation of L2D between the open market value of the investment property assets of L2D and the corresponding obligations to policyholders in respect of the listed price of the L2D units. This mismatch does not reflect the economic reality of Liberty's results and has been adjusted for in calculating Liberty's normalised headline earnings. Normalised headline earnings for the 2016 year were 39% lower, representing a 37% decline in normalised operating earnings and a 42% decline in earnings from LibFin Investments.

After recognising our 55% share of Liberty's IFRS earnings we are required, at a group level, to eliminate share price movements on deemed treasury shares held in Liberty. These are Standard Bank shares held by Liberty on behalf of policyholders. During 2015, we added back the negative impact of a declining Standard Bank share price and, in 2016, we are eliminating gains made in Liberty as a result of the higher Standard Bank share price. This resulted in Standard Bank including R955 million of headline earnings from Liberty (2015: R2 433 million) in the group's results.



## Balance sheet analysis

The balance sheet or statement of financial position<sup>1</sup> shows the position of the group's assets, liabilities and equity at 31 December 2016, and reflects what the group owns, owes and the equity attributable to shareholders.

	Change %	2016 Rm	2015 Rm
<b>Assets</b>			
Cash and balances with central banks	3	77 474	75 112
Derivative assets	(40)	61 752	102 094
Trading assets	51	128 098	84 587
Pledged assets	(78)	3 313	15 204
Financial investments	(2)	154 630	157 855
Loans and advances	(1)	1 065 628	1 077 145
Loans and advances to banks	(13)	143 788	165 156
Loans and advances to customers	1	921 840	911 989
Other assets	(21)	14 639	18 448
Interest in associates and joint ventures	(1)	1 489	1 499
Property and equipment	(10)	13 450	14 952
Goodwill and other intangible assets	(2)	23 285	23 714
Goodwill	(46)	2 239	4 152
Other intangible assets	8	21 046	19 562
<b>Total assets – banking activities</b>	(2)	<b>1 543 758</b>	1 570 610
<b>Total assets – other banking interests</b>	(19)	<b>6 445</b>	7 933
<b>Total assets – Liberty<sup>2</sup></b>	(1)	<b>404 087</b>	408 385
<b>Standard Bank Group – total assets</b>	(2)	<b>1 954 290</b>	1 986 928
<b>Equity and liabilities</b>			
<b>Equity</b>			
Equity attributable to ordinary shareholders	1	133 175	131 934
Preference share capital and premium	-	5 503	5 503
Non-controlling interest	(24)	6 641	8 710
<b>Total equity – banking activities</b>	(1)	<b>145 319</b>	146 147
<b>Total equity – other banking interests</b>	(19)	<b>6 445</b>	7 933
<b>Total equity – Liberty<sup>2</sup></b>	11	<b>27 595</b>	24 828
<b>Standard Bank Group – total equity</b>	0	<b>179 359</b>	178 908
<b>Liabilities</b>			
Derivative liabilities	(44)	68 037	121 649
Trading liabilities	10	48 109	43 809
Deposits and debt funding	2	1 228 993	1 201 549
Deposits from banks	(13)	119 247	137 202
Deposits and current accounts from customers	4	1 109 746	1 064 347
Other liabilities	(6)	31 162	33 100
Subordinated debt	(9)	22 138	24 356
<b>Total liabilities – banking activities</b>	(2)	<b>1 398 439</b>	1 424 463
<b>Total liabilities – Liberty<sup>2</sup></b>	(2)	<b>376 492</b>	383 557
<b>Standard Bank Group – total liabilities</b>	(2)	<b>1 774 931</b>	1 808 020
<b>Total equity and liabilities – banking activities</b>	(2)	<b>1 543 758</b>	1 570 610
<b>Total equity and liabilities – other banking interests</b>	(19)	<b>6 445</b>	7 933
<b>Total equity and liabilities – Liberty<sup>2</sup></b>	(1)	<b>404 087</b>	408 385
<b>Standard Bank Group – total equity and liabilities</b>	(2)	<b>1 954 290</b>	1 986 928

<sup>1</sup> This balance sheet presents the group's banking activities separately from the other banking interests and Liberty. It differs to the balance sheet presented in the group's risk and capital management report and annual financial statements, which is presented on a consolidated basis.

<sup>2</sup> Includes adjustments on consolidation of Liberty into the group.



## Loans and advances

Loans and advances represent the largest asset class on the group's balance sheet. They provide the group's biggest source of revenue in the form of interest income, and create cross-selling opportunities to earn transactional fees and insurance-related revenues. Growing loans and advances within the group's accepted risk levels is, therefore, essential to growing revenue.

Gross loans and advances to customers grew by 1% year-on-year to R944 billion, and 4% on a constant currency basis.

### COMPOSITION OF LOANS AND ADVANCES

	Change %	2016 Rm	2015 Rm
<b>Personal &amp; Business Banking</b>			
	2	588 353	576 078
Mortgage loans	3	336 451	325 867
Vehicle and asset finance	1	81 035	80 278
Card debtors	0	31 229	31 174
Other loans and advances	0	139 638	138 759
<b>Corporate &amp; Investment Banking</b>			
	(1)	360 336	363 596
Corporate loans	(4)	294 817	307 546
Commercial property finance	17	65 519	56 050
<b>Other services</b>	(0)	(5 056)	(5 033)
<b>Gross loans and advances to customers</b>	1	943 633	934 641
Less: credit impairments for loans and advances	(4)	21 793	22 652
<b>Net loans and advances to customers</b>	1	921 840	911 989
<b>Loans and advances to banks</b>	(13)	143 788	165 156
<b>Net loans and advances</b>	(1)	1 065 628	1 077 145

PBB's loans to customers grew 2% year-on-year, underpinned by a 3% growth in residential mortgages and partially offset by a 1% decline in business lending and a 5% decline in personal unsecured lending on the back of tighter risk appetite. Vehicle and asset finance's book increased marginally by 1% to R81 billion, benefiting from our continued focus on improving internal processes and system integration with the dealer market. Revolving credit plan balances on lending products (included in other loans and advances) grew following limit increases, higher utilisation and growth in average balances per active account.

The CIB portfolio declined 1% year-on-year, but grew by 3% on a constant currency basis. Corporate loans contracted 4%. The CIB South Africa portfolio grew by 1%, while the Africa Regions portfolio recorded a decline year-on-year, exacerbated by currency weakness in our key markets. On a constant currency basis, the CIB Africa Regions portfolio increased by 17%. The 17% increase in commercial property finance was attributable to South Africa due to higher lending to key commercial property finance clients.

Loans and advances to banks decreased by 13% to R143.8 billion, mainly due to the stronger rand on translation of foreign-denominated balances.

## Deposits, debt funding and subordinated debt

Deposits and debt funding provides the group with the means to lend to its customers and clients. This fulfils the group's role in connecting providers of capital with those that require additional capital and thereby contributes to the functioning of the broader financial system. The group's subordinated debt provides further funding for growth requirements and qualifies as Tier II capital.

Deposits and current accounts from customers increased by 4% or 12% on a constant currency basis over the year. Retail-priced deposits declined by 1% while wholesale-priced funding grew by 7%, increasing by 11% and 2% respectively on a constant currency basis.

The group successfully raised R27.2 billion in longer-term funding during the year, through a combination of senior and subordinated debt, as well as syndicated loans. SBSA issued R1.7 billion of Basel III compliant Tier II subordinated debt.



Refer to the discussion on the resilience of our balance sheet on [page 77](#).

## Other banking interests

Our other banking interests consist of the group's most material associates and joint ventures, being a 40% interest in ICBSC and a 20% interest in ICBC Argentina.

During the year, the carrying value of these associates decreased by 16% from R9.7 billion to R8.2 billion. The decrease in the carrying value of the interests in associates is principally attributable to foreign currency translation reserve losses due to the stronger rand against both the US dollar (for the group's investment in ICBSC) and the Argentinian peso (for the group's investment in ICBC Argentina).



On 13 January 2017, Standard Bank London Holdings Limited (SBLH), a wholly owned subsidiary of the group and ICBC jointly, and *pro rata* to their shareholdings in ICBCS, injected additional regulatory capital in the form of ordinary equity into ICBCS. SBLH's *pro rata* portion of this capital injection amounted to USD106 million (R1.44 billion). This capital was provided in terms of ICBC and SBLH's obligations under the shareholders' agreement of ICBCS pursuant to increasing regulatory capital requirements. The additional investment will be recognised in the group's 2017 financial reporting year.

## Ordinary shareholders' funds

The banking activities' ordinary shareholders' funds increased by 1% to R133.2 billion. While the group's shareholders' funds increased during the year due to the earnings attributable to shareholders of R22.2 billion, this was largely offset by dividends to ordinary and preference shareholders of R11.5 billion and the decrease in the group's FCTR of R11.4 billion (refer below for further detail)ⁱ.

## Key accounting concept – foreign currency translation reserve

Given the impact of the R11.4 billion (debit) on the group's FCTR, resulting from foreign exchange rate movements, we have provided additional information below explaining what FCTR is and how it is determined.



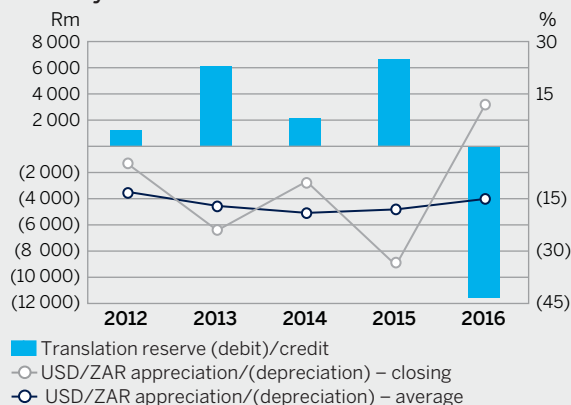
For further detail on FCTR, refer to the group's accounting policies in the risk and capital management report and annual financial statements.

### WHAT IS THE GROUP'S FCTR?

The FCTR is a reserve that results from the consolidation by the group of its foreign operations. These operations include the group's subsidiaries in the Africa Regions, and associate interests in ICBCS, based in the UK, and ICBC Argentina.

The impact of changing foreign exchange rates on the group's net asset value (NAV) is recognised in the group's FCTR. The group's FCTR is inherently volatile due to changes in foreign currency exchange rates related to our foreign operations. The graph below indicates the yearly changes in the group's FCTR compared to the changes in the US dollar/ rand foreign currency rate, which is a key driver of changes in the group's FCTR.

#### Currency translation effects



### WHAT HAS MATERIALLY IMPACTED THE GROUP'S FCTR OVER THE PAST FEW YEARS?

**Significant realisations of FCTR** to the income statement (excluded from headline earnings) include:

- **2014:** R1.2 billion gain due to the liquidation of several wholly owned subsidiaries.
- **2015:** R4.1 billion gain due to the disposal of the group's controlling interest in SB Plc to ICBC.

**Other significant changes in the group's FCTR** include:

- **2013 and 2015 (increase in FCTR):** As a result of the weakness in the rand against several currencies. In 2015, this was partly offset by the strengthening of the rand against the Argentinian peso.
- **2016 (decrease in FCTR):** As a result of the rand's significant strengthening against several foreign currencies, notably the US dollar, British pound, Nigerian naira, Argentinian peso, Mozambique metical and Ghanaian cedi.

### WHICH KEY GROUP FINANCIAL RATIO IS AFFECTED BY FCTR?

The group's ROE is determined with reference to the group's average monthly ordinary shareholders' equity. The monthly FCTR is included in the group's monthly ordinary shareholders' equity, and therefore impacts the average ordinary shareholders' equity and, in turn, the group's ROE. In circumstances where the currencies in countries in which we have invested capital weaken relative to the rand, the FCTR is debited and the ordinary share capital declines. By contrast, in circumstances where the rand is weaker, the FCTR is credited and ordinary share capital increases.



Refer to the group's risk and capital management report's foreign currency risk type section for detail regarding the group's management of this risk.

# (Lib)



A woman with blue braids is sitting at a desk, talking on a mobile phone. She is wearing a white lace top and yellow polka-dot pants. In front of her is a laptop and a notebook with a pen. The background is a blurred office or home workspace with shelves and plants.

# Our accountability

We're focused on nurturing entrepreneurs and small businesses, given their meaningful contribution to job creation and growth across our continent. One of our key initiatives is our partnership with Lionesses of Africa, a digital platform that connects more than 300 000 women entrepreneurs from 49 African countries. We sponsor the monthly Lioness Lean In Breakfast series, which features inspirational women speakers, and the Lionesses' daily electronic newsletter. We also run a structured three-month Women's Accelerator Programme sponsored by Liberty. In 2016, we sponsored the first Lionesses of Africa Conference where women entrepreneurs shared their start-up stories, tackled key challenges and inspired the next generation of women entrepreneurs.

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106 Remuneration overview



# Corporate governance overview

We believe that corporate governance can contribute to value creation through enhanced accountability, more effective risk management, clear performance management, greater transparency and effective leadership. Ultimately, this is about holistic decision making that takes into account long-term, as well as shorter-term outcomes.



### Our board

The board of directors (board) is ultimately responsible for corporate governance across the group, and for providing ethical and effective leadership towards the achievement of the group's strategy. It dedicates time to oversee group culture and ensures that the group is managed within the agreed risk appetite. All directors meaningfully contribute to leading the group and dedicate sufficient time to fulfil their duties. The board monitors and holds the executive accountable for the group's operational and financial performance, and management is open and transparent with the board, bringing all significant matters to its attention.

The board is constituted in terms of the company's Memorandum of Incorporation (MOI) and in line with the provisions of the King Code of Governance Principles (King III). The majority of board members are independent non-executive directors who bring diverse perspectives to board deliberations and constructively challenge management. The board is effective and is considered to be of an appropriate size for the group.

The role of chairman is distinct and separate from that of the group chief executives and there is a clear division of responsibilities. In-depth interactions between the board and management strengthen the group's decision making and ensure an appropriate balance of power. A clear division of responsibilities at board level ensures that no one director has unfettered powers in decision making.

### Our succession plans

The board ensures that it has robust succession plans that recognise the businesses' current and future needs, taking into account the group's strategy. In 2014, a board succession programme was implemented to ensure that, as existing directors approach retirement age, new directors are appointed before their departure. This ensures seamless transition and that the board constantly comprises directors who between them have sufficient breadth of understanding of the group's businesses to effectively challenge the group's executives. The programme serves the board well and has resulted in the appointment of five new non-executive directors since the group's last annual general meeting (AGM). In line with the company's MOI, these directors will retire at the next AGM and offer themselves for re-election by shareholders of the company. The details of the newly appointed directors are set out on page 27.

### Process and policy

The board has a formal and transparent process and policy for the appointment of directors. While the board as a whole considers appointments, the authority to oversee nominations and carry out interview processes is delegated to the directors' affairs committee (DAC). Together with a candidate's experience, availability and likely fit, the DAC also considers their integrity, as well as other directorships and commitments to ensure that they will have sufficient time to discharge their role effectively. Race and gender diversity are also considered in this assessment. In addition, candidates must meet the fit and proper test, as required by the Banks Act.

To assess the board's effectiveness and that of its committees, we conduct an external board evaluation every three years and internal assessments in the intervening years. Due to the appointment of the new non-executive directors, we have decided to postpone our next internal assessment to 2017. This will enable the new directors to participate in the assessment following their induction and after having had suitable time at the board table.



Non-executive director tenure		2016
<3 years	60%	
3 – 6 years	15%	
6 – 9 years	5%	
>9 years	20%	

### King III

The board is satisfied with the group's application of the principles of King III. Details of the instances of non-application which occurred throughout the reporting year can be found on page 25 of the governance and remuneration report. The full King III application register can be found on our website [www.standardbank.com/reporting](http://www.standardbank.com/reporting).

### King IV

The board is wholly supportive of the revised King Code and work is underway to assess our adherence in relation to the specific practices and disclosure requirements attendant to the principles, ahead of the formal adoption in 2018.



Our board of directors



The full governance report, including details of the board committee terms of reference and the curriculum vitae of the board directors, can be found in the governance and remuneration report available online.

The group has a unitary board structure with:

- 14 independent non-executive directors
- 3 non-executive directors
- 3 executive directors
- chairman

<b>DAC</b>	GROUP DIRECTORS' AFFAIRS COMMITTEE	<b>GAC</b>	GROUP AUDIT COMMITTEE	<b>GRCMC</b>	GROUP RISK AND CAPITAL MANAGEMENT COMMITTEE
<b>IT</b>	GROUP IT COMMITTEE	<b>LEC</b>	SBSA LARGE EXPOSURE CREDIT COMMITTEE*	<b>MAC</b>	GROUP MODEL APPROVAL COMMITTEE
<b>Rem</b>	GROUP REMUNERATION COMMITTEE	<b>SEC</b>	GROUP SOCIAL AND ETHICS COMMITTEE		Committee chairman

\* A sub committee of The Standard Bank of South Africa.



**THULANI GCABASHE /59**  
Chairman and independent non-executive director, SBG and SBSA  
Appointed: 2003  
Appointed chairman: 2015  
**DAC** **GRCMC** **LEC** **Rem** **SEC**



**GERALDINE FRASER-MOLEKETI /56**  
Independent non-executive director, SBG and SBSA  
Appointed: 2016  
**DAC** **GRCMC** **SEC**



**SHU GU /49**  
Deputy chairman, SBG and non-executive director, SBG and SBSA  
Appointed: 2014  
**DAC** **GRCMC** **IT**



**GESINA (TRIX) KENNEALY /58**  
Independent non-executive director, SBG and SBSA  
Appointed: 2016  
**GAC** **GRCMC** **Rem**



**JACKO MAREE /61**  
Deputy chairman, SBG and non-executive director, SBG and SBSA  
Appointed: 2016  
**LEC** **MAC** **Rem** **SEC**



**BEN KRUGER /57**  
Group chief executive, SBG and executive director, SBSA  
Appointed: 2013  
**IT** **LEC** **MAC** **SEC**



**ARNO DAEHNKE /49**  
Group financial director, SBG and executive director, SBSA  
Appointed: 2016  
**IT** **LEC** **MAC**



**NOMGANDO MATYUMZA /54**  
Independent non-executive director, SBG and SBSA  
Appointed: 2016  
**GRCMC** **MAC** **Rem**

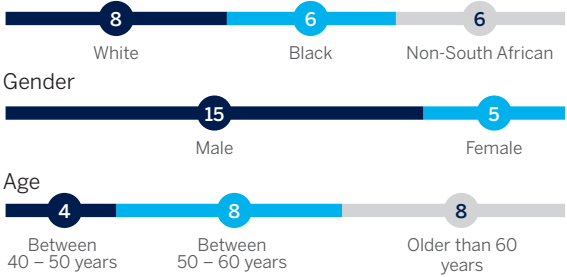


**RICHARD DUNNE /68**  
Independent non-executive director, SBG and SBSA  
Appointed: 2009  
**IT** **GAC** **GRCMC**



**KGOMOTSO MOROKA /62**  
Independent non-executive director, SBG and SBSA  
Appointed: 2003  
**DAC** **GRCMC** **SEC**

Demographics



Director nationalities

	2016
South African	14
Australian	1
British	1
Chinese	2
Kenyan	1
Nigerian	1



**MARTIN ODUOR-OTIENO /60**  
Independent non-executive director, SBG and SBSA  
Appointed: 2016  
**GAC** **MAC** **SEC**



**SIM TSHABALALA /49**  
Group chief executive, SBG and chief executive, SBSA  
Appointed: 2013  
**IT** **LEC** **MAC** **SEC**



**ANDRÉ PARKER /65**  
Independent non-executive director, SBG and SBSA  
Appointed: 2014  
**DAC** **LEC** **IT** **Rem**



**SWAZI TSHABALALA /51**  
Independent non-executive director, SBG and SBSA  
Appointed: 2014  
**GAC** **GRCMC** **MAC**



**ATEDO PETERSIDE con /61**  
Independent non-executive director, SBG and SBSA  
Appointed: 2014  
**GAC** **IT** **Rem**



**JOHN VICE /64**  
Independent non-executive director, SBG and SBSA  
Appointed: 2016  
**GAC** **GRCMC** **IT**



**MYLES RUCK /61**  
Independent non-executive director, SBG and SBSA  
Appointed: 2002  
**DAC** **GRCMC** **LEC**



**WENBIN WANG /41**  
Non-executive director, SBG and SBSA  
Appointed: 2014  
**DAC** **GRCMC** **IT**



**PETER SULLIVAN /68**  
Independent non-executive director, SBG and SBSA  
Appointed: 2013  
**GAC** **GRCMC** **IT** **Rem**



**TED WOODS /70**  
Independent non-executive director, SBG and SBSA  
Appointed: 2007  
**GAC** **GRCMC** **Rem**

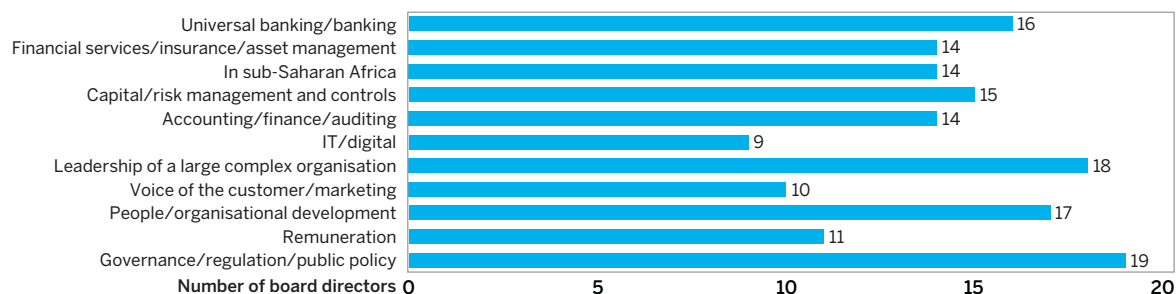
SBG: Standard Bank Group.  
SBSA: The Standard Bank of South Africa.



## Board skills and experience

The collective background of the board members provides for a balanced mix of attributes and skills that enable the board to fulfil its duties and responsibilities. The board's breadth of experience is set out in the graph below and includes experience in relevant sectors and business knowledge, with several directors having chief executive experience.

### Board experience



The table below sets out the director's attendance at board meetings during 2016, and attendance at committee meetings is disclosed on page 103.

### Board meeting attendance

BOARD MEMBER	2016 BOARD MEETING ATTENDANCE/6 MEETINGS		DATE OF APPOINTMENT TO THE BOARD
	ELIGIBLE TO ATTEND	ATTENDED	
Thulani Gcabashe (chairman)	6	6	1 July 2003, appointed chairman on 28 May 2015
Shu Gu (deputy chairman)	6	5*	10 December 2014
Jacko Maree (deputy chairman)	1	1	21 November 2016
Arno Daehnke	5	5	1 May 2016
Richard Dunne	6	6	3 December 2009
Geraldine Fraser-Moleketi	1	0#	21 November 2016
Trix Kennealy	1	1	21 November 2016
Ben Kruger	6	6	7 March 2013
Nomgando Matyumza	1	1	21 November 2016
Kgomotso Moroka	6	6	1 July 2003
Martin Luke Oduor-Otieno	6	6	1 January 2016
André Parker	6	6	14 March 2014
Atedo Peterside con	6	6	22 August 2014
Myles Ruck	6	6	18 January 2002
Peter Sullivan	6	6	15 January 2013
Sim Tshabalala	6	6	7 March 2013
Swazi Tshabalala	6	6	14 March 2014
John Vice	1	1	21 November 2016
Wenbin Wang	6	6	16 January 2014
Ted Woods	6	6	1 February 2007

\* Shu Gu could not attend the board meeting held on 25 May 2016 owing to an outside engagement which could not be rescheduled. An apology was received.

# Geraldine Fraser-Moleketi was unable to attend the board meeting held on 30 November 2016 owing to commitments which predated her appointment to the board in November 2016. An apology was received.



## Key focus areas for the board in 2016

### STRATEGY AND BUSINESS FOCUS

- Held the annual two-day strategy session and received feedback on the strategy work streams and strategy execution from work stream heads.
- Approved management plans to achieve key metrics relating to the refreshed strategy in the light of the competitive environment.
- Considered global and Chinese economies and their implications for Africa.
- Considered detailed competitor analysis reports.
- Considered the group's IT investments.
- Considered the strategies of the group's key subsidiaries, including Stanbic IBTC (Nigeria) and Liberty.
- Approved the group's four-year strategy plan.
- Approved the 2017 group budget.

### RISK AND OVERSIGHT

- Reviewed quarterly financial performance reports against the agreed budget.
- Received quarterly feedback from the committee chairmen on its activities.
- Considered risk management, group capital and liquidity and group IT reports.
- Approved the group's annual integrated report, annual financial statements, interim and final results announcements and financial results.
- In line with the Companies Act, reviewed the group's solvency, liquidity and going concern status and agreed dividend payments.
- Monitored corporate activities and conducted in-depth performance reviews of key group subsidiaries.
- Considered the potential impact of a South African sovereign rating downgrade.

### GOVERNANCE

- Finalised the appointment of the group financial director, Arno Daehnke, following the retirement of Simon Ridley.
- Approved the appointment of five new non-executive directors in line with the board's succession plans.
- Considered the 2015 board evaluation report and implemented its action plans.
- Approved the board's promotion of gender diversity policy.
- Approved the 2016 corporate governance, risk and capital management process and objectives.
- Considered the King IV report for which disclosure on the application will be effective for the group's 2018 financial year.

### STAKEHOLDER ENGAGEMENT

- Engaged with the Registrar of Banks and the supervisory team in line with the South African Reserve Bank's (SARB) annual supervisory programme.
- Reviewed the quarterly stakeholder engagement reports.
- Through the chairman of the group, the remuneration committee chairman and executive directors engaged with various stakeholders and participated in investor roadshows. Feedback from these engagements was considered by the relevant board committees.
- Approved the convening of the 2016 AGM and notice to shareholders.
- Under the leadership of the group chief executive, Sim Tshabalala, participated in the CEO Initiative in partnership with government, business and labour.



## Board committees

Board Committee	Committee purpose
<b>GAC</b> <b>Group audit committee</b>	<p>Assists the board in discharging its duties relating to the safe-guarding of assets, evaluation of internal control frameworks and ensuring that financial and non-financial risks are managed.</p> <p>The committee assesses the adequacy and effectiveness of the established accounting, financial, financial reporting, compliance and other internal control systems which are consistent with the nature and complexity of risks inherent in the group's on- and off-balance sheet activities.</p>
<b>GRCMC</b> <b>Group risk and capital management committee</b>	<p>Provides independent and objective oversight of risk and capital management across the group.</p> <p>The committee ensures that risk and capital management standards and policies are well-documented and support group strategies by being fit-for-purpose and effective in operation. It supports a climate of discipline and control that will reduce the risk of fraud.</p>
<b>DAC</b> <b>Group directors' affairs committee</b>	<p>Responsible for determining the appropriate group corporate governance structures and practices. The committee establishes and maintains the board directorship continuity programme, and it ensures compliance with all applicable laws, regulations and codes of conduct and practices. It also assists the board and board committees with their effectiveness reviews.</p>
<b>IT</b> <b>Group IT committee</b>	<p>Assists the board in fulfilling its corporate governance responsibilities with respect to IT.</p>
<b>SEC</b> <b>Group social and ethics committee</b>	<p>Ensures the development of appropriate policies that act as the group's social conscience and recognise that stakeholder perceptions affect the group's reputation.</p> <p>The committee guides and monitors the group's social, ethical, economic, environmental, transformation and consumer relationship initiatives in line with relevant legislation, codes and regulation.</p>
<b>Rem</b> <b>Group remuneration committee</b>	<p>Assists the board in discharging its responsibilities to ensure fair and responsible remuneration of the group's executive management and employees.</p> <p>The committee is responsible for developing a remuneration philosophy and policy statement to enable a reasonable assessment by stakeholders of reward practices and governance processes.</p>
<b>MAC</b> <b>Group model approval committee</b>	<p>Assists the board in discharging its obligations in terms of model risk.</p> <p>The committee's mandate is subject to the provisions of the Banks Act. It performs such functions as may be prescribed by regulation, from time-to-time, including the assessment and approval of risk evaluation models to calculate a regulatory capital charge.</p>



	Group audit committee	Group risk and capital management committee	Group directors' affairs committee	Group IT committee	Group social and ethics committee	Group remuneration committee	Group model approval committee
	8 meetings	4 meetings	4 meetings	4 meetings	4 meetings	4 meetings	3 meetings
Thulani Gcabashe <sup>4</sup>		4/4	4/4 C		4/4	4/4	
Shu Gu <sup>1</sup>		3/4	3/4	3/4			
Jacko Maree <sup>1</sup>					— <sup>3</sup>	— <sup>3</sup>	— C <sup>3</sup>
Arno Daehnke <sup>7</sup>				2/2 <sup>2</sup>			2/2 <sup>2</sup>
Richard Dunne <sup>4</sup>	8/8 C	4/4		4/4			
Geraldine Fraser-Moleketi <sup>4</sup>		— <sup>3</sup>	— <sup>3</sup>		— <sup>3</sup>		
Trix Kennealy <sup>4</sup>	— <sup>3</sup>	— <sup>3</sup>				— <sup>3</sup>	
Ben Kruger <sup>7</sup>				4/4	3/4		3/3
Nomgando Matyumza <sup>4</sup>		— <sup>3</sup>				— <sup>3</sup>	— <sup>3</sup>
Kgomotso Moroka <sup>4</sup>		4/4	4/4		4/4 C		
Martin Oduor-Otieno <sup>4</sup>	3/4 <sup>2</sup>				2/2 <sup>2</sup>		— <sup>3</sup>
André Parker <sup>4</sup>			4/4	4/4		4/4	
Atedo Peterside <sup>4</sup> con	8/8			4/4		— <sup>3</sup>	
Myles Ruck <sup>4</sup>		4/4 C	4/4				
Peter Sullivan <sup>4</sup>	8/8	4/4		4/4		4/4 C <sup>5</sup>	
Sim Tshabalala <sup>7</sup>				4/4	4/4		2/3
Swazi Tshabalala <sup>4</sup>	7/8	4/4					3/3
John Vice <sup>4</sup>	— <sup>3</sup>	— <sup>3</sup>		— C <sup>3</sup>			
Wenbin Wang <sup>1,6</sup>		4/4	4/4	4/4			
Ted Woods <sup>4</sup>	8/8	4/4				4/4	
Peter Schlebusch				— <sup>3</sup>			1/3
Dave Munro							2/3
Neil Surgey							3/3

<sup>1</sup> Non-executive director

<sup>2</sup> Appointed 25 May 2016

<sup>3</sup> Appointed 30 November 2016

<sup>4</sup> Independent non-executive director

<sup>5</sup> Appointed chairman 17 August 2016

<sup>6</sup> Alternate to Shu Gu

<sup>7</sup> Executive director

C Chairman



## Group executive committee

The board has delegated management of the day-to-day business and affairs of the group to the group chief executives, with full power on behalf of and in the name of the group. The group chief executives, who are held jointly and severally accountable for the performance of the group, have in turn established a group executive committee (group exco). The committee provides counsel to the group chief executives, acts as a sounding board and ensures overall coordination across the universal financial services group, legal entities, and other key stakeholders. Ultimate decision making powers remain vested with the group chief executives and all members of the committee exercise powers in accordance with their delegated authority.

In the reporting period, the committee was reconstituted with a view to ensuring consistency and greater alignment with the group architecture. Members of the committee are depicted below.



The curriculum vitae of group exco can be found in the governance and remuneration report available online.



**ARNO DAEHNKE/49**  
Group financial director



**ISABEL LAWRENCE/48**  
Group chief compliance officer



**MARGARET NIENABER/43**  
Chief executive, Wealth



**ZOLA STEPHEN/42**  
Group secretary, SBG and SBSA



**SOLA DAVID-BORHA/56**  
Chief executive, Africa Regions



**FUNEKA MONTJANE/38**  
Chief executive,  
PBB South Africa



**ROD POOLE/55**  
Group head of change and  
business transformation



**NEIL SURGEY/57**  
Group chief risk officer



**KENNY FIHLA/49**  
Deputy chief executive, CIB and  
head of CIB South Africa



**DAVID MUNRO/45**  
Chief executive, CIB



**PETER SCHLEBUSCH/50**  
Chief executive, PBB and head  
of digitisation



**SIM TSHABALALA/49**  
Chief executive, SBG and SBSA



**BEN KRUGER/57**  
Chief executive, SBG



**BRENDA NIEHAUS/56**  
Group chief information officer  
and head of data management



## Remuneration overview

"I am pleased to present my first Standard Bank Group remuneration report for 2016 but firstly I would like to acknowledge my predecessor, Ted Woods, for the great work he has done in raising the quality of the group's remuneration principles, structures and practices over the past nine years."

### Message from the chairman of the remuneration committee



The Standard Bank remuneration framework is designed to create value for shareholders, clients, our employees and communities while retaining and motivating our most senior leaders.

This is achieved through the following three remuneration programmes for senior executives:

- Fixed remuneration.
- Short-term incentive (STI) annual cash incentive with an annual deferred award over 1.5, 2.5 and 3.5 years.
- Long-term incentive, the PRP, is subject to performance conditions and vests in three years if conditions are met. The three-year vesting period remains under consideration by the committee.

This report reflects the board's assessment of the group's performance for the year 2016 and includes consideration of the very difficult trading environment during the past year, as well as any material risk incidents and conduct.

There is no doubt that 2016 was a very challenging year for the group. The threat of a sovereign rating downgrade in South Africa created a high level of uncertainty. Unexpected political outcomes in the United Kingdom (UK), United States of America (US) and Europe, plunging commodity prices especially for the oil producing countries and a fierce drought across sub-Saharan Africa created difficult economic conditions in many countries and exceptional currency volatility. All of this negatively impacted the group's operating environment and made the achievement of targets more difficult.

Senior management took proactive and decisive action to mitigate these risks and minimise the impact on the group's performance. As a result, the group delivered a strong performance in the core banking businesses of CIB and PBB, delivering 9% headline earnings growth and an improved ROE up to 16.8% from 16.3% in the prior year.

Conversely, earnings from Liberty, the group's subsidiary insurance business, fell by 61%. The impact of this was significant on the group's results.

Consequently, headline earnings for the group grew by only 4% and ROE fell slightly below expectations, but remained within the lower end of our target range.

While Standard Bank is the majority shareholder in Liberty, the company is separately listed, and has its own board and remuneration committee. The performance of Liberty was disappointing and the committee took this into consideration when assessing executive performance and remuneration.

### Remuneration outcomes

Despite the difficult trading conditions in 2016, the chief executives (CEs) met or exceeded most expectations in the areas where they have direct responsibility and accountability. The board approved 11 strategy work streams driven by the CEs which crystalised the group strategy to deliver sustained performance for the next five years. Furthermore, it was the opinion of your committee that the CEs had provided strong and inspirational leadership in demanding times. The CEs set a strong positive tone from the top



of the organisation that directly contributed to a rise in employee engagement for the year. Recognising the volatile political and economic uncertainty across our markets, the committee considered this positive tone and the cascading of a strong set of values to be a significant contributing factor to the results achieved.

Taking into account the challenging trading conditions experienced across our markets in 2016, as well as the impact of Liberty's performance on the group's results, the committee debated the remuneration of the CEs at length. Consequently, the committee agreed a 4% increase in total short-term incentive, in line with the growth in headline earnings<sup>#</sup>. Of this total incentive, 56% will be deferred for up to 3.5 years. Total reward for the CEs, including fixed remuneration, short-term incentive and long-term incentive is, therefore, up 3.33% on the previous year.

Arno Daehnke was appointed as group financial director on 1 May 2016 having previously headed up treasury and capital management for the group. His remuneration is being reported for the first time and the committee considered his achievements and the complexity of his role in comparison to the market in arriving at his total remuneration, which is detailed in this report.

In relation to the business heads, CIB under the astute leadership of David Munro delivered a very strong set of results. Headline earnings grew by 16% year-on-year. The credit loss ratio was 0.30%, an excellent result in a very challenging credit environment. The cost-to-income ratio fell further to 53.2% despite continued investment in strategic IT projects and ROE rose to 20%, up from 18% in the prior period. Based on these results, the committee awarded David a 9.6% increase in short-term incentive of which 55% is deferred for up to 3.5 years. His total remuneration grew by 6.9%.

In PBB, Peter Schlebusch continued to grow the business by expansion into the

Africa Regions, where headline earnings grew at 66%, and Standard Bank International, where headline earnings increased by 21%. The credit loss ratio for PBB fell to 1.25%, an excellent result in a difficult credit environment. The cost-to-income ratio fell further to 60.2% despite continued high levels of investment in the Africa Regions and IT. ROE increased to 18.7%, up from 18.2% in 2015. PBB headline earnings grew by 12%.

The IT investment to change the face of the PBB business is progressing well under Peter's leadership. This transformation is strategically critical and will position PBB at the forefront of banks in Africa as a digital leader. The committee awarded Peter an 8.7% increase in short-term incentive of which 55% is deferred for up to 3.5 years. His total remuneration grew by 6.1%.

The committee judged both these performances to be excellent.

## Remuneration changes

During 2016, the committee sought feedback from key shareholders on the remuneration arrangements for the CEs and group executives. The committee also sought independent external benchmarking for the top 100 executives. This feedback was used to ensure our executive remuneration was appropriate to drive superior long-term performance for the group's key stakeholders, being shareholders, clients, our employees and the communities in which we work, and to reinforce our strategic vision and values.

On the basis of the feedback received the board has approved the following changes for 2017:

The minimum shareholding requirement has been adjusted to a multiple of fixed remuneration in order to simplify the calculation and reduce volatility in line with market practice.

The committee has agreed to cash settlement of mandatory deferrals for a discreet group of executives to fall in

line with market practice. The deferral will remain linked to the group's share price during the deferral period.

Your committee believes a rigorous and challenging process has been established to judge appropriate rewards for our most senior executives. The environment in which your group operates is extremely challenging and volatile and it takes superior, hard-working, intelligent leaders to deliver results that shareholders will value.

More detail on the senior executive remuneration is contained in the remuneration report which I invite you to review.

Yours sincerely,



**Peter Sullivan**  
Chairman, Remco





# Our people ultimately underpin the successful execution of our strategy

## Review of focus areas – 2016 and 2017

We continually review our pay practices to align with shareholder interests and to ensure that the practices support our businesses and changes in our operating environment. We actively seek shareholder views and revise our reporting to improve transparency.

The growth of our businesses across Africa will see a shift in focus to pay practices in those markets going

forward. We seek to remain competitive and relevant there, where often the talent is scarce.

We set practices that take into account local conditions within a group governance framework. Specific focus areas and achievements for 2016 and focus areas for 2017 are detailed below.

**We work to ensure that our pay framework supports the motivation and reward of performance, while at the same time meeting regulatory requirements and stakeholder expectations.**

### Focus areas and achievements in 2016

- We received input on our remuneration policy from several significant shareholders.
- The remuneration policy was approved at the AGM held in May 2016 with 84.5% of shareholders voting in favour of the policy.
- We engaged with shareholders who did not vote in favour of our policy to understand their concern.
- We completed an extensive benefits project across all our African countries to establish core benefits and remove outdated benefits, and were awarded the South Africa Reward Association Project of the Year 2016 for the work undertaken.
- We assessed the extent of share awards of middle and senior managers and established future guidelines for these awards. These guidelines focused on key issues, transformation and retention.
- We considered the duration of all our deferrals for the most senior executives but decided to keep our current deferral periods, as together with the minimum shareholding requirement and forfeiture clauses, they focus our executives to act in the best interests of shareholders.
- We changed our minimum shareholding for the chief executives, group financial director and prescribed officers to a multiple of fixed remuneration.

### Focus areas for 2017

- The first delivery of our performance reward plan (PRP) will take place at the end of March 2017 in respect of awards made in March 2014.
- We will evaluate our benefits and reward elements to determine what additional choices we can include in these offerings for the benefit of our employees.
- We will focus on ensuring that our reward supports our endeavours in client centricity.



Our full remuneration report can be found in the governance and remuneration report online.



## Remuneration policy

People are at the heart of our business. We need highly skilled and experienced people to drive the growth of our business across Africa, and we need to reward them for their performance and the returns they generate for our shareholders.



Our human capital report starting on **page 58**, describes how we develop and retain our people.



### Principles that underpin our remuneration policy

Our Remco is firmly committed to disclosing our reward policy, principles and structures to all relevant stakeholders, including our people, unions, regulators and shareholders, for them to make an assessment of our pay practices. The key principles that underpin our reward policy, reward structures and individual reward are as follows:

- We reward sustainable, long-term business results.
- We do not unfairly discriminate against our people based on diversity or physical difference.
- The reward focus is on total reward, being fixed and variable remuneration. We want to be competitive in both elements, but annual incentives are not a function of a guaranteed package.
- We create a balance between the fixed and variable elements of total reward. A deferral policy affects

annual incentives above certain levels. Deferred amounts are indexed to the group's share price and vesting is subject to specific conditions.

- Vesting conditions of deferred awards and long-term incentives allow for forfeiture of unvested awards.
- All elements of pay are influenced by market and internal pay comparisons.
- Pay practices encourage a focus on achieving agreed deliverables and behaviours, rather than hours worked.
- Individual performance appraisals identify talent at all levels in the business, enabling fair and competitive pay. Consequence management, including reward impact, forms part of the review of performance.
- Individual rewards are determined according to group, business unit and individual performance.
- We reward experience, performance relative to others doing similar work and performance against the market.

- We differentiate individual reward in a transparent way and based on quantitative, qualitative and behavioural performance, as well as retention.
- We ensure that key senior executives are significantly invested in the group's share price and performance over time, to align to shareholder interests.
- Pay designs comply with all tax and regulatory requirements.
- Ongoing oversight prevents irresponsible risk taking by individuals and we ensure that risk adjustment forms part of pay design.

### Remco governance

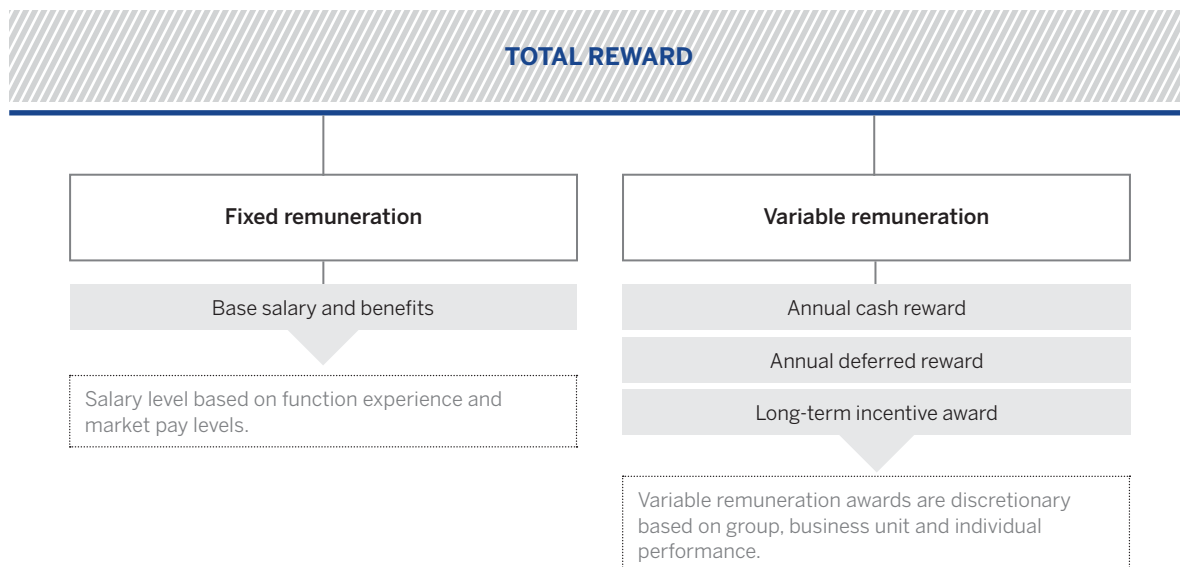
Effective governance is essential to ensure that the remuneration process is fair and supports the group's strategy.



Refer to the group's governance and remuneration report for details regarding the Remco's mandate and its composition.



## Remuneration structure



Our reward policy and structures are designed to attract, motivate and retain talented people across our group. We consider the total reward and strive for the appropriate mix between fixed and variable pay for all our people, depending on their roles. The diagram above shows the composition of our total reward. The elements of this diagram are explained in the sections that follow.

### Fixed remuneration

The group operates across many different countries. We take local statutory and regulatory requirements into account in how we structure our fixed remuneration. The purpose and key components of our typical reward arrangements are summarised in the following table.

#### ELEMENTS OF FIXED REMUNERATION

ELEMENT	PURPOSE	DETAIL
Base salary	To attract and retain employees.	We seek to remain competitive relative to our peers in the remuneration we offer. Our annual base salary review takes into account available market data, as well as individual and business unit performance. Increases take effect on 1 March each year.
Compulsory benefits	To encourage retirement savings <sup>1</sup> and to cater for unforeseen life events.	Pension and disability plans, death cover <sup>2</sup> and medical insurance take into account in-country practices and requirements <sup>3</sup> .
Optional benefits	To enhance the package available to employees.	These benefits (for example, car allowances) vary and take into account local country practices and requirements.

<sup>1</sup> The majority of the group's defined benefit fund arrangements have been replaced by defined contribution arrangements, except where local legislation requires otherwise or members enjoy ongoing defined benefits under old scheme rules. For more information regarding the group's defined benefit plans, refer to the group's annual financial statements.

<sup>2</sup> Death benefit cover is provided in almost all countries, either through self-insurance from within the pension funds or through external underwriting.

<sup>3</sup> Healthcare is provided in most countries. The level of cover varies according to local market practice. In South Africa, employees recruited from 1 March 2000 do not receive post-employment healthcare benefits. Employees recruited before then receive post-employment healthcare funding through a post-employment healthcare benefit fund.



## Variable remuneration

We provide annual incentives to reward performance. This variable remuneration comprises annual incentive awards, annual deferred awards and long-term incentive awards. All variable remuneration awards are discretionary. Incentive pools are made available for major business units and corporate functions.

ELEMENT	PURPOSE	DETAIL
<b>Annual incentive award comprising:</b> <ul style="list-style-type: none"> <li>Annual cash award</li> <li>Annual deferred award.</li> </ul>	To incentivise the delivery of our objectives, balancing short-term performance and risk taking with sustainable value creation for shareholders.	Individual awards are based on a combination of group, business unit and individual performance (utilising both financial and non-financial metrics over a multi-year period) and include effective risk management and compliance criteria. Awards above R1 million (or local equivalent) are subject to deferral.
<b>Long-term incentive award</b>	To incentivise key senior executives and critical mid-level management to base their decision making on the group's long-term interests.	Awards for senior executives take into account the importance of long-term performance and are fully conditional.

## Annual incentive awards

### How we determine annual incentive awards

Remco determines the group's incentive pools annually and oversees the principles applied in allocating these pools to business units and individual employees.

Pools are derived by evaluating:

- A combination of group and business unit financial and non-financial results against predetermined targets.
- Multi-year financial metrics.
- Achievement towards short- and long-term strategic objectives.
- Capital used.
- Adjustments for risks taken.
- Future development and growth prospects.
- Historical and current pay ratios.

Variable remuneration is not linked to revenue or profit targets in a formulaic way.

Incentive pools for group corporate functions are reviewed by the CEs and discussed by a formal internal review committee. Remco then considers, adjusts and approves these pools.

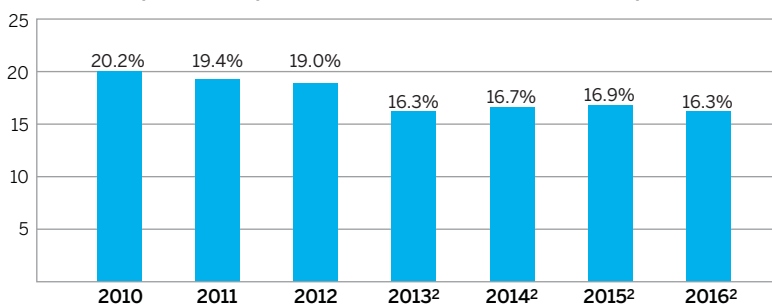
Individual performance and the individual variable pay outcome is determined by:

- Setting performance criteria at the start of each year aligned to group objectives.
- Evaluating the individual performance and behaviour.
- Determining the variable pay based on individual performance, the variable pool available and taking market pay into account.
- Adjusting for any risk or compliance breaches.

Following the evaluation of the group's 2016 financial and risk-adjusted performance and delivery against board-approved strategy, Remco approved an increase to the total group incentive pool for the group's banking operations of 11.9%. The profits, before minorities, tax and incentives in banking operations (relevant profit metric to compare changes in incentive pools) increased by 12.6%. The ratio of the variable pool to profits before tax and incentives over time is set out below.

Remco reviewed the fixed and variable remuneration of 408 senior executives across the group for consistency of approach.

### Variable compensation/profit before tax<sup>1</sup> before variable compensation (%)<sup>\*</sup>



<sup>1</sup> Profit before tax excludes headline adjustable items.

<sup>2</sup> 2013 to 2016 represent continuing operations' bonus pool only.

<sup>\*</sup> 2010 to 2014 presented on a normalised basis. Refer to [www.standardbank.com/reporting](http://www.standardbank.com/reporting) for further details.



### Deferral schemes

We believe that the interests of executives should be significantly invested in the group over time, strengthening the alignment between management and shareholders. In terms of good governance, all incentive awards above a minimum level are deferred in part, and the deferred portion is linked

to the group's share price during the deferral period. The deferral also ensures that the executives are sensitive to the risks of forfeiture.



Refer to forfeiture, as detailed on [page 124](#).

The deferral rates in March 2017 have been maintained at the same level as 2016.

### THE GROUP'S MOST NOTABLE DEFERRAL SCHEMES ARE NOTED BELOW:

<b>Standard Bank equity growth scheme (EGS)</b>	EGS allocates participation rights to participate in the future growth of the Standard Bank group share price. The eventual value of the right is settled by the receipt of the group's shares equivalent to the full value of the participation rights.
<b>Deferred bonus scheme (DBS)</b>	Employees are awarded a deferred bonus, as a mandatory deferral of their short-term incentive or as discretionary award, into DBS. The deferred bonus is unitised into a number of units with respect to the group's share price on the date of award. The shares are delivered to the employee on the vesting date. Notional dividends on the units are paid to the employees on the vesting date.
<b>Performance reward plan (PRP)</b>	The group's PRP is an equity-settled share scheme with a three-year vesting period which is in effect from March 2014, designed to incentivise the group's senior executives, whose roles enable them to contribute to and influence the group's long-term decision-making and performance results. The PRP seeks to promote the achievement of the group's strategic long-term objectives and to align the interests of those executives with overall group performance in both headline earnings growth and ROE. These are the most important financial metrics to create shareholder value and, therefore, aligns the interests of management and shareholders. The awards are subject to the achievement of performance conditions set at award date and that determine the number of shares that ultimately vest. The awards will only vest in future in terms of the rules of the PRP. The shares, subject to meeting the pre-specified conditions, are delivered to the employee on vesting date. Notional dividends accrue during the vesting period and will be payable on vesting date.

### Minimum shareholding requirement

Executive directors and prescribed officers are required to maintain shareholdings valued as a multiple of fixed remuneration. This is a long-term requirement and we expect that shareholdings will be accumulated over time.

The chief executives are subject to a multiple of three times fixed remuneration and other executive directors and prescribed officers are subject to a multiple of two times fixed remuneration. Remco changed the minimum shareholding requirement as a multiple of fixed remuneration in November 2016 in order to remove the volatility of averaging total reward over a three-year period and to give the executives certainty as to the target required. This change is in line with market requirements for South Africa.

The CEs, group financial director and CE CIB have all met the minimum shareholding requirement. The CE PBB will meet the minimum shareholding in future, as and when his unvested awards vest. Where the required shareholding falls short, the full after tax value of senior executives' deferral under all share schemes that vest is applied in acquiring additional shares until the required shareholding is in place. This provision applies to incentive awards granted from March 2012, or from when the senior executive becomes a prescribed officer or executive director. Remco monitors these shareholdings annually.



Refer to [pages 121 to 123](#) for the director remuneration tables.



## Risk management and remuneration

The group actively manages its current and future risks in pursuit of its strategy. Remco ensures that employees whose actions may have a material impact on the group's current and future risk profile, are not rewarded for exposing the group beyond its stated risk appetite. Bonus pools and individual bonus awards are adjusted for risk, based on the processes and considerations outlined below.

The group chief risk officer (CRO) formally reports twice a year to Remco on the application of the group's risk compliance and capital management (RCCM) framework across major business lines and on any significant breaches of RCCM policies or limits by individuals. These reports cover the group's risk appetite and the current and future risk profile in relation to the group's risk appetite, and provide a qualitative and quantitative measure that informs Remco's determination of the overall incentive pools for business units. The individual incentive awards of senior managers and executives are reviewed against these breaches and adjusted where required.

The group CRO is consulted when changes are made to the design of remuneration plans.

The group financial director also formally reports twice a year to Remco on risk-adjusted performance and remuneration. The report includes an analysis of group and business unit risk-adjusted metrics across a range of risk types and their relationships to incentive pools.

The group financial director's reports include consideration of headline earnings, ROE and risk-adjusted performance (economic profit and return on economic capital). This additional analysis quantifies the cost of capital and takes into account credit, market and operational risk.

Remco considers risk-adjusted return information when setting and approving business unit incentive pools. Specific risk-adjusted performance targets are not formulaically applied in determining these pools.

Remco pays specific attention to:

- adverse internal audit findings on weaknesses in the internal control environment
- breaches of the regulatory requirements applicable to operational risk losses incurred within the group's operations
- risk appetite breaches
- limit breaches, particularly trading desk breaches of credit risk control governance.

The group head of human capital reports annually to Remco on all significant governance breaches and their impact on individual remuneration. These impacts depend on the nature of the breach but could result in reduced incentives, removing incentive awards and/or removing salary increases. Material breaches may result in dismissal.

A forfeiture provision on all deferral schemes was introduced with effect from 2009 and amended in 2011. In terms of the revised forfeiture conditions, individual unvested awards of DBS, Quanto, EGS or PRP may be subject to risk adjustments after the occurrence of an actual risk event through reduction or forfeiture, in full or in part if in Remco's judgement:

- There is reasonable evidence of material error or culpability for a breach of group policy by the participant.
- The group or relevant business unit suffers a material downturn in its financial performance, for which the participant can be seen to have some responsibility.
- The group or relevant business unit suffers a material failure of risk management, for which the participant can be seen to have some responsibility.
- In Remco's discretion, any other circumstances.

In advance of share vesting dates in March (for PRP awards) and September (for DBS awards) each year, Remco determines whether there are any events that might lead to the forfeiture of unvested stocks.

During 2016, Remco did not implement any forfeitures.



RCM/AFS

The summarised risk and capital management report in the annual integrated report describes the material risk types the group is exposed to and how it measures and manages these risks. For a full report, refer to the risk and capital management report and annual financial statements.



GOV/REM

For detail regarding material risk-takers, refer to the group's governance and remuneration report.



## Disclosure of executive directors' and prescribed officers' remuneration


### Summary: our executive remuneration process

Our people ultimately underpin the successful execution of our strategy. We work to ensure that our pay framework supports the motivation and reward of performance while at the same time meeting regulatory requirements and stakeholder expectations. We drive sustained shareholder value.

<p><b>1</b></p> <p>How did we perform?</p>	<ul style="list-style-type: none"> <li>✓ <b>Business results:</b> significant progress in banking activities' results tempered by Liberty's financial results.</li> <li>✓ <b>Risk and control:</b> <ul style="list-style-type: none"> <li>• Common equity tier I capital adequacy ratio 13.9% with prudent management in current economic conditions.</li> <li>• Regulatory and economic capital within risk appetite. Credit loss ratios improved.</li> </ul> </li> <li>✓ <b>Client focus:</b> strengthened our franchises across the group and improved market share in several key areas and renewed focus on the client experience.</li> <li>✓ <b>Leadership and people management:</b> filled key executive positions internally through succession planning. Significant improvement in employee engagement scores. Active participation and leadership displayed in representing South Africa at many key forums such as the World Economic Forum (WEF), International Monetary Fund (IMF) and in the CEO Initiative working with the South African government in mitigation of a potential South African sovereign rating downgrade.</li> </ul>
<p><b>2</b></p> <p>How do we assess performance and determine pay?</p>	<ul style="list-style-type: none"> <li>✓ <b>Proactive approach to assessing performance:</b> enables the board to make fully informed decisions.</li> <li>✓ <b>Performance is assessed in 15 categories over a multi-year period:</b> this drives short-, medium- and long-term shareholder value.</li> <li>✓ <b>Annual incentives and deferred awards:</b> based on quantitative and qualitative measures set in advance and evaluated.</li> <li>✓ <b>PRP:</b> annual awards with a rolling three-year delivery if performance conditions are met to ensure consistent and significant long-term investment in shares to align with shareholders.</li> <li>✓ <b>Minimum shareholding requirement for CEs and prescribed officers:</b> ensures that together with unvested awards linked to the share price, executives are significantly invested in shares and aligned to shareholders.</li> </ul>
<p><b>3</b></p> <p>How did we pay our CEs and other prescribed officers</p>	<ul style="list-style-type: none"> <li>✓ <b>CE pay level:</b> the board and the CEs agreed to below inflation increases of 5.6% to the CEs' fixed remuneration given the social and economic pressures in South Africa in 2016. Union increases for the lowest levels in the bank in South Africa were 8.7% while the minimum wage increased to R145 090 per annum.</li> <li>✓ <b>CE annual incentives and deferred awards:</b> <ul style="list-style-type: none"> <li>• The board awarded Ben Kruger R22 880 000 of which R12 790 000 (56%) is deferred for up to 3.5 years. The reasons for this are set out on page 116.</li> <li>• The board awarded Sim Tshabalala R22 880 000 of which R12 790 000 (56%) is deferred for up to 3.5 years. The reasons for this are set out on page 116.</li> </ul> </li> <li>✓ <b>CE long-term incentives:</b> the board awarded Ben Kruger and Sim Tshabalala a conditional PRP award with a face value at award of R12 500 000 each.</li> <li>✓ <b>Prescribed officer and executive director pay levels:</b> set based on the overall group performance, individual business unit performance and individual performance. The reasons for each are set out on page 116.</li> <li>✓ <b>CE pay mix, in total over 57% of the total remuneration is deferred in shares for up to 3.5 years as illustrated on page 116.</b></li> <li>✓ <b>Prescribed officer pay mix:</b> over 55 % of the total remuneration is deferred in shares for up to 3.5 years as illustrated below.</li> </ul>



<p>4</p> <p>What are our pay practices?</p>	<ul style="list-style-type: none"> <li>✓ <b>Three remuneration elements for senior executives:</b> <ul style="list-style-type: none"> <li>• Fixed remuneration.</li> <li>• Short-term incentive (STI). Annual cash incentive with an annual deferred award over 1.5, 2.5 and 3.5 years. This element is at risk.<sup>1</sup></li> <li>• Long-term incentive (PRP) annual awards are subject to performance conditions and vests in three years if conditions are met. This element is at risk.<sup>2</sup></li> </ul> </li> <li>✓ <b>Shareholder aligned remuneration philosophy:</b> drives remuneration decision making across the group.</li> <li>✓ <b>No special executive benefits:</b> in terms of severance, golden parachutes or guaranteed bonus.</li> <li>✓ <b>Strong focus on share ownership and minimum shareholding requirements.</b></li> </ul>
<p>5</p> <p>How do we address risk and control?</p>	<ul style="list-style-type: none"> <li>✓ <b>Strong corporate governance from the remuneration committee on executive remuneration with board oversight.</b></li> <li>✓ <b>Rigorous process to review risk and control issues:</b> can and has led to incentive pool and individual risk adjustments for risk breaches and risk events.</li> <li>✓ <b>Forfeiture clauses in all our share plans/deferred awards:</b> can and have led to forfeiture in the past.</li> </ul>



Why should shareholders approve our remuneration policy?

- Pay and performance are determined using a balanced framework of delivery against targets and PRP payouts are subject to performance conditions.
- Pay practices are strongly governed by Remco and the board.
- Pay and performance are tied to extensive risk and control features.

<sup>1</sup> Subject to an annual evaluation of the performance of each executive. Deferral awards are subject to forfeiture.

<sup>2</sup> Subject to performance conditions set by the committee at the time of the award.

## Evaluation of executive directors, and prescribed officers

Quantitative elements have predetermined measures. Qualitative elements have measurement against achievement of strategic objectives. Remco uses judgement in assessing the business and individual performance, balancing short- and long-term objectives over a multi-year timeframe. This judgement includes geographic, strategic and business complexity, as well as size, competitive intensity and regulatory control. Performance is not a single score resulting in a pay outcome, but is rather a disciplined and non-formulaic process which Remco believes is appropriate for the diversity and complexity of the business. Pay is also assessed relative to the external market to ensure levels are competitive and reasonable. Remco continuously monitors the correlation between remuneration and profitability over time. This report displays the pay of the executive directors over a six-year period to demonstrate the variability of pay over time. Prescribed officers are shown for the period that they have been serving as such.

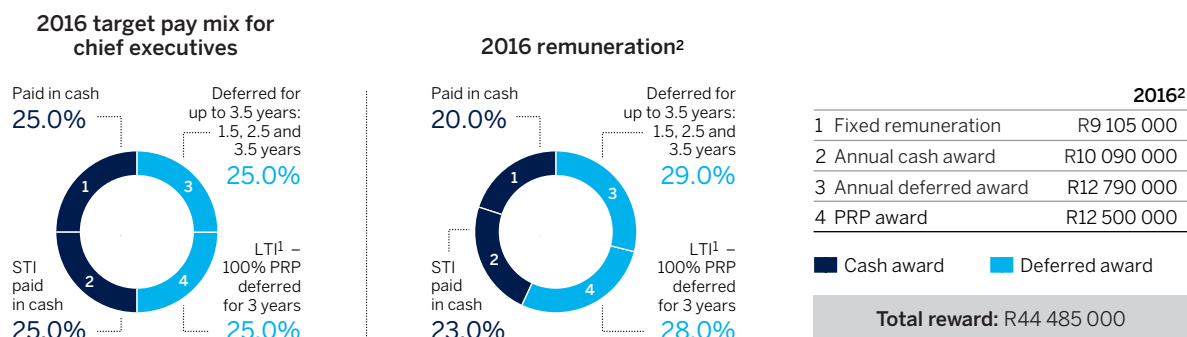




## GROUP CHIEF EXECUTIVE, STANDARD BANK GROUP

Ben Kruger and Sim Tshabalala are the group CEs, Standard Bank Group and their key achievements in 2016 and related remuneration are provided below.

### BEN KRUGER AND SIM TSHABALALA PAY-FOR-PERFORMANCE



<sup>1</sup> The PRP amount is the face value at award date and is subject to conditions.

<sup>2</sup> For purposes of this illustration, only Ben Kruger's remuneration has been shown. Sim Tshabalala's remuneration is the same as shown above if minor differences in "other allowances" are ignored.

## 2016 Performance

- Ben and Sim have led the group since March 2013. During this period:
  - Africa Regions have shown strong and diversified growth with headline earnings growing at a five-year compound annual growth rate of 24%
  - Off-strategy international operations have been disposed of and good progress is being made in assisting our strategic partner ICBC to return ICBCS to profitability
  - The South African operations maintained strong market positions and momentum in earnings growth
  - The group has fully absorbed the additional capital and liquidity requirements under Basel Capital Accord (Basel) III.
- The CEs led the group strategy work streams, focusing on reinforcing our commitment to consistently deliver excellent client service, to building a universal financial services group and to ensuring that the group's resources are allocated efficiently and with agility.
- Both CEs continue to play a central role in deepening the relationship with our strategic partner ICBC and in promoting and supporting China-Africa trade and investment with ICBC.
- During 2016, they continued to manage high rates of change in industry operating models, accelerated our core banking transformation (which will be completed in 2017) and managed the ever-growing risk of external cyber fraud with success except for the Japan fraud incident.
- Ben and Sim became increasingly engaged with Liberty's board and management to ensure a speedy return to improved financial performance and strategic positioning.
- They were closely involved in the successful efforts to prevent a South African sovereign rating downgrade debt and in the broader Government-Business-Labour initiative to achieve necessary structural reforms to the South African economy and to assist in strengthening South Africa's institutions.
- Both CEs continued to place a very high priority on transformation, and ensured that the group played a key role in economic transformation in South Africa. The group was also ranked fifth in the 2016 Empowerdex transformation rankings.



## SUMMARY OF 2016 KEY ACHIEVEMENTS

### Business results

- The CEs oversaw the allocation of the group's capital, liquidity, skills and other scarce resources.
- The group's robust financial results reflect good revenue growth and cost discipline, efficient capital and risk appetite allocation across multiple jurisdictions and sectors despite difficult trading conditions.
- There were strong performances from the CIB and PBB business units in South Africa and the Africa Regions. In addition, good progress was made in the previously underperforming vehicle and asset finance division and the PBB Africa Regions.
- Liberty earnings fell by 61%.
- Headline earnings from banking operations were up by 9% to R22 062 million, and banking operations ROE increased to 16.8% from 16.3%.
- Group headline earnings of R23 009# million were up 4%, reflecting the impact of the performance of Liberty#.
- Group ROE decreased to the lower end of the target range at 15.3%#.
- Dividends per share were up by 16%.

### Client focus

During the year, the CEs undertook the following initiatives to achieve a client-focused strategy:

- Substantially responsible for the good progress made towards building the digital bank of the future as measured by systems improvement and digital application delivery.
- Led the streamlining of internal processes in order to improve service to our clients.
- Met regularly with clients in South Africa and across the continent, leading our commitment to excellent client service by example.

### Risk and control

During the year, the CEs resolved complex regulatory matters in several jurisdictions, including South Africa, Nigeria and Zambia. This included:

- Ensuring that all group and business unit liquidity and risk measures were rated as green with credit loss ratios at the lower end of through-the-cycle appetite ranges.
- Ensuring that the group complied with regulatory requirements and maintained sound relationships with all regulatory authorities in multiple jurisdictions.
- Spending a great deal of time and effort to further embed a culture of compliance and good conduct by advocating and measuring progress towards doing the right business the right way.

### Leadership and people management

- Ben and Sim aim to live and promote the group's employee brand, traveling across Africa and meeting with leadership teams, speaking at leadership courses and conferences and launching graduate recruitment and training and development programmes. This included improved employee engagement as evidenced through internal surveys.
- They represented the bank internationally by participating in forums such as WEF, IMF/World Bank, Africa Investment Conference and US Africa Summit.
- Both CEs continued to facilitate leadership and talent development as a key differentiator and seamlessly dealt with succession in several senior roles while also improving our bench strength for the future.



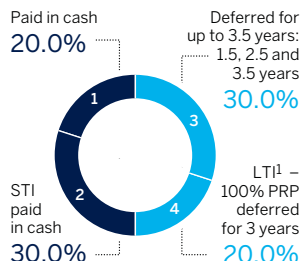


## CHIEF EXECUTIVE, CORPORATE & INVESTMENT BANKING

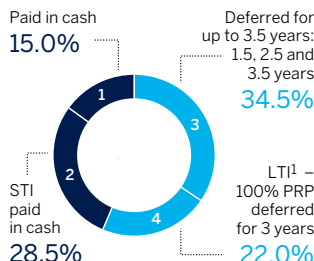
David Munro is CE, CIB and his key achievements in 2016 and related remuneration are provided below.

### DAVID MUNRO PAY-FOR-PERFORMANCE

#### 2016 target pay mix for David Munro



#### 2016 remuneration



2016	
1 Fixed remuneration	R6 792 000
2 Annual cash award	R12 900 000
3 Annual deferred award	R15 600 000
4 PRP award	R10 000 000

■ Cash award ■ Deferred award

**Total reward: R45 292 000**

<sup>1</sup> The PRP amount is the face value at award date and is subject to conditions.

#### 2016 Performance

- Having commenced his role in July 2011, David Munro has led CIB through a five-year strategic plan designed to return CIB to financial health, with 2016 being the fifth year of that plan.
- This plan accommodated an anticipated 50% increase in capital (Basel II and Basel III) over that timeframe.
- 2016, and the last five years generally, have been characterised by severe macroeconomic headwinds and challenging special and specific situations.
- In 2016, an ROE of 20% was delivered in excess of the effective 19% targeted in the plan.
- David is a board member of ICBCS in London which has continued to show progress in 2016 towards breakeven.
- David plays a key role in our strategic cooperation agreement with ICBC.

### SUMMARY OF 2016 KEY ACHIEVEMENTS

#### Business results

- A strong set of financial results in 2016 characterised by:
  - ROE of 20%
  - Headline earnings growth of 16%
  - Revenues up by 12%
  - Cost growth of 7% and JAWs ratio of 5.2%
  - Cost-to-income ratio 53.2%
  - Credit loss ratio of 0.3%, at the lower end of the appetite range
  - Disciplined capital utilisation.
- Balanced performance across all business units.
- Excellent performance evident in home market, South Africa.
- Diversification across sectors and regions compensated for headwinds.
- Completion of the wind down of the real estate and principal investment management business.

#### Client focus

- Strength of client franchise and disciplined approach to client relationships evident in client revenue growth and hallmark deals completed.
- Involved in many deals for high-profile clients in South Africa, as well as across the continent.
- Executive sponsor to several key clients, including various global multinational relationships.
- Brought to completion the ITAPS and eCommerce investment programmes focused on building digital solutions in a wholesale world.
- Continued to invest in Business Online as a core offering to the group's client base.
- Good progress towards opening a bank in Cote d'Ivoire.

#### Risk and control

- Continuous involvement in and monitoring of complex credit and deal decisions.
- Credit portfolio flexed to take into account continuously changing outlook for several sectors and countries.
- Leadership provided to the group on several special situations involving more complex issues.
- Improved risk and compliance reporting within CIB in the year.
- Continued focus and commitment on "Doing the right business the right way".
- Time dedicated to understanding and following up all internal and external audit findings.

#### Leadership and people management

- Played a key role in the execution of the group strategy, with specific involvement in several work streams.
- Leading CIB to play its role in collaborating across the group for the benefit of clients.
- Focused efforts on continued build of the strategic dialogue and cooperation with ICBC.
- Specific focus on diversity and transformation.
- Improved employee engagement scores across CIB.
- Built brand through attendance and participation in several international events, including Africa Investment Conference, US Africa Summit, SA Tomorrow Conference and IMF/World Bank meetings.



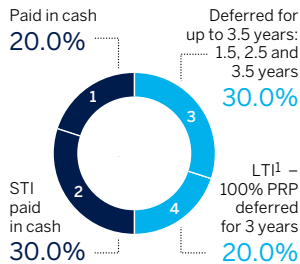


## CHIEF EXECUTIVE, PERSONAL & BUSINESS BANKING

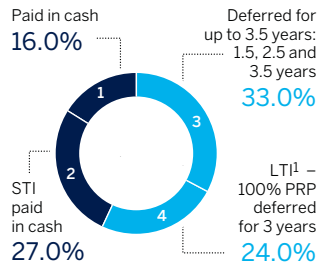
Peter Schlebusch is CE, PBB and his key achievements in 2016 and related remuneration are provided below.

### PETER SCHLEBUSCH PAY-FOR-PERFORMANCE

#### 2016 target pay mix for Peter Schlebusch



#### 2016 remuneration



	2016
1 Fixed remuneration	R6 852 000
2 Annual cash award	R11 150 000
3 Annual deferred award	R13 850 000
4 PRP award	R10 000 000

■ Cash award ■ Deferred award

**Total reward: R41 852 000**

<sup>1</sup> The PRP amount is the face value at award date and is subject to conditions.

#### 2016 Performance

- Peter achieved a strong set of results providing growth in headline earnings of 12% to R12.6 billion, revenue growth of 11.2% slightly outstripping cost growth of 11% and a flat cost-to-income ratio of 60.2%.
- Positive endowment impact and a solid credit performance contributed to the headline earnings growth off a high base against poor macroeconomic backdrops across the continent. Improved ROE to 18.7% from 18.2%.
- Good performance across the continent.
- Launched a number of new digital solutions and apps for customers.
- The Japan fraud incident, a uniquely sophisticated fraud. Although revenues were generated to cover losses incurred, this has been taken into account in Peter's remuneration determination and the PBB incentive pool determination.

### SUMMARY OF 2016 KEY ACHIEVEMENTS

#### Business results

- A strong set of results characterised by:
- Headline earnings growth of 12%.
  - ROE of 18.7%.
  - Cost-to-income ratio of 60.2%.
  - JAWs ratio of 0.2%.
  - Cost growth of 11%.
  - Revenues are up by 11.2% to R67.5 billion.
  - Profit before taxation up 19% to R18.6 billion.
  - PBB Africa regions revenues up 18% to R15.26 billion.
  - Deposit growth of 9% in constant currency.

#### Risk and control

- Credit impairments were down slightly in South Africa to a credit loss ratio of 1.29%.
- The Japan fraud incident, a uniquely sophisticated fraud, has resulted in significant investment in fraud and cybercrime protection.
- Reinforcing a strong risk management culture and internal control disciplines.
- Ensuring adherence to risk appetite.
- Strengthened turnaround of vehicle and asset finance South Africa despite weak market.

#### Client focus

- New enhancements to the digital offerings, including launch of the foreign exchange mobile wallet.
- Roll out of Smart App to eight countries across the continent.
- Delivering new ways of working to simplify banking for customers.
- Focused on improving client experience in South Africa and across the continent.
- Good delivery on core banking programmes across Africa.

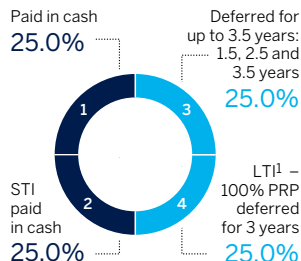
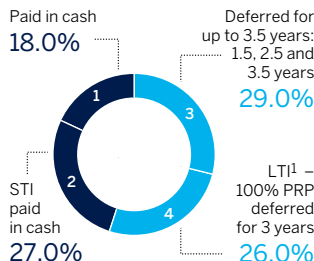
#### Leadership and people management

- Driving cultural change focusing on innovation, digital, ownership and execution excellence.
- Strong succession planning for all executive teams.
- Good progress on staff and leadership diversity, across racial, gender and geographies.
- Driving learning and development initiatives to build competence at all levels across all geographies.
- Collaborating across business lines to support customers and the universal bank.
- Significantly improved employee engagement scores across PBB.



**GROUP FINANCIAL DIRECTOR, ARNO DAEHNKE**

Arno Daehnke is the group financial director and his key achievements in 2016 and related remuneration are provided below.

**ARNO DAEHNKE PAY-FOR-PERFORMANCE****2016 target pay mix for Arno Daehnke****2016 remuneration**

2016	
1 Fixed remuneration	R5 000 000 <sup>2</sup>
2 Annual cash award	R7 400 000
3 Annual deferred award	R8 100 000
4 PRP award	R7 000 000

■ Cash award ■ Deferred award

**Total reward: R27 500 000**

<sup>1</sup> The PRP amount is the face value at award date and is subject to conditions.

<sup>2</sup> Includes full fixed remuneration for 2016 for purposes of illustration.

**2016 Performance**

Arno Daehnke was appointed as group financial director on 1 May 2016 having previously headed up treasury and capital management for the group.

- He has transitioned smoothly into the role providing new thought leadership.
- He led a process to set group aspirations to 2020 and has already enhanced the planning, budgeting and metrics frameworks.
- He initiated and completed a process to de-risk the impacts of a potential South African sovereign rating downgrade.
- His input and reporting on cost management has had a positive impact on the group's results.
- He has been intricately involved in key corporate activity during 2016.

**SUMMARY OF 2016 KEY ACHIEVEMENTS****Business results**

- As group financial director, Arno's performance is linked to the group results.
- A robust set of results, particularly banking activities, despite the tough economic environment.
- Group headline earnings of R23 009 million up 4%\*.
- Banking activities headline earnings of R22 062 million up 9%.
- Revenue growth of 10% with a positive JAWs of 0.3%.
- Disciplined cost control resulted in operating expenses, excluding staff costs, growth of 8%.
- Group ROE of 15.3% (2015: 15.6%)\*.
- Banking activities ROE of 16.8% (2015: 16.3%).
- Tempered by below budget performance of Liberty.

**Risk and control**

- Maintained sound balance sheets across the group's banking entities.
- Maintained appropriate levels of capital and liquidity.
- Active participation at risk and credit committees.
- Management of group tax risk.
- Achieved material compliance with and embedding of the Basel Committee on Banking Supervision (BCBS) 239 principles for effective risk data aggregation and risk reporting.

**Client focus**

- Designed and implemented a new financial planning process focused on the long-term.
- Set and cascaded group aspirations to 2020.
- Maintained high quality of internal and external reporting.
- Maintained group financial controls at the required standards.
- Enhanced planning, budgeting and metrics frameworks.
- Improved cost focus and reporting.
- Finalised several corporate deals.
- Delivered finance strategy map focused on external client.
- Appropriate capital and liquidity raising for clients.

**Leadership and people management**

- Appointed people into key executive roles in finance.
- Improved the finance operating model for the group.
- Senior finance talent pipeline and succession plans developed.
- Dealing with shareholders, analysts and regulators.
- Improved employee engagement scores in finance.



## EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

R'000						
Executive directors	2011	2012	2013	2014	2015	2016
<b>BJ Kruger*</b>						
Cash package paid during the year	5 268	6 014	6 559	7 352	7 538	7 809
Retirement contributions paid during the year	858	963	1 088	1 209	1 076	1 106
Other allowances	143	132	315	199	171	190
Subtotal	6 269	7 109	7 962	8 760	8 785	9 105
Performance-related incentive in respect of the year <sup>1</sup>	9 506	5 900	9 400	5 275	10 150	10 090
Portion of performance-related incentive deferred in share awards <sup>2</sup>	9 763	5 100	11 100	4 975	11 850	12 790
Subtotal	19 269	11 000	20 500	10 250	22 000	22 880
<b>Total reward (excluding EGS/PRP)</b>	25 538	18 109	28 462	19 010	30 785	31 985
Face value of conditional EGS/PRP awarded	2 500	2 000	12 500	10 000	12 500	12 500
<b>Total reward including EGS/PRP</b>	28 038	20 109	40 962	29 010	43 285	44 485
<b>SK Tshabalala*</b>						
Cash package paid during the year	4 713	5 098	6 384	7 378	7 583	7 850
Retirement contributions paid during the year	454	482	990	1 248	1 129	1 106
Other allowances	227	270	274	277	277	242
Subtotal	5 394	5 850	7 648	8 903	8 989	9 198
Performance-related incentive in respect of the year <sup>1</sup>	8 200	8 250	9 400	7 337	10 150	10 090
Portion of performance-related incentive deferred in share awards <sup>2</sup>	7 900	7 450	11 100	8 038	11 850	12 790
Subtotal	16 100	15 700	20 500	15 375	22 000	22 880
<b>Total reward (excluding EGS/PRP)</b>	21 494	21 550	28 148	24 278	30 989	32 078
Face value of conditional EGS/PRP awarded	2 500	2 500	12 500	10 000	12 500	12 500
<b>Total reward including EGS/PRP</b>	23 994	24 050	40 648	34 278	43 489	44 578

Refer to footnotes on page 123.



## EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS continued

R'000	2011	2012	2013	2014	2015	2016
Executive directors						
<b>A Daehnke*</b>						
Cash package paid during the year						2 986
Retirement contributions paid during the year						375
Other allowances						2
Subtotal						3 363 <sup>3</sup>
Performance-related incentive in respect of the year <sup>1</sup>						7 400
Portion of performance-related incentive deferred in share awards <sup>2</sup>						8 100
Subtotal						15 500
<b>Total reward (excluding PRP)</b>						18 863
Face value of PRP awarded						7 000
<b>Total reward including PRP</b>						25 863
<b>DC Munro*</b>						
Cash package paid during the year			4 596	5 355	5 609	5 802
Retirement contributions paid during the year			641	710	774	847
Other allowances			200	254	202	143
Subtotal			5 437	6 319	6 585	6 792
Performance-related incentive in respect of the year <sup>1</sup>			15 150	5 650	12 150	12 900
Portion of performance-related incentive deferred in share awards <sup>2</sup>			14 850	5 850	13 850	15 600
Subtotal			30 000	11 500	26 000	28 500
<b>Total reward (excluding PRP)</b>			35 437	17 819	32 585	35 292
Face value of PRP awarded			10 000	14 000	10 000	10 000
<b>Total reward including PRP</b>			45 437	31 819	42 585	45 292
<b>PL Schlebusch*</b>						
Cash package paid during the year			4 476	5 342	5 594	5 834
Retirement contributions paid during the year			595	709	755	812
Other allowances			199	206	230	206
Subtotal			5 270	6 257	6 579	6 852
Performance-related incentive in respect of the year <sup>1</sup>			10 150	8 650	10 650	11 150
Portion of performance-related incentive deferred in share awards <sup>2</sup>			10 850	8 650	12 350	13 850
Subtotal			21 000	17 300	23 000	25 000
<b>Total reward (excluding PRP)</b>			26 270	23 557	29 579	31 852
Face value of PRP awarded			10 000	10 000	10 000	10 000
<b>Total reward including PRP</b>			36 270	33 557	39 579	41 852



## EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS FORMER-PRESCRIBED OFFICER AND EXECUTIVE DIRECTOR

R'000	2011	2012	2013	2014	2015	2016
Former executive director						
<b>SP Ridley**</b>						
Cash package paid during the year	4 087	4 617	4 900	5 328	5 532	<b>1 963</b>
Retirement contributions paid during the year	514	572	624	692	677	<b>154</b>
Other allowances	212	246	286	289	271	<b>99</b>
Subtotal	4 813	5 435	5 810	6 309	6 480	<b>2 216</b>
Performance-related incentive in respect of the year <sup>1</sup>	5 881	5 500	6 150	5 150	6 650	<b>5 000</b>
Portion of performance-related incentive deferred in share awards <sup>2</sup>	5 600	4 700	7 850	6 850	8 350	
Subtotal	11 481	10 200	14 000	12 000	15 000	<b>5 000</b>
<b>Total reward (excluding EGS/PRP)</b>	<b>16 294</b>	<b>15 635</b>	<b>19 810</b>	<b>18 309</b>	<b>21 480</b>	<b>7 216</b>
Face value of conditional EGS/PRP awarded	1 500	1 500	8 000	8 000		
<b>Total reward including EGS/PRP</b>	<b>17 794</b>	<b>17 135</b>	<b>27 810</b>	<b>26 309</b>	<b>21 480</b>	<b>7 216</b>
<b>Totals for all executive directors and prescribed officers</b>						
Fixed remuneration			32 127	36 548	37 418	<b>37 526</b>
Annual incentive award including portion deferred in share awards			106 000	66 425	108 000	<b>119 760</b>
Face value of PRP award			53 000	52 000	45 000	<b>52 000</b>
			<b>191 127</b>	<b>154 973</b>	<b>190 418</b>	<b>209 286</b>

<sup>1</sup> In order to align incentive payments with the performance period to which they relate, the above variable remuneration relates to the year under review irrespective of when payment is made.

<sup>2</sup> The final value of the award is dependent on the performance of the group's share price. The deferred award is issued in the following financial year. The deferred award in the table above is the total award relating to the respective performance year. Deferred bonus amounts awarded for the 2011 performance year and beyond are subject to choice. Participants can elect to have the value of the deferred award, or a part thereof, invested in the Share appreciation rights plan (SARP) (which will be introduced to replace EGS in South Africa and the group share incentive scheme outside South Africa) rather than the default DBS. To the extent that SARP is selected, a 10% premium of the value of the award is added. Deferred bonus amounts not invested in SARP will be unitised with respect to the group's closing share price on the date on which the group's year end financial results are communicated publicly.

<sup>3</sup> A Daehnke was appointed as group financial director on 1 May 2016. His fixed remuneration is shown from that date.

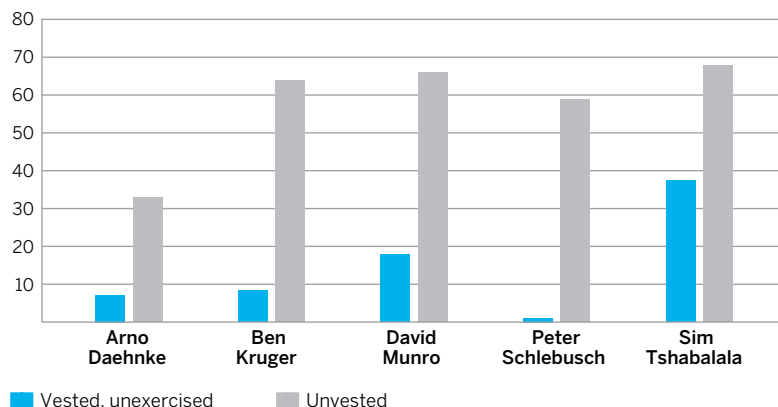
\* All executive directors were also prescribed officers of the group.

\*\* SP Ridley retired on 30 April 2016, and was a prescribed officer of the group until that date.



## Executive directors' and prescribed officers' unvested and unexercised shares

Awards by employee (current rand value) (Rm)



Note:

Values have been calculated on a share price of R151.75 and are based on status of awards at 31 December 2016.

Conditional unvested awards for 2015 and 2016 have been based on 100% of potential value.

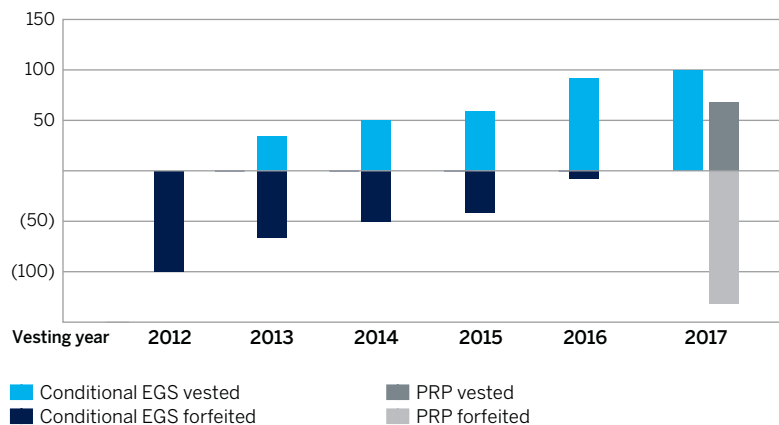
Conditional unvested award for 2014 has been based on 68.37% of potential value.

Excludes awards made in March 2017.

## Executive directors' and prescribed officers' actual and potential percentage vesting of conditional EGS and PRP awards from March 2012 to March 2017

Executive directors and prescribed officers have conditional EGS awards and conditional PRP awards vesting in March 2017. These awards vest through meeting certain performance conditions. The EGS awards vesting in 2017 relate to the third tranche of the March 2010 awards, the second tranche of the March 2011 awards, the third tranche of the March 2012 awards and the second tranche of the March 2013 awards where conditions were met. All the EGS awards due to vest in 2012 were forfeited due to not meeting performance conditions.

### % Vesting vs. forfeiture by vesting year (%)



The first PRP awards were made in March 2014 and there were no conditional EGS awards made from that date. The vesting percentage in March 2017 is 68.37% out of a possible 200% of units allocated. Vesting will take place in March 2017 as set out in the chart alongside.

Vesting for the years 2012 to 2016 are also included for comparison.



RCM/AFS

Full details on the number and value of awards granted during the year in terms of our share-based plans are included in the Standard Bank Group 2016 audited Annual Financial Statements, available online.



## Non-executive directors

In determining the fees for non-executive directors, the majority of whom are also members of board committees, Remco considers the extent and nature of their responsibilities. It also considers market conditions and reviews comparative remuneration offered by other major South African and international banks and top South African listed companies.

Proposed fees, effective from 1 January 2017, are based on a carefully considered assessment of non-executive directors' responsibility, including the significant amount of work involved

at committee level. The board, and particularly its committees, chairmen and committee members, spend a significant amount of time on in-depth analysis of matters relevant to the group's performance and regulatory requirements.

### Fees

Non-executive directors receive fixed fees for service on boards and board committees. There are no contractual arrangements for compensation for loss of office for either executives or non-executive directors. Non-executive

directors do not receive annual incentive awards, nor do they participate in any of the group's long-term incentive schemes. Remco reviews the fees paid to non-executive directors annually and makes recommendations to the board for consideration and shareholder approval.

The board agreed that the current fee structure of a single annual fee, rather than a retainer and meeting attendance fee, was more appropriate for the group board and committees and in the light of the contribution of members.

## Non-executive directors' emoluments

Fixed remuneration R'000										
	Services as directors of Standard Bank Group		Standard Bank Group committee fees		Services as directors of group subsidiaries		Other benefits		Total compensation for the year	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
MJD Ruck	248	233	870	810	2 298	2 145	-	-	3 416	3 188
Adv KD Moroka	248	233	772	689	248	233	-	-	1 268	1 155
TS Gcabashe	5 978	3 446	-	155	-	119	538	251	6 516	3 971
EM Woods	248	233	973	1 043	273	326	-	-	1 494	1 602
RMW Dunne	248	233	1 208	1 128	248	256	-	-	1 704	1 617
PD Sullivan	991	939	1 405	1 131	1 146	1 171	-	-	3 542	3 241
W Wang	248	233	296	325	28	-	-	-	572	558
BS Tshabalala	248	233	681	438	356	728	-	-	1 285	1 399
AC Parker	248	233	401	271	372	441	-	-	1 021	945
ANA Peterside con	991	939	450	252	991	939	-	-	2 432	2 130
S Gu	991	939	562	528	28	-	-	-	1 581	1 467
JH Maree	28	-	-	-	2 627 <sup>1</sup>	-	-	-	2 655	-
NNA Matyumza	28	-	-	-	28	-	-	-	56	-
Dr ML Oduor-Otieno	991	-	293	-	991	-	-	-	2 275	-
GJ Fraser-Moleketi	28	-	-	-	28	-	-	-	56	-
JM Vice	28	-	237	-	28	-	-	-	293	-
GMB Kennealy	28	-	-	-	28	-	-	-	56	-
<b>Total</b>	<b>11 818</b>	<b>7 894</b>	<b>8 148</b>	<b>6 770</b>	<b>9 718</b>	<b>6 358</b>	<b>538</b>	<b>251</b>	<b>30 222</b>	<b>21 273</b>
<b>Former non-executive directors</b>										
TMF Phaswana <sup>2</sup>	-	2 315	-	-	-	-	-	151	-	2 466
Lord Smith of Kelvin, KT <sup>2</sup>	-	385	-	112	-	382	-	-	-	879
FA du Plessis <sup>3</sup>	-	95	-	155	-	165	-	-	-	415
<b>Total</b>	<b>-</b>	<b>2 795</b>	<b>-</b>	<b>267</b>	<b>-</b>	<b>547</b>	<b>-</b>	<b>151</b>	<b>-</b>	<b>3 760</b>

<sup>1</sup> Paid from Liberty Holdings.

<sup>2</sup> Retired on 28 May 2015.

<sup>3</sup> Resigned on 28 May 2015.





# Additional information

The best strategies can be resisted by strong cultures, making it essential to our future success that we align our culture to our strategy. Our culture should be inextricably linked with the intent of our purpose – to drive growth in Africa by partnering with our clients, getting the basics right and building trust. We are rising to the challenge of putting our clients at the centre of everything we do through more agile decision making, greater empowerment and accountability, and embracing change, diversity and inclusion. The foundation for our high-performance ethical culture is to make sure that every one of our people understands the need to do the right business in the right way, in line with the values that define what we stand for.

128 *Pro forma* financial information  
128 Standard Bank Group Limited  
credit ratings  
ibc Contact details



## Pro forma constant currency information

The *pro forma* financial information in this report is the responsibility of the group's directors. The *pro forma* constant currency information has been presented to illustrate the impact of changes in currency rates on the group's results and may not fairly present the group's results of operations. In determining the change in constant currency terms, the comparative financial year's results for the period ended 31 December 2015 have been adjusted for the difference between the current and prior period's average exchange rates (determined as the average of the daily exchange rates). The measurement has been performed for each of the group's material currencies.

The *pro forma* constant currency financial information has been reviewed by the group's external auditors and their unmodified limited assurance report is available for inspection at the company's registered office.

The following average rand exchange rates were used in the determination of the *pro forma* constant currency information:

	<b>2016 average exchange rate</b>	2015 average exchange rate
US dollar	<b>14.69</b>	12.75
Pound sterling	<b>19.96</b>	19.49
Argentine peso	<b>1.00</b>	1.38
Nigerian naira	<b>0.06</b>	0.07
Kenyan shilling	<b>0.15</b>	0.13
Zambia kwacha	<b>1.43</b>	1.52

## Standard Bank Group Limited credit ratings

<b>AS AT 1 MARCH 2017</b>	<b>SHORT TERM</b>	<b>LONG TERM</b>	<b>OUTLOOK</b>
<b>Fitch Ratings</b>			
Foreign currency issuer default rating	F3	BBB-	Negative
Local currency issuer default rating		BBB-	Negative
National rating	F1 + (ZAF)	AA (ZAF)	Stable
<b>Moody's Investor Services</b>			
Issuer rating		Baa3	Negative



For further details regarding the group's credit ratings, including key subsidiaries, refer to the group's website: [www.standardbank.com](http://www.standardbank.com).



## Contact and other details

### Standard Bank Group Limited

Registration No. 1969/017128/06  
Incorporated in the Republic of South Africa

### Head: Investor relations

**Sarah Rivett-Carnac**  
Tel: +27 11 631 6897

### Group financial director

**Arno Daehnke**  
Tel: +27 11 636 3756

### Group secretary

**Zola Stephen**  
Tel: +27 11 631 9106

### Registered address

9<sup>th</sup> Floor, Standard Bank Centre  
5 Simmonds Street  
Johannesburg 2001  
PO Box 7725  
Johannesburg 2000

Website: [www.standardbank.com](http://www.standardbank.com)

Please direct all annual report queries and comments to:

**Annual.Report@standardbank.co.za**

Please direct all customer-related queries and comments to:

**Information@standardbank.co.za**

Please direct all investor relations queries and comments to:

**InvestorRelations@standardbank.co.za**

Refer to [www.standardbank.com/reporting](http://www.standardbank.com/reporting) for a list of definitions, acronyms and abbreviations

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