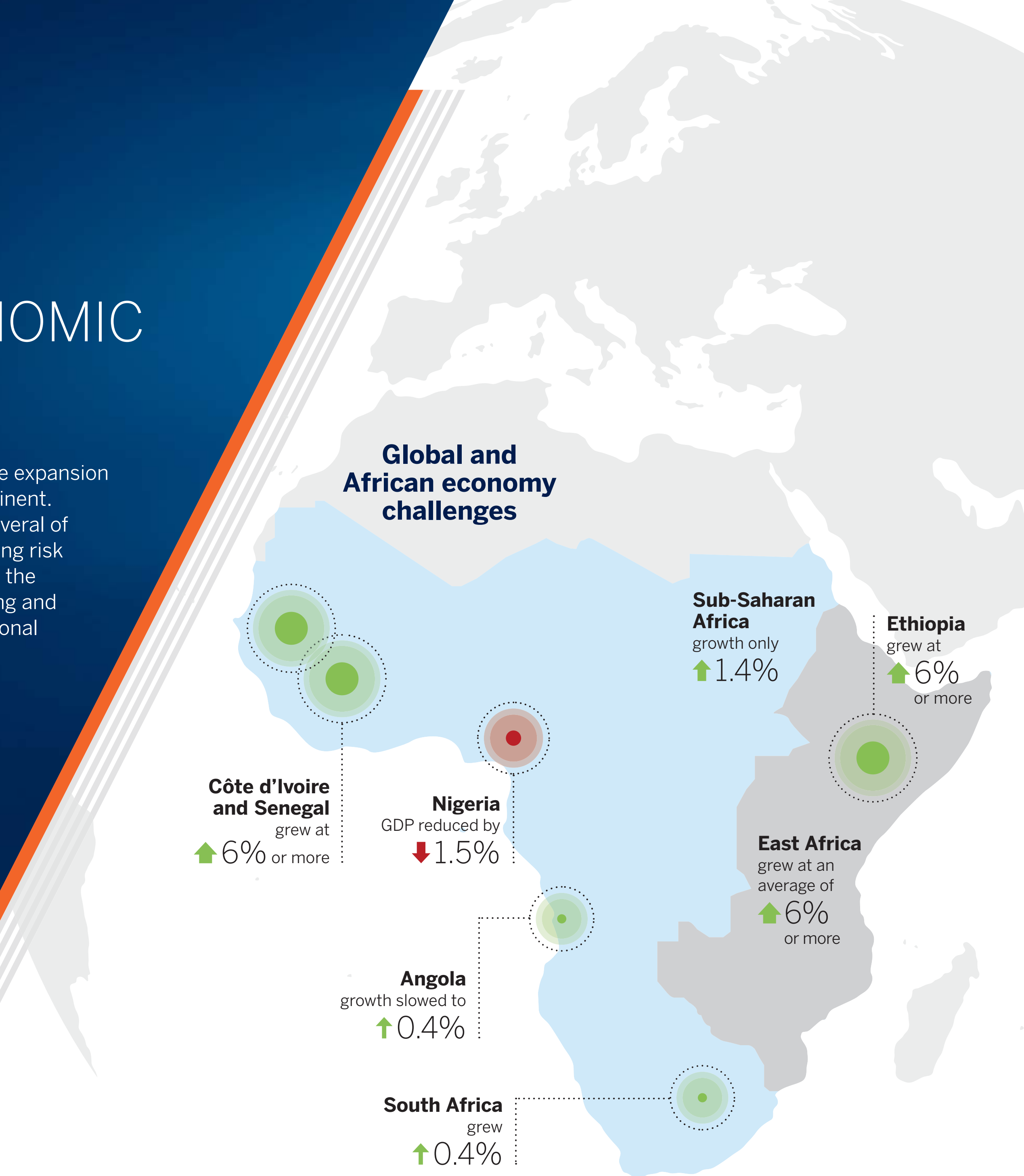
MANAGING ECONOMIC HEADWINDS

Africa is our home and we are committed to the expansion and deepening of our business across the continent. Economic growth has slowed significantly in several of our countries of operation. By carefully managing risk across of our portfolio, limiting our exposure to the commodities sector, and successfully identifying and investing in growth sectors at national and regional level, we have continued to grow in Africa, and support African growth.

We remain confident of Africa's long-term prospects, driven primarily by improving educational and health outcomes, a growing middle class, and ongoing infrastructure investment. We continue to work with our clients and regulators to support job-creating, inclusive economic growth. This includes investment in infrastructure development, support for the broadening and diversification of trade relationships, and investment in Africa's emerging manufacturing and services industries.



MANAGING RISK IN A LOW GROWTH ENVIRONMENT

2016 was a challenging year for the global economy. Sub-Saharan Africa's growth averaged just 1.4% – the lowest in 22 years. Regional per capita GDP is estimated to have contracted 1.1% in 2016, following an expansion of 0.4% in 2015.

Low commodity prices drove down growth in the region's largest economies. South Africa grew by just 0.4% in 2016. Nigeria's GDP contracted by 1.5%, while Angola's growth slowed to 0.4%. Growth also slowed significantly in metal and mineral dependent economies such as the DRC, Mozambique, Botswana and Zambia. In contrast, many agricultural exporters, including Côte d'Ivoire, Senegal and Ethiopia continued to grow at 6% or more, supported by strong public infrastructure investment and buoyant private consumption.

Consumers in several countries were put under pressure by rising inflation, linked in some cases to high food prices caused by the severe drought in eastern and southern Africa. Large currency depreciations against the dollar were experienced in Angola, Ghana, Uganda, Mozambique, Nigeria and Zambia. Tough economic conditions heightened credit risk, and therefore interest rates.

In the face of these headwinds, we identified new investment opportunities in sectors with potential for growth and job creation, while decreasing our exposure to the commodity sector. During 2016, we expanded our offering in the consumer sector, in east African countries focused on growing their manufacturing and services sectors, and in local currency products. We used our large geographic footprint and our understanding of local markets to manage foreign currency liquidity shortages and grow our business with local and multinational customers.

We're recognised as a bank with a deep understanding of the risks and opportunities in the 20 African countries we operate in, such as being awarded the **Best Bank for Financial Risk Management in Africa by the Global Finance magazine** – making us a partner of choice for businesses looking to expand into new markets. We work closely with businesses and insurers to identify and assemble competent risk mitigation arrangements, allowing us to underwrite and place risk for longer time periods in these markets.

WE TAKE A LONG-TERM VIEW. Our commitment to achieving positive outcomes for our customers requires us to stand by them during difficult times, doing all we can to see them through to better days, while fulfilling our fiduciary duty to shareholders. It's an approach that benefits the bank and all our stakeholders, especially our clients.

For example, we have worked with our customers to **extend their mortgages** where necessary – keeping existing customers in their homes, and helping new customers to access the market through careful credit risk management.

Read more on page 39

Similarly, we've been working with South Africa's farmers to see them through the prolonged drought, **restructuring their debt where necessary**.

Read more on page 40

Our systems enable us to respond quickly and appropriately to any changes in risk appetite or exposure, in ways that protect our customers and our brand.

GROWTH PROSPECTS IN 2017

We expect increased economic activity in sub-Saharan Africa in 2017, driven by a gradual recovery in commodity prices, ongoing investment in infrastructure development, and new government spending on the development of non-commodity sectors. The factors that underpinned Africa's growth surge, including a young and growing population, greater urbanisation, improved governance and greater macroeconomic stability, remain in place in many countries and medium-term growth prospects remain favourable. Economic diversification is beginning to take place in some economies. Consumer-focused sectors, including food, IT, tourism, finance and retail, are attracting increasing investment.

East Africa remains a highly attractive investment destination, with average national growth rates of 6% or more. This growth is driven largely through tourism, agriculture, and manufacturing, together with substantial public investment in transport and energy infrastructure and effective regional integration. At the beginning of 2016, **we officially opened our representative office in Ethiopia**, further strengthening our presence in this region.

MAXIMISING THE IMPACT OF ENTERPRISE DEVELOPMENT (ED) AND EMPOWERMENT FINANCING

Supporting the start-up of new enterprises is the best way to create new jobs. In South Africa, the Financial Sector Code requires that we spend 0.2% of our profit after tax to support enterprise development, the beneficiaries of which are primarily black-owned SMEs (BSMEs). For 2016, we had R27.5 million (non-recoverable funds) available to support ED initiatives. However, we recognised that we could do so much more for ED if we were innovative with the use of these funds.

Commercial banks operate within strict regulatory constraints and risk parameters, which makes providing loans to SMEs and start-ups very difficult. A major criticism of banks has been that the lending we do to small businesses is limited to those who can fulfil our standard collateralised lending requirements. We mobilised our ED funds to support "business unusual" BSME lending. We did this by establishing an independent trust whose mandate is to provide collateral and related support to enable BSMEs to access finance from commercial banks. In 2016, we directed approximately R16 million of our ED funds to the trust. The trust used this money to assist ED beneficiaries to access approximately R90 million worth of lending, which they would not have otherwise been able to access. We leverage the funds available in the trust to reduce the associated risk, enabling the BSMEs to qualify for interest rates much lower than they would have otherwise qualified for.

FOR EXAMPLE, a client providing a transport service might have a vehicle which she can use as 70% of the collateral needed. She can apply to the trust for the remaining 30% of the collateral, and qualify for the loan at an advantageous rate.

We used our remaining ED funds, approximately R11.5 million in 2016, to provide capacity development support to qualifying beneficiary companies, paying for specialists to provide them with general business and financial competencies, as well as technical assistance. For example, if a business can't qualify for a loan because it lacks adequate financial records, we'll provide an accountant to help get the records up to scratch. Or, if a construction business has landed a contract but lacks experience, we'll provide a construction expert to help them ensure the success of the project. We use our core competence to deploy funding into the economy in support of BSME growth and development. We strengthen the viability of these enterprises through the support we offer, which makes them a better candidate for a commercial bank loan. In total in 2016, we dispersed an amount of approximately R502 million ✓ in loans to BSMEs, of which R90 million was provided through the trust.

Our model has enabled us to assist far more BSMEs than would otherwise have been possible – in the process, supporting enterprise growth, sustainability and job creation. We create shared value by mitigating lending risk, while providing the tools needed by the BSME. **Our success rate since implementing this model in 2014 has been 100% performance on loans to BSMEs.**

Our BizLaunch product is designed for start-up businesses, and offers simple, efficient solutions to make and receive payments. It also enables business owners to insure their personal investment in the business. BizLaunch is available to any new business, including sole proprietors with no trading history, as well as informal enterprises that previously used personal accounts to trade. It includes value-adding services and products.

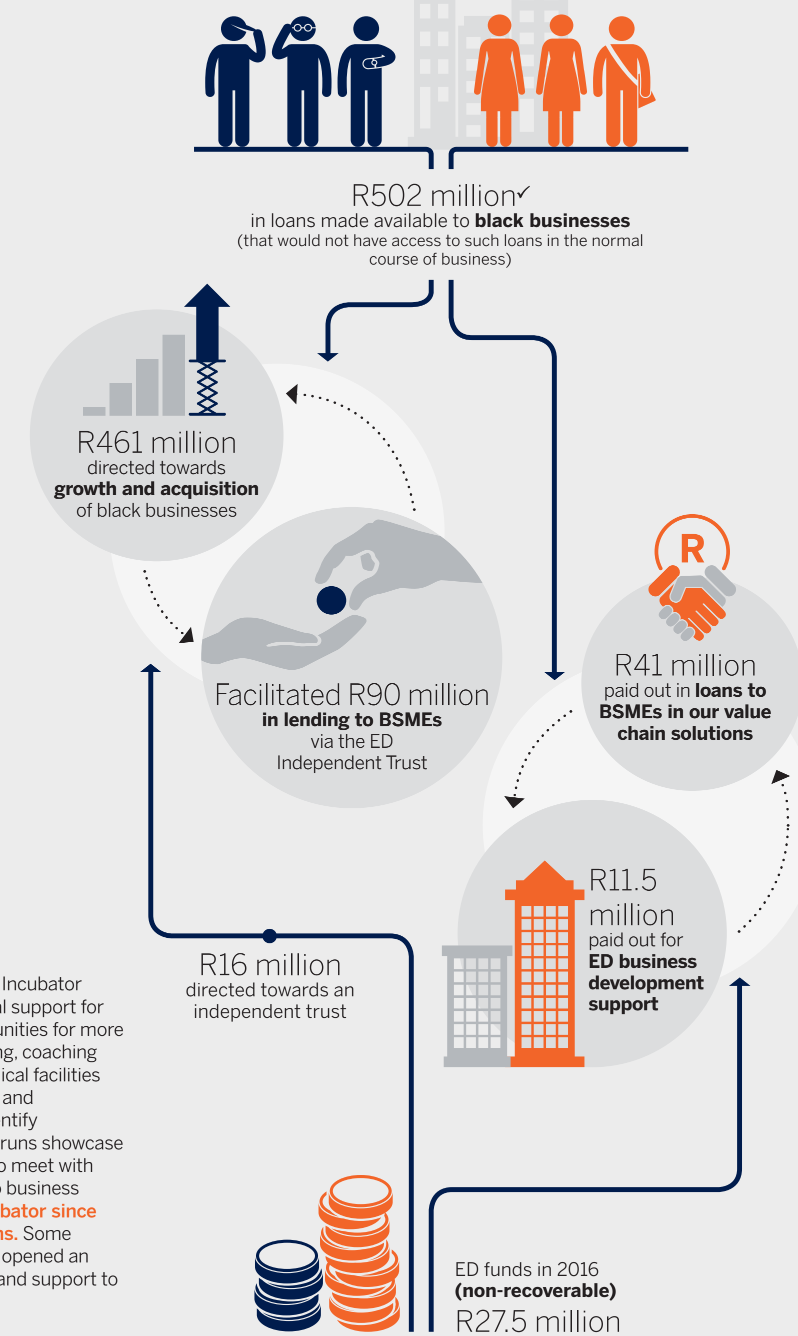
The BizConnect online platform for SMEs provides expert advice on developing systems, streamlining operations, improving the day-to-day running of a business and improving its growth prospects. It also offers the latest news, trends, statistics and solutions on general business, finance, agriculture and franchising, and allows users to interact with other business owners online.

We also support SMEs through the Standard Bank Incubator Programme. The Incubator provides developmental support for start-up enterprises, and access to market opportunities for more established SMEs. The programme offers mentoring, coaching and professional development, together with technical facilities for 3D prototyping and small-scale manufacturing, and opportunities for entrepreneurs to network and identify opportunities for collaboration. The Incubator also runs showcase days, during which it invites our corporate clients to meet with participating SMEs and explore opportunities to do business together. **6 000 SMEs have made use of the Incubator since 2015, and 150 start-ups became sustainable firms.** Some received international recognition. In 2016, we also opened an SME hub in Pretoria, to further increase our reach and support to local entrepreneurs.

Côte d'Ivoire licence to operate

In 2016, we were awarded a full banking licence in Côte d'Ivoire, allowing us to commence banking operations in the Francophone West African market. The West African Economic and Monetary Union has substantial business advantages stemming from its stable single currency, shared central bank and stock exchange, as well as its increasingly harmonised business legal structures and burgeoning population. Côte d'Ivoire is ideally positioned as a hub for the region, which also includes Benin, Burkina Faso, Guinea-Bissau, Mali, Niger, Senegal and Togo. The country has one of Africa's fastest GDP growth rates, and is expected to maintain growth of about 6 – 7% or more over the next three years. Its rapid economic growth is based on public-investment led initiatives in power and infrastructure in conjunction with successful public-private partnerships, natural resources (oil, gas and mining), agriculture, telecommunications, and the country's consumer market – all important sectors of activity for Standard Bank. Establishing a banking presence in this market provides us with an important growth opportunity, strengthening our ability to drive Africa's growth.

Maximising our impact in empowerment financing and enterprise development



PARTNERING WITH GOVERNMENTS TO DELIVER DEVELOPMENTAL INFRASTRUCTURE

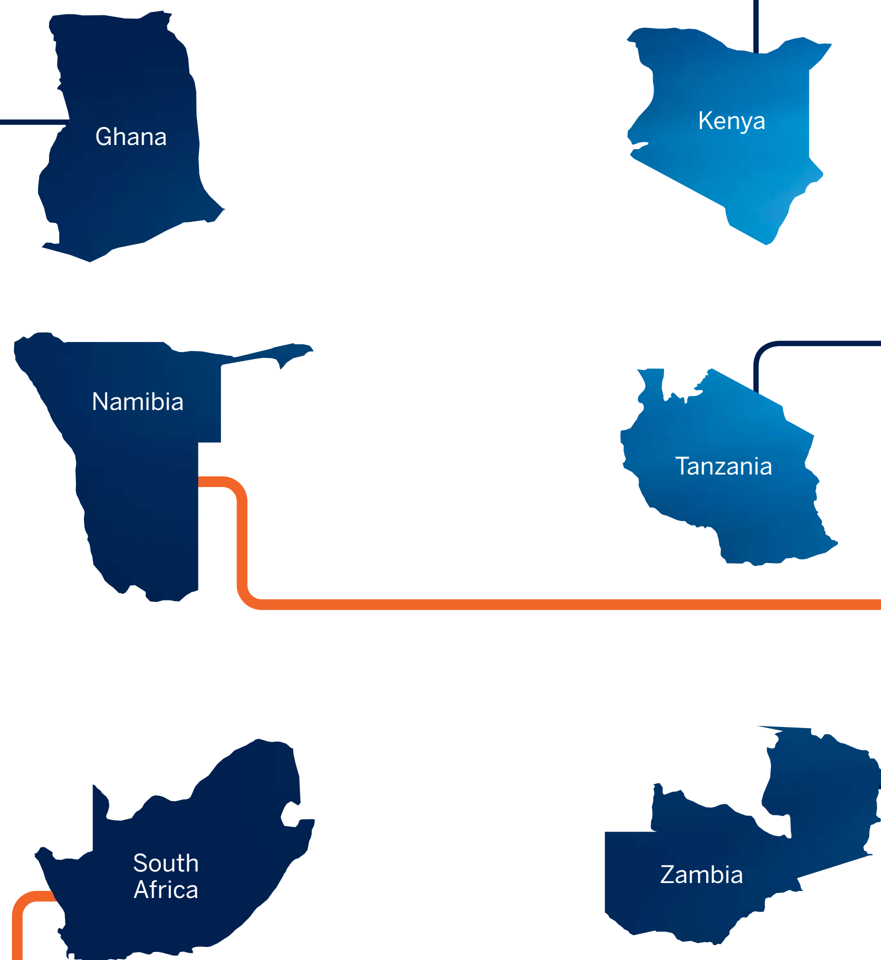
Standard Bank partnered with governments across Africa to deliver a number of major infrastructure deals during 2016.

Ghana

In Ghana, we were a joint transaction arranger of a new five-year domestic bond that raised

US$193 million,

to finance government programmes in the 2016 budget.



South Africa

In South Africa, we financed **renewable energy projects** that are producing more than 40% of the 1 760 MW produced by independent power producers, under the Renewable Energy Independent Power Producers Programme (REIPPP). The bank also co-financed 75% of Solar Capital's **R5 billion** De Aar solar farm project.

In the transport sector, we and two other SA banks committed to provide **R3 billion** each to Transnet for the procurement of locomotives.

And in the IT sector, we partnered with Vumatel to finance delivery of broadband internet services, in one of the largest ever debt capital raising-based deals of its kind in the fibre-to-household industry. Vumatel plans to invest **R3 billion** in the project over two years.

Kenya

In Kenya, we and two other global banks issued the National Treasury with a

US$600 million

syndicated loan to fund infrastructure development projects, and we partnered with General Electric East Africa to finance the procurement of digitised medical equipment to be distributed in public hospitals across the country.

Tanzania

In Tanzania, we finalised a **US$95 million** equivalent upsizing of the syndicated term loan facilities for Helios Towers Tanzania, to finance the **next phase of expansion of its network of telecommunications** towers across Tanzania.

Zambia

And in Zambia, we approved a

US$75 million

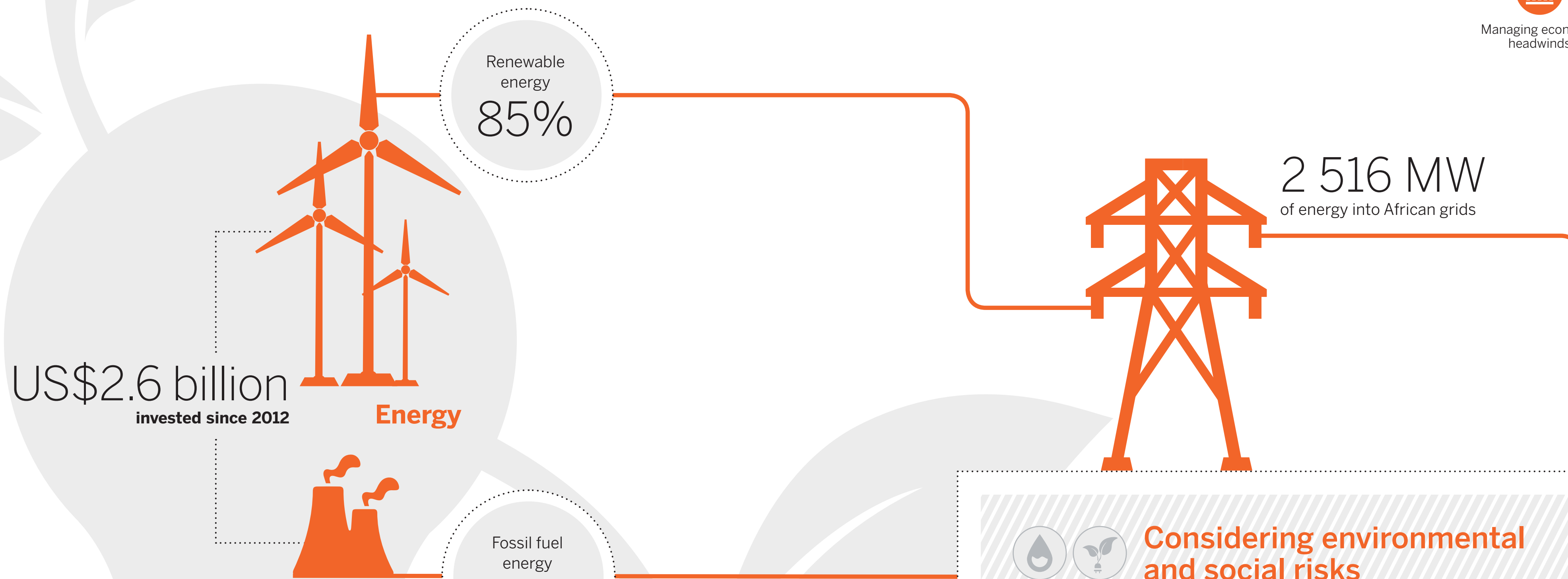
facility to fund medium-term facilities in sectors, including SMEs, energy, agriculture, infrastructure development and other projects to boost growth. We also, in partnership with another institution, extended a $163 million loan to Zesco Ltd, to connect Zambia's north-western province to the national grid.

Namibia

In Namibia, we provided a

N$170 million

term loan facility for HopSol Power Generation, making us the first commercial bank to finance a solar power generation project in the country.



INVESTING IN RENEWABLE ENERGY TO DRIVE SUSTAINABLE ECONOMIC GROWTH

Renewable energy is a huge potential growth area for Africa. Research done by McKinsey estimates that Africa has 10 terawatts of potential energy capacity, mostly solar, and a potential of 350 GW of hydro, 109 GW of wind capacity, and 15 GW of geothermal. Kenya is the world's ninth largest producer of geothermal energy, and is rapidly developing its wind power resources. Ethiopia has one of Africa's largest wind farms. Ghana is building the world's fourth largest solar facility. South Africa has been recognised for one of the fastest rates of growth in the world for renewable energy investment through the Renewable Energy Independent Power Producers (REIPP) Programme, inclusive of wind, solar power and biogas.

Since 2012, we have dramatically increased the proportion of our energy investments directed toward renewable energy.

85% of the power infrastructure projects we have funded in the past four years have been solar, wind or hydro projects, while only 15% of our energy investment portfolio has been on fossil fuel projects. As a result of this shift, we've helped to finance 2 516 MW of energy across Africa since 2012.

We recognise, however, that coal continues to play a crucial role in Africa's energy mix, both as a major source of affordable energy and a key employment sector. We are therefore working with our stakeholders in industry and government to implement a gradual shift away from investment in fossil fuels, towards renewable energy projects.

Considering environmental and social risks

Our environmental and social (E&S) risk approach is centred mainly on large qualifying transactions in corporate and investment banking (CIB), and is managed according to the Equator Principles (EP). Standard Bank became a signatory of the EP in 2009, and was appointed chair of the EP Association in 2015.

During 2016,

Three Equator Principle projects✓
that reached financial close within 2016

Total number of Equator Principle projects that reached financial close within 2016 per category

Category A	Category B	Category C
HIGH RISK	MEDIUM RISK	LOW RISK
0	2	1

Total number of projects financed
3✓

457 transactions
screened overall for social and environmental associated risks.

For more information on our E&S risk screening and EP projects for 2016, please refer to our additional online content at **http://sustainability.standardbank.com**

Managing economic headwinds

INVESTING IN HEALTHCARE SUPPORTS SUSTAINABLE GROWTH

General Electric East Africa tendered for and won a contract with the Kenyan Government to finance, supply and maintain radiology equipment in 98 public hospitals throughout Kenya. Stanbic Bank Kenya and General Electric have developed a strong working partnership over the past four years, collaborating on a number of projects in the energy sector in Africa. We were therefore General Electric's partner of choice in financing the radiology equipment contract. General Electric East Africa appointed Stanbic Bank Kenya as the joint-mandated lead arranger to arrange a club deal financing of the transaction, to the value of $80 million with a tenor of seven years.
We developed a cost-efficient financial structure, led the negotiation and clarification of the transaction documents, and arranged the funding required, underwriting $40 million of the debt.

Health

Radiology equipment for **98 Kenyan hospitals**
Collaboration with General Electric

Stanbic Kenya: **Lead arranger of $80 million**
$40 million underwritten by Stanbic Kenya

SEE THE VALUE OF FINANCING ECOTOURISM

During 2016, our corporate and investment teams were proud to play a crucial part in the growth of one of the largest ecotourism businesses in Africa, Wilderness Safaris. Our Botswana operation went into a **US$35 million finance deal with Wilderness Safaris which will enable them to extend their positive impacts on conservation and rural development through nature-based tourism**. Wilderness Safaris are custodians of over 2.3 million hectares of prime African wilderness, which includes a variety of ownership arrangements with rural communities in Africa, as well as some public-private partnerships, including various national parks. This loan has enabled their growth into East Africa, as well as enabled investment into the other eight African countries in which they operate, particularly Botswana, strengthening the impact they have on conservation and the economic development of rural communities in Africa.

Conservation and rural development in Africa through ecotourism by Wilderness Safaris

Economic development
of rural communities in Africa

Expansion of
positive impact
from nature-based tourism into East Africa

US$35 million
finance arrangement with Wilderness Safaris

Wilderness Safaris conserve over
2.3 million hectares
of African wilderness

INVESTING IN EDUCATION ENABLES INCLUSIVE ECONOMIC GROWTH

We believe that investment in improving educational outcomes is a crucial part of the effort to unleash Africa's potential and drive her growth. We invest in education – from early childhood development to tertiary level – to nurture and develop our future employees, the young entrepreneurs who will start new businesses, and the girls and boys who will one day be the next generation of Africa's leaders. We invest in their future, knowing that in generations to come they'll be Standard Bankers – as executives, as new clients, as suppliers, and as shareholders.

For more information on our education investments, please see **page 64** and visit our website: **http://sustainability.standardbank.com**

Education

Building blocks for **sustainable economic growth**

257 university students on Standard Bank bursaries since 2011 valued at R70 million

NECT* – **R34 million** since 2013

Future employees

Entrepreneurs of tomorrow

Employees and clients of our future

* National Education Collaboration Trust

SEE MORE
SOCIAL • ECONOMIC • ENVIRONMENTAL

I SEE MY JOB DIFFERENTLY...

Kgubudi Breyten Mojapelo – Environmental Management Systems (EMS) analyst

I SEE things differently in the management of the risk in the environmental space. Africa Being our Home, we must ensure that the bank is an excellent corporate citizen, to ensure our sustainability in business. I participate in the direct management of environmental factors that can affect the bank. These factors include resource use (energy, water, paper, waste), regulations and legislation (carbon tax, environmental impact assessments (EIA), waste pricing), responsible procurement and carbon footprint. The risk posed by these factors can include reputational risk and financial risk (penalties and fines). Driving Africa's growth means I can help the bank look at opportunities in the green space, which includes opportunities in carbon trades, carbon offsets and assisting in climate finance for the facilitation of a green economy.