

CORPORATE & INVESTMENT BANKING

“In executing our strategy, we focus on proactively partnering with our clients across geographies and sectors, driving Africa’s growth. We continue to utilise our presence and deep knowledge of African markets to support our clients. In addition, we remain committed to modernising our business to improve both client and employee experience.”

Kenny Fihla
Chief executive, CIB



OVERVIEW

OUR STRATEGY

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

Purpose

To contribute to Africa realising her potential.

Vision

To be the leading corporate and investment banking business in, for and across Africa, with a focus on sectors driving Africa’s growth.

WHAT OUR CLIENTS WANT

- 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 group.
- Deliver consistent and reliable service.

HOW WE RESPOND

EMBEDDING CLIENT FOCUS

- Partner our clients on their growth journeys.
- Drive collaboration and connectivity within CIB and the broader group.
- Treat our clients as people not numbers.
- Urgently and continually enhance our processes to 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.
- Operate enterprise-wide and end-to-end business processes aligned to the CIB strategy.
- Promote an environment of proactivity, responsiveness and reliability.
- Allocate financial resources efficiently.

PEOPLE AND CULTURE

- Enable employees to deliver consistently excellent client experiences.
- Recognise employees’ contribution and provide competitive, performance-based remuneration.
- Promote a culture of high performance, accountability and collaboration.
- Embed clear mandates and accountabilities, while simplifying everything we do.
- Embrace diversity.
- Fulfil our social and ethical responsibilities.



OUR OPERATING CONTEXT FOR 2017

South Africa

- Low-growth environment with marginal recoveries in domestic mining and agriculture.
- Ongoing impact of drought and political instability depressed market activity.

Africa Regions

- Moderate recoveries in the price of oil and other commodities improved market sentiment in oil-exporting countries.
- Depreciation of African currencies and volatile interest rates; although these started to stabilise in the second half of the year. Foreign currency liquidity remained a constraint in Angola and Mozambique, but the introduction of the NAFEX rate in Nigeria attracted liquidity back into that market.
- Challenging operating environments subdued corporate sector credit growth.
- Regulatory changes remain a challenge in key markets.



OUR PERFORMANCE IN BRIEF

Despite the difficult conditions, we achieved **11% growth** in headline earnings and a **22.2% ROE** (2016: 19.5%). This performance was achieved as a result of:

- The resilience of our diverse portfolio across clients, geographies, sectors and products.
- Strong revenue growth from multinational clients, based on our unrivalled capacity to support their growth strategies across the African continent.
- Our support of large domestic clients with local or international growth ambitions.
- Prudent risk management, strong cost management and an improved credit experience.

We responded to economic and regulatory stresses by:

- Deepening existing relationships and acquiring new clients to maintain the growth of our client franchise.
- Allocating resources to growth opportunities, within our risk appetite – a benefit of our sector and geographic diversity.
- Increasing our competitiveness in local markets by enhancing our banking offering and strengthening our local currency transactional banking capabilities.

AWARDS

Global Finance World's Best Trade Finance Banks 2018

- Best trade finance provider in Africa
- Best trade finance provider in Botswana, Kenya and South Africa

Global Finance World's Best FX Providers 2018

- Best FX provider in Africa and Kenya

Euromoney's Real Estate Survey 2017 – ranked first for:

- Loan finance, Africa
- Equity finance, Africa
- Overall, Ghana, Mozambique and Nigeria
- Loan finance, Nigeria
- Equity finance, Nigeria
- Debt capital markets, Nigeria
- Mergers and acquisitions advisory, Nigeria

PERFORMANCE AGAINST STRATEGY

We focus on servicing leading multinational corporations with operations in Africa, and large domestic African corporations that conduct business on the continent and offshore.

We target our clients based on their size, the sector and geographic market they operate in and whether we can add value to their businesses. The latter, we do through our deep specialisation in a diversified range of sectors that serve the needs of rapidly growing populations across our footprint of 20 countries.

The key sectors we focus on are mining and metals, power and infrastructure, oil and gas, consumer goods, financial services, and telecommunications, together with a focus on public sector and diversified industrials at a local level.

The extensive knowledge we have of our markets, gained through our on-the-ground presence, and our deep understanding of our clients' businesses allows us to continuously assess and define country, sector and client risk and opportunity. This enables us to respond quickly and appropriately to changes in our operating context. We leverage our sector diversity by purposefully allocating resources to opportunities that enable CIB to sustain revenue growth in periods of lower economic activity, within the parameters of carefully considered risk-taking.

Our banking offering, in partnership with PBB and Wealth, is a powerful competitive advantage. Similarly, our presence in six key financial centres around the world provides our clients with access to international pools of capital, supporting our ability to facilitate growth and development in Africa. Furthermore, our strategic partnership with ICBC assists us in servicing the needs of clients operating within the China-Africa corridor, which includes a specific focus on developing and supporting renminbi-denominated cross-border capabilities.

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



CLIENT FOCUS

Performance metric	2017	2016	2015
Client satisfaction index	7.8	7.8	7.6

We have continued to grow and strengthen our relationships with multinational clients, who contribute more than half the revenue we earn across our total client franchise and are the primary drivers of our revenue growth due to their resilience through economic cycles. Along with the acquisition of new clients in 2017, these important relationships contributed to revenue growth above GDP in our key markets, particularly in West Africa, where client revenue grew by 30% in constant currency.

Our ability to manage foreign currency liquidity shortages and our efforts to strengthen our transactional banking capabilities have enabled us to improve the service we provide to our clients in the Africa Regions. Supported by client preference for quality banks during periods of economic and market weakness, this improvement has seen us increase our regional and domestic client base in strongly contested markets.

We have also made progress in leveraging our strategic cooperation agreement with ICBC. The relationship has enabled us to secure new clients that have contributed to the performance of our global markets and transactional products and services' businesses. Significant opportunity remains to acquire additional ICBC clients. We have funded 13 client lending deals in partnership with ICBC since January 2016.

To ensure continuous improvements in client and employee experiences while mitigating operational risk, we have:

- Standardised and improved turnaround times to make it easier to onboard clients.
- Reduced the turnaround time for deal origination, so that we can help clients do deals faster.
- Continued investment in digital innovation (robotics, data analytics and artificial intelligence) to reduce operational and processing errors.
- Completed the rollout of our transactional platform, Business Online, across 18 African countries, so that clients operate on a single platform across all markets in which they operate. The rollout in Namibia and South Africa is underway.

We have modernised client and employee experiences by connecting with our clients through digital channels, used data to improve our insights and decision-making, and automated processes, collectively promoting a culture of innovation.

Our capacity to partner our clients in the West African Economic and Monetary Union (WAEMU) improved significantly with the launch of our fully fledged corporate and investment bank in the Ivory Coast during the first half of the year. As the largest economy in the WAEMU and one of the continent's fastest growing economies, the Ivory Coast offers significant investment opportunity in key infrastructure development sectors.

In 2017, we completed several landmark transactions for our clients and managed the full range of routine financial services, including cross-border trade. These transactions include:

For **ENI** in Mozambique, we committed funding of up to USD8 billion, in partnership with ICBC, for the country's Coral floating liquefied natural gas development. This investment marks Mozambique's first step as a regional and global offshore natural gas producer and supplier and will stimulate national and regional economic growth.

For **West African Development Bank**, we acted as joint lead manager and bookrunner, as well as long-dated currency hedging provider, for their second Eurobond transaction. This raised USD850 million to finance regional projects, enabling them to grow their lending business and enhance their role as a development bank across Francophone Africa.

For **Sea Harvest**, we acted as sole financial advisor, bookrunner and transaction sponsor on their initial public offering, successfully raising R1.3 billion. This has allowed Sea Harvest to optimise its capital structure and strengthen its balance sheet, supporting the company's vision of becoming a leading diversified global fishing business.

For **Ghana Railway Development Authority**, we issued performance guarantees on behalf of AFCONS Infrastructure Limited for USD398 million to finance the construction of an 85 km railway line in Ghana. This partnership between the Ghana Railway Development Authority and AFCONS Infrastructure Limited forms the foundation of a planned multi-modal freight corridor, starting with the construction of a railway line between Tema and Akosombo.

For **City Lodge**, we acted as the sole debt funder of the re-financing of its B-BBEE transaction which was originally structured and implemented in 2008. This will allow City Lodge to continue its transformation journey in line with the B-BBEE and tourism sector codes and continue to create value for the scheme beneficiaries. We have been the sole banker to the City Lodge group for more than 25 years and are well positioned to support them as they embark on their Africa expansion strategy.

What our clients say about us

We conducted client research in 18 of our operating countries during 2017. On average, client experience across these countries indicates steady improvements since 2015. This can be attributed to strengthened relationships across key segments driven by more insightful interaction and a responsive service culture. Our clients also acknowledged our ability to support their businesses (through the quality of our advice and our service ethic) as our defining characteristic as a leading bank. Our African footprint was noted as our next greatest strength.



EMPLOYEE ENGAGEMENT

Performance metrics	2017	2016
eNPS	+7	n/a*
Voluntary turnover (%)	7.4	7.4
Voluntary regrettable turnover (%)	4.6	4.1
Black representation (including executives) SA	%	%
Senior management	37.1	35.5
Middle management	67.4	65.8
Junior management	86.8	85.4

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

We focus on attracting and retaining high-calibre employees and ensure that they are appropriately resourced, developed and empowered to fulfil the commitments we make to our clients.

We have appointed external expertise to assist us in the process of embedding a CIB culture of client focus, collaboration and high performance.

In 2017, we introduced diversity and inclusion programmes across the continent to hasten the transformation of the culture and demographic make-up of CIB. This is contributing to continuous improvement in the representation of black people, women and Africans across all levels of management. In South Africa, we achieved our 2017 targets for middle and junior management levels and continue to use available vacancies to increase black and female representation at senior management levels. Black employees accounted for 54% of the 24 executive promotions made during the year, which exceeded our target of 50%, and 55% of participants on our leadership and management development programmes are black employees.

Other initiatives included a personal empowerment programme, where 23 potential candidates joined the group from various industries and were able to engage with relevant business leaders in CIB, and the launch of the IGNITE women's development programme to promote the development of senior female leaders. Some 74% of mentees and 32% of mentors in our mentorship programme are black employees. Our graduate development programme continues to introduce a diverse group of young talent into CIB.

We are continuously re-evaluating how we organise our people to ensure they can respond to volatile, uncertain and rapidly changing environments. We are also enhancing and digitising learning opportunities, with leadership development coaching introduced for line managers.



RISK AND CONDUCT

Performance metrics	2017	2016	2015
Average RWA (Rbn)*	394	401	397
Return on average RWA (%)	2.9	2.6	2.0

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

Our objective to do the right business the right way is pervasive – from our compliance with regulations, including the enforcement of measures to combat money laundering, financing of terrorism or other fraudulent practices, to our ethical conduct as individuals and as a financial services organisation.

As a regional financial institution with a global presence, our operations are required to adopt global best practice in financial standards. Our in-country teams maintain relationships with the banking regulators and central banks in all our markets to ensure that we understand and can proactively manage increasing regulatory change.

We manage risk within an agreed risk appetite, which is regularly reviewed based on the insights of our in-country risk teams and the group risk management function. Our strategy of developing relationships with our clients and knowing the sectors and markets they operate in, enables us not only to select quality clients and projects but also to avoid risk or anticipate it and respond proactively.

We adjust our risk appetite indicators to reflect changes in our clients or their operating environments. For example, as some commodities started to rebound in 2017, we increased our risk appetite for diversified businesses in the mining and metals sector. We continue to identify opportunities to support individual clients that are positioned to manage periods of low growth. However, in the absence of a more significant rebound in commodity prices, we remain selective in our exposure to producers, local banks and governments in commodity exporting countries and avoid concentration in any sector.



FINANCIAL OUTCOME

Performance metrics	2017	2016	2015
Revenue (Rbn)	37.3	35.4	31.4
Cost-to-income (%)	52.2	54.5	55.8
Headline earnings (Rbn)	11.5	10.3	9.1
ROE (%)	22.2	19.5	18.0
Credit loss ratio (%)	0.33	0.30	0.24

Our maturing client-centric strategy and strong performances from key markets, namely Nigeria, Angola and Mozambique, enabled CIB to achieve sound revenue growth in volatile markets. Revenue growth, combined with effective risk and credit management and continuous focus on cost discipline, contributed to the improvements in our headline earnings and ROE.

Global markets, which accounts for 38% of CIB's revenue, was impacted by lower client activity, reduced market volatility and liquidity shortages across several

countries, particularly in the first six months of the year, but recovered with a strong second half performance. Headline earnings grew 3% to R4.6 billion.

Transactional products and services maintained its strong performance, with revenue growing by 8% to R14.7 billion due to new client acquisition which contributed to increased deposits and positive endowment. A decline in impairment charges and cost management contributed to a 24% increase in headline earnings to R3.7 billion.

Investment banking increased revenue by 3% to R8.5 billion mainly as a result of growth in fee and commission income from deals concluded during the year. Despite the subdued macro environment, loans and advances grew, supporting growth in net interest income. Increased impairments were attributable to a limited number of clients in the power and infrastructure and oil and gas sectors. Cost discipline contributed to a 4% increase in headline earnings to R3.1 billion.



SEE IMPACT

Inclusive economic growth

In South Africa, in line with our focus on emerging B-BBEE and black industrialist companies, CIB has made strides in enabling black economic empowerment through equity, debt lending and acquisition finance over the past 15 years. We have concluded deals that have created many medium and large businesses that have contributed to the growth and development of the South African economy. We are establishing a specialised CIB B-BBEE sector team to lead our work in this area and a B-BBEE transaction approval committee, comprising senior executives across PBB, CIB and Wealth.

Environmental sustainability, and climate change mitigation and adaptation

Standard Bank is committed to balancing the challenges posed by climate change and Africa's urgent energy needs and we are in the process of developing lending parameters in this regard. We have steadily grown our financing of renewable energy, while our fossil fuel investments have slowed down. From 2012 to 2017, 83% of our power project financing was directed towards renewable energy, while lending to fossil fuel power projects represented only 17% of our investments in energy production in Africa.

Infrastructure


We participate in the funding of large-scale infrastructure projects that support economic growth in Africa and maintain relationships with development finance institutions to create appropriate risk-sharing arrangements. During 2017, we funded several large-scale power (including renewable energy), healthcare, telecommunications and transport infrastructure projects across Africa.

LOOKING AHEAD

The outlook for economic growth in South Africa and sub-Saharan Africa is improving. Our performance demonstrates the resilience of our client franchise and our ability to add value to our clients. This, combined with improvements in our business processes and greater alignment between our people management and client focus, positions us to respond effectively to improving prospects in our markets, despite the intense competition that remains a feature of our Africa focus.

Priorities in respect of our strategic value drivers

Client focus



- Deepen existing client relationships in support of their growth and acquire new multinational and domestic corporate clients in our target sectors as we continue to place our clients at the centre of everything we do.
- Accelerate digitisation, completing client migration to the new online platform and building an omni-channel capability relevant to client needs.
- Continue to leverage universal capabilities.
- Leverage the ICBC relationship to increase our Chinese client base and support the growth of our African clients.
- Define and pursue 'game-changing' opportunities beyond the scope of our current business offerings.

Employee engagement



- Advance the progress made to equip our employees with the tools and skills necessary to provide consistently excellent client service.
- Cultivate confident and empowered teams to assist clients effectively and efficiently.
- Embed new ways of working to advance universal financial services capabilities.
- Entrench a culture of cost consciousness and doing more with less.
- Create an environment that fosters innovation and challenges and rewards our people.

Risk and conduct



- Continue to manage risk appetite dynamically across geographies and sectors.
- Empower governance structures to continue making informed decisions efficiently.
- Proactively manage regulatory change.

Financial outcomes



- Optimise revenue growth to double digits (constant currency).
- Contain costs to maintain positive jaws and drive CTI to 50%.
- Maintain ROE above 20%.

SEE impact



- Establish the CIB B-BBEE sector team and B-BBEE transaction approval committee to lead our work in this area.
- Continue to assist in transforming agribusiness in South Africa through partnerships that support black farmers.