RISK REPORT

"We have a well-developed enterprise risk management framework which ensures a consistent approach to managing risk across the group with appropriate oversight and accountability, together with a clear risk appetite aligned to our group strategy. We take a holistic and forward-looking view of the risks we face, continuously assessing both current and emerging risks. In 2017, the risk function played a key role in collaborating across the group's businesses to manage an extremely challenging environment and the associated risks."

Neil Surgey
Chief risk officer

REFLECTIONS ON THE YEAR

Economic growth in sub-Saharan Africa rebounded to 2.7% in 2017, having slowed to a 22-year low of 1.4% in 2016, as a result of a recovery in commodity prices, a slowdown in inflation and favourable global financing conditions. The recovery was slower than anticipated given modest growth in Angola, Nigeria and South Africa, the region's largest economies. In South Africa, GDP growth of 1.3% for the year was supported by a marginal recovery in mining and agriculture. Moderate recoveries in the oil price helped oil-exporting countries in the Africa Regions.

The successive downgrades of the South African sovereign rating during the year by the three largest rating agencies, have had a more muted impact than anticipated on the availability and cost of foreign currency funding. This is partly due to the buoyant global macroeconomic environment and the appetite for emerging market risk. Further downgrades may have a more significant impact on the group's access to and cost of foreign currency liquidity. As the possibility of further downgrades remains, we continue to develop and implement mitigation strategies to address the identified risks.

Sovereign weakness and the associated foreign currency liquidity shortages as a secondary result of low commodity prices, continued during 2017, and we have proactively managed our exposure to concentration in all sectors. In addition, we rigorously managed our exposures to local banks given their increased risk in terms of exposure to the sovereign and commodity sectors, particularly in oil-exporting countries. Demand for credit in South Africa remained subdued due to political uncertainty and the impact of the sovereign downgrades. The portfolio was well controlled and managed in difficult circumstances and the credit loss ratio for the group's banking activities remained flat at 0.86%.

In an evolving world that is interconnected through technology, it is becoming increasingly important for the group to remain forward-looking in its management of the risk environment. Through the continuous assessment and modelling of current and emerging risks, the group is better equipped to identify these potential risks and manage and mitigate them effectively. Our emerging risks are discussed on page 16.

Financial crime and cyber risk remain key focus areas, with local and international media reports demonstrating the increasing number of cybercrime incidents and the growing sophistication of cyber attacks on public and private organisations. Distributed denial of service and ransomware attacks are an increasing threat to financial institutions and we continually invest in strengthening our capability to prevent, detect and respond to such attacks.

RCM Detailed information on our key risk types and capital management can be found in our separate risk and capital management report.

ENTERPRISE RISK MANAGEMENT APPROACH

Key components of the enterprise risk management process

We use the three lines of defence model to identify, monitor and manage risk, promoting transparency, accountability and consistency.

Group strategy

Governance and structure

RCCM[1] framework

Managing risk is a key part of the group's everyday activities. The framework ensures that risks are managed in a consistent way across the group with appropriate oversight and accountability.

The board and its committees

The board has the ultimate responsibility for the oversight of risk, including approval of strategy and risk appetite.

GROC[2] and its committees

These committees are responsible for management of all risks and implementation of risk governance processes, standards, policies and frameworks.

THE FIRST LINE

THE SECOND LINE

THE THIRD LINE

Three lines of defence

The three lines of defence governance model promotes transparency, accountability and consistency through the clear identification and segregation of roles.

Enterprise risk management processes

Risk appetite

Top and emerging risks AIR 16 – 17

Risk types

Stress testing

The group's risk appetite statement sets out the aggregate level and types of risk that the group is willing to accept to meet its strategic objectives. Enterprise risk management processes enable the group to measure, monitor, actively manage and mitigate risks to ensure it remains within risk appetite.

Control framework

Risk standards, frameworks, policies and internal controls

Underpinned by:

SYSTEMS, DATA AND INFRASTRUCTURE

RISK CULTURE AND VALUES

1 Risk compliance and capital management.
2 Group risk oversight committee.

Our risk strategy aims to instil conscious risk-taking throughout the group as we pursue our identified growth opportunities. Our overall objective is to manage our business and the associated risks in a manner that balances the interests of clients and other key stakeholders while protecting the safety and soundness of the group.

Risk is everyone's business and our material risks are monitored, managed and mitigated through the three lines of defence model. Key business lines are responsible for identifying and managing risks, and the group risk function provides the necessary oversight and challenge to ensure effectiveness. Group internal audit provides independent assurance on the effectiveness of the first and second lines of defence.

A strong link between our risk appetite and our strategy is key to ensuring our long-term sustainable growth and profitability. Our risk appetite statement (both qualitative and quantitative) sets out the aggregate level and types of risk that we are willing to accept to meet our strategic objectives. Our risk appetite is reviewed in response to changes in our operating environments and clearly articulated to those who manage risk.

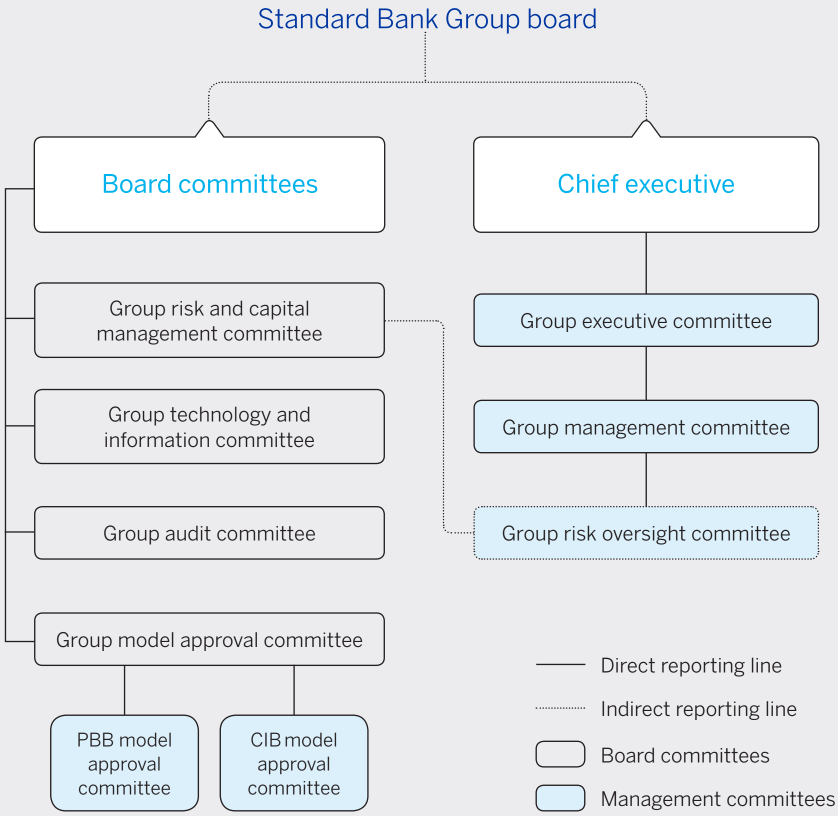
Stress testing is a vital internal risk management tool that informs decision-making at various levels within the group. We continually refine our internal models to determine the impact of stress scenarios, building closer alignment between risk and financial planning. Our comprehensive stress tests assess our ability to withstand prevailing and emerging risks. These risks include, among others, the possibility of further downgrades of the South African sovereign, rising geopolitical volatility and protectionism, the slowdown of growth globally, as well as the uneasy social and political environment in South Africa. The results of our tests indicate that the group is well capitalised and able to handle these stress scenarios should they materialise.

RISK GOVERNANCE

The group risk, compliance and capital management governance framework, approved by the group risk and capital management committee, sets out our approach to managing risk and capital. The framework has the following two components:

- Governance committees at board and management level that operate within the governance framework and have mandates and delegated authorities that are regularly reviewed; and
- Governance standards, frameworks and policies.

Risk governance structure



RISK CULTURE

Ultimately, it is the strength of our risk culture that determines how effective we are at being aware of and managing risk at all levels of the group. The three lines of defence model has reinforced our ability to build and maintain a strong risk culture, prioritising resilience for the effective management of risk across the group. Multiple drivers are in place to enhance our risk culture and emphasise doing the right business the right way. By embedding the group's values and principles, supported by related policies, compliance training programmes and the whistleblowing programme, we have empowered our employees to act with confidence in driving meaningful behavioural changes.

LOOKING AHEAD

Global growth of 3.9% is expected for 2018 with sustained cyclical momentum over the next few years. While we remain optimistic about the prospects of growth for the global economy, the outlook is still subject to substantial downside risks, including rising geopolitical tensions, increased protectionism, a lack of inclusive growth and the possibility of disorderly financial market moves given unusually low financial market volatility and high asset prices.

The outlook for sub-Saharan Africa is improving and growth is expected to accelerate rapidly to 3.3% in 2018 boosted by global economic growth and firming commodity prices. In South Africa, the outcome of the ANC election in December 2017 has garnered positive momentum with growth forecast at 1.5% for 2018 rising to 2.1% by 2019. Nigeria is expected to benefit from a recovery in oil production and reforms in the foreign exchange market, with growth picking up to 2.1% in 2018.

The improving prospects across our African network provides a favourable outlook for our business. By continuing to manage risk appetite dynamically across geographies and sectors, we will help our clients capitalise on opportunities presented by this growth. We will continue to mitigate portfolio risks related to foreign currency liquidity concerns in certain jurisdictions while prudently managing country-specific risks and country risk appetite. We will continue to optimise the allocation of our available financial resources to improve the returns we deliver to shareholders over time.

KEY RISK TYPES

CREDIT RISK

1

The risk of loss arising out of the failure of obligors to meet their financial or contractual obligations when due. It is composed of obligor risk, concentration risk and country risk.

KEY DEVELOPMENTS IN 2017

- Credit demand remained subdued.
- Enhanced risk distribution across portfolios and improved collections strategies, including early interventions to reduce arrears.
- Decentralised our credit teams to support a more client-centric organisational design.
- Digitised our credit processes and enhanced client scoring.
- The credit loss ratio for the group's banking activities remained unchanged compared to 2016 at 0.86%.

LOOKING FORWARD

- Improve automated origination decision-making through enhanced systems, processes and analytics.
- Focus on the effectiveness of collections and early, proactive engagements with distressed clients.
- Focus on high-quality credit clients and proactive adjustment of risk appetite by sector and country to reflect opportunities and challenges.
- Increase attention to risk mitigation options, including the distribution of credit risk.
- Continue close monitoring of portfolio impairment levels and the potential impact on them following the implementation of IFRS 9.

COMPLIANCE RISK

2

The risk of legal or regulatory sanction, financial loss or damage to reputation 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.

KEY DEVELOPMENTS IN 2017

- Continued to instil a risk-appropriate, compliance- and client-focused culture.
- Enhanced compliance training capabilities.
- Increased resourcing in the money laundering control, sanctions control and exchange control compliance areas, across the group and particularly in the Africa Regions, to meet the demands of regulatory change and supervisory expectations.
- Digitisation initiatives further automated processes to manage conflicts of interest for all employees, and gave various third-party suppliers access to our independent service provider training capability.

LOOKING FORWARD

- Continue to support a risk-aware culture and ethical conduct across the group.
- Enable the automation of policy requirements, where possible, and introduce robotics and advanced analytics initiatives to simplify processes and more effectively respond to regulatory requirements.
- Further streamline compliance training initiatives across the group.
- Continue to identify and develop appropriate metrics to measure and assess conduct and appropriate behaviours across the group.

COUNTRY RISK

3

The uncertainty that obligors (including the relevant sovereign and the group's branches and subsidiaries in a country) will be able to fulfil obligations due to the group, given political or economic conditions in the host country.

KEY DEVELOPMENTS IN 2017

- Continued focus on optimal alignment and application of risk appetite and management of country-specific risks.
- Ongoing refinement of the country risk operating model, portfolio management tools and governance.

LOOKING FORWARD

- Focus on managing country-specific risks, extending local currency risk products and mitigating foreign currency liquidity risks in an environment where sovereign debt vulnerability is expected to continue.
- Continue to focus on the effects of climate change and related emerging risks in relevant markets.

FUNDING AND LIQUIDITY RISK

4

The risk that an entity or the group, 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.

KEY DEVELOPMENTS IN 2017

- Successfully managed the balance sheet structure to meet both LCR and NSFR regulatory requirements with effect from January 2018. Daily LCR reporting is progressing across six operations.
- Successfully accessed the longer-term funding market, raising R37 billion in total term funding.
- Implemented mitigating strategies to address the liquidity risks arising from the downgrade of the South African sovereign rating to sub-investment grade.

LOOKING FORWARD

- Focus on balance sheet optimisation and mix to ensure LCR and NSFR compliance and that the group has the appropriate diversification and tenor of funding and liquidity to support its asset base, while minimising the overall cost of funding.
- Ensure mitigating actions are available to address the implications of further possible South African sovereign credit rating downgrades.
- Ongoing system enhancements to ensure continued data quality, efficiency and effectiveness.
- Continue to enhance funds transfer pricing methodologies to steer balance sheet optimisation and growth strategies.

MARKET RISK

5

The risk of a change in the market value, actual or effective earnings or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.

KEY DEVELOPMENTS IN 2017

- Ongoing focus on the implications of revised trading book regulations and interest rate risk in the banking book standards.
- Maintained market risk within approved risk appetite and tolerance levels despite a volatile environment due to, among others, sovereign rating downgrades in South Africa and the significant devaluation of a number of African currencies.

LOOKING FORWARD

- Continue to monitor and manage market risk elements in the context of current market volatility, including monetary policy decisions and rating changes.
- Continue to focus on the implications of the revised trading book regulations and interest rate risk in the banking book standards.

INSURANCE RISK

6

The risk that actual future underwriting, policyholder behaviour and expense experience will differ from that assumed in measuring policyholder contract values and assets, and in pricing products. Insurance risk arises due to uncertainty regarding the timing and amount of future cash flows from insurance contracts.

KEY DEVELOPMENTS IN 2017

- Applied insights gained from experience investigations to drive improvements in risk selection by amending underwriting and claims practices and re-pricing selected new business.

LOOKING FORWARD

- Continue to focus on tighter expense management and drive product and process simplification.
- Initiate a financial remediation programme to expedite changes required in products, underwriting, pricing and client experience to improve the value of new business.

OPERATIONAL RISK

7

The risk of loss suffered as a result of the inadequacy of, or failure in, internal processes, people and/or systems or from external events.

KEY DEVELOPMENTS IN 2017

- Continued focus on fraud and technology risks, driven by the pace of technology evolution.
- Phishing attacks targeting Standard Bank clients reduced by 53% from 2016 and the number of online banking fraud incidents decreased by 48%.
- Established a critical systems resilience programme to evaluate our ability to keep banking services highly available.
- Deployed cybersecurity operations centres in ten countries.
- Built predictive analytics capacity and capability.
- Aligned and improved crisis simulations in South Africa and the Africa Regions to ensure that the group can effectively respond to a catastrophic event should this occur.

LOOKING FORWARD

- Improve use of data analytics to establish client behaviour and further enhance our prediction, prevention, detection and response capabilities in the fraud threat landscape.
- Continue to monitor the upcoming cyber regulation requirements and their potential impact.
- Enhance targeted awareness campaigns to drive risk-conscious behaviour.
- Further develop emerging risk processes and methodologies.

BUSINESS RISK

8

The risk of 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.

KEY DEVELOPMENTS IN 2017

- Achieved strong results in challenging operating conditions.
- Introduced universal product responsibility to support the universal financial services organisation strategy.
- Restructured PBB, moving key decision-making back to the client interface in a responsible manner, to better serve our clients.
- Continued to invest in systems and processes to support regulatory, compliance and third-party risk management.
- Advanced the alignment of performance management and remuneration to the group's value drivers.

LOOKING FORWARD

- Continue to work on delivering a universal financial services organisation to provide an integrated Africa-wide service to our clients.
- Improving our use of data and advanced analytics capabilities and develop digitally enabled solutions.
- Further enhance our measures for strategic value drivers and alignment to performance management and remuneration processes.

REPUTATIONAL RISK

9

The risk of potential or actual damage to the group's image which may impair the profitability and/or the sustainability of its businesses.

KEY DEVELOPMENTS IN 2017

- Established a supplier risk management committee to provide oversight and enhanced due diligence for new and existing suppliers. The committee considers matters where a supplier could cause reputational damage to the group and takes the appropriate steps to mitigate this risk.
- Continued to mature the governance processes of business units' client risk management committees to provide consistency in the identification, management and monitoring of reputational risks. These committees address the reputational risk issues as they arise and escalate decision-making to the appropriate governance level as required.

LOOKING FORWARD

- Continue to embed a culture of ethical behaviour and ensure we keep doing the right business the right way.
- Pilot a centre of reputational excellence to proactively manage our reputation as a strategic asset and respond appropriately to the new world of integrated instant communication.