Neil Surgey,
Chief risk officer

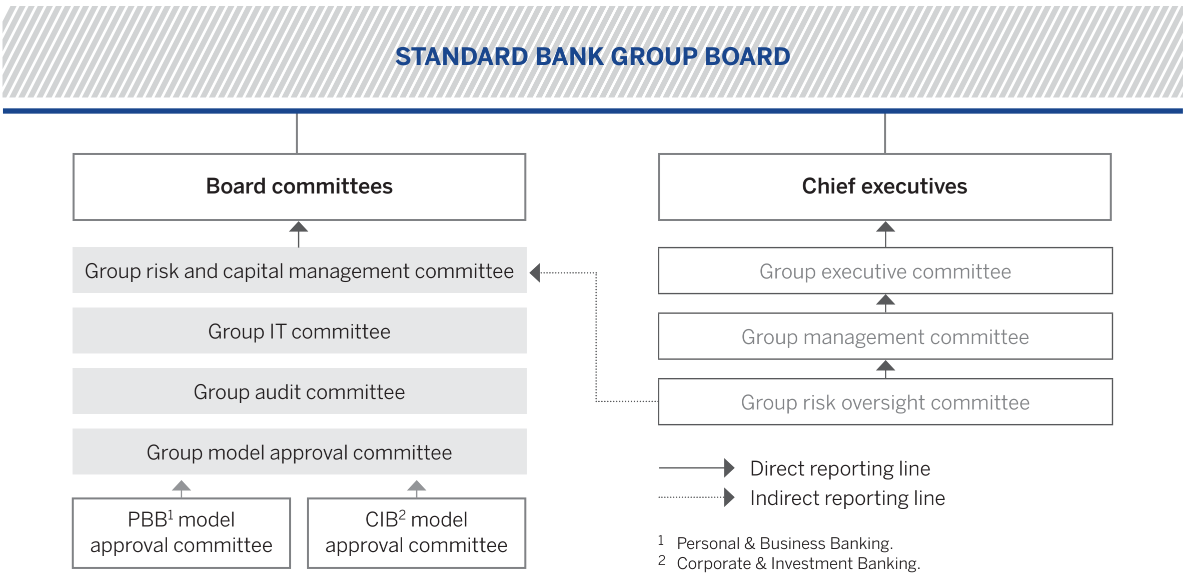
Risk report

"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 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.

RCM/AFS

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
Credit risk The risk of loss arising out of the failure of obligors to meet their financial or contractual obligations when due.	• Reduced our exposures to certain sectors, and conversely increased our risk appetite for others, in line with macroeconomic expectations. • The credit loss ratio for the group's banking activities was 0.86% (2015: 0.87%). • Enhanced the effectiveness of our collections capability.
Country risk The uncertainty that obligors will be able to fulfil their obligations given political or economic conditions in the host country.	• Increased our focus on local currency product and other factors to mitigate foreign currency liquidity risk. • Our leaders actively participated in promoting policy reform and multilateral efforts to address poverty, inequality and higher, more inclusive growth.
Compliance risk 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.	• Continued to instil a risk-appropriate, compliance- and client-focused culture. • Increased our resources, including the expansion of our compliance teams in the Africa Regions and our anti-money laundering (AML) teams. • Completed implementation of advanced AML and anti-terrorism surveillance systems. • Continued to embed structures and processes for market integrity and business conduct. • 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.
Funding and liquidity risk 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.	• Successfully maintained a Basel III liquidity coverage ratio in excess of the 70% minimum regulatory requirement. • Implemented certain mitigating strategies to address the risks identified under a sovereign sub-investment grade scenario. • Further enhanced our systems to ensure compliance with liquidity regulations, focusing specifically on daily liquidity reporting across all entities. • Made material progress in complying with the BCBS risk data aggregation and risk reporting principles (BCBS 239).

RISK TYPE	KEY DEVELOPMENTS IN 2016
Market risk The risk of a change caused by adverse movements in market variables.	• Continued to advance interest rate risk management and enhanced global markets and market risk technology. • Provided comment on proposed changes to regulations impacting trading and banking book positions.
Insurance risk Insurance risk arises due to uncertainty about the timing and amount of future cash flows from insurance contracts.	• 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. • Continued to develop a strategic response to changes that are negatively impacting persistency.
Operational risk 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: • Model risk • Tax risk • Legal risk • Environmental and social risk • IT risk • Information risk (including cyber risk) • Financial crime risk.	• Strengthened cyber security capability across the group and raised awareness with employees. • The group's South African banking operations were the victim of the Japan card fraud. • Implemented early warning systems, enhanced detection rules and new preventative strategies to mitigate the threat of fraud. • Continued to adapt our ways of working, skills base and human resource practices to meet the requirements of a different future. • 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. Detailed information on the progress we have made in managing our operational risks can be found in the business unit reviews starting on **page 34**, the human capital report on **page 58** and the IT report on **page 66**.
Business risk 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.	• Achieved an acceptable return for shareholders despite significant challenges. • Cascaded the strategy throughout the group to ensure our people understand what we aim to achieve. • Business units and corporate functions aligned their strategies to the group strategy and risk appetite. • 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. • The group and its employees are undergoing a significant change process to ensure that we are adequately equipped to execute a client-focused strategy.
Reputational risk The risk of potential or actual damage to the group's image which may impair the profitability and/or sustainability of its business.	• SBSA terminated its banking relationships with companies owned and controlled by the Oakbay Group. • 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. • Continued to improve stakeholder engagement processes, including a pilot study to assess relationship quality with key regulatory, political and social stakeholders.