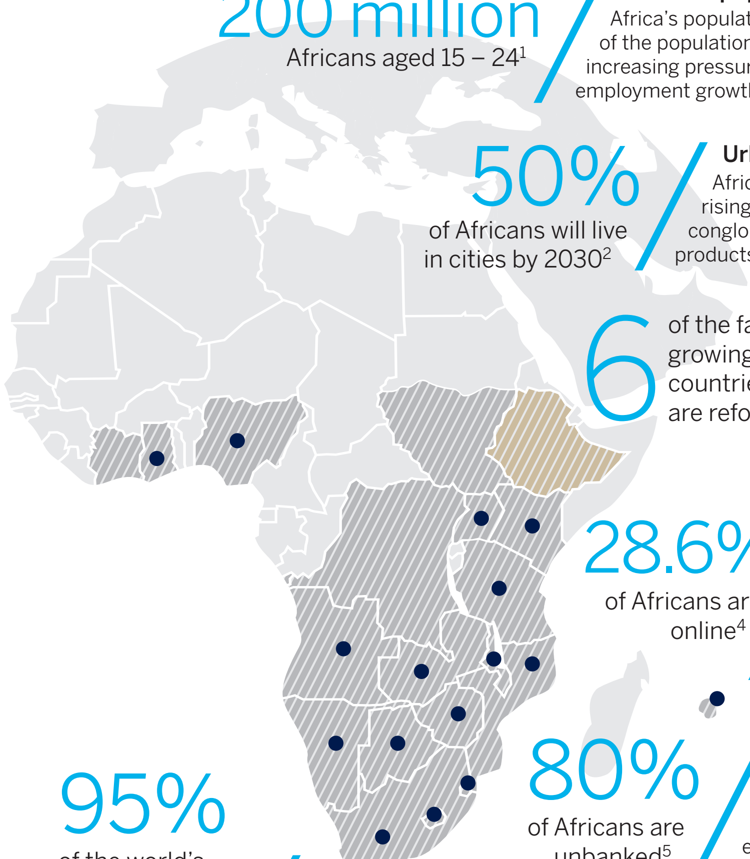
Our operating context

We execute our strategy within the context of broad interconnected trends: long-term structural trends, which have contributed to Africa's strong growth over the past two decades; and cyclical trends, which are short to medium term in nature and will change over time.

Our strategy is intentionally designed to realise the opportunities presented by the structural trends, while retaining the flexibility needed to respond effectively to the cyclical trends.

Structural trends



200 million Africans aged 15 – 24[1]

Youthful population
Africa's population is expected to double by 2050. The youthfulness of the population – with an estimated median age of 20 – will place increasing pressure on governments and businesses to drive employment growth as a greater number of Africans reach working age.

50% of Africans will live in cities by 2030[2]

Urbanisation
Africa's rapid rate of urbanisation is expected to continue, rising from 36% in 2010 to 50% in 2030. This conglomeration of people lowers the cost of providing products and services for governments and businesses.

6 of the fastest growing African countries are reformers[3]

Governance reforms
Greater political stability, improved management of public finances and adherence to democratic principles are defining features of Africa's fastest-growing economies.

28.6% of Africans are online[4]

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

80% of Africans are unbanked[5]

Increasing uptake of financial services
Personal income growth is driving the uptake of financial services. African economies are still largely cash-based, creating opportunities for lending as employment levels grow and incomes increase. New services enabled by technology are lowering the barrier to entry and cost of financial services on the continent.

95% of the world's platinum reserves are in South Africa[6]

Commodities
Commodities remain fundamental to modern economies. Africa's commodity resources remain largely undiscovered or underexploited. The underutilisation of arable land holds the potential for increased commercial agriculture.

Our operating presence

Country	Standard Bank presence	Liberty presence	Representative office
Angola	✓		
Botswana	✓	✓	
Côte d'Ivoire	✓		
DRC	✓		
Ethiopia			✓
Ghana	✓	✓	
Kenya	✓	✓	
Lesotho	✓	✓	
Malawi	✓	✓	
Mauritius	✓	✓	
Mozambique	✓	✓	
Namibia	✓	✓	
Nigeria	✓	✓	
South Africa	✓	✓	
South Sudan	✓	✓	
Swaziland	✓	✓	
Tanzania	✓	✓	
Uganda	✓	✓	
Zambia	✓	✓	
Zimbabwe	✓	✓	

Standard Bank presence
Liberty presence
Representative office

Cyclical trends

Falling commodity prices and slowing exports to China
Several of our operating countries have felt the impact of falling commodity prices – which are at multi-year lows – and the slowing down of exports to China. Countries reliant on single commodity exports such as oil and copper are most vulnerable. Falling commodity prices have also contributed to currency volatility in these countries.

Given the reliance of many African countries on exports to China, even a small slowdown in China's growth can have a disproportionate domestic impact, which filters through the economic value chain to individual consumers.

Socio-political pressure
Falling commodity prices together with the drought conditions in sub-Saharan Africa have increased the risk of rising food prices and food shortages. Higher inflation, currency depreciation and job losses, particularly in the mining and agriculture sectors, together with cutbacks in government spending, could give rise to social discontent and associated protest action. In East and West Africa, civil conflict and terrorist activity remain a concern.

Rising interest rates in the United States (US)
Consensus is that the US Federal Reserve Bank will continue to gradually increase interest rates in 2016, slowing currency inflows to emerging markets and increasing the burden on countries with dollar-denominated debt. This is likely to lead to increases in South African domestic interest rates.

Impact on the South African economy
South Africa is facing challenging economic conditions, with downward revisions in growth forecasts driven by cyclical trends. Together with the sharp weakening in the domestic currency and a growing current account deficit, the risk of the country's credit rating being downgraded further remains high.

The impact of cyclical trends on society, in the form of higher inflation in the price of goods and services and a potential increase in unemployment, creates the risk of social instability. Encouragingly these conditions are driving a renewed commitment between the public and private sectors to practically address South Africa's socioeconomic challenges.

AIR The challenges we face in executing our strategy are discussed on **page 18**.

AIR The economic environment and the impact on the group's banking results is discussed on **pages 73 and 74**.

1 African Economic Outlook – Promoting Youth Employment in Africa (2012).
2 African Development Bank – Urbanization in Africa (2012).
3 Over the past two decades – internal data.
4 Internet World Stats (2015) – www.internetworldstats.com.
5 McKinsey & Company – Counting the World's Unbanked (2010).
6 U.S. Geological Survey, Mineral Commodity Summaries, January 2013 (calculated).