CHAIRMAN'S STATEMENT

"Given the scale of the Standard Bank Group, it is literally the case that the financial performance of the group over the long term is intertwined with the performance of Africa's economies. For us, therefore, generating superior returns for our shareholders is contingent on our ability to generate social, economic and environmental value."

Thulani Gcabashe

17%

910 cents

DIVIDEND PER ORDINARY SHARE

(2016: 780 cents)

Dear Stakeholder

I would suggest that the last year has been the most important in South African history since 1994.

Back then, the sceptics argued that South Africa was too wounded to become a democracy. When that turned out to be wrong, they predicted that our democratic institutions would crumble as soon as they came under any real pressure. In recent years, our political, judicial, economic, media and social institutions have indeed come under immense pressure, as have banks and businesses in general. But these pillars of our open society and market economy have withstood the pressures, and so, once again, we have before us a historic opportunity for renewal.

If the lesson of 1994 was that hope and decency can triumph, the lesson this time around is that strong, well-governed institutions are also profoundly important. I am greatly encouraged by the first steps taken by President Ramaphosa's administration to rekindle South Africa's hopes, to restore decency in governance, and to strengthen our institutions and organisations, not least the state-owned enterprises. In his first address to the nation, President Ramaphosa reminded us how we should be proud to be South Africans, how we should treat each other, and how we should be of service to one another.

Beyond South Africa, many of the countries we operate in have faced political, policy and governance related challenges in recent years, but several have also demonstrated the resilience of their democratic institutions and have experienced encouraging changes in their political leadership.

More so than its predecessors, South Africa's progressive governance standard, the fourth King Report on Corporate Governance (King IV), embodies the vitally important truth that when governance is compromised, covert and collusive interests thrive at the expense of the greater good. The economy cannot grow fast enough to create jobs, let alone the right kind of jobs for the 21st century, and society cannot become more equitable and stable. Put differently, without strong institutions, long-term sustainability is all but impossible.

I am therefore very pleased that, from 2017 onwards, the group's governance approach and reporting is informed by King IV. This asks us to demonstrate that we are a consistently well-governed institution that adds value to the 'triple context' – a concept that sees social, economic and environmental interests as indivisible – in the normal course of our business.

The integrated report you are reading aims to show that the King IV approach fits precisely with Standard Bank's purpose and values. It demonstrates that our strategy aims to create sustainable and inclusive value for all our stakeholders while taking full account of our social, economic and environmental (SEE) impacts.

Executing our strategy: the measure of tough times

The South African economy shrank in the first quarter of 2017 but recovered to 1.3% GDP growth for the year. This was far below the pace required to reduce unemployment, inequality or poverty. Sub-Saharan Africa's economy began to recover from its poor performance in 2016, but still grew more slowly than at any time since the late 1990s.

This difficult backdrop created an excellent opportunity to gauge the seriousness of the group's commitment to our Africa-focused, client-centred strategy; to test whether it really generates sustainable competitive advantage, and to determine whether SEE value is indeed intrinsic to what we do every day, in good times and in difficult ones. The board and I believe that the group passed these tests.

2017 is the second year in which we are measuring our progress using our five strategic value drivers. The first four of these are client focus, employee engagement, risk and conduct, and financial outcome. Each of these is discussed in detail in this report, but I would like to emphasise that, for us, each value driver and their collective outcome are linked to, and considered together with SEE – our fifth strategic value driver. Our SEE impact is outlined briefly in this report and is thoroughly examined in our report to society, which describes our impact in each of the ten SEE impact areas we have identified to drive our continent's progress.

Constantly raising the bar: never becoming complacent or arrogant

Standard Bank's people are often caricatured as hyper-cautious, always looking for the cloud attached to every silver lining. We believe that a more accurate assessment would be that, while we are passionate about our purpose, we are also highly disciplined risk managers, and I think the evidence supports this assertion.

The risks posed by cybercrime continue to be of great concern to the board. In common with every major bank, we are constantly subject to criminal attempts to compromise our systems. We have learned a great deal from the deeply regrettable Japan card fraud incident in 2016. Our capacity to detect and prevent such crimes has been independently assessed as much improved, and we have been effective in detecting and preventing material cybercrime in 2017. We are determined to maintain, and continuously improve, our ability to prevent cybercrime against the group and our clients.

The board and I spent considerable time satisfying ourselves that our clients, shareholders and other stakeholders are seeing value for money from our investment in new IT infrastructure, and that the stream of benefits to all our stakeholders from this investment will flow with increasing speed and strength in the years ahead. I am particularly determined that our new resources and capacities are used to improve client experience and to maintain and grow our share of chosen markets in the face of increasingly digital competition. We are already, for instance, increasing the speed and simplicity with which we can open accounts and we are extending the use of advanced technology to improve the speed and accuracy of credit assessment and regulatory compliance, while also lowering their costs.

In recent years, we have emphasised that our Africa Regions' businesses are an impressively diverse, dynamic and sustainable portfolio, providing the group with a truly unique competitive advantage and capacity to support Africa's economic growth and human development. This year's pleasing financial outcome has given us further data to support this view; a good result in the South & Central Africa region, and a strong recovery in the West Africa region counterbalanced a decline in earnings in the East Africa region.

The group's board continues to focus on ensuring the sustainability of our businesses in each country in which we operate by assuring ourselves of the strength and maturity of each country's board and executive team. I meet regularly with the chairmen of our subsidiary boards and the group board meets outside South Africa at least once a year.

The board has been pleased with the first stages of the recovery at Liberty. We know, however, that Liberty still has a lot of work to do to re-build its competitiveness.

Doing the right business the right way: ethical, reputational and legal matters

During the year, credible and detailed *prima facie* evidence of corruption in South Africa emerged and the group became aware of information from which it could reasonably be inferred that certain of the group's important suppliers might have violated Standard Bank's values and ethics, or might expose Standard Bank to legal or reputational risks. In line with our established policies, the executive team held detailed conversations with these suppliers and requested explanations from them and, to the extent relevant, details of their commitments to take appropriate remedial action.

The outcomes of these conversations and other relevant information were carefully considered by the board. Of the suppliers considered, we concluded that it was right to end our relationship with McKinsey, and to allow KPMG and SAP more time to conclude the independent investigations that they had commissioned and to take remedial action. I must emphasise, however, that we will make the right decision based on the final evidence that is put before the board.

The board will take precisely the same approach towards the matter concerning alleged collusion in the foreign exchange market that has been referred to the Competition Tribunal. We are deeply committed to doing the right business the right way. If compelling evidence of wrong-doing emerges, we will not hide behind technicalities and we will not hesitate to take all necessary remedial action. As things stand, however, we do not believe that there is any such evidence.

Board composition: changes in directorships

I am satisfied that the board is appropriately balanced and contains the skills required to ensure that the group is well governed, and that the interests of our shareholders, other stakeholders and the societies in which we do business are well served.

Following the transition to a single group chief executive, Mr Ben Kruger now sits on the board as an executive director. During the year, we welcomed Dr Hao Hu, a senior executive vice president of the Industrial and Commercial Bank of China (ICBC), to the board as deputy chairman alongside Mr Jacko Maree. We also welcomed Mr Lubin Wang, Africa Head of ICBC, as a director on the board. Ms Swazi Tshabalala stepped down from the board.

Having reached retirement age, Mr Ted Woods retired from the board during the course of the year. Ted served the board with extraordinary dedication over a period of ten years and I wish to take this opportunity to thank him and wish him well in the years ahead.

Looking ahead and appreciation

A hard road now lies ahead to make up lost ground and to build a truly inclusive economy. South Africa has gained another opportunity to become a more fair and prosperous society and to take our rightful place again in the forefront of African development. I am determined that the group will do everything in our power to support this work.

Africa-wide and in South Africa, Standard Bank will make our largest contribution by executing our group strategy with energy and discipline, and by consciously and systematically maximising our SEE value in everything we do. We will continue to be guided and inspired by the Constitution of South Africa, and we will continue to support the rule of law and democratic institutions. While scrupulously avoiding partisanship, we will contribute to policy and regulatory debates, making sure that we take a long-term and national-interest perspective. We will continue to invest directly in education, employability, inclusion and social innovation.

Thanks to the expertise, hard work, discipline and dedication of everyone who works at the Standard Bank Group, we enter this new phase in the life of our country and our continent well placed to serve our clients with consistent excellence, to create a great place to work for our people, to reward our shareholders generously for their capital, and to fulfil our purpose: Africa is our home, we drive her growth.

Finally, I must express my profound gratitude to my fellow directors. They are wise and dedicated institution-builders, and it is an honour to serve with them.