GROUP CHIEF EXECUTIVE'S REVIEW

"The group's financial results for 2017 were entirely consistent with our group strategy and exceeded expectations, especially given the difficult and volatile operating environment."

Sim Tshabalala

14%

Lib

R26 270 million

HEADLINE EARNINGS

(2016: R23 009 million)

Lib

17.1%

RETURN ON EQUITY (ROE)

(2016: 15.3%)

Challenges in South Africa included very slow economic growth; rising political tension and uncertainty; the downgrade of South Africa's sovereign debt; low business and consumer confidence; the finalisation of the Basel III net stable funding ratio (NSFR) and liquidity coverage ratio (LCR) requirements; and the costs imposed by the transition to the International Financial Reporting Standards (IFRS) 9 reporting standard. In the Africa Regions, challenges included elevated political risk, currency depreciation against the rand, and the imposition of regulatory caps and floors on interest rates in several countries.

Group headline earnings were R26.3 billion, up 14% – growing more than twice as fast as South Africa's nominal GDP. Group ROE was 17.1%, up from 15.3% in 2016. Headline earnings per share was 1 640 cents, 14% ahead of last year, and dividend per share of 910 cents was up 17% on 2016.

I share our chairman's sense of hope that South Africa stands on the brink of renewal. The early signs of opportunity are encouraging. Following a contraction in the first quarter of 2017, the South African economy began a moderate acceleration in the second half of the year. By the end of 2017, it had picked up to 1.3% GDP growth for the year. The outcome of the African National Congress' (ANC) leadership election in December reinforced this positive momentum. According to South Africa's National Treasury, growth at around 1.5% is forecast in 2018, rising to 2.1% by 2020 – or sooner if we can achieve some quick structural reforms.

Having reached a 22-year low in 2016, sub-Saharan Africa's GDP growth rate was 2.7% in 2017, and it is expected to accelerate to 3.3% in 2018, in line with a worldwide economic upswing, and steady or slightly rising commodity prices.

In the longer term, the fortunes of our industry, South Africa and the continent will depend to a great extent on how successfully we adapt to, and take advantage of, the Fourth Industrial Revolution that is being driven by universal broadband, artificial intelligence and robotics. These developments make it even more urgent and imperative that we modernise South Africa's information and communications technology (ICT) regulatory framework and that we radically improve education and training in South Africa and Africa-wide. President Ramaphosa's decision to establish a Digital Industrial Revolution Commission is a good first step in this direction.

Over the past decade, the Standard Bank Group has proven that we can weather severe economic and political turbulence. We have shown that, even in the most difficult times, we can continue to serve our clients well; to modernise our systems to improve our services and increase our efficiency, reinforcing our future competitiveness; to reward our shareholders well for their capital; and to add many billions of rand in SEE value to the South African and African economies.

It might be tempting to say that the group will automatically do better in more favourable external conditions. In truth, there is absolutely nothing automatic about it. Yes, there will be opportunities to reach our goals faster and to exceed our targets, and we will ensure that we will seize these opportunities – and then immediately stretch ourselves further.

There is certainly no room for complacency. We remain vigilant against the ever-present risk of cybercrime to our group and our clients. We also face fast-growing competition from unregulated entities offering wholesale and retail financial services, modernising incumbent banks and new digital bank competitors, with formidable new rivals entering the South African retail banking market during 2018. Further, we can be certain that difficult conditions will come again. There will be market turbulence; there will be demanding new regulations; and there will be new political storms ahead.

10%

PERSONAL & BUSINESS BANKING

R14.0 billion

HEADLINE EARNINGS and ROE of

20.0%

11%

CORPORATE & INVESTMENT BANKING

R11.5 billion

HEADLINE EARNINGS and ROE of

22.2%

Advancing our current strategic priorities

Our purpose is fixed and multi-generational in its scope: Africa is our home, we drive her growth. Our vision is our medium-term aspiration: to be the leading financial services organisation in, for and across Africa, delivering exceptional client experiences and superior value.

The group believes that corporate strategy should be established for the long term. Its purpose is to create direction, impart stability and foster ambition. But it mustn't fossilise either. It must stay relevant to immediate market conditions and the kinds of competition we face. So, for the next few years, the executive team is focusing on three immediate priorities within our longer-term strategy: client centricity, digitisation and becoming a truly universal financial services organisation.

Each of these priorities is very important in itself – and each is complex to achieve. Most major financial services groups are now aiming to structure themselves around client needs rather than products. Digitisation is an existential necessity for the whole industry. Along with every other established bank that wants to remain relevant and profitable, we have to get this right to meet our clients' expectations and compete effectively with digital financial services providers. Similarly, many other large financial services groups aspire to provide a comprehensive suite of financial services.

We believe that it is the combination of client centricity, digitisation and universality that will create a large and sustainable competitive advantage for the group. We are therefore committing a great deal of time and resources into linking these priorities and bringing them to life in our organisation.

The foundation for this has been the substantial completion of the overhaul of our core banking systems, which will release capital and human resources to serve our clients. Equally important, this investment has enabled us to use the latest in analytic and intelligent automation technology to understand what our clients need and to serve them with greatly improved speed and accuracy. The initial use cases of intelligent automation have had highly encouraging outcomes.

The speed and robustness of our new systems have allowed us to accelerate the rollout of new products and services, making dozens of improvements and upgrades to the services we offer our clients, ranging from much improved fraud detection (with fraud losses falling by about two-thirds over the year); to an app that integrates the three largest mobile money networks in Ghana and Zimbabwe; to a new service that enables our commercial clients to request real-time foreign exchange prices through their digital interface with the bank.

Our third strategic priority is perhaps the most compelling of all: our capacity to provide truly universal offerings in, for and across Africa. During the year, we changed the mandates of six businesses to establish group-wide universal capabilities. These are card and emerging payments, cash, foreign exchange, VAF, trade, and short-term insurance. This involved making changes to our operating models, reporting lines and incentive structures to offer these capabilities to all our clients, large and small, companies and people, wherever they are and whatever their initial contact point is with the group.

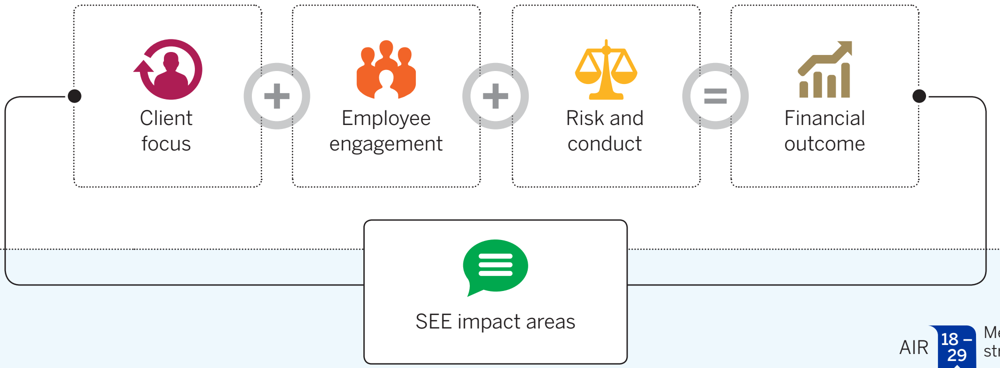
As we advance these priorities, the group is demonstrating that it can beat both modernising incumbents and new digital banks on their own turf. It is our intention to show that we can give both start-ups and incumbents a run for their money with our combination of digital capacity and data resources, our unrivalled Africa-wide network, our comprehensive range of offerings, and our strong and trusted brand. Our commitment to serve our clients with consistent excellence, wherever they are and whatever financial services they require, online or in-person, will add a sharp competitive edge to these advantages.

Delivering on our strategic value drivers

You will have noted that the group is in the second year of measuring our progress against our five strategic value drivers. Although work continues to improve the coverage, accuracy, depth and consistency of the metrics used to measure our non-financial strategic value drivers, starting to measure and report systematically against these metrics is progress in itself. It is pleasing that the data we have creates a broadly positive and improving impression.

OUR STRATEGIC VALUE DRIVERS

help us focus our efforts and measure the progress we are making against our group strategy and vision.



AIR 18 – 29 Measuring our strategic progress.

CLIENT FOCUS

Personal & Business Banking South Africa (PBB SA) and Standard Insurance Limited's (SIL) net promoter scores (NPS) rose sharply over the year and PBB SA won the Ombudsman for Banking Services' annual award for 'commitment to fair customer treatment and redress in dispute resolution'. Corporate & Investment Banking's (CIB) client satisfaction score remained steady at a high level, and the South African Wealth and Investment business won the Intellidex Top Wealth Manager Award. PBB Africa Regions achieved 9% year-on-year growth in client numbers and 24% growth in our targeted segments. PBB Nigeria improved to third place (up from fourth) in Nigeria's leading banking client satisfaction survey. We were ranked as Best Bank in Botswana, Uganda, Zambia and Zimbabwe at the African Banking Awards, and best Mobile Bank in Uganda at the Digital Impact Awards. To serve our African and global clients better in Francophone Africa, we opened a fully-fledged banking operation in Côte d'Ivoire.

EMPLOYEE ENGAGEMENT

In line with global best practice, we introduced an employee net promoter score (eNPS), calculated from the results of a group-wide employee engagement survey. The results were encouraging. The group's eNPS is +14 (the global industry average score is -10; any score over 0 is considered good); our emotional NPS (calculated by analysing qualitative data) is +47, an exceptionally strong result by industry standards. About 91% of our employees report that they understand their contribution to the group's purpose and 94% that they enjoy good working relationships with their peer colleagues.

It is the nature of our industry that our people face many stressful situations in the workplace. Standard Bank continues to offer comprehensive health and wellness services to our employees and their physical and emotional well-being appears to be in line with industry norms in both South Africa and the Africa Regions.

Turning to senior management, I am particularly pleased that we were able to attract Lungisa Fuzile to join the group as chief executive: The Standard Bank of South Africa (SBSA), and we were very pleased to appoint Alpheus Mangale as group chief information officer (CIO) from July, Thulani Sibeko as group head of marketing and communication starting in January 2018 and Nolwandle Mbalo as head of insurance of SIL with effect from 1 March 2018. David Munro's move to chief executive of Liberty made it necessary to appoint a new chief executive for CIB in the person of Kenny Fihla, who is occupying this role with great success to date. Peter Schlebusch has decided to step down as chief executive of PBB after ten very successful years in the role. He will be succeeded by Zweli Manyati who is currently chief executive of PBB Africa Regions.

RISK AND CONDUCT

There is sometimes concern or confusion about what bankers mean by 'risk appetite' or 'taking risks'. We certainly don't mean behaving rashly or irresponsibly but – as any entrepreneur or business owner will confirm – there's no growth without risk. A major part of our business is lending, which involves taking carefully judged risks on our clients' ability to succeed. When we get this right, which we almost always do, we make it possible for young people to study, for families to buy homes, and for businesses to grow and create value for society.

Despite a tough year, the group's credit portfolio remained steady. The group credit loss ratio (CLR), which measures the extent to which we lend money that doesn't get repaid, stood at 0.86% of gross loans.

The group's capital and liquidity positions remained sound and within or above board-approved ranges throughout 2017. As always, they were conservatively managed, taking into account both likely and remotely possible needs for capital and liquidity.

We are aiming to measure, understand and control our risks and our conduct in even more detail. During the year, every business unit and corporate function established a first line of defence conduct committee and began submitting detailed monthly quantitative conduct dashboards to the group management committee.

FINANCIAL OUTCOME

As noted above, group headline earnings were up 14%. Group ROE was 17.1%, 180 basis points (bps) better than the prior year. Headline earnings per share were 1 640 cents, 14% ahead of last year, and dividend per share of 910 cents was up 17% on 2016.

The group's cost-to-income ratio (CTI) was 55.7%, down from the 56.3% reported in 2016, reflective of the positive jaws of 100 bps – a very pleasing outcome in a tough environment. Staff and operating costs both increased by 2% in nominal terms, implying declining real costs, despite the group also absorbing an 18% increase in amortisation of IT intangibles. This outcome reflects a strengthening rand but is also the product of highly disciplined cost management.

Headline earnings for the group's banking activities grew 10% to R24.3 billion and generated an ROE of 18%, up from the prior year's 16.8%.

PBB produced headline earnings of R14.0 billion, up 10%, with negative jaws of 43 bps and an ROE of 20%. PBB's result was supported by a strong credit performance. CIB grew headline earnings by 11% to R11.5 billion, demonstrating excellent cost discipline (positive jaws of 460 bps) and generating an ROE of 22.2%.

The group's other banking interests (the 40% share in ICBC Standard Bank Plc (ICBCS) and the 20% holding in ICBC Argentina) generated headline earnings of R567 million compared to an R8 million loss in the prior year.

Turning to a geographic and legal entity view: considering the weak performance of the South African economy over the year, the high levels of politically induced uncertainty and volatility over the period, continued intense competition, and our high market shares, SBSA did well to achieve a 9% (as consolidated) increase in headline earnings at an ROE of 16.6%, up 80 bps on the prior year.

The group's Africa Regions businesses made headline earnings of R6.8 billion, 19% up on last year (35% up in constant currency terms). This outcome was underpinned by good cost discipline to produce positive jaws of 400 bps. The Africa Regions produced an ROE of 23.8%, 320 bps ahead of the prior year. The Africa Regions contributed 28% of banking activities' headline earnings, and 26% of group headline earnings.

Liberty's earnings attributable to the group were R1.4 billion for 2017, up 50% on the very weak performance in 2016. This outcome is the result of the good performance of Liberty's shareholder investment portfolio and the accounting effects arising from the consolidation of the Liberty Two Degrees real estate investment trust. Liberty's normalised operating earnings were down 19% on the prior year. Liberty's operating challenges continue to attract considerable attention from the group in our capacity as shareholders and commercial partners, and we will continue to deepen and extend our collaboration with Liberty and provide the necessary support to its management as they execute their remedial and recovery plan.

SEE IMPACT

By far the most significant way in which we create SEE value is in the ordinary course of our business as we help our clients to invest in their skills, to acquire valuable and life-enhancing assets, to grow their savings and wealth, to manage their risks, to expand their businesses, to create economic and social infrastructure, and to trade in Africa and throughout the world.

As in 2015 and 2016, it was necessary to spend a great deal of time in 2017 on South African and African political economy issues. We make no apology for the time spent on this kind of work: we firmly believe that this is an obligation that flows directly from the group's purpose and values; it is a responsibility that Africa's largest financial services group cannot shirk and, importantly, it is a commercial imperative in defence of our shareholders' and other stakeholders' interests. The group's cost structure, revenue possibilities, profitability and sustainability all depend very heavily on the state of the political economy and, most of all, on the quality of the institutions responsible for economic policy and governance.

Also noteworthy was that SBSA achieved Level 1 broad-based black economic empowerment (B-BBEE) status for the year. I am very proud of the determined and disciplined work we have done to meet our B-BBEE and employment equity (EE) commitment and targets in South Africa. We have nearly reached our EE targets for black (African, Indian and Coloured) and black female representation in senior, middle and junior management by the end of 2017. The majority of promotions at all levels were awarded to black people.

The group's corporate social investment programme spent R124 million in South Africa, mostly with the objective of improving access to better-quality education. In the Africa Regions we continued to support the Global Fund's work against HIV/Aids, tuberculosis and malaria. Further detail on these programmes is available in our report to society and transformation report to society.

Moving forward with confidence

During 2018, our executive team's primary focus will be on meeting the group's commitment to deliver an ROE within our new target band of 18% to 20%.

To achieve this, we will:

- Continue improving client experience.
- Accelerate the digitisation of the group to ensure and enhance our competitiveness.
- Make further changes to the group's architecture to become a more universal financial services organisation.
- Assist Liberty to recover.
- Support faster, more inclusive and more sustainable economic growth and human development in South Africa and throughout the continent we are proud to call home.

I am extremely grateful to Ben Kruger for his leadership, wisdom and support during the transition to a single chief executive structure, and I am equally grateful to all my colleagues throughout the group. Every day, I come to work knowing that profound experts are going to teach me something new about digitisation and being a universal financial services organisation, and that skilful and empathetic bankers, insurers and asset managers are going to lead us all by serving our clients with consistent excellence.