GROUP CHIEF EXECUTIVE'S REVIEW

Despite the difficult macroeconomic and operating environment, the group's core businesses continued to deliver sustainable growth and returns.

Sim Tshabalala
Group chief executive

This year's financial results contain several reasons for optimism and confidence in our strategy. These include the growth in our Africa Regions businesses, which contributed 31% to our banking activities' headline earnings, good cost discipline and steadily improving efficiency.

In 2019, the group's banking activities grew headline earnings 5% to R27.2 billion and delivered a return on equity (ROE) of 18.1%. Strict cost containment throughout the year resulted in below inflation cost growth and an improvement in the group's cost-to-income ratio to 56.4% from 57.0%. Group headline earnings was R28.2 billion, 1% up on the prior year and ROE was 16.8%. The group's share of headline earnings from Liberty was up 16% on the prior year. The loss associated with the group's 40% shareholding in ICBCS was a significant drag on the group's results.

Overall, while I consider the performance of the group's core businesses to be good, I view the group's overall financial outcome as somewhat disappointing. More detail on the group's short-term financial performance is available in our financial outcome section starting on page 72.

↑ 1%

R28.2bn

GROUP HEADLINE EARNINGS

2018: R27.9 billion

As always, the group's capital, liquidity and operational risks were cautiously and effectively managed in 2019, as described in our risk and conduct section starting on page 62.

This report creates a valuable opportunity to consider questions about the group's performance in a broader context and to take a longer-term view.

We are unshakably committed to our purpose: Africa is our home, we drive her growth. But it is always useful to ask whether we are doing enough to make valuable and sustainable contributions to the societies in which we do business, and whether we are responding effectively to the most pressing issues facing them.

It is equally important to ask every year whether our decisions and actions have contributed effectively to the realisation of our vision: to be the leading financial services organisation in, for and across Africa, delivering exceptional client experiences and superior value.

There is always some tension between immediate financial and tactical imperatives on the one hand and long-term strategy execution and investment on the other. This tension was particularly acute in 2019. While we are not satisfied with the group's financial results for 2019, we believe that we made good progress in implementing our strategy, and particularly in digitising the group.

We have a precise framework against which we measure our progress in fulfilling our purpose and realising our vision:

CLIENT FOCUS
(value for our clients): delivering relevant and complete digital solutions to our clients.

EMPLOYEE ENGAGEMENT
(value for our employees): shaping a workforce that is ready to meet our clients' needs, now and in the future.

RISK AND CONDUCT
(value for all our stakeholders): doing the right business, the right way.

FINANCIAL OUTCOME
(value for shareholders): striving to meet our medium-term financial targets.

SEE IMPACT
(value for society): driving positive SEE impact.

Fulfilling our purpose

For the first time in history, the human impact on the climate is such that there is a real risk that large parts of the world could become uninhabitable, that the lives of our children and grandchildren could be significantly worse than our own, and that Africa's progress towards prosperity could be stalled or reversed.

As the Swahili proverb reminds us, 'Itunze arthi vyema; hukupewa na wazazi; bali umekopeshwa na wazao wako.' – 'You must treat the earth well. It was not given to you by your parents. It is loaned to you by your children.'

We already have the necessary legal and technological infrastructure in place to slow down and ultimately reverse human-caused climate change. The legal infrastructure has been created by the UN Framework Convention on Climate Change, and the subsequent Kyoto Protocol and Paris Agreement, which require that richer countries reduce their absolute output of greenhouse gasses and that developing countries reduce the carbon-intensity of their growth paths.

Technological solutions are equally available. We need to use them. For instance, solar electricity generation is now cheaper per kilowatt-hour than coal-powered generation. There are similar opportunities in many other areas. Relatively small changes in the design of buildings, cars, fridges and air conditioners can make surprisingly large differences. And so can carbon capture. Certainly, new technologies will be required, but we already know how to plant trees and – even more urgently – we already know how to stop cutting them down.

In making this transition, it will be essential to be fair. As international law recognises, it is not fair to expect developing countries to stop using the technologies that richer countries used, without any restrictions, to work their way out of poverty. Equally, it is unfair to try to force transitions towards environmental sustainability without providing real alternatives to the people affected. As the South African government and South African organised labour say, the transition away from coal must be a just transition.

They are absolutely right. Furthermore, unless the transition is just, it will be resisted.

We also need a just transition through the other major change the world is facing, which is often called the 'Fourth Industrial Revolution'. It is helpful to recall that, unlike the unprecedented changes to our climate, we have seen this kind of technological change at least three times before – in the 1820s and 30s (steam-powered factories), the 1880s and 90s (grid electricity, highly standardised production lines, telephone networks) and the 1970s and 80s (microprocessors, software usable by non-experts). This time around, the revolution is driven by a combination of near-universal broadband internet, huge increases in the accessibility and affordability of processing power, and further impressive leaps in the sophistication of software to enable, for example, real-time natural language translation.

As we learn from the earlier industrial revolutions, looked at on a national or global scale and over a decade or two, technological progress increases incomes, creates jobs and raises the overall standard of living. For example, according to the World Bank, the arrival of faster internet in many parts of Africa over the past decade has increased the probability of employment by between 3% and 13%, compared to areas not connected to undersea internet cables.

Technological progress also makes some jobs and some skills obsolete. Larger, well-capitalised firms are more likely to be able to absorb the costs of change than smaller ones. And, yes, this means that, should all other things remain unchanged, income and wealth are likely to shift from the less-skilled to the more-skilled, and from workers to owners of capital.

Just as in previous technological transformations, governments and corporations have a duty to ensure that people are able to acquire the new knowledge and skills they will need. Just as in the past, societies need to adapt their tax and welfare systems in response to new sets of market outcomes. Ideas like universal basic income or wider distribution of share equity now have serious advocates and I agree that it would be short-sighted not to start thinking about and debating these ideas. Having said that, my firm view is that it would be far better for Africa's governments to focus on education, education and education. Our contributions to supporting better education are discussed in our SEE impact, on page 84.

↓16.8%

GROUP ROE

2018: 18.0%

Standard Bank's approach to climate change

We know the current trajectory of climate change is very dangerous, perhaps even catastrophic. We know that we have an important part to play in changing that trajectory. And we believe that through a combination of well-designed regulation, technological progress, and responsible conduct by firms like ours the world can overcome the climate crisis.

As you can see in our ESG report, available online, we reduce our own carbon footprint as much as possible each year. We have funded far more renewable energy generation than coal-fired power. We will apply very stringent conditions to any future funding of non-renewable energy. We are committed to fully understanding, accurately reporting on, and reducing the proportion of our balance sheet that supports unsustainable economic activity.

As a member and past chair for four years of the Equator Principles, a founding signatory to the United Nations Principles for Responsible Banking, and as active participants in global debates on the role of the financial sector in mitigating climate change, we will continue to advocate for regulatory change that reduces carbon-intensive activities and that would encourage more lending in support of sustainable development.

During the year, we also established a specialised sustainable finance team, which concluded Africa's first ESG-linked funding deal with the Curro Group and East Africa's first green bond for Acorn Group.

Standard Bank's approach to digitisation

While we are certainly not blind to downsides of progress, we are not luddites about technological change. We will continue to do everything we can to ensure that our employees have the skills they need as our industry digitises. We work very hard to ensure that changes are made with empathy, as well as efficiency, that the minimum number of jobs are lost, and that people who leave the group are well-equipped to find new jobs or start their own businesses.

As with all major changes, there were some missteps and unintended consequences arising from our branch reconfiguration in South Africa, which we have since done everything we can to rectify.

Standard Bank Group has no choice but to become a digital company. An overwhelming majority of our clients prefer to do almost all of their transactions online. Our competition is increasingly digital and often does not bear the costs of a large and long-established incumbent. If we fail to digitise urgently, efficiently and successfully, our clients will leave us, and our shareholders will shift their investments to more competitive alternatives. Both clients and shareholders would be quite right to do so.

Having said this, we remain mindful that digitisation is not an end in itself. It is a tool we use to serve our clients and our communities better, to make more efficient and profitable use of the capital entrusted to us by our investors, and to fulfil our purpose.

Executing our strategy in 2019

In 2019, we faced a number of challenges, including but not limited to a very weak economy in South Africa, ongoing regulatory change, an increasing number of sophisticated cyber-attack attempts, and intensifying competition.

Despite these challenges, the group made good strategic progress. Driven by changing client expectations, we launched a variety of new products, continued to digitise our services and processes, and took major steps to right-size our infrastructure.

Challenges

In South Africa, the slow rate of progress on policy reform, on the restructuring of state-owned enterprises (SOEs) and on restoring Eskom to financial and operational stability weighed on sentiment. Business and consumer confidence remained low.

While our direct exposure to South Africa's SOEs is not material to the group, as the chairman points out in his letter, further deterioration in the financial or operational performance of Eskom would create severe risks for the economy as a whole and, by extension, for the group.

Cybercrime remains a major challenge. During 2019, the group's systems were subject to many cyber-attacks every day. Constant vigilance is required.

We had a number of system outages that took too long to repair. We recognise that prolonged system outages severely inconvenienced our clients, undermined their trust in us and damaged our reputation. I am pleased to report that we made encouraging progress in restoring system stability and reducing recovery time in the second half of the year. But we are not declaring victory. Our systems are complex and are likely to experience downtime again in the future. However, ensuring that we recover much more quickly – and that the impact is contained when the system does go down – is one of my highest priorities for 2020 and beyond. We recognise that client expectations on system stability are set by the extremely stable services provided by the BigTech firms, and our aspiration must be to match this experience.

Strategic progress

As you will note reading through this year's report, the new, digitally enabled offerings launched this year are numerous and span our businesses and geographies. Here are a some examples:

- MyMo, our competitively priced, fully digital transactional account that enables digital account opening on mobile devices within a few minutes with no physical documentation required, data and airtime offerings and immediate virtual card functionality.
- OneFarm, currently being piloted in Uganda, uses a smartphone app to integrate financing for inputs, weather-related advice, and purchasing of crops. The farmers who participated in the pilot have already doubled their plantings.
- SimplyBlu, our online 'business in a box' for SMEs in South Africa, an all-in-one payment solution that enables small businesses to start and manage an online business.
- My360 app, which offers our retail clients a complete, integrated and real-time view of their local and international assets on their mobile devices.
- African Markets Tracker, which offers our CIB clients real-time market information, insights and alerts to their mobile device.
- LookSee, which enables buyers, sellers, homeowners or industry participants in South Africa to research properties, providing estimates of a property's value and of the monthly costs of owning it, including insurance and taxes.

Our clients continue to migrate to our digital channels. In Africa Regions, 92% of our transactions by volume took place online. In South Africa, the figure was 99%. In 2019, we made excellent progress in digitising the group. Importantly, our progress in digitisation is no longer just about speed or efficiency. Digitisation is now clearly supporting our focus on client centricity and offering an integrated set of financial products and services. In South Africa, 80% of the transactions and enquiries that used to require a branch visit can now be done online and we have reduced the time it takes to complete certain transactions online. In addition, in partnership with Amazon Web Services and Microsoft, we have begun to move some of our processing to the cloud, a transition that we will accelerate over the coming years.

ICBCS reported a considerable loss in 2019; the group's 40% share of which equated to R1.4 billion. The loss included operational losses, as well as costs associated with a single client event. ICBC and the group, as shareholders, have had robust conversations and made meaningful progress with ICBCS management with regards to how best to put the business on a path to sustainable profitability. These discussions resulted in a number of management actions in ICBCS, including significant headcount reductions and a reduction by ICBCS of business lines and locations in 2019. Closer integration into and cooperation with the ICBC group is an important element of the plan to achieve sustainable profit.

It is very important to emphasise that difficulties in ICBCS do not detract from the much broader strategic partnership between ICBC and the group, which continues to be of great mutual benefit. For instance, since 2016, we have jointly supported investment banking deals worth over USD3.6 billion. Our staff exchange programme continues to expand, our joint work to replace cumbersome paper trails with blockchain is making good progress, and our joint marketing across Africa continues to accelerate.

As described in the PBB review on page 41, in South Africa well over 4 000 people were retrained from narrower and, often, less fulfilling roles so they are able to meet a wider range of our clients' needs with greater efficiency – and greater understanding and empathy. At management level, we have focused on reducing bureaucratic rituals and on reinforcing personal accountability and a sense of urgency. During the course of the year, I had the great pleasure of visiting most of our Africa Regions businesses with a simple message: the group as a whole is no longer in the business of command-and-control, but exists to enable these dynamic and innovative companies to serve their clients and to win market share. Precisely the same is true for our South African business, under the very able leadership of Lungisa Fuzile.

Unsurprisingly in a year containing challenges and change for our people, our employee net promoter score (eNPS) dropped to +18 from +23 in 2018. Although our score remains strong, we have not taken this decline lightly, and we will continue to work hard to ensure that our people are valued, supported and empowered, as described in our employee engagement section, from page 52.

2019 was also an excellent year as measured by our SEE impact value driver. It is a great honour to represent the group as a thematic champion of the UN Women HeForShe Movement for Gender Equality, and I am delighted to be able to report that HeForShe has inspired us to set a target of at least 20% female chief executives within the group by 2021. It is high time we set – and beat – such a target, and I am pleased to say that our executive in general is already considerably more gender-equal, at 32.3% women.

Every year, the group makes large contributions to sustainable human development in the ordinary course of our business, and on a smaller scale, through our corporate social investment programme, as can be seen from page 84 and in more detail in our RTS online.

Here, however, I would like to highlight just one example. Among all our many joint initiatives with ICBC in 2019, I am particularly proud of our Africa China Export Proposition, which we launched at the China International Import Expo in Shanghai in November 2019. This service connects African exporters with Chinese importers and it offers our exporter clients support at every stage of the export process, from establishing market access to navigating regulatory requirements, preparing the product for export, and transporting the product to China. We invited 91 clients from all over Africa to join us in Shanghai, and many returned home with full order books.

Looking forward

While writing this in March 2020, the scale and severity of the coronavirus pandemic were becoming apparent. Standard Bank Group wholeheartedly supports the public health measures against the spread of COVID-19 adopted by governments throughout Africa and the world. As our contribution to slowing the spread of the virus and to keep our people safe, we have improved our hygiene practices, split many of our teams into separate locations, required everyone who can, to work from home, and increased physical distance between colleagues who have to work together.

Pandemics create huge economic costs. Already in early March, we are seeing sharply reduced business and consumer confidence, reduced revenues for many types of business, and pressure on the prices of many assets. We expect all these trends to worsen considerably before they start to improve. As Africa's largest financial services group by assets, we are very much aware that we work at the centre of the economy and that it is our duty to do everything we can to help our clients to keep their businesses and their lives on track. We have therefore taken all the necessary steps to ensure that our most essential services will be able to function even in a worst-case scenario.

Standard Bank Group has sometimes been criticised in the past for being too cautious in how we manage our capital and liquidity. But we have always insisted that our cautiousness was appropriate. We therefore confidently expect that the group will remain well capitalised and highly liquid and that, as always, we will continue to hold capital and liquidity in excess of the regulatory requirements throughout the crisis.

Our immediate priorities are to:

- Do everything in our power to keep our clients and people safe and healthy.
- Continue serving our clients with excellence, efficiency and empathy.
- Contribute to the resilience and recovery of the economies and societies we serve.
- Defend the soundness, sustainability and profitability of the group.

Over the short- to medium-term, our priorities are to:

- Accelerate digitisation to meet clients' needs.
- Improve resource allocation to support growth in Africa Regions.
- Continue to improve our efficiency by generating meaningful positive jaws.
- Make progress in returning our ROE to the 18% to 20% target range.

Over the medium-term, our strategic priorities are to:

- Ensure that our clients remain at the centre of everything we do.
- Use digital technology and human skill to offer an integrated and comprehensive set of products and services.
- Reshape our infrastructure and resources to remain relevant and competitive in the digital age.
- Create SEE value for the communities and countries where we do business.

To become

Truly human – providing services, solutions and opportunities that our clients and employees need to achieve growth, prosperity and fulfilment.

Truly digital – serving clients predominantly online, processing in the cloud, embracing open innovation underpinned by data and insights.

As always, I am very grateful to the board, my colleagues, our clients, our shareholders and other stakeholders for your support. We are entering a very difficult time. We will endure, and we will emerge wiser, more resilient and more capable.