Chairman's report to stakeholders

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The ability of large organisations to avoid unnecessary bureaucracy and inculcate adaptability is fundamental to their survival and success in a world where change is one of the few things that can be predicted with any certainty. The way the group is adapting to the profound changes in the financial services industry and the expectations of our stakeholders – anticipating the implications and responding decisively and effectively – is a measure of its ability to stay relevant to the economies and societies we serve in Africa.

In South Africa, deep socioeconomic inequalities remain the dominant threat to national stability. Labour unrest continued to impact growth and foreign investment negatively in 2014, as did policy uncertainty. For businesses, particularly those in the natural resources sector, sharp wage adjustments and increases in overhead costs are affecting their sustainability, competitiveness and creditworthiness. Given the current economic climate, together with the challenges facing domestic electricity supply, South Africa is unlikely to achieve the growth rates necessary to grow manufacturing capacity, reduce unemployment and improve living standards in the near term. In this environment of constrained revenue opportunities, defending our market shares and diligently managing our costs is crucial to staying profitable and ensuring we can continue to execute our strategy.

The group is targeting future earnings growth in Africa, where, in stark contrast to South Africa, many countries are achieving annual GDP growth above 5%. We have a presence in all of the high-growth markets in sub-Saharan Africa, with a portfolio of operations ranging from the majority that are well-established, profitable and delivering satisfying returns on investment, to those that are still in their infancy.

Against this backdrop, the group's financial performance in 2014 for its core operations across the African continent was strong. However, the total group results were affected by losses incurred in our discontinued operation and headline earnings increased by 1%. Our capital position remains strong, with a total capital adequacy ratio of 15.5% and we declared a total dividend for the year of 598 cents per share, an increase of 12% on the prior year.

A significant event was that the 10-year lock-in period of the group's Tutuwa BEE scheme ended on 31 December 2014. Since inception, the scheme has generated net wealth of R10,7 billion for current and former Standard Bank black managers, black SMEs and our empowerment partners. This remarkable achievement is in addition to the other contributions the group has made to South Africa's socioeconomic development, which include the financing of affordable housing, emerging black agriculture, and public and private sector infrastructure projects that support social and economic activity in historically underserviced areas.

As more fully set out in the summarised risk and capital management report starting on page 84, along with other South African banks, the South African Reserve Bank (SARB) imposed administrative sanctions on the group and directed it to take remedial action to address deficiencies in its controls for anti-money laundering and combating the financing of terrorism. The administrative sanctions are not an indication that we in any way facilitated transactions involving money laundering and the financing of terrorism, but the board takes such failures in regulatory compliance seriously. As I noted in my report last year, we must embrace, uphold and support the objectives of such regulations. As such, a programme was initiated to address these findings and the board is satisfied that management has taken appropriate action to remediate the noted shortcomings.

Managing the opportunities and risks of our Africa strategy

The strategy refresh undertaken in 2014 set a principles-based strategic construct to guide the execution of strategies at business unit level according to their business models and market drivers. This approach has the board's full support, specifically the emphasis given to defining the factors that underpin the group's legitimacy and the trust our stakeholders have in us.

In a rapidly transforming operating environment, and particularly for a multinational organisation like Standard Bank, the board's dual role of providing oversight and strategic guidance involves an increasing level of complexity. The antidote to managing this complexity effectively is two-fold.

First is to ensure the board is sufficiently equipped in the depth and breadth of its expertise to enable enlightened and robust engagement with stakeholders, and particularly our strong executive teams at group level and in-country, who have a first-hand understanding of market realities and visibility of risks on-the-ground. Second is to continually optimise our governance systems, structures, policies and processes to ensure they support the delicate balances required to create value in dynamic and complex environments – balancing control and flexibility, accountability and empowerment, penalty and reward.

"For the board to be an effective custodian of sustainable performance and long-term value creation requires that we are adept at managing the complexities of change. We do not seek perfection in our governance systems, structures, policies and processes, which is impossible, but continuous improvement in relation to a dynamic environment."

Dividend per ordinary share	+12%
598 cents	
2013: 533 cents	

Net asset value per share	+7%
8 625 cents	
2013: 8 089 cents	

The group's presence in numerous jurisdictions across Africa and beyond, which have different regulatory regimes, together with our commitment to complying with the highest standards of international banking regulations, adds many layers of complexity to managing this material matter. Furthermore, the increased level of interaction with regulators has required that the board be equipped with the necessary specialist expertise and understanding to deal with these engagements effectively.

We enjoy constructive relationships with regulatory authorities in South Africa and in each country in which we have a presence. Our guidance on emerging risks and developments, for instance Basel III implementation, is requested by other regulators across the continent. Where possible, we contribute actively and constructively to the development of national policy, legislation and regulation through formal submissions and regular engagement with policymakers, law-makers and regulatory authorities. Our approach is guided by our aim to promote regulatory frameworks that are unambiguous, cohesive and practical, and that minimise unintended consequences.

The implications of the digital revolution for the financial services industry has been another complex item for the board to manage, and has required a comprehensive overhaul of our IT governance structure. When the board debated this some years ago, there was a concern that we did not have the necessary expertise to assess the business need and the allocation of resources required, given the considerable scale and complexity of the programme and its importance to the group's competitiveness long into the future.

To remedy this we established the group IT committee, a board committee responsible for ensuring the implementation of the IT governance framework across the group. The committee is chaired by an independent non-executive director. External independent subject matter experts are standing invitees of the group IT committee. Commencing in 2015, these experts will provide an opinion on the adequacy and effectiveness of our IT governance framework annually to the group IT committee and the board.

Our people are the custodians of the customer experience and the overall strength of our brand, and are therefore the ultimate determinant of success and competitive advantage. Attracting and retaining the skills we need, and creating a desirable and differentiated workplace culture is a complex undertaking in a highly competitive environment where the ability to attract top talent is critical.

As such, our new guiding principles, developed as part of our strategy refresh, emphasise the importance of empowering our people and developing great leaders. Furthermore, while we seek to continually improve our employee value propositions according to international best practice, a cornerstone of our people management philosophy is to value the uniqueness and diversity of each of our operations. The common threads that bind our diverse operations together are our deep heritage, embedded values and clearly defined culture, which together differentiate us as an employer.

Directorate

As I have indicated, the world in which we conduct our business has become less predictable, affecting the way we manage risk and accountability. This has significant implications for board composition, the induction and ongoing training of directors, and the processes of decision-making.

In 2014, we set about altering the composition of the board to ensure it is adequately positioned to manage the complexities of a constantly changing financial services industry. While making the

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appointments necessary to reflect the group's Africa-centred strategy, it is also essential to preserve what is working well. Balancing the dual role of oversight and strategic guidance is more an art than a science, and essentially comes down to the right combination of board members, and ensuring that the mix works.

This alignment of the board's capabilities to the group's strategy and changing operating context is a work in progress. We continue to seek representation for each of the key economic zones on the continent, which is challenging given the relatively small pool of seasoned directors and the conflicts of interest that arise as a result.

During the year, four new independent non-executive directors were appointed to the board. This, together with the changes to the ICBC nominated directors, resulted in a total of six new non-executive directors being appointed to the board. We welcome all our new non-executive directors to the group. For details on board changes, please refer to the corporate governance report.

During 2014, we also continued to embed governance and compliance minimum standards in all our subsidiaries, strengthened our in-country boards and shifted greater accountability for and ownership of performance to subsidiaries. The board's effectiveness is assessed annually against its mandate, as is the performance of its committees. During 2014, the board and its committees complied materially with their mandates. My performance and that of the chief executives is assessed annually and our remuneration is determined accordingly. Specific detail can be found in the remuneration report.

I have served as chairman for five years and, having reached retirement age, I will be stepping down at the annual general meeting in May 2015. A process to select and appoint my successor is well advanced and I am confident that the board will be in a position to announce my successor before this shareholders' meeting. Mr Shu Gu will continue as deputy chairman of the group. Bedding down a significantly changed board will be the first order of business for the new chairman and I have every confidence that the board will continue to function effectively in a complex environment.

Appreciation

For the board to be an effective custodian of sustainable performance and long-term value creation requires that we are adept at managing the complexities of change. We do not seek perfection in our governance systems, structures, policies and processes, which is impossible, but continuous improvement in a dynamic environment. I believe that the advances we have made in recent years attest to the fact that we have equipped our board and our people to anticipate and embrace constant change.

I wish to thank my colleagues on the board for their wise counsel and guidance which has supported this substantial achievement. Ben Kruger and Sim Tshabalala have confirmed our belief in their complementary skills, and their open and collaborative leadership style. I thank the executive leadership teams and the people of Standard Bank for navigating the challenges of our times with commitment and resilience. On behalf of the Standard Bank Group, I extend our thanks to our customers, shareholders and other stakeholders for their continued support.

My personal definition of success when I was appointed in 2010 was that more people would wake up wanting to go to work when my time as chairman was over. Our purpose and strategy is inspiring, and the group's culture is fit for performance and value creation. Last year I was concerned that our people in the rest of Africa operations did not have the same sense of belonging to this group as a South African staff member – this has shifted significantly. It is gratifying that in the board's engagement with stakeholders across the continent, the common sentiment is that Standard Bank is succeeding in Africa, and the sense of excitement within the group is tangible. I leave with the certainty that we are indeed a leading African integrated financial services organisation, with an exciting future driving the growth of this continent we call home.