Measuring our strategic progress

Headline earnings

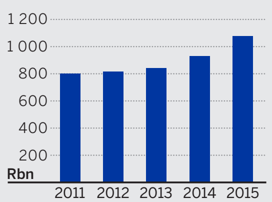
The group's headline earnings is one of the components used in the determination of the group's ROE and represents the major lever in lifting the group's ROE to meet our medium-term target. Headline earnings is used as a key reference point in decision-making throughout the group, including the group's Performance Reward Plan (PRP).

GR See our governance and remuneration report.

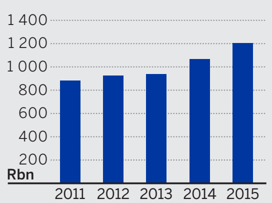
Banking activities balance sheet drivers

The growth in the group's deposits and debt funding, loans and advances, trading and pledged assets and financial investments were the principal balance sheet drivers that provided the group with the ability to increase its headline earnings between 2011 and 2015 by a compound annual growth rate (CAGR)[1] of 13%. This was primarily achieved through the growth in net interest margin and non-interest revenue offset by higher credit impairments and operating expenses.

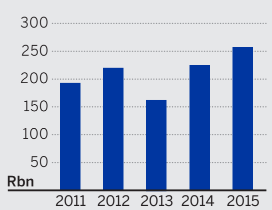
Net loans and advances[3] (CAGR: 8%)



Deposits and debt funding[3] (CAGR: 8%)



Trading and pledged assets and financial investments[3] (CAGR: 7%)

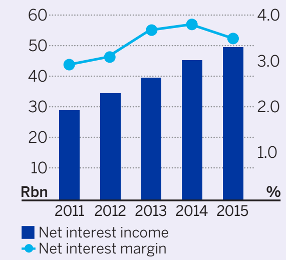


BANKING ACTIVITIES

AIR See **page 12** on how we create value.

Net interest income[2] (CAGR: 14%)

Result: The cumulative effect of improved risk-based pricing strategies, optimisation of funding composition and growth in the group's rest of Africa operations supported the growth in the group's net interest income. During 2015, the net interest margin was adversely impacted by lower margin corporate loans growing faster than retail customer loans and more costly wholesale term funding.



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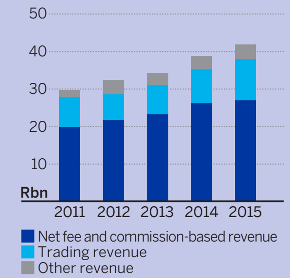
Non-interest revenue[2] (CAGR: 9%)

Result: Between 2011 and 2015 the group benefited from an increase in interchange fee income as a result of growth in the group's customer base, transactional volumes and points of representation, notably in the rest of Africa. During 2015, this fee income growth was impacted by reduced regulatory prescribed fee rates and lower advisory and commitment fees. Trading revenue benefited from increased client trading activity and group strategic trading gains.



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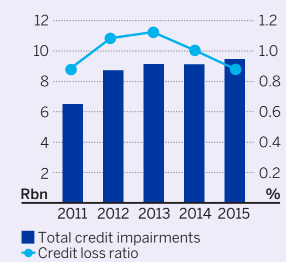
Credit impairments[2] (CAGR: 10%)

Result: Credit impairments increased sharply in 2012 primarily as a result of impairments on corporate loans to customers outside of Africa and impairments in personal unsecured loans. The improvement in the credit loss ratio from 2012 to 2015 was primarily as a result of an improvement in recoveries due to rehabilitation strategies, recovery effectiveness and more stringent credit criteria as well as lower credit impairment charges in CIB. This was partially offset by higher credit impairment charges in some PBB portfolios as a result of increased customer strain.



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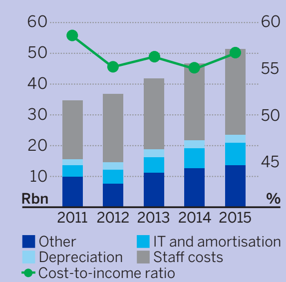
Operating expenses[2] (CAGR: 10%)

Result: The reclassification of SB Plc as a discontinued operation from 2012 resulted in the material reduction of the group's cost-to-income ratio from 2011 to 2012. Operating expense increases between 2011 and 2015 were slightly elevated as a result of inflation, increased headcount to expand our footprint across Africa, a weaker exchange rate, increased amortisation of intangible assets entering production and higher associated IT support costs. The increase in the cost-to-income ratio in 2015 was due to a combination of a deceleration in income growth to 8% and costs being impacted by a step up in IT systems amortisation and a conversion of 4 360 staff from temporary to permanent status.



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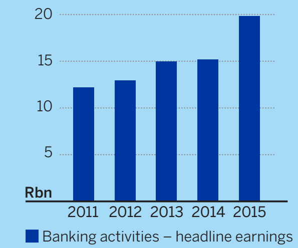
Banking activities headline earnings (CAGR: 13%)



Result: Contributing to the 13% growth in headline earnings between 2011 and 2015 was a 30% growth in the rest of Africa legal entities and the 11% growth in SBSA's headline earnings but offset by a series of losses post the global financial crisis in 2008 in the group's London based operation, SB Plc, of which 60% was disposed of effective 1 February 2015. The most material loss from SB Plc was the R3 745 million reported as a discontinued operation in 2014. This reduced materially in 2015 following its disposal, assisting in a 30% increase in headline earnings from banking activities in 2015.

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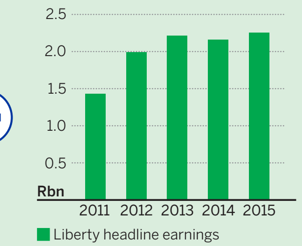
Liberty headline earnings (CAGR: 12%)



Result: Between 2011 and 2015 Liberty's headline earnings benefited from a steady improvement in operating earnings in the long-term insurance business but moderated from 2012 as a result of lower shareholder investment portfolio gains.

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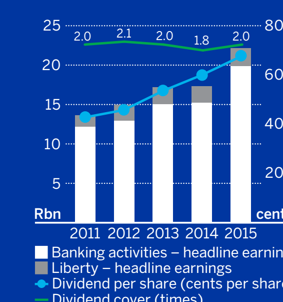
Group headline earnings

(CAGR: 13%)

The combined earnings from banking activities and Liberty reflects a generally positive trend over the five year period. This growth in our headline earnings has enabled us to deliver growth in dividends per share of 12% over the period. Dividends have been covered by earnings by approximately 2 times over most of the period.



AIR See **page 28** for how we measure our strategic progress with respect to our ROE.

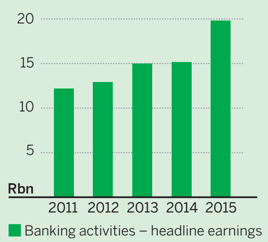
1 All references to growth are determined with reference to CAGR.
2 Financial data pertaining to 2011 has not been restated for the disposal of SB Plc.
3 Financial data pertaining to 2011 and 2012 has not been restated for the disposal of SB Plc.

Return on equity

Our ROE is the most relevant measure of our performance over time as it combines all of our critical drivers, including earnings growth and capital utilisation, into a single metric. Internally we also measure our return on risk-weighted assets (RoRWA) as a more direct measure of earnings relative to regulatory capital utilisation. Understanding the drivers of ROE is key to understanding the success of our strategy and business performance over time.

For a comprehensive analysis of our financial performance, see the financial review on **page 68**.

Banking activities headline earnings (CAGR: 13%)[1]



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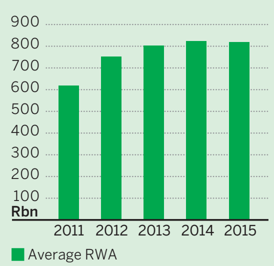
Average risk-weighted assets (CAGR: 7%)



Result: The increase in average risk-weighted assets (RWA) in 2012 was as a result of changes to the South African regulatory framework, specifically the application of a 6% scaling factor on the internal ratings based credit and equity risk portfolios and the implementation of Basel 2.5, which required the inclusion of the stressed value at risk in the calculation of market risk, and strong balance sheet growth in PBB and the rest of Africa. Between 2012 and 2015, the group's average RWA increased as a result of growth in exposures from underlying operations. This increase was partially offset in 2015 by a decrease in average RWA as a result of the disposal of the group's controlling interest in SB Plc.

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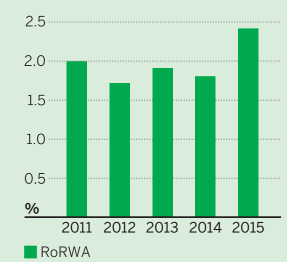
Average return on risk-weighted assets



Result: The RoRWA reflected a decrease from 2011 to 2014 which was principally due to the impact of SB Plc on CIB's RoRWA. The significant improvement in RoRWA in 2015 was due to the material reduction in loss from SB Plc and the removal of the RWA associated with this operation following its disposal in February 2015.

Converting RWA into minimum internal capital requirements, using the capital conversion ratio

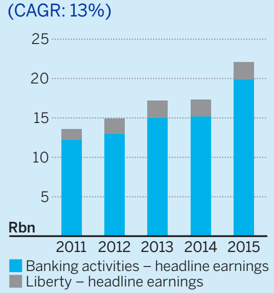
2011	9.0%
2012	9.0%
2013	9.5%
2014	10.5%
2015	11.5%

Result: The RWA is converted into minimum internal core equity capital requirements using these capital conversion factors. These factors increased over the period in line with increases in the group's internal capital targets which are based on an accelerated compliance with the SARB's phase-in of the Basel III capital requirements.

See **page 26** for how we measure our strategic progress with respect to headline earnings.

For details regarding the group's cost of equity, refer to the group's risk and capital management report

Group headline earnings (CAGR: 13%)



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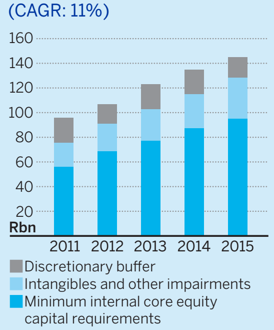
Average shareholders' equity (CAGR: 11%)



Result: The group's average shareholders' equity increased between 2011 and 2015 primarily as a result of growth in the group's retained earnings and foreign currency translation reserve. The shareholders' equity has supported the progressively higher levels of regulatory and internal capital requirements as a result of the adoption of Basel III by the SARB and reflects an accelerated compliance with a complete phase-in by 2018 of the Basel III requirements.

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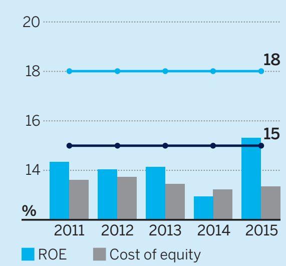
Return on equity



Result: In 2015, the group's ROE entered its medium-term target range. This achievement was principally as a result of the 27% growth in headline earnings compared to growth in the group's shareholders' equity of 9% in 2015.

Our key / value creation drivers

Placing our clients at the centre of everything we do, leveraging our presence, knowledge and experience across Africa, our connectivity with China and other selected markets, and the heritage and extent of operations in natural resources.

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Protecting and enhancing our strong retail and corporate and investment banking franchises, in support of our clients.

+

Focusing on improving ROE in the rest of Africa by leveraging our existing franchise, systems and investment in people to increase market share.

+

Leveraging our investments in IT assets as we move to enhance client experience using our digital platforms.

+

Aligning our wealth businesses to deliver a universal customer offering and enhance returns across our franchise.

deliver progressively improving ROE that will allow us to meet our

medium-term ROE target of 15 – 18%

[1] All references to growth are determined with reference to the CAGR.