FINANCIAL OUTCOME

Delivering sustainable returns to our shareholders depends on the extent to which our investments in satisfied clients, engaged employees and managing risk and conduct are effective and efficient. In turn, we need to ensure that we balance the capital we allocate to these strategic investments with competitive returns.

WHAT SUCCESS LOOKS LIKE

- Continuing to demonstrate value creation for all of our stakeholders by delivering headline earnings growth and driving ROE to the upper end of our 15% – 18% target range.
- Maintaining the resilience of our balance sheet to support the execution of our group strategy.

HOW WE MEASURE OUR PROGRESS

By delivering positive results on our client focus, employee engagement and risk and conduct value drivers, we seek to improve our financial outcome, which is measured by the following indicators:

- **Return on equity (ROE):** shows how much profit we generate with the money shareholders have invested in us. ROE is the result of all the measures below and, therefore, the ultimate measure of our effectiveness in executing our group strategy.
- **Headline earnings:** show the profits we make, excluding profits or losses from non-recurring events as prescribed by the SAICA circular. We seek to improve our headline earnings each year by continuing to grow our revenue while managing our costs and risks.
- **Cost-to-income ratio (CTI):** measures our efficiency in generating revenues relative to the costs we have incurred. We aim to reduce our CTI, making sure that the growth in our costs does not exceed the rate at which we grow our revenues. Containing our costs is key to growing HE and improving ROE.
- **Credit loss ratio (CLR):** measures our impairment charges as a percentage of average loans and advances. We aim to maintain our CLR at an acceptable level in line with our risk appetite.

HOW WE PERFORMED

ROE and headline earnings

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ROE:
17.1%
(2016: 15.3%)

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HEADLINE EARNINGS:
R26 270 million
(2016: R23 009 million)

Achieved strong growth in both measures, with headline earnings growing 14%.

CTI

55.7%
(2016: 56.3%)

Improved our CTI through focused cost management.

CLR

0.86%
(2016: 0.86%)

Our CLR remained unchanged from the prior year and remains at an acceptable level within our risk appetite.

Key shareholder and investment analyst concerns

- Revenue pressures in our South African operations.
- Challenging operating environment in the Africa Regions, which may impact our results.
- Managing costs and improving our CTI ratio.
- Achieving and maintaining our ROE targets.
- Impact of a sovereign rating downgrade on the group, its strategy and results.

Related material issues

- Growing the group's franchise by further building our on-the-ground presence in Africa, growing our client base, regional integration and leveraging trade and capital flows.
- Responding to challenging economic conditions, particularly South Africa's growth outlook and sovereign downgrades.
- Maintaining the resilience of our balance sheet.

KEY DEVELOPMENTS IN 2017

To address the key concerns of our shareholders and the investment community, and our material issues, we have:

- Achieved an ROE at the upper end of our 15% to 18% target range. Our focus on improving on shareholders' returns resulted in us lifting our medium-term ROE target range to 18% to 20%.
- Focused efforts on managing and containing costs.
- Assessed the impact of a sovereign downgrade and took appropriate action.
- Our earnings streams are diversified and the portfolio effect across products and geographies has proven to reduce earnings volatility.
- Focused efforts on ensuring compliance with IFRS 9 by 1 January 2018. This included a parallel run and hard-close process which allowed the group to clearly understand and respond to the impact of IFRS 9 on the group's business, including key metrics such as the group's CET 1 ratio.

PRIORITIES IN 2018

To drive improvements in our financial performance, we will:

- Continue to deepen our progress in aligning processes to our value drivers so that we are able to measure what matters most in delivering on our new ROE target range of 18% to 20%.
- Continue to respond effectively to macroeconomic challenges.
- Maintain earnings growth by partnering with high-growth clients in high-growth markets.
- Reduce our CTI by driving revenue growth faster than cost growth.
- Seek to maintain our CLR within our guidance of a 80 basis points (bps) to 100 bps range.
- Maintain a resilient balance sheet, meeting Basel III capital and liquidity requirements across all the markets in which we operate.
- Finalise the group's adoption of IFRS 9, including the final reporting on the transition impact.

KEY TRADE-OFFS

To ensure that we can continue to attract the capital we need to fund the growth in our assets, we must provide an appropriate rate of return to our equity shareholders and debt funders, including depositors. This requires that we balance our ability to generate revenue, by continuously and sustainably meeting our clients' needs and strengthening our competitive position, with the costs incurred in doing so. Our largest operating expenses include:

- **IT costs:** the significant investment we have made in modernising our IT platforms has allowed us to digitise our services and provide more cost-effective channels to our clients. These costs will be expensed in the future as the systems enter production. Additional IT costs are also required to support and maintain these assets.
- **Staff costs:** we invest to attract and retain experienced people and to equip them to consistently deliver exceptional client experiences and deal with a challenging work environment.
- **Other operating costs:** we incur several other costs to enable our people, together with our frontline and supporting systems and processes, to deliver exceptional client experiences in a responsible manner.

AIR 40 – 53 Group financial review.