GROUP FINANCIAL REVIEW

"We remain committed to driving sustainable value for our investors. We know that we need to focus on growth, resilience and returns to continue to deliver a compelling investment case."

Arno Daehnke

ROE medium-term target range of

18% – 20%

from 2018.

Standard Bank Group's financial performance for the year ended 31 December 2017 was strong. The group delivered 14% growth in headline earnings to R26.3 billion and ROE improved to 17.1% from 15.3% in 2016. The group's capital position remained robust, with a common equity tier 1 (CET 1) ratio of 13.5%. Accordingly, a final dividend of 510 cents per share has been declared, resulting in a total dividend of 910 cents per share, an increase of 17% on the prior year.

Although banking revenue growth remained subdued, credit impairment charges were broadly flat and costs were well managed to deliver positive jaws of 1.0%. Banking activities' headline earnings grew by 10% to R24.3 billion and banking activities' ROE improved to 18.0%, up from 16.8% in 2016. Group headline earnings growth was boosted by an improved earnings contribution from ICBCS and Liberty.

Currency movements continued to adversely impact the group's reported results, reducing headline earnings growth by 4% year-on-year. On a constant currency* basis, group headline earnings grew by 18%. Despite the dilution of a strengthening rand, Africa Regions still increased its contribution to banking headline earnings to 28% from 26% in 2016, and contributed positively to group headline earnings per share (HEPS) growth and ROE. The top five contributors to Africa Regions' headline earnings were Angola, Ghana, Mozambique, Nigeria and Uganda.

Our operating environment

Global macroeconomic conditions were positive during 2017, supporting increased trade volumes and underpinning global growth of 3.7% for the year. A benign inflation environment and low wage growth across most advanced economies resulted in slower than expected monetary policy tightening. Continued capital flows to emerging markets supported emerging market funding costs and currencies.

Economic growth in sub-Saharan Africa rebounded from 1.4% in 2016 to 2.7% in 2017, underpinned by improving commodity prices and trade. Across many of our key countries inflation began to ease, stemming interest rate hikes and, in certain countries, provided scope for rate cuts in the second half of the year. Although exchange rates largely stabilised in the second half, many were weaker year-on-year against the strengthening rand.

The recovery in the West Africa region was supported by higher oil prices and production volumes, together with higher business and consumer confidence levels. Foreign currency liquidity constraints in Nigeria eased, following the introduction of the NAFEX[1] rate in the second quarter of the year.

East Africa started to emerge from the drought conditions. In Kenya specifically, higher food price inflation, political uncertainty as a result of the disputed electoral process, and the impact of the regulatory caps and floors introduced in September 2016, resulted in a slowdown in economic activity and credit growth.

The South & Central Africa region was supported by improved commodity prices; however, countries surrounding South Africa continued to feel the effects of low South African demand. In Mozambique, some sectors of the economy improved during 2017, mainly on account of higher coal prices. Monetary policy tightening helped rebalance the foreign exchange market and resulted in the metical appreciating in the second half of the year, but it was on average 16% weaker against the rand compared to 2016. Inflation declined, despite a large increase in fuel prices.

Growth in South Africa remained weak at 1.3%, continuing its deviation from the global trend. During the year, consumer and business confidence remained low as a result of the poor macro environment and heightened political and policy uncertainties. This was exacerbated by successive downgrades by the three largest credit rating agencies. As a consequence, demand for credit remained lacklustre, moderating from the already subdued levels in 2016. Despite local sentiment, South Africa emerged from a technical recession in the second quarter and inflation re-entered the 3% to 6% target range, providing scope for a 25 bps interest rate cut in July. The rand, although volatile, was on average stronger against the major currencies, as well as those of our key countries in the Africa Regions.

* To make a more informed assessment of our operational performance, we disclose a constant currency measure to remove the effects of currency volatility. This is done by adjusting the comparative financial results for the difference between the current and previous years' exchange rates. Refer to page 122 for details.

1 Nigerian autonomous foreign exchange rate fixing.

INCOME STATEMENT

The income statement reflects the revenue generated by our banking activities and the costs incurred in generating that revenue. The analysis that follows discusses the group's financial performance and the principal headline earnings drivers for growth in our ROE as explained further on page 48. We have also explained our material income statement line items.

GROUP INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	Change %	2017 Rm	2016 Rm
Net interest income	6	**60 125**	56 892
Non-interest revenue	0	**43 037**	42 965
Net fee and commission revenue	0	**29 133**	29 012
Trading revenue	(2)	**10 731**	10 988
Other revenue	7	**3 173**	2 965
Total income	3	**103 162**	99 857
Credit impairment charges	(1)	**9 410**	9 533
Specific credit impairments	8	**9 055**	8 382
Portfolio credit impairments	(69)	**355**	1 151
Net income before operating expenses	4	**93 752**	90 324
Operating expenses	2	**57 512**	56 235
Staff costs	2	**31 672**	30 976
Other operating expenses	2	**25 840**	25 259
Net income before non-trading and capital related items	6	**36 240**	34 089
Non-trading and capital related items	(91)	**(97)**	(1 123)
Goodwill impairment	100		(482)
Impairment of intangible assets	(57)	**(283)**	(654)
Gains on disposal of group entities	>100	**196**	61
Other non-trading and capital related items	(79)	**(10)**	(48)
Net income before equity accounted earnings	10	**36 143**	32 966
Share of profit from associates and joint ventures	>100	**424**	172
Profit before indirect taxation	10	**36 567**	33 138
Indirect taxation	(1)	**1 849**	1 865
Profit before direct taxation	11	**34 718**	31 273
Direct taxation	0	**7 644**	7 631
Profit for the year	15	**27 074**	23 642
Attributable to other equity instrument holders	46	**594**	406
Attributable to non-controlling interests	12	**2 206**	1 977
Attributable to ordinary shareholders – banking activities	14	**24 274**	21 259
Headline adjustable items – banking activities	(>100)	**(6)**	803
Headline earnings – banking activities	10	**24 268**	22 062
Headline earnings – other banking interests	>100	**567**	(8)
Headline earnings – Liberty	50	**1 435**	955
Standard Bank Group headline earnings	14	**26 270**	23 009

For further detail on the group results, including definitions, please refer to the Standard Bank Group analysis of financial results 2017 on our website:
http://reporting.standardbank.com/resultsreports.php

1 Net interest income

What it is: net interest income (NII) is the interest received on lending products that we offer to our clients and investments in debt instruments, less the interest paid on the deposits that our clients place with us and debt funding sourced from other lenders which includes our subordinated debt.

Drivers: benchmark lending rates, the degree to which our assets reprice relative to our liabilities (endowment), pricing of our loans and deposits, and portfolio mix.

2 Non-interest revenue

What it is: non-interest revenue comprises net fee and commission revenue, trading and other revenue.

Drivers: transactional (physical and digital) banking volumes, which are a function of economic activity, competition for banking services, number of clients and pricing, capital markets activity, trading volumes and market volatility, property-related revenue and income from bancassurance and unlisted investments.

3 Credit impairment charges

What it is: credit impairments represent the losses incurred due to the inability of our clients to repay their debt obligations.

Drivers: probability of our clients defaulting and the loss given default, business confidence, insolvencies and defaults and levels of debt-to-disposable income.

4 Operating expenses

What it is: operating expenses represent the costs that are incurred to generate current and future revenues.

Drivers: inflation, headcount and investments in our branch and IT infrastructure, costs relating to initiatives such as innovation, work efficiency programmes and client loyalty programmes and other operational losses such as fraud losses.

5 Non-trading and capital related items

What it is: items that are typically excluded from headline earnings such as gains and losses on the disposal of businesses and property and equipment, and the impairment of goodwill, intangible assets and gains and losses on the disposal of available for sale assets.

Drivers: obsolescence and replacement of our assets, the performance of our operations and corporate activity resulting in disposal-related gains and changes in market price.

6 Taxation

What it is: includes both direct income taxes (and related deferred tax in terms of IFRS) and indirect taxes such as withholding taxes and value-added tax (VAT).

Drivers: corporate tax rate, level of profitability of our operations, interest income from certain bonds and treasury bills and dividends on investments that are exempt, costs that are not tax deductible and the tax rates in the geographies in which the group operates.

7 Profit attributable to non-controlling interests

What it is: the portion of profit that we generate that is attributable to the minority shareholders in entities in which we own less than a 100% interest, notably in some of the Africa Regions countries.

Drivers: level of profitability of our operations and other shareholders' interest in our subsidiaries.

Note: all line items are affected by changes in foreign exchange rates, notably between the rand and the local currencies of the economies in which we operate. For constant currency changes refer to the website.

GROWING OUR FRANCHISE

Revenue

Our banking activities achieved revenue growth of 3%. This growth rate was 9% in constant currency, which is a testament to our solid client franchises.

NII increased 6%, assisted by margin expansion of 26 bps to 474 bps. Average interest earning assets were flat on the prior year. The yield on the client lending book expanded mainly as a result of higher average interest rates in Angola, Mozambique and Nigeria, partly offset by an increase in the yield on the client funding portfolio in these countries. In South Africa, the combination of an improved yield on the mortgage lending portfolio and enhanced risk-based pricing of new loans in the personal unsecured and business lending portfolios also provided a benefit. A small positive endowment impact on capital and transactional balances in the Africa Regions was achieved.

Non-interest revenue was flat on 2016, with the largest component, net fee and commission revenue, remaining at the same level as the prior year. Trading revenue declined 2% and other revenue grew by 7%. On a constant currency basis, net fee and commission revenue grew 7%. This was the result of healthy volume-based increases in both card-based commissions and electronic banking fees, as well as higher documentation and administration fees.

Trading revenue grew 8% in constant currency off the back of a strong performance in the Africa Regions, which contributed 45% of the group's trading revenues. Fixed income and currency (FIC) trading revenue grew 15% in constant currency, with strong growth in fixed income driven by increased client activity. Foreign exchange trading was impacted by liquidity shortages and regulatory constraints in some key markets in Africa Regions. Equity trading revenue experienced lower trading volumes, and was negatively impacted by the elimination, in terms of IFRS, of gains on Standard Bank Group shares (SBK) held by the group to facilitate client trading activities, following a significantly higher SBK share price and long client positions.

Credit impairment charges

Credit impairment charges of R9.4 billion were 1% lower than the prior year, while gross average loans and advances fell by 2%. This resulted in the group credit loss ratio remaining flat at 86 bps.

In PBB, impairment charges declined 3% year-on-year, mainly as a result of a lower portfolio impairment charge. This was driven by a decline in early arrears from continued improvements in early stage collections and payment methods. Impairment charges for VAF and mortgage loans in South Africa declined as the quality of the books continued to improve, with a concomitant decline in credit loss ratios for these portfolios. Higher specific impairment charges were raised mainly against business lending, both in South Africa, following the migration of a few larger exposures to non-performing loans (NPLs), as well as in the Africa Regions, driven predominantly by increased charges in Nigeria, following an accelerated write-off of NPLs, and a single counterparty write-off in Malawi. Overall, coverage levels were maintained.

CIB's impairment charges rose 1% on the prior year. Combined with a flat gross average customer loan book, the CLR on loans to customers was flat at 44 bps. Specific impairment provision adequacy increased from 56% in the prior year to 60%, to account for stress in the power and infrastructure and oil and gas sectors in Kenya and Nigeria. A decline in portfolio impairments in Africa Regions from elevated levels recorded in the prior year was largely offset by an increase in South Africa.

Operating expenses

Operating expenses grew 2% year-on-year, and in constant currency were up 8%. This reflects inflationary growth in South Africa of 5%, while in the Africa Regions, costs were up 18% in constant currency due to higher inflation and continued investment. The CTI ratio for the year was 55.7%, an improvement on the 56.3% in the prior year.

Staff costs were up 8% in constant currency. Following a year of disciplined focus on headcount, the overall staff complement remained at a similar level to 2016, declining 1% in South Africa with a marginal increase in the Africa Regions to support business growth.

Other operating expenses grew 9% on a constant currency basis despite an 18% higher amortisation charge relating to IT intangible assets. After many years of double digit growth, the total IT function spend was well contained, growing 5% in rand terms. A higher marketing cost was incurred, mainly for the 'What's your Next' and Shyft campaigns in South Africa. The growth rate was assisted by the non-recurrence of an operational loss of R300 million in the prior year related to the Japan fraud incident.

Other banking interests

Other banking interests recorded headline earnings of R567 million, compared to a loss of R8 million in 2016.

The group's 40% stake in ICBCS contributed R152 million, a significant improvement on the R591 million loss from the prior year. The FIC and equities businesses delivered a strong result and higher commodity prices assisted the commodities business. Of the R152 million contribution, approximately R100 million relates to a UK consortium tax relief credit. Adjusted for this, ICBCS effectively broke even at an operational level in the second half of the year. ICBC Argentina delivered growth in revenues on an improving macroeconomic environment, particularly in the second half, to report earnings after tax that were marginally lower than 2016. The headline earnings contribution from the group's 20% stake in ICBC Argentina declined 29% to R415 million off a high base set in 2016. On a constant currency basis, earnings were down 11%.

Liberty

The financial results reported are the consolidated results of the group's 56% investment in Liberty, adjusted for SBK shares held by Liberty for the benefit of Liberty policyholders which are deemed to be treasury shares in the group's consolidated accounts.

Liberty's normalised headline earnings for the year improved by 8% to R2.7 billion, supported by improving South African retail insurance earnings and higher returns from investment markets. Liberty's capital position remains strong. Liberty's IFRS headline earnings, after the headline earnings attributable to the Standard Bank Group, adjusted by R369 million for the impact of the deemed treasury shares, were R1.4 billion, 50% higher than in the prior year.

BALANCE SHEET

The balance sheet or statement of financial position shows the position of the group's assets, liabilities and equity at 31 December 2017, and reflects what the group owns, owes and the equity attributable to shareholders. Material line items have been discussed below.

BALANCE SHEET AS AT 31 DECEMBER 2017

	Change %	2017 Rm	2016[1] Rm
Assets			
Cash and balances with central banks	(3)	**75 310**	77 474
Derivative assets	18	**72 629**	61 752
Trading assets	25	**159 798**	128 098
Pledged assets	>100	**8 879**	3 313
Financial investments	16	**180 104**	154 630
Loans and advances	(2)	**1 048 027**	1 065 628
Loans and advances to banks	(18)	**117 935**	143 788
Loans and advances to customers	1	**930 092**	921 840
Other assets	1	**14 768**	14 639
Interest in associates and joint ventures	22	**1 816**	1 489
Property and equipment	1	**13 539**	13 450
Goodwill and other intangible assets	(1)	**23 098**	23 285
Goodwill	(15)	**1 904**	2 239
Other intangible assets	1	**21 194**	21 046
Total assets – banking activities	4	**1 597 968**	1 543 758
Total assets – other banking interests	16	**7 493**	6 445
Total assets – Liberty[2]	5	**422 467**	401 771
Standard Bank Group – total assets	4	**2 027 928**	1 951 974
Equity and liabilities			
Equity			
Equity attributable to ordinary shareholders	4	**138 808**	133 175
Preference share capital and premium	–	**5 503**	5 503
AT1 capital issued	100	**3 544**	–
Equity attributable to non-controlling interests	11	**7 378**	6 641
Total equity – banking activities	7	**155 233**	145 319
Total equity – other banking interests	16	**7 493**	6 445
Total equity – Liberty[2]	(1)	**27 291**	27 595
Standard Bank Group – total equity	6	**190 017**	179 359
Liabilities			
Derivative liabilities	8	**73 657**	68 037
Trading liabilities	32	**63 577**	48 109
Deposits and debt funding	2	**1 258 359**	1 228 993
Deposits from banks	(23)	**91 794**	119 247
Deposits and current accounts from customers	5	**1 166 565**	1 109 746
Subordinated debt	(14)	**18 966**	22 138
Other liabilities	(10)	**28 176**	31 162
Total liabilities – banking activities	3	**1 442 735**	1 398 439
Total liabilities – Liberty[2]	6	**395 176**	374 176
Standard Bank Group – total liabilities	4	**1 837 911**	1 772 615
Total equity and liabilities	4	**1 597 968**	1 543 758
Total equity and liabilities – other banking interests	16	**7 493**	6 445
Total equity and liabilities – Liberty[2]	5	**422 467**	401 771
Standard Bank Group – total equity and liabilities	4	**2 027 928**	1 951 974

1 Restated to incorporate the correct elimination of intercompany derivative positions. Refer to the group annual financial statements for further information.
2 Includes adjustments on consolidation of Liberty into the group.

1 Derivative and trading assets and liabilities

What it is: derivative assets and liabilities include transactions with clients for their trading requirements and hedges of those client positions with other market participants, as well as hedges of certain group risks. Trading assets and liabilities are held by the group to realise gains as a result of changes in underlying market variables.

Drivers: number of clients, product offerings, level of economic and client activity in debt, foreign exchange, commodities and equity capital markets, competition and market volatility.

2 Loans and advances

What it is: loans and advances include our lending to banks and our clients.

Drivers: number of clients, product offerings, competition, level of economic and client activity, repayments and level of credit impairments.

3 Goodwill and other intangible assets

What it is: represents the excess of the purchase price over the fair value of businesses that we acquire, less impairments where applicable, and the cost of internally developed IT assets less amortisation and impairments (where applicable).

Drivers: corporate activity, investment in IT and digital capabilities to better serve our clients.

4 AT1 capital

What it is: the group's Basel III compliant additional tier 1 (AT1) capital bonds that qualify as tier 1 capital. The capital notes are perpetual, non-cumulative with an issuer call option and contain certain regulatory prescribed write-off features.

Drivers: regulatory capital requirements and growth in the group's risk-weighted assets (RWA).

5 Total equity

What it is: the total of the group's ordinary and preference share capital, AT1 capital, foreign currency translation reserve, minority interests and other reserves.

Drivers: income statement drivers (refer to page 41), changes in foreign exchange rates and regulatory capital requirements.

6 Deposits and debt funding and subordinated debt

What it is: deposits and debt funding provides the group with the funding to lend to clients. This fulfils the group's role in connecting providers of capital with those that require additional capital and thereby contributes to the functioning of the broader financial system.

Drivers: client demands, transactions and savings.

Note:
All line items are affected by changes in foreign exchange rates, notably between the rand and the local currencies of the economies in which we operate. For constant currency changes refer to the website.

OUR RESILIENT BALANCE SHEET

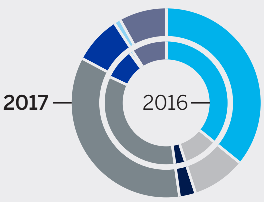
Loans and advances

Gross loans and advances to customers grew by 1% year-on-year, of which PBB's advances to customers grew by 3% and CIB's declined by 2%.

Within PBB, mortgage lending grew 3%. New business transactions of R42.4 billion were made in South Africa during the year despite the number of registrations falling 14% compared to 2016. During the year, PBB SA continued to write the largest proportion of new mortgage business and maintained its leading market share at the end of 2017. VAF lending showed a modest 1% growth, as new business disbursements only slightly exceeded the run off in this book in South Africa, while the book in the Africa Regions contracted. Credit card balances rose 3% while other personal unsecured lending fell by 2%. Business lending grew by 7%, with PBB Africa Regions showing good growth on a constant currency basis.

In CIB, term loans extended to clients to support their growth ambitions grew by a muted 2%, as new business was offset by maturities and early repayments by clients. Loans granted under resale agreements, used primarily for liquidity management purposes, declined as other high quality liquid assets increased to meet higher regulatory liquidity requirements.

Composition of gross loans and advances to customers (%)



	2017	2016
Mortgage loans	36	36
Vehicle and asset finance	9	9
Card debtors	3	3
Term loans	35	34
Overdrafts and other demand loans	8	8
Loans granted under resale agreements	1	1
Other term loans	8	9

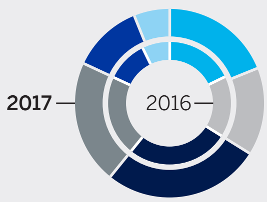
Funding and liquidity

The group's liquidity position remained strong and within approved risk appetite and tolerance limits. The group's fourth quarter average Basel III LCR amounted to 135.1%, exceeding the minimum phased-in Basel III LCR requirement of 80%. The group also successfully achieved compliance with the minimum Basel III NSFR requirements with effect from 1 January 2018.

Despite the downgrades of the South African sovereign credit ratings during the year, the market cost of liquidity widened only marginally. A number of key debt capital market and term loan funding transactions were executed, taking advantage of pockets of relatively well-priced liquidity as investor appetite for capital markets issuances remained robust. The group successfully increased its longer-term funding during 2017, raising R32.4 billion through a combination of senior debt and syndicated loans. An additional R24.6 billion was raised through negotiable certificates of deposit with tenors in excess of 12 months.

Deposits from customers grew 5% year-on-year. The group's most stable source of funding, retail deposits from PBB customers, increased 6% in rand and 9% in constant currency. The group maintained its leading retail deposit market share in South Africa, growing retail-priced deposits by 8%, and continued to grow its franchise in the Africa Regions, where retail-priced deposits grew 4% (15% in constant currency). The group's offshore operations in the Isle of Man and Jersey continue to be an important source of USD and GBP funding, growing 4% in rand and 6% on a constant currency basis. CIB's focus on transactional banking clients assisted growth in current accounts and cash management deposits of 2% in rand and 5% in constant currency.

Composition of deposits from customers (%)



	2017	2016
Current accounts	19	18
Cash management deposits	15	16
Call deposits	27	27
Term deposits	21	21
Negotiable certificates of deposit	12	11
Other deposits	6	7

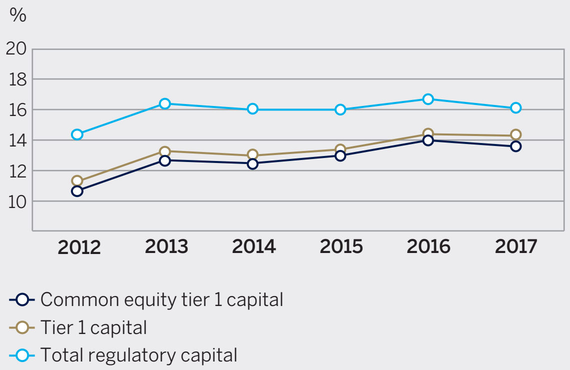
Capital management

The group maintained strong capital adequacy ratios, with a CET 1 ratio of 13.5% (2016: 13.9%) and a total capital adequacy ratio of 16.0% (2016: 16.6%). In line with the group's objective to optimise its capital stack, the group successfully executed two Basel III compliant AT1 bond issues in March and September 2017, raising R3.5 billion, the proceeds of which have been invested in SBSA.

In December 2017, the Basel Committee on Banking Supervision published the finalised Basel III reforms, which aim to reduce excessive variability of RWA and improve the comparability of banks' capital ratios. The regulations will be implemented on 1 January 2022 with a transitional arrangement for phasing in the aggregate output floor until 2027. Going forward, we will plan and manage the business with these new requirements and deadlines in mind.

IFRS 9 became effective on 1 January 2018. The group will provide a transition report together with its first quarter results for 2018. The day one impact of implementing IFRS 9's expected credit loss impairment requirements, which comprise the most material impact, is expected to reduce the group's CET 1 ratio by approximately 70 bps, which will be phased in over three years. We expect an increase of approximately R8.7 billion in balance sheet impairments; an increase of 32% on IAS 39's balance sheet impairments (including interest in suspense).

Capital adequacy
(including unappropriated profit)



Note: The balance sheet presents the group's banking activities separately from the other banking interests and Liberty. It differs to the balance sheet presented in the group's annual financial statements, which is presented on a consolidated basis.

Looking forward

The global growth outlook remains positive and relatively synchronised, with recent momentum in advanced economies expected to continue. China's growth is expected to remain robust.

Although upside inflationary pressures are emerging, particularly in the US, monetary policies in the advanced economies are expected to maintain a moderate pace of tightening, which should help sustain capital flows to emerging markets. From a 22-year low in 2016, growth in sub-Saharan Africa is expected to accelerate to 3.3% in 2018, supported by a worldwide economic upswing, and slightly rising commodity prices. In general, economic prospects across our network of countries are expected to improve, providing a favourable backdrop for our business.

We are also optimistic about the prospects in our home market of South Africa. We believe that the positive steps taken already by the ruling party subsequent to its leadership conference will improve business and consumer confidence. This positive sentiment, as well as pent-up demand, should begin to reflect in key economic indicators.

In the face of fast-growing competition from established banks and new competitors, we have a relentless focus on three immediate priorities – to transform into a client-centred, digitally enabled, and integrated universal financial services organisation.

We are in the final stages of our core banking journey and, in early 2018, 95% of our transactional accounts in South Africa will be migrated onto our core banking platform. With this modernised platform in place, we will increasingly focus on front-end solutions and innovations, the benefit of which will be experienced directly by our clients.

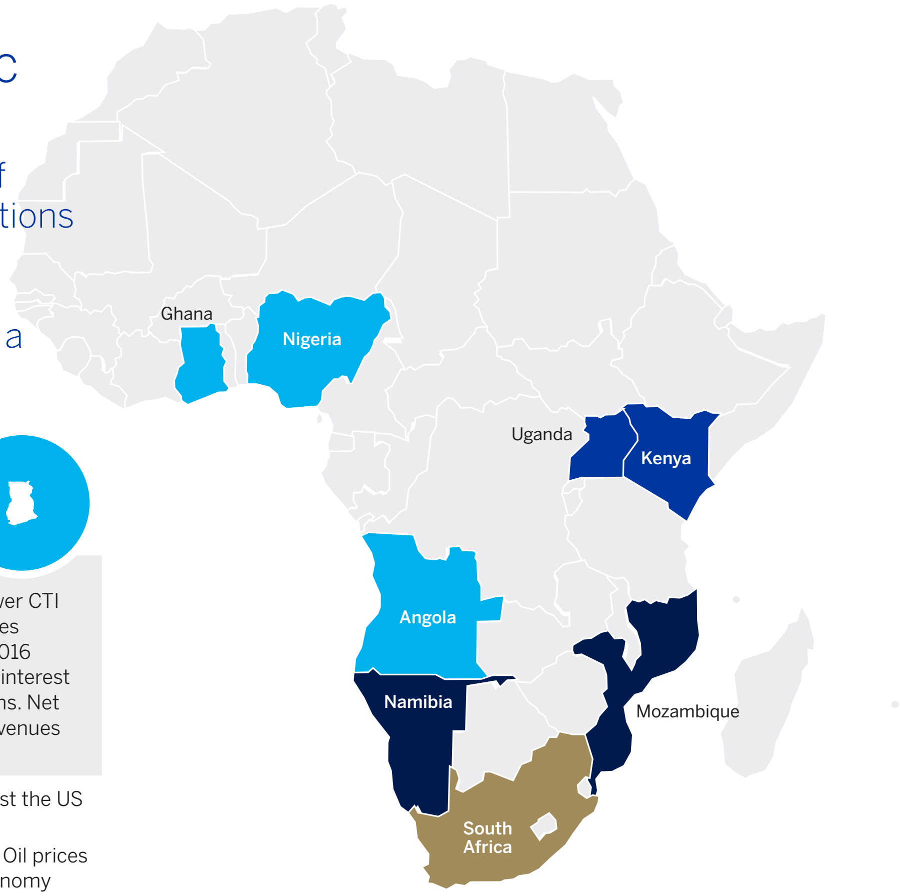
We support faster, more inclusive and more sustainable economic growth and human development in South Africa and throughout the continent. At the same time, we are focused on improving the returns we deliver to our shareholders.

Accordingly, we have lifted our medium-term ROE target range from 15% – 18% to 18% – 20%. We will continue to focus on the levers available to deliver on our targets, including positive jaws, efficient capital allocation and improving returns from PBB Africa Regions.

We stand ready to serve our clients with consistent excellence, wherever they are and whatever financial services they require, online or in person.

RESPONDING TO ECONOMIC CONDITIONS

Below we provide a summary of the results and economic conditions in the countries that are most material to the group's results. The commentary below is from a local currency perspective for each country.



Ghana

Operations results: The increase in headline earnings of 46% (CCY[1]) was largely a result of a lower CTI ratio and positive jaws aided by reduced credit losses (following concerted risk remediation for most of 2016 and the early stages of 2017), despite the reducing interest rate environment which exerted pressure on margins. Net fee and commission revenues, as well as trading revenues performed exceptionally well.

Currency impact: The cedi weakened by 7% against the US dollar.

Notable changes in relevant commodity prices: Oil prices rose above USD55/barrel (bbl), supporting the economy as the country continued to benefit from expansion in oil production.

Other economic impacts: The economy is expected to settle into a more sustainable growth path following the improved performance of the oil sector.

GDP result: GDP growth estimated to be 8.2% (2016: 3.6%).

Nigeria

Operations results: Following macroeconomic challenges in prior years as a result of historically low oil prices and scarcity of foreign currency, 2017 was characterised by the normalisation of macro factors. Performance improved, with a strong increase in headline earnings (CCY: 99%). Operating results benefited from a combination of tight cost management and improved margins due to increased interest rates and non-interest revenue. Credit losses increased due to the accelerated write-off of certain exposures.

Currency impact: The naira depreciated by 15% against the US dollar.

Notable changes in relevant commodity prices: Oil prices rose above USD55/bbl, and oil production remained above 1.75 million barrels per day.

Other economic impacts: The non-oil sectors continued to contract in 2017. Businesses have had difficulty accessing credit due to the central bank's tight monetary policy and lower sales driven by low consumer confidence.

GDP result: GDP growth estimated to be 0.9% (2016: -1.5%).

Angola

Operations results: Continued shortages of foreign currency, rising interest rates and high inflation contributed to the significant growth in earnings (CCY: 135%). Tight controls over costs, contained credit losses and significantly increased total revenue contributed to this result.

Currency impact: The kwanza remained steady at the official rate of AOA165.9 against the US dollar.

Notable changes in relevant commodity prices: The collapse in crude oil prices in 2014 had an adverse economic impact on Angola that is still being addressed. The oil sector remains exposed to poor operating conditions resulting in declining oil production on matured fields.

Other specific economic impacts: General domestic expenditure has been impacted by foreign exchange shortages and high inflation, with net exports constrained by declining oil output and higher imports associated with government capital expenditure. Limited sector diversification is also likely to continue to weigh negatively on the economy.

GDP result: GDP growth estimated to be 0.9% (2016: 0.1%).

[1] Constant currency basis.

South Africa

Operations results: SBSA reported strong headline earnings growth of 10% despite challenging economic conditions. This was underpinned by growth in average balances and disciplined pricing management, particularly in PBB, which contributed to higher NII and margins, improved net fee and commission revenue, trading revenue and other revenue. This was offset by marginal increases in credit impairments and contained cost growth.

Currency impact: The rand appreciated by 9.5% against the US dollar in 2017 after depreciating by 16.4% in 2016. This was despite both Standard & Poor's and Fitch downgrading South Africa's local currency to sub-investment grade.

Notable changes in relevant commodity prices: Commodity prices remained elevated in 2017, largely driven by synchronised global growth, increased crude steel production outside of China and positive sentiment around potential market deficits in base metals.

GDP result: GDP growth was 1.3% in 2017 (2016: 0.3%).

Namibia

Operations results: Year-on-year headline earnings performance was flat due to the increasingly challenging macroeconomic environment and increased funding costs which put pressure on NII. This was achieved through disciplined cost management, containing cost growth below inflation of 2.8%, giving rise to flat jaws.

Currency impact: The Namibian dollar appreciated by 9.5% against the US dollar.

Other economic impacts: During 2016 and 2017, commodity prices and global economic activity recovered, following the downturn in 2014 and 2015, which should underpin the Namibian economy going forward.

GDP result: GDP growth estimated to be -0.5% (2016: 1.1%).

Mozambique

Operations results: Strong headline earnings growth (CCY: 101%) driven by liability growth due to flight to quality combined with significant positive endowment impact with average treasury bill rates increasing from around 15% in 2016 to 25% in 2017. Concerted risk mitigation actions in prior years resulted in an improved credit book, containing credit costs despite significantly increased interest rates.

Currency impact: The metical appreciated by 17% against the US dollar.

Other economic impacts: The economy suffered from the revelation of previously undisclosed loans, which resulted in a tighter monetary policy and fiscal consolidation measures to help restore macroeconomic stability, driving growth in aggregate demand to historical lows.

GDP result: GDP growth estimated to be 3.2% (2016: 3.8%).

Uganda

Operations results: Modest headline earnings growth due to low credit demand from clients and a very loose monetary policy. Margin pressure arose from declining market interest rates declining (average treasury bill rates decreasing from 14.8% in 2016 to 10% in 2017). These challenges were offset by tight cost management and positive jaws.

Currency impact: The Ugandan shilling depreciated by 1% against the US dollar.

Other economic impacts: The agricultural sector grew from the prior year, due to improved weather conditions.

GDP result: GDP growth estimated to be 4.8% (2016: 2.5%).

Kenya

Operations results: An earnings contraction of 20% (CCY) from 2016 was driven by a disruptive political environment, the impact of interest rate capping rules and a significant increase in credit losses arising from the downgrade of a number of project finance-related facilities. The CLR increased from 1.1% to 2.3%, and CTI deteriorated from 50.2% to 53.5%.

Currency impact: The Kenyan shilling depreciated by 0.8% against the US dollar.

Other specific economic impacts: Prolonged political risks associated with the protracted elections in 2017, alongside a drought-induced slowdown in the beginning of the year, are the key reasons for poor economic growth forecasts.

GDP result: GDP growth estimated to be 4.8% (2016: 5.8%).

MEASURING OUR FINANCIAL OUTCOME

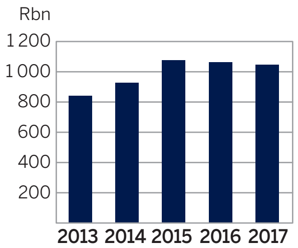
HEADLINE EARNINGS

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 growth is used as a key reference point in decision-making throughout the group.

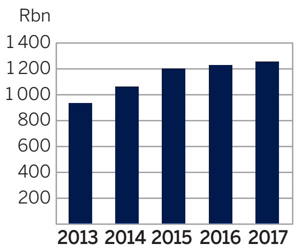
Banking activities' balance sheet drivers

Growth in deposits and debt funding, and loans and advances have provided the group's banking activities with the ability to increase its headline earnings between 2013 and 2017 by a compound annual growth rate (CAGR) of 12%.

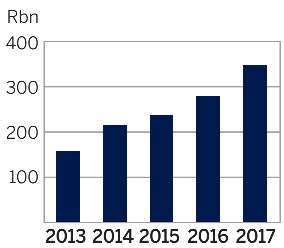
Net loans and advances
(CAGR: 6%)

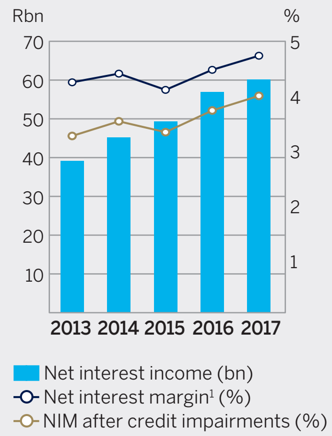


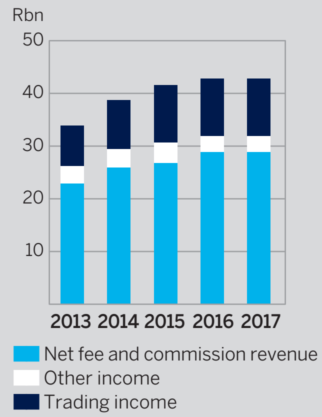
Deposits and debt funding
(CAGR: 8%)

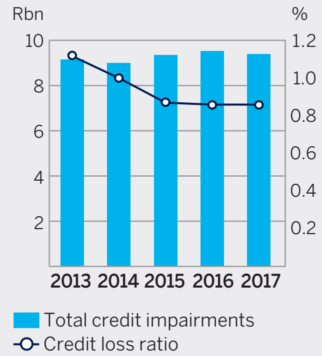


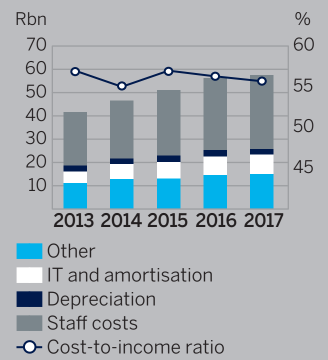
Trading and pledged assets, financial investments and derivatives
(CAGR: 22%)











[1] **Change in methodology and disclosure of net interest margin**
Current calculation: Net interest income over average interest earning assets
Previous calculation: Net interest income over average assets less derivatives
The new disclosure of net interest margin reduces complexity and helps articulate our client portfolio and change in balance sheet mix, and is in line with peer and market analysis.

Banking activities

Net interest income
(CAGR: 11%)

The cumulative effect of improved risk-based pricing strategies, optimisation of funding composition and growth in the Africa Regions has supported the growth in the group's NII from 2013. During the year, NII benefited in South Africa from growth in average balances continued pricing management, particularly in PBB and in the Africa Regions, and the positive endowment impact of higher average interest rates and growth in local currency transactional balances in Africa Regions but partially offset by the full year impact of interest rate caps and floors in Kenya.

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Non-interest revenue
(CAGR: 6%)

Non-interest revenue increased on average by 6% per annum over the period and comprises of net fee and commission revenue (up 6%), trading revenue (up 8%) and other revenue (down 1%). The growth in net fee and commission revenue growth over the period moderated following interchange fee reforms introduced in South Africa from March 2015 but was supported by growth in the group's client base, transactional volumes (notably digital) and points of representation (notably in the Africa Regions). Non-interest revenue remained flat from 2016, with net fee and commission revenue flat and trading revenue down 2% but lifted by growth in other revenue from higher insurance revenue.

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Credit impairments
(CAGR: 1%)

While impairments have increased on average 1% per annum since 2013, the group's credit loss ratio has decreased from 1.12% to 0.86%. For 2017, the group's total credit impairments decreased 1% due to a combination of the charge for specific impairments increasing and the charge for portfolio impairments decreasing.

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Operating expenses
(CAGR: 8%)

Operating expenses have increased on average by 8% over the period as a result of inflation, increased headcount to expand the group's footprint across Africa, exchange rate impacts, increased amortisation of intangible assets and higher IT support costs. However, during 2017, operating expenses increased 2% following a stronger rand, headcount management and a reduction in operational risk losses. Given that income growth was higher than cost growth for the year, a 1% positive jaws ratio was achieved allowing the CTI ratio to reduce to 55.7%.

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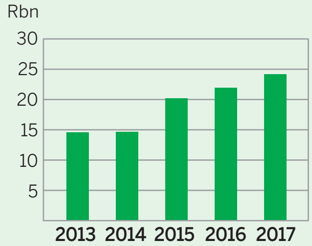
Banking activities' headline earnings
(CAGR: 13%)

Contributing to the 13% average growth per annum in banking activities' headline earnings is the growth in our Africa Regions' headline earnings and SBSA headline earnings of 19% and 9% respectively over the period, as well as an improved group jaws ratio and credit loss ratio. Over the period, Africa Regions' contribution to banking headline earnings increased to 28%, from 26%.



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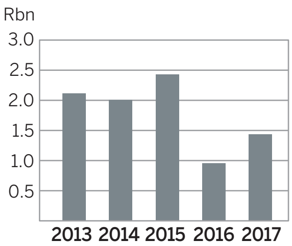
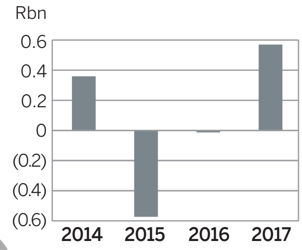
Liberty's headline earnings – SBG share

Between 2013 and 2015, Liberty's headline earnings benefited from a steady improvement in its operating earnings in the long-term insurance business but moderated as a result of lower shareholder investment portfolio gains. Liberty's headline earnings attributable to the group decreased significantly in 2016 due to lower investment returns and a challenging consumer environment. During 2017, the group's share of Liberty's headline earnings increased by 50% to R1.4 billion as a result of higher investment returns in the shareholder investment portfolio and headline earnings of R317 million as a result of the accounting mismatch arising on the consolidation of the Liberty Two Degrees real estate investment trust.



Other banking interests' headline earnings

The headline earnings from the group's other banking interests improved from a loss of R8 million in 2016 to a profit of R567 million in 2017. ICBCS benefited from tax relief in the UK and, if adjusted for, made a small operating profit in 2017, compared to a large loss in 2016. This was offset by lower earnings from ICBC Argentina, exacerbated by the strength of the rand against the peso. In local currency, the bank traded profitably in an improving macro environment, but was unable to grow off the trading-related high base set in the first half of 2016.



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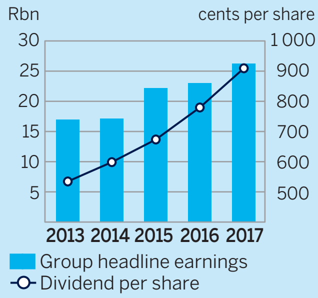
Group headline earnings Lib
(CAGR: 12%)

Group headline earnings growth of 12% over the five-year period has enabled the group to deliver a 14% annual growth in dividends over the same period.

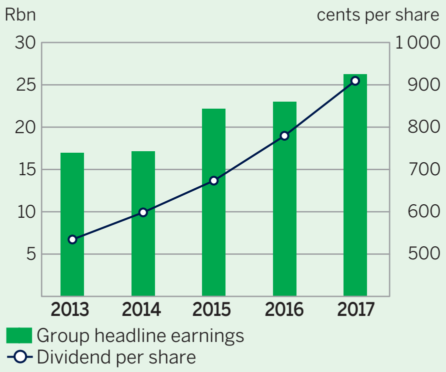


RETURN ON EQUITY Lib

Our ROE is the most relevant measure of our financial 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.

Group headline earnings

(CAGR: 12%)

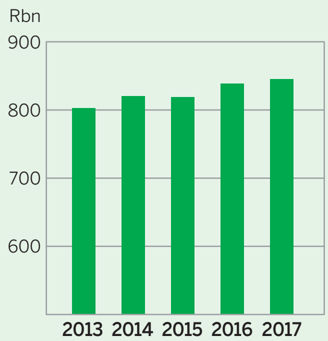


AIR 48–49 For a detailed discussion of our headline earnings.

Group average risk-weighted assets

(CAGR: 1%)

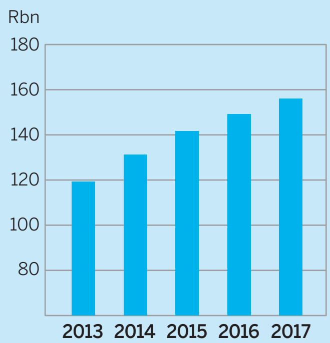
Stable group average RWA over the last two years is the result of RWA optimisation, particularly in CIB, as well as Africa Regions' currency weakness over 2016 and 2017. This, coupled with slow underlying credit risk growth in client portfolios in 2017, resulted in average RWA growing by 1% from the prior year.



Average shareholders' equity

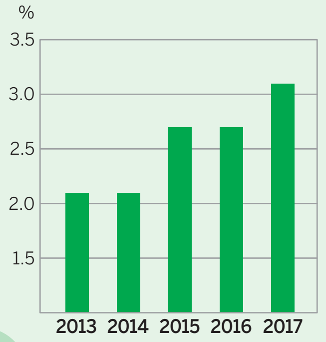
(CAGR: 6%)

The group's average shareholders' equity increased on average by 6% over the five-year period primarily as a result of growth in the group's retained earnings over the period of 12% but offset by dividends which have grown on average by 14% over the period. The group's foreign currency translation reserve (FCTR) further contributed to the increase in shareholders' equity from 2013 to 2015, but decreased significantly in 2016 by R11.4 billion, and further in 2017 by R4.9 billion following rand strength against several foreign currencies.



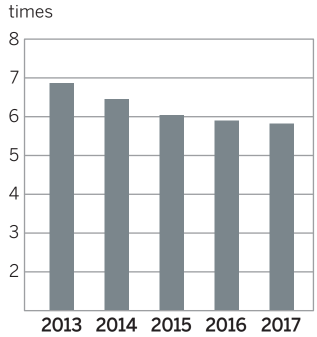
Group average return on risk-weighted assets
(CAGR: 10%)

The group's average RoRWA has increased from 2.1% in 2013 to 3.1% in 2017. This was driven by the 12% CAGR in headline earnings as compared to the 1% CAGR in the group's average RWA. The significant increase in the RoRWA in 2017 followed the 14% growth in headline earnings together with a stable RWA.



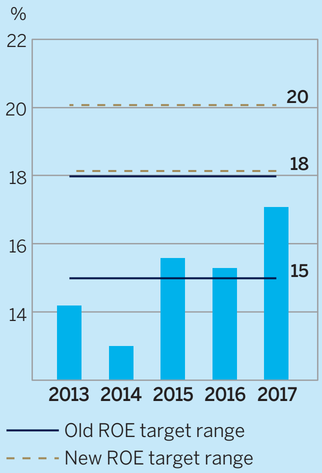
Group financial leverage

The decreasing trend from 2013 to 2017 is due to the average shareholders' equity increasing at a faster rate than the increase of the group's average RWA. The group's financial leverage for 2017 was 5.5% compared to 5.6% in 2016.



Return on equity

In 2017, the group's ROE increased to 17.1% from 15.3%, which is in the upper end of the group's medium-term target range of 15% to 18%. Banking activities' ROE increased to 18% from 16.8% in the previous year as a result of headline earnings growth of 10% exceeding the growth in average shareholders' equity of 2%. The group ROE also benefited from the group's other banking interests reporting a headline earnings profit as compared to a loss in the previous year, as well as the 50% increase in Liberty's headline earnings.



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

OUR VALUE DRIVERS

Client focus

Employee engagement

Risk and conduct

Our value drivers, which contribute to delivering our ROE

We are confident that the resolute execution of our strategy will drive ROE higher. We have set a **new ROE target range of 18% – 20%,** from 2018.

KEY ACCOUNTING CONCEPT

IFRS 9 *FINANCIAL INSTRUMENTS*

The group has adopted IFRS 9 – *Financial Instruments* (IFRS 9), which came into effect from 1 January 2018. Since IFRS 9 changes the way that the group classifies and measures financial assets and liabilities and, most notably, the manner in which the group estimates its expected credit losses, we have provided a summary of how the adoption of IFRS 9 will affect the group from 2018.

The key change

IFRS 9's expected credit loss (ECL) impairment requirements will have the most material impact on the group. IFRS 9 requires credit impairments to be recognised on an expected loss basis which differs significantly from the incurred loss basis required previously by IAS 39 *Financial Instruments: Recognition and Measurement*. The expected loss basis requires us to consider past, current and future expected events in determining ECL requirements. This means that we will include forward-looking economic expectations in determining the expected changes in credit risk, as well as in determining the quantum of the ECL impairment.

It is important to note that the ultimate cash credit loss recognised on loans to our clients will not change because of IFRS 9. If a client is going to default, the ultimate cash loss under both IAS 39 (the requirements applied in preparing the group's 2017 financial results) and IFRS 9 will be identical. The only difference between IAS 39 and IFRS 9 is the timing of how we recognise credit losses, with more losses required to be recognised earlier under IFRS 9.

How IFRS 9 will affect the group

Impact – qualitative assessment

The ECL impairment requirements, IFRS 9's most material impact for the group, are expected to result in an increase of approximately R8.7 billion in balance sheet impairments; an increase of 32% on the current IAS 39 balance sheet impairments (including interest in suspense). IFRS 9's classification and measurement requirements are not expected to have a material impact on the group's reserves as at 1 January 2018.

The following table outlines the key drivers of the estimated impact:

IFRS 9 DRIVERS	REASON
12-month expected credit loss for performing exposures	The existing emergence period is between three to six months for PBB exposures and 12 months for CIB exposures. The IFRS 9 change to a 12-month expected loss requirement will result in an increase in impairments for PBB.
Lifetime credit losses for exposures that exhibit a significant increase in credit risk	IFRS 9 requires a lifetime loss to be recognised for exposures for which there has been a significant increase in credit risk. This will affect both PBB and CIB.
ECL held for unutilised client exposures, guarantees and letters of credit	The requirement for impairments to be recognised for unutilised client facilities, guarantees and letters of credit will result in additional balance sheet impairments for both PBB and CIB.
Lifetime model workout requirement	In terms of determining ECL the exposure's full lifetime is considered. This includes the probability of recovery or cure post default and/or subsequent future default.
Forward-looking economic expectations for ECL	The inclusion of forward-looking economic information is expected to increase the level of provisions held on our balance sheet due to the nature and timing of both current and forecasted economic assumptions.

Tax implications

Within South Africa, National Treasury released a Taxation Laws Amendment Bill which contained updated legislation addressing the requirements for the deductibility of impairments in accordance with IFRS 9. This change included a three-stage approach: 25% tax allowance for impairment provisions for all performing exposures that have not demonstrated a significant increase in credit risk (stage 1), 40% allowance for performing exposures that have demonstrated a significant increase in credit risk (stage 2) and an 85% allowance for impairment provisions for exposures that are in default (stage 3). The change in the timing of the deductibility of the impairments for tax purposes will result in a higher deferred tax asset balance which will have a negative impact on the group's capital ratios.

Capital implications

IFRS 9 (including the related tax consequences) will have consequential impacts on the group's regulatory capital adequacy ratios. The expected increase in impairment provisions, together with the increase in the group's deferred tax asset carrying value and changes in the level of existing threshold deductions for investments in financial entities and deferred tax assets, will reduce qualifying CET 1 capital. This reduction will, however, be partially offset by the release of the existing deduction against qualifying CET 1 for the excess of regulatory expected losses over the IAS 39 impairments (R2.1 billion).

IFRS 9's ECL requirements are expected to reduce the group's CET 1 ratio by approximately 70 bps and will be phased in over three years in accordance with the SARB directive.

The group will communicate the IFRS 9 transition adjustment externally as part of its 2018 first quarter's financial results.

WHERE TO READ MORE

Read more about IFRS 9 online at:
https://cfo.co.za/article/IFRS-9-explained

Refer to the group's website for the group's IFRS 9 transition report, which will be available together with our 2018 first quarter's results.