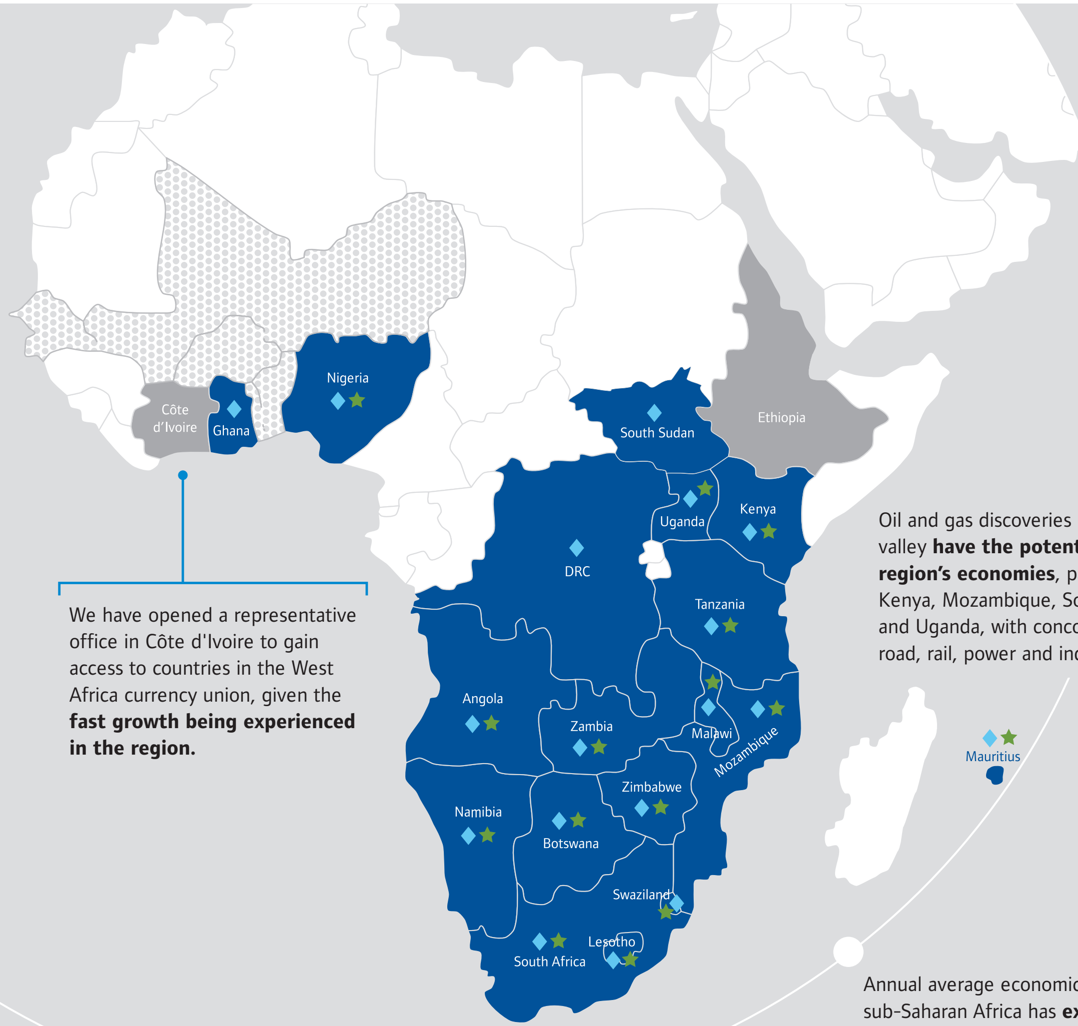
Our operating context

Below and on the opposite page we provide an overview of the context in which we are executing our strategy, in relation to the material issues that affect our longer-term sustainability.



We have opened a representative office in Côte d'Ivoire to gain access to countries in the West Africa currency union, given the **fast growth being experienced in the region.**

Oil and gas discoveries in the East African rift valley **have the potential to transform the region's economies**, particularly Ethiopia, Kenya, Mozambique, South Sudan, Tanzania and Uganda, with concomitant investments in road, rail, power and industrial infrastructure.

Annual average economic growth in sub-Saharan Africa has **exceeded 5%** for more than a decade, giving the continent a **4.1% share of global GDP**, up from 3.4% in 2000.

The number of mobile phone users in Africa has multiplied 33 times since 2000. Over **50% of urban Africans** are already online.

Managing the risks and opportunities of our Africa strategy

Our rest of Africa operations achieved
ROE of 21.5%
(2013: 19.7%)

- Sub-Saharan Africa maintained its growth into 2014, supported by foreign direct investment in the resource sectors, public investment in infrastructure and improved agricultural production.
- By 2050, it is predicted that a quarter of the world's population will reside in Africa with at least 60% of the continent's population living in urban centres.
- The relative immaturity of some key economies and the underdevelopment of key institutions requires a particularly effective risk approach and an appropriate risk appetite.

Delivering sustainable long-term financial performance

In the rest of Africa, PBB achieved profitability with headline earnings of
R105 million

- The rapid growth in Africa's middle class bodes well for the further penetration of financial services on the continent. In particular, the potential for wealth and insurance products is largely untapped.
- Slower economic growth and increasing inflation and interest rates constrain our ability to lend.
- The slowdown in production and manufacturing in China has the ability to constrain growth in commodity exports on the continent.
- To meet Basel III requirements, all our banking subsidiaries contribute financial resources. That means that our subsidiaries in the rest of Africa face greater financial pressure than their domestic peers, impacting their competitiveness in the short to medium term.

Pace, volume and scale of regulatory change

43 051 employees
received regulatory compliance training in 2014

- International reform of the financial sector and the South African government's broader economic policy goals and priorities are driving the volume of regulatory change.
- New regulation has an extensive bearing on day-to-day operations, placing upward pressure on operating costs.
- In South Africa, the Financial Sector Regulation Bill (Twin Peaks) aims to strengthen the regulation of the domestic financial sector.
- Regulatory developments in the rest of Africa relate to foreign exchange control, financial crime, prudential and market conduct requirements.

Knowing our customers and clients and doing the right business with them in the right way

We have **16,7 million**
retail banking customers on the continent

- The operating environment for retail banking is becoming increasingly competitive as consumers use more than one bank and as non-traditional players begin using digital platforms to offer low-cost banking services (known as disintermediation). Our focus on creating a digital bank is aimed at improving competitiveness and pre-empting disintermediation from non-bank players.
- We operate across vastly different regions with significantly diverse cultures and languages. As such we aim to hire locally to gain insight into the dynamics of each country in which we operate.

Establishing and maintaining cost-effective, efficient and relevant IT infrastructure

R19 billion
invested in IT across the group in 2014

- The advancement of IT requires that we constantly adapt the way we do business, including how we interact with and service our customers and clients.
- Given the rapid uptake of smart mobile devices and accelerating internet penetration in Africa, our investments in IT infrastructure on the continent positions us to deliver more banking services digitally, which greatly extends our customer reach and enables us to service our customers more effectively.
- The greater use of technology in delivering banking services increases the risk of cybercrime and banking fraud, which requires continued investment in prevention interventions to limit potential losses.

Attracting, retaining and motivating our employees

49 259
employees

- Competition for local skills in the countries in which we operate requires that we offer our employees a clearly defined value proposition. Specialist skills help determine our success on the continent, and we focus on hiring and retaining the right skills to service our customers and clients.
- Our people are custodians of customer experience and brand, and as such are crucial to our ability to realise our customer-centric strategy. Our new guiding principles, developed as part of our strategy refresh, emphasise the importance of empowering our people and developing great leaders.