BASE PROSPECTUS

THE STANDARD BANK OF SOUTH AFRICA LIMITED
(Registration Number 1962/000738/06)
(incorporated with limited liability in The Republic of South Africa)
as **Issuer**

and

STANDARD BANK GROUP LIMITED
(Registration Number 1969/017128/06)
(incorporated with limited liability in The Republic of South Africa)
as **Issuer**

U.S.$4,000,000,000

Euro Medium Term Note Programme

This Base Prospectus has been approved by the United Kingdom Financial Conduct Authority (the "**FCA**"), which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC, as amended or superseded (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom, as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of notes ("**Notes**") issued under the Euro Medium Term Note Programme (the "**Programme**") described in this Base Prospectus by The Standard Bank of South Africa Limited or Standard Bank Group Limited (as specified in the applicable Final Terms or Pricing Supplement (as defined below)) during the period of twelve months after the date hereof. Applications have been made for such Notes (other than Exempt Notes (as defined below)) to be admitted during the period of twelve months after the date hereof to listing on the Official List (the "**Official List**") of the FCA and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"), which is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2014/65/EU) (as amended, "**MiFID II**"). The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuers (as defined below). References in this Base Prospectus to "**Exempt Notes**" are to Notes for which no prospectus is required to be published under the Prospectus Directive. The FCA has neither approved nor reviewed information contained in this Base Prospectus in connection with Exempt Notes and the Exempt Notes do not form part of this Base Prospectus as so approved.

The Final Terms (as defined below) in respect of any Notes and any drawdown prospectus may include a legend entitled "*MiFID II Product Governance*" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels. A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer (as defined herein) subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither The Standard Bank of South Africa Limited (acting through its Corporate and Investment Banking Division) (the "**Arranger**") nor the Dealers nor any of their respective affiliates (as defined under Rule 501(b) of Regulation D of the Securities Act (as defined below)) will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

NOTIFICATION UNDER SECTION 309B(1)(c) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE (the "**SFA**") – Unless otherwise stated in the Final Terms in respect of any Notes, all Notes issued or to be issued under the Programme shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Notes to be issued under the Programme may comprise (i) unsubordinated Notes (the "**Unsubordinated Notes**"), or (ii) Notes which are subordinated to the unsubordinated Notes (the "**Subordinated Notes**"). The rating of the Notes is to be specified in the Final Terms or, in the case of Exempt Notes, a Pricing Supplement. Subordinated Notes may be issued as either Tier 2 Notes (as defined herein) or Subordinated Notes that are not intended to qualify as Tier 2 Capital (as defined herein). The Standard Bank of South Africa Limited has been rated BB+ (long-term, foreign currency, issuer default rating) by Fitch Ratings Limited and Baa3 (long-term, foreign currency deposit rating) by Moody's Investors Service Cyprus Ltd. Standard Bank Group Limited has been rated BB+ (long-term, foreign currency, issuer default rating) by Fitch Ratings Limited and Ba1 (long-term, foreign currency deposit rating) by Moody's Investors Service Cyprus Ltd. Fitch Ratings Limited and Moody's Investors Service Cyprus Ltd. are both established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

As at the date of this Base Prospectus, the prior approval of the Financial Surveillance Department ("FSD") of the South African Reserve Bank ("SARB") is required for the issuance of each Tranche (as defined herein) of Notes under the Programme. In addition, and in respect of a Tranche of Notes which are Tier 2 Notes, the prior approval of the Prudential Authority is required.

Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of each Issuer to fulfil its obligations under the Notes are discussed under "Risk Factors" below.

Arranger

The Standard Bank of South Africa Limited
(acting through its Corporate and Investment Banking Division)

Dealers

BofA Merrill Lynch	**BNP PARIBAS**	**Citigroup**
Commerzbank	**Credit Suisse**	**Deutsche Bank**
HSBC	**ICBC International**	**ING**
J.P. Morgan	**Mizuho Securities**	**MUFG**
NatWest Markets	**Société Générale Corporate & Investment Banking**	**Standard Bank**
Standard Chartered Bank	**UBS Investment Bank**	

10 May 2019

CONTENTS

Page

IMPORTANT NOTICES

References to the "**SBG Base Prospectus**" mean this document with the exception of the information contained in the section headed "*Description of The Standard Bank of South Africa Limited*" on pages 117 - 219, (b) the information incorporated by reference into this document as set out in the section headed "*Information Incorporated by Reference*" on pages 35 – 36 and (c) the information in paragraph 2(b) under the heading "*Significant / Material Change*" relating to the Standard Bank of South Africa Limited on page 237. The SBG Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. Standard Bank Group Limited ("**SBG**") accepts responsibility for the information contained in the SBG Base Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in the SBG Base Prospectus for which it is responsible is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

References to the "**SBSA Base Prospectus**" mean this document with the exception of the information contained in the section headed "*Description of Standard Bank Group Limited*" on pages 121 - 170, (b) the financial information relating to SBG set out in pages F1 – F436 and (c) the information in paragraph 2(a) under the heading "*Significant / Material Change*" relating to SBG on page 237. The SBSA Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. The Standard Bank of South Africa Limited ("**SBSA**") accepts responsibility for the information contained in the SBSA Base Prospectus (together with the SBG Base Prospectus, the "**Base Prospectus**") and declares that, having taken all reasonable care to ensure that such is the case, the information contained in the SBSA Base Prospectus for which it is responsible is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

References in this Base Prospectus to the "**relevant Issuer**" shall, in relation to any issue or proposed issue of Notes, be references to whichever of SBSA and/or SBG is the issuer or proposed issuer of such Notes.

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" (the "**Conditions**") as completed by the final terms (the "**Final Terms**") or in a separate prospectus specific to such Tranche (the "**Drawdown Prospectus**") or, in the case of Exempt Notes, a pricing supplement (the "**Pricing Supplement**"). In the case of Exempt Notes, any reference in this Base Prospectus to "**Final Terms**" shall be deemed to be a reference to "**Pricing Supplement**" unless the context requires otherwise. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise. This Base Prospectus must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Notes which is the subject of Final Terms, must be read and construed together with the relevant Final Terms.

Each Issuer has confirmed to the Dealers that this Base Prospectus contains all information which is (in the context of the Programme, the issue, offering and sale of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme, the issue, offering and sale of the Notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuers or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuers or any Dealer.

Neither the Dealers nor any of their respective affiliates (as defined under Rule 501(b) of Regulation D of the Securities Act) have authorised the whole or any part of this Base Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus or any responsibility for any acts or omissions of either

Issuer or any other person in connection with the Base Prospectus or the issue and offering of Notes. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of any Issuer since the date thereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuers and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Notes, see "*Subscription and Sale*". In particular, Notes have not been and will not be registered under the U.S. Securities Act of 1933 (as amended) (the "**Securities Act**") and Bearer Notes (as defined in the Conditions) are subject to tax law requirements in the United States of America (the "**U.S.**"). Subject to certain exceptions, Notes may not be offered, sold or, in the case of Bearer Notes, delivered within the U.S. or to U.S. persons (as defined in Regulation S under the Securities Act).

This Base Prospectus has been prepared on the basis that any offer of Notes in any Member State (as defined below) of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuers, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuers.

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed U.S.$4,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealer Agreement (as defined herein))). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "*Subscription and Sale*".

Certain information included herein relating to the banking industry has been extracted from information published by the SARB. In addition, certain information relating to the South African economy, including statistical information, has been obtained from Statistics South Africa. Each Issuer confirms that such third party information has been accurately reproduced and, as far as each Issuer is aware, and is able to ascertain from the information published by such sources, no facts have been omitted which would render the reproduced inaccurate or misleading. However, the information has not been independently verified by the Issuers or any other party and prospective investors should not place undue reliance upon such data as included in this Base Prospectus.

BENCHMARKS REGULATION: Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (the "**Benchmark Regulation**"). If any such reference rate does constitute such a benchmark, the applicable Final Terms or Pricing Supplement will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 of the Benchmark Regulation. Not every reference rate will fall within the scope of the Benchmark Regulation. Transitional provisions in the Benchmark Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the relevant Final Terms or Pricing Supplement (or, if located outside the European Union, recognition, endorsement or equivalence). The registration status of any administrator under the Benchmark Regulation is a matter of public record and, save where required by applicable law, SBSA does not intend to update the relevant Final Terms or Pricing Supplement to reflect any change in the registration status of the administrator.

In this Base Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the EEA, references to "**South Africa**" are references to the Republic of South Africa, references to "**U.S.$**", "**U.S. dollars**" are to United States dollars, references to "**EUR**" or "**euro**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, references to "**ZAR**", "**R**" or "**Rand**" are to South African rand and references to "**Renminbi**", "**CNY**" and "**RMB**" are to the lawful currency of the People's Republic of China (excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan) ("**PRC**").

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilisation Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

RISK FACTORS

Each of the Issuers believes that the factors outlined below may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and neither Issuer is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.

Each of the Issuers believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of either Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by either Issuer based on information currently available to it, or which it may not currently be able to anticipate. Accordingly, neither Issuer represents that the statements below regarding the risks of holding any Notes are exhaustive.

Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus to reach their own views prior to making any investment decision. The information given below is as at the date of this Base Prospectus.

Capitalised terms used herein and not otherwise defined shall bear the meanings ascribed to them in "Terms and Conditions of the Notes".

References in this section to the "**Group**" are to SBG and its subsidiaries and therefore include SBSA and its subsidiaries. Investors should note that SBG is not a guarantor of, and will not guarantee, any Notes issued by SBSA under the Programme. Investors sole recourse in respect of any Notes issued by SBSA is to SBSA.

Factors that may affect the Issuers' ability to fulfil their obligations under Notes issued under the Programme

Risks relating to the Issuers

SBG is a holding company and its ability to make payments in respect of the Notes issued by it depends on the results of its operating subsidiaries and its ability to receive distributions and repayments from such subsidiaries

SBG is the ultimate holding company for the Group's interests and conducts its business through operating subsidiaries. SBG’s ability to meet its financial obligations, including payments under Notes issued by it, depends on receipt of interest and principal payments on loans made by it to its operating subsidiaries (including, for example, any loans which may be made with the issue proceeds of Notes issued by SBG) and/or distributions of earnings and capital from its operating subsidiaries in the form of dividends, distributions or other advances and payments.

Certain of SBG’s subsidiaries have incurred or may in the future incur indebtedness pursuant to loan agreements, indentures or other financial instruments that rank senior to SBG’s loans to its subsidiaries. Furthermore, such subsidiaries are, or may in the future be, subject to restrictions contained in loan agreements or indentures which prohibit or limit their ability to transfer funds to SBG and/or require that any existing or new indebtedness of such subsidiaries to SBG be subordinated to the indebtedness under such loan agreements or indentures. SBG’s subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due under Notes issued by SBG (or SBSA) or to make any funds available therefore, whether in the form of dividends or otherwise. Any right that SBG may have to receive assets of any such subsidiary upon its liquidation, and the consequent right of the holders of Notes to benefit from the distribution of proceeds from those assets, will be effectively subordinated to the claims of creditors of such subsidiaries, including tax authorities, employees, trade creditors and lenders.

The investments, business, profitability and results of operations of the Issuers may be adversely affected as a result of the difficult conditions in the global, South African and, with respect to SBG, sub-Saharan financial markets

The Group's business has significant holdings in South Africa, in particular through SBSA and its subsidiaries, with the majority of the Issuers' revenues derived from operations in South Africa.

Therefore, the Issuers' business and results of operations are primarily affected by economic and political conditions in South Africa and, as a result of their impact on the South African economy, global economic conditions.

In addition, the Group is an African focused universal financial services group with operations in 19 countries in sub-Saharan Africa outside of South Africa (which it refers to as "**Africa Regions**") and satellite offices in five key financial centres and two offshore hubs. As a result, SBG's performance is also affected by its operations in sub-Saharan Africa. Economic and political conditions in the Africa Regions in which it operates therefore also have an impact on SBG's business and results.

Global economic conditions

A material deterioration in global economic conditions is likely to have a negative impact on macroeconomic conditions in South Africa and other countries in sub-Saharan Africa.

With respect to South Africa in particular, the economy is exposed to the global economy through the current and capital accounts of the balance of payments. South Africa's exports are impacted by economic activity of some of the world's largest economies including China, the U.S. and Europe. Commodity prices and the Rand exchange rate also have a material impact on South African exports. The South African economy is also reliant on foreign capital flows into the country and has been a recipient of foreign capital through the domestic bond and equity markets over the last few years.

Global economic growth is expected to be relatively subdued at approximately 3.5 per cent. in 2019 (source: IMF – World Economic Outlook Update (January 2019)). International trade tensions resulted in a significant decline in volumes of international trade in 2018. The adoption of protectionist trade policies by the U.S. has been a predominant contributing factor to this decline, compounded by political and economic uncertainty in Europe. A further decline in international trade or a sharp slowdown of foreign inflows to South Africa may result in currency weakness, higher interest rates, an increase in bond yields and weaker economic growth.

In addition, a sharp fall in precious metals prices and/or base metal prices could result in a deterioration in the value of the Rand, higher interest rates and bond yields.

South African economic conditions

Factors such as subdued economic growth, rising inflation, interest rates, foreign exchange rate movements and currency controls could affect an investment in the Notes in a manner that may be difficult to predict.

The South African macroeconomic environment is characterised by low private sector investment growth, weak employment growth, historical high levels of debt and pressure on domestic demand. Economic growth in South Africa averaged 0.8 per cent. in 2018, supported largely by household consumption expenditure, which in turn was supported by modest growth in household credit and non-wage income. The Issuers anticipate growth to continue to be subdued in 2019, on account of a slowdown in the global economy, subdued investor confidence and supply side constraints. The Issuers anticipate real fixed investment growth to be delayed in 2019 due to uncertainty over stable power supply and policy due to the general elections in South Africa in 2019 (the "**2019 General Elections**"). In turn, this is likely to limit employment growth and maintain high levels of unemployment. The Issuers believe that growth should increase modestly in the medium-term, subject to the implementation of constructive economic reforms following the 2019 General Elections.

The Rand remains undervalued yet vulnerable to further depreciation. In March 2019, Moody's Investor Services Inc. preserved South Africa's sovereign rating of Baa3 which provided some relief to the Rand. The recent spate of severe Eskom-related power outages in 2019, along with uncertainty surrounding future power outages and the outcome of the 2019 General Elections however remain a concern.

No assurance can be given that an economic downturn or financial crisis will not occur in South Africa, or that the Issuers would be able to sustain their current performance levels if events or circumstances affecting the South African economy were to occur.

South African political conditions

Historically, the South African political environment has been characterised by a high level of uncertainty and concerns about the strength and independence of the country's institutions.

The political outlook in South Africa is currently dominated by the 2019 General Elections. It appears likely that the African National Congress ("**ANC**") will again secure the majority of the national vote. Such an outcome is expected to deliver some stability to the political environment and allow President Ramaphosa to begin to implement the structural reform programme necessary to revive the country's economy, and stabilise key state institutions harmed by executive mismanagement and malgovernance during the previous administration. In particular, vital institutions within the state's Anti-Corruption Task Team are expected to work to rebuild internal credibility under new leadership following the 2019 General Elections.

South Africa continues to face a number of challenges including:

- The scale of the financial and operational challenges faced by Eskom, including aging infrastructure, decreased spending on maintenance and high debt levels is such that it could materially impact the economic recovery plan. Eskom, a state-owned company, generates, transmits and distributes electricity and is responsible for generating most of the electricity in South Africa.
- There remain substantial divisions within the ANC which threaten to compromise President Ramaphosa's economic and structural reform plans.
- While the frequency, intensity and economic impact of industrial action has been relatively limited over the past three years, there are signals that industrial unrest may commence again, particularly in the mining sector. Further, many of the structural reforms that are required to produce a more supportive growth environment (such as the reform of Eskom, and the rationalisation of state–owned enterprises more generally) will face fierce opposition from organised labour, which may then trigger strike activity.
- Global politics remain highly unpredictable and have the potential to materially affect South African political and economic developments.

South African conditions specific to the banking sector

The South African banking sector remains well capitalised, funded, regulated and managed. The South African financial sector is widely regarded as one of the country's key pillars of economic strength. The banking sector is, however, highly exposed to South African macroeconomic conditions and will be impacted by negative macroeconomic developments. Domestic macroeconomic conditions are expected to be slightly less supportive of the domestic banking sector in the first half of 2019.

Growth is likely to be weaker in the first half of 2019 before modestly improving in the second half of 2019. Household compensation of employees (wage and salaries income) significantly slowed to 4.2 per cent. in 2018 from 7.4 per cent. in 2017 and 8.4 per cent. in 2016. This, alongside an elevated unemployment rate, poses risks to household consumption expenditure.

Any deterioration in economic conditions in South Africa or the other countries in which the Group operates, could materially adversely affect the Issuers' customers and contractual counterparties which may in turn adversely affect the Issuers' business, financial condition, results of operations or business.

The Issuers' risk management policies and procedures may not have identified or anticipated all potential risk exposures

The Issuers have devoted significant resources to developing their risk management policies and procedures, particularly in connection with credit, market, liquidity, interest rate and operational risks, and expect to continue to do so in the future. Nonetheless, their risk management techniques may not be fully effective in mitigating their risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of the Issuers' methods of managing risk are based upon its use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be greater than historical measures indicate. Other risk management methods depend upon evaluation of information regarding the markets in which the Issuers operate, their clients or other matters that are publicly available or otherwise accessible by the Issuers. This information may not be accurate in all cases, complete, up-to-date or properly evaluated. Any failure arising out of the Issuers' risk management techniques may have an adverse effect on its results of operations and financial condition.

Competitive Landscape

The Group is subject to significant competition from other major banks operating in its markets, including competitors such as international banks that may have greater financial and other resources, particularly in the corporate and investment banking market. Many of these banks compete for substantially the same customers as the Issuers and/or other members of the Group. The Issuers also face competition from other non-bank entities that increasingly provide similar services to those offered by banks, including entities such as retailers, mobile telephone companies and other technology companies, including "bigtech", and entities in the shadow banking industry. Increased competition from non-bank entities in the money markets and capital markets could impact the Issuers' ability to attract funding. Competition may increase in some or all of the Issuers' principal markets and may have an adverse effect on their financial condition and results of operations.

Failures in risk management

The Issuers are exposed to a variety of risks arising in the ordinary course of their business, the most significant of which are credit risk, market risk, liquidity risk, interest rate risk and operational risk, with credit risk constituting the largest.

Whilst the Issuers believe that they have implemented appropriate standards, policies, systems and processes to control and mitigate these risks, investors should note that any failure to manage these risks adequately could have an adverse effect on the financial condition and reputation of either Issuer.

Although the Group has implemented risk management methods, including stress testing, to seek to mitigate and control these and other market risks to which it is exposed and these exposures are constantly measured and monitored, there can be no assurance that these risk management methods will be effective, particularly in unusual or extreme market conditions. It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on either Issuers' financial performance and business operations.

Credit Risk

The Issuers' lending and trading businesses are subject to inherent risks relating to the credit quality of their counterparties, which may impact the recoverability of loans and advances due from these counterparties. Changes in the credit quality of the Issuers' lending and trading counterparties or arising from systemic risk in the financial sector could reduce the value of the Issuers' assets and require increased provisions for bad and doubtful debts.

In addition, the Group is exposed to credit concentration risk, which is the risk of loss arising from an excessive concentration of exposure to a single counterparty, an industry, a market or segment of a market, a product, a financial instrument or type of security, a country or geography, or a maturity. The Group's credit portfolio also contains concentration risk of exposure to respective governments in the regions in which it operates, through prudential requirements and direct lending. The Group manages this exposure within a clearly defined risk appetite framework and also stress tests portfolios against weaknesses and sovereign downgrades.

SBG's credit impairment charges decreased by 31 per cent. to R6.5 billion while the total credit loss ratio improved to 0.56 per cent. (from 0.87 per cent. for the year ended 31 December 2017) for the year ended 31 December 2018. An amount of R1.2 billion of the reduction in annual credit impairment charges related to a reclassification of interest in suspense on cured assets. This amount would previously have been recognised as interest earned on cured loans. A further R0.5 billion of the reduction was related to the transition to IFRS 9 which requires the earlier suspension of interest on non-performing exposures. Adjusting for the IFRS 9-related accounting impact, SBG's credit loss ratio would have been 0.71 per cent.

As at 31 December 2018, SBSA's net loans and advances represented 83 per cent. of SBG's net loans and advances. In respect of SBSA, non-performing loans were 3.8 per cent. of average loans and advances, up from 3.1 per cent. as at 31 December 2017. IFRS 9 contributed to these increases in non-performing loans balance and corresponding ratio.

SBSA operates through its divisions, Personal & Business Banking SA and Corporate & Investment Banking SA. At a divisional level, non-performing loans increased to 5.3 per cent. of the Personal & Business Banking SA division's gross loans and advances at 31 December 2018 (compared to 4.7 per cent. at 31 December 2017). The Corporate & Investment Banking SA division's non-performing loans represented 1.6 per cent. of its gross loans and advances (compared to 1.0 per cent. at 31 December 2017). SBSA's credit impairment charges decreased by 22.2 per cent. to R5.6 billion (from R7.1 billion for the year ended 31 December 2017) and the total credit loss ratio improved to 0.59 per cent. from 0.77 per cent. for the year ended 31 December 2018. Credit impairment charges for 2018 were positively impacted by the reallocation of interest in suspense for pre-legal and cured loan balances in Personal and Business Banking SA, following the implementation of IFRS 9, higher post write-off recoveries and improved book quality across all products.

The Personal and Business Banking SA division reported a 28 per cent. decline in impairment charges year-on-year. This performance was partly due to a R940 million IFRS 9-related adjustment to account for the treatment of interest in suspense on cured accounts, and the result of improved collection strategies across the portfolio, higher post write-off recoveries and operational credit rating enhancements. Lower impairments in card, vehicle and asset finance and overdraft were also contributors to the lower impairments charge.

The Corporate and Investment Banking SA division reported an increase in impairment charges of 22.4 per cent. for the year ended 31 December 2018. Higher impairment charges were raised on retail consumer and construction sector clients in the Corporate and Investment Banking SA division, whose performance was impacted by a low growth domestic economic environment.

SBSA's credit portfolio contains a concentration of exposure to the South African government (the **"Government"**), through prudential requirements and direct lending. SBSA manages this exposure within a clearly defined risk appetite framework and also stress tests the portfolio against weaknesses and sovereign downgrades.

SBSA continues to hold the largest market share (34.12 per cent.) in the South African residential mortgage advances to the household sector market (source: SARB BA900 regulatory return, January 2019), and these exposures represent a credit concentration in SBSA's portfolio. SBSA manages this exposure within a clearly defined risk appetite framework, which includes portfolio limits. SBSA also regularly stress tests the portfolio against various weaknesses in the economy, such as a sovereign ratings downgrade, which could negatively affect consumer creditworthiness and the repayment of home loans.

Many factors affect the ability of the Group's customers to repay their loans. Some of these factors, including adverse changes in consumer confidence levels due to local, national and global factors, consumer spending, bankruptcy rates, and increased market volatility, might be difficult to anticipate and are outside of the Issuers' control. The Issuers conduct annual credit risk type scenario and sensitivity 'stress testing on their respective portfolios to assess the impact on their respective risk profiles and to inform changes to forward-looking risk appetite and strategy.

The Group continues to apply appropriate and responsible lending criteria and to manage credit risk by maintaining a culture of responsible lending and a robust risk policy and control framework, in line with anticipated economic conditions and forward-looking risk appetite. Despite this, if macroeconomic conditions in South Africa continue to remain uncertain and demand for credit remains lacklustre, the level of the Issuers' non-performing loans and credit impairments may increase. This, in turn, could have an adverse effect on the Issuers' financial condition or results of operations.

Market Risk

Market risk is the risk of a change in the market value, actual or effective earnings, or future cash flows of a portfolio of financial instruments, including commodities, which is caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables. The Group's key market risks are trading book market risk, interest rate risk in the banking book, equity risk in the banking book, foreign currency risk, own equity-linked transactions and post-employment obligation risk.

Trading book market risk is represented by financial instruments, including commodities, held in various entities in the Group's trading books arising out of normal global market's trading activity. Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

Equity risk is defined as the risk of loss arising from a decline in the value of equity or an equity-type instrument held in the banking book, whether caused by deterioration in the underlying operating asset performance, net asset value, enterprise value of the issuing entity, or by a decline in the market price of the equity or instrument itself.

The Group's primary non-trading related exposures to foreign currency risk arise as a result of the translation effect on their respective net assets in foreign operations, intragroup foreign-denominated debt and foreign-denominated cash exposures and accruals.

The Issuers have exposure to changes in SBG's share price arising from the equity-linked remuneration contractual commitments and post-employment obligation risk through the requirement to contribute as an employer to an underfunded defined benefit plan. In addition, SBG, through its 53.62 per cent. shareholding in Liberty Holdings Limited ("**Liberty**"), is exposed to insurance risk

The Group's Liberty business unit provides life insurance products and services through Liberty Group Limited, a subsidiary of Liberty. Market risk within the Group's long-term insurance business is split into three categories:

- market risks to which Liberty wishes to maintain exposure on a long-term strategic basis;
- market risks to which Liberty does not wish to maintain exposure on a long-term strategic basis as they are not expected to provide an adequate return on economic capital over time; and
- market risks to which Liberty does not wish to maintain exposure but where Liberty is unable to economically mitigate these risks through hedging.

Liquidity and Funding Risk

The Group's primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as long-term capital and loan markets.

In respect of South Africa, the banking sector is characterised by certain structural features, such as a low discretionary savings rate in general and a high percentage of these are captured by institutions such as pension funds, provident funds and providers of asset management services. A portion of these savings translate into institutional funding for the banking system that comprises wholesale funding from financial institutions across a range of deposits, loans and financial instruments. These deposits have a different liquidity profile to retail deposits. As a result, the Issuers, along with other banking groups in South Africa, have a higher reliance on wholesale funding than retail deposits. As at 31 December 2018, retail deposits comprised 22 per cent. of the total funding-related liabilities of SBSA and 27 per cent. of the total funding-related liabilities of SBG.

Wholesale funding sourced by members of the Group is usually of a short-to-medium term and entered into on a contractual basis. Wholesale funding is more expensive than retail deposits, and is sourced from a small number of depositors, principally, fund managers. As at 31 December 2018, 83 per cent. of the SBSA's deposits and debt funding had a contractual maturity date of 12 months or less or were repayable on demand. As at 31 December 2018, SBSA's largest single depositor accounted for 2.7 per cent. of total deposits and the top 10 depositors accounted for 10.3 per cent. of total deposits, well within SBSA's risk appetite of 10 per cent. and 20 per cent. respectively. As at 31 December 2018, 86 per cent. of SBG's deposits and debt funding had a contractual maturity date of 12 months or less or were repayable on demand. As at 31 December 2018, the largest single depositor accounted for 2.2 per cent. of total deposits and the top 10 depositors accounted for 7.9 per cent. of total deposits, well within the Group's risk appetite of 10 per cent. and 20 per cent. respectively.

If a substantial portion of the depositors withdraw their demand deposits or did not roll over their term deposits upon maturity, the Issuers' may need to seek more expensive sources of funding to meet their funding requirements and no assurance can be made that additional funding will be obtained on commercially reasonable terms as and when required, or at all. Any inability to refinance or replace such deposits with alternative funding could adversely affect the liquidity and financial condition of SBSA or SBG.

Disruptions, uncertainty or volatility in the capital and credit markets may limit the Issuers' ability to refinance maturing liabilities with long-term funding and may increase the cost of such funding. The availability to the Issuers of any additional financing they may need will depend on a variety of factors, such as market conditions, the availability of credit generally and to borrowers in the financial services industry specifically, and the Issuers' financial condition, credit ratings and credit capacity. The possibility that customers or lenders could develop a negative perception of the Issuers' financial prospects if, for example, an Issuer incurs large losses, experiences significant deposit outflows or if the level of an Issuer's business activity decreases, could also affect the availability of any additional financing.

Although the Issuers believe that their level of access to domestic and international inter-bank and capital markets and their liquidity risk management policies allow and will continue to allow the Issuers to meet their short-term and long-term liquidity needs, any maturity mismatches may have an adverse impact on their financial condition and results of operations. Furthermore, there can be no assurance that the Issuers will be successful in obtaining additional sources of funds on acceptable terms or at all.

A downgrade in the Issuers' credit ratings or the credit rating of South Africa could have an adverse effect on the Issuers' access to liquidity sources and funding costs

The Issuers' credit ratings affect the cost and other terms upon which the Issuers are able to obtain funding. Rating agencies regularly evaluate the Issuers and their ratings of their long-term debt are based on a number of factors, including capital adequacy levels, quality of earnings, credit exposure, the risk management framework and funding diversification. These parameters and their possible impact on the Issuers' credit rating are monitored closely and incorporated into their liquidity risk management and contingency planning considerations.

As of the date of this Base Prospectus, SBSA's short and long-term foreign currency deposit rating was assessed by Moody's Investors Service Inc. ("**Moodys**") as P-3 and Baa3, respectively, with a stable outlook and SBSA's short and long-term foreign currency issuer default rating was assessed by Fitch Ratings Limited ("**Fitch**") as B and BB+, respectively, with a stable outlook. As of the date of this Base Prospectus, SBG's long–term Issuer rating was assessed by Moody's as Ba1 with a stable outlook and SBG's short and long–term foreign currency issuer default rating was assessed by Fitch as B and BB+, respectively, with a stable outlook. Moody's award of the SBG's rating is one step lower than the deposit rating assigned to SBSA. SBG's issuer rating is mainly driven by the structural subordination of SBG's creditors to those of SBSA. Fitch's rating of SBG reflects concentration risk in relation to South Africa comprising large holdings of government securities, high exposure to state–owned enterprises and the weakening economic and operating environment.

A downgrade of the Issuers' credit ratings, or being placed on a negative ratings watch, may increase their cost of borrowing, limit their ability to raise capital and adversely affect their results of operations. In 2017, SBSA's credit rating was downgraded to BB+ with a stable outlook by Fitch, and to Baa3 with a negative outlook by Moody's, as SBSA's rating is constrained by its sizeable exposure to government securities, which effectively links its creditworthiness to that of the national government. Further downgrade or potential downgrade of the South African sovereign rating or a change in rating agency methodologies relating to systemic support provided by the South African sovereign could also negatively affect the perception by rating agencies of the Issuers' ratings. The Issuers continue to proactively plan for the potential implications of further South African sovereign credit rating agency downgrades for both local and foreign currency which could still have a significant impact on the Issuers' access to, and cost of foreign currency liquidity sources.

There can also be no assurance that the rating agencies will maintain the Issuers' current ratings or outlooks or those of South Africa. Ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Each rating should be evaluated independently of any other rating.

The Issuers are subject to capital and liquidity requirements that could affect their operations

The Issuers are subject to capital adequacy requirements specified by the South African Reserve Bank (the "**SARB**"), which provide for a minimum common equity tier 1 ("**CET 1**"), tier 1 and total capital adequacy ratio.

The amended Regulations relating to Banks (as further amended on 20 May 2016) (as defined in the Conditions) effective 1 January 2013 are based on the Basel III framework ("**Basel III**") introduced by the Basel Committee on Banking Supervision ("**BCBS**") and provide the minimum risk based capital ratios. The SARB minimum ratios will be phased in for the period 2013 to 2019 in line with Basel III. The minimum CET 1 ratio for 2018 is 8.13 per cent. increasing to 8.50 per cent. in 2019. The minimum tier 1 ratio for 2018 is 10.01 per cent. increasing to 10.75 per cent. in 2019. The minimum 2018 total capital adequacy ratio is 13.01 per cent. increasing to 14 per cent. in 2019. These minimum ratios exclude the countercyclical buffer and confidential bank-specific pillar 2b capital requirement ("**D–SIB**") but include the maximum potential domestic systemically important bank requirement, which is also bank-specific and therefore confidential.

The Basel III capital buffers continue to make it more challenging for banks and bank holding companies to comply with minimum capital ratios. Failure by the Issuers to meet certain of these buffers, for example the capital conservation and counter–cyclicality buffers, could result in restrictions being placed on distributions, including dividends and discretionary payments, and any failure by the Issuers to maintain their capital ratios may result in action taken in respect of the Issuers, which may in turn impact on their ability to fulfil their obligations under the Notes.

In addition, Basel III prescribes two minimum liquidity standards for funding liquidity. The first is the liquidity coverage ratio ("**LCR**") which became effective on 1 January 2015 and aims to ensure that banks maintain an adequate level of high-quality liquid assets to meet liquidity needs for a 30 calendar day period under a severe stress scenario. The second is the net stable funding ratio ("**NSFR**"), which became effective on 1 January 2018, and which aims to promote medium and long-term funding of banks' assets and activities.

South Africa, as a G20 and BCBS member country, commenced with the phasing-in of the Basel III LCR framework on 1 January 2015 in line with timelines determined by the Basel Committee. SBSA, reported a LCR of 110.1 per cent as at 31 December 2018 based on a simple average of 92 days of daily observations over the quarter ended 31 December 2018, exceeding the SARB’s minimum phase-in requirement of 90 per cent. SBG reported a LCR of 116.8 per cent as at 31 December 2018 based on a simple average of 92 days of daily observations over the quarter ended 31 December 2018 for the majority of SBG’s balance sheet and a simple average of the three month-end data points for certain Africa Regions banking entities which are not yet reported daily, exceeding the SARB’s minimum phase-in requirement of 90 per cent.

The SARB has approved the 2018 committed liquidity facility ("**CLF**") which will be available to assist banks to meet the LCR and NSFR. The SARB's approach to the CLF is detailed in, *inter alia*, Guidance Note 6 of 2016 (Provision of a committed liquidity facility by the South African Reserve Bank).

The Issuers successfully managed their balance sheet structure and maintained NSFR compliance for 2018, with SBSA reporting a NSFR of 105.9 per cent as at 31 December 2018 in excess of the 100.0 per cent regulatory requirement, and SBG reporting a NSFR of 118.6 per cent. as at 31 December 2018 in excess of the 100.0 per cent. regulatory requirement, as well as specified internal risk appetite requirements.

Insurance Risk

Insurance risk arises due to uncertainty regarding the timing and amount of future cash flows from insurance contracts. This could be due to variations in mortality, morbidity, policyholder behaviour or expense experience in the case of life products, and claims incidence, claim severity or expense experience in the case of short-term insurance products. Insurance risk applies to the long-term insurance operations housed in Liberty and short-term insurance operations housed in Standard Insurance Ltd ("**SIL**").

Risk management of long-term insurance risks occurs prior to the acceptance of risks through the product development, pricing processes and at the point of sale. Risks continue to be managed through the measurement, monitoring and treatment of risks once the risks are contracted. Short-term insurance risk is managed through risk and control self-assessments for operational risk and insurance risk and include ongoing monitoring of these risks. Other control processes include upfront and ongoing risk rating, pricing and underwriting, ongoing monitoring of new business, cancellations and loss ratios against expected experience, product design, claims management processes, fraud risk management and reinsurance controls.

Long-term insurance risk includes policyholder behaviour risk, underwriting risk, expense risk and new business risk. Liberty conducts capital calculations on an at least quarterly basis and is currently adequately capitalised. These capital calculations include assessments for insurance risk.

Policyholder behaviour risk (a subtype of insurance risk) and policyholder perceptions are particularly relevant to Liberty. Policyholder behaviour risk identified as the risk of adverse financial impact caused by actual policyholders' behaviour deviating from expected policyholders' behaviour, mainly due to, regulatory and legislative changes (including taxation), changes in economic conditions, competitor behaviour, policy conditions and practices.

Short term insurance risk subtypes include policyholder behaviour risk, catastrophe risk, claims incidence risk, expense risk, new business risk and emerging risks. These may result from various factors such as adverse weather conditions, catastrophic events, rising crime, change in economic conditions, and similar events. Regulatory capital calculations are performed on a regular basis and SIL has sufficient capital to cover risk exposures. SIL also has sufficient reinsurance in place for protection against catastrophe events and large single risk exposures.

Business Risk

Business risk includes strategic risk. Strategic risk is the risk that the Group's future business plans and strategies may be inadequate to prevent financial loss or protect the Group's competitive position and shareholder returns.

Business risk is usually caused by the following:

- inflexible cost structures;
- market-driven pressures, such as decreased demand, increased competition or cost increases; and
- Group-specific causes, such as a poor choice of strategy, reputational damage or the decision to absorb costs or losses to preserve reputation.

The Group's business plans and strategies are discussed and approved by executive management and the board and, where appropriate, subjected to stress tests. Failure to effectively manage business risk could have materially adverse effect on the Group's business, financial condition and/or results of operations.

Reputational risk

Reputation is defined as what stakeholders say and think about the Group, including its staff, customers and clients, investors, counterparties, regulators, policymakers, and society at large. Analysts, journalists, academics and opinion leaders also determine the Group's reputation. The Group's reputation can be harmed from an actual or perceived failure to fulfil the expectations of stakeholders due to a specific incident or from repeated breaches of trust.

Reputational harm can adversely affect the Group's ability to maintain existing business, generate new business relationships, access capital, enter new markets, and secure regulatory licences and approvals.

Operational Risk

The Group recognises that operational risk exists in the natural course of business activity and the Issuers adhere to the Group's operational risk governance framework, which sets out the minimum standards for operational risk management adopted across the Group. This framework aligns to the Group's strategy by demonstrating that the purpose of operational risk management is not to eliminate all risks, which is not economically viable, but rather to enable management to assess the relative benefit of risk and reward.

The framework also ensures that adequate and consistent governance is in place, guiding management to avoid unacceptable risks such as:

- inadequate or failed internal processes, documentation, people, systems and/or equipment;
- fraud;
- natural disasters; and/or
- the failure of external systems, including those of the Issuers' suppliers and counterparties.

The occurrence of one or more of the above, or any weakness in the Group’s internal control structures and procedures, could result in a material adverse impact on the Issuers’ results, financial condition and prospects, as well as reputational damage, and could give rise to regulatory penalties and litigation.

The Group streamlined its operational risk governance documents during 2018 to better support integration across the Group's businesses, and the Issuers' systems, processes and internal controls are designed to ensure that the operational risks associated with their activities are appropriately monitored and controlled. In addition, business resumption and disaster recovery processes have been implemented to mitigate operational risks inherent in the Issuer's business. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Issuers will be unable to comply with their respective obligations as a company with securities admitted to the Official List.

Fraud

The Group faces the risk of regulatory sanction and reputational and financial losses due to fraud, crime and misconduct from staff or syndicates. Card fraud remains the highest contributor to fraud losses suffered by the Group. This is mainly driven by the increasing e-commerce usage and the fast growth in internet penetration and smartphone use that requires bank cards to fulfil a transaction.

In addition, the Group has identified other illegal activities such as market abuse, market manipulation, rogue trading and increasing trends of syndicate fraud with potential staff involvement, as a result of the recent economic downturns, as factors which could also have an adverse effect on the operations of the Group.

Cyber-crime

The Group operations are largely dependent on their own information technology systems and those of its third-party service providers. The Group could be negatively impacted by cyber-attacks on any of these. In response to the growing volume and sophistication of cyber-crime incidents and attacks, the Issuers have developed an IT cyber security strategy which is centred around the four key pillars of governance, culture, capability and community, all of which are crucial for an effective cyber defence strategy.

The Group is cognisant of the mounting risk posed by cyber-crime. Financial services remain the most targeted economic sector from a cyber-threat perspective. The key sources of concern include the escalating sophistication of threats, increased volume of cyber-attacks in the world at large, and an ever expanding cyber-attack surface. These sources require a continuous improvement in the Issuers' controls to detect, react to, and monitor cyber-attacks to ensure appropriate response and remediation. A successful cyber-attack could result in material losses of client or customer information, sabotage and/or damage of computer systems, reputational damage and may lead to regulatory penalties or financial losses.

The Group’s businesses are subject to their ability to quickly adapt to disruptions while maintaining continuous business operations.

Any failure in the continuity of the Issuers' operations and services could have a materially adverse effect on the Issuers' business, financial condition and/or results of operations.

The Group may suffer a failure or interruption in or breach of their information technology systems

The Group’s technology risk refers to the risk associated with the use, ownership, operation, involvement, influence and adoption of technology by the Issuers. It consists of technology-related events and conditions that could potentially impact the business including but not limited to technology changes, updates or alterations, digital services and cloud computing. A key consideration within technology risk is the Issuers' strategic focus to effectively adopt and use technology to achieve business objectives and be competitive.

The Group's main technology risks include the failure or interruption of critical systems, cybercrime, unauthorised access to systems, failure or exposure of a third-party service provider used by the Issuers and the inability to serve their customers' needs in a timely manner.

The Group's have a high dependency on their technology systems and operations infrastructure to conduct their business. The Group regards these systems as critical to improving productivity and maintaining the Group's competitive edge.

Any failure, interruption or breach in security of these systems could result in failures or interruptions in its risk management, general ledger, deposit servicing, loan servicing, debt recovery, payment custody and/or other important systems. If the Group's information systems fail, even for a short period of time, they could be unable to serve some or all customers' needs on a timely basis which could result in a loss of business. In addition, a temporary shutdown of the Issuers' information systems could result in costs that are required for information retrieval and verification.

The "Core Banking Transformation Programme" is an upgrade of the SBSA's core banking system and is an investment which is intended to create a significant long-term competitive advantage. However, the complexity inherent in the current IT environment, dual operation of the legacy systems and the new systems during the migration phase could be a large contributor to operational risk. Deliberate action has been taken to minimise disruption to the business during the systems migration and to deliver predictable change for the Issuer's operations and customers. SBSA substantially completed the Core Banking Transformation Programme in early 2018 with 93 per cent. of transactional account clients on the new platform.

The occurrence of any failures or interruptions in the Group's technology systems and operations infrastructure could have a materially adverse effect on the Issuers' business, financial condition and/or results of operations.

The Group may suffer reputational or financial damage as a result of misconduct by third-parties.

The Group outsources certain services to third-party service providers. The Group faces a risk of loss or disruption to their services due to ineffective management of third-party relationships by the Group, and misconduct, such as participation in financial crimes, by third-parties.

The Group may be unable to recruit, retain and motivate key personnel

An inability to recruit, retain and motivate key personnel would negatively affect the ability of the Group's to adequately and efficiently serve clients, support operations and deliver its business strategy. This risk is driven by, inter alia, a multi-generation workforce (which is characetrised by, for example, having divergent career aspirations and differing levels of technical competency) and a rise in digitisation and automation, which calls for a different set of skills. The Group performance is dependent on the talents and efforts of key personnel, some of whom may have been employed by the Group for a substantial period of time and have developed with the business. The Group's continued ability to compete effectively and further develop its businesses also depends on its ability to attract new employees. In relation to the development and training of new staff, the Group are reliant on the continued development of the educational sector within South Africa, including access to facilities and educational programmes by its future employees.

Terrorist acts, hostility arising from competing political groups, acts of war, and other types of event risk could have a negative impact on the business

Terrorist acts, hostility arising from competing political groups, acts of war, government expropriation or confiscatory acts, currency inconvertibility, financial markets closure, health pandemics and other types of event risk and responses to those acts and events, may have both direct and indirect negative impacts on South Africa, the rest of Africa and international economic conditions generally, and more specifically on the business and results of operations of the Issuers in ways that cannot be predicted**.**

The impact of any future change in law or regulation on the Issuers' business is uncertain

The Issuers are subject to the laws, regulations, administrative actions and policies of South Africa and each other jurisdiction in which they operate, and the Issuers' activities may be constrained by applicable legal and regulatory requirements. Changes in regulation and supervision, particularly in South Africa, could materially affect the Issuers' business, the products or services offered, the value of their assets and their financial condition. Although the Issuers work closely with their regulators and continuously monitor the situation, future changes in regulation, fiscal or other policies cannot be predicted and are beyond the control of the Issuers. The Issuers may incur reputational damage and financial losses if they are unable to anticipate or prepare for future changes to law or regulation.

Notable regulatory interventions in South Africa over the last few years have included numerous pieces of legislation such as the Financial Intelligence Centre Amendment Act, 2017 ("**FICA**") (which provides for anti-money laundering regulations, which has been phased in, with the majority of the provisions coming into effect by 1 October 2017, with the focus now on implementation); the Financial Advisory and Intermediary Services Act, 2002 ("**FAIS**", which regulates financial intermediary accreditation and discipline); the Financial Sector Regulation Act, 2017 ("**FSR Act**") (implementing the "Twin Peaks" system of financial sector supervision and regulation in South Africa, with the majority of the sections coming into effect on 1 April 2018); the Financial Markets Act 2012 (the "**Financial Markets Act**") (which regulates financial markets) and the National Credit Amendment Act, 2014 (the "**National Credit Amendment Act**") which regulates the provision of consumer credit.

South Africa has implemented the "Twin Peaks" system of financial sector supervision and regulation as part of broader financial sector reform initiatives. It is similar to the system implemented in the UK on 1 April 2013. The FSR Act has set up two regulators for the financial sector, a Prudential Authority ("**PA**") housed in the SARB, and a new Financial Sector Conduct Authority ("**FSCA**") which replaces the Financial Services Board and has a broader mandate than its predecessor. Existing financial sector legislation will now be repealed, aligned or standardised to fall in line with the FSR Act. The draft Conduct of Financial Institutions (**"CoFI"**) Bill sets up the legislative framework for the supervision and regulation of market conduct, market integrity and financial education for the entire financial sector, and was released on 18 December 2018 for comment. The draft CoFI Bill introduces licensing conditions for FSCA, requirements for senior managers (similar to the UK's senior manager regime), product and service development governance, and operational requirements. The FSCA has yet to provide an indication as to when a revised draft CoFI Bill will be released.

The Financial Markets Act and the Regulations promulgated under the Financial Markets Act (the "**FMA Regulations**"), which came into effect on 9 February 2018, have modernised South Africa's securities services legislation in line with international best practice and regulatory principles and provides an enabling framework for the regulation of over-the-counter ("**OTC**") derivatives. The FMA Regulations require mandatory reporting of OTC derivatives trades to a licenced trade repository in South Africa as well as the exchange of initial and variation margin for non-centrally cleared OTC derivative transactions once the relevant draft conduct standards have been finalised. The Financial Markets Review was published in 2018 by the Financial Markets Review Committee and recommends amendments to the FMA Regulations to align to CoFI with additional conduct and market integrity standards. The Financial Markets Review Committee is made up of reprsentatives from the National Treasury, the SARB and the FSCA

A parliamentary committee has been set up to investigate Section 25 of the Constitution on expropriating property. Public hearings were held, and a final report is expected in 2019. In addition, amendments to the Expropriation Act are being debated in Parliament. This investigation, together with slow progress on the legislation necessary for land reform programmes, is likely to create an uncertain policy environment for land in the short term for the financial sector.

Consumer credit regulation has been tightened to provide stronger consumer protection under the National Credit Act, 2005 (the "**National Credit Act**"), and includes Affordability Assessment Regulations for unsecured loans (2015), and the Review of Fees and Interest Rates (2016), which capped consumer credit interest rates, administration fees and initiation fees. Additional amendments to the NCA have been approved by Parliament, and are awaiting the President's assent. These include increased powers of enforcement of the regulator, and additional mechanisms to assist vulnerable, over-indebted customers, and, *inter alia*, to provide for debt intervention for low income earners within South Africa (earning less or equal to R7500). The combined impact of these reforms may increase the cost of credit for consumers as well as restrict access to credit from formal credit providers for the lower income market. The Issuers continue to engage with the relevant policy-makers on this issue.

During 2017, the SARB's Financial Stability Department released a discussion document on designing a deposit insurance scheme ("**DIS**") for South Africa. As a member of the G20, South Africa has agreed to adopt the Financial Stability Board's "Key Attributes of Effective Resolution Regimes for Financial Institutions", one of which requires jurisdictions to have a privately-funded depositor protection and/or a resolution fund in place. The paper advocates the need for an explicit, privately-funded DIS for South Africa, the main objective being the protection of less financially sophisticated depositors in the event of a bank failure. It presents proposals on the key design features of such a DIS and aims to solicit views on these proposals. The National Treasury published a paper during 2015 entitled "Strengthening South Africa's Resolution Framework for Financial Institutions" which sets out proposals for the introduction of a resolution framework in South Africa. A draft Financial Sector Laws Amendment Bill was released for public comment on 25 September 2018. The purpose of the Bill, among other matters, is to provide for the establishment of a framework for the resolution of banks and systemically important non-bank financial institutions in South Africa and to establish a DIS in line with the proposals set out in the papers published by the SARB and the National Treasury. The Bill proposes amendments to 11 existing acts including the Insolvency Act 1936, the Banks Act and the FSR. The Bill proposes the designation of the SARB as the resolution authority and the establishment of a depositor insurance scheme, including a Corporation for Deposit Insurance and a Deposit Insurance Fund. It also proposes amendments to the creditor hierarchy in the Insolvency Act.

In addition, the Group may be affected by material regulatory developments in the jurisdictions in which it operates, other than South Africa. An interventionist approach to exchange control management continued in several African jurisdictions in 2018. In Angola and Zimbabwe, the central banks continued to tightly restrict the sale and purchase of foreign currency, and amendments to exchange control requirements were also enacted in Namibia, Mozambique, Nigeria, the Democratic Republic of Congo ("**DRC**"), Tanzania and Swaziland.

Increased regulatory capital requirements have been introduced in the DRC and Mozambique. The central bank in DRC issued Directive 14 on Prudential Management Standards, amendment 7, revising the minimum capital for banks to USD30 million. The instruction differentiates between Tier 1 and complementary capital.

The Issuers may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose the Issuers to additional liability and have a material adverse effect on them

The Issuers are required to comply with applicable anti-money laundering and anti-terrorism laws in South Africa. The Financial Intelligence Centre Act, 2001 (as amended by the Financial Intelligence Centre Amendment Act, 2017) and the Money Laundering and Terrorist Financing Regulations (published in Government Gazette 1595 on 20 December 2002, as amended) require the Issuers, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and unusual transactions to the applicable regulatory authorities – see the sections titled "*Description of Standard Bank Group Limited – Regulation – Anti–money laundering regulations*" on page 155 and "*Description of the Standard Bank of South Africa - Regulation - Anti-money laundering regulations*" on page 204. Additionally, regulators across Africa require financial institutions to adopt risk-based approaches to managing risks associated with money laundering and the financing of terrorism. Regulators expect financial institutions to conduct due diligence processes, technologically driven transaction surveillance and reporting mechanisms in countries such as Kenya, Mozambique, Nigeria, Lesotho, Botswana, Malawi, Zimbabwe, Ghana, Mauritius and Zambia. While the Issuers have adopted policies and procedures aimed at detecting and preventing the use of their banking network for money laundering and terrorist financing activity, such policies and procedures may not completely eliminate instances in which the Issuers may be used by other parties to engage in money laundering or other illegal or improper activities. To the extent that the Issuers may fail to fully comply with applicable laws and regulations, various regulatory authorities to which they report have the authority to impose fines and other penalties. In addition, the Issuers could suffer reputational harm if clients are found to have used them for money laundering or illegal purposes.

Risks relating to Emerging Markets

South Africa is generally considered by international investors to be an emerging market. In addition, the Group is an African focused universal financial services group with operations in 20 countries in sub-Saharan Africa. SBSA and its subsidiaries are fully integrated with the rest of the Group and therefore also play a key role in positioning the Group to capitalise on the growth in emerging markets in the rest of Africa. Investors in emerging markets such as South Africa and sub-Saharan Africa should be aware that these markets may be subject to greater risk than more developed markets. These risks include economic instability as well as, in some cases, significant legal and political risks.

Economic and financial market volatility in South Africa has been caused by many different factors. Due to its liquidity and use as a proxy for emerging market trades, the Rand is particularly exposed to changes in investor sentiment and resulting periods of volatility. In addition to this, economic instability in South Africa and in other emerging market countries is caused by many different factors, including the following:

- labour unrest;
- policy uncertainty;
- a wide current account deficit;
- currency volatility;
- falling commodity prices;
- capital outflows; and
- a decline in domestic demand.

Any of these factors, amongst others, as well as volatility in the markets for securities similar to the Notes, may adversely affect the value or liquidity of the Notes.

Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and prospective investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

Investors should also note that developing markets, such as those in African countries, are subject to rapid change.

Regulatory Environment

The Group is subject to government regulation in South Africa. Regulatory agencies have broad jurisdiction over many aspects of the Group's business, which may include capital adequacy, premium rates, marketing and selling practices, advertising, licensing agents, policy forms, terms of business and permitted investments.

Changes in government policy, legislation or regulatory interpretation applying to the financial services industry in the markets in which the Group operates may adversely affect the Issuers' product range, distribution channels, capital requirements and, consequently, reported results and financing requirements. In particular, any change in regulation to increase the requirements for capital adequacy or liquidity, or a change in accounting standards, could have a material adverse impact on the Group's business, results, financial condition or prospects.

During 2011, the South African government (the "**Government**") issued a policy paper entitled "A Safer Financial Sector to Serve South Africa Better", which articulated its strategic regulatory objectives. The document identified four policy priorities to reform the financial sector, namely: financial stability; consumer protection and market conduct; expanding access of financial services through inclusion; and combating financial crime. Achieving these objectives required a change in the South African regulatory landscape from both a structural and a policy perspective including the introduction of a "Twin Peaks" ("**Twin Peaks**") approach to financial sector regulation. In terms of the Twin Peaks approach, equal focus is placed on prudential and market conduct regulation with separate but equally important focus on financial stability. In addition, the FSR Act requires cooperation and collaboration between the financial sector regulators, the South African National Credit Regulator, the South African Financial Intelligence Centre and the SARB.

A phase-in approach is being followed for the implementation of the Twin Peaks system of financial regulation in South Africa. Most portions of the FSR Act have been implemented, with the chapter on Conglomerate Supervision (impacting SBG) to be implemented in 2019-2020. In addition, the new FSCA and National Treasury have released a financial sector conduct bill for comment, to regulate and supervise the financial sector's conduct, market integrity and consumer education.

Exchange Controls

Since 1995, certain exchange controls in South Africa have been relaxed. The extent to which the Government may further relax such exchange controls cannot be predicted with certainty, although the Government has committed itself to a gradual approach of relaxation. Further relaxation or the abolition of exchange controls may precipitate a change in the capital flows to and from South Africa. If the net result of this were to cause large capital outflows, this could adversely affect the Issuers' business and financial condition as a whole.

In addition, the introduction of exchange controls, or changes to existing exchange control regulations, in the Africa Regions may impact the Group's operations in the relevant country in which the Group operates, which may in turn adversely affect the Group's business, financial condition or results of operations.

Risks relating to the Notes

There is no active trading market for the Notes

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the relevant Issuer. Although applications have been, or will be, made for the Notes issued under the Programme to be admitted to listing on the Official List of the FCA and to trading on the Market of the London Stock Exchange, there is no assurance that such applications will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

The Notes may be redeemed prior to maturity

Unless in the case of any particular Tranche of Notes the relevant Final Terms specify otherwise, in the event that the relevant Issuer has or will be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of South Africa or any political subdivision thereof or any authority therein or thereof having power to tax, the relevant Issuer may redeem all outstanding Notes in accordance with the Conditions.

In addition, if in the case of any particular Tranche of Notes the relevant Final Terms specify that the Notes are redeemable at the relevant Issuer's option in certain other circumstances, the relevant Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes. Any redemption of Subordinated Notes prior to their Maturity Date (as defined herein) (if any) requires the prior written approval of the PA.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfers, payments and communications with the Issuers

Notes issued under the Programme may be represented by one or more Global Notes (as defined herein). Such Global Notes will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. Each of Euroclear and Clearstream, Luxembourg (each as defined herein) and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Notes held through it. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Notes are represented by one or more Global Notes the relevant Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg and its participants to receive payments under the relevant Notes. The relevant Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the relevant Issuer in the event of a default under the relevant Notes but will have to rely upon their rights under the relevant Deed of Covenant (as defined herein).

Credit Rating

Tranches of Notes issued under the Programme may be rated or unrated. If a rating is assigned to any issue of Notes, the rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed herein, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes issued under the Programme.

Exchange rate risks

The relevant Issuer will pay principal and interest on the Notes in the Specified Currency (as defined in the Final Terms). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes. Similarly, the relevant Issuer may be exposed to potential losses if the Specified Currency were to depreciate against key currencies in which the relevant Issuer's revenues are based, which may have an adverse effect on its financial condition and results of operations.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk based capital or similar rules.

The Notes may be de-listed, which may materially affect an investor's ability to resell

Any Notes that are listed on the London Stock Exchange or any other listing authority, stock exchange or quotation system may be de-listed. If any Notes are delisted, the relevant Issuer is obliged to endeavour promptly to obtain an alternative listing. Although no assurance is made as to the liquidity of the Notes as a result of listing on the London Stock Exchange or any other listing authority, stock exchange or quotation system, delisting the Notes may have a material adverse effect on a Noteholder's ability to resell the Notes in the secondary market.

Risks related to the structure of the particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the relevant Issuer

An optional redemption feature is likely to limit the market value of the Notes. During any period when the relevant Issuer may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The relevant Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to re-invest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Modification and waivers and substitution

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Change in law

The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law, save that the provisions of Conditions 4(b) (*Status of the Subordinated Notes that are not Tier 2 Notes*), 4(c) (*Status of Tier 2 Notes*), 4(d) (*Loss Absorption Following A Non-Viability Event*), 4(e) (*Disapplication of Non-Viability Loss Absorption*), 10(l) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation of Tier 2 Notes*) and 14.2 (*Events of Default relating to the Subordinated Notes*) are governed by, and will be construed in accordance with, South African law. No assurance can be given as to the impact of any possible judicial decision or change to English or South African law or administrative practice in either such jurisdiction after the date of this Base Prospectus.

Denominations

In relation to any issue of Notes which have a denomination consisting of the minimum Specified Denomination (as defined in the Conditions) of EUR100,000 (or its equivalent) plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of EUR100,000 (or its equivalent) that are not integral multiples of EUR100,000 (or its equivalent). In such a case, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination may not receive a definitive note in respect of such holding (should definitive notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination. Definitive notes will only be issued if (a) Euroclear or Clearstream, Luxembourg (or other relevant clearing system) is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

The reset of the rate of interest with respect to the Reset Notes on each Reset Date could affect the market value of an investment in such Notes

As set out in Condition 9 (*Reset Note Provisions*), Reset Notes will initially bear interest at the relevant Initial Rate of Interest which will be reset on the first Reset Date (and if applicable, Subsequent Reset Dates) (each such interest rate, a "**Subsequent Reset Rate of Interest**"). The Subsequent Reset Rate of Interest for any relevant Reset Period could be less than the relevant Initial Rate of Interest or the relevant Subsequent Reset Rate of Interest for prior Reset Periods, which could affect the market value of an investment in the relevant Notes.

Reset Notes may bear interest at a rate that the relevant Issuer may elect to convert from a fixed rate to a floating rate. The relevant Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the relevant Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate, the spread on such Notes may be less favourable than the prevailing spreads on comparable floating rate Notes tied to the same reference rate.

The value of and return on any Notes linked to a benchmark may be adversely affected by ongoing national and international regulatory reform in relation to benchmarks

The London Interbank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other interest rates or other types of rates and indices which are deemed to be "benchmarks" are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such "benchmark". The Benchmarks Regulation was published in the Official Journal of the EU on 29 June 2016 and applied from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

These reforms (including the Benchmarks Regulation) could have a material impact on any Notes linked to or referencing a "benchmark", in particular, if the methodology or other terms of the "relevant benchmark" are changed in order to comply with the requirements of the Benchmark Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the "relevant benchmark".

It is not possible to predict with certainty whether, and to what extent, LIBOR, EURIBOR or any other benchmark will continue to be supported going forward. This may cause LIBOR, EURIBOR or any other such benchmark to perform differently than they have done in the past, and may have other consequences which cannot be predicted. The potential elimination of LIBOR, EURIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the Conditions of the Notes, or result in other consequences, in respect of any Notes referencing such benchmark. More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have (without limitation) the following effects on certain "benchmarks": (i) discouraging market participants from continuing to administer or contribute to the "benchmark"; (ii) triggering changes in the rules or methodologies used in the "benchmark"; and/or (iii) leading to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to, referencing, or otherwise dependent (in whole or in part) upon, a "benchmark".

In a speech on 27 July 2017, Andrew Bailey, the Chief Executive of the FCA, questioned the sustainability of LIBOR in its current form, and advocated a transition away from reliance on LIBOR to alternative reference rates. He noted that currently there is wide support among the LIBOR panel banks for voluntarily sustaining LIBOR until the end of 2021, facilitating this transition. At the end of this period, it is the FCA's intention that it will not be necessary to sustain LIBOR through its influence or legal powers by persuading, or obliging banks to submit to LIBOR. Therefore, the continuation of LIBOR in its current form (or at all) after 2021 cannot be guaranteed.

In the event that LIBOR or any other benchmark is permanently discontinued, the relevant Issuer may, after appointing and consulting with an Independent Adviser, determine a Successor Rate or Alternative Rate to be used in place of LIBOR or the relevant benchmark where LIBOR or any other benchmark has been selected as the Reference Rate to determine the Rate of Interest. The use of any such Successor Rate or Alternative Rate to determine the Rate of Interest may result in Notes linked to or referencing LIBOR or the relevant benchmark performing differently (including paying a lower Rate of Interest) than they would do if LIBOR or the relevant benchmark were to continue to apply in its current form.

Furthermore, if a Successor Rate or Alternative Rate for LIBOR or the relevant benchmark is determined by the relevant Issuer, the Conditions provide that the relevant Issuer may vary the Conditions, as necessary to ensure the proper operation of such Successor Rate or Alternative Rate, without any requirement for consent or approval of the Noteholders.

If a Successor Rate or Alternative Rate is determined by the relevant Issuer, the Conditions also provide that an Adjustment Spread may be determined by the relevant Issuer to be applied to such Successor Rate or Alternative Rate. The aim of the Adjustment Spread is to reduce or eliminate, so far as is practicable, any economic prejudice or benefit (as the case may be) to Noteholders and Couponholders as a result of the replacement of LIBOR or the relevant benchmark with the Successor Rate or the Alternative Rate. However, there is no guarantee that such an Adjustment Spread will be determined or applied, or that the application of an Adjustment Spread will either reduce or eliminate economic prejudice to Noteholders and Couponholders. If no Adjustment Spread is determined, a Successor Rate or Alternative Rate may nonetheless be used to determine the Rate of Interest.

The Conditions do not permit the relevant Issuer to determine a Successor Rate or Alternative Rate to be used in place of LIBOR or any other benchmark, in circumstances where the relevant Issuer is unable to appoint and consult with an Independent Adviser of international repute, or with appropriate expertise. In the event of a permanent discontinuation of LIBOR or any other benchmark, the relevant Issuer may be unable to appoint an Independent Adviser in a timely manner, or at all, in which case it will be unable to determine a Successor Rate or Alternative Rate. In these circumstances, where LIBOR or any other benchmark has been discontinued, the Rate of Interest will revert to the Rate of Interest applicable as at the last preceding Interest Determination Date before LIBOR or the relevant benchmark was discontinued and such Rate of Interest will continue to apply until maturity. Furthermore, no Successor Rate, Alternative Rate or Adjustment Spread will be adopted, nor will any other amendment to the terms and conditions of any Series of Notes be made to effect the Benchmark Amendments, if and to the extent that, in the determination of the relevant Issuer, the same could reasonably be expected to prejudice the qualification of the relevant Series of Subordinated Notes as Tier 2 Capital. Any of the foregoing may result in the effective application of a fixed rate for the relevant Series of Notes.

In addition, if LIBOR or any other benchmark is discontinued permanently, and the relevant Issuer, for any reason, is unable to determine any of the Successor Rate or Alternative Rate, the Rate of Interest may revert to the Rate of Interest applicable as at the last preceding Interest Determination Date before LIBOR or the relevant benchmark was discontinued, and such Rate of Interest will continue to apply until maturity.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmark Regulation reforms in making any investment decision with respect to any Notes linked to or referencing a "benchmark".

In respect of any Notes issued as Green Bonds, there can be no assurance that such use of proceeds will be suitable for the investment criteria of an investor

The Final Terms relating to any specific Tranche of Notes may provide that it will be the relevant Issuer's intention to apply the proceeds from an offer of those Notes specifically for projects and activities that promote climate-friendly and other environmental purposes ("**Green Projects**"). Prospective investors should determine for themselves the relevance of such information for the purpose of any investment in such Notes together with any other investigation such investor deems necessary. In particular no assurance is given by the relevant Issuer that the use of such proceeds for any Green Projects will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Green Projects. Furthermore, it should be noted that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green" or "sustainable" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "green" or "sustainable" or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Green Projects will meet any or all investor expectations regarding such "green", "sustainable" or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Green Projects.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by the relevant Issuer) which may be made available in connection with the issue of any Notes and in particular with any Green Projects to fulfil any environmental, sustainability, social and/or other criteria. For the avoidance of doubt, any such opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Base Prospectus. Any such opinion or certification is not, nor should be deemed to be, a recommendation by the relevant Issuer or any other person to buy, sell or hold any such Notes. Any such opinion or certification is only current as of the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in such Notes. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

In the event that any such Notes are listed or admitted to trading on any dedicated "green", "environmental", "sustainable" or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the relevant Issuer or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Green Projects. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the relevant Issuer or any other person that any such listing or admission to trading will be obtained in respect of any such Notes or, if obtained, that any such listing or admission to trading will be maintained during the life of the Notes.

While it is the intention of the relevant Issuer to apply the proceeds of any Notes so specified for Green Projects in, or substantially in, the manner described in the applicable Final Terms, there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Green Projects will be capable of being implemented in or substantially in such manner and/or accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such Green Projects. Nor can there be any assurance that such Green Projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the relevant Issuer. Any such event or failure by the relevant Issuer will not constitute an Event of Default under the Notes.

Any such event or failure to apply the proceeds of any issue of Notes for any Green Projects as aforesaid and/or withdrawal of any such opinion or certification or any such opinion or certification attesting that the relevant Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Notes no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value of such Notes and also potentially the value of any other Notes which are intended to finance Green Projects and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

Risks relating to Subordinated Notes

Substitution or Variation of Tier 2 Notes upon the occurrence of a Capital Disqualification Event, Tax Event (Gross Up), Tax Event (Deductibility) or a Change in Law

Upon the occurrence and continuation of a Capital Disqualification Event, Tax Event (Gross Up), Tax Event (Deductibility) or, if specified in the Final Terms, a Change in Law (each as defined in Condition 2 (*Interpretation*)), the relevant Issuer may, subject as provided in Condition 10(k) (*Substitution or Variation*) and without the need for any consent of the Noteholders or Couponholders, substitute all (but not some only) of any Series of Tier 2 Notes, or vary the terms of all (but not only some) such Notes so that they remain or, as appropriate, become, Qualifying Tier 2 Securities (as defined in Condition 2 (*Interpretation*)). While the relevant Issuer cannot make changes to the terms of Tier 2 Notes that are materially less favourable to the holders of the relevant Tier 2 Notes as a class, no assurance can be given as to whether any of these changes will negatively affect any particular Holder. In addition, the tax consequences of holding such substituted or varied Tier 2 Notes could be different for some categories of Holders from the tax consequences for them of holding the Tier 2 Notes prior to such substitution or variation.

Early Redemption of Subordinated Notes upon the occurrence of a Capital Disqualification Event (in relation to Tier 2 Notes only), Tax Event (Gross Up), Tax Event (Deductibility) or a Change in Law

Upon the occurrence and continuation of a Capital Disqualification Event (in relation to Tier 2 Notes only), Tax Event (Gross up), Tax Event (Deductibility) or, if specified in the Final Terms, a Change in Law (each as defined in Condition 2 (*Interpretation*), but (other than in respect of a Capital Disqualification Event) subject to Condition 10(l) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation of Tier 2 Notes*), the relevant Issuer may, at its option, redeem all (but not some only) of the Subordinated Notes at the Early Redemption Amount as specified in, or determined in the manner specified in, the applicable Final Terms or Pricing Supplement. Noteholders will not receive a make-whole amount or any other compensation in the event of any early redemption of Notes.

There can be no assurance that holders of Notes will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investments in the Notes.

The relevant Issuer's obligations under Tier 2 Notes are subordinated and Tier 2 Noteholders will have no right of set-off

The relevant Issuer's obligations under Tier 2 Notes will be unsecured and subordinated and will, in the event that the relevant Issuer is placed into liquidation or is wound-up, be subordinated to the claims of Senior Creditors (as defined in Condition 2 (*Interpretation*)) of the relevant Issuer.

If the relevant Issuer is wound-up or put into liquidation, voluntarily or involuntarily, Tier 2 Noteholders (as defined in the Conditions) will not be entitled to any payments of principal or interest in respect of the Tier 2 Notes until the claims of Senior Creditors which are admissible in any such winding-up or liquidation have been paid or discharged in full. If the relevant Issuer does not have sufficient assets at the time of winding-up or liquidation to satisfy the claims of the Senior Creditors, then Tier 2 Noteholders will not receive any payment in respect of their Tier 2 Notes.

In addition, the rights of Tier 2 Noteholders are limited in certain respects. In particular, if the relevant Issuer defaults on a payment of any amount due on a Tier 2 Note for a period of 7 (seven) days or more, such Tier 2 Noteholder may only institute proceedings for the winding-up of the relevant Issuer (and/or prove a claim in any winding-up of the relevant Issuer) but take no other action in respect of that default. Only if an order of court is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the relevant Issuer (other than pursuant to a Solvent Reconstruction (as defined in Condition 2 (*Interpretation*)) shall Tier 2 Noteholders be able to declare (upon written notice) such Tier 2 Note immediately due and payable.

Subject to Applicable Law, in accordance with the Conditions no Tier 2 Noteholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the relevant Issuer under or in connection with the Tier 2 Notes and each Tier 2 Noteholder shall, by virtue of being the holder of any Tier 2 Note, be deemed to have waived all such rights of set-off, compensation and retention.

Accordingly, although Tier 2 Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Tier 2 Notes will lose all or some of its investment should the relevant Issuer become insolvent.

Subordinated Notes that are not Tier 2 Notes will be subordinated to most of the relevant Issuer's liabilities

The payment obligations of the relevant Issuer under Subordinated Notes that are not Tier 2 Notes will rank behind Unsubordinated Notes. Subordinated Notes that are not Tier 2 Notes constitute direct, unsecured and subordinated obligations of the relevant Issuer and rank *pari passu* among themselves and at least *pari passu* with all Other Subordinated Securities (as defined in Condition 2 (*Interpretation*)) but in priority to Tier 2 Capital.

With regard to any Subordinated Notes that are not Tier 2 Notes, if the relevant Issuer is declared insolvent and a winding up is initiated, the relevant Issuer will be required to pay the holders of unsubordinated debt and meet its obligations to all its other creditors (including unsecured creditors but excluding any obligations in respect of Other Subordinated Securities and Other Tier 2 Securities) in full before it can make any payments on Subordinated Notes that are not Tier 2 Notes. If this occurs, the relevant Issuer may not have enough assets remaining after these payments to pay amounts due under such Subordinated Notes that are not Tier 2 Notes.

The relevant Issuer is not prohibited from issuing further debt which may rank pari passu with or senior to the Subordinated Notes

There is no restriction on the amount of securities or indebtedness that the relevant Issuer may issue or incur which ranks senior to, or *pari passu* with, Subordinated Notes. The issue of any such securities or indebtedness may reduce the amount recoverable by holders of Subordinated Notes on a winding-up, liquidation or curatorship of the relevant Issuer.

Statutory Loss Absorption at the Point of Non-Viability of the relevant Issuer

Basel III requires the implementation of certain non-viability requirements as set out in the press release dated 13 January 2011 of the BCBS entitled "*Minimum requirements to ensure loss absorbency at the point of non-viability*" (the "**Basel III Non-Viability Requirements**"). The Basel III Non-Viability Requirements represent part of the broader package of guidance issued by the BCBS on 16 December 2010 and 13 January 2011 in relation to Basel III.

Under the Basel III Non-Viability Requirements, the terms and conditions of all Additional Tier 1 and Tier 2 instruments (as defined below) issued by an internationally-active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of a trigger event (described below) unless:

(a) the governing jurisdiction of the bank has in place laws that (i) require such Tier 1 and Tier 2 instruments to be written off upon such event, or (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss (a "**Statutory Loss Absorption Regime**" or "**SLAR**");

(b) a peer group review confirms that the jurisdiction conforms with paragraph (a) above; and

(c) it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under paragraph (a) above.

The trigger event is the earlier of: (1) a decision that a write-off, without which the issuing bank would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the issuing bank would have become non-viable, as determined by the relevant authority.

Regulation 38(12) of the Regulations Relating to Banks refers to the need for the Basel III Non-Viability Requirements to be reflected in the terms and conditions of a Tier 2 capital instrument ("**Tier 2 instrument**") unless a duly enforceable SLAR is in place.

The SARB has provided clarity on the loss absorbency requirements contemplated in the Regulations Relating to Banks in Guidance Note 2 of 2012 (*Matters related to the implementation of Basel III*) and Guidance Note 6 of 2017 (*Loss absorbency requirements for Additional Tier 1 and Tier 2 capital instruments*) ("**Guidance Note 6**"), Circular 6 of 2013 (*Matters related to conditions for the issue of instruments or shares, the proceeds of which rank as Tier 2 capital*) and Circular 6 of 2014 (*Interpretation of specified conditions for the issuing of instruments or shares which rank as additional tier 1 capital and tier 2 capital*), and has indicated that it, together with National Treasury, is in the process of drafting legislation that will provide for a detailed SLAR. No official statement has however been made as to when the SLAR will be implemented in South Africa. The SARB has also provided guidance for its approach on bank recovery and outlined the phased-in approach to be followed in relation to the development of bank resolution plans in Guidance Note 4 of 2012 (*Further guidance on the development of recovery and resolution plans by South African banks*). These Guidance Notes are broadly drafted and require further refinement, and market participants continue to discuss the Regulations Relating to Banks and the Guidance Notes with the SARB. Paragraph 1.3 of Guidance Note 6 provides that the SARB will continue to monitor international developments around loss absorbency requirements, and if necessary, will issue further guidance.

Guidance Note 6 requires banks to indicate, in the contractual terms and conditions of any Tier 2 instruments issued, whether such instruments would be either written-off or converted into the most subordinated form of equity of the bank and/or its controlling company (such conversion, "**Conversion**") at the occurrence of a trigger event determined in the PA's discretion, as envisaged in Regulation 38(12)(a)(i) of the Regulations Relating to Banks. To the extent that any Tier 2 instruments are issued prior to the commencement of the SLAR, such Tier 2 instruments will have to contractually provide for write-off or Conversion (at the discretion of the Relevant Regulator (as defined in the Conditions)) at the occurrence of a Non-Viability Event (as defined in the Conditions), as write-off and Conversion are understood and applied in terms of the regulatory framework applicable at the time of the issuance of such Tier 2 instruments) in order to qualify as Tier 2 Capital. The terms and conditions of Tier 2 Notes issued under this Programme accordingly provide for the Write-off (as defined in Condition 2 (*Interpretation*)) of such Tier 2 Notes at the discretion of the Relevant Regulator upon the occurrence of a Non-Viability Event (see Condition 4(d) (*Loss Absorption Following A Non-Viability Event*) (subject to Condition 4(e) (*Disapplication of Non-Viability Loss Absorption*)).

Notwithstanding the requirement to provide for write-off and/or Conversion in the contractual terms and conditions of a Tier 2 instrument, paragraph 6.3 of Guidance Note 6 provides that banks have the option to elect, upon the commencement of the SLAR, to have the existing contractual write-off/Conversion provisions of any Tier 2 instruments issued prior to the implementation of the SLAR replaced with the write-off/Conversion provisions in the legislation and/or regulations which implement(s) the SLAR (see Condition 4(e) (*Disapplication of Non-Viability Loss Absorption*)). Where the relevant Issuer elects to have the Non-Viability Loss Absorption Condition continue to apply to Tier 2 Notes issued subject to such Non-Viability Loss Absorption Condition, rather than subjecting such Tier 2 Notes to the SLAR (on commencement of the legislation and/or regulations which implement(s) the SLAR), such Tier 2 Notes will be subject to such minimum requirements of the Statutory Loss Absorption Regime required to ensure that the Tier 2 Notes continue to qualify as Tier 2 Capital.

Whether in terms of the contractual write-off/Conversion provisions or the write-off/Conversion provisions in the legislation and/or regulations which implement(s) the SLAR, the possibility of write-off means that Tier 2 Noteholders may lose some or all of their investment. The exercise of any such power by the Relevant Regulator or any suggestion of such exercise could materially adversely affect the price or value of a Tier 2 Noteholder's investment in Tier 2 Notes and/or the ability of the relevant Issuer to satisfy its obligations under such Tier 2 Notes.

Despite the above, whether regulated by the contractual write-off/Conversion provisions or the write-off/Conversion provisions in the legislation and/or regulations which implement(s) the SLAR, paragraph 2.6 of Guidance Note 6 provides that write-off or Conversion of Tier 2 instruments will only occur to the extent deemed by the Relevant Regulator as necessary to ensure that the relevant Issuer is viable, as specified in writing by the Relevant Regulator. Accordingly, any write-off or Conversion of the Tier 2 Notes will generally be effected to ensure compliance with these minimum requirements only.

Payment of any amounts of principal and interest in respect of Tier 2 Notes will be cancelled or written-off upon the occurrence of a Non-Viability Event

Upon the occurrence of a Non-Viability Event (as defined in Condition 2 *(Interpretation)*, Tier 2 Notes will be cancelled (in the case of a Write-off in whole) or written-off in part on a pro rata basis (in the case of a Write-off in part) in accordance with the Capital Rules (as defined in Condition 2 (*Interpretation*)). Further to such cancellation or Write-off, Tier 2 Noteholders will no longer have any rights against the relevant Issuer with respect to any amounts cancelled or written off and the relevant Issuer shall not be obliged to pay compensation in any form to Tier 2 Noteholders. Furthermore, any such cancellation or Write-off will not constitute an Event of Default (as defined in the Conditions) or any other breach of the relevant Issuer's obligations under the Conditions of any Tier 2 Notes.

A Non-Viability Event will occur when the relevant regulator has notified the relevant Issuer that it has determined that a "trigger event" as specified in the Capital Rules has occurred. A trigger event in relation to Tier 2 instruments in the Capital Rules is described as being, at a minimum, the earlier of:

(a) a decision that a write-off, without which the relevant Issuer would become non-viable, is necessary, as determined and notified by the relevant regulator; or

(b) a decision to make a public sector injection of capital, or equivalent support, without which the relevant Issuer would have become non-viable, as determined and notified by the relevant regulator.

The occurrence of a Non-Viability Event is therefore inherently unpredictable and depends on a number of factors, many of which are outside of the relevant Issuer's control.

The investment in, and disposal or write-off of, Tier 2 Notes may have tax consequences in the hands of Tier 2 Noteholders, the relevant Issuer or both

The investment in, and disposal or write-off upon the occurrence a Non-Viability Event in respect of, Tier 2 Notes may have tax consequences in the hands of Tier 2 Noteholders, the relevant Issuer or both. As any such potential consequence depends on various factors, prospective investors in Tier 2 Notes are strongly advised to consult their own professional advisers as to the tax consequence of investing in Tier 2 Notes, and particularly as to whether a disposal or write-off of Tier 2 Notes will result in a tax liability.

Risks relating to Notes denominated in Renminbi

A description of risks which may be relevant to an investor in Notes denominated in Renminbi ("**Renminbi Notes**") are set out below.

Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and out of the PRC which may adversely affect the liquidity of Renminbi Notes

Renminbi is not freely convertible at present. The government of the PRC (the "**PRC Government**") continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar.

However, there has been significant reduction in control by the PRC Government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi by foreign investors into the PRC for the settlement of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are being developed.

Although starting from 1 October 2016, the Renminbi will be added to the Special Drawing Rights basket created by the International Monetary Fund ("**IMF**"), there is no assurance that the PRC Government will continue to gradually liberalise control over cross-border remittance of Renminbi in the future, that any pilot schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the

PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the relevant Issuer to source Renminbi to finance its obligations under Notes denominated in Renminbi.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Renminbi Notes and the relevant Issuer's ability to source Renminbi outside the PRC to service Renminbi Notes

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the People's Bank of China ("**PBoC**") has entered into agreements on the clearing of Renminbi business with financial institutions in a number of financial centres and cities (the "**Renminbi Clearing Banks**"), including but not limited to Hong Kong and are in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions (the "**Settlement Arrangements**"), the current size of Renminbi denominated financial assets outside the PRC is limited.

There are restrictions imposed by PBoC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBoC. The Renminbi Clearing Banks only have access to onshore liquidity support from PBoC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent the relevant Issuer is required to source Renminbi in the offshore market to service its Renminbi Notes, there is no assurance that the relevant Issuer will be able to source such Renminbi on satisfactory terms, if at all. If certain events occur (such as Inconvertibility, Non-transferability or Illiquidity (each, as defined in the Conditions)) which result in the relevant Issuer being unable, or which would render it impracticable for the relevant Issuer, to make payments in Renminbi, the relevant Issuer's obligation to make such payments in Renminbi under the terms of the Renminbi Notes is replaced by an obligation to make such payments in U.S. dollars pursuant to the "*Terms and Conditions of the Notes*".

Investment in the Renminbi Notes is subject to exchange rate risks

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. In August 2015, PBoC implemented changes to the way it calculates the mid-point against the U.S. dollar to take into account the previous day's closing rate and market-maker quotes before announcing the daily mid-point. This change, among others that may be implemented, may increase the volatility in the value of the Renminbi against other currencies. The relevant Issuer will make all payments of interest and principal with respect to the Renminbi Notes in Renminbi unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the Renminbi Notes in U.S. dollars or other applicable foreign currency will decline.

Investment in the Renminbi Notes is subject to currency risk

If the relevant Issuer is not able, or it is impracticable for it, to satisfy its obligation to pay interest and principal on the Renminbi Notes as a result of Inconvertibility, Non-transferability or Illiquidity (each, as defined in the Conditions), the relevant Issuer shall be entitled, on giving not less than five or more than 30 calendar days' irrevocable notice to the investors prior to the due date for payment, to settle any such payment in U.S. dollars on the due date at the U.S. Dollar Equivalent (as defined in the Conditions) of any such interest or principal, as the case may be.

Investment in the Renminbi Notes is subject to interest rate risks

The PRC Government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. In addition, the interest rate for Renminbi in markets outside the PRC may significantly deviate from the interest rate for Renminbi in the PRC as a result of foreign exchange controls imposed by PRC law and regulations and prevailing market conditions.

As Renminbi Notes may carry a fixed interest rate, the trading price of the Renminbi Notes will consequently vary with the fluctuations in the Renminbi interest rates. If holders of the Renminbi Notes propose to sell their Renminbi Notes before their maturity, they may receive an offer lower than the amount they have invested.

Payments with respect to the Renminbi Notes may be made only in the manner designated in the Renminbi Notes

All payments to investors in respect of the Renminbi Notes will be made solely (i) for so long as the Renminbi Notes are represented by global certificates held with the common depositary for Clearstream Banking S.A. ("**Clearstream, Luxembourg**") and Euroclear Bank SA/NV ("**Euroclear**") or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement, (ii) for so long as the Renminbi Notes are represented by global certificates lodged with a sub-custodian for or registered with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing clearing systems rules and procedures or (iii) for so long as the Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement in accordance with prevailing rules and regulations. The relevant Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

Gains on the transfer of the Renminbi Notes may become subject to income taxes under PRC tax laws

Under the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules, as amended from time to time, any gain realised on the transfer of Renminbi Notes by non-PRC resident enterprise or individual Holders may be subject to PRC enterprise income tax ("**EIT**") or PRC individual income tax ("**IIT**") if such gain is regarded as income derived from sources within the PRC. The PRC Enterprise Income Tax Law levies EIT at the rate of 20 per cent. of the gains derived by such non-PRC resident enterprise or individual Holder from the transfer of Renminbi Notes but its implementation rules have reduced the enterprise income tax rate to 10 per cent. The PRC Individual Income Tax Law levies IIT at a rate of 20 per cent. of the gains derived by such non-PRC resident or individual Holder from the transfer of Renminbi Notes.

However, uncertainty remains as to whether the gain realised from the transfer of Renminbi Notes by non-PRC resident enterprise or individual Holders would be treated as income derived from sources within the PRC and become subject to the EIT or IIT. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules. According to the arrangement between the PRC and Hong Kong, for avoidance of double taxation, Holders who are residents of Hong Kong, including enterprise Holders and individual Holders, will not be subject to EIT or IIT on capital gains derived from a sale or exchange of the Notes.

Therefore, if non-PRC enterprise or individual resident Holders are required to pay PRC income tax on gains derived from the transfer of Renminbi Notes, unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-PRC enterprise or individual resident holders of Renminbi Notes reside that reduces or exempts the relevant EIT or IIT, the value of their investment in Renminbi Notes may be materially and adversely affected.

Remittance of proceeds in Renminbi into or out of the PRC

In the event that the relevant Issuer decides to remit some or all of the proceeds into the PRC in Renminbi, its ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. However, there is no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

There is no assurance that the PRC Government will continue to gradually liberalise the control over cross-border Renminbi remittances in the future, that the pilot schemes introduced will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that the relevant Issuer does remit some or all of the proceeds into the PRC in Renminbi and the relevant Issuer subsequently is not able to repatriate funds out of the PRC in Renminbi, it will need to source Renminbi outside the PRC to finance its obligations under the Renminbi Notes, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

PRC Currency Controls Relating to Renminbi

Current Account Items

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies. In July 2009, the PRC commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, 24 August 2011 and 3 February 2012 respectively, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算試點有關問題的通知), the Circular on Expanding the Regions of Cross-border Trade Renminbi Settlement (關於擴大跨境貿易人民幣結算地區的通知) and the Notice on Matters Relevant to the Administration of Enterprises Engaged in Renminbi Settlement of Export Trade in Goods (關於出口貨物貿易人民幣結算企業管理有關問題的通知) (together as "**Circulars**"). Pursuant to these Circulars, (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts were expanded to cover all provinces and cities in the PRC, (iii) the restriction on designated offshore districts has been lifted and (iv) any enterprise qualified for the export and import business is permitted to use Renminbi as settlement currency for exports of goods without obtaining the approval as previously required, provided that the relevant provincial government maintains with PBoC and five other PRC authorities a list of key enterprises subject to supervision (the "**Supervision List**").

On 5 July, 2013, the PBoC promulgated the Circular on Simplifying the Procedures for Cross-Border Renminbi Transactions and Improving Related Policies (關於簡化跨境人民幣業務流程和完善有關政策的通知) (the "**2013 PBoC Circular**"), which, in particular, simplifies the procedures for cross border Renminbi trade settlement under current account items. For example, PRC banks may conduct settlement for PRC enterprises (excluding those on the Supervision List) upon the PRC enterprises presenting the payment instruction. PRC banks may also allow PRC enterprises to make/receive payments under current account items prior to the relevant PRC bank's verification of underlying transactions (noting that verification of underlying transactions is usually a precondition for cross border remittance).

On 1 November 2014, PBoC promulgated the Circular on Matters concerning Centralized Cross-Border Renminbi Fund Operation Conducted by Multinational Enterprise Groups (關於跨國企業集團開展跨境人民幣資金集中運營業務有關事宜的通知) (the "**2014 PBoC Circular**"), which provides that qualified multinational enterprise groups may carry out cross-border Renminbi fund centralised operations through a group member incorporated in the PRC. According to the 2014 PBoC Circular, a qualified multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for the entire group (without such cash pooling arrangements, the relevant payments and receipts would generally need to be processed individually and cannot be netted off against each other).

The 2014 PBoC Circular also provides that enterprises in the China (Shanghai) Free Trade Pilot Zone ("**Shanghai FTZ**") may irrevocably opt to participate in the local scheme in the Shanghai FTZ and file with the Shanghai Head Office of PBoC.

On 5 September 2015, PBoC promulgated the Circular on Further Facilitating the Two-way Cross-border Renminbi Cash-pooling Business by Multinational Enterprise Groups (中國人民銀行關於進一步便利跨國企業集團開展跨境雙向人民幣資金池業務的通知) (the "**2015 PBoC Circular**", together with the 2013 PBoC Circular, 2014 PBoC Circular, the "**PBoC Circulars**"), which rephrases the requirements on two-way Renminbi cash-pooling arrangement and replaces those set forth under the 2014 PBoC Circular. Among other things, the PBoC effectively increases the cap for net cash flow by increasing the default macro-prudential policy parameter from 0.1 to 0.5 for the time being and stipulates that (i) a qualified Multinational Enterprise Group ("**MEG**") is only allowed to have one two-way cross-border Renminbi cash-pooling in the PRC, (ii) the aggregate revenue generated by the domestic participating group members of a MEG shall be no less than RMB 1 billion and that of the foreign participating group members shall be no less than RMB 200 million, (iii) the group parent company of a qualified MEG may be incorporated in or outside of the PRC; and (iv) the fund held in the special RMB deposit account under the name of the domestic group parent company is prohibited from being used for investing in securities, financial derivatives or non-self-use real estates or for purchasing wealth management products or granting entrusted loans.

As new regulations, the Circulars and the PBoC Circulars will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these regulations and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities. However, as set out below, it has been announced that as from 1 June 2015, the capital account regulation in relation to direct investment has been delegated by the governmental authority (i.e. the local branches of the State Administration of Foreign Exchange of the PRC (國家外匯管理局) ("**SAFE**") to designated foreign exchange banks.

Prior to October 2011, settlement of capital account items were generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or relevant PRC parties were also generally required to make capital account payments including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency.

In respect of Renminbi foreign direct investments ("**FDI**"), PBoC promulgated the Administrative Measures on Renminbi Settlement of Foreign Direct Investment (外商直接投資人民幣結算業務管理辦法) (the "**PBoC FDI Measures**") on 13 October 2011 as part of PBoC's detailed Renminbi FDI accounts administration system. The system covers almost all aspects in relation to FDI, including capital injections, payments for the acquisition of PRC domestic enterprises, repatriation of dividends and other distributions, as well as Renminbi denominated cross-border loans. Under the PBoC FDI Measures, special approval for FDI and shareholder loans from PBoC, which was previously required, is no longer necessary. In some cases however, post-event filing with PBoC is still necessary.

On 14 June 2012, PBoC further issued a Circular on Clarifying the Detailed Operating Rules for RMB Settlement of Foreign Direct Investment (中國人民銀行關於明確外商直接投資人民幣結算業務操作細則的通知) (the "**PBoC FDI Circular**"), setting out the operational guidelines relating to cross-border Renminbi direct investments and settlement. This PBoC FDI Circular details the rules for opening and operating the relevant accounts and reiterates the restrictions upon the use of the funds within different Renminbi accounts.

On 5 July 2013, PBoC promulgated the 2013 PBoC Circular (together with the PBoC FDI Measures and the PBoC FDI Circular, the “**PBoC Rules**") which, among other things, provide more flexibility for funds transfers between the Renminbi accounts held by offshore participating banks at PRC onshore banks and offshore clearing banks respectively.

PBoC further issued the Circular on the Relevant Issues on Renminbi Settlement of Investment in Onshore Financial Institutions by Foreign Investors (關於境外投資者投資境內金融機構人民幣結算有關事項的通知) on 23 September 2013, which provides further details for using Renminbi to invest in a financial institution domiciled in the PRC.

On 3 December 2013, the Ministry of Commerce of the PRC ("**MOFCOM**") promulgated the Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment (商務部關於跨境人民幣直接投資有關問題的公告) (the "**MOFCOM Circular**"), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Circular, the appropriate office of MOFCOM and/or its local counterparts will grant written approval for each FDI and specify "Renminbi Foreign Direct Investment" and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the MOFCOM Circular removes the approval requirement for foreign investors who intend to change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular also clearly prohibits the FDI funds from being used for any investment in securities and financial derivatives (except for investment in the PRC listed companies as strategic investors) or for entrustment loans in the PRC.

On 10 May 2013, SAFE promulgated the Provisions on the Foreign Exchange Administration of Domestic Direct Investment by Foreign Investors (外國投資者境內直接投資外匯管理規定) (the "**SAFE Provisions**"), which became effective on 13 May 2013. The SAFE Provisions removed previous approval requirements for foreign investors and foreign invested enterprises in opening of, and capital injections into, foreign exchange accounts, although registration for foreign exchange (including cross-border Renminbi) administration is still required.

On 13 February 2015, SAFE promulgated the Notice on Further Simplifying and Improving Foreign Exchange Administration Policy of Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (the "**2015 SAFE Notice**"), which became effective on 1 June 2015. Under the 2015 SAFE Notice, the SAFE delegates the authority for approval/registration of foreign currency (including cross-border Renminbi) related matters for direct investment (internal and external) to designated foreign exchange banks.

On 30 March 2015, SAFE promulgated the Circular on Reforming Foreign Exchange Capital Settlement for Foreign Invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) (the "**SAFE Circular**", together with the SAFE Provisions, 2015 SAFE Notice, the "**SAFE Rules**"), which became effective on and from 1 June 2015. The SAFE Circular allows foreign-invested enterprises to settle 100 per cent. (tentative) of the foreign currency capital (that has been processed through SAFE's equity interest confirmation proceedings for capital contribution in cash or registered by a bank on SAFE's system for account-crediting for such capital contribution) into Renminbi according to their actual operational needs, though SAFE reserves its authority to reduce the proportion of foreign currency capital that is allowed to be settled in such manner in the future. On the other hand, it is notable that the SAFE Circular continues to require that capital contributions should be applied within the business scope of a foreign-invested company for purposes that are legitimate and for that foreign-invested company's own operations; with respect to the Renminbi proceeds obtained through the aforementioned settlement procedure, the SAFE Circular prohibits such proceeds from being applied outside the business scope of the company or for any prohibitive purposes in law, or applied directly or indirectly (i) to securities investments (unless otherwise permitted in law), (ii) to granting entrusted loans or repaying of inter-company lending (including advance payment made by third parties) or bank loans that have been on lent to third parties, or (iii) to purchasing non-self-use real estates (unless it is a real estate company). In addition, the SAFE Circular allows foreign-invested investment companies, foreign-invested venture capital firms and foreign-invested equity investment companies to make equity investment through Renminbi funds to be settled, or those already settled, from their foreign currency capital by transferring such settled Renminbi funds into accounts of invested enterprises, according to the actual investment scale of the proposed equity investment projects.

On 5 June 2015, PBoC promulgated an order to revise certain existing PBoC regulations, which is to reflect the reform to a new registered capital system of PRC-incorporated companies under the PRC Company Law effective as of 1 March 2014 (中國人民銀行公告 2015 第 12 號) (the "**PBoC Order**").

Among other things, the PBoC confirmed in the PBoC Order that capital verification of a foreign-invested enterprise under article 10 of the PBoC FDI Measures is no longer a mandatory procedure before the establishment, and the requirement under the PBoC FDI Circular that a foreign-invested enterprise is not allowed to borrow offshore RMB funds until its registered capital is paid up in full and as scheduled is also abolished.

To support the development of the Shanghai FTZ, the Shanghai Head Office of PBoC issued the Circular on Supporting the Expanded Cross-border Utilisation of Renminbi in the Shanghai FTZ (關於支持中國(上海)自由貿易試驗區擴大人民幣跨境使用的通知) (the "**PBoC Shanghai FTZ Circular**") on 20 February 2014, which allows banks in Shanghai to settle FDI based on a foreign investor's instruction. In respect of FDI in industries that are not on the "negative list" of the Shanghai FTZ, the MOFCOM approval which was previously required has been replaced by a filing. However, the application of the PBoC Shanghai FTZ Circular is limited to enterprises in the Shanghai FTZ.

PRC entities are also allowed to borrow Renminbi loans from foreign lenders (which are referred to as "foreign debt") and lend Renminbi loans to foreign borrowers (which are referred to as "outbound loans"), as long as such PRC entities have the necessary quota or approval, and use Renminbi to denominate, or make payments under, security/guarantee with the relevant parties being in the PRC and the other jurisdiction(s) respectively (which is referred to as "cross-border security"). Under current rules promulgated by SAFE, foreign debts borrowed, outbound loans extended, and the cross-border security provided by an onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies. However, there remain potential inconsistencies between the provisions of the SAFE Rules and the provisions of the 2013 PBoC Circular in terms of cross-border security, outbound loans, etc. and it is unclear how regulators will deal with such inconsistencies in practice.

According to the 2014 PBoC Circular, qualified multinational enterprise groups can extend loans in Renminbi to, or borrow loans in Renminbi from, offshore group entities within the same group by leveraging the cash pooling arrangements (which features a sponsoring enterprise and a settlement bank with international settlement capacity). The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or extend loans to enterprises outside the group.

Enterprises within the Shanghai FTZ may irrevocably opt to utilise Renminbi cash pooling arrangements to extend inter-company loans pursuant to the PBoC Shanghai FTZ Circular as discussed above. Renminbi funds obtained from financing activities may not be pooled under this arrangement. In addition, according to the PBoC Shanghai FTZ Circular, enterprises in the Shanghai FTZ can borrow Renminbi from offshore lenders within the prescribed limit, while there is no numerical limit for banks in the Shanghai FTZ to borrow offshore Renminbi, although the utilisation has geographic restriction, the interpretation of which is still unclear. The PBoC Shanghai FTZ Circular also allows, in principle, the China Foreign Exchange Trading System to offer trading facility relating to financial instrument denominated in Renminbi to offshore investors, and the Shanghai Gold Exchange to offer trading facility relating to precious metal transactions to offshore investors.

Pilot schemes relating to cross-border Renminbi loans, bonds, or equity investments have also been launched for, among others, enterprises in Shenzhen Qianhai, Jiangsu Kunshan, Jiangsu Suzhou Industrial Park.

As the MOFCOM Circular, the PBoC Rules, the SAFE Rules and the PBoC Order are relatively new regulations, they will be subject to interpretation and application by the relevant PRC authorities.

As the PBoC Rules, the MOFCOM Circular, the SAFE Rules and the PBoC Order are relatively new regulations, they will be subject to interpretation and application by the relevant PRC authorities.

Although starting from 1 October 2016 the Renminbi will be added to the Special Drawing Rights basket created by the IMF, there is no assurance that approval of such remittances, borrowing or provision of external guarantee in Renminbi will continue to be granted or will not be revoked in the future. Further, since the remittance of Renminbi by way of investment or loans are now categorised as capital account items, such remittances will need to be made subject to the specific requirements or restrictions set out in the relevant SAFE Rules.

Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the relevant Issuer to source Renminbi to finance its obligations under Renminbi Notes.]

INFORMATION INCORPORATED BY REFERENCE

The following information shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

1. the audited financial statements (including the auditors' report thereon, notes and annexures thereto) of SBSA in respect of the years ended 31 December 2018 and 31 December 2017 (set out on pages 31 to 215 and pages 34 to 204, respectively, of the 2018 and 2017 annual reports of SBSA); and

2. the risk and capital management report of SBSA in respect of the year ended 31 December 2018 (the "**SBSA 2018 Risk and Capital Management Report**"). The information contained in the SBSA 2018 Risk and Capital Management Report is unaudited unless stated as audited; and

3. the risk and capital management report of SBSA in respect of the year ended 31 December 2017 (the "**SBSA 2017 Risk and Capital Management Report**"). The information contained in the SBSA 2017 Risk and Capital Management Report is unaudited unless stated as audited; and

4. the terms and conditions set out on pages 43 to 78 of the base prospectus dated 23 June 2017 relating to the Programme under the heading "Terms and Conditions of the Notes"; and

5. the terms and conditions set out on pages 40 to 76 of the base prospectus dated 25 June 2015 relating to the Programme under the heading "Terms and Conditions of the Notes"; and

6. the terms and conditions set out on pages 35 to 59 of the base prospectus dated 24 June 2014 relating to the Programme under the heading "Terms and Conditions of the Notes"; and

7. the terms and conditions set out on pages 35 to 59 of the base prospectus dated 28 June 2013 relating to the Programme under the heading "Terms and Conditions of the Notes"; and

8. the terms and conditions set out on pages 35 to 61 of the base prospectus dated 28 June 2012 relating to the Programme under the heading "Terms and Conditions of the Notes"; and

9. the terms and conditions set out on pages 22 to 46 of the base prospectus dated 12 July 2007 relating to the Programme under the heading "Terms and Conditions of the Notes".

Copies of the documents specified above as containing information incorporated by reference in this Base Prospectus may be inspected, free of charge, at 9th Floor, Standard Bank Centre, 5 Simmonds Street, Johannesburg, PO Box 7725, Johannesburg 2000, South Africa.

The 2018 annual report of SBSA containing the audited financial statements and risk and capital management report of SBSA in respect of the year ended 31 December 2018 and the 2017 annual report of SBSA containing the audited financial statements of SBSA in respect of the year ended 31 December 2017 can be inspected at http://www.standardbank.co.za and the terms and conditions referred to in paragraphs 4 to 9 above can be inspected at 9th Floor, Standard Bank Centre, 5 Simmonds Street, Johannesburg, PO Box 7725, Johannesburg 2000, South Africa and https://reporting.standardbank.com/debt-centre-confidentiality-and-disclaimer/.

Any information contained in any of the documents or the website specified above which is not incorporated by reference in this Base Prospectus is either not relevant to investors or is covered elsewhere in this Base Prospectus. Where reference is made to other websites within this Base Prospectus, the contents of those websites do not form part of this Base Prospectus.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

PRESENTATION OF FINANCIAL INFORMATION

The financial information relating to SBSA set out in this Base Prospectus is consolidated financial information in respect of SBSA and its subsidiaries (the "**SBSA Group**") and has, unless otherwise indicated, been extracted from its audited consolidated financial statements as at and for the years ended 31 December 2018 (the "**SBSA 2018 Audited Financial Statements**") and 31 December 2017 (the "**SBSA 2017 Audited Financial Statements**"), in each case prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board.

The financial information relating to SBG set out in this Base Prospectus is consolidated financial information in respect of SBG and its subsidiaries (the "**Group**") and has, unless otherwise indicated, been extracted from its audited consolidated financial statements as at and for the year ended 31 December 2018 (the "**SBG 2018 Audited Financial Statements**"), prepared in accordance with IFRS as issued by the International Accounting Standards Board.

The information relating to SBSA's largest single depositor and top 10 depositors set out in the section headed "*Risk Factors – Failures in Risk Management – Liquidity Risk*" has been extracted from the SBSA 2018 Risk and Capital Management and is unaudited.

The information relating to the credit loss ratio of SBSA in relation to mortgage loans, vehicle and asset finance and card products set out in the section headed "*Description of The Standard Bank of South Africa Limited - Business of SBSA - Personal & Business Banking SA*" has been extracted from the management accounts of SBSA as at 31 December 2018 and is unaudited.

The information contained in the SBSA 2018 Risk and Capital Management Report and the SBSA 2017 Risk and Capital Management Report is unaudited unless stated as audited**.**

The information relating to SBG's largest single depositor and top 10 depositors set out in the section headed "*Risk Factors – Risk Management – Liquidity Risk*" has been extracted from the risk and capital management report of SBG in respect of the year ended 31 December 2018 (the "**SBG 2018 Risk and Capital Management Report**") and is unaudited.

The information relating to the credit loss ratio of SBG in relation to mortgage loans, vehicle and asset finance and card products set out in the section headed "*Description of Standard Bank Group Limited - Business of SBG - Personal & Business Banking* " has been extracted from the management accounts of SBG as at 31 December 2018 and is unaudited.

The information contained in the SBG 2018 Risk and Capital Management Report is unaudited unless stated as audited.

Unless otherwise indicated, market share data included in this Base Prospectus has been estimated. All such estimates have been made by SBSA or SBG using its own information and other market information which is publicly available.

Unless otherwise indicated, the financial information relating to SBSA for the year ended and as at 31 December 2017 contained in this Base Prospectus has been extracted from the SBSA 2018 Audited Financial Statements and is therefore provided on a restated basis.

Unless otherwise indicated, the financial information relating to SBG for the years ended and as at 31 December 2018 and 31 December 2017 contained in this Base Prospectus have been extracted, respectively, from the audited financial statements (including the auditors' report thereon, notes and annexures thereto) of SBG in respect of the year ended 31 December 2018 (set out on pages 11 to 229 of the SBG 2018 Audited Financial Statements), and the audited financial statements of SBG in respect of the year ended 31 December 2017(set out on pages 10 to 220 of the audited consolidated financial statements as at and for the year ended 31 December 2018 of SBG (the **SBG 2017 Audited Financial Statements**)). Financial information relating to SBG for the year ended 31 December 2017, as extracted from the SBG 2018 Audited Financial Statements, is provided on a restated basis.

In this Base Prospectus, financial information:

1. denoted by ** indicates that expenses incurred with respect to the Group’s customer loyalty programme (Ucount) have historically been recorded as part of operating expenses in the income

statement. During 2018, the Group amended its accounting presentation policy for these expenses to be presented as part of net fee and commission revenue (within non-interest revenue) and as a result, restated its 31 December 2017 financial results. This presentation better aligns to the Group's presentation policy for recognising expenses within net fee and commission revenue.

2. denoted by *** indicates that the Group has, as permitted by IFRS9, elected not to restate comparative financial statements. The Group has, however, aligned its categories for loans and advances disclosed in 31 December 2017 to those disclosed in 31 December 2018. This did not result in a restatement to the Group's statement of financial position as at 31 December 2017; and

3. denoted by **** indicates that where reporting responsibility for individual cost centres and divisions within business units changed, the segmental analysis comparative figures from 31 December 2017 have been reclassified accordingly.

Alternative Performance Measures

The Base Prospectus includes certain data which the Issuers consider to constitute alternative performance measures ("**APMs**") for the purposes of the ESMA 'Guidelines on Alternative Performance Measures'. The Base Prospectus contains APMs relating to both SBG and SBSA.

These APMs are not defined by, or presented in accordance with, IFRS. Other companies in the industry may calculate similarly titled measures differently, such that disclosure of similarly titled measures by other companies may not be directly comparable with the APMs included in the Base Prospectus. In addition, the APMs are not measurements of SBSA's operating performance or financial condition under IFRS and should not be considered as alternatives to any measures of performance under IFRS or as measures of SBSA's liquidity.

APM	Definition
Headline earnings	In relation to SBSA, determined in accordance with the relevant circular issued by the South Africa Institute of Chartered Accountants at the request of the Johannesburg Stock Exchange, by excluding from reported earnings specific separately identifiable re-measurements net of related tax and non-controlling interests. Please see Note 37 to the SBSA 2018 Annual Financial Statements. In relation to SBG, determined in accordance with the relevant circular issued by the South Africa Institute of Chartered Accountants at the request of the Johannesburg Stock Exchange, by excluding from reported earnings specific separately identifiable re-measurements net of related tax and non-controlling interests. Please see Note 40 to the SBG 2018 Annual Financial Statements. Used as a performance measure.
Cost-to-income ratio	Calculated as operating expenses as a percentage of total income after revenue sharing agreements with Group companies but before credit impairments. Used as a performance measure.
Loans -to- deposit ratio	Calculated as net loans and advances as a percentage of deposits and debt funding. Used as a performance measure.

Liquidity Coverage Ratio (LCR)	Calculated by dividing high quality liquid assets by net cash outflows. Used as a performance of liquidity.
Return On Equity ("**ROE**")	Calculated as headline earnings as a percentage of monthly average ordinary shareholders' equity. Monthly average ordinary shareholders' equity is calculated as the arithmetic mean between the opening and closing balances of ordinary shareholders' equity. Used as a performance measure.
Non-performing Loans (Stage 3) ("**NPL**") ratio	Calculated as the percentage of gross loans and advances to customers with recognised impairments over total gross loans and advances to customers. Used as an indicator of the quality of the relevant loan book. The lower the indicator the higher the quality of the loan book. Used as an asset quality measure.
Non-Performing Loan (Stage 3) impairment coverage ratio	Calculated as a percentage of balance sheet impairments for credit impaired loans and off-balance sheet credit impaired exposures (including interest in suspense), over total gross non-performing loans and advances (including interest in suspense). Used as an indicater of the quality of the relevant loan book. The lower the indicator the higher the quality of the loan book. Used as an asset quality measure.
Non-Performing Loans exposures ratio	Calculated, in respect of financial information for each Issuer relating to the year ended, as gross loans and advances with recognised impairments as a percentage of gross loans and advances. Used as an asset quality measure.
Specific Gross Impairment Coverage	Calculated, in respect of financial information for each Issuer relating to the year ended 31 December 2017, as balance sheet impairments for non-performing specifically impaired loans as a percentage of specifically impaired loans. Used as an asset quality measure.
Portfolio credit impairment charge	Impairment for latent losses inherent in groups of loans and advances that have not yet been specifically impaired. Calculated on the basis of financial information for each Issuer relating to the year ended 31 December 2017. Used as an asset quality measure.
Credit loss ratio (2018)	Calculated as total impairment charges on loans and advances as a percentage of average daily and monthly gross loans and advances, excluding interest in suspense. Used as an asset quality measure.
Credit loss ratio	Calculated as total impairment charges on loans and advances as a percentage of

(2017)	average daily and monthly gross loans and advances. Used as an asset quality measure.
Jaws	Calculated as the ratio of total income growth to operating expenses growth. Used as a performance measure.

The Issuer believes that the above measures provide useful information to investors for the purposes of evaluating the financial condition and results of operations of the Issuer and, as applicable, SBG, the quality of its assets and the fundamentals of its business, and allow for comparisons with other banks, over different periods of time and between the Issuer and the average industry standards.

KEY FEATURES OF THE PROGRAMME

The following overview of key features of the Programme does not purport to be complete and is qualified in its entirety by the remainder of this Base Prospectus. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Base Prospectus have the same meanings in this overview of the key features of the Programme.

Issuers:	The Standard Bank of South Africa Limited Standard Bank Group Limited
SBSA Legal Entity Identifier Number:	QFC8ZCW3Q5PRXU1XTM60
SBG Legal Entity Identifier Number:	2549003PEZXUT7MDBU41
Risk Factors:	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the relevant Issuer to fulfil its obligations under the Notes are discussed under "*Risk Factors*" above.
Arranger:	The Standard Bank of South Africa Limited (acting through its Corporate and Investment Banking Division).
Dealers:	BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, HSBC Bank plc, ICBC International Securities Limited, ING Bank N.V., J.P. Morgan Securities plc, Merrill Lynch International, MUFG Securities EMEA plc, Mizuho International plc, Société Générale, Standard Chartered Bank, NatWest Markets Plc, The Standard Bank of South Africa Limited (acting through its Corporate and Investment Banking Division), UBS AG London Branch and any other Dealer appointed from time to time by the Issuers either generally in respect of the Programme or in relation to a particular Tranche of Notes.
Fiscal Agent:	The Bank of New York Mellon, acting through its London office.
Registrar:	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Final Terms or Drawdown Prospectus:	Notes issued under the Programme may be issued either (1) pursuant to this Base Prospectus and associated Final Terms or (2) pursuant to a Drawdown Prospectus. The terms and conditions applicable to any particular Tranche of Notes will be the Conditions as completed to the extent described in the relevant Final Terms or, as the case may be the relevant Drawdown Prospectus.
Listing and Trading:	Applications have been made for Notes to be admitted during the period of twelve months after the date hereof to listing on the Official List of the FCA and to trading on the Market of the London Stock Exchange. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the relevant Issuer, subject in all cases to the relevant Issuer obtaining the necessary consents from FSD and (in the case of Tier 2 Notes) the PA (which replaced the Registrar of Banks effective 1 April 2018).
Clearing Systems:	Euroclear and/or Clearstream, Luxembourg and/or, in relation to any Tranche of Notes, any other clearing system as may be specified in the

relevant Final Terms.

Initial Programme Amount:	Up to U.S.$4,000,000,000 (or its equivalent in other currencies) aggregate principal amount of Notes outstanding at any one time.
Issuance in Series:	Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.
FSD Approval:	As at the date of the Base Prospectus, the prior approval of FSD is required for the issuance of each Tranche of Notes under the Programme.
PA:	As at the date of the Base Prospectus, the prior approval of the PA (previously the Registrar of Banks) is required for the issuance of each Tranche of Tier 2 Notes under the Programme.
Commercial Paper Regulations:	The Commercial Paper Regulations comprise an exemption to *"the business of a bank"* as defined in the Banks Act. The question of whether SBG, in the issue and placing of a Tranche of Notes, conducts *"the business of a bank"* as defined in the Banks Act is a question of fact. If SBG, in relation to the issue and placing of a Tranche of Notes, is obliged (or is not obliged but nevertheless elects) to comply with the Commercial Paper Regulations, SBG will procure that Annexure "A" to the Final Terms or the Pricing Supplement, as the case may be, relating to that Tranche of Notes is completed and attached to those Final Terms or that Pricing Supplement, as the case may be.
Forms of Notes:	Notes may be issued in bearer form or in registered form. Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note (each defined in the section "*Forms of the Notes*"), in each case as specified in the relevant Final Terms. Each Global Note will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Final Terms as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Each Tranche of Registered Notes will be in the form of either individual Note Certificates ("**Individual Note Certificates**") or a Global Registered Note Certificate (a "**Global Registered Note Certificate**"), in each case as specified in the relevant Final Terms. Each Global Registered Note Certificate will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and registered in the name of a nominee for such depositary. Persons holding beneficial interests in the Global Registered Note Certificate will be entitled or required, as the case may be, to receive physical delivery of Individual Note Certificates.

Interests in a Global Registered Note Certificate will be exchangeable (free of charge), in whole but not in part, for Individual Note Certificates without receipts, interest coupons or talons attached only in the limited circumstances described under "*Summary of Provisions Relating to the Notes While in Global Form*".

Currencies: Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Status of the Notes: Notes may be issued on a subordinated or unsubordinated basis, as specified in the relevant Final Terms.

Status of the Unsubordinated Notes: The Unsubordinated Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 5 (*Negative Pledge*)) unsecured obligations of the relevant Issuer, all as described in Condition 4(a) (*Status of the Unsubordinated Notes*).

Status of Subordinated Notes that are Tier 2 Notes: Tier 2 Notes will constitute direct, unsecured and subordinated obligations of the relevant Issuer, all as described in Condition 4(c) (*Status of Tier 2 Notes*).

Status of Subordinated Notes that are not Tier 2 Notes: Subordinated Notes that are not Tier 2 Notes will constitute direct, unsecured and subordinated obligations of the relevant Issuer, all as described in Condition 4(b) (*Status of the Subordinated Notes that are not Tier 2 Notes*).

Issue Price: Notes may be issued at any price as specified in the relevant Final Terms. The price and amount of Notes to be issued under the Programme will be determined by the relevant Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

Maturities: Any maturity, subject, in relation to Tier 2 Notes, to such minimum maturities as may be required from time to time by the applicable Capital Rules and in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the relevant Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the relevant Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the relevant Issuer.

Redemption and Purchase: For so long as the applicable Capital Rules so require, Tier 2 Notes may be redeemed or purchased only if (i) the relevant Issuer has notified the Relevant Regulator of, and the Relevant Regulator has consented in writing to, such redemption, subject to such conditions (if any) as the Relevant Regulator may deem appropriate and (ii) the redemption of the Tier 2 Notes is not prohibited by the Capital Rules as described in Condition 10(l) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation of Tier 2 Notes*).

Subject as described in "*Maturities*" above, Notes may be redeemable at par

	or at such other Redemption Amount as may be specified in the Final Terms.
Optional Redemption:	Subject as described in "*Redemption and Purchase*" above, Notes may be redeemed before their stated maturity at the option of the relevant Issuer (either in whole or in part) in accordance with the Conditions to the extent (if at all) specified in the relevant Final Terms.
Tax Redemption and redemption if a Change in Law occurs:	Subject as described in "*Redemption and Purchase*" above, early redemption will only be permitted for tax reasons as described in Condition 10(b) (*Redemption for tax reasons*). Unsubordinated Notes may be redeemed at the option of the relevant Issuer if a Tax Event (Gross up) occurs. Subordinated Notes may be redeemed if a Tax Event (Gross up), a Tax Event (Deductibility) or a Change in Law occurs.
Redemption for Regulatory Reasons:	Subject as described in "*Redemption and Purchase*" above, early redemption of the Tier 2 Notes in whole (but not in part) is permitted at the option of the relevant Issuer if a Capital Disqualification Event occurs and is continuing as described in Condition 10(f) (*Early Redemption following the occurrence of a Capital Disqualification Event*).
Interest:	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.
Reset Notes:	Reset Notes will have reset provisions pursuant to which the relevant Notes will, in respect of an initial period, bear interest at an initial fixed rate of interest specified in the applicable Final Terms. Thereafter, the fixed rate of interest will be reset on one or more date(s) to the applicable Mid-Market Swap Rate for the relevant Specified Currency or an applicable floating rate plus the applicable reset margin, in each case as may be specified in the applicable Final Terms.
Denominations:	No Notes may be issued under the Programme (a) where such Notes are to be admitted to trading on a regulated market within the EEA or offered to the public in circumstances which require the publication of a prospectus under the Prospectus Directive, with a minimum denomination of less than EUR100,000 (or its equivalent in another currency at the Issue Date of such Notes), or (b) which carry the right to acquire shares (or transferable securities equivalent to shares) issued by the relevant Issuer or by any entity to whose group the relevant Issuer belongs. Subject thereto, Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/ or central bank requirements. See also "*Maturities*" above.
Negative Pledge:	Unsubordinated Notes will have the benefit of a negative pledge as described in Condition 5 (*Negative Pledge*).
Taxation:	All payments in respect of Notes will be made free and clear of withholding taxes of South Africa, unless the withholding is required by law. In that event, the relevant Issuer will (subject as provided in Condition 13 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
Governing Law:	The Notes and all non-contractual obligations arising out of or in connection with the Notes are governed by English law save that the provisions of Conditions 4(b) (*Status of the Subordinated Notes that are not Tier 2 Notes*), 4(c) (*Status of Tier 2 Notes*), 4(d) (*Loss Absorption Following A Non-Viability Event*), 4(e) (*Disapplication of Non-Viability*

	Loss Absorption), 10(l) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation of Tier 2 Notes*) and 14.2 (*Events of Default relating to Subordinated Notes*) are governed by, and shall be construed in accordance with, South African law.
Enforcement of Notes in Global Form:	In the case of Global Registered Note Certificates, individual investors' rights against each Issuer will be governed by a Deed of Covenant (in respect of SBG, the "**SBG Deed of Covenant**" and in respect of SBSA, the "**SBSA Deed of Covenant**" (together, the "**Deeds of Covenant**")) each dated 10 May 2019, copies of which will be available for inspection at the specified office of the Fiscal Agent.
Ratings:	Each Tranche of Notes may be rated or unrated. Where applicable, the ratings of the Notes will be specified in the relevant Final Terms.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the EEA, the United Kingdom, South Africa, Australia, Japan, Indonesia, the People's Republic of China, the Republic of China, Singapore, Switzerland, Belgium and the Kingdom of Thailand. See "*Subscription and Sale*" below.

FINAL TERMS AND DRAWDOWN PROSPECTUSES

In this section the expression "**necessary information**" means, in relation to any Tranche of Notes, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the relevant Issuer and of the rights attaching to the Notes. In relation to the different types of Notes which may be issued under the Programme the Issuers have endeavoured to include in this Base Prospectus all of the necessary information except for information relating to the Notes which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Tranche of Notes.

For a Tranche of Notes which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, complete this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes which is the subject of Final Terms or a Pricing Supplement (as the case may be), are the Conditions as completed to the extent described in the relevant Final Terms.

The terms and conditions applicable to any particular Tranche of Notes which is the subject of a Drawdown Prospectus (or, in the case of Exempt Notes only, a Pricing Supplement) will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus or Pricing Supplement (as the case may be). In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus or Pricing Supplement (as the case may be), each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

Each Drawdown Prospectus will be constituted either (1) by a single document containing the necessary information relating to the relevant Issuer and the relevant Notes or (2) by a registration document (the "**Registration Document**") containing the necessary information relating to the relevant Issuer, a securities note (the "**Securities Note**") containing the necessary information relating to the relevant Notes and, if necessary, a summary note. In addition, if the Drawdown Prospectus is constituted by a Registration Document and a Securities Note, any significant new factor, material mistake or inaccuracy relating to the information included in the Registration Document which arises or is noted between the date of the Registration Document and the date of the Securities Note which is capable of affecting the assessment of the relevant Notes will be included in the Securities Note.

SUPPLEMENT TO THIS BASE PROSPECTUS

If at any time during the duration of the Programme a significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus arises or is noted which is capable of affecting the assessment of any Notes which may be issued under the Programme whose inclusion is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuers and the rights attaching to the Notes, the Issuers will prepare a supplement to this Base Prospectus.

Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

FORMS OF THE NOTES

Bearer Notes

Each Tranche of Notes in bearer form ("**Bearer Notes**") will initially be in the form of either a temporary global note in bearer form (the "**Temporary Global Note**"), without interest coupons, or a permanent global note in bearer form (the "**Permanent Global Note**"), without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A.("**Clearstream, Luxembourg**") and/or any other relevant clearing system.

In the case of each Tranche of Bearer Notes, the relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the relevant Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Fiscal Agent; and

(ii) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership **provided**, **however**, **that** in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

If:

(a) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deeds of Covenant).

The Permanent Global Note will become exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Note, for Bearer Notes in definitive form ("**Definitive Notes**"):

(a) on the expiry of such period of notice as may be specified in the Final Terms; or

(b) at any time, if so specified in the Final Terms; or

(c) if the Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

  (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

  (ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the relevant Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or

(c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on the date on which such Temporary Global Note becomes void (in the case of (b) above) or at 5.00 p.m. (London time) on such due date ((c) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deeds of Covenant).

Temporary Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the relevant Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deeds of Covenant).

Permanent Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

(a) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(b) at any time, if so specified in the relevant Final Terms; or

(c) if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

    (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

    (ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the relevant Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date ((b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deeds of Covenant).

In relation to any issue of Notes which are specified in the Final Terms as Global Notes exchangeable for Definitive Notes in circumstances other than in the limited circumstances specified in the relevant Global Note, such Notes may only be issued in denominations equal to, or greater than, EUR100,000 (or equivalent) and multiples thereof.

Rights under Deeds of Covenant

Under the Deeds of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note or a Permanent Global Note which becomes void will acquire directly against the relevant Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note or Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

> "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Registered Notes

Each Tranche of Registered Notes will be in the form of either individual Note Certificate in registered form ("**Individual Note Certificates**") or a global Note in registered form (a "**Global Registered Note Certificate**"), in each case as specified in the relevant Final Terms. Each Global Registered Note Certificate will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and registered in the name of a nominee for such depositary and will be exchangeable for Individual Note Certificates in accordance with its terms.

If the relevant Final Terms specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be in the form of Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

If the relevant Final Terms specifies the form of Notes as being "Global Registered Note Certificate exchangeable for Individual Note Certificates", then the Notes will initially be in the form of a Global Registered Note Certificate which will be exchangeable in whole, but not in part, for Individual Note Certificates:

(a) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(b) at any time, if so specified in the relevant Final Terms; or

(c) if the relevant Final Terms specifies "in the limited circumstances described in the Global Registered Note Certificate", then if either of the following events occurs:

(i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or

(ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Global Registered Note Certificate is to be exchanged for Individual Note Certificates, the relevant Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Registered Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Note Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Registered Note Certificate; or

(b) any of the Notes represented by a Global Registered Note Certificate (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Registered Note Certificate in accordance with the terms of the Global Registered Note Certificate on the due date for payment,

then the Global Registered Note Certificate (including the obligation to deliver Individual Note Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the holder of the Global Registered Note Certificate will have no further rights thereunder (but without prejudice to the rights which the holder of the Global Registered Note Certificate or others may have under the Deeds of Covenant. Under the Deeds of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Registered Note Certificate will acquire directly against the relevant Issuer all those rights to which they would have been entitled if, immediately before the Global Registered Note Certificate became void, they had been the holders of Individual Note Certificates in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Interests in a Global Registered Note Certificate will be exchangeable (free of charge), in whole but not in part, for Individual Note Certificates without receipts, interest coupons or talons attached only in the limited circumstances described under "*Summary of Provisions Relating to the Notes While in Global Form*".

Payments of principal, interest and any other amount in respect of the Global Registered Note Certificates will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 2(a) (*Definitions*)) as the registered holder of the Global Registered Note Certificate. None of the Issuers, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the

Global Registered Note Certificates or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Individual Note Certificates will, in the absence or provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 12(f) (*Record Date*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Global Registered Note Certificate will be exchangeable (free of charge), in whole but not in part, for Individual Note Certificates without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. The relevant Issuer will promptly give notice to Noteholders in accordance with Condition 20 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Global Registered Note Certificate) may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

In relation to any issue of Notes which are specified in the Final Terms as Global Registered Note Certificates exchangeable for individual Note Certificates in circumstances other than in the limited circumstances specified in the relevant Global Registered Note Certificate, such Notes may only be issued in denominations equal to, or greater than, EUR100,000 (or equivalent) and multiples thereof.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Global Registered Note Certificate will differ from those terms and conditions which would apply to the Note were it in individual form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Write-off

For so long as any Tier 2 Notes are Global Notes or Global Registered Note Certificates, any Write-off (as defined in the Conditions) will be effected in Euroclear and Clearstream, Luxembourg in accordance with their operating procedures by way of a reduction in the pool factor.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as completed by the relevant Final Terms, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

1. Introduction

(a) *Programme*: The Standard Bank of South Africa Limited ("**SBSA**") and Standard Bank Group Limited ("**SBG**", together with SBSA, the "**Issuers**") have established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$4,000,000,000 in aggregate principal amount of notes (the "**Notes**").

(b) *Final Terms*: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a written final terms (the "**Final Terms**") or, in the case of Exempt Notes (as defined below) only, a pricing supplement (a "**Pricing Supplement**") which completes these terms and conditions (the "**Conditions**"). In the case of Exempt Notes, any other reference in these Conditions to "Final Terms" shall be deemed to be a reference to the relevant Pricing Supplement. The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail. References in these terms and conditions to "**Exempt Notes**" are to Notes for which no prospectus is required to be published under the Prospectus Directive.

(c) *Deeds of Covenant*: The Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"). Registered Notes are constituted by a deed of covenant in respect of each Issuer (in respect of SBG, the "**SBG Deed of Covenant**" and in respect of SBSA, the "**SBSA Deed of Covenant**" (together, the "**Deeds of Covenant**")) each dated 10 May 2019.

(d) *Agency Agreement*: The Notes are the subject of an amended and restated issue and paying agency agreement dated 10 May 2019 as amended and supplemented from time to time (the "**Agency Agreement**") between the Issuers, The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York Mellon as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). References herein to the "**Agents**" are to the Registrar, the Fiscal Agent and the Paying Agents and any reference to an "**Agent**" is to any one of them.

(e) *The Notes*: All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for viewing at, and copies may be obtained from, the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.

(f) *Summaries*: Certain provisions of these Conditions are summaries of the Agency Agreement and the Deeds of Covenant and are subject to their detailed provisions. The Noteholders (as defined below) and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deeds of Covenant applicable to them. Copies of the Agency Agreement and the Deeds of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below.

(g) *Issuer*: References in these Conditions to "Issuer" are to the entity specified as such in the relevant Final Terms.

2. **Interpretation**

(a) *Definitions*: In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Final Terms;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"Additional Conditions" means in relation to any issue of Notes, the proceeds of which are intended by the Issuer to qualify as Tier 2 Capital, such conditions, in addition to the conditions specified in the applicable Capital Rules, as may be prescribed by the Relevant Regulator for the proceeds of the issue of such Notes to qualify as Tier 2 Capital, pursuant to the approval granted by the Relevant Regulator for the issue of such Notes, as specified in a supplement to the Base Prospectus or a drawdown prospectus;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Additional Tier 1 Capital**" means "additional tier 1 capital" as defined in section 1(1) of the Banks Act;

"**Additional Tier 1 Capital Securities**" means any obligations or securities of the Issuer which upon issue qualified (or were intended to qualify) as Additional Tier 1 Capital;

"**Applicable Laws**" means in relation to a Person, means all and any:

(i) statutes and subordinate legislation and common law;

(ii) regulations;

(iii) ordinances and by-laws;

(iv) directives, codes of practice, circulars, guidance notices, judgments and decisions of any competent authority, or any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation; and

(v) other similar provisions,

from time to time, compliance with which is mandatory for that Person;

"**Banks Act**" means the South African Banks Act, 1990, as amended or replaced from time to time;

"**BBSW**" means, in respect of any Specified Currency and any Specified Period, the rate for prime bank eligible securities which is designated as the "AVG MID" on the Reuters Screen BBSW Page (or any successor page);

"**Business Day**" means:

(i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and

(ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred **provided**, **however**, **that**:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Fiscal Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

"**Calculation Amount**" has the meaning given in the relevant Final Terms;

"**Capital Disqualification Event**" means an event which will be deemed to have occurred with respect to the Tier 2 Notes of any Series if, as a result of a Regulatory Change, the Tier 2 Notes of that Series are fully, or to the extent permitted by the Capital Rules, partially, excluded from Tier 2 Capital of the Issuer on a solo and/or consolidated basis (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital and any amortisation of recognition as Tier 2 Capital under the Capital Rules in the final five years prior to maturity);

"**Capital Rules**" means at any time, any capital adequacy rules, legislation, regulations, requirements, guidance notes and policies relating to capital adequacy then in effect in South Africa in relation to banks, licensed to conduct the business of a bank in South Africa and bank holding companies, in each case registered under the Banks Act (and where relevant, the rules applicable specifically to the Issuer) as applied by the Relevant Regulator, or, if the Issuer becomes domiciled in a jurisdiction other than South Africa, any capital adequacy rules, legislation, regulations, requirements, guidance notes and policies relating to capital adequacy then in effect in such other jurisdiction in relation to bank and bank holding companiess registered and licensed in such other jurisdiction (and where relevant, the rules applicable specifically to the Issuer) as applied by the Relevant Regulator;

"**Change in Law**" means on, or after the Issue Date of the first Tranche of Subordinated Notes in any Series of Notes, (a) due to the adoption of or any change in any Applicable Law or regulation (including, without limitation, any tax law), or (b) due to the promulgation of or any change in the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any Applicable Law or regulation (including any action taken by a taxing authority), the Issuer determines in good faith that it will incur a materially increased cost in performing its obligations under such Subordinated Notes (including, without limitation, due to any tax liability, decrease in tax benefit or other adverse effect on its tax position);

"**Common Equity Tier 1 Capital**" means common equity tier 1 capital as defined in section 1(1) of the Banks Act;

"**Common Equity Tier 1 Capital Securities**" means securities of the Issuer which qualify (or were intended to qualify at issue) as Common Equity Tier 1 Capital;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

(i) if "**Actual/Actual (ICMA)**" is so specified, means:

(A) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) where the Calculation Period is longer than one Regular Period, the sum of:

(a) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(b) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

(ii) if "**Actual/365**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**" is so specified, means the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30 day months (unless (i) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30 day month, or (ii) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30 day month)); and

(vi) if "**30E/360**" or "**Eurobond Basis**" is so specified means, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30 day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of the final Calculation Period, the date of final maturity is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30 day month);

"**Determination Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in Hong Kong, London and in New York City;

"**Determination Date**" means the day which is two Determination Business Days before the due date for any payment of the relevant amount under these Conditions;

"**Early Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Final Terms;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Final Terms;

"**EEA**" means the European Economic Area;

"**EURIBOR**" means, in respect of any Specified Currency and any Specified Period, the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Banking Federation (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic EURIBOR rates can be obtained from the designated distributor);

"**Event of Default**" means an event of default by the Issuer as set out in Condition 14 (*Events of Default*);

"**Exchange**" means any existing or future exchange or exchanges on which any Notes may be listed and which is referred to in the relevant Final Terms;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

"**Financial Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 90 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms;

"**Governmental Authority**" means any de facto or de jure government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of Hong Kong;

"**Guarantee**" means, in relation to any Financial Indebtedness of any Person, any obligation of another Person to pay such Financial Indebtedness including (without limitation):

(i) any obligation to purchase such Financial Indebtedness;

(ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Financial Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Financial Indebtedness; and

(iv) any other agreement to be responsible for such Financial Indebtedness;

"**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholders**" shall be construed accordingly;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the PRC;

"**Illiquidity**" means where the general Renminbi exchange market in Hong Kong becomes illiquid and, as a result of which, the Issuer cannot obtain sufficient Renminbi in order to satisfy its obligation to pay interest and principal (in whole or in part) in respect of the Notes as determined by the Issuer in good faith and in a commercially reasonable manner following consultation (if practicable) with two Renminbi Dealers;

"**Inconvertibility**" means the occurrence of any event that makes it impossible for the Issuer to convert any amount due in respect of the Notes in the general Renminbi exchange market in Hong Kong, other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the date of the relevant Final Terms and it is impossible for the Issuer, due to an event beyond its control, to comply with such law, rule or regulation);

"**Indebtedness**" includes any obligation (whether incurred as principal or surety) for the payment or repayment of money, whether present or future, actual or contingent;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

"**Interest Determination Date**" has the meaning given in the relevant Final Terms;

"**Interest Payment Date**" means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**ISDA Definitions**" means the 2000 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.) or, if so specified in the relevant Final Terms, the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.);

"**Issue Date**" has the meaning given in the relevant Final Terms;

"**Junior Securities**" means, in relation to the Tier 2 Notes:

(i) any securities issued by the Issuer which qualify (or were intended to qualify at issue) as Common Equity Tier 1 Capital;

(ii) any securities issued by the Issuer which qualify (or were intended to qualify at issue) as Additional Tier 1 Capital; and

(iii) any securities issued by, or any other obligations of the Issuer which rank, or are expressed to rank, junior to the Tier 2 Notes on liquidation, winding-up or bankruptcy of such Issuer;

"**LIBOR**" means, in respect of any Specified Currency and any Specified Period, the interest rate benchmark known as the London interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic LIBOR rates can be obtained from the designated distributor);

"**Margin**" has the meaning given in the relevant Final Terms;

"**Market**" means the London Stock Exchange's EEA Regulated Market;

"**Maturity Date**" has the meaning given in the relevant Final Terms;

"**Maximum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Minimum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Non-transferability**" means the occurrence of any event that makes it impossible for the Issuer to transfer Renminbi between accounts inside Hong Kong or from an account inside Hong Kong to an account outside Hong Kong or from an account outside Hong Kong to an account inside Hong Kong, other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the date of the relevant Final Terms and it is impossible for the Issuer, due to an event beyond its control, to comply with such law, rule or regulation);

"**Non-Viability Event**" shall bear the meaning ascribed thereto in Condition 4(d)(ii) (*Loss Absorption Following A Non-Viability Event*);

"**Non-Viability Event Notice**" shall bear the meaning ascribed thereto in Condition 4(d)(iii) (*Loss Absorption Following A Non-Viability Event*);

"**Non-Viability Loss Absorption Condition**" shall bear the meaning ascribed thereto in Condition 4(d)(i) (*Loss Absorption Following A Non-Viability Event*);

"**Noteholder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Title to Registered Notes*);

"**Official List**" means the official list of the United Kingdom Financial Conduct Authority;

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Final Terms;

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Final Terms;

"**Other Subordinated Securities**" means in relation to a Series of Subordinated Notes (other than Tier 2 Notes), any obligations or securities of the Issuer which rank or are expressed to rank on a liquidation, bankruptcy or winding-up of the Issuer *pari passu* with the Subordinated Notes of that Series;

"**Other Tier 2 Securities**" means any obligations or securities of the Issuer (other than the Tier 2 Notes):

(i) which upon issue qualified (or were intended to qualify) as Tier 2 Capital; or

(ii) which otherwise rank or are expressed to rank on a liquidation, bankruptcy or winding-up of the Issuer *pari passu* with the Tier 2 Notes or with other obligations or securities falling within paragraph (i) above;

"**Payment Business Day**" means:

(i) if the currency of payment is euro, any day which is:

  (A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

  (B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not euro, any day which is:

  (A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

  (B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Permitted Security Interest**" means any Security Interest arising out of statutory preferences or by operation of law, any Security Interest on or with respect to the receivables of the Issuer which is created pursuant to any securitisation scheme or like arrangement or any Security Interest created over any asset acquired, developed or constructed by the Issuer **provided that** the Relevant Debt so secured shall not exceed the bona fide arm's length market value of such asset or the cost of such acquisition, development or construction (including all interest and other finance charges, any adjustments due to changes in circumstances and other charges reasonably incidental to such cost, whether contingent or otherwise) and where such market value or cost both apply, the higher of the two;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC**" means the People's Republic of China which, for the purpose of these Conditions, shall exclude Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency **provided**, **however**, **that**:

(i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

(ii) in relation to Australian dollars, it means either Sydney or Melbourne;

(iii) in relation to New Zealand dollars, it means either Wellington or Auckland; and

(iv) in any case any financial centre that is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"**Principal Subsidiary**" means a Subsidiary of the Issuer whose (a) total profits before tax and extraordinary items represent in excess of 10 per cent. of the consolidated total profits before tax and extraordinary items of the Issuer and its Subsidiaries, or (b) total value of net assets represent in excess of 10 per cent. of the total value of all consolidated net assets owned by the Issuer and its Subsidiaries in each case calculated by reference to the latest audited financial statements of each Subsidiary and the latest audited consolidated financial statements of the Issuer and its Subsidiaries but if a Subsidiary has been acquired or sold since the date as at which the latest audited consolidated financial statements of the Issuer and its Subsidiaries were prepared, the financial statements shall be adjusted in order to take into account the acquisition or sale of that Subsidiary (that adjustment being certified by the Issuer and its Subsidiaries' auditors as representing an accurate reflection of the revised consolidated profits before interest and tax or turnover of the Issuer and its Subsidiaries). A report by the directors of the Issuer, reviewed by its auditors, that a Subsidiary is or is not a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Noteholders;

"**Put Option Notice**" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem an Unsubordinated Note at the option of the Noteholder;

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Qualifying Tier 2 Securities"** means securities issued directly by the Issuer that:

(i) have terms not materially less favourable to an investor than the terms of the Notes being substituted or varied in accordance with Condition 10(k) (*Substitution or Variation*) (as reasonably determined by the Issuer in consultation with an investment bank or financial adviser of international standing (which in either case is independent of the Issuer), and provided that a certification to such effect of two authorised officers shall have been delivered to the Fiscal Agent prior to the issue or, as appropriate, variation of the relevant securities), and, subject thereto, which (1) contain terms which comply with the then current minimum requirements of the Relevant Regulator in relation to Tier 2 Capital, required to ensure that such Qualifying Tier 2 Securities qualify as Tier 2 Capital (2) include terms which provide for the same Interest Rate or rate of return from time to time applying to the Notes, and preserve the Interest Payment Dates; (3) rank senior to, or *pari passu* with, the ranking of the Notes; (4) preserve any existing rights under these Conditions to any accrued interest or other amounts which have not been paid; (5) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption; and (6) have a solicited published rating ascribed to them or expected to be ascribed to them if the

Notes had a solicited published rating from a rating agency immediately prior to such substitution or variation; and

(ii) if the Notes are listed on the Official List and admitted to trading on the Market (a) are listed on the Official List and admitted to trading on the Market or (b) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms and includes the Initial Rate of Interest, First Reset Rate of Interest and the Subsequent Reset Rate of Interest, as applicable;

"**Recognised Stock Exchange**" means a recognised stock exchange as defined in Section 1005 of the Income Tax Act 2007 as the same may be amended from time to time and any provision, statute or statutory instrument replacing the same from time to time;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount, the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in the relevant Final Terms;

"**Reference Banks**" has the meaning given in the relevant Final Terms or, if none, four major banks selected (after consultation with the Issuer, if reasonably practicable) by the Calculation Agent in the market that is most closely connected with the Reference Rate;

"**Reference Price**" has the meaning given in the relevant Final Terms;

"**Reference Rate**" means BBSW, EURIBOR or LIBOR as specified in the relevant Final Terms;

"**Register**" means the register maintained by the Registrar in respect of the Notes in accordance with the Agency Agreement;

"**Regular Period**" means:

(i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

"**Regulations Relating to Banks**" means the Regulations Relating to Banks published under Government Notice R1029 in Government Gazette 35950 of 12 December 2012, issued under section 90 of the Banks Act, as such regulations may be amended, supplemented or replaced from time to time;

"**Regulatory Change**" means a change in, or amendment to, the Capital Rules or any change in the application of or official or generally published guidance or interpretation of the Capital Rules, which change or amendment becomes, or would become, effective on or after the Issue Date of the first Tranche of Notes of the relevant Series;

"**Relevant Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Relevant Debt**" means any present or future indebtedness of the Issuer in the form of, or represented by any bond, note or debenture issued by the Issuer and listed on a financial or stock exchange but excluding any option or warrant in respect of any share or index or any written acknowledgement of indebtedness issued by the Issuer to SARB;

"**Relevant Financial Centre**" has the meaning given in the relevant Final Terms;

"**Relevant Regulator**" means the Prudential Authority (the "**PA**") in terms of the Banks Act and any successor or replacement thereto, or other authority having primary responsibility for the prudential oversight and supervision of the Issuer;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Final Terms;

"**Renminbi**" means the lawful currency of the PRC;

"**Renminbi Dealer**" means an independent foreign exchange dealer of international repute active in the Renminbi exchange market in Hong Kong;

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**SARB**" means the South African Reserve Bank;

"**SB Group**" means Standard Bank Group Limited and any of its subsidiaries;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**Senior Claims**" shall bear the meaning ascribed thereto in Condition 4(b) (*Status of the Subordinated Notes that are not Tier 2 Notes*);

"**Senior Creditors**" means creditors of the Issuer:

(i) who are unsubordinated creditors of the Issuer; or

(ii) (other than the holders of Additional Tier 1 Capital Securities or Tier 2 Capital Securities) whose claims are, or are expressed to be, subordinated (whether only in the event of a dissolution, liquidation or winding-up of the Issuer or otherwise) to the claims of unsubordinated creditors of the Issuer;

"**Solvent Reconstruction**" means an event where an order is made or an effective resolution is passed for the winding up of the Issuer under or in connection with a scheme of amalgamation or reconstruction not involving a bankruptcy or insolvency, where the obligations of the Issuer in relation to the outstanding Notes are assumed by the successor entity to which all, or substantially all, of the property, assets and undertaking of the Issuer are transferred or where an arrangement with similar effect not involving bankruptcy or insolvency is implemented;

"**Specified Currency**" has the meaning given in the relevant Final Terms;

"**Specified Denomination(s)**" has the meaning given in the relevant Final Terms, save that the minimum denomination of any Note to be admitted to trading on a regulated market within the EEA or offered to the public in circumstances which require the publication of a prospectus under EU Directive 2003/71/EC (as amended or superseded) will be EUR100,000 (or its equivalent in another currency at the Issue Date of such Notes);

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Final Terms;

"**Spot Rate**" means the spot CNY/U.S. Dollar exchange rate for the purchase of U.S. dollars with Renminbi in the over the counter Renminbi exchange market in Hong Kong for settlement in two Determination Business Days, as determined by the Calculation Agent at or around 11 a.m. (Hong Kong time) on the Determination Date, on a deliverable basis by reference to Reuters Screen Page TRADCNY3, or if no such rate is available, on a non deliverable basis by reference to Reuters Screen Page TRADNDF. If neither rate is available, the Calculation Agent will determine the Spot Rate at or around 11 a.m. (Hong Kong time) on the Determination Date as the most recently available CNY/U.S. Dollar official fixing rate for settlement in two Determination Business Days reported by The State Administration of Foreign Exchange of the PRC, which is reported on the Reuters Screen Page CNY=SAEC. Reference to a page on the Reuters Screen means the display page so designated on the Reuters Monitor Money Rates Service (or any successor service) or such other page as may replace that page for the purpose of displaying a comparable currency exchange rate;

"**Statutory Loss Absorption Regime**" means any legal, statutory or regulatory regime or requirement implemented in South Africa which provides the Relevant Regulator with the power to implement principal loss absorption measures in respect of capital instruments (such as Additional Tier 1 Capital and Tier 2 Capital), including, but not limited to, any such regime or requirement which is implemented pursuant to Basel III;

"**Subordinated Notes**" means (i) any Notes issued with the status and characteristics set out in Condition 4(c) (*Status of Tier 2 Notes*) and specified as Tier 2 Notes in the relevant Final Terms or (ii) any Notes issued with the status and characteristics set out in Condition 4(b) (*Status of the Subordinated Notes that are not Tier 2 Notes*) as specified in the relevant Final Terms;

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**") whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise;

"**Talon**" means a talon for further Coupons;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which the TARGET2 is open for the settlement of payments in Euro;

"**Tax Event (Deductibility)**" means an event where, as a result of a Tax Law Change, in respect of the Issuer's obligation to make any payment of interest on the next following Interest Payment Date or any subsequent Interest Payment Date, the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in South Africa, or such entitlement is in the opinion of the Issuer, materially reduced, and in each case the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it (such reasonable measures to exclude any requirement to instigate litigation in respect of any decision or determination of the South African Revenue Service that any such interest does not constitute a tax deductible expense);

"**Tax Event (Gross up)**" means an event where, as a result of a Tax Law Change, the Issuer has paid or will or would on the next Interest Payment Date be required to pay additional amounts as provided or referred to in Condition 13 (*Taxation*);

"**Tax Law Change**" means a change or proposed change in, or amendment or proposed amendment to, the tax laws or regulations of South Africa, or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such tax laws or regulations (including a holding by a court of competent jurisdiction) whether or not having retrospective effect, which actual or proposed change or amendment becomes effective on or after the Issue Date of the first Tranche of Notes of the relevant Series;

"**Tier 2 Capital**" means "*tier 2 capital*" as defined in section 1(1) of the Banks Act;

"**Tier 2 Capital Rules**" means Regulation 38(12) of the Regulations Relating to Banks promulgated under the Banks Act and such other provisions of the Capital Rules with which Tier 2 Notes must comply in order for the proceeds of the issue of such Notes to qualify as Tier 2 Capital;

"**Tier 2 Capital Securities**" means any obligations or securities of the Issuer which upon issue qualified (or were intended to qualify) as Tier 2 Capital;

"**Tier 2 Noteholder**" means a holder of a Tier 2 Note;

"**Tier 2 Notes**" means Notes specified as such in the relevant Final Terms and complying with the Tier 2 Capital Rules;

"**Treaty**" means the Treaty on the Functioning of the European Union;

"**Unsubordinated Notes**" means Notes issued with the status and characteristics set out in Condition 4(a) (*Status of the Unsubordinated Notes*) as specified in the relevant Final Terms;

"**U.S.**" means the United States of America;

"**U.S. dollars**" means United States dollars;

"**U.S. Dollar Equivalent**" means the Renminbi amount converted into U.S. dollars using the Spot Rate for the relevant Determination Date;

"**Write-off**" means, in respect of Tier 2 Notes:

(i) the Tier 2 Notes shall be cancelled (in the case of a Write-off in whole) or written-off in part on a pro rata basis (in the case of a Write-off in part), in accordance with the Capital Rules and as, and to the extent, determined by the Relevant Regulator; and

(ii) all rights of any Tier 2 Noteholder for payment of any amounts under or in respect of the Tier 2 Notes (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default) shall, as the case may be, be cancelled or written-off pro rata among the Tier 2 Noteholders and, in each case, not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Event Notice and even if the Non-Viability Event has ceased; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Final Terms.

(b) *Interpretation*: In these Conditions:

(i) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 13

(*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(ii) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 13 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(iii) references to Notes being "**outstanding**" shall be construed in accordance with the Agency Agreement;

(iv) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "**not applicable**" then such expression is not applicable to the Notes; and

(v) any reference to the Agency Agreement or each Deed of Covenant shall be construed as a reference to the Agency Agreement or each Deed of Covenant, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

3. Form, Denomination, Title and Transfer

(a) *Bearer Notes*: Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

(b) *Title to Bearer Notes*: Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

(c) *Registered Notes*: Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms.

(d) *Title to Registered Notes*: The Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) *Ownership*: The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

(f) *Transfers of Registered Notes*: Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar, together with such evidence as the Registrar may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(g) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar has its Specified Office.

(h) *No charge*: The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.

(j) *Regulations concerning transfers and registration*: All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. **Status**

(a) **Status of the Unsubordinated Notes:**

(i) *Application*: This Condition 4(a) applies only to Unsubordinated Notes.

(ii) *Status of the Unsubordinated Notes*: The Unsubordinated Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer which will at all times rank *pari passu* without preference or priority among themselves and (subject to the provisions of Condition 5 (*Negative Pledge*)) at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(b) **Status of the Subordinated Notes that are not Tier 2 Notes:**

(i) *Application*: This Condition 4(b) applies only to Subordinated Notes that are not Tier 2 Notes.

(ii) *Status of the Subordinated Notes that are not Tier 2 Notes*: Subordinated Notes that are not Tier 2 Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* among themselves and (save for the claims of those creditors that have been accorded preferential rights by law):

(A) *pari passu* with Other Subordinated Securities;

(B) senior to the claims of holders of Additional Tier 1 Capital and Tier 2 Capital; and

(C) junior to the present and/or future claims of Senior Creditors (the "**Senior Claims**") in relation to which such claims of the holders of such Subordinated Notes are (or are expressed to be) subordinated in the event of the dissolution, liquidation or winding-up of the Issuer as provided in the Final Terms or the Pricing Supplement (as applicable).

(iii) *Subordination*: Subject to Applicable Law, in the event of the dissolution of the Issuer or if the Issuer is placed into liquidation or wound up, the claims of the Holders of

Subordinated Notes that are not Tier 2 Notes shall be subordinated to Senior Claims to the extent that in any such event, (i) no Holder of such Subordinated Notes that are not Tier 2 Notes shall be entitled to prove or tender to prove a claim in respect of the Subordinated Notes and (ii) no amount due under such Subordinated Notes shall be eligible for set off, counterclaim, abatement or other similar remedy which a Holder of such Subordinated Notes might otherwise have under the laws of any jurisdiction in respect of such Subordinated Notes nor shall any amount due under such Subordinated Notes be payable to the Holders of such Subordinated Notes in respect of the obligations of the Issuer thereunder until all Senior Claims which are admissible in any such dissolution, insolvency or winding up have been paid or discharged in full.

(c) **Status of Tier 2 Notes**

(i) *Application:* This Condition 4(c) applies only to Tier 2 Notes.

(ii) *Status of the Tier 2 Notes:* The Tier 2 Notes constitute direct, unsecured and, in accordance with Condition 4(c)(iii) (*Subordination)* below, subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves and (save for the claims of those creditors that have been accorded preferential rights by law):

(A) *pari passu* with Other Tier 2 Securities;

(B) senior to Common Equity Tier 1 Capital Securities and the obligations of the Issuer under any Junior Securities; and

(C) junior to the present and/or future claims of Senior Creditors.

(iii) *Subordination:* The claims of Tier 2 Noteholders entitled to be paid amounts due in respect of the Tier 2 Notes are subordinated to the present and/or future claims of Senior Creditors and, accordingly, in the event of the dissolution of the Issuer or if the Issuer is placed into liquidation or is wound-up (in each case other than pursuant to a Solvent Reconstruction):

(A) notwithstanding that any Tier 2 Noteholder shall have proved a claim for any amount in respect of the Tier 2 Notes in the event of the dissolution, liquidation or winding-up of the Issuer, no such amount shall be paid to that Tier 2 Noteholder until the claims of Senior Creditors have been fully satisfied; and

(B) no amount due under the Tier 2 Notes shall be eligible for set-off, counterclaim, abatement or other similar remedy which a Tier 2 Noteholder might otherwise have under the laws of any jurisdiction in respect of the Tier 2 Notes nor shall any amount due under the Tier 2 Notes be payable to any Tier 2 Noteholder, until the claims of all Senior Creditors which are admissible in any such dissolution, liquidation or winding-up have been paid or discharged in full.

(iv) *Set-off*:

(A) Subject to Applicable Law, no Tier 2 Noteholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer under or in connection with the Tier 2 Notes and each Tier 2 Noteholder shall, by virtue of being the holder of any Tier 2 Note, be deemed to have waived all such rights of set-off, compensation and retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Tier 2 Noteholder by the Issuer is discharged by set-off (whether by operation of law or otherwise) such Tier 2 Noteholder shall, unless such payment is prohibited by law, immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of its winding-up or administration, the liquidator or administrator, as appropriate, of the Issuer for payment to the Senior Creditors in respect of amounts owing to them by the Issuer, and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer, or the liquidator or administrator, as appropriate, of the Issuer (as the case may be), for payment to the Senior Creditors in respect of amounts owing to them by the Issuer and accordingly any such discharge shall be deemed not to have taken place.

(B) As used in this Condition 4(c)(iv), the expression "*obligations*" includes any direct or indirect obligations of the Issuer and whether by way of guarantee, indemnity, other contractual support arrangement or otherwise and regardless of name or designation.

(d) **Loss Absorption Following A Non-Viability Event**

(i) This Condition 4(d) applies only to Tier 2 Notes and is referred to as the "**Non-Viability Loss Absorption Condition**" in these Conditions.

(ii) a "**Non-Viability Event**" shall occur when a "trigger event" specified in writing by the Relevant Regulator in accordance with the Capital Rules has occurred; provided that, as a minimum, the aforesaid "trigger event" shall be the earlier of:

(A) a decision that a write-off, without which the Issuer (on a consolidated basis or as required by the Capital Rules) would become non-viable, is necessary as determined by the Relevant Regulator; or

(B) the decision to make a public sector injection of capital, or equivalent support, without which the Issuer (on a consolidated basis or as required by the Capital Rules) would have become non-viable, as determined by the Relevant Regulator.

(iii) Upon the occurrence of a Non-Viability Event, the Issuer will notify Tier 2 Noteholders (a "**Non-Viability Event Notice**") in accordance with Condition 20 (*Notices*) and subsequently Write-off the Tier 2 Notes, in accordance with the Capital Rules.

(iv) For the avoidance of doubt, following any Write-off of the Tier 2 Notes (in accordance with these terms) the Issuer shall not be obliged to pay compensation in any form to the Tier 2 Noteholders.

(v) Any Write-off of the Tier 2 Notes upon the occurrence of a Non-Viability Event will not constitute an Event of Default or any other breach of the Issuer's obligations under the Conditions.

(e) **Disapplication of Non-Viability Loss Absorption**

(i) This Condition 4(e) applies only to Tier 2 Notes.

(ii) If a Statutory Loss Absorption Regime is implemented in South Africa and the Tier 2 Notes are subject to such Statutory Loss Absorption Regime upon the occurrence of a Non-Viability Event, then the Issuer, if so specified in the Final Terms, shall have the option at any time by written notice (the "**Amendment Notice**") to the Tier 2 Noteholders in accordance with Condition 20 (*Notices*), to elect that the Non-Viability Loss Absorption Condition shall cease to apply and that the Statutory Loss Absorption Regime will apply to the Tier 2 Notes from the date specified in the Amendment Notice (the "**Amendment Date**"), being a date no earlier than the date on which the Statutory Loss Absorption Regime takes effect (the "**Amendment Option**"). If the Issuer exercises the Amendment Option, the Non-Viability Loss Absorption Condition will cease to apply and the Tier 2 Notes will be subject to such minimum requirements of the Statutory Loss Absorption Regime required to ensure that the Tier 2 Notes continue to qualify as Tier 2 Capital with effect from the Amendment Date. If the Amendment Option is not specified in the Final Terms or if the Amendment Option is specified in the Final Terms but is not exercised by the Issuer, then the Tier 2 Notes will not be subject to the Statutory Loss Absorption Regime and the Non-Viability Loss Absorption Condition will continue to apply to the Tier 2 Notes.

(iii) For the avoidance of doubt, if a Non-Viability Event occurs on or after such date on which the Non-Viability Loss Absorption Condition referred to in Condition 4(d) is disapplied, the Relevant Regulator or the Relevant Resolution Authority, as the case may be, or the Issuer following instructions from the Relevant Regulator or the Relevant Resolution Authority, as the case may be, may take such action in respect of the Tier 2 Notes as is required or permitted by such Statutory Loss Absorption Regime.

(iv) Notwithstanding and to the exclusion of any other term of the Tier 2 Notes or any other agreements, arrangements or understanding between the Issuer and any Holder (which, for the purposes of this Condition 4(e)(iv), includes each holder of a beneficial interest in the Tier 2 Notes), by its acquisition of the Tier 2 Notes, each Holder acknowledges and accepts that any liability arising under the Tier 2 Notes may be subject to the exercise of Statutory Loss Absorption Powers by the Relevant Resolution Authority and acknowledges, accepts, consents to and agrees to be bound by:

(A) the effect of the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority; and

(B) the variation of the terms of the Tier 2 Notes, as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority.

(v) For the purposes of this Condition:

"**Statutory Loss Absorption Powers**" means any write-down, conversion, transfer, modification, suspension or similar or related power existing from time to time under, and exercised in compliance with the Statutory Loss Absorption Regime, as amended or replaced from time to time and pursuant to which any obligation of the Issuer can be reduced, cancelled, modified, or converted into shares, other securities or other obligations of the Issuer or any other person (or suspended for a temporary period); and

"**Relevant Resolution Authority**" means the resolution authority with the ability to exercise any Statutory Loss Absorption Powers in relation to the Issuer.

(f) **Capital Rules and Additional Conditions**

In order for the proceeds of the issuance of any Tranche of Notes to qualify as Tier 2 Capital, Subordinated Notes must comply with the applicable Capital Rules (including the Additional Conditions (if any) prescribed by the Relevant Regulator in respect of a particular Tranche of Tier 2 Notes). The Issuer will specify in the Final Terms whether any issue of Notes is an issue of Tier 2 Notes, the proceeds of which are intended to qualify as Tier 2 Capital. The Additional Conditions (if any) prescribed by the Relevant Regulator in respect of Tier 2 Notes will be specified in a supplement to the Base Prospectus or a drawdown prospectus.

(g) **No Liability of Agents**

None of the Agents shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Non-Viability Event, the Non-Viability Loss Absorption Condition (or its disapplication) or any consequent Write-off and cancellation of any Tier 2 Notes or any claims in respect thereof, and none of the Agents shall be responsible for any calculation or determination or the verification of any calculation or determination in connection with the foregoing.

5. **Negative Pledge**

This Condition 5 only applies to Unsubordinated Notes.

For so long as any Unsubordinated Note remains outstanding, the Issuer undertakes not to create or permit the creation of any Security Interest (other than a Permitted Security Interest) over any of its present or future assets or revenues to secure any present or future Relevant Debt without at the same time securing all Unsubordinated Notes equally and rateably with such Relevant Debt or providing such other security as may be approved by an Extraordinary Resolution of the holders of those Unsubordinated Notes, unless the provision of any such security is waived by an Extraordinary Resolution of the holders of those Unsubordinated Notes.

6. **Fixed Rate Note Provisions**

(a) *Application*: This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) or Condition 12 (*Payments – Registered Notes*) as applicable. Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount*: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount*: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest sub unit of the Specified Currency (half a sub unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose, a "**sub unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. **Floating Rate Note Provisions**

(a) *Application*: This Condition 7 is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) or Condition 12 (*Payments – Registered Notes*) as applicable. Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 7 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination*: If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:

(A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period; ***provided, however, that*** if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as the Issuer, in consultation with an independent adviser appointed by the Issuer and acting in good faith and in a commercially reasonable manner as an expert in its reasonable discretion, determines appropriate. As used in this Condition 7(c)(ii)(B), "*independent adviser*" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer at its own expense;

(iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iv) subject to Condition 7(m) (*Benchmark Discontinuation*), if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided**, **however**, **that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(d) *ISDA Determination*: If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.

(e) *Linear Interpolation*: If Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:

(i) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Periods; and

(ii) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period,

provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

(f) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified. Unless otherwise stated in the relevant Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

(g) *Calculation of Interest Amount*: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount and multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose, a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(h) *Calculation of other amounts*: If the relevant Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms.

(i) *Publication*: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents, and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation

Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(j) *Notifications etc.*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 by the Calculation Agent will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Paying Agents and the Noteholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers and duties for such purposes.

(k) *Receipt by Calculation Agent of Information:* If the Calculation Agent at any time has not been provided with the requisite information to make any determination or calculation or take any action that it is required to pursuant to this Condition 7, it shall be released from its obligations to make such calculation. The Calculation Agent shall notify the Issuer as soon as practicable on any Interest Determination Date if it lacks sufficient information to make a calculation. The Calculation Agent shall be obliged only to perform the duties expressed to be performed by it hereunder. If the Calculation Agent at any material time does not or is unable to make any determination or calculation or take any action that it is required to do pursuant to this Condition 7, it shall forthwith notify the Issuer and the Issuer shall appoint a replacement Calculation Agent for the purposes of providing such determination and calculation.

(l) *Liability of Calculation Agent:* For the avoidance of doubt, the Calculation Agent shall not be responsible to the Issuer, the Noteholders or to any third-party as a result of the Calculation Agent having relied on any quotation, ratio or other information provided to it by any person for the purposes of providing any determination or calculation hereunder, which subsequently may be found to be incorrect of inaccurate in any way.

(m) *Benchmark Discontinuation*

(i) *Independent Adviser*

If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 7(m)(ii)) and, in either case, an Adjustment Spread if any (in accordance with Condition 7(m)(iii)) and any Benchmark Amendments (in accordance with Condition 7(m)(iv)).

An Independent Adviser appointed pursuant to this Condition 7(m) shall act in good faith as an expert and (in the absence of bad faith or fraud) shall have no liability whatsoever to the Issuer, the Paying Agents, the Noteholders or the Couponholders for any determination made by it or for any advice given to the Issuer in connection with any determination made by the Issuer, pursuant to this Condition 7(m).

If (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 7(m) prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. For the avoidance of doubt, this Condition 7(m) shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 7(m).

(ii) *Successor Rate or Alternative Rate*

If the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines that:

(A) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 7(m)(iii)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 7(m)); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 7(m)(iii)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 7(m)).

(iii) *Adjustment Spread*

If the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines (i) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (ii) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(iv) *Benchmark Amendments*

If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 7(m) and the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines (i) that amendments to these Conditions and/or the Agency Agreement are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 7(m)(v), without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

In connection with any such variation in accordance with this Condition 7(m)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(v) *Notices, etc.*

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 7(m) will be notified promptly by the Issuer to the Calculation Agent, the Paying Agents and, in accordance with Condition 20, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Fiscal Agent of the same, the Issuer shall deliver to the Fiscal Agent a certificate signed by two Authorised Signatories of the Issuer:

(A) confirming (a) that a Benchmark Event has occurred, (b) the Successor Rate or, as the case may be, the Alternative Rate and, (b) where applicable, any Adjustment Spread and/or the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 7(m); and

(B) certifying that the Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread.

The Fiscal Agent shall display such certificate at its offices, for inspection by the Noteholders at all reasonable times during normal business hours.

The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) and without prejudice to the Calculation Agent's or the Paying Agent's ability to rely on such certificate) be binding on the Issuer, the Calculation Agent, the Paying Agents and the Noteholders.

(vi) *Survival of Original Reference Rate*

Without prejudice to the obligations of the Issuer under Conditions 7(m)(i), (ii), (iii) and (iv), the Original Reference Rate and the fallback provisions provided for in Conditions 7(c) and 9(c) will continue to apply unless and until the Calculation Agent has been notified of the Successor Rate or the Alternative Rate (as the case may be), and any Adjustment Spread (if applicable) and Benchmark Amendments, in accordance with Condition 7(m)(v). Notwithstanding any other provision of this Condition 7, no Successor Rate, Alternative Rate or Adjustment Spread will be adopted, nor will any other amendment to the terms and conditions of any Series of Notes be made to effect the Benchmark Amendments, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the relevant Series of Subordinated Notes as Tier 2 Capital.

(vii) *Definitions:*

As used in this Condition 7(m):

"**Adjustment Spread**" means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders and Couponholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(A) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);

(B) the Issuer determines, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); (or if the Issuer determines that no such industry standard is recognised or acknowledged;

(C) the Issuer, in its discretion, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines to be appropriate.

"**Alternative Rate**" means an alternative to the Reference Rate which the Issuer determines in accordance with Condition 7(m)(ii) has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for the same interest period and in the same Specified Currency as the Notes.

"**Benchmark Amendments**" has the meaning given to it in Condition 7(m)(iv).

"**Benchmark Event**" means:

(i) the Original Reference Rate ceasing be published for a period of at least five business days or ceasing to exist; or

(ii) a public statement by the administrator of the Original Reference Rate that it will, by a specified date within the following six months, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(iii) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will, by a specified date within the following six months, be permanently or indefinitely discontinued; or

(iv) a public statement by the supervisor of the administrator of the Original Reference Rate that means the Original Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case within the following six months; or

(v) it has become unlawful for any Paying Agent, the Calculation Agent or the Issuer to calculate any payments due to be made to any Noteholder using the Original Reference Rate.

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer at its own expense under Condition 7(m)(i).

"**Original Reference Rate**" means the originally-specified Reference Rate used to determine the Rate of Interest (or any component part thereof) on the Notes, or any Alternative Rate or Successor Rate currently being used.

"**Relevant Nominating Body**" means, in respect of a Reference Rate:

(i) the central bank for the currency to which the Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate; or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (A) the central bank for the currency to which the Reference Rate relates, (B) any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate, (C) a group of the aforementioned central banks or other supervisory authorities or (D) the Financial Stability Board or any part thereof.

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

8. Zero Coupon Note Provisions

(a) *Application*: This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Late payment on Zero Coupon Notes*: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. **Reset Note Provisions**

(a) *Application*: This Condition 9 is applicable to the Notes only if the Reset Note Provisions are specified in the relevant Final Terms as being applicable. For the avoidance of doubt, Condition 7(m) (*Benchmark Discontinuation*) will apply to Notes where the Reset Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Rates of Interest and Interest Payment Dates*: Each Reset Note bears interest:

(i) from (and including) the Interest Commencement Date specified in the applicable Final Terms to (but excluding) the First Reset Date at the rate per annum equal to the Initial Rate of Interest;

(ii) from (and including) the First Reset Date to (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date at the rate per annum equal to the First Reset Rate of Interest; and

(iii) if applicable, from (and including) the Second Reset Date to (but excluding) the first Subsequent Reset Date (if any), and each successive period from (and including) any Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date (if any) (each a "**Subsequent Reset Period**") at the rate per annum equal to the relevant Subsequent Reset Rate of Interest,

payable, in each case, in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) or Condition 12 (*Payments – Registered Notes*), as applicable. If specified in the Final Terms, Floating Rate Reset Provisions shall be applicable from (and including) the Reset Date specified in such Final Terms.

The Rate of Interest and Interest Amount payable shall be determined by the Calculation Agent, (A) in the case of the Rate of Interest, at or as soon as practicable after each time at which the Rate of Interest is to be determined, and (B) in the case of the Interest Amount in accordance with the provisions for calculating amounts of interest in Condition 6 (*Fixed Rate Note Provisions*) and, in respect of any period for which Floating Rate Reset Provisions are applicable, Condition 7 (*Floating Rate Note Provisions*).

Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 9 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fallbacks*

Subject to Condition 7(m) (*Benchmark Discontinuation*), this Condition 9(c) applies in respect of each Interest Period other than any Interest Period in respect of which Floating Rate Reset Provisions are applicable.

If on any Reset Determination Date the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page, the Issuer shall request each of the Reference

Banks (as defined below) to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date in question.

If two or more of the Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum (converted as set out in the definition of such term above) of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date only one of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this paragraph, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be the sum (converted as set out in the definition of such term above) of (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotation and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date none of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this paragraph, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the same as the rate used in the prior Reset period.

The Calculation Agent shall not be responsible to the Issuer, the Noteholders or to any third-party as a result of the Calculation Agent having relied on any quotation, ratio or other information provided to it by any person, which subsequently may be found to be incorrect or inaccurate in any way.

(d) *Notification of First Reset Rate of Interest, Subsequent Reset Rate of Interest and Interest Amount*

The Calculation Agent will cause the First Reset Rate of Interest, any Subsequent Reset Rate of Interest and, in respect of a Reset Period, the Interest Amount payable on each Interest Payment Date falling in such Reset Period to be notified, inter alios, to the Issuer, the Fiscal Agent and, on behalf of the Issuer, to any stock exchange on which the relevant Reset Notes are for the time being listed and notice thereof to be published, at the expense of the Issuer (if applicable), in accordance with Condition 20 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day thereafter.

Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment). Any such amendment will be promptly notified to each stock exchange on which the relevant Reset Notes are for the time being listed and to the Noteholders in accordance with Condition 20 (*Notices*). For the purposes of this paragraph, the expression "London Business Day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(e) *Receipt by Calculation Agent of Information*

If the Calculation Agent at any time has not been provided with the requisite information to make any determination or calculation or take any action that it is required to pursuant to this Condition 9, it shall be released from its obligations to make such calculation. The Calculation Agent shall notify the Issuer as soon as practicable on any Reset Determination Date if it lacks sufficient information to make a calculation. The Calculation Agent shall be obliged only to perform the duties expressed to be performed by it hereunder. If the Calculation Agent at any material time does not or is unable to make any determination or calculation or take any action that it is required to do pursuant to this Condition 9, it shall forthwith notify the Issuer and the Issuer shall appoint a replacement Calculation Agent for the purposes of providing such determination and calculation.

(f) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 9(e) shall (in the absence of wilful default or manifest error) be binding on the Issuer, the Fiscal Agent, the Calculation Agent, the other Paying Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Fiscal Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers and duties pursuant to such provisions.

In this Condition 9 (*Reset Note Provisions*):

"**Fixed Leg Swap Duration**" means the period specified in the applicable Final Terms;

"**First Margin**" means the margin specified as such in the applicable Final Terms;

"**First Reset Date**" means the date specified in the applicable Final Terms;

"**First Reset Period**" means the period from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date;

"**First Reset Rate of Interest**" means, in respect of the First Reset Period, the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date on the following basis:

(i) if Mid-Swap Rate is specified in the Final Terms, as the sum, converted from a basis equivalent to the Fixed Leg Swap Duration specified in the applicable Final Terms to a basis equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be determined by the Issuer in conjunction with a leading financial institution selected by it), of (A) the relevant Mid-Swap Rate and (B) the First Margin; or

(ii) if Floating Rate Reset Note Provisions is specified in the Final Terms, as the sum of (A) the Reset Note Floating Rate and (B) the First Margin;

"Reset Note Floating Rate" means the Rate of Interest determined in accordance with the provisions for determining rates of interest in Condition 7 (*Floating Rate Note Provisions*) provided that references to:

(iii) Margin shall be deemed to be the First Margin or the Subsequent Margin, as applicable;

(iv) Interest Commencement Date shall be deemed to be the First Reset Date;

"**Initial Rate of Interest**" has the meaning specified in the applicable Final Terms;

"**Mid-Market Swap Rate**" means for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the Fixed Leg Swap Duration specified in the applicable Final Terms (calculated on the day count basis customary for fixed rate payments in the Specified Currency as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Maturity (as specified in the applicable Final Terms) (calculated on the day count basis customary for floating rate payments in the Specified Currency as determined by the Calculation Agent);

"**Mid-Market Swap Rate Quotation**" means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

"**Mid-Swap Floating Leg Benchmark Rate**" means EURIBOR if the Specified Currency is euro or LIBOR for the Specified Currency if the Specified Currency is not euro;

"**Mid-Swap Rate**" means, in relation to a Reset Determination Date and subject to Condition 9(c) (*Fallbacks*), either:

(i) if Single Mid-Swap Rate is specified in the applicable Final Terms, the rate for swaps in the Specified Currency:

(A) with a term equal to the relevant Reset Period; and

(B) commencing on the relevant Reset Date,

which appears on the Relevant Screen Page or such replacement page on that service which displays the information; or

(ii) if Mean Mid-Swap Rate is specified in the applicable Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered swap rate quotations for swaps in the Specified Currency:

(A) with a term equal to the relevant Reset Period; and

(B) commencing on the relevant Reset Date,

which appear on the Relevant Screen Page or such replacement page on that service which displays the information, in either case, as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on such Reset Determination Date, all as determined by the Calculation Agent.

"**Reference Banks**" means the principal office in the principal financial centre of the Specified Currency of four major banks in the swap, money, securities or other market most closely connected with the relevant Mid-Swap Rate as selected by the Issuer on the advice of an investment bank of international repute.

"**Reset Business Day**" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in any Business Centre specified in the applicable Final Terms;

"**Reset Date**" means the First Reset Date, the Second Reset Date and each Subsequent Reset Date (as applicable);

"**Reset Determination Date**" means, in respect of the First Reset Period, the second Reset Business Day prior to the First Reset Date, in respect of the first Subsequent Reset Period, the second Reset Business Day prior to the Second Reset Date and, in respect of each Subsequent Reset Period thereafter, the second Business Day prior to the first day of each such Subsequent Reset Period;

"**Reset Period**" means the First Reset Period or a Subsequent Reset Period, as the case may be;

"**Second Reset Date**" means the date specified in the applicable Final Terms;

"**Subsequent Margin**" means the margin specified as such in the applicable Final Terms;

"**Subsequent Reset Date**" means the date or dates specified in the applicable Final Terms; and

"**Subsequent Reset Rate of Interest**" means, in respect of any Subsequent Reset Period and subject to Condition 9(b) (*Rates of Interest and Interest Payment Dates*), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date on the following basis:

(i) if Mid-Rate Swap Rate is specified in the Final Terms as the sum, converted from a basis equivalent to the Fixed Leg Swap Duration specified in the applicable Final Terms to a basis equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be determined by the Issuer in conjunction with a leading financial institution selected by it), of (A) the relevant Mid-Swap Rate and (B) the relevant Subsequent Margin; or

(ii) if Floating Rate Reset Note Provisions is specified in the Final Terms, as the sum of (A) the Reset Note Floating Rate and (B) the Subsequent Margin.

10. **Redemption, Purchase, Substitution and Variation**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date (if any), subject as provided in Condition 12 (*Payments – Registered Notes*).

(b) *Redemption for tax reasons or Change in Law:* Unsubordinated Notes may be redeemed at the option of the Issuer in whole, but not in part, if a Tax Event (Gross up) occurs and Subordinated Notes may be redeemed (subject to Condition 10(l) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation of Tier 2 Notes*) in respect of Tier 2 Notes only) at the option of the Issuer in whole, but not in part, if a Tax Event (Gross up) or a Tax Event (Deductibility) occurs and, if specified in the Final Terms, upon the occurrence of a Change in Law:

(i) at any time (if the Floating Rate Note Provisions are not specified in the relevant Final Terms as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount, together with interest accrued (if any) to the date fixed for redemption, **provided, however, that** no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or would be entitled (as such entitlement is materially reduced) to claim a deduction in respect of computing its taxation liabilities; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or would not be entitled (or such entitlement is materially reduced) to claim a deduction in respect of computing its taxation liabilities, as applicable.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent (A) a certificate signed by two authorised officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) an opinion of independent legal advisers of recognised standing to the effect that a Tax Event (Gross up), Tax Event (Deductibility), or if applicable, a Change in Law has occurred. Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

(c) *Redemption at the option of the Issuer:* If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed (subject to Condition 10(l) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation of Tier 2 Notes*) in respect of Tier 2 Notes only) at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount

(Call) upon the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date). In respect of Tier 2 Notes, no Optional Redemption Date (Call) shall fall earlier than the date being 5 (five) years and 1 (one) day after the Issue Date.

(d) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) *Redemption at the option of Noteholders*: This Condition 10(e) applies only to Unsubordinated Notes. If the Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(e), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 11(e), may be withdrawn; **provided**, **however**, **that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(e), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

(f) *Early Redemption following the occurrence of a Capital Disqualification Event:* This Condition 10(f) (*Early Redemption following the occurrence of a Capital Disqualification Event*) applies only to Tier 2 Notes.

The Issuer may redeem any Tranche of Tier 2 Notes in whole, but not in part:

(a) at any time (if the Floating Rate Note provisions are not specified in the relevant Final Terms as being applicable or, if they are, such provisions are not applicable at the time of redemption); or

(b) on any Interest Payment Date (if the Floating Rate Note are specified in the relevant Final Terms as being applicable and are applicable at the time of redemption),

on giving not less than 30 (thirty) nor more than 60 (sixty) days' notice to the Noteholders (which notice shall be irrevocable, at their Early Redemption Amount together with interest (if any) accrued to such date, following the occurrence of a Capital Disqualification Event.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent (A) a certificate signed by two authorised officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) unless the Relevant Regulator has confirmed to the Issuer that a Capital Disqualification Event applies to the relevant Notes, an opinion of independent legal advisers of recognised standing to the effect that a Capital Disqualification Event applies. Upon the expiry of any such notice as is referred to in this Condition 10(f) (*Early Redemption following the occurrence of a Capital Disqualification Event),* the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(f) (*Early Redemption following the occurrence of a Capital Disqualification Event).*

(g) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (f) above.

(h) *Early redemption of Zero Coupon Notes*: Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 10(g) or, if none is so specified, a Day Count Fraction of 30E/360.

(i) *Purchase*: Subject, in the case of Tier 2 Notes, to Condition 10(l) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation of Tier 2 Notes*), the Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith.

(j) *Cancellation*: All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them may, at its option, be cancelled and may, if cancelled, not be reissued or resold.

(k) *Substitution or Variation*: Where Substitution or Variation is specified in the Final Terms in respect of Tier 2 Notes as being applicable, and a Tax Event (Gross up), Tax Event (Deductibility) or a Capital Disqualification Event and, if specified in the Final Terms, a Change in Law has occurred and is continuing, then the Issuer may, subject to Condition 10(l) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation of Tier 2 Notes*) and/or as directed or approved by the Relevant Regulator and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 20 (*Notices*), the Fiscal Agent and the Registrar (which notice shall be irrevocable) but without any requirement for the consent or approval of the Holders, at any time (whether before or following the First Reset Date) either substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Tier 2 Securities. Upon the expiry of such notice, the Issuer shall either vary the terms of or substitute the Notes in accordance with this Condition 10(k) (*Substitution or Variation*), as the case may be.

(l) *Conditions to Redemption, Purchase, Modification, Substitution or Variation of Tier 2 Notes:*

(i) Notwithstanding the foregoing provisions of this Condition or Condition 18 (*Meetings of Noteholders; Modification*) and subject to sub-paragraph (ii) below, for so long as the applicable Capital Rules so require, Tier 2 Notes may be redeemed, purchased (in whole or in part), modified, substituted or varied prior to the Maturity Date, only at the option of the Issuer, and only if:

(A) the Issuer has notified the Relevant Regulator of, and the Relevant Regulator has consented in writing to, such redemption, purchase, modification, substitution or variation (as applicable), subject to such conditions (if any) as the Relevant Regulator may deem appropriate (in any case, only if and to the extent such a notification or consent is required by the Capital Rules (including any prescribed notice periods with which the Issuer may need to comply, if any, in such Capital Rules));

(B) the redemption, purchase, modification, substitution or variation of the Tier 2 Notes is not prohibited by the Capital Rules; and

(C) prior to the publication of any notice of redemption, substitution or variation or redemption pursuant to this Condition 10 (*Redemption, Purchase, Substitution and Variation*), the Issuer shall deliver to the Fiscal Agent a certificate signed by two authorised officers stating that the relevant requirement or circumstance giving rise to the right to redeem, substitute or, as appropriate, vary is satisfied and, in the case of a substitution or variation, that the relevant Qualifying Tier 2 Securities have terms not materially less favourable to an investor than the terms of the Notes and will as from the date of such substitution or variation otherwise comply with the requirements of the definition thereof in Condition 2 (*Interpretation*).

(ii) This Condition 10(l) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation of Tier 2 Notes*) does not apply in respect of a redemption in whole, but not in part, of Tier 2 Notes upon a Capital Disqualification Event in accordance with Condition 10(f) (*Early Redemption following the occurrence of a Capital Disqualification Event*).

11. Payments – Bearer Notes

This Condition 11 is only applicable to Bearer Notes.

(a) *Principal:* Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the U.S. by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.

(b) *Interest:* Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the U.S. in the manner described in paragraph (a) above.

(c) *Payments in New York City:* Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the U.S. with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable U.S. law.

(d) *Payments subject to fiscal laws:* All payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deductions for unmatured Coupons:* If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

(f) *Unmatured Coupons void*: If the relevant Final Terms specifies that this Condition 11(f) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (*Redemption for tax reasons*) Condition 10(e) (*Redemption at the option of Noteholders*), Condition 10(c) (*Redemption at the option of the Issuer*) or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) *Payments on business days:* If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(h) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the U.S. (or in New York City if permitted by paragraph (c) above).

(i) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) *Exchange of Talons:* On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon

Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 15 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

(k) *Payment of U.S. Dollar Equivalent*: Notwithstanding the foregoing, if by reason of Inconvertibility, Non transferability or Illiquidity, the Issuer is not able to satisfy payments of principal or interest in respect of the Notes when due in Renminbi in Hong Kong, the Issuer may, on giving not less than five or more than 30 calendar days' irrevocable notice to the Holders prior to the due date for payment, settle any such payment in U.S. dollars on the due date at the U.S. Dollar Equivalent of any such Renminbi-denominated amount.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 11(k) (*Payment of U.S. Dollar Equivalent*) by the Calculation Agent, will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Paying Agents and all Holders.

(l) *Payment of Renminbi:* Notwithstanding the foregoing, all payments in Renminbi will be made solely by credit to a Renminbi account maintained by the payee at a bank in Hong Kong in accordance with applicable laws, rules, regulations and guidelines issued from time to time (including all applicable laws and regulations with respect to the settlement of Renminbi in Hong Kong).

12. **Payments – Registered Notes**

This Condition 12 is only applicable to Registered Notes.

(a) *Principal*: Payments of principal shall be made by cheque drawn in the currency in which the payment is due on, or, upon application by a Holder of a Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made by cheque drawn in the currency in which the payment is due on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws:* All payments in respect of the Registered Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not a Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the Payment Business Day immediately preceding the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 12(d) arriving after the due date for payment or being lost in the mail.

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

(g) *Payment of U.S. Dollar Equivalent*: Notwithstanding the foregoing, if by reason of Inconvertibility, Non transferability or Illiquidity, the Issuer is not able to satisfy payments of principal or interest in respect of the Notes when due in Renminbi in Hong Kong, the Issuer may, on giving not less than five or more than 30 calendar days' irrevocable notice to the Holders prior to the due date for payment, settle any such payment in U.S. dollars on the due date at the U.S. Dollar Equivalent of any such Renminbi-denominated amount.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 12(g) by the Calculation Agent, will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Paying Agents and all Holders.

(h) *Payment of Renminbi:* Notwithstanding the foregoing, all payments in Renminbi will be made solely by credit to a Renminbi account maintained by the payee at a bank in Hong Kong in accordance with applicable laws, rules, regulations and guidelines issued from time to time (including all applicable laws and regulations with respect to the settlement of Renminbi in Hong Kong).

13. Taxation

(a) *Gross up*: All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of South Africa or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such Taxes is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:

(i) presented for payment by, or on behalf of, or held by, a Holder which is liable to such Taxes in respect of such Note or Coupon by reason of its having some connection with South Africa other than the mere holding of such Note or Coupon; or

(ii) where (in the case of a payment of principal or interest on redemption) the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting or surrendering such Note or Coupon or Note Certificate on the last day of such period of 30 days; or

(iii) presented for payment by or on behalf of, or held by, a Holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying with any statutory requirements in force at the present time or in the future by making a declaration of nonresidence or other claim or filing for exemption to which it is entitled to the relevant tax authority or the Paying Agent.

(b) *FATCA withholding*: Notwithstanding any other provision in these Conditions, the Issuer, and the Paying Agents, shall be permitted to withhold or deduct any amounts required by the rules of the Code Sections 1471 through 1474 (or any amended or successor provisions), pursuant to any inter-governmental agreement, or implementing legislation adopted by another jurisdiction in connection with these provisions, or pursuant to any agreement with the U.S. Internal Revenue Service ("**FATCA withholding**"). The Issuer will have no obligation to pay additional amounts or otherwise indemnify a holder for any FATCA withholding deducted or withheld by the Issuer, a Paying Agent or any other party as a result of any person (other than an agent of the Issuer) not being entitled to receive payments free of FATCA withholding.

(c) *Taxing jurisdiction*: If the Issuer becomes subject at any time to any taxing jurisdiction other than South Africa, references in these Conditions to South Africa shall be construed as references to South Africa and/or such other jurisdiction.

14. Events of Default

14.1 *Events of Default relating to Unsubordinated Notes*

This Condition 14.1 only applies to Unsubordinated Notes.

An Event of Default in relation to Unsubordinated Notes shall arise if any one or more of the following events shall have occurred and be continuing:

(a) *Non-payment*: the failure by the Issuer to pay within 7 days from the due date any amount due in respect of any of the Notes; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Deed of Covenant and such default remains unremedied for 30 days after written notice thereof has been delivered by any Noteholder to the Issuer or to the Specified Office of the Fiscal Agent (addressed to the Issuer); or

(c) *Cross default of the Issuer or Principal Subsidiary:*

(i) any Financial Indebtedness of the Issuer or any of its Principal Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Financial Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Principal Subsidiary or (**provided that** no event of default, howsoever described, has occurred) any Person entitled to such Financial Indebtedness; or

(iii) the Issuer or any of its Principal Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Financial Indebtedness;

provided that the amount of Financial Indebtedness referred to in sub paragraph (i) and/or sub paragraph (ii) above and/or the amount payable under any Guarantee referred to in subparagraph (iii) above individually or in the aggregate exceeds U.S.$55,000,000 (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgment*: one or more judgment(s) or order(s) from which no further appeal is permissible under applicable law for the payment of any amount in excess of U.S.$55,000,000 (or its equivalent in any other currency or currencies) is rendered against the Issuer or any of its Principal Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Security enforced*: any present or future Security Interest created by the Issuer or any Principal Subsidiary over all or a substantial part of its undertaking, assets and revenues for an amount at the relevant time in excess of U.S.$55,000,000 (or its equivalent in any other currency or currencies) becomes enforceable and any step is taken to enforce it (including, but not limited to, the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person or analogous event) unless such enforcement is discharged within 45 days or the Issuer or Principal Subsidiary (as the case may be) is contesting such enforcement in good faith; or

(f) *Insolvency, winding-up, etc.*: the granting of an order by any competent court or authority for the liquidation, winding-up, dissolution or (in relation to a Principal Subsidiary only) commencement of business rescue proceedings of the Issuer or any Principal Subsidiary, whether provisionally (and not dismissed or withdrawn within 30 days of the granting of such order) or finally, or the placing of the Issuer or any Principal Subsidiary under voluntary liquidation or curatorship, **provided that** no liquidation, curatorship, winding-up, dissolution or commencement of business rescue proceedings shall constitute an Event of Default if the liquidation, curatorship, winding-up, dissolution or commencement of business rescue proceedings is: (i) for purposes of effecting an amalgamation, merger, demerger, consolidation, reorganisation or other similar arrangement of a Principal Subsidiary within the SB Group, (ii) in the case of the Issuer, in respect of a Solvent Reconstruction, or (iii) for purposes of effecting an amalgamation, merger, demerger, consolidation, reorganisation or other similar arrangement, the terms of which were approved by Extraordinary Resolution of Noteholders before the date of the liquidation, curatorship, winding-up or dissolution; or

(g) *Failure to take action etc.*: any action, condition or thing (including the obtaining of any consent, licence, approval or authorisation) now or hereafter necessary to enable the Issuer to comply with its obligations under the Programme for the issuance of the Notes is not taken, fulfilled or done, or any such consent, licence, approval or authorisation shall be revoked, modified, withdrawn or withheld or shall cease to remain in full force and effect, resulting in the Issuer being unable to perform any of its payment or other obligations in terms of the Notes, the Coupons or the Programme for the issuance of the Notes; or

(h) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Deed of Covenant.

If the Issuer becomes aware of the occurrence of any Event of Default, the Issuer shall forthwith notify all Noteholders and, in respect of listed Notes, shall forthwith notify the London Stock Exchange plc or such other Exchange upon which such Notes are listed, as the case may be.

Upon the happening of an Event of Default, any Holder of Unsubordinated Notes may, by written notice to the Issuer at its registered office, effective upon the date of receipt thereof by the Issuer, declare the Unsubordinated Notes held by such Noteholder to be forthwith due and payable. Upon receipt of that notice, such Unsubordinated Notes shall become forthwith due and payable at the Early Termination Amount, together with accrued interest (if any) to the date of payment.

14.2 *Events of Default relating to Subordinated Notes*

This Condition 14.2 applies only to Subordinated Notes.

An Event of Default in relation to Subordinated Notes shall arise if any of the following events occurs and is continuing:

(a) *Non-payment*: The failure by the Issuer to pay within 7 days from the due date any amount due in respect of any of the Subordinated Notes; or

(b) *Insolvency, winding-up, etc.*: the granting of an order by any competent court or authority for the liquidation, winding-up or dissolution of the Issuer, whether provisionally (and not dismissed or withdrawn within 30 days of the granting of such order) or finally, or the placing of the Issuer under voluntary liquidation or curatorship (**provided that** no liquidation, curatorship, winding-up or dissolution shall constitute an

Event of Default if the liquidation, curatorship, winding-up or dissolution is: (i) for purposes of effecting an amalgamation, merger, demerger, consolidation, reorganisation or other similar arrangement within the SB Group, (ii) in the case of the Issuer, in respect of a Solvent Reconstruction, or (iii) for purposes of effecting an amalgamation, merger, demerger, consolidation, reorganisation or other similar arrangement, the terms of which were approved by Extraordinary Resolution of Noteholders before the date of the liquidation, curatorship, winding-up or dissolution).

If the Issuer becomes aware of the occurrence of any Event of Default, the Issuer shall forthwith notify all Noteholders and, in respect of listed Notes, shall forthwith notify the London Stock Exchange plc or such other Exchange upon which such Notes are listed, as the case may be.

Upon the happening of an Event of Default referred to in Condition 14.2.(a) (*Non-payment*), any Holder of Subordinated Notes may, subject to Condition 4(c)(iii) (*Subordination*) and the Capital Rules in the case of Tier 2 Notes or Condition 4(b)(iii) (*Winding up of the Issuer*) in the case of other Subordinated Notes, and subject as provided below, at its discretion and without further notice, institute proceedings for the winding-up of the Issuer and/or prove in any winding-up of the Issuer, but take no other action in respect of that default.

Upon the occurrence of an Event of Default referred to in Condition 14.2(b) (*Insolvency, winding up etc*), any Holder of Subordinated Notes may, by written notice from the Holder to the Issuer at its registered office, effective upon the date of receipt thereof by the Issuer, declare the Subordinated Notes held by such Noteholder to be forthwith due and payable. Upon receipt of that notice, such Subordinated Notes shall, subject to Condition 4(c)(iii) (*Subordination*) and the Capital Rules in the case of Tier 2 Notes or Condition 4(b)(iii) (*Winding up of the Issuer*) in the case of other Subordinated Notes, become forthwith due and payable at the Early Termination Amount, together with accrued interest (if any) to the date of payment.

Without prejudice to the preceding Conditions, if the Issuer breaches any of its obligations under the Subordinated Notes (other than any obligation in respect of the payment of principal or interest on such Notes), then any holder of Subordinated Notes of the Series may, at its discretion and without further notice, bring such proceedings as it may think fit to enforce the obligation in question, provided that the Issuer shall not, as a result of the bringing of any such proceedings, be obliged to pay any sum representing or measured by reference to principal or interest on or satisfy any other payment obligation in relation to such Subordinated Notes sooner than the same would otherwise have been payable by it.

15. Prescription

Claims for principal in respect of Bearer Notes and/or Coupons, as the case may be, shall become void unless the relevant Bearer Notes and/or Coupons, as the case may be, are presented for payment within ten years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

16. Replacement of Notes and Coupons

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes, subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

17. Agents and Registrar

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar, fiscal agent or Calculation Agent and additional or successor paying agents and transfer agents; **provided**, **however**, **that**:

(a) the Issuer shall at all times maintain a fiscal agent and a registrar; and

(b) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent; and

(c) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a paying agent and/or registrar in any particular place, the Issuer shall maintain a paying agent and/or a registrar each with a Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or the Registrar or in their Specified Offices shall promptly be given to the Noteholders.

18. **Meetings of Noteholders; Modification**

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided**, **however**, **that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification*: The Notes, these Conditions and the Deeds of Covenant may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, is made to correct a manifest error or is, in its sole opinion, not materially prejudicial to the interests of the Noteholders.

The consent or approval of the Noteholders shall not be required in the case of amendments to the Conditions pursuant to Condition 7(m) (*Benchmark Discontinuation*) to vary the method basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes or for any other variation of these Conditions and/or the Agency Agreement required to be made in the circumstances described in Condition 7(m)(iv) (*Benchmark Amendments*), where the Issuer has delivered to the Fiscal Agent a certificate pursuant to Condition 7(m)(v) (*Notices, etc*)).

Any modification of the Tier 2 Notes in accordance with this Condition 18 (*Meetings of Noteholders; Modifications*) is subject to the Issuer obtaining the consent of the Relevant

Regulator (if and to the extent that such consent is required by the Capital Rules) pursuant to Condition 10(l) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation*).

19. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

20. **Notices**

(a) *Bearer Notes*: Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) *Registered Notes*: Notices to the Holders of Registered Notes will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, notices to Noteholders will be published on the date of such mailing in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

21. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

22. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all U.S. dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

23. **Governing Law and Jurisdiction**

(a) *Governing law*: The Notes and all non-contractual obligations arising out of or in connection with the Notes are governed by English law save that the provisions of Conditions 4(b) (*Status of the Subordinated Notes that are not Tier 2 Notes*), 4(c) (*Status of Tier 2 Notes*), 4(d) (*Loss Absorption Following A Non-Viability Event*), 4(e) (*Disapplication of Non-Viability Loss Absorption*), 10(l) (*Conditions to Redemption, Purchase, Modification, Substitution or Variation of Tier 2 Notes*) and 14.2 (*Events of Default relating to the Subordinated Notes*) are governed by, and shall be construed in accordance with, South African law.

(b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).

(c) *Appropriate forum*: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) *Rights of the Noteholders to take proceedings outside England*: Condition 23(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 23 (*Governing law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) *Process agent*: The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Standard Advisory London Limited (Attention: Head of Legal) at 20, Gresham Street, London, EC2V 7JE, United Kingdom or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

FORM OF FINAL TERMS

Final Terms dated [•]

[**MiFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in EU Directive 2003/71/EC (as amended or superseded, including by Directive 2010/73/EU). Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.]

NOTIFICATION UNDER SECTION 309B(1)(c) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE (the "**SFA**") **–** [In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes [are] / [are not] prescribed capital markets products (as defined in the CMP Regulations 2018) and [are] [Excluded] / [Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.][1]

[CONFIRMATION REQUIRED BY PARAGRAPH 3(5)(j) OF THE COMMERCIAL PAPER REGULATIONS - [specify], being one of the Issuer's auditors as at the Issue Date of this Tranche of Notes, have confirmed in writing that nothing has come to their attention which causes them to believe that the issue of this Tranche of Notes under the Programme, pursuant to the Base Prospectus [, the supplement to the Base Prospectus dated [●]][2] (as read with these Final Terms) will not comply in all material respects with the provisions of the Commercial Paper Regulations.]**[3]**

[THE STANDARD BANK OF SOUTH AFRICA LIMITED
(Registration Number 1962/000738/06)

Legal Entity Identifier:
QFC8ZCW3Q5PRXU1XTM60]*

[STANDARD BANK GROUP LIMITED
(Registration Number 1969/017128/06)

Legal Entity Identifier:

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[1] For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

[2] To be deleted if no supplement to the Base Prospectus has been published or specify date of supplement, as applicable.

[3] To be deleted where SBSA is the relevant Issuer. To be completed where SBG is the relevant Issuer and Notes are offered in South Africa. Delete if Notes are not offered in South Africa.

2549003PEZXUT7MDBU41][4]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$4,000,000,000
Euro Medium Term Note Programme

The Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Notes in any Member State of the EEA which has implemented the Prospectus Directive (2003/71/EC, as amended or superseded) (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of the Notes may only do so in circumstances in which no obligation arises for any Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances. The expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended or superseded) and includes any relevant implementing measures in the Relevant Member State.

PART A CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the base prospectus dated 10 May 2019 [and the supplement to the base prospectus dated [•] which [together] constitute[s] a base prospectus] (the "**Base Prospectus**") for the purposes of the Prospectus Directive (Directive 2003/71/EC, as amended or superseded) (the "**Prospectus Directive**"). This document constitutes the Final Terms relating to the issue of Notes described herein for the purposes of Article 5.4 of the Prospectus Directive. These Final Terms contain the final terms of the Notes and must be read in conjunction with the Base Prospectus.

Full information on the Issuer and the Notes described herein is only available on the basis of a combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at [[*address*] [and] [www.londonstockexchange.com]] and copies may be obtained from [address].

The following alternative language applies if the first tranche of an issue which is being increased was issued under a base prospectus with an earlier date and the relevant terms and conditions from that base prospectus with an earlier date were incorporated by reference in this Base Prospectus.

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the base prospectus dated [*original date*]. These Final Terms contain the final terms of the Notes and must be read in conjunction with the base prospectus dated [*current date*] [and the supplemental base prospectus dated [*date*]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive (Directive 2003/71/EC, as amended or superseded) (the "**Prospectus Directive**"), save in respect of the Conditions which are extracted from the base prospectus dated [*original date*] and are incorporated by reference in the Base Prospectus. This document constitutes the Final Terms relating to the issue of Notes described herein for the purposes of Article 5.4 of the Prospectus Directive.

Full information on the Issuer and the offer of the Notes described herein is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplemental Base Prospectus] [is]/[are] available for viewing at [www.londonstockexchange.com]

1.	**Issuer**:		[The Standard Bank of South Africa Limited] [Standard Bank Group Limited]
2.	(i)	[Series Number:	[•]

[4] Delete as applicable.

	(ii)	[Tranche Number:	[•]
	(iii)	Date on which the Notes will be consolidated and form a single Series:	[The Notes will be consolidated and form a single Series with [•] on [the Issue Date] [the exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 24 below.]/[Not applicable].]
3.	**Specified Currency or Currencies**:		[•]
4.	**Aggregate Nominal Amount**:		
	(i)	Series:	[•]
	(ii)	Tranche:	[•]
5.	**Issue Price**:		[•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*]
6.	(i)	Specified Denominations:	[•]
	(ii)	Calculation Amount	[•]
7.	(i)	Issue Date:	[•]
	(ii)	Interest Commencement Date:	[•]]
8.	**Maturity Date**:		[•]
9.	**Interest Basis**:		[[•] % Fixed Rate] [[LIBOR]/[EURIBOR]/[BBSW] +/– [•] per cent. Floating Rate] [Reset Notes] [Zero Coupon]
10.	**Redemption/Payment Basis**:		[Redemption at [par] [[•] per cent.]]
11.	**Put/Call Options**:		[Investor Put] [Issuer Call] [Reset Notes]
12.	**Status of the Notes**:		[Unsubordinated Notes] [Subordinated Notes that are not Tier 2 Notes – Condition 4(b) applies] [Tier 2 Notes – Condition 4(c) applies]
13.	**Method of distribution**:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	**Fixed Rate Note Provisions**:		[Applicable/Not Applicable]
	(i)	Rate[(s)] of Interest:	[•] per cent. per annum [payable [annually/ semi-annually/ quarterly/monthly] in arrear]
	(ii)	Interest Payment Date(s):	[•] in each year [adjusted in accordance with [•]/Not

			adjusted]
	(iii)	Fixed Coupon Amount[(s)]:	[•] per Calculation Amount
	(iv)	Broken Amount(s):	[•]
	(v)	Day Count Fraction:	[Actual/Actual (ICMA)]/[Actual/365]/[Actual/Actual (ISDA)]/[Actual/365 (Fixed)]/[Actual/360]/[30/360]/[30E/360]/ [Eurobond Basis]
	(vi)	Determination Dates:	[•] in each year
15.	**Floating Rate Note Provisions**		[Applicable/Not Applicable]
	(i)	Specified Period:	[•]
	(ii)	Specified Interest Payment Dates:	[•]
	(iii)	Business Day Convention:	[Floating Rate Convention]/[Following Business Day Convention]/ [Modified Following Business Day Convention]/[Preceding Business Day Convention]/ [No Adjustment]
	(iv)	Additional Business Centre(s):	[•] [Not Applicable]
	(v)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination]/[ISDA Determination]
	(vi)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Fiscal Agent):	[•]
	(vii)	Screen Rate Determination:	
		• Reference Rate:	[LIBOR]/[EURIBOR]/[BBSW]
		• Interest Determination Date(s):	[•]
		• Relevant Screen Page:	[LIBOR01]/[EURIBOR01]/[Reuters Screen BBSW Page]
		• Relevant Time:	[•]
		• Relevant Financial Centre:	[•]
		• Linear Interpolation:	[Applicable]/[Not Applicable]
	(viii)	ISDA Determination:	
		• Floating Rate Option:	[•]
		• Designated Maturity:	[•]
		• Reset Date:	[•]
		• Linear Interpolation	[Applicable]/[Not Applicable]
	(ix)	Margin(s):	[+/-][•] per cent. per annum

	(x)	Minimum Rate of Interest:	[•] per cent. per annum
	(xi)	Maximum Rate of Interest:	[•] per cent. per annum
	(xii)	Day Count Fraction:	[Actual/Actual (ICMA)]/[Actual/365]/[Actual/Actual (ISDA)]/[Actual/365 (Fixed)]/[Actual/360]/[30/360]/[30E/360]/[Eurobond Basis]
16.	**Zero Coupon Note Provisions**		[Applicable/Not Applicable]
	(i)	Accrual Yield:	[•] per cent. per annum
	(ii)	Reference Price:	[•]
17.	**Reset Note Provisions**		[Applicable/Not Applicable]
			(*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Initial Rate of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(ii)	First Margin:	[+/-][ ] per cent. per annum
	(iii)	Subsequent Margin:	[[+/-][ ] per cent. per annum] [Not Applicable]
	(iv)	Interest Payment Date(s):	[[ ] in each year up to and including the Maturity Date/[specify date] [adjusted in accordance with paragraphs 17 (xv) and (xvi) below]]
	(v)	Fixed Coupon Amount to (but excluding) the First Reset Date: (*Applicable to Notes in definitive form*)	[ ] per Calculation Amount
	(vii)	First Reset Date:	[ ]
	(viii)	Second Reset Date:	[ ]/[Not applicable]
	(ix)	Subsequent Reset Date(s):	[ ] [and [ ]] [Not applicable]
	(x)	Relevant Screen Page:	[ ]
	(xi)	Mid-Swap Rate:	[Single Mid-Swap Rate/Mean Mid-Swap Rate]
	(xii)	Mid-Swap Maturity:	[ ]
	(xiii)	Fixed Leg Swap Duration:	[ ]
	(xiv)	Day Count Fraction:	[30/360 or 360/360 or Actual/Actual (ICMA)]
	(xv)	Determination Date(s):	[[ ] in each year][Not Applicable]
			(*Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon).*
	(xvi)	Business Day Convention:	[Not Applicable/ Following Business Day Convention/Preceding Business Day Convention/

			Modified Following Business Day Convention]
	(xvii)	Business Centre(s):	[ ]/[Not Applicable]
	(xviii)	Calculation Agent:	[ ]
18.	**Floating Rate Reset Note Provisions**		[Applicable/Not Applicable]
	(i)	Date on which Floating Rate Reset Note Provisions Apply:	[First Reset Date]/[Second Reset Date]
	(ii)	Specified Period:	[•]
	(iii)	Specified Interest Payment Dates:	[•]
	(iv)	Business Day Convention:	[Floating Rate Convention]/[Following Business Day Convention]/ [Modified Following Business Day Convention]/[Preceding Business Day Convention]/ [No Adjustment]
	(v)	Additional Business Centre(s):	[•] [Not Applicable]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination]/[ISDA Determination]
	(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Fiscal Agent):	[•]
	(viii)	Screen Rate Determination:	
		Reference Rate:	[LIBOR]/[EURIBOR]/[BBSW]
		Interest Determination Date(s):	[•]
		Relevant Screen Page:	[•]
		Relevant Time:	[•]
		Relevant Financial Centre:	[•]
		Linear Interpolation:	[Applicable]/[Not Applicable]
	(ix)	ISDA Determination:	
		Floating Rate Option:	[•]
		Designated Maturity:	[•]
		Reset Date:	[•]
19.	**Linear Interpolation:**		[Applicable]/[Not Applicable]
	(i)	Margin(s):	[+/-][•] per cent. per annum
	(ii)	Minimum Rate of Interest:	[•] per cent. per annum
	(iii)	Maximum Rate of Interest:	[•] per cent. per annum
	(iv)	Day Count Fraction:	[Actual/Actual (ICMA)]/[Actual/365]/[Actual/Actual (ISDA)]/[Actual/365

			(Fixed)]/[Actual/360]/[30/360]/[30E/360]/[Eurobond Basis]

PROVISIONS RELATING TO REDEMPTION

20.	**Call Option**		[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[•] per Calculation Amount
		(b) Maximum Redemption Amount:	[•] per Calculation Amount
21.	**Put Option**		[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[•]
	(iii)	Optional redemption for Subordinated Notes upon a Change in Law:	[Applicable]/[Not Applicable]
22.	**Optional Redemption for Subordinated Notes upon a Change in Law:**		[Applicable]/[Not Applicable]
23.	**Final Redemption Amount of each Note**		[•] per Calculation Amount
24.	**Early Redemption Amount**		
	Early Redemption Amount(s) per Calculation Amount:		[•]
25.	**Early Termination Amount**		[•]
	Early Termination Amount per Calculation Amount		
26.	**Substitution and Variation for Tier 2 Notes:**		[Applicable/Not Applicable]
27.	**Substitution and Variation for Tier 2 Notes upon a Change in Law:**		[Applicable/Not Applicable]
28.	**Option to disapply Non-viability Loss Absorption Condition for Tier 2 Notes pursuant to Condition 4(e):**		[Applicable/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

29.	**Form of Notes:**	**Bearer Notes:** [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [Permanent Global Note exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] **Registered Notes:** Global Registered Note Certificate exchangeable for individual Note Certificates on [•] days' notice/at any time/in the limited circumstances specified in the Global Registered Note Certificate
30.	Additional Financial Centre(s):	[•]
31.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes] [No.]
32.	Commercial Paper Regulations	[Not Applicable]/[Applicable – see Annexure "A" to these Final Terms]

DISTRIBUTION

33.	(i)	If syndicated, names of Managers:	[•]
	(ii)	Date of Subscription Agreement	[•]
34.	If non-syndicated, name and address of Dealer:		[•]
35.	Stabilising Manager(s):		[•]
36.	U.S. Selling Restrictions:		[Reg. S Compliance Category 2]/[TEFRA C]/[TEFRA D/TEFRA not applicable]
37.	Total commission and concession:		[•] per cent. of the Aggregate Nominal Amount

[ADMISSION TO TRADING

These Final Terms comprise the final terms required for the Notes described herein to be admitted to trading on the [Market of the London Stock Exchange pursuant to the U.S.$4,000,000,000 Euro Medium Term Note Programme of The Standard Bank of South Africa Limited and Standard Bank Group Limited.]

Signed on behalf of the Issuer:

By: ....

Duly authorised

PART B OTHER INFORMATION

1.	**LISTING**		
	(i)	Listing:	London
	(ii)	Admission to trading:	Application has been made for the Notes to be admitted to trading on the Market of the London Stock Exchange with effect from [•].
	(iii)	Estimate of total expenses related to admission to trading:	[•]
2.	**RATING**		
	Ratings:		The Notes to be issued have been rated: [Moody's*: [•]] [Fitch*: [•]]
3.	**USE OF PROCEEDS**		[General corporate purposes] / [The Notes are intended to be issued as Green Bonds, [further particulars (including category of Green Projects) to be provided]]
4.	**YIELD**		
	Indication of yield:		[•]
5.	**[INFORMATION REQUIRED BY THE COMMERCIAL PAPER REGULATIONS]**[5]		
	Aggregate amount of commercial paper (as defined in the Commercial Paper Regulations) issued by the Issuer prior to the Issue Date**:**		[•]
	To the best of the Issuer's knowledge and belief, the Issuer estimates that it will issue during the Issuer's current financial year "commercial paper" (as defined in the Commercial Paper Regulations) in the following aggregate amount (excluding this Tranche of Notes):		[•]
6.	**OPERATIONAL INFORMATION**		
	ISIN:		[•]
	Common Code:		[•]
	CFI:		[See the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]
	FISN:		[See the website of the Association of National

[5] To be deleted where SBSA is the relevant Issuer. To be completed where SBG is the relevant Issuer and Notes are offered in South Africa. Delete if Notes are not offered in South Africa.

	Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available] (*If the CFI and/or FISN is not required, requested or available, it/they should be specified to be "Not Applicable")*
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, S.A. and the relevant identification number(s):	[Not Applicable/[•]]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) if any:	[•]
Relevant Benchmark[s]:	[[*specify benchmark*] is provided by [*administrator legal name*]]. As at the date hereof, [[*administrator legal name*][appears]/[does not appear]] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmark Regulation]/[As far as the Bank is aware, as at the date hereof, [*specify benchmark*] does not fall within the scope of the Benchmark Regulation/the transitional provisions in Article 51 of the Benchmark Regulation apply, such that [*administrator legal name*] is not currently required to obtain authorisation or registration (or, if located outside the EU, recognition, endorsement or equivalence)]/[Not Applicable]

FORM OF PRICING SUPPLEMENT

Pricing Supplement dated [•]

[**MiFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in EU Directive 2003/71/EC (as amended or superseded, including by Directive 2010/73/EU). Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.]

NOTIFICATION UNDER SECTION 309B(1)(c) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE (the "**SFA**") **–** [In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes [are] / [are not] prescribed capital markets products (as defined in the CMP Regulations 2018) and [are] [Excluded] / [Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.][6]

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC, AS AMENDED IN CONNECTION WITH THIS ISSUE OF NOTES. THE UNITED KINGDOM FINANCIAL CONDUCT AUTHORITY HAS NEITHER REVIEWED NOR APPROVED THE INFORMATION CONTAINED IN THIS PRICING SUPPLEMENT

[THE STANDARD BANK OF SOUTH AFRICA LIMITED
(Registration Number 1962/000738/06)

Legal Entity Identifier: QFC8ZCW3Q5PRXU1XTM60]*

[STANDARD BANK GROUP LIMITED
(Registration Number 1969/017128/06)

Legal Entity Identifier: 2549003PEZXUT7MDBU41]*

* Delete as applicable

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$4,000,000,000
Euro Medium Term Note Programme

[6] For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

PART A CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the base prospectus dated 10 May 2019 [and the supplement to the base prospectus dated [•] which [together] constitute[s] a base prospectus] (the "**Base Prospectus**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Base Prospectus.

Full information on the Issuer and the Notes described herein is only available on the basis of a combination of this Pricing Supplement and the Base Prospectus. The Base Prospectus is available for viewing at [[*address*] [and] [www.londonstockexchange.com]] and copies may be obtained from [address].

The following alternative language applies if the first tranche of an issue which is being increased was issued under a base prospectus with an earlier date and the relevant terms and conditions from that base prospectus with an earlier date were incorporated by reference in this Base Prospectus.

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the base prospectus dated [*original date*]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the base prospectus dated [*current date*] [and the supplemental Base Prospectus dated [*date*]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") save in respect of the Conditions which are extracted from the base prospectus dated [*original date*] and are incorporated by reference in the Base Prospectus.

Full information on the Issuer and the offer of the Notes described herein is only available on the basis of the combination of this Pricing Supplement and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplemental Base Prospectus] [is]/[are] available for viewing at [address].]

1.	**Issuer**:		[The Standard Bank of South Africa Limited] [Standard Bank Group Limited]
2.	(i)	[Series Number:	[•]
	(ii)	[Tranche Number:	[•]
	(iii)	Date on which the Notes will be consolidated and form a single Series:	[The Notes will be consolidated and form a single Series with [•] on [the Issue Date] [the exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 24 below.]/[Not applicable].]
3.	**Specified Currency or Currencies**:		[•]
4.	**Aggregate Nominal Amount**:		
	(i)	Series:	[•]
	(ii)	Tranche:	[•]
5.	**Issue Price**:		[•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date]
6.	(i)	Specified Denominations:	[•]
	(ii)	Calculation Amount	[•]
7.	(i)	Issue Date:	[•]
	(ii)	Interest Commencement Date:	[•]]
8.	**Maturity Date**:		[•]

9.	**Interest Basis**:		[[•] % Fixed Rate] [[LIBOR]/[EURIBOR]/[BBSW]/[*Other*] +/– [•] per cent. Floating Rate] [Reset Notes] [Zero Coupon] [*Other*]
10.	**Redemption/Payment Basis**:		[Redemption at par]
11.	**Put/Call Options**:		[Investor Put] [Issuer Call] [*Other*] [Reset Notes]
12.	**Status of the Notes**:		[Unsubordinated Notes] [Subordinated Notes that are not Tier 2 Notes – Condition 4(b) applies] [Tier 2 Notes – Condition 4(c) applies]
13.	**Method of distribution**:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	**Fixed Rate Note Provisions**:		[Applicable/Not Applicable]
	(i)	Rate[(s)] of Interest:	[•] per cent. per annum [payable [annually/ semi-annually/ quarterly/monthly] in arrear]
	(ii)	Interest Payment Date(s):	[•] in each year [adjusted in accordance with [•]/Not adjusted]
	(iii)	Fixed Coupon Amount[(s)]:	[•] per Calculation Amount
	(iv)	Broken Amount(s):	[•]
	(v)	Day Count Fraction:	[Actual/Actual (ICMA)]/[Actual/365]/[Actual/Actual (ISDA)]/[Actual/365 (Fixed)]/[Actual/360]/[30/360]/[30E/360]/[Eurobond Basis]/ [*Other*]
	(vi)	Determination Dates:	[•] in each year
15.	**Floating Rate Note Provisions**		[Applicable/Not Applicable]
	(i)	Specified Period:	[•]
	(ii)	Specified Interest Payment Dates:	[•]
	(iii)	Business Day Convention:	[Floating Rate Convention]/[Following Business Day Convention]/ [Modified Following Business Day Convention]/[Preceding Business Day Convention]/ [No Adjustment]/ [*Other*]

	(iv)	Additional Business Centre(s):	[•] [Not Applicable]
	(v)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination]/[ISDA Determination]/ [*Other*]
	(vi)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Fiscal Agent):	[•]
	(vii)	Screen Rate Determination:	
		Reference Rate:	[LIBOR]/[EURIBOR]/[BBSW]/[*Other*]
		Interest Determination Date(s):	[•]
		Relevant Screen Page:	[LIBOR01]/[EURIBOR01]/[Reuters Screen BBSW Page]
		Relevant Time:	[•]
		Relevant Financial Centre:	[•]
		Linear Interpolation:	[Applicable]/[Not Applicable]
	(viii)	ISDA Determination:	
		Floating Rate Option:	[•]
		Designated Maturity:	[•]
		Reset Date:	[•]
		Linear Interpolation:	[Applicable]/[Not Applicable]
	(ix)	Margin(s):	[+/-][•] per cent. per annum
	(x)	Minimum Rate of Interest:	[•] per cent. per annum
	(xi)	Maximum Rate of Interest:	[•] per cent. per annum
	(xii)	Day Count Fraction:	[Actual/Actual (ICMA)]/[Actual/365]/[Actual/Actual (ISDA)]/[Actual/365 (Fixed)]/[Actual/360]/[30/360]/[30E/360]/[Eurobond Basis]
16.	**Zero Coupon Note Provisions**		[Applicable/Not Applicable]
	(i)	Accrual Yield:	[•] per cent. per annum
	(ii)	Reference Price:	[•]
17.	**Reset Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)

	(i)	Initial Rate of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(ii)	First Margin:	[+/-][ ] per cent. per annum
	(iii)	Subsequent Margin:	[[+/-][ ] per cent. per annum] [Not Applicable]
	(iv)	Interest Payment Date(s):	[[ ] in each year up to and including the Maturity Date/[specify date] [adjusted in accordance with paragraphs 17 (xv) and (xvi) below]]
	(v)	Fixed Coupon Amount to (but excluding) the First Reset Date: (*Applicable to Notes in definitive form*)	[ ] per Calculation Amount
	(vi)	First Reset Date:	[ ]
	(vii)	Second Reset Date:	[ ]/[Not applicable]
	(viii)	Subsequent Reset Date(s):	[ ] [and [ ]] [Not applicable]
	(ix)	Relevant Screen Page:	[ ]
	(x)	Mid-Swap Rate:	[Single Mid-Swap Rate/Mean Mid-Swap Rate]
	(xi)	Mid-Swap Maturity:	[ ]
	(xii)	Fixed Leg Swap Duration:	[ ]
	(xiii)	Day Count Fraction:	[30/360 or 360/360 or Actual/Actual (ICMA)]
	(xiv)	Determination Date(s):	[[ ] in each year][Not Applicable] (*Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon).*
	(xv)	Business Day Convention:	[Not Applicable/ Following Business Day Convention/Preceding Business Day Convention/ Modified Following Business Day Convention]
	(xvi)	Business Centre(s):	[ ]/[Not Applicable]
	(xvii)	Calculation Agent:	[ ]
18.	**Floating Rate Reset Note Provisions**		[Applicable/Not Applicable]
	(i)	Date on which Floating Rate Reset Note Provisions apply:	[First Reset Date]/[Second Reset Date]/[*Other*]
	(ii)	Specified Period:	[•]
	(iii)	Specified Interest Payment Dates:	[•]
	(iv)	Business Day Convention:	[Floating Rate Convention]/[Following Business Day Convention]/ [Modified Following Business Day Convention]/[Preceding Business Day Convention]/

			[No adjustment]/ [*Other*]
	(v)	Additional Business Centre(s):	[•] [Not Applicable]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination]/[ISDA Determination]/ [*Other*]
	(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Fiscal Agent):	[•]
	(viii)	Screen Rate Determination:	
		Reference Rate:	[LIBOR]/[EURIBOR]/[BBSW]
		Interest Determination Date(s):	[•]
		Relevant Screen Page:	[•]
		Relevant Time:	[•]
		Relevant Financial Centre:	[•]
		Linear Interpolation:	[Applicable]/[Not Applicable]
	(ix)	ISDA Determination:	
		Floating Rate Option:	[•]
		Designated Maturity:	[•]
		Reset Date:	[•]
19.		**Linear Interpolation:**	[Applicable]/[Not Applicable]
	(i)	Margin(s):	[+/-][•] per cent. per annum
	(ii)	Minimum Rate of Interest:	[•] per cent. per annum
	(iii)	Maximum Rate of Interest:	[•] per cent. per annum
	(iv)	Day Count Fraction:	[Actual/Actual (ICMA)]/[Actual/365]/[Actual/Actual (ISDA)]/[Actual/365 (Fixed)]/[Actual/360]/[30/360]/[30E/360]/[Eurobond Basis]

PROVISIONS RELATING TO REDEMPTION

20.	**Call Option**		[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii)	If redeemable in part:	

	(a) Minimum Redemption Amount:	[•] per Calculation Amount
	(b) Maximum Redemption Amount:	[•] per Calculation Amount
21.	**Put Option**	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[•]
	(ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[•]
	(iii) Optional redemption for Subordinated Notes upon a Change in Law:	[Applicable]/[Not Applicable]
22.	**Optional Redemption for Subordinated Notes upon a Change in Law:**	[Applicable]/[Not Applicable]
23.	**Final Redemption Amount of each Note**	[•] per Calculation Amount
24.	**Early Redemption Amount**	
	Early Redemption Amount(s) per Calculation Amount:	[•]
25.	**Early Termination Amount**	[•]
	Early Termination Amount per Calculation Amount	
26.	**Substitution and Variation for Tier 2 Notes:**	[Applicable/Not Applicable]
27.	**Substitution and Variation for Tier 2 Notes upon a Change in Law:**	[Applicable/Not Applicable]
28.	**Option to disapply Non-viability Loss Absorption Condition for Tier 2 Notes pursuant to Condition 4(e):**	[Applicable/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

29.	**Form of Notes:**	**Bearer Notes:**
		[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]
		[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]
		[Permanent Global Note exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global

		Note]
		Registered Notes:
		Global Registered Note Certificate exchangeable for individual Note Certificates on [•] days' notice/at any time/in the limited circumstances specified in the Global Registered Note Certificate
30.	Additional Financial Centre(s):	[•]
31.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes] [No.]
32.	Commercial Paper Regulations	[Not applicable]/[Applicable – see Annexure "A" to the Pricing Supplement]

DISTRIBUTION

33.	(i)	If syndicated, names of Managers:	[•]
	(ii)	Date of Subscription Agreement	[•]
34.	If non-syndicated, name and address of Dealer:		[•]
35.	U.S. Selling Restrictions:		[Reg. S Compliance Category 2]/[TEFRA C]/[TEFRA D/TEFRA not applicable]
36.	Stabilising Manager(s):		[•]
37.	Total commission and concession:		[•] per cent. of the Aggregate Nominal Amount
38.	Additional Terms and Conditions:		[•]

[ADMISSION TO TRADING

This Pricing Supplement comprises the final terms required for the Notes described herein to be admitted to trading on the [•] pursuant to the U.S.$4,000,000,000 Euro Medium Term Note Programme of The Standard Bank of South Africa Limited and Standard Bank Group Limited.]

Signed on behalf of the Issuer:

By: ....

Duly authorised

PART B OTHER INFORMATION

1. **LISTING**

(i)	Listing:	[•]
(ii)	Admission to trading:	Application has been made for the Notes to be admitted to trading on [•] with effect from [•]. [Not Applicable]
(iii)	Estimate of total expenses related to admission to trading:	[•]

2. **RATING**

Ratings:	The Notes to be issued have been rated: [Moody's*: [•]] [Fitch*: [•]]

3. **USE OF PROCEEDS** [General corporate purposes] / [The Notes are intended to be issued as Green Bonds, [further particulars (including category of Green Projects) to be provided]]

4. **YIELD**

Indication of yield:	[•]

5. **OPERATIONAL INFORMATION**

ISIN:	[•]
Common Code:	[•]
CFI:	[See the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]
FISN:	[See the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available] (*If the CFI and/or FISN is not required, requested or available, it/they should be specified to be "Not Applicable")*
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, S.A. and the relevant identification number(s):	[Not Applicable/[•]]
Delivery:	Delivery [against/free of] payment
Relevant Benchmark[s]:	[[*specify benchmark*] is provided by [*administrator legal name*]]. As at the date hereof, [[*administrator legal name*][appears]/[does not appear]] in the register

of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmark Regulation]/[As far as the Bank is aware, as at the date hereof, [*specify benchmark*] does not fall within the scope of the Benchmark Regulation/the transitional provisions in Article 51 of the Benchmark Regulation apply, such that [*administrator legal name*] is not currently required to obtain authorisation or registration (or, if located outside the EU, recognition, endorsement or equivalence)]/[Not Applicable]

ANNEXURE "A" TO THE PRICING SUPPLEMENT

COMMERCIAL PAPER REGULATIONS

promulgated in terms of the Banks Act under Government Notice number 2172 published in Government Gazette number 16167, dated 14 December 1994

Disclosure requirements in terms of paragraph 3(5) of the Commercial Paper Regulations

The information required to be disclosed in terms of paragraph 3(5) of the Commercial Paper Regulations is set out in this Annexure "A" (except where such information is disclosed in the Base Prospectus and/or the Pricing Supplement):

1. **Issuer and Ultimate Borrower** (paragraph 3(5)(a) of the Commercial Paper Regulations)

   The Issuer of the relevant Tranche of Notes is Standard Bank Group Limited (incorporated with limited liability under registration number 1969/017128/06 in South Africa).

   The "*ultimate borrower*" is [the Issuer] [specify other].

2. **Going concern** (paragraph 3(5)(b) of the Commercial Paper Regulations)

   The Issuer is a going concern and can in all circumstances be reasonably expected to meet its commitments, thereby reflecting the adequacy of the liquidity and solvency of the Issuer.

3. **Auditor** (paragraph 3(5)(c) of the Commercial Paper Regulations)

   The auditors of the Issuer as at the Issue Date are [●] and [●].

   [●] and [●] have acted as the auditors of the Issuer's latest audited financial statements.

4. **Total amount of Commercial Paper** (paragraph 3(5)(d) of the Commercial Paper Regulations)

   (a) [The Issuer has not, prior to the Issue Date, issued any "*commercial paper*" (as defined in the Commercial Paper Regulations).]

   [The Issuer has, prior to the Issue Date, issued *"commercial paper"* (as defined in the Commercial Paper Regulations) in an aggregate amount of U.S.$[●].]

   (b) [As at Issue Date, to the best of the Issuer's knowledge and belief, the Issuer estimates that it will not issue any *"commercial paper"* (as defined in the Commercial Paper Regulations) during the Issuer's current financial year (excluding this Tranche of Notes).]

   [As at Issue Date, to the best of the Issuer's knowledge and belief, the Issuer estimates that it will issue *"commercial paper"* (as defined in the Commercial Paper Regulations) in an aggregate amount of U.S.$[●] during the Issuer's current financial year (excluding this Tranche of Notes).]

5. **Other information** (paragraph 3(5)(e) of the Commercial Paper Regulations)

   All information that may reasonably be necessary to enable the investor to ascertain the nature of the financial and commercial risk of its investment in this Tranche of Notes is contained in the Base Prospectus and the Pricing Supplement.

6. **Material adverse change** (paragraph 3(5)(f) of the Commercial Paper Regulations)

   Save as disclosed in the Base Prospectus [and as set out below], there has been no material adverse change in the Issuer's financial position since the date of the Issuer's last audited financial statements.

   [*give details, if applicable*]

7. **Listing** (paragraph 3(5)(g) of the Commercial Paper Regulations)

   This Tranche of Notes will be [unlisted] [listed on [the Regulated Market of the London Stock Exchange] [*specify other*]].

8. **Use of proceeds** (paragraph 3(5)(h) of the Commercial Paper Regulations)

   [The proceeds of the issue of this Tranche of Notes will be used by the Issuer for its general corporate purposes] [*specify other*]

9. **Security** (paragraph 3(5)(i) of the Commercial Paper Regulations)

This Tranche of Notes is [secured] [unsecured].

10. **Auditors confirmation** (paragraph 3(5)(j) of the Commercial Paper Regulations)

[●], being one of the Issuer's auditors as at the Issue Date, have confirmed in writing that nothing has come to their attention which causes them to believe that the issue of this Tranche of Notes under the Programme, pursuant to the Base Prospectus (as read with the Pricing Supplement) will not comply in all material respects with the provisions of the Commercial Paper Regulations.

11. **Audited financial statements** (paragraphs 3(5)(j)(i) and (j)(ii) of the Commercial Paper Regulations)

Where, in relation to the issue and placing of this Tranche of Notes, the Base Prospectus and/or the Pricing Supplement is distributed and/or made available for inspection in South Africa, a copy of the Issuer's latest audited annual financial statements will at all times separately accompany (either by electronic delivery or by physical delivery) the Base Prospectus and/or the Pricing Supplement, as required by the Commercial Paper Regulations.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

Each Global Note will be in bearer or registered form. Consequently, in relation to any Tranche of Notes represented by a Global Registered Note Certificate, references in the Conditions to "Noteholders" are references to the registered holder of the relevant Global Registered Note Certificate which, for so long as the Global Registered Note Certificate is registered in the name of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary. In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Conditions to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary will be that depositary or common depositary.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Registered Note Certificate (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the relevant Issuer to the holder of such Global Note or Global Registered Note Certificate and in relation to all other rights arising under such Global Note or Global Registered Note Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Registered Note Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Registered Note Certificate, Accountholders shall have no claim directly against the relevant Issuer in respect of payments due under the Notes and such obligations of the relevant Issuer will be discharged by payment to the holder of such Global Note or Global Registered Note Certificate.

Conditions applicable to Global Notes and Global Registered Note Certificates

Each Global Note and Global Registered Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Registered Note Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Registered Note Certificate which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Registered Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the relevant Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the relevant Issuer shall procure that the payment is noted in a schedule thereto.

Payment Business Day: In the case of a Global Note, or a Global Registered Note Certificate, shall be, if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Registered Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Registered Note is being held is open for business. Where payment in respect of a Global Registered Note Certificate is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

Exercise of put option: In order to exercise the option contained in Condition 10(e) (*Redemption at the option of Noteholders*) the bearer of the Permanent Global Note or the holder of a Global Registered Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Note

Certificate and put option notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(d) (*Redemption at the option of the relevant Issuer*) in relation to some only of the Notes, the Permanent Global Note or Global Registered Note Certificate may be redeemed in part in the principal amount specified by the relevant Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg.

Notices: Notwithstanding Condition 20 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Registered Note Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Registered Note Certificate, is deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 20 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

USE OF PROCEEDS

The net proceeds of the issue of each Tranche of Notes will be applied by the relevant Issuer for its general corporate purposes

Notes may be issued as green bonds ("**Green Bonds**") and the relevant Final Terms or Pricing Supplement will indicate whether or not the Notes are intended to constitute Green Bonds and will provide additional information in relation to the intended use of proceeds in respect of any Green Bonds (including for which category of Green Projects the proceeds of the Green Bonds will be used).

DESCRIPTION OF STANDARD BANK GROUP LIMITED

Overview

Standard Bank Group Limited ("**SBG**") and its subsidiaries (together the "**Group**") is the largest financial services group in Africa (measured by assets) as at 31 December 2018. SBG is the Group's listed holding company and holds the entire issued share capital of the Group's primary banking entity, The Standard Bank of South Africa Limited ("**SBSA**"), as well as other banking and financial services entities. SBG has been listed on the Johannesburg Stock Exchange, operated by JSE Limited (the "**JSE**") since 1970, with a secondary listing on the Namibian Stock Exchange.

As at 31 December 2018, SBG had total assets of R2,126,962 million (compared to R2,027,928 million as at 31 December 2017) and had headline earnings of R27,865 million for the year ended 31 December 2018 (compared to R26,270 million for the year ended 31 December 2017). Banking headline earnings grew 7 per cent. to R25,847 million for the year ended 31 December (compared to R24,268 million for the year ended 31 December 2017). The Group's Return on Equity ("**ROE**") improved to 18.0 per cent. for the year ended 31 December 2018, from 17.1 per cent. for the year ended 31 December 2017, and its Common Equity Tier 1 Ratio remained unchanged from 2017 at 13.5 per cent. as at 31 December 2018.

Originally founded in 1862, the Group was a member of Standard Chartered Bank group ("**Standard Chartered**") until 1987. Since that time, the Group has focused on consolidating its position as the premier financial services organisation in South Africa, with an operational footprint in an additional 19 African countries covering East Africa (incorporating Kenya, South Sudan, Tanzania and Uganda), South & Central Africa (incorporating Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, eSwatini, Zambia and Zimbabwe) and West Africa (incorporating Angola, Democratic Republic of Congo, Ghana, Ivory Coast and Nigeria). The Group also has a presence in five major international markets (Beijing, Dubai, London, New York and São Paulo). It also offers international financial services in the Isle of Man, Jersey and Mauritius. The Group has over 53,000 permanent employees, and a market capitalisation of R289 billion. Since 3 March 2008, it has been in a strategic partnership with Industrial and Commercial Bank of China ("**ICBC**"), the world's largest bank, which owns a 20.1 per cent. share of SBG.

SBG's vision is to be the leading financial services organisation in, for and across Africa by delivering exceptional client experiences and superior value. SBG offers a full range of banking and related financial services, including retail, corporate, commercial and investment banking services to individuals and companies across Africa, as well as life insurance and investment management, through its controlling interest in the South African-listed Liberty Holdings Limited ("**Liberty**").

SBG operates as three principal business units:

(1) Personal & Business Banking (including Wealth);

(2) Corporate & Investment Banking; and

(3) Liberty

Personal & Business Banking ("**PBB**") provides banking and other financial services to individual customers and small-to-medium sized enterprises in South Africa, in 19 countries in sub-Saharan Africa outside of South Africa (the "**Africa Regions**") and the Channel Islands. PBB provides the following product sets; mortgage lending, vehicle and asset finance, card products, transactional products, lending products and wealth products. Wealth services and product offerings include insurance, investment, fiduciary, specialised banking and multi-generational wealth preservation solutions to high net worth, retail, business and commercial, and corporate clients across the Group. For the year ended 31 December 2018, PBB recorded headline earnings of R15,548 million, constituting 56 per cent. of SBG's headline earnings[7] (compared to R14,103 million and 54 per cent., respectively, for the year ended 31 December 2017). As at 31 December 2018, assets attributable to PBB constituted 36 per cent. of SBG's total assets[1] (35 per cent. as at 31 December 2017).

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[7] These figures do not reflect indirect support costs borne by "Central and other", which provides centralised support and back office functions to the principal business units, including legal and compliance, human capital, finance, governance, assurance, IT, procurement, marketing, real estate, risk management, group shared services and corporate social investment. Neither do these figures include SBG's share from its "Other banking interests", being ICBC Standard Bank Plc and ICBC Argentina.

Corporate & Investment Banking ("**CIB**") provides corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and multinational corporates and includes global markets, transactional products and services and investment banking. CIB contributed 40 per cent. of SBG's headline earnings[1] for the year ended 31 December 2018 (compared to 43 per cent. for the year ended 31 December 2017) and constituted 46 per cent. of its total assets[1] as at 31 December 2018 (compared to 45 per cent. as at 31 December 2017).

The Group operates through subsidiaries within the Africa Regions ("**AR**") in 20 countries, providing the full banking offering of the Group. AR legal entities recorded R8,025 million, constituting 31 per cent., of SBG's banking headline earnings (compared to R6,751 million constituting 28 per cent. respectively for the year ended 31 December 2017) and contributing 20 per cent. of SBG's total banking assets for the year ended 31 December 2018 (compared to 17 per cent. for the year ended 31 December 2017). Africa Regions are split into East Africa (incorporating Kenya, South Sudan, Tanzania and Uganda), South & Central African (incorporating Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, eSwatini, Zambia and Zimbabwe) and West Africa (incorporating Angola, Democratic Republic of the Congo, Ghana, Ivory Coast and Nigeria).

Liberty provides life insurance and investment management activities through Liberty Group Limited and STANLIB respectively, both subsidiaries of Liberty Holdings Group. Liberty offers South Africa retail, business development and asset management. For the year ended 31 December 2018, Liberty recorded headline earnings attributable to SBG of R1,600 million, constituting 6 per cent. of SBG's headline earnings[1] (compared to R1,435 million and 5 per cent., respectively, for the year ended 31 December 2017) and Liberty constituted 20 per cent. of SBG's total assets[1] as at 31 December 2018 (compared to 21 per cent. as at 31 December 2017).

Other Interests consist of the Group's other banking interests. These consist of a 40 per cent. share in ICBC Standard Bank Plc ("**ICBCS**") and a 20 per cent. holding in Industrial and Commercial Bank of China (ICBC) Argentina S.A. ("**ICBC Argentina**"), which are held in accordance with strategic partnership agreements with ICBC. In the early 2000's the Group's strategy was to be an emerging markets bank. After the global financial crisis, the Group adjusted the strategy to focus on Africa. As a result, it exited the businesses outside of Africa which it no longer considered to be a core part of its strategy. In 2012, SBG sold an 80 per cent. stake in Standard Bank Argentina (renamed ICBC Argentina) to ICBC and in 2015 it sold a 60 per cent. stake in Standard Bank Plc (renamed ICBC Standard Bank Plc) to ICBC. ICBC, as the majority shareholder, controls and runs these businesses. Standard Bank's full exit from these businesses is subject to the terms of the respective sale agreements. SBG's current investments in these entities are equity accounted, as associates, in its books and as such they are not included in metrics that relate specifically to SBG's banking activities.

SBG is incorporated in South Africa as a limited liability company and operates under South African law. SBG's registered address is 9th Floor, Standard Bank Centre, 5 Simmonds Street, Johannesburg, PO Box 7725, Johannesburg 2000, South Africa (telephone number: + 27 11 636 9111).

HISTORY

SBG is one of the oldest banks in South Africa having originally been incorporated in London as The Standard Bank of British South Africa Limited in 1862. The word "British" was dropped from the Bank's name in 1883. SBSA commenced operations in Port Elizabeth in 1863 and gradually expanded its geographic area of operation to include the whole of South Africa.

In 1962, the shareholders of SBSA voted in favour of splitting the company into a South African subsidiary company which retained the name SBSA, and a parent company, The Standard Bank Limited, operating in London (subsequently to become Standard Chartered Bank plc).

In 1969, Standard Bank Investment Corporation Limited (subsequently to become SBG) was established as the holding company for SBSA. SBG continued as a member of Standard Chartered until 1987 when Standard Chartered sold its 39 per cent. ownership of SBG to Liberty Group Limited (the "**LGL**"), transferring the holding company to local South African ownership. In July 1978, SBG accepted an offer of a 25 per cent. shareholding in a new insurance company, Liblife Controlling Corporation (Proprietary) Limited ("**LCC**"), which was formed to acquire a controlling interest in the LGL group's Liberty Holdings. SBG's equity interest in LCC was increased from 25 per cent. to 50 per cent. in July 1983. The acquisition ensured joint control of the LGL group with Liberty Investments. In February 1999 Standard Bank agreed to purchase Liberty Investments' 50 per cent. interest in LCC.

The severing of ties enabled SBG to go into competition with Standard Chartered in the Africa Regions where a resurgence of economic growth appeared imminent. The first step was taken when the Union Bank of Swaziland Limited, in which SBG had a major shareholding, became an operational commercial bank in July 1988. In November 1992, SBG acquired the operations of ANZ Grindlays Bank in eight African countries (Zimbabwe, Zambia, Kenya, Botswana, Uganda, Zaire (DRC) and minority interests in Nigeria and Ghana), which set the Group on a path of African expansion over the next 15 years.

In 2007, SBG merged its Nigerian interests with those of IBTC Chartered Bank Plc, securing a controlling interest in the merged entity Stanbic IBTC Bank Plc. In 2008, SBG acquired 60 per cent. of CfC Bank in Kenya, and the operations of Stanbic Bank Kenya Limited were merged with those of CfC Bank and the merged entity was renamed CfC Stanbic Bank Limited. In 2012, CfC Stanbic Bank Limited opened a branch in the newly independent Republic of South Sudan. In 2014, the newly established Ivory Coast representative office opened for business, and in 2015 the Ethiopian representative office opened, bringing the Group's footprint in Africa to 20 countries.

During the 1990s, while SBG was building its African network, it also began establishing a footprint overseas. In 1992, SBG was awarded a banking licence in London and Standard Bank London Holdings Limited began operating. A number of acquisitions were made over the next two decades and by 2009, SBG had developed from a South African bank into a broad-based financial services organisation with niche investment banking operations focused on other emerging markets.

Effective 3 March 2008, SBG concluded a strategic partnership which resulted in ICBC becoming a supportive, non-controlling 20.1 per cent. minority shareholder in SBG. An agreement was entered into on 29 January 2014 in terms of which ICBC would, upon completion, acquire a controlling interest in SBG's non-Africa business, focusing on commodities, fixed income, currencies, credit and equities products. Under the agreement, ICBC acquired 60 per cent. of Standard Bank Plc from Standard Bank London Holdings for cash on 1 February 2015, resulting in the name change to ICBC Standard Bank Plc.

CORPORATE STRUCTURE

SBG's sole function is to act as the ultimate holding company of the Group. It's revenues, therefore, are derived solely from dividends and loan repayments received from its subsidiaries and associates.

SBG's authorised share capital comprises of the following:

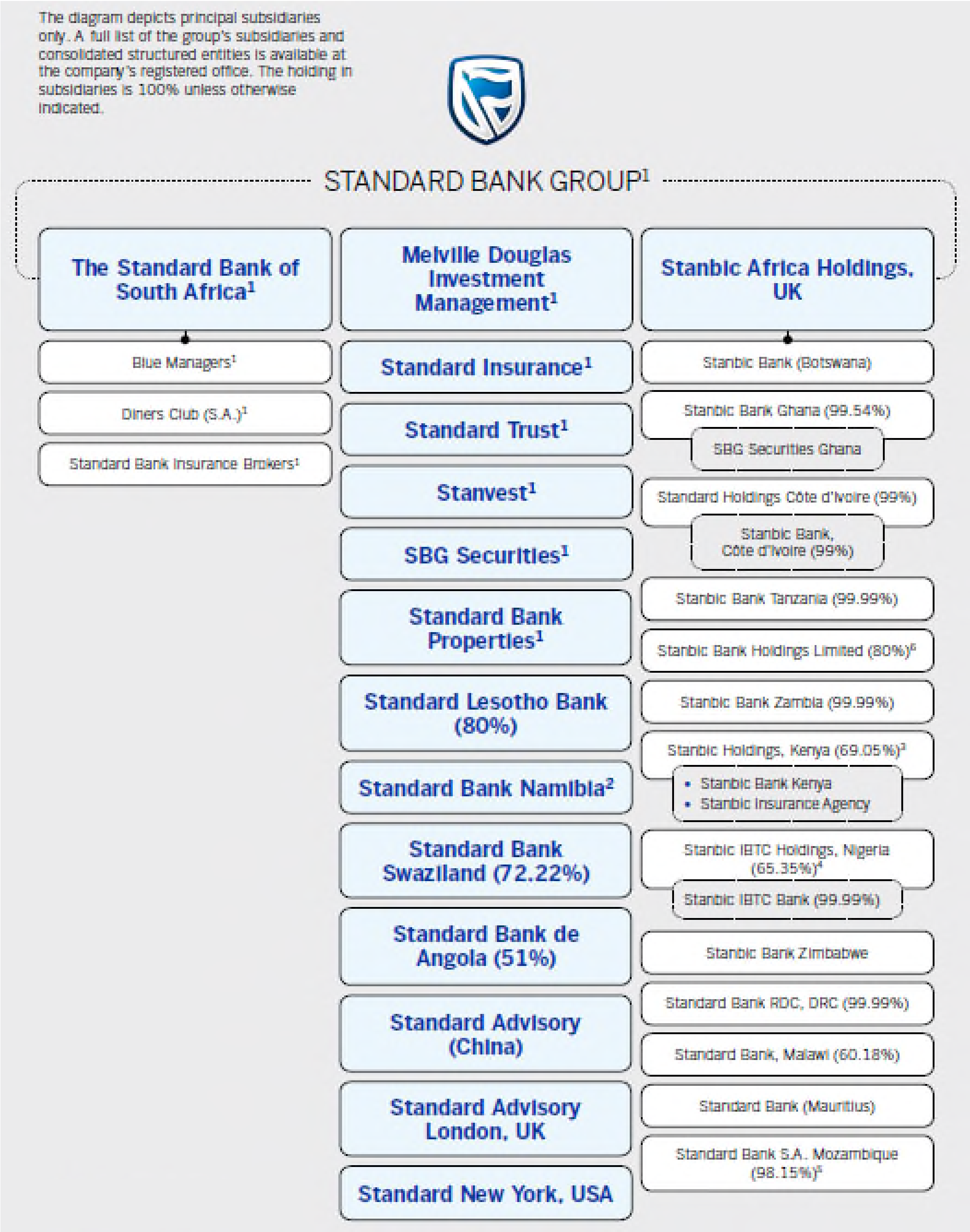
- 2,000,000,000 ordinary shares with a par value of R0.10 each;
- 8,000,000 cumulative, non-redeemable preference shares of R1 each; and
- 1,000,000,000 non-redeemable, non-cumulative, non-participating preference shares of R0.01 each.

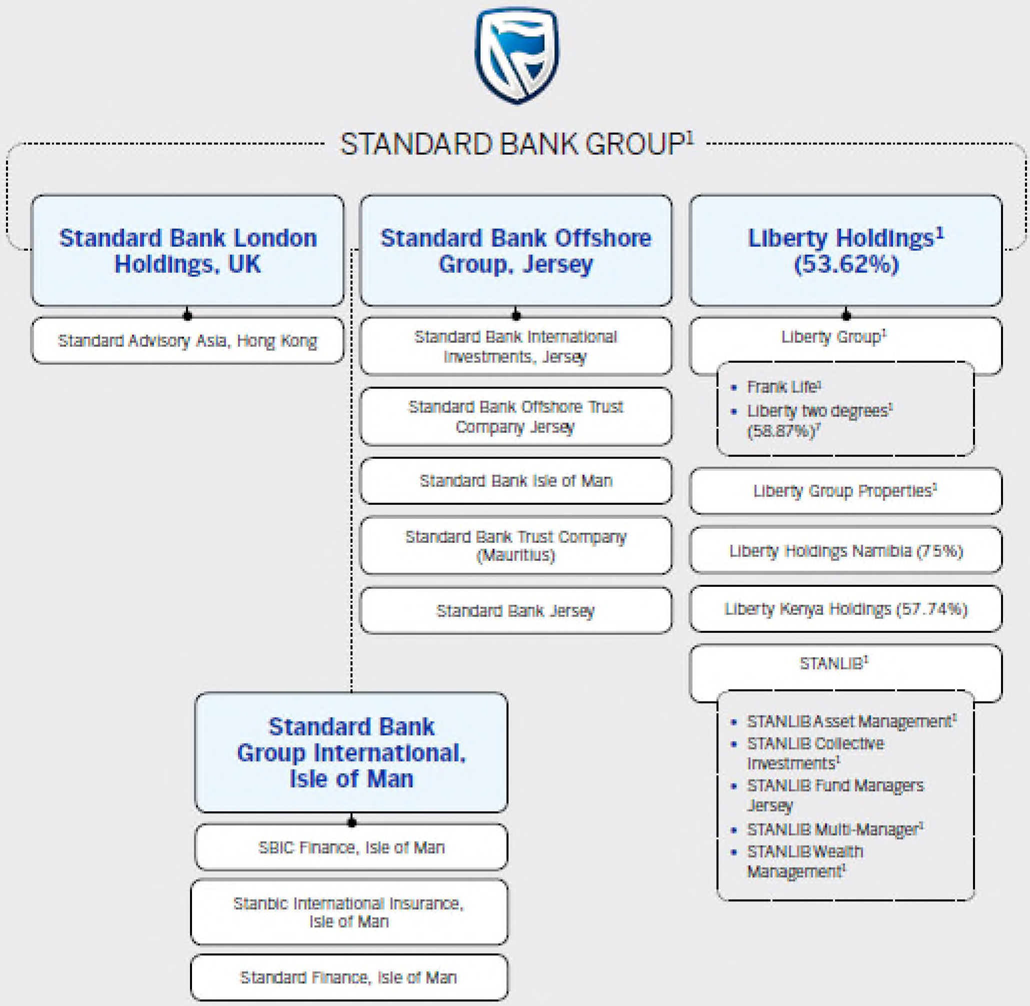
As at 31 December 2018, SBG had issued share capital as follows:

- 1,619,268,169 ordinary shares of R0.10 each;
- 8,000,000 cumulative, non-redeemable preference shares of R1 each; and
- 52,982,248 non-redeemable, non-cumulative, non-participating preference shares of R0.01 each.

The chart below presents a summary of SBG's corporate structure as at 31 December 2018. For more information, see the SBG 2018 Audited Financial Statements on pages 120 to 133:

Standard Bank Group Limited





1 Incorporated in South Africa.
2 Standard Bank Group legally owns 90% of SBN Holdings in Namibia but consolidates 100% due to the degree of control it retains over its empowerment structure.
3 Change in holding from 60% to 60.05%.
4 Change in holding from 53.07% to 65.35%.
5 Change in holding from 98.14% to 98.15%.
6 Previously known as Stanbic Bank Uganda.
7 Change in holding from 62.73% to 58.87%.

As at 31 December 2018, the ten largest shareholders in SBG beneficially held 43.1 per cent. of SBG's ordinary shares. The following table sets out the ten largest shareholders as at 31 December 2018 and 31 December 2017.

	2018		2017	
	Number of shares		**Number of shares**	
	(million)	*% holding*	*(million)*	*% holding*
Industrial and Commercial Bank of China	325.0	20.1	325.0	20.1
Government Employees Pension Fund (PIC)	199.7	12.3	199.6	12.3
Allan Gray Balanced Fund	29.7	1.8	27.8	1.7
Alexander Forbes Investments (prev. Investment Solutions)	25.8	1.6	28.3	1.8
Old Mutual Life Assurance Company	23.8	1.5	19.7	1.2
Vanguard Emerging Markets Fund	22.1	1.4	23.8	1.5
GIC Asset Management	21.0	1.3	18.3	1.1
Vanguard Total International Stock Index Fund..........................	19.4	1.2	16.5	1.0
Dimensional Emerging Markets Value Fund	16.8	1.0	17.1	1.1
Government of Norway...	14.8	0.9	9.6	0.6
....	**698.1**	**43.1**	**685.7**	**42.4**

Source: The shareholdings in the table are determined from the share register and investigations conducted on SBG's behalf in terms of section 56 of the Companies Act. 71 of 2008.

STRATEGY

SBG aims to be the leading financial services organisation in, for and across Africa, delivering exceptional client experiences and superior value. SBG expresses its purpose as 'Africa is our home, we drive her growth'. It is present in 20 African countries, and has a presence in five major international markets (Beijing, Dubai, London, New York and São Paulo). It offers international financial services in Isle of Man, Jersey, and Mauritius. The Group has over 53,000 permanent employees, and SBG has a market capitalisation of R289 billion. Since 2008, it has been in a strategic partnership with ICBC, the world's largest bank, which owns a 20.1 per cent. share of SBG.

SBG has five strategic value drivers against which it measures progress:

- client focus – consistently excellent client experiences, serving clients' needs holistically and seamlessly across the Group, and ensuring that employees and processes are outwardly focused on clients as their needs and expectations change;
- employee engagement – employees feel connected with the SBG purpose, and are empowered and recognised;
- risk and conduct – do the right business the right way;
- financial outcomes – deliver superior value to shareholders; and

- social, economic and environmental impact – make a positive impact toward Africa's prosperity, economic growth and sustainability.

Its strategy is designed to realise the opportunities presented by Africa's long-term growth and to ensure that core business activities contribute to inclusive, job creating growth and sustainable value creation in its countries of operation. Since 2017, SBG has made considerable progress in aligning governance, planning, performance assessment and reporting processes to these strategic value drivers. These changes aim to ensure that the Group delivers shareholder value while simultaneously providing excellent client experiences and delivering positive impacts in the communities in which it operates.

SBG's clients are at the core of its business. Over the past two years the Group has made significant changes to its operating models, improving client focus and delivering a more digitally enabled, integrated offering, able to serve clients' needs holistically across business areas and geographies. This includes enhancing its capability to use data to gather insights regarding customer behaviours and to deliver services tailored to individual needs. Group-wide integration includes closer collaboration with Liberty and ICBC, to ensure clients are offered a full suite of financial services appropriate to their needs, while also improving internal efficiencies and controlling costs. For example, CIB, PBB and Wealth work together to offer solutions not only for the client, but also for their employees, their suppliers and service providers, and their shareholders.

SBG encourages its employees to embrace innovation and continuous improvement. SBG is seeking to prepare employees for an increasingly digital business model, with targeted training programmes in key areas. SBG's Employee Net Promoter Score ("**NPS**") in 2018 was +23, an increase from +14 in 2017.

SBG's business in South Africa produces the majority of the capital needed to execute SBG's strategy on the African continent. As SBG's largest business entity, SBSA's balance sheet is an important resource for the Group. South Africa contributed 62 percent. of banking headline earnings in 2018 and Africa Regions (African countries other than South Africa) contributed 31 per cent.. The top five contributors to the African Regions' headline earnings were Angola, Mozambique, Uganda, Ghana and Nigeria. Business outside of Africa, in the Isle of Man and Jersey, accounted for 7 per cent.

The key elements of the Group's strategy are as follows:

Personal & Business Banking

Radically redefine client experiences by understanding and delivering what matters most to clients

PBB aims to provide a single and complete connection with every client, and a personalised bank for every moment in life. It is present in 15 African countries, with a large and diverse customer base. It offers banking and other financial services to individual clients and small and medium enterprises ("**SMEs**") including transactional products, mortgage lending, card products, vehicle and asset finance and lending products.

SBG measures client satisfaction using a net promoter score for PBB and Wealth. NPS indicates how likely a retail client is to recommend Standard Bank for good service. It is calculated by subtracting detractors from promoters. This value can range from -100 if every client is a detractor to +100 if every client is a promoter. Any score above zero means there are more promoters than detractors.

In 2018, PBB South Africa's NPS score was 70, up from 66 in 2017, and 53 in 2016. PBB Africa's Region's NPS score was 25, up from 16 in 2017 and 15 in 2016. This was driven by:

- implementation of a decentralised operating model: client-facing teams have been trained to provide the most relevant solutions based on individual clients' needs, as close as possible to the first point of contact;

- end-to-end digitisation of processes and services to remove friction in client interactions;

- introduction of new digital capabilities;

- improved digital security capabilities which have reduced digital fraud losses;

- enhanced digital functionality and systems stability in Africa Regions; and

- completion of the comprehensive modernisation of the core banking system in South Africa.

As part of its strategy to acquire retail deposit accounts, PBB prices its account products competitively. For example, fee increases for personal customers have been kept below inflation and bundled transactional accounts are offered which provide a number of services for free such as electronic account payments and cash withdrawals at retailer till points. PBB's marketing has also focused on attracting retail deposits. In South Africa, PBB offers retail customers an attractive reward system, UCount, which allows customers to earn rewards; which may have a financial value greater than their banking fees. In South Africa, the private, business and entrepreneur client segments are growing. In Africa, PBB is growing local currency current accounts, improving efficiency and cost management, and expanding access to digital channels.

SBG has introduced fully digital solutions for transactional banking (internet banking, mobile phone banking via text message, and smartphone banking via the app) in most countries in which it operates, and SBG actively encourages customers to switch from physical to digital channels. Digital services play an important role in expanding financial inclusion. Approximately 1.7 million people across Africa use SBG's Instant Money product, for example, which enables mobile based banking transactions, without the need for a bank account.

PBB has an extensive physical presence, with 1,200 branches and 9,321 ATMs. Physical branches are currently being reconfigured and rationalised in line with growing use of digital platforms and a corresponding decline in branch usage. They will remain available to customers requiring personal engagement, but on a reduced scale. While digital solutions yield lower revenue per service, this will be balanced by rationalisation of the branch network over time.

Corporate & Investment Banking

CIB is present in 20 sub-Saharan African countries and serves the banking, finance, trading, transactional, investment and advisory needs of a wide range of multinational companies, local and regional businesses, financial institutions, governments and parastatals.

It continues to maintain a market-leading position in corporate loans, deposits and trading in South Africa, and a strong market share across Africa Regions. It maintains its competitiveness against intensifying competition through innovation and deep local knowledge.

Organic Growth through client focus and capturing deal flow

CIB focuses on servicing leading multinational corporations with operations in Africa, and large domestic African corporations that conduct business in Africa and offshore. Multinationals and large domestic clients continue to drive client activity, contributing to 80 per cent. of revenues. Multinational corporates support revenue growth due to their resilience through economic cycles.

CIB adds value to clients through deep specialisation in Africa's key growth sectors, namely mining and metals, power and infrastructure, oil and gas, consumer goods, financial services, and telecommunications, public sector, and diversified industrials. Its diverse portfolio across clients, geographies, sectors and products strengthens resilience in the face of challenging macroeconomic conditions.

SBG's presence in five key financial centres around the world provides clients with access to international pools of capital, supporting its ability to facilitate growth and development in Africa. SBG is well positioned to drive and facilitate inter-regional trade and investment flows across Africa to assist the economic growth of African countries and the expansion of multinationals into Africa. SBG's strategic partnership with ICBC assists in servicing the needs of clients operating within the China-Africa corridor, which includes a specific focus on developing and supporting renminbi-denominated cross-border capabilities.

CIB has increased its competitiveness in local markets by enhancing its banking offering and strengthening local currency transactional banking capabilities. CIB continuously monitors and adjusts risk appetite to reflect changes in clients' operating environments and is selective in exposures to avoid excessive concentration. During 2018 it completed several landmark transactions particularly in the energy and infrastructure-related sectors. In addition, CIB believes that there are opportunities for growth in key sectors arising from planned restructuring of the Nigerian oil sector, positive regulatory changes in the South African mining sector, and the expansion of the Mozambican gas sector.

CIB uses a client satisfaction index ("**CSI**"), a measure of the extent to which its corporate and investment clients are satisfied with the service CIB provides. It is calculated using weighted scores for different dimensions, from response times to the effectiveness of client relationship managers. CIB's CSI in 2018 was 8, up from 7.8 in 2017 and 2016. The CIB Client Engagement Model provides each client with a Client Service Team, which draws expertise from across SBG. CIB's client relationship managers work closely with clients to develop a complete understanding of their needs and challenges and deliver seamlessly integrated universal financial services solutions.

Wealth

Growing market share in Wealth segment

Wealth, together with Liberty, is an essential part of SBG's strategy to deliver integrated universal financial services to its clients. It provides short-term insurance, life insurance, investments/asset management, fiduciary services, specialised banking and multi-generational wealth preservation solutions for high net worth, retail, business and commercial, and corporate clients. It aims to provide an enhanced client value proposition and drive additional market share in SBG's target markets.

SBG's Wealth services are available in 16 sub-Saharan African countries, with an international service offering through offices in London, Jersey, Isle of Man and Mauritius. In 2018, the international business saw headline earnings grow by 60 per cent. supported by growth in client deposit balances, increased client activity and endowment benefit.

The Wealth business makes an important contribution to enhancing SBG's return on equity. It has seen continued growth in assets under management and achieved strong fund performance. Melville Douglas, a boutique investment management company within SBG which manages investments on behalf of a range of endowments, charitable trusts, retirement funds, institutional and private client mandates, continues to achieve global funds performance in the top quartile and domestic funds performance in the second quartile.

Life insurance and investment management is primarily provided through Liberty, which has over R392 billion in external assets under management as per the SBG 2018 Financial Statements.

Wealth and Liberty have collaborated to align strategy and targets and are successfully driving collaboration on Short Term Insurance capabilities and a High Net Worth banking solution for targeted customers. Considerable progress has been made on advancing the Liberty Bancassurance collaboration plan, while the launch of the Liberty high net worth proposition pioneered the assurance banking collaboration where Standard Bank solutions are provided to Liberty clients.

In 2018, PBB launched client service teams, in collaboration with Wealth, across South Africa, and enhanced the Wealth International mobile app, which enables clients to view and transact on offshore accounts, including cross-border payments and debit card activation.

SBG believes that Africa's insurance industry has strong potential for growth, owing to Africa's young and growing middle class and to large infrastructure and agriculture opportunities. SBG has the largest bancassurance offering in Africa and is a significant collective investment scheme and pension fund administrator in Nigeria. Its award-winning Online Share Trading platform enables it to be a key player in the South African share trading market.

COMPETITIVE STRENGTHS

Market position in key products

SBSA is the largest bank in South Africa (measured by assets) as at 31 December 2018 with a significant market share across a range of retail, commercial and investment banking products. For more information, see "*Description of The Standard Bank of South Africa Limited – Competitive Strenghts – Market position in key products*" on page 179.

A universal bank with diverse revenue sources

As a universal bank, SBG is able to generate revenue from diverse sources including net interest income from its lending portfolio, fees and trading profits from corporate advisory services, foreign exchange and derivatives, stock and bond trading, brokerage reserve and transactional services. It is well capitalised, with access to diverse and sophisticated liquidity sources for senior funding and capital requirements.

Loan portfolio performance

Since 2013, SBG's total loan portfolio has grown from R839,620 million to R1,120,668 million as at 31 December 2018, while actual write-offs decreased from 1.12 per cent. of average advances in 2013 to 0.56 per cent. in 2018. This was largely as a result of improvements in pricing for credit risk, as well as the optimisation of early stage collection strategies together with enhanced payment capabilities.

Experienced management team

SBG operates within strong corporate governance and assessment frameworks, and within a sophisticated, Basel III compliant regulatory framework. Its senior management has experience both at SBG and at other institutions throughout the banking industry. SBG's position in the market has allowed it to attract top managers from across the industry, both domestically and abroad. Managers are dedicated to the goals of the institution. A compensation structure that includes both short and long-term incentive plans assists in retaining key managers and leads to continuity in business operations.

Strategic partnership with the world's largest bank

SBG's strategic partnership with ICBC, the world's largest bank places it in a strong position to facilitate trade and investment in the Africa-China corridor, while simultaneously offering access to opportunities in one of the fastest growing emerging market economies. SBG and ICBC have worked together over the past decade to support and deepen the economic links between Africa and China, including through the provision of joint funding of major infrastructure projects, and renminbi internationalisation.

BUSINESS OF SBG

Introduction

SBG is a universal bank providing retail, corporate, commercial and investment banking services to individuals and companies across its franchise, both locally and internationally.

SBG's banking operation's principal business units are Personal & Business Banking, and Corporate & Investment Banking. A central support area, Central and other, provides support functions to the two principal divisions, as well as advisory services. Other banking interests is the Group's equity investments in ICBCS and ICBC Argentina. Liberty makes up the final pillar in the Group structure.

As at 31 December 2018, SBG's total assets amounted to R2,126,962 million (compared to R2,027,928 million as at 31 December 2017), an increase of 4.9 per cent. For the year ended 31 December 2018, SBG's profit for the year attributable to ordinary shareholders increased by 4.6 per cent. to R27,453 million from R26,235 million for the year ended 31 December 2017.

For the year ended 31 December 2018, the Group delivered sustainable earnings growth and improved returns. The Group's performance was underpinned by the strength and breadth of its client franchise. Group headline earnings grew 6 per cent. to R27,865 million (compared to R26,270 million in 2017) and ROE improved to 18.0 per cent., from 17.1 per cent. for the year ended 31 December 2017. The Group's capital position remained robust, with a common equity tier 1 ("**CET1**") ratio of 13.5 per cent. Banking activities headline earnings grew 7 per cent., to R25,847 million (compared to R24,268 million in 2017) and ROE improved to 18.8 per cent., from 18.0 per cent., in 31 December 2017. Non-interest revenue ("**NIR**") continued to record strong growth, driven by retail banking. Net interest income ("**NII**") growth was subdued, and credit impairment charges were lower, as a result of the adoption of a new accounting standard.

The following table shows selected financial information and ratios for SBG as at, and for the years ended, 31 December 2018 and 31 December 2017:

	31 December	
	2018	**2017**
Income statement		
Total income (Rm)	127,053	127,093
Headline earnings (Rm)	27,865	26,270
Profit for the year attributable to ordinary shareholders (Rm)	27,453	26,235
Statement of financial position		
Gross loans and advances (Rm)	1,157,353	1,070,471
Total assets (Rm)	2,126,962	2,027,928
Total liabilities (Rm)	1,927,899	1,837,911
Financial performance		
Banking activities		
Stage 3[1] (non-performing) loans (Rm)	44,193	34,496
Stage 3 (specific) credit impairment charge (Rm)	8,020	9,055
Stage 1 & 2[2] (portfolio) credit impairment charge (Rm)	(1,809)	355
Credit loss ratio (%)	0.56	0.87
Non-performing exposure ratio (%)	3.82	3.22
Return on equity (%)	18.8	18.0
Loans-to-deposit ratio (%)	81.7	83.3
**Cost-to-income ratio (%)	57.0	55.5

1 Stage 3: SBG uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes). Exposures which are in default are not considered in the 1 to 25-point master rating scale.

2 Stage 1: SBG uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes). Exposures within Stage 1 and 2 are rated between 1 to 25 in terms of SBG's master rating scale.

The following table shows selected performance indicators of the business units which comprise the Group's Banking Activities segment as at, and for the years ended, 31 December 2018 and 31 December 2017:

	Personal & Business Banking****		Corporate & Investment Banking****		Central and other****	
	31 December		31 December		31 December	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	(Rm)		*(Rm)*		*(Rm)*	
Total assets	767,328	705,232	970,739	907,335	(33,732)	(14,599)
Profit for the year attributable to ordinary shareholders	15,539	14,023	10,900	11,363	(865)	(1,112)
Headline earnings	15,548	14,103	11,177	11,392	(878)	(1,227)

1

The following table shows the contribution of the different business units within SBG to its major financial indicators as at, and for the years ended 31 December 2018 and 31 December 2017:

	Banking activities****		Other banking interests		Liberty[2]		SBG Total	
	31 December		31 December		31 December		31 December	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	(Rm)		*(Rm)*		*(Rm)*		*(Rm)*	
Total assets	1,704,335	1,597,968	7,852	7,493	414,775	422,467	2,126,962	2,027,928

Profit for the year attributable to ordinary shareholders	25,574	24,274	418	600	1,461	1,361	27,453	26,235
Headline earnings	25,847	24,268	418	567	1,600	1,435	27,865	26,270

1

2 Includes adjustments on consolidation of Liberty into the Group.

Personal & Business Banking

The PBB business unit offers individual customers and small and medium enterprises, a wide range of banking, investment and other financial services both in South Africa and in Africa Regions. At 31 December 2018, it operated 1200 branches and loan centres and 9,321 ATMs and Automated Notes Acceptors across South Africa and Africa Regions. It also provides mobile phone and internet banking services which are an important part of providing convenient access to banking and related products.

PBB provides a variety of products and services, including in particular, mortgage lending to individual customers, vehicle and asset finance, lending products, card products to individuals and small and medium sized businesses, transactional products, as well as wealth and bancassurance products.

For the year ended 31 December 2018, PBB recorded profit for the year attributable to ordinary shareholders of R15,539 million, an increase of 10.8 per cent. compared to the year ended 31 December 2017.

In 2018, PBB delivered headline earnings growth of 10 per cent. and a 21.9 per cent. ROE, largely due to strong deposit growth and client activity. Income from banking activities amounted to R69.8 billion and headline earnings to R15.5 billion for the year ended 31 December 2018. Its cost to income ratio was 60.6 per cent., and its credit loss ratio was 0.81 per cent. Credit and risk management capabilities have been strengthened, contributing to lower impairments. It experienced no significant operational incidents or client breaches, and operational risk losses were within risk appetite. NPS in South Africa was 70, and in Africa Regions was 25. Its Employee NPS was +23.

PBB has implemented a decentralised operating model with well-trained client-facing teams. Focused improvements in client service have stabilised its client base in South Africa and improved active client numbers in Africa Regions. Digital functionality and systems stability in Africa Regions have been improved, as has the risk and control environment, especially in the Africa Regions. A comprehensive modernisation of the core banking system in South Africa has been completed, and process and system automation is ongoing to improve client service and to deliver complete solutions for clients, employees and third parties.

Net interest income of R41,754 million for the year ended 31 December 2018 constituted 59.8 per cent. of the PBB's total income (compared to R40,963 million and 60.5 per cent. for the year ended 31 December 2017), largely due to balance sheet growth with strong margins in lending products and increased deposits, offset by negative endowment impact due to lower average rates in Malawi, Mozambique, Nigeria and South Africa. Non-interest revenuw ("**NIR**") for the year ended 31 December 2018 amounted to R28,053 million, an increase of 4.9 per cent. on the year ended 31 December 2017, largely attributed to lower transactional volumes in branches due to the migration of customers from traditional to digital platforms, offset by expansion in electronic banking fees and higher card based commission due to growth in transactional volumes and annual fee increases. Strong growth in foreign services fees due to increased client activities coupled with growth in other fees, as a result of strong growth in the pension fund business, further assisted NIR.

Credit impairment charges for the year ended 31 December 2018 amounted to R5,440 million, a decrease of 30.1 per cent. compared to the year ended 31 December 2017, attributed to improved collection strategies, higher post write-off recoveries and operational credit rating enhancements. The decrease was partially offset by growth in Non-performing / Stage 3 mortgage loans, as a consequence of the various legal judgments (which have had the effect of extending legal processes, with the result that exposures remain categorised as Stage 3 for longer), and higher provisioning which resulted from lower recoveries and model enhancements. Credit impairment in Africa Regions reduced following improved asset quality, improved collections and the non-repetition of higher prior year charges.

Total operating expenses for the year ended 31 December 2018 amounted to R42,269 million, an increase of 5.7 per cent. The growth in total operating expenses was primarily attributable to an 8.0 per cent.

growth in staff costs mainly as a result of annual salary increases and deployment of higher skilled staff to customer facing positions, and a 4.6 per cent. growth in other operating expenses, largely due to higher professional fees incurred and information technology spend on projects to improve customer experience.

The following table presents a summary of PBB's main performance indicators for the years ended 31 December 2018 and 31 December 2017.

	31 December	
	2018	**2017******
	(Rm)	
Net interest income	41,754	40,963
**Non-interest revenue	28,053	26,745
Income from banking activities	**69,807**	**67,708**
Credit impairment charges	(5,440)	(7,785)
Net income before operating expenses	**64,367**	**59,923**
Operating expenses in banking activities	**(42,269)**	**(39,972)**
Staff costs	(14,548)	(13,469)
**Other operating expenses	(27,721)	(26,503)
Net income before capital items and equity accounted earnings	**22,098**	**19,951**
Share of profits from associates and joint ventures	325	241
Non-trading and capital related items	(22)	(132)
Net income before indirect taxation	**22,401**	**20,060**
Indirect taxation	(643)	(590)
Profit before direct taxation	**21,758**	**19,470**
Direct taxation	(5,535)	(5,211)
Attributable to non-controlling interest	(542)	(153)
Attributable to other equity instrument holders	(142)	(83)
Profit for the year attributable to ordinary shareholders	**15,539**	**14,023**
Headline earnings	**15,548**	**14,103**
Gross loans and advances	**701,763**	**645,868**
Total assets	**767,328**	**705,232**
Total liabilities	**690,187**	**630,796**

The following table presents selected ratios for PBB for the years ended 31 December 2018 and 31 December 2017.

	31 December	
	2018	**2017**
	(%)	
Credit loss ratio	0.81	1.20
Non-performing exposures ratio	4.9	4.5

The following table presents the non-performing loan ratios for PBB products for the years ended 31 December 2018 and 31 December 2017.

	31 December	
	2018	**2017**
	(%)	
Non-performing exposure ratios:		
Mortgage loans	5.1	4.5
Vehicle and asset finance	3.9	3.8
Card debtors	5.6	6.6
Other loans and advances	4.9	4.4

Mortgage loans

Mortgage lending provides residential accommodation loans mainly to personal market customers. Gross mortgage loans increased by 4.5 per cent. for the year ended 31 December 2018 to R362,006 million (compared to R346,518 million for the year ended 31 December 2017), constituting 51.6 per cent. of loans and advances by the PBB business unit compared to 53.7 per cent. for the year ended 31 December 2017. Improved performance within the mortgage loans portfolio resulted in a decrease in the credit loss ratio to 0.27 per cent. for the year ended 31 December 2018 (compared to 0.46 per cent. for the year ended 31 December 2017), whilst credit impairment charges amounted to R940 million for the year ended 31 December 2018 (compared to R1,571 million for the year ended 31 December 2017). For the financial year ended 31 December 2018, R18,417 million of gross mortgage loans (5.1 per cent. of gross mortgage loans) were impaired (compared to R15,504 million and 4.5 per cent. of gross mortgage loans for the financial year ended 31 December 2017).

Vehicle and asset finance

Vehicle and asset finance provides finance to retail market customers. It finances vehicles and equipment in the business and corporate assets market, and provides fleet solutions. As at 31 December 2018, gross loans and advances in vehicle and asset finance amounted to R89,410 million (compared to R81,640 million as at 31 December 2017), an increase of 9.5 per cent. The credit loss ratio for vehicle and asset finance decreased to 0.94 per cent. for the year ended 31 December 2018 from 1.09 per cent. for the year ended 31 December 2017 due to the non-repetition of provisions raised on large single exposures in the prior year, lower write-offs and higher post-write off recoveries.

Card debtors

Card products provides credit card facilities to individuals and businesses (credit card issuing) and merchant transaction acquiring services (merchant solutions). The credit card product has been an important aspect of PBB's strategic focus on the emerging middle-class consumer segment in South Africa and Africa Regions. PBB has developed sophisticated origination methods using internal and external data, to identify existing and potential customers, with suitable risk profiles, for credit extension. For the year ended 31 December 2018, credit card debtors increased by 2.9 per cent. to R33,216 million (compared to R32,268 million for the year ended 31 December 2017). The credit loss ratio for gross card debtors decreased to 2.93 per cent. as at 31 December 2018, from 4.33 per cent. as at 31 December 2017 largely driven by enhanced collection strategies combined with improved customer performance, which has resulted in improved quality of the portfolio.

Transactional products

Transactional products provides a comprehensive suite of transactional, savings, investment, trade, foreign exchange, payment and liquidity management solutions which are made accessible through a range of physical and electronic channels such as ATMs, internet banking, mobile banking, telephone banking and branches.

Lending products

Lending products offers lending products to retail and business markets. The business markets lending offerings constitute a comprehensive suite of lending products, structured working capital finance solutions, commercial property finance solutions and trade finance.

Wealth (including bancassurance) products

The Wealth offering includes short and long-term insurance products, comprising simple products (such as homeowners' insurance, funeral cover, household contents insurance, vehicle insurance, accident and health insurance, as well as loan protection plans which are sold in conjunction with related banking products) and complex insurance products (such as life, disability and investment policies, which are sold by qualified intermediaries). The financial solutions offered include financial planning and modelling, integrated fiduciary services (including will drafting, custody services, trust and estate administration) and other banking, wealth management, investment and advisory services solutions which are tailored to private high net worth individuals to meet their domestic and international needs.

Corporate & Investment Banking

The CIB business unit comprises four main product groupings, namely: Global Markets, Transactional Products and Services, Investment Banking, and Client Coverage.

Corporate & Investment Banking offers a wide range of corporate and investment banking services including global markets, banking and trade finance, investment banking and advisory services. This business unit's clients include governments, parastatals, larger corporates, financial institutions and multinational corporates.

In 2018, CIB generated R37 billion in income from banking activities and R11,177 million in headline earnings, at an ROE of 19.3 per cent. Its cost to income ratio was 54 per cent., and credit loss ratio 0.16 per cent. It reported 8 per cent. interest income growth and 1 per cent. increase in total income from banking activities, with strong client activity, particularly in Africa Regions.

Corporate & Investment Banking's profit for the year attributable to ordinary shareholders decreased by 4.1 per cent. from R11,363 million for the year ended 31 December 2017 to R10,900 million for the year ended 31 December 2018. Revenue from strong operational client activity in Africa Regions was offset by lower trading and capital markets related revenue, linked to subdued market conditions in South Africa. Declining interest rates in Africa Regions and competitive pricing in South Africa negatively impacted margins. Disciplined cost management constrained cost growth to 4.7 per cent. but was not sufficient to avoid negative jaws of 414 basis points ("**bps**") (that is, an increase in the growth rate of expenses above the growth rate of income). The credit loss ratio declined to 0.16 per cent., due to a combination of improved performance and recoveries. Sovereign and financial institution ratings downgrades in early 2018 resulted in a higher capital requirement, which negatively impacted return on risk weighted assets and ROE.

The value of CIB's total gross loans and advances amounted to R511,277 million as at 31 December 2018 (compared to R472,684 million as at 31 December 2017), which represents 44.2 per cent. of SBG's total gross loans and advances as at 31 December 2018 (compared to 44.2 per cent. as at 31 December 2017).

Global Markets

Global Markets comprises trading and risk management solutions across financial markets, including foreign exchange, money markets, interest rates, equities, credit and commodities.

Transactional Products and Services

Transactional products and services comprise a comprehensive suite of cash management, international trade finance, working capital and investor services solutions.

Investment Banking

Investment banking comprises a full suite of advisory and financing solutions, from term lending to structured and specialised products across equity and debt capital markets.

Client Coverage

Client Coverage provides in-depth sector expertise to develop relevant client solutions and foster client relationships.

The table below presents a summary of the CIB division's main performance indicators for the years ended 31 December 2018 and 31 December 2017.

	31 December	
	2018	**2017******
	(Rm)	
Net interest income	19,190	20,434
Non-interest revenue	17,791	16,336
Income from banking activities	**36,981**	**36,770**
Credit impairment charges	(1,049)	(1,625)
Net income before operating expenses	**35,932**	**35,145**
Operating expenses in banking activities	**(19,979)**	**(19,080)**
Staff costs	(7,002)	(6,984)
Other operating expenses	(12,977)	(12,096)
Net income before capital items and equity accounted earnings	**15,953**	**16,065**
Share of profits from associates and joint ventures	102	182
Non-trading and capital related items	(385)	(78)
Net income before indirect taxation	**15,670**	**16,169**
Indirect taxation	(282)	(237)
Profit before direct taxation	**15,388**	**15,932**
Direct taxation	(2,240)	(2,454)
Attributable to non-controlling interest	(2,104)	(2,039)
Attributable to other equity instrument holders	(144)	(76)
Profit for the year attributable to ordinary shareholders	**10,900**	**11,363**
Headline earnings	**11,177**	**11,392**
Gross loans and advances	**511,277**	**472,684**
Total assets	**970,739**	**907,335**
Total liabilities	**902,652**	**843,982**

The following table presents selected ratios for CIB for the years ended 31 December 2018 and 31 December 2017.

	31 December	
	2018	**2017**
	(%)	
Credit loss ratio	0.16	0.34
Non-performing exposures ratio	1.9	1.2

The following table presents selected financial information for CIB's products for the years ended 31 December 2018 and 31 December 2017.

	31 December	
	2018	**2017**
Non-performing exposures ratios (%):		
Corporate and sovereign lending	2.5	1.2
Bank lending	-	-
Credit loss ratios (%):		
Corporate and sovereign lending		
Bank lending	0.20	0.34
	(0.02)	0
Gross loans and advances (Rm):		
Corporate and sovereign lending	398,425	352,190
Bank lending	112,852	120,494

Central and other

This segment includes costs associated with corporate functions, as well as the Group's treasury and capital requirements, and central hedging activities. In 2018, the segment recorded negative headline earnings of R878 million, 28 per cent. less than the prior year's negative headline earnings of R1,227 million. The primary driver of the higher loss in 2017 was the elimination, in terms of IFRS, of gains on SBG shares held by the Group to facilitate client trading activities, which did not recur in 2018.

Principal sources of SBG revenue

The table below presents the Group's sources of income for the years ended 31 December 2018 and 31 December 2017:

	31 December	
	2018	**2017**
	(Rm)	
Net interest income	59,622	60,125
Non-interest revenue	45,709	42,574
**Net fee and commission revenue	30,375	28,670
Trading revenue	11,129	10,731
Other revenue	3,533	3,173
Other gains and losses on financial instruments[2]	672	
Total income	**105,331**	**102,699**

2 For further information on Other gains and losses on financial instruments, refer to page 70 of the SBG Annual Report.

Principal Subsidiaries

South Africa

SBSA is both a strong domestic bank, which leverages the advantages of its size and scope, and a cross-border bank, fully integrated with the rest of the Group. For more information on SBSA, see "*Description of The Standard Bank of South Africa Limited - Overview*".

Africa Regions

SBG holds its Africa Regions investments, either directly, in the case of its Common Monetary Area-based subsidiaries and Stanbic Bank de Angola, or indirectly via Stanbic Africa Holdings UK ("**SAHL**"), a wholly-owned subsidiary of SBG. SAHL is as an intermediate holding company of the Group's Africa Regions investments. The Group manages its subsidiaries, across all geographies, on a legal entity basis in compliance with host country regulatory requirements. The businesses are structured along the Group's business unit basis (being PBB, CIB and Liberty) and as such SAHL acts merely as an investment holding company. The strategy of SAHL's underlying investee companies follows the Group strategy, as would the strategy of the Africa Regions subsidiaries which are held directly by SBG. The growth of SAHL depends solely upon the growth of the Net Asset Value of each of its underlying investments, and its main source of income is dividends from subsidiaries. SBG, through SAHL, will ensure that its subsidiaries are adequately capitalised to meet the requirements of home and host regulators.

Four of SBG's Africa Regions subsidiaries are themselves listed entities: Stanbic Holdings Plc in Kenya, Stanbic IBTC Holdings PLC in Nigeria, Standard Bank (Malawi) Limited and Stanbic Bank Uganda. During the course of 2018, SAHL increased its shareholdings in Stanbic Holdings Plc (Kenya) and Stanbic IBTC Holdings PLC respectively. The shareholding in Stanbic Holdings Plc (Kenya) was increased to 69.05 per cent. from 60 per cent., while the shareholding in Stanbic IBTC Holdings PLC was increased by 12.28 per cent. from 53.07 per cent. to 65.35 per cent. SBG will continue to look for opportunities to deploy available capital, by increasing shareholdings in its AR subsidiaries, either directly or via SAHL, as appropriate.

In 2018, Africa Regions contributed 31 per cent. of SBG's headline earnings from banking activities (compared to 28 per cent. in 2017) and 17 per cent. of SBG's total loans and advances (compared to 14 per cent. in 2017).

The table below presents a summary of the main performance indicators of the legal entities within the Africa Regions for the years ended 31 December 2018 and 31 December 2017.

	31 December	
	2018	**2017**
	(Rm)	
Net interest income	18,145	17,743
Non-interest revenue	13,911	12,391
Total income	**32,056**	**30,134**
Credit impairment charges	(891)	(2,240)
Net income after credit impairment charges	**31,165**	**27,894**
Operating expenses	**(16,879)**	**(15,722)**
Staff costs	(8,428)	(7,985)
Other operating expenses	(8,451)	(7,737)
Net income before capital items and equity accounted earnings	**14,286**	**12,172**
Share of profits from associates and joint ventures	3	1
Non-trading and capital related items	5	(17)
Net income before indirect taxation	**14,294**	**12,156**
Indirect taxation	(570)	(512)
Profit before direct taxation	**13,724**	**11,644**
Direct taxation	(3,059)	(2,681)
Attributable to non-controlling interest	(2,639)	(2,206)
Profit for the year attributable to ordinary shareholders	**8,026**	**6,757**
Headline earnings	**8,025**	**6,751**
Net loans and advances	**190,628**	**145,348**
Total assets	**348,179**	**277,735**
Total liabilities	**301,483**	**241,230**

The following table presents select performance indicators of the Africa Regions, on a geographical basis, for the years ended 31 December 2018 and 31 December 2017.

	East Africa		**South & Central Africa**		**West Africa**		**Africa Regions legal entities**	
	31 December		**31 December**		**31 December**		**31 December**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	(Rm)		*(Rm)*		*(Rm)*		*(Rm)*	
Profit for the year attributable to ordinary shareholders	1,228	1,040	3,864	3,508	2,934	2,209	8,026	6,757
Headline earnings	1,228	1,033	3,858	3,512	2,939	2,206	8,025	6,751
ROE – invested equity (%)	21.1	16.0	24.5	26.3	30.4	26.0	24.0	23.8
ROE – equity calculated on SARB rules (%)	18.6	15.8	21.2	23.1	33.0	23.2	22.7	21.6

The top five contributors to Africa Regions' headline earnings were Angola, Ghana, Mozambique, Nigeria and Uganda.

Other Banking Interests

Other Banking Interests recorded headline earnings of R418 million. ICBCS recorded a loss of US$14.9 million for the year mainly due to declining global emerging market risk appetite and reduced flows. The Group's 40 per cent. share thereof equated to R74 million. ICBCS's ability to deliver sustainable profits is dependent on its ability to continue to integrate into, and leverage, ICBC's extensive client base.

ICBC Argentina delivered a strong performance despite the dislocation experienced in the domestic market. The headline earnings contribution from the group's 20 per cent. stake in ICBC Argentina increased 19 per cent. to R492 million. Adjusting for the significant devaluation of the Argentinian peso, earnings were up 95 per cent. on a constant currency basis year on year.

During 2019, we will continue to work with our strategic partners at ICBC to develop a lasting solution for these businesses.

Liberty Holdings Limited ("Liberty")

Overview

Liberty is the holding company of various operating subsidiaries engaged in the provision of financial services, including long-term and short-term insurance, investment, asset management and health services. These financial services are primarily undertaken in South Africa, with various levels of services being provided in other African countries. LHL is incorporated in the Republic of South Africa and is a public company listed on the JSE. Liberty Kenya Holdings PLC is a subsidiary which is listed on the Nairobi Stock Exchange in Kenya. Another of the group's subsidiaries, Liberty Two Degrees, a Real Estate Investment Trust (REIT), listed on the Main Board of the JSE as a Corporate REIT on 1 November 2018 (previously listed on the Diversified REIT Sector).

Strategy

Liberty underwent a strategy refresh during 2018. Consequently, Liberty is not currently seeking growth opportunities across Africa as well as other diversification initiatives and increased remedial efforts on its core long-term insurance and asset management business in South Africa. There are no longer specific customer facing units (previously being Individual Arrangements, Group Arrangements and Asset Management). The primary segments, aligned to the new operating model, operate within two main geographic clusters, being South African operations and Africa Regions. The South African operations consists of long-term insurance business, namely South Africa Retail and Liberty Corporate segments, asset management, (namely STANLIB South Africa) and other operations (governance and strategic execution and certain investment portfolios), supporting these businesses. Businesses managed in Africa regions, are segmented as Liberty Africa Insurance, Liberty Health and STANLIB Africa (asset management). The segment reporting information in 2018 has been aligned to the other information used by the chief operating decision makers. As a consequence of this strategy refresh, certain cash-generating units were identified as either sub scale or no longer applicable to Liberty's revised strategy. Consequently, the board approved a process of disposals and strategic partnership negotiations which is likely to lead to loss of control during 2019of cash-generating units including Liberty Africa Insurance, STANLIB Africa, Liberty Health and Short-term insurance.

Shareholders

As at 31 December 2018, the ten largest shareholders in Liberty beneficially held 77.43 per cent. of LHL’s ordinary shares. The following table sets out the ten largest shareholders as at 31 December 2018 and 31 December 2017.

	2018	**2017**
	% holding	**% holding**
Standard Bank Group Limited	53.62%	53.62%
Government Employees Pension Fund (PIC)	4.84%	4.34%
Lexshell Investments Pty Ltd	4.70%	4.23%
Visio Capital Management	3.01%	
Dimensional Fund Advisors	2.38%	2.22%
Coronation Asset Management	1.99%	
BlackRock Inc	1.90%	1.79%
Arcadian Asset Management	1.84%	
The Vanguard Group Inc	1.63%	1.57%
Liberty Holdings	1.52%	1.40%
Allan Gray		4.60%
Old Mutual PLC		2.55%
LSV Asset Management (US)		1.27%
	77.43%	**77.59%**

Key financial information and ratios

The financial results reported are the consolidated results of the Group’s 56 per cent. investment in Liberty, adjusted for SBG 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 operating earnings for the year ended 31 December 2018 increased by 42 per cent. compared to the prior year, driven by strong performances in Individual Arrangements and STANLIB (South African Asset Management). As anticipated by Liberty, given the negative trend in asset prices during the year, Liberty’s shareholder investment portfolio performed poorly, with earnings down 81 per cent. in 2017. SBG continues to support Liberty as it executes its remedial and recovery plan and by continuing to deepen the collaboration between its businesses. Liberty’s IFRS headline earnings, after the adjustments for the impact of the Black Economic Empowerment entities' preference share income (profit or losses made on shares held within the Group which relate to Group entities, must be excluded per IAS 32) and the Liberty Two Degrees ("**L2D**") listed Real Estate Investment Trust accounting mismatch (an accounting mismatch arises on the consolidation of L2D in the group annual financial statements, resulting from the different measurement bases applied to L2D's assets (fair value) versus Liberty Group Limited's policyholder liabilities (measured at the listed price of L2D shares)), declined to R2.6 billion from R3.3 billion in the prior year.

Headline earnings attributable to SBG, adjusted by R129 million for the impact of deemed treasury shares, were R1,6 billion, 11 per cent. higher than in the prior year.

The tables below present a summary of the Liberty main performance indicators for the years ended 31 December 2018 and 31 December 2017.

Headline earnings per key business areas:

	31 December	
	2018	**2017**
	(Rm)	
South African Insurance operations	**2,009**	**1,665**
SA Retail (previously Individual Arrangements)	1,581	1,208
Liberty Corporate	52	81
LibFin Markets	376	376
South Africa Asset Management - STANLIB	**355**	**252**
Africa regions	**8**	**7**
Operations under ownership review	**(166)**	**(322)**
Liberty Africa Insurance	(18)	4
STANLIB Africa	(19)	(226)
Liberty Health	(78)	(54)
Short-term insurance	(51)	(46)
Central cost and sundry income	**(200)**	**(190)**
Normalised operating earnings	**2,006**	**1,412**
LibFin Investments - SIP	250	1,307
Normalised headline earnings	**2,256**	**2,719**
BEE preference shares income	(8)	(10)
Accounting profit and loss mismatch arising on consolidation of Liberty Two Degrees	397	543
IFRS headline earnings	**2,645**	**3,252**

External assets under management:

	31 December	
	2018	**2017**
	(Rm)	
Asset management – assets under management	**55**	**48**
Wealth management – funds under administration	**337**	**337**
Single manager unit trust	122	128
Institutional marketing	64	56
Linked and structured life products	80	84
Multi-manager	20	16
Africa Regions	51	53
Total external assets under management and administration	**392**	**385**

Governance, regulatory supervision and compliance

Governance approach

Liberty's governance structures and processes provide for sound and prudent management and oversight of the Group's businesses in the interests of customers, shareholders and other stakeholders. The structures and processes support and enhance the ability of those responsible for the governance of Liberty (the board, senior management and heads of key functions) to manage Liberty's businesses effectively.

Liberty Compliance

During 2018, Liberty was compliant in all material respects with the requirements of the Companies Act No. 71 of 2008, the applicable Companies Act Regulations, the Financial Stability Board board notice 158 of 2014 "Governance and Risk Management Framework for Insurers" and the Listings Requirements of the JSE Limited. Complying with all applicable legislation, regulations, standards and codes is integral to the group's culture and imperative to achieving our strategy. The board delegates responsibility for compliance to management and monitors this through the compliance control function. The compliance management committee assesses the impact of proposed legislation and regulation. Any other material regulatory issues are escalated to the group control and risk oversight committee and thereafter the group risk committee. During 2018, no material breaches were identified that require separate disclosure.

Capital adequacy risk

The new Insurance Act No. 18 of 2017 was effective from the 1 July 2018. The Solvency Assessment and Management ("**SAM**") regime is similar in many respects to the Solvency II Directive that was agreed by the European Parliament in 2009. The primary purpose of SAM is the protection of policyholders and beneficiaries.

The regulatory capital requirements at group level have been calculated based on the group supervision rules specified by the SAM regime. These include:

- For South Africa life insurance entities, the assessment of capital is on a SAM supervisory basis as prescribed by the Prudential Authority. This will apply to Liberty Group Limited, the Group's main long-term insurance licence;
- For other South Africa regulated entities, regulatory capital requirements continue to follow rules defined by their appropriate regulator; and
- For non-South Africa insurance entities, these entities' capital requirement will be assessed on a SAM supervisory basis or via equivalent risk-based regimes.

The group remains well capitalised in respect of the new prudential regulatory regime, which became effective from 1 July 2018.

Headline earnings and net asset value of SBG, by key legal entity

Headline earnings

	31 December	
	2018	**2017**
	(Rm)	
SBSA Group as consolidated into SBG	**16,021**	**16,528**
Africa Regions legal entities	**8,025**	**6,751**
Standard Bank Wealth International	**1,005**	**625**
Other group entities	**796**	**364**
Standard Insurance Limited	494	432
SBG Securities	76	196
Standard Advisory London	75	65
Other[1]	151	(329)
Banking activities	**25,847**	**24,268**
Other banking interests	**418**	**567**
ICBC Standard Bank Plc (40 per cent. shareholding)	(74)	152
ICBC Argentina (20 per cent. shareholding)	492	415
Liberty	**1,600**	**1,435**
Standard Bank Group	**27,865**	**26,270**

[1] Included is the elimination of gains and losses on deemed IFRS treasury shares relating to client trading activities in SBG Securities of R15m (2017: (R236m)).

Net asset value

	31 December	
	2018	**2017**
	(Rm)	
SBSA Group	**97,650**	**100,791**
Africa Regions legal entities	**38,690**	**29,139**
Standard Bank Wealth International	**5,553**	**4,096**
Other group entities	**4,467**	**4,809**
Standard Insurance Limited	1,618	1,424
SBG Securities	1,431	1,355
Standard Advisory London	613	583
Other[1]	805	1,447
Banking activities	**146,360**	**138,808**
Other banking interests	**7,852**	**7,493**
ICBC Standard Bank Plc (40 per cent. shareholding)	6,463	5,653
ICBC Argentina (20 per cent. shareholding)	1,389	1,840
Liberty	**10,849**	**10,719**
Standard Bank Group	**165,061**	**157,020**

Employees

For the year ended 31 December 2018, the Group had 53,178 employees (compared to 54,558 employees for the year ended 31 December 2017). For the year ended 31 December 2017, 52 per cent. of the Group's employees worked in PBB (compared to 51 per cent. for the year ended on 31 December 2017) whereas 7 per cent. worked in CIB during the same period (compared to 7 per cent. for the year ended on 31 December 2017). For the year ended 31 December 2018, 11 per cent. of the Group's employees worked in Liberty (compared to11 per cent. for the year ended on 31 December 2017). The remaining 30 per cent. of employees worked in the Central and Other Services segment within the Group (compared to 30 per cent. for the year ended on 31 December 2017).

A significant number of the Group's non-managerial employees are represented by trade unions. The Group has not experienced any significant strikes or work stoppages in recent years.

The Group has developed employment policies to meet the needs of its different business segments in the locations in which they operate, embodying principles of equal opportunity. The Group has a statement of business standards with which it expects its employees to comply. The Group encourages the involvement of employees in the performance of the business in which they are employed and aims to achieve a sense of shared commitment.

GOVERNANCE

The Group operates within a clearly defined governance framework. The board-approved framework outlines mechanisms for the Group to implement robust governance practices and provides clear direction for decision-making across all disciplines. Through this framework the board has delegated the day-to-day management of the Group, in writing, to SBG's chief executive without abdicating the board's responsibility. This governance framework enables the board of directors of SBG (the "**SBG Board**") to balance its role of providing risk oversight and strategic counsel with ensuring adherence to regulatory requirements and risk tolerance.

The SBG Board is ultimately responsible for governance. The chairman is an independent non-executive and the roles of chairman and chief executive are separate. This board composition ensures there is a balance of power on the SBG Board, so no individual or group can dominate the SBG Board's processes or decision making and stimulates robust challenge and debate. In discharging its responsibilities, the SBG Board delegates authority to relevant board committees and individuals with clearly-defined mandates and delegated authorities, although the SBG Board retains its responsibilities. Each committee has a mandate, which the SBG Board reviews at least once a year. Mandates for each committee set out its role, responsibilities, scope of authority, composition, terms of reference and procedures. The SBG Board's committees include the directors' affairs committee, audit committee, risk and capital management committee, the SBG social and ethics committee, SBG technology and information committee, SBG model approval committee, SBG remuneration committee and SBSA large exposure credit committee. The executive committee assists the chief executive in the day-to-day management of the affairs of the Group, subject to statutory parameters and matters reserved for the SBG Board. The SBG Board delegates responsibility for compliance to management and monitors this through the compliance function and a dedicated regulatory and legislative oversight function.

King Code

The King Code has formed the cornerstone of our approach to governance. The Group supports the overarching goals of King IV, namely ethical culture, good performance, effective control and legitimacy. The SBG Board is satisfied with the Group's application of the principles of King IV. A statement on the Group's application of the King IV principles is available online at www.standardbank.com.

Board of Directors

The SBG Board is constituted in accordance with SBG's Memorandum of Incorporation. The SBG Board is a unitary board and is considered effective and of an appropriate size for the Group. As at 6 March 2019, the SBG Board comprised 16 directors, 10 of whom are independent non-executive directors, four of whom are non-executive directors and two of whom are executive directors.

The current members of the SBG Board are listed below:

Name	**Title**	**Year Joined SBG Board**
Thulani Gcabashe	Chairman, Independent, non-executive	2003
Hao Hu	Deputy chairman, non-executive	2017
Jacko Maree	Deputy chairman, non-executive	2016
Geraldine Fraser-Moleketi	Independent, non-executive	2016
Trix Kennealy	Independent, non-executive	2016
Nomgando Matyumza	Independent, non-executive	2016
Kgomotso Moroka	Non-executive	2003
Martin Oduor – Otieno	Independent, non-executive	2016
André Parker	Independent, non-executive	2014
Atedo Peterside	Independent, non-executive	2014
Myles Ruck	Independent, non-executive	2002
Peter Sullivan	Independent, non-executive	2013
John Vice	Independent, non-executive	2016
Lubin Wang	Non-executive director	2017
Sim Tshabalala	Chief Executive	2013
Arno Daehnke	Executive – Group Financial Director	2016

For abridged curricula vitae of the SBG Board directors, see "*Description of The Standard Bank of South Africa Limited*".

Changes to the SBG's Board

Richard Dunne retired from the SBG Board at the end of the 2018 AGM, having reached retirement age. Ben Kruger retired as executive director as at 31 December 2018.

Conflicts of Interest

In terms of the Companies Act No. 71 of 2008 ("**Companies Act**"), directors are required to disclose their outside business interests. At the beginning of each meeting, directors declare whether there are any conflicts of interest in relation to matters tabled for consideration. Directors do not participate in the meeting when the SBG Board considers any matters in which they may be conflicted and are recused from the meeting. The Group's secretary maintains a register of directors' interests, which is tabled at the board meeting and any changes are submitted to the board as they occur. The Group complies with the provisions of the Companies Act in this regard. The SBG Board is aware of the other commitments of its directors and is satisfied that all directors allocate sufficient time to enable them to discharge their responsibilities effectively.

The business address of the members of the SBG Board is SBG's registered address, 9th Floor, Standard Bank Centre, 5 Simmonds Street, Johannesburg 2001, PO Box 7725, Johannesburg 2000, South Africa.

CAPITAL ADEQUACY

The Group's capital management function is designed to ensure that regulatory requirements are met at all times and that the Group and its principal subsidiaries are capitalised in line with the Group's risk appetite and target ratios, both of which are approved by the SBG Board. It further aims to facilitate the allocation and use of capital, such that it generates a return that appropriately compensates shareholders for the risks incurred. Capital adequacy is actively managed and forms a key component of the Group's budget and forecasting process.

The South African Reserve Bank ("**SARB**") adopted Basel III from 1 January 2013 and the Group has been compliant with the minimum requirements from that date. The Basel III capital adequacy requirements are subject to phase-in rules with full implementation from 1 January 2019.

The impact of the IFRS 9 implementation on 1 January 2018 was a decrease in the common equity tier I ratio of 70 bps as at the date of the initial application which represented the fully-loaded IFRS 9 transition impact. The impact on the Group's common equity tier I ratio after taking into account the Prudential Authority's 3-year phase-in provision was a decrease of 18 bps. Given the Group's strong capital adequacy position, the Group was able to absorb the common equity tier I capital impact. IFRS 9 had a small impact on the Group's total capital adequacy due to the add-back to tier II capital that is permitted for provisions that exceed the regulatory expected loss. The volatility that arises from the add-back due to the adoption of IFRS 9 is carefully monitored on an ongoing basis.

The Basel III post-crisis reform proposals and the potential requirements for loss absorbing and recapitalisation capacity of systemically important banks may impact capital levels going forward. The implementation date of the more significant Basel III post-crisis reform proposals is 1 January 2022 with transitional arrangements for the phasing-in of an aggregate output floor from 1 January 2022 to 1 January 2027. The Basel III post-crisis reform proposals provide for areas of national discretion and the Group will, through relevant industry bodies, engage the Prudential Authority on the South African implementation of the proposals.

The Group manages its capital levels to support business growth, maintain depositor and creditor confidence, create value for shareholders, and ensure regulatory compliance. The main regulatory requirements to be complied with are those specified in the Banks Act No. 71 of 2008 and related applicable regulations, which are aligned with Basel III.

Regulatory capital adequacy is measured through three risk-based ratios, namely common equity tier 1, tier 1 and total capital adequacy ratios which are calculated on the following bases:

- Common equity tier 1: ordinary share capital, share premium, retained earnings, other reserves and qualifying non-controlling interest less impairments divided by total risk weighted assets **("RWA")**.

- Tier 1: common equity tier 1 and other qualifying non-controlling interest plus perpetual, non-cumulative instruments with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA. Perpetual, non-cumulative preference shares that comply with Basel I and Basel II rules are included in tier 1 capital but are currently subject to regulatory phase-out requirements over a ten-year period, which commenced on 1 January 2013.

- Total capital adequacy: tier 1 plus other items such as general credit impairments and subordinated debt with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA. Subordinated debt that complies with Basel I and Basel II rules is included in total capital but is currently subject to regulatory phase-out requirements, over a ten-year period, which commenced on 1 January 2013.

RWA are calculated in terms of the Banks Act and related regulations, which are aligned with Basel III.

The SARB adopted the leverage framework that was issued by the Basel Committee for Banking Supervision ("**BCBS**") in January 2014 with formal disclosure requirements commencing from 1 January 2015. The non risk-based leverage measure is designed to complement the Basel III risk-based capital framework. The Group's leverage ratio inclusive of unappropriated profit was 8.1 per cent. as at 31 December 2018 (compared to 8.1 per cent. as at 31 December 2017), in excess of the SARB minimum requirement of 4 per cent.

The following table sets out the Group's Tier 1 and Tier 2 capital excluding unappropriated profit for the years ended 31 December 2018 and 31 December 2017, on a Basel III basis.

Basel III qualifying capital excluding unappropriated profits

	31 December	
	2018	**2017**
	(Rm)	
IFRS ordinary shareholder's equity	165,061	157,020
Qualifying non-controlling interest	5,451	4,892
Less: regulatory adjustments	(24,628)	(32,326)
Goodwill	(2,208)	(1,904)
Other intangible assets	(17,703)	(18,603)
Shortfall of credit provisions to expected future losses[1]	—	(2,076)
Investments in financial entities	(8,616)	(9,141)
Other adjustments including IFRS 9 phase-in	3,899	(602)
Less: regulatory exclusions (unappropriated profits)	(11,643)	(11,304)
CET I capital	134,241	118,282
Qualifying other equity instruments	5,702	6,291
Qualifying non-controlling interest	385	416
Tier I capital	140,328	124,989
Qualifying tier II subordinated debt	17,545	14,777
General allowance for credit impairments	2,776	2,173
Tier II capital	20,321	16,950
Total regulatory capital	**160,649**	**141,939**

Basel III risk-weighted assets and associated capital requirements

	RWA		Minimum capital requirements[2]
	2018	2017	2018
	(Rm)		*(Rm)*
Credit risk (excluding counterparty credit risk (CCR))	**759 117**	**666 422**	**84 659**
Of which: standardised approach[2]	323 810	267 924	36 112
Of which: internal rating-based (IRB) approach	435 307	398 498	48 547
CCR	**27 338**	**24 350**	**3 049**
Of which: standardised approach for CCR	4 526	3 424	505
Of which: IRB approach	22 812	20 926	2 544
Equity positions in banking book under market-based approach	**3 282**	**6 154**	**366**
Securitisation exposures in banking book	**659**	**747**	**74**
Of which: IRB approach	466	394	52
Of which: IRB supervisory formula approach	193	353	22
Market risk	**70 479**	**60 021**	**7 860**
Of which: standardised approach	56 645	47 217	6 317
Of which: internal model approach (IMA)	13 834	12 804	1 543
Operational risk	**168 380**	**158 670**	**18 778**
Of which: standardised approach	97 427	91 818	10 865
Of which: advanced measurement approach (AMA)	70 953	66 852	7 913
Amounts below the thresholds for deduction (subject to 250% risk weight)	50 387	40 682	5 619
Total	**1 079 642**	**957 046**	**120 405**

[1] For reporting periods up to 31 December 2017, the group deducted from available capital the shortfall of IAS 39 credit provisions to regulatory expected loss. Given that the IFRS 9 impairment provisions are greater than the regulatory expected losses, this adjustment is no longer required.

[2] Measured at 11.1 per cent. (2017: 10.8 per cent.) in line with Basel III transitional requirements and excludes any bank-specific capital requirements. There is currently no requirement for the countercyclical buffer add-on in SA. The impact on the group's countercyclical buffer requirement from other jurisdictions in which the group operates is insignificant (buffer requirement of 0.0273 per cent.).

[3] Portfolios on the standardised approach relate to the Africa Regions and portfolios for which application to adopt the internal model approach has not been submitted, or for which application has been submitted but approval has not been granted.

The following tables detail the Group's capital adequacy ratios for the years ended 31 December 2018 and 31 December 2017 on a Basel III basis including phased-in and fully loaded post IFRS 9 implementation.

Capital Adequacy Ratios (Phased-in)[1]

	2018 SARB minimum regulatory requirement[2]	Internal target ratios[3]	Including unappropriated profits		Excluding unappropriated profits	
			2018	2017	2018	2017
	%	%	%	%	%	%
Total capital adequacy ratio	11.1	15.0 - 16.0	16.0	16.0	14.9	14.8
Tier I capital adequacy ratio	8.9	12.0 - 13.0	14.1	14.2	13.0	13.1
CET I capital adequacy ratio	7.4	11.0 - 12.5	13.5	13.5	12.4	12.4

Capital Adequacy Ratios (Fully Loaded)[4]

	2018 SARB minimum regulatory requirement[2]	Internal target ratios[3]	Including unappropriated profits		Excluding unappropriated profits	
			2018	2017	2018	2017
	%	%	%	%	%	%
Total capital adequacy ratio	11.1	15.0 - 16.0	15.8	16.0	14.7	14.8
Tier I capital adequacy ratio	8.9	12.0 - 13.0	13.6	14.2	12.6	13.1
CET I capital adequacy ratio	7.4	11.0 - 12.5	13.1	13.5	12.0	12.4

[1] Capital adequacy ratios based on the SARB IFRS 9 phased-in approach.
[2] Excludes confidential bank-specific add-ons.
[3] Including unappropriated profits.
[4] Capital ratios based on the inclusion of the full IFRS 9 transactional impact.

Source: This information has been extracted from SBG's 2018 Risk and Capital Management Report

BASEL III

Banks in South Africa adopted Basel III with effect from 1 January 2013. Basel III aims to enhance financial stability globally by increasing the quality and level of capital to be held by banks, extending the risk framework coverage, by introducing new liquidity ratios and a non-risk based leverage ratio. The Bank Supervision Department of the SARB (now referred to as the Prudential Authority) commenced with its implementation from 1 January 2013 by way of the amended Regulations Relating to Banks as of 20 May 2016, and banks in South Africa have thus adopted the Basel III accord. SBG has approval from the SARB to use the advanced internal ratings-based ("**AIRB**") approach for its credit portfolios in SBSA. For internal management purposes, SBG utilises AIRB measures and principles wherever possible. Further, SBG has approval from the SARB to adopt the market-based approach for certain equity portfolios in SBSA and has approval for using the advanced measurement approach ("**AMA**") operational risk framework.

SBG also has approval from the SARB to use the "internal models approach" for most trading product groups and across most market risk types for SBSA.

In Basel III, the BCBS introduced significant changes to the Basel II framework, including, amongst others:

Capital

The quality, consistency and transparency of the capital base levels have increased. In the new framework, the regulatory deductions should mainly be applied to the common equity component of the capital base. Further, to be eligible as Tier I and Tier II capital, instruments need to meet more stringent requirements than were applied under Basel II.

The Basel III framework introduces a capital conservation buffer of 2.5 per cent. on top of these minimum thresholds. If a bank does not meet this buffer, constraints will be imposed on the bank's capital distribution, such as dividends. Also, in periods of excess growth, banks will be required to hold an additional countercyclical buffer of up to 2.5 per cent. in order to avoid facing restrictions.

Leverage Ratio

The BCBS has also proposed a requirement that, effective from 1 January 2018, the risk-sensitive capital framework be supplemented with a non-risk based measure, the leverage ratio (the "**Leverage Ratio**"). The Leverage Ratio is calculated as the Tier I capital divided by the exposure (being on and off-balance sheet exposures, with certain adjustments for selected items such as derivatives). It is envisaged that the final calibration of the Leverage Ratio, and any further definition amendments, will be implemented by 2022.

Liquidity

Another key component of the Basel III framework is the introduction of increased regulations for liquidity risks. The objective of the liquidity reform is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thereby reducing the risk of spillover from the financial sector to the real economy.

The BCBS has developed two new quantitative liquidity standards as part of the Basel III framework; namely the Liquidity Coverage Ratio ("**LCR**") (phased-in from 1 January 2015) and the Net Stable Funding Ratio ("**NSFR**") (effective 1 January 2018). The LCR's objective is to measure SBG's ability to manage short-term liquidity stress and ensure the appropriate holding of surplus qualifying liquid assets. The NSFR's objective is to measure long-term structural funding stability in order to address the structural liquidity mismatch inherent in banking operations. Both the LCR and NSFR calculations are subject to an observation period prior to implementation such that any unintended consequences can be identified.

The BCBS has also put a more stringent regulatory framework into place for the monitoring of intraday liquidity risk. Management of intraday liquidity risk forms a key element of a bank's overall liquidity risk management framework. The mandatory tools introduced by the BCBS are for monitoring purposes, and only international active banks will be required to apply them. National regulators will determine the extent to which the tools apply to banks that only operate domestically within their jurisdictions. Monthly reporting on the monitoring tools commenced on 1 January 2015.

Risk-Weighting (Finalised Basel III reforms)

On 7 December 2017, the BCBS published the Basel III finalised reforms for the calculation of RWA and a capital floor to be implemented on 1 January 2022. These reforms are the completion of work that the BCBS has been undertaking since 2012 to address inefficiencies that emerged from the financial crisis in 2008 and impacts both standardised and advanced internal models.

Reducing variation in the internal ratings-based* ("IRB") *approach for credit risk

The revised IRB framework constrains the use of the IRB approach which allows banks to estimate the probability of default ("**PD**"), loss given default ("**LGD**"), exposure at default ("**EAD**") and maturity of an exposure for low default asset classes. These include exposures to large and medium-sized corporates, banks and other financial institutions, securities firms and public-sector entities. The Group's relevant legal entities will now have to use the foundation internal ratings-based ("**FIRB**") approach for these exposures. The FIRB approach is more conservative as it applies fixed values to the LGD and EAD parameters. In addition, all IRB approaches are being removed for exposures to equities.

For the remaining asset classes, the revised IRB framework also introduces minimum “floor” values for bank-estimated IRB parameters which are used as inputs to the calculation of RWA. These include PD floors for both the FIRB and AIRB approaches, and LGD and EAD floors for the AIRB approach. The Committee agreed on various additional enhancements to the IRB approaches to further reduce unwarranted RWA variability, including providing greater specification of the practices that banks may use to estimate their model parameters.

Given the enhancements to the IRB framework and the introduction of an aggregate output floor, the BCBS has removed the 1.06 scaling factor that is currently applied to RWAs determined by the IRB approach to credit risk.

The date of implementation for these revisions are 1 January 2022.

Standardised approach for credit risk

The revisions to the standardised approach for credit risk (implementation date of 1 January 2022), enhances the regulatory framework by improving its granularity and risk sensitivity. It provides: a more granular approach for unrated exposures to banks and corporates; a recalibration of risk weighting for rated exposures; a more risk-sensitive approach for real estate exposures based on their loan to value; separate treatment for covered bonds; specialised lending; exposures to SME’s; a more granular risk weight treatment for subordinated debt and equity exposures; and a recalibration of credit conversion factors for off balance sheet exposures.

Credit Valuation Adjustment ("**CVA**") ***risk capital charge***

The initial phase of Basel III reforms introduced a capital charge for potential mark-to-market losses of derivative instruments as a result of the deterioration in the creditworthiness of a counterparty.

The final reforms introduce two new approaches for the calculation of the CVA risk capital charge: a basic approach (a full version including CVA hedges, or reduced version) and a standardised approach based on the fundamental review of the trading book ("**FRTB**") market risk standardised approach with minimum requirements regarding sensitivity calculations. The changes also include a €100 billion threshold for a simplified treatment (double counterparty credit risk capital requirement) and new eligibility requirements for CVA hedges.

The implementation date of the final reforms is 1 January 2022.

Operational risk

The BCBS has streamlined the operational risk framework. The AMA for calculating operational risk capital requirements (which are based on banks’ internal models) and the existing standardised approaches are replaced with a single risk-sensitive standardised approach to be used by all banks.

The new standardised approach for operational risk, with an implementation date of 1 January 2022, determines a bank’s operational risk capital requirements based on two components: a measure of a bank’s income and a measure of the historical losses experienced by the bank. Conceptually, it assumes that operational risk increases at an increasing rate with a bank’s income and banks which have experienced greater operational risk losses historically are assumed to be more likely to experience operational risk losses in the future.

Output floor

The Basel III reforms replace the existing Basel II floor with a floor based on the revised Basel III standardised approaches. Consistent with the original floor, the revised floor places a limit on the regulatory capital benefits that a bank using internal models can derive relative to the standardized approaches. In effect, the output floor provides a risk-based backstop that limits the extent to which banks can lower their capital requirements relative to the standardised approaches.

This helps to maintain a level playing field between banks using internal models and those on the standardised approaches. It also supports the credibility of banks' risk-weighted calculations and improves comparability via the related disclosures.

Under the revised output floor, banks' risk-weighted assets must be calculated as the higher of

(i) total RWA calculated using the approaches that the bank has supervisory approval to use in accordance with the Basel capital framework (including both standardised and internal model-based approaches); and

(ii) 72.5 per cent. of the total RWA calculated using only the standardised approaches.

Risk-Weighting (Other Basel III reforms)

Counterparty Credit Risk

The BCBS has finalised the rules for the standardised approach for counterparty credit risk ("**SA-CCR**"). From 1 March 2019, the SA-CCR will be used to calculate the counterparty credit risk exposure associated with over-the-counter ("**OTC**") derivatives, exchanges traded derivatives and long settlement transactions. The new SA-CCR is more risk sensitive than previously, limits the need for discretion by national authorities, minimises the use of banks' internal estimates and avoids undue complexity.

Securitisation framework

The BCBS has finalised changes to the Basel securitisation framework. The new framework, to be implemented by 1 March 2019, provides a revised set of approaches for determining the regulatory capital requirements in relation to securitisation exposures with the following aims: reducing mechanistic reliance on external ratings; increasing risk weights for highly rated securitisation exposures; reducing risk weights for low-rated securitisation exposures; reducing cliff effects (where small changes in the quality of an underlying pool of securitised exposures quickly leads to significant increases in capital requirements); and making the framework more risk-sensitive.

Fundamental Review of the Trading Book

Some initial measures to improve market risk were introduced by the BCBS in 2009 (known as "Basel 2.5"). The BCBS recognised that these incremental changes to the market risk framework were only temporary, and that further measures were required to improve trading book capital requirements. The new market risk framework ("**Fundamental Review of the Trading Book**") was published on 14 January 2016. Following this publication, the BCBS released on the 22 March 2018, "Revisions to the minimum capital requirements for market risk", a consultative document that addresses issues that the Basel Committee has identified in the course of monitoring the implementation and impact of the standard. The implementation date of the final reforms is 1 January 2022.

Interest Rate Risk in the Banking Book ("IRRBB")

Arising from the Fundamental Review of the Trading Book, the Bank of International Settlement appointed a team to evaluate and refine the existing Pillar 2 treatment for spread risk in the banking book. In April 2016 the BCBS issued standards for IRRBB. The standards revise the BCBS' 2004 "Principles for the management and supervision of interest rate risk", which set out supervisory expectations for banks' identification, measurement, monitoring and control of IRRBB, as well as its supervision. The revised standards also introduced a strengthened Pillar 2 approach. The newly revised Standards for IRRBB cover the enhanced requirements over 12 principles. Nine principles are directed to banks including identification of IRRBB, sound methodologies, risk appetite and limits, internal reporting, external disclosures, data, controls and model risk management. Three principles are directed to supervisors and focus on review of the soundness of banks' IRRBB management, collaboration among supervisors and identification of outlier banks.

The revised standards are expected to be implemented by 1 January 2020.

Systemically important financial institutions ("SIFIs")

The guidance developed by the BCBS and the Financial Stability Board form the basis for the requirements of domestic systemically important banks in South Africa. South African banks have developed their recovery plans in line with global standards. The specific "domestic systemically important bank ("**DSIB**") capital requirements have been applied to the relevant banks from 1 January 2016.

Recovery plans focus on plausible management or recovery actions that can be taken to reduce risk and conserve capital during times of severe stress. Resolution plans are typically developed by the supervisor with the objective of ensuring that SIFIs are resolvable and will not become a burden to tax payers.

Although the Basel III phase-in approach affords SBG a period of time before full compliance is required, SBG maintains a strong focus on achieving these liquidity and capital requirements within the specified timelines. Specific areas of focus include optimising capital and liquidity allocation between product lines, trading desks, industry sectors and legal entities, such that financial resources can be allocated in a manner that enhances the overall Group's economic profit and return on equity, embedding risk-adjusted performance measures into the performance measurement and reporting processes of the Group; and ensuring that the Group is adequately positioned to respond to changing regulatory rules under Basel III.

Pillar 3 disclosures

The BCBS finalised the first phase of the Pillar 3 disclosure review in January 2015. The revised disclosure standards aimed to increase transparency of a bank's risk exposure and the adequacy of its regulatory capital, thereby promoting market discipline. Banks were required to publish these enhanced disclosures from their 2016 year end. These requirements were adopted by the Group.

The Basel Committee on Banking Supervision thereafter issued Pillar 3 disclosure requirements, a consolidated and enhanced framework. This standard, with which the Group complied, represented the second phase of the Committee's review of the Pillar 3 disclosure framework and built on the revisions to the Pillar 3 disclosure published by the Committee in January 2015.

The Basel Committee on Banking Supervision then issued in February 2018 for consultation, Pillar 3 disclosure requirements, an updated framework. Many of the proposed disclosure requirements published were related to the finalisation of the Basel III post-crisis regulatory reforms in December 2017 and include new or revised requirements:

(i) for credit risk (including provisions for prudential treatment of assets), operational risk, the leverage ratio and CVA;

(ii) that would benchmark a bank's RWA as calculated by its internal models with RWA calculated according to the standardised approaches; and

(iii) that provide an overview of risk management, key prudential metrics and RWA.

In addition, the publication proposes new disclosure requirements on asset encumbrance and capital distribution constraints.

Together with the first phase and second phase of the revised Pillar 3 disclosure requirements issued in January 2015 and March 2017 respectively, the proposed disclosure requirements would comprise the single Pillar 3 framework.

The implementation date for the revised requirements for Pillar 3 disclosures related to the finalisation of the Basel III post-crisis regulatory reforms in December 2017, is 1 January 2022. The implementation date for the new disclosure requirements on asset encumbrance and capital distribution constraints is 31 December 2019.

The Group has a formal program in place for the adoption of these requirements.

LEGAL PROCEEDINGS

There are no governmental, legal or arbitration proceedings (nor are there any such proceedings which are pending or threatened of which SBG is aware) which may have, or have during the 12 months prior to the date of this Base Prospectus had, a significant effect on the financial position or profitability of SBG and/or the Group taken as a whole. SBG and its subsidiaries have sued and are defendants in a number of legal proceedings incidental to their operations. While any litigation has an element of uncertainty, SBG does not expect that the outcome of any such proceeding, either individually or in aggregate, will have a material adverse effect upon SBG's consolidated financial position or results.

INFORMATION TECHNOLOGY

With the significant impact of the digital revolution, consumers and businesses are being forced to change the way they interact. IT is central to the Group's ability to adapt to a changing world and create sustainable long-term value for the Group's stakeholders. SBG regards IT as a strategic asset which supports, sustains and enables growth and operational excellence within the Group.

The Group's IT strategy is aligned to, and a key enabler of, the Group's strategic vision. The key elements of the Group's IT strategy are focused on embedding a culture which is aimed at ensuring that the Group's systems are "always on" (available to our customers) and secure (through managing the risk of unauthorised security breaches), driving the simplification of the Group's systems, and in having the right, engaged employees to deliver on the strategy. The first phase of the Group's IT transformation programme "Accelerate" was completed in 2017. The programme implemented the adoption of "Agile at Scale", an infrastructure efficiency initiative, which is operational, the achievement of improved Occupational Health Index scores ("**OHI**") and the achievement of affordability targets. The modernisation of the Group's core banking platforms is a key part of achieving the Group's IT strategy, and the Group has invested heavily (over the last couple of years) in transforming its IT platforms from complex legacy systems to a simplified and standardised platform. The majority of these programmes were closed in 2018, with the associated capabilities being transitioned into business as usual. The IT transformation and modernisation programmes have enabled the Group to be well positioned to respond to changing client needs and to contribute towards SBG's strategic focus areas around client centricity, digitisation and building a universal financial services organisation.

Management believes that Group's overall IT stability is currently acceptable with significant volumes noted across the Group's digital offerings, with more than 139 million transactions per month with an approximate value of R85bn processed across digital channels. SBG continues to invest in its IT security strategy and enhance its current capabilities. SBG sets security, recovery and business resumption as a key focus area, and regularly tests contingency procedures so that interruptions are minimised, and this has yielded a 68 per cent. and 72 per cent. decrease in material system stability incidents in South Africa and Africa Regions respectively, during 2018.

IT governance functions provide oversight of IT within the Group to ensure that technology contributes to creating sustainable value both in the short and long term. The SBG Board is responsible for ensuring that prudent and reasonable steps have been taken regarding IT governance. The Group IT committee is an SBG Board committee with responsibility for ensuring the implementation of the IT governance framework across Group. The committee has the authority to review and provide guidance on matters related to the Group's IT strategy, budget, operations, policies and controls, the Group's assessment of risks associated with IT, including disaster recovery, business continuity and IT security, as well as oversight of significant IT investments and expenditure.

The committee is chaired by an independent SBG Board member, who is also a member of the Group risk and capital management committee. The chief information officers of each business unit within SBSA and the Africa and Outside Africa Regions are accountable to their chief executives as well as to the Group chief information officer to ensure that the IT strategy is aligned and integrated with the business strategies.

REGULATION

General regulatory requirements

The Issuer is subject to the Banks Act and is supervised by the Financial Conglomerate Supervision Department.

Please see the section of this Base Prospectus headed "*Risk Factors* **-** *The impact of any future change in law or regulation on SBG's business is uncertain*" on pages 15 to 16.

Anti-money laundering regulatory requirements

SBG is committed to and supports global efforts to combat money laundering and terrorist financing. Consequently, SBG has drafted and implemented policies and procedures to assist it in complying with its legislative obligations in respect of anti-money laundering and combating the financing of terrorism requirements in each jurisdiction in which it operates. Meeting anti-money laundering and terrorist financing control requirements imposes significant obligations in terms of client identification and verification, record keeping, staff training and the detection and reporting of suspicious and unusual transactions. Minimum standards are implemented throughout SBG and particular emphasis is placed on enhancing internal systems and processes to assist in managing money laundering and terrorist financing risks. SBG continues to enhance and automate its anti-money laundering and terrorist financing detection measures. SBG also has a dedicated anti-money laundering surveillance unit that is responsible for receiving, evaluating and reporting suspicious or unusual transactions and activities to the appropriate authorities. This unit also ensures full co-operation with law enforcement agencies, including the release of information to them in terms of SBG’s legal obligations.

Anti-bribery and corruption requirements

Anti-bribery and corruption policies are implemented consistently across the Group. All companies in the Group are committed to the highest level of ethical behaviour and have a zero tolerance for bribery and corruption. The Group requires compliance with anti-bribery and corruption laws in all markets and jurisdictions in which it operates. These laws include, but are not limited to, the South African Prevention and Combating of Corrupt Activities Act No.12 of 2004, the UK Bribery Act and the U.S. Foreign and Corrupt Practices Act.

SBG has developed and implemented an anti-bribery and corruption ("**ABC**") compliance programme which is aligned with global best practice (in particular the ABC guidance that has been issued by the Organisation for Economic Co-operation and Development). The programme includes drafting and regular updates to the ABC policy, which is applicable to all employees of the Group, irrespective of location or jurisdiction.

Furthermore, all SBG staff are required to complete ABC general awareness training annually. Regular reviews of the effectiveness of the ABC programme are conducted in the form of risk assessments and routine monitoring activities.

RISK MANAGEMENT

Effective risk management is fundamental to the business activities of the Group. The Group operates under the SBG enterprise risk management ("**ERM**") governance framework which consists of:

- risk governance committees at a board and management level;
- risk governance standards, frameworks and policies; and
- three lines of defence.

Risk governance committees

Board sub-committees responsible for the oversight of risk management comprise the Risk and Capital Management Committee ("**RCMC**"), the Audit Committee ("**AC**"), the technology and information committee and the model approval committee.

Executive management oversight for all risk types has been delegated by the Group executive committee to the Risk Oversight Committee (the "**ROC**") which, in turn, assists the RCMC to fulfil its mandate. As is the case with the RCMC, the ROC calls for and evaluates in-depth investigations and reports based on its assessment of the risk profile and external factors. The ROC delegates authority to various sub-committees which deal with specific risk types or oversight activities. Matters are escalated to the ROC, based on materiality, through reports or feedback from the sub-committee chairman. These sub-committees are the:

- Corporate and Investment Banking and Personal and Business Banking Credit Governance Committees;
- Asset and Liability Committee (the "**ALCO**") (which also covers market risk);
- Compliance Committee;
- Country Risk Management Committee;
- Equity Risk Committee;
- Internal Financial Control Governance Committee;
- Operational Risk Committee;
- Sanctions and Client Risk Review Committee;
- Stress Testing and Risk Appetite Committee; and
- Recovery and Resolution Plan Committee.

Governance documents

Governance documents within the ERM governance framework comprise standards, frameworks and policies which set out the requirements for the identification, assessment, measurement, monitoring, managing and reporting of risks for effective oversight of compliance and effective management of capital. Governance standards and frameworks are approved by the relevant board committee. Governance policies are approved by the executive committee or sub-committee, the relevant ROC sub-committee, the ROC itself or, where regulations require board approval, by the SBG Board or the relevant board committee.

The three lines of defence

The Group uses the three lines of defence governance model which promotes transparency, accountability and consistency through the clear identification and segregation of roles.

The first line of defence is made up of the management of business lines and legal entities. It is the responsibility of first line management to identify and manage risks. This includes, at an operational level, the day-to-day effective management of risk in accordance with agreed risk policies, appetite and controls. Effective first line management includes:

- the proactive self-identification of issues and risks, including emerging risks;
- the design, implementation and ownership of appropriate controls;
- the associated operational control remediation; and
- a strong control culture of effective and transparent risk partnership.

The second line of defence functions provide independent oversight and assurance. They have resources at the centre and embedded within the business lines. Central resources provide group-wide oversight of risks, while resources embedded within the business lines support management in ensuring that their specific risks are effectively managed as close to the source as possible. Central and embedded resources jointly oversee risks at a legal entity level.

The second line of defence functions develop, implement and integrate governance standards, frameworks and policies for each material risk type to which the Group is exposed. This ensures consistency and an enterprise-wide approach across the Group's business lines and legal entities. Compliance with the standards and frameworks is ensured through self-assessments by the second line of defence and reviews by Internal Audit ("**IA**").

The third line of defence provides independent and objective assurance to the Board and senior management on the effectiveness of the first and second lines of defence. This responsibility lies within the IA function.

All three levels report to the Board, either directly or through the RCMC and AC.

RISK APPETITE AND STRESS TESTING

The key to the Group's long-term sustainable growth and profitability lies in ensuring that there is a strong link between its risk appetite and its strategy.

Risk appetite is set, and stress testing activities are undertaken, at a group level, in business units, in risk types and at a legal entity level.

The primary management level governance committee overseeing risk appetite and stress testing is the Group stress testing and risk appetite committee.

The principal governance documents are the risk appetite governance framework and the stress testing governance framework.

Risk appetite governance framework

The risk appetite governance framework guides:

- setting and cascading of risk appetite by Group, business line, risk type and legal entity;
- measurement and methodology;
- governance;
- monitoring and reporting of risk profile; and
- escalation and resolution.

The Group has adopted the following definitions, where entity refers to a business line or legal entity within the Group, or the Group itself:

- Risk appetite: an expression of the amount or type of risk an entity is generally willing to take in pursuit of its financial and strategic objectives, reflecting its capacity to sustain losses and continue to meet its obligations as they fall due, under both normal and a range of stress conditions.

- Risk appetite trigger: an early warning trigger set at a level that accounts for the scope and nature of available management actions and ensures that corrective management action can take effect and prevent a risk tolerance limit breach.

- Risk tolerance: the maximum amount of risk an entity is prepared to tolerate above risk appetite. The metric is referred to as a risk tolerance limit.

- Risk capacity: the maximum amount of risk the entity is able to support within its available financial resources.

- Risk appetite statement ("**RAS**"): the documented expression of risk appetite and risk tolerance which have been approved by the entity's relevant governance committee. The RAS is reviewed and revised, if necessary, on an annual basis.

- Risk profile: The risk profile is defined in terms of three dimensions, namely

  - current or forward risk profile;

  - unstressed or stressed risk profile; and

  - pre- or post-management actions.

The current risk profile is the amount or type of risk that the entity is currently exposed to. The unstressed forward risk profile is the forward-looking view of how the entity's risk profile is expected to evolve under expected conditions. The effectiveness of available management actions can be assessed through an analysis of pre- and post-management action risk profiles against risk appetite triggers and tolerance limits.

Stress testing governance framework

Stress testing is subject to the Group's stress testing governance framework which sets out the responsibilities for and approaches to stress testing activities. Stress testing is a key management tool within the Group and is used to evaluate the sensitivity of the current and forward risk profiles relative to different levels of risk appetite. Stress testing supports a number of business processes including:

- strategic planning and financial budgeting;

- the internal capital adequacy assessment process, including capital planning and management and the setting of capital buffers;

- liquidity planning and management;

- informing the setting of risk appetite;

- identifying and proactively mitigating risks through actions such as reviewing and changing limits, limiting exposures and hedging;

- facilitating the development of risk mitigation or contingency plans, including recovery plans, across a range of stressed conditions; and

- supporting communication with internal and external stakeholders including industry-wide stress tests performed by the regulator.

Stress testing programme

The stress testing programme uses one or a combination of stress testing techniques, including scenario analysis, sensitivity analysis and reverse stress testing to perform stress testing for different purposes.

CREDIT RISK

Credit risk is the risk of loss arising out of failure of obligors to meet their financial or contractual obligations when due.

The Group's credit risk is a function of its business model and arises from wholesale and retail loans and advances, underwriting and guarantee commitments, as well as from the counterparty credit risk arising from derivatives and securities financing contracts entered into with our customers and trading counterparties. To the extent equity risk is held on the banking book, it is also managed under the credit risk governance framework.

The management of credit risk is aligned to the Group's three lines of defence framework.

The business functions own the credit risk assumed by the Group and, as the first line of defence, is primarily responsible for its management, control and optimisation in the course of business generation.

The credit function acts as the second line of defence and is responsible for providing independent and objective approval and oversight for the credit risk-taking activities of business, to ensure the process of procuring revenue, while assuming risk, is undertaken with integrity. Further, second-line oversight is provided by the Group risk function through independent credit risk assurance. The third line of defence is provided by the Group internal audit ("**GIA**"), under its mandate from the group audit committee ("**GAC**").

Credit risk is managed through:

- maintaining a culture of responsible lending and a robust risk policy and control framework;
- identifying, assessing and measuring credit risk across the Group, from an individual facility level through to an aggregate portfolio level;
- defining, implementing and continually re-evaluating risk appetite under actual and stressed conditions;
- monitoring the Group's credit risk exposure relative to approved limits; and
- ensuring that there is expert scrutiny and approval of credit risk and its mitigation independently of the business functions.

The Group's credit governance process relies on both individual responsibility and collective oversight, supported by comprehensive and independent reporting. This approach balances strong corporate oversight at a Group level, with participation by the Group's senior executives, in all significant risk matters.

Credit risk is governed in accordance with the Group's comprehensive enterprise risk management governance framework as defined and detailed in the Group credit risk governance standard and the model risk governance framework.

Credit risk is managed through the CIB and PBB credit governance committees, the Group ERC (all subcommittees of GROC) and the intragroup exposure committee (a subcommittee of the Group ALCO). These governance committees are key components of the credit risk management framework. They have clearly defined mandates and delegated authorities, which are reviewed regularly. Their mandates include

- responsibility for credit concentration risk decision-making and delegation thereof to credit officers and subcommittees within defined parameters;
- key aspects of rating systems and credit risk models are approved by the PBB, CIB and group model approval; and
- committees, all of which are mandated by the board as designated committees. Regular model validation and reporting to these committees is undertaken by the independent central validation function.

Exposure to Credit Risk

Loans and advances are analysed and categorised based on credit quality using the following definitions:

Default

Whilst the specific determination of default varies according to the nature of the product, it is generally determined by the Group as occurring at the earlier of:

- where, in the Group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or

- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria is used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets:

- significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower);

- a breach of contract, such as default or delinquency in interest and/or principal payments;

- disappearance of active market due to financial difficulties;

- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; or

- where the Group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider.

Exposures which are overdue for more than 90 days are also considered to be in default.

Performing loans

Performing loans are classified into two categories, namely:

- neither past due nor specifically impaired loans: these loans are current and fully compliant with all contractual terms and conditions. Normal monitoring loans within this category are generally rated 1 to 21, and close monitoring loans are generally rated 22 to 25 using the group's master rating scale.

- early arrears but not specifically impaired loans: early arrears but not specifically impaired loans include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is unlikely but could occur if the adverse conditions persist.

Non-performing loans

Non-performing loans are those loans for which the Group has identified objective evidence of default, such as a breach of a material loan covenant or condition, or instalments are due and unpaid for 90 days or more.

Non-performing but not specifically impaired loans are not specifically impaired due to the expected recoverability of the full carrying value when considering the recoverability of future cash flows, including collateral.

Non-performing specifically impaired loans are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows.

Specifically impaired loans are further analysed into the following categories:

- substandard: Items that show underlying well-defined weaknesses and are considered to be specifically impaired;
- doubtful: Items that are not yet considered final losses due to some pending factors that may strengthen the quality of the items; and
- loss: Items that are considered to be uncollectible in whole or in part. The Group provides fully for its anticipated loss, after taking collateral into account.

Please refer to the tables set out on pages 142 to 145 of the Group's 2018 annual financial statements with regard to the Group's maximum exposure to credit risk by credit quality as at 31 December 2018 and 31 December 2017.

Collateral

Please refer to the tables set out on pages 147 to 148 of the Group's 2018 annual financial statements for details of the financial effect that collateral has on the Group's maximum exposure to credit risk as at 31 December 2018.

Collateral includes:

- financial securities that have a tradable market such as shares and other securities;
- physical items such as property, plant and equipment; and
- financial guarantees, suretyships and intangible assets.

Netting agreements which do not qualify for offset under *International Financial Reporting Standards,* but which are nevertheless enforceable, are included as part of the Group's collateral for risk management purposes. All exposures are presented before the effect of any impairment provisions. In the retail portfolio, 56 per cent. (compared to 56 per cent. in 2017) is fully collateralised. The R4.5 billion (compared to R3.0 billion in 2017) of retail accounts that lie within the 0 to 50 per cent. range of collateral coverage mainly comprise accounts which are either in default or legal. The total average collateral coverage for all retail mortgage exposures in the 50 to 100 per cent. collateral coverage category is 79 per cent. (compared to 95 per cent. in 2017).

Of the Group's total exposure, 57 per cent. (compared to 48 per cent. in 2017) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

The Group does not currently trade commodities that could give rise to physical commodity inventory or collateral exposure with the exception of precious metals. In the normal course of its precious metal trading operations the Group does not hold allocated physical metal; however, this may occur from time-to-time. Where this does occur, appropriate risk and business approval is required to ensure that the minimum requirements are satisfied, including but not limited to approval of risk limits and insurance cover.

COUNTRY RISK

Country risk, also referred to as cross-border transfer risk, is the uncertainty of whether obligors, (including the relevant sovereign, and including the obligations of branches and subsidiaries in a country) will be able to fulfil their obligations to the Group given the political or economic conditions in the host country.

All countries to which the Group is exposed are reviewed at least annually. Internal rating models are employed to determine ratings for jurisdiction, sovereign and transfer and convertibility risk. In determining the ratings, extensive use is made of the Group's network of operations, country visits and external information sources. These ratings are also a key input into the Group's credit rating models.

The model inputs are continuously updated to reflect economic and political changes in countries. The model outputs are internal risk grades that are calibrated to a jurisdiction risk grade from AAA to D, as well as sovereign risk grade and transfer and convertibility risk grade ("**SB**") from SB01 to SB25.

Countries with sovereign/jurisdiction risk ratings weaker than SB07/a, referred to as medium and high-risk countries, are subject to more detailed analysis and monitoring.

Country risk is mitigated through a number of methods, including:

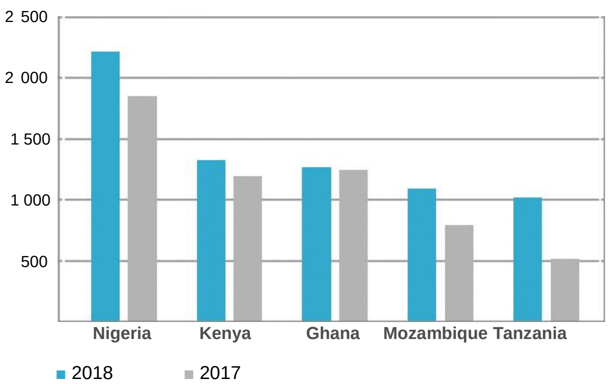
- political and commercial risk insurance;
- co-financing with multilateral institutions; and
- structures to mitigate transferability and convertibility risk such as collection, collateral and margining deposits outside the jurisdiction in question.

The primary management level governance committee overseeing this risk type is the Country Risk Management Committee. The principal governance documents are the country risk governance standard.

The risk distribution of cross-border country risk exposures is weighted towards European, Asian and North American low-risk countries, as well as sub-Saharan African medium- and high-risk countries.

The following graph shows the Group's exposure to the top five medium- and high-risk countries for the years indicated. These exposures are in line with the Group's growth strategy, which focused on Africa.

Top five medium- and high-risk country EAD (USDm)



FUNDING AND LIQUIDITY RISK

Liquidity risk is defined as the risk that an entity, although solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

The nature of banking and trading gives rise to continuous exposure to liquidity risk. Liquidity risk may arise where counterparties, who provide the Group with short-term funding, withdraw or do not roll over that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

The Group manages liquidity in accordance with applicable regulations and within the Group's risk appetite framework. The liquidity risk governance framework supports the measurement and management of liquidity across both the corporate and retail sectors to ensure that payment obligations can be met by the group's legal entities under both normal and stressed conditions. Liquidity risk management ensures that the Group has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times. The group manages liquidity risk as three interrelated pillars, which are aligned to the Basel III liquidity requirements.

The primary management level governance committee overseeing liquidity risk is ALCO, which is chaired by the financial director. The principal governance documents are the liquidity risk governance standard and model risk governance framework.

Basel III liquidity impact

The liquidity coverage ratio ("**LCR**") is a metric introduced by the BCBS to measure a bank's ability to manage a sustained outflow of customer funds in an acute stress event over a 30-day period. The ratio is calculated by taking the Group's high-quality liquid assets ("**HQLA**") and dividing it by net cash outflows. The minimum regulatory LCR requirement for 2018 was 90 per cent., increasing by a further 10 per cent. on 1 January 2019 to reach the full 100 per cent. requirement.

The NSFR metric is designed to ensure that term assets are sufficiently funded by stable sources, such as capital, term borrowings or other stable funds.

Contingency funding plans

Contingency funding plans are designed to protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. The plans incorporate an early warning indicator process supported by clear crisis response strategies

The plans incorporate an early warning indicator process supported by clear crisis response strategies. Early warning indicators cover bank-specific and systemic crises and are monitored according to assigned frequencies and tolerance levels.

Crisis response strategies are formulated for the relevant crisis management structures and address internal and external communications and escalation processes, liquidity generation management actions and operations, and heightened and supplementary information requirements to address the crisis event.

Liquidity stress testing and scenario analysis

Stress testing and scenario analysis are based on hypothetical as well as historical events. These are conducted on the Group's funding profiles and liquidity positions. The crisis impact is typically measured over a 30 calendar-day period as this is considered the most crucial time horizon for a liquidity event. This measurement period is also consistent with the Basel III LCR requirements.

Anticipated on- and off-balance sheet cash flows are subjected to a variety of bank-specific and systemic stresses and scenarios to evaluate the impact of unlikely but plausible events on liquidity positions. The results are assessed against the liquidity buffer and contingency funding plans to provide assurance as to the Group's ability to maintain sufficient liquidity under adverse conditions.

Internal stress testing metrics are supplemented with the regulatory Basel III LCR to monitor the Group's ability to survive severe stress scenarios.

Total contingent liquidity

Portfolios of highly marketable liquid instruments to meet regulatory and internal stress testing requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within ALCO-defined limits on the basis of diversification and liquidity.

The table that follows provides a breakdown of the Group's liquid and marketable securities as at 31 December 2018 and 31 December 2017. Eligible Basel III HQLA are defined according to the BCBS January 2013 LCR and liquidity risk monitoring tools framework. Managed liquidity represents unencumbered marketable instruments other than eligible Basel III LCR HQLA (excluding trading assets) which would be able to provide significant sources of liquidity in a stress scenario.

TOTAL CONTINGENT LIQUIDITY

	2018 Rbn	2017 Rbn
Eligible LCR HQLA[1] comprising:	**301.3**	251.3
Notes and coins	**20.3**	18.3
Balances with central banks	**42.6**	38.8
Government bonds and bills	**194.4**	149.1
Other eligible assets	**44.0**	45.1
Managed liquidity	**83.8**	71.0
Total contingent liquidity	**385.1**	322.3

Total contingent liquidity as a % of funding-related liabilities (%)	**27.6**	25.2

1 Eligible LCR HQLA considers any liquid transfer restrictions that will inhibit the transfer across jurisdictions.

Structural liquidity requirements

Net stable funding ratio

The Basel III NSFR became effective on 1 January 2018 with the objective to promote funding stability and resilience in the banking sector by requiring banks to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. The available amount of stable funding ("**ASF**") is defined as the portion of capital and liabilities expected to be reliable over the one-year time horizon considered by the NSFR. The amount of RSF is a function of the liquidity characteristics and residual maturities of the various assets (including off-balance sheet exposures) held by the bank. By ensuring that banks do not embark on excessive maturity transformation that is not sustainable, the NSFR is intended to reduce the likelihood that disruptions to a bank's funding sources would erode its liquidity position, increase its risk of failure and potentially lead to broader systemic risk.

Maturity analysis of financial liabilities by contractual maturity

The following table analyses cash flows on a contractual, undiscounted basis based on the earliest date on which the Group can be required to pay (except for trading liabilities and derivative liabilities which are presented as redeemable on demand) and will therefore, not agree directly with the balances disclosed in the consolidated statement of financial position.

Derivative liabilities are included in the maturity analysis on a contractual, undiscounted basis when contractual maturities are essential for an understanding of the derivatives' future cash flows. Management considers only contractual maturities to be essential for understanding the future cash flows of derivative liabilities that are designated as hedging instruments in effective hedge accounting relationships. All other derivative liabilities, together with trading liabilities, are treated as trading and are included at fair value in the redeemable on demand bucket since these positions are typically held for short periods of time. The table also includes contractual cash flows with respect to off-balance sheet items which have not yet been recorded on-balance sheet. Where cash flows are exchanged simultaneously, the net amounts have been reflected.

	Redeemable on demand Rm	Maturing within one month Rm	Maturing between one to six months Rm	Maturing between six to 12 months Rm	Maturing after 12 months Rm	Total Rm
2018						
Financial liabilities						
Derivative financial instruments	49 586	1	198	152	232	50 169
Instruments settled on a net basis	31 016	1	111	53	146	31 327
Instruments settled on a gross basis	18 570		87	99	86	18 842
Trading liabilities	61 267					61 267
Deposits and debt funding	912 296	63 412	154 403	80 128	195 352	1 405 591
Subordinated debt		58	411	6 594	15 901	22 964
Other		18 196				18 196
Total	1 023 149	81 667	155 012	86 874	211 485	1 558 187
Unrecognised financial liabilities						
Letters of credit and bankers' acceptances	17 801					17 801
Guarantees	85 576					85 576

Irrevocable unutilised facilities	**77 253**					**77 253**
Total	**180 630**					**180 630**
2017						
Financial liabilities						
Derivative financial instruments[1]	73 676		12	32	29	73 749
Instruments settled on a net basis[1]	47 023		12	32	29	47 096
Instruments settled on a gross basis	26 653					26 653
Trading liabilities	63 576					63 576
Deposits and debt funding	787 553	101 860	120 565	84 280	177 282	1 271 540
Subordinated debt			134	344	19 719	20 197
Other		14 958				14 958
Total	924 805	116 818	120 711	84 656	197 030	1 444 020
Unrecognised financial liabilities						
Letters of credit and bankers' acceptances	13 413					13 413
Guarantees	63 761					63 761
Irrevocable unutilised facilities	62 347					62 347
Total	139 521					139 521

Funding activities

Funding markets are evaluated on an ongoing basis to ensure appropriate funding strategies are executed depending on the market, competitive and regulatory environment. The Group continues to focus on building its deposit base as a key component of the group's funding mix. Deposits sourced from South Africa and other major jurisdictions in the Africa Regions, Isle of Man and Jersey provide diversity of stable funding sources for the group. Primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as loan and debt capital markets across the Group.

Total funding-related liabilities increased from R1,277 billion as at 31 December 2017 to R1,393 billion as at 31 December 2018. The following table sets out the Group's funding-related liabilities composition as at 31 December 2018 and 31 December 2017:

FUNDING-RELATED LIABILITIES COMPOSITION[1]

	2018 Rbn	2017 Rbn
Corporate funding	**418**	391
Retail deposits[2]	**378**	343
Institutional funding	**305**	296
Interbank funding	**88**	60
Government and parastatals	**86**	72
Senior debt	**59**	58
Term loan funding	**29**	32
Subordinated debt issued	**21**	19
Other liabilities to the public	**9**	6
Total funding-related liabilities	**1 393**	1 277

1 Composition aligned to Basel III liquidity classifications.
2 Comprises individual and small business customers.

MARKET RISK

Market risk is the risk of a change in the market value, actual or effective earnings or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.

The governance management level committee overseeing market risk is the Group ALCO. The principal governance documents are the market risk governance standard and the model risk governance framework.

Trading book market risk

Trading book market risk is represented by financial instruments, including commodities, held in the trading book arising out of normal global markets' trading activity.

The Group's policy is that all trading activities are undertaken within the Group's global markets' operations. The market risk functions are independent of trading operations and accountable to the relevant legal entity ALCOs. ALCOs have a reporting line into the Group ALCO, a subcommittee of GROC.

All value-at-risk ("**VaR**") and stressed VaR ("**SVaR**") limits require prior approval from the respective entity ALCOs. The market risk functions have the authority to set limits at a lower level.

Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk functions to bring exposures back in line with approved market risk appetite, with such breaches being reported to management and legal entity ALCOs.

Measurement

The techniques used to measure and control trading book market risk and trading volatility include VaR and SVaR, stop-loss triggers, stress tests, backtesting and specific business unit and product controls.

VaR and SVaR

The Group uses the historical VaR and SVaR approach to quantify market risk under both normal and stressed conditions. For risk management purposes, VaR is based on 251 days of unweighted recent historical data updated at least monthly, a holding period of one day and a confidence interval of 95 per cent. SVaR uses a similar methodology to VaR but is based on a 251-day period of financial stress, which is reviewed quarterly, and assumes a 10 day holding period and a worst case loss.

Where the Group has received internal model approval, the market risk regulatory capital requirement is based on a VaR and SVaR, both of which use a confidence level of 99 per cent. and a 10-day holding period.

Limitations of historical VaR are acknowledged globally and include:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;

- The use of a one-day holding period assumes that all positions can be liquidated or the risk offset in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully; and

- The use of a 95 per cent. confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.

VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures. VaR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

In general, the Group's trading desks have run similar levels of market risk in 2018 when compared to 2017 aggregate normal VaR, and reduced levels when compared to aggregate SVaR.

TRADING BOOK NORMAL VAR ANALYSIS BY MARKET VARIABLE

	Normal VaR			
	Maximum[1]	Minimum[1]	Average	Closing
	Rm	Rm	Rm	Rm
2018				
Commodities risk	**3**		**1**	**2**
Foreign exchange risk	**20**	**8**	**12**	**12**
Equity position risk	**12**	**2**	**6**	**8**
Debt securities	**33**	**12**	**17**	**20**
Diversification benefits[2]			**(10)**	**(16)**
Aggregate	**37**	**17**	**25**	**25**
2017				
Commodities risk	2			1
Foreign exchange risk	38	13	22	13
Equity position risk	12	3	6	5
Debt securities	22	12	16	12
Diversification benefits[2]			(14)	(11)
Aggregate	46	17	31	20

[1] The maximum and minimum VaR figures reported for each market variable do not necessarily occur on the same day. As a result, the aggregate VaR will not equal the sum of the individual market VaR values, and it is inappropriate to ascribe a diversification effect to VaR when these values may occur on different days.

[2] Diversification benefit is the benefit of measuring the VaR of the trading portfolio as a whole, that is, the difference between the sum of the individual VaRs and the VaR of the whole trading portfolio.

Trading book issuer risk

Equity and credit issuer risk is assumed in the trading book by virtue of normal trading activity and is managed according to the Group's market risk governance standard. These exposures arise from, among others, trading in equities, debt securities issued by corporate and government entities as well as trading credit derivative transactions with other banks and corporate clients.

The credit spread and equity issuer risk is incorporated into the daily price movements used to compute VaR and SVaR, as mentioned above for issuer risk and transactions that incorporate material counterparty value adjustment and debit value adjustments.

The VaR models used for credit spread and equity issuer risk are only intended to capture the risk presented by historical day-to-day market movements, and therefore do not take into account instantaneous or jump to default risk. Issuer risk is incorporated in the standardised approach interest rate risk charge.

Stop-loss triggers

Stop-loss triggers are used to protect the profitability of the trading desks and are monitored by market risk on a daily basis. The triggers constrain cumulative or daily trading losses through acting as a prompt to a review or close-out positions.

Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical, hypothetical and Monte Carlo simulations. Daily losses experienced during the year ended 31 December 2018 did not exceed the maximum tolerable losses as represented by the Group's stress scenario limits.

Backtesting

The Group backtests its VaR models to verify the predictive ability of the VaR calculations and ensure the appropriateness of the models within the inherent limitations of VaR.

Backtesting compares the daily hypothetical profit and losses under the one-day buy and hold assumption to the prior day's calculated VaR. In addition, VaR is tested by changing various model parameters, such as confidence intervals and observation periods to test the effectiveness of hedges and risk-mitigation instruments.

Regulators categorise a VaR model as green, amber or red and assign regulatory capital multipliers based on this categorisation. A green model is consistent with a satisfactory VaR model and is achieved for models that have four or less backtesting exceptions in a 12-month period at 99 per cent. VaR. All the Group's approved models were assigned green status by the SARB for the year ended 31 December 2018.

Specific business unit and product controls

Other market risk limits and controls specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenor, stop loss triggers price validation and balance sheet substantiation.

Interest rate risk in the banking book

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

The Group's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the group operates. The Group's treasury and capital management team monitors banking book interest rate risk on a monthly basis operating under the oversight of the Group ALCO.

Measurement

The analytical techniques used to quantify interest rate risk in the banking book include both earnings and valuation-based measures. The analysis takes account of embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis.

Equity risk in the banking book

Equity risk is defined as the risk of loss arising from a decline in the value of equity or an equity-type instrument held on the banking book, whether caused by deterioration in the underlying operating asset performance, net asset value, enterprise value of the issuing entity, or by a decline in the market price of the equity or instrument itself.

Though issuer risk in respect of tradable equity instruments constitutes equity risk, such traded issuer risk is managed under the trading book market risk framework.

Equity risk relates to all transactions and investments subject to approval by the equity risk committee, in terms of that committee's mandate, and includes debt, quasi-debt and other instruments that are considered to be of an equity nature.

For the avoidance of doubt, equity risk in the banking book excludes strategic investments in the Group's subsidiaries, associates and joint ventures deployed in delivering the group's business and service offerings unless the group financial director and Group chief risk officer deem such investments to be subject to the consideration and approval by the Group ERC.

The table below illustrates sensitivity for all non-trading equity investments assuming a 10 per cent. shift in the fair value. The analysis is shown before tax.

MARKET RISK SENSITIVITY OF NON-TRADING EQUITY INVESTMENTS

	10% reduction in fair value Rm	Fair value Rm	10% increase in fair value Rm
2018			
Equity securities listed and unlisted	**3 262**	**3 624**	**3 986**
Listed		**103**	
Unlisted		**3 521**	
Impact on profit and loss	**(356)**		**356**
Impact on OCI	**(7)**		**7**
2017			
Equity securities listed and unlisted	3 005	3 340	3 673
Listed		468	
Unlisted		2 872	
Impact on profit and loss	(326)		326
Impact on OCI	(8)		8

Foreign currency risk

The Group's primary non-trading related exposures to foreign currency risk arise as a result of the translation effect on the Group's net assets in foreign operations, intragroup foreign-denominated debt and foreign-denominated cash exposures and accruals.

The Foreign Currency Management Committee, a sub-committee of the Capital Management Committee, manages the risk according to existing legislation, South African exchange control regulations and accounting parameters. It takes into account naturally offsetting risk positions and manages the Group's residual risk by means of forward exchange contracts, currency swaps and option contracts.

Hedging is undertaken in such a way that it does not constrain normal operational activities. In particular, for banking entities outside of the South African common monetary area, the need for capital to fluctuate with risk-weighted assets is taken into account.

The repositioning of the Group's net asset value by currency profile, which is managed at Group level, is a controlled process based on underlying economic views and forecasts of the relative strength of currencies. The Group does not ordinarily hold open exposures of any significance with respect to the banking book.

Gains or losses on derivatives that have been designated as either net investment or cash flow hedging relationships in terms of IFRS are reported directly in other comprehensive income, with all other gains and losses on derivatives being reported in profit or loss.

Foreign currency risk sensitivity analysis

The table that follows reflects the expected financial impact, in rand equivalent, resulting from a 10 per cent. shock to foreign currency risk exposures, against ZAR. The sensitivity analysis is based on net open foreign currency exposures arising from designated net investment hedges, other derivative financial instruments, foreign-denominated cash balances and accruals and intragroup foreign denominated debt. The sensitivity analysis reflects the sensitivity to Other Comprehensive Income ("**OCI**") and profit or loss on the group's foreign denominated exposures other than those trading positions for which sensitivity has been included in the trading book VaR analysis. The group's NAV in foreign operations has not been included in the table that follows.

FOREIGN CURRENCY RISK SENSITIVITY IN ZAR EQUIVALENTS

		USD	Euro	GBP	NGN	Other	Total
2018							
Total net long/(short) position	Rm	**80**	**9**	**10**		**(2)**	**97**
Sensitivity (ZAR depreciation)	%	**10**	**10**	**10**	**10**	**10**	
Impact on profit or loss	Rm	**(8)**	**(1)**	**(1)**		**22**	**12**
2017							
Total net long/(short) position	Rm	57	6	14	2	(1)	78
Sensitivity (ZAR depreciation)	%	10	10	10	10	10	
Impact on profit or loss	Rm	(6)	(1)	(1)		(35)	(43)

OPERATIONAL RISK

Operational risk is defined as the risk of loss suffered as a result of the inadequacy of, or a failure in, internal processes, people and/or systems or from external events.

- Operational risk exists in the natural course of business activity. The Group's operational risk governance framework sets minimum standards for operational risk management adopted across the Group. The purpose of operational risk management is not to eliminate all risks, which is not viable, but rather to enable management to weigh the payoff between risk and reward. The framework ensures that adequate and consistent governance is in place, guiding management to avoid unacceptable risks such as breaking the law:
- damaging the Group's reputation;
- disrupting services to customers;
- wilful conduct failures;
- inappropriate market conduct;
- knowingly breaching regulatory requirements; and
- causing environmental damage.

The Group's approach to managing operational risk is to adopt fit-for-purpose operational risk practices that assist line management in understanding their residual risk and managing their risk profile within risk appetite. The management of operational risk primarily resides in first line, supported by second line with dedicated centres of excellence. The operational risk management function forms part of the second line of defence and is an independent area, reporting to the Group Chief Risk Officer.

Operational risk subtypes are managed and overseen by specialist functions. These subtypes include:

- cyber risk
- model risk;
- tax risk;
- legal risk;
- environmental and social risk;
- technology risk;
- information risk;
- third-party risk;
- people risk;

- business disruption risk;
- compliance risk; and
- fraud risk.

The primary management level governance committee overseeing operational risk is the Group Operational Risk Committee ("**GORC**") which is a subcommittee of GROC. The primary governance document is the integrated operational risk governance framework. Operational risk subtypes report to various governance committees and have governance documents applicable to each risk subtype.

INSURANCE RISK

Insurance risk is the risk that actual future demographic and related expense experience will differ from that expected and, therefore, from that used in measuring policyholder liabilities and in pricing products. Insurance risk arises due to uncertainty regarding the timing and amount of future cash flows from insurance contracts. Insurance risk applies to long-term insurance operations housed in Liberty and the short-term insurance operations housed in Liberty Africa, Liberty Health and Standard Insurance Limited ("**SIL**").

Long-term insurance risk

The management and staff in all business units accepting insurance risk are responsible for the day-to-day identification, analysis, pricing, monitoring and management of insurance risk. It is also management's responsibility to report any material insurance risks, risk events and issues identified to senior management through certain pre-defined escalation procedures.

Liberty's head of actuarial control function, statutory actuaries (where applicable) and its insurance risk department provide independent oversight of compliance with Liberty's risk management policies and procedures, and the effectiveness of Liberty's insurance risk management processes.

Risk management takes place prior to the acceptance of risks through product development, pricing processes and at the point of sale. Risks continue to be managed through the measurement, monitoring and treatment of risks once the risks are contracted.

Short-term insurance risk

SIL writes mainly property, motor, accident and health insurance on a countrywide basis within South Africa. Approximately 70 per cent. of the total gross written premium is property insurance which indemnifies, subject to any limits or excesses, the policyholder against loss or damage to their own property and business interruption arising from this damage. Liberty writes medical expense insurance through Total Health Trust Limited to government employees and corporate customers in Nigeria. Medical expense cover is also provided via subsidiary Liberty Health Holdings (Pty) Limited, to customers in 22 African countries.

Short-term insurance risk is managed through various control process, including risk rating pricing, underwriting conditions, product design, efficient and effective claims management processes, fraud risk management and reinsurance controls.

The principal governance document governing short-term insurance risk is the short-term insurance risk governance standard. The insurance entity manages risk through the consideration of trigger conditions that result in the review of its risk strategy. This considers the nature, scale and complexity of the entity's risks. Risk appetite metrics and stress/scenario testing form part of risk management practices to better understand and manage the threats and opportunities the business faces.

DESCRIPTION OF THE STANDARD BANK OF SOUTH AFRICA LIMITED

OVERVIEW

The Standard Bank of South Africa Limited ("**SBSA**") is the largest bank in South Africa (measured by assets) as at 31 December 2018. SBSA is a wholly-owned subsidiary of SBG. SBSA is a universal bank providing retail, corporate, commercial and investment banking services to individuals and companies across South Africa. SBSA considers itself to be both a strong domestic bank, and a cross-border bank, integrated within SBG's operations and business. SBSA plays a fundamental role in positioning the Standard Bank Group to capitalise on the pace of growth in African markets. SBSA is the head office for SBG's African focus and provides the springboard for SBG's strategy: the capacities developed by SBSA's South African operations provide the foundation of knowledge and experience required in markets in sub-Saharan Africa. As SBG's largest operating entity, SBSA provides balance sheet capacity on which to book deals executed in support of SBG's African strategy. All references herein to "**SBSA Group**" are to SBSA and its subsidiaries.

As at 31 December 2018, SBSA Group had total assets of R1,360,262 million (compared to R1,308,800 million as at 31 December 2017) and had loans and advances of R931,659 million for the year ended 31 December 2018 (compared to R900,895 million for the year ended 31 December 2017). As at 31 December 2018, SBSA Group had headline earnings of R15,971 million (compared to R16,078 million as at 31 December 2017) and had profit for the year attributable to the ordinary shareholder of R15,695 million (compared to R15,941 million for the year ended 31 December 2017).

Originally founded in 1862, SBSA was a member of Standard Chartered Bank group ("**Standard Chartered**") until 1987. Since that time, SBSA has focused on consolidating its position as the premier universal bank in South Africa, while its parent company, SBG, has an operational footprint in 20 African countries. SBG is a leading African integrated financial services group offering a full range of banking, investment, insurance and related services. SBG's vision is to be the leading financial services organisation in, for and across Africa by delivering exceptional client experiences and superior value.

SBG was listed on the Johannesburg Stock Exchange ("**JSE**"), operated by JSE Limited in 1970 and owns a controlling stake in the South African-listed, wealth management group, Liberty Holdings Limited. SBG operates as three business units: (1) Personal & Business Banking, (2) Corporate & Investment Banking and (3) Liberty. SBSA is the largest operating subsidiary by total assets and income within the SB Group and represents nearly all of SBG's South African operations in Personal & Business Banking and Corporate & Investment Banking.

SBSA operates through two principal business units:

(1) Personal & Business Banking SA (including the Wealth business); and

(2) Corporate & Investment Banking SA.

Personal & Business Banking SA provides banking and other financial services to individual customers and small-to-medium sized enterprises, in particular, mortgage lending, vehicle and asset finance, card products, transactional products, lending products and wealth products. SBSA also provides mobile phone and internet banking services. For the year ended 31 December 2018, Personal & Business Banking SA recorded profits attributable to the ordinary shareholder of R11,797 million, constituting 75 per cent. of SBSA Group's total profit for the year attributable to the ordinary shareholder[8] (compared to R11,343 million and 71 per cent., respectively, for the year ended 31 December 2017). As at 31 December 2018, assets attributable to Personal & Business Banking SA constituted 41.9 per cent. of SBSA Group's total assets (41.3 per cent. as at 31 December 2017).

Corporate & Investment Banking SA provides corporate and investment banking services to governments, parastatals, large corporates, financial institutions and multinational corporates and includes global markets, transactional products and services, client coverage and investment banking. Corporate &

[8] These figures do not reflect indirect support costs which are borne by Other Services SA. Other Services SA provides centralised support and back office functions to the principal business units. These functions include legal and compliance, human capital, finance, governance, assurance, IT, procurement, marketing, real estate, risk management, group shared services and corporate social investment. The direct costs of the various support functions are re-charged to the relevant business unit.

Investment Banking SA contributed 27 per cent. of SBSA Group’s profit for the year attributable to the ordinary shareholder[9] for the year ended 31 December 2018 (compared to 34 per cent. for the year ended 31 December 2017) and constituted 57 per cent. of its total assets as at 31 December 2018 (compared to 57 per cent. as at 31 December 2017).

SBSA is incorporated in South Africa as a limited liability company and operates under South African law. SBSA’s registered address is 9th Floor, Standard Bank Centre, 5 Simmonds Street, Johannesburg, PO Box 7725, Johannesburg 2000, South Africa (telephone number: + 27 11 636 9111).

HISTORY

SBSA is one of the oldest banks in South Africa having originally been incorporated in London as The Standard Bank of British South Africa Limited in 1862. The word "British" was dropped from SBSA’s name in 1883. SBSA commenced operations in Port Elizabeth in 1863 and gradually expanded its geographic area of operation to include the whole of South Africa. In 1962, SBSA was formed and registered as a South African company, operating as a subsidiary of Standard Bank in London (subsequently to become Standard Chartered Bank plc).

SBSA is a wholly-owned subsidiary of SBG, formerly known as Standard Bank Investment Corporation Limited, which was established in 1969 as the holding company for SBSA. SBG continued as a member of Standard Chartered until 1987 when Standard Chartered plc sold its 39 per cent. ownership of SBG to Liberty Group Limited, transferring complete ownership of the holding company to local South African ownership.

CORPORATE STRUCTURE

The Group and relationship with SBSA

SBSA is both a strong domestic bank, which leverages the advantages of its size and scope, and a cross-border bank, fully integrated with the rest of the Group.

SBG is the ultimate holding company of the SB Group, which is South Africa's largest banking group by assets. SBG is a leading African integrated financial services group offering a full range of banking, investment and insurance and related financial services. SBG's strategic focus is on Africa, and SBG currently operates in 20 countries in sub-Saharan Africa.

The Group's competitive positioning as an African banking group which operates in a number of African countries and a strong resources focus gives Corporate & Investment Banking SA access to revenue opportunities beyond the borders of South Africa. It also provides commercial opportunities, experience, expertise, and intellectual capital from other SBG entities to Corporate & Investment Banking SA which both enhances the offering to clients and enables SBSA to better manage risk.

Investors should note that SBG is not a guarantor of, and will not guarantee, any Notes issued by SBSA under the Programme. Investors sole recourse in respect of any Notes issued by SBSA is to SBSA.

SBG has three business units: Personal & Business Banking, Corporate & Investment Banking, and Liberty. SBSA represents nearly all of SBG’s South African operations in both Personal & Business Banking and Corporate & Investment Banking and is the largest operating subsidiary by total assets and income within the Group.

Personal & Business Banking provides banking and other financial services to individual customers and to small-to-medium sized enterprises in South Africa, African markets and the Channel Islands.

Corporate & Investment Banking provides banking services to clients including governments, parastatals, larger corporates, financial institutions and multinational corporates.

Liberty provides life insurance and investment management solutions to individual customers, mainly in South Africa.

[9] These figures do not reflect indirect support costs which are borne by Other Services SA. Other Services SA provides centralised support and back office functions to the principal business units. The direct costs of the various support functions are re-charged to the relevant business unit.

The following table sets out selected ratios and financial information in relation to SBG as at the dates indicated.

	31 December	
	2018	2017
Total headline earnings (Rm)	27,865	26,270
Dividends paid (Rm)	17,576	15,510
Total assets (Rm)	2,126,962	2,027,928
Loans and advances (Rm)	1,120,668	1,048,027
Non-performing exposure ratio	3.8	3.2
Return on equity (ROE) (%)	18.0	17.1
Credit loss ratio (%)	0.56[1]	0.87[1]
**Cost-to-income ratio (%)	57.0[1]	55.5[1]
Total capital adequacy ratio (phased in)[2] (%)	16.0	16.0
Tier 1 capital adequacy ratio (phased in)[2] (%)	14.1	14.2
Total capital adequacy ratio (fully-loaded) (%)	15.8	16.0
Tier 1 capital adequacy ratio (fully-loaded) (%)	13.6	14.2

1 *Banking Activities*

2 After taking into consideration the SARB's three-year phase-in provision for IFRS 9 impairment deductions

Source: The financial information and ratios presented above have been extracted from SBG's consolidated audited financial statements and analysis of financial results booklet as at and for the years ended 31 December 2018 and 31 December 2017.

The following table sets out selected ratios and financial information in relation to each of SBG's principal business units as at the dates indicated.

	Personal & Business Banking[1]		Corporate & Investment Banking		Liberty	
	31 December		31 December		31 December	
	2018	2017	2018	2017	2018	2017
Headline earnings[2] (Rm)	15,548	14,103	11,177	11,392	1,600	1,435
Return on equity (ROE) (%)	21.9	20.0	19.3	22.0	15.2	12.7
**Cost-to-income ratio (%)	60.6	59.0	54.0	51.9	NA	NA
Credit loss ratio (%)	0.81	1.20	0.16	0.34	NA	NA
Third party funds under management (Rbn)	NA	NA	NA	NA	392	385

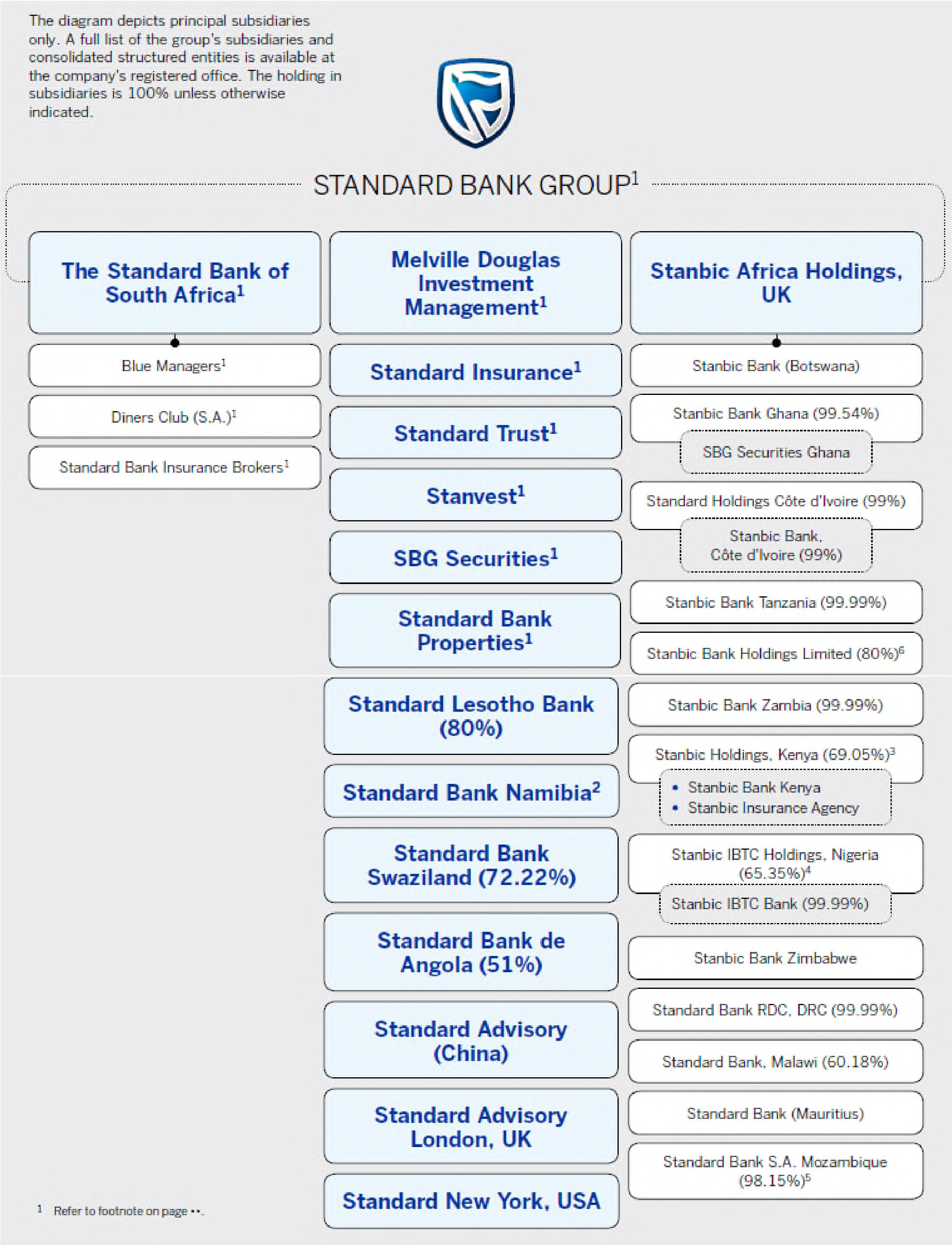
1 *Wealth financials included in Personal & Business Banking*
2 *For Liberty, the above represents headline earnings attributable to SBG*

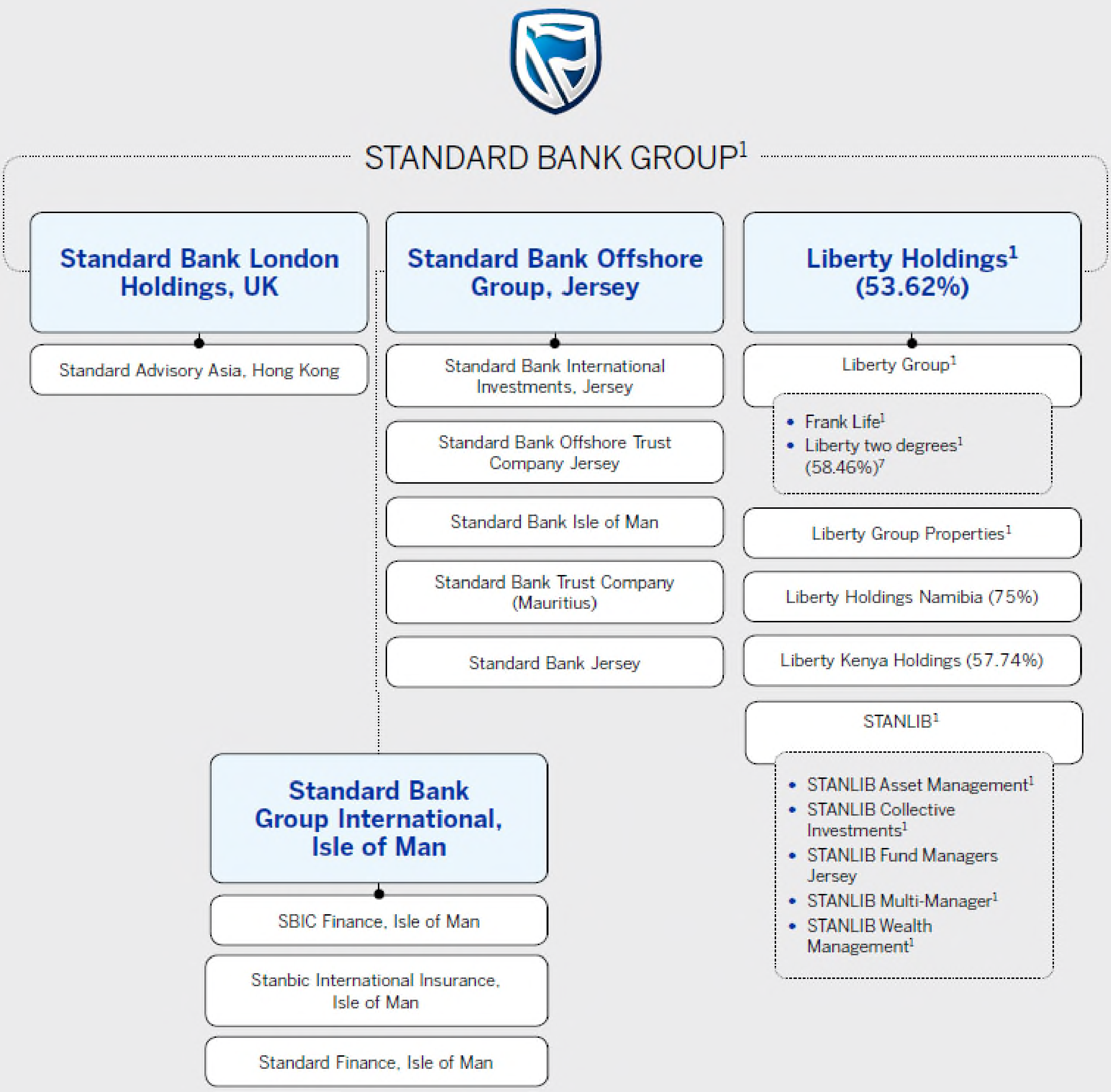
Source: The financial information and ratios presented above have been extracted from SBG's consolidated audited financial statements and analysis of financial results booklet as at and for the years ended 31 December 2018 and 31 December 2017.

Share capital and ownership

SBSA's authorised share capital is 80,000,000 ordinary shares with a par value of R1 each and 1,000,000,000 non-redeemable, non-cumulative, non-participating preference shares of R0.01 each. As at 31 December 2018, SBSA had issued share capital of 59,997,131 ordinary shares of R1 each, all of which are owned by SBG. The chart below presents SBG's corporate structure as at 31 December 2018:

Standard Bank Group Limited





1 Incorporated in South Africa.
2 Standard Bank Group legally owns 90% of SBN Holdings in Namibia but consolidates 100% due to the degree of control it retains over its empowerment structure.
3 Change in holding from 60% to 69.05%.
4 Change in holding from 53.07% to 65.35%.
5 Change in holding from 98.14% to 98.15%.
6 Previously known as Stanbic Bank Uganda.
7 Change in holding from 62.73% to 58.46%.

The diagram above depicts principal subsidiaries only. A full list of the group's subsidiaries and consolidated structured entities is available at the company's registered office. The holding in subsidiaries is 100% unless otherwise indicated.

As at 31 December 2018, the ten largest shareholders in SBG beneficially held 43.1 per cent. of SBG's ordinary shares. The table sets out the ten largest shareholders of SBG as at 31 December 2018 and 31 December 2017.

	2018 Number of shares		2017 Number of shares	
	(million)	*% holding*	*(million)*	*% holding*
Industrial and Commercial Bank of China	325.0	20.1	325.0	20.1
Government Employees Pension Fund (PIC)	199.7	12.3	199.6	12.3
Allan Gray Balanced Fund	29.7	1.8	27.8	1.7
Alexander Forbes Investments (prev. Investment Solutions)	25.8	1.6	28.3	1.8
Old Mutual Life Assurance Company	23.8	1.5	19.7	1.2
Vanguard Emerging Markets Stock Index Fund	22.1	1.4	23.8	1.5
GIC Asset Management	21.0	1.3	18.3	1.1
Vanguard Total International Stock Index Fund	19.4	1.2	16.5	1.0
Dimensional Emerging Markets Value Fund	16.8	1.0	17.1	1.1
Government of Norway	14.8	0.9	9.6	0.6
	698.1	**43.1**	**685.7**	**42.4**

Source: The shareholdings in the table are determined from the share register and investigations conducted on SBG's behalf in terms of section 56 of the Companies Act. 71 of 2008.

STRATEGY

SBG divides its business structure into three business pillars: (1) Personal & Business Banking, (2) Corporate & Investment Banking, and (3) Wealth, which provides insurance, investments, fiduciary, specialised banking and multi-generational wealth preservation solutions directly and in partnership with the SB Group's subsidiary, Liberty Group. SBSA represents nearly all of SBG's South African operations in both Personal & Business Banking and Corporate & Investment Banking and is the largest operating subsidiary by total and assets and income within the SB Group.

SBG's strategic focus is on Africa. SBG regards SBSA's business in South Africa as its core operation, from which SBG develops its strategic focus in Africa. As SBG's largest operating subsidiary by total assets and income, SBSA's balance sheet is an important resource for the SB Group. Certain foreign currency transactions that are too large for the balance sheets of SB Group's local operations are funded by SBSA. This increases capital utilisation in South Africa. SBSA therefore cannot be viewed as self-standing or directly comparable to some of its domestic competitors as it carries assets from entities outside South Africa on its balance sheet and bears costs on its income statement that are attributable to SBG as well as related revenues where applicable.

SBSA benefits from diverse revenue streams deriving from its universal bank model, which offers retail, commercial and investment banking activities and wealth solutions. SBSA serves the full value chain of customers in South Africa and covers the spectrum from basic to complex financial services, and from mass market to high net worth individuals, while maintaining high standards of customer service and ensuring that delivery channels are cost effective. SBSA's cost-to-income ratio** was 60.3 per cent. in 2018, from 58.3 per cent. in 2017.

The key elements of SBSA's strategy are as follows:

Personal & Business Banking SA

Transition to a digital financial services business

As the digital revolution transforms the way people bank, SBSA is providing its clients with simpler, more efficient payment and banking products and services through integrated channels, including mobile banking. Since 2015, branch transaction volumes have decreased by approximately 14 per cent. per year, while digital transactions have grown by 34 per cent. in 2018. SBSA's mobile solutions provided clients with control of all aspects of their finances on their mobile phones. SBSA completed its core banking transformation programme in 2017, with 93 per cent. of transaction accounts operating on the new platform by the end of 2017. SBSA's mobile and web platforms have been improved to provide clients with faster, simpler responses and to create an integrated banking and investment experience. Two-thirds of clients on SBSA's mobile application use it on average four times a week.

As a result of the shift to digital solutions, fewer customers use physical branches. SBSA plans to close around 90 branches across South Africa in 2019, thereby reducing costs and refocusing resources. It is planned that services offered at branches will be more oriented toward solving complex problems but will continue to offer everyday banking products. SBSA offers accessible and convenient digital banking options for its clients. For example, SBSA's Instant Money issued more than 2 million vouchers in South Africa in 2018. Instant Money is a product that uses simple mobile phone technology to provide basic banking services such as money transfers and withdrawals at retailers' tills. Slydepay, SnapScan and Shyft offer users greater convenience and cheaper transaction rates than branch or ATM options and are safe and secure. The Slydepay application provides a cashless payment option for mobile and internet transactions using VISA, MasterCard and mobile money wallets. SnapScan is a mobile payments application, providing South Africans with a convenient way to securely pay with their phones. Shyft is a smartphone application and debit card. Using international currencies has always been difficult in Africa, where many countries still have strict exchange controls. Shyft allows SBSA customers to buy, send and store foreign currency (USD, EUR, GBP or AUD), directly from their mobile phone. Cardless cash deposits allow customers to deposit cash at an ATM without using an ATM card. Targeted remittance products enable affordable transfers across national borders.

UCount, SBSA's rewards programme, has been taken up by 863,000 clients, many of whom are earning rewards well in excess of the cost of their banking fees. In November 2016, UCount Rewards for Business was introduced, with a focus on small and medium enterprises. All the benefits of the programme are designed to assist members in growing their business.

Use technology to improve efficiency, effectiveness and innovation

SBSA's transition to a digital financial services business has involved substantial updates to its IT architecture, systems and processes, which are now largely complete, together with changes to front-end client services to encourage greater digital uptake. Certain processes are being automated and artificial intelligence and machine learning are increasingly being used to deliver value to customers. For example process automation introduced into SBSA's vehicle and asset finance verification process has reduced client waiting times from a full day to 40 minutes, and digital technology has enabled SBSA to reduce the average time for a large corporation to open a CIB account, from 10 days to 2 minutes.

The core banking transformation allows teams to originate new accounts faster and simplify processes. It supports the integration of operations, providing real-time banking and a single view of clients. It also strengthens risk management, enabling SBSA to comply with new regulatory requirements. Other important benefits include a robust anti-money laundering system and improved systems availability and security. SBSA's new digital security capabilities include real-time fraud detection and enhanced behavioural analytics, which have contributed to a significant reduction in digital fraud in 2018.

SBSA has developed a sourcing and scouting model to identify fintech companies with the potential to provide solutions to better serve customers and businesses, while an internal fintech working group is tasked with identifying suitable fintech partners. SBSA's fintech investment portfolio includes utility providers, enhanced payment capabilities, lending businesses and technology providers.

SBSA prioritises the management of cyber risk and the security of client assets and SBSA has made significant investments to enhance security capabilities. In 2018, Standard Bank was recognised with the *Safest Bank* award at the Global Finance Awards. Criteria for the award include compliance, capital adequacy and institutional integrity.

Build excellence through engaged and committed people

SBSA remains focused on ensuring that its employees are committed to serving its clients, whether they deal with clients directly or support those who do. It provides best-practice people management and aims to create a workplace in which high performance is expected and recognised. SBSA supports continuous learning and development to ensure employees are equipped to meet the demands of a rapidly changing, increasingly digital business model. It is working on developing new employee capabilities in areas such as cloud engineering, data science and analytics, cyber security, and Application Programming Interfaces. SBSA's management believe that engaged and committed people are crucial to delivering excellent client experiences. SBSA spent R710 million on staff training and development in 2018, which was decrease from R725 million in 2017. In 2018, 4,920 SBSA employees attended leadership and management development programmes. SBG runs an annual group-wide employee survey. SBSA's "Employee Net Promoter" ("**eNPS**") score improved from +10 to +23 in 2018 (compared to the *SA Financial Service eNPS* of +24), indicating that employees were more likely to recommend SBSA as a place to work. Approximately 93 per cent of employees reported that they understood their contribution to the Group and 95 per cent. of employees said that they enjoyed good working relationships with their colleagues. Approximately 95 per cent. of employees said they were willing to "go the extra mile" to make SBG successful.

SBSA has made concerted efforts to transform its workforce to more closely reflect the demographics of the markets it serves: 88 per cent. of junior management, 71 per cent of middle management, 46 per cent of senior management and 42 per cent. of top management were black people (African, Indian or Coloured) as at 31 December 2018. Black females remain underrepresented in senior and top management roles and this remains a focus area. SBG has set a target to increase the representation of women in executive positions in SBSA from 25 per cent. in 2018 to 40 per cent. by 2021.

Corporate and Investment Banking SA

SBSA's South African Corporate and Investment Banking unit continues to maintain SBSA's current market-leading position and defend its franchise against intensifying competition through increased innovation and flexibility. SBSA aims to remain positioned and resourced to participate in banking, finance, trading, transactional, investment and advisory needs of a wide range of multinational companies and local and regional businesses, financial institutions, governments and parastatals.

Organic Growth through client focus and capturing deal flow

SBSA's client coverage model is the cornerstone of its strategy and defines how it offers value to clients. Under this model, each client is allocated a relationship manager who establishes a client service team with representatives across Corporate & Investment Banking SA and the other business units as necessary in order to develop a comprehensive understanding of its clients' needs and prospects and to provide them with integrated financial services solutions.

SBSA continues to support the expansion of many corporate clients into African markets beyond South Africa.

South Africa is scheduled to hold national general elections in May 2019. While there has been some improvement in policy certainty since a new President was appointed in February 2018, many investors continue to maintain a cautious approach pending the conclusion of the elections. There has however been progress on the award of contracts under the renewable energy independent power producers programme; there are plans to develop public-private partnerships in other sectors to boost infrastructure development; and planned restructuring of several state-owned enterprises may involve private-sector participation as equity partners. These plans are expected to accelerate following the elections and SBSA's management anticipates that they will create opportunities for deal flows for Corporate & Investment Banking SA. SBSA's management believes that investor confidence and growth are likely to receive a boost after the general election scheduled for May 2019 and then improve over the medium term as the new administration implements structural reforms, both of which will be positive for SBSA's Corporate and Investment Banking businesses.

Prioritise the delivery of transformation and diversity

People are the critical success factor in SBSA's efforts to maintain excellent client service and SBSA continues to focus on attracting and retaining quality employees, who are appropriately resourced, developed and empowered to fulfil the commitments made to clients. SBSA has intensified its focus on transformation and diversity. Based on feedback received from employees about obstacles to creating an inclusive workplace environment in South Africa, SBSA has introduced numeric targets to hasten the transformation of Corporate and Investment Banking SA's culture and its demographic make-up.

Focus attention and resources on initiatives that will get the basics right

SBSA continues to refine its processes to ensure a seamless experience for its clients, whilst mitigating risk and increasing efficiency. In 2018, SBSA's client satisfaction index remained constant at 8.0 since

2017. The client satisfaction index is the measurement of SBSA’s clients' levels of satisfaction with SBSA. Client interviews are conducted via an independent subcontractor and take the form of telephonic or email surveys that are based on a structured questionnaire. SBSA's cost to income ratio decreased to 60.3 per cent. in 2018 from 58.3 per cent. in 2017, owing to changes in accounting rules under the IFRS9 standard and to stagnant revenues in a very difficult economic environment.

Focus on growing market share in the Wealth segment

SBSA’s view is that a substantial Wealth business comprising insurance, investments, fiduciary and specialised banking is an essential component of a customer-centric universal bank. Equally, in the current regulatory environment, the Wealth business makes an important contribution to enhancing SBSA’s return on equity and diversifying SBSA's earnings. SBSA Wealth works in partnership with Personal & Business Banking SA, Corporate and Investment Banking SA and Liberty to market wealth products and services through their distribution channels to their customers; and shares the Group’s support functions to achieve economies of scale. The strategy is executed through a client-focused operating model which was implemented in 2016 and is now fully embedded. The model uses data analysis and servicing and distribution capabilities to enable a deeper understanding of clients’ behaviours and needs. Based on this knowledge, teams develop innovative products and channels and customised portfolios that are comprehensive, transparent and best suited to the individual needs of clients. There is a significant opportunity for SBSA to generate growth from its wealth activities. Wealth won awards, including Top Stockbroker of the Year at the Intellidex SA Stockbroker of the Year Awards 2018 and Best Private Bank for Customer Service and Best Private Bank in Nigeria at the 2018 Private Wealth Manager/The Banker Global Private Banking Awards. SBSA was also awarded Bank of the Year in Africa, South Africa and Namibia by The Banke

COMPETITIVE STRENGTHS

SBSA believes that it has the following competitive strengths:

Market position in key products

SBSA offers a wide range of retail, commercial and investment banking products and is one of the four major South African banks. According to the SARB BA 900 Filings as at 31 December 2018, in the 5 product categories tracked by the SARB, SBSA held a market share of 29.1 per cent. of mortgage lending at 31 December 2018 (compared to 29.8 per cent. as at 31 December 2017), 19.0 per cent. of vehicle and asset finance at 31 December 2018 (compared to 18.5 per cent. as at 31 December 2017), 26.1 per cent. of card debtors at 31 December 2018 (compared to 27.3 per cent. as at 31 December 2017), 21.8 per cent. of other loans and advances as at 31 December 2018 (compared to 21.5 per cent. as at 31 December 2017) and 22.3 per cent. of deposits at 31 December 2018 (compared to 22.8 per cent. as at 31 December 2017). According to the SARB BA 900 Filings as at 31 December 2018, SBSA’s market share in mortgage loans and deposits are the largest of the four major South African banks.

Diverse revenue sources

As a universal bank, SBSA is able to generate revenue from diverse sources including net interest income from its lending portfolio, fees and trading profits from corporate advisory services, foreign exchange and derivatives, stock and bond trading, brokerage reserve and transactional services.

Loan portfolio performance

SBSA Group’s credit loss ratio improved to 0.59 per cent. in 2018 from 0.77 per cent. in 2017. While SBSA’s stage 3 loan coverage ratio increased to 53 per cent., SBSA’s non-performing loans as a percentage of total loans increased to 3.8 per cent. from 3.1 per cent. in 2017. Credit impairment charges declined by 22 per cent. to R5.6 billion (compared to R7.1 billion in 2017) largely as a result of the adoption of IFRS 9. Included in the credit impairment charge for the year ended 31 December 2018 is the release of interest in suspense for pre-legal and cured loan balances following the implementation of IFRS 9, amounts which under IAS 39 were recognised within net interest income. Partially offsetting this,are credit impairments of R157 million being recognised on financial investments and off-balance sheet exposures, which under IAS 39 would not have been recognised.

Experienced management team

SBSA's senior management has experience both at SBSA and at other institutions throughout the banking industry. SBSA's position in the market has allowed it to attract top managers from across the industry, both domestically and abroad. Managers are dedicated to the goals of the institution. A compensation structure that includes both short and long-term incentive plans assists in retaining key managers and leads to continuity in business operations.

Position within Standard Bank Group

SBSA is both a strong domestic bank, which leverages the advantages of its size and scope, and a cross-border bank, fully integrated with the rest of the Group.

The Group's competitive positioning as an African bank which operates in a number of African countries and strong resources-focus gives Corporate & Investment Banking SA access to revenue opportunities beyond the borders of South Africa. It also provides commercial opportunities, experience, expertise, and intellectual capital from other Group entities to Corporate & Investment Banking SA which both enhances the offering to clients and enables SBSA to better manage risk.

BUSINESS OF SBSA

Introduction

SBSA is a universal bank providing retail, corporate, commercial and investment banking services to individuals and companies across South Africa. SBSA has a broad franchise and is active in almost all banking markets in South Africa.

SBSA's principal business units are Personal & Business Banking SA, and Corporate & Investment Banking SA. A central support area (Other services) provides support functions to the two principal divisions, as well as advisory services.

As at 31 December 2018, the SBSA Group's total assets amounted to R1,360,262 million (compared to R1,308,800 million as at 31 December 2017), an increase of 4 per cent. For the year ended 31 December 2018, SBSA Group's profit for the year attributable to the ordinary shareholder decreased by 2 per cent. to

R15,695 million from R15,941 million for the year ended 31 December 2017.

For the year ended 31 December 2018, SBSA Group's total income decreased by 0.3 per cent. to R69,818 million, driven by a 4.1 per cent. decrease in net interest income off-set by a 5.3 per cent. increase in non-interest revenue. Net interest income was impacted by a negative endowment as a result of a lower average prime interest rate and margin compression as a result of a highly competitive environment combined with a low growth environment and the change in accounting treatment of interest in suspense for pre-legal and cured loan balances under IFRS 9. But for the impact of IFRS 9, net interest income would have remained constant in 2018. Net fee and commission income for the year ended 31 December 2018 increased by 4.1 per cent. slightly higher than the year ended 31 December 2017, assisted by higher volumes of electronic banking, particularly relating to ATM usage as well as "Instant Money and Business Online" transactions. Trading revenue for the year ended 31 December 2018 was subdued due to lower fixed income and currencies revenue, impacted by reduced investor flows driven by negative emerging market sentiment and lower deal volumes. Other revenue for the year ended 31 December 2018 increased by 5.1 per cent. compared to the previous financial year, largely due to franchise and management fees for the provision of services to and the use of SBSA business systems by the Group's operations outside of South Africa. Interest income on certain debt instruments, together with the derecognition of gains and losses on instruments not recognised at fair value through profit and loss, are now recorded in other gains and losses on financial instruments, in accordance with IFRS 9.

Credit impairment charges for the year ended 31 December 2018 decreased to R5.6 billion, a 22.2 per cent. decrease from the year ended 31 December 2017, largely as a result of the adoption of IFRS 9. Non-performing loans, also referred to as Stage 3 provisions, were made for corporates in the retail and construction sectors, due to the contracting economic environments.

Operating expenses growth for the year ended 31 December 2018 was at 3.2 per cent. as a result of focused cost control (compared to 5.0 per cent. of the year ended 31 December 2017). This was however not enough to offset the reduction in revenue resulting in negative jaws (that is, an increase in the growth rate of expenses above the growth rate of income) of 3.5 per cent. Expenses arising from Ucount have historically been recorded as part of operating expenses in the income statement. During 2018, SBSA amended its accounting presentation policy for these expenses to be presented as part of net fee and commission revenue (within non-interest revenue). This presentation better aligns to the SBSA's presentation policy for recognising expenses within net fee and commission revenue.

The following table shows selected ratios for SBSA Group as at, and for the years ended, 31 December 2018 and 31 December 2017:

	31 December	
	2018	**2017**
Income statement		
Total income (Rm)	69,818	70,000
Headline earnings (Rm)	15,971	16,078
Profit for the year attributable to ordinary shareholders (Rm)	15,695	15,941
Statement of financial position		
Gross loans and advances	960,661	919,457
Total assets	1,360,262	1,308,800
Total liabilities	1,259,062	1,204,462
Financial performance		
Gross carrying amount of stage 3/ Non-performing loans and advances (Rm)	35,992	28,859
Total impairment charges for loans and advances (Rm)	5,425	7,145
Total Stage 1 and 2 credit impairment charge (IFRS 9)[1] (Rm)	(900)	-
Total Stage 3 credit impairment charge (IFRS 9)[1] (Rm)	6,325	-
Specific credit impairment charge (IAS 39) (Rm)	-	6,796
Portfolio credit impairment charge (IAS 39) (Rm)	-	349
Credit loss ratio (%)	0.59	0.77
Stage 3 exposures/Non-performing exposure ratio (%)	3.8	3.1
Return on equity (%)	16.7	16.6
Loans - to- deposit ratio (%)	92.0	93.6
**Cost -to - income ratio (%)	60.3	58.3

The following table shows the contribution of the different divisions within SBSA Group to its major financial indicators as at, and for the years ended, 31 December 2018 and 31 December 2017:

	Personal & Business Banking SA****		Corporate & Investment Banking SA****		Other Services****	
	31 December		31 December		31 December	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	(Rm)		*(Rm)*		*(Rm)*	
Total assets	569,401	540,653	776,407	742,935	14,454	25,212
Profit for the year attributable to the ordinary shareholder	11,797	11,343	4,289	5,384	(391)	(786)

[1] Includes post write-off recoveries and modification gains and losses.

Personal & Business Banking SA

SBSA Group's Personal & Business Banking SA business unit offers individual customers and small and medium enterprises a wide range of banking, investment and other financial services in South Africa. Products offered include mortgage lending, vehicle and asset finance, lending products, card products to individuals and small and medium sized businesses, transactional products, as well as wealth and bancassurance products.

At 31 December 2018, it operated 629 branches and loan centres and 7,239 ATMs and ANAs (Automated Notes Acceptors) across South Africa. It also provides mobile phone and internet banking services which are an important part of providing convenient access to banking and related products.

For the year ended 31 December 2018, Personal & Business Banking SA recorded profit for the year attributable to ordinary shareholders of R11,797 million, an increase of 4.0 per cent. compared to the year ended 31 December 2017. Net interest income of R31,518 million for the year ended 31 December 2018 constituted 61.5 per cent. of the division's total income (compared to R31,909 million and 62.6 per cent. for the year ended 31 December 2017), Non-interest revenue for the year ended 31 December 2018 amounted to R19,707 million, an increase of 3.5 per cent. compared to the year ended 31 December 2017, largely due to higher volumes of electronic banking transactions, particularly relating to ATM usage as well as "Instant Money and Business Online" transactions. Credit impairment charges for the year ended 31 December 2018 amounted to R4,530 million, a decrease of 28.2 per cent. compared to the year ended 31 December 2017. Included in the credit impairment charge for the year ended 31 December 2018 is the release of interest in suspense for pre-legal and cured loan balances following the implementation of IFRS 9, amounts which under IAS 39 were recognised within net interest income. Total operating expenses for the year ended 31 December 2018 amounted to R30,171 million, an increase of 5.1 per cent. The growth in total operating expenses was primarily attributable to a 7.9 per cent. growth in staff costs mainly as a result of annual salary increases and separation costs in the information technology business, offset by a reduction in headcount.

The following table presents a summary of Personal & Business Banking SA's main performance indicators for the years ended 31 December 2017 and 31 December 2016.

	31 December	
	2018	**2017******
	(Rm)	
Net interest income	31,518	31,909
**Non-interest revenue	19,707	19,046
Total income	**51,225**	**50,955**
Credit impairment charges	(4,530)	(6,307)
Net income before operating expenses	**46,695**	**44,648**
Operating expenses	**(30,171)**	**(28,711)**
Staff costs	(9,840)	(9,121)
**Other operating expenses	(20,331)	(19,590)
Net income before capital items and equity accounted earnings	**16,524**	**15,937**
Share of profits from associates and joint ventures	36	28
Non-trading and capital related items	(47)	(133)
Net income before indirect taxation	**16,513**	**15,832**
Indirect taxation	(393)	(370)
Profit before direct taxation	**16,120**	**15,462**
Direct taxation	(4,181)	(4,037)
Attributable to non-controlling interest	-	1
Attributable to other equity instrument holders	(142)	(83)
Profit for the year attributable to ordinary shareholders	**11,797**	**11,343**
Headline earnings	**11,831**	**11,439**
Gross loans and advances	**562,356**	**536,491**
Total assets	**569,401**	**540,653**
Total liabilities	**514,145**	**487,655**

The following table presents selected ratios for Personal & Business Banking SA's for the years ended 31 December 2018 and 31 December 2017.

	31 December	
	2018	**2017**
	(%)	
Credit loss ratio	0.83	1.19
Stage 3 Exposures/Non-performing loans ratio	5.3	4.7

The following table presents the stage 3 exposures/non-performing loan ratios for Personal & Business Banking SA's products for the years ended 31 December 2018 and 31 December 2017.

	31 December	
	2018	2017
	(%)	
Stage 3 Exposures / Non-performing loans ratios:		
Mortgage loans	4.9	4.4
Vehicle and asset finance	3.7	3.5
Card debtors	5.6	6.6
Other loans and advances	7.3	6.1

Mortgage loans

Mortgage lending provides residential accommodation loans to individual customers. Gross mortgage loans increased 3.8 per cent. for the year ended 31 December 2018 to R342,511 million (compared to R329,975 million for the year ended 31 December 2017), constituting 60.9 per cent. of loans and advances by the Personal & Business Banking SA business unit compared to 61.5 per cent. for the year ended 31 December 2017.

Improved performance within the mortgage loans portfolio resulted in a decrease in the credit loss ratio to 0.24 per cent. for the year ended 31 December 2018 (compared to 0.45 per cent. for the year ended 31 December 2017), whilst credit impairment charges amounted to R784 million for the year ended 31 December 2018 (compared to R1,458 million for the year ended 31 December 2017). For the financial year ended 31 December 2018, R16,899 million of gross mortgage loans (4.9 per cent. of gross mortgage loans) are categorised as Stage 3 (compared to R14,452 million and 4.4 per cent. of gross mortgage loans for the financial year ended 31 December 2017).

Vehicle and asset finance

Vehicle and asset finance provides finance to retail market customers, finances vehicles and equipment to the business market and fleet solutions. As at 31 December 2018, gross loans and advances in vehicle and asset finance amounted to R79,343 million (compared to R72, 759 million as at 31 December 2017), an increase of 9.0 per cent. The credit loss ratio for vehicle and asset finance decreased to 0.72 per cent. for the year ended 31 December 2018 from 0.88 per cent. for the year ended 31 December 2017 due to the improved performance of SBSA's franchises.

Card debtors

SBSA provides credit card facilities to individuals and businesses (credit card issuing) and merchant transaction acquiring services (card acquiring). The credit card product has been an important aspect of SBSA’s strategic focus on the emerging middle-class consumer segment in South Africa. SBSA has developed sophisticated origination methods using internal and external data to identify existing and potential customers with suitable risk profiles for credit extension.

For the year ended 31 December 2018, SBSA’s credit card debtors increased by 2.9 per cent. to R32,608 million (compared to R31,694 million for the year ended 31 December 2017). The credit loss ratio for gross card debtors decreased to 2.98 per cent. as at 31 December 2018, from 4.33 per cent. as at 31 December 2017 largely due to card issuing turnover as a result of higher customer utilisation following increases in credit limits.

Transactional products

Transactional products provides a comprehensive suite of transactional, savings, investment, trade, foreign exchange, payment and liquidity management solutions made accessible through a range of physical and electronic channels such as ATMs, internet banking, mobile banking, telephone banking and branches.

Lending products

Lending products offers lending products to retail and business markets. The business markets lending offerings constitute a comprehensive suite of lending products, structured working capital finance and commercial property finance solutions.

Wealth (including bancassurance) products

The Wealth offering includes short-and long-term insurance products, comprising simple embedded products (including homeowners' insurance, funeral cover, household contents and vehicle insurance, accident and health insurance, and loan protection plans sold in conjunction with related banking products) as well as complex insurance products (including life, disability and investment policies sold by qualified intermediaries). The financial solutions offered include financial planning and modelling, integrated fiduciary services (including will drafting and custody services), trust, other tailored banking and wealth management solutions to private high net worth individuals to meet their domestic and international needs.

Corporate & Investment Banking SA

The Corporate & Investment Banking SA business unit comprises four main product groupings, namely: Global Markets, Transactional Products and Services, Investment Banking and Client Coverage.

Corporate & Investment Banking SA offers a wide range of corporate and investment banking services including global markets, banking and trade finance, investment banking and advisory services. This business unit's clients include governments, parastatals, larger corporates, financial institutions and multinational corporates in South Africa and sub-Saharan Africa.

Corporate & Investment Banking SA's profit for the year attributable to the ordinary shareholder decreased by 20.3 per cent. from R5,384 million for the year ended 31 December 2017 to R4,289 million for the year ended 31 December 2018. Net interest income decreased by 10.06 per cent. during 2018 impacted by a highly competitive market combined with a low growth environment as well as the change in accounting treatment of interest in suspense for pre-legal and cured loan balances under IFRS 9. Credit impairment charges increased by 22.4 per cent. during 2018 as a result of impairments raised on retail and construction sector clients driven by a contracting economic environment. Operating expenses increased by 4.8 per cent. to R12,627 million for the year ended 31 December 2018.

The value of the total gross loans and advances amounted to R397,337 million as at 31 December 2018 (compared to R356,523 million as at 31 December 2017), which represents 41.4 per cent. of SBSA's total gross loans and advances as at 31 December 2018 (compared to 38.8 per cent. of SBSA's total gross loans and advances as at 31 December 2017).

Global Markets

Global Markets comprises trading and risk management solutions across financial markets, including foreign exchange, money markets, interest rates, equities, credit and commodities.

Transactional Products and Services

Transactional products and services comprise a comprehensive suite of cash management, international trade finance, working capital and investor services solutions.

Investment Banking

Investment banking comprises a full suite of advisory and financing solutions, from term lending to structured and specialised products across equity and debt capital markets.

Client Coverage

Client Coverage provides in-depth sector expertise to develop relevant client solutions and foster client relationships.

The table below presents a summary of the CIB SA division's main performance indicators for the years ended 31 December 2018 and 31 December 2017.

	31 December	
	2018	2017****
	(Rm)	
Net interest income	9,149	10,172
Non-interest revenue	10,135	9,381
Total income	**19,284**	**19,553**
Credit impairment charges	(1,027)	(839)
Net income after credit impairment charges	**17,535**	**17,988**
Revenue sharing agreements[1]	(722)	(726)
Operating expenses	**(12,627)**	**(12,050)**
Staff costs	(4,376)	(4,258)
Other operating expenses	(8,251)	(7,792)
Net income before capital items and equity accounted earnings	**4,908**	**5,938**
Share of profits from associates and joint ventures	93	159
Non-trading and capital related items	(343)	(63)
Net income before indirect taxation	**4,658**	**6,034**
Indirect taxation	(144)	(107)
Profit before direct taxation	**4,514**	**5,927**
Direct taxation	(81)	(467)
Attributable to non-controlling interest	-	-
Attributable to other equity instrument holders	(144)	(76)
Profit for the year attributable to ordinary shareholders	**4,289**	**5,384**
Headline earnings	**4,536**	**5,405**
Gross loans and advances	**397,337**	**356,523**
Total assets	**776,407**	**742,935**
Total liabilities	**728,291**	**670,789**

[1]Revenue sharing agreements are agreements that allow for the sharing of income with other SBG companies

The following table presents selected ratios for CIB SA for the years ended 31 December 2018 and 31 December 2017.

	31 December	
	2018	2017
	(%)	
Credit loss ratio	0.23	0.22
Stage 3 /Non-performing loans ratio	1.6	1.0

The following table presents selected financial information for Corporate & Investment Banking SA's products for the years ended 31 December 2018 and 31 December 2017.

	31 December	
	2018	2017***
Stage 3 Exposures/Non-performing loans ratios (%):		
Corporate and sovereign lending	2.1	-
Bank lending	-	-
Corporate loans	-	1.2
Commercial property finance	-	0.3
Credit loss ratios (%):		
Corporate and sovereign lending	0.29	-
Bank lending	(0.01)	-
Corporate loans	-	0.28
Gross loans and advances (Rm):		
Corporate and Sovereign Lending	305,169	-
Bank Lending	92,168	-
Corporate loans	-	293,148
Commercial property finance	-	63,375

LOAN PORTFOLIO

Introduction

The SBSA Group extends advances to the personal, commercial and corporate sectors as well as to the public sector. Advances to individuals are mostly in the form of mortgages, vehicle and asset finance, card lending and overdrafts. A significant portion of SBSA's advances to commercial and corporate borrowers consist of advances made to companies engaged in manufacturing, finance and service industries.

As at 31 December 2018, SBSA Group's total net loans and advances to customers amounted to R855,237 million (compared to R809,285 million as at 31 December 2017), an increase of 5.7 per cent.

Upon transition to IFRS 9 on 1 January 2018, the SBSA Group recognised an increase in expected credit impairments of R5,846 million against retained earnings. Balance sheet credit impairments on loans and advances amounted to R29,002 million for the year ended 31 December 2018, an increase of 56.2 per cent. on the credit impairment for the year ended 31 December 2017 largely due to the adoption of IFRS 9.

Loan portfolio by category of loans and advances

The following table sets out the composition of SBSA's advances by category of loan or advance as at 31 December 2018 and 31 December 2017.

	31 December	
	2018	**2017*** **
	(Rm)	
Loans and advances measured at fair value through profit or loss	**968**	**100**
Net loans and advances measured at amortised cost	**930,691**	**900,795**
Gross loans and advances measured at amortised cost	**959,693**	**919,357**
Mortgage loans	342,511	329,975
Vehicle and asset finance	79,343	72,759
Card debtors	32,608	31,694
Corporate and sovereign lending	305,169	293,115
Bank lending	92,168	91,610
Other loans and advances	107,894	100,204
Credit impairments for loans and advances	**(29,002)**	**(18,562)**
Credit impairments on loans and advances (IFRS 9)	(29,002)	-
Credit impairments on loans and advances (IAS 39)	-	(18,562)
Net loans and advances	**931,659**	**900,895**
Comprising:		
Gross loans and advances	960,661	919,457
Less: credit impairments	(29,002)	(18,562)

Loan portfolio by industry sector

The following table sets out the composition of SBSA's advances by industry sector as at 31 December 2018 and 31 December 2017.

	31 December	
	2018	2017
	(Rm)	
Segmental analysis – industry		
Agriculture	22,216	24,403
Construction	9,228	9,133
Electricity	16,629	14,702
Finance, real estate and other business services	288,153	256,491
Individuals[1]	424,854	425,048
Manufacturing	54,307	40,500
Mining	25,367	20,688
Transport	30,089	19,041
Wholesale	46,664	15,232
Other services	43,154	94,219
Gross loans and advances	**960,661**	**919,457**

1 Includes mortgages.

Geographical concentration of loans

The following table sets out the distribution of SBSA's loans and advances by geographic area where the loans are recorded as at 31 December 2018 and 31 December 2017.

	31 December	
	2018	2017
Segmental analysis by geographic area	(Rm)	
South Africa	797,918	788,214
Sub-Saharan Africa	69,734	78,041
Other countries	93,009	53,202
Gross loans and advances	**960,661**	**919,457**

Credit impairments for loan and advances

The tables below present a reconciliation of the credit impairments for loans and advances for the years ended
31 December 2018 and 31 December 2017.

	31 December
	2018
	(Rm)
Opening Expected Credit Losses ("ECL") - 1 January 2018	27,904
Net ECL raised and released	6,058
Impaired accounts written off	(6,338)
Exchange and other movements	1,378
Closing ECL - 31 December 2018	**29,002**
Comprising:	
Stage 1 impairments[10]	4,647
Stage 2 impairments	5,130
Stage 3 impairments[11]	19,225
	29,002

[10] Stage 1: SBSA uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes). Exposures within Stage 1 and 2 are rated between 1 to 25 in terms of SBSA's master rating scale.
[11] Stage 3: SBSA uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes). Exposures which are in default are not considered in the 1 to 25-point master rating scale

	31 December
	2017
	(Rm)
Balance at the beginning of the year	18,096
Impaired accounts written off	(6,087)
Discount element recognised in interest income	(784)
Exchange and other movements	(331)
Net impairments raised	7,668
Balance at the end of the year	**18,562**
Comprising:	
Specific impairments	13,009
Portfolio impairments	5,553
	18,562

SBSA and company have, as permitted by IFRS 9 Financial Instruments (IFRS 9), elected not to restate its comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) basis.

The table below sets out a segmental analysis of stage 3/non-performing loans and advances by industry as at 31 December 2018 and 31 December 2017.

	31 December	
	2018	2017
	(Rm)	
Segmental analysis of specific impairments by industry		
Agriculture	671	505
Construction	716	199
Electricity	467	232
Finance, real estate and other business services	1,209	986
Individuals	11,813	8,703
Manufacturing	1,173	113
Mining	145	1,485
Transport	390	272
Wholesale	2,515	79
Other services	126	435
	19,225	**13,009**

Credit portfolio characteristics and metrics

IFRS 9

Maximum exposure to credit risk

Debt financial assets at amortised cost and fair value through other comprehensive income as well as off-balance sheet exposure subject to an ECL are analysed and categorised based on credit quality using SBSA's master rating scale. SBSA uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes). Exposures within Stage 1 and 2 are rated between 1 to 25 in terms of SBSA's master rating scale. These ratings are mapped to probability of default **("PDs")** by means of calibration formulae that use historical default rates and other data from the applicable Person & Business Banking SA portfolios. SBSA distinguishes between through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision-making, managing credit risk exposures and measuring impairments against credit exposures. Exposures which are in default are not considered in the 1 to 25-point master rating scale.

Default

SBSA's definition of default has been aligned to its internal credit risk management definitions and approaches. While the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the Basel III definition) as occurring at the earlier of:

- where, in SBSA's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or

- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

SBSA does not rebut IFRS 9's 90 days past due rebuttable presumption.

A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets:

- significant financial difficulty of the borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower);

- a breach of contract, such as default or delinquency in interest and/or principal payments;

- disappearance of active market due to financial difficulties;

- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; or

- where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider.

Exposures which are overdue for more than 90 days are also considered to be in default.

IAS 39

Performing loans

Performing loans are classified into two categories, namely:

- Neither past due nor specifically impaired loans are loans that are current and fully compliant with all contractual terms and conditions. Normal monitoring loans within this category are generally rated 1 to 21, and close monitoring loans are generally rated 22 to 25 using SBSA's master rating scale.

- Early arrears but not specifically impaired loans include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is unlikely but could occur if the adverse conditions persist.

Non-performing loans

- Non-performing loans are those loans for which SBSA has identified objective evidence of default, such as a breach of a material loan covenant or condition, or instalments are due and unpaid for 90 days or more.

- Non-performing but not specifically impaired loans are not specifically impaired due to the expected recoverability of the full carrying value when considering the recoverability of future cash flows, including collateral.

- Non-performing specifically impaired loans are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows.

- Specifically impaired loans are further analysed into the following categories:

- **Substandard**: items that show underlying well-defined weaknesses and are considered to be specifically impaired;

- **Doubtful**: items that are not yet considered final losses due to some pending factors that may strengthen the quality of items; and

- **Loss**: items that are considered to be uncollectible in whole or in part. SBSA provides fully for its anticipated loss, after taking collateral into account.

GOVERNANCE OVERVIEW

SBSA's governance framework is derived from SBG's governance framework, which in turn is based on principles in the King Report on Corporate Governance for South Africa (King IV). This governance framework enables the board of directors of SBSA (the "**SBSA Board**") to balance its role of providing risk oversight and strategic counsel with ensuring adherence to regulatory requirements and risk tolerance. The SBSA Board is ultimately responsible for governance. The chairman is an independent non-executive and the roles of chairman and chief executive are separate. The board composition is both qualitatively and quantitatively balanced in terms of skills, demographics, gender, nationality, experience and tenure. There is a clear division of responsibilities ensuring that no one director has unfettered powers in the decision-making process.

The board has delegated certain functions to its committees in line with its governance framework. This enables the board to allocate sufficient time to all matters within its sphere, including execution of strategy and forward-looking agenda items. Each committee has a mandate, which the SBSA Board reviews at least once a year. Mandates for each committee set out its role, responsibilities, scope of authority, composition, terms of reference and procedures. The SBSA Board's committees include the directors' affairs committee; audit committee; risk and capital management committee; and SBSA large exposure credit committee. The SBSA Board monitors oversight over compliance through its board committees. The board has delegated the management of the day-to-day business and affairs of SBSA to the Chief Executive. The executive committee assists the chief executive, subject to statutory parameters and matters reserved for the SBSA Board.

Board of Directors

As of 31 December 2018, SBSA is managed by one independent non-executive chairman, four non-executive directors, three executive directors and 9 independent non-executive directors.

The members of the SBSA Board as at the date of this Base Prospectus are listed below:

Name	Title	Year Joined SBSA Board
Thulani Gcabashe	Chairman	2003
Dr. Hao Hu	Non-Executive Director	2017
Jacko Maree	Non-Executive Director	2016
Lubin Wang	Non-Executive Director	2017
Sim Tshabalala	Executive Director	2008
Lungisa Fuzile	Chief Executive	2018
Arno Daehnke	Executive Director	2016
Geraldine Fraser-Moleketi	Independent Non-Executive Director	2016
Gesina Trix Kennealy	Independent Non-Executive Director	2016
Nomgando Matyumza	Independent Non-Executive Director	2016
Adv Kgomotso Moroka	Non-Executive Director	2003
Martin Oduor-Otieno	Independent Non-Executive Director	2016
André Parker	Independent Non-Executive Director	2014
Atedo Peterside	Independent Non-Executive Director	2014
Myles Ruck	Independent Non-Executive Director	2006
Peter Sullivan	Independent Non-Executive Director	2013
John Vice	Independent Non-Executive Director	2016

Changes to the SBSA's Board

Richard Dunne retired from the SBSA Board on 24 May 2018. Ben Kruger retired as executive director as at 31 December 2018.

The business address of the members of the SBSA Board is SBSA's registered address, 9th Floor, Standard Bank Centre, 5 Simmonds Street, Johannesburg 2001, PO Box 7725, Johannesburg 2000, South Africa.

Abridged curricula vitae of the members of the SBSA Board are set out below.

Directors		Experience	Committee membership
CHAIRMAN AND DEPUTY CHAIRMEN			
Thulani Gcabashe / 61 Chairman and independent non-executive director, SBG and SBSA *BA (Botswana and Swaziland), Master's degree in urban and regional planning (Ball State University, USA)*	Appointed: 2003 Appointed chairman: 2015	**External directorships:** › Built Environmental Africa Capital (chairman) and related entities › African Olive Trading 160 › Lightsource (Pty) Ltd **Previous roles:** › chairman of Imperial Holdings › chief executive officer (CEO) of Eskom between 2000 and 2007	DAC (chairman) GRCMC REMCO GSEC
EXECUTIVE DIRECTORS			
Lungisa Fuzile / 52 Chief executive, SBSA *MCom (Natal), AMP (Harvard)*		**Appointments held within the Group:** › The Standard Bank Tutuwa Community Foundation › **Previous roles:** › Director general – National Treasury	Large Exposure Credit Committee GMAC GSEC
Sim Tshabalala / 51 Group chief executive, SBG and executive director, SBSA *BA, LLB (Rhodes University), LLM (University of Notre Dame, USA), HDip Tax (University of Witwatersrand), AMP (Harvard)*	Appointed: 2013	› **Appointments held within the Group:** › Stanbic IBTC Bank (chairman) › Liberty Holdings › Liberty Group › Tutuwa Community Holdings › Other governing body and professional positions held: › Institute of International Finance › International Monetary Conference › Palaeontological Scientific Trust › **Previous roles:** › chief executive of The Standard Bank of South Africa › managing director of Stanbic Africa	GTIC GSEC GMAC Large Exposure Credit Committee
Arno Daehnke / 51 Group financial director, SBG and executive director, SBSA *BSc, MSc (UCT), PhD (Vienna University of Technology), MBA (Milpark), AMP (Wharton)*	Appointed: 2016	**Appointments held within the group:** › Stanbic Africa Holdings **Previous roles:** › head of the Group's treasury and capital management function	GTIC GMAC Large Exposure Credit Committee
NON-EXECUTIVE DIRECTORS			
Geraldine Fraser-Moleketi / 58 Independent non-executive director, SBG and SBSA *Master's degree in public administration (University of Pretoria) Doctorate in Philosophy (Honoris Causa) (Nelson Mandela University)*	Appointed: 2016	**Other governing body and professional positions held:** › UN Committee of experts of Public Administration (chairman) › Nelson Mandela University (chancellor) › Fellow of Institute of Politics (Harvard) › ISID Advisory Board McGill University Canada › Mapungubwe Institute for Strategic Reflection **External directorships:** › Exxaro Resources **Previous roles:** › special envoy on gender at African Development Bank Côte d'Ivoire › director of the UN Development Programme's Global Democratic Governance Group › minister of Welfare and Population Development from 1996 to 1999, and Public Service and Administration from 1999 to 2008.	DAC GRCMC GSEC

Hao Hu / 56 Deputy chairman, SBG and non-executive director, SBG and SBSA *Doctorate degree in economics (Graduate School of Chinese Academy of Social Sciences), Bachelor degree (Hunan University)*	Appointed: 2017	**Other governing body and professional positions held:** › senior executive vice president of the Industrial and Commercial Bank of China (ICBC) **External directorships:** › ICBC (London) Plc (chairman) **Previous roles:** › general manager of the Institutional Banking Department, ICBC › chairman of ICBC Luxembourg S.A.	GRCMC DAC GTIC
Jacko Maree / 63 Deputy chairman, SBG and non-executive director, SBG and SBSA *BCom (University of Stellenbosch), BA and MA (politics and economics) (Oxford), PMD (Harvard)*	Appointed: 2016	**Appointments held within the Group:** › Liberty Holdings (chairman) › Liberty Group (chairman) **Other governing body and professional positions held:** › China Investment Corporation – International advisory council › Special Envoy on Investments to RSA **External directorships:** › Nelson Mandela Children's Hospital › Phembani Group **Previous roles:** › chief executive of the group for more than 13 years › senior banker focusing on key client relationships	GMAC (chairman) GRCMC REMCO GSEC Large Exposure Credit Committee
Trix Kennealy / 60 Independent non-executive director, SBG and SBSA *BCom (University of Pretoria), BCom (Hons) (University of Johannesburg), CA (SA)*	Appointed: 2016	**External directorships:** › Sasol **Previous roles:** › chief financial officer of the South African Revenue Service › chief operating officer of ABSA Corporate and Business Bank	GAC (chairman) GRCMC REMCO
Nomgando Matyumza / 56 Independent non-executive director, SBG and SBSA *BCompt (Hons) (University of Transkei), LLB (University of Natal), CA (SA)*	Appointed: 2016	**External directorships:** › Hulamin › Sasol **Previous roles:** › deputy chief executive at Transnet Pipelines › non-executive director on the boards of Cadiz Limited, Transnet SOC Limited, Ithala Development Finance Corporation and WBHO	GRCMC REMCO GAC
Kgomotso Moroka / 64 Non-executive director, SBG and SBSA *BProc (University of the North), LLB (University of the Witwatersrand)*	Appointed: 2003	**Other governing body and professional positions held:** › member of the Johannesburg Society of Advocates **External directorships:** › Kalagadi Manganese › Royal Bafokeng Platinum (chairman) › Temetayo (chairman) › Multichoice South Africa Holdings › Netcare **Previous roles:** › non-executive director of South African Breweries › acting judge in the Witwatersrand Local Division	GSEC (chairman) DAC GRCMC

Martin Oduor-Otieno / 62 Independent non-executive director, SBG and SBSA *BCom (University of Nairobi), CPA (Kenya), Executive MBA (ESAMI/Maastricht Business School), Honorary Doctor of Business Leadership (KCA University), AMP (Harvard)*	Appointed: 2016	**Other governing body and professional positions held:** > fellow at the Institute of Bankers (Kenya) > SOS Children's Villages International > fellow of the Institute of Certified Public Accountants (Kenya) **External directorships:** > GA Life Insurance Company > British American Tobacco Kenya > East African Breweries > Kenya Airways **Previous roles:** > CEO of the Kenya Commercial Bank Group > partner at Deloitte East Africa	GAC GSEC
André Parker / 67 Independent non-executive director, SBG and SBSA *BEcon (Hons), MCom (University of Stellenbosch)*	Appointed: 2014	**External directorships:** > Distell > Empresas Carozzi (Chile) **Previous roles:** > managing director, SAB Miller, Africa and Asia regions > chairman of Tiger Brands	DAC GTIC REMCO Large Exposure Credit Committee
Atedo Peterside CON / 63 Independent non-executive director, SBG and SBSA *BSc (economics) (The City University, London), MSc (economics) (London School of Economics and Political Science), Owner/President Management Programme (Harvard)*	Appointed: 2014	**Other governing body and professional positions held:** > Endeavor High Impact Entrepreneurship (chairman) **External directorships:** > Anap Holdings Ltd (chairman) > Cadbury Nigeria Plc (chairman) > Flour Mills of Nigeria Plc > Unilever Nigeria Plc > Nigerian Breweries Plc > Anap Business Jets Ltd (chairman) **Previous roles:** > founder and chief executive of the then IBTC > chairman of Stanbic IBTC Bank Plc	GAC GTIC REMCO
Peter Sullivan / 71 Lead independent non-executive director, SBG and independent non-executive director, SBSA *BSc (physical education) (University of New South Wales)*	Appointed: 2013	**External directorships:** > AXA China Region Insurance Company > AXA Asia > Techtronic Industries > Circle Holdings (chairman) **Previous roles:** > Chairman of Healthcare Locums Plc > CEO of Standard Chartered Bank Africa > CEO of Standard Chartered Bank (Hong Kong) Limited	REMCO (chairman) GAC GTIC GRCMC
Myles Ruck / 63 Independent non-executive director, SBG and SBSA *BBusSc (University of Cape Town), PMD (Harvard)*	Appointed: 2002	**Appointments held in the Group:** > ICBC (Argentina) (vice chairman) **Previous roles:** > deputy chief executive of SBG > chief executive of the Liberty Group	GRCMC (chairman) DAC Large Exposure Credit Committee (chairman)

John Vice / 66 Independent non-executive director, SBG and SBSA *BCom, CTA (University of Natal), CA (SA)*	Appointed: 2016	**External directorships:** › Anglo American Platinum **Previous roles:** › senior partner at KPMG Inc. until his retirement from there in February 2013, and headed the firm's audit practice, IT audit and IT consulting departments. › member of the board of Zurich Insurance South Africa Limited	GTIC (chairman) GAC GRCMC
Lubin Wang / 45 Non-executive director, SBG and SBSA *Bachelor's degree in corporate finance (Fudan University), Master's degree in accounting and finance (London School of Economics and Political Science)*	Appointed: 2017	**Other governing body and professional positions held:** › Chief representative officer of ICBC African representative office **Appointments held within the Group:** › ICBC Standard Bank Plc. **Previous roles:** › executive committee member, deputy head of finance, head of IT and strategic sourcing in ICBC (Argentina) › core member of the transitional committee of the acquisition project of Standard Bank Argentina	DAC GRCMC GTIC

Conflicts of Interest

All of the directors of SBSA, with the exception of Lungisa Fuzile, are also directors or prescribed officers of SBG and they therefore also owe duties in that capacity to SBG as well as to SBSA. Since the directors of SBSA are also directors of SBG, it is unlikely but possible that decisions made by the directors which are in the best interests of SBG and/or the Group taken as a whole may not in every case be in the best interests of SBSA.

In addition, Myles Ruck, Arno Daehnke, Jacko Maree and Sim Tshabalala serve as directors of subsidiaries of SBG other than SBSA. These directors therefore also owe duties in that capacity to those companies as well as to SBSA. It is possible that the duties which these persons owe to those companies may potentially conflict with their duties to SBSA.

SBSA engages in transactions with some of entities in the Group, including transactions in the ordinary course of business.

SBSA's approach to managing compliance risk, including identifying and managing conflicts of interest, is proactive and premised on internationally-accepted principles of risk management. Its compliance risk management is a core risk management function and is overseen by the Group chief compliance officer. SBSA's compliance framework is based on the principles of effective compliance risk management as outlined in the Banks Act and recommendations from international policy-making bodies. SBSA is also subject to, and complies with, the applicable requirements of the South African Companies Act, 2008 (the "**Companies Act**") relating to potential conflicts of interest. These requirements include, amongst other things, an obligation on directors to file with the Group company secretary a list of all of their directorships and to declare the nature of any conflict of interest before the relevant matter is considered by the SBSA Board.

In addition, any director with a personal financial interest in any matter presented for consideration by the SBSA Board has to comply with section 75 of the Companies Act which provides, among others, that if a director of a company has a personal financial interest in respect of a matter to be considered at a meeting of the SBSA Board or knows that a related person has a financial interest in the matter, the director must disclose the interest and its general nature before the matter is considered and must not take part in the consideration of the matter. Such director is recused from the meeting.

Directors disclose their outside business interests as a standing agenda item at each meeting. Directors do not participate in the meeting when the board considers any matters in which they may be conflicted and are excused from the meeting. In compliance with the provisions of the Companies Act, the group secretary maintains a register of directors' interests, which is tabled at the board meeting and any changes are submitted to the board as they occur.

EMPLOYEES

For the year ended 31 December 2018, the SBSA Group had 31,662 employees (compared to 32,342 employees for the year ended 31 December 2017). For the year ended 31 December 2018, approximately 57.3 per cent. of SBSA's employees worked in the Personal & Business Banking SA segment of SBSA (compared to 57.3 per cent. for the year ended on 31 December 2017) whereas 8.4 per cent. worked in the Corporate & Investment Banking SA segment during the same period (compared to 8.3 per cent. for the year ended on 31 December 2017); the remaining 34.3 per cent. of employees worked in the central and other services segment within SBSA (compared to 34.4 per cent. for the year ended on 31 December 2017).

A significant number of SBSA Group's non-managerial employees are represented by trade unions. SBSA Group has not experienced any significant strikes or work stoppages in recent years.

SBSA Group has developed employment policies to meet the needs of its different business segments in the locations in which they operate, embodying principles of equal opportunity. SBSA has a statement of business standards with which it expects its employees to comply, it encourages involvement of employees in the performance of the business in which they are employed and aims to achieve a sense of shared commitment.

COMPETITION

Competitors

As at 31 December 2018, there were 12 locally controlled banks, 6 foreign controlled banks, 4 mutual banks, 15 local branches of foreign banks and 31 foreign banks with approved representative offices in South Africa. According to the SARB BA 900 report for 31 December 2018, the banking sector in South Africa had total assets of R5.5 trillion as at 31 December 2018. SBSA's principal competitors are ABSA Bank Limited, FirstRand Bank Limited, and Nedbank Limited. Apart from SBSA, these represent the largest banks in South Africa. The following table sets out total assets and capital and reserve for each as at 31 December 2018.

	Total assets	**Capital and reserves**
	(Rm)	
ABSA Bank Limited	1,077,155	81,574
FirstRand Bank Limited	1,186,573	90,724
Nedbank Limited	952,454	73,031
The Standard Bank of South Africa Limited	1,317,950	96,999

Source: BA 900 filings – SARB, 31 December 2018

SBSA operates in a highly competitive environment. The economic pressures experienced in developed economies have caused banks based in those jurisdictions to seek out growth opportunities within South Africa. As banks in developed economies are often able to benefit from lower costs of funding, this has resulted in greater competition for SBSA within South Africa and other emerging markets.

CAPITAL ADEQUACY

SBSA's capital management function is designed to ensure that regulatory requirements are met at all times and that SBSA and its principal subsidiaries are capitalised in line with SBSA's risk appetite and target ratios, both of which are approved by the board of directors of SBG and SBSA to manage their capital levels to support business growth, maintain depositor and creditor confidence, create value for shareholders and ensure regulatory compliance. It further aims to facilitate the allocation and use of capital, such that it generates a return that appropriately compensates shareholders for the risks incurred. Capital adequacy is actively managed and forms a key component of SBSA's budget and forecasting process.

The SARB adopted Basel III from 1 January 2013 and SBSA has been compliant with the minimum requirements from that date. The Basel III capital adequacy requirements were subject to phase-in rules with full implementation from 1 January 2019.

The implementation of IFRS 9 on 1 January 2018 resulted in a decrease of 60 bps in the common equity tier I ratio as at the date of the initial application, on a fully loaded basis. The impact on SBSA's common equity tier I ratio after taking into account the Prudential Authority's 3-year phase-in provision was a decrease of 10 bps. Given the SBSA Group's strong capital adequacy position, the SBSA Group was able to absorb the common equity tier I capital impact. IFRS 9 had a small impact on SBSA's total capital adequacy due to the add-back to tier II capital that is permitted for provisions that exceed the regulatory expected loss. The volatility that may arise from the add-back due to the adoption of IFRS 9 is carefully monitored on an ongoing basis.

The Basel III post-crisis reform proposals and the potential requirements for loss absorbing and recapitalisation capacity of systemically important banks may impact capital levels going forward. The implementation date of the more significant Basel III post-crisis reform proposals is 1 January 2022 with transitional arrangements for the phasing-in of an aggregate output floor from 1 January 2022 to 1 January 2027. The Basel III post-crisis reform proposals provide for areas of national discretion and the Group will, through relevant industry bodies, engage the Prudential Authority on the South African implementation of the proposals.

SBSA manages its capital levels to support business growth, maintain depositor and creditor confidence, create value for shareholders, and ensure regulatory compliance. The main regulatory requirements to be complied with are those specified in the Banks Act and related regulations, which are aligned with Basel III.

Regulatory capital adequacy is measured through three risk-based ratios, namely common equity tier 1, tier 1 and total capital adequacy ratios which are calculated on the following basis:

- Common equity tier 1: ordinary share capital, share premium, retained earnings, other reserves and qualifying non-controlling interest less impairments divided by total risk weighted assets **("RWA")**.

- Tier 1: common equity tier 1 and other qualifying non-controlling interest plus perpetual, non-cumulative instruments with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA. Perpetual, non-cumulative preference shares that comply with Basel I and Basel II rules are included in tier 1 capital but are currently subject to regulatory phase-out requirements over a ten-year period, which commenced on 1 January 2013.

- Total capital adequacy: tier 1 plus other items such as general credit impairments and subordinated debt with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA. Subordinated debt that complies with Basel I and Basel II rules is included in total capital but is currently subject to regulatory phase-out requirements, over a ten-year period, which commenced on 1 January 2013.

RWA are calculated in terms of the Banks Act and related regulations, which are aligned with Basel III.

The SARB adopted the leverage framework that was issued by the BCBS in January 2014 with formal disclosure requirements commencing from 1 January 2015. The non risk-based leverage measure is designed to complement the Basel III risk-based capital framework. SBSA’s leverage ratio inclusive of unappropriated profit was 5.9 per cent. as at 31 December 2018 (compared to 6.3 per cent. as at 31 December 2017), in excess of the SARB minimum requirement of 4 per cent.

The following table sets out SBSA's Tier 1 and Tier 2 Capital excluding unappropriated profit for the years ended 31 December 2018 and 31 December 2017, on a Basel III basis.

Basel III qualifying capital excluding unappropriated profits

	31 December	
	2018	2017
	(Rm)	
IFRS ordinary shareholders' equity	44,448	43,698
Retained earnings	52,321	56,294
Other reserves	881	799
Less: regulatory adjustments	(12,420)	(17,929)
Goodwill	(42)	(42)
Other intangible assets	(14,337)	(15,346)
Shortfall of credit provisions to expected future losses[1]	—	(2,084)
Deferred tax assets	(11)	(14)
Other adjustments including IFRS 9 phase-in	1,970	(443)
Less: regulatory exclusions (unappropriated profits)	(11,966)	(11,010)
CET I capital	73,264	71,852
Qualifying other equity instruments	3,504	3,544
Tier I capital	76,768	75,396
Qualifying tier II subordinated debt	18,580	17,080
General allowance for credit impairments	781	461
Less: regulatory adjustments - investment in tier II instruments in other banks	(3,187)	(2,341)
Tier II capital	16,174	15,200
Total regulatory capital	**92,942**	**90,596**

Basel III risk-weighted assets and associated capital requirements

	RWA		Minimum [2]capital requirements[1]
	2018	2017	2018
	(Rm)		(Rm)
Credit risk (excluding counterparty credit risk (CCR))	**481,951**	**440,518**	**53 749**
Of which: standardised approach[3]	39,602	20,388	4 417
Of which: internal rating-based (IRB) approach	442,349	420,130	49 332
CCR	**24,370**	**22,267**	**2 718**
Of which: standardised approach for CCR	1,902	1,334	212
Of which: IRB approach	22,468	20,933	2 506
Equity positions in banking book under market-based approach	**1,125**	**3,572**	**125**
Securitisation exposures in banking book	**658**	**747**	**74**
Of which: IRB approach	465	567	52
Of which: IRB supervisory formula approach	193	180	22
Market risk	**50,720**	**41,943**	**5 657**
Of which: standardised approach	36,886	29,139	4 114
Of which: internal model approach (IMA)	13,834	12,804	1 543
Operational risk	**97,563**	**93,283**	**10 881**
Of which: standardised approach	26,610	26,431	2 968
Of which: advanced measurement approach (AMA)	70,953	66,852	7 913
Amounts below the thresholds for deduction (subject to 250% risk weight)	12,999	7,984	1 450
Total	**669,386**	**610,314**	**74 654**

[1] For reporting periods up to 31 December 2017, the SBSA Group deducted from available capital the shortfall of IAS 39 credit provisions to regulatory expected loss. Given that the IFRS 9 impairment provisions are greater than the regulatory expected losses, this adjustment is no longer required.
[2] Measured at 11.1 per cent. (2017: 10.8 per cent.) in line with Basel III transitional requirements and excludes any bank-specific capital requirements. There is currently no requirement for the countercyclical buffer add-on in SA. The impact on the group's countercyclical buffer requirement from other jurisdictions in which the group operates is insignificant (buffer requirement of 0.0167 per cent.).
[3] Portfolios on the standardised approach relate to portfolios for which application to adopt the internal model approach has not been submitted, or for which application has been submitted but approval has not been granted.

The following tables detail SBSA's capital adequacy ratios for the years ended 31 December 2018 and 31 December 2017 on a Basel III basis including phased-in and fully loaded post IFRS 9 implementation.

Capital Adequacy Ratios (Phased-in)[1]

	2018 SARB minimum regulatory requirement[2] %	Internal target ratios[3] %	Including unappropriated profits		Excluding unappropriated profits	
			2018 %	2017 %	2018 %	2017 %
Total capital adequacy ratio	11.1	15.0 - 16.0	15.7	16.6	13.9	14.8
Tier I capital adequacy ratio	8.9	12.0 - 13.0	13.3	14.2	11.5	12.4
CET I capital adequacy ratio	7.4	11.0 - 12.5	12.7	13.6	10.9	11.8

Capital Adequacy Ratios (Fully Loaded)[4]

	2018 SARB minimum regulatory requirement[2] %	Internal target ratios[3] %	Including unappropriated profits		Excluding unappropriated profits	
			2018 %	2017 %	2018 %	2017 %
Total capital adequacy ratio	11.1	15.0 - 16.0	15.7	16.6	13.9	14.8
Tier I capital adequacy ratio	8.9	12.0 - 13.0	12.9	14.2	11.2	12.4
CET I capital adequacy ratio	7.4	11.0 - 12.5	12.4	13.6	10.6	11.8

[1] Capital adequacy ratios based on the SARB IFRS 9 phased-in approach.
[2] Excludes confidential bank-specific add-ons.
[3] Including unappropriated profits.
[4] Capital ratios based on the inclusion of the full IFRS 9 transactional impact.
Source: This information has been extracted from SBSA's 2018 Risk and Capital Management Report

BASEL III

Banks in South Africa adopted Basel III with effect from 1 January 2013. Basel III aims to enhance financial stability globally by increasing the quality and level of capital to be held by banks, extending the risk framework coverage, by introducing new liquidity ratios and also a non-risk based leverage ratio. The BSD of the SARB (now referred to as the PA) commenced with its implementation from 1 January 2013 by way of the Regulations Relating to Banks, and Banks in South Africa have thus adopted the Basel III accord. The SB Group has approval from the SARB to use the advanced internal ratings-based ("**AIRB**") approach for its credit portfolios in SBSA. For internal management purposes, the SB Group utilises AIRB measures and principles wherever possible. Further, the SB Group has approval from the SARB to adopt the market-based approach for certain equity portfolios in SBSA and has approval for using the advanced measurement approach ("**AMA**") operational risk framework. Furthermore, the SB Group also has approval from the SARB to use the "internal models approach" for most trading product groups and across most market risk types for SBSA.

In Basel III, the BCBS introduced significant changes to the Basel II framework, including, amongst others:

Capital

The quality, consistency and transparency of the capital base levels are increased. In the new framework, the regulatory deductions should mainly be applied to the common equity component of the capital base. Further, to be eligible as Tier I and Tier II capital, instruments need to meet more stringent requirements than were applied under Basel II.

The Basel III framework introduces a capital conservation buffer of 2.5 per cent. on top of these minimum thresholds. If a bank does not meet this buffer, constraints will be imposed on SBSA's capital distribution, such as dividends. Also, in periods of excess growth, banks will be required to hold an additional countercyclical buffer of up to 2.5 per cent. in order to avoid facing restrictions.

Leverage Ratio

The BCBS has also proposed a requirement that effective from 1 January 2018 the risk-sensitive capital framework be supplemented with a non-risk based measure, the leverage ratio (the "**Leverage Ratio**"). The Leverage Ratio is calculated as the Tier I capital divided by the exposure (being on and off-balance sheet exposures, with certain adjustments for selected items such as derivatives). It is envisaged that the final calibration of the Leverage Ratio and any further definition amendments will be implemented by 2022.

Liquidity

Another key component of the Basel III framework is the introduction of increased regulations for liquidity risks. The objective of the liquidity reform is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thereby reducing the risk of spillover from the financial sector to the real economy.

The BCBS has developed two new quantitative liquidity standards as part of the Basel III framework; namely the LCR (being phased-in from 1 January 2015) and the Net Stable Funding Ratio ("**NSFR**") (effective 1 January 2018). The LCR's objective is to measure SBSA's ability to manage short-term liquidity stress and ensure the appropriate holding of surplus qualifying liquid assets. The NSFR's objective is to measure the SBSA Group's long-term structural funding stability in order to address the structural liquidity mismatch inherent in banking operations. Both the LCR and NSFR calculations are subject to an observation period prior to implementation such that any unintended consequences can be identified.

The BCBS has also put a more stringent regulatory framework into place for the monitoring of intraday liquidity risk. Management of intraday liquidity risk forms a key element of a bank's overall liquidity risk management framework. The mandatory tools introduced by the BCBS are for monitoring purposes, and only international active banks will be required to apply them. National regulators will determine the extent to which the tools apply to banks that only operate domestically within their jurisdictions. Monthly reporting on the monitoring tools commenced on 1 January 2015.

Risk-Weighting (Finalised Basel III reforms)

On 7 December 2017 the BCBS published the Basel III finalised reforms for the calculation of RWA and a capital floor to be implemented on 1 January 2022. These reforms are the completion of work that the BCBS has been undertaking since 2012 to address inefficiencies that emerged from the financial crisis in 2008 and impacts both standardised and advanced internal models.

Reducing variation in the internal rating based ("IRB") approach for credit risk

The revised IRB framework constrains the use of the AIRB approach which allows banks to estimate the probability of default ("**PD**"), loss given default ("**LGD**"), exposure at default ("**EAD**") and maturity of an exposure for low default asset classes. These include exposures to large and mid-sized corporates, banks and other financial institutions, securities firms and public-sector entities. The relevant SB Group legal entities will now have to use the foundation IRB ("**FIRB**") approach for these exposures. The FIRB approach is more conservative as it applies fixed values to the LGD and EAD parameters. In addition, all IRB approaches are being removed for exposures to equities.

For the remaining asset classes, the revised IRB framework also introduces minimum "floor" values for bank-estimated IRB parameters that are used as inputs to the calculation of RWA. These include PD floors for both the FIRB and AIRB approaches, and LGD and EAD floors for the AIRB approach. The Committee agreed on various additional enhancements to the IRB approaches to further reduce unwarranted RWA variability, including providing greater specification of the practices that banks may use to estimate their model parameters.

Given the enhancements to the IRB framework and the introduction of an aggregate output floor, the BCBS has removed the 1.06 scaling factor that is currently applied to RWAs determined by the IRB approach to credit risk.

The date of implementation for these revisions is 1 January 2022.

Standardised approach for credit risk

The revisions to the standardised approach for credit risk (implementation date of 1 January 2022), enhances the regulatory framework by improving its granularity and risk sensitivity. It provides a more granular approach for unrated exposures to banks and corporates and a recalibration of risk weighting for rated exposures, a more risk-sensitive approach for real estate exposures based on their loan to value, separate treatment for covered bonds; specialised lending; and exposures to SME's, a more granular risk weight treatment for subordinated debt and equity exposures, and a recalibration of credit conversion factors for off balance sheet exposures.

Credit Valuation Adjustment ("**CVA**") ***risk capital charge***

The initial phase of Basel III reforms introduced a capital charge for potential mark-to-market losses of derivative instruments as a result of the deterioration in the creditworthiness of a counterparty.

The final reforms introduce two new approaches for the calculation of the CVA risk capital charge which are a basic approach (full version including CVA hedges, or reduced version) and a standardised approach based on the fundamental review of the trading book market risk standardised approach with minimum requirements sensitivity calculations. The changes also include a €100 billion threshold for a simplified treatment (double counterparty credit risk capital requirement) and new eligibility requirements for CVA hedges.

The implementation date of the final reforms is 1 January 2022.

Operational risk

The BCBS has streamlined the operational risk framework. The AMAs for calculating operational risk capital requirements (which are based on banks' internal models) and the existing standardised approaches are replaced with a single risk-sensitive standardised approach to be used by all banks.

The new standardised approach for operational risk with an implementation date of 1 January 2022) determines a bank's operational risk capital requirements based on two components comprising a measure of a bank's income and a measure of historical losses experienced by the bank. Conceptually, it assumes that operational risk increases at an increasing rate with a bank's income and banks which have experienced greater operational risk losses historically are assumed to be more likely to experience operational risk losses in the future.

Output floor

The Basel III reforms replace the existing Basel II floor with a floor based on the revised Basel III standardised approaches. Consistent with the original floor, the revised floor places a limit on the regulatory capital benefits that a bank using internal models can derive relative to the standardized approaches. In effect, the output floor provides a risk-based backstop that limits the extent to which banks can lower their capital requirements relative to the standardised approaches.

This helps to maintain a level playing field between banks using internal models and those on the standardised approaches. It also supports the credibility of banks' risk-weighted calculations and improves comparability via the related disclosures.

Under the revised output floor, banks' risk-weighted assets must be calculated as the higher of

(iii) total RWA calculated using the approaches that the bank has supervisory approval to use in accordance with the Basel capital framework (including both standardised and internal model-based approaches); and

(iv) 72.5 per cent. of the total risk-weighted assets calculated using only the standardised approaches.

Risk-Weighting (Other Basel III reforms)

Counterparty Credit Risk

The BCBS has finalised the rules for the standardised approach for counterparty credit risk ("**SA-CCR**"). From 1 October 2019, the SA-CCR will be used to calculate the counterparty credit risk exposure associated with OTC derivatives, exchanges traded derivatives and long settlement transactions. The new SA-CCR is more risk sensitive than previously, limits the need for discretion by national authorities, minimises the use of banks' internal estimates and avoids undue complexity.

Securitisation Framework

The BCBS has finalised changes to the Basel securitisation framework. The new framework, to be implemented by 1 April 2020, provides a revised set of approaches for determining the regulatory capital requirements in relation to securitisation exposures with the aim of reducing mechanistic reliance on external ratings, increasing risk weights for highly rated securitisation exposures, reducing risk weights for low-rated securitisation exposures, reducing cliff effects (where small changes in the quality of an underlying pool of securitised exposures quickly leads to significant increases in capital requirements) and making the framework more risk-sensitive.

Fundamental Review of the Trading Book

Some initial measures to improve market risk were introduced by the BCBS in 2009 (known as "Basel 2.5"). The BCBS recognised that these incremental changes to the market risk framework were only temporary, and that further measures were required to improve trading book capital requirements. The new market risk framework ("Fundamental Review of the Trading Book") was published on 14 January 2016. Following this publication, the BCBS published a consultative document entitled "Revisions to the minimum capital requirements for market risk" on 22 March 2018. This document addresses issues that the Basel Committee has identified in the course of monitoring the implementation and impact of the standard. The standard was thereafter revised on 14 January 2019 and is to be adopted on 1 January 2022.

Interest Rate Risk in the Banking Book ("IRRBB")

Arising from the Fundamental Review of the Trading Book, the Bank of International Settlement appointed a team to evaluate and refine the existing Pillar 2 treatment for spread risk in the banking book. In April 2016 the BCBS issued standards for IRRBB (the "**revised Standards**"). The revised Standards revise the BCBS' 2004 "Principles for the management and supervision of interest rate risk", which set out supervisory expectations for banks' identification, measurement, monitoring and control of IRRBB as well as its supervision. The revised Standards also introduced a strengthened Pillar 2 approach. The newly revised Standards for IRRBB cover the enhanced requirements over 12 principles. Nine principles are directed to banks including identification of IRRBB, sound methodologies, risk appetite and limits, internal reporting, external disclosures, data, controls and model risk management. Three principles are directed to supervisors and focus on review of soundness of banks' IRRBB management, collaboration among supervisors and identification of outlier banks.

The revised standards are expected to be implemented by 1 June 2021.

Sovereign Risk

The regulatory treatment of sovereign exposures - discussion paper, was issued in December 2017 by the BCBS. The views of interested stakeholders will inform the BCBS' longer-term thinking on the issue. The discussion paper outlines some ideas regarding the regulatory treatment of sovereign exposures:

The first set of ideas relates to:

(i) the removal of the IRB approach framework for sovereign exposures;

(ii) revised standardised risk weights for sovereign exposures held in both the banking and trading book, including the removal of the national discretion to apply a preferential risk weight for certain sovereign exposures; and

(iii) adjustments to the existing credit risk mitigation framework, including the removal of the national discretion to set a zero haircut for certain sovereign repo-style transactions.

The second set of ideas relate to mitigating the potential risks of excessive holdings of sovereign exposures, which, for instance, could take the form of marginal risk weight add-ons that would vary based on the degree of a bank's concentration to a sovereign (defined as the proportion of sovereign exposures relative to Tier 1 capital). The third set of ideas is related to the Pillar 2 (supervisory review process) and Pillar 3 (disclosure) treatment of sovereign exposures.

There have been no further updates regarding Sovereign Risk from the BCBS.

Systemically important financial institutions ("SIFIs")

The guidance developed by the BCBS and the Financial Stability Board form the basis for the requirements of domestic systemically important banks in South Africa. South African banks have developed their recovery plans in line with global standards. The specific "domestic systemically important bank capital requirements have been applied to the relevant banks from 1 January 2016.

Recovery plans focus on plausible management or recovery actions that can be taken to reduce risk and conserve capital during times of severe stress. Resolution plans are typically developed by the supervisor with the objective of ensuring that SIFIs are resolvable and will not become a burden to tax payers.

Although the Basel III phase-in approach affords SBSA a period of time before full compliance is required, SBSA maintains a strong focus on achieving these liquidity and capital requirements within the specified timelines. Specific areas of focus include optimising capital and liquidity allocation between product lines, trading desks, industry sectors and legal entities such that financial resources can be allocated in a manner that enhances the overall group economic profit and return on equity, embedding risk-adjusted performance measurement into the performance measurement and reporting processes of the SB Group; and ensuring that the SB Group is adequately positioned to respond to changing regulatory rules under Basel III.

LEGAL PROCEEDINGS

There are no governmental, legal or arbitration proceedings (nor are there any such proceedings which are pending or threatened of which SBSA is aware) which may have, or have during the 12 months prior to the date of this Base Prospectus had, a significant effect on the financial position or profitability of SBSA and/or the SBSA Group. SBSA and its subsidiaries have sued and are defendants in a number of legal proceedings incidental to their operations. While any litigation has an element of uncertainty, SBSA does not expect that the outcome of any such proceeding, either individually or in aggregate, will have a material adverse effect upon the SBSA Group's consolidated financial position or results.

PROPERTY

As at 31 December 2018, SBSA Group held freehold title (net book value) to land and property of R3,020 million (compared to R2,968 million as at 31 December 2017).

INSURANCE

SBSA has a comprehensive insurance programme with cover for bankers' bond, computer crime, professional indemnity, directors' and officers' liability, assets and liabilities. An annual benchmarking review of policy wording, covers and limits ensures that the level of risk mitigation is adequate in relation to SBSA's risk profile.

All insurance cover is placed at SBG level to maximize on economies of scale and to ensure all business units are included.

INFORMATION TECHNOLOGY

With the significant impact of the digital revolution, consumers and businesses are being forced to change the way they interact. IT is central to the Group's ability to adapt to a changing world and create sustainable long-term value for the Group's stakeholders. SBSA regards IT as a strategic asset which supports, sustains and enables growth and operational excellence within SBSA and the Group.

SBSA’s IT strategy is aligned to, and a key enabler of, SBSA’s strategic vision. The key elements of SBSA’s IT strategy are focused on embedding a culture which is aimed at ensuring that SBSA's systems are "always on" (available to our customers) and secure (through managing the risk of unauthorised security breaches), driving the simplification of SBSA's systems and in having engaged employees to deliver on the strategy. The first phase of SBSA’s IT transformation programme, "Accelerate" was completed in 2017. The programme implemented the adoption of "Agile at Scale", an infrastructure efficiency initiative, and is operating as business-as-usual, the achievement of improved Occupational Health Index scores ("**OHI**") and the achievement of affordability targets. The modernisation of SBSA’s core banking platforms is a key part of achieving SBSA’s IT strategy, and the Group has invested heavily (over the last couple of years) in transforming its IT platforms from complex legacy systems to a simplified and standardised platform. The majority of these programmes were completed in 2018, with the associated capabilities being transitioned into use. The IT transformation and modernisation programmes has enabled the Group to be well positioned to respond to changing client needs and to contribute towards SBSA’s strategic focus areas around client centricity, digitisation and building a universal financial services organisation.

Management believes that SBSA’s overall IT stability is currently acceptable with a record number of transactions, both in terms of volume and value, being successfully processed in 2018 (109 per cent. increase in the number of mobile transactions, with a value of R455 billion, a 73 per cent. increase in digital transactions with a total value of R1 094 billion. SBG continues to invest in its IT security strategy and enhance its current capabilities. SBG sets security, recovery and business resumption as a key focus area, and regularly tests contingency procedures so that interruptions are minimised, and this has yielded a 68 per cent. decrease in material system stability incidents in 2018.

IT governance functions provide oversight of IT within the SB Group to ensure that technology contributes to creating sustainable value both in the short and over the long term. The SBG Board is responsible for ensuring that prudent and reasonable steps have been taken regarding IT governance. The Group IT committee is an SBG Board committee with responsibility for ensuring the implementation of the IT governance framework across Group. The committee has the authority to review and provide guidance on matters related to SBSA’s IT strategy, budget, operations, policies and controls, SBSA’s assessment of risks associated with IT, including disaster recovery, business continuity and IT security, as well as oversight of significant IT investments and expenditure.

The committee is chaired by an independent SBG Board member, who is also a member of the Group risk and capital management committee. The chief information officers of each business unit within SBSA report to their chief executives as well as to the Group chief information officer to ensure that the IT strategy is aligned and integrated with the business strategies.

REGULATION

General regulatory requirements

SBSA is subject to the Banks Act and is supervised by the Financial Conglomerate Supervision Department.

SBSA holds a full banking licence granted by the SARB. It is an authorised dealer in foreign exchange in terms of the Exchange Control Regulations of the SARB.

Please see "*Risk Factors - the impact of any future change in law or regulation on the Issuer’s business is uncertain*" on pages 15 to 16.

Anti-money laundering regulatory requirements

SBG is committed to and supports global efforts to combat money laundering and terrorist financing. Consequently, SBG has drafted and implemented policies and procedures to assist it in complying with its legislative obligations in respect of anti-money laundering and combating the financing of terrorism requirements in each jurisdiction in which it operates. Meeting anti-money laundering and terrorist financing control requirements imposes significant obligations in terms of client identification and verification, record keeping, staff training and the detection and reporting of suspicious and unusual transactions. Minimum standards are implemented throughout the SBG and particular emphasis is placed on enhancing internal systems and processes to assist in managing money laundering and terrorist financing risks. SBSA continues to enhance and automate its anti-money laundering and terrorist financing detection measures. SBSA also has a dedicated anti-money laundering surveillance unit that is responsible for receiving, evaluating and reporting suspicious or unusual transactions and activities to the appropriate authorities. This unit also ensures full co-operation with law enforcement agencies, including the release of information to them in terms of SBSA's legal obligations.

Anti-bribery and corruption requirements

Anti-bribery and corruption policies are implemented consistently across the Group and SBSA Group. All companies in the Group are committed to the highest level of ethical behaviour and have a zero tolerance for bribery and corruption. The Group requires compliance with anti-bribery and corruption laws in all markets and jurisdictions in which it operates. These laws include, but are not limited to, the South African Prevention and Combating of Corrupt Activities Act, the UK Bribery Act and the U.S. Foreign and Corrupt Practices Act.

SBG has developed and implemented an anti-bribery and corruption ("**ABC**") compliance programme which is aligned with global best practice (in particular the ABC guidance that has been issued by the Organisation for Economic Co-operation and Development). The programme includes drafting and regular updates to the ABC policy, which is applicable to all employees of the Group, irrespective of location or jurisdiction.

Furthermore, all SBG staff are required to complete ABC general awareness training annually. Regular reviews of the effectiveness of the ABC programme are conducted in the form of risk assessments and routine monitoring activities.

RISK MANAGEMENT

Effective risk management is fundamental to the business activities of both SBG and SBSA. SBSA operates under the SBG enterprise risk management ("**ERM**") governance framework and SBSA-specific policies to address SBSA-specific business and regulatory requirements. SBSA's chief risk officer is accountable to the SBSA Board and SBSA's regulators. SBSA's chief risk officer is also the chief risk officer for SBG and is therefore also accountable to the SBG Board and SBG regulators.

SBSA's approach to risk management is based on the SBG ERM governance framework under which it operates which consists of:

- risk governance committees at a board and management level;
- risk governance standards, frameworks and policies; and
- three lines of defence.

Risk governance committees

Board sub-committees responsible for the oversight of risk management comprise the Risk and Capital Management Committee ("**RCMC**"), the Audit Committee ("**AC**"), the technology and information committee and the model approval committee.

Executive management oversight for all risk types has been delegated by the SBG executive committee to the Risk Oversight Committee (the "**ROC**") which, in turn, assists the RCMC to fulfil its mandate. As is the case with the RCMC, the ROC calls for and evaluates in-depth investigations and reports based on its assessment of the risk profile and external factors. The ROC delegates authority to various sub-committees which deal with specific risk types or oversight activities. Matters are escalated to the ROC, based on materiality, through reports or feedback from the sub-committee chairman. These sub-committees are the:

- Corporate and Investment Banking and Personal and Business Banking Credit Governance Committees;
- Asset and Liability Committee (the "**ALCO**") (which also covers market risk);
- Compliance Committee;

- Country Risk Management Committee;
- Equity Risk Committee;
- Internal Financial Control Governance Committee;
- Operational Risk Committee;
- Sanctions and Client Risk Review Committee;
- Stress Testing and Risk Appetite Committee; and
- Recovery and Resolution Plan Committee.

Governance documents

Governance documents within the ERM governance framework comprise standards, frameworks and policies which set out the requirements for the identification, assessment, measurement, monitoring, managing and reporting of risks and effective management of capital. Governance standards and frameworks are approved by the relevant board committee. Governance policies are approved by the management committee or sub-committee, the relevant ROC sub-committee, the ROC itself or, where regulations require board approval, by the SBSA Board or the relevant board committee.

The three lines of defence

SBSA uses the three lines of defence governance model which promotes transparency, accountability and consistency through the clear identification and segregation of roles.

The first line of defence is made up of the management of business lines and legal entities. It is the responsibility of first line management to identify and manage risks. This includes, at an operational level, the day-to-day effective management of risk in accordance with agreed risk policies, appetite and controls. Effective first line management includes:

- the proactive self-identification of issues and risks, including emerging risks;
- the design, implementation and ownership of appropriate controls;
- the associated operational control remediation; and
- a strong control culture of effective and transparent risk partnership.

The second line of defence functions provide independent oversight and assurance. They have resources at the centre and embedded within the business lines. Central resources provide SBSA with Group-wide oversight of risks, while resources embedded within the business lines support management in ensuring that their specific risks are effectively managed as close to the source as possible. Central and embedded resources jointly oversee risks at a legal entity level.

The second line of defence functions develop, implement and integrate governance standards, frameworks and policies for each material risk type to which SBSA is exposed. This ensures consistency in approach across SBSA's business lines and legal entities. Compliance with the standards and frameworks is ensured through self-assessments by the second line of defence and reviews by Internal Audit ("**IA**").

The third line of defence provides independent and objective assurance to the SBSA Board and senior management on the effectiveness of the first and second lines of defence. The responsibility lies within the IA function.

All three levels report to the SBSA Board, either directly or through the RCMC and AC.

RISK APPETITE AND STRESS TESTING

The key to the SBSA Group's long-term sustainable growth and profitability lies in ensuring that there is a strong link between its risk appetite and its strategy.

Risk appetite is set, and stress testing activities are undertaken, at a group level, in business units, in risk types and at a legal entity level.

The primary management level governance committee overseeing risk appetite and stress testing is the SBSA Group stress testing and risk appetite committee. The principal governance documents are the risk appetite governance framework and the stress testing governance framework.

Risk appetite governance framework

The risk appetite governance framework provides guidance on the following:

- setting and cascading of risk appetite by Bank, business line, risk type and legal entity;
- measurement and methodology;
- governance;
- monitoring and reporting of risk profile; and
- escalation and resolution.

The SBSA Group has adopted the following definitions, where entity refers to a business line or legal entity within the SBSA Group, or SBSA itself:

- Risk appetite: An expression of the amount or type of risk an entity is generally willing to take in pursuit of its financial and strategic objectives, reflecting its capacity to sustain losses and continue to meet its obligations as they fall due, under both normal and a range of stress conditions.
- Risk appetite trigger: an early warning trigger set at a level that accounts for the scope and nature of available management actions and ensures that corrective management action can take effect and prevent a risk tolerance limit breach.
- Risk tolerance: The maximum amount of risk an entity is prepared to tolerate above risk appetite. The metric is referred to as a risk tolerance limit.
- Risk capacity: The maximum amount of risk that the entity is able to support within its available financial resources.
- Risk appetite statement ("**RAS**"): The documented expression of risk appetite and risk tolerance which have been approved by the entity's relevant governance committee. The RAS is reviewed and revised, if necessary, on an annual basis.
- Risk profile: The risk profile is defined in terms of three dimensions, namely
    - current or forward risk profile,
    - unstressed or stressed risk profile,
    - pre- or post-management actions.

The current risk profile is the amount or type of risk that the entity is currently exposed to. The unstressed forward risk profile is the forward-looking view of how the entity's risk profile is expected to evolve under expected conditions. The effectiveness of available management actions can be assessed through an analysis of pre- and post-management action risk profiles against risk appetite triggers and tolerance limits.

Stress testing governance framework

Stress testing is subject to the SBSA Group's stress testing governance framework which sets out the responsibilities for and approaches to stress testing activities. Stress testing is a key management tool within the SBSA Group and is used to evaluate the sensitivity of the current and forward risk profiles relative to different levels of risk appetite. Stress testing supports a number of business processes including:

- strategic planning and financial budgeting;
- the internal capital adequacy assessment process, including capital planning and management and the setting of capital buffers;
- liquidity planning and management;
- informing the setting of risk appetite;
- identifying and proactively mitigating risks through actions such as reviewing and changing limits, limiting exposures and hedging;
- facilitating the development of risk mitigation or contingency plans, including recovery plans, across a range of stressed conditions; and
- supporting communication with internal and external stakeholders including industry-wide stress tests performed by the regulator.

Stress testing programme

The stress testing programme uses one or a combination of stress testing techniques, including scenario analysis, sensitivity analysis and reverse stress testing to perform stress testing for different purposes.

CREDIT RISK

Credit risk is the risk of loss arising out of failure of obligors to meet their financial or contractual obligations when due.

SBSA Group's credit risk is a function of its business model and arises from wholesale and retail loans and advances, underwriting and guarantee commitments, as well as from the counterparty credit risk arising from derivatives and securities financing contracts entered into with customers and trading counterparties. To the extent equity risk is held on the banking book, it is also managed under the credit risk governance framework.

The management of credit risk is aligned to SBSA's three lines of defence framework.

The business functions own the credit risk assumed by the SBSA Group and, as the first line of defence, is primarily responsible for its management, control and optimisation in the course of business generation.

The credit function acts as the second line of defence and is responsible for providing independent and objective approval and oversight for the credit risk-taking activities of business, to ensure the process of procuring revenue, while assuming risk, is undertaken with integrity. Further second-line oversight is provided by the Group risk function through independent credit risk assurance. The third line of defence is provided by the Group internal audit ("**GIA**"), under its mandate from the Group audit committee ("**GAC**").

Credit risk is managed through:

- maintaining a culture of responsible lending and a robust risk policy and control framework;
- identifying, assessing and measuring credit risk across the group, from an individual facility level through to an aggregate portfolio level;

- defining, implementing and continually re-evaluating risk appetite under actual and stressed conditions;
- monitoring the group's credit risk exposure relative to approved limits; and
- ensuring that there is expert scrutiny and approval of credit risk and its mitigation independently of the business functions.

SBSA Group's credit governance process relies on both individual responsibility and collective oversight, supported by comprehensive and independent reporting. This approach balances strong corporate oversight at a SBSA Group level, with participation by the senior executives of the SBSA Group and its business units, in all significant risk matters.

Credit risk is governed in accordance with the SBG comprehensive ERM framework as defined and detailed in the SBG credit risk governance standard and the model risk governance framework.

Credit risk is managed through the CIB and PBB credit governance committees, the SBG Equity Risk Committee ("**ERC**") (all subcommittees of GROC) and the intragroup exposure committee (a subcommittee of the Group ALCO). These governance committees are key components of the credit risk management framework. They have clearly defined mandates and delegated authorities, which are reviewed regularly. Their mandates include responsibility for credit concentration risk decision-making and delegation thereof within defined parameters, to credit officers and subcommittees embedded in SBSA.

Key aspects of rating systems and credit risk models are approved by the PBB, CIB and group model approval committees, all of which are mandated by the board as designated committees. Regular model validation and reporting to these committees is undertaken by the independent central validation function.

Exposure to Credit Risk

Loans and advances are analysed and categorised based on credit quality, using the definitions of Stage 1, Stage 2 and Stage 3 (Default) under IFRS 9 and for comparative purposes as Performing and Non-performing loans under IAS 39, as further described in *Credit portfolio characteristics and metrics* on pages 188 and 189.

Please refer to the tables set out on pages 146 to 147 of SBSA's 2018 annual report with regard to SBSA's maximum exposure to credit risk by credit quality as at 31 December 2018 and 31 December 2017.

Collateral

Please refer to the tables set out on pages 149 to 150 of SBSA's 2018 annual report for details of the financial effect that collateral has on SBSA's maximum exposure to credit risk as at 31 December 2017.

Collateral includes:

- financial securities that have a tradable market such as shares and other securities;
- physical items such as property, plant and equipment; and
- financial guarantees, suretyships and intangible assets.

Netting agreements which do not qualify for offset under *International Financial Reporting Standards,* but which are nevertheless enforceable, are included as part of SBSA's collateral for risk management purposes. All exposures are presented before the effect of any impairment provisions. Netting agreements, which do not qualify for offset under IFRS but which are nevertheless enforceable, are included as part of the SBSA Group's collateral for risk management purposes. All exposures are presented before the effect of any impairment provisions. In the retail portfolio, 61 per cent. is fully collateralised (compared to 60 per cent. in 2017).

The R404 million of retail accounts (compared to R362 million in 2017) that lie within the 0 per cent. to 50 per cent. range of collateral coverage mainly comprise accounts which are either in default or legal.

The total average collateral coverage for all retail mortgage exposures in the 50 per cent. to 100 per cent. collateral coverage category is 95 per cent. (which is unchanged from 2017.).

Of the SBSA Group's total exposure, 54 per cent. (compared to 52 per cent. In 2017) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

The SBSA Group does not currently trade commodities that could give rise to physical commodity inventory or collateral exposure with the exception of precious metals. In the normal course of its precious metal trading operations the SBSA Group does not hold allocated physical metal; however, this may occur from time-to-time. Where this does occur, appropriate risk and business approval is required to ensure that the minimum requirements are satisfied, including but not limited to approval of risk limits and insurance cover.

COUNTRY RISK

Country risk, also referred to as cross-border transfer risk, is the uncertainty of whether obligors, (including the relevant sovereign, and including the obligations of bank branches and subsidiaries in a country) will be able to fulfil its obligations to SBSA given political or economic conditions in the host country.

All countries to which the SBSA Group is exposed are reviewed at least annually. Internal rating models are employed to determine ratings for jurisdiction, sovereign and transfer and convertibility risk. In determining the ratings, extensive use is made of SBSA Group's network of operations, country visits and external information sources. These ratings are also a key input into SBSA Group's credit rating models.

The model inputs are continuously updated to reflect economic and political changes in countries. The model outputs are internal risk grades that are calibrated to a jurisdiction risk grade from aaa to d, as well as sovereign risk grade and transfer and convertibility risk grade ("**SB**") from SB01 to SB25. Countries with sovereign/jurisdiction risk ratings weaker than SB07/a, referred to as medium- and high-risk countries, are subject to more detailed analysis and monitoring.

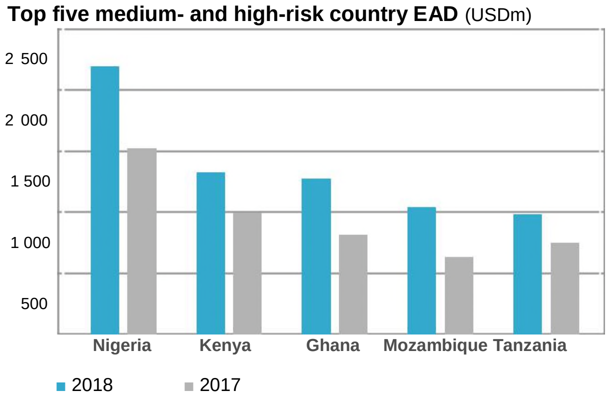
Country risk is mitigated through a number of methods, including:

- political and commercial risk insurance;
- co-financing with multilateral institutions; and
- structures to mitigate transferability and convertibility risk such as collection, collateral and margining deposits outside the jurisdiction in question.

The primary management level governance committee overseeing this risk type is the SBSA Group's Country Risk Management Committee. The principal governance documents are the country risk governance standard.

The risk distribution of cross-border country risk exposures is weighted towards European, Asian and North American low-risk countries, as well as sub-Saharan African medium- and high-risk countries.

The following graph shows SBSA Group's exposure to the top five medium- and high-risk countries for the years indicated. These exposures are in line with the SBSA Group's growth strategy, which focused on Africa.



FUNDING AND LIQUIDITY RISK

Liquidity risk is defined as the risk that an entity, although solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

The nature of banking and trading gives rise to continuous exposure to liquidity risk. Liquidity risk may arise where counterparties, who provide the SBSA Group with short-term funding, withdraw or do not roll over that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

SBSA Group manages liquidity in accordance with applicable regulations and within the SBSA Group's risk appetite framework. The liquidity risk governance standard supports the measurement and management of liquidity across both the corporate and retail sectors to ensure that payment obligations can be met under both normal and stressed conditions. Liquidity risk management ensures that the SBSA Group has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times. The SBSA Group manages liquidity risk as three interrelated pillars, which are aligned to the Basel III liquidity requirements.

The primary management level governance committee overseeing liquidity risk is ALCO, which is chaired by the financial director. The principal governance documents are the liquidity risk governance standard and model risk governance framework.

Basel III liquidity impact

The LCR is a metric introduced by the BCBS to measure a bank's ability to manage a sustained outflow of customer funds in an acute stress event over a 30-day period. The ratio is calculated by taking the SBSA Group's high quality liquid assets ("**HQLA**") and dividing it by net cash outflows. The minimum regulatory LCR requirement for 2018 was 90 per cent., increasing by a further 10 per cent. on 1 January 2019 to reach the full 100 per cent. requirement.

The NSFR metric is designed to ensure that term assets are sufficiently funded by stable sources, such as capital, term borrowings or other stable funds.

Contingency funding plans

Contingency funding plans are designed to protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. The plans incorporate an early warning indicator process supported by clear crisis response strategies.

The plans incorporate an early warning indicator process supported by clear crisis response strategies. Early warning indicators cover bank-specific and systemic crises and are monitored according to assigned frequencies and tolerance levels.

Crisis response strategies are formulated for the relevant crisis management structures and address internal and external communications and escalation processes, liquidity generation management actions and operations, and heightened and supplementary information requirements to address the crisis event.

Liquidity stress testing and scenario analysis

Stress testing and scenario analysis are based on hypothetical as well as historical events. These are conducted on SBSA Group's funding profiles and liquidity positions. The crisis impact is typically measured over a 30 calendar-day period as this is considered the most crucial time horizon for a liquidity event. This measurement period is also consistent with the Basel III LCR requirements.

Anticipated on- and off-balance sheet cash flows are subjected to a variety of bank-specific and systemic stresses and scenarios to evaluate the impact of unlikely but plausible events on liquidity positions. The results are assessed against the liquidity buffer and contingency funding plans to provide assurance as to group's ability to maintain sufficient liquidity under adverse conditions.

Internal stress testing metrics are supplemented with the regulatory Basel III LCR to monitor group's ability to survive severe stress scenarios.

Total contingent liquidity

Portfolios of highly marketable liquid instruments to meet regulatory and internal stress testing requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within ALCO-defined limits on the basis of diversification and liquidity.

The table that follows provides a breakdown of SBSA Group's liquid and marketable securities as at 31 December 2018 and 31 December 2017. Eligible Basel III HQLA are defined according to the BCBS January 2013 LCR and liquidity risk monitoring tools framework. Managed liquidity represents unencumbered marketable securities other than eligible Basel III LCR HQLA (excluding trading assets) which would be able to provide significant sources of liquidity in a stress scenario.

TOTAL CONTINGENT LIQUIDITY

	2018 Rbn	2017 Rbn
Eligible LCR HQLA comprising:	**208.6**	172.3
Notes and coins	**10.4**	12.6
Balances with central banks	**24.1**	23.3
Government bonds and bills	**130.1**	91.3
Other eligible assets	**44.0**	45.1
Managed liquidity	**43.9**	40.6
Total contingent liquidity	**252.5**	212.9
Total contingent liquidity as a % of funding-related liabilities (%)	**22.4**	20.3

Liquid assets held remain adequate to meet all internal stress testing and regulatory requirements.

Structural liquidity requirements

Net stable funding ratio

The Basel III NSFR became effective on 1 January 2018 with the objective to promote funding stability and resilience in the banking sector by requiring banks to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. The ASF is defined as the portion of capital and liabilities expected to be reliable over the one-year time horizon considered by the NSFR. The Required amount of Stable Funding ("**RSF**") is a function of the liquidity characteristics and residual maturities of the various assets (including off-balance sheet exposures) held by the bank. By ensuring that banks do not embark on excessive maturity transformation that is not sustainable, the NSFR is intended to reduce the likelihood that disruptions to a bank's funding sources would erode its liquidity position, increase its risk of failure and potentially lead to broader systemic risk.

Maturity analysis of financial liabilities by contractual maturity

The following table analyses cash flows on a contractual, undiscounted basis based on the earliest date on which SBSA can be required to pay (except for trading liabilities and derivative liabilities which are presented as redeemable on demand) and will therefore not agree directly with the balances disclosed in the consolidated statement of financial position.

Derivative liabilities are included in the maturity analysis on a contractual, undiscounted basis when contractual maturities are essential for an understanding of the derivatives' future cash flows. Management considers only contractual maturities to be essential for understanding the future cash flows of derivative liabilities that are designated as hedging instruments in effective hedge accounting relationships. All other derivative liabilities, together with trading liabilities, are treated as trading and are included at fair value in the redeemable on demand bucket since these positions are typically held for short periods of time. The table also includes contractual cash flows with respect to off-balance sheet items which have not yet been recorded on-balance sheet. Where cash flows are exchanged simultaneously, the net amounts have been reflected.

	Redeemable on demand Rm	Maturing within one month Rm	Maturing between one to six months Rm	Maturing between six to 12 months Rm	Maturing after 12 months Rm	Total Rm
2018						
Financial liabilities						
Derivative financial instruments	**49 546**	**1**	**191**	**137**	**198**	**50 073**
Instruments settled on a net basis	**30 923**	**1**	**104**	**40**	**114**	**31 182**
Instruments settled on a gross basis	**18 623**		**87**	**97**	**84**	**18 891**
Trading liabilities	**29 704**					**29 704**
Deposits from customers and banks	**624 856**	**46 748**	**126 007**	**70 878**	**177 598**	**1 046 087**
Subordinated debt		**58**	**411**	**5 439**	**10 030**	**15 938**
Other		**4 277**				**4 277**
Total	**704 106**	**51 084**	**126 609**	**76 454**	**187 826**	**1 146 079**
Off-balance sheet exposures						
Letters of credit and bankers' acceptances	**13 884**					**13 884**
Guarantees	**47 384**					**47 384**
Irrevocable unutilised facilities	**91 800**					**91 800**
Total	**153 068**					**153 068**
2017						
Financial liabilities						
Derivative financial instruments	71 425		38	115	256	71 834
Instruments settled on a net basis[1]	45 742		(3)	2		45 741
Instruments settled on a gross basis[1]	25 683		41	113	256	26 093
Trading liabilities	38 240					38 240
Deposits from customers and banks	560 120	210	2 537	250 543	162 690	976 100
Subordinated debt			134	344	18 040	18 518
Other		13 060				13 060
Total	669 785	13 270	2 709	251 002	180 986	1 117 752
Off-balance sheet exposures						
Letters of credit and bankers' acceptances	8 940					8 940

Guarantees	43 466	43 466
Irrevocable unutilised facilities	71 899	71 899
Total	124 305	124 305

1 The prior year amounts in the 'one to six months', 'six to 12 months' and 'after 12 months' maturity brackets have been restated as the signage was erroneously transposed.

Funding activities

Funding markets are evaluated on an ongoing basis to ensure appropriate SBSA Group funding strategies are executed depending on the market, competitive and regulatory environment. SBSA Group employs a diversified funding strategy, sourcing liquidity in both the domestic and offshore markets, and incorporates a coordinated approach to accessing loan and debt capital markets across the group.

Primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as loan and debt capital markets. Total funding-related liabilities increased from R1 048 billion as at 31 December 2017 to R1 126 billion as at 31 December 2018.

The following table sets out SBSA Group's funding-related liabilities composition as at 31 December 2018 and 31 December 2017.

FUNDING-RELATED LIABILITIES COMPOSITION[1]

	2018 Rbn	2017 Rbn
Corporate funding	258	247
Retail deposits[2]	252	239
Institutional funding	299	290
Interbank funding	145	110
Government and parastatals	72	62
Senior debt	55	55
Term loan funding	26	28
Subordinated debt issued	19	17
Total funding-related liabilities	**1 126**	1 048

1 Composition aligned to Basel III liquidity classifications.
2 Comprises individual and small business customers.

MARKET RISK

Market risk is the risk of a change in the market value, actual or effective earnings or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.

The governance management level committee overseeing market risk is the Group ALCO. The principal governance documents are the market risk governance standard and the model risk governance framework.

Trading book market risk

Trading book market risk is represented by financial instruments, including commodities, held on the trading book arising out of normal global markets' trading activities.

SBSA Group's policy is that all trading activities are undertaken within the SBSA Group's global markets' operations. The market risk functions are independent of trading operations and accountable to the relevant legal entity ALCO.

All value-at-risk ("**VaR**") and stressed VaR ("**SVaR**") limits require prior approval from the respective entity ALCOs. The market risk functions have the authority to set limits at a lower level.

Market risk teams are responsible for identifying, measuring, managing, monitoring and reporting market risk as outlined in the market risk governance standard.

Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk functions to bring exposures back in line with approved market risk appetite, with such breaches being reported to management and legal entity ALCOs.

Measurement

The techniques used to measure and control trading book market risk and trading volatility include VaR and SVaR, stop-loss triggers, stress tests, backtesting and specific business unit and product controls.

VaR and SVaR

The SBSA Group uses the historical VaR and SVaR approach to quantify market risk under both normal and stressed conditions. For risk management purposes, VaR is based on 251 days of unweighted recent historical data updated at least monthly, a holding period of one day and a confidence interval of 95 per cent. SVaR uses a similar methodology to VaR, but is based on a 251-day period of financial stress, which is reviewed quarterly, and assumes a 10 day holding period and a worst case loss.

Where the SBSA Group has received internal model approval, the market risk regulatory capital requirement is based on a VaR and SVaR, both of which use a confidence level of 99 per cent. and a 10-day holding period.

Limitations of historical VaR are acknowledged globally and include:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;

- The use of a one-day holding period assumes that all positions can be liquidated or the risk offset in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully; and

- The use of a 95 per cent. confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.

VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures. VaR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

In general, the SBSA Group's trading desks have run similar levels of market risk throughout 2018 when compared to 2017 aggregate normal VaR, and reduced levels when compared to aggregate SVaR.

The following table sets out the trading book normal VaR analysis by market variable:

TRADING BOOK NORMAL VAR ANALYSIS BY MARKET VARIABLE

	Normal VaR			
	Maximum[1]	Minimum[1]	Average	Closing
	Rm	Rm	Rm	Rm
2018				
Commodities risk	**3**	**0.2**	**1**	**2**
Foreign exchange risk	**17**	**6**	**10**	**10**
Equity position risk	**12**	**2**	**6**	**8**
Debt securities	**26**	**9**	**14**	**15**
Diversification benefits[2]			**(9)**	**(14)**
Aggregate	**35**	**14**	**22**	**21**
2017				
Commodities risk	2	0.05	0.3	0.7
Foreign exchange risk	37	10	21	11
Equity position risk	12	3	6	5
Debt securities	20	9	13	10
Diversification benefits[2]			(12)	(10)
Aggregate	45	13	29	17

1 The maximum and minimum VaR figures reported for each market variable do not necessarily occur on the same day. As a result, the aggregate VaR will not equal the sum of the individual market VaR values, and it is inappropriate to ascribe a diversification effect to VaR when these values may occur on different days.

2 Diversification benefit is the benefit of measuring the VaR of the trading portfolio as a whole, that is, the difference between the sum of the individual VaRs and the VaR of the whole trading portfolio.

Trading book issuer risk

Equity and credit issuer risk is assumed in the trading book by virtue of normal trading activity and is managed according to the SBSA Group's market risk governance standard. These exposures arise from, among others, trading in equities, debt securities issued by corporate and government entities as well as trading credit derivative transactions with other banks and corporate clients.

The credit spread and equity issuer risk is incorporated into the daily price movements used to compute VaR and SVaR, as mentioned above for issuer risk and transactions that incorporate material counterparty value adjustment and debit value adjustments.

The VaR models used for credit spread and equity issuer risk are only intended to capture the risk presented by historical day-to-day market movements, and therefore do not take into account instantaneous or jump to default risk. Issuer risk is incorporated in the standardised approach interest rate risk charge.

Stop-loss triggers

Stop-loss triggers are used to protect the profitability of the trading desks and are monitored by market risk on a daily basis. The triggers constrain cumulative or daily trading losses through acting as a prompt to a review or close-out positions.

Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical, hypothetical and Monte Carlo simulations. Daily losses experienced during the year ended 31 December 2018 did not exceed the maximum tolerable losses as represented by the SBSA Group's stress scenario limits.

Backtesting

SBSA backtests its VaR models to verify the predictive ability of the VaR calculations and to ensure the appropriateness of the models within the inherent limitations of VaR.

Backtesting compares the daily hypothetical profit and losses under the one-day buy and hold assumption to the prior day's calculated VaR. In addition, VaR is tested by changing various model parameters, such as confidence intervals and observation periods to test the effectiveness of hedges and risk-mitigation instruments. Regulators categorise a VaR model as green, amber or red and assign regulatory capital multipliers based on this categorisation. A green model is consistent with a satisfactory VaR model and is achieved for models that have four or less backtesting exceptions in a 12-month period at 99 per cent. VaR. All of the SBSA Group's approved models were assigned green status by the SARB for the year ended 31 December 2018.

Specific business unit and product controls

Other market risk limits and controls specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenor, stop loss triggers price validation and balance sheet substantiation.

Interest rate risk in the banking book

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

SBSA's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the SBSA operates. SBSA's treasury and capital management team monitors banking book interest rate risk on a monthly basis operating under the oversight of group ALCO.

Measurement

The analytical techniques used to quantify interest rate risk in the banking book include both earnings- and valuation-based measures. The analysis takes account of embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis.

Equity risk in the banking book

Equity risk is defined as the risk of loss arising from a decline in the value of equity or an equity-type instrument held on the banking book, whether caused by deterioration in the underlying operating asset performance, net asset value, enterprise value of the issuing entity, or by a decline in the market price of the equity or instrument itself.

Though issuer risk in respect of tradable equity instruments constitutes equity risk, such traded issuer risk is managed under the trading book market risk framework.

Equity risk relates to all transactions and investments subject to approval by the SBSA's Equity Risk Committee, in terms of that committee's mandate, and includes debt, quasi-debt and other instruments that are considered to be of an equity nature.

For the avoidance of doubt, equity risk in the banking book excludes strategic investments in the SBSA Group's subsidiaries, associates and joint ventures deployed in delivering the SBSA Group's business and service offerings unless the group financial director and group chief risk officer deem such investments to be subject to the consideration and approval by the group ERC.

The table below illustrates sensitivity for all non-trading equity investments assuming a 10 per cent. shift in the fair value. The analysis is shown before tax.

MARKET RISK SENSITIVITY OF NON-TRADING EQUITY INVESTMENTS

	10% reduction in fair value Rm	Fair value Rm	10% increase in fair value Rm
2018			
Equity securities listed and unlisted	**2 176**	**2 418**	**2 660**
Listed		**34**	
Unlisted		**2 384**	
Impact on profit and loss	**(242)**		**242**
Impact on equity			
2017			
Equity securities listed and unlisted	2 724	3 027	3 330
Listed		467	
Unlisted		2 560	
Impact on profit and loss	(297)		297
Impact on equity	(6)		6

Foreign currency risk

The SBSA Group's primary non-trading related exposures to foreign currency risk arise as a result of the translation effect of the SBSA Group's net assets in foreign operations, intragroup foreign-denominated debt and foreign-denominated cash exposures and accruals.

The Foreign Currency Management Committee, a sub-committee of the Capital Management Committee, manages the risk according to existing legislation, South African exchange control regulations and accounting parameters.

It takes into account naturally offsetting risk positions and manages the SBSA Group's residual risk by means of forward exchange contracts, currency swaps and option contracts.

Foreign currency risk sensitivity analysis

The table that follows reflects the expected financial impact, in rand equivalent, resulting from a 10 per cent. shock to foreign currency risk exposures, against ZAR. The sensitivity analysis is based on net open foreign currency exposures arising from designated net investment hedges, other derivative financial instruments, foreign–denominated cash balances and accruals and intragroup foreign denominated debt. The sensitivity analysis reflects the sensitivity to OCI and profit or loss on the SBSA Group's foreign denominated exposures other than those trading positions for which sensitivity has been included in the trading book VaR analysis.

FOREIGN CURRENCY RISK SENSITIVITY IN ZAR EQUIVALENTS[1]

		USD	Euro	GBP	NGN	Other	Total
2018							
Total net long/(short) position	Rm	**80**	**9**	**10**		**(2)**	**97**
Sensitivity (ZAR depreciation)	%	**10**	**10**	**10**	**10**	**10**	
Impact on profit or loss	Rm	**(8)**	**(1)**	**(1)**		**22**	**12**
2017							
Total net long/(short) position	Rm	57	6	14	2	(1)	78
Sensitivity (ZAR depreciation)	%	10	10	10	10	10	
Impact on profit or loss	Rm	(6)	(1)	(1)		18	10

1 Before tax.

OPERATIONAL RISK

Operational risk is defined as the risk of loss suffered as a result of the inadequacy of, or a failure in, internal processes, people and/or systems or from external events.

Operational risk exists in the natural course of business activity. The SBSA Group's operational risk governance framework sets minimum standards for operational risk management adopted across the SBSA Group. The purpose of operational risk management is not to eliminate all risks, which is not viable, but rather to enable management to weigh the payoff between risk and reward. The framework ensures that adequate and consistent governance is in place, guiding management to avoid unacceptable risks such as:

- breaking the law;
- damaging SBSA's reputation;
- disrupting services to customers;
- wilful conduct failures;
- inappropriate market conduct;
- knowingly breaching regulatory requirements; and
- causing environmental damage.

SBSA's approach to managing operational risk is to adopt fit-for-purpose operational risk practices that assist line management in understanding their residual risk and managing their risk profile within risk appetite. The management of operational risk primarily resides in first line, supported by second line with dedicated centres of excellence. The operational risk management function forms part of the second line of defence and is an independent area, reporting to the Group chief risk officer.

Operational risk subtypes are managed and overseen by specialist functions. These subtypes include:

- cyber risk;
- model risk;
- tax risk;
- legal risk;
- environmental and social risk;
- technology risk;
- information risk;

- third-party risk;
- people risk;
- business disruption risk;
- compliance risk; and
- fraud risk.

The primary management level governance committees overseeing operational risk are the ROC and the Operational Risk Committee. The primary governance documents are the operational risk governance standard and the operational risk governance framework. Operational risk subtypes report to various governance committees and have various governance documents applicable to each risk subtype.

THE BANKING SECTOR IN SOUTH AFRICA

The South African banking system is well developed and effectively regulated, comprising a central bank, several large, financially strong banks and investment institutions, and a number of smaller banks. Many foreign banks and investment institutions have also established operations in South Africa over the past decade. The Government is a subscriber to the IMF and World Bank regulations and policies. South African banks are regulated by the SARB. Recently South Africa has implemented the Basel III framework through amendments to the Regulations Relating to Banks which became effective on 1 January 2013. South Africa is a member of the International Liaison Group of the BCBS. The South African banking regulator actively participates in international regulatory and supervisory standard-setting forums at which it is represented and provides input into the continued refinement of the supervisory framework in terms of Basel III.

The National Payment System Act, 1998 was introduced to bring the South African financial settlement system in line with international practice and systematic risk management procedures. The Payment Association of South Africa, under the supervision of the SARB, has facilitated the introduction of payment clearing house agreements. It has also introduced agreements pertaining to settlement, clearing and netting agreements, and rules to create certainty and reduce systemic and other risks in inter-bank settlement. These developments have brought South Africa in line with international inter-bank settlement practice. Electronic banking facilities are extensive, with a nationwide network of automatic teller machines and internet banking being available.

Regulation

Financial regulation legislation in South Africa is increasingly following international best practice through the accords of international bodies such as the Bank of International Settlements ("**BIS**"); the International Organization of Securities Commissions; and the International Association of Insurance Supervisors. Banks in South Africa are governed by various Acts and legislation, most significantly the Banks Act, which is primarily based on similar legislation in the United Kingdom, Australia and Canada.

South African Government Policy Priorities

The Government issued a policy paper on 1 February 2013 titled "*Implementing a twin peaks model of financial regulation in South Africa*", which follows the original policy paper issued on 23 February 2011, "*A Safer Financial Sector to Serve South Africa Better*". These documents enunciate Government's strategic regulatory objectives. The documents identify four policy priorities to reform the financial sector, namely: financial stability; consumer protection and market conduct; expanding access of financial services through inclusion; and combating financial crime. Achieving these objectives will evidently necessitate a change in the South African regulatory landscape from both a structural and a policy perspective including the introduction of a "twin-peaks" approach to financial sector regulation in terms of which macro prudential regulation will be mandated separately from market conduct and consumer protection regulation.

The introduction of a "twin-peaks" approach to financial sector regulation is primarily aimed at the enhancement of systemic stability, improving market conduct regulation, sound micro- and macro prudential regulation and the strengthening of the operational independence, governance and accountability of regulators. The perimeters of regulation will continue to be expanded to cover all sources of systemic risk, the regulation of all private pools of capital (for example, hedge funds and over-the-counter derivatives, in respect of which draft regulations were published in the first half of 2015) and unregulated financial activities such as the functioning of credit rating agencies (now regulated by the Credit Rating Services Act, 2012).

To pave the way for the phasing-in of the "twin peaks" model, the South African Parliament enacted the Financial Services Laws General Amendment Act 2013 (the "**Amendment Act**"). The Amendment Act took effect for the most part on 28 February 2014, with only particular provisions singled out for commencement at a later date. The Amendment Act contains a raft of amendments to eleven key pieces of financial sector legislation, and seeks to ensure that South Africa continues to have a sound and better-regulated financial services industry which promotes financial stability by strengthening the financial sector regulatory framework, enhancing the supervisory powers of the regulators and enhancing the powers of the Government to address potential risks to the financial system even during the transition to the twin peaks system. The memorandum published together with the Amendment Act makes it clear that the Amendment Act did not cover the more fundamental reforms envisaged in the shift towards a twin peaks model of financial regulation, but rather addressed the more urgent legislative gaps and the removal of inconsistencies in current legislation.

The FSR Act, which was signed into law on 21 August 2017 and which commenced (with the exception of a couple of transitional periods) on 1 April 2018, is the first in a series of bills that will give effect to the Government's decision to implement the "twin-peaks" model of financial regulation (discussed above) with a view to ensuring that the sector is safer and more effective.

The FSR Act reflects the Government's undertaking to eliminate lending malpractices, protect customers and reduce systemic risk through increased market conduct regulation. The FSR Act established two financial sector regulators, namely the FSCA, which regulates market conduct with a purview over the full range of financial services related matters (such as the regulation of bank charges) and the PA which is responsible for the oversight of the safety and soundness of banks, insurers and financial conglomerates. The FSCA is mandated to protect customers of financial services, improve the way in which financial service providers conduct their business, ensure that the integrity and efficiency of the financial markets is maintained, and promote effective financial consumer education.

The objective of the PA is to promote and enhance the safety and soundness of financial institutions that provide financial products, market infrastructures and payment systems to protect financial customers, including depositors, against the risk that those financial institutions may fail to meet their obligations.

The current legislative framework that underpins market conduct and consumer protection includes the following legislation: Financial Advisory and Intermediary Services Act, 2002, the Consumer Protection Act, 2008, the National Credit Amendment Act, 2014 as well as a comprehensive set of principles relating to Treating Customers Fairly as released by the National Treasury in the form of a discussion paper in December 2014.

The Government seeks to ensure financial stability through macro prudential regulation in line with international standards and measures including: improving the quality of capital; reducing pro-cyclicality; setting leverage and liquidity ratios; and issuing compensation guidelines. It further requires swift regulatory action to prevent contagion and proposes a more intense, intrusive and effective form of regulation. Government has commenced with the process of implementing regulations that will eventually be expanded to cover all sources of systemic risk including the regulation of all private pools of capital. In this regard, the Minister of Finance signed into law the Financial Markets Act Regulations (the "**FMA Regulations**") on 9 February 2018. The FMA Regulations provide the framework for regulation of over-the-counter derivative transactions in South Africa and the FSCA conduct standards, published in connection with the FMA Regulations, set out the reporting requirements and code of conduct for over-the-counter derivative providers. The mandatory clearing and margining requirements for over-the-counter derivative providers are still to be finalised by the FSCA.

Anti-money laundering regulations

The Government has identified the combating of financial crime as a policy priority. As a result thereof, South Africa has a well-established anti-money laundering ("**AML**") / Combating the Financing of Terrorism ("**CFT**") legislative framework which includes but is not limited to the FICA and the Protection of Constitutional Democracy Against Terrorist and Related Activities Act, 2004. The Mutual Evaluation Report issued by the Financial Action Task Force, (an inter-governmental AML policy-making and standards setting body) in 2009 confirmed that South Africa has demonstrated a strong commitment to implementing AML/CFT systems facilitated by close cooperation and coordination amongst a variety of government departments and agencies. The Mutual Evaluation Report also stated that the South African authorities have sought to construct a system which uses, as its reference, the relevant United Nations Security Council Conventions and the international standards as set out by the Financial Action Task Force, and that the South African government also recognises the importance of being able to effectively respond to international instruments such as sanctions resolutions.

The PA strives to maintain an effective compliance framework and operational capacity to supervise compliance by banks with AML/CFT standards. The PA (previously the Banking Supervision Department) regularly conducts FICA compliance inspections of the accountable institutions that it supervises, and the scope of these visits would include the assessment of compliance with FICA guidance notes, directives and circulars. The SARB is empowered to conduct these inspections and perform other supervisory duties by virtue of section 45 of FICA.

Flowing from these responsibilities, in April 2013, the SARB conducted AML/CFT inspections to assess whether all of the major banks in the South African market had adopted appropriate measures to ensure compliance with the requirements of FICA.

As a result, thereof, the SARB imposed administrative sanctions and directives to implement remedial action on a number of banks, including SBSA. The sanction imposed on SBSA relates to the failure by SBSA to ensure that appropriate measures were in place to comply fully with the provisions of FICA.

SBSA took immediate remedial action to address the issues identified by the SARB and initiated a programme to address the SARB findings. The required action plans are closely monitored and progress is tracked and reported to the SARB on a regular basis. The remedial programme is scheduled for completion at the end of 2015 in accordance with the directive received from the SARB. The SARB has not expressed any dissatisfaction with SBSA's remedial action plans.

The SARB noted in its press release that the "administrative sanctions are not an indication that the banks in question have in any way facilitated transactions involving money laundering and the financing of terrorism".

SBG is committed to and supports global efforts to combat money laundering and terrorist financing. Consequently, SBG has established and adopted policies and procedures to assist it to comply with money laundering and terrorist financing control requirements in each jurisdiction in which it operates and to ensure the recognition, investigation and reporting of suspicious activity to the relevant authorities. SBG also continues to take measures to effect enhancements to its processes in order to address global AML/CFT risks.

SARB

SARB is responsible for bank regulation and supervision in South Africa with the purpose of achieving a sound, efficient banking system in the interest of the depositors of banks and the economy as a whole. The SARB holds various international memberships including the G-20, the IMF, the BIS and the Committee of Central Bank Governors in the Southern African Development Community. The SARB serves on various BIS committees including the BCBS and the Committee on Payments and Settlement Systems. The SARB performs its function of bank regulation and supervision through the PA, which issues banking licences to institutions and monitors their activities under the applicable legislation. The PA has extensive regulatory and supervisory powers. Every bank is obliged to furnish certain prescribed returns to the PA in order to enable the banking regulator to monitor compliance with the formal, prudential and other requirements imposed on banks in terms of, *inter alia*, the Banks Act and the Regulations Relating to Banks. Such regulations may be, and are, amended from time to time in order to provide for amendments and additions to the prescribed returns, and the frequency of submission thereof. The PA acts with relative autonomy in executing its duties, but has to report annually to the Minister of Finance, who in turn has to table this report in Parliament.

In terms of the Banks Act, the PA, among other things, supervises banking groups on a consolidated basis from the bank controlling company downwards. In this regard, controlling companies of banks are required to submit, on a quarterly basis, a consolidated supervision return which includes information on all of the entities within that banking group that potentially constitute a material or significant risk to that banking group. The return covers issues such as group capital adequacy, group concentration risk, intra-group exposures and group currency risk. Moreover, a bank controlling company is also required to furnish the regulator, on a quarterly basis, with bank consolidated and group consolidated information which includes a detailed balance sheet, an off-balance sheet activities return and an income statement.

A banking group is required to satisfy the regulator's requirements in respect of the adequacy and effectiveness of its management systems for monitoring and controlling risks, including those in its offshore operations, and the integrity of its accounting records and systems. Banking groups are required to comply with the provisions of the Banks Act as well as with all financial and prudential requirements, including minimum capital and liquidity requirements, which are actively monitored by the banking regulator. In addition, banking groups have to satisfy the banking regulator's requirements pertaining to issues such as overall financial soundness worldwide, including the quality of its loan assets and the adequacy of its provisioning policy. As part of its supervisory process, the banking regulator undertakes on-site and off-site examinations. The banking supervisor seeks to apply the Core Principles for Effective Banking Supervision as issued by the BCBS.

The Issuer, as a banking group, is supportive of the SARB's objectives and endorses improvements in risk management and governance practices as an active participant in the new regulatory landscape. The same approach is also applied in respect of the Issuer's cooperation with other regulatory authorities and much effort and resources are dedicated in a cost efficient manner in order to reap maximum benefits emanating from the implementation of best practice and the resultant enablement of its global business activities.

Currently the banking industry works within a three tiered framework:

(a) the Banks Act (effecting changes to the Banks Act requires Parliamentary approval);

(b) the Regulations Relating to Banks (changes to the Regulations Relating to Banks require the approval of the South African Minister of Finance); and

(c) Banks Act circulars, directives and guidance notes.

 (i) Circulars may be issued by the PA to furnish banks with guidelines regarding the application and interpretation of the provisions of the Banks Act;

 (ii) Guidance notes may be issued by the PA in respect of market practices or market and industry developments; and

 (iii) Directives may be issued by the PA, after consultation with the affected parties, to prescribe certain processes or procedures to be followed by banks with regard to certain processes or procedures necessary in the administration of the Banks Act. It is obligatory for banks to comply with its prescriptions.

The Banks Act and Regulations Relating to Banks, circulars, directives and guidance notes issued by the PA set out the framework governing the formal relationship between South African banks and the PA. Pursuant to this legislation, SBSA and representatives of the PA meet at regular bilateral meetings (between SBSA's Board of Directors and the PA), annual trilateral meetings (between SBSA's Board of Directors, the PA and SBSA's auditors) and prudential meetings (which usually include meetings with risk management executives and the heads of each of SBSA's business divisions). SBSA also engages in frequent on-site reviews with the PA’s supervisory team which cover a range of topics including an assessment of SBSA's performance against its peer group.

The prudential regulation and supervision of banks furthermore assists the SARB in its pursuit of financial system stability. Similar to other central banks, the SARB is placing increased emphasis on macro-prudential aspects of financial stability.

In response to fundamental weaknesses in international financial markets, revealed by the recent global financial crisis, a large volume of new regulatory and supervisory standards and requirements were issued by international standard-setting bodies such as the BCBS. The incorporation of the changes and enhancements into the domestic regulatory framework requires an ongoing review of South African banking legislation and regulatory requirements in order to ensure the appropriate alignment of the regulatory framework with international standards. In this regard, both the Banks Act and the Regulations Relating to Banks are amended from time to time. As an example, the implementation of Basel III (which commenced on 1 January 2013 and will continue up to the end of 2018 in line with the timelines determined by the BCBS), necessitated, and will require certain further, amendments to the legal framework for the regulation and supervision of banks in South Africa.

SBSA views its relationship with the PA as being of the utmost importance and it is committed to fostering sound banking principles for the industry as a whole. In this regard, SBSA is a member of the Banking Association of South Africa, whose role is to establish and maintain the best possible platform on which banking groups can conduct competitive, profitable and responsible banking.

Current Environment

As at 31 December 2018, there were 18 registered banks, 4 mutual banks, 4 co-operative banks, 15 local branches of foreign banks and 30 representative offices of foreign banks in South Africa (Source: SARB website). In addition, as at 31 December 2018, the South African banking sector had total assets of ZAR5.5 trillion according to statistics published by the SARB (Source: BA900, December 2018) . The five largest banks by assets (Source: BA900, 31 December 2017) were Absa Bank Limited, FirstRand Bank Limited, Investec Bank Limited, Nedbank Limited and The Standard Bank of South Africa Limited.

EXCHANGE CONTROL

The information below is not intended as legal advice and it does not purport to describe all of the considerations that may be relevant to a prospective purchaser of Notes. Prospective purchasers of Notes who are non-South African residents or emigrants from the Common Monetary Area (defined below) are urged to seek further professional advice in regard to the purchase of Notes.

Exchange controls restrict the export of capital from South Africa, Namibia and the Kingdoms of Swaziland and Lesotho (collectively the "**Common Monetary Area**"). These exchange controls are administered by the FSD and regulate transactions involving South African residents. The purpose of exchange controls is to mitigate the decline of foreign capital reserves in South Africa. SBSA and SBG expect that South African exchange controls will continue to operate for the foreseeable future. The Government has, however, committed itself to gradually relaxing exchange controls and significant relaxation has occurred in recent years. It is the stated objective of the South African authorities to achieve equality of treatment between South African residents and non-South African residents in relation to inflows and outflows of capital. This gradual approach towards the abolition of exchange controls adopted by the South African government is designed to allow the economy to adjust more smoothly to the removal of controls that have been in place for a considerable period of time.

As at the date of this Prospectus, the prior written approval of the FSD is required for the issuance of each Tranche of Notes issued under the Programme. SBSA and/or SBG will, if applicable at that time, obtain the prior written approval of the FSD for the issuance of each Tranche of the Notes under the Programme. The Final Terms applicable to each Tranche of Notes issued under the Programme will, if applicable at that time, be required to contain a statement that the requisite FSD approval has been obtained for that issuance.

In addition, no South African residents and/or their offshore subsidiaries may subscribe for or purchase any Note or beneficially hold or own any Note other than in strict compliance with the South African exchange control regulations in effect from time to time.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in that country or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date. It relates only to the position of Noteholders who are the absolute beneficial owners of the Notes.

Withholding Tax

Under current taxation law in South Africa, all payments made under the Notes to South African tax-resident Noteholders will be made free of withholding or deduction for or on account of any taxes, duties, assessments or governmental charges in South Africa. A withholding tax on South African sourced interest (see the section headed "*Income Tax*" below) paid to or for the benefit of a "foreign person" (being any person that is not a South African tax-resident) applies at a rate of 15 per cent. of the amount of interest in terms of section 50A-50H of the Income Tax Act, No 58 of 1962 (the "**Income Tax Act**"). The withholding tax could be reduced by the application of relevant double taxation treaties. The legislation exempts, inter alia, from the withholding tax on interest any amount of interest paid by a bank as defined in the Banks Act, to a foreign person. It is envisaged that this exemption would apply to the interest payments made to foreign Noteholders where SBSA is the Issuer of the Notes. The withholding tax legislation also provides an exemption for interest paid to a foreign person in respect of any debt listed on a "recognised exchange" as defined in paragraph 1 of the eighth schedule of the Income Tax Act. The Market of the London Stock Exchange would qualify as such an exchange, and therefore, subject to any legislative changes, the interest paid on the Notes listed on the London Stock Exchange will be exempt from interest withholding tax under the Income Tax Act. A foreign person will also be exempt from the withholding tax on interest if:

(a) that foreign person is a natural person who was physically present in South Africa for a period exceeding 183 days in aggregate during the twelve-month period preceding the date on which the interest is paid; or

(b) the debt claim in respect of which that interest is paid is effectively connected with a permanent establishment of that foreign person in South Africa, if that foreign person is registered as a taxpayer in South Africa.

Foreign persons are subject to normal South African income tax on interest sourced in South Africa unless exempted under Section 10(1)(h) of the Income Tax Act (see the section headed "*Income Tax*" below).

Securities Transfer Tax ("STT")

No STT is payable on the issue or transfer of Notes (bonds) under the Securities Transfer Tax Act, No. 25 of 2007, because they do not constitute securities (as defined) for the purposes of that Act.

Value-Added Tax ("VAT")

No VAT is payable on the issue or transfer of Notes. Notes (bonds) constitute "debt securities" as defined in section 2(2)(iii) of the South African Value-Added Tax Act, No. 89 of 1991 (the "**VAT Act**"). The issue, allotment, drawing, acceptance, endorsement or transfer of ownership of a debt security is a financial service, which is exempt from VAT in terms of section 12(a) of the VAT Act.

Commissions, fees or similar charges raised for the facilitation, issue, allotment, drawing, acceptance, endorsement or transfer of ownership of Notes (bonds) that constitute "debt securities" will however be subject to VAT at the applicable prevailing rate, except where the recipient is a non-resident as contemplated below.

Services (including exempt financial services) rendered to non-residents who are not in South Africa when the services are rendered, are subject to VAT at the zero rate in terms of section 11(2)(l) of the VAT Act.

Income Tax

Under current taxation law effective in South Africa a "resident" (as defined in section 1 of the Income Tax Act) is subject to income tax on his/her worldwide income. Accordingly, all Noteholders who are "residents" of South Africa will generally be liable to pay income tax, subject to available deductions, allowances and exemptions, on any interest earned pursuant to the Notes.

Non-residents of South Africa are subject to income tax on all income derived from a source, or deemed to be from a source, within South Africa (subject to domestic exemptions or relief in terms of an applicable double taxation treaty).

Interest income is from a South African source if that amount:

(a) is incurred by a South African tax resident, unless the interest is attributable to a permanent establishment which is situated outside of South Africa; or

(b) is derived from the utilisation or application in South Africa by any person of any funds or credit obtained in terms of any form of "interest-bearing arrangement".

Each Issuer is a South African tax resident and the Notes will constitute an "interest-bearing arrangement". Accordingly, the interest paid to the Noteholders will be from a South African source and subject to South African income tax unless such interest is exempt from income tax under section 10(1)(h) of the Income Tax Act (see below).

Under section 10(1)(h) of the Income Tax Act interest received by or accruing to a Noteholder who, or which, is not a resident of South Africa during any year of assessment is exempt from income tax, unless:

(a) that person is a natural person who was physically present in South Africa for a period exceeding 183 days in aggregate during the twelve-month period preceding the date on which the interest is received or accrued by or to that person; or

(b) the debt from which the interest arises is effectively connected to a permanent establishment of that person in South Africa.

Interest as defined in section 24J of the Income Tax Act (including the premium or discount) may qualify for the exemption under section 10(1)(h) of the Income Tax Act. If a Noteholder does not qualify for the exemption under section 10(1)(h) of the Income Tax Act, exemption from, or reduction of any South African income tax liability may be available under an applicable double taxation treaty.

Purchasers are advised to consult their own professional advisers as to whether the interest income earned on the Notes will be exempt under section 10(1)(h) of the Income Tax Act or under an applicable double taxation treaty.

Under section 24J of the Income Tax Act, broadly speaking, any discount or premium to the Nominal Amount of a Note is treated as part of the interest income on the Note. Section 24J of the Income Tax Act deems interest income to accrue to a Noteholder on a day-to-day basis until that Noteholder disposes of the Note. The day-to-day basis accrual is determined by calculating the yield to maturity and applying this rate to the capital involved for the relevant tax period.

Section 24JB of the Income Tax Act contains specific provisions relating to the fair value taxation of financial instruments for "covered persons" (as defined in section 24JB of the Income Tax Act). Noteholders should seek advice as to whether this provision may apply to them.

Purchasers of Notes are advised to consult their own professional advisors to ascertain whether the abovementioned provisions may apply to them.

Capital Gains Tax

Capital gains and losses of residents of South Africa on the disposal of Notes are subject to capital gains tax, unless the Notes are purchased for re-sale in the short term as part of a scheme of profit making, in which case the proceeds will be subject to income tax. Any discount or premium on acquisition which has already been treated as interest for income tax purposes, under section 24J of the Income Tax Act will not be taken into account when determining any capital gain or loss. If the Notes are disposed of or redeemed prior to or on maturity, an "adjusted gain on transfer or redemption of an instrument", or an "adjusted loss on transfer or redemption of an instrument", as contemplated in section 24J of the Act, must be calculated. Any such adjusted gain or adjusted loss is deemed to have been incurred or to have accrued in the year of assessment in which the transfer or redemption occurred. The calculation of the adjusted gain or adjusted loss will take into account, inter alia, all interest which has already been deemed to accrue to the Noteholder over the term that the Note has been held by the Noteholder. Under section 24J(4A) of the Income Tax Act, where an adjusted loss on transfer or redemption of an instrument realised by a holder of a Note includes any amount representing interest that has previously been included in the income of the holder, that amount will qualify as a deduction from the income of the holder during the year of assessment in which the transfer or redemption takes place and will not give rise to a capital loss

Capital gains tax under the Eighth Schedule to the Income Tax Act will not be levied in relation to Notes disposed of by a person who is not a resident of South Africa unless the Notes disposed of are attributable to a permanent establishment of that person in South Africa.

To the extent that a Noteholder constitutes a "covered person" (as defined in section 24JB of the Income Tax Act) and section 24JB applies to the Notes, the Noteholder will be taxed in accordance with the provisions of section 24JB of the Act and the capital gains tax provisions would not apply.

Purchasers are advised to consult their own professional advisers as to whether a disposal of Notes will result in capital gains tax consequences.

Definition of Interest

The references to "interest" above mean "interest" as understood in South African tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the Conditions or any related documentation.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. Each Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including South Africa) have entered into, or have agreed in substance to, intergovernmental agreements with the U.S. to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining passthru payments are published in the U.S. Federal Register and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. However, if additional notes that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, the relevant Issuer will not be required to pay additional amounts as a result of the withholding.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each, other than Estonia, a "**participating Member State**"). However, Estonia has ceased to participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary' market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, HSBC Bank plc, ICBC International Securities Limited, ING Bank N.V., J.P. Morgan Securities plc, Merrill Lynch International, MUFG Securities EMEA plc, Mizuho International plc, NatWest Markets Plc, Société Générale, Standard Chartered Bank, The Standard Bank of South Africa Limited (acting through its Corporate and Investment Banking Division) and UBS AG London Branch (the "**Dealers**"). The arrangements under which Notes may from time to time be agreed to be sold by any Issuer to, and purchased by, Dealers are set out in an Amended and Restated Dealer Agreement dated 10 May 2019 (the "**Dealer Agreement**") and made between the Issuers and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the relevant Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

Certain of the Dealers and their respective affiliates (as defined under Rule 501(b) of Regulation D of the Securities Act) may have engaged in transactions with any Issuer in the ordinary course of their banking business and may have performed various investment banking, financial advisory and other services for any Issuer, for which they receive customary fees, and certain of the Dealers and their respective affiliates (as defined under Rule 501(b) of Regulation D of the Securities Act) may provide such services in the future.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates (as defined under Rule 501(b) of Regulation D of the Securities Act) may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of any Issuer or its affiliates. Certain of the Dealers or their affiliates (as defined under Rule 501(b) of Regulation D of the Securities Act) that have a lending relationship with any Issuer routinely hedge their credit exposure to such Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates (as defined under Rule 501(b) of Regulation D of the Securities Act) would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates (as defined under Rule 501(b) of Regulation D of the Securities Act) may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

United States of America

Regulation S Category 2 TEFRA D, unless TEFRA C is specified as applicable in the relevant Final Terms.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Fiscal Agent or the relevant Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Fiscal Agent or the relevant Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer and its affiliates (as defined under Rule 501(b) of Regulation D of the Securities Act) will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to any retail investor in the EEA. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

   (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

   (ii) a customer within the meaning of Directive 2002/92/EC (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II, as amended or superseded; or

   (iii) not a qualified investor as defined in the Prospectus Directive; and

(b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented, warranted and agreed, and each new Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(a) ***No deposit taking***: in relation to any Notes having a maturity of less than one year:

   (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

   (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

      (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

      (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

   where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the relevant Issuer;

(b) ***Financial promotion***: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the relevant Issuer; and

(c) ***General compliance***: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Australia

No Issuer is a bank or an authorised deposit-taking institution which is authorised under the Banking Act 1959 of the Commonwealth of Australia (the "**Banking Act**") to carry on banking business nor is any Issuer subject to prudential or other supervision by the Australian Prudential Regulation Authority ("**APRA**"). The Notes are neither "protected accounts" nor "deposit liabilities" within the meaning of the Banking Act. The obligations of the Issuers are not guaranteed by the Commonwealth of Australia. An investment in Notes is not covered by the depositor protection provisions in section 13A of the Banking Act, and will not entitle holders of Notes to claim under Division 2AA (Financial claims scheme for account-holders with insolvent ADIs) in the Banking Act. Without limiting other restrictions on transfer, each transfer of Notes in the Australian capital markets must comply with Banking exemption No. 1 of 2018 dated 21 March 2018 promulgated under the Banking Act and with any Guidelines published by APRA from time to time.

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the "**Australian Corporations Act**")) in relation to the Programme or any Notes has been, or will be, lodged with, or registered by, the Australian Securities & Investments Commission ("**ASIC**") or any other regulatory authority in Australia.

Each Dealer has represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, that it:

(a) has not (directly or indirectly) offered or invited applications, and will not offer or invite applications, for the issue, sale or purchase of, any Notes in, to or from Australia (including an offer or invitation which is received by a person in Australia); and

(b) has not distributed or published, and will not distribute or publish, any draft, preliminary or definitive offering memorandum, prospectus or any other offering material or advertisement relating to the Programme or any sale of Notes in Australia,

unless:

(i) the aggregate consideration payable by each offeree or invitee is at least AUD500,000 (or its equivalent in an alternative currency and, in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or Part 7.9 of the Australian Corporations Act and complies with the terms of any authority granted under the Banking Act 1959 of Australia;

(ii) the offer or invitation is not made to a person who is a "retail client" within the meaning of section 761G of the Australian Corporations Act;

(iii) such action complies with all applicable laws, regulations and directives; and

(iv) such action does not require any document to be lodged with ASIC or any other regulatory authority in Australia.

By applying for Notes under the Base Prospectus, each person to whom Notes are issued:

(a) will be deemed by each Issuer and each of the Dealers to have acknowledged that if any investor offers or on-sells Notes within 12 months from their issue, the Investor will be required to lodge a prospectus or other disclosure document (as defined in the Australian Corporations Act) with ASIC unless either:

(i) that sale is to an investor within one of the categories set out in sections 708(8) or 708(11) of the Australian Corporations Act to whom it is lawful to offer Notes in Australia without a prospectus or other disclosure document lodged with ASIC; or

(ii) the sale offer is received outside Australia; and

(b) will be deemed by each Issuer and each of the Dealers to have undertaken not to sell those Notes in any circumstances other than those described in paragraphs (a)(i) and (a)(ii) above for 12 months after the date of issue of such Notes.

This Base Prospectus is not, and under no circumstances is to be construed as, an advertisement or public offering of any Notes in Australia.

Japan

The Notes have not been, and will not be, registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**"). Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

South Africa

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not and will not offer or solicit any offers for sale or subscription or sell any Notes in South Africa, in each case, except in accordance with the South African Exchange Control Regulations, the Companies Act, the Banks Act and any other applicable laws and regulations of South Africa in force from time to time. In particular, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will not make an "*offer to the public*" (as such expression is defined in the Companies Act, and which expression includes any section of the public), whether for subscription, purchase or sale in South Africa or offer Notes for subscription, or otherwise sell any Notes, to any person who, or which, is a Resident (as defined in the South African Exchange Control Regulations) other than in strict compliance with the South African Exchange Control Regulations in effect from time to time, and, without prejudice to the foregoing, that it will take all reasonable measures available to it to ensure that no Note will be purchased by, or sold to, or beneficially held or owned by, any Resident (as defined in the South African Exchange Control Regulations) other than in strict compliance with the South African Exchange Control Regulations in effect from time to time.

This Base Prospectus does not, nor is it intended to, constitute a prospectus prepared and registered under the Companies Act.

Information made available in this Base Prospectus should not be considered as "advice" as defined in the Financial Advisory and Intermediary Services Act, 2002.

Hong Kong

Each Dealer has represented, warranted and agreed, and each new Dealer appointed under the Programme will be required to represent, warrant and undertake, that:

1. it has not offered or sold and will not offer or sell in Hong Kong by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**")) other than (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**CWUMPO**") or which do not constitute an offer to the public within the meaning of the CWUMPO; and

2. it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Indonesia

Each Dealer has represented, warranted and agreed that the Base Prospectus has not been distributed or passed and may not be distributed or passed in the Republic of Indonesia and the Notes have not be offered or sold and will not be offered or sold in the Republic of Indonesia or to Indonesian citizens, corporations or residents wherever they are domiciled, or to Indonesian citizens, corporations or residents, in each case, in a manner which constitutes a public offering under the Indonesian capital markets law and its implementing regulations.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the **SFA**)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the **SFA**) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), unless otherwise specified before an offer of Notes, the Issuers have determined, and hereby notify all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Switzerland

This Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in any Notes. Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange Ltd. or on any other exchange or regulated facility in Switzerland. Neither this Base Prospectus, any Final Terms nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange Ltd. or any other exchange or regulated facility in Switzerland, and neither this Base Prospectus, any Final Terms nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Base Prospectus nor any Final Terms nor any other offering or marketing material relating to the offering, nor the Issuers nor the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to supervision by any Swiss regulatory authority, e.g., the Swiss Financial Market Supervisory Authority FINMA, and investors in the Notes will not benefit from protection or supervision by such authority.

Belgium

Each Dealer has represented and agreed that an offering of Notes may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a "**Belgian Consumer**"), and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Notes, directly or indirectly, to any Belgian Consumer.

The People's Republic of China

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes will not be offered or sold directly or indirectly within the PRC. This Base Prospectus, the Notes and any material or information contained or incorporated by reference herein in relation to the Notes have not been, and will not be, submitted to or approved/verified by or registered with the China Securities Regulatory Commission ("**CSRC**") or other relevant governmental and regulatory authorities in the PRC pursuant to relevant laws and regulations and thus may not be supplied to the public in the PRC or used in connection with any offer for the subscription or sale of the Notes in the PRC. Neither this Base Prospectus nor any material or information contained or incorporated by reference herein constitutes an offer to sell or the solicitation of an offer to buy any securities in the PRC.

The Notes may only be invested by or sold to PRC investors that are authorised to engage in the investment in the Notes of the type being offered or sold. PRC investors are responsible for obtaining all relevant government regulatory approvals/licences, verification and/or registrations themselves, including, but not limited to, any which may be required from the State Administration of Foreign Exchange, CSRC, the China Banking and Insurance Regulatory Commission and other relevant regulatory bodies, and complying with all relevant PRC regulations, including, but not limited to, all relevant foreign exchange regulations and/or foreign investment regulations.

The Republic of China

The Notes have not been and will not be registered or filed with, or approved by, the Financial Supervisory Commission of the Republic of China and/or other regulatory authority of the Republic of

China pursuant to relevant securities laws and regulations and may not be sold, issued or offered within the Republic of China through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of the Republic of China or relevant laws and regulations that requires a registration, filing or approval of the Financial Supervisory Commission of the Republic of China and/or other regulatory authority of the Republic of China. No person or entity in the Republic of China has been authorised to offer or sell the Notes in the Republic of China.

The Kingdom of Thailand

Each Dealer has represented, warranted and agreed, and each new Dealer appointed under the Programme will be required to represent, warrant and agree, that: (i) it has not offered or sold and will not offer or sell, whether directly or indirectly, any Notes in the Kingdom of Thailand; (ii) it has not made and will not make, whether directly or indirectly, any invitation to subscribe for the Notes in the Kingdom of Thailand; and (iii) it has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus, any Final Terms or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to any persons in the Kingdom of Thailand, except in compliance with the filing requirements of the Securities and Exchange Act B.E. 2535 (1992) (the "**Thai SEC Act**"), as amended and any other applicable rules, notifications and regulations regarding the filing requirements issued thereunder, or in compliance with any other applicable rules, notifications, and regulations issued under the Thai SEC Act.

General

Each Dealer has represented, warranted and agreed that it has, to the best of its knowledge and belief, complied and will comply with all applicable securities laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuers and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed "*General*" above.

Selling restrictions may be supplemented or modified with the agreement of the Issuers. Any such supplement or modification may be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or, in any other cases, in a supplement to this Base Prospectus.

GENERAL INFORMATION

Authorisation

1. The establishment of the Programme was authorised by written resolutions of the Board of Directors of SBSA passed on 6 July 2007. The update of the Programme was authorised on 15 April 2019 by the chief executive of SBSA pursuant to powers delegated on 16 March 2018 by the Chairman of SBSA pursuant to powers delegated by a written resolution of the Board of Directors of SBSA passed on 7 March 2018. SBSA has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

   The addition of SBG as an issuer under the Programme was authorised on 15 April 2019 by the chief executive of SBG pursuant to powers delegated on 13 March 2018 by the Chairman of SBG pursuant to powers delegated by a written resolution of the Board of Directors of SBG passed on 30 November 2017. SBG has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

Significant/Material Change

2.

   (a) Since 31 December 2018 there has been no material adverse change in the prospects of SBG or SBG and its Subsidiaries (taken as a whole) nor any significant change in the financial or trading position of SBG or SBG and its Subsidiaries (taken as a whole).

   (b) Since 31 December 2018 there has been no material adverse change in the prospects of SBSA or SBSA and its Subsidiaries (taken as a whole) nor any significant change in the financial or trading position of SBSA or SBSA and its Subsidiaries (taken as a whole).

Auditors

3. The financial statements of each Issuer have been audited without qualification for the years ended 31 December 2018 and 31 December 2017 by KPMG Inc. whose address is KPMG Crescent, 85 Empire Road, Parktown 2193, South Africa and PricewaterhouseCoopers Inc. whose address is 4 Lisbon Lane, Waterfall City, Jukskei View 2090, South Africa. Each Issuer's auditors are members of the Independent Regulatory Board for Auditors, whose address is Building 2, Greenstone Hill Office Park, Emerland Boulevard, Modderfontein, South Africa.

Approvals

4. As at the date of this Base Prospectus each Issuer will have to obtain FSD approval for the issue of each Tranche of Notes under the Programme.

Documents on Display

5. Copies of the following documents may be inspected during normal business hours at the specified offices of the Fiscal Agent and from the registered office of each Issuer for 12 months from the date of this Base Prospectus:

   (a) the certificate of incorporation and memorandum of incorporation of each Issuer;

   (b) the audited financial statements of SBSA for the years ended 31 December 2018 and 31 December 2017;

   (c) the audited financial statements of SBG for the years ended 31 December 2018 and 31 December 2017;

   (d) the Agency Agreement;

   (e) the Deeds of Covenant;

(f) the programme manual (which contains the forms of the Note Certificates in global and individual form) dated 10 May 2019 and signed for the purposes of identification by the Issuers and the Fiscal Agent;

(g) a copy of this Base Prospectus; and

(h) any future prospectuses and supplements including Final Terms (save for a Final Terms relating to Notes which are neither admitted to trading on a regulated market in the EEA nor offered in the EEA in circumstances where a prospectus is required to be published under the Prospective Directive) to this Base Prospectus.

Clearing of the Notes

6. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Final Terms. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

The Legal Entity Identifier for SBSA is QFC8ZCW3Q5PRXU1XTM60.

The Legal Entity Identifier for SBG is 2549003PEZXUT7MDBU41.

Use of Proceeds

7. The net proceeds of the issue of each Tranche of Notes will be applied by the relevant Issuer for its general corporate purposes. Notes may be issued as Green Bonds. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

Post Issuance Information

8. Other than in relation to Green Bonds, the Issuers do not intend to provide any post issuance information in relation to any Note issues.

Dealers transacting with the Issuers

9. Certain of the Dealers and their affiliates (as defined under Rule 501(b) of Regulation D of the Securities Act) have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for any Issuer and its affiliates in the ordinary course of business. Certain of the Dealers and their affiliates (as defined under Rule 501(b) of Regulation D of the Securities Act) may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the relevant Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates (as defined under Rule 501(b) of Regulation D of the Securities Act) may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of any Issuer or its affiliates. Certain of the Dealers or their affiliates (as defined under Rule 501(b) of Regulation D of the Securities Act) that have a lending relationship with any Issuer routinely hedge their credit exposure to such Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates (as defined under Rule 501(b) of Regulation D of the Securities Act) would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates (as defined under Rule 501(b) of Regulation D of the Securities Act) may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Compliance by Standard Bank Group Limited with the Commercial Paper Regulations

10. The information provided in this paragraph is provided solely for the purpose of compliance by Standard Bank Group Limited with the Commercial Paper Regulations promulgated in terms of the Banks Act under Government Notice number 2172 published in Government Gazette number 16167, dated 14 December 1994**.**

References in this paragraph 10 to:

(a) a Tranche of Notes are to each Tranche of Notes which is both:

(b) issued by Standard Bank Group Limited; and

(c) offered and sold [to investors] in South Africa.

(d) the Issue Date are to the Issue Date specified in the applicable Final Terms relating to the relevant Tranche of Note; and

(e) the Issuer are to Standard Bank Group Limited.

Disclosure requirements in terms of paragraph 3(5) of the Commercial Paper Regulations

The information required to be disclosed in terms of paragraph 3(5) of the Commercial Paper Regulations is set out in this paragraph 10 (except where such information is (a) modified or superseded in a supplement to the Base Prospectus and/or (b) disclosed in the Final Terms):

1. Issuer and Ultimate Borrower (paragraph 3(5)(a) of the Commercial Paper Regulations)

The Issuer of the relevant Tranche of Notes is Standard Bank Group Limited (incorporated with limited liability under registration number 1969/017128/06 in South Africa).

The "*ultimate borrower*" is the Issuer.

2. Going concern (paragraph 3(5)(b) of the Commercial Paper Regulations)

The Issuer is a going concern and can in all circumstances be reasonably expected to meet its commitments, thereby reflecting the adequacy of the liquidity and solvency of the Issuer.

3. Auditor (paragraph 3(5)(c) of the Commercial Paper Regulations)

The auditors of the Issuer as at the Issue Date are KPMG Incorporated and PricewaterhouseCoopers Incorporated.

KPMG Incorporated and PricewaterhouseCoopers Incorporated have acted as the auditors of the Issuer's latest audited financial statements.

4. Total amount of Commercial Paper (paragraph 3(5)(d) of the Commercial Paper Regulations)

(a) As at the date of this Base Prospectus, the Issuer has issued *"commercial paper"* (as defined in the Commercial Paper Regulations) in an aggregate amount of R6 billion. The Final Terms applicable to each Tranche of Notes will specify the aggregate amount of commercial paper issued by the Issuer for the purposes of the Commercial Paper Regulations prior to the Issue Date of the relevant Tranche of Notes.

(b) As at the date of this Base Prospectus, to the best of the Issuer's knowledge and belief, the Issuer estimates that it will issue *"commercial paper"* (as defined in the Commercial Paper Regulations) in an aggregate amount of R3.2 billion during the Issuer's current financial year (the "Estimated Aggregate Amount of Commercial Paper"). The Final Terms applicable to each Tranche of Notes will specify, to the best of the Issuer's knowledge and belief, the Estimated Aggregate Amount of Commercial Paper as at the relevant Issue Date.

5. **Other information** (paragraph 3(5)(e) of the Commercial Paper Regulations)

All information that may reasonably be necessary to enable the investor to ascertain the nature of the financial and commercial risk of its investment in each Tranche of Notes is contained in the Base Prospectus, any applicable supplement to the Base Prospectus and the applicable Final Terms.

6. **Material adverse change** (paragraph 3(5)(f) of the Commercial Paper Regulations)

Save as disclosed in any applicable supplement to the Base Prospectus, there has been no material adverse change in the Issuer's financial position since the date of the Issuer's last audited financial statements.

7. **Listing** (paragraph 3(5)(g) of the Commercial Paper Regulations)

The applicable Final Terms will specify whether a Tranche of Notes will be unlisted or will be listed on the Regulated Market of the London Stock Exchange.

8. **Use of proceeds** (paragraph 3(5)(h) of the Commercial Paper Regulations)

The proceeds of the issue of each Tranche of Notes will be used by the Issuer for its general corporate purposes. Notes may be issued as Green Bonds. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

9. **Security** (paragraph 3(5)(i) of the Commercial Paper Regulations)

Each Tranche of Notes is unsecured.

10. **Audited financial statements** (paragraphs 3(5)(j)(i) and (j)(ii) of the Commercial Paper Regulations)

Where, in relation to the issue and placing of a Tranche of Notes, the Base Prospectus and/or the Final Terms is distributed and/or made available for inspection in South Africa, a copy of the Issuer's latest audited annual financial statements will at all times separately accompany (either by electronic delivery or by physical delivery) the Base Prospectus and/or the Final Terms, as required by the Commercial Paper Regulations.

INDEX OF DEFINED TERMS

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REGISTERED OFFICE OF STANDARD BANK GROUP LIMITED

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ARRANGER

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South Africa

DEALERS

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United Kingdom

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United Kingdom

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United Kingdom

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United Kingdom

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South Africa

UBS AG London Branch
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United Kingdom

FISCAL AGENT

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REGISTRAR AND LUXEMBOURG PAYING AGENT

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LEGAL ADVISERS

To the Issuers as to English law:

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To the Dealers as to English law:

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To the Dealers as to South African law:

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STANDARD BANK GROUP

Annual financial statements 2018

Standard Bank Moving Forward™

Also trading as Stanbic Bank

The consolidated and separate annual financial statements were audited in terms of the Companies Act 71 of 2008.

The preparation of the group's and separate annual financial statements was supervised by the group financial director, Arno Daehnke BSc, MSc, PhD, MBA, AMP.

A summary of these results was made publicly available on 7 March 2019.

Contents

Our reporting suite

We produce a full suite of reports to cater for diverse needs of our stakeholders.

All our reports and latest financial results presentations, booklets and SENS announcements are available online at **www.standardbank.com/reporting**, together with financial and other definitions, acronyms and abbreviations used.

Annual integrated report

Provides a holistic assessment of the group's ability to create value, in the short, medium and long term.

Key frameworks* applied

- JSE Listings Requirements
- King Code
- The International <IR> Framework of the International Integrated Reporting Council (IIRC)

Assurance

Certain information has been extracted from the group's audited annual financial statements.

Intended readers: Primarily **our providers of financial capital**, being our shareholders, depositors and bondholders, but information relevant to our other stakeholders is also included.

AIR

Reporting to society

An account of the group's social, economic and environmental impacts and how these contribute to the group's sustainability and its ability to achieve its purpose. It includes our environmental, social and governance report.

Key frameworks* applied

- King Code
- FTSE/JSE Responsible Investment Index Series and Dow Jones RobecoSAM
- Sustainalytics
- CDP (previously Carbon Disclosure Project)
- United Nations Sustainable Development Goals
- Equator Principles
- Global Reporting Initiative (as a guide)

Assurance

PricewaterhouseCoopers Inc. has provided assurance on selected information.

Intended readers: Clients, employees and society more broadly.

RTS

Governance and remuneration report

A detailed review of the group's governance and remuneration practices, including the group's remuneration policy and implementation report.

Key frameworks* applied

- Companies Act
- Banks Act
- JSE Listings Requirements
- King Code
- Basel III

Assurance

Certain information has been extracted from the group's audited annual financial statements.

Intended readers: Shareholders, debt providers and regulators.

GOV REM

References

Refers readers to information elsewhere in this report or in our other reports, which are available online.

THIS REPORT

Annual financial statements

Sets out the group's full audited annual financial statements, including the report of the group audit committee.

Key frameworks* applied
- IFRS
- Companies Act
- Banks Act
- JSE Listings Requirements
- King Code

Assurance
Unmodified audit opinion expressed by KPMG Inc. and PricewaterhouseCoopers Inc.

Intended readers: Shareholders, debt providers and regulators.

AFS

Risk and capital management report

A detailed view of the management of risks relating to the group's operations.

Key frameworks* applied
- Various regulations, including Basel III
- Banks Act
- IFRS
- JSE Listings Requirements
- King Code

Intended readers: Shareholders, debt providers and regulators.

RCM

*** Definitions:**
- Banks Act – South African Banks Act 94 of 1990
- Basel III – Basel Committee on Banking Supervision's third Basel Accords
- Companies Act – South African Companies Act 71 of 2008
- FTSE – Financial Times Stock Exchange
- IFRS – International Financial Reporting Standards
- JSE – Johannesburg Stock Exchange
- King Code – King IV Report on Corporate Governance for South Africa, also known as King IV™. Copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved.

The invitation to the annual general meeting (AGM) and the notice of resolutions to be tabled at the meeting will be sent separately to shareholders and are also available online.

To assist in the reduction of the group's carbon footprint, we urge our stakeholders to make use of our reporting site to view our reporting suite at **www.standardbank.com/reporting** or scan the code to be directed to the page.

Directors’ responsibility for financial reporting

In accordance with the Companies Act, the directors are responsible for the preparation of the annual financial statements. These annual financial statements conform to IFRS as issued by the International Accounting Standards Board (IASB), and fairly present the affairs of Standard Bank Group Limited and Standard Bank Group as at 31 December 2018, and the net income and cash flows for the year then ended.

The directors are ultimately responsible for the internal controls of the company and the group. Management enables the directors to meet these responsibilities. Standards and systems of internal controls are designed, implemented and monitored by management to provide reasonable assurance of the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability for shareholder investments and company and group assets. Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties. It is the responsibility of the independent auditors to report on the fair presentation of the financial statements.

Based on the information and explanations provided by management and the group’s internal auditors, the directors are of the opinion that the internal financial controls are adequate and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and to maintain accountability for the company and the group’s assets and liabilities. Nothing has come to the attention of the directors to indicate that a breakdown in the functioning of these controls, resulting in material loss to the company and the group, has occurred during the year and up to the date of this report.

The directors have a reasonable expectation that the company and the group will have adequate resources to continue in operational existence and as a going concern in the financial year ahead. The 2018 annual financial statements which appear on pages 20 to 229 were approved by the board on 6 March 2019 and signed on its behalf by:

Thulani Gcabashe
Chairman
6 March 2019

Sim Tshabalala
Group chief executive
6 March 2019

Group secretary’s certification

Compliance with the Companies Act

In terms of the Companies Act and for the year ended 31 December 2018, I certify that the company has filed all returns and notices required by the Companies Act with the Companies and Intellectual Property Commission and that all such returns and notices are true, correct and up to date.

Zola Stephen
Group secretary
6 March 2019

Report of the group audit committee

This report is provided by the group audit committee, in respect of the 2018 financial year of Standard Bank Group Limited, in compliance with section 94 of the Companies Act, as amended from time to time, and in terms of the JSE Listings Requirements. The committee's operation is guided by a detailed mandate that is informed by the Companies Act, the Banks Act, the JSE Listings Requirements and the King IV Code on Corporate Governance and is approved by the board. Section 94(2) of the Companies Act determines that, at each annual general meeting, a public company must elect an audit committee comprising at least three members. In view of the exemption granted in section 94(1), this section does not apply to the group audit committee and, accordingly, the appointment of its members is approved annually by the board. Information on the committee's role and responsibilities; its composition, including members' qualifications and experience; the date of members' appointment to the committee; the number of meetings held during the year and attendance at those meetings; as well as key areas of focus during the reporting period is provided in greater detail in the corporate governance statement which is included in the group's governance and remuneration report available at **www.standardbank.com/reporting**.

Execution of functions

The audit committee has executed its duties and responsibilities during the financial year in accordance with its mandate as it relates to the group's accounting, internal auditing, internal control and financial reporting practices.

During the year under review, the committee, among other matters, considered the following:

In respect of the external auditors and the external audit:

- considered and recommended the reappointment of KPMG Inc. and PricewaterhouseCoopers Inc. as joint external auditors for the financial year ended 31 December 2018, in accordance with all applicable legal requirements
- approved the external auditors' terms of engagement, the audit plan and budgeted audit fees payable
- reviewed the audit process and evaluated the effectiveness of the audit, taking into consideration the results of an external audit assessment performed by the group's finance function
- assessed and obtained assurance from the external auditors that their independence was not impaired
- reviewed and approved the annual renewal of the group's Use of Joint Group Auditors for Non-Audit Services policy
- through the chairman, approved proposed contracts with the external auditors for the provision of non-audit services and pre-approved proposed contracts with the external auditors for the provision of non-audit services above an agreed threshold amount
- considered the nature and extent of all non-audit services provided by the external auditors
- monitored that the non-audit service fees for the year ended 31 December 2018 were within the threshold set by the group audit committee for such engagements
- confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act 26 of 2005
- considered reports from subsidiary audit committees and from management through the group's governance structures on the activities of subsidiary entities.

In respect of the financial statements:

- confirmed the going concern basis for the preparation of the interim and annual financial statements
- examined and reviewed the interim and annual financial statements prior to submission and approval by the board
- reviewed external audit's report on the adequacy of credit provisions for performing and non-performing loans and impairment tests with respect to assets and considered feedback from the external auditors regarding any changes that were made to the models applied by management in determining such impairments
- ensured that the annual financial statements fairly present the financial position of the company and of the group as at the end of the financial year and the results of operations and cash flows for the financial year
- ensured that the interim and annual financial statements conform with IFRS, the requirements of the JSE Listings Requirements, the Companies Act and all other applicable accounting guides and pronouncements
- considered accounting treatments, significant unusual transactions and accounting judgements
- considered the appropriateness of the accounting policies adopted and changes thereto
- considered and made recommendations to the board on the interim and final dividend payments to shareholders
- noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of annual financial statements, internal controls and related matters
- reviewed any significant legal and tax matters that could have a material impact on the financial statements
- reviewed the content of the JSE's annual proactive monitoring report, including specific considerations in the preparation of financial statements
- reviewed and discussed the independent auditors' report.

As part of the group audit committee's responsibilities, notably its review of financial results, reports from internal and external audit, finance and internal financial control reports, the group's accounting policies, as well as the annual financial statements, the audit committee took cognisance of the key audit matters as reported in the independent auditors' report. In addition, the audit committee reviewed management's judgements on significant accounting and external reporting issues and confirmed external audit's agreement with the treatment thereof.

In respect of financial accounting and reporting developments:

- reviewed management's process and progress with respect to new financial accounting and reporting developments.

In respect of external reporting:

- recommended the annual reporting suite, including the annual integrated report, to the board for approval
- evaluated management's judgements and reporting decisions in relation to the annual integrated report and ensured that all material disclosures had been included
- reviewed both financial and non-financial information, forward-looking statements and sustainability information
- reviewed and approved the group's IFRS 9 transition report prior to publication, as well as the South African Reserve Bank (SARB) IFRS 9 transition report, which was submitted in compliance with SARB's directive 5 of 2017.

In respect of internal control and internal audit:

- reviewed and approved the annual internal audit charter and audit plan and evaluated the independence, effectiveness and performance of the internal audit department and compliance with its charter
- considered reports of the internal and external auditors on the group's systems of internal control, including internal financial controls, and maintenance of effective internal control systems
- reviewed significant issues raised by the internal audit processes and the adequacy of corrective action taken in response to such findings
- noted that there were no significant differences of opinion between the internal audit function and management
- assessed the independence and effectiveness of the group chief audit officer, the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory
- considered the outcome of the group's external auditors' annual assessment of internal audit against the requirements of International Standards on Auditing (ISA) 601, which confirmed that the external auditors could place reliance on internal audit's work for the purpose of external audit engagements
- noting that King IV and the Institute of Internal Audit Standards require an external and independent quality review of internal audit every five years, the committee confirmed that all actions in relation to areas of improvement as reported in Ernst and Young's 2014 review of internal audit had been completed
- based on the above, the committee formed the opinion that, at the date of this report, there were no material breakdowns in internal control, including internal financial controls, resulting in any material loss to the group
- over the course of the year, met with the chief audit officer, the group chief compliance and data officer, the group financial director, management and the external auditors
- considered quarterly reports from the group's internal financial controls committee.

In respect of legal, regulatory and compliance requirements:

- reviewed and approved the annual compliance mandate and compliance plan
- reviewed, with management, matters that could have a material impact on the group
- monitored compliance with the Companies Act, the Banks Act, JSE Listings Requirements, King IV and other applicable legislation and governance codes and reviewed reports from internal audit, external auditors and compliance detailing the extent of this
- reviewed the findings from the SARB Prudential Authority's anti-money laundering/combating the funding of terrorism (AML/CFT) compliance inspection as conducted during 2018
- noted that no complaints were received through the group's ethics and fraud hotline concerning accounting matters, internal audit, internal financial controls, contents of financial statements, potential violations of the law and questionable accounting or auditing matters.

In respect of risk management and information technology:

- considered and reviewed reports from management on risk management, including fraud and information technology risks as they pertain to financial reporting and the going concern assessment
- considered updates on key internal and external audit findings in relation to the IT control environment, significant IT programmes and IT intangible assets
- to ensure that risk-related matters of relevance to the audit committee are considered, the chairman is a member of and attended the risk and capital management committee and the group technology and information committee meetings held during the financial year
- John Vice and Peter Sullivan, both independent non-executive directors and chairmen of the group technology and information committee and group remuneration committee respectively, are both members of the group audit committee, which further enhances collective and integrated oversight and ensures that key matters are taken into account in the respective committees' deliberations.

In respect of the coordination of assurance activities, the committee:

- reviewed the plans and work outputs of the external and internal auditors, as well as compliance and internal financial control, and concluded that these were adequately robust to place reliance on the combined assurance underlying the statements made in external reports
- considered the expertise, resources and experience of the finance function and the senior members of management responsible for this function and concluded that these were appropriate
- considered the appropriateness of the experience and expertise of the group financial director and concluded that these were appropriate.

Independence, skills and expertise of the external auditors

The audit committee is satisfied that KPMG Inc. and PricewaterhouseCoopers Inc. are independent of the group and that KPMG Inc. and PricewaterhouseCoopers Inc. and the partners who are responsible for signing the group's financial statements have the requisite skills and expertise. This conclusion was arrived at, inter alia, after taking into account the following factors:

- the representations made by KPMG Inc. and PricewaterhouseCoopers Inc. to the audit committee, including confirmation of the firms' and individual auditors' accreditation on the JSE List of Auditors
- the auditors do not, except as external auditors or in rendering permitted non-audit services, receive any remuneration or other benefits from the group
- the auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the auditors
- the auditors' independence was not prejudiced as a result of any previous appointment as auditor

- in accordance with regulatory requirements, the group's engagement partners rotated during 2016
- the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies were met.

The audit committee noted the Independent Regulatory Board for Auditors' announcement of its Mandatory Audit Firm Rotation (MAFR) ruling on 2 June 2016 which determined that an audit firm may not be appointed auditor of a public interest entity for more than ten years. As a result, the group would, at a minimum, be required to rotate one of the audit firms for its 2024 financial year end, and the other for its 2026 financial year.

In conclusion, the audit committee is satisfied that it has fulfilled its responsibilities and complied with its legal, regulatory and governance responsibilities as set out in its mandate.

On behalf of the group audit committee:

Trix Kennealy

Trix Kennealy
Chairman

4 March 2019

Directors' report

for the year ended 31 December 2018

Nature of business

Standard Bank Group Limited is the holding company for the interests of the group, an African financial services organisation with South African roots. It is South Africa's largest banking group by assets and currently operates in 20 countries on the African continent. Our strategic position enables us to connect Africa to other selected emerging markets and pools of capital in developed markets.

Headquartered in Johannesburg, South Africa, the group's primary listing is on the JSE and its secondary listings on A2X Markets and the Namibian Stock Exchange (NSX). Subsidiary entities are listed on exchanges in Kenya, Malawi, Nigeria and Uganda.

A simplified group organogram with principal subsidiaries is shown in annexure A.

Group results

Group headline earnings and headline earnings per share increased by 6% to R27 865 million (2017: 26 270) and 7% to 1 748,0 cents (2017: 1 640,0 cents) respectively. Net asset value per share increased to 10 380 cents (2017: 9 830 cents) and group return on equity increased to 18.0% (2017: 17.1%). A final dividend of 540 cents per share has been declared bringing the total dividend declared for the year to 970 cents per share (2017: 910 cents per share).

Share capital

Ordinary shares

During the year, 1 729 572 (2017: 2 877 827) ordinary shares were issued in terms of the group's equity compensation plans, notably the equity growth scheme (EGS) and group share incentive scheme (GSIS). Surplus capital was used to purchase 2 483 523 (2017: 2 030 824) ordinary shares to counteract the dilutive impact of the shares issued under the equity compensation plans. Effective from 2017, the group no longer issues EGS and GSIS awards. The last awards in GSIS were issued in 2011 and for the EGS, the last award was made in 2016. Awards are now provided in terms of the group's other share schemes, notably the deferred bonus scheme and the share appreciation rights plan, both of which are settled by the group to employees with shares that the group purchases from the open market participants, and the cash-settled deferred bonus scheme, which is settled in cash (refer to annexure D: group share incentive schemes for further information). At the end of the year, the group would need to issue 2 847 244 (2017: 6 159 744) SBG ordinary shares to settle the outstanding GSIS options and EGS rights that were awarded to participants in previous years. The shares issued since inception for the EGS and GSIS together with the expected number of shares to settle the outstanding options and rights as a percentage of the total number of shares in issue is 2.1% (2017: 2.2%).

Registered office

The address of the registered office is, 9th Floor, Standard Bank Centre, 5 Simmonds Street, Johannesburg 2001.

Insurance

The group protects itself against financial loss by maintaining banker's comprehensive crime and professional indemnity cover. The insurance terms and conditions are reviewed by the group insurance committee annually to ensure they are 'fit-for-purpose' against the group's risk exposures.

Shareholder analysis

Shareholders at the close of the financial year, holding beneficial interests in excess of 5% of the company's issued share capital, determined from the share register and investigations conducted on our behalf, were as follows:

	% held	
	2018	2017
Ordinary shares		
Industrial and Commercial Bank of China Limited (ICBC)	**20.1**	20.1
Government Employees Pension Fund (PIC)	**12.4**	12.3
6.5% preference shares		
L Lombard	**12.0**	12.0
Old Sillery Proprietary Limited	**9.1**	9.1
DJ Saks	**7.5**	7.5
MT Goulding	**8.6**	7.9
JIR Campbell	**5.3**	5.3
The Spiz Family Trust	**7.98**	8.0
Non-cumulative preference shares		
Prescient Inc. Provider Fund	**7.4**	7.1

Events during 2018

Transactions with non-controlling interests

Change in shareholding of subsidiaries

	2018 Rm
Net carrying amount of non-controlling interests acquired	**1 139**
Net consideration (paid to)/received from non-controlling interests	**(2 675)**
Decrease in equity attributable to owners of the group	**(1 536)**

Transactions with non-controlling interests primarily comprise:

Stanbic Africa Holdings Limited

During the period, Stanbic Africa Holdings Limited (SAHL), a wholly-owned subsidiary of Standard Bank Group (SBG), increased its shareholdings in its listed Nigerian and Kenyan subsidiaries through acquisitions of additional shares from non-controlling interests (NCI). Increases in the group's interest in a subsidiary, when the group already has control, are accounted for as transactions with equity holders of the group. The difference between the purchase consideration and the group's proportionate share of the subsidiary's additional net asset value acquired is accounted for directly in equity.

Nigeria
In Nigeria, SAHL's shareholding in Stanbic IBTC Holdings PLC (SIBTC) increased by 12% from 53% to 65% through an announced off market trade on the Nigerian Stock Exchange and further on market share purchases for a total cash consideration of R2 567 million.

The group recognised a net decrease in NCI of R950 million and a decrease in retained earnings and equity attributable to owners of the group of R1 617 million because of changes in the group's ownership interest in SIBTC.

Kenya
In Kenya, SAHL's shareholding in Stanbic Holdings Plc (SH Plc) increased by 9% from 60% to 69% following a two-stage tender offer and further on market share purchases for a total cash consideration of R485 million.

The group recognised a decrease in NCI of R514 million and an increase in retained earnings and equity attributable to owners of the group of R29 million because of changes in the group's ownership interest in SH Plc.

Liberty Group Limited
During the period, Liberty Group Limited's (Liberty) shareholding in Liberty Two Degrees (L2D) decreased by 4% from 63% to 59% for a total consideration of R301 million. Liberty recognised an increase in NCI of R249 million and an increase in retained earnings and equity attributable to ordinary shareholders of R52 million because of changes in Liberty's ownership interest in L2D.

Dividends

	Ordinary shares	6.5% cumulative preference shares (first preference shares)	Non-redeemable, non-cumulative, non-participating preference shares (second preference shares)
Interim			
2017			
Dividend per share (cents)	400,00	3,25	400,93
2018			
Dividend number	**98**	**98**	**28**
Dividend per share (cents)	**430,0**	**3,25**	**386,43**
Record date in respect of the cash dividend	**Friday, 14 September 2018**	**Friday, 7 September 2018**	**Friday, 7 September 2018**
Dividend cheques posted and CSDP[1]/broker accounts credited/updated (payment date)	**Monday, 17 September 2018**	**Monday, 10 September 2018**	**Monday, 10 September 2018**
Final			
2017			
Dividend per share (cents)	510,00	3,25	398,92
2018			
Dividend number	**99**	**99**	**29**
Dividend per share (cents)	**540,00**	**3,25**	**390,22**
Record date in respect of the cash dividend	**Friday, 12 April 2019**	**Friday, 5 April 2019**	**Friday, 5 April 2019**
Dividend cheques posted and CSDP[1]/broker accounts credited/updated (payment date)	**Monday, 15 April 2019**	**Monday, 8 April 2019**	**Monday, 8 April 2019**

1 Central Securities Depository Participant.

Change in group directorate

The following changes in directorate took place during the 2018 financial year end up to 6 March 2019:

Retirements		
RMW Dunne	as non-executive director	24 May 2018
BJ Kruger	as executive director	31 December 2018

Stanbic Bank Zimbabwe functional currency

In 2009, Stanbic Bank Zimbabwe (SBZ) concluded that the United States Dollar (USD) was its functional currency in terms of IAS 21 The Effects of Changes in Foreign Exchange Rates (IAS 21). However, an acute shortage of USD in Zimbabwe resulted in an increase in electronic balances through the Real Time Gross Settlement System (RTGS), as well as the issuance of bond notes which were exchangeable for USD at an official rate of 1:1. In October 2018, the Reserve Bank of Zimbabwe (RBZ) instructed banks to separate bank accounts into FCA Nostro (USD balances) and FCA RTGS (RTGS balances). This created clarity that within Zimbabwe both USD and RTGS were legal tender and that these different currencies were not interchangeable, even though the official exchange rate was 1:1. As a result, SBZ concluded that its functional currency changed from USD to RTGS on 1 October 2018 because the majority of SBZ's transactions were conducted in RTGS. SBZ was prohibited from trading at any exchange rate other than the official rate and all exchange transactions undertaken by SBZ in 2018 occurred at the official rate of 1:1. The International Financial Reporting Interpretations Committee (IFRIC) discussed the determination of an exchange rate when there is a long-term lack of exchangeability and concluded that the closing rate at which items should be translated is the rate to which an entity would have access at the end of the reporting period through a legal exchange mechanism. The only legal exchange mechanism that SBZ had access to in the financial period since the change in functional currency was the official exchange mechanism. This led to SBZ concluding that the appropriate exchange rate to use at the date of the change in functional currency and subsequent to the change in functional currency up until the end of the current reporting period is the official rate of 1:1.

Post balance sheet event

During February 2019, RBZ announced that RTGS dollars will replace USD as the new base currency of the country. A new foreign interbank market was also established and this interbank market will complement the existing official foreign exchange mechanism with the RBZ. The establishment of this interbank market has created an additional legal exchange mechanism whereby the bank is able to trade RTGS dollars. While the RBZ has not yet indicated which exchange mechanism can be utilised for dividend repatriation, the 2.5 RTGS:USD exchange rate which has emerged from this interbank exchange market at the end of February 2019 can be utilised to estimate the financial impact. The group has estimated a decrease of R746 million on the foreign currency translation reserve, relating to this development by applying the 2.5 RTGS:USD exchange rate to the 31 December 2018 SBZ balance sheet position. The estimated impact analysis has been summarised below:

Statement of financial position line item	Impact of change Rm
Cash and balances with central banks	(6 035)
Financial investments	(2 840)
Loans and advances	(4 623)
Other financial and non-financial assets	(121)
Total assets	**(13 619)**
Deposits and debt funding	(12 207)
Other financial and non-financial liabilities	(666)
Total liabilities	**(12 873)**
Reserves – foreign currency translation reserve	(746)

Independent auditors' report

To the shareholders of Standard Bank Group Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

We have audited the group (consolidated) and company (separate) financial statements of Standard Bank Group Limited, set out on pages 20 to 229, which comprise:

- the consolidated and separate statements of financial position as at 31 December 2018
- the consolidated and separate income statements for the year then ended
- the consolidated and separate statements of other comprehensive income for the year then ended
- the consolidated and separate statements of cash flows for the year then ended
- the consolidated and separate statements of changes in equity for the year then ended
- accounting policy elections, transition and restatement
- key management assumptions
- notes to the financial statements, and
- annexures A to F but excludes the sections marked as 'unaudited' in Annexure C.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Standard Bank Group Limited (the company) and its subsidiaries (together the group) as at 31 December 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We are independent of the group in accordance with the *Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (Parts A and B).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Level	Key audit matter	How our audit addressed the matter
Group – *consolidated financial statements*	**Expected credit losses on Corporate & Investment Banking (CIB) loans and advances** *Refer to the key management assumptions note, note 7 – loans and advances, note 35 – credit impairment charges and the credit risk section of annexure C, risk and capital management in the consolidated and separate financial statements.*	
	The expected credit losses (ECL) assessment for CIB loans and advances (exposures) is material to the consolidated financial statements in terms of their magnitude, the level of subjective judgement applied by management and the effect that the ECL has on the impairment of loans and advances and on the group's credit risk management processes and operations. This has resulted in this matter being identified as a matter of most significance in the audit of the consolidated financial statements. The ECL of CIB exposures is estimated on an individual basis. For CIB exposures, the key areas of significant management judgement within the ECL calculations include: • Evaluation of significant increase in credit risk (SICR); • Incorporation of macro-economic inputs and forward looking information into the SICR assessment and ECL measurement; • Assessment of ECL raised for stage 3 exposures; and • Input assumptions applied to estimate the probability of default (PD), exposure at default (EAD) and loss given default (LGD) within the ECL measurement. **Evaluation of SICR** For CIB exposures, SICR is largely driven through the movement in credit ratings assigned to clients on origination and reporting date, based on the group's 25-point master rating scale to quantify credit risk for each exposure. **Incorporation of macro-economic inputs and forward looking information into the SICR assessment and ECL measurement.** Macroeconomic expectations are incorporated in CIB's client ratings to reflect the group's expectation of future economic and business conditions. **Assessment of ECL raised for stage 3 exposures** Management applies its internal credit risk management approach and definitions to determine the recoverable amounts (including collateral) and timing of the future cash flows for stage 3 exposures at an individual exposure level. **Input assumptions applied to estimate the PD, EAD and LGD within the ECL assessment** Input assumptions applied to estimate the PD, EAD and LGD as inputs into the ECL measurement are subject to management judgement and are determined at an exposure level.	Our audit effort focussed on the ECL of CIB exposures as follows: **Evaluation of SICR** We selected a sample of exposures and assessed their assigned credit rating by: • Testing the inputs into the credit rating systems against the financial information obtained from the exposure and the group's 25-point master rating scale; and • Assessing management assumptions made during the credit risk rating process for reasonability, by obtaining an understanding of the exposure and industry factors, performing an independent review of the exposure and comparing the results to those used by management. We selected a sample of stage 1 and stage 2 exposures and assessed whether the stage classification of these exposures was appropriate in terms of the group's accounting policy for SICR at reporting date since the origination date of these exposures. These procedures included the inspection of credit risk ratings at reporting date relative to origination date. We evaluated management's processes for identifying stage 3 exposures by selecting a sample of exposures not classified at stage 3 to assess whether the stage classification was in line with the group's accounting policy for the definition of default for stage 3 exposures. **Incorporation of macro-economic inputs and forward looking information into the SICR assessment and ECL measurement** We selected a sample of exposures and assessed the incorporation of forward looking information into their assigned credit risk rating. We have done this by obtaining an understanding of the forward looking information which was taken into account for the exposure and evaluated this for reasonability against management's expectation and other industry factors for the SICR assessment and ECL measurement. **Assessment of ECL raised for stage 3 exposures** Where ECL has been raised for stage 3 exposures, we considered the impairment indicators, uncertainties and assumptions applied by management in their assessment of the recoverability of the exposure. For a sample of stage 3 exposures, we independently recalculated the ECL based on our assessment of the expected cash flows and recoverability of collateral at an individual exposure level. For collateral held, we inspected legal agreements and supporting documentation to confirm the existence and legal right to collateral. The collateral valuation techniques applied by management were assessed against the group's valuation guidelines. **Input assumptions applied to estimate the PD, EAD and LGD within the ECL measurement** With the assistance of our internal valuation experts, we assessed the input assumptions applied within the PD, EAD and LGD models (including forward looking information) in compliance with the requirements of IFRS 9 *Financial Instruments* (IFRS 9). In addition, our procedures included assessing the appropriateness of the models by reperformance and validation procedures. We obtained an understanding and tested the relevant controls relating to the approval of credit facilities, subsequent monitoring and remediation of exposures, key system reconciliations and collateral management. We found the accounting policies and the credit impairment methodologies applied to the CIB segment to be in accordance with the requirements of IFRS 9.

Level	Key audit matter	How our audit addressed the matter
Group – *consolidated financial statements*	**Expected credit losses on Personal & Business Banking (PBB) loans and advances** *Refer to the key management assumptions note, note 7 – loans and advances, note 35 – credit impairment charges and the credit risk section of annexure C, risk and capital management in the consolidated and separate financial statements.*	
	The ECL assessment for PBB loans and advances (exposures) is material to the consolidated financial statements in terms of their magnitude, the level of subjective judgement applied by management and the effect that the ECL has on the impairment of loans and advances and on the group's credit risk management processes and operations. This has resulted in this matter being identified as a matter of most significance in the audit of the consolidated financial statements. A significant portion of the PBB ECL is calculated on a portfolio basis. For exposures quantitatively above a pre-defined threshold in secured portfolios, management assesses the recoverability of those exposures individually. The ECL on exposures also includes out-of-model adjustments where certain aspects of the ECL are not fully reflected in the model. Out-of-model adjustments are calculated and assessed based on management's judgement. For PBB, the key areas of significant management judgement within the ECL calculation include: • Evaluation of SICR; • Incorporation of macro-economic inputs and forward looking information into the SICR assessment and ECL measurement; • Application of out-of-model adjustments into the ECL measurement; • Assessment of ECL raised for individual exposures; and • Input assumptions applied to estimate the PD, EAD and LGD within the ECL measurement. **Evaluation of SICR** The group assesses the risk of default of an account relative to the risk of its defined vintage considering the account's behavioural score, historical experience and the rebuttable presumption that accounts which are 30 days past due are classified as stage 2. **Incorporation of macro-economic inputs and forward looking information into the SICR assessment and ECL measurement** Forward looking economic expectations are included in the ECL based on the group's macro-economic outlook, using models that correlate these parameters with macro-economic variables. Where modelled correlations are not viable or predictive, adjustments are based on judgement to predict the outcomes based on the group's macro-economic outlook expectations. **Application of out-of-model adjustments into the ECL measurement** Management may identify that due to market volatility or modelling complexity, certain aspects of the ECL may not be fully reflected by the underlying model and an out-of-model adjustment is required. **Assessment of ECL raised for individual exposures** Impairment is assessed on individual exposures above a quantitative threshold in stage 3, and for accounts placed on the watchlist due to evidence of increased credit risk e.g. potential security shortfalls, deteriorating financial performance, etc. This assessment relates primarily to business lending accounts. **Input assumptions applied to estimate the PD, EAD and LGD within the ECL measurement** The ECL is calculated using statistical models which incorporate observable data, assumptions and estimates relating to historical default experience, timing and amount of forecasted cash flows and the value of collateral.	Our audit effort focussed on the ECL for PBB loans and advances as follows: **Evaluation of SICR** Management provided us with a quantitative assessment of the group's calculation of the impact of SICR against the requirements of IFRS 9 *Financial Instruments*. We reviewed management's calculation to confirm that the resultant ECL was not materially different for a sample of portfolios. We evaluated behavioural scores which are used to inform the significant increase in credit risk against the group's accounting policies. We evaluated the reasonability of changes in credit risk of the portfolio against key performance indicators. We performed sensitivity analyses to determine the impact of change in credit risk on the ECL recognised. We tested the design and effectiveness of relevant controls that identify renegotiated and cured loans to ensure that the curing policies were appropriately applied. **Incorporation of macro-economic inputs and forward looking information into the SICR assessment and ECL measurement** We evaluated the appropriateness of forward looking economic expectations included in the ECL by comparing to independent industry data. We evaluated management's economic response models to ensure that the macro-economic inputs are appropriately incorporated into the ECL models. Where management applied out-of-model adjustments to the forward looking information, we evaluated these for reasonableness against historical experience and evaluated the methodology applied to incorporate these into the forecasts. **Application of out-of-model adjustments into the ECL measurement** We evaluated the reasonableness of a selection of out-of-model adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of out-of-model adjustments back to source data. **Assessment of ECL raised for individual exposures** Where ECL has been raised for individual exposures, we considered the impairment indicators, uncertainties and assumptions made by management in their assessment of the recoverability of the exposure. For a sample of stage 3 exposures, we independently recalculated the impairment losses based on our assessment of the expected cash flows and recoverability of collateral at an individual exposure level. For collateral held, we inspected legal agreements and supporting documentation to confirm the existence and legal right to collateral. The collateral valuation techniques applied by management were assessed against the group's valuation guidelines. **Input assumptions applied to estimate the PD, EAD and LGD within the ECL measurement** With the assistance of our internal valuation experts, we assessed the assumptions relating to historical default experience, estimated timing and amount of forecasted cash flows and the value of collateral applied within the PD, EAD and LGD models for compliance with the requirements of IFRS 9. In addition, our procedures included assessing the appropriateness of the statistical models by reperformance and validation procedures. We found that the accounting policies and the credit impairment methodologies applied to the PBB segment to be in accordance with IFRS 9.

Level	Key audit matter	How our audit addressed the matter
Group – *consolidated financial statements*	**Valuation of level 3 financial instruments** *Refer to the key management assumptions note, note 2 – derivative instruments, note 3 – trading assets, note 5 – financial investments, note 17 – trading liabilities, and the market risk section of annexure C – risk and capital management in the consolidated and separate financial statements.*	
	The fair value of financial instruments significantly affects the measurement of profit or loss and disclosures of financial risks in the financial statements. Fair value calculations are dependent on various sources of external and internal data and on sophisticated modelling techniques used to value financial instruments, particularly those disclosed as level 3 in the financial statements, which are evolving as markets become more sophisticated. Level 3 financial instruments measured at fair value for which there are no quoted market prices require significant judgement in the valuation processes. Due to the significance of the judgements made in determining the fair value of level 3 financial instruments and the extent of work required to address this matter, this has been identified as a matter of most significance in the current year audit of the consolidated financial statements.	Our audit effort focussed on the valuation of level 3 financial instruments as follows: We tested the design and effectiveness of the relevant controls relating to the valuation of level 3 financial instruments to ensure that there is appropriate governance over the valuation model development and change control. For a sample of financial instruments, using an independent model, we compared the fair value results to management's valuation to assess the reasonableness of management's model methodology and the output of model calculations. We assessed the appropriateness and sensitivity of unobservable market rates, projected cash flows and valuation adjustments with reference to the best available independent information and found them to be reasonable. For our testing approach adopted, we found the data inputs for unobservable market rates, the model methodology applied and the output of the model calculation to be reasonable and we assessed the appropriateness of the disclosures related to level 3 financial instruments to be in accordance with the requirements of IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair value measurements.*

<table>
<tr><th>Level</th><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td rowspan="2">Group –
consolidated financial statements</td><td colspan="2">Translation of Stanbic Bank Zimbabwe Limited’s (SBZ) financial statements for consolidation purposes
Refer to note 1 of annexure F – Detailed accounting policies, the functional and presentation currency policies in the accounting policy elections, transition and restatement section of the consolidated financial statements, key management assumptions and note 45 – post reporting date events</td></tr>
<tr><td>The translation of Stanbic Bank Zimbabwe Limited’s (SBZ) financial statements for consolidation purposes was considered to be a matter of most significance to the current year audit due to the complexities involved in determining the rates at which to translate SBZ’s results for purposes of preparing the consolidated financial statements of SBG.

For purposes of preparing the consolidated financial statements, the results of SBZ have been translated into South African Rand in accordance with the detailed accounting policies as set out in Annexure F.

On 1 October 2018, the Reserve Bank of Zimbabwe (RBZ) instructed banks to separate bank accounts into FCA Nostro (USD balances) and FCA RTGS (RTGS balances). This created clarity that within Zimbabwe, both USD and RTGS were legal tender. These methods of payment were not interchangeable, even though the official exchange rate was 1:1. As a result, SBZ concluded that its functional currency changed from USD to RTGS given that the majority of SBZ’s transactions were conducted in RTGS. Both the USD and RTGS are acceptable methods of payment with an official exchange rate of 1:1 (which was the official exchange rate from 1 October 2018 to 31 December 2018). SBZ as a regulated banking entity transacts at the official exchange rate of 1:1.

Consequently, management determined the most appropriate rate for the translation of the SBZ financial statements into South African Rand at 31 December 2018, to be the official 1:1 exchange rate and therefore used the USD rate as at 31 December 2018.

As disclosed in note 45, subsequent to year end, the RBZ announced that they were establishing an inter-bank foreign exchange market in Zimbabwe to formalise the trading of RTGS balances and bond notes with USD and other currencies on a willing buyer willing seller basis and to complement the official foreign exchange mechanism with the RBZ. This formalises the market for exchanging and trading RTGS and provides a rate for the conversion of the SBZ RTGS denominated assets and liabilities and related income and expenses going forward. This is considered to be a material non-adjusting event after the reporting period. The note further discloses the impact the new exchange rate would have had on the material RTGS assets and liabilities of SBZ’s balance sheet at 31 December 2018, had the official rate and trading mechanism been in existence at that date. The rate used for the RTGS exchange rate has been derived with reference to the emerging exchange rate at which the RTGS has been traded to the end of February 2019.</td><td>Our audit addressed the translation of SBZ’s financial statements as follows for the purposes of the SBG consolidation as follows:

We evaluated management’s assessment in considering the circumstances giving rise to the change in functional currency. We corroborated that SBZ’s operations from 1 October 2018 were conducted in RTGS and therefore RTGS is the currency which represents the functional currency of the primary economic environment in which SBZ operates.

In the performance of our audit procedures we challenged management’s assumption in applying an exchange rate of 1:1 by:
• selecting a sample of client trades between 1 October 2018 and 20 February 2019 to confirm that the trades were conducted at a 1:1 basis of exchange; and
• selecting a sample of remittances between Stanbic Bank Zimbabwe Limited and Standard Bank of South Africa Limited to confirm that the remittances occurred at a 1:1 basis of exchange.

We assessed the appropriateness of the disclosures made, in terms of IAS 10, Events after the Reporting Period, with regard to the non-adjusting event after the reporting period contained in note 45. We independently recalculated, using the RTGS balances at 31 December 2018, the impact that the newly traded RTGS exchange rate would have on SBG’s balance sheet at year-end using the emerging exchange rate at which RTGS had been trading since the RBZ’s announcement on 20 February 2019.

We found the disclosures in respect of the key management assumptions and judgements and the events after the reporting period in respect of the functional currency of SBZ to be in accordance with the requirements of the relevant financial reporting standards.</td></tr>
</table>

Level	Key audit matter	How our audit addressed the matter
Group – *consolidated financial statements*	**Valuation of long term policyholder assets and liabilities – Insurance contracts** *Refer to the key management assumptions note, note 8 – policyholders' contracts, annexure C, risk and capital management, annexure F, detailed accounting policies in the consolidated financial statements.*	
	Liberty Group Limited (LGL), a subsidiary of Standard Bank Group Limited (the group), holds the group's long-term insurance business. In the group's financial statements, the long term policyholder assets and policyholder liabilities relating to LGL's insurance business are significant to the group. As at 31 December 2018, the carrying amounts of the policyholder assets and liabilities were R6,7 billion and R311 billion respectively, which is measured in accordance with the Actuarial Valuation Standard, SAP 104, *Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers.* Policyholder assets and liabilities under insurance contracts include provisions for the net present value of expected future benefits and expected future costs, less expected future premiums and for claims incurred and not reported (IBNR). Complex and subjective judgements are required over a variety of uncertain future operating assumptions within the life insurance business. These assumptions include amongst others mortality and morbidity rates, withdrawals, investment return and discount rates, recurring expenses, taxation, and expense inflation. The assumptions applied by management, as disclosed in the key management assumptions, in determining the value of the policyholder assets and liabilities and any changes to these assumptions, may result in a material adjustment to the value of policyholder assets and liabilities and ultimately the results of the group. During the current year, an increase in the expense reserve was established by the LGL as a result of the new Liberty operating model. This resulted in costs previously incurred by Liberty Holdings Limited (LHL) now being projected to be incurred in LGL. We consider the valuation of the policyholder assets and liabilities a matter of most significance to the current year audit due to the: • magnitude of the policyholder assets and liabilities in relation to the total assets and liabilities of the group, • increase in the expense reserve in the policyholder liabilities as a result of the new LGL operating model in the current year, and • significant management judgement required in determining the value of the policyholder assets and liabilities.	To test the valuation of the policyholder assets and liabilities, in conjunction with our actuarial experts, we performed the following procedures: • Updated our understanding of LGL's actuarial control environment and governance including the functioning of the Actuarial Committee, which approves the methodology and assumption changes against industry practice and regulatory requirements; • Together with our actuarial experts, attended management meetings where valuation principles were discussed and approved. We performed tests and reasonability checks to corroborate that these principles as approved were applied in the valuation model; • Compared the changes in valuation methodology against the requirements of SAP 104 and industry practice; • Compared the assumptions applied by management against recent actual long term experience, industry trends and economic market trends. The assumptions applied were comparable with these benchmarks; • Assessed the sources of profit against expectations and the accounting policies; and • Examined and corroborated management's analysis forecasts, by analysing the sources of profit and how it relates to the change in the policyholder assets and liabilities and the impact on the income statement. To test the inputs used in the valuation models we performed on a sample basis, the following: • Assessed the reasonability of the classification of expenses between maintenance and acquisition and how they are capitalised in the valuation by considering the nature of the expenses and inspecting the source document supporting the expense; and • Traced the policyholder valuation input data, such as premiums, claims and expense data used in the valuation model back to information contained in the administration and accounting systems, noting no exceptions. To test the changes in assumptions as it relates to the additional expense reserve, we involved our actuarial experts who performed the following procedures: • Obtained an understanding of management's judgement applied in the creation of the additional expense reserve; • Considered the strategic change in LGL's operating model as approved by the LGL Board and how this impacted the expenses to be incurred in LGL • Assessed the different types of expenses and challenged management's view on the proportionate split between the LHL and LGL; • Considered the split of the LGL expenses between the different expense buckets and assessed the consistency of the allocation; and • Reviewed the assumptions and methodology underlying the manual calculation and found this to be reasonable.

Level	Key audit matter	How our audit addressed the matter
Group – *consolidated financial statements*	**Valuation of investment properties at year-end** *Refer to the key management assumptions note and note 11 – Investment property*	
	The majority of the group's investment property is comprised of retail investment property held by LGL. At 31 December 2018, the carrying value of the group's total investment property portfolio was R34,3 billion, representing a R1 billion increase compared to the prior year. The group's accounting policy is to measure investment properties at fair value using either the discounted cash flow model or capitalisation of net income method or a combination of both. The measurement of the fair value of investment properties is dependent on the valuation techniques applied and the inputs into the valuation model. The group has applied the discounted cash flow model to value its investment properties at year end. Inputs into the valuation model include, amongst others factors, existing tenant terms, location of the properties, vacancy levels and restrictions, if any, on the sale or use of the property. Amongst others, the following key assumptions and inputs are made by management in determining the fair value of investment properties: • exit capitalisation rates; and • discount rates. All properties are externally valued by qualified and registered professional valuers (the appraisers) on an annual basis. We considered the year-end valuation of investment properties as a matter of most significance to the current year audit due to: • the significant judgements required in determining the exit capitalisation rates and discount rates; • the magnitude of the investment property balances at year-end; and • the increase in the investment property balance as a result of the fair value adjustment for the year.	We obtained the latest independent property market reports to understand the prevailing market conditions in which the group invests. We updated our understanding of and tested the relevant controls related to: • Entering and amending of leases in support of contractual rental income; • Setting and approval of budgets by the LGL; • Detailed analysis of forecasts and trends against actual results that inform management of the business; • Review of external valuation reports by an internally appointed appraiser; and • Board approval of the valuations obtained. In respect of the external appraisers we: • considered their objectivity, independence and expertise by inspecting the external appraisers' valuation reports for a statement of independence and compliance with generally accepted valuation standards; and • confirmed the external appraisers' affiliation with the relevant professional body. On a risk based sample basis, we independently tested the calculation of the fair values in the external appraisers' valuation reports by performing the following procedures: • Utilised our internal property appraiser to assess the appropriateness of the valuation methodology; • Considered the applicability of minority discounts to fractional ownership; • Assessed the reasonableness of the cash flows, growth rates, exit capitalisation and discount rates against market related data for similar investment properties noting no exceptions; • Independent recalculation of the accuracy of the valuations; and • Inspected the final valuation reports and agreed the fair value to the group's accounting records, noting no exceptions.

Level	Key audit matter	How our audit addressed the matter
Company – *separate financial statements*	**Impairment of interest in subsidiaries** *Refer to note 48 interest in subsidiaries, annexure A subsidiaries, consolidated and unconsolidated structured entities in the separate financial statements.*	
	The company has material interests in subsidiaries. Subsidiaries are carried in the company's separate financial statements at cost and are reviewed annually for impairment. In the current year an impairment of R24 million was recognised. Note 48 in the financial statements sets out the basis, including related judgements, for the impairment of subsidiaries where impairment indicators have been identified. The magnitude of the investment in subsidiaries and the related judgement applied in the determination of the recoverable amount of the interest in subsidiaries resulted in this matter being identified as an area of most significance in the current year audit of the separate financial statements.	As part of our audit, we have evaluated management's processes for identifying impairment indicators and assessing the company's interest in subsidiaries for impairment. Where indicators of impairment were identified, we independently evaluated the reasonability of the impairment calculated with reference to the recoverable amount of the interest in subsidiaries. We found these to be in accordance with the company's accounting policy and in accordance with the requirements of IAS 36 – *Impairment of Assets.*

Other information

The directors are responsible for the other information. The other information comprises the Group secretary's certification, Report of the group audit committee and the Directors' Report as required by the Companies Act of South Africa, the Directors responsibility for financial reporting, the sections marked as "unaudited" in Annexure C risk and capital management report – IFRS disclosures, Annexure G, Annexure H, the Annual Integrated Report, the Corporate Governance Report, Remuneration Report, the Reporting to Society 2018, Shareholder information report and risk and capital management report. The other information does not include the consolidated and separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group and the company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that based on available statutory records, KPMG Inc. and PricewaterhouseCoopers Inc. have been the joint auditors of Standard Bank Group Limited for 56 years.

KPMG Inc	PricewaterhouseCoopers Inc.
Registered Auditor	**Registered Auditor**
Director: Heather Berrange	Director: John Bennett
Registered Auditor	Registered Auditor
Johannesburg	Johannesburg
6 March 2019	6 March 2019

Statement of financial position

as at 31 December 2018

		GROUP	
	Note	2018 Rm	2017 Rm
Assets			
Cash and balances with central banks	1	**85 145**	75 310
Derivative assets	2	**51 678**	75 610
Trading assets	3	**181 112**	160 894
Pledged assets	4	**19 879**	20 785
Financial investments	5	**547 405**	533 314
Current tax assets		**601**	612
Disposal group assets held for sale	6	**762**	
Loans and advances	7	**1 120 668**	1 048 027
Policyholders' assets	8	**6 708**	7 484
Other assets	9	**22 514**	22 996
Interest in associates and joint ventures	10	**10 376**	9 665
Investment property	11	**33 326**	32 226
Property and equipment	12	**19 194**	16 179
Goodwill and other intangible assets	13	**23 676**	23 329
Deferred tax assets	14	**3 918**	1 497
Total assets		**2 126 962**	2 027 928
Equity and liabilities			
Equity		**199 063**	190 017
Equity attributable to ordinary shareholders		**165 061**	157 020
Ordinary share capital	15	**162**	162
Ordinary share premium	15	**17 698**	17 901
Reserves		**147 201**	138 957
Equity attributable to other equity instrument holders	15	**9 047**	9 047
Equity attributable to non-controlling interests		**24 955**	23 950
Liabilities		**1 927 899**	1 837 911
Derivative liabilities	2	**55 057**	76 896
Trading liabilities	17	**59 947**	62 855
Current tax liabilities		**5 188**	5 107
Disposal group liabilities held for sale	6	**237**	
Deposits and debt funding	18	**1 357 537**	1 243 911
Policyholders' liabilities	8	**310 994**	322 918
Subordinated debt	19	**26 359**	24 289
Provisions and other liabilities	20	**109 753**	98 428
Deferred tax liabilities	14	**2 827**	3 507
Total equity and liabilities		**2 126 962**	2 027 928

Income statement

for the year ended 31 December 2018

	Note	GROUP 2018 Rm	GROUP 2017 Rm
Income from banking activities		**105 331**	102 699
Net interest income	27	**59 622**	60 125
Interest income[1]		**128 183**	124 147
Interest expense[1]		**(68 561)**	(64 022)
Non-interest revenue		**45 709**	42 574
Net fee and commission revenue	28	**30 375**	28 670
Fee and commission revenue		**36 592**	34 290
Fee and commission expense[2]		**(6 217)**	(5 620)
Trading revenue	29	**11 129**	10 731
Other revenue	30	**3 533**	3 173
Other gains and losses on financial instruments'	31	**672**	
Income from investment management and life insurance activities		**21 722**	24 394
Insurance premiums received	32	**38 521**	38 020
Revenue from contracts with customers[3]		**4 073**	
Interest income[1, 3]		**1 516**	
Insurance benefits and claims paid	32	**(26 484)**	(43 848)
Investment management and service fee income and gains	33	**3 533**	43 957
Fair value adjustments to investment management liabilities and third party fund interests	34	**563**	(13 735)
Total income		**127 053**	127 093
Credit impairment charges[1]	35	**(6 489)**	(9 410)
Net income before operating expenses		**120 564**	117 683
Operating expenses in banking activities[2]	36	**(60 084)**	(57 049)
Operating expenses in investment management and life insurance activities	36	**(16 404)**	(17 800)
Net income before capital items and equity accounted earnings		**44 076**	42 834
Non-trading and capital related items	37	**(641)**	(261)
Share of post tax profit from associates		**912**	1 102
Net income before indirect taxation		**44 347**	43 675
Indirect taxation	38	**(2 609)**	(2 481)
Profit before direct taxation		**41 738**	41 194
Direct taxation	38	**(9 095)**	(10 479)
Profit for the year		**32 643**	30 715
Attributable to ordinary shareholders		**27 453**	26 235
Attributable to other equity instrument holders		**738**	594
Attributable to non-controlling interests		**4 452**	3 886
Earnings per share			
Basic earnings per ordinary share (cents)	39	**1 722,6**	1 637,8
Diluted earnings per ordinary share (cents)	39	**1 705,3**	1 617,5

1 The group and company have, as permitted by IFRS 9, elected not to restate comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) basis. Refer to the accounting policies for more detail on the change in presentation as a result of IFRS 9 and the amendment to IAS 1 *Presentation of Financial Statements* (IAS 1) that requires interest income calculated under the effective interest method to be presented for the year ended 31 December 2018.

2 Refer to page 34 for details on the restatement to fee and commission expense and operating expenses.

3 Interest income and revenue from contracts with customers from Liberty is presented separately from investment management and service fee income and gains, as a result of IFRS 9 and IFRS 15. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 and IAS 18 basis.

Statement of other comprehensive income

for the year ended 31 December 2018

	GROUP	
	2018 Rm	2017 Rm
Profit for the period	**32 643**	30 715
Other comprehensive income/(loss) after tax for the period[1]	**5 056**	(5 940)
Items that may be subsequently reclassified to profit or loss	**5 104**	(5 607)
Exchange differences on translating foreign operations	**5 217**	(6 180)
Movement in the cash flow hedging reserve and foreign currency hedge reserves	**(108)**	111
Net change in fair value of cash flow hedges[2]	**(373)**	210
Realised fair value adjustments transferred to profit or loss[2]	**265**	(53)
Net change in hedges of net investments in foreign operations		(46)
Movement in the available-for-sale revaluation reserve – IAS 39[3]		462
Net change in fair value		396
Realised fair value adjustments transferred to profit or loss		66
Net change in debt financial assets measured at fair value through other comprehensive income (OCI) – IFRS 9[3] **(note 5.2)**	**(5)**	
Net change in expected credit loss	**19**	
Net change in fair value	**22**	
Realised fair value adjustments transferred to profit or loss	**(46)**	
Items that may not be subsequently reclassified to profit or loss	**(48)**	(333)
Defined benefit fund remeasurement	**12**	(219)
Change in own credit risk recognised on financial liabilities designated at fair value through profit or loss – IFRS 9[3]	**55**	
Net change in fair value of equity financial assets measured at fair value through OCI – IFRS 9[3] (note 22.5)	**(130)**	
Other gains/(losses)	**15**	(114)
Total comprehensive income for the period	**37 699**	24 775
Attributable to ordinary shareholders	**31 877**	21 514
Attributable to other equity instrument holders	**738**	594
Attributable to non-controlling interests	**5 084**	2 667

1 Income tax relating to each component of other comprehensive income is disclosed in note 38.
2 During 2017, net change in fair value of cash flow hedges of R157 million was presented net of an amount of R53 million related to realised fair value adjustments of cash flow hedges transferred to profit or loss. The comparative figures have been restated to correctly show these amounts on a gross basis. This had no effect on the group's statement of financial position, income statement or statement of cash flow.
3 The group has, as permitted by IFRS 9, elected not to restate comparative financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policy elections, transition and restatements on page 28 for more detail.

Statement of cash flows

for the year ended 31 December 2018

	Note	GROUP 2018 Rm	GROUP 2017[1] Rm
Net cash flows from operating activities		**34 647**	21 020
Net income before capital items and equity accounted earnings		**44 076**	42 834
Adjusted for non-cash items and other adjustments included in the income statement	42.1	**(70 609)**	(63 494)
Increase in income-earning assets	42.2	**(85 337)**	(98 489)
Increase in deposits, trading and other liabilities	42.3	**78 802**	76 666
Dividends received		**3 866**	2 706
Interest paid		**(69 021)**	(65 402)
Interest received		**128 520**	139 394
Direct taxation paid		**(10 256)**	(10 078)
Purchase of properties[1]		**(742)**	(681)
Proceeds on sales of properties[1]		**45**	60
Net proceeds/(purchase) of financial instruments[1]		**13 293**	(2 238)
Proceeds on realisation of fair value gain on cash and cash equivalents[1]		**912**	
Proceeds on/(repayment of) collateral deposits payable[1]		**1 098**	(258)
Net cash flows used in investing activities		**(8 728)**	(5 298)
Capital expenditure on property and equipment		**(6 159)**	(3 473)
Proceeds from sale of property and equipment[1]		**777**	105
Capital expenditure on intangible assets		**(3 267)**	(1 918)
Acquisitions of associates and joint ventures		**(79)**	(12)
Net cash flows used in financing activities		**(18 335)**	(12 674)
(Buy-back)/issuance of ordinary share capital		**(203)**	103
Issuance of other equity instruments			3 544
Equity transactions with non-controlling interests[2]		**(1 843)**	1 173
Cash flows from BEE transaction		**(138)**	14
Issuance of subordinated debt	42.4	**6 100**	2 246
Redemption of subordinated debt	42.4	**(4 550)**	(4 180)
Dividends paid[3]		**(17 701)**	(15 574)
Effect of exchange rate changes on cash and cash equivalents		**2 251**	(5 212)
Net increase/(decrease) in cash and cash equivalents		**9 835**	(2 164)
Cash and cash equivalents at the beginning of the year		**75 310**	77 474
Cash and cash equivalents at the end of the year		**85 145**	75 310

1 Refer to page 34 for details on the restatement to the statement of cash flows.
2 Refer to the directors' report for significant transactions with non-controlling interests. Includes non-controlling interests' share of subsidiary distributions.
3 During 2018, coupons to the value of R447 million (2017: R229 million) was paid to AT1 capital bond holders. Current tax of R125 million (2017: R64 million) relating to the AT1 capital bonds was recognised directly in equity resulting in an aggregate net equity impact of R322 million (2017: R165 million).

Statement of changes in equity

for the year ended 31 December 2018

	Ordinary share capital and premium Rm	Empowerment reserve Rm	Treasury shares Rm	Foreign currency translation reserve Rm	Foreign currency hedge of net investment reserve Rm	Cash flow hedging reserve Rm	Regulatory statutory credit risk reserve Rm
Balance at 1 January 2018 – (IAS 39)	18 063	(339)	(1 034)	(6 116)	(983)	(94)	3 089
IFRS 9 transitional adjustment[3]							(948)
Balance at 1 January 2018 – (IFRS 9) (restated)	18 063	(339)	(1 034)	(6 116)	(983)	(94)	2 141
Total comprehensive income/(loss) for the year				4 557		(100)	
Profit for the year							
Other comprehensive income/(loss) for the year				4 557		(100)	
Increase in statutory credit risk reserve							1 296
Unincorporated property partnerships capital reductions and distributions							
Transactions with shareholders and non-controlling interest recorded directly in equity	(203)	138	(1 123)	(241)			227
Equity-settled share-based payment transactions[4]							
Transfer of vested equity options							
Issue of share capital and share premium and capitalisation of reserves	320						
Share buy-back	(523)						
Deferred tax on share based payment transactions							
Transactions with non-controlling shareholders			(13)	(241)			227
Net increase in treasury shares			(1 110)				
Redemption of preference shares		138					
Other equity movements							
Net dividends paid							
Dividends paid to equity holders							
Dividends received from Tutuwa initiative and policyholders' deemed treasury shares							
Balance at 31 December 2018	17 860	(201)	(2 157)	(1 800)	(983)	(194)	3 664

1 The fair value through OCI (FVOCI) reserve comprises the FVOCI reserve for debt financial investments (note 5) and equity financial investments (note 22.5) measured at FVOCI.
2 Other equity holders are holders of preference share capital and AT1 capital. The dividend paid comprises net equity impact of R322 million (2017: R165 million) on AT1 and preference dividend of R416 million (2017: R 429 million). Refer to note 15 for more detail.
3 Refer to the accounting policy elections, transition and restatements section on page 29 for more detail on the IFRS 9 transition.
4 Includes hedges of the group's equity-settled share incentive schemes.

All balances are stated net of tax, where applicable.

AFS | Refer to annexure F for the accounting policies relating to the reserves.

	Available-for-sale re-valuation reserve (IAS 39) Rm	Fair value through OCI reserve (IFRS 9)[1] Rm	Own credit risk reserve (IFRS 9) Rm	Share-based payment reserve Rm	Other reserves Rm	Retained earnings Rm	Ordinary share-holders' equity Rm	Other equity instru-ment holders[2] Rm	Non-con-trolling interests Rm	Total equity Rm
	593			(906)	208	144 539	157 020	9 047	23 950	190 017
	(593)	582				(5 302)	(6 261)		(376)	(6 637)
		582		(906)	208	139 237	150 759	9 047	23 574	183 380
		(71)	34		14	27 443	31 877	738	5 084	37 699
						27 453	27 453	738	4 452	32 643
		(71)	34		14	(10)	4 424		632	5 056
						(1 296)				
									(222)	(222)
		12		(119)		(16 266)	(17 575)	(738)	(3 481)	(21 794)
				(1 078)		1 678	600		26	626
				959		(959)				
							320			320
							(523)			(523)
						(128)	(128)			(128)
		12				(1 594)	(1 609)		(1 386)	(2 995)
						(185)	(1 295)		(412)	(1 707)
							138			138
						35	35		16	51
						(15 113)	(15 113)	(738)	(1 725)	(17 576)
						(15 221)	(15 221)	(738)	(1 822)	(17 781)
						108	108		97	205
	0	523	34	(1 025)	222	149 118	165 061	9 047	24 955	199 063

Statement of changes in equity continued

for the year ended 31 December 2017

	Ordinary share capital and premium Rm	Empower-ment reserve Rm	Treasury shares Rm	Foreign currency translation reserve Rm	Foreign currency hedge of net investment reserve Rm	Cash flow hedging reserve Rm
Balance at 1 January 2017	17 960	(353)	(268)	(1 189)	(937)	(230)
Total comprehensive (loss)/income for the year				(4 927)	(46)	136
Profit for the year						
Other comprehensive (loss)/income for the year				(4 927)	(46)	136
Increase in statutory credit risk reserve						
Unincorporated property partnerships capital reductions and distributions						
Transactions with shareholders and non-controlling interest recorded directly in equity	103	14	(766)			
Equity-settled share-based payment transactions[2]						
Transfer of vested equity options						
Issue of share capital and share premium and capitalisation of reserves	409					
Share buy-back	(306)					
Deferred tax on share based payment transactions						
Transactions with non-controlling shareholders			(8)			
Net increase in treasury shares			(758)			
Redemption of preference shares		14				
Net dividends paid						
Dividends paid to equity holders						
Dividends received from Tutuwa initiative and policyholders' deemed treasury shares						
Balance at 31 December 2017	18 063	(339)	(1 034)	(6 116)	(983)	(94)

1 Other equity holders are holders of preference share capital and AT1 capital. Refer to note 15 for more detail.
2 Includes hedges of the group's equity-settled share incentive schemes.

All balances are stated net of tax, where applicable.

AFS | Refer to annexure F for the accounting policies relating to the reserves.

Statutory credit risk reserve Rm	IAS 39 – Available-for-sale revaluation reserve Rm	Share-based payment reserve Rm	Other reserves Rm	Retained earnings Rm	Ordinary share-holders' equity Rm	Other equity instrument holders[1] Rm	Non-controlling interests Rm	Total equity Rm
3 073	206	(372)	253	132 614	150 757	5 503	23 099	179 359
	387		(45)	26 009	21 514	594	2 667	24 775
				26 235	26 235	594	3 886	30 715
	387		(45)	(226)	(4 721)		(1 219)	(5 940)
16				(16)				
							(151)	(151)
		(534)		(14 068)	(15 251)	2 950	(1 665)	(13 966)
		485		(1 370)	(885)		29	(856)
		(1 019)		1 019				
					409	3 544		3 953
					(306)			(306)
				276	276			276
				(46)	(54)		160	106
				(395)	(1 153)		(490)	(1 643)
					14			14
				(13 552)	(13 552)	(594)	(1 364)	(15 510)
				(13 599)	(13 599)	(594)	(1 412)	(15 605)
				47	47		48	95
3 089	593	(906)	208	144 539	157 020	9 047	23 950	190 017

Accounting policy elections, transition and restatements

The principal accounting policies applied in the presentation of the group and company's annual financial statements are set out below.

Basis of preparation

The group's consolidated and company's separate annual financial statements (annual financial statements) are prepared in accordance with IFRS as issued by the IASB, its interpretations adopted by the IASB, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by Financial Reporting Standard Council, the JSE Listings Requirements, and the South African Companies Act. The annual financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Financial assets classified at fair value through other comprehensive income (available-for-sale financial assets), financial assets and liabilities classified at fair value through profit or loss, investment property, liabilities for cash-settled share-based payment arrangements and interests in mutual funds, policyholder investment contract liabilities and third-party financial liabilities arising on the consolidation of mutual funds that are measured at fair value.
- Policyholder insurance contract liabilities and related reinsurance assets that are measured in terms of the Financial Soundness Valuation (FSV) basis as set out in accounting policy 12 – Policyholder insurance and investment contracts.
- Post-employment benefit obligations that are measured in terms of the projected unit credit method.

The following principal accounting policy elections in terms of IFRS have been made, with reference to the detailed accounting policies shown in brackets:

- Purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy 3).
- Cumulative gains and losses recognised in OCI in terms of a cash flow hedge relationship are transferred from OCI and included in the initial measurement of the non-financial asset or liability (accounting policy 3 and 6).
- Commodities acquired principally for the purpose of selling in the near future or generating a profit from fluctuation in price or brokertraders' margin are measured at fair value less cost to sell (accounting policy 3).
- Investment property is accounted for using the fair value model (accounting policy 6).
- Mutual fund investments held by investment-linked insurance funds, that do not meet the definition of a subsidiary, are designated on initial recognition as at fair value through profit or loss (accounting policy 2).
- Intangible assets and property and equipment are accounted for at cost less accumulated amortisation/depreciation and impairment (accounting policy 6).
- The portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis (accounting policy 4).
- Investment in associates and joint ventures are initially measured at cost and subsequently accounted for using the equity method in the separate financial statements (accounting policy 2).

Functional and presentation currency

The annual financial statements are presented in South African rand, which is the functional currency of the company and presentation currency of the group and the company. All amounts are stated in millions of rand (Rm), unless indicated otherwise.

Changes in accounting policies

The accounting policies are consistent with those reported in the previous year except as required in terms of the adoption of the following:

Adoption of new and amended standards effective for the current financial period

The accounting policies are consistent with those reported in the previous year except for the adoption of the following standards and amendments effective for the current period:

- IFRS 4 *Insurance Contracts* (amendment) (IFRS 4), the amendment to applying IFRS 9 Financial Instruments with IFRS 4 introduced two approaches: an overlay approach and a deferral approach. The amended standard will provide all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and provide companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility. The group did not apply the optional temporary exemption from applying IFRS 9 until 2021.
- IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), with effect from 1 January 2018, replaces the existing revenue standards and the related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five step analysis to determine the amount and timing of revenue recognition. The group adopted IFRS 15 on 1 January 2018 and, as permitted by IFRS 15, did not restate its comparative financial results. The standard does not apply to revenue associated with financial instruments, and therefore does not impact the majority of the group's revenue.
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (IFRIC 22) provides guidance on how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

The above mentioned standards and interpretation to the IFRS standards, adopted on 1 January 2018, did not affect the group's previously reported financial results, disclosures or accounting policies and did not impact the group's results upon transition.

- IFRS 9 with effect from 1 January 2018, replaced IAS 39. IFRS 9 introduced new requirements which included an ECL impairment model and new requirements for the classification and measurement of financial assets. IFRS 9, adopted on 1 January 2018, impacted the group's results upon transition. The impact to the group's reserves upon transition to IFRS 9 materially relates to IFRS 9's ECL impairment requirements. IFRS 9's classification and measurement requirements resulted in an immaterial impact to the group upon transition. Refer to the IFRS 9 transition for more detail.

IFRS 9 – transition

Background

With effect from 1 January 2018, IFRS 9 replaced IAS 39. IFRS 9 introduced new requirements which included an ECL impairment model and new requirements for the classification and measurement of financial instruments as follows:

ECL impairment requirements	IFRS 9's ECL impairment model's requirements represented the most material IFRS 9 transition impact for the group. The ECL model applies to financial assets measured at either amortised cost or at fair value through other comprehensive income (FVOCI), loan commitments when there is a present commitment to extend credit (unless these are measured at fair value through profit or loss (FVTPL)) and guarantees. ECL is, at a minimum, required to be measured through a loss allowance at an amount equal to the 12-month ECL. However, where the lifetime is less than 12 months, lifetime ECL will be measured for the financial asset. A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
Classification and measurement	IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting for financial assets differs in various other areas to the IAS 39 requirements such as embedded derivatives and the recognition of fair value adjustments in OCI. All changes in the fair value of financial liabilities that are designated at FVTPL due to changes in own credit risk are required to be recognised within OCI.

Adoption of IFRS 9

The group retrospectively adopted IFRS 9 on 1 January 2018 with an adjustment to the group's opening 1 January 2018 reserves and, as permitted by IFRS 9, did not restate its comparative financial results. Accordingly, the group's previously reported financial results up to 31 December 2017 are presented in accordance with the requirements of IAS 39. 2018 and future reporting periods are presented in terms of IFRS 9. However, the group has elected to continue to apply the hedge accounting requirements of IAS 39. The group prepared a IFRS 9 transition report on which a reasonable assurance audit opinion, included in the report, was provided by the group's external auditors that outlined the impact of the transition to IFRS 9. For further information, regarding the transition impact, refer to the transition report, available at **www.standardbank.com/reporting**.

IFRS 9's ECL requirements

The most material IFRS 9 transition impact for the group is that of IFRS 9's new ECL requirements which results in the earlier recognition of credit impairment provisions primarily as a result of the drivers outlined in the table below. This impact was solely as a result of the adoption of IFRS 9 and is not as a result of changes in the credit quality of the group's loan exposures.

12-month ECL for performing loans (stage 1)	IFRS 9 contains a minimum 12-month ECL for exposures for which there has not been a significant increase in credit risk (SICR), whereas IAS 39 required credit impairments to be recognised only following the identification of objective evidence of impairment.
SICR (stage 2)	A lifetime ECL is recognised for all exposures for which there has been a SICR, being a material change in the probability of default, since origination.
Off-balance sheet exposures	IFRS 9's scope includes off-balance sheet exposures, such as unutilised loan commitments (except those loan commitments at fair value through profit and loss), bankers' acceptances, guarantees, and letters of credit.
Lifetime model work out requirement	In terms of determining ECL for stage 1 and 2 exposures where there is a probability of default, the potential loss from a lifetime perspective is considered, which would include the probability of recovery post default and subsequent re-default. For stage 3 exposures, being exposures that are either in default or where default is imminent, this would include consideration of cures and subsequent re-default.
Forward looking economic expectations	IFRS 9 requires an adjustment for forward looking economic expectations in the determination of SICR and in the measurement of the ECL.

IFRS 9 key financial impacts

TABLE 1: IMPACT ON THE GROUP'S EXTRACTED STATEMENT OF FINANCIAL POSITION ON 1 JANUARY 2018

	Group IAS 39 at 31 December 2017 Rm	IFRS 9 transition adjustment at 1 January 2018 IFRS 9 ECL Rm	IFRS 9 transition adjustment at 1 January 2018 IFRS 9 classification and measurements Rm	IFRS 9 transition adjustment at 1 January 2018 Total Rm	Group IFRS 9 at 1 January 2018 Rm
Assets					
Financial investments	533 314	(272)	32	(240)	533 074
Loans and advances	1 048 027	(7 839)	(83)	(7 922)	1 040 105
Interest in associates and joint ventures	9 665	(53)	(3)	(56)	9 609
Other financial and non-financial assets[1]	436 922	2 234	94	2 328	439 250
Total assets	2 027 928	(5 930)	40	(5 890)	2 022 038
Equity and liabilities					
Equity	190 017	(6 276)	(361)	(6 637)	183 380
Equity attributable to ordinary shareholders	157 020	(5 930)	(331)	(6 261)	150 759
Equity attributable to other equity holders	9 047				9 047
Equity attributable to non-controlling interests	23 950	(346)	(30)	(376)	23 574
Liabilities[2]	1 837 911	346	401	747	1 838 658
Total equity and liabilities	2 027 928	(5 930)	40	(5 890)	2 022 038

1 Materially relates to the recognition of additional deferred tax assets following the recognition of the IFRS 9 ECL transition adjustment.
2 Materially relates to the recognition of ECL on off-balance sheet letters of credit, bankers' acceptances and guarantees, as well as classification and measurement changes on financial liabilities.

TABLE 2: IMPACT ON THE GROUP'S EXTRACTED STATEMENT OF CHANGES IN EQUITY ON 1 JANUARY 2018

	Group IAS 39 at 31 December 2017 Rm	IFRS 9 transition adjustment at 1 January 2018 Rm	Group IFRS 9 at 1 January 2018 Rm
Ordinary share capital and share premium	18 063		18 063
Retained earnings[1]	144 539	(5 302)	139 237
Statutory credit risk reserve[2]	3 089	(948)	2 141
Other[3]	(8 671)	(11)	(8 682)
Total ordinary shareholder's equity	157 020	(6 261)	150 759
Other equity instruments	9 047		9 047
Non-controlling interests[4]	23 950	(376)	23 574
Total equity	190 017	(6 637)	183 380

1 The change in the retained earnings relates to IFRS 9's classification and measurement and ECL changes and the reversal of the statutory credit risk reserve (SCRR) as explained further below.
2 In addition to the R6 637 million impact on the group's reserves, as a result of the adoption of IFRS 9, a debit of R948 million to the group's SCRR and a corresponding credit to the group's retained earnings has been recognised. The SCRR has historically been maintained by means of an appropriation of retained earnings to a non-distributable reserve, being the SCRR, by the group's operations in the Africa Regions as a result of country regulators requiring a higher credit impairment provision than that as determined in accordance with IAS 39. Given that IFRS 9 typically results in an impairment provision that is equivalent to or greater than that as required by the Africa Regions' regulators, a transfer from the SCRR back to retained earnings is required on transition to IFRS 9. The transfer has only been reflected with respect to those countries whose regulators, at the date of this transition report, had approved such releases. This transfer has no impact on the group's net asset value, total reserves or capital ratios.
3 Of the R593 million in the group's available-for-sale reserve as at 31 December 2017, R582 million has been reclassified on the adoption of IFRS 9 to the FVOCI category and R11 million relates to gains and losses on instruments that were classified as available-for-sale and are now classified as either FVTPL or at amortised cost.
4 The change relates to the non-controlling interests' share of the IFRS 9 impact post tax relating to IFRS 9's classification and measurement and ECL changes.

TABLE 3: IMPACT ON FINANCIAL INSTRUMENT CLASSIFICATION (EXCLUDING IMPACT OF IFRS 9 ECL)[1]

		IFRS 9 classification as at 1 January 2018					
	Group IAS 39 at 31 December 2017 Rm	Held-for-trading Rm	Fair value through profit or loss[2] Rm	Amortised cost Rm	Fair value through OCI Rm	Group IFRS 9 at 1 January 2018 Rm	Transitional adjustment Rm
Financial assets							
Held-for-trading	241 482	241 482				241 482	
Designated at fair value[3]	409 456		370 517	38 126		408 643	(813)
Held to maturity	81 607		3 261	79 187		82 448	841
Loans and receivables[4]	1 142 431		66 908	1 075 492	26	1 142 426	(5)
Available-for-sale[5]	45 149		423	10 041	34 537	45 001	(148)
Total financial assets	1 920 125	241 482	441 109	1 202 846	34 563	1 920 000	(125)
Financial liabilities							
Held-for-trading	139 751	139 751				139 751	
Designated at fair value[3]	173 176		165 559	7 813		173 372	196
Other amortised cost	1 284 837		9 311	1 275 731		1 285 042	205
Total financial liabilities	1 597 764	139 751	174 870	1 283 544		1 598 165	401

1 The classification changes contained in the table primarily relate to corporate exposures, reserving requirements with the central bank and business model change to Fair value default for the group's non-banking subsidiary.
2 Includes designated fair value and fair value default financial instruments.
3 The financial instruments no longer designated at fair value through profit or loss is as a result of the IFRS 9 designation criteria not being met.
4 Cash and balances with central banks was in terms of IAS 39 classified as loans and receivables. Coins and bank notes and the reserving requirements held with central banks has been classified as at fair value default as the contractual terms do not give rise on specified dates to cash flows that represent solely payments of principal and interest on the principal amount outstanding.
5 R121 million increase in OCI would have to be recognised on the financial assets previously measured at fair value and transferred to amortised cost.

The group applied IFRS 9's classification and measurement requirements based on the facts and circumstances at 1 January 2018 in determining the transition adjustment. As at 1 January 2018, the group determined the classification of financial assets on the basis of the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. An assessment of the instrument's contractual terms was performed to determine whether the terms give rise on specified dates to cash flows that are solely payments of principal and interest of the principal amount outstanding (referred to as SPPI) and whether there is an accounting mismatch.

For debt financial assets that meet IFRS 9's business model (held to collect and/or held to collect and sell) and the SPPI tests and are to be classified as amortised cost or at fair value through OCI, the group assessed whether there is an accounting mismatch based on the facts and circumstances as at 1 January 2018. Where an accounting mismatch exists, these financial assets were designated as at fair value through profit or loss (FVTPL) as illustrated in the table above.

The group re-assessed the classification of financial assets that were designated as at fair value through profit and loss in terms of IAS 39 to eliminate or significantly reduce an accounting mismatch based on the facts and circumstances at 1 January 2018. The financial assets that met the IFRS 9 designation criteria continued to be designated as at FVTPL as illustrated above. However, for the financial assets that did not meet the IFRS 9 designation criteria these financial assets were reclassified under IFRS 9 to either amortised cost (for debt financial assets purely held to collect and met the SPPI test), fair value through OCI (for debt financial assets held to collect and for sale and met the SPPI test) or fair value default when the SPPI test was not met.

Equity financial assets are elected to be measured as at fair value through OCI where the held for trading criteria is not met based on the facts and circumstances as at 1 January 2018.

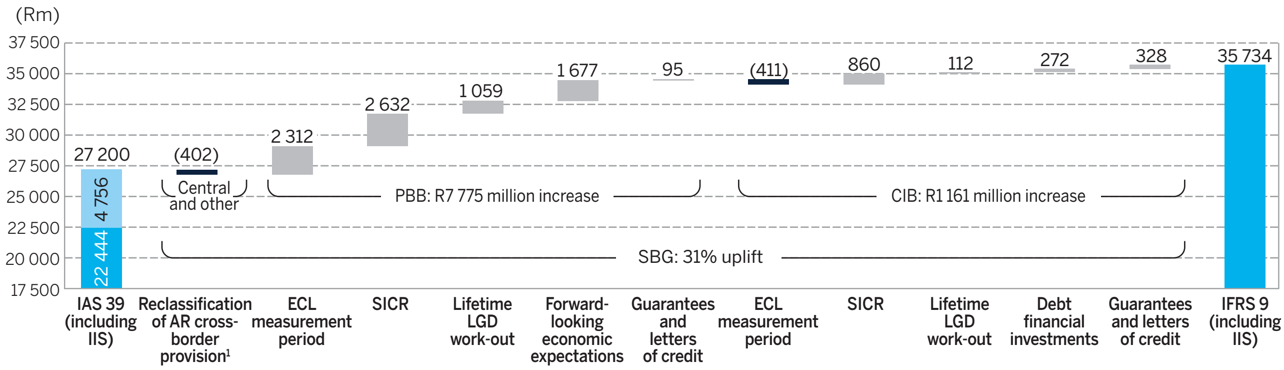
With the exception of what is noted below, both IAS 39 and IFRS 9 have the same requirements for the classification of financial liabilities. Changes in fair value that are attributable to changes in the credit risk of financial liabilities that have been designated at fair value through profit and loss shall, in terms of IFRS 9, be recognised in OCI with the remaining amount of the change in the fair value of the financial liability being presented in profit or loss. The gains and losses presented in OCI are not subsequently recognised in profit or loss. Where, however, presenting the changes in the fair value of the liability due to changes in credit risk in OCI would create or enlarge an accounting mismatch in profit or loss, IFRS 9 permits the gains and losses due to changes in the credit risk of that liability to be recognised in profit or loss. The group re-assessed its financial liabilities to be designated as at FVTPL based on the facts and circumstances at 1 January 2018. These financial liabilities are either continued to be designated as at FVTPL or were reclassified to amortised cost under IFRS 9 as illustrated in the table above.

TABLE 4: THE TRANSITION FROM IAS 39 TO IFRS 9'S IMPAIRMENT REQUIREMENTS BY SEGMENT AND ASSET CLASS

	IAS 39 – 31 December 2017				
	Performing portfolio provision Rm	Specific debt provision Rm	Total IAS 39 provision (excluding IIS) Rm	Interest in suspense (IIS) Rm	Total IAS 39 provision (including IIS) Rm
Personal & Business Banking (PBB)	4 545	11 943	16 488	3 034	19 522
Loans and advances at amortised cost	4 545	11 943	16 488	3 034	19 522
Mortgage loans	1 077	3 979	5 056	1 454	6 510
Vehicle and asset finance	653	1 367	2 020	21	2 041
Card debtors	665	1 596	2 261	15	2 276
Other loans and advances	2 150	5 001	7 151	1 544	8 695
Off-balance sheet exposures					
Letters of credit and bankers' acceptances					
Guarantees					
Corporate & Investment Banking (CIB)	2 229	3 325	5 554	1 722	7 276
Loans and advances at amortised cost	2 229	3 325	5 554	1 722	7 276
Corporate	2 229	3 325	5 554	1 722	7 276
Sovereign					
Banking					
Debt financial investments at FVOCI					
Sovereign					
Debt financial investments at amortised cost					
Corporate					
Sovereign					
Banking					
Off-balance sheet exposures					
Letters of credit and bankers' acceptances					
Guarantees					
Central and other[1]	400	2	402		402
Associates and joint ventures[2]					
Total provision on-balance sheet	7 174	15 270	22 444	4 756	27 200
Total provision off-balance sheet					
Total	7 174	15 270	22 444	4 756	27 200

1 In terms of IAS 39, the group previously maintained an impairment provision of R402 million within central and other which materially related to credit risk pertaining to the group's Africa Regions' cross-border exposures. On adoption of IFRS 9 this impairment provision has been recognised in opening retained earnings.
2 The group's share of the ECL adjustments recognised by its associates have, for purposes of this table, been included in the determination of the group's total ECL transition adjustment of R6 276 million.
3 The total tax impact comprises an increase in deferred tax asset of R2 234 million and a decrease of current tax liability of R77 million.

The following graph outlines the principal IFRS 9 drivers for the change in the impairment provisions in table 4: IFRS 9 impairment – group uplift in the impairment provision



1 Refer to table 4.

	IFRS 9 – 1 January 2018				IFRS 9 – transition adjustment – 1 January 2018		
	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total IFRS 9 provision (including IIS) Rm	Gross Rm	Tax[3] Rm	Net Rm
	4 974	6 283	16 040	27 297	7 775	(2 099)	5 676
	4 879	6 283	16 040	27 202	7 680	(2 076)	5 604
	1 126	2 014	6 256	9 396	2 886	(810)	2 076
	766	994	1 476	3 236	1 195	(338)	857
	698	821	1 660	3 179	903	(248)	655
	2 289	2 454	6 648	11 391	2 696	(680)	2 016
	95			95	95	(23)	72
	63			63	63	(16)	47
	32			32	32	(7)	25
	1 168	2 136	5 133	8 437	1 161	(325)	836
	910	1 992	4 935	7 837	561	(177)	384
	781	1 956	4 935	7 672	396	(116)	280
	84	36		120	120	(47)	73
	45			45	45	(14)	31
	175			175	175	(44)	131
	175			175	175	(44)	131
	24	73		97	97	(14)	83
	10			10	10	(3)	7
	13	73		86	86	(11)	75
	1			1	1		1
	59	71	198	328	328	(90)	238
	3	12		15	15	(2)	13
	56	59	198	313	313	(88)	225
					(402)	113	(289)
					53		53
	5 988	8 348	20 975	35 311	8 164	(2 198)	5 966
	154	71	198	423	423	(113)	310
	6 142	8 419	21 173	35 734	8 587	(2 311)	6 276

Change in accounting policy

Expenses incurred with respect to the group's customer loyalty programme (Ucount) have historically been recorded as part of operating expenses in the income statement. During the year, the group amended its accounting presentation policy for these expenses to rather be presented as part of net fee and commission revenue (within non-interest revenue). This presentation better aligns to the group's presentation policy for recognising expenses within net fee and commission revenue. The impact of the change in the accounting policy on the group's financial results is as follows:

	2017		
	As previously presented Rm	Restatement Rm	Restated Rm
Fee and commission expense (note 28)	(5 157)	(463)	(5 620)
Operating expenses in banking activities (note 36)	(57 512)	463	(57 049)

The following primary financial statement and notes have been impacted by this restatement:

- consolidated income statement
- fee and commission expense
- operating expenses
- segment report.

This has no impact on the total income, profit for the year and earnings per share.

Restatement of statement of cash flows

During 2018 a comprehensive review of the group's long-term insurance business model was undertaken due to various regulatory changes including the new regulatory capital regime effective 1 July 2018 and the enterprise risk management framework. The above review supported a change in key judgement relating to the appropriateness of all cash flows relating to investment portfolios backing policyholder liabilities and supporting regulatory and group risk adjusted minimum capital levels. Management is of the opinion that these should be reflected as cash flows from operating activities rather than as previously reflected as cash flows from investing activities. This provides more relevant information as it more accurately reflects the nature of the cash flows, therefore, the statement of cash flows for 2017 has been restated. The impact of the restatement on the group's statement of cash flows is as follows:

	2017		
	As previously presented (cash outflow)/ cash inflow Rm	Restatement Rm	Restated (cash outflow)/ cash inflow Rm
Cash flows presented within operating activities			
Purchase of properties		(681)	(681)
Proceeds on sales of properties		60	60
Net purchase of financial instruments		(2 238)	(2 238)
(Repayment of)/proceeds on collateral deposits payable		(258)	(258)
Cash flows presented within investing activities			
Purchase of properties	(681)	681	
Net purchase of financial instruments	(2 238)	2 238	
(Repayment of)/proceeds on collateral deposits payable	(258)	258	
Proceeds from sale of property and equipment	225	(120)	105
Capital expenditure	(3 533)	60	(3 473)

Key management assumptions

In preparing the financial statements, estimates and assumptions are made that could materially affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of future events. Post the implementation of IFRS 9 on 1 January 2018, unless otherwise stated, no material changes to assumptions have occurred during the year. The following represents the most material key management assumptions applied in preparing these financial statements.

ECL on financial assets – IFRS 9 drivers

For the purpose of determining the ECL:

- The PBB portfolios are based on the product categories or subsets of the product categories, with tailored ECL models per portfolio. The IFRS 9 impairment provision calculation excludes post write off recoveries (PWOR) from the loss given default (LGD) in calculating the expected credit loss. This LGD parameter has been aligned to emerging market practice.
- CIB exposures are calculated separately based on rating models for each of the asset classes.

ECL measurement period

The ECL measurement period for stage 1 exposures is 12-months (or the remaining tenor of the financial asset for CIB exposures if the remaining lifetime is less than 12 months).

- A loss allowance over the full lifetime of the financial asset is required if the credit risk of that financial instrument has increased significantly since initial recognition (stage 2).
- A lifetime measurement period is applied to all credit impaired (stage 3) exposures.
- Lifetimes include consideration for multiple default events, i.e. where defaulted exposures cure and then subsequently re-default. This consideration increases the lifetime and the potential ECL.
- The measurement periods for unutilised loan commitments utilise the same approach as on-balance sheet exposures.

SICR and low credit risk

PBB

In accordance with IFRS 9, all exposures are assessed to determine whether there has been SICR at the reporting date, in which case an impairment provision equivalent to the lifetime expected loss is recognised. SICR thresholds, which are behaviour score based, are derived for each portfolio vintage of exposures with similar credit risk and are calibrated over time to determine which exposures reflect deterioration relative to the originated population and consequently reflect an increase in credit risk.

The group determines the SICR threshold by utilising an appropriate transfer rate of exposures from stage 1 to stage 2. This is done by taking into account the expected levels of arrears status for each portfolio vintage of exposures. The SICR thresholds are reviewed regularly to ensure that they are appropriately calibrated to identify SICR by portfolio vintage and consequently facilitate appropriate impairment coverage.

Where behaviour scores are not available, historical levels of delinquency are applied in determining whether there has been SICR. For all exposures, IFRS 9's rebuttable presumption of 30 days past due, as well as exposures classified as either debt review or as 'watch-list' are used to classify exposures within stage 2.

CIB (including certain PBB business banking exposures)

The group uses a 25-point master rating scale to quantify the credit risk for each exposure. On origination, each client is assigned a credit risk grade within the group's 25-point master rating scale. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data for the applicable portfolio. These credit ratings are evaluated at least annually or more frequently as appropriate.

CIB exposures are evaluated for SICR by comparing the credit risk grade at the reporting date to the origination credit risk grade. Where the relative change in the credit risk grade exceeds certain pre-defined ratings' migration thresholds or, when a contractual payment becomes more than 30 days overdue (IFRS 9's rebuttable presumption), the exposure is classified within stage 2. These pre-defined ratings' migration thresholds have been determined based on historic default experience which indicate that higher rated risk exposures are more sensitive to SICR than lower risk exposures. Based on an analysis of historic default experience, exposures that are classified by the group's master rating scale as investment grade (within credit risk grade 1 – 12 of the group's 25-point master rating scale) are assessed for SICR at each reporting date but are considered to be of a low credit risk for IFRS 9 purposes. To determine whether a client's credit risk has increased significantly since origination, the group would need to determine the extent of the change in credit risk using the table below.

Group master rating scale band	SICR trigger (from origination)
SB 1 – 12	Low credit risk
SB 13 – 20	3 rating or more
SB 21 – 25	1 rating or more

Incorporation of forward looking information in ECL measurement

The group determines the macroeconomic outlook, over a planning horizon of at least three years, for each country based on the group's global outlook and its global view of commodities.

For PBB these forward-looking economic expectations are included in the ECL where adjustments are made based on the group's macroeconomic outlook, using models that correlate these parameters with macroeconomic variables. Where modelled correlations are not viable or predictive, adjustments are based on expert judgement to predict the outcomes based on the group's macroeconomic outlook expectations. In addition to forward-looking macroeconomic information, other types of forward-looking information (FLI), such as specific event risk, have been taken into account in ECL estimates when required, through the application of out-of-model adjustments. These out-of-model adjustments are subject to group credit governance committee oversight.

The group's macroeconomic outlooks are incorporated in CIB's client rating and include specific forward-looking economic considerations for the individual client. The client rating thus reflects the expected client risk for the group's expectation of future economic and business conditions. Further adjustments, based on point-in-time market data, are made to the PDs assigned to each risk grade to produce PDs and ECL representative of existing market conditions.

Default

The definition of default, which triggers the credit impaired classification (stage 3), is based on the group's internal credit risk management approach and definitions. While the specific determination of default varies according to the nature of the product, it is compliant to the Basel definition of default, and generally determined as occurring at the earlier of:

- where, in the group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities, in excess of the current limit).

The group has not rebutted IFRS 9's 90 days past due rebuttable presumption.

Write-off policy

An impaired loan is written off once all reasonable attempts at collection have been made and there is no material economic benefit expected from attempting to recover the balance outstanding. The following criteria must be met before a financial asset can be written off:

- the financial asset has been in default for the period defined for the specific product (i.e. vehicle and asset finance and mortgage loans) which is deemed sufficient to determine whether the entity is able to receive any further economic benefit from the impaired loan; and
- at the point of write-off, the financial asset is fully impaired (i.e. 100% allowance) with no reasonable expectation of recovery of the asset, or a portion thereof.

As an exception to the above requirements, where the exposure is secured (or for collateralised structures), the impaired loan can only be written off once the collateral has been realised. Post-realisation of the collateral, the shortfall amount can be written off if it meets the second requirement listed above. The shortfall amount does not need to meet the first requirement to be written off.

Curing

Continuous assessment is required to determine whether the conditions that led to a financial asset being considered to be credit impaired (i.e. stage 3) still exist. Distressed restructured financial assets that no longer qualify as credit impaired remain within stage 3 for a minimum period of six months (i.e. six full consecutive monthly payments per the terms and conditions). In the case of financial assets with quarterly or longer dated repayment terms, the classification of a financial asset out of stage 3 may be made subsequent to an evaluation by the group's CIB or PBB credit governance committee (as appropriate), such evaluation will take into account qualitative factors in addition to compliance with payment terms and conditions of the agreement. Qualitative factors include compliance with covenants and compliance with existing financial asset terms and conditions.

Where it has been determined that a financial asset no longer meets the criteria for significant increase in credit risk, the financial asset will be moved from stage 2 (lifetime expected credit loss model) back to stage 1 (12-month expected credit loss model) prospectively.

Amendments to the estimation technique

Refinements to some of the PBB ECL models have been made during the course of 2018. The amendments include improved SICR classification for the Africa Regions models and enhancements to certain assumptions within the modelling techniques for the South African ECL calculations. The loss given default (LGD) parameter has been aligned to emerging market practice through the exclusion of post write off recoveries.

The group's forward looking economic expectations were applied in the determination of the ECL at the reporting date

A range of base, bullish and bearish forward looking economic expectations were determined, as at 31 December 2018, for inclusion in the group's forward-looking process and ECL calculation:

South African economic expectation

- The base case for South Africa is that business and consumer confidence ultimately strengthens, and the policy framework incrementally improves, following the political change that began with the African National Congress' (ANC) leadership election in December 2017. However, this virtuous growth cycle has been slowed by the uncertainty and lack of decisive policy changes ahead of the 2019 elections, as well as elevated uncertainty about property expropriation without compensation. Our forecasts assume sufficient support for the ANC in the election (and for the president within the party) to support a reform mandate. A sovereign credit rating downgrade by Moody's is assumed to be staved off, though there are significant risks to the fiscal forecasts and credit ratings.
- There is a material risk of a more bearish scenario given deep-seated ideological divides within the ANC and the broader society, difficult policy trade-offs, which may complicate and delay substantive policy reforms, and economic growth which may remain too low to reduce unemployment and the fiscal risks. Further fiscal slippage in the October 2018 Medium-Term Budget Policy Statement (MTBPS) underscores the elevated fiscal and rating risks, which would affect not only capital flows and financial markets but also confidence and fixed investment if they materialise.
- There is a rather low probability bullish case in which traction with policy reform exceeds expectations, compelling a stronger recovery in employment and fixed investment, supported by significant pent-up demand and strong confidence. This would also alleviate socio-political and fiscal risks.

Africa Regions' economic expectation

Economic growth in African economies is likely to be reasonably differentiated. The fastest-growing economies are likely to be the ones that still have access to international capital and are engaging in infrastructural spending. Deteriorating fiscal metrics, however, call into question the capacity of these countries to continue to rely on this source of growth. The base case comprises the following outlook and conditions per region:

- East Africa: Boosted by infrastructure spending, growth continues to remain elevated. Rainfall has been good over the past two years, bolstering agricultural output and keeping food inflation well-contained. Currencies are reasonably stable, causing central banks to have a predisposition for easing rather than tightening monetary policy.
- West Africa: Economic growth is likely to remain strong, with the Nigerian economy continuing to recover. However, elections in key markets specifically Nigeria in 2019 as well as Côte d'Ivoire and Ghana in 2020, could result in market uncertainty and amendments to macroeconomic policy management.
- South and Central Africa: Domestic demand appears to be sluggish across the region. Fiscal restraint that is necessitated by disappointing Southern African Customs Union revenues has probably been a factor constraining domestic demand among SACU member countries.

Global economic expectation

The global base case comprises the following outlook and conditions:

- The global economy slows moderately under the weight of trade-related uncertainty. Unlike the trade-war scenario, the extent of the tensions between the US and other countries such as China, is not sufficient to send many economies into deep recessions.
- Financial markets experience significant volatility and in the short-term at least, asset prices remain under pressure.
- The Federal Reserve pauses monetary tightening; however, certain major central banks are gradually drawing closer to the Federal Reserve, with rate increases of their own.
- Tight labour markets and additional price pressures from tariffs will probably cause inflation to not fall significantly despite of weaker growth.

Main macroeconomic factors

The following table shows the main macroeconomic factors used to estimate the forward looking impact on the IFRS 9 provision on financial assets. For each scenario, namely the base case, bullish and bearish scenario, the average values of the factors over the next 12 months, and over the remaining forecast period, are presented.

	Base scenario		Bearish scenario		Bullish scenario	
Macroeconomic factors	Next 12 months	Remaining forecast period[1]	Next 12 months	Remaining forecast period[1]	Next 12 months	Remaining forecast period[1]
South Africa						
Inflation (%)	5.5	5.3	6.5	5.8	4.8	5.1
Real GDP[2] (%)	1.8	2.5	0.8	1.0	2.4	2.9
Employment rate growth (%)	1.2	1.3	0.1	0.6	1.4	1.6
Household credit (%)	6.1	7.2	1.8	6.0	6.8	7.7
Exchange rate USD/ZAR	13.4	13.8	14.9	14.5	12.1	12.7
Prime (%)	10.3	10.5	10.5	10.8	10.0	10.0
Africa Regions[3]						
Inflation (%)	8.8	7.5	10.3	9.9	7.7	6.3
Policy rate (%)	10.5	10.2	11.9	11.7	10.0	8.9
3m Tbill rate (%)	9.4	9.7	11.1	10.9	8.5	8.1
6m Tbill rate (%)	9.9	9.7	11.3	10.8	9.2	8.7
Real GDP[2] (%)	4.6	5.4	3.6	4.4	5.3	6.3
Global[3]						
Inflation (%)	1.8	2.1	2.7	1.6	1.6	2.0
Policy rate (%)	0.8	1.4	0.2	0.5	1.0	1.8
Exchange rate GBP/USD	1.5	1.5	1.0	1.3	1.5	1.5
Real GDP[2] (%)	1.0	1.7	(1.4)	0.9	1.7	2.0
Unemployment rate (%)	4.4	4.7	5.3	5.3	4.1	4.2

1 The remaining forecast period is 2020 to 2023.
2 Gross domestic product.
3 Where multiple jurisdictions are considered, weighted averages are used.

Sensitivity analysis of CIB forward-looking impact on IFRS 9 provision

Management assessed and considered the sensitivity of the IFRS 9 provision against the forward-looking economic conditions at a client level. The reviews and ratings of each client are performed at least annually. This process entails credit analysts completing a credit scorecard and incorporating forward-looking information. The weighting is reflected in both the determination of significant increase in credit risk, as well as the measurement of the resulting IFRS 9 provision for the individual client. Therefore, the impact of forward-looking economic conditions is embedded into the total IFRS 9 provision for each CIB client and cannot be stressed or separated out of the overall CIB IFRS 9 provision.

Sensitivity analysis of PBB forward-looking impact on IFRS 9 provision

The following table shows a comparison of the forward looking impact on the IFRS 9 provision as at 31 December 2018 based on the probability weightings of the above three scenarios resulting from recalculating each scenario using a 100% weighting of the above factors.

	Rm	% change on total PBB IFRS 9 provision
Forward looking impact on IFRS 9 provision	1 741	
Scenarios		
Base	1 488	(1)
Bearish	2 719	3
Bullish	1 154	(2)

AFS | Refer to note 7.

Credit impairment losses on loans and advances – IAS 39

Portfolio loan impairments

The group assesses its loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recognised in profit or loss, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis.

The impairment for performing and non-performing but not specifically impaired loans is calculated on a portfolio basis, based on historical loss patterns, adjusted for national- and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These include early arrears, notices of accounts under debt review, renegotiated loans, post write-off recoveries, watch list exposures and changes in macroeconomic conditions and legislation affecting credit recovery. The impairments are monitored on a monthly basis, with back-testing performed between actual write off experience and that estimated by the group's models. The models are updated on a regular basis to incorporate actual write-off experience. The sensitivity to changing conditions is evaluated and specific sensitivity testing is done if and when required.

A key input into the determination of the group's portfolio impairment provisions is the emergence period. The loss ratios applied to loan balances in the portfolio are based on the estimated loss emergence period. At 2017 year end, the group applied an average loss emergence period of a minimum of three months for Personal & Business Banking (PBB) and 12 months for Corporate & Investment Banking (CIB) loans and advances. Where required, these emergence periods are assessed by determining the sensitivity of the impairment by applying both longer and shorter emergence periods and comparing the sensitivity results with the incurred loss experience.

Specific loan impairments

Non-performing loans include those loans for which the group has identified objective evidence of default, such as a breach of a material loan covenant or condition, as well as those loans for which instalments are due and unpaid for 90 days or more.

The methodology used in determining the specific loan impairment includes modelling with various inputs such as segmentation, levels of loss expectation, recoverability of collateral, potential cash flows and probability of default. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Expected time to recover cash and collateral and recoveries of individual specifically impaired loans as a percentage of the outstanding balances are estimated as follows:

2017	Expected time to recovery Months	Expected recoveries as a percentage of impaired loans %
Personal & Business Banking	8 – 15	57
Mortgage loans	15	74
Instalment sale and finance leases	9	56
Card debtors	8	25
Other lending	13	39
Corporate & Investment Banking	21 – 24	40
South Africa	21	31
Africa Regions	24	54

Refer to note 7 loans and advances, for the carrying amounts of loans and advances and to the credit risk section of the risk and capital management report for the group's assessment of the risk of loss arising out of the failure of counterparties to meet their financial or contractual obligations when due.

AFS | Refer to note 7.

Impairment of available-for-sale investments – IAS 39

The group determines that available-for-sale investments are impaired and recognised as such in profit or loss when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the group evaluates, among other factors, the normal volatility in the instruments' fair value. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry or sector, or operational and financing cash flows or significant changes in technology.

Derivatives held-for-hedging

Interest rate benchmarks and reference interest rate reform

The Financial Stability Board has initiated a fundamental review and reform of the major interest rate benchmarks used globally by financial market participants. This review seeks to replace existing interbank offered rates (IBORs) with alternative risk-free rates (ARRs) to improve market efficiency and mitigate systemic risk across financial markets. This reform is at various stages globally. Accordingly, there is uncertainty surrounding the timing and manner in which the transition would occur and how this would affect various financial instruments held by the group. Consequently, significant judgement is applied in determining whether certain interest rate risk hedge relationships will continue to qualify for hedge accounting. As at 31 December 2018, management's view is that existing hedge relationships referencing IBORs continue to qualify for hedge accounting given market reliance on existing IBORs and the current absence of term structures in ARRs for products that span longer time periods. Management is monitoring market and accounting developments in this regard.

Fair value

Financial instruments

In terms of IFRS, the group is either required to or elects to measure a number of its financial assets and financial liabilities at fair value, being the price that would, respectively, be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities.

Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions.

When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. Information obtained from the valuation of financial instruments is used to assess the performance of the group and, in particular, provides assurance that the risk and return measures that the group has taken are accurate and complete.

The group's valuation control framework governs internal control standards, methodologies, and procedures over its valuation processes, which include:

Prices quoted in an active market: The existence of quoted prices in an active market represents the best evidence of fair value. Where such prices exist, they are used in determining the fair value of financial assets and financial liabilities.

Valuation techniques: Where quoted market prices are unavailable, the group establishes fair value using valuation techniques that incorporate observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices, for such assets and liabilities. Parameter inputs are obtained directly from the market, consensus pricing services or recent transactions in active markets, whenever possible. Where such inputs are not available, the group makes use of theoretical inputs in establishing fair value (unobservable inputs). Such inputs are based on other relevant input sources of information and incorporate assumptions that include prices for similar transactions, historic data, economic fundamentals, and research information, with appropriate adjustment to reflect the terms of the actual instrument being valued and current market conditions. Changes in these assumptions would affect the reported fair values of these financial instruments. Valuation techniques used for financial instruments include the use of financial models that are populated using market parameters that are corroborated by reference to independent market data, where possible, or alternative sources, such as, third-party quotes, recent transaction prices or suitable proxies. The fair value of certain financial instruments is determined using industry standard models such as, discounted cash flow analysis and standard option pricing models. These models are generally used to estimate future cash flows and discount these back to the valuation date. For complex or unique instruments, more sophisticated modelling techniques may be required, which require assumptions or more complex parameters such as correlations, prepayment spreads, default rates and loss severity.

Valuation adjustments: Valuation adjustments are an integral part of the valuation process. Adjustments include, but are not limited to:

- credit spreads on illiquid issuers
- implied volatilities on thinly traded instruments
- correlation between risk factors
- prepayment rates
- other illiquid risk drivers.

In making appropriate valuation adjustments, the group applies methodologies that consider factors such as bid-offer spreads, liquidity, counterparty and own credit risk. Exposure to such illiquid risk drivers is typically managed by:

- using bid-offer spreads that are reflective of the relatively low liquidity of the underlying risk driver
- raising day one profit provisions in accordance with IFRS
- quantifying and reporting the sensitivity to each risk driver
- limiting exposure to such risk drivers and analysing the exposure on a regular basis.

Validation and control: All financial instruments carried at fair value, regardless of classification, and for which there are no quoted market prices for that instrument, are fair valued using models that conform to international best practice and established financial theory. These models are validated independently by the group's model validation unit and formally reviewed and approved by the market risk methodologies committee. This control applies to both off-the-shelf models, as well as those developed internally by the group. Further, all inputs into the valuation models are subject to independent price validation procedures carried out by the group's market risk unit. Such price validation is performed on at least a monthly basis, but daily where possible given the availability of the underlying price inputs. Independent valuation comparisons are also performed and any significant variances noted are appropriately investigated. Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to model, are carefully validated and tabled at the monthly price validation forum to ensure that these are reasonable and used consistently across all entities in the group. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values. They are also disclosed on a monthly basis at the market risk and asset and liability committees.

Portfolio exception: The group has, on meeting certain qualifying criteria, elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis.

The total amount of the change in fair value estimated using valuation techniques not based on observable market data that was recognised in profit or loss for the year ended 31 December 2018 was a net loss of R4 942 million (2017: R4 132 million net gain). Other financial instruments, not at level 3, are utilised to mitigate the risk of these changes in fair value.

AFS | Refer to note 22 for the fair value disclosures.

Investment property

The full portfolio of the South African located properties were independently valued as at 31 December 2018 by registered professional valuers with the South African Council for the Property Valuers Profession as well as members of the Institute of Valuers of South Africa. The Kenyan and Nigerian located properties were independently valued as at 31 December 2018 by various registered professional valuers in each territory. The valuation of the South African properties is prepared in accordance with the guidelines of the South African Institute of Valuers for valuation reports and in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors, adapted for South African law and conditions. The properties have been valued on a discounted cash flow basis. In the majority of cases, discounted cash flows have been used to determine a present value net income to which the exit capitalisation rate is applied as at 31 December 2018. In order to determine the reversionary rental income on lease expiry, renewal or review, a market gross rental income (basic rental plus operating cost rental) has been applied to give a market-related rental value for each property as at 31 December 2018. Market rental growth has been determined based on the individual property, property market trends and economic forecasts. Vacancies have been considered based on historic and current vacancy factors as well as the nature, location, size and popularity of each building.

Appropriate discount rates have been applied to cash flows for each property to reflect the relative investment risk associated with the particular building, tenant, covenant and the projected income flow. Extensive market research has been conducted to ascertain the most appropriate market-related discount rate to apply, with regard to the current South African long-term bond yield (R204 risk-free rate) and the relative attractiveness that an investor may place on property as an asset class.

On the basis that turnover or profit rental income has a greater degree of uncertainty and risk than the contractual base rental, a risk premium of between 1% and 6% has been added to the discount rate and to the exit capitalisation rate, to reflect the greater investment risk associated with the variable rental element on a property by property basis.

AFS | Refer to note 11 for investment property disclosures.

Consolidation of entities

The group controls and consolidates an entity where the group has power over the entity's relevant activities; is exposed to variable returns from its involvement with the investee; and has the ability to affect the returns through its power over the entity, including Structured Entities (SEs). Determining whether the group controls another entity requires judgement by identifying an entity's relevant activities, being those activities that significantly affect the investee's returns, and whether the group controls those relevant activities by considering the rights attached to both current and potential voting rights, de facto control and other contractual rights including whether such rights are substantive.

Interests in unconsolidated SEs that are not considered to be a typical customer-supplier relationship are required to be identified and disclosed. The group regards interest to be a typical customer-supplier relationship where the level of risk inherent in that interest in the SE exposes the group to a similar risk profile to that found in standard market-related transactions. The group sponsors an SE where it provides financial support to the SE when not contractually required to do so. Financial support may be provided by the group to an SE for events such as litigation, tax and operational difficulties.

AFS | Refer to annexure A for detail on subsidiaries, consolidated and unconsolidated structured entities within the group.

Significant influence – investment funds

The group accounts for its interests in investment funds as associates where the group is the fund manager, for which there is an irrevocable fund management agreement, and the group has a monetary interest in the particular fund. Such associates are equity accounted unless designated to be measured at fair value through profit or loss.

AFS | Refer to annexure B for detail on associates and joint ventures.

Computer software intangible assets

The group reviews its assets under construction and assets brought into use for impairment at each reporting date and tests the carrying value for impairment whenever events or changes in circumstances indicate that the carrying amount (or components of the carrying amount) may not be recoverable. These circumstances include, but are not limited to, new technological developments, obsolescence, changes in the manner in which the software is used or is expected to be used, changes in discount rates or changes in estimates of related future cash benefits. The impairment tests are performed by comparing an asset's recoverable amount to its carrying amount. The review and testing of assets for impairment inherently requires significant management judgement as it requires management to derive the estimates of the identified assets' future cash flows in order to derive the asset's recoverable amount.

The recoverable amount is determined as the higher of an assets' fair value less cost of disposal and its value in use. The value in use is calculated by estimating future cash benefits that will result from each asset and discounting those cash benefits at an appropriate discount rate.

During the 2018 financial year, certain of the group's computer software assets' recoverable values were determined to be lower than their carrying values and were impaired by an amount of R449 million (2017:R447 million). These impairments are excluded from the group's headline earnings.

AFS | Refer to note 13 for intangible asset disclosure, as well as annexure F for more detail on the accounting policy relating to computer software, the capitalisation thereof, as well as amortisation and impairment policies.

Goodwill impairment

In terms of IFRS, the group is required on an annual basis to test its recognised goodwill for impairment. The impairment tests are performed by comparing the cash-generating units' (CGUs) recoverable amounts to the carrying amounts in the functional currency of the CGU being assessed for impairment. The recoverable amount is defined as the higher of the entity's fair value less costs of disposal and its value in use. The review and testing of goodwill for impairment inherently requires significant management judgement as management needs to estimate the identified CGU's future cash flows. The principal assumptions considered in determining an entity's value in use include:

- Future cash flows – the forecast periods adopted reflect a set of cash flows which, based on management's judgement and expected market conditions, could be sustainably generated over such a period. A forecast period of greater than five years has been used in order to take into account the level of development in these markets. The cash flows from the final discrete cash flow period are extrapolated into perpetuity to reflect the long-term plans for the entity. It is common valuation methodology to avoid placing too high a proportion of the total value on the perpetuity value.
- Discount rates – the cost of equity (COE) discount rates utilised in the equity pricing models are deemed appropriate based on the entities under review. The risk-free rate used to determine the COE has been derived from the respective local ten-year government bonds adjusted for inflation differential and country risk yield. The future cash flows are discounted using the COE assigned to the appropriate CGUs and by nature can have a significant impact on their valuations.

The following table summarises the impairment test methodology applied and the key inputs used in testing the group's goodwill relating to Stanbic IBTC Holdings PLC and Stanbic Holdings Plc (previously CFC Stanbic Holdings).

	Stanbic IBTC Holdings PLC Value in use		Stanbic Holdings Plc Value in use	
	2018	2017	**2018**	2017
Discounted cash flow				
Discount rate (nominal) (%)	**21.7**	19.4	**17.6**	16.5
Terminal growth rate (nominal) (%)	**10.0**	10.0	**7.3**	8.0
Forecast period (years)[1]	**10**	10	**8**	8

1 In the instance where we value group subsidiaries where the long-term strategy is to hold and grow the investment, the preferred approach is to value future cash flows over a longer period in order to avoid placing too much value on the terminal cash flow period.

Note 13 summarises the group's impairment test results and the main components of goodwill.

Current and deferred taxation

The group is subject to direct and indirect taxation in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty in the ordinary course of business. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions, disclosed in note 14 and note 38, respectively, in the period in which such determination is made.

Uncertain tax positions, which do not meet the probability criteria defined within IFRS, are not provided for but are rather disclosed as contingent liabilities or assets as appropriate. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The most significant management assumption is the forecasts that are used to support the probability assessment that sufficient taxable profits will be generated by the entities in the group in order to utilise the deferred tax assets.

Post-employment benefits

The group's post-employment benefits consist of both post-employment retirement funds and healthcare benefits for South African operations which have been deemed to be most material. The measurement of the group's obligations to fund these benefits are derived from actuarial valuations performed by the appointed actuaries taking into account various assumptions. The funds are subject to a statutory financial review by the group's independent actuaries at intervals of not more than three years.

The principal assumptions used in the determination of the group's obligations include the following:

	Retirement fund		Post-employment medical aid fund	
	2018	2017	**2018**	2017
Discount rate	**Nominal government bond yield curve**	Nominal government bond yield curve	**Nominal government bond yield curve**	Nominal government bond yield curve
Return on investments (discount rate of term equal to discounted mean term of liabilities)[1]	**9.64% to 10.88%**	9.13% to 10.83%	**Unfunded liability and therefore there is no asset-backing portfolio**	Unfunded liability and therefore there is no asset-backing portfolio
Salary/benefit inflation	**Future salary increases based on inflation curve plus 1% to 2% pa to each point on the curve**	Future salary increases based on inflation curve plus 1% to 2% pa to each point on the curve	**Not applicable to fund**	Not applicable to fund
Medical cost inflation (applicable to members who retired before 1 January 2013)[2]	**Not applicable to fund**	Not applicable to fund	**Inflation curve adjusted by 1%**	Inflation curve adjusted by 1%
Medical cost inflation (applicable to all other members)	**Not applicable to fund**	Not applicable to fund	**Curve implied by the difference between a nominal government bond curve and an index-linked bond**	Difference between nominal and index-linked bond yield curves plus 0% to 1.5%
CPI inflation	**Difference between nominal and index-linked bond yield curves**	Difference between nominal and index-linked bond yield curves	**Difference between nominal and index-linked bond yield curves**	Difference between nominal and index-linked bond yield curves
Pension increase in allowance	**Inflation rate**	Inflation rate	**Not applicable to fund**	Not applicable to fund
Remaining service life of employees (years)	**9.33**	9.67	**Not applicable to fund**	Not applicable to fund

1 This relates to members of material retirement funds within the group.
2 This relates to members within the employment of Liberty.

AFS | Refer to note 44 for further details on the group's post-employment benefits.

Long-term insurance contracts

Policyholder liabilities under insurance contracts and reinsurance assets are derived from actual claims submitted which are not settled at the reporting date, and estimates of the net present value of future claims and benefits under existing contracts, offset by probable future premiums to be received or paid (net of expected service costs). The key assumptions applied and analysis of their sensitivity have been detailed in the insurance risk and sensitivity analysis components of annexure C.

Process used to decide on assumptions and changes in assumptions

Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract and class of business. Industry standard tables are used for smaller classes of business and company-specific tables are used for larger classes. In setting the assumptions, provision is made for the expected impact of Aids-related claims consistent with the requirements of Advisory Practice Note (APN) 105 issued by the Actuarial Society of South Africa (ASSA).

Withdrawal

The withdrawal assumptions are based on the most recent withdrawal investigations taking into account past, as well as expected future trends. The withdrawal rates are analysed by product type and policy duration.

Investment return

Future investment returns are set for the main asset classes as follows:

- **Bond rate** – the derived yield from the bond yield curve, at a duration of ten years at the reporting date, 9.42% (2017: 8.99%)
- **Equity rate** – bond rate plus 3.5% as an adjustment for risk, 12.92% (2017: 12.49%)
- **Property rate** – bond rate plus 1% as an adjustment for risk, 10.42% (2017: 9.99%)
- **Cash** – bond rate less 1.5%, 7.92% (2017: 7.49%).

The overall investment return for a block of business is based on the investment return assumptions allowing for the current mix of assets supporting the liabilities. The pre-taxation discount rate is set at the same rate. For life annuity and guaranteed endowments, discount rates are set at risk-free rates consistent with the duration and type of the liabilities allowing for an average illiquidity premium on the backing assets and reduced by an allowance for investment expenses and the relevant prescribed margin.

Expenses

An expense analysis is performed on the actual expenses incurred in the calendar year preceding the statement of financial position date. This analysis is used to calculate the acquisition costs incurred and to set the maintenance expense assumption which is based on the budget approved by the board.

Expense inflation

The expense inflation assumption is set taking into consideration, market implied inflation, the expected future development of the number of inforce policies, as well as the expected future profile of maintenance expenses. The expense inflation assumption for pure risk, life annuity, disability in payment and guaranteed endowments business is consistent with market implied inflation rates. For other classes of business the inflation rate is set at the effective ten-year gilt yield curve rate (gilt rate) less 1.75% when the gilt rate is above 7.25%. The expense inflation rate is set at 72% of the gilt rate when this is below 5.25%. At gilt rates between 5.25% and 7.25% the inflation rate is interpolated to ensure a smooth transition between the two methodologies. This results in a best estimate inflation assumption of 7.67% at 31 December 2018 (2017: 7.24%).

Taxation

Taxation rates consistent with that position and the likely future changes in that position are allowed for. In respect of capital gains taxation (CGT). taxation is allowed for at the full CGT rate. Deferred taxation liabilities include a provision for CGT on unrealised gains/(losses) at the valuation date, at the full undiscounted value. Allowance is also made for dividend withholding tax at the applicable rate.

Correlations

No correlations between assumptions are allowed for.

Contribution increases

In the valuation of the liabilities, voluntary premium increases that give rise to expected profits are not allowed for. However, compulsory increases, and increases that give rise to expected losses are allowed for. This is consistent with the requirements of Standard of Actuarial Practice (SAP) 104.

Embedded investment derivative assumptions

The assumptions used to value embedded derivatives in respect of policyholder contracts are set in accordance with APN 110. Account is taken of the yield curve at the valuation date. Both implied market volatility and historical volatility are taken into account when setting volatility assumptions. Correlations between asset classes are set based on historical data. Over 16 000 simulations are performed in calculating the liability.

Process used to decide on assumptions and changes in assumptions for non-South African life companies' change in assumptions

The assumptions used in the valuation of policyholder and reinsurance contracts are set by references to local guidance, taxation legislation and, where applicable, to the Actuarial Society of South Africa guidance. Economic assumptions are set by reference to local economic conditions at the valuation date. Margins are allowed for as prescribed by local guidance and regulations.

Using the simulated investment returns the prices and implied volatilities of the following instruments are:

Instrument	Price 2018 %	Price 2017 %	Volatility 2018 %	Volatility 2017 %
A one-year at-the-money (spot) put on the FTSE[1]/JSE Top 40 index	**5.98**	4.83	**20.76**	17.27
A one-year put on the FTSE/JSE Top 40 index, with a strike price equal to 80% of spot	**1.53**	0.92	**24.88**	21.16
A one-year at-the-money (forward) put on the FTSE/JSE Top 40 index	**7.73**	6.42	**19.98**	16.58
A five-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**7.68**	7.88	**22.3**	21.88
A five-year put on the FTSE/JSE Top 40 index, with a strike price equal to $1,04^{5\#}$ of spot	**14.29**	14.74	**21.47**	21.06
A five-year (forward) put on the FTSE/JSE Top 40 index	**16.34**	16.09	**21.29**	20.94
A five-year put with a strike price equal to $1,04^{5\#}$ of spot on an underlying index constructed as 60% FTSE/JSE Top 40 and 40% All Bond Index (ALBI), with rebalancing of the underlying index back to these weights taking place annually	**6.14**	6.48	**Not applicable to volatility**	Not applicable to volatility
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**3.04**	3.72	**27.22**	27.46
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $1,042^{0\#}$ of spot	**14.34**	16.72	**28.44**	28.63
A 20-year at-the-money (forward) put on the FTSE/JSE Top 40 index	**27.71**	27.70	**29.16**	29.15
A 20-year put option based on an interest rate with a strike equal to the present five-year forward rate as at maturity of the put option, which pays out if the five-year interest rate at the time of maturity (in 20 years) is lower than the strike price	**0.52**	0.59	**Not applicable to volatility**	Not applicable to volatility

1 Financial Times Stock Exchange.
\# Exponent.

AFS | Refer to note 8 for disclosures on policyholders' contracts.

Provisions

The principal assumptions taken into account in determining the value at which provisions are recorded at, include determining whether there is an obligation, as well as assumptions about the probability of the outflow of resources and the estimate of the amount and timing for the settlement of the obligation. For legal provisions, management assesses the probability of the outflow of resources by taking into account historical data and the status of the claim in consultation with the group's legal counsel. In determining the amount and timing of the obligation once it has been assessed to exist, management exercises its judgement by taking into account all available information, including that arising after the balance sheet date up to the date of the approval of the financial statements.

AFS | Refer to note 25 for details on the group's legal proceedings defended.

Stanbic Bank Zimbabwe functional currency

In 2009, SBZ concluded that the USD was its functional currency in terms of IAS 21. However, an acute shortage of USD in Zimbabwe resulted in an increase in electronic balances through the RTGS, as well as the issuance of bond notes which were exchangeable for USD at an official rate of 1:1. In October 2018, the RBZ instructed banks to separate bank accounts into USD balances and RTGS balances. This created clarity that within Zimbabwe both USD and RTGS were legal tender and that these different currencies were not interchangeable, even though the official exchange rate was 1:1. As a result, SBZ concluded that its functional currency changed from USD to RTGS on 1 October 2018 because the majority of SBZ's transactions were conducted in RTGS. SBZ was prohibited from trading at any exchange rate other than the official rate and all exchange transactions undertaken by SBZ in 2018 occurred at the official rate of 1:1. The IFRIC discussed the determination of an exchange rate when there is a long-term lack of exchangeability and concluded that the closing rate at which items should be translated is the rate to which an entity would have access at the end of the reporting period through a legal exchange mechanism. The only legal exchange mechanism that SBZ had access to in the financial period since the change in functional currency was the official exchange mechanism. This led to SBZ concluding that the appropriate exchange rate to use at the date of the change in functional currency and subsequent to the change in functional currency up until the end of the current reporting period is the official rate of 1:1.

Notes to the annual financial statements

1. Cash and balances with central banks

	2018 Rm	2017 Rm
Coins and bank notes	**20 681**	18 536
Balances with central banks[1]	**64 464**	56 774
Total	**85 145**	75 310

[1] Included in this balance is R55 414 million (2017: R48 981 million) that primarily comprise reserving requirements held with central banks within the countries of operation and are available for use by the group subject to certain restrictions and limitations levied by central banks within the countries of operation. These balances are held at fair value through profit or loss – default.

2. Derivative instruments

All derivatives are classified either as held-for-trading or held-for-hedging. A summary of the total derivative assets and liabilities is shown in the table below.

	Fair value of assets		Fair value of liabilities	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Total derivative assets/(liabilities) held-for-trading	**49 009**	74 546	**(53 194)**	(74 317)
Total derivative assets/(liabilities) held-for-hedging	**2 669**	1 064	**(1 863)**	(2 579)
Total	**51 678**	75 610	**(55 057)**	(76 896)

2.1 Use and measurement of derivative instruments

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations. All derivatives are classified either as held-for-trading or held-for-hedging.

In the normal course of business, the group enters into a variety of foreign exchange, interest rate, commodity, credit and equity derivative transactions in accordance with the group's risk management policies and practices. Derivative instruments used by the group are held for both trading and hedging purposes and include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, interest rates, credit risk and the prices of commodities and equities.

A summary of the total derivative assets and liabilities are shown in the table below.

2.2 Derivatives held-for-trading

	Fair value of assets		Fair value of liabilities		Contract/notional amount[1]	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Foreign exchange derivatives	**22 255**	34 500	**(20 503)**	(26 552)	**1 367 876**	946 728
Interest rate derivatives	**22 678**	34 857	**(26 886)**	(40 908)	**5 128 918**	7 140 553
Commodity derivatives	**204**	280	**(194)**	(325)	**15 585**	10 587
Credit derivatives	**1 013**	667	**(2 814)**	(898)	**77 455**	67 997
Equity derivatives	**2 859**	4 242	**(2 797)**	(5 634)	**2 444 740**	1 020 974
Total	**49 009**	74 546	**(53 194)**	(74 317)	**9 034 574**	9 186 839

[1] The notional amount is the sum of the absolute value of all bought and sold contracts for both derivative assets and liabilities. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the group's participation in derivative contracts.

2. Derivative instruments continued

2.3 Derivatives held-for-hedging (2018)

Where all relevant criteria are met, derivatives are classified as derivatives held-for-hedging and hedge accounting is applied to remove the accounting mismatch between the derivative (hedging instrument) and the underlying instruments (hedged item). All qualifying hedging relationships are designated as either fair value, cash flow, or net investment hedges for recognised financial assets or liabilities, and highly probable forecast transactions. The group applies hedge accounting in respect of foreign currency risk, equity risk and interest rate risk. Refer to the annexure F on page 201 for more information on these hedging strategies.

2.3.1 Derivatives designated as hedging instruments in fair value hedging relationships

	Fair value of assets Rm	Fair value of liabilities Rm	Fair value Rm	Less than one year Rm	Between one to five years Rm	Over five years Rm	Contract/ notional amount Rm	Fair value gain/ (loss) Rm
2018								
Total interest rate risk fair value hedging relationships								
Interest rate swaps	523	(1 190)	(667)	(20)	(158)	(489)	105 003	(26)

2.3.2 Hedged items classified as fair value hedges

	Fair value of assets Rm	Fair value of liabilities Rm	Fair value gain/(loss) Rm	Fair value gain/(loss) used to test hedge ineffectiveness Rm	Accumulated fair value hedge adjustments Rm
2018					
Interest rate risk fair value hedging relationships					
Financial investments	328		34	34	
Subordinated debt		(2 033)	15	15	19
Loans and advances to customers	28 276		(206)	(206)	656
Deposits and debt funding		(60 460)	192	192	114
Total	28 604	(62 493)	35	35	789

2. Derivative instruments continued

2.3 Derivatives held-for-hedging (2018) continued

2.3.3 Derivatives designated as hedging instruments in cash flow hedging relationships

	Fair value of assets Rm	Fair value of liabilities Rm	Fair value Rm	Less than one year Rm	Between one to five years Rm	Over five years Rm	Contract/ notional amount Rm	Fair value gain/ (loss) Rm
2018								
Foreign currency risk cash flow hedging relationships	**1 763**	**(240)**	**1 523**	**58**	**1 242**	**223**	**11 414**	**(374)**
Currency forwards	59	(96)	(37)	(31)	(6)		4 932	(42)
Currency swaps	1 704	(144)	1 560	89	1 248	223	6 482	(332)
Equity price risk cash flow hedging relationships	**383**	**(433)**	**(50)**	**(17)**	**(33)**		**550**	**(128)**
Equity forwards	383	(433)	(50)	(17)	(33)		550	(128)
Total	**2 146**	**(673)**	**1 473**	**41**	**1 209**	**223**	**11 964**	**(502)**

2.3.4 Hedged items classified as cash flow hedges

	Fair value gain used to test hedge ineffectiveness Rm
2018	
Financial investments	**125**
Interest rate risk cash flow hedging relationships	125
Loans and advances	**168**
Foreign currency risk cash flow hedging relationships	168
Share scheme liabilities (excludes equity DBS)	**109**
Equity price risk cash flow hedging relationships	109
Other operating expenses	**82**
Foreign currency risk cash flow hedging relationships	82
Total	**484**

2. Derivative instruments continued

2.3 Derivatives held-for-hedging (2018) continued

2.3.5 Hedge ineffectiveness recognised in profit or loss

Hedge ineffectiveness in qualifying hedge relationships arises predominantly due to the presence of costs contained within hedging instruments. This ineffectiveness was recognised in profit or loss together with the gains and losses on the underlying hedged item according to the nature of the risk being hedged as follows:

	Other operating expenses loss Rm	Trading revenue gain Rm	Net interest income gain Rm	Total Rm
2018				
Fair value hedges			9	9
Interest rate risk fair value hedging relationships			9	9
Cash flow hedges	(19)	1		(18)
Foreign currency risk cash flow hedging relationships		1		1
Equity price risk cash flow hedging relationships	(19)			(19)
Total	(19)	1	9	(9)

2.3.6 Reconciliation of movements in the cash flow hedging reserve

	Time-period basis spread Rm	Foreign currency risk Rm	Equity price risk Rm	Total Rm
Balance at the beginning of the year	68	(196)	34	(94)
Amounts recognised directly in OCI before tax[1]	9	(383)	(128)	(502)
Add amounts released to profit or loss before tax:	(18)	356	46	384
Interest income		49		49
Trading revenue	(18)	319		301
Other operating expenses		(12)	46	34
Add: deferred tax	4	2	4	10
Non-controlling interest	8			8
Balance at the end of the year	71	(221)	(44)	(194)

[1] Includes dividends received on equity forwards during the period.

2.3.7 Hedges classified as cash flow hedges

The forecasted timing of the release of the net cash flows from the cash flow hedging reserve into profit or loss at 31 December is as follows:

	Three months or less Rm	More than three months but within one year Rm	More than one year but within five years Rm	More than five years Rm	Total Rm
2018					
Net cash outflows	(13)	(37)	(88)	(56)	(194)

2. Derivative instruments continued

2.4 Derivatives and other financial instruments held-for-hedging (2017)

The group enters into derivative transactions, which are designated and qualify as either fair value, cash flow, or net investment hedges for recognised financial assets or liabilities, highly probable forecast transactions and net investments in foreign operations. Derivatives designated as hedging instruments consist of the following:

	Fair value of assets Rm	Fair value of liabilities Rm	Notional amount Rm
2017			
Derivatives designated as fair value hedges	767	(1 327)	13 472
Interest rate swaps	767	(1 327)	13 472
Derivatives designated as cash flow hedges	297	(1 252)	212 097
Currency forwards and swaps	279	(1 252)	210 377
Equity forwards	18		1 720
Total	1 064	(2 579)	225 569

2.4.1 Derivatives designated in fair value relationships

Gains or losses arising from fair value hedges

The group's fair value hedges principally consist of currency swaps and interest rate swaps that are used to mitigate the risk of changes in market interest rates and currencies. The group also uses interest rate swaps for the portfolio hedge of interest rate risk. The gains/(losses) arising from the fair value hedges during the year were as follows:

	2017 Rm
Hedging instruments	243
Hedged items attributable to the hedged risk	(181)

2.4.2 Derivatives designated in cash flow hedge relationships

The group uses currency forwards, swaps and options to mitigate against the risk of changes in future cash flows on its foreign-denominated exposures. Interest rate swaps are primarily used to hedge, by major currency, variable rate financial assets and liabilities with the objective to mitigate against changes in future interest cash flows resulting from the impact of changes in market interest rates and reinvestment or reborrowing of current balances.

The group uses currency forwards to mitigate against the changes in cash flows arising from changes in foreign currency rates on the forecasted placement of funds between group entities. The group applies hedge accounting where the forecasted intragroup placement of funds is both denominated in a currency other than the functional currency of the entity providing the funds and where the placement of funds will affect consolidated profit or loss in the future.

The forecasted timing of the release of net cash flows before tax from the cash flow hedging reserve into profit or loss at 31 December is as follows:

	Three months or less Rm	More than three months but less than one year Rm	More than one year but less than five years Rm	More than five years Rm
2017				
Net cash inflow/(outflow)	4	(6)	(52)	(59)

2. Derivative instruments continued

2.4 Derivatives and other financial instruments held-for-hedging (2017) continued

2.4.2 Derivatives designated in cash flow hedge relationships continued

Reconciliation of movements in the cash flow hedging reserve

	2017 Rm
Balance at the beginning of the year	(230)
Amounts recognised directly in OCI before tax	235
Less: amounts released to profit or loss before tax	(69)
Total income	(248)
Other operating expenses	179
Less: deferred tax	(9)
Non-controlling Interests	(21)
Balance at the end of the year	(94)

No gain or loss was recognised in profit or loss due to ineffectiveness arising from cash flow hedges in the prior year. There were no transactions for which cash flow hedge accounting had to be discontinued during 2017 as a result of highly probable cash flows no longer being expected to occur.

2.4.3 Derivatives designated as hedges of net investments in foreign operations

The objective of the hedges of net investments in foreign operations is to limit the risk of a decline in the net asset value of the group's investments in foreign operations brought about by changes in exchange rates. To limit this risk, the group entered into forward exchange contracts, where considered appropriate. No material open hedge of this nature was present during 2017. No ineffectiveness was recognised in profit or loss for the current and prior year that arose from hedges of net investments in foreign operations.

2.5 Day one profit or loss – derivatives held-for-trading and held-for-hedging

The table below sets out the aggregate net day one profit or loss yet to be recognised in profit or loss at the beginning and end of the period with a reconciliation of changes in the balances during the period.

	2018 Rm	2017 Rm
Unrecognised net profit at the beginning of the year	160	161
Additional net profit on new transactions	299	544
Recognised in trading revenue during the year	(307)	(508)
Exchange differences	24	(37)
Unrecognised net profit at the end of the year	176	160

3. Trading assets

3.1 Classification

	2018 Rm	2017 Rm
Collateral	6 201	5 275
Corporate bonds and floating rate notes	27 180	15 347
Government, municipality and utility bonds	51 151	58 798
Listed equities	40 549	40 347
Reverse repurchase and other collateralised agreements	41 334	26 412
Unlisted debt securities	14 145	12 334
Other instruments	552	2 381
Total	181 112	160 894

3. Trading assets continued

3.2 Day one profit or loss – trading assets

The table below sets out the aggregate net day one profit or loss yet to be recognised in profit or loss at the beginning and end of the period with a reconciliation of changes in the balances during the period.

	2018 Rm	2017 Rm
Unrecognised net profit at the beginning of the year	**642**	588
Additional net profit on new transactions	**339**	162
Recognised in trading revenue during the year	**(136)**	(108)
Unrecognised net profit at the end of the year	**845**	642

4. Pledged assets

The following table presents details of other financial assets which have been sold or otherwise transferred, but which have not been derecognised in their entirety, and their associated liabilities where applicable. This table does not disclose the total risk exposure in terms of these transactions, instead it provides disclosures as required by IFRS.

	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets[1] Rm	Fair value of associated liabilities[1] Rm	Net fair value[1] Rm
2018					
Bonds	**12 964**	**6 412**	**12 948**	**6 412**	**6 536**
Listed equities	**6 915**	**288**	**6 915**	**288**	**6 627**
Pledged assets (as recognised on the statement of financial position)	**19 879**	**6 700**	**19 863**	**6 700**	**13 163**
Financial investments[2]	**9 262**	**9 261**	**9 265**	**9 259**	**6**
Total[3]	**29 141**	**15 961**	**29 128**	**15 959**	**13 169**
2017					
Bonds	13 906	12 540	13 901	12 534	1 367
Listed equities	6 879		6 879		6 879
Pledged assets (as recognised on the statement of financial position)	20 785	12 540	20 780	12 534	8 246
Financial investments[2]	11 233	11 225	11 233	11 223	10
Total[3]	32 018	23 765	32 013	23 757	8 256

1 Where the counterparty has recourse to the transferred asset.
2 For these financial investments the counterparty is not permitted to sell or repledge the assets in the absence of default, hence they are not classified as pledged assets.
3 Total amount of financial assets that the group has pledged as collateral for liabilities and contingent liabilities.

The assets pledged by the group are strictly for the purpose of providing collateral to the counterparty. To the extent that the counterparty is permitted to sell or repledge the assets in the absence of default, they are classified in the statement of financial position as pledged assets.

The majority of other financial investments that do not qualify for derecognition are debt securities held by counterparties as collateral under repurchase agreements, listed equities held as collateral under scrip lending transactions and financial assets leased out to third parties. Risks to which the group remains exposed include credit and interest rate risk.

During the current year, there were no instances of financial assets that were sold or otherwise transferred, but which were partially derecognised. Further, there were no instances of financial assets transferred and derecognised for which the group had continuing involvement.

4. Pledged assets continued

4.1 Collateral accepted as security for assets

As part of the reverse repurchase and securities borrowing agreements, the group has received securities which are not recorded on the statement of financial position that it is allowed to sell or repledge. The fair value of the financial assets accepted as collateral that the group is permitted to sell or repledge in the absence of default is R100 791 million (2017: R60 618 million).

The fair value of financial assets accepted as collateral and commodities received through commodity leases that have been sold, repledged or leased in terms of repurchase agreements or leasing transactions is R11 709 million (2017: R20 271 million).

These transactions are conducted under terms that are usual and customary to reverse repurchase and securities borrowing activities.

4.2 Assets transferred not derecognised

Securitisations

The group enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties or structured entities. These transfers may give rise to full derecognition of the financial assets concerned.

Full derecognition occurs when the group transfers substantially all the risks and rewards of ownership and its contractual right to receive cash flows from the financial assets or retains the contractual rights to receive the cash flows of the financial assets but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets IFRS' derecognition requirements. The risks include interest rate, currency, prepayment and other price risks. However, where the group has retained substantially all of the credit risk associated with the transferred assets, it continues to recognise these assets.

For more detail on the derecognition requirements refer to accounting policy 3 on financial instruments included in annexure F.

The following table analyses the cumulative carrying amount of securitised financial assets that did not qualify for derecognition and the associated liabilities.

	Carrying amount of transferred assets[1] Rm	Carrying amount of associated liabilities[2] Rm	Fair value of transferred assets[1] Rm	Fair value of associated liabilities[2] Rm	Net fair value Rm
2018					
Mortgage loans	**45 954**		**44 747**		**44 747**
2017					
Mortgage loans	47 740	247	47 848	246	47 602

1 The group invests in vehicles specifically introduced to provide mortgage lending collateral against the Committed Liquidity Facility (CLF). To access the CLF, the SARB requires a portfolio of collateral, which is identified as a portfolio of mortgage loans. The SARB requires that these assets are ring-fenced in a separate legal entity, supported by a clearly defined note structure. At 31 December 2018, the mortgages within these vehicles, Blue Shield Investments 01 (RF) Limited and Blue Shield Investments 02 (RF) Limited, amounted to R46 billion (2017: R48 billion).

2 The associated liabilities relating to the transferred assets only include external funding for the assets. The transferred assets are mainly funded by intercompany funding, which has been eliminated at a group level.

5. Financial investments

	Total		Banking activities		Investment management and life insurance activities	
	2018 Rm	2017[1] Rm	**2018 Rm**	2017[1] Rm	**2018 Rm**	2017[1] Rm
Corporate	**64 011**	42 672	**23 297**	9 477	**40 714**	33 195
Sovereign	**197 473**	192 992	**161 552**	155 261	**35 921**	37 731
Banking	**71 210**	51 719	**13 978**	5 441	**57 232**	46 278
Mutual funds and unit-linked investments	**85 034**	97 767	**195**	3 650	**84 839**	94 117
Listed equities	**96 395**	122 545	**103**	468	**96 292**	122 077
Unlisted equities	**6 506**	5 554	**3 521**	2 872	**2 985**	2 682
Interest in associates and joint ventures held at fair value (annexure B)	**13 848**	15 197			**13 848**	15 197
Other instruments	**12 928**	4 868	**2 734**	2 935	**10 194**	1 933
Total financial investments	**547 405**	533 314	**205 380**	180 104	**342 025**	353 210
Net financial investments measured at amortised cost	**144 145**					
Gross debt financial investments measured at amortised cost	**144 339**					
Less: expected credit loss for debt financial investments measured at amortised cost[2]	**(194)**					
Financial investments measured at fair value	**403 260**					
Financial investments measured at fair value through profit or loss	**348 923**					
Debt financial investments measured at fair value through OCI[3]	**53 083**					
Equity financial investments measured at fair value through OCI	**1 254**					

[1] The group has, as permitted by IFRS 9, elected not to restate comparative financial statements. The group has aligned its categories for financial investments disclosed in 2017 to those disclosed for 2018. This did not result in a restatement to the group's statement of financial position as at 31 December 2017.

[2] The group recognised an ECL of R97 million on debt financial investments measured at amortised cost upon the transition to IFRS 9 on 1 January 2018. Refer to the credit impairment charges note 35 for the 2018 credit impairment charge of R82 million on financial investments measured at amortised cost.

[3] The group recognised an ECL of R175 million on debt financial investments measured at fair value through OCI upon the transition to IFRS 9 on 1 January 2018. At 31 December 2018, the ECL for debt financial investments measured at fair value through OCI was R206 million. Refer to the credit impairment charges note 35 for the 2018 credit impairment charge of R19 million on financial investments measured at fair value through OCI.

5. Financial investments continued

5.1 Reconciliation of the fair value through OCI reserve for debt financial investments

	Credit balance at beginning of the year Rm	Net change in fair value Rm	Realised fair value adjustments released to profit or loss Rm	Net expected credit loss raised during the period Rm	Transactions with non-controlling interest Rm	Credit balance at end of the year Rm
Sovereign	175	22	(46)	19	76	246

6. Disposal group held for sale

As part of the strategy refresh exercise conducted during 2018, various cash-generating units were identified as either sub scale or no longer applicable to Liberty's revised strategy. Consequently, the board approved a process of disposals and strategic partnership negotiations which is highly probable to lead to loss of control of these cash-generating units during 2019.

These were included in the consolidated financial statements of Liberty Holdings Limited in 2017.

Based on the requirements of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (IFRS 5), the assets and liabilities have been disclosed as disposal groups, and are separately disclosed on the statement of financial position. The disposal groups are measured at the lower of carrying amount and fair value less costs to sell. Certain of these disposal groups were measured at fair value less costs to sell, which led to various impairments, as set out below. The fair value less costs to sell is based on an assessment of what management believe a purchaser would value the business, taking into account the current business viability and operations. In the application of the fair value remeasurement, the adjustments were first applied to the non-current assets as applicable under IFRS 5, thereafter the additional remeasurement was sequenced across other non-current assets (including deferred tax assets), with the residual being applied to other receivables.

The classes of assets and liabilities comprising the disposal groups classified as held for sale are as follows:

	Gross Rm	Impairment Rm	Net Rm
Total assets classified as held for sale	1 011	(249)	762
Financial investments	265		265
Other assets	504	(28)	476
Property and equipment	39	(18)	21
Goodwill and other intangible assets	85	(85)	
Deferred tax assets	118	(118)	
Total liabilities classified as held for sale	(237)		(237)
Current tax liabilities	(5)		(5)
Provisions and other liabilities	(232)		(232)
Total disposal group held for sale	774	(249)	525

The potential sales are not discontinued operations as defined as they are not disposals of separate major lines of business or geographical areas of operation. Profit or loss from cash-generating units within disposal groups have not been separately identified in the income statement. No comparative information has been disclosed, since this is not a requirement of IFRS 5.

7. Loans and advances

	2018 Rm	2017[1] Rm
Loans and advances measured at fair value through profit or loss	**1 204**	110
Net loans and advances measured at amortised cost	**1 119 464**	1 047 917
Gross loans and advances measured at amortised cost[2]	**1 156 149**	1 070 361
Mortgage loans	**361 830**	346 508
Vehicle and asset finance (note 7.4)	**89 651**	83 136
Card debtors	**32 395**	32 253
Corporate and sovereign	**397 261**	352 025
Banking	**110 852**	117 935
Other loans and advances	**164 160**	138 504
Total credit impairment on loans and advances (IFRS 9)[2] (note 7.1)	**(36 685)**	
Credit impairments on loans and advances (IAS 39) (note 7.1.2)		(22 444)
Net loans and advances	**1 120 668**	1 048 027

1 The group has, as permitted by IFRS 9, elected not to restate comparative financial statements. Therefore comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. The group has, however, aligned its categories for loans and advances disclosed in 2017 to those disclosed for 2018. This did not result in a restatement to the group's statement of financial position as at 31 December 2017.

2 Refer to the group's accounting policy in annexure F on interest in suspense for more detail.

7.1 Reconciliation of ECL of loans and advances at amortised cost

	Stage 1 Rm	Stage 2 Rm	Stage 3 (including IIS) Rm	Total Rm
Opening ECL 1 January 2018	**5 789**	**8 275**	**20 975**	**35 039**
Transfers between stages[1]	**984**	**(2 088)**	**1 104**	
Transfer (to)/from stage 1		**(956)**	**(28)**	**(984)**
Transfer from/(to) stage 2	**956**		**1 132**	**2 089**
Transfer from/(to) stage 3	**28**	**(1 132)**		**(1 105)**
Net ECL (released)/raised[2]	**(1 232)**	**390**	**8 079**	**7 237**
ECL on new exposure raised[1]	**1 727**	**1 041**	**1 031**	**3 799**
Subsequent changes in ECL	**(2 718)**	**(329)**	**7 441**	**4 394**
Change in ECL due to derecognition	**(241)**	**(322)**	**(393)**	**(956)**
Impaired accounts written off[3]			**(8 179)**	**(8 179)**
Exchange and other movements	**199**	**567**	**1 822**	**2 588**
Closing ECL 31 December 2018	**5 740**	**7 144**	**23 801**	**36 685**

1 The group's policy is to transfer opening balances based on the ECL stage at the end of the reporting period. Therefore exposures can be transferred directly from stage 3 to stage 1 as the curing requirements would have been satisfied during the reporting period. Furthermore, the ECL recognised on new exposures originated during the reporting period (which are not included in opening balances) are included within the 'ECL on new exposures raised based on the exposures' ECL stage as at the end of the reporting period.

2 Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer credit impairment charges note 35).

3 The contractual amount outstanding on loans and advances that were written off during the period that are still subject to enforcement activities is R5.9 billion.

The below is an explanation of significant changes in the gross carrying amount on financial instruments used to determine the above changes in ECL:

- The ECL on new exposures raised of R3.8 billion primarily relates to the net growth in the gross carrying amount of:
  - mortgage loans of R44 billion
  - VAF of R38 billion
  - corporate of R12 billion.
- The decrease in ECL due to impaired accounts written off of R8.2 billion resulted in an equal decrease to the gross carrying amount of loans and advances as exposures are 100% provided for before being written off.
- The group policy is to transfer using opening ECL balances based on the exposures' ECL stage at the end of the reporting period. Therefore, the significant gross carrying amounts transferred between the stages are as follows:
  - mortgage loans with a gross carrying amount of R6 billion that was in stage 2 and 3 was transferred to stage 1
  - VAF with a gross carrying amount of R3 billion that was in stage 2 was transferred to stage 1
  - corporate with a gross carrying amount of R4 billion that was in stage 2 was transferred to stage 3.

7. Loans and advances continued

7.1 Reconciliation of ECL of loans and advances at amortised cost continued

A reconciliation of the ECL for loans and advances, by product:

	Opening ECL 1 January 2018 Rm	Total transfers between stages Rm	Net ECL raised/ (released) Rm	Impaired accounts written off Rm	Exchange and other movements Rm	Closing ECL 31 December 2018 Rm
Mortgage loans	9 396		1 067	(995)	662	10 130
Stage 1	1 126	382	(470)		(1)	1 037
Stage 2	2 014	(144)	131		17	2 018
Stage 3 (including IIS)	6 256	(238)	1 406	(995)	646	7 075
Vehicle and asset finance	3 236		1 074	(1 027)	119	3 402
Stage 1	766	226	(227)		5	770
Stage 2	994	(324)	240		38	948
Stage 3 (including IIS)	1 476	98	1 061	(1 027)	76	1 684
Card debtors	3 179		1 187	(1 341)	42	3 067
Stage 1	698	176	(231)			643
Stage 2	821	(109)	266		2	980
Stage 3 (including IIS)	1 660	(67)	1 152	(1 341)	40	1 444
Corporate	7 667		889	(1 275)	1 214	8 495
Stage 1	781	150	(88)		107	950
Stage 2	1 956	(1 240)	(124)		449	1 041
Stage 3 (including IIS)	4 930	1 090	1 101	(1 275)	658	6 504
Sovereign	125		(47)		2	80
Stage 1	84		(13)		2	73
Stage 2	36		(34)			2
Stage 3 (including IIS)	5					5
Bank	45		(18)		36	63
Stage 1	45		(14)		29	60
Stage 2			(4)		7	3
Other loans and advances	11 391		3 085	(3 541)	513	11 448
Stage 1	2 289	50	(189)		57	2 207
Stage 2	2 454	(271)	(85)		54	2 152
Stage 3 (including IIS)	6 648	221	3 359	(3 541)	402	7 089
Total	35 039		7 237	(8 179)	2 588	36 685
Stage 1	5 789	984	(1 232)		199	5 740
Stage 2	8 275	(2 088)	390		567	7 144
Stage 3 (including IIS)	20 975	1 104	8 079	(8 179)	1 822	23 801

7. **Loans and advances** continued

7.2 Credit impairments for loans and advances – IAS 39

	Mortgage loans Rm	Vehicle and asset finance Rm	Card debtors Rm	Personal unsecured lending Rm	Business lending and other Rm	Corporate lending Rm	Com-mercial property finance Rm	Total Rm
2017								
Specific impairments								
Balance at beginning of the year	3 640	1 410	1 598	3 593	1 528	2 727	163	14 659
Net impairments raised[1]	1 826	1 261	1 415	2 512	1 859	1 055	(31)	9 897
Impaired accounts written off	(1 159)	(1 146)	(1 383)	(2 533)	(1 328)	(221)	(24)	(7 794)
Discount element recognised in interest income	(317)	(120)	(26)	(274)	(71)	(97)	(5)	(910)
Exchange and other movements	(11)	(38)	(8)	(111)	(172)	(263)	21	(582)
Balance at end of the year	3 979	1 367	1 596	3 187	1 816	3 201	124	15 270
Portfolio impairments								
Balance at beginning of the year	1 137	801	651	1 317	1 432	1 699	97	7 134
Net impairments raised/(released)[1]	(55)	(141)	61	(70)	(89)	649		355
Exchange and other movements	(5)	(7)	(47)	(6)	(34)	(177)	(39)	(315)
Balance at end of the year	1 077	653	665	1 241	1 309	2 171	58	7 174
Total specific and portfolio impairments	5 056	2 020	2 261	4 428	3 125	5 372	182	22 444

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years, as well as credit recovery on off-balance sheet exposure, equals income statement impairment charges (note 35).

7. Loans and advances continued

7.3 Modifications of loans and advances measured at amortised cost

	Stage 2		Stage 3	
	Amortised cost (net of ECL) before modification Rm	Net modification loss Rm	Amortised cost (net of ECL) before modification Rm	Net modification loss Rm
2018				
Mortgage loans	928	58	92	2
Vehicle and asset finance			27	4
Card debtors	141	40	11	2
Corporate	107	6	504	3
Other loans and advances	482	25	22	5
Total	**1 658**	**129**	**656**	**16**

The gross carrying amount for modifications during the reporting period that resulted in no economic gain or loss is R15.8 billion (i.e. no net modification gain or loss).

7.4 Vehicle and asset finance

The maturity analysis is based on the remaining periods to contractual maturity from year end.

	2018			2017		
	Gross advances Rm	Unearned finance charges Rm	Net advances Rm	Gross advances Rm	Unearned finance charges Rm	Net advances Rm
Receivable within one year	32 500	(7 751)	24 749	30 033	(5 886)	24 147
Receivable between one and five years	77 584	(13 181)	64 403	69 186	(10 995)	58 191
Receivable after five years	545	(46)	499	843	(45)	798
Total	**110 629**	**(20 978)**	**89 651**	100 062	(16 926)	83 136

Leases entered into are at market-related terms. Under the terms of the lease agreements, no contingent rentals are payable.

Moveable assets are leased or sold to customers under finance leases and instalment sale agreements for periods varying between 12 and 84 months. Depending on the terms of the agreement, the lessee may have the option to purchase the asset at the end of the lease term.

8. Policyholders' contracts

	2018		2017	
	Policyholders' assets Rm	**Policyholders' liabilities Rm**	Policyholders' assets Rm	Policyholders' liabilities Rm
Policyholders' liabilities under insurance contracts	**6 708**	**(211 181)**	7 484	(222 399)
Insurance contracts (note 8.1)	**6 708**	**(200 744)**	7 484	(210 554)
Investment contracts with DPF[1] (note 8.1)		**(10 437)**		(11 845)
Policyholders' liabilities under investment contracts (note 8.2)		**(99 813)**		(100 519)
Total	**6 708**	**(310 994)**	7 484	(322 918)

[1] Discretionary participation feature.

8.1 Policyholders' and reinsurance assets and liabilities

	2018			
	Insurance contracts			
	Policyholders' assets Rm	**Policyholders' liabilities Rm**	**Reinsurance assets and liabilities[1] Rm**	**Investment contracts with DPF[2] Rm**
Balance at the beginning of the year	**7 484**	**(210 554)**	**818**	**(11 845)**
Reinsurance assets			**1 481**	
Reinsurance liabilities			**(663)**	
Inflows	**(8 307)**	**(30 758)**	**1 576**	**(2 066)**
Insurance premiums	**(8 307)**	**(28 477)**	**1 576**	**(1 966)**
Investment returns	**0**	**(2 258)**		**(100)**
Fee revenue		**(23)**		
Outflows	**7 170**	**40 366**	**(1 244)**	**3 731**
Claims and policyholders' benefits	**3 792**	**30 995**	**(1 308)**	**3 511**
Acquisition costs associated with insurance contracts	**1 311**	**1 891**	**(1)**	**87**
General marketing and administration expenses	**1 763**	**4 434**	**(43)**	**144**
Profit share allocations	**20**	**1 185**		
Finance costs and fair value adjustments on financial liabilities	**407**	**973**		
Taxation	**(123)**	**888**	**108**	**(11)**
Net income from insurance operations	**361**	**418**	**262**	**(58)**
Changes in assumptions	**(605)**	**(165)**	**383**	
Discretionary and compulsory margins and other variances	**1 085**	**1 804**	**(44)**	**(82)**
New business	**29**	**(491)**	**25**	
Shareholder taxation on transfer of net income	**(148)**	**(730)**	**(102)**	**24**
Exchange differences		**(216)**	**4**	**(199)**
Balance at the end of the year	**6 708**	**(200 744)**	**1 416**	**(10 437)**
Reinsurance assets			**1 699**	
Reinsurance liabilities			**(283)**	
Liquidity profile				
Current	**2 332**	**(20 762)**	**353**	**(226)**
Non-current	**4 376**	**(179 982)**	**1 063**	**(10 211)**
Balance at the end of the year	**6 708**	**(200 744)**	**1 416**	**(10 437)**

Refer to footnotes on page 60.

8. Policyholders' contracts continued

8.1 Policyholders' and reinsurance assets and liabilities continued

	2017			
	Insurance contracts			
	Policyholders' assets Rm	Policyholders' liabilities Rm	Reinsurance assets and liabilities[1] Rm	Investment contracts with DPF[2] Rm
Balance at the beginning of the year	7 314	(204 155)	797	(11 462)
Reinsurance assets			1 352	
Reinsurance liabilities			(555)	
Inflows	(7 838)	(48 899)	1 417	(3 066)
Insurance premiums	(7 838)	(28 152)	1 412	(2 145)
Investment returns		(20 726)	5	(921)
Fee revenue		(21)		
Outflows	7 403	41 899	(1 558)	2 551
Claims and policyholders' benefits	3 903	31 501	(1 571)	2 300
Acquisition costs associated with insurance contracts	1 441	2 315	4	83
General marketing and administration expenses	1 734	4 368	(38)	174
Profit share allocations	24	903		
Finance costs and fair value adjustments on financial liabilities	347	924		
Taxation	(46)	1 888	47	(6)
Net income from insurance operations	605	464	167	(6)
Changes in assumptions	(245)	(21)	(90)	
Discretionary and compulsory margins and other variances	1 172	1 534	293	(7)
New business	(78)	(425)	24	
Shareholder taxation on transfer of net income	(244)	(624)	(60)	1
Exchange differences		137	(5)	138
Balance at the end of the year	7 484	(210 554)	818	(11 845)
Reinsurance assets			1 481	
Reinsurance liabilities			(663)	
Liquidity profile				
Current	2 506	(24 607)	169	(493)
Non-current	4 978	(185 947)	649	(11 352)
Balance at the end of the year	7 484	(210 554)	818	(11 845)

1 Reinsurance assets are included in note 9 and reinsurance liabilities are included in note 20.
2 The group cannot reliably measure the fair value of the investment contracts with discretionary participation features (DPF). The DPF is a contractual right that gives investors in these contracts the right to receive supplementary discretionary returns through participation in the surplus arising from the assets held in the investment DPF fund. These supplementary returns are subject to the discretion of the group.

8. Policyholders' contracts continued

8.2 Policyholders' liabilities under investment contracts

	2018 Rm	2017 Rm
Balance at the beginning of the year	(100 519)	(91 613)
Fund inflows from investment contracts (excluding switches)	(17 901)	(17 417)
Net fair value adjustment	1 273	(9 116)
Fund outflows from investment contracts (excluding switches)	16 083	16 373
Service fee income	1 251	1 254
Balance at the end of the year	**(99 813)**	(100 519)
Liquidity profile		
Current	(5 262)	(6 797)
Non-current	(94 551)	(93 722)
Balance at the end of the year	**(99 813)**	(100 519)
Net income from investment contracts[1]	**(38)**	(63)
Service fee income	(1 251)	(1 254)
Expenses	1 213	1 191
Property expenses applied to investment returns	(377)	(322)
Shareholder taxation on transfer of net income	14	24
Acquisition costs	543	483
General marketing and administration expenses	1 014	988
Finance costs	19	18

[1] Prior to deferred acquisition costs (DAC) and deferred revenue liability (DRL) adjustments.

9. Other assets

	2018 Rm	2017 Rm
Accounts receivable	1 085	877
Deferred acquisition costs	777	737
Insurance prepayments	4 953	2 407
Investment debtors	804	1 070
Items in the course of collection	1 257	1 520
Operating leases – accrued income (note 11)	990	1 030
Prepayments	3 434	2 797
Properties in possession	50	142
Property debtors		1 110
Property developments		48
Reinsurance assets[1]	2 119	1 774
Retirement funds (note 44)	998	1 072
Trading settlement assets	5 441	5 255
Other debtors	606	3 157
Total	**22 514**	22 996

[1] Reinsurance assets include short-term reinsurance assets of R420 million (2017: R293 million).

10. Interest in associates and joint ventures

	2018 Rm	2017 Rm
Equity accounted associates and joint ventures		
Carrying value at the beginning of the year	**9 665**	8 196
IFRS 9 transition adjustment	**(56)**	
Share of profits	**912**	1 102
Impairments of associates and joint ventures	**(5)**	
Acquisitions	**79**	21
Share of other comprehensive income movements	**(54)**	445
FCTR	**94**	360
Other	**(148)**	85
Distribution of profit	**(165)**	(99)
Carrying value at the end of the year	**10 376**	9 665
Comprising:		
Cost of investments	**8 149**	8 070
Share of reserves	**3 015**	2 378
Cumulative impairment	**(788)**	(783)

There are no significant restrictions on the ability of associates and joint ventures to transfer funds to the group in the form of cash dividends or in the repayment of loans or advances.

AFS | Refer to annexure B for further information.

11. Investment property

	2018 Rm	2017 Rm
Fair value at the beginning of the year	**32 226**	31 155
Revaluations net of lease straight-lining	**493**	523
Additions – capitalised subsequent expenditure and acquisitions	**719**	666
Disposals	**(45)**	(13)
Transfers to owner-occupied properties (note 12)	**(70)**	(91)
Exchange movements	**20**	(14)
Disposal group assets classified as held for sale	**(17)**	
Fair value at the end of the year	**33 326**	32 226
Investment property and related operating lease balances comprise the following:		
Investment properties at fair value	**33 326**	32 226
Operating leases – accrued income (note 9)	**990**	1 030
Total investment property	**34 316**	33 256
Amount recognised in profit and loss		
Rental income earned, excluding straight-lining operating leases	**3 160**	2 829
Direct operating expenses	**1 060**	896

Investment property predominantly comprises shopping malls located in South Africa.

The South African located investment properties were independently valued as at 31 December 2018 by registered professional valuers with the South African Council for the Property Valuers Profession, as well as members of the Institute of Valuers of South Africa. The method of valuation is consistent with that described in the key management assumptions section. The Kenyan and Nigerian located properties were independently valued as at 31 December 2018 by various registered professional valuers in each territory.

AFS | Refer to the key management assumptions on page 40 for details on the valuation of investment property.

12. Property and equipment

	Property		Equipment				
	Freehold Rm	Leasehold Rm	Computer equip-ment Rm	Furniture and fittings Rm	Office equip-ment Rm	Motor vehicles Rm	Total Rm
Net book value 1 January 2017	6 575	1 426	3 756	3 356	684	244	16 041
Movement	381	(194)	140	(83)	(109)	3	138
Additions	568	352	1 686	633	111	132	3 482
Disposals		(78)	(54)	(35)	(23)	(32)	(222)
Depreciation	(152)	(375)	(1 384)	(617)	(161)	(80)	(2 769)
Exchange movements	(126)	(93)	(108)	(64)	(36)	(17)	(444)
Transfer from investment property[1]	91						91
Net book value 31 December 2017	**6 956**	**1 232**	**3 896**	**3 273**	**575**	**247**	**16 179**
Cost	**8 096**	**3 600**	**10 919**	**7 013**	**1 431**	**568**	**31 627**
Accumulated depreciation and impairment	**(1 140)**	**(2 368)**	**(7 023)**	**(3 740)**	**(856)**	**(321)**	**(15 448)**
Movement	**904**	**494**	**122**	**(45)**	**33**	**1 507**	**3 015**
Additions	**1 193**	**545**	**1 876**	**790**	**157**	**1 639**	**6 200**
Disposals	**(88)**	**(212)**	**(376)**	**(49)**	**(11)**	**(26)**	**(762)**
Depreciation	**(159)**	**(339)**	**(1 469)**	**(639)**	**(145)**	**(107)**	**(2 858)**
Disposal group held for sale			**(12)**	**(7)**	**(2)**	**(3)**	**(24)**
Exchange movements	**(112)**	**500**	**103**	**(140)**	**34**	**4**	**389**
Transfer from investment property[1]	**70**						**70**
Net book value 31 December 2018	**7 860**	**1 726**	**4 018**	**3 228**	**608**	**1 754**	**19 194**
Cost	**9 192**	**4 446**	**11 673**	**7 473**	**1 577**	**2 129**	**36 490**
Accumulated depreciation and impairment	**(1 332)**	**(2 720)**	**(7 655)**	**(4 245)**	**(969)**	**(375)**	**(17 296)**

[1] Refer to note 11.

Property and equipment include work in progress of R1 897 million (2017: R465 million) for which depreciation has not yet commenced (refer to note 25.2 for details on capital commitments).

12.1 Valuation

The fair value of completed freehold property, based on valuations undertaken for the period 2017 to 2019 was estimated at R10 786 million (2017: R10 931 million). Registers of freehold property are available for inspection by members, or their authorised agents, at the registered office of the company and its subsidiaries. Valuations were generally in terms of the investment method whereby net income is capitalised having regard to tenancy, location and the physical nature of the property.

13. Goodwill and other intangible assets

	Goodwill Rm	Computer software Rm	Present value of in force life insurance (PVIF) Rm	Other intangible assets Rm	Total Rm
Net book value 1 January 2017	2 339	21 229	43	64	23 675
Movements:	(340)	15	(12)	(9)	(346)
Additions		2 955			2 955
Amortisation		(2 143)	(10)	(9)	(2 162)
Exchange movements	(340)	(350)	(2)		(692)
Impairments		(447)			(447)
Net book value 31 December 2017	**1 999**	**21 244**	**31**	**55**	**23 329**
Cost	**3 819**	**33 303**	**1 453**	**877**	**39 452**
Accumulated amortisation and impairment	**(1 820)**	**(12 059)**	**(1 422)**	**(822)**	**(16 123)**
Movements:	**311**	**77**	**(7)**	**(34)**	**347**
Additions		**2 848**			**2 848**
Disposals	**(16)**	**(80)**			**(96)**
Amortisation		**(2 486)**	**(10)**	**(8)**	**(2 504)**
Disposal group held for sale		**(85)**			**(85)**
Exchange movements	**327**	**329**	**3**	**(26)**	**633**
Impairments[1]		**(449)**			**(449)**
Net book value 31 December 2018	**2 310**	**21 321**	**24**	**21**	**23 676**
Cost	**4 285**	**36 543**	**1 465**	**720**	**43 013**
Accumulated amortisation and impairment	**(1 975)**	**(15 222)**	**(1 441)**	**(699)**	**(19 337)**

[1] During the year, the group impaired certain intangible assets where the recoverable amounts were determined to be lower than the carrying values. In addition, certain assets were noted to be obsolete and required upgrades. The value in use of these assets was determined by the percentage of re-usability of components.

R206 million (2017: R251 million) of interest was capitalised to computer software.

Intangible assets include work in progress of R3 123 million (2017: R4 735 million) for which amortisation has not yet commenced.

13.1 Goodwill

	2018			2017		
	Gross goodwill Rm	**Accumulated impairment Rm**	**Net goodwill Rm**	Gross goodwill Rm	Accumulated impairment Rm	Net goodwill Rm
Stanbic IBTC Holdings PLC	**2 126**	**(1 121)**	**1 005**	1 821	(961)	860
Stanbic Holdings Plc	**1 047**		**1 047**	880		880
Other	**1 112**	**(854)**	**258**	1 118	(859)	259
Total	**4 285**	**(1 975)**	**2 310**	3 819	(1 820)	1 999

13. Goodwill and other intangible assets continued

13.1 Goodwill continued

Stanbic IBTC Holdings PLC and Stanbic Holdings Plc

Based on the impairment test performed, no impairment was recognised for 2018 or 2017.

Goodwill relating to other entities

The remaining aggregated carrying amount of the goodwill of R258 million (2017: R259 million) has been allocated to CGUs that are not considered to be individually significant. Based on the impairment testing performed, no impairment was recognised for 2018 or 2017.

14. Deferred taxation

14.1 Deferred tax analysis

	2018 Rm	2017 Rm
Accrued interest receivable	**37**	36
Assessed losses	**(243)**	(78)
Assets on lease	**121**	180
Capital gains tax	**352**	1 134
Credit impairment charges	**(3 990)**	(1 623)
Deferred acquisition costs	**1**	205
Deferred revenue liability	**(3)**	(80)
Property and equipment	**3 096**	2 746
Derivatives and financial instruments	**57**	278
Fair value adjustments on financial instruments	**196**	(45)
Intangible asset – PVIF	**(4)**	10
Policyholder change in valuation basis	**2 355**	2 533
Post-employment benefits	**55**	68
Share-based payments	**(1 169)**	(1 311)
Special transfer to life fund	**(1 020)**	(982)
Provisions and other items	**(932)**	(1 061)
Deferred tax (asset)/liability closing balance	**(1 091)**	2 010
Deferred tax liabilities	**2 827**	3 507
Deferred tax assets	**(3 918)**	(1 497)

The group has estimated tax losses of R799 million (2017: R265 million) which are available for set-off against future taxable income. These tax losses have arisen from the group entities incurring operational tax losses. This asset is anticipated to be recovered as financial projections indicate these entities are likely to produce sufficient taxable income in the near future. These deferred tax asset balances were offset against deferred tax liabilities. Refer to annexure F.

14. Deferred taxation continued

14.2 Deferred tax reconciliation

	2018 Rm	2017 Rm
Deferred tax at the beginning of the year	**2 010**	807
IFRS 9 transition adjustment	**(2 401)**	
Total temporary differences for the year	**(700)**	1 203
Accrued interest receivable	**1**	16
Assessed losses	**(165)**	(10)
Assets on lease	**(59)**	(9)
Capital gains tax	**(782)**	815
Credit impairment charges	**(183)**	(140)
Deferred acquisition costs	**(204)**	9
Deferred revenue liability	**77**	(8)
Property and equipment	**350**	816
Derivatives and financial instruments	**(221)**	148
Fair value adjustments on financial instruments	**328**	161
Intangible asset – PVIF	**(14)**	(26)
Policyholder change in valuation basis	**(178)**	115
Post-employment benefits	**(13)**	(81)
Share-based payments	**142**	(603)
Special transfer to life fund	**(38)**	(314)
Provisions and other items	**259**	314
Deferred tax (asset)/liability at the end of the year	**(1 091)**	2 010
Recognised in OCI	**(97)**	(238)
Fair value adjustments on financial instruments	**(69)**	(206)
Fair value adjustments on owner-occupied properties	**2**	14
Defined benefit fund remeasurements	**(30)**	(46)
Recognised in equity-deferred tax on share-based payments	**128**	(276)
Recognised in retained earnings – IFRS 9 transition adjustment	**(2 401)**	
Recognised in the income statement	**(618)**	1 453
Exchange differences	**(113)**	264
Recognised in OCI	**10**	158
Recognised in the income statement	**(123)**	106
Total temporary differences	**(3 101)**	1 203

15. Share capital

15.1 Authorised

	2018 Rm	2017 Rm
2 billion (2017: 2 billion) ordinary shares[1]	**200**	200
8 million(2017: 8 million) first preference shares[2]	**8**	8
1 billion (2017: 1 billion) second preference shares[3]	**10**	10
Total	**218**	218

1 Ordinary shares comprise shares of 10 cents each traded on the JSE under the symbol SBK.
2 First preference shares comprise 6.5% first cumulative preference shares of R1 each traded on the JSE under the symbol SBKP.
3 Second preference shares comprise non-redeemable, non-cumulative, non-participating preference shares of 1 cent each traded on the JSE under the symbol SBPP. The non-redeemable, non-cumulative, non-participating preference shares are entitled to an annual dividend, if declared, payable in two semi-annual instalments of not less than 77% of the prime interest rate multiplied by the subscription price of R100 per share.

15. Share capital continued

15.2 Issued

	2018 Rm	2017 Rm
Ordinary shares	**17 860**	18 063
Ordinary share capital	**162**	162
Ordinary share premium	**17 698**	17 901
Other equity instruments attributable to owners of parent	**9 047**	9 047
First preference share capital	**8**	8
Second preference share capital	**1**	1
Second preference share premium	**5 494**	5 494
Additional tier 1 capital (note 15.8)	**3 544**	3 544
Total	**26 907**	27 110

Holders of ordinary share capital hold one vote per ordinary share at the group's annual general meeting (AGM).

First preference shareholders and second preference shareholders are not entitled to voting rights unless:

- the fixed preference dividend payable is in arrears for more than six months, or
- a resolution to be tabled at the shareholders' meeting varies or cancels any of the special rights attached to that preference share or for the reduction of its capital

In the event that a resolution is tabled at the AGM to authorise, if circumstances are correct, the repurchase of second preference shares, the shareholders will be permitted to vote on the resolution at the AGM. In terms of paragraph 8.3.9 of the memorandum of incorporation, at this meeting the preference shareholders will be entitled to the portion of the total votes which the aggregate amount of the nominal value of the shares held bears to the aggregate amount of the nominal value of all the shares held.

Additional tier 1 capital holders have no voting rights.

	Number of ordinary shares
Reconciliation of shares issued	
Shares in issue at 1 January 2017	1 618 421 166
Shares issued during 2017 in terms of the group's equity compensation plans	2 877 827
Share buy-back	(2 030 824)
Shares in issue at 31 December 2017	**1 619 268 169**
Net shares held in terms of the group's Tutuwa initiative	**5 750 291**
Treasury shares held by entities within the group	**16 213 766**
Shares held by other shareholders	**1 597 304 112**
Shares issued during 2018 in terms of the group's equity compensation plans	**1 729 572**
Share buy-back	**(2 483 523)**
Shares in issue at 31 December 2018	**1 618 514 218**
Net shares held in terms of the group's Tutuwa initiative	**2 985 513**
Treasury shares held by entities within the group	**25 310 447**
Shares held by other shareholders	**1 590 218 258**

All issued shares are fully paid up. There has been no movement in the first and second preference shares during the year. The number of shares in issue for first and second preference shares are 8 000 000 and 52 982 248 respectively.

15. Share capital continued

15.3 Unissued shares

	2018 Number of shares	2017 Number of shares
Ordinary unissued shares	**257 354 962**	254 871 439
Ordinary shares reserved to meet the requirements of EGS and GSIS[1]	**124 130 820**	125 860 392
Ordinary shares reserved in terms of the rules of EGS and GSIS as approved by members' resolution dated 27 May 2010	**155 825 715**	155 825 715
Less: issued to date of the above resolution for the EGS and GSIS schemes	**(31 694 895)**	(29 965 323)
Unissued ordinary shares	**381 485 782**	380 731 831
Unissued Second Preference shares	**947 017 752**	947 017 752

1 During the year, 1 729 572 (2017: 2 877 827) ordinary shares were issued in terms of the group's equity compensation plans, notably the equity growth scheme (EGS) and group share incentive scheme (GSIS). Surplus capital was used to purchase 2 483 523 (2017: 2 030 824) ordinary shares to counteract the dilutive impact of the shares issues under the equity compensation plans. Effective from 2017, the group no longer issues EGS and GSIS awards. The last awards in GSIS were issued in 2011 and for the EGS, the last award was made in 2016. Awards are now provided in terms of the group's other share schemes, notably the deferred bonus scheme and the share appreciation rights plan, both of which are settled by the group to employees with shares that the group purchases from external market participants, and the cash-settled deferred bonus scheme, which is settled in cash (refer to annexure D: group share incentive schemes for further information). At the end of the year, the group would need to issue 2 847 244 (2017: 6 159 744) SBG ordinary shares to settle the outstanding GSIS options and EGS rights that were awarded to participants in previous years. The shares issued to date for the EGS and GSIS together with the expected number of shares to settle the outstanding options and rights as a percentage of the total number of shares in issue is 2.1% (2017: 2.2%).

15.4 Interest of directors in the capital of the company

	Direct beneficial[1]		Indirect beneficial[1]	
	2018 Number of shares	2017 Number of shares	2018 Number of shares	2017 Number of shares
Ordinary shares	**791 882**	748 299	**708 532**	663 575
A Daehnke	**83 098**	61 309	**58 407**	6 024
GJ Fraser-Moleketi	**1 890**	1 890	**14 675**	1 675
TS Gcabashe[2]			**50 000**	70 000
BJ Kruger[5]	**312 040**	312 040		
JH Maree	**97 847**	97 847		
KD Moroka[2]	**515**	515	**66 636**	66 636
ANA Peterside CON			**100 000**	100 000
MJD Ruck	**50 000**	50 000		
BS Tshabalala[3]				426
SK Tshabalala	**246 492**	172 248	**418 814**	418 814
EM Woods[4]		52 450		
Second preference shares	**37 122**	37 122	**3 034**	3 034
BJ Kruger[5]	**26 791**	26 791		
JH Maree[6]	**10 331**	10 331	**3 034**	3 034

1 As defined in the JSE Listing Requirements.
2 Includes an allocation of 125 000 shares in terms of the Tutuwa management trust.
3 Resigned as director on 10 November 2017, 2017 balances reflected are as at this date.
4 Retired as director on 26 May 2017, 2017 balances reflected are as at this date.
5 Retired as director on 31 December 2018, 2018 balances reflected are as at this date.
6 Shares held by directors under share incentive schemes are 1 838 963 (2017: 2 285 817).

There have been no changes to directors' interests in the group's share capital between 1 January 2019 and 6 March 2019.

15. Share capital continued

15.5 General authority of directors to issue shares[1]

	2018 Number of shares	2017 Number of shares
Ordinary shares	**40 481 704**	40 481 704
Second preference shares	**947 017 752**	947 017 752

1 The general authority expires at the annual general meeting on 30 May 2019.

15.6 Treasury shares

	2018 Number of shares	2017 Number of shares
Purchased during the year[1]	**51 954 293**	52 972 818
Total treasury shares held at end of year[2]	**25 310 447**	16 213 766
Ordinary shares delisted and reinstated to authorised[3]	**2 483 523**	2 030 824

1 Total number of ordinary shares purchased during the year by the group's banking activities to facilitate client trading activities and by the group's insurance activities for the benefit of policyholders, as well as share buy-backs to mitigate the dilutive impact as a result of the group's share incentive schemes.
2 Total number of ordinary shares held at the end of the period by the group's banking and insurance activities in terms of the transactions mentioned above.
3 Total number of ordinary shares purchased to mitigate the dilutive impact as a result of the group's share incentive schemes and reinstated to authorised share capital.

15.7 Shareholder analysis

	2018		2017	
	Number of shares (million)	% holding	Number of shares (million)	% holding
Spread of ordinary shareholders (million)				
Public[1]	**1 077.0**	**66.5**	1 074.6	66.4
Non-public[1]	**541.5**	**33.5**	544.7	33.6
Directors and prescribed officers of Standard Bank Group, and its subsidiaries[2]	**1.2**	**0.1**	1.1	
ICBC	**325.0**	**20.1**	325.0	20.1
Government Employees Pension Fund (investment managed by PIC)	**199.7**	**12.4**	199.6	12.3
Standard Bank Group retirement funds	**2.1**	**0.1**	1.8	0.1
Tutuwa participants[3]	**12.8**	**0.8**	17.2	1.1
Associates of directors	**0.70**		0.01	
Total	**1 618.5**	**100.0**	1 619.3	100.0

	2018		2017	
	Number of shares	% holding	Number of shares	% holding
Spread of first preference shareholders				
Public[1]	**8 000 000**	**100**	8 000 000	100.0
Spread of second preference shareholders	**52 982 248**		52 982 248	
Public[1]	**52 905 909**	**99.9**	52 936 998	99.9
Non-public[1]	**76 339**	**0.1**	45 250	0.1
Directors and prescribed officers of Standard Bank Group, and its subsidiaries[2]	**76 339**	**0.1**	45 250	0.1
Total	**52 982 248**	**100.0**	52 982 248	100.0

1 As per the JSE Listings Requirements.
2 Excludes indirect holdings of strategic partners, which are included in Tutuwa participants.
3 Includes Tutuwa Strategic Holdings 1 and 2, Tutuwa Staff Holdings 1, 2 and 3, Tutuwa Community and General Staff Share Trust.

15. Share capital continued

15.8 Additional tier 1 capital

Bond	Date issued	First callable date	Notional value 2018 Rm	Carrying value 2018 Rm	Carrying value 2017 Rm
SBT101	30 March 2017	31 March 2022	**1 744**	**1 744**	1 744
SBT102	21 September 2017	30 September 2022	**1 800**	**1 800**	1 800
Total			**3 544**	**3 544**	3 544

During 2017, the group issued Basel III compliant additional tier (AT)1 capital bonds amounting to R3.5 billion. No additional AT1 capital bonds were issued during the current year. The capital notes are perpetual, non-cumulative with an issuer call option after a minimum period of five years and one day and on every coupon payment date thereafter. During 2018, coupons to the value of R447 million (2017: R299 million) were paid to AT1 capital bond holders. Current tax of R125 million (2017: R64 million) relating to the AT1 capital bonds was recognised directly in equity resulting in an aggregate net equity impact of R322 million (2017: R165 million).

The terms of the Basel III compliant AT1 capital bonds include a regulatory requirement which provides for the write-off, in whole or in part, on the earlier of a decision by the SARB that a write-off without which the issuer would have become non-viable is necessary, or a decision to make a public sector injection of capital or equivalent support, without which the issuer would have become non-viable.

The AT1 capital bonds do not have a contractual obligation to pay cash, hence, they have been recognised within equity attributable to other equity instrument holders on the statement of financial position.

Holders of AT1 capital do not have voting rights at the group's annual general meeting.

16. Empowerment reserve

SBG and Liberty entered into a series of transactions in 2004 whereby investments were made in cumulative redeemable preference shares issued by Black Economic Empowerment (BEE) entities which are SEs. The initial investments made by SBG and Liberty totalled R4 017 million and R1 251 million respectively. The proceeds received were used by the BEE entities to purchase 99 190 197 ordinary shares of SBG. All participants were subject to a ten-year lock-in period which expired on 31 December 2014.

The preference shares owned by the group do not meet the definition of a financial asset in terms of IFRS and are therefore, treated as a negative empowerment reserve within the statement of changes in equity. The empowerment reserve represents SBG and Liberty shares held by the SEs that are deemed to be treasury shares in terms of IFRS.

AFS | Refer to annexure F for further details on the accounting policies applied.

The investment in the cumulative redeemable preference shares of the BEE entities, accounted for by the group as a negative empowerment reserve, is set out below:

	2018 Rm	2017 Rm
Standard Bank Group[1]	**148**	274
Liberty (after non-controlling interest)	**53**	65
Outstanding shares issued through our Tutuwa initiative	**201**	339
Number of SBG shares	**2 985 513**	5 750 291

[1] Comprises the Black Managers' Trust – Tutuwa Staff Holdings 1-3 Proprietary Limited and the Community Trust – Tutuwa Community Holdings Proprietary Limited.

For the purposes of the earnings per share calculation, the weighted average number of the company's shares in issue is reduced by the number of shares held by the BEE entities bought with the proceeds received from the preference shares (note 39).

17. Trading liabilities

	2018 Rm	2017 Rm
Collateral	730	822
Credit linked notes	10 090	6 573
Government, municipality and utility bonds	19 520	14 561
Listed equities	23 334	21 577
Repurchase and other collateralised agreements	1 190	13 495
Other instruments	5 083	5 827
Total	59 947	62 855

18. Deposits and debt funding

	2018 Rm	2017 Rm
Deposits and debt funding from banks	116 727	91 794
Deposits and debt funding from customers	1 240 810	1 152 117
Current accounts	248 841	220 933
Cash management deposits	171 408	166 824
Call deposits	359 305	315 807
Savings accounts	28 750	23 264
Term deposits	251 709	243 724
Negotiable certificates of deposit	125 428	137 410
Foreign currency funding	47 165	36 482
Other funding	8 204	7 673
Total	1 357 537	1 243 911

19. Subordinated debt

	Redeemable/ repayable date	First callable date	Notional value[1] Million	Carrying value[1] 2018 Rm	Carrying value 2017 Rm
Banking activities					
Standard Bank Group Limited				**5 057**	
SBT201	13 February 2028	13 February 2023	ZAR3 000	3 041	
SBT202	3 December 2028	3 December 2023	ZAR1 516	1 528	
SBT203	3 December 2028	3 December 2023	ZAR484	488	
The Standard Bank of South Africa				**13 793**	17 287
SBK16	15 March 2023	15 March 2018	ZAR2 000		2 008
SBK9	10 April 2023	10 April 2018	ZAR1 500		1 529
SBK17	30 July 2024	30 July 2019	ZAR2 000	2 032	2 032
SBK19	24 October 2024	24 October 2019	ZAR500	509	509
SBK20[2]	2 December 2024	2 December 2019	ZAR2 250	2 269	2 268
SBK21[2]	28 January 2025	28 January 2020	ZAR750	764	763
SBK22[2]	28 May 2025	28 May 2020	ZAR1 000	1 010	1 010
SBK24[2]	19 October 2025	19 October 2020	ZAR880	899	899
SBK18	24 October 2025	24 October 2020	ZAR3 500	3 563	3 563
SBK26[2]	25 April 2026	25 April 2021	ZAR500	511	506
SBK25[2]	25 April 2026	25 April 2021	ZAR1 200	1 225	1 225
SBK23[2]	28 May 2027	28 May 2022	ZAR1 000	1 011	975
Subordinated debt issued to group companies				**(122)**	(253)
Total subordinated debt qualifying as SARB regulatory banking capital				**18 728**	17 034
Africa Regions' bonds not qualifying as SARB regulatory banking capital				**1 969**	1 679
Stanbic Bank Kenya	8 December 2021	1 June 2020	KES4 000	564	476
Stanbic IBTC Bank (Nigeria)	30 September 2024	1 October 2019	NGN15 440	633	540
Standard Bank Mozambique	September 2025 – October 2025	August 2025 – October 2025	MZN1 001	250	227
Other Africa Regions' bonds	October 2024 – October 2025	October 2019 – December 2019	Various	522	436
Total subordinated debt – banking activities				**20 697**	18 713
Investment management and life assurance activities					
Qualifying as regulatory insurance capital				**5 662**	5 576
LGL03	3 April 2018		ZAR1 000		1 019
LGL04	14 August 2020		ZAR1 000	1 063	1 033
LGL05	12 December 2021		ZAR500	508	501
LGL06	4 October 2022		ZAR400	414	408
LGL07	4 October 2022		ZAR600	605	610
LGL08	28 February 2023		ZAR900	929	902
LGL09	28 February 2024		ZAR1 100	1 143	1 103
LGL10	8 October 2025		ZAR1 000	1000	
Total				**26 359**	24 289

1 The difference between the carrying and notional value represents transaction costs included in the initial carrying amounts, accrued interest and the unamortised fair value adjustments relating to bonds, where applicable, hedged for interest rate risk.

2 The terms of the issued bonds include a regulatory requirement which provides for the write-off in whole or in part on the earlier of a decision by the relevant regulator (SARB) that a write-off, or a public sector injection of capital or equivalent support is necessary, without which the issuer would have become non-viable.

20. Provisions and other liabilities

20.1 Summary

	2018 Rm	2017 Rm
Cash-settled share-based payment liability (annexure D)	**748**	571
Collateral and other insurance risk management liabilities	**11 747**	9 097
Deemed disposal taxation liability		436
Deferred revenue liability	**314**	291
Insurance payables	**9 407**	9 328
Items in the course of transmission	**4 385**	2 326
Post-employment benefits (note 44)	**1 228**	1 253
Reinsurance liabilities	**283**	663
Short-term insurance liability	**984**	780
Staff-related accruals	**11 135**	9 745
Third-party liabilities arising on consolidation of mutual funds (note 20.2)	**48 186**	49 713
Expected credit loss for off-balance sheet exposure[1]	**588**	
Trading settlement liabilities	**7 467**	7 112
Other liabilities	**13 281**	7 113
Total	**109 753**	98 428

1 The ECL on IFRS 9 transition was R423 million. Refer to note 35 credit impairment charges, for the R177 million credit impairment charge on off-balance sheet items.

20.2 Third-party liabilities arising on consolidation of mutual funds

	2018 Rm	2017 Rm
Balance at the beginning of the year	**49 713**	44 046
Additional mutual funds classified as subsidiaries	**5 853**	1 946
Distributions	**(1 189)**	(1 340)
Fair value adjustments	**2 407**	4 619
Mutual funds no longer classified as subsidiaries	**(4 236)**	(4 006)
Net capital (repayment)/contribution or change in effective ownership	**(4 362)**	4 448
Balance at the end of the year	**48 186**	49 713

The group has classified certain mutual funds as investments in subsidiaries. Consequently, fund interest not held by the group are classified by the group as third-party liabilities as they represent demand deposit liabilities measured at fair value.

21. Classification of assets and liabilities

Accounting classifications and fair values of assets and liabilities

All financial assets and liabilities have been classified according to their measurement category as per IFRS 9 with disclosure of the fair value being provided for those items.

	Fair value through profit or loss		
	Held-for-trading Rm	Designated at fair value Rm	Fair value through profit or loss – default Rm
2018			
Assets			
Cash and balances with central banks			76 095
Derivative assets	51 678		
Trading assets	181 112		
Pledged assets	6 266		12 661
Financial investments		19 740	329 183
Loans and advances			1 204
Policyholders' assets			
Interest in associates and joint ventures			
Investment property			
Non-current assets held for sale			265
Other financial assets[3]			
Other non-financial assets			
Total assets	239 056	19 740	419 408
Liabilities			
Derivative liabilities	55 057		
Trading liabilities	59 947		
Deposits and debt funding		6 439	
Policyholders' liabilities[4]		99 813	
Subordinated debt		5 540	
Non-current liability held for sale			
Other financial liabilities[3]		67 822	
Other non-financial liabilities			
Total liabilities	115 004	179 614	

1 Includes financial assets and liabilities for which the carrying value has been adjusted for changes in fair value due to designated hedged risks.
2 Carrying value has been used where it closely approximates fair values, excluding non-financial assets and liabilities.
3 The fair value of other financial assets and liabilities measured at amortised cost approximates the carrying value due to their short term nature.
4 The fair value has been provided for financial liabilities under investment contracts which have been designated at fair value. The remaining liabilities for which fair value disclosure has not been provided relate to insurance contracts and investment contracts with discretionary participation features that are not financial instruments as defined.

Fair value through other comprehensive income Debt instruments Rm	Equity instruments Rm	Amortised cost Rm[1]	Other non-financial assets/ liabilities Rm	Total carrying amount Rm	Fair value[2] Rm
		9 050		85 145	85 145
				51 678	51 678
				181 112	181 112
263		689		19 879	19 863
53 083	1 254	144 145		547 405	548 578
		1 119 464		1 120 668	1 123 115
			6 708	6 708	
			10 376	10 376	
			33 326	33 326	33 326
			497	762	265
		13 624		13 624	
			56 279	56 279	
53 346	1 254	1 286 972	107 186	2 126 962	
				55 057	55 057
				59 947	59 947
		1 351 098		1 357 537	1 358 058
			211 181	310 994	99 813
		20 819		26 359	25 431
			237	237	
		20 530		88 352	
			29 416	29 416	
		1 392 447	240 834	1 927 899	

21. Classification of assets and liabilities continued

Accounting classifications and fair values of assets and liabilities continued

All financial assets and liabilities have been classified according to their measurement category as per IAS 39 with disclosure of the fair value being provided for those items.

	Held-for-trading Rm	Designated at fair value Rm	Held-to-maturity Rm
2017			
Assets			
Cash and balances with central banks			
Derivative assets	75 610		
Trading assets	160 894		
Pledged assets	4 978	13 751	181
Financial investments		395 595	81 426
Loans and advances to banks			
Loans and advances to customers		110	
Policyholders' assets			
Interest in associates and joint ventures			
Investment property			
Other financial assets[3]			
Other non-financial assets			
Total assets	241 482	409 456	81 607
Liabilities			
Derivative liabilities	76 896		
Trading liabilities	62 855		
Deposits and debt funding from banks			
Deposits and debt funding from customers		13 847	
Policyholders' liabilities[4]		100 519	
Subordinated debt			
Other financial liabilities[3]		58 810	
Other non-financial liabilities			
Total liabilities	139 751	173 176	

1 Includes financial assets and liabilities for which the carrying value has been adjusted for changes in fair value due to designated hedged risks.
2 Carrying value has been used where it closely approximates fair values, excluding non-financial assets and liabilities.
3 The fair value of the other financial assets and liabilities approximates the carrying value due to their short-term nature. Other financial liabilities were erroneously classified as other liabilities, rather than at designated at fair value and prior year disclosure has been updated. This has no impact on the group's statement of financial position.
4 The fair value has been provided for financial liabilities under investment contracts which have been designated at fair value. The remaining liabilities for which fair value disclosure has not been provided relate to insurance contracts and investment contracts with discretionary participation features that are not financial instruments as defined.

	Loans and receivables[1] Rm	Available-for-sale Rm	Other amortised cost[1] Rm	Other assets/ liabilities Rm	Total carrying amount Rm	Fair value[2] Rm
	75 310				75 310	75 310
					75 610	75 610
					160 894	160 894
	358	1 517			20 785	20 780
	12 661	43 632			533 314	533 235
	117 935				117 935	117 867
	929 982				930 092	928 673
				7 484	7 484	
				9 665	9 665	
				32 226	32 226	32 226
	6 185				6 185	
				58 428	58 428	
	1 142 431	45 149		107 803	2 027 928	
					76 896	76 896
					62 855	62 855
			91 794		91 794	91 619
			1 138 270		1 152 117	1 168 549
				222 399	322 918	100 519
			24 289		24 289	24 863
			30 484		89 294	
				17 748	17 748	
			1 284 837	240 147	1 837 911	

22. Fair value disclosures

22.1 Assets and liabilities measured at fair value

	2018				2017			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets Measured on a recurring basis[1]								
Cash and balances with central bank[2]	64 680	11 415		76 095				
Derivative assets	42	48 227	3 409	51 678	120	71 140	4 350	75 610
Trading assets	97 350	81 395	2 367	181 112	95 654	60 156	5 084	160 894
Pledged assets	18 272	918		19 190	18 516	1 730		20 246
Financial investments	202 574	189 780	10 906	403 260	243 968	184 673	10 586	439 227
Loans and advances		1 204		1 204		110		110
Investment property			33 326	33 326			32 226	32 226
Non-current assets held for sale	265			265				
Total assets	383 183	332 939	50 008	766 130	358 258	317 809	52 246	728 313
Financial liabilities Measured on a recurring basis[1]								
Derivative liabilities	52	48 854	6 151	55 057	93	71 397	5 406	76 896
Trading liabilities	41 753	15 437	2 757	59 947	33 433	26 383	3 039	62 855
Deposits and debt funding		6 439		6 439	146	13 701		13 847
Policyholders' liabilities		99 813		99 813		100 519		100 519
Other financial liabilities		61 636	6 186	67 822		57 581	1 229	58 810
Subordinated debt		5 540		5 540				
Total liabilities	41 805	237 719	15 094	294 618	33 672	269 581	9 674	312 927

1 Recurring fair value measurements of assets or liabilities are those assets and liabilities that IFRS require or permit to be carried at fair value in the statement of financial position at the end of each reporting period.
2 The group has, as permitted by IFRS 9, elected not to restate its comparative financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis.

Assets and liabilities transferred between level 1 and level 2

During the year, no significant assets or liabilities were transferred between level 1 and level 2 (2017: Rnil).

22. Fair value disclosures continued

22.1 Assets and liabilities measured at fair value continued

Level 3 financial assets and financial liabilities

Reconciliation of level 3 assets

The following table provides a reconciliation of the opening to closing balance for all assets that are measured at fair value and incorporate inputs that are not based on observable market data (level 3).

	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Investment property Rm	Total Rm
Balance at 1 January 2017	2 115	4 751	7 955	31 155	45 976
Total gains/(losses) included in profit or loss	2 464	1 000	(203)	523	3 784
Interest income			171		171
Trading revenue	2 464	1 000			3 464
Other revenue			85		85
Investment (losses)/gains			(459)	523	64
Total gains included in OCI			213		213
Issuances and purchases	241	36	4 272	666	5 215
Sales and settlements	(185)	(74)	(1 436)	(104)	(1 799)
Transfers into level 3[1]	36		34		70
Transfers out of level 3[2]	(291)	(629)			(920)
Exchange movement losses	(30)		(249)	(14)	(293)
Balance at 31 December 2017	4 350	5 084	10 586	32 226	52 246
Balance at 1 January 2018	**4 350**	**5 084**	**10 586**	**32 226**	**52 246**
IFRS 9 transition adjustment	**(301)**		**(1 816)**		**(2 117)**
Total (losses)/gains included in profit or loss	**(453)**	**154**	**1 329**	**493**	**1 523**
Trading revenue	**(453)**	**154**			**(299)**
Other revenue			**506**		**506**
Investment (losses)/gains			**823**	**493**	**1 316**
Total losses included in OCI			**(19)**		**(19)**
Issuances and purchases	**800**	**504**	**448**	**719**	**2 471**
Sales and settlements	**(1 465)**	**(3 375)**	**(276)**	**(62)**	**(5 178)**
Transfers into level 3[1]	**418**		**5**		**423**
Transfers out of level 3[2]	**(83)**		**(312)**	**(70)**	**(465)**
Reclassification			**831**		**831**
Exchange movement gains	**143**		**130**	**20**	**293**
Balance at 31 December 2018	**3 409**	**2 367**	**10 906**	**33 326**	**50 008**

1 Transfers of financial assets between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. During the year, the valuation inputs of certain financial assets became unobservable. The fair value of these assets was transferred into level 3.

2 During the year, the valuation inputs of certain level 3 financial assets became observable. The fair value of these financial assets was transferred into level 2.

22. Fair value disclosures continued

22.1 Assets and liabilities measured at fair value continued

Unrealised (losses)/gains for the period included in profit or loss for level 3 assets held at the end of the reporting period

	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Investment property Rm	Total Rm
2018					
Trading revenue	**(456)**	**159**			**(297)**
Other revenue			**404**		**404**
Investment management and service fee income and gains				**717**	**717**
Total	**(456)**	**159**	**404**	**717**	**824**
2017					
Interest Income	2 387	988			3 375
Trading revenue			66		66
Investment management and service fee income and gains				1 656	1 656
Total	2 387	988	66	1 656	5 097

Reconciliation of level 3 liabilities

The following table provides a reconciliation of the opening to closing balance for all liabilities that are measured at fair value based on the inputs that are not based on observable market data (level 3).

	Derivative liabilities Rm	Trading liabilities Rm	Other financial liabilities[1] Rm	Total Rm
Balance at 1 January 2017	8 554	4 181	1 271	14 006
Total (gains)/losses included in profit or loss – trading revenue[2]	220	(568)		(348)
Issuances and purchases		1 110		1 110
Sales and settlements	(3 211)	(1 684)	(42)	(4 937)
Transfers out of level 3[1]	(157)			(157)
Balance at 31 December 2017	5 406	3 039	1 229	9 674
Balance at 1 January 2018	**5 406**	**3 039**	**1 229**	**9 674**
Total losses included in profit or loss – trading revenue[1]	**1 465**	**102**	**329**	**1 896**
Issuances and purchases		**738**	**4 628**	**5 366**
Sales and settlements	**(789)**	**(195)**		**(984)**
Transfers out of level 3[1]	**(34)**	**(1 112)**		**(1 146)**
Transfers into level 3[2]	**103**	**185**		**288**
Balance at 31 December 2018	**6 151**	**2 757**	**6 186**	**15 094**

[1] During the year, the valuation inputs of certain level 3 financial assets became observable. The fair value of these financial assets was transferred into level 2.

[2] Transfers of financial liabilities between the levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. During 2018, the valuation inputs of certain financial liabilities became unobservable. The fair value of these liabilities was transferred into level 3.

Unrealised (gains)/losses for the period included in profit or loss for level 3 liabilities held at the end of the reporting period

	Derivative liabilities Rm	Trading liabilities Rm	Other financial liabilities Rm	Total Rm
2018				
Trading revenue	**1 568**	**101**	**329**	**1 998**
2017				
Trading revenue	63	(502)		(439)

22. Fair value disclosures continued

22.1 Assets and liabilities measured at fair value continued

Sensitivity and interrelationships of inputs

The behaviour of the unobservable parameters used to fair value level 3 assets and liabilities is not necessarily independent, and may often hold a relationship with other observable and unobservable market parameters. Where material and possible, such relationships are captured in the valuation by way of correlation factors, though these factors are, themselves, frequently unobservable. In such instances, the range of possible and reasonable fair value estimates is taken into account when determining appropriate model adjustments.

The following table indicates the sensitivity of valuation techniques used in the determination of the fair value of the level 3 assets and liabilities measured and disclosed at fair value. The table further indicates the effect that a significant change in one or more of the inputs to a reasonably possible alternative assumption would have on profit or loss at the reporting date (where the change in the unobservable input would change the fair value of the asset or liability significantly). The changes in the inputs that have been used in the analysis have been determined taking into account several considerations such as the nature of the asset or liability and the market within which the asset or liability is transacted. Stress tests have been conducted by only flexing/stressing a major significant unobservable input of risk factor (i.e. assumes that all risks are mutually exclusive).

	Change in significant unobservable input	Effect on profit or loss Favourable Rm	Effect on profit or loss (Unfavourable) Rm
2018			
Derivative instruments	**From (1%) to 1%**	**309**	**(315)**
Financial investments	**From (1%) to 1%**	**59**	**(58)**
Trading assets	**From (1%) to 1%**	**94**	**(94)**
Trading liabilities	**From (1%) to 1%**	**68**	**(68)**
Investment property	**From (1%) to 1%**	**5 628**	**(4 611)**
Total		**6 158**	**(5 146)**
2017			
Derivative instruments	From (1%) to 1%	444	(440)
Trading assets	From (1%) to 1%	216	(216)
Financial investments	From (1%) to 1%	41	(37)
Trading liabilities	From (1%) to 1%	290	(290)
Investment property	From (1%) to 1%	7 562	(3 575)
Total		8 553	(4 558)

In 2018, a 1% change in the significant unobservable inputs relating to the measurement of a financial investment classified as fair value through OCI resulted in a R145 million favourable and unfavourable effect recognised in OCI (2017: R113 million).

The other financial liabilities categorised as level 3 relate to third party financial liabilities arising on the consolidation of mutual funds. A sensitivity analysis is therefore not provided since a similar sensitivity would arise on the assets that relate to these liabilities.

AFS | Refer to key management assumptions on page 35 and annexure F for more information on valuation techniques used.

22. Fair value disclosures continued

22.2 Assets and liabilities not measured at fair value for which fair value is disclosed

The table below discloses the fair value of financial assets and liabilities not measured at fair value:

	2018				2017			
	Level 1 Rm	**Level 2 Rm**	**Level 3 Rm**	**Total Rm**	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Cash and balances with central banks[1]	**7 374**	**1 676**		**9 050**	75 310			75 310
Pledged assets		**673**		**673**		190	344	534
Financial investments	**114 072**	**25 332**	**5 914**	**145 318**	25 649	61 367	6 992	94 008
Loans and advances	**12 560**	**161 474**	**947 877**	**1 121 911**	12 623	162 423	871 384	1 046 430
Total assets	**134 006**	**189 155**	**953 791**	**1 276 952**	113 582	223 980	878 720	1 216 282
Financial liabilities								
Deposits and debt funding	**616 809**	**701 181**	**33 628**	**1 351 618**	786 985	440 196	19 140	1 246 321
Subordinated debt		**19 891**		**19 891**		24 863		24 863
Total liabilities	**616 809**	**721 072**	**33 628**	**1 371 509**	786 985	465 059	19 140	1 271 184

[1] The group has, as permitted by IFRS 9, elected not to restate comparative financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis.

22.3 Third-party credit enhancements

There were no significant liabilities measured at fair value that existed during the year which had been issued with inseparable third-party credit enhancements.

22.4 Financial liabilities designated at fair value through profit or loss

	Current year gain/(loss) on changes in fair value attributable to changes in credit risk Rm	**Cumulative gain/(loss) on changes in fair value attributable to changes in credit risk Rm**	**Contractual payment required at maturity Rm**	**Carrying amount Rm**	**Difference between carrying amount and contractual payment Rm**
2018					
Financial liabilities designated at fair value through profit/loss with credit risk recognised in OCI					
Deposit and debt funding	**9**	**9**	**6 234**	**6 439**	**205**
Policyholders' liabilities			**99 813**	**99 813**	
Subordinated debt	**67**	**40**	**5 380**	**5 540**	**160**
Other financial liabilities			**67 822**	**67 822**	
Total	**76**	**49**	**179 249**	**179 614**	**365**
2017					
Financial liabilities designated at fair value through profit/loss with credit risk recognised in profit/loss					
Deposit and debt funding	(16)	21	15 778	13 874	1 904
Policyholders' liabilities			100 519	100 519	
Subordinated debt					
Other financial liabilities			58 810	58 810	
Total	(16)	21	175 107	173 203	1 904

The changes in the fair value of the designated financial liabilities attributable to changes in credit risk are calculated by reference to the change in the credit risk implicit in the market value of the bank's senior notes.

22. Fair value disclosures continued

22.5 Reconciliation of FVOCI reserve for equity financial instruments

	Revaluation		
	Credit opening balance – 1 January 2018 Rm	Losses Rm	Credit closing balance – 31 December 2018 Rm
2018			
Visa shares	**73**	**(9)**	**64**
STRATE Limited	**205**	**(87)**	**118**
Other	**129**	**(34)**	**95**
Total	**407**	**(130)**	**277**

Strategic equity investments are designated at fair value through OCI on initial recognition. No gains and losses were transferred to retained earnings during the year. No dividends were received during the year.

23. Reclassification of financial assets

IFRS 9

There were no IFRS 9 reclassifications in the group and company during the year.

IAS 39

During 2017, the group reclassified no assets from held-for-trading to loans and receivables for which there was a clear change in intent to hold the assets for the foreseeable future rather than to exit or trade in the short term. This represents the estimated amounts of future cash flows expected to be recovered at the date of reclassification. During 2017, no financial assets matured in the company.

	2017 Rm
Carrying value of reclassified financial assets at the end of the year	1 315
Fair value of reclassified financial assets at the end of the year	1 204
A fair value gain after tax of R37 million after tax would have been recognised in 2017 had all reclassifications not been effected.	
The table below sets out the amounts actually recognised in profit or loss:	
Period after reclassification	
Net interest income[1]	111

[1] Included in this are items subject to fair value hedge accounting for interest rate risk only. The total fair value adjustment recognised net interest income in respect of the hedged items amounted to a gain of R23 million.

24. Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements

IFRS requires a financial asset and a financial liability to be offset and the net amount presented in the statement of financial position when, and only when, the group and company has a current legally enforceable right to set off recognised amounts, as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously. There are no other instances apart from the cash management accounts, where the group and company have a current legally enforceable right to offset as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The following table sets out the impact of offset, as well as the required disclosures for financial assets and financial liabilities that are subject to enforceable master netting arrangements or similar agreements, irrespective of whether they have been offset in accordance with IFRS. It should be noted that the information below is not intended to represent the group and company's actual credit exposure, nor will it agree to that presented in the statement of financial position.

	Gross amount of recognised financial assets[1] Rm	Financial liabilities set off in the statement of financial position[2] Rm	Net amount of financial assets subject to netting agreements Rm	Collateral received[3] Rm	Net amount Rm
Assets					
2018					
Derivative assets	**45 401**		**45 401**	**(41 628)**	**3 773**
Trading assets	**35 998**		**35 998**	**(33 806)**	**2 192**
Loans and advances[4]	**66 943**	**(32 722)**	**34 221**	**(31 417)**	**2 804**
Total	**148 342**	**(32 722)**	**115 620**	**(106 851)**	**8 769**
2017					
Derivative assets	46 323	(5)	46 318	(35 281)	11 037
Trading assets	21 219		21 219	(19 344)	1 875
Loans and advances[4]	50 545	(32 864)	17 681	(15 345)	2 336
Total	118 087	(32 869)	85 218	(69 970)	15 248

1 Gross amounts are disclosed for recognised financial assets and financial liabilities that are either offset in the statement of financial position or are subject to a master netting arrangement or a similar agreement, irrespective of whether the offsetting criteria is met.
2 Gross amounts of recognised financial assets or financial liabilities that qualify for offset in accordance with the criteria per IFRS.
3 This could include financial collateral (whether recognised or unrecognised), cash collateral as well as exposures that are available to the group and company to be offset in the event of default. In most cases, the group and company are allowed to sell or repledge collateral received.
4 The most material amounts offset in the statement of financial position pertain to cash management accounts. The cash management accounts allow holding companies (or central treasury functions) to manage the cash flows of a group by linking the current accounts of multiple legal entities within a group. It allows for cash balances of the different legal entities to be offset against each other to arrive at a net balance for the whole group. In addition, all repurchase agreements (for financial liabilities) and reverse repurchase agreements (for financial assets), subject to master netting arrangement (or similar agreement), have been included.

24. Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements continued

	Gross amount of recognised financial liabilities[1] Rm	Financial assets set off in the statement of financial position[2] Rm	Net amount of financial liabilities subject to netting agreements Rm	Collateral pledged Rm	Net amount Rm
Liabilities					
2018					
Derivative liabilities	**47 365**		**47 365**	**(40 821)**	**6 544**
Trading liabilities	**876**		**876**	**(876)**	
Deposits and debt funding[4]	**38 848**	**(32 722)**	**6 126**	**(12)**	**6 114**
Total	**87 089**	**(32 722)**	**54 367**	**(41 709)**	**12 658**
2017					
Derivative liabilities	52 418	(5)	52 413	(34 628)	17 785
Trading liabilities	32 425		32 425	(32 425)	
Deposits and debt funding[4]	40 420	(32 864)	7 556		7 556
Total	125 263	(32 869)	92 394	(67 053)	25 341

1 Gross amounts are disclosed for recognised financial assets and financial liabilities that are either offset in the statement of financial position or are subject to a master netting arrangement or a similar agreement, irrespective of whether the offsetting criteria is met.
2 Gross amounts of recognised financial assets or financial liabilities that qualify for offset in accordance with the criteria per IFRS.
3 This could include financial collateral (whether recognised or unrecognised), cash collateral as well as exposures that are available to the group and company to be offset in the event of default. In most cases, the group and company are allowed to sell or repledge collateral received.
4 The most material amounts offset in the statement of financial position pertain to cash management accounts. The cash management accounts allow holding companies (or central treasury functions) to manage the cash flows of a group by linking the current accounts of multiple legal entities within a group. It allows for cash balances of the different legal entities to be offset against each other to arrive at a net balance for the whole group. In addition, all repurchase agreements (for financial liabilities) and reverse repurchase agreements (for financial assets), subject to master netting arrangement (or similar agreement), have been included.

The table below sets out the nature of agreements and the types of rights relating to items which do not qualify for offset but that are subject to a master netting arrangement or similar agreement.

	Nature of agreement	Related rights
Derivative assets and liabilities	International swaps and derivatives association agreements	The agreement allows for offset in the event of default
Trading assets and liabilities	Global master repurchase agreements	The agreement allows for offset in the event of default
Loans and advances	Customer agreement and Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to all applicable laws and regulations
Deposits and debt funding	Customer agreement and Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to all applicable laws and regulations

25. Contingent liabilities and commitments

25.1 Contingent liabilities

	2018 Rm	2017 Rm
Letters of credit and bankers' acceptances	17 802	13 413
Guarantees	85 576	63 761
Total	**103 378**	77 174

Loan commitments of R77 253 million (2017: R62 347 million) that are irrevocable over the life of the facility or revocable only in response to material adverse changes are included in annexure C.

25.2 Commitments

	2018 Rm	2017 Rm
Investment property	748	385
Property and equipment	620	94
Other intangible assets	270	299
Total	**1 638**	778

The expenditure will be funded from the group's internal resources.

25.3 Operating lease commitments

The future minimum payments under non-cancellable operating leases are as follows:

	2018 Rm	2017 Rm
Within one year	1 756	1 445
After one year but within five years	4 691	2 826
After five years	823	77
Total	**7 270**	4 348

The operating lease commitments comprise a number of separate operating leases in relation to properties and equipment.

25.4 Legal proceedings defended

In the ordinary course of business, the group is involved as a defendant in litigation, lawsuits and other proceedings. Management recognises the inherent difficulty of predicting the outcome of defended legal proceedings. Nevertheless, based on management's knowledge from investigation, analysis and after consulting with legal counsel, management believes that there are no individual legal proceedings that are currently assessed as being 'likely to succeed and material' or 'unlikely to succeed but material should they succeed'. The group is also the defendant in some legal cases for which the group is fully indemnified by external third parties, none of which are individually material. Management is accordingly satisfied that the legal proceedings currently pending against the group should not have a material adverse effect on the group's consolidated financial position and the directors are satisfied that the group has adequate insurance programmes and, where required in terms of IFRS for claims that are probable, provisions in place to meet claims that may succeed.

Competition Commission – trading of foreign currency

On 15 February 2017, South Africa's Competition Commission lodged five complaints with the Competition Tribunal against 18 institutions, including one against The Standard Bank of South Africa Limited (SBSA) and two against a former subsidiary of the group, Standard New York Securities Inc (SNYS), in which it alleges unlawful collusion between those institutions in the trading of USD/ZAR. The group has, with the help of external counsel, conducted its own internal investigations and found no evidence that supports the complaints. Both SBSA and SNYS have, together with 12 of the other respondents, applied for dismissal of the complaint referral on various legal grounds. These applications were heard in July 2018 and judgement has been reserved. The allegations against SBSA are confined to USD/ZAR trading activities within SBSA and do not relate to the conduct of the group more broadly.

25. Contingent liabilities and commitments continued

25.4 Legal proceedings defended continued

Indemnities granted following disposal of Standard Bank Plc

Under the terms of the disposal of Standard Bank Plc on 1 February 2015, the group provided ICBC with certain indemnities to be paid in cash to ICBC or, at ICBC's direction, to any Standard Bank Plc (now ICBCS) group company, a sum equal to the amount of losses suffered or incurred by ICBC arising from certain circumstances. Where an indemnity payment is required to be made by the group to the ICBCS group, such payment would be grossed up from ICBC's shareholding at the time in ICBCS to 100%. These payments may, inter alia, arise as a result of an enforcement action, the cause of which occurred prior to the date of disposal. Enforcement actions include actions taken by regulatory or governmental authorities to enforce the relevant laws in any jurisdiction. While there have been no material claims relating to these indemnification provisions during 2017, the indemnities provided are uncapped and of unlimited duration as they reflect that the pre-completion regulatory risks attaching to the disposed-of business remain with the group post completion. The indemnification provisions covered the Deferred Prosecution Agreement (DPA) that ICBCS entered into with the United Kingdom Serious Fraud Office (SFO) (as more fully set out in the announcement made to shareholders via the JSE's SENS on 30 November 2015). In terms of the DPA, prosecution has been suspended and will be withdrawn after three years provided that ICBCS has complied with its obligations under the DPA. Any claims that may arise for SNYS with respect to the Competition Commission matter are also likely to fall within the scope of this indemnity as the alleged conduct, which is the subject of the referral, is alleged to have taken place prior to the disposal of Standard Bank Plc.

26. Maturity analysis

The group assesses the maturity of its assets and liabilities at 31 December each year. This gives an indication of the remaining life of these assets at that point in time. The following table illustrates the maturities based on a contractual discounted basis. For the maturity analysis of financial liabilities on a contractual undiscounted basis, refer to the funding and liquidity risk section within annexure C.

26.1 Financial assets and liabilities

	Note	Redeemable on demand Rm	Within one year Rm	Within one to five years Rm	After five years Rm	Undated[1] Rm	Total Rm
2018							
Cash and balances with central banks[2]	1	**20 681**				**64 464**	**85 145**
Trading assets	3	**6 631**	**44 563**	**28 032**	**58 810**	**43 076**	**181 112**
Pledged assets	4		**18 058**	**800**	**671**	**350**	**19 879**
Financial investments	5	**15 066**	**191 031**	**71 185**	**59 889**	**210 428**	**547 599**
Gross loans and advances[3]	7	**123 469**	**256 087**	**408 594**	**338 461**	**30 742**	**1 157 353**
Other financial assets	21	**2 565**	**10 368**	**299**		**392**	**13 624**
Net derivative liability	2		**2 109**	**(2 949)**	**(2 539)**		**(3 379)**
Trading liabilities	17	**(1 430)**	**(12 695)**	**(13 463)**	**(11 031)**	**(21 328)**	**(59 947)**
Deposits and debt funding	18	**(906 421)**	**(286 877)**	**(125 040)**	**(39 199)**		**(1 357 537)**
Subordinated debt[4]	19		**(5 965)**	**(17 072)**	**(3 322)**		**(26 359)**
Provisions and liabilities	20	**(5 100)**	**(78 727)**	**(2 989)**	**(314)**	**(1 222)**	**(88 352)**
2017							
Cash and balances with central banks[1]	1	26 407				48 903	75 310
Trading assets	3	3 959	39 323	26 780	49 520	41 312	160 894
Pledged assets	4		12 578	2 618	5 319	270	20 785
Financial investments	5	12 628	152 496	62 228	56 742	249 220	533 314
Gross loans and advances[3]	7	127 971	231 829	369 558	319 423	21 690	1 070 471
Other financial assets	21	2 169	2 906	132	76	902	6 185
Net derivative liability	2		4 239	(5 454)	(71)		(1 286)
Trading liabilities	17	(835)	(10 191)	(12 218)	(18 034)	(21 577)	(62 855)
Deposits and debt funding	18	(783 534)	(291 910)	(127 103)	(41 364)		(1 243 911)
Subordinated debt[4]	19		(4 446)	(16 159)	(3 684)		(24 289)
Provisions and liabilities	20	(5 501)	(77 522)	(1 308)	(307)	(4 656)	(89 294)

1 Undated maturity category comprises of non-contractual or indeterminate maturity, including any item or position in respect of which no right or obligation in respect of maturity exists. The will include deferred tax and provisions for non-performing assets.
2 On demand cash and balances with central banks include notes and coins.
3 Includes loans and advances measured at fair value through profit or loss.
4 The maturity analysis for subordinated debt has been determined as the earlier of the contractual repayment date or the option by the issuer to redeem the debt.

26. Maturity analysis continued

26.2 Non-financial assets and liabilities

	Note	Less than 12 months after reporting period Rm	More than 12 months after reporting period Rm	Total Rm
2018				
Other assets	9	**8 065**	**825**	**8 890**
Interest in associates and joint ventures	10		**10 376**	**10 376**
Investment property	11		**33 326**	**33 326**
Property and equipment	12	**894**	**18 300**	**19 194**
Goodwill and other intangible assets	13	**293**	**23 383**	**23 676**
Provisions and other liabilities	20	**13 965**	**10 932**	**24 897**
Current and deferred tax asset	14	*****	*****	**4 519**
Current and deferred tax liability	14	*****	*****	**(8 015)**
2017				
Other assets	9	15 019	1 792	16 811
Interest in associates and joint ventures	10		9 665	9 665
Investment property	11		32 226	32 226
Property and equipment	12	772	15 407	16 179
Goodwill and other intangible assets	13	242	23 087	23 329
Provisions and other liabilities	20	6 626	2 508	9 134
Current and deferred tax asset	14	*	*	2 109
Current and deferred tax liability	14	*	*	(8 614)

* Undated.

27. Interest

27.1 Interest income

	2018 Rm	2017 Rm
Effective interest rate interest income on:		
Loans and advances	**106 583**	102 485
Financial investments	**20 678**	18 130
Interest income on credit impaired financial assets	**922**	910
Fair value adjustment on debt financial instruments – IAS 39[1]		(50)
Dividends on dated securities – IAS 39[1]		2 672
Total interest income:	**128 183**	124 147
On items measured at amortised cost	**122 561**	122 535
Interest income on items measured at fair value through OCI	**5 622**	
Interest income on items measured at fair value through profit or loss – IAS 39		1 612

1 The group has, as permitted by IFRS 9, elected not to restate comparative financial statements. Therefore comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policy elections for more detail on the change in presentation as a result of IFRS 9 and the amendment to IAS 1 requiring interest income calculated using the effective interest rate to be separately presented in the income statement.

27. **Interest** continued

27.2 Interest expense

	2018 Rm	2017 Rm
Interest on deposits and debt funding	65 862	60 990
Interest on subordinated debt	2 699	3 032
Total	**68 561**	64 022
Interest expense on items measured at fair value through profit and loss[1]		739
Interest expense on items measured at amortised cost	68 561	63 283

[1] The group has, as permitted by IFRS 9, elected not to restate its comparative financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policy elections for more detail on the change in presentation as a result of IFRS 9 and the amendment to IAS 1 requiring interest income calculated using the effective interest rate to be separately presented in the income statement.

28. Fee and commission

28.1 Fee and commission revenue

	2018 Rm	2017 Rm
Account transaction fees	11 669	11 488
Card-based commission	6 760	6 535
Documentation and administration fees	2 273	2 197
Electronic banking fees	3 829	3 446
Foreign currency service fees	2 244	1 879
Insurance – fees and commission	1 904	1 945
Knowledge-based fees and commission	2 350	2 278
Other	5 563	4 522
Total	**36 592**	34 290

All fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss.

28.2 Fee and commission expense

	2018 Rm	2017 Rm
Account transaction fees	1 368	1 255
Card-based commission	2 378	2 163
Documentation and administration fees	222	218
Electronic banking fees	687	635
Insurance fees and commission	546	511
Customer loyalty expense[1]	624	463
Other	392	375
Total	**6 217**	5 620

[1] Refer to the accounting policy elections, transition and restatement on page 34 regarding the detail on the change in accounting presentation policy.

All fee and commission expense reported above relates to financial assets or liabilities not carried at fair value through profit and loss.

29. Trading revenue

	2018 Rm	2017 Rm
Commodities	**47**	62
Equities	**2 171**	1 626
Fixed income and currencies	**8 911**	9 043
Total	**11 129**	10 731

30. Other revenue

	2018 Rm	2017 Rm
Banking and other revenue	**1 030**	1 001
Insurance – bancassurance profit	**2 096**	1 805
Property-related revenue	**407**	367
Total	**3 533**	3 173

31. Other gains and losses on financial instruments[1]

	2018 Rm
Derecognition losses on financial assets measured at amortised cost	**(8)**
Fair value gains on debt financial assets measured at fair value through profit or loss – default	**256**
Realised fair value adjustments on debt financial assets measured at fair value through OCI	**57**
Fair value gains on financial instruments designated at fair value through profit or loss	**367**
Total	**672**

[1] The group has, as permitted by IFRS 9, elected not to restate its comparative financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policies for more detail on the change in presentation as a result of IFRS 9.

32. Insurance

32.1 Insurance premiums received

	2018 Rm	2017 Rm
Insurance premiums	**40 611**	39 970
Reinsurance premiums	**(2 090)**	(1 950)
Total	**38 521**	38 020

32.2 Insurance benefits and claims paid

	2018 Rm	2017 Rm
Claims and policyholders' benefits under insurance contracts	**39 504**	38 819
Insurance claims recovered from reinsurers	**(1 571)**	(1 800)
Net insurance claims and policyholders' benefits	**37 933**	37 019
Change in policyholder liabilities under insurance contracts	**(11 449)**	6 829
Insurance contracts	**(10 024)**	6 504
Policyholder assets related to insurance contracts	**776**	(170)
Investment contracts with DPF	**(1 607)**	521
Reinsurance assets	**(594)**	(26)
Total	**26 484**	43 848

33. Investment management and service fee income and gains

	2018 Rm	2017[1] Rm
Investment income	**3 533**	22 054
Interest income[2]		13 408
Dividends received		5 303
Listed shares		3 406
Unlisted instruments		1 831
Manufactured dividends on scrip lending		66
Scrip lending fees	**103**	
Rental income from investment property	**2 905**	2 671
Hotel operations' sales		532
Sundry income	**74**	
Adjustment to surplus recognised on defined benefit pension fund	**18**	
Other	**433**	140
Total investment management and service fee income and gains	**3 533**	22 054
Fair value adjustments		18 220
Financial instruments held at fair value through profit or loss		15 589
Financial instruments held for trading through profit or loss		(427)
Investment property		523
Mutual funds		2 563
Other		(28)
Management and service fee income		3 683
Total	**3 533**	43 957

1 The group has, as permitted by IFRS 9, elected not to restate comparative financial statements. Therefore, comparability will not be achieved by the fact that the current year financial information has been presented to reflect changes due to IFRS 9.

2 Interest of R13 362 million in 2017 relates to financial assets held at fair value through profit or loss and in the current year the interest relates to interest on financial assets held at amortised cost.

34. Fair value adjustments on assets and liabilities

	2018 Rm	2017[1] Rm
Fair value adjustments to long term policyholder liabilities under investment contracts	**1 273**	(9 116)
Fair value adjustments to third party mutual fund interests	**(2 407)**	(4 619)
Investment properties	**493**	
Financial assets at fair value through profit or loss (default)	**(209)**	
Financial instruments at fair value through profit or loss	**2 725**	
Financial instruments held for hedging and for trading	**(2 934)**	
Financial assets designated at fair value through profit or loss	**2 738**	
Fair value of financial liabilities	**(1 381)**	
Other	**56**	
Total	**563**	(13 735)

1 The group has, as permitted by IFRS 9, elected not to restate comparative financial statements. Therefore, comparability will not be achieved by the fact that the current year financial information has been presented to reflect changes due to IFRS 9.

35. Credit impairment charges

	2018 Rm	2017[1] Rm
Net credit impairments raised for loans and advances (note 7) – IAS 39		10 252
Net ECL raised – IFRS 9[1]:	7 515	
Financial investments (note 5)	101	
Loans and advances (note 7)	7 237	
Letters of credit and guarantees (note 20)	177	
Recoveries on loans and advances previously written off	(1 171)	(842)
Modification losses on distressed financial asset	145	
Total	6 489	9 410

1 The group has, as permitted by IFRS 9, elected not to restate its comparative financial statements. Therefore comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policies for more detail on the change in presentation of IIS on cures.

36. Operating expenses – banking and insurance

	2018 Rm	2017 Rm
Banking activities	60 084	57 049
Communication	1 117	1 105
Information technology	6 379	6 073
Marketing and advertising	1 954	1 967
Premises	4 052	3 994
Staff costs	33 776	31 672
Other[1]	12 806	12 238
Investment management and life insurance activities	16 404	17 800
Acquisition costs	4 413	4 935
Office costs	3 729	3 968
Staff costs	4 133	4 120
Other	4 129	4 777
Total	76 488	74 849
The following disclosable items are included in other operating expenses:		
Auditors' remuneration[2,3]	383	370
Audit fees[3]	360	316
Current year[3]	360	285
Other financial years[4]		31
Fees for other services[2,3]	23	54
Amortisation – intangible assets (note 13)	2 504	2 162
Depreciation (note 12)	2 858	2 769
Operating lease charges	2 286	2 207
Premises – other expenses	1 772	1 794
Professional fees	1 712	1 364

1 Refer to the accounting policy elections regarding the detail on the change in accounting policy for the customer loyalty programme expense.
2 All fees for services paid to the group's auditors were considered and approved by the group's audit committee in terms of non-audit services policy.
3 During 2017, auditors' remuneration for Liberty was erroneously excluded and as a result, auditors' remuneration and audit fees was disclosed as R313 million and R265 million respectively. This has been updated with R51 million and R6 million in the current year and fees and other services respectively. This had no impact on the group's primary statements as it was included in other operating expenses.
4 The amount for 2017 relates to IFRS 9 services rendered for the 2018 financial year.

AFS Refer to the report of the group audit committee chairman for further information.

37. Non-trading and capital related items

	2018 Rm	2017 Rm
Profit/(loss) on disposal of business	**47**	(18)
Impairment of associates	**(5)**	
Impairment of intangible assets	**(449)**	(447)
Impairment of non-current assets held for sale	**(249)**	
Profit/(loss) on sale of property and equipment	**15**	(10)
Realised foreign currency profit on disposal of foreign operations		214
Total	**(641)**	(261)

38. Direct and indirect taxation

38.1 Indirect taxation

	2018 Rm	2017 Rm
Value added tax (VAT)[1]	**1 722**	1 677
Other indirect taxes and levies	**887**	804
Total	**2 609**	2 481

[1] The group earns certain amounts of vat exempt income which result in these amounts of VAT input not being able to be claimed from the revenue authorities.

38.2 Direct taxation

	2018 Rm	2017 Rm
South African normal taxation	**9 672**	7 494
Current	**9 911**	7 691
Prior year	**(239)**	(197)
Deferred taxation	**(3 101)**	1 203
Current	**(3 113)**	1 299
Prior year	**12**	(96)
CGT, foreign normal and withholding tax	**164**	1 426
	6 735	10 123
Income tax recognised in OCI	**87**	80
Deferred tax recognised directly in equity	**(128)**	276
Deferred tax recognised directly in retained earnings – IFRS 9 transition adjustment	**2 401**	
Direct taxation per the income statement	**9 095**	10 479

38. Direct and indirect taxation continued

38.2 Direct taxation continued

Income tax recognised in OCI

The table below sets out the amount of income tax relating to each component within OCI:

	2018 Rm	2017 Rm
Items that may be subsequently reclassified to profit or loss		
Movements in the cash flow hedging reserve	**10**	(9)
Net change in fair value of cash flow hedges	**129**	(25)
Realised fair value adjustments of cash flow hedges transferred to profit or loss	**(119)**	16
Movements in the available-for-sale revaluation reserve – IAS 39		57
Net change in fair value		41
Realised fair value adjustments transferred to profit or loss		16
Movement in debt financial assets measured at fair value through OCI – IFRS 9	**(5)**	
Net change in fair value	**6**	
Realised fair value adjustments transferred to profit or loss	**(11)**	
Items that may not be subsequently reclassified to profit or loss		
Defined benefit fund adjustments	**30**	46
Change in own credit risk recognised on financial liabilities designated at fair value through profit or loss – IFRS 9	**21**	
Net change in fair value of equity financial investments measured at fair value through OCI – IFRS 9	**32**	
Other	**(1)**	(14)
Total	**87**	80

Tax rate reconciliation

	2018 %	2017 %
Direct taxation – statutory rate	**28.0**	28.0
Prior period tax	**(0.5)**	(0.7)
Direct taxation – current year	**27.5**	27.3
Capital gains tax	**(1.0)**	2.0
Foreign tax and withholding tax	**2.7**	2.9
Direct taxation – current year – normal	**29.2**	32.2
Permanent differences	**(7.4)**	(6.7)
Dividends received	**(3.6)**	(3.2)
Other non-taxable income – interest[1]	**(6.6)**	(6.1)
Assessed loss not subject to deferred tax[2]	**0.6**	1.0
Non-deductible expenses	**2.9**	2.0
Effects of profits taxed in different jurisdictions	**(0.7)**	(0.4)
Direct effective tax rate[3]	**21.8**	25.5

1 Relates to interest income earned from certain governments in Africa Regions which is exempt from tax.
2 The group's assessed losses result in an unrecognised deferred tax asset of R224 million (2017: R461 million).
3 Expressed as a percentage of profit before direct taxation.

39. Earnings per ordinary share

The calculations of basic earnings per ordinary share and diluted earnings per ordinary share are as follows:

	2018 Number of units ('000)	2017 Number of units ('000)
Earnings attributable to ordinary shareholders (Rm)	**27 453**	26 235
Weighted average number of ordinary shares in issue (number of shares)		
Weighted average number of ordinary shares in issue before adjustments	**1 618 700**	1 618 544
Adjusted for shares held pursuant to Tutuwa initiative[1]	**(4 178)**	(5 750)
Adjusted for deemed treasury shares held by entities within the group[2]	**(20 803)**	(10 939)
Weighted average number of ordinary shares in issue	**1 593 719**	1 601 855
Basic earnings per ordinary share (cents)	**1 722,6**	1 637,8
Diluted earnings per ordinary share		
Weighted average number of ordinary shares in issue	**1 593 719**	1 601 855
Adjusted for the following potential dilution:		
Share incentive schemes	**16 126**	20 066
Standard Bank GSIS[3]	**318**	377
Standard Bank EGS[4]	**2 302**	4 436
DBS	**6 716**	7 309
PRP	**3 680**	3 944
SARP	**34**	7
Tutuwa initiative[5]	**3 076**	3 993
Diluted weighted average number of ordinary shares in issue	**1 609 845**	1 621 921
Diluted earnings per ordinary share (cents)	**1 705,3**	1 617,5

1 The number of shares held by the Tutuwa participants are deducted as they are deemed not to be issued in terms of IFRS.
2 The number of shares held by entities within the group are deemed to be treasury shares for IFRS purposes.
3 696 115 (2017: 1 022 621) share options were outstanding at the end of the year in terms of the GSIS.
4 7 364 238 (2017: 10 722 081) rights outstanding at the end of the year in terms of the Standard Bank EGS. These units are convertible into 2 557 500 (2017: 9217 449) ordinary shares at year end.
5 Dilutive effect of shares held pursuant to Tutuwa initiative.

Dilutive impact of shares issued during the year

Deferred bonus scheme

5 834 741 (2017: 6 907 216) units were issued during the year to employees domiciled in South Africa. The dilutive impact of these units are included in the calculation of diluted earnings per ordinary share.

At the end of the reporting period, the group had 10 640 573 (2017: 10 429 261) units hedged, which results in 224 887 (2017: 530 097) dilutive shares being issued by the group and is included in the above dilutive earnings per ordinary share.

Performance reward plan

1 947 028 (2017: 2 207 100) units were issued during the year to employees domiciled in South Africa. The dilutive impact of these units are included in the calculation of diluted earnings per ordinary share.

At the end of the reporting period, the group had 5 151 149 (2017: 1 398 622) units hedged, which results in 253 762 (2017: 142 863) dilutive shares being issued by the group and is included in the above dilutive earnings per ordinary share.

Share appreciation rights scheme

675 339 (2017: 677 317) rights were issued during the year in terms of the Standard Bank SARP to employees domiciled in South Africa. The outstanding SARP units are convertible into 80 197 (2017: 137 464) ordinary shares. The dilutive impact of these units are included in the calculation of diluted earnings per ordinary share.

AFS | Refer to annexure D for further details on the group's share incentive schemes.

40. Headline earnings

	2018			
	Gross Rm	Direct tax Rm	Non-controlling interest and other equity instrument holders Rm	Profit attributable to ordinary shareholders Rm
2018				
Profit for the year	**41 738**	**(9 095)**	**(5 190)**	**27 453**
Headline adjustable items added/(reversed)	**641**	**(122)**	**(107)**	**412**
IAS 16 – Profit on sale of property and equipment	**(15)**	**2**	**3**	**(10)**
IAS 27/IAS 28 – Gain on disposal of business	**(47)**			**(47)**
IAS 28/IAS 36 – Impairment of associate	**5**	**(1)**		**4**
IAS 36 – Impairment of intangible assets	**449**	**(123)**		**326**
IFRS 5 – Impairment of non-current assets held for sale	**249**		**(110)**	**139**
Standard Bank Group headline earnings	**42 379**	**(9 217)**	**(5 297)**	**27 865**
2017				
Profit for the year	41 194	(10 479)	(4 480)	26 235
Headline adjustable items added	187	(94)	(58)	35
IAS 16 – Loss on sale of property and equipment	10	(4)	4	10
IAS 21 – Realised foreign currency profit on foreign operations	(214)			(214)
IAS 27/IAS 28 – Losses/(gains) on disposal of business	18			18
IAS 36 – Impairment of intangible assets	447	(106)	(62)	279
IAS 39 – Realised gains on available-for-sale assets[1]	(74)	16		(58)
Standard Bank Group headline earnings	41 381	(10 573)	(4 538)	26 270

[1] Headline Earnings Circular 4/2018 specifies that realised gains or losses on debt instruments measured at fair value through OCI, in terms of IFRS 9, are not excluded from headline earnings, therefore, from 1 January 2018, IAS 39 realised gains or losses on available for sale assets is not applicable.

	2018 Rm	2017 Rm
Headline earnings per ordinary share (cents)	**1 748,4**	1 640,0
Diluted headline earnings per ordinary share (cents)	**1 730,9**	1 619,7

41. Dividends

	2018 Rm	2017 Rm
Ordinary shares	**15 221**	13 599
Final 510 cents per share declared on 8 March 2018 (2017: 440 cents per share declared on 2 March 2017)	**8 263**	7 125
Interim 430 cents per share declared on 17 August 2018 (2017: 400 cents per share declared on 17 August 2017)	**6 958**	6 474
Second preference shares	**416**	429
Final 398.92 cents per share declared on 8 March 2018 (2017: 407,57 cents per share declared on 2 March 2017)	**211**	216
Interim 386,43 cents per share declared on 17 August 2018 (2017: 400,93 cents per share declared on 17 August 2017)	**205**	213
AT1 capital	**322**	165
31 December		
SBT 101	**41**	39
SBT 102	**42**	44
30 September		
SBT 101	**40**	41
SBT 102	**40**	
30 June		
SBT 101	**39**	41
SBT 102	**40**	
30 March		
SBT 101	**40**	
SBT 102	**40**	
Total	**15 959**	14 193

A final dividend no. 99 of 540 cents per ordinary share was declared on 7 March 2019, payable on 15 April 2019 to all shareholders registered on 12 April 2019, bringing the total dividends declared in respect of 2018 to 970 cents per share (2017: 910 cents per share).

6.5% first cumulative preference shares dividend no. 99 of 3,25 cents per share (2017: 3,25 cents) was declared on 7 March 2019, payable on 8 April 2019 to all shareholders registered on 5 April 2019.

Non-redeemable, non-cumulative, non-participating preference shares dividend no. 29 of 390.22 cents per share (2017: 398.92 cents), was declared on 7 March 2019, payable on 8 April 2019 to all shareholders registered on 5 April 2019.

The AT1 capital bonds have coupon rates of three-month JIBAR plus 565 basis points (SBT 101) and JIBAR plus 545 basis points (SBT 102), interest is payable quarterly. For more information on AT1 capital, refer to note 15.8.

42. Statement of cash flows notes

42.1 Adjustments for non-cash items and other adjustments included in the income statement

	2018 Rm	2017 Rm
Depreciation and amortisation	5 362	4 931
Credit impairment losses	6 489	9 410
Investment gains and policyholders' transfers	(12 306)	(3 423)
Net inflows/(outflows) from third party financial liabilities arising on consolidation of mutual funds	(3 934)	1 048
Interest expense	68 365	65 080
Interest income	(131 431)	(137 609)
Other[1]	(3 154)	(2 931)
Total	**(70 609)**	(63 494)

[1] Included are non-cash flow items disclosed in income/expenses from investment management and life insurance activities.

42.2 Increase in income-earning assets

	2018 Rm	2017 Rm
Net derivative assets	85	(5 237)
Trading assets	(17 062)	(33 605)
Pledged assets	2 023	(5 892)
Financial investments	(26 799)	(36 761)
Loans and advances	(47 224)	(14 516)
Other assets	3 640	(2 478)
Total	**(85 337)**	(98 489)

42.3 Increase in deposits, trading and other liabilities

	2018 Rm	2017 Rm
Deposit and debt funding	72 445	62 033
Trading liabilities	(2 704)	15 712
Provisions and other liabilities	9 061	(1 079)
Total	**78 802**	76 666

42.4 Reconciliation of subordinated debt

	2018 Rm	2017 Rm
Balance at the beginning of the year	**24 289**	25 997
IFRS 9 transition adjustment	108	
Subordinated debt issued	6 100	2 246
Subordinated debt redeemed	(4 550)	(4 180)
Exchange movements	232	(205)
Decrease in subordinated bonds issued to group companies	131	484
Other movements	49	(53)
Balance at the end of the year	**26 359**	24 289

AFS | Refer to note 19 for details on subordinated debt.

43. Related party transactions

43.1 Key management personnel

Key management personnel include: the members of the SBG board of directors and prescribed officers active for 2018 and 2017. Non-executive directors are included in the definition of key management personnel as required by IFRS. Prescribed officers are defined by the Companies Act. The board of directors is the same for the company and the group. The definition of key management includes the close family members of key management personnel and any entity over which key management exercises control or joint control. Close family members are those family members who may be expected to influence, or be influenced by, that person in their dealings with SBG. They may include the person's domestic partner and children, the children of the person's domestic partner, and dependants of the person or the person's domestic partner.

	2018 Rm	2017 Rm
Key management compensation		
Salaries and other short-term benefits paid	**101**	142
Post-employment benefits	**5**	5
IFRS 2 value of share options, rights and units expensed	**134**	132
Total	**240**	279
Loans and advances		
Loans outstanding at the beginning of the year	**12**	11
Change in key management structures	**2**	(1)
Net change in loans during the year	**8**	2
Loans outstanding at the end of the year	**22**	12
Interest income	**1**	1
Loans include mortgage loans, vehicle and asset finance and credit cards. No specific credit impairments have been recognised in respect of loans granted to key management in the current or prior year. The mortgage loans and vehicle and asset finance are secured by the underlying assets. All other loans are unsecured.		
Deposit and debt funding[1]		
Deposits outstanding at the beginning of the year	**80**	26
Change in key management structures	**57**	(4)
Net change in deposits during the year	**4**	58
Deposits outstanding at the end of the year	**141**	80
Net interest (expense)/income	**(5)**	(2)
Investment products[2]		
Balance at the beginning of the year	**431**	422
Change in key management structures	**2**	(15)
Net change in investments during the year	**2**	24
Balance at the end of the year	**435**	431
Third party funds under management		
Fund value at the beginning of the year	**224**	239
Change in key management structures		(64)
Net change in deposits during the year	**(2)**	49
Fund value at the end of the year	**222**	224
Net investment return	**(16)**	38
Financial consulting fees and commission		6
Shares and share options held[3]		
Shares beneficially owned (number)	**1 738 101**	1 578 046
Share options held (number)	**3 569 592**	3 288 492

1 Deposits and debt funding include cheque, current and savings accounts.
2 In 2017, investment products of R72 million by key management personnel were erroneously excluded from this disclosure; this consisted of a difference of R40 million in the opening balance and R32 million in relation to net changes in investments during the year. The comparatives have been restated accordingly.
3 Aggregate details of SBG shares and share options held by key management personnel.

43. Related party transactions continued

43.2 Balances and transactions with ICBCS

Transactions with ICBCS are made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other third parties. These transactions also did not involve more than the normal risk of collectability or present other unfavourable features. There were no credit impairments related to balances and transactions with ICBCS. The following significant balances and transactions were entered into between the group and ICBCS, an associate of the group:

Amounts included in the group's statement of financial position	2018 Rm	2017 Rm
Derivative assets	905	2 227
Trading assets	9	7
Loans and advances	28 726	31 413
Other assets	245	590
Derivative liabilities	(3 260)	(2 340)
Trading liabilities	(2 933)	
Deposits and debt funding	(282)	(1 050)
Other liabilities	(437)	(759)

Services

The group entered into certain transitional services level arrangements with ICBCS in order to manage the orderly separation of ICBCS from the group post the sale of 60% of SB Plc. In terms of these arrangements, services are delivered and received from ICBCS for the account of each respective party. As at 31 December 2018, the expense recognised in respect of these arrangements amounted to R229 million (2017: R277 million).

43.3 Balances and transactions with ICBC

The group has several business relationships with ICBC, a 20.1% shareholder of the group. Transactions with ICBC are made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other third parties. These transactions also did not involve more than the normal risk of collectability or present other unfavourable features. There were no credit impairments that related to balances and transactions with ICBC. The following significant balances and transactions were entered into between the group and ICBC, excluding those with ICBCS:

Amounts included in the group's statement of financial position	2018 Rm	2017 Rm
Loans and advances	15 539	2 939
Other assets[1]	345	611
Deposits and debt funding	(3 724)	(91)

[1] The group recognised losses in respect of certain commodity reverse repurchase agreements with third parties prior to the date of conclusion of the sale and purchase agreement, relating to SB Plc (now ICBCS) with ICBC. As a consequence of the sale and purchase agreement, the group holds the right to 60% of insurance and other recoveries, net of costs, relating to claims for those recognised losses prior to the date of conclusion of the transaction. Settlement of these amounts will occur based on audited information on pre-agreed anniversaries of the completion of the transaction and the full and final settlement of all claims in respect of losses incurred. As at 31 December 2018, a balance of USD24 million (R345 million) is receivable from ICBC in respect of this arrangement (2017: USD50 million; R611 million).

The group has off-balance sheet letters of credit exposure issued to ICBC as at 31 December 2018 of R1 952 million (2017: R766 million). The group received R63 million in fee and commission income relating to these transactions (2017: R8 million).

43. Related party transactions continued

43.4 Mutual funds

The group invests in various mutual funds that are managed by Liberty. Where the group has assessed that it has control (as defined by IFRS) over these mutual funds, it accounts for these mutual funds as subsidiaries. Where the group has assessed that it does not have control over these mutual funds, but has significant influence, it accounts for them as associates. The following significant balances and transactions were entered into between the group and the mutual funds which the group does not control:

	2018 Rm	2017 Rm
Trading liabilities	**(592)**	(275)
Deposits and debt funding	**(24 896)**	(15 706)
Trading (losses)/gains	**(26)**	(101)
Interest expense	**(2 689)**	(695)

43.5 Post-employment benefit plans

Details of balances with SBG and transactions between SBG and the group's post-employment benefit plans are listed below:

Amounts included in the group's statement of financial position and income statement	**2018 Rm**	2017 Rm
Fee and commission revenue	**22**	11
Deposits and debt funding	**(981)**	(296)
Interest expense	**(50)**	(164)
Financial investments held in bonds and money market	**778**	1 089

In addition to the above:

- the group manages R8 754 million (2017: R11 864 million) of the post-employment benefit plans' assets
- the post-employment benefit plans hold SBG ordinary shares to the value of R2 969 million (2017: R2 157 million).

44. Pensions and other post-employment benefits

	2018 Rm	2017 Rm
Amount recognised as assets in the statement of financial position (note 9)		
Banking activities		
Retirement funds (note 44.1)	**765**	901
Other retirement funds (note 44.1)	**30**	
Investment management and life insurance activities		
Retirement funds (note 44.1)	**203**	171
Total	**998**	1 072
Amounts recognised as liabilities in the statement of financial position (note 20)		
Banking activities		
Retirement funds (note 44.1)		21
Post-employment healthcare benefits – other funds (note 44.2)	**766**	737
Investment management and life insurance activities		
Post-employment healthcare benefits (note 44.2)	**471**	495
Total	**1 237**	1 253

The total amount recognised as an expense for the defined contribution plans operated by the group amounted to R593 million (2017: R1 063 million).

44. Pensions and other post-employment benefits continued

44.1 Retirement funds

Standard Bank retirement funds

Membership of the principal fund, the Standard Bank Group Retirement Fund (SBGRF), comprises in excess of 95% of SBSA's permanent staff. The fund, one of the 10 largest in South Africa, is governed by the Pension Funds Act 24 of 1956 (Pension Funds Act). Member-elected trustees represent 50% of the trustee board. The assets of the fund are held independently.

SBGRF is regulated by the Pension Funds Act, as well as the Financial Services Board.

The fund is subject to a statutory financial review by actuaries at an interval of not more than three years. A full actuarial valuation was performed during the 2018 financial year and, in the opinion of the actuary, the fund was considered to be financially sound. The next actuarial valuation is to be performed on 31 December 2019.

From 1 January 1995, new employees became entitled to defined contribution benefits only. Employees who were members of the fund on 31 December 1994, were entitled to guaranteed benefits under the old rules of the defined benefit fund. Given the defined benefit nature of the guaranteed benefits, the entire plan is classified as a defined benefit plan and accounted for as such. A specific liability was recognised within the fund to provide for the guaranteed defined benefits.

On 1 November 2009, the fund introduced individual member investment choice for defined contribution members and the pre-1995 members could choose to give up their guaranteed defined benefits and instead accept an offer of a 10% enhancement to their actuarial reserve values. Over 90% of the pre-1995 defined benefit members accepted the offer and converted to defined contribution plans. The assets and liabilities of the Provider Fund were transferred by way of a Section 14 transfer in terms of the Pension Funds Act, 1956 as amended into the SBGRF.

The majority of employees in South Africa who are not members of the SBGRF are members of two other funds designed for their occupational groups. Employees in territories beyond South African jurisdiction are members of either defined contribution or defined benefit plans governed by legislation in their respective countries.

Liberty retirement funds

The Liberty defined benefit pension scheme closed to new employees from 1 March 2001 and with effect from this date, the majority of employees accepted an offer to convert their retirement plans from defined benefit to defined contribution plans. Employees joining after 1 March 2001 automatically become members of the defined contribution schemes. The ACA and Rentmeester defined benefit pension funds are all fully funded. All funds are governed by the Pension Funds Act.

Description of risks

Post-retirement obligation risk is the risk to the group's comprehensive income that arises from the requirement to contribute as an employer to an under-funded defined benefit plan. The group operates both defined contribution plans and defined benefit plans, with the majority of its employees participating in defined contribution plans. The defined benefit pension and healthcare schemes for past and certain current employees, create post-retirement obligations. The group mitigates these risks through independent asset managers and independent asset and liability management advisors for material funds. Potential residual risks which may impact the group are managed within the group asset and liability management process.

44. Pensions and other post-employment benefits continued

44.1 Retirement funds continued

	2018 Rm	2017 Rm
The amounts recognised in the statement of financial position in respect of the retirement funds are determined as follows:		
Present value of funded obligations	(34 206)	(35 438)
Fair value of plan assets	35 235	36 553
Surplus	1 029	1 115
Asset ceiling	(31)	(64)
Included in the statement of financial position	998	1 051
SBGRF	765	901
Liberty retirement funds	203	171
Other retirement funds	30	(21)
Included in:	998	1 051
Other assets (note 9)	998	1 072
Other liabilities (note 20)		(21)
Movement in the present value of funded obligations		
Balance at the beginning of the year	35 438	33 456
Current service cost	1 060	1 016
Interest cost	3 174	3 277
Employee contributions	841	798
Actuarial (gain)/loss	(3 765)	705
Exchange loss/(gain)	69	(3)
Benefits paid	(2 611)	(3 811)
Balance at the end of the year	34 206	35 438
Movement in the fair value of plan assets		
Balance at the beginning of the year	36 553	34 879
Interest income	3 259	3 378
Contributions received	1 733	1 648
Net return on assets	(3 763)	458
Exchange gain	64	1
Benefits paid	(2 611)	(3 811)
Balance at the end of the year	35 235	36 553
Cash	711	1 244
Equities	14 796	15 722
Bonds	10 407	10 189
Property and other	9 321	9 398

Plan assets do not include property occupied by the group.

The group expects to pay R1 294 million in contributions to the Standard Bank retirement funds in 2019 (2018: R887 million).

44. Pensions and other post-employment benefits continued

44.1 Retirement funds continued

	2018 Rm	2017 Rm
The amounts recognised in profit or loss are determined as follows:		
Current service cost	1 060	1 016
Net interest costs	(85)	(101)
Included in staff costs	975	915
The expected long-term rate of return is based on the expected long-term returns on equities, cash and bonds. The split between the individual asset categories is considered in setting these assumptions. Adjustments were made to reflect the effect of expenses.		
Components of statement of other OCI		
Actuarial (loss)/gain under asset management	(3 763)	458
Actuarial gain/(loss)	3 765	(705)
Gain from changes in financial assumptions	2 805	621
Gain/(loss) from changes in experience adjustments	960	(1 326)
Asset ceiling	33	(66)
Remeasurements recognised in OCI	35	(313)
Reconciliation of net defined benefit asset		
Net defined benefit asset at the beginning of the year	1 051	1 425
Net expense recognised	(975)	(915)
Amounts recognised in OCI	35	(313)
Company contributions	892	850
Exchange (loss)/gain	(5)	4
Net defined benefit asset at the end of the year	998	1 051

44.2 Post-employment healthcare benefits

The group provides the following post-employment healthcare benefits to its employees:

Standard Bank

The largest portion of this liability represents a South African post-employment healthcare benefit scheme that covers all employees who went on retirement before 1 March 2000. The liability is unfunded and is valued every year using the projected unit credit method. The latest full actuarial valuation was performed at 31 December 2015. The next actuarial valuation is to be performed on 31 December 2019.

Liberty

Liberty operates an unfunded post-employment medical aid benefit for employees who joined before 1 July 1998. For past service of employees, Liberty recognises and provides for the actuarially determined present value of post-employment medical aid employer contributions on an accrual basis using the projected unit credit method.

	2018 Rm	2017 Rm
The amounts recognised in the statement of financial position in respect of post-employment healthcare benefits are determined as follows:		
Present value of unfunded defined benefit obligations	1 237	1 232
Included in the statement of financial position	1 237	1 232
Standard Bank	766	737
Liberty	471	495
Movement in the present value of defined benefit obligations		
Balance at beginning of the year	1 232	1 269
Net expense recognised	126	134
Benefits paid	(91)	(80)
Amounts recognised in OCI	(33)	(91)
Foreign exchange movements	3	
Balance at end of the year	1 237	1 232

44. Pensions and other post-employment benefits continued

44.2 Post-employment healthcare benefits continued

	2018 Rm	2017 Rm
The amounts recognised in profit or loss are determined as follows:		
Current service cost	**57**	57
Net interest cost	**69**	77
Included in staff costs	**126**	134
Components of statement of other comprehensive income		
Actuarial gains arising from changes in financial assumptions	**(78)**	(82)
Actuarial gains arising from experience adjustments	**45**	(9)
Remeasurements recognised in OCI	**(33)**	(91)

Assumed medical inflation rates have a significant effect on the amounts recognised in profit or loss. A one percentage point change in the medical inflation rate would have the following effects on the amounts recognised:

	2018		2017	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Effect on the aggregate of the current service cost and interest cost	**7**	**(5)**	7	(6)
Effect on the defined benefit obligation	**61**	**(53)**	62	(53)

45. Post reporting date events

During February 2019, RBZ announced that RTGS dollars will replace USD as the new base currency of the country. A new foreign interbank market was also established and this interbank market will complement the existing official foreign exchange mechanism with the RBZ. The establishment of this interbank market has created an additional legal exchange mechanism whereby the bank is able to trade RTGS dollars. While the RBZ has not yet indicated which exchange mechanism can be utilised for dividend repatriation, the 2.5 RTGS:USD exchange rate which has emerged from this interbank exchange market at the end of February 2019 can be utilised to estimate the financial impact. The group has estimated a decrease of R746 million on the foreign currency translation reserve, relating to this development by applying the 2.5 RTGS:USD exchange rate to the 31 December 2018 SBZ balance sheet position. The estimated impact analysis has been summarised below:

Statement of financial position line item	Impact of change Rm
Cash and balances with central banks	**(6 035)**
Financial investments	**(2 840)**
Loans and advances	**(4 623)**
Other financial and non-financial assets	**(121)**
Total assets	**(13 619)**
Deposits and debt funding	**(12 207)**
Other financial and non-financial liabilities	**(666)**
Total liabilities	**(12 873)**
Reserves – foreign currency translation reserve	**(746)**

46. Segment reporting

46.1 Operating segment

BUSINESS UNITS AND WHAT WE OFFER

Personal & Business Banking

Banking and other financial services to individual customers and small to medium-sized enterprises in South Africa, the Africa Regions and the Channel Islands. We enable customers to take control of all their financial aspects such as transacting, saving, borrowing or planning by making use of the following product sets either through face to face interaction or digitally according to their preference

Transactional products
Comprehensive suite of transactional, saving, investment, trade, foreign exchange, payment and liquidity management solutions made accessible through a range of physical and electronic channels

Mortgage lending
Residential accommodation loans mainly to personal market customers

Card products
- Credit card facilities to individuals and businesses (credit card issuing)
- Merchant transaction acquiring services (merchant solutions)

Vehicle and asset finance
- Finance of vehicles for retail market customers
- Finance of vehicles and equipment in the business and corporate assets market
- Fleet solutions

Lending products
- Lending products offered to both personal and business markets
- Business lending offerings constitute a comprehensive suite of lending product offerings, structured working capital finance solutions, commercial property finance solutions and trade finance

Wealth
- Short- and long-term insurance products comprising:
  - simple products, including loan protection plans sold in conjunction with related banking products, homeowners' insurance, funeral cover, household contents and vehicle insurance
  - complex insurance products including life, disability and investment policies sold by qualified intermediaries
- Financial planning and modelling
- Integrated fiduciary services including fiduciary advice, will drafting and custody services as well as trust and estates administration
- Tailored banking, wealth management, investment and advisory services solutions for high net worth individuals
- Offshore financial services in high net worth, mass-affluent and corporate clients of the group
- Investment services, including global asset management

Corporate & Investment Banking

Corporate and investment banking services to clients including governments, parastatals, larger corporates, financial institutions and multinational corporates

Client coverage
Provide in-depth sector expertise to develop relevant client solutions and foster client relationships

Global markets
Trading and risk management solutions across financial markets, including foreign exchange, money markets, interest rates, equities, credit and commodities

Transactional products and services
Comprehensive suite of cash management, international trade finance, working capital and investor service solutions

Investment banking
Full suite of advisory and financing solutions, from term lending to structured and specialised products across the equity and debt capital markets

BUSINESS UNITS AND WHAT WE OFFER

Central and other

- Includes the impact of the Tutuwa initiative, group hedging activities, group capital instruments, group surplus capital and strategic acquisitions
- Includes the costs of centralised corporate functions, with the direct costs of corporate functions recharged to the business segments

Other banking interests

Equity investments held in terms of strategic partnership agreements with ICBC, including:

- ICBC Standard Bank Plc (40% associate)
- ICBC Argentina (20% associate)

Liberty
Investment management and life insurance activities of the group companies in the Liberty Holdings Group

SA Retail
Insurance and investment solutions to individual mass-affluent and affluent consumers, mainly in South Africa

Business development
Insurance and investment solutions to corporate customers and retirement funds across sub-Saharan Africa

Asset management
Asset management capabilities to manage investment assets on the African continent

46. Segment reporting continued

46.1 Income statement operating segments continued

	Personal & Business Banking		Corporate & Investment Banking	
	2018 Rm	2017[1] Rm	2018 Rm	2017[1] Rm
Income from banking activities	**69 807**	67 708	**36 981**	36 770
Net interest income	**41 754**	40 963	**19 190**	20 434
Interest income	**77 797**	75 609	**69 283**	64 257
Interest expense	**(36 043)**	(34 646)	**(50 093)**	(43 823)
Other interest				
Net fee and commission revenue	**25 020**	23 698	**5 688**	5 437
Fee and commission revenue	**30 611**	28 729	**6 170**	5 878
Fee and commission expense[2]	**(5 591)**	(5 031)	**(482)**	(441)
Trading revenue	**174**	402	**10 880**	10 548
Other revenue	**2 867**	2 645	**573**	351
Other gains and losses on financial instruments	**(8)**		**650**	
Income from investment management and life insurance activities				
Insurance premiums received				
Insurance benefits and claims paid				
Investment management and service fee income and gains				
Fair value adjustments to investment management liabilities and third party fund interests				
Total income/(loss)	**69 807**	67 708	**36 981**	36 770
Credit Impairment charges	**(5 440)**	(7 785)	**(1 049)**	(1 625)
Net income/(loss) before operating expenses	**64 367**	59 923	**35 932**	35 145
Operating expenses in banking operations[2]	**(42 269)**	(39 972)	**(19 979)**	(19 080)
Operating expenses in life insurance operations				
Net income/(loss) before capital items and equity accounted earnings	**22 098**	19 951	**15 953**	16 065
Non-trading and capital related items	**(22)**	(132)	**(385)**	(78)
Share of post tax profit/(loss) from associates	**325**	241	**102**	182
Net income/(loss) before indirect taxation	**22 401**	20 060	**15 670**	16 169
Indirect taxation	**(643)**	(590)	**(282)**	(237)
Profit/(loss) before direct taxation	**21 758**	19 470	**15 388**	15 932
Direct taxation	**(5 535)**	(5 211)	**(2 240)**	(2 454)
Profit/(loss) for the year	**16 223**	14 259	**13 148**	13 478
Attributable to ordinary shareholders	**15 539**	14 023	**10 900**	11 363
Attributable to other equity instrument holders	**142**	83	**144**	76
Attributable to non-controlling interests	**542**	153	**2 104**	2 039
Headline earnings	**15 548**	14 103	**11 177**	11 392
Return on equity (ROE) (%)	**21.9**	20.0	**19.3**	22.0
Net interest margin (%)	**5.99**	6.16	**2.87**	2.99
Credit loss ratio (%)	**0.81**	1.20	**0.16**	0.34
Cost-to-income ratio (%)	**60.6**	59.0	**54.0**	51.9
Number of employees	**27 470**	28 074	**3 755**	3 811

1 Where reporting responsibility for individual cost centres and divisions within business units changes, the segmental analysis' comparative figures are reclassified accordingly.
2 Refer to the accounting policy elections regarding the detail on the change in accounting policy for the customer loyalty programme expense.

Central and other		Banking activities		Other banking interests		Liberty		Standard Bank Group	
2018 Rm	2017[1] Rm	**2018 Rm**	2017[1] Rm	**2018 Rm**	2017 Rm	**2018 Rm**	2017 Rm	**2018 Rm**	2017 Rm
(1 457)	(1 779)	**105 331**	102 699					**105 331**	102 699
(1 322)	(1 272)	**59 622**	60 125					**59 622**	60 125
(18 897)	(15 719)	**128 183**	124 147					**128 183**	124 147
17 575	14 447	**(68 561)**	(64 022)					**(68 561)**	(64 022)
(333)	(465)	**30 375**	28 670					**30 375**	28 670
(189)	(317)	**36 592**	34 290					**36 592**	34 290
(144)	(148)	**(6 217)**	(5 620)					**(6 217)**	(5 620)
75	(219)	**11 129**	10 731					**11 129**	10 731
93	177	**3 533**	3 173					**3 533**	3 173
30		**672**						**672**	
						21 722	24 394	**21 722**	24 394
						38 521	38 020	**38 521**	38 020
						(26 484)	(43 848)	**(26 484)**	(43 848)
						9 122	43 957	**9 122**	43 957
						563	(13 735)	**563**	(13 735)
(1 457)	(1 779)	**105 331**	102 699			**21 722**	24 394	**127 053**	127 093
		(6 489)	(9 410)					**(6 489)**	(9 410)
(1 457)	(1 779)	**98 842**	93 289			**21 722**	24 394	**120 564**	117 683
2 164	2 003	**(60 084)**	(57 049)					**(60 084)**	(57 049)
						(16 404)	(17 800)	**(16 404)**	(17 800)
707	224	**38 758**	36 240			**5 318**	6 594	**44 076**	42 834
15	113	**(392)**	(97)			**(249)**	(164)	**(641)**	(261)
4	1	**431**	424	**418**	600	**63**	78	**912**	1 102
726	338	**38 797**	36 567	**418**	600	**5 132**	6 508	**44 347**	43 675
(1 098)	(1 022)	**(2 023)**	(1 849)			**(586)**	(632)	**(2 609)**	(2 481)
(372)	(684)	**36 774**	34 718	**418**	600	**4 546**	5 876	**41 738**	41 194
(48)	21	**(7 823)**	(7 644)			**(1 272)**	(2 835)	**(9 095)**	(10 479)
(420)	(663)	**28 951**	27 074	**418**	600	**3 274**	3 041	**32 643**	30 715
(865)	(1 112)	**25 574**	24 274	**418**	600	**1 461**	1 361	**27 453**	26 235
452	435	**738**	594					**738**	594
(7)	14	**2 639**	2 206			**1 813**	1 680	**4 452**	3 886
(878)	(1 227)	**25 847**	24 268	**418**	567	**1 600**	1 435	**27 865**	26 270
(10.7)	(10.1)	**18.8**	18.0	**5.6**	7.3	**15.2**	12.7	**18.0**	17.1
		4.58	4.74						
		0.56	0.87						
		57.0	55.5						
16 194	16 437	**47 419**	48 322			**5 759**	6 236	**53 178**	54 558

46. Segment reporting continued

46.2 Geographic information

	South Africa Rm	Africa Regions Rm	International Rm	Eliminations[1] Rm	Standard Bank Group Rm
2018					
Total income[2]	**87 015**	**37 722**	**3 578**	**(1 262)**	**127 053**
Banking activities	**68 653**	**34 362**	**3 578**	**(1 262)**	**105 331**
Liberty	**18 362**	**3 360**			**21 722**
Total headline earnings	**19 227**	**7 055**	**1 712**	**(129)**	**27 865**
Banking activities	**17 271**	**7 411**	**1 294**	**(129)**	**25 847**
Other banking interests			**418**		**418**
Liberty	**1 956**	**(356)**			**1 600**
Total assets	**1 799 090**	**414 046**	**112 545**	**(198 719)**	**2 126 962**
Banking activities	**1 391 942**	**406 419**	**104 693**	**(198 719)**	**1 704 335**
Other banking interests			**7 852**		**7 852**
Liberty	**407 148**	**7 627**			**414 775**
Non-current assets[3]	**62 869**	**13 277**	**78**	**(28)**	**76 196**
Banking activities	**26 946**	**12 519**	**78**	**(28)**	**39 515**
Liberty	**35 923**	**758**			**36 681**
2017[4]					
Total income[2]	90 635	35 655	2 824	(1 558)	127 556
Banking activities	69 681	32 215	2 824	(1 558)	103 162
Liberty	20 954	3 440			24 394
Total headline earnings	19 056	5 983	1 355	(124)	26 270
Banking activities	17 300	6 304	788	(124)	24 268
Other banking interests			567		567
Liberty	1 756	(321)			1 435
Total assets	1 692 272	316 402	99 940	(80 686)	2 027 928
Banking activities	1 276 174	310 033	92 447	(80 686)	1 597 968
Other banking interests			7 493		7 493
Liberty	416 098	6 369			422 467
Non-current assets[3]	60 212	11 551	51	(80)	71 734
Banking activities	25 680	10 986	51	(80)	36 637
Liberty	34 532	565			35 097

1 Eliminations include intersegmental transactions and balances as well as central funding and other.
2 Total income is attributable based on where the operations are located.
3 Non-current assets are assets that are expected to be recovered more than 12 months after the reporting period.
4 Where reporting responsibility for individual cost centres and divisions within business units changes, the segmental analysis' comparative figures are reclassified accordingly.

Standard Bank Group Limited – company annual financial statements

Statement of financial position

as at 31 December 2018

	Note	COMPANY 2018 Rm	COMPANY 2017 Rm
Assets			
Financial investments	47	84	98
Other assets		170	170
Interest in subsidiaries	48	80 941	74 267
Interest in associates	49	1 065	913
Current tax asset		12	14
Total assets		82 272	75 462
Equity and liabilities			
Equity		76 537	74 771
Share capital and premium	15	17 860	18 063
Equity attributable to other equity instrument holders	15	9 047	9 047
Reserves		49 630	47 661
Liabilities		5 735	691
Deferred tax liabilities	50	2	5
Subordinated debt	51	5 057	
Indebtedness by the company to group subsidiaries	48	619	632
Other liabilities		57	54
Total equity and liabilities		82 272	75 462

Statement of comprehensive income

for the year ended 31 December 2018

	Note	COMPANY 2018 Rm	COMPANY 2017 Rm
Interest income		**350**	41
Interest expense		**(286)**	(1)
Other income/(losses)	52	**20**	(9)
Dividends from subsidiaries		**17 751**	16 980
Total income		**17 835**	17 011
Operating expenses		**(33)**	(20)
Net income before impairments of investment		**17 802**	16 991
Impairment of investment in subsidiaries	48	**(24)**	
Net income before equity accounted earnings		**17 778**	16 991
Share of profits from associates and joint ventures		**289**	213
Profit before direct taxation		**18 067**	17 204
Direct taxation	53	**(210)**	(117)
Profit for the year		**17 857**	17 087
Other comprehensive loss after tax for the year		**(32)**	(13)
Net change in fair value of equity financial assets measured at fair value	47	**(41)**	(18)
Deferred tax on net fair value adjustment on equity financial assets measured at fair value through OCI	50	**9**	5
Total comprehensive income		**17 825**	17 074

Statement of cash flows

for the year ended 31 December 2018

	Note	COMPANY 2018 Rm	2017 Rm
Net cash flows from operating activities		**17 780**	16 994
Profit before direct taxation		**18 067**	17 204
Adjusted for non-cash items and other adjustments included in the income statement	54.1	**(18 099)**	(17 219)
Decrease in income-earning assets		**14**	18
Increase in deposits, trading and other liabilities		**3**	2
Interest received		**350**	41
Interest expense		**(286)**	(1)
Dividends received		**17 751**	16 980
Taxation paid		**(20)**	(31)
Net cash flows used in investing activities		**(6 675)**	(6 447)
Increase in investment in subsidiaries	54.2	**(6 675)**	(6 447)
Net cash flows used in financing activities		**(11 105)**	(10 547)
Proceeds from issue of share capital		**320**	409
Share buy-backs		**(523)**	(306)
Issuance of subordinated debt	54.3	**5 057**	3 544
Dividends paid		**(15 959)**	(14 194)
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year			
Cash and cash equivalents at end of the year			

Statement of changes in equity

for the year ended 31 December 2018

	Note	Share capital and premium Rm	Share based payment reserve Rm	Revaluation reserve Rm
Balance at 1 January 2017		17 960	11	3 100
Issue of share capital and share premium	15	409		
Repurchase of share capital and share premium	15	(306)		
Equity-settled share-based payment transactions			2	
Vested units transfer to retained earnings			(9)	
Total comprehensive income				
Other comprehensive income				
Profit for the year				
Dividends paid				
Balance at 31 December 2017		18 063	4	3 100
Balance at 1 January 2018		**18 063**	**4**	**3 100**
IFRS 9 transition adjustment				
1 January 2018 (restated)		**18 063**	**4**	**3 100**
Issue of share capital and share premium	15	**320**		
Repurchase of share capital and share premium	15	**(523)**		
Vested units transfer to retained earnings			**(4)**	
Total comprehensive income				
Other comprehensive income				
Profit for the year				
Dividends paid				
Preference share redemption				
Balance at 31 December 2018		**17 860**		**3 100**

Cash flow hedging reserve Rm	Empower-ment reserve Rm	Available-for-sale reserve Rm	Fair value through OCI reserve Rm	Retained earnings Rm	Ordinary share-holders' equity Rm	Other equity instrument holders Rm	Total Rm
969	(274)	4		40 969	62 739	5 503	68 242
					409	3 544	3 953
					(306)		(306)
					2		2
				9			
		(13)		16 493	16 480	594	17 074
		(13)			(13)		(13)
				16 493	16 493	594	17 087
				(13 599)	(13 599)	(594)	(14 193)
969	(274)	(9)		43 872	65 725	9 047	74 772
969	**(274)**	**(9)**		**43 872**	**65 725**	**9 047**	**74 772**
		9	**(9)**	**(24)**	**(24)**		**(24)**
969	**(274)**		**(9)**	**43 848**	**65 701**	**9 047**	**74 748**
					320		**320**
					(523)		**(523)**
				4			
			(32)	**17 119**	**17 087**	**738**	**17 825**
			(32)		**(32)**		**(32)**
				17 119	**17 119**	**738**	**17 857**
	8			**(15 221)**	**(15 213)**	**(738)**	**(15 951)**
	118				**118**		**118**
969	**(148)**		**(41)**	**45 750**	**67 490**	**9 047**	**76 537**

Notes to the company annual financial statements

47. Financial investments

	2018 Rm	2017[1] Rm
Financial investments held in banking activities – unlisted equities	84	98

	2018 Rm	2017 Rm
Financial investment measured at fair value through OCI		
Opening balance	98	116
Fair value adjustments	(41)	(18)
Closing balance	57	98
Financial investment measured at fair value through profit or loss		
Fair value adjustments	27	
Closing balance	27	
Total	84	98

[1] The Ünlü Yatarim A.S. investment was classified as available for sale in terms of IAS 39.

Financial investments comprise unlisted equities in Ünlü Yatarim A.S. (4.41%) measured at FVOCI and Business Partners Limited (3.24%) measured at FVTPL. Both investments are classified as level 3 in the fair value hierachy.

48. Interest in subsidiaries

	2018 Rm	2017 Rm
Shares at cost	73 150	71 443
Indebtedness to the company (annexure A)	6 875	1 913
Investment through equity-settled share incentives	916	911
	80 941	74 267
Indebtedness by the company (annexure A)	(619)	(632)
Total	80 322	73 635

AFS | Principal subsidiaries and investments and related loans are listed in annexure A.
For more detail regarding related party transactions, refer to note 43.

Indebtedness to the company are all current assets and have been classified as loans and advances which are measured on an amortised cost basis. These lending exposures are to entities that form part of the group's risk management framework. This is on the basis that the group has governance and oversight of the risk inherent in these entities and ensures that entities operate within the group's risk appetite as approved by the group risk & capital management committee (GRCMC). The ECL has been assessed to be insignificant.

The carrying value approximates fair value and is classified as level 3 in the fair value hierarchy. Changes in the indebtedness during the year include repayments, new loans, interest accruals and exchange rate differences.

Indebtedness by the company are all liabilities repayable on demand and are measured at amortised cost. The carrying value approximates fair value and is classified as level 3 in the fair value hierarchy. Changes in the indebtedness during the year include repayments, new loans, interest accruals and exchange rate differences.

The company's investments in subsidiaries (measured at cost) are reviewed annually for impairment with reference to impairment indicators that include the following:

- dividends declared by subsidiaries in excess of the subsidiaries' total comprehensive income earned in the reporting period.
- the carrying value of the investment exceeds the subsidiary's net asset value of the subsidiary, including any associated goodwill.

When impairment indicators exist the recoverable amount of the company's investment in the subsidiary is determined (as the higher of the value in use and fair value less cost to sell). An impairment loss is recognised in profit or loss if the carrying value exceeds the recoverable amount.

During 2018, R24 million (2017: Rnil) impairment losses were recognised on the company's investment in SML Limited. The events and circumstances that led to the recognition of the impairment was that the recoverable amount (being the value in use) of the entity was less than the carrying value.

49. Interest in associates

	2018 Rm	2017 Rm
Carrying value at beginning of the year	**913**	787
IFRS 9 transition adjustment	**(24)**	
Share of profit	**289**	213
Dividend received	**(113)**	(87)
Carrying value at end of the year	**1 065**	913

The company's investments in associates include South African Home Loans Proprietary Limited.

AFS | Refer to annexure B for details on associates.

50. Deferred tax liabilities

	2018 Rm	2017 Rm
Deferred tax reconciliation		
Deferred tax liability at the beginning of the year	**(5)**	(10)
Add: temporary difference for the year	**3**	5
Deferred tax on equity financial asset reserve recognised in OCI	**9**	5
Fair value adjustment – recognised in profit or loss	**(6)**	
Deferred tax liability at end of the year	**(2)**	(5)

51. Subordinated debt

	Redeemable/payable date	First callable date	Nominal value[1] Million	Carrying value[1] 2018 Rm
SBT201	13 February 2028	13 February 2023	ZAR3 000	**3 041**
SBT202	03 December 2028	03 December 2023	ZAR1 516	**1 528**
SBT203	03 December 2028	03 December 2023	ZAR 484	**488**
Total				**5 057**

[1] The difference between the carrying amount and nominal value represents accrued interest.

Subordinated debt are measured on an amortised cost basis and are classified as level 2 in the fair value hierachy, with a fair value of R5.528 billion.

51.1 Maturity analysis

	Within one to five years[1] 2018 Rm
Subordinated debt – discounted	**5 057**

[1] The maturity analysis for subordinated debt has been determined as the earlier of the contractual repayment date or the option by the issuer to redeem the debt

52. Other income/(losses)

	2018 Rm	2017 Rm
Foreign exchange gains	1	
Unrealised gains on financial instruments	27	
Other	(8)	(9)
Total	20	(9)

53. Direct taxation

	2018 Rm	2017 Rm
Current year		
South African normal tax	147	82
Deferred tax charge	6	
Foreign and withholding taxes	55	16
Prior years		
South African normal tax prior year under provision	2	19
Total direct taxation recognised in statement of comprehensive income	210	117
South African tax rate reconciliation (%)		
Direct tax – statutory rate	28.0	28.0
Prior year tax	0	0.1
Direct tax – current year	28	28.1
Withholding tax	0.3	0.1
Direct tax – current year – normal	28.3	28.2
Permanent differences	(27.1)	(27.5)
Impairment of investment	0.1	
Dividends received	(26.8)	(27.2)
Equity accounted earnings	(0.4)	(0.3)
Direct effective tax rate[1]	1.2	0.7

[1] Expressed as a percentage of profit before direct tax.

54. Statement of cash flows notes

54.1 Adjustment for non-cash items and other adjustments included in the income statement

	2018 Rm	2017 Rm
Dividends received	**(17 751)**	(16 980)
Interest income	**(350)**	(41)
Interest expense	**286**	1
Share of profits from associates and joint ventures	**(289)**	(213)
Impairment of investment in subsidiary	**24**	
Unrealised gains on financial instruments	**(27)**	
Non-cash expenses	**9**	14
Foreign exchange gains and losses	**(1)**	
Total	**(18 099)**	(17 219)

54.2 Increase in investment in subsidiaries

	2018 Rm	2017 Rm
Increase in investment in subsidiaries	**(1 712)**	(6 044)
Movement in indebtness	**(4 963)**	(403)
Total	**(6 675)**	(6 447)

54.3 Reconciliation of subordinated debt

	2018 Rm	2017 Rm
Balance at the beginning of the year		
Subordinated debt issue	**5 057**	
Balance at the end of the year	**5 057**	

55. Liquidity, credit and market risk information

Other assets and liabilities consist mainly of non-financial assets and liabilities which are not subject to liquidity, credit and market risk.

Annexure A – Subsidiaries, consolidated and unconsolidated structured entities

The diagram depicts principal subsidiaries only. A full list of the group's subsidiaries and consolidated structured entities is available at the company's registered office. The holding in subsidiaries is 100% unless otherwise indicated.

STANDARD BANK GROUP[1]

The Standard Bank of South Africa[1]
- Blue Managers[1]
- Diners Club (S.A.)[1]
- Standard Bank Insurance Brokers[1]

Melville Douglas Investment Management[1]

Standard Insurance[1]

Standard Trust[1]

Stanvest[1]

SBG Securities[1]

Standard Bank Properties[1]

Standard Lesotho Bank (80%)

Standard Bank Namibia[2]

Standard Bank Swaziland (72.22%)

Standard Bank de Angola (51%)

Standard Advisory (China)

Standard Advisory London, UK

Standard New York, USA

Stanbic Africa Holdings, UK
- Stanbic Bank (Botswana)
- Stanbic Bank Ghana (99.54%)
  - SBG Securities Ghana
- Standard Holdings Côte d'Ivoire (99%)
  - Stanbic Bank, Côte d'Ivoire (99%)
- Stanbic Bank Tanzania (99.99%)
- Stanbic Bank Holdings Limited (80%)[6]
- Stanbic Bank Zambia (99.99%)
- Stanbic Holdings, Kenya (69.05%)[3]
  - Stanbic Bank Kenya
  - Stanbic Insurance Agency
- Stanbic IBTC Holdings, Nigeria (65.35%)[4]
  - Stanbic IBTC Bank (99.99%)
- Stanbic Bank Zimbabwe
- Standard Bank RDC, DRC (99.99%)
- Standard Bank, Malawi (60.18%)
- Standard Bank (Mauritius)
- Standard Bank S.A. Mozambique (98.15%)[5]

[1] Refer to footnote on page 121.

STANDARD BANK GROUP[1]

Standard Bank London Holdings, UK

- Standard Advisory Asia, Hong Kong

Standard Bank Offshore Group, Jersey

- Standard Bank International Investments, Jersey
- Standard Bank Offshore Trust Company Jersey
- Standard Bank Isle of Man
- Standard Bank Trust Company (Mauritius)
- Standard Bank Jersey

Standard Bank Group International, Isle of Man

- SBIC Finance, Isle of Man
- Stanbic International Insurance, Isle of Man
- Standard Finance, Isle of Man

Liberty Holdings[1] (53.62%)

- Liberty Group[1]
  - Frank Life[1]
  - Liberty two degrees[1] (58.46%)[7]
- Liberty Group Properties[1]
- Liberty Holdings Namibia (75%)
- Liberty Kenya Holdings (57.74%)
- STANLIB[1]
  - STANLIB Asset Management[1]
  - STANLIB Collective Investments[1]
  - STANLIB Fund Managers Jersey
  - STANLIB Multi-Manager[1]
  - STANLIB Wealth Management[1]

1 Incorporated in South Africa.
2 Standard Bank Group legally owns 90% of SBN Holdings in Namibia but consolidates 100% due to the degree of control it retains over its empowerment structure.
3 Change in holding from 60% to 69.05%.
4 Change in holding from 53.07% to 65.35%.
5 Change in holding from 98.14% to 98.15%.
6 Previously known as Stanbic Bank Uganda.
7 Change in holding from 62.73% to 58.46%.

The diagram above depicts principal subsidiaries only. A full list of the group's subsidiaries and consolidated structured entities is available at the company's registered office. The holding in subsidiaries is 100% unless otherwise indicated.

	Nature of operation	Nominal share capital issued Rm
Standard Bank Group Limited will ensure that the capital adequacy of its subsidiaries denoted by # will meet the requirements of home and host regulators, as required by section 70(A) of the South African Banks Act.		
Banking subsidiaries		
Stanbic Bank Botswana Limited (Botswana)[1#]	Commercial bank	423
Stanbic Bank Ghana Limited (Ghana)[1,3#]	Commercial bank	630
Stanbic Bank Kenya Limited (Kenya)[1#]	Commercial bank	423
Stanbic Bank S.A. (Côte d'Ivoire)[3#]	Commercial bank	557
Stanbic Bank Tanzania Limited (Tanzania)[1,3#]	Commercial bank	44
Stanbic Bank Zambia Limited (Zambia)[1,3#]	Commercial bank	660
Stanbic Bank Zimbabwe Limited (Zimbabwe)[1#]	Commercial bank	2
Stanbic Holdings Uganda Limited (Uganda)[1,4#]	Commercial bank	227
Stanbic IBTC Bank PLC (Nigeria)[1#]	Commercial bank	110
Standard Bank de Angola S.A. (Angola)[#]	Commercial bank	768
Standard Bank Isle of Man Limited (Isle of Man)[1#]	Merchant bank	25
Standard Bank Jersey Limited (Jersey)[1#]	Merchant bank	454
Standard Bank PLC (Malawi)[1,4#]	Commercial bank	23
Standard Bank (Mauritius) Limited (Mauritius)[1#]	Commercial bank	342
Standard Bank Namibia Limited (Namibia)[1,5#]	Commercial bank	2
Standard Bank RDC S.A. (DRC)[1,3#]	Commercial bank	659
Standard Bank S.A. (Mozambique)[1#]	Commercial bank	309
Standard Bank Swaziland Limited (Swaziland)[#]	Commercial bank	15
Standard Lesotho Bank Limited (Lesotho)[#]	Commercial bank	21
The Standard Bank of South Africa Limited[#]	Commercial bank	60
Total banking subsidiaries		

Refer to footnotes on the following page.

Effective holding[2] 2018 %	Effective holding[2] 2017 %	Non-controlling interest 2018 %	Non-controlling interest 2017 %	Book value of shares 2018 Rm	Book value of shares 2017 Rm	Net indebtedness 2018 Rm	Net indebtedness 2017 Rm
100	100						
99	99	1	1				
69	60	31	40				
100	100						
100	100						
100	100						
100	100			136	136		
80	80	20	20				
65	53	35	47				
51	51	49	49	359	359	130	
100	100						
100	100						
60	60	40	40				
100	100						
100	100						
100	100						
98	98	2	2				
72	72	28	28	94	94		
80	80	20	20	13	13		
100	100			47 799	47 049	6 158	1 312
				48 401	47 651	6 288	1 312

	Nature of operation	Nominal share capital issued
Non-banking subsidiaries		
Ecentric Payment Systems Proprietary Limited[1]	Development and marketing transactions – switching software and services	
Liberty Group Limited[1]	Insurance company	29
Liberty Holdings Limited[4]	Insurance holding company	26
Liberty Two Degrees[1,6]	Real Estate Investment Trust	
Melville Douglas Investment Management Proprietary Limited[#]	Asset and portfolio management	
SBG Securities Proprietary Limited[#]	Stockbrokers	
SBN Holdings Limited (Namibia)[5]	Bank holding company	1
Stanbic Africa Holdings Limited (UK)	Investment holding company	1 494
Stanbic Holdings Plc (Kenya)[1,4]	Bank holding company	232
Stanbic IBTC Holdings PLC (Nigeria)[1,4]	Bank holding company	279
Standard Advisory (China) Limited (China)	Trading company	8
Standard Advisory London Limited (UK)	Arranging and advisory company	1
Standard Bank Group International Limited (Isle of Man)	Investment holding company	
Standard Bank International Investments Limited (Jersey)[1#]	Investment service provider	
Standard Bank London Holdings Limited (UK)	Investment holding company	6 337
Standard Bank Offshore Group Limited (Jersey)	Investment holding company	17
Standard Bank Offshore Trust Company Jersey Limited (Jersey)[1#]	Trust company	6
Standard Bank Trust Company (Mauritius) Limited (Mauritius)[1#]	Trust company	
Standard Finance Limited (Isle of Man)[1#]	Finance company	
Standard Insurance Limited	Short-term insurance	15
Standard New York, Inc (US)	Securities broker/dealer	55
Standard Trust Limited[2#]	Trust company	
STANLIB Limited[1]	Wealth and asset management	
Miscellaneous	Finance companies	
Total non-banking subsidiaries		
Total		

1 Held indirectly, no book value in Standard Bank Group Limited company.
2 Effective holding company comprises direct and indirect holdings.
3 Minorities hold 0.5% or less.
4 Listed on a stock exchange.
5 Standard Bank Group Limited legally owns 90% of SBN Holdings in Namibia but consolidates 100% due to the degree of control it retains over its empowerment structure.
6 Effective shareholding represents Liberty Group's direct shareholding

The nominal share capital issued of foreign subsidiaries has been stated in the above table at their rand equivalents at the rates of exchange ruling on the dates of the provision of capital. The country of incorporation is South Africa unless otherwise indicated.

While a full list of the group's subsidiaries and consolidated structured entities is available at the company's registered office, the above disclosures include subsidiaries for which either of the following is present:

- Standard Bank Group Limited has provided a capital adequacy statement (denoted by #)
- there is a non-controlling interest
- there is a net book value as recorded in Standard Bank Group Limited's financial statements
- there is net indebtedness to/from Standard Bank Group Limited.

No significant restrictions exist on the transfer of funds and capital within the group, subject to compliance with the corporate laws of relevant jurisdictions and appropriate motivation to, and approval by, exchange control authorities.

Effective holding 2018 %	Effective holding 2017 %	Non-controlling interest 2018 %	Non-controlling interest 2017 %	Book value of shares 2018 Rm	Book value of shares 2017 Rm	Net indebtedness 2018 Rm	Net indebtedness 2017 Rm
100	100						
54	54	**46**	46				
54	54	**46**	46	**7 668**	7 668		
58	62	**41**	38				
100	100			**53**	53		
100	100			**320**	320		
100	100			**400**	400		
100	100			**7 416**	5 643	**84**	72
69	60	**31**	40				
65	53	**35**	47				
100	100			**10**	10		
100	100			**557**	557		
100	100			**425**	1 217		
100	100						
100	100			**7 658**	7 658		
100	100			**49**	49		
100	100						
100	100						
100	100						
100	100			**30**	30		
100	100			**55**	55		
100	100						
54	54	**46**	46				
				108	132	**(112)**	(103)
				24 749	23 792	**(28)**	(31)
				73 150	71 443	**6 260**	1 281

Consolidated structured entities

Name of the entity	Nature of the operations	Amount of support provided as at[1,2,3] 2018 Rm	Amount of support provided as at[1,2,3] 2017 Rm	Type of support[4] 2018 Rm	Type of support[4] 2017 Rm
Blue Granite Investments No. 1 (RF) Limited (BG1)	Facilitates mortgage-backed securitisations. The group is the primary funder to BG1.		45	**Subordinated loan**	Subordinated loan
			604	**Mortgage-backed notes**	Mortgage-backed notes
Blue Granite Investments No. 2 (RF) Proprietary Limited (BG2)	Facilitates mortgage-backed securitisations. The group is the primary funder to BG2.	**28**	27	**Subordinated loan**	Subordinated loan
Blue Granite Investments No. 3 (RF) Proprietary Limited (BG3)	Facilitates mortgage-backed securitisations. The group is the primary funder to BG3.	**59**	217	**Subordinated loan**	Subordinated loan
Blue Granite Investments No. 4 (RF) Proprietary Limited (BG4)	Facilitates mortgage-backed securitisations. The group is the primary funder to BG4.	**18**	16	**Subordinated loan**	Subordinated loan
Siyakha Fund (RF) Limited (Siyakha)	Facilitates mortgage-backed securitisations. The group is the primary funder to Siyakha.	**501**	82	**Subordinated loan**	Subordinated loan
			941	**Mortgage-backed notes**	Mortgage-backed notes
Blue Shield Investments 01 (RF) Limited (Blue Shield 01)	Facilitates mortgage-backed securitisations. The group is the primary funder to Blue Shield 01.	**504**	504	**Subordinated loan**	Subordinated loan
		16 162	16 163	**Mortgage-backed notes**	Mortgage-backed notes

Terms of contractual arrangements that require the group to provide financial support to the SE	Events/circumstances that could expose the group to a loss as a result of the contractual arrangement
The loans do not have a fixed term or repayment date. The first loss loan incurs interest at a rate of JIBAR plus 10% per annum and is only payable to the extent of available cash reserves. The second loss loan incurs interest at a rate of JIBAR plus 8% per annum and is only payable to the extent of available cash reserves. During the 2018 financial year, all subordinated loans and mortgage-backed notes were settled and the assets bought back by SBSA.	Should BG 1's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The group holds the class A4, A6, B, C, D, E and F notes. Interest for the different classes of notes accrues at the three-month JIBAR rate plus a margin ranging between 0.55% to 8%. Interest is payable quarterly. The notes' maturity date is 21 November 2032. During the 2018 financial year, all subordinated loans and mortgage-backed notes were settled and the assets bought back by SBSA.	
The loan does not have a fixed term or repayment date. Payment of interest will be determined on interest payment date at the lower of cash available or an amount calculated such that the rate will be equal to prime plus 5% or an amount equal to the notional net income as reflected in the management accounts, after taking into account all income and expenses.	Should BG2's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The loan does not have a fixed term or repayment date. Payment of interest will be determined on interest payment date at the lower of cash available or an amount calculated such that the rate will be equal to prime plus 5% or an amount equal to the notional net income as reflected in the management accounts, after taking into account all income and expenses.	Should BG3's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The loan does not have a fixed term or repayment date. Payment of interest will be determined on interest payment date at the lower of cash available or an amount calculated such that the rate will be equal to prime plus 5% or an amount equal to the notional net income as reflected in the management accounts, after taking into account all income and expenses.	Should BG4's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The loan does not have a fixed term or repayment date. Payment of interest will be determined on interest payment date at the lower of cash available or an amount calculated such that the rate will be equal to prime plus 5% or an amount equal to the notional net income as reflected in the management accounts, after taking into account all income and expenses.	Should Siyakha's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing.
The group holds class A1 notes for which interest accrues at the three-month JIBAR rate plus 1.10%. The group also holds class A2, B, C and D notes for which interest accrues at a rate from prime less 2.1% to prime plus 2%. Interest is payable quarterly. The notes' maturity date is 11 February 2045.	
The subordinated loan is provided by the group. Interest is charged at the lower of prime plus 10% or net profit after tax or cash balance available in Blue Shield 01.	Should Blue Shield 01's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The group holds class A1, A2, A3 and C notes. Interest for the different classes of notes accrues at the three-month JIBAR rate plus a margin ranging between 1.55% and 4.00%. Interest is payable quarterly. The notes' maturity date is 21 November 2019.	

Name of the entity	Nature of the operations	Amount of support provided as at[1,2,3] 2018 Rm	Amount of support provided as at[1,2,3] 2017 Rm	Type of support[4] 2018 Rm	Type of support[4] 2017 Rm
Blue Shield Investments 02 (RF) Limited (Blue Shield 02)	Facilitates mortgage-backed securitisations. The group is the primary funder to Blue Shield 02.	**1 350**	1 314	**Subordinated loan**	Subordinated loan
		30 708	30 722	**Mortgage-backed notes**	Mortgage-backed notes
Blue Banner Securitisation Vehicle RC1 Proprietary Limited (Blue Banner)	Originates mortgage loans on behalf of group. The group is required to provide the funding for these mortgage loans.	**88**	106	**Bridging finance**	Bridging finance
Out of The Blue Originator Proprietary Limited (OTB)	OTB originates loans on behalf of Blue Titanium Conduit (RF) Limited (BTC). BTC is consolidated by the group.			**Overdraft facility**	Overdraft facility
Blue Titanium Conduit (RF) Limited (BTC)	Purchases eligible term assets and funds such investments through the issuance of commercial paper. The group is the primary liquidity facility provider to BTC.			**Liquidity facility**	Liquidity facility
			306	**Commercial paper**	Commercial paper
				Credit enhancement facility	Credit enhancement facility
Rapvest Investment Proprietary Limited	Facilitates finance deals for other group companies and third parties through preference share investments and loans to clients.	**9 790**	10 055	**Loan**	Loan
DAF Financial Services (RF) Proprietary Limited (DFS)	The structure is an asset-backed funding solution. The financial assets, the truck finance receivables, are transferred to DFS and funding is provided by Standard Bank on a limited-recourse basis secured by the receivables.	**301**		**Loan**	
Main Street 367 (RF) Proprietary Limited (Main Street)	Facilitates financing to BG1, BG2, BG3, BG 4 and Siyakha. SB-Debtors provides the funding to Main Street to enable Main Street to originate these loans.	**210**	212	**Subordinated loan**	Subordinated loan
Blue Diamond Investments No. 3 (RF) Limited (BD)3	The group issues notes to Blue Diamond Investments No. 3 (BD) then BD obtains credit protection from third-party investors by issuing notes to third-party investors on single or multiple corporate names. The notes issued by BD are held by Liberty.	**206**		**Credit-linked notes**	

1 The amount of support provided includes loans and advances and drawn down credit facilities provided to SEs by the group.
2 During the reporting period, the group did not provide any financial or other support to any subsidiary without having a contractual obligation to do so.
3 This is the amount as reported on the balance sheet as at 31 December 2018 and 2017 respectively.
4 In addition to the financial support provided to the SEs, the group enters into other transactions with SEs in the ordinary course of business. These transactions include loans and advances, deposits and current accounts and derivatives.

Terms of contractual arrangements that requires the group to provide financial support to the SE	Events/circumstances that could expose the group to a loss as a result of the contractual arrangement
The subordinated loan is provided by the group. Interest is charged at 11.25%.	Should Blue Shield 02's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing.
The group holds class A1, A2, B and C notes. Interest for the different classes of notes accrues at prime rate less a margin ranging between 1% and 1.9%. Interest is payable quarterly. The notes' maturity date is 1 December 2055.	
The loan does not have a fixed term or repayment date. Any profits in Blue Banner are paid out as interest to the group.	Should Blue Banner's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing.
OTB applies for the necessary overdraft facility as and when it originates loans. The drawn amount is settled once the originated loan is sold to BTC. The terms are negotiated and agreed upon at the time of granting of the overdraft facility. During the year, OTB did not apply for an overdraft facility. As at 31 December 2018, the outstanding balance on the overdraft facility was Rnil (2017: Rnil)	This SE does not expose the group to a risk of loss as it acts as a conduit between the group and BTC. OTB draws down on the overdraft facility as and when BTC originates loans and the facility is repaid on the same day of the draw down.
The liquidity facility is limited to the value of the underlying assets in BTC. As at 31 December 2018, the liquidity facility limit was Rnil (2017: R1 961 million).	In the event that the underlying assets are classified as non-performing loans.
The group periodically invests in commercial paper (CP) issued by BTC. The CP is typically short term in nature (92 days), and issued at arm's length. During the year ended 31 December 2018, SBSA held no investments in commercial paper issued by BTC.	
The credit enhancement facility is limited to 20% of all participating assets (the outstanding commercial paper issued in the market). BTC had not drawn down on the credit enhancement facility as at 31 December 2018.	
The loan is repayable on demand and no interest is charged on the loan.	In the event that the underlying assets are classified as non-performing loans.
The loan bears interest at a rate of prime plus 1%. The maturity date of the loan is 30 September 2022.	SBSA is exposed to the first-loss risk in the structure as well as potential losses that may be incurred on the receivables as a result of residual asset value risk. The residual asset value risk is, however, limited due to a put option that is in place.
The loan is only repayable to the extent that Main Street receives payment from BG1, BG2, BG3, BG4 and Siyakha. The interest is charged at the higher of JIBAR plus 10% and the cash available in terms of Main Street's priority of payments less R15 000.	In the event that customers of BG1, BG2, BG3, BG4 and Siyakha are unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing.
The group holds the notes issued by (BD)3. The group settles BD's operating expenses as and when necessary, typically in the event that BD has liquidity constraints. Any payment for such amounts is to be refunded by BD to the group.	In the event of a credit event, the group will suffer a loss. The group is also exposed to the risk of loss should it be unable to recover any unexpected operating expenses from (BD)3.

Unconsolidated structured entities

The group has an interest in the following unconsolidated structured entities:

	Nature and purpose of entity	Principal nature of funding	Principal nature of assets
Blue Diamond Investments No. 1 (RF) Limited (BD)1 Blue Diamond Investments No. 2 (RF) Limited (BD)2	These structures have been designed to provide third-party investors indirect exposure to corporate names. The group obtains credit protection from Blue Diamond Investments No. 1 and No. 2 (RF) Limited (BD) in the form of issuing credit-linked notes on single or multiple corporate names. BD then obtains credit protection from third-party investors by issuing notes to third-party investors on single or multiple corporate names.	Credit- linked notes issued to third-party investors	Credit-linked notes issued by the group
Blue Diamond X Investments (RF) Limited	Loans purchased from SBSA and the issuance of notes to third-party investors	Commercial paper issued to third-party investors	Loans and advances to various counterparties
Africa ETF Issuer Limited offering the following: • AfricaPalladium ETF (JSE code: ETFPLD) • AfricaPlatinum ETF (JSE code: ETFPLT) • AfricaGold ETF (JSE code: ETFGLD) • AfricaRhodium ETF (JSE code: ETFRHO)	The palladium, platinum, gold and rhodium exchange traded funds (ETFs) have been established for investors to participate in changes in the spot price of underlying commodities. The ETFs issue debentures to investors with each debenture backed by the respective physical commodity. On issuance each debenture is based on 1/100th of a troy ounce of the respective commodity. The physical commodities are stored at recognised custodian storage vaults in London. The ETFs are denominated in rands and are classified as domestic assets. The ETFs are regulated by the Financial Markets Act and the JSE's Listings Requirements.	The unconsolidated structured entity is funded by the issue of non-interest-bearing debentures that are 100% backed by the underlying physical commodity	Physical commodities (palladium, platinum, gold and rhodium)
Calibre Mortgage Fund (Proprietary) Limited	Special purpose vehicle (SPV) set up by South African Home Loans (Proprietary) Limited (SAHL) into which it originates home loans. The SPV is funded by debt provided by Liberty and equity provided by SAHL	Debt funders in the securitsation market	Senior secured loan
Greenhouse Funding 3 (Proprietary) Limited	A structured entity set up by Nedbank Limited. It is a securitisation vehicle into which it originates home loans, and into which Liberty can lend on a secured basis. Equity is provided by Nedbank Limited.	Debt funders in the securitsation market	Residential mortgage-backed securitisation
SA Taxi Finance Solutions (Proprietary) Limited	SPV set up by SA Taxi to raise debt funding which it in turn uses to originate taxi loans.	Debt funders in the securitisation market	Senior, unrated debentures secured by underlying assets
Universal Credit S.A.	Investment fund	Debt funders in the securitsation market	Segregated investment fund

Terms of contractual arrangements		Events/circumstances that could expose the group to a loss
12 years	The group settles BD's operating expenses as and when necessary, typically in the event that BD has liquidity constraints. Any payment for such amounts is to be refunded by BD to the group.	In the event of a credit event, the third-party investors will suffer a loss. The group is only exposed to the risk of loss should it be unable to recover any unexpected operating expenses from BD.
15 years	SBSA acts as the administrator and identifies and invests in suitable financial assets and facilitates the execution and settlement of trades.	None
Undated	The group established these structured entities to accommodate client requirements to hold investments in specific commodity assets. The group manages the ETFs and also provides liquidity to the ETFs by acting as a committed market maker.	The maximum exposure to loss is limited to the on-balance sheet position held by the group through acting as a committed market maker for the ETFs. This exposes the group to the commodity price risk associated with the underlying commodity and is managed in accordance with the group's market risk management policy.
The loan tenor is 20 years and bears interest at an average rate of three-month JIBAR + 2.30%		To the extent that asset quality in the vehicle deteriorates to a level where losses exceed subordinated debt in the capital structure, the group may be exposed to a credit loss.
The loan tenor is five years and bears interest at an average rate of three-month JIBAR + 1.69%		To the extent that asset quality in the vehicle deteriorates to a level where losses exceed subordinated debt in the capital structure, the group may be exposed to a credit loss.
The loan tenor is five years and bears interest at an average rate of three-month JIBAR + 3.43%		To the extent that asset quality in the vehicle deteriorates to a level where losses exceed subordinated debt in the capital structure, the group may be exposed to a credit loss.
The loan tenor is five years		In the event of defaults in the underlying pool of credit assets, the group may be exposed to a credit loss.

Unconsolidated structured entities continued

The following represents the group's interests in these entities:

	2018 Rm	2017 Rm
Balance sheet		
Unconsolidated structured entities:		
Financial investments	**340**	192
Deposits and debt funding accounts from customers	**(2 118)**	(1770)
Trading assets	**31**	57
Total	**(1 747)**	(1521)

For both 2017 and 2018, Blue Diamond Investments No. 1 and No. 2 (RF) Limited earned income via a once off fee and commission income earned for structuring the SE.

Details of group companies with material non-controlling interests

	Liberty Group Limited		Africa Regions[1]	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Non-controlling interests (%)	**46**	46	*****	*
Summarised financial information on an IFRS basis before intercompany eliminations				
Total assets	**437 274**	444 127	**214 883**	175 556
Total liabilities	**405 881**	413 736	**181 335**	149 578
Total income	**50 504**	82 772	**23 061**	22 090
Profit for the year	**3 042**	3 704	**8 511**	7 234
Change in cash balances[2]	**1 805**	175	**8 087**	(6 642)
Profit attributable to non-controlling interests after inter-company eliminations	**1 169**	1 388	**2 640**	2 315
Non-controlling interest within statement of financial position	**16 933**	16 569	**8 333**	7 697
Dividends paid to non-controlling interests	**1215**	998	**662**	430

1 All balances except total assets and total liabilities (translated using the closing exchange rate) have been translated using cumulative exchange rates.
2 This line has been amended to reflect the change in total cash balances, having previously being stated as the change in cash balances with central banks.
* Please refer to pages 122 to 125.

Annexure B – Associates and joint ventures

	Safika Holdings Proprietary Limited[1]	Industrial and Commercial Bank of China (Argentina) S.A.	South African Home Loans Proprietary Limited (SAHL)
Ownership structure	Associate	Associate	Associate
Nature of business	Investment holding company	Banking	Finance
Principal place of business and country of incorporation	South Africa	Argentina	South Africa
Year end	February	December	February
Accounting treatment	Equity accounted	Equity accounted	Equity accounted
Date to which equity accounted	31 December 2018	31 December 2018	31 December 2018

	Safika 2018 Rm	Safika 2017 Rm	ICBC Argentina 2018 Rm	ICBC Argentina 2017 Rm	SAHL 2018 Rm	SAHL 2017 Rm
Effective holding (%)	**26.67**	26.67	**20**	20	**50**	50
Income statement						
Total comprehensive income/(loss)	**465**	795	**2 460**	2 193	**578**	426
Total comprehensive income/(loss) attributed to equity holders of the associate and joint ventures[2]	**124**	212	**492**	448	**289**	213
Dividend received from associates/joint ventures	**27**				**113**	90
Statement of financial position[3]						
Non-current assets	**3 005**	2 623	**1 360**	1 633	**32 965**	30 157
Current assets	**207**	162	**69 053**	68 237	**5 135**	3 570
Non-current liabilities	**(117)**		**(331)**	(259)	**(35 239)**	(31 541)
Current liabilities		(56)	**(63 849)**	(61 638)	**(605)**	(209)
Net asset value attributed to equity holders of the associate and joint venture	**3 095**	2 729	**6 233**	7 973	**2 256**	1 977
Proportion of net asset value based on effective holding	**825**	728	**1 247**	1 595	**1 128**	989
Goodwill			**136**	235		
Other			**6**	10	**(63)**	(76)
Carrying value	**825**	728	**1 389**	1 840	**1 065**	913
Share of profits/(losses) from associate and joint ventures	**124**	212	**492**	448	**289**	213

1 The investment was made by the group's private equity operations and have been ring-fenced for headline earnings purposes. On the disposal of these associates and joint ventures held by the group's private equity division the gain or loss on the disposal will be included in headline earnings in terms of Headline Earnings Circular 4/2018 as issued by the South African Institute of Chartered Accountants, as amended from time to time.
2 Includes FCTR as reported by the associates and joint ventures. Excludes FCTR that originates at a group level as a result of inclusions of the associates and joint ventures in the group's results.
3 Summarised financial information is provided based on the latest available management accounts received.

	ICBC Standard Bank Plc (ICBCS)		Other joint ventures		Other associates		Total associates and joint ventures – equity accounted	
	Associate		Joint ventures		Associates		Associates and joint ventures	
	Banking		Various		Various		Various	
	London, UK		Various		Various		Various	
	December		Various		Various		Various	
	Equity accounted		Equity accounted		Equity accounted		Equity accounted	
	31 December 2018		31 December 2018		31 December 2018		31 December 2018	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm	**2018 Rm**	2017 Rm	**2018 Rm**	2017 Rm
	40	40	**Various**	Various	**Various**	Various	**Various**	Various
	(185)	802						
	(74)	321						
			25			9		
	291	131 784						
	353 045	161 835						
	(335 251)	(48 546)						
		(229 290)						
	18 085	15 783						
	7 234	6 313						
	(769)	(660)						
	6 465	5 653	**57**	82	**575**	449	**10 376**	9 665
	(74)	152	**46**	8	**35**	69	**912**	1 102

	STANLIB Income Fund		STANLIB Property Income Fund		STANLIB Balanced Cautious Fund	
Ownership structure	Associate		Associate		Associate	
Nature of business	Fund		Fund		Fund	
Principal place of business	South Africa		South Africa		South Africa	
Year end	December		December		March	
Accounting treatment	Fair value accounted		Fair value accounted		Fair value accounted	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm	**2018 Rm**	2017 Rm
Effective holding (%)	**9**	11		14	**23**	22
Fair value	**3 196**	3 118		1 231	**1 679**	1 620
Income statement						
Revenue	**2 832**	2 217		480	**450**	429
Total profit for the year	**2 661**	2 076		377	**322**	292
Total comprehensive income	**2 661**	2 076		377	**322**	292
Dividend received from associates	**249**	175		55	**63**	70
Statement of financial position[1]						
Non-current assets	**34 823**	27 551		8 169	**7 128**	6 852
Current assets	**475**	385		30	**252**	445
Current liabilities	**(22)**	(15)		(16)	**(102)**	(9)
Net asset value	**35 276**	27 921		8 183	**7 278**	7 288
Total carrying value, including loans measured at fair value	**3 196**	3 118		1 231	**1 679**	1 620

1 Summarised financial information of the associates and joint ventures is provided based on the latest available management accounts received.

Private equity/venture capital associates and joint ventures[1]

	2018 Rm	2017 Rm
Cost	**48**	48
Carrying value	**619**	546
Statement of financial position[2]		
Non-current assets	**3 005**	2 623
Current assets	**207**	162
Current liabilities		(56)
Non-current liabilities	**(117)**	
Income statement		
Attributable income before impairment	**93**	159
Realised gains on disposal for the period included in headline earnings		
Fair value	**619**	546

1 The above note represents the banking activities 20% held in Safika Holdings Proprietary Limited.
2 Summarised financial information of the associates and joint ventures is provided based on the latest available management accounts received.

	STANLIB Balanced Fund		STANLIB Corporate Money Market Fund		Other associates and joint ventures – fair value accounted		Total associates and joint ventures – fair value accounted	
	Associate		Joint ventures		Associates		Associates and joint ventures	
	Fund		Various		Various		Various	
	South Africa		Various		Various		Various	
	February		Various		Various		Various	
	Fair value accounted		Fair value accounted		Fair value accounted		Fair value accounted	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm	**2018 Rm**	2017 Rm	**2018 Rm**	2017 Rm
	29	27	**5**	5	**Various**	Various	**Various**	Various
	1 298	1 516	**2 014**	1 678	**5 637**	6 034	**13 824**	15 197
	209	227	**3 207**	2 874				
	132	146	**3 120**	2 801				
	132	146	**3 120**	2 801				
	35	46	**139**	19				
	4 355	5 555	**37 194**	30 447				
	156	253	**1 932**	3 703				
	(42)	(9)	**(8)**	(7)				
	4 469	5 799	**39 118**	34 143				
	1 298	1 516	**2 014**	1 678	**5 637**	6 034	**13 824**	15 197

Annexure C – Risk and capital management – IFRS disclosures

Overview

Capital management

The group's capital management function is designed to ensure that regulatory requirements are met at all times and that the group and its principal subsidiaries are capitalised in line with the group's risk appetite and target ratios, both of which are approved by the board.

It further aims to facilitate the allocation and use of capital, such that it generates a return that appropriately compensates shareholders for the risks incurred. Capital adequacy is actively managed and forms a key component of the group's budget and forecasting process. The capital plan is tested under a range of stress scenarios as part of the group's annual ICAAP and recovery plan.

The capital management function is governed primarily by management level subcommittees that oversee the risks associated with capital management, namely the group asset and liability committee (ALCO) and one of its subcommittees, the group capital management committee. The principal governance documents are the capital management governance framework and the model risk governance framework.

Enterprise risk management

The group's activities give rise to various financial, and non-financial risks. Financial risks are categorised into credit, funding and liquidity and market risk.

The group's approach to managing risk and capital is set out in the group's enterprise risk management (ERM) governance framework approved by the group risk and capital management committee (GRCMC).

The risk management disclosure that follows separately discloses the group's banking operations and investment management and life insurance activities as the group's investment management and life insurance risk is primarily managed within the Liberty group of companies which houses the group's material long-term insurance operations. The group has 55.5% interest in Liberty and, therefore, shares 55.5% of the risk exposure.

Banking operations

Capital management

The group manages its capital levels to support business, growth, maintain depositor and creditors' confidence, create value for its shareholders and ensure regulatory compliance.

The main regulatory requirements to be complied with are those specified in the Banks Act and related regulations, which are aligned with Basel III.

Regulatory capital adequacy is measured through the following three risk-based ratios:

Common equity tier 1 (CET 1): ordinary share capital, share premium, retained earnings, other reserves and qualifying non-controlling interest less impairments divided by total risk weighted assets (RWA).

Tier 1: CET 1 and other qualifying non-controlling interest plus perpetual, non-cumulative instruments with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA. Perpetual non-cumulative preference shares that comply with Basel I and Basel II rules are included in tier I capital but are currently subject to regulatory phase-out requirements over a ten-year period, which commenced on 1 January 2013.

Total capital adequacy: tier 1 plus other items such as general credit impairments and subordinated debt with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA. Subordinated debt that complies with Basel I and Basel II rules is included in total capital but is currently subject to regulatory phase-out requirements, over a ten-year period, which commenced on 1 January 2013.

QUALIFYING CAPITAL EXCLUDING UNAPPROPRIATED PROFITS

	2018 Rm	2017 Rm
IFRS ordinary shareholders' equity#	**165 061**	157 020
Qualifying non-controlling interest	**5 451**	4 892
Less: regulatory adjustments	**(24 628)**	(32 326)
Goodwill	**(2 208)**	(1 904)
Other intangible assets	**(17 703)**	(18 603)
Shortfall of credit provisions to expected future losses[1]		(2 076)
Investments in financial	**(8 616)**	(9 141)
Other	**3 899**	(602)
Unappropriated profit	**(11 643)**	(11 304)
CET 1 capital	**134 241**	118 282
Qualifying other equity instruments	**5 702**	6 291
Qualifying non-controlling interests	**385**	416
Tier 1 capital	**140 328**	124 989
Qualifying Tier II subordinated debt	**17 545**	14 777
General allowance for credit impairments	**2 776**	2 173
Tier II capital	**20 321**	16 950
Total regulatory capital	**160 649**	141 939
Total capital requirement	**120 405**	102 884
Total RWA	**1 079 642**	957 046

The table above is not audited unless it is denoted with #.

1 For reporting periods up to 31 December 2017, the group deducted from available capital the shortfall of IAS 39 credit provisions to regulatory expected loss. Given that the IFRS 9 impairment provisions are greater than the regulatory expected losses, this adjustment is no longer recognised.

Credit risk

Definition

Credit risk is the risk of loss arising out of the failure of obligors to meet their financial or contractual obligations when due. It is composed of obligor risk (including borrowers and trading counterparties), concentration risk and country risk.

Approach to managing and measuring credit risk

The group's credit risk is a function of its business model and arises from wholesale and retail loans and advances, underwriting and guarantee commitments, as well as from the counterparty credit risk arising from derivative and securities financing contracts entered into with our customers and trading counterparties. To the extent equity risk is held on the banking book, it is also managed under the credit risk governance framework, except in so far as approval authority rests with group equity risk committee (ERC). The management of credit risk is aligned to the group's three lines of defence framework. The business functions own the credit risk assumed by the group and, as the first line of defence, is primarily responsible for its management, control and optimisation in the course of business generation.

The credit function acts as the second line of defence and is responsible for providing independent and objective approval and oversight for the credit risk-taking activities of business, to ensure the process of procuring revenue, while assuming risk, is undertaken with integrity. Further second line oversight is provided by the group risk function through independent credit risk assurance.

The third line of defence is provided by group internal audit (GIA), under its mandate from the group audit committee (GAC).

Credit risk is managed through:

- maintaining a culture of responsible lending and a robust risk policy and control framework
- identifying, assessing and measuring credit risk across the group, from an individual facility level through to an aggregate portfolio level
- defining, implementing and continually re-evaluating risk appetite under actual and stressed conditions
- monitoring the group's credit risk exposure relative to approved limits
- ensuring that there is expert scrutiny and approval of credit risk and its mitigation independently of the business functions.

A credit portfolio limit framework has been defined to monitor and control the credit risk profile within the group's approved risk appetite. All primary lending credit limits are set and exposures measured on the basis of risk weighting in order to best estimate exposure at default (EAD). Pre-settlement counterparty credit risk (CCR) inherent in trading book exposures is measured on a potential future exposures (PFE) basis, modelled at a defined level of confidence, using approved methodologies and models, and controlled within explicit approved limits for the counterparties concerned.

Credit risk mitigation

Wherever warranted, the group will attempt to mitigate credit risk, including CCR to any counterparty, transaction, sector, or geographic region, so as to achieve the optimal balance between risk, cost, capital utilisation and reward. Risk mitigation may include the use of collateral, the imposition of financial or behavioural covenants, the acceptance of guarantees from parents or third parties, the recognition of parental support, and the distribution of risk.

Collateral, parental guarantees, credit derivatives and on- and off-balance sheet netting are widely used to mitigate credit risk. Credit risk mitigation policies and procedures ensure that risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforcement. Detailed processes and procedures are in place to guide each type of mitigation used.

In the case of collateral where the group has an unassailable legal title, the group's policy is such that collateral is required to meet certain criteria for recognition in loss given default (LGD) modelling, including:

- being readily marketable and liquid
- being legally perfected and enforceable
- having a low valuation volatility
- being readily realisable at minimum expense
- having no material correlation to the obligor credit quality
- having an active secondary market for resale.

The main types of collateral obtained by the group for its banking book exposures include:

- mortgage bonds over residential, commercial and industrial properties
- cession of book debts
- pledge and cession of financial assets
- bonds over plant and equipment
- the underlying movable assets financed under leases instalment sales.

Reverse repurchase agreements and commodity leases to customers are collateralised by the underlying assets.

Guarantees and related legal contracts are often required, particularly in support of credit extension to groups of companies and weaker obligors. Guarantors include banks, parent companies, shareholders and associated obligors. Creditworthiness is established for the guarantor as for other obligor credit approvals.

For trading and derivatives transactions where collateral support is considered necessary, the group typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure (CSA).

Netting agreements, such as collateral under the CSA of an ISDA agreement, are only obtained where the group firstly has a legally enforceable right to offset credit risk by way of such an agreement, and secondly where the group has the intention of utilising such agreement to settle on a net basis.

Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if the mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's public credit rating.

Wrong-way risk arises in transactions where the likelihood of default (i.e. the probability of default (PD) by a counterparty and the size of credit exposure (as measured by EAD) to that counterparty tend to increase at the same time. This risk is managed both at an individual counterparty level and at an aggregate portfolio level by limiting exposure to such transactions, taking adverse correlation into account in the measurement and mitigation of credit exposure and increasing oversight and approval levels. The group has no appetite for wrong-way risk arising where the correlation between EAD and PD is due to a legal, economic, strategic or similar relationship (i.e. specific wrong-way risk). General wrong-way risk, which arises when the correlation between EAD and PD for the counterparty, due mainly to macro factors, is closely managed within existing risk frameworks.

To manage actual or potential portfolio risk concentrations in areas of higher credit risk and credit portfolio growth, the group implements hedging and other strategies from time to time. This is done at individual counterparty, sub-portfolio and portfolio levels through the use of syndication, distribution and sale of assets, asset and portfolio limit management, credit derivatives and credit protection.

Credit portfolio characteristics and metrics in terms of IFRS 9

Maximum exposure to credit risk

Debt financial assets at amortised cost and FVOCI as well as off-balance sheet exposure subject to an ECL are analysed and categorised based on credit quality using the group's master rating scale. Exposures within Stage 1 and 2 are rated between 1 to 25 in terms of the group's master rating scale. The group uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes), as illustrated in the table below. These ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable PBB portfolios. The group distinguishes between through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision-making, managing credit risk exposures and measuring impairments against credit exposures. Exposures which are in default are not considered in the 1 to 25-point master rating scale.

Default

The group's definition of default has been aligned to its internal credit risk management definitions and approaches. While the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the BASEL definition) as occurring at the earlier of:

- where, in the group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

The group will not rebut IFRS 9's 90 days past due rebuttable presumption.

A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets:

- significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower)
- a breach of contract, such as default or delinquency in interest and/or principal payments
- disappearance of active market due to financial difficulties
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation
- where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider.

Exposures which are overdue for more than 90 days are also considered to be in default.

IAS 39

Performing loans

Performing loans are classified into two categories, namely:

- Neither past due nor specifically impaired loans: these loans are current and fully compliant with all contractual terms and conditions. Normal monitoring loans within this category are generally rated 1 to 21, and close monitoring loans are generally rated 22 to 25 using the group's master rating scale.
- Early arrears but not specifically impaired loans: early arrears but not specifically impaired loans include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is unlikely but could occur if the adverse conditions persist.

Non-performing loans

Non-performing loans are those loans for which the group has identified objective evidence of default, such as a breach of a material loan covenant or condition, or instalments are due and unpaid for 90 days or more.

Non-performing but not specifically impaired loans are not specifically impaired due to the expected recoverability of the full carrying value when considering the recoverability of future cash flows, including collateral. Non-performing specifically impaired loans are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows.

Specifically impaired loans are further analysed into the following categories:

- **Substandard:** items that show underlying well-defined weaknesses and are considered to be specifically impaired.
- **Doubtful:** items that are not yet considered final losses due to some pending factors that may strengthen the quality of the items.
- **Loss:** items that are considered to be uncollectible in whole or in part. The group provides fully for its anticipated loss, after taking collateral into account.

IFRS: MAXIMUM EXPOSURE TO CREDIT RISK BY CREDIT QUALITY

		SB 1 – 12		SB 13 – 20	
		Stage 1 Rm	Stage 2 Rm	Stage 1 Rm	Stage 2 Rm
Loans and advances measured at amortised cost					
Personal & Business Banking	**701 723**	**191 602**	**1 815**	**407 955**	**7 083**
Mortgage loans	362 006	108 575	1 786	196 795	4 332
Vehicle and asset finance	89 410	1 250	11	75 939	1 214
Card debtors	33 216	1 604	8	25 382	174
Other loans and advances	217 091	80 173	10	109 839	1 363
Personal unsecured lending	59 459	961		46 457	8
Business lending and other	157 632	79 212	10	63 382	1 355
Corporate & Investment Banking	**510 113**	**291 386**	**4 912**	**179 889**	**17 965**
Corporate	388 973	182 578	4 801	170 726	17 598
Sovereign	8 288	4 533	109	3 319	129
Banking	112 852	104 275	2	5 844	238
Other service	**(55 687)**	**(55 687)**			
Gross carrying amount	**1 156 149**	**427 301**	**6 727**	**587 844**	**25 048**
Less: total ECL for loans and advances	(36 685)				
Net carrying amount	**1 119 464**				
Financial investments at amortised cost					
Corporate	15 433	14 084		1 349	
Sovereign	126 184	113 771		9 531	
Banking	1 974	1 974			
Other instruments	748	748			
Gross carrying amount	**144 339**	**130 577**		**10 880**	
Less: total ECL for financial investments	(194)				
Net carrying amount	**144 145**				
Financial investments at fair value through OCI					
Corporate	1 756	1 325		409	
Sovereign	34 488	10 181		16 997	
Gross carrying value	**36 244**	**11 506**		**17 406**	
Add: fair value adjustments	36				
Total financial investment at fair value through OCI	**36 280**				
Off-balance sheet exposure					
Letters of credit and bankers' acceptances	8 206	5 206	82	2 563	321
Guarantees	57 070	42 311	1 053	11 263	1 830
Unutilised facilities	178 959	153 924	1 811	20 307	2 872
Total exposure to off-balance sheet credit risk	**244 235**	**201 441**	**2 946**	**34 133**	**5 023**
Less: ECL for off-balance sheet exposures	(588)				
Total exposure to credit risk on financial assets subject to an expected credit loss	**1 543 536**				
Add: the following exposures not subject to ECL	354 861				
Cash and balances with central banks[1]	85 145				
Derivative assets	48 429				
Loans and advances at fair value	1 204				
Other financial assets[2]	9 583				
Other financial investment	24 955				
Pledged assets	7 218				
Trading assets	178 327				
Total exposure to credit risk	**1 898 397**				

[1] Balances with central banks are not subjected to ECL considerations due to the rigorous regulatory requirements of these transactions and its link to the underlying entities' ability to operate as a bank. Amount represents deposits placed in currencies as issued by the central banks with which they are stored.
[2] Due to the short-term nature of these financial assets and historical experience, other financial assets are regarded as having a low probability of default.

	SB 21 – 25		Default				
	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Securities and expected recoveries on default exposures Rm	Balance sheet expected credit loss and interest in suspense on Stage 3 Rm	Gross default coverage %	Non-performing exposures %
	8 220	50 589	34 459	17 167	17 292	50	4.9
	4 261	27 840	18 417	11 342	7 075	38	5.1
	347	7 138	3 511	1 827	1 684	48	3.9
	317	3 882	1 849	405	1 444	78	5.6
	3 295	11 729	10 682	3 593	7 089	66	4.9
	1 556	5 625	4 852	900	3 952	81	8.2
	1 739	6 104	5 830	2 693	3 137	54	3.7
	3 833	2 394	9 734	3 225	6 509	67	1.9
	1 142	2 394	9 734	3 225	6 509	67	2.5
	198						
	2 493						
	12 053	52 983	44 193	20 392	23 801	54	3.8
	2 882						
	2 882						
	22						
	7 310						
	7 332						
	24	8	2				
	2	101	510				
	11	34					
	37	143	512				

IFRS: MAXIMUM EXPOSURE TO CREDIT RISK BY CREDIT QUALITY CONTINUED

	Performing loans				
		Neither past due nor specifically impaired		Not specifically impaired	
	Gross loans and advances Total Rm	Normal monitoring Rm	Close monitoring Rm	Early arrears Rm	Non-performing Rm
2017					
Personal & Business Banking	645 868	569 206	17 485	30 258	
Mortgage loans	346 518	303 125	8 564	19 325	
Instalment sale and finance leases	81 640	71 873	2 393	4 248	
Card debtors	32 268	27 204	1 389	1 555	
Other loans and advances	185 442	167 004	5 139	5 130	
Personal unsecured lending	51 835	41 731	2 653	3 262	
Business lending and other	133 607	125 273	2 486	1 868	
Corporate & Investment Banking	472 437	464 020	2 132	685	25
Corporate loans	408 624	400 426	2 132	685	
Commercial property finance	63 813	63 594			25
Other services	(47 834)	(47 836)			
Gross loans and advances	1 070 471	985 390	19 617	30 943	25
Less:					
Impairments for loans and advances	(22 444)				
Net loans and advances	1 048 027				
Add the following other banking activities exposures:					
Cash and balances with central banks	75 310				
Derivative assets	72 629				
Financial investments	180 104				
Trading assets	159 798				
Pledged assets	8 879				
Other financial assets	6 185				
Total on-balance sheet exposure	1 550 932				
Off-balance sheet exposure					
Letters of credit and bankers' acceptances	13 413				
Guarantees	63 761				
Irrevocable unutilised facilities	62 347				
Total exposure to credit risk	1 690 453				

Non-performing loans									
Specifically impaired loans									
Sub-standard Rm	Doubtful Rm	Loss Rm	Total Rm	Securities and expected recoveries on specifically impaired loans Rm	Net after securities and expected recoveries on specifically impaired loans Rm	Balance sheet impairments for non-performing specifically impaired loans Rm	Gross specific impair-ment coverage %	Total non-per-forming loans Rm	Non-per-forming loans %
7 420	14 725	6 774	28 919	16 976	11 943	11 943	41	28 919	4.5
4 273	10 675	556	15 504	11 525	3 979	3 979	26	15 504	4.5
409	1 561	1 156	3 126	1 759	1 367	1 367	44	3 126	3.8
542	411	1 167	2 120	524	1 596	1 596	75	2 120	6.6
2 196	2 078	3 895	8 169	3 168	5 001	5 001	61	8 169	4.4
395	1 343	2 451	4 189	1 002	3 187	3 187	76	4 189	8.1
1 801	735	1 444	3 980	2 166	1 814	1 814	46	3 980	3.0
1 951	3 254	370	5 575	2 250	3 325	3 325	60	5 600	1.2
1 914	3 097	370	5 381	2 180	3 201	3 201	59	5 381	1.3
37	157		194	70	124	124	64	219	0.3
		2	2		2	2		2	
9 371	17 979	7 146	34 496	19 226	15 270	15 270	44	34 521	3.2

Concentration risk

Concentration risk is the risk of loss arising from an excessive concentration of exposure to a single counterparty, an industry, a product, a geography, maturity, or collateral. The group's credit risk portfolio is well-diversified. The group's management approach relies on the reporting of concentration risk along key dimensions, the setting of portfolio limits and stress testing.

IFRS: INDUSTRY SEGMENTAL ANALYSIS GROSS LOANS AND ADVANCES

	2018 Rm	2017 Rm
Agriculture	35 252	33 476
Construction	16 218	14 921
Electricity	18 781	19 211
Finance, real estate and other business services	350 025	295 917
Individuals	465 020	459 660
Manufacturing	78 820	60 130
Mining	33 423	25 675
Transport	37 016	24 909
Wholesale	60 078	23 552
Other services	62 720	113 020
Gross loans and advances	**1 157 353**	1 070 471

IFRS: GEOGRAPHIC SEGMENTAL ANALYSIS GROSS LOANS AND ADVANCES

	2018		2017	
	%	Rm	%	Rm
South Africa	70	808 658	80	857 642
Africa Regions	20	229 047	15	162 260
International	10	119 648	5	50 569
Gross loans and advances	**100**	**1 157 353**	100	1 070 471

IFRS: INDUSTRY SEGMENTAL ANALYSIS OF STAGE 3/NON-PERFORMING CREDIT IMPAIRMENT OF LOANS AND ADVANCES

	2018 Rm	2017 Rm
Agriculture	1 776	756
Construction	842	156
Electricity	491	245
Finance, real estate and other business services	1 580	1 470
Individuals	13 743	9 121
Manufacturing	1 315	295
Mining	244	853
Transport	318	474
Wholesale	577	360
Other services	2 915	1 540
Credit impairment of non-performing loans	**23 801**	15 270

IFRS: GEOGRAPHIC SEGMENTAL ANALYSIS OF STAGE 3/NON-PERFORMING CREDIT IMPAIRMENT OF LOANS AND ADVANCES

	2018		2017	
	%	Rm	%	Rm
South Africa	70	16 630	82	12 583
Africa Regions	20	4 710	18	2 689
International	10	2 461		(2)
Credit impairment of non-performing loans	**100**	**23 801**	100	15 270

Collateral

The table below shows the financial effect that collateral has on the group's maximum exposure to credit risk. The table is presented according to Basel asset categories and includes collateral that may not be eligible for recognition under Basel but that management takes into consideration in the management of the group's exposures to credit risk. All on- and off-balance sheet exposures that are exposed to credit risk, including NPL, have been included.

Collateral includes:

- financial securities that have a tradable market, such as shares and other securities
- physical items, such as property, plant and equipment
- financial guarantees, suretyships and intangible assets.

Netting agreements, which do not qualify for offset under IFRS but which are nevertheless enforceable, are included as part of the group's collateral for risk management purposes. All exposures are presented before the effect of any impairment provisions. In the retail portfolio, 56% (2017: 56%) is fully collateralised. The R4.5 billion (2017: R3.0 billion) of retail accounts that lie within the 0% to 50% range of collateral coverage mainly comprise accounts which are either in default or legal. The total average collateral coverage for all retail mortgage exposures in the 50% to 100% collateral coverage category is 79% (2017: 95%).

Of the group's total exposure, 57% (2017: 48%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

The group does not currently trade commodities that could give rise to physical commodity inventory or collateral exposure with the exception of precious metals. In the normal course of its precious metal trading operations the group does not hold allocated physical metal; however, this may occur from time to time. Where this does occur, appropriate risk and business approval is required to ensure that the minimum requirements are satisfied, including but not limited to approval of risk limits and insurance cover.

COLLATERAL

2018	Total exposure (a+b) Rm	Unsecured (a) Rm	Secured (b) Rm	Netting agreements (c) Rm	Secured exposure after netting (b-c) Rm	Collateral coverage – Total collateral: 1% to 50% Rm	50% to 100% Rm	Greater than 100% Rm
Corporate	612 478	439 420	173 058	10 540	162 518	13 855	116 605	32 058
Sovereign	259 994	249 101	10 893	2 265	8 628	772	7 150	706
Bank	360 994	233 936	127 058	45 732	81 326	44 668	31 161	5 497
Retail	604 711	120 343	484 368	473	483 895	4 536	139 280	340 079
Retail mortgage	372 152	68	372 084		372 084	1 217	42 134	328 734
Other retail	232 559	120 275	112 284	473	111 811	3 319	97 146	11 345
Total	**1 838 177**	**1 042 800**	**795 377**	**59 010**	**736 367**	**63 831**	**294 196**	**378 340**
Add: financial assets not exposed to credit risk	33 888							
Less: impairments for loans and advances	(36 685)							
Less: off-balance sheet items	(180 630)							
Total exposure	**1 654 750**							
Cash and balances with central banks	85 145							
Derivative assets	48 429							
Trading assets	178 327							
Pledged assets	7 218							
Financial investments	205 380							
Loans and advances	1 120 668							
Other financial assets	9 583							
Total	**1 654 750**							

COLLATERAL CONTINUED

2017	Total exposure (a+b) Rm	Un-secured (a) Rm	Secured (b)	Netting agree-ments (c) Rm	Secured exposure after netting (b-c) Rm	Collateral coverage – Total collateral 1% to 50% Rm	50% to 100% Rm	Greater than 100% Rm
Corporate	542 322	381 980	160 342	8 233	152 109	11 572	104 917	35 620
Sovereign	264 723	251 679	13 044	6 328	6 716	2 812	3 858	46
Bank	308 425	204 147	104 278	53 624	50 654	32 691	11 913	6 050
Retail	569 366	105 580	463 786	324	463 462	3 028	139 938	320 496
Retail mortgage	355 819	58	355 761		355 761	1 217	42 250	312 294
Other retail	213 547	105 522	108 025	324	107 701	1 811	97 688	8 202
Total	1 684 836	943 386	741 450	68 509	672 941	50 103	260 626	362 212
Add: Financial assets not exposed to credit risk	28 061							
Less: impairments for loans and advances	(22 444)							
Less: unrecognised off-balance sheet items[1]	(139 521)							
Total exposure	1 550 932							
Cash and balances with central banks	75 310							
Derivative assets	72 629							
Trading assets	159 798							
Pledged assets	8 879							
Financial investments	180 104							
Loans and advances	1 048 027							
Other financial assets	6 185							
Total	1 550 932							

Funding and liquidity risk

Definition

Liquidity risk is defined as the risk that an entity, although solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

Approach to managing liquidity risk

The nature of the group's banking and trading activities gives rise to continuous exposure to liquidity risk. Liquidity risk may arise where counterparties, who provide the group with short-term funding, withdraw or do not roll over that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

The group manages liquidity in accordance with applicable regulations and within the group's risk appetite framework. The group's liquidity risk management governance framework supports the measurement and management of liquidity across both the corporate and retail sectors to ensure that payment obligations can be met by the group's legal entities, under both normal and stressed conditions. Liquidity risk management ensures that the group has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times. The group manages liquidity risk as three interrelated pillars, which are aligned to the Basel III liquidity requirements.

Maturity analysis of financial liabilities by contractual maturity

The following table analyses cash flows on a contractual, undiscounted basis based on the earliest date on which the group can be required to pay (except for trading liabilities and derivative liabilities, which are presented as redeemable on demand) and will, therefore, not agree directly to the balances disclosed in the consolidated statement of financial position (SOFP).

Derivative liabilities are included in the maturity analysis on a contractual, undiscounted basis when contractual maturities are essential for an understanding of the derivatives' future cash flows. Management considers only contractual maturities to be essential for understanding the future cash flows of derivative liabilities that are designated as hedging instruments in effective hedge accounting relationships. All other derivative liabilities, together with trading liabilities, are treated as trading and are included at fair value in the redeemable on demand bucket since these positions are typically held for short periods of time.

The table also includes contractual cash flows with respect to off-balance sheet items. Where cash flows are exchanged simultaneously, the net amounts have been reflected.

	Redeemable on demand Rm	Maturing within one month Rm	Maturing between one to six months Rm	Maturing between six to 12 months Rm	Maturing after 12 months Rm	Total Rm
2018						
Financial liabilities						
Derivative financial instruments	**49 586**	**1**	**198**	**152**	**232**	**50 169**
Instruments settled on a net basis	**31 016**	**1**	**111**	**53**	**146**	**31 327**
Instruments settled on a gross basis	**18 570**		**87**	**99**	**86**	**18 842**
Trading liabilities	**61 267**					**61 267**
Deposits and debt funding	**912 296**	**63 412**	**154 403**	**80 128**	**195 352**	**1 405 591**
Subordinated debt		**58**	**411**	**6 594**	**15 901**	**22 964**
Other		**18 196**				**18 196**
Total	**1 023 149**	**81 667**	**155 012**	**86 874**	**211 485**	**1 558 187**
Unrecognised financial liabilities						
Letters of credit and bankers' acceptances	**17 801**					**17 801**
Guarantees	**85 576**					**85 576**
Irrevocable unutilised facilities	**77 253**					**77 253**
Total	**180 630**					**180 630**
2017						
Financial liabilities						
Derivative financial instruments[1]	73 676		12	32	29	73 749
Instruments settled on a net basis[1]	47 023		12	32	29	47 096
Instruments settled on a gross basis	26 653					26 653
Trading liabilities	63 576					63 576
Deposits and debt funding	787 553	101 860	120 565	84 280	177 282	1 271 540
Subordinated debt			134	344	19 719	20 197
Other		14 958				14 958
Total	924 805	116 818	120 711	84 656	197 030	1 444 020
Unrecognised financial liabilities						
Letters of credit and bankers' acceptances	13 413					13 413
Guarantees	63 761					63 761
Irrevocable unutilised facilities	62 347					62 347
Total	139 521					139 521

1 In the prior year, amounts maturing between one to six months, six to 12 months and after 12 months were erroneously shown as negatives.

Market risk

Definition

Market risk is the risk of a change in the market value, actual or effective earnings, or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.

The group's key market risks are:

- trading book market risk
- interest rate in the banking book (IRRBB)
- equity risk in the banking book
- foreign currency risk
- own equity-linked transactions
- post-employment obligation risk.

Trading book market risk

Definition

Trading book market risk is represented by financial instruments, including commodities, held in the trading book, arising out of normal global markets' trading activity.

Approach to managing market risk in the trading book

The group's policy is that all trading activities are undertaken within the group's global markets' operations.

The market risk functions are independent of the group's trading operations and are accountable to the relevant legal entity ALCOs. ALCOs have a reporting line into group ALCO, a subcommittee of GROC.

All VaR and SVaR limits require prior approval from the respective entity ALCOs. The market risk functions have the authority to set these limits at a lower level.

Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk functions to bring exposures back in line with approved market risk appetite, with such breaches being reported to management and entity ALCOs.

VaR and SVaR

The group uses the historical VaR and SVaR approach to quantify market risk under normal and stressed conditions.

For risk management purposes VaR is based on 251 days of unweighted recent historical data updated at least monthly, a holding period of one day and a confidence level of 95%. The historical VaR results are calculated in four steps:

- calculate 250 daily market price movements based on 251 days' historical data. Absolute movements are used for interest rates and volatility movements; relative for spot, equities, credit spreads, and commodity prices
- calculate hypothetical daily profit or loss for each day using these daily market price movements
- aggregate all hypothetical profits or losses for day one across all positions, giving daily hypothetical profit or loss, and then repeat for all other days
- VaR is the 95th percentile selected from the 250 days of daily hypothetical total profit or loss.

Daily losses exceeding the VaR are likely to occur, on average, 13 times in every 250 days.

SVaR uses a similar methodology to VaR, but is based on 251-day period of financial stress which is reviewed quarterly and assumes a ten-day holding period and a worst case loss.

The ten-day period is based on the average expected time to reduce positions. The period of stress for SBSA is currently the 2008/2009 financial crisis while, for other markets, more recent stress periods are used where the group has received internal model approval, the market risk regulatory capital requirements is based on VaR and SVaR, both of which use a confidence level of 99% and a ten-day holding period.

Limitations of historical VaR are acknowledged globally and include:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature
- the use of a one-day holding period assumes that all positions can be liquidated or the risk offset in one day. This will usually not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully
- the use of a 95% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.

VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intra-day exposures. VaR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

Trading book portfolio characteristics

VaR for the year under review

Trading book market risk exposures arise mainly from residual exposures from client transactions and limited trading for the group's own account. In general, the group's trading desks have run similar levels of market risk throughout 2018 when compared to 2017 aggregate normal VaR, and reduced levels when compared to aggregate SVaR.

TRADING BOOK NORMAL VAR ANALYSIS BY MARKET VARIABLE

	Normal VaR			
	Maximum[1] Rm	Minimum[1] Rm	Average Rm	Closing Rm
2018				
Commodities risk	**3**		**1**	**2**
Foreign exchange risk	**20**	**8**	**12**	**12**
Equity position risk	**12**	**2**	**6**	**8**
Debt securities	**33**	**12**	**17**	**20**
Diversification benefits[2]			**(10)**	**(16)**
Aggregate	**37**	**17**	**25**	**25**
2017				
Commodities risk	2			1
Foreign exchange risk	38	13	22	13
Equity position risk	12	3	6	5
Debt securities	22	12	16	12
Diversification benefits[2]			(14)	(11)
Aggregate	46	17	31	20

1 The maximum and minimum VaR figures reported for each market variable do not necessarily occur on the same day. As a result, the aggregate VaR will not equal the sum of the individual market VaR values, and it is inappropriate to ascribe a diversification effect to VaR when these values may occur on different days.
2 Diversification benefit is the benefit of measuring the VaR of the trading portfolio as a whole, that is, the difference between the sum of the individual VaRs and the VaR of the whole trading portfolio.

TRADING BOOK SVAR ANALYSIS BY MARKET VARIABLE

	SVaR			
	Maximum[1] Rm	Minimum[1] Rm	Average Rm	Closing Rm
2018				
Pre-diversification			**409**	**487**
Aggregate	**457**	**191**	**304**	**369**
2017				
Pre-diversification			406	447
Aggregate	527	166	309	353

1 Diversification benefit is the benefit of measuring the SVaR of the trading portfolio as a whole, that is, the difference between the sum of the individual regions' SVaRs and the SVaR of the whole trading portfolio.

Approach to managing IRRBB

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

The group's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the group operates. The group's treasury and capital management team monitors banking book interest rate risk on a monthly basis operating under the oversight of group ALCO.

Measurement

The analytical techniques used to quantify IRRBB include both earnings- and valuation-based measures. The analysis takes into account embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis.

INTEREST RATE SENSITIVITY ANALYSIS[1]

		ZAR	USD	GBP	Euro	Other	Total
2018							
Increase in basis points		**200**	**100**	**100**	**100**	**100**	
Sensitivity of annual net interest income	Rm	**2 211**	**397**	**(10)**	**(16)**	**497**	**3 079**
Decrease in basis points		**200**	**100**	**100**	**100**	**100**	
Sensitivity of annual net interest income	Rm	**(2 251)**	**(429)**	**10**		**(468)**	**(3 138)**
2017							
Increase in basis points		200	100	100	100	100	
Sensitivity of annual net interest income	Rm	2 295	246	(2)	(15)	331	2 855
Decrease in basis points		200	100	100	100	100	
Sensitivity of annual net interest income	Rm	(2 325)	(339)			(367)	(3 031)

1 Before tax.

Equity risk in the banking book

Definition

Equity risk is defined as the risk of loss arising from a decline in the value of an equity or equity-type instrument held on the banking book, whether caused by deterioration in the underlying operating asset performance, net asset value (NAV), enterprise value of the issuing entity, or by a decline in the market price of the equity or instrument itself.

Though issuer risk in respect of tradable equity instruments constitutes equity risk, such traded issuer risk is managed under the trading book market risk framework.

Approach to managing equity risk in the banking book

Equity risk relates to all transactions and investments subject to approval by the group ERC, in terms of that committee's mandate, and includes debt, quasi-debt and other instruments that are considered to be of an equity nature.

For the avoidance of doubt, equity risk in the banking book excludes strategic investments in the group's subsidiaries, associates and joint ventures deployed in delivering the group's business and service offerings unless the group financial director and group chief risk officer deem such investments to be subject to the consideration and approval by the group ERC.

MARKET RISK SENSITIVITY OF NON-TRADING EQUITY INVESTMENTS

	10% reduction in fair value Rm	Fair value Rm	10% increase in fair value Rm
2018			
Equity securities listed and unlisted	**3 262**	**3 624**	**3 986**
Listed		**103**	
Unlisted		**3 521**	
Impact on profit and loss	**(356)**		**356**
Impact on OCI	**(7)**		**7**
2017			
Equity securities listed and unlisted	3 005	3 340	3 673
Listed		468	
Unlisted		2 872	
Impact on profit and loss	(326)		326
Impact on OCI	(8)		8

Foreign currency risk

Definition

The group's primary non-trading-related exposures to foreign currency risk arise as a result of the translation effect on the group's net assets in foreign operations, intragroup foreign-denominated debt and foreign-denominated cash exposures and accruals.

Approach to managing foreign currency risk

The group foreign currency management committee, a subcommittee of the group capital management committee, manages the risk according to existing legislation, South African exchange control regulations and accounting parameters. It takes into account naturally offsetting risk positions and manages the group's residual risk by means of forward exchange contracts, currency swaps and option contracts.

Hedging is undertaken in such a way that it does not constrain normal operating activities. In particular, for banking entities outside of the South African common monetary area, the need for capital to fluctuate with risk-weighted assets is taken into account.

The repositioning of the group's NAV by currency, which is managed at a group level, is a controlled process based on underlying economic views and forecasts of the relative strength of currencies. The group does not ordinarily hold open exposures of any significance with respect to its banking book.

Gains or losses on derivatives that have been designated as either net investment or cash flow hedging relationships in terms of IFRS are reported directly in OCI, with all other gains and losses on derivatives being reported in profit or loss.

Foreign currency risk sensitivity analysis

The following table reflects the expected financial impact, in rand equivalent, resulting from a 10% shock to foreign currency risk exposures, against ZAR. The sensitivity analysis is based on net open foreign currency exposures arising from designated net investment hedges, other derivative financial instruments, foreign-denominated cash balances and accruals and intragroup foreign-denominated debt. The sensitivity analysis reflects the sensitivity to OCI and profit or loss on the group's foreign-denominated exposures other than those trading positions for which sensitivity has been included in the trading book VaR analysis. The group's NAV in foreign operations has not been included in the table that follows.

FOREIGN CURRENCY RISK SENSITIVITY IN ZAR EQUIVALENTS

		USD	Euro	GBP	NGN	Other	Total
2018							
Total net long/(short) position	Rm	**80**	**9**	**10**		**(2)**	**97**
Sensitivity (ZAR depreciation)	%	**10**	**10**	**10**	**10**	**10**	
Impact on profit or loss	Rm	**(8)**	**(1)**	**(1)**		**22**	**12**
2017							
Total net long/(short) position	Rm	57	6	14	2	(1)	78
Sensitivity (ZAR depreciation)	%	10	10	10	10	10	
Impact on profit or loss	Rm	(6)	(1)	(1)		(35)	(43)

Own equity-linked transactions

Definition

The group has exposure to changes in its share price arising from its equity-linked remuneration contractual commitments.

Depending on the nature of the group's equity-linked share schemes, the group is exposed to either income statement risk or NAV risk through equity due to changes in its own share price as follows:

- income statement risk arises as a result of losses being recognised in the group's income statement as a result of increases in the group's share price on cash-settled share schemes above the award grant price
- NAV risk arises as a result of the group settling an equity-linked share incentive scheme at a higher price than the price at which the share incentive was granted to the group's employees.

The following table summarises the group's most material share schemes together with an explanation of which risk (where applicable) the share scheme exposes the group to, and why, and an indication as to whether the share schemes are hedged.

Share scheme	Risk to the group	Explanation	Hedged[1]	Hedged risk
Equity growth scheme (EGS)	N/A	The EGS is an equity-settled share scheme that is settled through the issuance of new shares. Accordingly, the group does not incur any cash flow in settling the share schemes and hence is not exposed to any risk as a result of changes in its own share price. Since the EGS results in the issuance of new shares and in order to mitigate the dilutionary impact on existing shareholders, the group re-purchases shares from the open market.	No. As there is no cash flow risk	N/A
Quanto stock unit scheme (Quanto)	Income statement risk	The Quanto is a cash-settled share scheme. Increases in the group's share price results losses being recognised in the income statement.	Yes	SBK share price risk
Equity-settled deferred bonus scheme (DBS) and performance reward plan (PRP)	NAV risk	The DBS and PRP awards that are equity-settled, are settled through the purchase of shares from the open market. Accordingly, for these equity-settled share schemes, increases in the group's share price above the grant price will result in losses being recognised in the group's equity.	Yes	SBK share price risk
Cash-settled DBS and PRP	Income statement risk	The DBS and PRP awards that are cash-settled result in losses being recognised in the income statement as a result of increases in the group's share price.	Yes	SBK share price risk
Share appreciation rights scheme (SARP) – equity-settled	NAV risk	SARP awards that are issued to individuals in the employment of a group entity domiciled in South Africa are classified as equity-settled and are settled through the purchase of shares from the open market. Accordingly, changes in the group's share price above the grant price will result in gains and/or losses being recognised directly in the group's equity.	No, given the current number of awards that have been issued to date. The number of awards are, however, monitored to evaluate for future hedging considerations.	N/A
SARP – cash-settled	Income statement risk	Awards made to individuals of a group entity outside of South Africa are settled in cash. Increases in the group's share price will result in losses being recognised in the income statement	No, given the current number of awards that have been issued to date. The number of awards are, however, monitored to evaluate for future hedging considerations.	N/A

1 The group partially hedges these exposures.

Investment management and life insurance – Liberty Holdings Limited

Credit risk

The following table provides information regarding the aggregated credit risk exposure of Liberty to debt instruments categorised by credit ratings, if available, as at 31 December.

EXPOSURE TO CREDIT RISK[1]

	A- and above Rm	BBB+ Rm	BBB Rm	BBB- Rm	BB+ Rm	BB Rm	BB- and below Rm	Not rated Rm	Pooled funds Rm	Total Rm
2018										
Debt instruments	15 514	4 248	31 637	29 429	36 088	11 121	5 523	4 944		138 504
Investment policies				8 208				1 254		9 462
Prepayments, insurance and other receivables	514	82	29	395				3 933		4 953
Mutual funds – interest-bearing instruments									17 338	17 338
Reinsurance assets	1 654		35					430		2 119
Derivatives and collateral deposits	2 508	284	2 551	1 398		3 572		27		10 340
Cash and cash equivalents	3 782	452	4 155	5 712	14	2 316	384	159		16 974
Total assets bearing credit risk	23 972	5 066	38 407	45 142	36 102	17 009	5 907	10 747	17 338	199 690
2017										
Debt instruments	8 349	1 238	33 124	28 299	24 944	20 704	5 048	1 989		123 695
Investment policies				8 498				1 206		9 704
Prepayments, insurance and other receivables	620	66	30	485	12			5 148		6 361
Mutual funds – interest-bearing instruments									22 174	22 174
Reinsurance assets	1 339	21	28		5		188	193		1 774
Derivatives and collateral deposits	1 802	160	329	2 544	4	3 031		1		7 871
Cash and cash equivalents	2 940	1 627	594	5 599		4 087	128	194		15 169
Total assets bearing credit risk	15 050	3 112	34 105	45 425	24 965	27 822	5 364	8 731	22 174	186 748

1 As reported by Liberty, refer to Liberty's annual financial statements.

Funding and liquidity risk

Long-term insurance

The table below breaks down Liberty's assets according to time to liquidate. It is worth noting that, in a stressed environment, the market value of these assets is likely to be negatively affected.

FINANCIAL PROPERTY AND INSURANCE ASSET LIQUIDITY[1]

	2018		2017	
	%	Rm	%	Rm
Liquid[2]	74	321 472	76	333 857
Medium[3]	16	67 279	14	63 590
Illiquid[4]	10	44 788	10	44 026
Total	**100**	**433 539**	100	441 473

1 As reported by Liberty. Refer to Liberty's annual financial statements.
2 Liquid assets are those that are considered to be realisable within one month (for example, cash, listed equities and term deposits).
3 Medium assets are those that are considered to be realisable within six months (for example, unlisted equities and certain unlisted term deposits).
4 Illiquid assets are those that are considered to be realisable in excess of six months (for example, investment properties and policyholder assets).

Maturity profiles of financial instrument liabilities

The following table summarises the maturity profile of Liberty's financial instrument liabilities based on the remaining undiscounted contractual obligations. These figures will be higher than amounts disclosed in the statement of financial position (where the effect of discounting is taken into account) except for short duration liabilities. Policyholder liabilities under investment contracts, investment contracts with DPF and insurance contracts are shown in a separate table.

MATURITY PROFILE OF FINANCIAL INSTRUMENT LIABILITIES – CONTRACTUAL CASH FLOWS[1] (EXCLUDING POLICYHOLDER LIABILITIES AND DERIVATIVE LIABILITIES)

	Zero to three months[2] Rm	Four to 12 months Rm	One to five years Rm	Six to ten years Rm	Variable Rm	Total Rm
2018						
Subordinated notes	173	378	4 972	2 398		7 921
Commercial paper	811					811
Redeemable preference shares[3]					5	5
Liberty Two Degrees financial liabilities		745	1 573			2 318
Third-party financial liabilities arising on consolidation of mutual funds	48 186					48 186
Repurchase agreements	5 135	649				5 784
Collateral deposits payable	5 976					5 976
Insurance and other payables	11 568	347	54	2		11 971
Total	**71 849**	**2 119**	**6 599**	**2 400**	**5**	**82 972**
2017						
Subordinated notes	120	1 343	3 995	2 224		7 682
Redeemable preference shares[3]					5	5
Third-party financial liabilities arising on consolidation of mutual funds	49 713					49 713
Repurchase agreements	3 582	149	1 006			4 737
Collateral deposits payable	4 426					4 426
Insurance and other payables	11 756	196	41	2		11 995
Total	69 597	1 688	5 042	2 226	5	78 558

1 As reported by Liberty. Refer to Liberty's annual financial statements.
2 0 – 3 months are either due within the timeframe or are payable on demand.
3 No fixed maturity date, however, redeemable with a two-year notice period at the instance of Liberty or the holder.

Liquidity risks arising from long-term insurance business

The tables that follow provide an indication of liquidity needs in respect of cash flows required to meet obligations arising under long-term insurance business.

Undiscounted cash flows are shown and the effect of discounting is taken into account to reconcile to total policyholder contract values.

EXPECTED CASH FLOWS – LONG-TERM INSURANCE CONTRACTS[1]

	Insurance contracts		Reinsurance assets and liabilities	Investment contracts with DPF[2]	Investment contracts
	Policyholder liabilities Rm	Policyholder assets Rm	Rm	Rm	Rm
2018					
Investment-linked liabilities					
Within one year	15 569			226	4 679
One to five years	57 136			(314)	8 251
Six to ten years	14 770			1 004	8 057
11 – 20 years	32 979			1 785	20 633
Over 20 years	35 851			7 736	55 346
Total investment-linked liabilities	156 305			10 437	96 966
Non-investment-linked liabilities/(assets)					
Within one year	5 187	(2 332)	(349)		584
One to five years	22 887	(6 416)	(701)		1 266
Six to ten years	14 470	(3 548)	(633)		2 054
11 – 20 years	25 814	3 063	(586)		30
Over 20 years	61 980	62 905	969		36
Effect of discounting cash flows	(85 899)	(60 380)	(116)		(1 123)
Total non-investment-linked liabilities/(assets)	44 439	(6 708)	(1 416)		2 847
Total long-term insurance business liabilities/(assets)	200 744	(6 708)	(1 416)	10 437	99 813
Total surrender value of long-term insurance policyholder liabilities	166 589			10 405	99 545
2017					
Investment-linked liabilities					
Within one year	19 299			493	6 226
One to five years	63 806			125	9 026
Six to ten years	15 890			969	9 943
11 – 20 years	36 105			2 159	21 373
Over 20 years	33 014			8 099	51 204
Total investment-linked liabilities	168 114			11 845	97 772
Non-investment-linked liabilities/(assets)					
Within one year	5 308	(2 506)	(169)		571
One to five years	19 287	(6 690)	(218)		1 239
Six to ten years	13 671	(3 889)	(294)		2 041
11 – 20 years	26 070	2 604	(613)		40
Over 20 years	65 667	66 130	(2 655)		44
Effect of discounting cash flows	(87 563)	(63 133)	3 131		(1 188)
Total non-investment-linked liabilities/(assets)	42 440	(7 484)	(818)		2 747
Total long-term insurance business liabilities/(assets)	210 554	(7 484)	(818)	11 845	100 519
Total surrender value of long-term insurance policyholder liabilities	176 459			11 852	100 157

1 As reported by Liberty. Refer to Liberty's annual financial statements.
2 DPF refers to discretionary participation features.

Market risk

Exposure to financial, property and insurance assets

The following table summarises Liberty's exposure to financial, property and insurance assets. This exposure has been split into the relevant market risk categories and then attributed to the effective holders of the risk.

SUMMARY OF GROUP ASSETS SUBJECT TO MARKET RISK[1]

		Attributable to				
	Total assets Rm	Long-term policyholder investment-linked (including DPF) liabilities Rm	Other policyholder liabilities[5] Rm	Third-party financial liabilities arising on con-solidation of mutual funds Rm	Non-controlling interests Rm	Residual liabilities and share-holders' interest Rm
2018						
Assets subject to market risk	**227 141**	**190 541**	**(7 136)**	**24 103**	**7 883**	**11 750**
Equity price	**123 673**	**108 886**	**(4 038)**	**13 498**		**5 327**
Property price[2]	**39 139**	**23 856**	**(287)**	**6 657**	**7 883**	**1 030**
Mixed portfolios, excluding investment policies[3]	**64 329**	**57 799**	**(2 811)**	**3 948**		**5 393**
Assets subject to market and credit risk	**199 690**	**84 156**	**43 716**	**24 083**	**507**	**47 228**
Interest rate	**187 316**	**73 901**	**42 017**	**24 083**	**507**	**46 808**
Investment policies in mixed portfolios	**9 462**	**9 462**				
Reinsurance assets[4]	**2 119**		**1 699**			**420**
Equity derivatives	**793**	**793**				
Long-term policyholder assets	**6 708**					**6 708**
Other assets	**3 735**					**3 735**
Total	**437 274**	**274 697**	**36 580**	**48 186**	**8 390**	**69 421**
Percentage (%)		**62.8**	**8.4**	**11.0**	**1.9**	**15.9**
2017						
Assets subject to market risk	247 241	204 691	(7 666)	31 809	7 497	10 910
Equity price	147 580	125 110	(4 350)	23 158		3 662
Property price[2]	40 180	25 010	(329)	5 423	7 497	2 579
Mixed portfolios, excluding investment policies[3]	59 481	54 571	(2 987)	3 228		4 669
Assets subject to market and credit risk	186 748	86 131	40 425	17 904	450	41 838
Interest rate	174 890	76 047	38 944	17 904	450	41 545
Investment policies in mixed portfolios	9 704	9 704				
Reinsurance assets[4]	1 774		1 481			293
Equity derivatives	380	380				
Long-term policyholder assets	7 484					7 484
Other assets	2 654					2 654
Total	444 127	290 822	32 759	49 713	7 947	62 886
Percentage (%)		65.5	7.4	11.2	1.8	14.1

1 As reported by Liberty. Refer to Liberty's annual financial statements.
2 Equity price risk is included in property price risk where the invested entity only has exposure to investment properties. Property company debt of R5 300 million is included in the interest rate risk line.
3 Mixed portfolios are subject to a combination of equity price, interest rate and property price risks depending on each portfolio's construction. A substantial portion of the mixed portfolios will be subject to equity price and interest rate risk. The exact proportion is practically difficult to accurately calculate given the number of mutual funds and hedge funds contained in the group portfolios.
4 Reinsurance assets are claims against reinsurers outstanding at the reporting date. They are not subject to market risk other than time value of money (interest rate) for the periods to settlement.
5 Negative exposure to the various risk categories can occur in 'Other policyholder liabilities' since the present value of future charges can exceed the present value of future benefits and expenses resulting in a negative liability. The group offsets these negative liabilities against policyholders' market-related liabilities. The policyholders' market risk exposure, however, remains unchanged. Hence, shareholders bear all the risks of shorting assets backing the policyholder investment – linked liabilities by the amount of these negative liabilities.

Interest rate risk

The following table provides additional detail on financial instrument assets and liabilities and their specific interest rate exposure. Due to practical considerations, interest rate risk details contained in investments in non-subsidiary mutual funds and investment policies are not provided. Accounts receivable and accounts payable, where settlement is expected within 90 days, are not included in the analysis. The effect of interest rate risk on these balances is not considered significant given the short-term duration of the underlying cash flows. Derivative instrument exposure to interest rate is shown separately.

INTEREST RATE EXPOSURE[1]

Carrying value	2018 Rm	2017 Rm
Financial instruments liabilities	**19 846**	14 673
Exposed to cash flow interest rate risk	**18 369**	12 213
Exposed to fair value interest rate risk	**1 477**	2 460
Financial instruments assets	**159 583**	140 682
Exposed to cash flow interest rate risk	**91 242**	81 999
Exposed to fair value interest rate risk	**68 341**	58 683

1 As reported by Liberty. Refer to Liberty's annual financial statements.

Property market risk

Liberty's direct exposure to property market risk is shown below.

PROPERTY MARKET RISK[1]

	2018 Rm	2017 Rm
Investment properties	**34 316**	33 256
Owner-occupied properties	**1 645**	1 512
Gross direct exposure	**35 961**	34 768
Attributable to non-controlling interests	**(7 884)**	(7 497)
Net exposure	**28 077**	27 271
Concentration use risk within directly held properties is summarised below:		
Shopping malls	**29 520**	28 219
Office buildings	**2 439**	2 536
Hotels	**748**	762
Other property (mainly Melrose Arch, a convention centre and properties under development.)	**3 254**	3 251
Total	**35 961**	34 768

1 As reported by Liberty. Refer to Liberty's annual financial statements.

Sensitivity analysis

The following table provides a description of the sensitivities that are provided on market risk assumptions.

Market value	Description of sensitivity
Interest yield curve	A parallel shift in the interest rate yield curve
Implied option volatilities	A change in the implied short-term, property and interest rate option volatility assumptions
Equity prices	A change in the local and foreign equity prices
Rand exchange rates	A change in the ZAR exchange rate to all applicable currencies

The equity price and rand currency sensitivities are applied as an instantaneous event at the financial position date with no change to long-term market assumptions used in the measurement of policyholder contract values. In other words, the assets are instantaneously impacted by the sensitivity on the financial position date. The new asset levels are applied to the measurement of policyholder contract values, where applicable, but no changes are made to the prospective assumptions used in the measurement of policyholder contract values.

The interest rate yield curve and implied option volatility sensitivities are applied similarly but the assumptions used in the measurement of policyholder contract values that are dependent on interest rate yield curves and implied option volatilities are updated.

The market sensitivities are applied to all assets held by Liberty (and not just assets backing the policyholder contract values). Each sensitivity is applied in isolation with all other assumptions left unchanged.

The following table summarises the impact of the change in the aforementioned risk variables on policyholders' contract values and on ordinary shareholders' equity and attributable profit after taxation. The market risk sensitivities are net of risk mitigation activities. Consequently the comparability to the previous year is impacted by the level of risk mitigation at the respective financial position dates.

SENSITIVITY ANALYSIS[1]

	2018				2017			
	Change in variable %	Gross of reinsurance impact on policyholders' contract values Rm	Net of reinsurance impact on policyholders' contract values Rm	Impact on equity and attributable profit after taxation Rm	Change in variable %	Gross of reinsurance impact on policyholders' contract values Rm	Net of reinsurance impact on policyholders' contract values Rm	Impact on equity and attributable profit after taxation Rm
Market assumptions								
Interest rate yield curve	12	(6 119)	(6 162)	(357)	12	(5 267)	(5 236)	(274)
	(12)	7 540	7 573	239	(12)	6 567	6 541	168
Option price volatilities	20	61	61	(21)	20	16	16	(11)
	(20)	(45)	(45)	11	(20)	6	6	(4)
Equity prices	15	21 810	21 810	1 528	15	23 398	23 397	1 948
	(15)	(21 853)	(21 853)	(1 481)	(15)	(22 696)	(22 696)	(1 978)
Rand exchange rates	12[2]	(5 924)	(5 924)	(563)	12[2]	(5 402)	(5 402)	(630)
Rand exchange rates	(12)[3]	5 940	5 940	681	(12)[3]	5 394	5 394	643

1 As reported by Liberty. Refer to Liberty's annual financial statements
2 Strengthening of the rand.
3 Weakening of the rand.

The following table provides a description of the sensitivities that are provided on insurance risk assumptions.

Market value	Description of sensitivity
Assurance mortality	A level percentage change in the expected future mortality rates on assurance contracts
Annuitant longevity	A level percentage change in the expected future mortality rates on annuity contracts
Morbidity	A level percentage change in the expected future morbidity rates
Withdrawal	A level percentage change in the expected future withdrawal rates
Expense per policy	A level percentage change in the expected maintenance expenses

The following table summarises the impact of the change in the insurance risk variables on policyholders' contract values and on ordinary shareholders' equity and attributable profit after taxation.

SENSITIVITY ANALYSIS OF RISK VARIABLES[1]

	2018				2017			
	Change in variable %	**Gross of reinsurance impact on policy-holders' contract values Rm**	**Net of reinsurance impact on policy-holders' contract values Rm**	**Impact on equity and attri-butable profit after taxation Rm**	Change in variable %	Gross of reinsurance impact on policy-holders' contract values Rm	Net of reinsurance impact on policy-holders' contract values Rm	Impact on equity and attri-butable profit after taxation Rm
Insurance assumptions								
Mortality								
Assured lives	**2**	**464**	**379**	**(273)**	2	434	361	(260)
	(2)	**(466)**	**(380)**	**274**	(2)	(436)	(362)	261
Annuitant longevity	**4[2]**	**392**	**392**	**(282)**	4[2]	390	390	(281)
	(4)[3]	**(375)**	**(375)**	**270**	(4)[3]	(374)	(374)	269
Morbidity	**5**	**764**	**628**	**(452)**	5	662	562	(405)
	(5)	**(759)**	**(625)**	**450**	(5)	(661)	(561)	404
Withdrawals	**8**	**502**	**509**	**(366)**	8	528	512	(369)
	(8)	**(543)**	**(552)**	**396**	(8)	(571)	(554)	399
Expense per policy	**5**	**420**	**420**	**(305)**	5	389	389	(282)
	(5)	**(420)**	**(420)**	**305**	(5)	(389)	(389)	282

1 As reported by Liberty. Refer to Liberty's annual financial statements.
2 Annuitant life expectancy increases i.e. annuitant mortality reduces.
3 Annuitant life expectancy reduces, i.e. annuitant mortality increases.

Annexure D – Group share incentive schemes

Share-based payments

The group's share incentive schemes enable key management personnel and senior employees to benefit from the performance of the group and group companies' share price. For further detail regarding the share schemes refer to the group's governance and remuneration report.

	2018 Rm	2017 Rm
Expenses recognised in staff cost		
Equity growth scheme	**21**	53
Share appreciation rights scheme	**20**	7
Quanto stock scheme	**15**	59
Deferred bonus scheme	**1 257**	976
Performance reward plan	**427**	470
Cash-settled deferred bonus scheme	**371**	249
Liberty share incentive scheme	**94**	99
Other share incentive schemes		4
Total expenses recognised in staff costs	**2 205**	1 917
Summary of liabilities recognised in other liabilities		
Share appreciation rights scheme	**2**	1
Quanto stock scheme		92
Deferred bonus scheme	**157**	92
Performance reward plan	**216**	139
Cash-settled deferred bonus scheme	**373**	247
Total liability recognised in other liabilities	**748**	571

Equity growth scheme (EGS)

The EGS is an equity-settled scheme and represents appreciation rights allocated to employees. The converted value of the rights is effectively settled by issue of shares equivalent to the value of the rights. The scheme has five different subtypes of vesting categories as illustrated by the table below:

	Year	% vesting	Expiry
Vesting categories			
Type A	3, 4, 5	50, 75, 100	10 years
Type B	5, 6, 7	50, 75, 100	10 years
Type C	2, 3, 4	50, 75, 100	10 years
Type D	2, 3, 4	33, 67, 100	10 years
Type E	3, 4, 5	33, 67, 100	10 years

A reconciliation of the movement of share options is detailed below:

	Number of rights		Average price range (R)
	2018	2017	**2018**
Movement summary			
Rights outstanding at beginning of the year	**10 772 081**	17 809 194	
Exercised	**(3 390 508)**	(6 823 050)	**62.39 – 156.96**
Lapsed/forfeited	**(17 335)**	(214 063)	**90.50 – 156.96**
Rights outstanding at the end of the year	**7 364 238**	10 772 081	

Equity growth scheme (EGS) continued

During 2018, 1 417 128 (2017: 2 023 515) SBG shares were issued to settle the appreciated rights value. At the end of the year, the group would need to issue 2 557 500 (2017: 9 217 449) SBG shares to settle the outstanding appreciated rights value. The EGS rights are only awarded to individuals in the employment of a group entity domiciled in South Africa.

The group is required to ensure that employees' tax arising from benefits due in terms of the scheme is paid in accordance with the Fourth Schedule of the Income Tax Act of South Africa. Where employees have elected not to fund the tax from their own resources the tax due is treated as a diminution of the gross benefits due under the scheme. No[1] (2017: nil) SBG shares were issued and sold to settle the employees' tax due during the year. This reduces the liability to the employee in respect of in respect of the outstanding appreciated rights value. Share options were exercised regularly throughout the year. The weighted average share price for the year was R195.35 (2017: R157.29). The following rights granted to employees, including executive directors, had not been exercised at year end:

	2018			2017		
Option expiry period	Number of ordinary shares	Option price range (rand)	Weighted average price (rand)	Number of ordinary shares	Option price range (rand)	Weighted average price (rand)
Year to 31 December 2018				60 800	83.10 – 92.00	90.91
Year to 31 December 2019	**219 475**	**62.39 – 95.50**	**64.58**	1 126 491	62.39 – 95.50	63.35
Year to 31 December 2020	**2 002 713**	**102.39 – 114.69**	**111.83**	2 333 977	102.00 – 114.69	111.82
Year to 31 December 2021	**1 821 026**	**96.68 – 103.03**	**98.93**	2 774 059	92.79 – 107.55	98.72
Year to 31 December 2022	**225 962**	**98.75 – 108.90**	**107.42**	278 497	98.75 – 108.90	107.70
Year to 31 December 2023	**250 761**	**115.51**	**115.51**	613 283	115.51	115.51
Year to 31 December 2024	**517 886**	**126.87**	**126.87**	870 150	126.87	126.87
Year to 31 December 2025	**1 095 029**	**156.96**	**156.96**	1 270 158	156.96	156.96
Year to 31 December 2026	**1 231 386**	**122.24**	**122.24**	1 444 666	122.24	122.24
Total	**7 364 238**			10 772 081		

1 Following the adoption by the group of the amendment to IFRS 2 on 1 January 2017, the employees' tax obligation are now settled directly in cash as opposed to the issuance of shares and subsequent sale to settle these taxes.

Shares appreciation rights scheme (SARP)

The SARP is a long-term scheme and represents appreciation rights awarded to employees and is based on the SBG's share price. Awards that are issued to individuals in the employment of a group entity domiciled in South Africa are classified as equity-settled and awards made to individuals of a group entity outside of South Africa are classified as cash-settled. Vesting and expiry of the rights are as follows:

	Year	% vesting	Expiry
SARP	**2,3,4**	**33,67,100**	**4,5,6**

The converted value of the rights is settled either by purchasing shares for equity-settled awards on an external market and in cash for cash-settled awards equal to the value of the converted rights.

A reconciliation of the movement of share options is detailed below:

	2018		2017	
	Average price range (rand)	**Number of rights**	Average price range (rand)	Number of rights
Movement summary				
SARP				
Rights outstanding at the end of the year		**671 923**		
Granted[1]	**220.97**	**761 933**	155.95	722 322
Lapsed/forfeited			155.95	(50 399)
Rights outstanding at the end of the year		**1 433 856**		671 923
Outstanding equity-settled units		**1 302 257**		626 918
Outstanding cash-settled units		**131 599**		45 005

1 Includes 675 339 (2017: 667 317) units that are equity settled, the balance will be cash-settled.

At the end of the year, the group would need to purchase 85 958 SBG shares to settle the outstanding appreciated rights value.

The following rights granted to employees, including executive directors, had not been exercised as at 31 December 2018:

	2018			2017		
Option expiry period	**Number of rights**	**Option price range (rand)**	**Weighted average price (rand)**	Number of rights	Option price range (rand)	Weighted average price (rand)
Year to 31 December 2021	**223 967**	**155.95**	**155.95**	223 967	155.95	155.95
Year to 31 December 2022	**477 920**	**155.95 – 220.97**	**190.50**	223 967	155.95	155.95
Year to 31 December 2023	**477 942**	**155.95 – 220.97**	**190.50**	223 989	155.95	155.95
Year to 31 December 2024	**254 027**	**220.97**	**220.97**			
Total	**1 433 856**			671 923		

The share appreciation rights granted during the year were valued using a Black-Scholes option pricing model. Each grant was valued separately. The weighted fair value of the options granted per vesting and the assumptions utilised are illustrated below:

	2018			2017		
	Tranche 1	**Tranche 2**	**Tranche 3**	Tranche 1	Tranche 2	Tranche 3
Number of appreciation rights granted	**253 953**	**253 953**	**254 027**	223 967	223 967	223 989
Weighted average fair value at grant date (rand)	**52.90**	**58.66**	**63.13**	35.32	39.44	43.06
The principal inputs are as follows:						
Weighted average share price (rand)	**220.97**	**220.97**	**220.97**	155.95	155.95	155.95
Weighted average exercise price (rand)	**220.97**	**220.97**	**220.97**	155.95	155.95	155.95
Expected life (years)	**4.00**	**5.00**	**6.00**	3.67	4.67	5.67
Expected volatility (%)	**29.19**	**29.19**	**29.19**	27.93	27.93	27.93
Risk-free interest rate (%)	**8.21**	**8.40**	**8.55**	8.13	8.34	8.51
Dividend yield (%)	**4.6**	**4.48**	**4.42**	4.46	4.41	4.32

Quanto stock scheme

Since 2007, Standard Bank International has operated a deferred incentive arrangement in the form of the Quanto stock unit plan. All employees granted an annual performance award over a threshold have part of their award deferred. The award units are denominated in USD, the value of which moves in parallel to the change in price of the SBG shares listed on the JSE. Awards are issued to individuals in employment of a group entity domiciled in the group's international operations and are cash-settled. Awards vest over a three year period.

Special terms apply to employees designated by the Prudential Regulatory Authority (PRA) as Code Staff. For these employees the deferred portion of the incentive is delivered in Quanto stock units with three-year vesting and an additional six-month holding period after vesting. Thereafter half of the remaining incentive (non-deferred portion) is paid immediately in cash and the other half is delivered in Quanto stock units with a further six-month vesting period. From 2016, awards of Quanto Stock Scheme units were replaced with awards of the cash-settled defined bonus scheme.

The change in liability due to the change in the SBG share price, is partially hedged through the use of equity options designated as cash flow hedges.

	Units	
	2018	2017
Movement summary		
Units outstanding at beginning of the year	**33 983**	112 939
Lapsed/forfeited		(164)
Exercised	**(33 983)**	(78 792)
Units outstanding at end of the year		33 983

Deferred bonus scheme

All employees granted an annual performance award over a threshold have part of their award deferred. The awards are indexed to the group's share price and accrue notional dividends during the vesting period, which are payable on vesting. Awards vest in three equal amounts at 18 months, 30 months and 42 months from the date of award. The final payout is determined with reference to the group's share price on vesting date. These awards have been partially hedged through the use of equity forwards.

Awards that are issued to individuals in employment of a group entity domiciled in South Africa are classified as equity-settled and awards that are made to individuals of a group entity outside of South Africa are classified as cash-settled.

	Units	
	2018	2017
Movement summary		
Units outstanding at beginning of the year	**14 353 804**	14 272 817
Units granted during the year[1]	**5 912 386**	7 037 201
Exercised	**(6 337 114)**	(6 291 609)
Lapsed/forfeited	**(609 564)**	(664 605)
Units outstanding at end of the year	**13 319 512**	14 353 804
Outstanding equity-settled units	**12 757 885**	13 365 219
Outstanding cash-settled units	**561 627**	988 585
Weighted average fair value at grant date (R)	**218.68**	155.87
Expected life (years)	**2.51**	2.51

[1] Includes 5 834 741 (2017: 6 907 216) units that are equity settled, the balance relates to cash-settled rewards.

Performance reward plan

The PRP is performance-driven share plan which rewards value delivered against specific targets. The PRP incentivises a group of senior executives to meet the strategic long-term objectives that deliver value to shareholders, to align the interests of those executives with those of shareholders and to act as an attraction and retention mechanism in a highly competitive marketplace for skills. The PRP operates alongside the existing conditional, equity-settled long-term plans, namely the EGS, DBS, and other share incentive schemes.

The awards that are indexed to the group's share price and accrue notional dividends during the vesting period, which are payable on vesting. Shares that vest (if any), and that are delivered to the employee, are conditional on the pre-specified performance metrics. These awards have been partially hedged through the use of equity forwards.

Awards are issued to individuals in employment of a group entity domiciled in South Africa are classified as equity-settled and awards made to individuals of a group entity outside of South Africa are classified as cash-settled.

	Units	
	2018	2017
Movement summary		
Units outstanding at beginning of the year	**7 517 975**	7 703 203
Units granted during the year[1]	**2 210 428**	2 658 600
Exercised	**(2 456 539)**	(1 771 046)
Performance condition grant/(lapse)	**360 294**	(857 954)
Lapsed/forfeited	**(5 302)**	(214 828)
Units outstanding at the end of the year	**7 626 856**	7 517 975
Outstanding equity-settled units	**6 500 064**	6 103 839
Outstanding cash-settled units	**1 126 792**	1 414 136
Weighted average fair value at grant date (rand)	**220.97**	155.95
Expected life (years)	**3.07**	3.07

[1] Includes 1 947 028 (2017: 2 207 100) units that are equity-settled, the balance relates to cash-settled rewards.

Cash-settled deferred bonus scheme (CSDBS)

Effective for awards made in 2017, employees granted an annual performance award over a threshold and who are in employment in South Africa and meet other specific criteria have part of their award deferred.

Awards in rand are indexed to SBG's share price and accrues notional dividends during the vesting period, which are payable on vesting. Awards vest in three equal amounts at 18, 30 and 42 months from the date of the award. The maturity value is determined with reference to the SBG share price on the vesting date. These awards are classified as cash-settled from a group perspective. Awards in currencies other than rand (being the employee's host country) are denominated in that currency with the same terms as rand-denominated awards with the value of the awards, in foreign currency, moving in parallel with changes in the SBG share price. These awards have been partially hedged through the use of equity forwards.

			2018				
Currency	Weighted average fair value at grant date	Expected life at grant date (years)	**Opening balance**	**Granted**	**Exercised**	**Lapsed**	**Outstanding**
AOA	220.97	2.51	**126 326**	**233 735**	**(42 106)**		**317 955**
BWP	220.97	2.51	**19 409**	**17 896**	**(6 466)**	**(972)**	**29 867**
CNY	220.97	2.51	**41 921**	**25 188**	**(16 541)**		**50 568**
EUR	220.97	2.51		**46**			**46**
GBP	220.97	2.51	**66 231**	**33 804**	**(25 573)**	**(3 003)**	**71 459**
GHS	220.97	2.51	**8 054**	**5 713**	**(2 657)**	**(65)**	**11 045**
HKD	220.97	2.51	**52 274**	**17 009**	**(20 313)**		**48 970**
KES	216.94	2.51	**557 541**	**421 129**	**(177 790)**	**(36 741)**	**764 139**
LSL	220.97	2.51	**7 248**	**7 831**	**(2 414)**		**12 665**
MUR	220.97	2.51	**46 745**	**50 754**	**(15 580)**		**81 919**
MWK	220.97	2.51	**797 223**	**627 553**	**(265 737)**		**1 159 039**
MZN	220.97	2.51	**77 137**	**100 510**	**(25 705)**		**151 942**
NAD	219.01	2.51	**33 317**	**20 267**	**(11 103)**		**42 481**
NGN	220.97	2.51	**4 794 223**	**4 664 095**	**(1 359 793)**	**(135 203)**	**7 963 322**
SGD	220.97	2.51		**2 036**			**2 036**
SZL	220.97	2.51	**7 793**	**9 053**	**(1 954)**	**(2 603)**	**12 289**
TZS	220.97	2.51		**208 177**			**208 177**
UGX	220.97	2.51	**11 465 062**	**8 758 390**	**(3 479 691)**	**(1 342 759)**	**15 401 002**
USD	220.97	2.51	**34 310**	**17 187**	**(13 568)**	**(343)**	**37 586**
XOF	220.97	2.51	**176 915**	**195 506**		**(80 029)**	**292 392**
ZAR	220.32	2.51	**918 740**	**773 271**	**(304 437)**	**(5 904)**	**1 381 670**
ZMW	220.97	2.51	**14 565**	**12 216**	**(4 851)**		**21 930**

Other share schemes

Scheme	Description	Classification	Stock symbol	**2018 Outstanding units**	2017 Outstanding units
Liberty Holdings group restricted share plan	During 2012, Liberty introduced the Liberty Holding group restricted share plan which has two methods of participation: 1) Long-term plan awards granted prior to 28 February 2013 vest 33 1/3% at the end of year two, three and four respectively while awards granted subsequently vest 33 1/3% at the end of year three, four and five respectively. 2) Deferred-plan – Awards vest 33 1/3% at the end of 18 months, 30 months and 42 months respectively.	Equity-settled scheme	LBH	**4 341 587**	4 013 757
Nigeria share schemes	On 1 March 2010 and 1 March 2011, share appreciation rights were issued to key management personnel. The scheme has various vesting periods, and expires ten years after grant date.	Cash-settled scheme	IBTCCB: NL	**24 253 104**	25 327 715
Group share incentive scheme (GSIS)	GSIS confers rights to employees to acquire shares at the value of the SBG share price at the date the option was granted. The scheme has various vesting periods, and expires ten years after grant date. During the year, 312 444 (2017: 854 312) SBG shares were issued to settle the GSIS awards.	Equity-settled scheme	SBK	**696 115**	1 022 621

2017				
Opening balance	Granted	Exercised	Lapsed	Outstanding
	131 155		(4 829)	126 326
	19 409			19 409
23 573	27 149	(7 713)	(1 088)	41 921
44 013	37 526	(14 576)	(732)	66 231
	8 054			8 054
41 445	24 642	(13 813)		52 274
	608 231		(50 690)	557 541
	7 248			7 248
	46 745			46 745
	797 223			797 223
	77 907		(770)	77 137
	33 317			33 317
	4 867 325		(73 102)	4 794 223
	7 793			7 793
	143 636		(143 636)	
	11 840 183		(375 121)	11 465 062
19 930	21 913	(6 638)	(895)	34 310
	176 915			176 915
	918 740			918 740
	23 367		(8 802)	14 565

Annexure E – Emoluments and share incentives of directors and prescribed officers

Executive directors' and prescribed officers' emoluments

	SK Tshabalala		BJ Kruger	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Cost to company package	**9 987**	9 103	**9 906**	9 079
Cash package paid during the year	**8 636**	7 899	**8 480**	7 847
Retirement contributions paid during the year	**1 222**	1 076	**1 159**	1 076
Other allowances	**129**	128	**267**	156
Once-off allowances/payments[4]	**632**		**3 022**	
Short-term incentive	**25 400**	25 400	**24 950**	24 950
Short-term incentive (cash)[5]	**11 350**	11 350	**11 125**	11 125
Short-term incentive (share-linked deferral)[6]	**14 050**	14 050	**13 825**	13 825
Total reward (excluding conditional long-term incentive awards)	**36 019**	34 503	**37 878**	34 029
EGS awards vesting[7]		4 312		3 934
PRP awards vesting[8]	**20 228**	14 658	**20 228**	14 658
PRP notional dividend[9]	**2 818**	1 643	**2 818**	1 643
Total reward (including conditional long-term incentive awards)	**59 065**	55 116	**60 924**	54 264

Executive directors' and prescribed officers' emoluments – former prescribed officer

	PL Schlebusch[10]		DC Munro
	2018 R'000	2017 R'000	2017 R'000
Cost to company package	**1 786**	6 950	2 844
Cash package paid during the year	**1 602**	5 951	2 399
Retirement contributions paid during the year	**136**	704	334
Other allowances	**48**	295	111
Short-term incentive	**6 750**	27 000	13 100
Short-term incentive (cash)[5]	**2 175**	12 150	7 700
Short-term incentive (share-linked deferral)[6]	**4 575**	14 850	5 400
Total reward (excluding conditional long-term incentive awards)	**8 536**	33 950	15 944
EGS conditional reflecting[7]		2 723	3 101
PRP reflecting[8]	**19 781**	14 658	20 526
PRP notional dividend reflecting[9]	**1 403**	1 643	2 301
Five-year long-term incentive			20 000
Total reward (including conditional long-term incentive awards)	**29 720**	52 974	61 872

1 AKL Fihla was appointed as a prescribed officer on 1 June 2017. His fixed remuneration is shown from that date. The short-term incentive is for the full performance year 2017.
2 ZN Manyathi was appointed as a prescribed officer on 1 April 2018. His fixed remuneration is shown from that date. The short-term incentive is for the full performance year 2018.
3 M Nienaber was appointed as a prescribed officer on 1 January 2017.
4 Includes a once-off payment made in respect of Death in Service and Permanent Health Insurance benefits. In the case of BJ Kruger, this also includes a once-off payment in respect of retirement benefits.
5 These are performance related short-term incentive payments in respect of the financial year under review.
6 These are deferred bonus scheme awards issued in March 2019 (for the performance year 2018) which are subject to choice. Participants can elect to have the value of the deferred awards, or part thereof, invested in the SARP rather than the default DBS. To the extent that the SARP is selected, a 10% premium of the value of the award is added. Deferred bonus amounts not invested in SARP will be unitised with respect to the group's closing share price on 7 March 2019. The award will be updated in the group's 2019 annual financial statements to reflect the choices made and units/rights awarded.
7 EGS vesting on March 2018 (disclosed in 2017) were awarded in March 2011 and 2013. Relevant performance conditions were met as at 31 December 2017.
8 PRP units vesting were awarded in March 2015 (disclosed for the performance year 2017) and in March 2016 (disclosed for the performance year 2018). The PRP value delivered is calculated based on the group's closing share price of R178.81 as at 31 December 2018 (R195.66 for 2017) after calculating the delivery percentage based on the three-year performance conditions (110.58% delivery on the 2016 awards and 117.61% delivery on the 2015 awards). The amount included in the single figure will not be updated in the 2018 remuneration report but rather included at payment value in the settlement schedule. In the case of PL Schlebusch, the PRP value of the March 2016 award is based on the group's closing share price of R218.68 as at 31 March 2018.
9 PRP notional dividend is calculated by multiplying the vesting PRP units by the cumulative notional dividend incurred between the grant date and vesting date. The amount included in the single figure will not be updated in the 2018 remuneration report but rather included at payment value in the settlement schedule.
10 PL Schlebusch stepped down as a prescribed officer on 1 April 2018. His fixed remuneration and short-term incentive award disclosed is for the performance period 1 January to 31 March 2018.

A Daehnke		AKL Fihla[1]		ZN Manyathi[2]	M Nienaber[3]	
2018 R'000	2017 R'000	**2018 R'000**	2017 R'000	**2018 R'000**	**2018 R'000**	2017 R'000
6 294	5 697	**7 588**	4 015	**5 634**	**6 257**	5 517
5 570	5 084	**6 506**	3 507	**5 039**	**5 497**	4 829
704	610	**853**	444	**467**	**589**	542
20	3	**229**	64	**128**	**171**	146
111		**710**			**78**	
16 750	16 750	**19 000**	20 000	**21 500**	**15 125**	14 000
8 025	8 025	**8 650**	9 150	**9 900**	**7 212**	6 650
8 725	8 725	**10 350**	10 850	**11 600**	**7 913**	7 350
23 155	22 447	**27 298**	24 015	**27 134**	**21 460**	19 517
11 330	8 790	**9 709**	10 263	**9 709**	**5 655**	4 395
1 578	985	**1 353**	1 150	**1 353**	**788**	493
36 063	32 222	**38 360**	35 428	**38 196**	**27 903**	24 405

Non-executive directors

		Fixed remuneration				
		Services as directors of Standard Bank Group R'000	Standard Bank Group committee fees R'000	Services as directors of group subsidiaries R'000	Other benefits R'000	Total compensation for the year R'000
TS Gcabashe[1]	**2018**	**6 622**			**503**	**7 125**
	2017	6 306			503	6 809
RMW Dunne[2]	**2018**	**110**	**535**	**110**		**755**
	2017	263	1 280	263		1 806
GJ Fraser-Moleketi	**2018**	**277**	**714**	**277**		**1 268**
	2017	263	644	263		1 170
S Gu	**2018**					
	2017	365	248	110		723
H Hu	**2018**	**919**	**625**	**919**		**2 463**
	2017	511	347	511		1 369
GMB Kennealy	**2018**	**277**	**1 195**	**277**		**1 749**
	2017	263	904	263		1 430
JH Maree[3]	**2018**	**277**	**1 255**	**3 170**		**4 702**
	2017	263	921	3 023		4 207
NNA Matyumza	**2018**	**277**	**718**	**277**		**1 272**
	2017	263	639	263		1 165
Adv KD Moroka	**2018**	**277**	**857**	**277**		**1 411**
	2017	263	818	263		1 344
Dr. ML Oduor-Otieno	**2018**	**919**	**492**	**919**		**2 330**
	2017	876	526	876		2 278
AC Parker	**2018**	**277**	**670**	**277**		**1 224**
	2017	263	676	263		1 202
ANA Peterside CON	**2018**	**919**	**676**	**919**		**2 514**
	2017	876	655	1 483[5]		3 014
MJD Ruck[4]	**2018**	**277**	**1 886**	**1 733**		**3 896**
	2017	263	1 393	1 722[6]		3 378
PD Sullivan	**2018**	**919**	**1 492**	**919**		**3 330**
	2017	876	1 381	876		3 133
BS Tshabalala	**2018**					
	2017	226	690	226		1 142
JM Vice	**2018**	**277**	**1 233**	**277**		**1 787**
	2017	263	1 274	263		1 800
L Wang	**2018**	**277**	**334**	**277**		**888**
	2017	154	157	154		465
W Wang	**2018**					
	2017	110	52	110		272
EM Woods	**2018**					
	2017	106	316	106		528
Total	**2018**	**12 901**	**12 682**	**10 628**	**503**	**36 714**
Total	**2017**	12 773	12 921	11 038	503	37 235

1 TS Gcabashe other benefits relate to use of motor vehicle
2 RMW Dunne retired on 24 May 2018
3 JH Maree's fees for services as a director of group subsidiaries include fees paid by Liberty Holdings Limited
4 MJD Ruck's fees for services as a director of group subsidiaries include fees paid by Industrial and Commercial Bank of China (Argentina) S.A.
5 Paid by Stanbic IBTC.
6 Paid by Industrial and Commercial Bank of China (Argentina) S.A.

Fees are excluding VAT.

Share incentives

Standard Bank equity growth scheme

The EGS represents participation rights in the future growth of the Standard Bank Group share price. The eventual value of the right is settled by the receipt of Standard Bank Group shares equivalent to the full value of the participation rights. Certain EGS awards issued prior to March 2014 included performance conditions.

Deferred bonus scheme

Employees are awarded a deferred bonus, as a mandatory deferral of their short-term incentive or as discretionary award, into the deferred bonus scheme. The deferred bonus is unitised into a number of units with respect to the group's share price on the date of award. The shares are delivered to the employee on the vesting date for equity-settled share incentives. The cash-settled deferred bonus scheme awards are settled in cash on the vesting date. Notional dividends on the units are paid to the employees on the vesting date.

Performance reward plan

The group's PRP, effective from March 2014, is an equity-settled share scheme with a three-year vesting period and is designed to incentivise the group's senior executives whose roles enable them to contribute to and influence the group's long-term decision-making and performance results. The PRP seeks to promote the achievement of the group's strategic long-term objectives and to align the interests of those executives with overall group performance in both earnings growth and ROE. These are the most important financial metrics to create shareholder value and, therefore aligns the interests of management and shareholders. The awards are subject to the achievement of performance conditions set at award date and that determine the number of shares that ultimately vest. The awards will only vest in future in terms of the rules of the PRP. The shares, subject to meeting the pre-specified conditions, are delivered to the employee on vesting date. Notional dividends accrue during the vesting period and will be payable on vesting date.

Wealth and investment medium term investment

Selected employees are awarded an incentive award into the Wealth and investment medium term investment scheme. The incentive awards are unitised into a number of units with respect to the selected Melville Douglas funds. The incentive awards are settled in cash or units at the election of the employee.

SK Tshabalala[1]

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Deferred bonus schemes					
2014	2015/03/05	156.96	2 679	2018/09/30	
2015	2016/03/03	122.24	3 950	2018/09/30	
2015	2016/03/03	122.24	3 950	2019/09/30	
2016	2017/03/02	155.95	1 667	2018/09/30	
2016	2017/03/02	155.95	1 667	2019/09/30	
2016	2017/03/02	155.95	1 667	2020/09/30	
2016*	2017/03/02	155.95	2 597	2018/09/30	
2016*	2017/03/02	155.95	2 597	2019/09/30	
2016*	2017/03/02	155.95	2 597	2020/09/30	
2017	**2018/03/08**	**220.97**	**1 667**	**2019/09/30**	
2017	**2018/03/08**	**220.97**	**1 667**	**2020/09/30**	
2017	**2018/03/08**	**220.97**	**1 667**	**2021/09/30**	
2017*	**2018/03/08**	**220.97**	**3 017**	**2019/09/30**	
2017*	**2018/03/08**	**220.97**	**3 017**	**2020/09/30**	
2017*	**2018/03/08**	**220.97**	**3 017**	**2021/09/30**	
Performance reward plan					
2014	2015/03/05	156.96	10 000	2018/03/31	
2015	2016/03/03	122.24	12 500	2019/03/31	
2016	2017/03/02	155.95	12 500	2020/03/31	
2017	**2018/03/08**	**220.97**	**14 009**	**2021/03/31**	
Equity growth scheme vested					
2010	2011/03/04	98.80		C	2021/03/04
2012	2013/03/07	115.51		E	2023/03/07
2012	2013/03/07	115.51		D	2023/03/07
2012	2013/03/07	115.51		E	2023/03/07
Totals for 2018			**86 432**		

* Cash-settled deferred bonus scheme.

Refer to page 186 for footnotes.

Units						Value on settlement		Fair value at year end	
Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2018	Exercise date share price	Award[2] (R'000)	Notional dividend[3] (R'000)	Award[4] (R'000)	Notional dividend[5] (R'000)
17 070		17 070			175	2 987	535		
32 313		32 313			175	5 655	805		
32 315				32 315				5 778	805
10 687		10 687			175	1 870	190		
10 687				10 687				1 911	190
10 688				10 688				1 911	190
16 650		16 650			175	2 914	296		
16 650				16 650				2 977	296
16 652				16 652				2 978	296
	7 542			7 542				1 349	71
	7 542			7 542				1 349	71
	7 544			7 544				1 349	71
	13 652			13 652				2 441	128
	13 652			13 652				2 441	128
	13 652			13 652				2 441	128
74 916		74 916			219	16 383	1 643		
102 300	10 828			113 128				20 228	2 818
80 200				80 200				14 341	1 428
	63 400			63 400				11 337	596
25 000		25 000			224	3 126			
35 371		35 371			224	3 832			
231 367		231 367			224	25 064			
23 581		23 581			224	2 555			
						64 386	3 469	72 831	7 216

BJ Kruger

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Deferred bonus schemes					
2014	2015/03/05	156.96	1 658	2018/09/30	
2015	2016/03/03	122.24	3 950	2018/09/30	
2015	2016/03/03	122.24	3 950	2019/09/30	
2016	2017/03/02	155.95	1 667	2018/09/30	
2016	2017/03/02	155.95	1 667	2019/09/30	
2016	2017/03/02	155.95	1 667	2020/09/30	
2016*	2017/03/02	155.95	2 597	2018/09/30	
2016*	2017/03/02	155.95	2 597	2019/09/30	
2016*	2017/03/02	155.95	2 597	2020/09/30	
2017	**2018/03/08**	**220.97**	**1 667**	**2019/09/30**	
2017	**2018/03/08**	**220.97**	**1 667**	**2020/09/30**	
2017	**2018/03/08**	**220.97**	**1 667**	**2021/09/30**	
2017*	**2018/03/08**	**220.97**	**2 942**	**2019/09/30**	
2017*	**2018/03/08**	**220.97**	**2 942**	**2020/09/30**	
2017*	**2018/03/08**	**220.97**	**2 942**	**2021/09/30**	
Performance reward plan					
2014	2015/03/05	156.96	10 000	2018/03/31	
2015	2016/03/03	122.24	12 500	2019/03/31	
2016	2017/03/02	155.95	12 500	2020/03/31	
2017	**2018/03/08**	**220.97**	**12 507**	**2021/03/31**	
Equity growth scheme vested					
2010	2011/03/04	98.80		B	2021/03/04
2012	2013/03/07	115.51		E	2023/03/07
2013	2014/03/06	126.87		D	2024/03/06
Totals for 2018			**83 684**		

* Cash-settled deferred bonus scheme.

Refer to page 186 for footnotes.

Units					Exercise date share price	Value on settlement		Fair value at year end	
Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2018		Award[2] (R'000)	Notional dividend[3] (R'000)	Award[4] (R'000)	Notional dividend[5] (R'000)
10 566		10 566			175	1 849	331		
32 313		32 313			175	5 655	805		
32 315				32 315				5 778	805
10 687		10 687			175	1 870	190		
10 687				10 687				1 911	190
10 688				10 688				1 911	190
16 650		16 650			175	2 914	296		
16 650				16 650				2 977	296
16 652				16 652				2 978	296
	7 542			7 542				1 349	71
	7 542			7 542				1 349	71
	7 544			7 544				1 349	71
	13 312			13 312				2 380	125
	13 312			13 312				2 380	125
	13 314			13 314				2 380	125
74 916		74 916			219	16 383	1 643		
102 300	10 828			113 128				20 228	2 818
80 200				80 200				14 341	1 428
	56 600			56 600				10 121	532
25 000		25 000			215	2 910			
18 865		18 865			215	1 880			
105 442		105 442			215	9 312			
						42 773	3 265	71 432	7 143

A Daehnke

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Deferred bonus schemes					
2014	2015/03/05	156.96	1 800	2018/09/30	
2015	2016/03/03	122.24	2 072	2018/09/30	
2015	2016/03/03	122.24	2 073	2019/09/30	
2016	2017/03/02	155.95	1 000	2018/09/30	
2016	2017/03/02	155.95	1 000	2019/09/30	
2016	2017/03/02	155.95	1 000	2020/09/30	
2016*	2017/03/02	155.95	1 700	2018/09/30	
2016*	2017/03/02	155.95	1 700	2019/09/30	
2016*	2017/03/02	155.95	1 700	2020/09/30	
2017	**2018/03/08**	**220.97**	**1 000**	**2019/09/30**	
2017	**2018/03/08**	**220.97**	**1 000**	**2020/09/30**	
2017	**2018/03/08**	**220.97**	**1 000**	**2021/09/30**	
2017*	**2018/03/08**	**220.97**	**1 908**	**2019/09/30**	
2017*	**2018/03/08**	**220.97**	**1 908**	**2020/09/30**	
2017*	**2018/03/08**	**220.97**	**1 909**	**2021/09/30**	
Performance reward plan					
2014	2015/03/05	156.96	5 996	2018/03/31	
2015	2016/03/03	122.24	7 004	2019/03/31	
2016	2017/03/02	155.95	7 002	2020/03/31	
2017	**2018/03/08**	**220.97**	**10 010**	**2021/03/31**	
Equity growth scheme vested					
2008	2009/03/06	62.39		A	2019/03/06
2008	2009/03/06	62.39		B	2019/03/06
2009	2010/03/05	111.94		A	2020/03/05
2009	2010/03/05	111.94		B	2020/03/05
2010	2011/03/04	98.80		A	2021/03/04
2010	2011/03/04	98.80		B	2021/03/04
2010	2011/03/04	98.80		B	2021/03/04
2013	2014/03/06	126.87		D	2024/03/06
2013	2014/03/06	126.87		D	2024/03/06
Totals for 2018			**52 782**		

* Cash-settled deferred bonus scheme.

Refer to page 186 for footnotes.

	Units						Value on settlement		Fair value at year end	
	Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2018	Exercise date share price	Award[2] (R'000)	Notional dividend[3] (R'000)	Award[4] (R'000)	Notional dividend[5] (R'000)
	11 468		11 468			175	2 007	359		
	16 954		16 954			175	2 967	422		
	16 956				16 956				3 032	422
	6 412		6 412			175	1 122	114		
	6 412				6 412				1 147	114
	6 413				6 413				1 147	114
	10 901		10 901			175	1 908	194		
	10 901				10 901				1 949	194
	10 901				10 901				1 949	194
		4 525			4 525				809	43
		4 525			4 525				809	43
		4 527			4 527				809	43
		8 636			8 636				1 544	81
		8 636			8 636				1 544	81
		8 637			8 637				1 544	81
	44 926		44 926			219	9 824	985		
	57 300	6 065			63 365				11 330	1 578
	44 900				44 900				8 029	799
		45 300			45 300				8 100	426
	12 500		12 500			180	1 472			
	12 500		12 500			180	1 472			
	12 500				12 500					
	12 500				12 500					
	12 500				12 500					
	9 375				9 375					
	3 125				3 125					
	45 832				45 832					
	22 918				22 918					
							20 772	2 074	43 742	4 213

AKL Fihla[6]

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Deferred bonus schemes					
2014	2015/03/05	156.96	1 617	2018/09/30	
2015	2016/03/03	122.24	2 450	2018/09/30	
2015	2016/03/03	122.24	2 450	2019/09/30	
2016	2017/03/02	155.95	833	2018/09/30	
2016	2017/03/02	155.95	833	2019/09/30	
2016	2017/03/02	155.95	834	2020/09/30	
2016*	2017/03/02	155.95	2 033	2018/09/30	
2016*	2017/03/02	155.95	2 033	2019/09/30	
2016*	2017/03/02	155.95	2 034	2020/09/30	
2017	**2018/03/08**	**220.97**	**1 333**	**2019/09/30**	
2017	**2018/03/08**	**220.97**	**1 333**	**2020/09/30**	
2017	**2018/03/08**	**220.97**	**1 334**	**2021/09/30**	
2017*	**2018/03/08**	**220.97**	**2 283**	**2019/09/30**	
2017*	**2018/03/08**	**220.97**	**2 283**	**2020/09/30**	
2017*	**2018/03/08**	**220.97**	**2 284**	**2021/09/30**	
Performance reward plan					
2014	2015/03/05	156.96	7 000	2018/03/31	
2015	2016/03/03	122.24	6 002	2019/03/31	
2016	2017/03/02	155.95	6 004	2020/03/31	
2017	**2018/03/08**	**220.97**	**10 010**	**2021/03/31**	
Equity growth scheme vested					
2008	2009/03/06	62.39		A	2019/03/06
2008	2009/03/06	62.39		B	2019/03/06
2009	2010/03/05	111.94		A	2020/03/05
2009	2010/03/05	111.94		B	2020/03/05
2010	2011/03/04	98.80		A	2021/03/04
2010	2011/03/04	98.80		B	2021/03/04
2010	2011/03/04	98.80		B	2021/03/04
Totals for 2018			**54 983**		

* Cash-settled deferred bonus scheme.

Refer to page 186 for footnotes.

Units						Value on settlement		Fair value at year end	
Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2018	Exercise date share price	Award[2] (R'000)	Notional dividend[3] (R'000)	Award[4] (R'000)	Notional dividend[5] (R'000)
10 300		10 300			175	1 803	323		
20 042		20 042			175	3 507	499		
20 044				20 044				3 584	499
5 343		5 343			175	935	95		
5 343				5 343				955	95
5 345				5 345				956	95
13 038		13 038			175	2 282	232		
13 038				13 038				2 331	232
13 040				13 040				2 332	232
	6 034			6 034				1 079	57
	6 034			6 034				1 079	57
	6 035			6 035				1 079	57
	10 333			10 333				1 848	97
	10 333			10 333				1 848	97
	10 334			10 334				1 848	97
52 452		52 452			219	11 470	1150		
49 100	5 197			54 297				9 709	1 353
38 500				38 500				6 884	685
	45 300			45 300				8 100	426
10 000		10 000			180	1 178			
10 000		10 000			180	1 178			
12 500				12 500					
12 500				12 500					
13 750				13 750					
10 312				10 312					
3 438				3 438					
						22 353	2 299	43 632	4 079

ZN Manyathi

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Deferred bonus schemes					
2015	2016/03/03	122.24	2 650	2018/09/30	
2015	2016/03/03	122.24	2 650	2019/09/30	
2016	2017/03/02	155.95	1 250	2018/09/30	
2016	2017/03/02	155.95	1 250	2019/09/30	
2016	2017/03/02	155.95	1 250	2020/09/30	
2016*	2017/03/02	155.95	1 617	2018/09/30	
2016*	2017/03/02	155.95	1 617	2019/09/30	
2016*	2017/03/02	155.95	1 617	2020/09/30	
2017	**2018/03/08**	**220.97**	**1 333**	**2019/09/30**	
2017	**2018/03/08**	**220.97**	**1 333**	**2020/09/30**	
2017	**2018/03/08**	**220.97**	**1 334**	**2021/09/30**	
2017*	**2018/03/08**	**220.97**	**1 617**	**2019/09/30**	
2017*	**2018/03/08**	**220.97**	**1 617**	**2020/09/30**	
2017*	**2018/03/08**	**220.97**	**1 617**	**2021/09/30**	
Performance reward plan					
2015	2016/03/03	122.24	6 002	2019/03/31	
2016	2017/03/02	155.95	6 503	2020/03/31	
2017	**2018/03/08**	**220.97**	**10 010**	**2021/03/31**	
Equity growth scheme vested					
2013	2014/03/06	126.87		D	
2013	2014/03/06	126.87		D	
2013	2014/03/06	126.87		D	
2014	2015/03/05	156.96		D	
2014	**2015/03/05**	**156.96**		**D**	
Unvested rights					
2014	2015/03/05	156.96	8 904	2019/03/05	2025/03/05
Totals for 2018			**54 171**		

* Cash-settled deferred bonus scheme.

Refer to page 186 for footnotes.

Units					Exercise date share price	Value on settlement		Fair value at year end	
Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2018		Award[2] (R'000)	Notional dividend[3] (R'000)	Award[4] (R'000)	Notional dividend[5] (R'000)
21 678		21 678			175	3 794	540		
21 680				21 680				3 877	540
8 015		8 015			175	1 403	143		
8 015				8 015				1 433	143
8 017				8 017				1 434	143
10 366		10 366			175	1 814	185		
10 366				10 366				1 854	185
10 368				10 368				1 854	185
6 034				6 034				1 079	57
6 034				6 034				1 079	57
6 035				6 035				1 079	57
7 316				7 316				1 308	69
7 316				7 316				1 308	69
7 317				7 317				1 308	69
49 100	5 197			54 297				9 709	1 353
41 700				41 700				7 456	742
45 300				45 300				8 100	426
43 696				43 696					
43 696				43 696					
43 697				43 697					
56 725				56 725					
56 725				56 725					
56 725				56 725				1 239[7]	
						7 011	868	44 117	4 095

F-185

M Nienaber

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Deferred bonus schemes					
2014	2015/03/05	156.96	1 283	2018/09/30	
2015	2016/03/03	122.24	1 267	2018/09/30	
2015	2016/03/03	122.24	1 267	2019/09/30	
2016	2017/03/02	155.95	1 000	2018/09/30	
2016	2017/03/02	155.95	1 000	2019/09/30	
2016	2017/03/02	155.95	1 000	2020/09/30	
2016*	2017/03/02	155.95	1 283	2018/09/30	
2016*	2017/03/02	155.95	1 283	2019/09/30	
2016*	2017/03/02	155.95	1 283	2020/09/30	
2017	**2018/03/08**	**220.97**	**1 000**	**2019/09/30**	
2017	**2018/03/08**	**220.97**	**1 000**	**2020/09/30**	
2017	**2018/03/08**	**220.97**	**1 000**	**2021/09/30**	
2017*	**2018/03/08**	**220.97**	**1 450**	**2019/09/30**	
2017*	**2018/03/08**	**220.97**	**1 450**	**2020/09/30**	
2017*	**2018/03/08**	**220.97**	**1 450**	**2021/09/30**	
Performance reward plan					
2014	2015/03/05	156.96	2 998	2018/03/31	
2015	2016/03/03	122.24	3 496	2019/03/31	
2016	2017/03/02	155.95	9 996	2020/03/31	
2017	**2018/03/08**	**220.97**	**10 010**	**2021/03/31**	
Equity growth scheme vested					
2010	2011/03/04	98.80		C	2021/03/04
Totals for 2018			**44 516**		

* Cash-settled deferred bonus scheme.

Refer to page 186 for footnotes.

Units						Value on settlement		Fair value at year end	
Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2018	Exercise date share price	Award[2] (R'000)	Notional dividend[3] (R'000)	Award[4] (R'000)	Notional dividend[5] (R'000)
8 177		8 177			175	1 431	256		
10 362		10 362			175	1 813	258		
10 363				10 363				1 853	258
6 412		6 412			175	1 122	114		
6 412				6 412				1 147	114
6 413				6 413				1 147	114
8 229		8 229			175	1 440	146		
8 229				8 229				1 471	146
8 230				8 230				1 472	146
	4 525			4 525				809	43
	4 525			4 525				809	43
	4 527			4 527				809	43
	6 562			6 562				1 173	62
	6 562			6 562				1 173	62
	6 562			6 562				1 173	62
22 462		22 462			219	4 912	493		
28 600	3 028			31 628				5 655	788
64 100				64 100				11 462	1 141
	45 300			45 300				8 100	426
3 125		3 125			224	391			
						11 109	1 267	38 253	3 448

PL Schlebusch

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Deferred bonus schemes					
2014	2015/03/05	156.96	2 883	2018/09/30[7]	
2015	2016/03/03	122.24	4 117	2018/09/30[7]	
2015	2016/03/03	122.24	4 117	2019/09/30	
2016	2017/03/02	155.95	1 667	2018/09/30[7]	
2016	2017/03/02	155.95	1 667	2019/09/30	
2016	2017/03/02	155.95	1 667	2020/09/30	
2016*	2017/03/02	155.95	2 950	2018/09/30[7]	
2016*	2017/03/02	155.95	2 950	2019/09/30	
2016*	2017/03/02	155.95	2 950	2020/09/30	
2017	**2018/03/08**	**220.97**	**1 667**	**2019/09/30**	
2017	**2018/03/08**	**220.97**	**1 667**	**2020/09/30**	
2017	**2018/03/08**	**220.97**	**1 667**	**2021/09/30**	
2017*	**2018/03/08**	**220.97**	**3 283**	**2019/09/30**	
2017*	**2018/03/08**	**220.97**	**3 283**	**2020/09/30**	
2017*	**2018/03/08**	**220.97**	**3 283**	**2021/09/30**	
Performance reward plan					
2014	2015/03/05	156.96	9 998	2018/03/31	
2015	2016/03/03	122.24	9 999	2019/03/31	
2016	2017/03/02	155.95	9 996	2020/03/31	
2017	**2018/03/08**	**220.97**	**10 010**	**2021/03/08**	
Equity growth scheme vested					
2010	2011/03/04	98.80		B	2021/03/04
2012	2013/03/07	115.51		E	2023/03/07
Totals for 2018			**79 821**		

JH Maree

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Equity growth scheme vested					
2008	2009/03/06	62.39		A	2019/03/06
2009	2010/03/05	111.94		A	2020/03/05
2011	2012/03/08	108.90		A	2022/03/08
2012	2013/03/07	115.51		A	2023/03/07
2014	2015/03/05	156.96		D	2025/03/05
2012	2013/03/07	115.51		A	2023/03/07
2014	2015/03/05	156.96		D	2025/03/05
Unvested rights					
2014	2015/03/05	156.96		2019/03/05	2025/03/05
Totals for 2018					

* Cash-settled deferred bonus scheme.
1 As at 31 December 2018, SK Tshabalala has a right to 418 814 (2017: 418 814) shares as a beneficiary of Tutuwa Managers' Trust. At 31 December 2018 the debt per share was R53.49 (2017: R54.62).
2 Value on settlement is calculated by multiplying the vesting share/settlement price by the total units vesting and applying performance conditions (where applicable). Performance conditions applied to the 2016 PRP award issued in March 2015 that vested in March 2018 was 117.61%, against the performance conditions as explained in the remuneration structure section of the group's remuneration report within the governance and remuneration report.
3 Value is calculated by multiplying the notional dividend per unit with the total vesting units and applying performance conditions (where applicable).
4 Value is calculated by multiplying the year end SBK share price of R178.81 by the total outstanding units and applying performance conditions (where applicable).
5 Value is calculated by multiplying the notional dividend (accumulated from grant date to year end) with the total outstanding units and applying performance conditions (where applicable). Notional dividends are subject to the vesting conditions.
6 As at 31 December 2018, AKL Fihla has a right to 134 232 (2017: 134 232) shares as a beneficiary of Tutuwa Managers' Trust. At 31 December 2018 the debt per share was R53.49 (2017:R54.62).
7 In March 2015, deferred bonus scheme awards were converted into equity growth scheme (EGS) awards (without conditions) and are now vesting in March 2019.

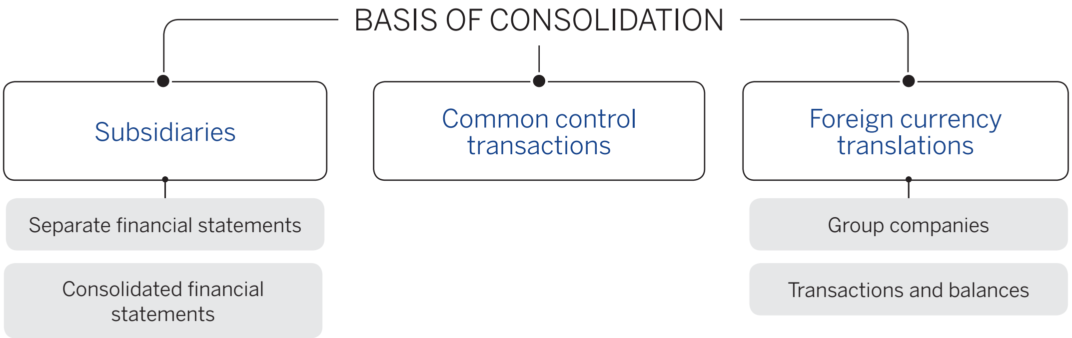
	Units					Exercise date share price	Value on settlement		Fair value at year end	
	Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2018		Award[2] (R'000)	Notional dividend[3] (R'000)	Award[4] (R'000)	Notional dividend[5] (R'000)
	18 370				18 370				4 017	403
	33 677				33 677				7 364	522
	33 677				33 677				7 364	522
	10 687				10 687				2 337	90
	10 687				10 687				2 337	90
	10 688				10 688				2 337	90
	18 916				18 916				4 137	159
	18 916				18 916				4 137	159
	18 917				18 917				4 137	159
		7 542			7 542				1 649	
		7 542			7 542				1 649	
		7 544			7 544				1 650	
		14 859			14 859				3 249	
		14 859			14 859				3 249	
		14 859			14 859				3 249	
	74 916		74 916			219	16 383	1 643		
	81 800	8 658			90 458				19 781	1 403
	64 100				64 100				14 017	538
		45 300			45 300				9 906	
	12 500		12 500			224	1 563			
	18 865		18 865			224	2 044			
							19 990	1 643	96 566	4 135

	Units					Exercise date share price	Value on settlement		Fair value at year end	
	Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2018		Award[1] (R'000)	Notional dividend[2] (R'000)	Award[3] (R'000)	Notional dividend[4] (R'000)
	62 500		62 500			180	7 360			
	500 000				500 000					
	61 471				61 471					
	37 729				37 729					
	26 148				26 148					
	18 865				18 865					
	26 148				26 148					
	26 149				26 149				571	
							7 360		571	

Annexure F – Detailed accounting policies

The following accounting policies were applied in the preparation of the group and company financial statements. A copy of the full set of accounting policies is available at the company's registered office.

1. Basis of consolidation



Subsidiaries

Separate financial statements

Investments in subsidiaries are accounted for at cost less accumulated impairment losses (where applicable) in the separate financial statements. The carrying amounts of these investments are reviewed annually for impairment indicators and, where an indicator of impairment exists, are impaired to the higher of the investment's fair value less costs to sell or value in use.

Consolidated financial statements

The accounting policies of subsidiaries that are consolidated by the group conform to the group's accounting policies. Intragroup transactions, balances and unrealised gains (losses) are eliminated on consolidation. Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment. The proportion of comprehensive income and changes in equity allocated to the group and non-controlling interest are determined on the basis of the group's present ownership interest in the subsidiary.

Subsidiaries are consolidated from the date on which the group acquires control up to the date that control is lost. Control is assessed on a continuous basis. For mutual funds the group further assesses its control by considering the existence of either voting rights or significant economic power.

Common control transactions

Common control transactions, in which the company is the ultimate parent entity both before and after the transaction, are accounted for at book value.

Foreign currency translations

Group companies

The results and financial position of foreign operations that have a functional currency that is different from the group's presentation currency are translated into the group's presentation currency as follows:

- assets and liabilities (including goodwill, intangible assets and fair value adjustments arising on acquisition) are translated at the closing rate at the reporting date
- income and expenses are translated at average exchange rates
- all resulting foreign exchange differences are accounted for directly in a separate component of OCI, being the group's FCTR.

1. Basis of consolidation continued

Foreign currency translations continued

Transactions and balances

Foreign currency transactions are translated into the respective group entities' functional currencies at exchange rates prevailing at the date of the transactions (in certain instances a rate that approximates the actual rate at the date of the transaction is utilised, for example an average rate for a month). Foreign exchange gains and losses resulting from the settlement of such transaction and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in profit or loss (except when recognised in OCI as part of qualifying cash flow hedges and net investment hedges).

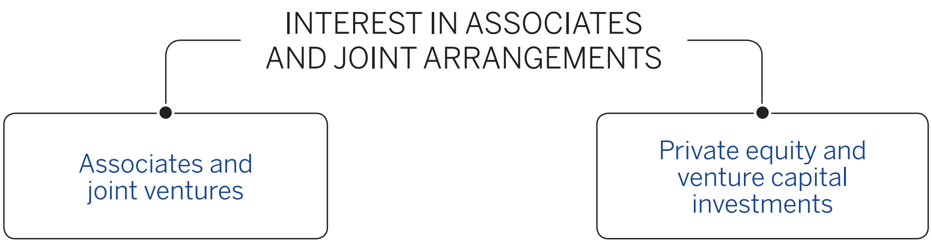
Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items.

Foreign exchange gains and losses on equities (debt) classified as fair value through OCI are recognised in the fair value through OCI reserve in OCI (trading revenue) whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of the non-interest revenue (trading revenue). [IFRS 9]

Foreign exchange gains and losses on equities (debt) classified as available-for-sale financial assets are recognised in the available-for-sale reserve in OCI (interest income) whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of the other revenue (interest income). [IAS 39]

Foreign currency gains and losses on intragroup loans are recognised in profit or loss except where the settlement of the loan is neither planned nor likely to occur in the foreseeable future. In these cases the foreign currency gains and losses are recognised in the group's FCTR.

2. Interest in associates and joint arrangements



Associates and joint ventures

Associates and joint ventures are initially measured at cost and subsequently accounted for using the equity method at an amount that reflects the group's share of the net assets of the associate or joint venture (including goodwill).

Equity accounting is applied from the date on which the entity becomes an associate or joint venture up to the date on which the group ceases to have significant influence or joint control.

Equity accounting of losses is restricted to the interests in these entities, including unsecured receivables or other commitments, unless the group has an obligation or has made payments on behalf of the associate or joint ventures.

Unrealised profits from transactions are eliminated in determining the group's share of equity accounted profits. Unrealised losses are eliminated in the same way as unrealised gains (but only to the extent that there is no evidence of impairment).

Where there is an indicator of impairment the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying amount.

Impairment losses are recognised through non-trading and capital related items. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the investment's carrying amount does not exceed the carrying amount that would have been determined, net of equity accounted losses, if no impairment loss had been recognised.

2. Interest in associates and joint arrangements continued

Associates and joint ventures continued

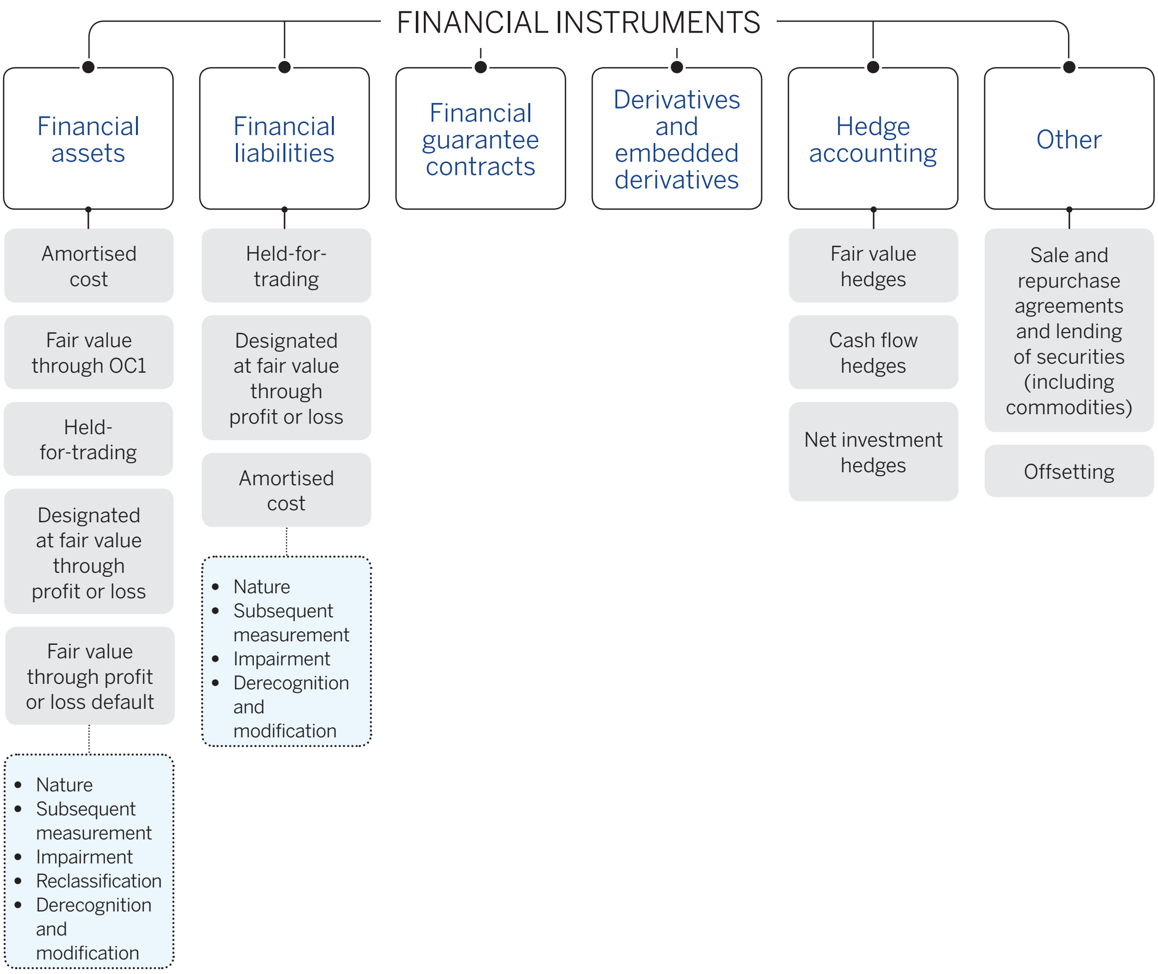
For a disposal of an associate or joint venture, being where the group loses significant influence over an associate or loses joint control over a joint venture, the difference between the sales proceeds and any retained interest and the carrying value of the equity accounted investment is recognised as a gain or loss in non-trading and capital related items. Any gains or losses in OCI reserves that relate to the associate or joint venture are reclassified to non-trading and capital related items at the time of the disposal.

The accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies of the group.

Private equity and venture capital investments

Private equity and venture capital investments, including mutual funds held by investment-linked insurance funds that are associates. These associates are either designated on initial recognition at fair value through profit or loss, or are equity accounted.

3. Financial instruments



Initial measurement – financial instruments (IFRS 9 and IAS 39)

All financial instruments are measured initially at fair value plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the group commits to purchase (sell) the instruments (trade date accounting).

3. **Financial instruments** continued

IFRS 9 – accounting policies for financial instruments

Financial assets

Nature

Amortised cost	A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): • held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows; and • the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss – default.
Fair value through OCI	Includes: A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): – held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets; and – the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss – default. Equity financial assets which are not held for trading and are irrevocably elected (on an instrument-by-instrument basis) to be presented at fair value through OCI.
Held for trading	Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Included are commodities that are acquired principally for the purpose of selling in the near future or generating a profit from fluctuations in price or broker-trader margin.
Designated at fair value through profit or loss	Financial assets are designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch that would otherwise arise.
Fair value through profit or loss – default	Financial assets that are not classified into one of the above mentioned financial asset categories.

3. Financial instruments continued

IFRS 9 – accounting policies for financial instruments continued

Financial assets continued

Subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

Amortised cost	Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Fair value through OCI	**Debt instrument:** Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to the other gains and losses on financial instruments within non-interest revenue. Expected credit impairments losses are recognised as part of credit impairment charges. However, for these FVOCI debt instruments the expected credit loss is recognised in OCI and does not reduce the carrying amount of the financial asset in the statement of financial position. Interest income on a debt financial asset is recognised in interest income in terms of the effective interest rate method. Dividends received are recognised in interest income within profit or loss. **Equity instrument:** Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When equity financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified within reserves to retained income. Dividends received on equity instruments are recognised in other revenue within non-interest income.
Held for trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.
Fair value through profit or loss – default	Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.

Impairment

ECL is recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss, as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a SICR at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3 (credit impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: • default • significant financial difficulty of borrower and/or modification • probability of bankruptcy or financial reorganisation • disappearance of an active market due to financial difficulties.

3. Financial instruments continued

IFRS 9 – accounting policies for financial instruments continued

Financial assets continued

The key components of the impairment methodology are described as follows:

Significant increase in credit risk	At each reporting date the group assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset. Credit risk of exposures which are overdue for more than 30 days are also considered to have increased significantly.
Low credit risk	Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its contractual obligations.
Default	The group's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets: • significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower) • a breach of contract, such as default or delinquency in interest and/or principal payments • disappearance of active market due to financial difficulties • it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; or • where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider. Exposures which are overdue for more than 90 days are also considered to be in default.
Forward-looking information	Forward-looking information is incorporated into the group's impairment methodology calculations and in the group's assessment of SICR. The group includes all forward looking information which is reasonable and available without undue cost or effort. The information will typically include expected macroeconomic conditions and factors that are expected to impact portfolios or individual counterparty exposures.
Write-off	Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

ECLs are recognised within the statement of financial position as follows:

Financial assets measured at amortised cost (including loan commitments)	Recognised as a deduction from the gross carrying amount of the asset (group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (group of assets), the excess is recognised as a provision within other liabilities.
Off-balance sheet exposures (excluding loan commitments)	Recognised as a provision within other liabilities.
Financial assets measured at fair value through OCI	Recognised in the fair value reserve within equity. The carrying value of the financial asset is recognised in the statement of financial position at fair value.

3. Financial instruments continued

IFRS 9 – accounting policies for financial instruments continued

Financial liabilities

Nature

Held-for-trading	Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
Designated at fair value through profit or loss	Financial liabilities are designated to be measured at fair value in the following instances: • to eliminate or significantly reduce an accounting mismatch that would otherwise arise where the financial liabilities are managed and their performance evaluated and reported on a fair value basis • where the financial liability contains one or more embedded derivatives that significantly modify the financial liability's cash flows.
Amortised cost	All other financial liabilities not included in the above categories.

Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-for-trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value, with gains and losses arising from changes in fair value (including interest and dividends but excluding fair value gains and losses attributable to own credit risk) are recognised in the other gains and losses on financial instruments as part of non-interest revenue. Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within trading revenue.
Amortised cost	Amortised cost using the effective interest method recognised in interest expense.

3. Financial instruments continued

IFRS 9 – accounting policies for financial instruments continued

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

	Derecognition	Modification
Financial assets	Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the group is recognised as a separate asset or liability. The group enters into transactions whereby it transfers assets, recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.	Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes. If the terms are not substantially different for financial assets or financial liabilities, the group recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	

Financial guarantee contracts

A financial guarantee contract is a contract that requires the group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit or loss) are subsequently measured at the higher of the:

- ECL calculated for the financial guarantee; or
- unamortised premium.

3. Financial instruments continued

IAS 39 – Accounting policies for financial instruments continued

Financial assets

Nature

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold-to-maturity.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified as at fair value through profit or loss or available-for-sale.

Held-for-trading

Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets), those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Included are commodities that are acquired principally for the purpose of selling in the near future or generating a profit from fluctuations in price or broker-traders' margin.

Designated at fair value through profit or loss

Financial assets are designated to be measured at fair value in the following instances:

- to eliminate or significantly reduce an accounting mismatch that would otherwise arise
- where the financial assets are managed and their performance evaluated and reported on a fair value basis
- where the financial asset contains one or more embedded derivatives that significantly modify the financial asset's cash flows.

Available-for-sale

Financial assets that are not classified into one of the above mentioned financial asset categories.

Subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-to-maturity and loans and receivables

Amortised cost using the effective interest method with interest recognised in interest income, less any impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.

Available-for-sale

Fair value, with gains and losses recognised directly in the available-for-sale reserve until the financial asset is derecognised or impaired.

Interest income on debt financial assets is recognised in interest income in terms of the effective interest rate method. Dividends received on debt (equity) available-for-sale financial assets are recognised in interest income (other revenue) within profit or loss.

When debt (equity) available-for-sale financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified to interest income (other revenue).

Held-for-trading

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.

Designated at fair value through profit or loss

Fair value, with gains and losses recognised in interest income (other revenue) for all debt (equity) financial assets

3. Financial instruments continued

IAS 39 – Accounting policies for financial instruments continued

Financial assets continued

Impairment

A financial asset is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the financial asset that can be estimated reliably. The group assesses at each reporting date whether there is objective evidence that a financial asset which is either carried at amortised cost or classified as available-for-sale is impaired as follows:

Held-to-maturity and loans and receivables ('amortised cost')

The following criteria are used in determining whether there is objective evidence of impairment for loans or groups of loans:

- known cash flow difficulties experienced by the borrower
- a breach of contract, such as default or delinquency in interest and/or principal payments
- breaches of loan covenants or conditions
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation
- where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider.

The group first assesses whether there is objective evidence of impairment individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Non-performing loans include those loans for which there is identified objective evidence of impairment, such as a breach of a material loan covenant or condition, as well as those loans for which instalments are due and unpaid for 90 days or more. The impairment of non-performing loans takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

When a loan carried at amortised cost has been identified as specifically impaired, the carrying amount of the loan is reduced to an amount equal to the present value of its estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the loan is reduced through the use of a specific credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired (including loans that have been written off), are reflected within credit impairment charges in profit or loss. Subsequent to impairment, the effects of discounting unwind over time as interest income.

The calculation of the present value of the estimated future cash flows of collateralised financial assets recognised on an amortised cost basis includes cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

If the group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of financial loans with similar credit risk characteristics and collectively assesses for impairment. Loans that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment for impairment.

Impairment of groups of loans that are assessed collectively is recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of loans but before the reporting date. In order to provide for latent losses in a group of loans that have not yet been identified as specifically impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods (time period between the loss event and the date on which the group identifies the losses). Groups of loans are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows. The carrying amount of groups of loans is reduced through the use of a portfolio credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

Previously impaired loans are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

3. Financial instruments continued

IAS 39 – Accounting policies for financial instruments continued

Financial assets continued

Available-for-sale

Available-for-sale debt instruments are impaired when there has been a significant or prolonged decline in the fair value of the instrument below its cost and for equity instruments where there is information about significant changes with an adverse effect on the environment in which the issuer operates that indicates that the cost of the investment in the equity instrument may not be recovered.

When an available-for-sale asset has been identified as impaired, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from OCI to profit or loss, within interest income (other revenue) for debt (equity) instruments. If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through interest income for available-for-sale debt instruments. Any reversal of an impairment loss in respect of an available-for-sale equity instrument is recognised directly in OCI.

Reclassification of financial assets are permitted only in the following instances:

Reclassifications are made at fair value as of the reclassification date. Effective interest rates for financial assets reclassified to loans and receivables, held-to-maturity and available-for-sale categories are determined at the reclassification date. Subsequent changes in estimates of cash flows (other than credit impairment changes) adjust the financial asset's effective interest rates prospectively. On reclassification of a trading asset, all embedded derivatives are reassessed and, if necessary, accounted for separately.

Held-to-maturity

Where the group is to sell more than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale assets with the difference between amortised cost and fair value being accounted for in OCI.

Available-for-sale

The group may choose to reclassify financial assets that would meet the definition of loans and receivables if the group, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Held-for-trading

The group may elect to reclassify non-derivative financial assets out of held-for-trading category in the following instances:

- if the financial asset is no longer held for the purpose of selling it in the near term and the financial asset would not otherwise have met the definition of loans and receivables, it is permitted to be reclassified only in rare circumstances if the financial asset is no longer held for the purpose of selling it in the near team and the financial asset would have met the definition of loans and receivables, it is permitted to be reclassified if the group, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Financial liabilities

Nature

Held-for-trading

Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Designated at fair value through profit or loss

Financial liabilities are designated to be measured at fair value in the following instances:

- to eliminate or significantly reduce an accounting mismatch that would otherwise arise
- where the financial liabilities are managed and their performance evaluated and reported on a fair value basis
- where the financial liability contains one or more embedded derivatives that significantly modify the financial asset's cash flows.

At amortised cost

All other financial liabilities not included in the above categories.

Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

3. Financial instruments continued

IAS 39 – Accounting policies for financial instruments continued

Financial liabilities continued

Held-for-trading

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.

Designated at fair value through profit or loss

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in interest expense.

Amortised cost

Amortised cost using the effective interest method with interest recognised in interest expense.

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

	Derecognition	Modification
Financial assets	Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the group is recognised as a separate asset or liability. The group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.	Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss. In all other instances, the renegotiated asset or liability's effective interest rate is redetermined at date of modification taking into account the renegotiated terms.
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	

3. Financial instruments continued

Financial guarantee contracts

A financial guarantee contract is a contract that requires the group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts are subsequently measured at the higher of the:

- present value of any expected payment, when a payment under the guarantee has become probable; or
- unamortised premium.

Derivatives and embedded derivatives (IFRS 9 and IAS 39)

In the normal course of business, the group enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation, credit, commodity and equity exposures. Derivative instruments used by the group in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of commodities and equities.

Derivatives are initially recognised at fair value. Derivatives that are not designated in a qualifying hedge accounting relationship are classified as held-for-trading with all changes in fair value being recognised within trading revenue. This includes forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle another derivative contract. All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

In terms on IFRS 9 embedded derivatives included in hybrid instruments, where the host is a financial asset, is assessed in terms of the accounting policy on financial assets. In all other instances (being non-financial host contracts and financial liabilities), the embedded derivatives are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant group accounting policy.

In terms of IAS 39 embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant group accounting policy.

The method of recognising fair value gains and losses on derivatives designated as a hedging instrument depends on the nature of the hedge relationship.

3. Financial instruments continued

Hedge accounting

The group continues to apply IAS 39 hedge accounting requirements for 2018 and 2017. Derivatives are designated by the group into the following relationships:

Type of hedge	Nature	Treatment
Fair value hedges	Hedges of the fair value of recognised financial assets, liabilities or firm commitments.	Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the remeasurement of both the derivative and the hedged item are recognised in profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same line item in profit or loss as the related hedged item. Any hedge ineffectiveness is recognised in profit or loss. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The adjustment to the carrying amount of a hedged item measured at amortised cost, for which the effective interest method is used, is amortised to profit or loss as part of the hedged item's recalculated effective interest rate over the period to maturity.
Cash flow hedges	Hedges of highly probable future cash flows attributable to a recognised asset or liability, a forecasted transaction, or a highly probable forecast intragroup transaction.	The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve. The ineffective part of any changes in fair value is recognised in profit or loss. Amounts recognised in OCI are transferred to profit or loss in the periods in which the hedged forecast cash flows affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses recognised previously in OCI are transferred and included in the initial measurement of the cost of the asset or liability. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The cumulative gains or losses recognised in OCI remain in OCI until the forecast transaction is recognised in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects profit or loss in the case of a financial asset or a financial liability. If the forecast transaction is no longer expected to occur, the cumulative gains and losses recognised in OCI are immediately reclassified to profit or loss.
Net investment hedges	Hedges of net investments in a foreign operation.	The designated component of the hedging instrument that relates to the effective portion of the hedge, is recognised directly in the foreign currency hedge of net investment reserve. The ineffective part of any changes in fair value is recognised in profit or loss. The cumulative gains and losses in OCI are accounted for similarly to cash flow hedges.

3. Financial instruments continued

Hedge accounting risk management strategy

Where all relevant criteria are met, derivatives are classified as derivatives held-for-hedging and hedge accounting is applied to remove the accounting mismatch between the derivative (hedging instrument) and the underlying instruments (hedged item). All qualifying hedging relationships are designated as either fair value, cash flow, or net investment hedges for recognised financial assets or liabilities, and highly probable forecast transactions. The group and company apply hedge accounting in respect of the following risk categories.

Foreign currency risk

The group and company operate internationally and are exposed to foreign exchange risk and translation risk.

Foreign exchange risk arises from recognised assets and liabilities and future highly probable forecast commercial transactions denominated in a currency that is not the functional currency of the group and company. The risk is evaluated by measuring and monitoring the net foreign monetary asset value and the forecast highly probable foreign currency income and expenditures of the relevant group entity for each respective currency. Foreign currency risk is hedged with the objective of minimising the earnings volatility associated with assets, liabilities, income and expenditure denominated in a foreign currency.

Translation risk arises on consolidation from recognised assets and liabilities denominated in a currency that is not the reporting currency of the group and company. The risk is evaluated by measuring and monitoring the net foreign non-monetary asset value of the relevant group entity for each respective currency.

The group and company use a combination of currency forwards, swaps and foreign denominated cash balances to mitigate against the risk of changes in the future cash flows and functional currency value on its foreign-denominated exposures. Under the group's policy, the critical terms of these instruments must align with the foreign currency risk of the hedged item and is hedged on a 1:1 hedge ratio or where currency is managed on a portfolio basis the weighted expected foreign cash flows are aligned.

The group and company elect for each foreign currency hedging relationship, using either foreign currency forwards and swaps, to either include or exclude the currency forward points (basis) contained in the derivative instrument from the hedging relationship. This election is based on the currency pair involved, the shape of the yield-curve and the direction of the foreign currency hedged risk. Basis is determined using the differential between the contracted forward rate and the spot market exchange rate and is discounted, where material. Where the basis is excluded from the hedging relationship this is deferred in other comprehensive income and recognised in profit or loss as appropriate during the hedging relationship.

Hedge effectiveness between the hedging instrument and the hedged item is determined at the inception of the hedge relationship and through periodic effectiveness assessments to ensure that an economic relationship exists. For hedges of foreign currency risk, the group and company enter hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the group and company use the hypothetical derivative method to assess effectiveness. In hedges of foreign currency risk of highly probable forecast commercial transactions, ineffectiveness may arise if the amount of the forecast transaction changes from what was originally estimated. Ineffectiveness relating to highly probable forecast transactions no longer expected to occur during 2018 amounted to Rnil.

Where the basis is included in the hedging relationship this exposes the hedge relationship to hedge ineffectiveness. There was no material ineffectiveness relating to basis in relation to foreign currency hedging relationships during 2018.

Equity price risk

The group and company operate share incentive schemes that enable key management personnel and senior employees to benefit from the performance of SBG's share price. For further detail regarding the share schemes, refer to annexure D – equity-linked transactions and the group's governance and remuneration report. These share incentive schemes expose the group and company to equity price risk due to volatility in the share price of SBG (SBK:SJ). The group and company have in place appropriate risk management strategies and reporting processes in respect of this risk.

The group and company use a combination of equity forwards and options to mitigate against the risk of changes in the future cash flows associated with certain cash-settled schemes on a post attrition and vesting assumption basis. The following scheme exposures are subject to cash flow hedge accounting at a group level: deferred bonus scheme (DBS) and cash settled deferred bonus scheme (CSDBS) (Quanto). Cash flow hedge accounting is applied to align the timing mismatch of the derivative hedging instruments to the vesting period of the underlying awards (hedged items) over the applicable vesting period.

3. Financial instruments continued

Hedge accounting risk management strategy continued

Under the group's policy the critical terms of these instruments must align with equity price risk of the hedged item and is hedged on a 1:1 hedge ratio. The group and company elect for each hedging relationship, using either equity forwards and/or options, to either include or exclude the forward points (basis) contained in the derivative instrument from the hedging relationship. Basis is determined using the differential between the contracted forward rate and the spot market exchange rate and is discounted, where material. Where the basis is excluded from the hedging relationship this is deferred in other comprehensive income and recognised in profit or loss as appropriate during the hedging relationship.

Hedge effectiveness between the hedging instrument and the hedged item is determined at the inception of the hedge relationship and through periodic effectiveness assessments to ensure that an economic relationship exists. For hedges of equity price risk, the group and company enter hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the group and company use the hypothetical derivative method to assess effectiveness.

Where the basis is included in the hedging relationship this exposes the hedge relationship to hedge ineffectiveness.

Interest rate risk

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (IRRBB) (net interest income and banking book mark-to-market profit or loss) and the economic value of equity. The group and company's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the group and company operate.

The group and company's treasury and capital management team monitors banking book interest rate risk on a monthly basis operating under the oversight of group ALCO. The group and company's interest rate risk management is predominantly controlled by a central treasury department (group treasury) under approved policies. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

In adherence to policies regarding interest rate risk management the group applies fair value hedge accounting in respect of the interest rate risk element only, present within the following exposures:

- Specifically identified long-term fixed interest rate loans and advances and deposits and debt funding. To manage the risk associated with such risk exposures the group uses one or more cash collateralised fix for floating interest rate swaps that matches the critical terms or that exhibits the same duration as the of the underlying risk exposure.
- Specifically identified long-term interest rate basis risk (CPI vs. JIBAR) inherent in loans and advances. To manage the basis risk associated with such risk exposures the group uses one or more cash collateralised floating for floating basis interest rate swaps that matches the critical terms or that exhibits the same duration as the of the underlying risk exposure and
- Portfolio interest rate risk present within a designated portfolio of loans and advances and deposits and debt funding. Portfolio interest rate risk hedging is conducted on an aggregate asset and liability portfolio basis. The hedge ratio and rebalancing frequency of portfolio hedges is determined using a dynamic approach reflecting the duration of portfolio exposure in accordance with a exposure bucketing approach.

The group and company observe interest rate risk in respect of these exposures using an unfunded cash collateralised interest rate derivatives discount curve. Hedge effectiveness between the hedging instrument and the hedged item is determined at the inception of the hedge relationship and through periodic effectiveness assessments to ensure that an economic relationship exists using regression analysis between the hedged items and the hedging instruments for sensitivity of changes to changes in interest rate risk only.

The group and company use a combination of interest rate swaps and interest rate basis swaps to mitigate against the risk of changes in market value of hedged items for changes in interest rates. The group elects for each fair value interest rate risk hedging relationship, using swaps, to include forward points (basis) contained in the derivative instrument in the hedging relationship. Where the basis is included in the hedging relationship this exposes the hedge relationship to hedge ineffectiveness. The extent of hedge ineffectiveness as a result of fair value interest rate risk hedges is disclosed in note 2.3.5.

3. Financial instruments continued

Other (IFRS 9 and IAS 39)

Sale and repurchase agreements and lending of securities (including commodities)

Securities sold subject to linked repurchase agreements (repurchase agreements) are reclassified in the statement of financial position as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is included under deposits and current accounts or trading liabilities, as appropriate.

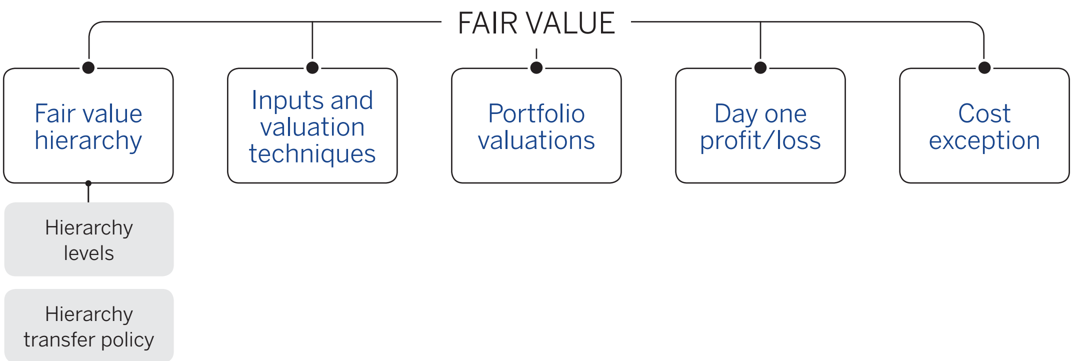
Securities purchased under agreements to resell (reverse repurchase agreements), at either a fixed price or the purchase price plus a lender's rate of return, are recorded as loans and included under trading assets or loans and advances, as appropriate. For repurchase and reverse repurchase agreements measured at amortised cost, the difference between the purchase and sales price is treated as interest and amortised over the expected life using the effective interest method.

Securities lent to counterparties are retained in the annual financial statements. Securities borrowed are not recognised in the annual financial statements unless sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability. Income and expenses arising from the securities borrowing and lending business are recognised over the period of the transactions.

Offsetting (IFRS 9 and IAS 39)

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the counterparties to the transaction.

4. Fair value



In terms of IFRS, the group is either required to or elects to measure a number of its financial assets and financial liabilities at fair value. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions. Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. In estimating the fair value of an asset or a liability, the group takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date.

4. **Fair value** continued

Fair value hierarchy

The group's financial instruments that are both carried at fair value and for which fair value is disclosed are categorised by the level of fair value hierarchy. The different levels are based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

Hierarchy levels

The levels have been defined as follows:

Level 1

Fair value is based on quoted market prices (unadjusted) in active markets for an identical financial asset or liability. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3

Fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instrument being valued and the similar instrument.

Hierarchy transfer policy

Transfers of financial assets and financial liabilities between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Inputs and valuation techniques

Fair value is measured based on quoted market prices or dealer price quotations for identical assets and liabilities that are traded in active markets, which can be accessed at the measurement date, and where those quoted prices represent fair value. If the market for an asset or liability is not active or the instrument is not quoted in an active market, the fair value is determined using other applicable valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Fair value measurements are categorised into level 1, 2 or 3 within the fair value hierarchy based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market-related discount rate at the reporting date for an asset or liability with similar terms and conditions.

If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

4. Fair value continued

Inputs and valuation techniques continued

The group's valuation control framework governs internal control standards, methodologies, and procedures over its valuation processes, which include the following valuation techniques and main inputs and assumptions per type of instrument:

Item and description	Valuation technique	Main inputs and assumptions
Derivative financial instruments Derivative financial instruments comprise foreign exchange, interest rate, commodity, credit and equity derivatives that are either held-for-trading or designated as hedging instruments in hedge relationships.	Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using more sophisticated modelling techniques applicable to the instrument. Techniques include: • discounted cash flow model • Black-Scholes model • combination technique models.	For level 2 and 3 fair value hierarchy items: • discount rate* • spot prices of the underlying • correlation factors • volatilities • dividend yields • earnings yield • valuation multiples.
Trading assets and trading liabilities Trading assets and liabilities comprise instruments which are part of the group's underlying trading activities. These instruments primarily include sovereign and corporate debt, commodities, collateral, collateralised lending agreements and equity securities.	Where there are no recent market transactions in the specific instrument, fair value is derived from the last available market price adjusted for changes in risks and information since that date. Where a proxy instrument is quoted in an active market, the fair value is determined by adjusting the proxy fair value for differences between the proxy instrument and the financial investment being fair valued. Where proxies are not available, the fair value is estimated using more complex modelling techniques. These techniques include discounted cash flow and Black-Scholes models using current market rates for credit, interest, liquidity, volatility and other risks. Combination techniques are used to value unlisted equity securities and include inputs such as earnings and dividend yields of the underlying entity.	
Pledged assets Pledged assets comprise instruments that may be sold or repledged by the group's counterparty in the absence of default by the group. Pledged assets include sovereign and corporate debt, equities, commodities pledged in terms of repurchase agreements and commodities that have been leased to third parties.		
Financial investments Financial investments are non-trading financial assets and primarily comprise of sovereign and corporate debt, listed and unlisted equity instruments, investments in debentures issued by the SARB, investments in mutual fund investments and unit-linked investments.		

4. **Fair value** continued

Inputs and valuation techniques continued

Item and description	Main inputs and assumptions	Valuation technique
Loans and advances to banks and customers Loans and advances comprise: Loans and advances to banks: call loans, loans granted under resale agreements and balances held with other banks Loans and advances to customers: mortgage loans (home loans and commercial mortgages), other asset-based loans, including collateralised debt obligations (instalment sale and finance leases), and other secured and unsecured loans (card debtors, overdrafts, other demand lending, term lending and loans granted under resale agreements).	For certain loans fair value may be determined from the market price of a recently occurring transaction adjusted for changes in risks and information between the transaction and valuation dates. Loans and advances are reviewed for observed and verified changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value. Discounted cash flow models incorporate parameter inputs for interest rate risk, foreign exchange risk, liquidity and credit risk, as appropriate. For credit risk, probability of default and loss given default parameters are determined using credit default swaps (CDS) markets, where available and appropriate, as well as the relevant terms of the loan and loan counterparty such as the industry classification and subordination of the loan.	For level 2 and 3 fair value hierarchy items: • discount rate*.
Deposits and debt funding Deposits from banks and customers comprise amounts owed to banks and customers, deposits under repurchase agreements, negotiable certificates of deposit, credit-linked deposits and other deposits.	For certain deposits, fair value may be determined from the market price on a recently occurring transaction adjusted for all changes in risks and information between the transaction and valuation dates. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value based on the contractual cash flows related to the instrument. The fair value measurement incorporates all market risk factors, including a measure of the group's credit risk relevant for that financial liability. The market risk parameters are valued consistently to similar instruments held as assets stated in the section above. The credit risk of the reference asset in the embedded CDS in credit-linked deposits is incorporated into the fair value of all credit-linked deposits that are designated to be measured at fair value through profit or loss. For collateralised deposits that are designated to be measured at fair value through profit or loss, such as securities repurchase agreements, the credit enhancement is incorporated into the fair valuation of the liability.	For level 2 and 3 fair value hierarchy items: • discount rate*.
Policyholders' assets and liabilities Policyholders' assets and liabilities comprise unit-linked policies and annuity certains.	Unit-linked policies: assets which are linked to the investment contract liabilities are owned by the group. The investment contract obliges the group to use these assets to settle these liabilities. Therefore, the fair value of investment contract liabilities is determined with reference to the fair value of the underlying assets (i.e. amount payable on surrender of the policies). Annuity certains: discounted cash flow models are used to determine the fair value of the stream of future payments.	For level 2 and 3 fair value hierarchy items: • discount rate* • spot price of underlying.
Third-party financial liabilities arising on the consolidation of mutual funds (included in other liabilities) These are liabilities that arise on the consolidation of mutual funds.	The fair values of third-party financial liabilities arising on the consolidation of mutual funds are determined using the quoted put (exit) price provided by the fund manager and discounted for the applicable notice period. The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.	For level 2 and 3 fair value hierarchy items: • discount rate*.

* Discount rates, where applicable, include the risk-free rate, risk premiums, liquidity spreads, credit risk (own and counterparty as appropriate), timing of settlement, storage/service costs, prepayment and surrender risk assumptions and recovery rates/loss given default.

4. Fair value continued

Portfolio valuations

The group has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits the group of financial assets and financial liabilities to be measured at fair value on a net basis, with the net fair value being allocated to the financial assets and financial liabilities.

Day one profit or loss

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models with only observable market data as inputs.

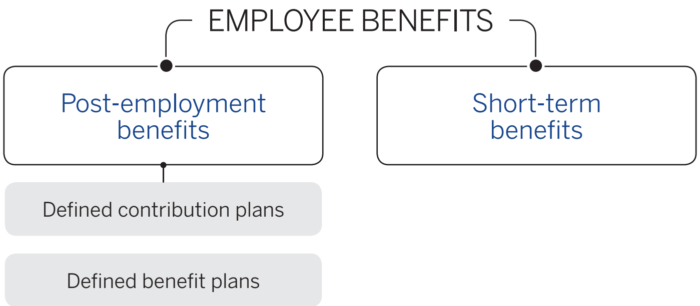
Day one profit or loss is deferred where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models that utilise non-observable market data as inputs.

The timing of the recognition of deferred day one profit or loss is determined individually depending on the nature of the instrument and availability of market observable inputs. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Cost exception (IAS 39)

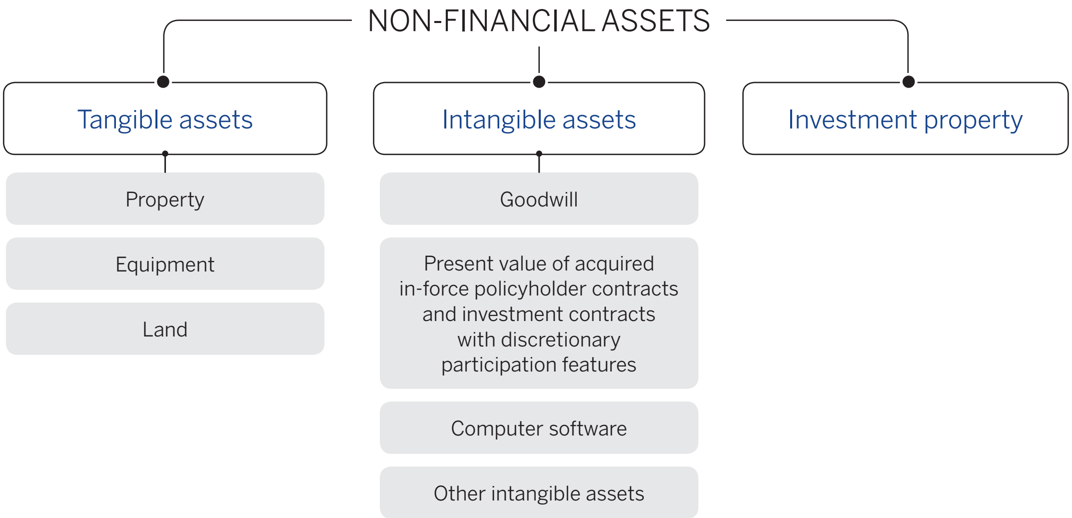
Where the fair value of investments in equity instruments or identical instruments do not have a quoted price in an active market, and derivatives that are linked to and must be settled by delivery of such equity instruments, are unable to be reliably determined, those instruments are measured at cost less impairment losses. Impairment losses on these financial assets are not reversed.

5. Employee benefits



Type and description	Statement of financial position	Statement of other comprehensive income	Income statement
Defined contribution plans The group operates a number of defined contribution plans. See note 45 for more information.	Accruals are recognised for unpaid contributions.	No direct impact.	Contributions are recognised as an operating expense in the periods during which services are rendered by the employees.
Defined benefit plans The group operates a number of defined benefit retirement and post-employment medical aid plans. Employer companies contribute to the cost of benefits taking account of the recommendations of the actuaries. See note 46 for more information.	Assets or liabilities measured at the present value of the estimated future cash outflows, using interest rates of government bonds denominated in the same currency as the defined benefit plan (corporate bonds are used for currencies for which there is a deep market of high-quality corporate bonds), with maturity dates that approximate the expected maturity of the obligations, less the fair value of plan assets. A net defined benefit asset is only recognised to the extent that economic benefits are available to the group from reductions in future contributions or future refunds from the plan.	Remeasurements of the net defined benefit obligation, including actuarial gains and losses, the return on plan assets (excluding interest calculated) and the effect of any asset ceiling are recognised within OCI.	Net interest income/(expense) is determined on the defined benefit asset/(liability) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset/(liability). Other expenses related to the defined benefit plans are also recognised in operating expenses. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in operating expenses. The group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.
Short-term benefits Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions.	A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably	No direct impact.	Short-term employee benefit obligations are measured on an undiscounted basis and are expensed in operating expenses as the related service is provided.

6. Non-financial assets



Type and initial and subsequent measurement	Useful lives, depreciation/ amortisation method or fair value basis	Impairment
Tangible assets (property, equipment and land) Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Land is measured at cost less accumulative impairment losses. Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the group and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised in operating expenses as incurred. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate major components of property and equipment.	Property and equipment are depreciated on the straight-line basis over estimated useful lives (see below) of the assets to their residual values. Land is not depreciated. Buildings 40 years Computer equipment 3 – 5 years Motor vehicles 4 – 5 years Office equipment 5 – 10 years Furniture 5 – 13 years Leased assets Shorter of useful life or lease term The residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year end.	These assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in non-trading and capital related items for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest CGUs. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs to sell and its value in use. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through non-trading and capital related items only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

6. Non-financial assets continued

Type and initial and subsequent measurement	Useful lives, depreciation/ amortisation method or fair value basis	Impairment
Goodwill Goodwill represents the excess of the consideration transferred and the acquisition date fair value of any previously held equity interest over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of the acquisition. The group's interest in acquired subsidiaries takes into account any non-controlling interest. Goodwill arising on the acquisition of subsidiaries (associates or joint ventures) is reported in the statement of financial position as part of 'Goodwill and other intangible assets' ('Interest in associates and joint ventures').	Not applicable	The accounting treatment is generally the same as that for tangible assets except as noted below. Goodwill is tested annually for impairment and additionally when an indicator of impairment exists. An impairment loss in respect of goodwill is not reversed.
Present value of acquired in-force policyholder contracts and investment contracts with discretionary participation features Where a portfolio of policyholder contracts is acquired either directly from another insurer or through the acquisition of a subsidiary, the PVIF business on the portfolio, being the net present value of estimated future cash flows of the existing contracts, is recognised as an intangible asset. The PVIF intangible asset is carried in the statement of financial position at cost less accumulated amortisation and accumulated impairment losses.	The PVIF intangible asset is amortised on a basis consistent with the settlement of the relevant liability in respect of the purchased contracts (four to 12 years). The estimated life is re-evaluated annually.	Same accounting treatment as for tangible assets.

6. Non-financial assets continued

Type and initial and subsequent measurement	Useful lives, depreciation/ amortisation method or fair value basis	Impairment
Computer software Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the group and have a probable future economic benefit beyond one year, are recognised as intangible assets. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses from the date that the assets are available for use. Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.	Amortisation is recognised in operating expenses on a straight line basis at rates appropriate to the expected lives of the assets (two to 15 years) from the date that the asset is available for use. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary	Intangible assets that have an indefinite useful life are tested annually for impairment and additionally when an indicator of impairment exists. The accounting treatment for computer software and other intangible assets is otherwise the same as for tangible assets.
Other intangible assets The group recognises the costs incurred on internally generated intangible assets such as brands, customer lists, customer contracts and similar rights and assets, in operating expenses as incurred. The group capitalises brands, customer lists, customer contracts, distribution forces and similar rights acquired in business combinations. Capitalised intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses.	Amortisation is recognised in operating expenses on a straight-line basis over the estimated useful lives of the intangible assets, not exceeding 20 years, from the date that the asset is available for use. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary.	
Derecognition Non-financial assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds and the carrying amount of the non-financial asset.		

Type and initial and subsequent measurement	Useful lives, depreciation/ amortisation method or fair value basis	Impairment
Investment property Initially measured at cost, including transaction costs. Subsequently measured at fair value and included as part of investment management and service fee income and gains within the profit or loss.	The fair value is based on valuation information at the reporting date. If the valuation information cannot be reliably determined, the group uses alternative valuation methods such as discounted cash flow projections or recent prices in active markets. Fair value adjustments recognised in investment management and service fee income and gains are adjusted for any double-counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.	

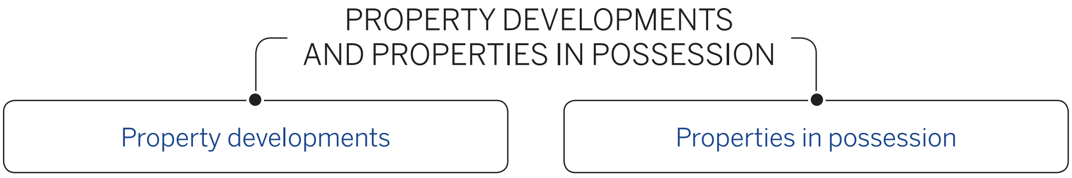
Derecognition

Investment property is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on derecognition is recognised in investment management and service fee income and gains and is determined as the difference between the net disposal proceeds and the carrying amount of the non-financial asset.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

When the use of a property changes such that it is reclassified from property and equipment to investment property, the difference between the carrying value at date of reclassification and its fair value is recognised in OCI.

7. Property developments and properties in possession



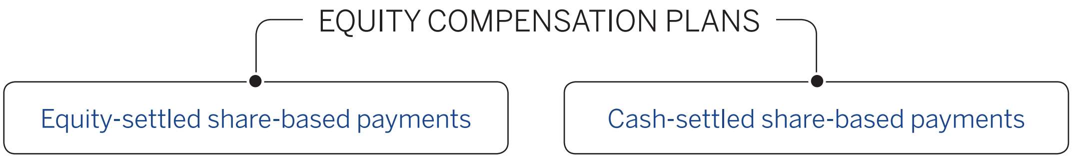
Property developments

Property developments are stated at the lower of cost or net realisable value. Cost is assigned by specific identification and includes the cost of acquisition and where applicable, development and borrowing costs during development.

Properties in possession

Properties in possession are properties acquired by the group which were previously held as collateral for underlying lending arrangements that, subsequent to origination, have defaulted. The properties are initially recognised at cost and are subsequently measured at the lower of cost and its net realisable value. Any subsequent write-down in the value of the acquired properties is recognised as an operating expense. Any subsequent increases in the net realisable value, to the extent that it does not exceed its original cost, are also recognised within operating expenses.

8. Equity-linked transactions



Equity-settled share-based payments

The fair value of the equity-settled share-based payments are determined on grant date and accounted for within operating expenses (staff costs) over the vesting period with a corresponding increase in the group's share-based payment reserve. Non-market vesting conditions, such as the resignation of employees and retrenchment of staff, are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each reporting date, the estimate of the number of options expected to vest is reassessed and adjusted against operating expenses and share-based payment reserve over the remaining vesting period.

On vesting of the equity-settled share-based payments, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer. On exercise of the equity-settled share-based payment, any proceeds received are credited to share capital and premium.

Cash-settled share-based payments

Cash-settled share-based payments are accounted for as liabilities at fair value until the date of settlement. The liability is recognised over the vesting period and is revalued at every reporting date up to and including the date of settlement. All changes in the fair value of the liability are recognised in operating expenses.

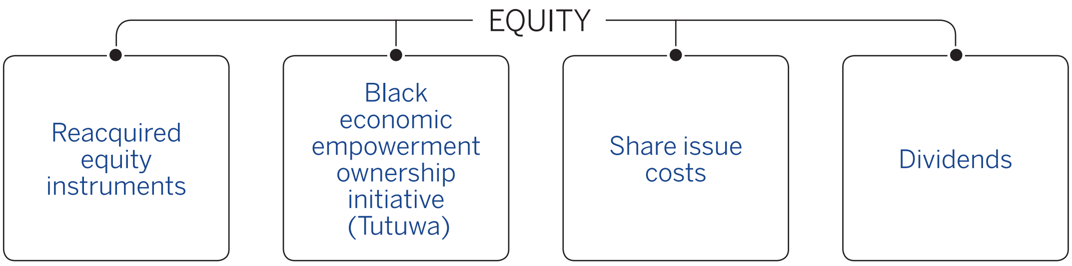
9. Leases

LEASES

- Finance leases
  - Lessee
  - Lessor
- Operating leases
  - Lessee
  - Lessor

Type and description	Statement of financial position	Income statement
Finance leases – lessee Leases, where the group assumes substantially all the risks and rewards incidental to ownership, are classified as finance leases.	The leased asset is capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments together with an associated liability to the lessor. Refer to non-financial assets accounting policy for the treatment of the leased asset. Lease payments less the interest component, which is calculated using the interest rate implicit in the lease or the group's incremental borrowing rate, are recognised as a capital repayment which reduces the liability to the lessor.	A lease finance cost, determined with reference to the interest rate implicit in the lease or the group's incremental borrowing rate, is recognised within interest expense over the lease period.
Finance leases – lessor Leases, where the group transfers substantially all the risks and rewards incidental to ownership, are classified as finance leases.	Finance lease receivables, including initial direct costs and fees, are primarily accounted for as financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances.	Finance charges earned within interest income are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. The tax benefits arising from investment allowances on assets leased to clients are accounted for within direct taxation.
Operating leases – lessee All leases that do not meet the criteria of a financial lease are classified as operating leases.	Accruals for unpaid lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease expense are recognised.	Payments made under operating leases, net of any incentives received from the lessor, are recognised in operating expenses on a straight-line basis over the term of the lease. Contingent rentals are expensed as they are incurred. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating expenses in the period in which termination takes place.
Operating leases – lessor All leases that do not meet the criteria of a financial lease are classified as operating leases.	The asset underlying the lease continues to be recognised and accounted for in terms of the relevant group accounting policies. Accruals for outstanding lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease income are recognised.	Operating lease income net of any incentives given to lessees, is recognised on the straight-line basis or a more representative basis where applicable over the lease term and is recognised in operating expenses. When an operating lease is terminated before the lease period has expired, any payment required by the group by way of a penalty is recognised as income in the period in which termination takes place.

10. Equity



Reacquired equity Instruments

Where subsidiaries purchase/(short sell) Standard Bank Group Limited's equity instruments, the consideration paid/(received) is deducted/(added) from/(to) equity attributable to ordinary shareholders as treasury shares on consolidation.

Fair value changes recognised by subsidiaries on these instruments are reversed on consolidation and dividends received are eliminated against dividends paid. Where such shares are subsequently sold or reissued/(reacquired) outside the group, any consideration received/(paid) is included in equity attributable to ordinary shareholders.

Black economic empowerment ownership initiative (Tutuwa)

The group subscribed for 8.5% redeemable, cumulative, preference shares issued by the Tutuwa entities controlled by the group. The initial repurchase of group shares by the Tutuwa entities was treated as a reduction in the group's equity. Subsequent to the repurchase of the group shares, the Tutuwa entities containing these shares were sold to the black participants. The capital and dividends on the preference shares are repayable from future ordinary dividends received on group shares or from the disposal of the group's shares. As a result of the group's right to receive its own dividends back in the form of preference dividends and capital on the preference shares, the subsequent sale of the Tutuwa entities and consequent delivery of the group shares to the black participants (although legally effected) is not accounted for as a sale. The preference share investment in the Tutuwa entities is also not accounted for as an asset. The preference share asset is effectively eliminated against equity as a negative empowerment reserve.

As a consequence of the above, the IFRS accounting treatment followed until full redemption, or third-party financing, is as follows:

- the 8.5% redeemable, cumulative, preference shares issued by the Tutuwa entities and subscribed for by the group are not recognised as financial assets, but eliminated against equity as a negative empowerment reserve
- the preference dividends received from the Tutuwa entities are eliminated against the ordinary dividends paid on the group shares held by the Tutuwa entities
- preference dividends accrued but not received, due to cash distributions paid to participants, increase the empowerment reserve
- for purposes of the calculation of earnings per share, the weighted average number of shares in issue is reduced by the number of shares held by those Tutuwa entities that have been sold to the black participants. The shares will be restored on full redemption of the preference shares, or to the extent that the preference share capital is financed by a third party
- perpetual preference shares issued by the group for the purposes of financing the repurchased group shares are classified as equity. Dividends paid are accounted for on declaration.

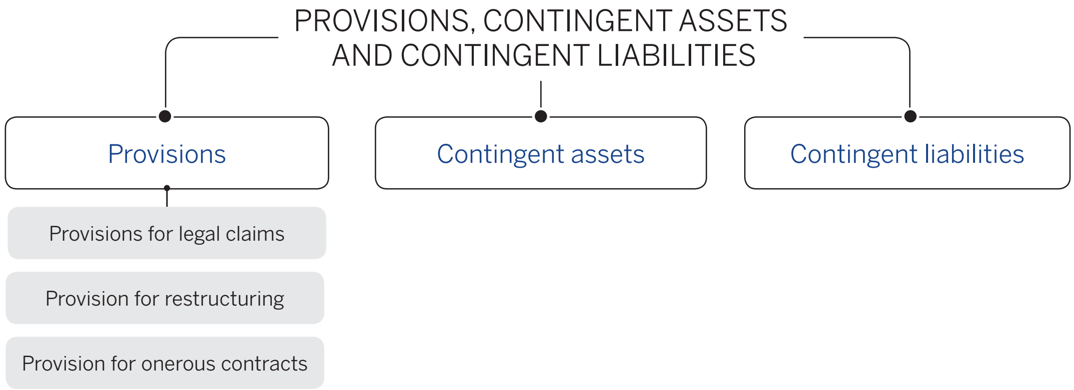
Share issue costs

Incremental external costs directly attributable to a transaction that increases or decreases equity are deducted from equity, net of related tax. All other share issue costs are expensed.

Dividends

Distributions are recognised in equity in the period in which they are declared. Distributions declared after the reporting date are disclosed in the distributions note to the annual financial statements.

11. Provisions, contingent assets and contingent liabilities



Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The group's provisions typically (when applicable) include the following:

Provisions for legal claims

Provisions for legal claims are recognised on a prudent basis for the estimated cost for all legal claims that have not been settled or reached conclusion at the reporting date. In determining the provision management considers the probability and likely settlement (if any). Reimbursements of expenditure to settle the provision are recognised when and only when it is virtually certain that the reimbursement will be received.

Provision for restructuring

A provision for restructuring is recognised when the group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

Provision for onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on the assets associated with that contract.

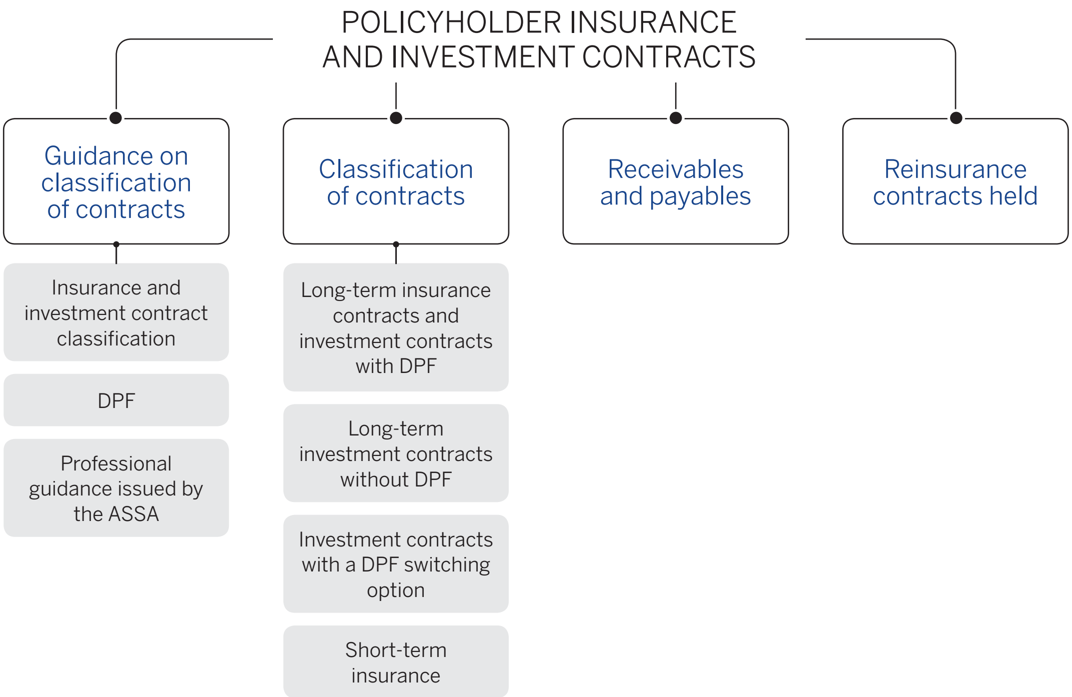
Contingent assets

Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the group, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the group's control.

Contingent liabilities

Contingent liabilities include certain guarantees (other than financial guarantees) and letters of credit and are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are considered remote.

12. Policyholder insurance and investment contracts



Guidance on classification of contracts

Insurance and investment contract classification

The group issues contracts that transfer insurance risk or financial risk or, in some cases, both.

An insurance contract is a contract under which the group (insurer) accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder or, in the case of life annuities, the lifespan of the policyholder is greater than that assumed. Such contracts may also transfer financial risk. The group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur.

Short-term insurance provides benefits under short-term policies, typically one year or less, which include engineering, fire, personal liability, marine and aviation, motor, personal accident, medical expenses, theft and the Workmen's Compensation Act, or a contract comprising a combination of any of those policies.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Discretionary participation features

A number of insurance and investment contracts contain a DPF feature. This feature entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses at the discretion of the group. The terms and conditions or practice relating to these contracts are in accordance with the group's published Principles and Practices of Financial Management, as approved by the FSB. The terms 'reversionary bonus' and 'smoothed bonus' refer to the specific forms of DPF contracts underwritten by the group. All components in respect of DPFs are included in policyholders' assets and liabilities.

Professional guidance issued by the Actuarial Society of South Africa

In terms of IFRS 4 Insurance Contracts (IFRS 4), insurance liabilities are measured under existing local practice. The group had, prior to the adoption of IFRS 4, adopted the Professional Guidance Notes (PGNs) issued by the ASSA to determine the liability in respect of insurance contracts issued in South Africa. The group has continued to value long-term insurance liabilities in accordance with these.

In 2012, the naming convention was changed and the term PGN was replaced with either APN or SAP depending on whether the former PGN was best-practice or mandatory respectively.

12. Policyholder insurance and investment contracts continued

Guidance on classification of contracts continued

These are available on the ASSA website – www.actuarialsociety.org.za

Where applicable, the APNs and SAPs are referred to in the accounting policies and notes to the annual financial statements.

Classification of contracts

Policyholder contracts are classified into four categories, depending on the duration of or type of investment benefit or insurance risks. The accounting for each of these contracts are detailed below.

Long-term insurance contracts and investment contracts with DPF

Measurement

These contracts are valued in terms of the FSV basis as described in SAP 104 Life offices – valuation of long-term insurers (SAP 104), using a discounted cash flow methodology. The assets and liabilities are reflected as policyholders' assets and liabilities in the statement of financial position. The discounted cash flow methodology allows for premiums and benefits payable in terms of the contract, future administration expenses and commission, investment return, tax and any expected losses in respect of options.

The liability is based on assumptions of the best estimate of future experience, plus compulsory margins as required in terms of SAP 104, plus additional discretionary margins. Derivatives embedded in the group's insurance contracts are not separated and measured at fair value if the embedded derivative itself meets the definition of an insurance contract.

The liabilities in respect of the investment guarantees' underlying maturity and death benefits, and guaranteed annuity options are measured in accordance with APN 110 Reserving for minimum investment return guarantees on a market-consistent basis. Discretionary margins are held to ensure that the profit and risk margins in the premiums are not capitalised before it is probable that future economic benefits will flow to the entity.

These profits emerge over the lifetime of the contract in line with the risk borne by the group. Liabilities for individual market-related policies, where benefits are in part dependent on the performance of underlying investment portfolios, are taken as the aggregate value of the policies' investment in the investment portfolio at the valuation date (the unit reserve element), reduced by the excess of the present value of the expected future risk and expense charges over the present value of the expected future risk benefits and expenses on a policy-by-policy cash flow basis (the rand reserve element).

Reversionary bonus classes of policies, and policies with fixed and guaranteed benefits are valued by discounting the expected future cash flows at market-related rates of interest reduced by an allowance for investment expenses and the relevant compulsory margins (the guaranteed element). Future bonuses have been allowed for at the latest declared rates where appropriate. The rand reserve element of market-related policies and the guaranteed element in respect of other policies are collectively known as the rand reserve.

In respect of corporate life and lump sum disability business, no discounting of future cash flows is performed. However, a provision will be held if the expected guaranteed premiums under the current basis and investment returns in the short term are not sufficient to meet expected future claims and expenses. For corporate investment contracts with DPF, in addition to the value of the policies' investment in the investment portfolios held, an additional provision will be held if the expected fee recoveries in the short term are not sufficient to meet expected expenses.

Within the group all investment contracts invested in smoothed bonus portfolios are classified as investment contracts with DPF. In respect of insurance and investment contracts with DPF where bonuses are smoothed, bonus stabilisation provisions are held arising from the difference between the after taxation investment performance of the assets net of the relevant management fees and the value of the bonuses declared. In accordance with SAP 104, where the bonus stabilisation provision is negative, this provision is restricted to an amount that can reasonably be expected to be recovered through distribution of bonuses during the ensuing three years. All bonus stabilisation provisions are included in policyholders' liabilities. The liability estimates are reviewed bi-annually. The effect of any change in estimates is recognised in profit or loss.

Where policyholders, in respect of certain policies, are entitled to a part surrender, any part surrender is treated as a derecognition of the policyholders' asset or liability.

Shadow accounting is applied to policyholder insurance contracts where the underlying measurement of the policyholder insurance liability depends directly on the fair value of any owner-occupied properties.

Any unrealised gains and losses on such owner-occupied properties are recognised in OCI. The shadow accounting adjustment to policyholder insurance contracts is recognised in OCI to the extent that the unrealised gains or losses, together with any related taxation on owner-occupied properties backing policyholder insurance liabilities are also recognised directly in OCI.

12. Policyholder insurance and investment contracts continued

Classification of contracts continued

Incurred but not reported claims (IBNR)

Provision is made in policyholders' assets and liabilities for the estimated cost at the end of the year of claims incurred but not reported at that date. IBNR provisions for the main categories of business are calculated using run-off triangle techniques. These liabilities are not discounted due to the short-term nature of IBNR claims. Outstanding claims and benefit payments are stated gross of reinsurance.

Liability adequacy test

At each reporting date the adequacy of the insurance liabilities is assessed. If that assessment shows that the carrying amount of insurance liabilities net of any related intangible PVIF business assets is inadequate in the light of the estimated future cash flows, then the deficiency is recognised in profit or loss.

Premium income

Premiums and annuity considerations on insurance contracts, other than in respect of universally costed policies (policies where insurance risk charges are dependent on the excess of the sum assured over the value of units underlying the contract), recurring premium pure risk policies (collectively the Lifestyle series) and corporate schemes, are recognised when due in terms of the contract. Premiums receivable in respect of corporate schemes are recognised when there is a reasonable assurance of collection in terms of the policy contract. Premiums in respect of the Lifestyle series of policies are recognised when premiums are received, as failure to pay a premium will result in a reduction of attributable fund value, if available, or else in the lapse of the policy. Premium income on insurance contracts is recognised gross of reinsurance. Premiums are shown before deduction of commission.

Claims

Claims on insurance contracts, which include death, disability, maturity, surrender and annuity payments, are recognised in insurance benefits and claims paid when the group is notified of a claim, based on the estimated liability for compensation owed to policyholders. Changes in the provision for IBNR claims are also recognised in insurance benefits and claims paid. Reinsurance recoveries are accounted for in the same period as the related claims.

Acquisition costs

Acquisition costs for insurance contracts represent commission and other costs that relate to the securing of new contracts and the renewing of existing contracts. These costs are expensed as incurred in insurance benefits and claims paid.

The FSV method for valuing insurance contracts and investment contracts with DPF makes implicit allowance for the deferral of acquisition costs and, hence, no explicit deferred acquisition cost asset is recognised in the statement of financial position for these contracts.

Long-term investment contracts without DPF

Measurement

The group issues investment contracts without fixed benefits (unit-linked and structured products) and investment contracts with fixed and guaranteed benefits (term certain annuity). Investment contracts without fixed benefits are financial liabilities whose fair value is dependent on the fair value of the underlying financial assets, derivatives and/or investment property and are designated at inception as at fair value through profit or loss. These investment contracts are accounted for as financial liabilities and are designated at fair value through profit or loss.

For investment contracts with fixed and guaranteed terms, future benefit payments and premium receipts are discounted using market-related rates at the relevant statement of financial position date. No initial profit is recognised immediately as any profit on initial recognition is amortised over the life of the contract.

Amounts received and claims incurred on investment contracts

Amounts received under investment contracts, such as premiums, are recorded as deposits to investment contract liabilities, whereas claims incurred are recorded as deductions from investment contract liabilities.

DRL on investment management contracts

A DRL is recognised in respect of upfront fees, which are directly attributable to a contract, that are charged for investment management services. The DRL is then released to investment management and service fee income and gains when the services are provided, over the expected duration of the contract on a straight-line basis.

Regular charges billed in advance are recognised on a straight-line basis over the billing period, which is the period over which the service is rendered. Outstanding fees are accrued as a receivable in terms of the investment management contract.

12. Policyholder insurance and investment contracts continued

Classification of contracts continued

DAC in respect of investment contracts

Commissions paid and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed. These costs are expensed as incurred, unless specifically attributable to an investment contract with an investment management service element. Such costs are deferred and amortised on a straight-line basis over the expected life of the contract (10 to 16 years for linked annuities, one year for corporate business and five years for other investment contracts), taking into account all decrements, as they represent the right to receive future management fees.

A DAC asset is recognised for all applicable policies with the amortisation being calculated on a portfolio basis. An impairment test is conducted annually at the reporting date on the DAC balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contracts.

Investment contracts with a DPF switching option

Measurement

On certain investment contracts, policyholders have an option to switch some or all of their investment from a DPF fund to a non-DPF fund (and vice versa). The value of the liability held with respect to these contracts is taken at the aggregate value of the policyholder investment in the investment portfolio at the valuation date.

Short-term insurance

Gross written premiums

Gross premiums exclude value added tax (VAT). Premiums are accounted for as income when the risk related to the insurance policy commences and are amortised over the contractual period of risk cover by using an unearned premium provision. All premiums are shown before deduction of commission payable to intermediaries.

Provision for unearned premiums

The provision for unearned premiums represents the portion of the current year's premiums that relate to risk periods extending into the following year. The unearned premiums are calculated using a straight-line basis, except for those insurance contracts where allowance is made for uneven exposure.

Liability adequacy

Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims, as well as claims-handling fees and related administrative costs.

Provision for reported claims and IBNR claims

Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. The group's own assessors or contracted external assessors individually assess claims. The claims provision includes an estimated portion of the direct expenses of the claims and assessment charges.

Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the group at that date (IBNR claims). This provision is calculated using run-off triangle techniques. The provision for claims is not discounted for the time value of money due to the expected short duration to settlement.

DAC

Commissions that vary and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned, and recognised as a current asset. All other costs are recognised as expenses within insurance benefits and claims paid when incurred.

DRL

A DRL is raised for any income receivable on the placement of reinsurance for risks arising from short-term insurance contracts. The DRL is released to income systematically over the coverage period of the respective reinsurance contract.

Receivables and payables

Receivables and payables related to insurance contracts and investment contracts are recognised when due. These include amounts due to and from agents, brokers and policyholders. Receivables and payables related to insurance contracts are subsequently measured in terms of IFRS 4 Insurance Contracts (IFRS 4), while those related to investment contracts are designated at fair value.

12. Policyholder insurance and investment contracts continued

Reinsurance contracts held

The group cedes some insurance risk in the normal course of business. Reinsurance contracts are contracts entered into by the group with reinsurers under which the group is compensated for the entire, or a portion of, losses arising on one or more of the insurance contracts issued by the group.

The expected benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets and included in 'Other assets' in the statement of financial position. Reinsurance assets are assessed for impairment at each reporting date. Any impairment loss is recognised in profit or loss.

Outward reinsurance premiums are recognised as an expense and are accounted for in the same accounting period that premiums received are recognised as revenue in insurance premiums.

13. Taxation

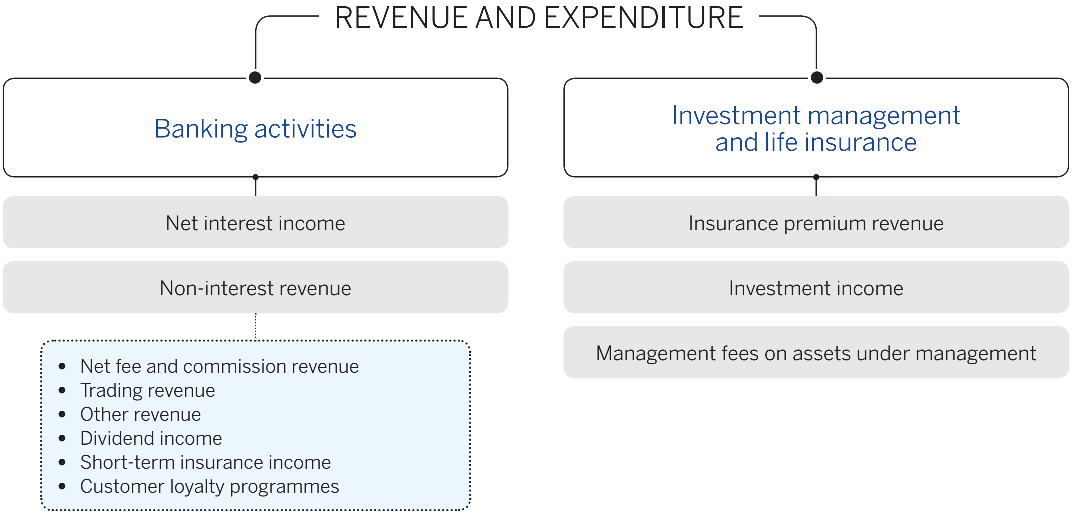
TAXATION

- Direct taxation: Direct taxation includes all domestic and foreign taxes based on taxable profits and capital gains tax
  - Current tax
  - Deferred tax
- Indirect taxation
- Dividends tax

Type	Description, recognition and measurement	Offsetting
Direct taxation: current tax	Current tax is recognised in the direct taxation line in the income statement except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI. Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.	Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.
Direct taxation: deferred tax	Deferred tax is recognised in direct taxation except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI. Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax is not recognised for the following temporary differences: • the initial recognition of goodwill • the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses • investments in subsidiaries, associates and jointly controlled arrangements (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.	

Type	Description, recognition and measurement	Offsetting
Direct taxation: deferred tax continued	The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the group is unable to control the reversal of the temporary difference for associates unless there is an agreement in place that gives the group the ability to control the reversal of the temporary difference. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.	
Indirect taxation	Indirect taxes, including non-recoverable value added tax (VAT), skills development levies and other duties for banking activities, are recognised in the indirect taxation line in the income statement.	Not applicable
Dividend tax	Taxes on dividends declared by the group are recognised as part of the dividends paid within equity as dividend tax represents a tax on the shareholder and not the group. Dividend tax withheld by the group on dividends paid to its shareholders and payable at the reporting date to the South African Revenue Service (where applicable) is included in 'Other liabilities' in the statement of financial position.	Not applicable

14. Revenue and expenditure



Description	Recognition and measurement
Net interest income	Interest income and expense (with the exception of borrowing costs that are capitalised on qualifying assets, that is assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value) are recognised in net interest income using the effective interest method for all interest-bearing financial instruments. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate. Where the estimates of payments or receipts on financial assets or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the adjusted cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income. When a financial asset is classified as specifically impaired (before 1 January 2018) or as Stage 3 impaired (after 1 January 2018), interest income is calculated on the impaired value (gross carrying amount less specific impairment) based on the original effective interest rate. The contractual interest income on the gross exposure is suspended and is only recognised in interest income (before 1 January 2018) credit impairment (after 1 January 2018) when the financial asset is no longer specifically impaired (before 1 January 2018) or is reclassified out of Stage 3 (after 1 January 2018). Dividends received on preference share investments classified as debt form part of the group's lending activities and are included in interest income. Before the adoption of IFRS 9 on 1 January 2018, the following additional amounts were recognised in net interest income: • fair value gains and losses on debt financial assets that were designated at fair value through profit or loss • the gain or loss on the derecognition of a financial asset classified as available-for-sale • gains and losses arising from the derecognition of financial assets and financial liabilities classified as at amortised cost • fair value gains and losses on financial liabilities (including changes as a result of own credit risk) that were designated at fair value through profit or loss.

14. Revenue and expenditure continued

Description	Recognition and measurement
Net fee and commission revenue	Fee and commission revenue, including accounting transaction fees, card-based commission, documentation and administration fees, electronic banking fees, foreign currency service fees, insurance-based fees and commissions, and knowledge-based fees and commissions are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the group does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised to the income statement as interest income. The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract. Fee and commission expenses, included in net fee and commission revenue, are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is presented as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.
Trading revenue	Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.
Customer loyalty programmes	The group's banking activities operate a customer loyalty programme in terms of which it undertakes to provide goods and services to certain customers. The reward credits are accounted for as a separately identifiable component of the fee and commission income transactions of which they form a part. The consideration allocated to the reward credits is measured at the fair value of the reward credit and is recognised over the period in which the customer utilises the reward credits. Expenses relating to the provision of the reward credits are recognised in fee and commission expenses as and when they are incurred.
Dividend income	Dividends are recognised in interest income (other revenue) for debt (equity instruments) when the right to receipt is established. Scrip dividends are recognised as dividends received where the dividend declaration allows for a cash alternative.
Insurance premium revenue	Insurance premium revenue includes life insurance premiums, health insurance premiums and short-term insurance premiums.
Investment income	Investment income for investment management and life insurance activities comprises mainly rental income from properties, interest, hotel operations' sales and dividends. Dividends are recognised when the right to receive payment is established and interest income is recognised using the effective interest method. Hotel operation sales comprise the fair value of the sale of accommodation, food and beverage, other guest facilities and rentals received. Revenue is shown net of VAT, returns, rebates and discounts.
Management fees on assets under management	Fee income includes management fees on assets under management and administration fees. Management fees on assets under management are recognised over the period for which the services are rendered, in accordance with the substance of the relevant agreements. Administration fees received for the administration of medical schemes are recognised when the services are rendered.

14. Revenue and expenditure continued

Description	Recognition and measurement
Other gains/losses on financial instruments	After 1 January 2018, includes: • fair value gains and losses on financial assets that are at fair value through profit or loss • the gain or loss on the derecognition realisation of a debt financial asset classified as at fair value through OCI • gains and losses arising from the derecognition of financial assets and financial liabilities classified as at amortised cost • gains and losses arising from the reclassification of a financial asset from amortised cost to fair value • gains and losses arising from the modification of a financial asset (which is not distressed) and financial liability as at amortised cost • fair value gains and losses on designated financial instruments.
Other revenue	Other revenue includes dividends on equity financial assets, underwriting profit from the group's short-term insurance operations and related insurance activities and re-measurement gains and losses from contingent consideration on disposals and purchases. Before 1 January 2018, gains and losses on equity instruments designated at fair value through profit or loss are recognised within other revenue. Gains and losses on equity instruments classified as available-for-sale financial assets are reclassified from OCI to other revenue on derecognition or impairment.
Short-term insurance income	Includes premium income, commission and policy fees earned, as well as net incurred claim losses and broker commission paid. Annual business income is accounted for on the accrual basis and comprises the cash value of commission and fees earned when premiums or fees are payable directly to the group and comprises the cash value of commission earned when premiums are payable directly to the underwriters.

Offsetting
Income and expenses are presented on a net basis only when permitted by IFRS, or for gains and losses arising from a group of similar transactions.

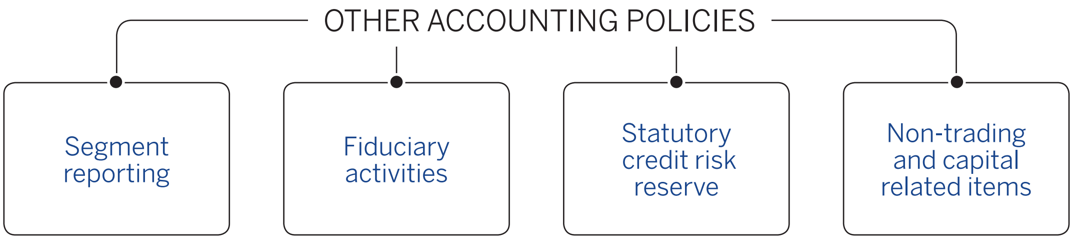
Interest in suspense
In addition to the above identified changes between IAS 39 and IFRS 9, interest in suspense (refers to contractual interest which accrues on financial assets which are classified as non-performing) is presented as follows:

IAS 39 accounting treatment
Up to 31 December 2017, IAS 18 Revenue required interest income to be recognised only when it was probable that the economic benefits associated with a transaction would flow to the entity. The group, in line with these requirements, suspended the recognition of contractual interest income on all exposures where it was determined that future economic benefits were not probable. The accounting presentation policy for this suspended contractual interest was to present the balance sheet interest in suspense account as part of the gross carrying amount of the financial asset (i.e. gross carrying amount net of interest in suspense). In addition, upon the curing of the non-performing financial asset, the group elected an accounting presentation policy to recognise this suspended contractual interest (previously unrecognised interest) within net interest income line within the income statement. This policy was elected on the basis that the presentation best represented the nature of the amount in terms of IAS 1 Presentation of Financial Statements.

IFRS 9 accounting treatment
IFRS 9 requires that interest income for financial assets classified as Stage 3 be calculated on the net carrying amount (after deducting credit impairments), which will result in a portion of contractual interest being suspended. IFRS 9 requires that this suspended contractual interest be presented as part of the financial assets' gross carrying amount. The group has applied this requirement by presenting balance sheet suspended contractual interest as a separate reconciling item when calculating the financial assets' net carrying amount. Hence suspended contractual interest does not impact the net carrying amount of the financial asset as presented on the statement of financial position. However, this change in presentation has resulted in an increased gross carrying amount of financial assets when compared to IAS 39.

The group presents previously unrecognised interest earned on curing of a financial asset out of Stage 3 within credit impairment charges. This presentation is consistent with the IFRIC clarification issued in December 2018.

15. Other significant accounting policies



Segment reporting

An operating segment is a component of the group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. The group's identification of segments and the measurement of segment results is based on the group's internal reporting to the chief operating decision maker.

Fiduciary activities

The group commonly engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these annual financial statements as they are not assets of the group. However, fee income earned and fee expenses incurred by the group relating to the group's responsibilities from fiduciary activities are recognised in profit or loss.

Statutory credit risk reserve

The statutory credit risk reserve represents the amount by which local regulatory authorities within the group's African Regions operations require in addition to the IFRS impairment provision. Changes in this reserve are accounted for as transfers to and from retained earnings as appropriate.

Non-trading and capital related items

Non-trading and capital related items primarily include the following:

- gains and losses on disposal of subsidiaries, joint ventures and associates (including foreign exchange translation gains and losses)
- gains and losses on the disposal of property and equipment and intangible assets
- impairment and reversals of impairments of joint ventures and associates
- impairment of investments in subsidiaries, property and equipment, and intangible assets
- other items of a capital related nature.

16. New standards and interpretations not yet adopted

The following new or revised standards, amendments and interpretations are not yet effective for the year ended 31 December 2018 and have not been applied in preparing these annual financial statements.

Title: IFRS 3 Business Combinations (amendment)

Effective date: 1 January 2020

The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment is not expected to have a material impact on the group.

Title: IFRS 9 Financial Instruments (amendment)

Effective date: 1 January 2019

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The amendment is required to be applied retrospectively. The amendment is not expected to have a material impact on the group.

16. New standards and interpretations not yet adopted continued

Title: IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Effective date: deferred the effective date for these amendments indefinitely

The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The amendments will be applied prospectively and are not expected to have a material impact on the group's financial statements.

Title: IFRS 16 Leases

Effective date: 1 January 2019

This standard will replace the IAS 17, Leases as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier).

The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet.

The most significant change pertaining to the accounting treatment for operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a right of use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The lessor accounting requirements in IAS 17 have not changed substantially in terms of this standard. A lessor, hence, continues to classify its leases as operating leases or finance leases and accounts for these as is currently done in terms of IAS 17. In addition, the standard requires lessors to provide enhanced disclosures about its leasing activities and, in particular, about its exposure to residual value risk and how it is managed.

Estimated impact assessment

The group has elected to apply IFRS 16 retrospectively without restating comparative periods, which will continue to be presented in terms of IAS 17, with a transition adjustment as at 1 January 2019. The single lessee accounting model which comprises IFRS 16's most material impact for the group is expected to result in an increase of approximately R5 billion in total assets, R4.73 billion in total liabilities and an increase in reserves of approximately R250 million.

Title: IFRS 17 Insurance Contracts

Effective date: 1 January 2021 (proposed deferral by one year)

This standard replaces IFRS 4 Insurance Contracts which provided entities with dispensation to account for insurance contracts (particularly measurement) using local actuarial practice, resulting in a multitude of different approaches.

The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts globally. The standard requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. A general measurement model (GMM) will be applied to long-term insurance contracts, and is based on a fulfilment objective (risk-adjusted present value of best estimate future cash flows) and uses current estimates, informed by actual trends and investment markets. IFRS 17 establishes what is called a contractual service margin (CSM) in the initial measurement of the liability which represents the unearned profit on the contract and results in no gain on initial recognition. The CSM is released over the life of the contract, but interest on the CSM is locked in at inception rates. The CSM will be utilised as a 'shock absorber' in the event of changes to best estimate cash flows. On loss making (onerous) contracts, no CSM is set up and the full loss is recognised at the point of contract inception. The GMM is modified for contracts which have participation features.

An optional simplified premium allocation approach (PAA) is available for all contracts that are less than 12 months at inception. The PAA is similar to the current unearned premium reserve profile over time.

The requirement to eliminate all treasury shares has been amended such that treasury shares held for a group of direct participating contracts or investment funds are not required to be eliminated and can be accounted for as financial assets.

16. New standards and interpretations not yet adopted continued

Title: IFRS 17 Insurance Contracts continued

These requirements will provide transparent reporting about an entity's financial position and risk and will provide metrics that can be used to evaluate the performance of insurers and how that performance changes over time. An entity may re-assess its classification and designation of financial instruments under IFRS 9, on adoption of IFRS 17.

The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

Title: IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (amendments)

Effective date: 1 January 2020

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS Standards. The amendments will be applied prospectively. The amendment is not expected to have a significant impact on the annual financial statements.

Title: IAS 19 Employee Benefits (amendments)

Effective date: 1 January 2019

The amendments require a company to use the updated assumptions when a change to a plan either an amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The amendment will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

Title: IAS 28 Interest in Associates and Joint Ventures (amendment)

Effective date: 1 January 2019

This amendment clarifies that an entity should apply IFRS 9, including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture only when the equity method is not applied. The amendments will be applied retrospectively. The amendment is not expected to have a significant impact on the annual financial statements.

Title: Annual improvements 2015-2017 cycle

Effective date: 1 January 2019

The IASB has issued various amendments and clarifications to existing IFRS, none of which is expected to have a significant impact on the group's annual financial statements.

Title: IFRIC 23 Uncertainty over Income Tax Treatments

Effective date: 1 January 2019

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined by applying this interpretation. This interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively only if possible without the use of hindsight. The impact on the annual financial statements has not yet been fully determined.

Annexure G – Six year review

Consolidated statement of financial position

	2018 USDm*	2018 GBPm*	2018 EURm*	CAGR** %
Assets				
Cash and balances with central banks	5 921	4 650	5 179	10
Financial investments, trading and pledged assets	52 044	40 874	45 523	10
Loans and advances	77 932	61 205	68 167	6
Current and deferred taxation assets	314	247	275	18
Derivative and other assets	5 012	3 936	4 384	(4)
Non-current assets held for sale	53	43	45	(67)
Interest in associates and joint ventures	722	567	631	17
Goodwill and other intangible assets	1 646	1 293	1 440	6
Property and equipment	1 335	1 048	1 168	3
Investment property	2 318	1 820	2 027	4
Policyholders' assets	614	482	537	
Total assets	147 911	116 165	129 376	5
Equity and liabilities				
Equity	13 843	10 872	12 108	5
Equity attributable to ordinary shareholders	11 479	9 015	10 040	5
Equity attributable to other equity instrument holders	629	494	550	10
Non-controlling interests	1 735	1 363	1 518	7
Liabilities	134 068	105 293	117 268	5
Deposit and debt funding	94 405	74 142	82 575	8
Derivative and other liabilities	11 441	8 986	10 008	2
Trading liabilities	4 169	3 274	3 646	11
Current and deferred taxation liabilities	557	438	488	(2)
Non-current liabilities held for sale	16	13	14	(72)
Subordinated debt	1 833	1 440	1 603	1
Policyholders' liabilities	21 647	17 000	18 934	3
Total equity and liabilities	147 911	116 165	129 376	5

* The foreign denominated results above have been derived from the group's audited ZAR results by using the closing exchange rates. The foreign denominated results above have not been audited and have been presented for illustrative purposes only. This illustration would not be equivalent to that which would have resulted had the group presented its results in a currency other than ZAR in terms of IAS 21 The Effects of Changes in Foreign Exchange Rates.

** Compound annual growth rate.

Exchange rates (rounded) utilised to convert the 31 December 2018 statement of financial position rand exchange rates (closing):

USD – 14.38 (2017:12.31)
GBP – 18.31 (20176:16.55)
EUR – 16.44 (2017:14.77)

	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm
	85 145	75 310	77 474	75 112	64 302	53 310
	748 396	714 993	632 396	607 352	537 146	457 018
	1 120 666	1 048 027	1 065 405	1 076 917	928 241	839 620
	4 519	2 109	2 467	2 415	2 213	1 943
	72 075	98 606	87 851	131 741	82 324	88 691
	762				219 958	183 284
	10 376	9 665	8 196	9 703	3 727	4 797
	23 676	23 329	23 675	24 031	21 175	18 085
	19 194	16 179	16 041	17 670	16 737	16 882
	33 326	32 226	31 155	30 508	27 022	27 299
	8 827	7 484	7 314	7 579	6 507	
	2 126 962	2 027 928	1 951 974	1 983 028	1 909 352	1 690 929
	199 063	190 017	179 359	178 908	161 634	152 648
	165 061	157 020	150 757	151 069	136 985	128 936
	9 047	9 047	5 503	5 503	5 503	5 503
	24 955	23 950	23 099	22 336	19 146	18 209
	1 927 899	1 837 911	1 772 615	1 804 120	1 747 718	1 538 281
	1 357 537	1 243 911	1 213 621	1 186 514	1 047 212	921 738
	164 527	175 324	169 583	232 569	146 558	149 304
	59 947	62 855	47 867	43 304	43 761	35 368
	8 015	8 614	8 317	9 398	8 980	8 907
	237				182 069	134 504
	26 359	24 289	25 997	27 141	25 521	24 516
	311 277	322 918	307 230	305 194	293 617	263 944
	2 126 962	2 027 928	1 951 974	1 983 028	1 909 352	1 690 929

Consolidated income statement

	2018 USDm*	2018 GBPm*	2018 EURm*	CAGR** %
Net interest income	4 507	3 382	3 822	9
Non-interest revenue	3 404	2 554	2 886	6
Net fee and commission revenue	2 296	1 723	1 947	6
Trading revenue	841	631	713	7
Other revenue	267	200	226	1
Other gains and losses on financial instruments				
Income from banking activities	7 911	5 936	6 708	7
Income from investment management and life insurance activities	3 914	4 236	4 787	
Insurance premiums received	2 912	2 185	2 469	29
Revenue from contracts with customers	308	231	261	
Interest income	115	86	97	
Insurance benefits and claims paid	269	1 502	1 698	
Investment management and service fee income and gains	267	200	226	(41)
Fair value adjustments to investment management liabilities and third-party fund interests	43	32	36	
Total income	11 825	10 172	11 495	6
Credit impairment charges	(490)	(368)	(416)	(7)
Income after credit impairment charges	11 335	9 804	11 079	7
Operating expenses in banking activities	(4 541)	(3 408)	(3 852)	7
Operating expenses in insurance activities	(1 240)	(930)	(1 052)	3
Net income before non-trading and capital related items	5 554	5 466	6 175	8
Non-trading and capital related items	(48)	(36)	(41)	52
Share of post-tax results from associates and joint ventures	69	52	58	6
Net income before indirect taxation	5 575	5 482	6 192	8
Indirect taxation	(197)	(148)	(167)	6
Profit before direct taxation	5 378	5 334	6 025	8
Direct taxation	(687)	(516)	(583)	4
Profit for the year from continuing operations	4 691	4 818	5 442	9
Profit/(loss) for the year from discontinued operation				(100)
Profit for the year	4 691	4 818	5 442	10
Attributable to non-controlling interests and other equity instrument holders	392	294	333	6
Attributable to group ordinary shareholders	2 075	1 557	1 760	11
Headline earnings	2 106	1 581	1 786	10

* The foreign denominated results above have been derived from the group's audited ZAR results by using the average exchange rates. The foreign denominated results above have not been audited and have been presented for illustrative purposes only. This illustration would not be equivalent to that which would have resulted had the group presented its results in a currency other than ZAR in terms of IAS 21 The Effects of Changes in Foreign Exchange Rates.
** Compound annual growth rate.

Exchange rates (rounded) utilised to convert the 31 December 2018 income statement rand exchange rates – (average):

ZAR exchange rates – (average)

USD 13.23 (2017:13.30)
GBP 17.63 (2017:17.13)
EUR 15.60 (2017:15.02)

2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm
59 622	60 125	56 892	49 310	45 152	39 095
45 709	42 574	42 965	41 803	38 891	34 311
30 375	28 670	29 012	26 920	26 079	23 184
11 129	10 731	10 988	11 016	9 294	7 811
3 533	3 173	2 965	3 867	3 518	3 316
672					
105 331	102 699	99 857	91 113	84 043	73 406
21 722	24 394	21 365	23 997	21 209	21 945
38 521	38 020	1 750	688	(6 476)	(10 779)
4 073					
1 516					
(26 484)	(43 848)				
3 533	43 957	22 887	36 791	38 743	50 774
563	(13 735)	(3 272)	(13 482)	(11 058)	(18 050)
127 053	127 093	121 222	115 110	105 252	95 351
(6 489)	(9 410)	(9 533)	(9 371)	(9 009)	(9 158)
120 564	117 683	111 689	105 739	96 243	86 193
(60 084)	(57 049)	(56 235)	(51 434)	(46 596)	(42 055)
(16 404)	(17 800)	(17 374)	(16 184)	(14 546)	(14 226)
44 076	42 834	38 080	38 121	35 101	29 912
(641)	(261)	(1 123)	(1 512)	986	(78)
912	1 102	187	(323)	626	685
44 347	43 675	37 144	36 286	36 713	30 519
(2 609)	(2 481)	(2 418)	(2 739)	(2 439)	(1 911)
41 738	41 194	34 726	33 547	34 274	28 608
(9 095)	(10 479)	(8 932)	(8 187)	(8 061)	(7 580)
32 643	30 715	25 794	25 360	26 213	21 028
			2 741	(4 048)	(1 022)
32 643	30 715	25 794	28 101	22 165	20 006
5 190	4 480	(3588)	(4 347)	(4 260)	(3 800)
27 453	26 235	22 206	23 754	17 905	16 206
27 865	26 270	23 009	22 187	20 882	16 986

Share statistics and market indicators

		CAGR** %	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm
Share statistics								
Dividend cover	times	**(2)**	**1.8**	1.8	1.9	2.0	1.8	2.0
Dividend yield	%	**6**	**5.4**	4.7	5.1	5.9	4.2	4.1
Earnings yield	%	**4**	**9.8**	8.4	9.5	12.0	7.5	8.2
Price earnings ratio	times	**(4)**	**10.2**	11.9	10.5	8.3	13.4	12.2
Price-to-book	times	**2**	**1.8**	2	1.6	1.2	1.7	1.6
Number of shares traded	millions	**10**	**1 618.5**	1 584.4	1 271.8	1 052.8	798	1 012.2
Turnover in shares traded	%	**10**	**102**	98	79	65	49	63
Market capitalisation	Rm	**7**	**289 723**	316 826	245 595	183 672	232 203	209381
Market indicators at 31 December								
Standard Bank Group share price								
High for the year	cents	**12**	**23 100**	20 000	15 748	17 700	14 930	13054
Low for the year	cents	**8**	**15 392**	13 401	9 700	9 480	11 416	10316
Closing	cents	**7**	**17 881**	19 566	15 175	11 350	14 348	12942
Prime overdraft rate (closing)	%	**4**	**10.25**	10.25	10.50	9.75	9.25	8.50
JSE All Share Index – (closing)		**2**	**52 081**	59 505	50 654	50 694	49 771	46256
JSE Banks Index – (closing)		**10**	**91 617**	96 187	77 545	61 072	72 998	57745
ZAR exchange rates – (closing)								
USD		**7**	**14.38**	12.31	13.69	15.50	11.57	10.49
GBP		**1**	**18.31**	16.55	16.94	22.93	18.02	17.36
EUR		**3**	**16.44**	14.70	14.43	16.86	14.01	14.44
ZAR exchange rates – (average)								
USD		**7**	**13.23**	13.30	14.69	12.75	10.84	9.64
GBP		**3**	**17.63**	17.13	19.96	19.49	17.85	15.09
EUR		**4**	**15.60**	15.02	16.26	14.14	14.39	12.81

Results and ratios

		CAGR %	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm
Standard Bank Group								
Share statistics								
Number of ordinary shares listed on JSE (millions)								
Weighted average		**0.3**	**1 594**	1 602	1 598	1 597	1 585	1 567
End of period		**0.1**	**1 590**	1 597	1 597	1 601	1 578	1 584
Share statistics per ordinary share (cents)								
Basic earnings	cents	**11**	**1 722,6**	1 637,8	1 389,8	1487,0	1129,9	1 034,4
Headline earnings	cents	**10**	**1 748,4**	1 640,0	1 440,1	1 388,9	1 081,4	1 084,2
Dividends	cents	**13**	**970**	910	780	674	598	533
Net asset value	cents	**5**	**10 380**	9 830	9 442	9 434	8 682	8 138
ROE	%	**5**	**18.0**	17.1	15.3	15.6	13.0	14.2

Capital adequacy, employee and other relevant statistics

		CAGR** %	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm
Capital adequacy[1]								
Risk-weighted assets	Rm	**2**	**923 016**	957 046	883 179	944 039	915 213	841272
Tier I capital[2]	Rm	**7**	**151 925**	136 293	126 188	125 710	117 970	110834
Total capital[2]	Rm	**5**	**172 289**	153 243	146 318	147 998	141 963	136084
Tier I capital to risk-weighted assets[3]	%		**14.10**	14.2	14.3	13.3	12.9	13.2
Total capital to risk-weighted assets[3]	%		**16.00**	16.0	16.6	15.7	15.5	16.2
Employee statistics								
Number of employees								
Banking activities			**47 419**	48 322	48 622	47 958	42 642	42 221
Group			**53 178**	54 558	54 767	54 361	49 259	48 808
Normalised headline earnings per employee	Rm	**8**	**523 995**	481 506	420 125	404 739	355 635	354871
Points of representation								
ATMs and ANAs*			**7 239**	7 362	7 189	7 193	7 065	7 861
Banking branches and service centres			**1 200**	1 212	1 211	1 221	1 233	1 283
Social investment and environment								
Corporate social investment spend[2]	Rm	**0.1**	**141.2**	106.0	95.7	115.9	115.0	104.0
Carbon footprint (metric tons CO_2)[2]			**243 132**	252 092	281 264	324 637	309 017	392 159

1 In accordance with Basel II principles relating to the treatment of insurance entities, insurance operations are excluded from the capital base of the banking group and its related risk-weighted assets. Capital in insurance operations in excess of statutory minimum requirements is not recognised in group capital.
2 South African banking activities only.
3 Capital includes unappropriated profit.
* Automated

Annexure H – Third-party funds under management

Third-party assets under management and funds under administration

Members of the group provide discretionary and non-discretionary investment management services to institutional and private investors. Commissions and fees earned in respect of trust and management activities performed are included in profit or loss. Assets managed and funds administered on behalf of third parties include:

	2018 Rbn	2017 Rbn
Banking activities		
Asset management	**371**	280
Trusts and estates	**64**	56
Unit trusts/collective investments	**28**	20
Segregated funds	**98**	57
Portfolio management	**176**	142
Other	**5**	5
Fund administration	**363**	356
Unit trusts/collective investments	**62**	39
Segregated funds	**31**	49
Portfolio management	**47**	51
Other	**223**	217
Total	**734**	636
Geographical area[1]		
South Africa	**71**	93
Africa Regions	**544**	466
International	**119**	77
Liberty		
Asset management	**55**	48
Segregated funds	**55**	48
Wealth management – funds under administration	**337**	337
Single manager unit trust	**122**	128
Institutional marketing	**64**	56
Linked and structured life products	**80**	84
Multi-manager	**20**	16
Rest of Africa	**51**	53
Total Liberty	**392**	385
Total assets under management and funds under administration	**1 126**	1 021

Included in the balances above are funds for which the fund value is determined using directors' valuations.

Contact and other details

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Incorporated in the Republic of South Africa

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InvestorRelations@standardbank.co.za

Disclaimer

This document contains certain statements that are 'forward-looking' with respect to certain of the group's plans, goals and expectations relating to its future performance, results, strategies and objectives. Words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "aim", "outlook", "believe", "plan", "seek", "predict" or similar expressions typically identify forward-looking statements. These forward-looking statements are not statements of fact or guarantees of future performance, results, strategies and objectives, and by their nature, involve risk and uncertainty because they relate to future events and circumstances which are difficult to predict and are beyond the group's control, including but not limited to, domestic and global economic conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities (including changes related to capital and solvency requirements), the impact of competition, as well as the impact of changes in domestic and global legislation and regulations in the jurisdictions in which the group and its affiliates operate. The group's actual future performance, results, strategies and objectives may differ materially from the plans, goals and expectations expressed or implied in the forward-looking statements. The group makes no representations or warranty, express or implied, that these forward-looking statements will be achieved and undue reliance should not be placed on such statements. The group undertakes no obligation to update the historical information or forward-looking statements in this document and does not assume responsibility for any loss or damage arising as a result of the reliance by any party thereon.

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Standard Bank Group

ANNUAL FINANCIAL STATEMENTS 2017

Standard Bank Moving Forward™

Also trading as Stanbic Bank

CONTENTS

ANNUAL FINANCIAL STATEMENTS 1

Standard Bank Group Limited – company annual financial statements 99

ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS 108

CONTACT AND OTHER DETAILS ibc

Standard Bank Group

ANNUAL FINANCIAL STATEMENTS 2017

The consolidated and separate annual financial statements were audited in terms of the Companies Act 71 of 2008.

The preparation of the group's and separate annual financial statements was supervised by the group financial director, Arno Daehnke BSc, MSc, PhD, MBA, AMP.

A summary of these results was made publicly available on 8 March 2018.

OUR REPORTING SUITE

We produce a full suite of reports to cater for the diverse needs of our stakeholders.

References

These icons refer readers to information elsewhere in this report or in our other reports, which are available online.

Annual integrated report

Provides a holistic assessment of the group's ability to create value. It considers the issues that are material to our commercial viability and social relevance, which are required to achieve our strategy in the medium to long term. These include the macroeconomic and socio-political conditions in which we operate. Where applicable, information in this report has been extracted from other publications in our reporting suite.

Frameworks* applied

- JSE Listings Requirements
- King Code
- <IR> Framework of the International Integrated Reporting Council

Assurance

Certain information in this report has been extracted from the group's audited annual financial statements.

AIR

Intended readers: primarily **our providers of financial capital**, *being our shareholders, depositors and bondholders, but information relevant to our other stakeholders is also included.*

Report to society

An account of the group's social, economic and environmental impacts and how these contribute to the group's sustainability and its ability to achieve its purpose.

Our supplementary environmental, social and governance report, and our transformation report to society are available online.

Intended readers: the group's **broad base of stakeholders**, *particularly clients, employees, business partners, regulators, government and civil society organisations.*

Frameworks* applied

- King Code
- FTSE/JSE Responsible Investment Index Series and Dow Jones/ RobecoSAM
- Sustainalytics
- Carbon Disclosure Project
- United Nations Sustainable Development Goals
- Equator Principles
- Global Reporting Initiative (as a guide)

Assurance

KPMG Inc. has provided assurance over selected information in the report to society.

RTS

*Definitions:**

Banks Act – South African Banks Act 94 of 1990
Companies Act – South African Companies Act 71 of 2008
FTSE – Financial Times Stock Exchange
IFRS – International Financial Reporting Standards
JSE – Johannesburg Stock Exchange
King Code – King Report on Corporate Governance, also known as King IV
The group – Standard Bank Group

The invitation to the annual general meeting and the notice of the resolutions to be tabled at the meeting will be sent separately to shareholders and is also available on our website at: **www.standardbank.com**

Intended readers of the reports below: shareholders, debt providers and regulators.

Governance and remuneration report

A detailed review of the group's governance and remuneration practices, including the group's remuneration policy and remuneration implementation report.

Frameworks* applied

- Companies Act
- Banks Act
- JSE Listings Requirements
- King Code
- Basel III

Assurance

Certain information in the governance and remuneration report has been extracted from the group's audited annual financial statements.

GOV REM

This report

Annual financial statements

Sets out the group's full audited annual financial statements, including the report of the group audit committee.

Frameworks* applied

- IFRS
- Companies Act
- Banks Act
- JSE Listings Requirements
- King Code

Assurance

Unmodified audit opinion expressed by KPMG Inc. and PricewaterhouseCoopers Inc.

AFS pg

Risk and capital management report

A detailed view of the management of risks relating to the group's operations.

Frameworks* applied

- Various regulations, including Basel III
- Banks Act
- IFRS
- JSE Listings Requirements
- King Code

RCM

To assist in the reduction of the group's carbon footprint we urge our stakeholders to make use of our reporting site to view our reporting suite at **www.standardbank.com/reporting** or scan the above code to be taken there directly.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

In accordance with the Companies Act the directors are responsible for the preparation of the annual financial statements. These annual financial statements conform to IFRS as issued by the International Accounting Standards Board (IASB), and fairly present the affairs of Standard Bank Group Limited and Standard Bank Group as at 31 December 2017, and the net income and cash flows for the year then ended.

The directors are ultimately responsible for the internal controls of the company and the group. Management enables the directors to meet these responsibilities. Standards and systems of internal controls are designed, implemented and monitored by management to provide reasonable assurance of the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability for shareholder investments and company and group assets. Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties. It is the responsibility of the independent auditors to report on the fair presentation of the financial statements.

Based on the information and explanations provided by management and the group's internal auditors, the directors are of the opinion that the internal financial controls are adequate and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and to maintain accountability for the company and the group's assets and liabilities. Nothing has come to the attention of the directors to indicate that a breakdown in the functioning of these controls, resulting in material loss to the company and the group, has occurred during the year and up to the date of this report.

The directors have a reasonable expectation that the company and the group will have adequate resources to continue in operational existence and as a going concern in the financial year ahead. The 2017 annual financial statements which appear on pages 20 to 213 were approved by the board on 7 March 2018 and signed on its behalf by:

Thulani Gcabashe
Chairman
7 March 2018

Sim Tshabalala
Group chief executive
7 March 2018

GROUP SECRETARY'S CERTIFICATION

Compliance with the Companies Act

In terms of the Companies Act and for the year ended 31 December 2017, I certify that the company has filed all returns and notices required by the Companies Act with the Companies and Intellectual Property Commission and that all such returns and notices are true, correct and up to date.

Zola Stephen
Group secretary
7 March 2018

REPORT OF THE GROUP AUDIT COMMITTEE

This report is provided by the group audit committee, in respect of the 2017 financial year of Standard Bank Group Limited, in compliance with section 94 of the Companies Act, as amended from time-to-time, and in terms of the JSE Listings Requirements. The committee's operation is guided by a detailed mandate that is informed by the Companies Act, the Banks Act, the JSE Listings Requirements and the King Code and is approved by the board. Section 94(2) of the Companies Act determines that, at each annual general meeting, a public company must elect an audit committee comprising at least three members. In view of the exemption granted in section 94(1), this section does not apply to the group audit committee and, accordingly, the appointment of its members is approved annually by the board. Information on the committee's role and responsibilities; its composition, including members' qualifications and experience; the date of members' appointment to the committee; the number of meetings held during the year and attendance at those meetings; as well as key areas of focus during the reporting period is provided in greater detail in the corporate governance statement which is included in the group's governance and remuneration report available at **www.standardbank.com/reporting**.

Execution of functions

The audit committee has executed its duties and responsibilities during the financial year in accordance with its mandate as it relates to the group's accounting, internal auditing, internal control and financial reporting practices.

During the year under review, the committee, among other matters, considered the following:

In respect of the external auditors and the external audit:

- considered and recommended the reappointment of KPMG Inc. and PricewaterhouseCoopers Inc. as joint external auditors for the financial year ended 31 December 2017, in accordance with all applicable legal requirements
- approved the external auditors' terms of engagement, the audit plan and budgeted audit fees payable
- reviewed the audit process and evaluated the effectiveness of the audit, taking into consideration the results of an external audit assessment performed by the group's finance function
- assessed and obtained assurance from the external auditors that their independence was not impaired
- reviewed and approved the annual renewal of the group's Use of Joint Group Auditors for Non-Audit Services policy
- through the chairman, approved proposed contracts with the external auditors for the provision of non-audit services and pre-approved proposed contracts with the external auditors for the provision of non-audit services above an agreed threshold amount
- considered the nature and extent of all non-audit services provided by the external auditors
- monitored that the non-audit service fees for the year ended 31 December 2017 were within the threshold set by the group audit committee for such engagements
- confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act 26 of 2005
- considered reports from subsidiary audit committees and from management through the group's governance structures on the activities of subsidiary entities.

In respect of the financial statements:

- confirmed the going concern basis for the preparation of the interim and annual financial statements
- examined and reviewed the interim and annual financial statements prior to submission and approval by the board
- reviewed reports on the adequacy of credit provisions for performing and non-performing loans and impairment tests with respect to assets and considered feedback from the external auditors concerning any changes that were made to the models applied by management in determining such impairments
- ensured that the annual financial statements fairly present the financial position of the company and of the group as at the end of the financial year and the results of operations and cash flows for the financial year then ended
- ensured that the interim and annual financial statements conform with IFRS, the requirements of the JSE Listings Requirements, the Companies Act and all other applicable accounting guides and pronouncements
- considered accounting treatments, significant unusual transactions and accounting judgements
- considered the appropriateness of the accounting policies adopted and changes thereto
- considered and made recommendations to the board on the interim and final dividend payments to shareholders
- noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of annual financial statements, internal controls and related matters
- reviewed any significant legal and tax matters that could have a material impact on the financial statements
- reviewed the JSE's 2017 report on proactive monitoring of compliance with IFRS of listed entities, noting that no material accounting or disclosure deficiencies were identified as part of the group's internal assessment of its financial statements relative to the findings in the JSE's report
- reviewed and discussed the independent auditors' report.

In accordance with revised International Standards on Auditing, independent auditors' reports for financial years ending on or after 15 December 2016 are required to incorporate the reporting of key audit matters. As part of the group audit committee's responsibilities, notably its review of financial results, reports from internal and external audit, finance and internal financial control reports, the group's accounting policies, as well as the annual financial statements, the audit committee took cognisance of the key audit matters as reported in the independent auditors' report. In addition, the audit committee reviewed management's judgements on significant accounting and external reporting issues and confirmed external audit's agreement with the treatment thereof.

In respect of financial accounting and reporting developments:
- reviewed management's process and progress with respect to new financial accounting and reporting developments
- reviewed the group's progress in preparing for the adoption of IFRS 9 *Financial Instruments* (IFRS 9) on 1 January 2018
- with respect to IFRS 9, reviewed the results of the group's internal quantitative impact studies, as well as the results and external auditors' report on the group's IFRS 9 hard close audit process
- reviewed the South African Reserve Bank's (the SARB) feedback and findings from its IFRS 9 on-site meetings.

In respect of the annual integrated report:
- recommended the annual integrated report to the board for approval
- evaluated management's judgements and reporting decisions in relation to the annual integrated report and ensured that all material disclosures had been included
- reviewed both financial and non-financial information, forward-looking statements and sustainability information.

In respect of internal control and internal audit:
- reviewed and approved the annual internal audit charter and audit plan and evaluated the independence, effectiveness and performance of the internal audit department and compliance with its charter
- considered reports of the internal and external auditors on the group's systems of internal control, including internal financial controls, and maintenance of effective internal control systems
- reviewed significant issues raised by the internal audit processes and the adequacy of corrective action taken in response to such findings
- noted that there were no significant differences of opinion between the internal audit function and management
- assessed the independence and effectiveness of the group chief audit officer, the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory
- considered the outcome of the group's external auditors' annual assessment of internal audit against the requirements of International Standards on Auditing (ISA) 601, which confirmed that the external auditors could place reliance on internal audit's work for the purpose of external audit engagements
- noting that the King code and the Institute of Internal Audit Standards require an external and independent quality review of internal audit every five years, the committee confirmed that all actions in relation to areas of improvement as reported in EY's 2014 review of internal audit had been completed
- based on the above, the committee formed the opinion that, at the date of this report, there were no material breakdowns in internal control, including internal financial controls, resulting in any material loss to the group
- over the course of the year, met with the chief audit officer, the group chief compliance and data officer, the group financial director, management and the external auditors
- considered quarterly reports from the group's internal financial controls committee.

In respect of legal, regulatory and compliance requirements:
- reviewed and approved the annual compliance mandate and compliance plan
- reviewed, with management, matters that could have a material impact on the group
- monitored compliance with the Companies Act, the Banks Act, JSE Listings Requirements, the King code and other applicable legislation and governance codes and reviewed reports from internal audit, external auditors and compliance detailing the extent of this
- noted that no complaints were received through the group's ethics and fraud hotline concerning accounting matters, internal audit, internal financial controls, contents of financial statements, potential violations of the law and questionable accounting or auditing matters.

In respect of risk management and information technology:
- considered and reviewed reports from management on risk management, including fraud and information technology risks as they pertain to financial reporting and the going concern assessment
- considered updates on key internal and external audit findings in relation to the IT control environment, significant IT programmes and IT intangible assets
- to ensure that risk-related matters of relevance to the audit committee are considered, the chairman is a member of and attended the risk and capital management committee and the group technology and information committee meetings held during the financial year
- John Vice and Peter Sullivan, both independent non-executive directors and chairmen of the group technology and information committee and group remuneration committee respectively, are both members of the group audit committee, which further enhances collective and integrated oversight and ensures that key matters are taken into account in the respective committees' deliberations.

In respect of the coordination of assurance activities, the committee:
- reviewed the plans and work outputs of the external and internal auditors, as well as compliance and internal financial control, and concluded that these were adequately robust to place reliance on the combined assurance underlying the statements made in external reports
- considered the expertise, resources and experience of the finance function and the senior members of management responsible for this function and concluded that these were appropriate
- considered the appropriateness of the experience and expertise of the group financial director and concluded that these were appropriate.

Independence, skills and expertise of the external auditors

The audit committee is satisfied that KPMG Inc. and PricewaterhouseCoopers Inc. are independent of the group and that KPMG Inc. and PricewaterhouseCoopers Inc. and the partners who are responsible for signing the group's financial statements have the requisite skills and expertise. This conclusion was arrived at, *inter alia*, after taking into account the following factors:

- the representations made by KPMG Inc. and PricewaterhouseCoopers Inc. to the committee, including confirmation of the firms' and individual auditors' accreditation on the JSE List of Auditors
- the auditors do not, except as external auditors or in rendering permitted non-audit services, receive any remuneration or other benefits from the group
- the auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the auditors
- the auditors' independence was not prejudiced as a result of any previous appointment as auditor
- in accordance with regulatory requirements, the group's engagement partners rotated during 2016
- the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies were met.

The committee noted the Independent Regulatory Board for Auditors' announcement of its Mandatory Audit Firm Rotation (MAFR) ruling on 2 June 2016 which determined that an audit firm may not be appointed auditor of a public interest entity for more than ten years. As a result, the group would, at a minimum, be required to rotate one of the audit firms for its 2024 financial year end, and the other for its 2026 financial year.

In conclusion, the committee is satisfied that it has fulfilled its responsibilities and complied with its legal, regulatory and governance responsibilities as set out in its mandate.

On behalf of the group audit committee

Richard Dunne

Richard Dunne
5 March 2018

DIRECTORS' REPORT

for the year ended 31 December 2017

Nature of business

Standard Bank Group Limited is the ultimate holding company for the group's interests and is a leading African financial services group with South African roots. The group is South Africa's largest banking group by assets and currently operates in 20 countries in sub-Saharan Africa. Our strategic position enables us to connect Africa to other selected emerging markets and pools of capital in developed markets.

Headquartered in Johannesburg, South Africa, the group's primary listing is on the JSE and its secondary listing is on the Namibian Stock Exchange (NSX). Other subsidiary entities are listed on exchanges in Kenya, Malawi, Nigeria and Uganda.

A simplified group organogram with principal subsidiaries is shown in annexure A.

Group results

Group headline earnings and headline earnings per share increased by 14% to R26 270 million (2016: R23 009 million) and 14% to 1 640 cents (2016: 1 440 cents) respectively. Net asset value per share increased to 9 830 cents (2016: 9 442 cents) and group return on equity increased to 17.1% (2016: 15.3%). A final dividend of 510 cents per share has been declared bringing the total dividend declared for the year to 910 cents per share (2016: 780 cents per share).

Share capital

Ordinary shares

During the year, 2 877 827 (2016: 2 646 456) ordinary shares were issued in terms of the group's equity compensation plans, notably the Equity Growth Scheme (EGS) and Group Share Incentive Scheme (GSIS). Surplus capital was used to purchase 2 030 824 (2016: 2 477 472) ordinary shares to counteract the dilutive impact of the shares issued under the equity compensation plans. Effective from 2017, the group no longer issues EGS and GSIS awards. The last awards in GSIS were issued in 2011 and for the EGS, the last award was made in 2016. Awards are now provided in terms of the group's other share schemes, notably the Deferred Bonus Scheme (DBS) and the Share Appreciation Rights Plan (SARP), both of which are settled by the group to employees with shares that the group purchases from external market participants, and the Cash-Settled Deferred Bonus Scheme (CSDBS), which is settled in cash (refer to annexure D: group share incentive schemes for further information). At the end of the year, the group would need to issue 6 159 744 (2016: 5 306 247) SBG ordinary shares to settle the outstanding GSIS options and EGS rights that were awarded to participants in previous years. The shares issued since inception for the EGS and GSIS together with the expected number of shares to settle the outstanding options and rights as a percentage of the total number of shares in issue is 2.2% (2016: 2.0%).

Registered office

The address of the registered office is, 9th Floor, Standard Bank Centre, 5 Simmonds Street, Johannesburg 2001.

Insurance

The group protects itself against financial loss by maintaining banker's comprehensive crime and professional indemnity cover. The insurance terms and conditions are reviewed by the group insurance committee annually to ensure they are 'fit-for-purpose' against the group's risk exposures.

Shareholder analysis

Shareholders at the close of the financial year, holding beneficial interests in excess of 5% of the company's issued share capital, determined from the share register and investigations conducted on our behalf, were as follows:

	% held	
	2017	2016
Ordinary shares		
Industrial and Commercial Bank of China Limited (ICBC)	**20.1**	20.1
Government Employees Pension Fund (PIC)	**12.3**	11.8
6.5% preference shares		
L Lombard	**12.0**	8.9
Old Sillery Proprietary Limited	**9.1**	9.1
DJ Saks	**7.5**	7.5
MT Goulding	**7.9**	6.1
JIR Campbell	**5.3**	4.6
The Spiz Family Trust	**8.0**	
Estate of Late G Spitz		7.9
DF Foster		5.2
Non-cumulative preference shares		
Prescient Inc. Provider Fund	**7.1**	2.8

Events during 2017

Foreign currency translation reserve (FCTR)

During the year ended 31 December 2017, the group's FCTR decreased by R4.9 billion (2016: decrease of R11.4 billion). This decrease was partly attributable to the weakening of the US dollar (10%), Nigerian naira (21%), and Argentine peso (23%) against the South African rand which resulted in an FCTR loss of R1.2 billion, R1.0 billion and R0.5 billion respectively.

Additional Tier 1 capital

During the year the group issued its debut Basel III compliant Additional Tier (AT) 1 capital bond that qualifies as tier 1 capital amounting to R3.5 billion nominal value. The proceeds of the bond issuance have been invested in The Standard Bank of South Africa Limited (SBSA) on the same terms and conditions as those applicable to the AT1 notes issued by SBG. The capital notes are perpetual, non-cumulative with an issuer call option after a minimum period of five years and one day and on every coupon payment date thereafter.

The terms of the Basel III compliant AT1 capital bonds include a regulatory requirement which provides for the write-off, in whole or in part, on the earlier of a decision by the relevant regulator (the SARB) that a write-off without which the issuer would have become non-viable is necessary, or a decision to make a public sector injection of capital or equivalent support, without which the issuer would have become non-viable.

The AT1 capital bonds have been recognised within other equity instruments in the statement of financial position.

Post balance sheet event

Basel III compliant tier 2 bond issuance

On 7 February 2018 the group issued R3.0 billion Basel III compliant bonds that qualify as tier 2 capital. The capital notes are perpetual, non-cumulative with an issuer call option after a minimum period of five years and one day and on every coupon payment date thereafter. The payment dates are quarterly and the first call date is 13 February 2023.

The terms of the Basel III compliant tier 2 capital bonds include a regulatory write-off requirement similar to the AT1 capital bonds.

DIVIDENDS

	Ordinary shares	6.5% cumulative preference shares (first preference shares)	Non-redeemable, non-cumulative, non-participating preference shares (second preference shares)
Interim			
2016			
Dividend per share (cents)	340,00	3,25	396,13
2017			
Dividend number	**96**	**96**	**26**
Dividend per share (cents)	**400,00**	**3,25**	**400,93**
Record date in respect of the cash dividend	**Friday, 15 September 2017**	**Friday, 8 September 2017**	**Friday, 8 September 2017**
Dividend cheques posted and CSDP[1]/broker accounts credited/updated (payment date)	**Monday, 18 September 2017**	**Monday, 11 September 2017**	**Monday, 11 September 2017**
Final			
2016			
Dividend per share (cents)	440,00	3,25	407,57
2017			
Dividend number	**97**	**97**	**27**
Dividend per share (cents)	**510,00**	**3,25**	**398,92**
Record date in respect of the cash dividend	**Friday, 13 April 2018**	**Friday, 6 April 2018**	**Friday, 6 April 2018**
Dividend cheques posted and CSDP[1]/broker accounts credited/updated (payment date)	**Monday, 16 April 2018**	**Monday, 9 April 2018**	**Monday, 9 April 2018**

[1] Central Securities Depository Participant.

Change in group directorate

The following changes in directorate took place during the 2017 financial year up to 7 March 2018:

Appointments		
Dr H Hu	As joint deputy chairman	1 June 2017
L Wang	As non-executive director	1 June 2017
Resignations		
Dr S Gu	As joint deputy chairman	1 June 2017
Dr W Wang	As non-executive director	1 June 2017
BS Tshabalala	As independent non-executive director	10 November 2017
Retirements		
EM Woods	As non-executive director	26 May 2017

INDEPENDENT AUDITORS' REPORT

To the shareholders of Standard Bank Group Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

We have audited Standard Bank Group Limited's Group ("consolidated") and Company ("separate") financial statements, set out on pages 20 to 213, which comprise:

- the consolidated and separate statements of financial position as at 31 December 2017
- the consolidated and separate income statements for the year then ended
- the consolidated and separate statements of other comprehensive income for the year then ended
- the consolidated and separate statements of changes in equity for the year then ended
- the consolidated and separate statements of cash flows for the year then ended
- notes to the financial statements, including summary of significant accounting policies
- annexure A to F but excludes the sections marked as "unaudited" in annexure C.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects the consolidated and separate financial position of Standard Bank Group Limited (the company) and its subsidiaries (together the group) as at 31 December 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements for the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters for the consolidated financial statements are set out on the pages that follow, but we have determined that there are no key audit matters to communicate in respect of the separate financial statements.

LEVEL	KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Group – *consolidated financial statements*	**CREDIT IMPAIRMENT LOSSES ON LOANS AND ADVANCES** *(Refer to the Key management assumptions note, note 6 Loans and advances and note 36 Credit impairment charges and the credit risk section in annexure C – Risk and capital management in the Annual financial statements)*	
	Credit impairments relating to loans and advances, disclosed in note 6 Loans and advances, represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. Credit impairments are calculated on a portfolio basis for loans of a similar nature and on an individual basis for significant loans. The Key management assumptions note in the financial statements sets out the basis, including the related judgements, for the calculation of portfolio and specific loan impairments. The impairment calculations are considered separately for Corporate & Investment Banking and Personal & Business Banking, as described further below. These impairment provisions are material to the group in terms of the value, subjective nature of the impairment calculations and the effect of these on the group's risk management processes and operations. This has resulted in this matter being identified as a matter of most significance in the current year audit of the consolidated financial statements.	Our audit included considering the appropriateness of accounting policies and evaluated the loan impairment methodologies across the group in order to compare these with the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). We found that the accounting policies and loan impairment methodologies were in accordance with IAS 39.
	Corporate & Investment Banking (specific loan impairments) In Corporate & Investment Banking, a significant portion of the loans are assessed on an individual basis. Significant judgements, estimates and assumptions have been made by management in respect of the amount and timing of future cash flows, in particular the: • expected time to recover cash and collateral; and • expected recoveries as a percentage of impaired loans.	**Corporate & Investment Banking (specific loan impairments)** We obtained an understanding and tested the relevant controls relating to the approval of credit facilities, the subsequent monitoring and remediation of exposures including collateral management and the evaluation of credit risk ratings. We evaluated management's process for identifying specific impairment based on IAS 39 guidelines relating to impairment indicators, the current macro-economic and global environment, industry factors and client specific factors identified from the review of credit records. Where specific impairments have been raised, we considered the impairment indicators, uncertainties and assumptions made by management in their assessment of the recoverability of the exposure. For a sample of impaired loans, we independently recalculated the impairment losses based on our assessment of the expected cash flows and recoverability of collateral. For collateral held, we inspected legal agreements and supporting documentation to confirm the existence and legal right to collateral. The collateral valuation techniques applied by management were evaluated against the group's valuation guidelines, which were designed in accordance with the appropriate accounting standards. We also selected a sample of loans and advances that had not been identified as specifically impaired and formed an independent view about the appropriateness of the conclusions reached, including using external evidence to substantiate our views. Our testing found the methodology for the identification and valuation of specific impairments and the related judgements applied, to be reasonable and in accordance with the requirements of IFRS.

LEVEL	KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Group – *consolidated financial statements*	**Personal & Business Banking (specific and portfolio impairments)** For Personal & Business Banking a significant portion of the impairment is calculated on a portfolio basis. Portfolio impairment provisions are predominantly determined using statistical models which incorporate observable data, assumptions and estimates. The models approximate the impact of current economic and credit conditions on the portfolio of loans. Management applies judgement in designing the models, analysing the observable data, determining appropriate assumptions and formulating estimates. Management also evaluates the overall portfolio provisions in the light of industry specific economic conditions and other risk indicators present at the reporting date that correlate with recent loss rates observed with each portfolio. Specific emphasis is placed on the treatment of cured and renegotiated loans, accounts under debt review and post write off recoveries. Significant judgements, estimates and assumptions have been made by management in respect of the emergence periods between the impairment event occurring and an individual or collective impairment being recognised.	**Personal & Business Banking (specific and portfolio impairments)** We have obtained an understanding and tested the relevant controls relating to the credit origination processes, the credit monitoring processes and credit remediation processes. For model-based portfolio impairments which considers the performing (which includes normal monitoring, close monitoring and early arrears exposures) and the non-performing book, with the assistance of our experts we evaluated: • The design and implementation of the models, including significant assumptions and the quality of the observable data used to derive model parameters in relation to our understanding of industry norms. • The current business practice and data outputs in terms of collection strategy, write-off and rehabilitation against policy as well as industry norms. • The reasonableness of the impairment model methodology used to determine the probability of default, loss given default and the emergence periods (together the "modelled parameters" excluding model parameter overrides) which are used to compute the performing portfolio provision in relation to their knowledge of the client and the industry. • The reasonableness of the loss rates estimated by management for the non-performing book allowing for the ageing of defaulted assets, the type of collection process followed as well as the impact of the treatment of renegotiated and cured loans in the impairment model in the light of the South African Reserve Bank directive dealing with distressed credit in relation to their knowledge of the client and the industry. • The appropriateness of assumptions underlying additional portfolio provisions recognised by management, in the light of recent economic events and circumstances that would not be reflected by the model. • In addition, the final reasonableness of the portfolio provision was evaluated by comparing it to our independent model. This model independently estimates the modelled parameters using the same modelling data as that of the group. For the testing approach adopted, we found the impairment model methodology used in both the performing and non-performing impairment model methodology to be reasonable. We also found that the related judgements made by management in their assessment of the additional portfolio provisions to be reasonable and the disclosures to be acceptable and in accordance with the requirements of IFRS.

LEVEL	KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER

Group – *consolidated financial statements*

ASSESSMENT OF THE IMPAIRMENT OF COMPUTER SOFTWARE INTANGIBLE ASSETS

(Refer to the Key management assumptions note, note 12 Goodwill and other intangible assets in the annual financial statements.)

Key audit matter

The Group has a substantial investment in recognised computer software intangible assets relating to various computer software that is currently being developed and/or has been brought into use.

As disclosed in note 12 Goodwill and other intangible assets in the financial statements, additional amounts were capitalised during the year as a result of further additions to strategic programs still under development. Furthermore, certain previously recognised intangible assets were impaired to reflect management's current outlook relating to the components of the software and its estimated utilisation.

The Key management assumptions note in the financial statements sets out the basis, including the related judgements, for the impairment of computer software intangible assets where impairment indicators have been identified.

Significant judgements, estimates and assumptions have been made by management in respect of:

- assessing the future economic benefits associated with additional costs capitalised in the light of new technological developments, obsolescence and changes in the manner in which the software is used or expected to be used.
- Determining the recoverable amount of the recognised asset or cash generating unit, where indicators of impairment exist.

The recoverable amount of the group's computer software intangible assets is based on value in use calculations. The significant estimates and assumptions made by management in determining the recoverable amount include:

- expected future cash flows to be derived from these assets and the related timing of the expected future cash flows
- determining the appropriate discount rate to utilise in the impairment calculation.

The extent of management judgement relating to the impairment of computer software intangible assets and the magnitude of this balance resulted in this matter being identified as a matter of most significance in the current year audit of the group's consolidated financial statements.

How our audit addressed the matter

As part of our audit, we have inspected the group's capitalisation policy in terms of the requirements of IAS 38 *Intangible Assets*.

We obtained an understanding and tested the design and implementation of the relevant management controls relating to the monitoring of cost capitalisation of computer software intangible assets.

These processes include controls over the approval and recognition of new computer software intangible assets, ongoing monitoring and review of estimated and actual spend relating to system development, review and sign off of impairment assessments and the approval of transfer of assets from "under construction" to "in use".

We inspected the cash projections used in the value in use calculations to evaluate if they reflected the most recently approved management budgets which informs management's best estimate of the future useful life of the computer software intangible assets. We evaluated the reasonableness of the key assumptions used in the calculation in the light of our current understanding of the business and the economic conditions that are expected to exist over the remaining operational life of the computer software intangible assets.

We evaluated the significant assumptions used in determining the value in use which included an independent comparison to industry norms and evaluation of the discount rates applied.

For the testing approach adopted, we found that the methodology, inputs and related judgements applied by management in determining appropriate costs to be capitalised and the value in use of each significant project to be reasonable and in accordance with the requirements of IFRS.

LEVEL	KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Group – *consolidated financial statements*	**IFRS 9 *FINANCIAL INSTRUMENTS* (ISSUED, BUT NOT EFFECTIVE ACCOUNTING STANDARD)** *Disclosure of the estimated impact of adopting IFRS 9 Financial Instruments (IFRS 9), an accounting standard not yet effective at the reporting date, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* AFS 208 (Refer to annexure F of the annual financial statements)	
	IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8) requires disclosure of the known or reasonably estimable information relevant to assessing the possible impact of adopting new standards that are not yet effective at the reporting date. This year, these disclosures include a discussion of the impact that initial application of IFRS 9 *Financial Instruments* (IFRS 9) is expected to have on the group's financial statements. IFRS 9 became effective for the group on 1 January 2018. The new standard will have a significant impact on the group, particularly in the calculation of credit loss impairments, and the South African Reserve Bank, as the South African banking regulator, is scrutinising the approach that banks have taken in preparing for the IFRS 9 transition. Management has established systems, processes, methodologies and controls during the 2017 financial year in order to ensure that the group is ready to implement IFRS 9 when it becomes effective. As part of the group's IFRS 9 transition project, management tested the group's readiness for the transition to IFRS 9 through a hard close process at the end of September 2017 by calculating the group's impairment loss using the impairment models that will be applied when IFRS 9 is effective. Given management's focus on preparing for the IFRS 9 transition and the group's state of readiness, we have applied significant audit effort in the current year in order to understand and test the systems and models that management have put in place in advance of IFRS 9, which supports our evaluation of the disclosures that management have provided to meet the requirements of IAS 8. Accordingly, this disclosure has been identified as a matter of most significance in the current year's audit of the consolidated financial statements.	In evaluating the required disclosures of the impact of the adoption of IFRS 9, we considered, and where necessary (as described below) tested the governance over the project, the implementation of the necessary systems, processes, methodologies and controls by the group. We considered the disclosures made with regard to the impact that IFRS 9's classification and measurement requirements are expected to have on the group's reserves as at 1 January 2018 based on our understanding of the new classification and measurement requirements of IFRS 9. For the expected credit loss impairment model we considered if the disclosure is consistent with our understanding of the requirements of IFRS 9 and the output of the group's impairments models, based on the work we performed on the group's readiness assessment at September 2017. This work included all the audit procedures that we would usually perform when auditing credit impairment models, including governance over model development, validation and approval as well as control testing, using our experts and evaluation of key judgements when performing the credit model testing. In this context, we considered the amount presented as the expected impact on the group's reserves on 1 January 2018. For the remainder of the disclosures made in relation to IFRS 9 we considered these in relation to our understanding of the decisions made by management as part of the group's IFRS 9 implementation project. For the testing approach adopted, we found the disclosure made by management in the current financial statements to be consistent with our understanding of the group's readiness in advance of the IFRS 9 transition and in accordance with the disclosure requirements of IFRS.

LEVEL	KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Group – *consolidated financial statements*	**VALUATION OF LEVEL 3 FINANCIAL INSTRUMENTS** *(Refer to the Key management assumptions note, note 2 Derivative instruments, note 3 Trading assets, note 5 Financial investments, note 16 Trading liabilities, note 21.1 Assets and liabilities at fair value, note 30 Trading revenue and the Market risk section in annexure C in the annual financial statements.*	
	The fair value of financial instruments significantly affects the measurement of profit or loss and disclosures of financial risks in the financial statements. Fair value calculations are dependent on various sources of external and internal data and on sophisticated modelling techniques used to value financial instruments disclosed as level 3 in the financial statements, which are evolving as markets become more sophisticated. Level 3 financial instruments measured at fair value for which there are no quoted market prices require significant judgements to be made by management in their valuation processes. Due to the significance of the judgements made in determining fair value and the extent of work required to address this matter, this has been identified as a matter of most significance in the current year audit of the consolidated financial statements.	Our audit included obtaining an understanding and testing of the relevant controls put in place to ensure that there is appropriate governance over valuation model development and changes. We evaluated whether the correct sources of external and internal data were used in the valuations and models' calculations. In particular, we evaluated key assumptions and modelling approaches used and recalculated gains or losses on significant exposures to assess the appropriateness of mark-to-model values. For our testing approach adopted, we found that the data inputs used, model methodology applied and the outputs of the model calculations to be reasonable and the related disclosures to be in accordance with the requirements of IFRS.

LEVEL	KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Group – *consolidated financial statements*	**VALUATION AND ANALYSIS OF MOVEMENTS IN LONG TERM POLICYHOLDER LIABILITIES – INSURANCE CONTRACTS** *(Refer to the Key management assumptions note, note 7 Policyholders' contracts and the Insurance risk section of annexure C – Risk and capital management in the annual financial statements)*	
	Liberty Group Limited (LGL), a subsidiary of Standard Bank Group Limited, holds the group's long-term insurance business. In the group's financial statements, the long term policyholder liabilities related to LGL's insurance business are a significant liability of the group. The valuation of these policyholder liabilities is based on complex and subjective judgements required over a variety of uncertain future operating assumptions such as expense inflation, tax assumptions, investment return, discount rate, mortality and withdrawals. Management also applied numerous assumptions in determining the value of the policyholder liabilities and changes to these assumptions may result in a material adjustment to the valuation of the liability and accordingly the results of the group We consider the valuation of the policyholder liabilities as a matter of most significance to our current year audit of the consolidated financial statements due to the magnitude of the policyholder liabilities and the significant judgements applied by management in their valuation.	In testing the valuation of the policyholder liabilities in conjunction with our actuarial experts, we: • Considered the actuarial control environment and governance including the functioning of the Actuarial Committee, which approves the methodology and assumption changes against industry practice and regulatory requirements. • Attended management meetings where valuation principles were agreed. We performed tests on a sample basis to corroborate that these principles were applied in the valuation model as approved. • Compared valuation methodology changes against the requirements of Standard of Actuarial Practice (SAP) 104 *Calculation of the value of the assets, liabilities and capital adequacy requirement of long term insurers and industry practice*. • Compared the assumptions applied by management against recent actual long term experience, industry trends and economic market trends. For the underlying data used in the valuations, on a sample basis, we: • Tested the classification of expenses between maintenance and acquisition and how they are capitalised in the valuation by considering the nature of the expenses and inspecting the source document of the expense • Traced the policyholder valuation input data, such as premiums, claims and expense data used in the valuation model back to information contained in the administration and accounting systems. To test the changes in assumptions relating to policyholder behaviour (expected future withdrawals), we: • Understood management's view of the drivers of the withdrawal experience, management's investigation into actual withdrawal experience and evaluated management's actions to address the withdrawal experience • Examined management's investigation into actual withdrawal experience and the long-term trends in the experience as it impacted the withdrawals assumptions; compared it with the recent long term experience and compared it to recent experience and industry trends • Examined the proposed basis changes against actual experience taking into account management's view of the potential impact of management actions on future withdrawal rates. For our testing approach we found the judgements and assumption applied by management to be reasonable and in accordance with the requirements of IFRS.

LEVEL	KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Group – *consolidated financial statements*	**VALUATION OF INVESTMENT PROPERTIES** *(Refer to Key management assumptions note and note 10 Investment property)*	
	Standard Bank Group Limited, through its subsidiary Liberty Holdings Limited (Liberty), holds significant investments in investment properties. Investment properties are carried at fair value in the consolidated financial statements. Management applied significant judgement and assumptions in determining the fair value of these properties using the discounted cash flow approach. Factors such as prevailing market conditions, the individual nature, condition and location of each property and the expected future income for each property directly impact fair values. Amongst others, the following assumptions are considered key in determining the fair value: • exit capitalisation rates • discount rates. The significance of the investment properties to the consolidated financial statements and the extent of judgement applied in the valuation of these properties, specifically in relation to the exit capitalisation and discount rates, resulted in this matter being identified as an area of most significance in the current year audit of the consolidated financial statements.	As part of our audit, we considered the objectivity, independence and expertise of the registered professional valuers by: • Inspecting the registered professional valuers' valuation reports for a statement of independence and compliance with valuation standards. • For the South African valuers, confirming the registered professional valuers' affiliation with the South African Council for the Property Valuers Profession. We obtained the latest valuation reports issued by the registered professional valuers and gained an understanding of and tested the relevant controls related to: • Entering into and amending of leases in support of contractual rental income. • Setting and approval of budgets. • Detailed analysis of forecast and trends against actual results that informs management of the business. • Board approval of the external valuations obtained. On a risk based sample basis, we independently tested the calculation of the fair values in the registered professional valuers' valuation reports by performing the following procedures: • Using our internal property valuation experts to evaluate the appropriateness of the valuation methodology. • Evaluating the reasonableness of the cash flows, market rental growth, exit capitalisation and discount rates against market related data for similar investment properties. • Independent recalculation of the accuracy of the valuations. • We inspected the final valuation reports and agreed the fair value to the group's accounting records. For our testing approach we found the judgements and assumption applied by management to be reasonable and in accordance with the requirements of IFRS.

Other information

The directors are responsible for the other information. The other information comprises the Directors' report, the Report of the group audit committee and the group secretary's certification as required by the Companies Act of South Africa, the Directors' responsibility for financial reporting, annexure G – six year review, annexure H – third-party funds under management, the Governance report, the sections marked as "unaudited" in annexure C – Risk and capital management, the Risk and capital management report, the Governance and remuneration report and the Annual Integrated report for the year ended 31 December 2017. Other information does not include the consolidated and separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that based on available statutory records, KPMG Inc. and PricewaterhouseCoopers Inc. have been the joint auditors of Standard Bank Group Limited for 55 years.

KPMG Inc.

KPMG Inc.
Registered Auditor

Registered Auditor
Director: Heather Berrange
Chartered Accountant (SA)
Registered Auditor
85 Empire Road
Parktown
2193
7 March 2018

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Registered Auditor

Registered Auditor
Director: John Bennett
Chartered Accountant (SA)
Registered Auditor
4 Lisbon Lane
Waterfall City
2090
7 March 2018

STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

	Note	GROUP 2017 Rm	2016[1] Rm	2015[1] Rm
Assets				
Cash and balances with central banks	1	**75 310**	77 474	75 112
Derivative assets	2	**75 610**	66 304	107 189
Trading assets	3	**160 894**	129 845	86 219
Pledged assets	4	**20 785**	18 777	34 429
Financial investments	5	**533 314**	483 774	486 704
Current tax assets		**612**	479	534
Loans and advances	6	**1 048 027**	1 065 405	1 076 917
Policyholders' assets	7	**7 484**	7 314	7 579
Other assets	8	**22 996**	21 547	24 552
Interest in associates and joint ventures	9	**9 665**	8 196	9 703
Investment property	10	**32 226**	31 155	30 508
Property and equipment	11	**16 179**	16 041	17 670
Goodwill and other intangible assets	12	**23 329**	23 675	24 031
Deferred tax assets	13	**1 497**	1 988	1 881
Total assets		**2 027 928**	1 951 974	1 983 028
Equity and liabilities				
Equity		**190 017**	179 359	178 908
Equity attributable to ordinary shareholders		**157 020**	150 757	151 069
Ordinary share capital	14	**162**	162	162
Ordinary share premium	14	**17 901**	17 798	17 784
Reserves		**138 957**	132 797	133 123
Equity attributable to other equity instrument holders	14	**9 047**	5 503	5 503
Equity attributable to non-controlling interests		**23 950**	23 099	22 336
Liabilities		**1 837 911**	1 772 615	1 804 120
Derivative liabilities	2	**76 896**	72 767	130 058
Trading liabilities	16	**62 855**	47 867	43 304
Current tax liabilities		**5 107**	5 522	4 304
Deposits and debt funding	17	**1 243 911**	1 213 621	1 186 514
Policyholders' liabilities	7	**322 918**	307 230	305 194
Subordinated debt	18	**24 289**	25 997	27 141
Provisions and other liabilities	19	**98 428**	96 816	102 511
Deferred tax liabilities	13	**3 507**	2 795	5 094
Total equity and liabilities		**2 027 928**	1 951 974	1 983 028

[1] Refer to the accounting policy elections for details of the restatement to derivative assets and derivative liabilities.

INCOME STATEMENT

for the year ended 31 December 2017

	Note	GROUP 2017 Rm	GROUP 2016 Rm
Income from banking activities		**103 162**	99 857
Net interest income		**60 125**	56 892
Interest income	26	**124 147**	108 060
Interest expense	27	**(64 022)**	(51 168)
Non-interest revenue		**43 037**	42 965
Net fee and commission revenue		**29 133**	29 012
Fee and commission revenue	28	**34 290**	33 923
Fee and commission expense	29	**(5 157)**	(4 911)
Trading revenue	30	**10 731**	10 988
Other revenue	31	**3 173**	2 965
Income from investment management and life insurance activities		**24 394**	21 365
Insurance premiums received	32	**38 020**	39 366
Insurance benefits and claims paid	33	**(43 848)**	(37 616)
Investment management and service fee income and gains	34	**43 957**	22 887
Fair value adjustments to investment management liabilities and third-party fund interests	35	**(13 735)**	(3 272)
Total income		**127 556**	121 222
Credit impairment charges	36	**(9 410)**	(9 533)
Net income before operating expenses		**118 146**	111 689
Operating expenses in banking activities	37	**(57 512)**	(56 235)
Operating expenses in investment management and life insurance activities	37	**(17 800)**	(17 374)
Net income before capital items and equity accounted earnings		**42 834**	38 080
Non-trading and capital related items	38	**(261)**	(1 123)
Share of post tax profit from associates	9	**1 102**	187
Net income before indirect taxation		**43 675**	37 144
Indirect taxation	39	**(2 481)**	(2 418)
Profit before direct taxation		**41 194**	34 726
Direct taxation	39	**(10 479)**	(8 932)
Profit for the year		**30 715**	25 794
Attributable to ordinary shareholders		**26 235**	22 206
Attributable to other equity instrument holders		**594**	406
Attributable to non-controlling interests		**3 886**	3 182
Earnings per share			
Basic earnings per ordinary share (cents)	40	**1 637,8**	1 389,8
Diluted earnings per ordinary share (cents)	40	**1 617,5**	1 371,2

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

	GROUP	
	2017 Rm	2016 Rm
Profit for the year	**30 715**	25 794
Other comprehensive loss after tax for the year[1]	**(5 940)**	(14 647)
Items that may be subsequently reclassified to profit and loss	**(5 607)**	(14 773)
Movements in the cash flow hedging reserve	**157**	227
Net change in fair value of cash flow hedges	**157**	(1 122)
Realised fair value adjustments of cash flow hedges transferred to profit or loss		1 349
Movements in the available-for-sale revaluation reserve	**462**	(123)
Net change in fair value of available-for-sale financial assets	**396**	12
Realised fair value adjustments on available-for-sale financial assets transferred to profit or loss	**66**	(135)
Exchange differences on translating foreign operations	**(6 180)**	(14 680)
Net change on hedges of net investments in foreign operations	**(46)**	(197)
Items that may not be reclassified to profit and loss	**(333)**	126
Defined benefit fund remeasurements	**(219)**	128
Other losses	**(114)**	(2)
Total comprehensive income for the year	**24 775**	11 147
Attributable to ordinary shareholders	**21 514**	10 882
Attributable to other equity instrument holders	**594**	406
Attributable to non-controlling interests	**2 667**	(141)

[1] Income tax relating to each component of other comprehensive income is disclosed in note 39.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	Note	GROUP 2017 Rm	GROUP 2016 Rm
Net cash flows from operating activities		**24 137**	40 255
Net income before capital items and equity accounted earnings		**42 834**	38 080
Adjusted for non cash items and other adjustments included in the income statement	43.1	**(63 494)**	(58 240)
Increase in income-earning assets	43.2	**(98 489)**	(100 768)
Increase in deposits and debt funding, trading and other liabilities	43.3	**76 666**	96 246
Dividends received		**2 706**	3 904
Interest paid		**(65 402)**	(52 476)
Interest received		**139 394**	122 741
Direct taxation paid		**(10 078)**	(9 232)
Net cash flows used in investing activities		**(8 415)**	(13 377)
Capital expenditure on property and equipment		**(3 533)**	(3 620)
Proceeds from sale of property and equipment		**225**	436
Capital expenditure on intangible assets		**(1 918)**	(3 917)
Investment from/(in) investment properties		**(681)**	(343)
Increase in investments by insurance operations		**(2 496)**	(6 012)
(Acquisitions) and disposals of associates and joint ventures		**(12)**	79
Net cash flows used in financing activities		**(12 674)**	(12 030)
Issuance of ordinary share capital net of buy-backs		**103**	(252)
Issuance of other equity instruments		**3 544**	
Non-controlling interests' interest in acquisition of Liberty Two Degrees[1]			3 000
Equity transactions with non-controlling interests[2]		**1 173**	(1 425)
Settlement of BEE transaction		**14**	95
Issuance of subordinated debt	43.4	**2 246**	2 694
Redemption of subordinated debt	43.4	**(4 180)**	(3 175)
Dividends paid[3]		**(15 574)**	(12 967)
Effect of exchange rate changes on cash and cash equivalents		**(5 212)**	(12 486)
Net (decrease)/increase in cash and cash equivalents		**(2 164)**	2 362
Cash and cash equivalents at the beginning of the year		**77 474**	75 112
Cash and cash equivalents at the end of the year		**75 310**	77 474

1 (LGL holds and invests, on behalf of policyholders and shareholders, in property investments in a ring-fenced on-balance sheet asset portfolio Liberty Property Portfolio (LPP). Liberty sold undivided shares in each individual property that were held in the LPP to Liberty Two Degrees (L2D), a REIT, that was listed on the JSE on 6 December 2016. The cash flow is a result of the proceeds from the sale of units in L2D by LGL to external third-party investors.

2 During 2016 equity transactions with non-controlling interests materially comprised the purchase of an additional interest of 17.65% by Stanbic IBTC Holdings Plc in its subsidiary Stanbic IBTC Pensions Managers Limited (SIPML) during December 2016.

3 During 2017, coupons to the value of R229 million were paid to AT1 capital bond holders. Current tax of R64 million relating to the AT1 capital bonds was recognised directly in equity resulting in an aggregate net equity impact of R165 million.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Ordinary share capital and premium Rm	Empower-ment reserve Rm	Treasury shares Rm	Foreign currency translation reserve Rm	Foreign currency hedge of net investment reserve Rm	Cash flow hedging reserve Rm	Statutory credit risk reserve Rm	Available-for-sale revaluation reserve Rm	Share-based payment reserve Rm	Other reserves Rm	Retained earnings Rm	Ordinary share-holders' equity Rm	Other equity instrument holders[1] Rm	Non-controlling interests Rm	Total equity Rm
Balance at 1 January 2017	17 960	(353)	(268)	(1 189)	(937)	(230)	3 073	206	(372)	253	132 614	150 757	5 503	23 099	179 359
Total comprehensive (loss)/income for the year				(4 927)	(46)	136		387		(45)	26 009	21 514	594	2 667	24 775
Profit for the year											26 235	26 235	594	3 886	30 715
Other comprehensive (loss)/income for the year				(4 927)	(46)	136		387		(45)	(226)	(4 721)		(1 219)	(5 940)
Increase in statutory credit risk reserve							16				(16)				
Unincorporated property partnerships' capital reductions and distributions														(151)	(151)
Transactions with shareholders and non-controlling interests recorded directly in equity	103	14	(766)						(534)		(14 068)	(15 251)	2 950	(1 665)	(13 966)
Equity-settled share-based payment transactions[2]									485		(1 370)	(885)		29	(856)
Transfer of vested equity options									(1 019)		1 019				
Issue of share capital and share premium and capitalisation of reserves	409											409	3 544		3 953
Share buy-back	(306)											(306)			(306)
Deferred tax on share-based payment transactions											276	276			276
Transactions with non-controlling shareholders			(8)								(46)	(54)		160	106
Net increase in treasury shares			(758)								(395)	(1 153)		(490)	(1 643)
Redemption of preference shares		14										14			14
Net dividends paid											(13 552)	(13 552)	(594)	(1 364)	(15 510)
Dividends paid to equity holders											(13 599)	(13 599)	(594)	(1 412)	(15 605)
Dividends received from Tutuwa initiative and policyholders' deemed treasury shares											47	47		48	95
Balance at 31 December 2017	18 063	(339)	(1 034)	(6 116)	(983)	(94)	3 089	593	(906)	208	144 539	157 020	9 047	23 950	190 017

Refer to footnotes on page 26.

STATEMENT OF CHANGES IN EQUITY continued

for the year ended 31 December 2017

	Ordinary share capital and premium Rm	Empower-ment reserve Rm	Treasury shares Rm	Foreign currency translation reserve Rm	Foreign currency hedge of net investment reserve Rm	Cash flow hedging reserve Rm	Statutory credit risk reserve Rm	Available-for-sale revaluation reserve Rm	Share-based payment reserve Rm	Other reserves Rm	Retained earnings Rm	Ordinary share-holders' equity Rm	Other equity instrument holders[1] Rm	Non-controlling interests Rm	Total equity Rm
Balance at 1 January 2016	17 946	(448)	(624)	10 223	(740)	(384)	2 779	222	(289)	255	122 129	151 069	5 503	22 336	178 908
Total comprehensive (loss)/income for the year				(11 412)	(197)	154		(16)		(2)	22 355	10 882	406	(141)	11 147
Profit for the year											22 206	22 206	406	3 182	25 794
Other comprehensive (loss)/income for the year				(11 412)	(197)	154		(16)		(2)	149	(11 324)		(3 323)	(14 647)
Increase in statutory credit risk reserve							294				(294)				
Unincorporated property partnerships' capital reductions and distributions														(219)	(219)
Transactions with shareholders and non-controlling interests recorded directly in equity	14	95	356						(83)		(11 576)	(11 194)	(406)	1 123	(10 477)
Equity-settled share-based payment transactions[2]									767		(641)	126		48	174
Transfer of vested equity options									(850)		850				
Issue of share capital and share premium and capitalisation of reserves	333										(266)	67			67
Share buy-back	(319)											(319)			(319)
Deferred tax on share-based payment transactions											207	207			207
Transactions with non-controlling shareholders			(6)								(642)	(648)		2 105	1 457
Net decrease in treasury shares			362								379	741		68	809
Redemption of preference shares		95										95			95
Net dividends paid											(11 463)	(11 463)	(406)	(1 098)	(12 967)
Dividends paid to equity holders											(11 510)	(11 510)	(406)	(1 215)	(13 131)
Dividends received from Tutuwa initiative and policyholders' deemed treasury shares											47	47		117	164
Balance at 31 December 2016	17 960	(353)	(268)	(1 189)	(937)	(230)	3 073	206	(372)	253	132 614	150 757	5 503	23 099	179 359

1 Other equity holders are holders of preference share capital and AT1 capital. Refer to note 14 for more detail.
2 Includes hedges of the group's equity-settled share incentive schemes.

All balances are stated net of tax, where applicable.

AFS 176 Refer to annexure F for the accounting policies relating to the reserves.

ACCOUNTING POLICY ELECTIONS AND RESTATEMENT

The principal accounting policies applied in the presentation of the group and company's annual financial statements are set out below.

Basis of preparation

The group's consolidated and company's separate annual financial statements (annual financial statements) are prepared in accordance with IFRS as issued by the IASB, its interpretations adopted by the IASB, the South African Institute of Chartered Accountants' (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listings Requirements, and the Companies Act. The annual financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Available-for-sale financial assets, financial assets and liabilities classified at fair value through profit or loss, investment property, liabilities for cash-settled share- based payment arrangements and interests in mutual funds, policyholder investment contract liabilities and third-party financial liabilities arising on the consolidation of mutual funds that are measured at fair value.
- Policyholder insurance contract liabilities and related reinsurance assets that are measured in terms of the financial soundness valuation (FSV) basis as set out in accounting policy 12 – policyholder insurance and investment contracts.
- Post-employment benefit obligations that are measured in terms of the projected unit credit method.

The following principal accounting policy elections in terms of IFRS have been made, with reference to the detailed accounting policies shown in brackets:

- Purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy 3).
- Cumulative gains and losses recognised in OCI in terms of a cash flow hedge relationship are transferred from OCI and included in the initial measurement of the non-financial asset or liability (accounting policy 3).
- Commodities acquired principally for the purpose of selling in the near future or generating a profit from fluctuation in price or broker-traders' margin are measured at fair value less cost to sell (accounting policy 3).
- Investment property is accounted for using the fair value model (accounting policy 6).
- Mutual fund investments held by investment-linked insurance funds, that do not meet the definition of a subsidiary, are designated on initial recognition as at fair value through profit or loss (accounting policy 2).
- Intangible assets and property and equipment are accounted for at cost less accumulated amortisation and impairment (accounting policy 6).
- The portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis (accounting policy 4).
- Investment in associates and joint ventures are initially measured at cost and subsequently accounted for using the equity method in the separate financial statements (accounting policy 2).

Functional and presentation currency

The annual financial statements are presented in South African rand, which is the functional currency of the company and presentation currency of the group and the company. All amounts are stated in millions of rand (Rm), unless indicated otherwise.

Changes in accounting policies

The accounting policies are consistent with those reported in the previous year except as required in terms of the adoption of the following:

Adoption of new and amended standards effective for the current financial period

The accounting policies are consistent with those reported in the previous year except as required in terms of the adoption of the following amendments effective for the current period:

- Annual improvements 2014 – 2016 clarification to IFRS 12 *Disclosure of Interests in Other Entities* (IFRS 12): amendment clarifies that an entity is not required to disclose summarised financial information for a subsidiary, joint venture or associate when classified (or included in a disposal group that is classified) as held for sale in terms of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (IFRS 5).

Early adoption of revised standards:

- Amendment to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (IFRS 2): the amendments eliminate diversity in practice in three main areas, namely: (1) effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; (2) classification of a share-based payment transaction with net settlement features for withholding tax obligations; and (3) accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.
- Annual improvements 2014 – 2016 clarification to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1) and IAS 28 *Investments in Associates and Joint Ventures* (IAS 28). The clarification to IAS 28 clarifies that an entity may make an election separately for each associate or joint venture, that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, at initial recognition to measure that associate or joint venture at either at fair value through profit or loss in accordance with IAS 39 or the equity method in accordance with IAS 28.
- Amendment to IAS 40 *Investment Property* (IAS 40): amendments clarifies the requirements on transfers to, or from, investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.

The abovementioned amendments to the IFRS standards, adopted on 1 January 2017, did not have any effect on the group's previously reported financial results or disclosures and had no material impact on the group's accounting policies.

Restatement

Correction of prior period error

The group determined that certain derivative intercompany positions held between the group's banking activities and the group's investment management and life insurance activities were erroneously eliminated on a net basis as opposed to a gross basis. The group has restated its previously reported statement of financial position to incorporate the correct elimination of these intercompany derivative positions.

The restatement did not impact the group's net exposure on derivatives, nor did it affect the group's reserves. The change to the group's statement of financial position is reflected in the table that follows:

	2016			2015		
	As previously presented Asset/(liability) Rm	Restatement (Credit)/debit Rm	Restated position Asset/(liability) Rm	As previously presented Asset/(liability) Rm	Restatement (Credit)/debit Rm	Restated position Asset/(liability) Rm
Derivative assets	68 620	(2 316)	66 304	111 089	(3 900)	107 189
Derivative liabilities	(75 083)	2 316	(72 767)	(133 958)	3 900	(130 058)

The following primary financial statement, notes and annexure have been impacted by this restatement:

- statement of financial position
- note 2 – derivative instruments
- note 20 – classification of assets and liabilities
- note 21 – fair value disclosures
- note 46 – segment reporting
- annexure G – six-year review.

KEY MANAGEMENT ASSUMPTIONS

In preparing the financial statements, estimates and assumptions are made that could materially affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances. Unless otherwise stated, no material changes to assumptions have occurred during the year. The following represents the most material key management assumptions applied in preparing these financial statements.

Credit impairment losses on loans and advances

Portfolio loan impairments

The group assesses its loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recognised in profit or loss, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis.

The impairment for performing and non-performing but not specifically impaired loans is calculated on a portfolio basis, based on historical loss patterns, adjusted for national- and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These include early arrears, notices of accounts under debt review, renegotiated loans, post write-off recoveries, watch list exposures and changes in macroeconomic conditions and legislation affecting credit recovery. The impairments are monitored on a monthly basis, with back-testing performed between actual write off experience and that estimated by the group's models. The models are updated on a regular basis to incorporate actual write-off experience. The sensitivity to changing conditions is evaluated and specific sensitivity testing is done if and when required.

A key input into the determination of the group's portfolio impairment provisions is the emergence period. The loss ratios applied to loan balances in the portfolio are based on the estimated loss emergence period. At year end, the group applied an average loss emergence period of a minimum of three months (2016: three months) for Personal & Business Banking (PBB) and 12 months (2016: 12 months) for Corporate & Investment Banking (CIB) loans and advances. Where required, these emergence periods are assessed by determining the sensitivity of the impairment by applying both longer and shorter emergence periods and comparing the sensitivity results with the incurred loss experience.

Specific loan impairments

Non-performing loans include those loans for which the group has identified objective evidence of default, such as a breach of a material loan covenant or condition, as well as those loans for which instalments are due and unpaid for 90 days or more.

The methodology used in determining the specific loan impairment includes modelling with various inputs such as segmentation, levels of loss expectation, recoverability of collateral, potential cash flows and probability of default. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Expected time to recover cash and collateral and recoveries of individual specifically impaired loans as a percentage of the outstanding balances are estimated as follows:

	Expected time to recovery		Expected recoveries as a percentage of impaired loans	
	2017 Months	2016 Months	**2017 %**	2016 %
Personal & Business Banking	**8 – 15**	8 – 15	**57**	58
Mortgage loans	**15**	15	**74**	75
Instalment sale and finance leases	**9**	9	**56**	54
Card debtors	**8**	8	**25**	28
Other lending	**13**	13	**39**	36
Corporate & Investment Banking	**21 – 24**	21 – 24	**40**	44
South Africa	**21**	21	**31**	32
Africa Regions	**24**	24	**54**	66

AFS 44 Refer to note 6 loans and advances, for the carrying amounts of loans and advances and to the credit risk section of annexure C for the group's assessment of the risk of loss arising out of the failure of counterparties to meet their financial or contractual obligations when due.

Impairment of available-for-sale investments

The group determines that available-for-sale investments are impaired and recognised as such in profit or loss when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the group evaluates, among other factors, the normal volatility in the instruments' fair value. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry or sector, or operational and financing cash flows or significant changes in technology.

Fair value

Financial instruments

In terms of IFRS, the group is either required to or elects to measure a number of its financial assets and financial liabilities at fair value, being the price that would, respectively, be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities.

Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions.

When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. Information obtained from the valuation of financial instruments is used to assess the performance of the group and, in particular, provides assurance that the risk and return measures that the group has taken are accurate and complete.

The group's valuation control framework governs internal control standards, methodologies, and procedures over its valuation processes, which include:

Prices quoted in an active market: The existence of quoted prices in an active market represents the best evidence of fair value. Where such prices exist, they are used in determining the fair value of financial assets and financial liabilities.

Valuation techniques: Where quoted market prices are unavailable, the group establishes fair value using valuation techniques that incorporate observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices, for such assets and liabilities. Parameter inputs are obtained directly from the market, consensus pricing services or recent transactions in active markets, whenever possible. Where such inputs are not available, the group makes use of theoretical inputs in establishing fair value (unobservable inputs). Such inputs are based on other relevant input sources of information and incorporate assumptions that include prices for similar transactions, historic data, economic fundamentals, and research information, with appropriate adjustment to reflect the terms of the actual instrument being valued and current market conditions. Changes in these assumptions would affect the reported fair values of these financial instruments. Valuation techniques used for financial instruments include the use of financial models that are populated using market parameters that are corroborated by reference to independent market data, where possible, or alternative sources, such as, third-party quotes, recent transaction prices or suitable proxies. The fair value of certain financial instruments is determined using industry standard models such as, discounted cash flow analysis and standard option pricing models. These models are generally used to estimate future cash flows and discount these back to the valuation date. For complex or unique instruments, more sophisticated modelling techniques may be required, which require assumptions or more complex parameters such as correlations, prepayment spreads, default rates and loss severity.

Valuation adjustments: Valuation adjustments are an integral part of the valuation process. Adjustments include, but are not limited to:

- credit spreads on illiquid issuers
- implied volatilities on thinly traded instruments
- correlation between risk factors
- prepayment rates
- other illiquid risk drivers.

In making appropriate valuation adjustments, the group applies methodologies that consider factors such as bid-offer spreads, liquidity, counterparty and own credit risk. Exposure to such illiquid risk drivers is typically managed by:

- using bid-offer spreads that are reflective of the relatively low liquidity of the underlying risk driver
- raising day one profit provisions in accordance with IFRS
- quantifying and reporting the sensitivity to each risk driver
- limiting exposure to such risk drivers and analysing the exposure on a regular basis.

Validation and control: All financial instruments carried at fair value, regardless of classification, and for which there are no quoted market prices for that instrument, are fair valued using models that conform to international best practice and established financial theory. These models are validated independently by the group's model validation unit and formally reviewed and approved by the market risk methodologies committee. This control applies to both off-the-shelf models, as well as those developed internally by the group. Further, all inputs into the valuation models are subject to independent price validation procedures carried out by the group's market risk unit. Such price validation is performed on at least a monthly basis, but daily where possible given the availability of the underlying price inputs. Independent valuation comparisons are also performed and any significant variances noted are appropriately investigated. Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to model, are carefully validated and tabled at the monthly price validation forum to ensure that these are reasonable and used consistently across all entities in the group. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values. They are also disclosed on a monthly basis at the market risk and asset and liability committees.

Portfolio exception: The group has, on meeting certain qualifying criteria, elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis.

The total amount of the change in fair value estimated using valuation techniques not based on observable market data that was recognised in profit or loss for the year ended 31 December 2017 was a net gain of R4 132 million (2016: R4 350 million net gain). Other financial instruments, not at level 3, are utilised to mitigate the risk of these changes in fair value.

AFS 68 Refer to note 21 for the fair value disclosures.

Investment property

Investment property is measured at fair value taking into account the characteristics of the properties that market participants would consider when pricing the property at measurement date. These include various inputs relating to existing tenant terms, location, vacancy levels and restrictions, if any, on the sale or use of the asset. The group makes judgements regarding the unit of account, i.e. whether it should be valued as a stand-alone property or as a group of properties. The properties have been valued on a discounted cash flow basis. In the majority of cases, discounted cash flows have been used and summed together with the capitalised and discounted value of the projected income to give a present value as at 31 December 2017.

In order to determine the reversionary rental income on lease expiry, renewal or review, a market gross rental income (basic rental plus operating cost rental) has been applied to provide a market-related rental value for each property as at 31 December 2017. Market rental growth has been determined based on the individual property, property market trends and economic forecasts. Vacancies have been considered based on historic and current vacancy factors, as well as the nature, location, size and popularity of each building.

Appropriate discount rates have been applied to the cash flows for each property to reflect the relative investment risk associated with the particular building, tenant, covenant and the projected income flow. Exit capitalisation rates generally range from 6.8% to 10.5% (2016: 6.8% to 10.5%). This compares to the ten-year government yield of 8.06% (2016: 8.93%). The non-observable adjustments included in the valuation can therefore be referenced to the variance to the ten-year government rate.

On the basis that turnover or profit rental income has a greater degree of uncertainty and risk than the contractual base rental, a risk premium of between 1% and 6% (2016: 1% and 6%) has been added to the discount rate and to the exit capitalisation rate, to reflect the greater investment risk associated with the variable rental element on a property-by-property basis.

AFS 50 Refer to note 10 for investment property disclosures.

Consolidation of entities

The group controls and consolidates an entity where the group has power over the entity's relevant activities; is exposed to variable returns from its involvement with the investee; and has the ability to affect the returns through its power over the entity, including structured entities (SEs). Determining whether the group controls another entity requires judgement by identifying an entity's relevant activities, being those activities that significantly affect the investee's returns, and whether the group controls those relevant activities by considering the rights attached to both current and potential voting rights, de facto control and other contractual rights, including whether such rights are substantive.

Interests in unconsolidated SEs that are not considered to be a typical customer-supplier relationship are required to be identified and disclosed. The group regards interest to be a typical customer-supplier relationship where the level of risk inherent in that interest in the SE exposes the group to a similar risk profile to that found in standard market-related transactions. The group sponsors an SE where it provides financial support to the SE when not contractually required to do so. Financial support may be provided by the group to an SE for events such as litigation, tax and operational difficulties.

AFS 108 Refer to annexure A for detail on subsidiaries, consolidated and unconsolidated structured entities within the group.

Significant influence – investment funds

The group accounts for its interests in investment funds as associates where the group is the fund manager, for which there is an irrevocable fund management agreement, and the group has a monetary interest in the particular fund. Such associates are equity accounted unless designated to be measured at fair value through profit or loss.

AFS 122 Refer to annexure B for detail on associates and joint ventures.

Computer software intangible assets

The group reviews its assets under construction and assets brought into use for impairment at each reporting date and tests the carrying value for impairment whenever events or changes in circumstances indicate that the carrying amount (or components of the carrying amount) may not be recoverable. These circumstances include, but are not limited to, new technological developments, obsolescence, changes in the manner in which the software is used or is expected to be used, changes in discount rates or changes in estimates of related future cash benefits. The impairment tests are performed by comparing an asset's recoverable amount to its carrying amount. The review and testing of assets for impairment inherently requires significant management judgement as it requires management to derive the estimates of the identified assets' future cash flows in order to derive the asset's recoverable amount.

The recoverable amount is determined as the higher of an asset's fair value less cost of disposal and its value in use. The value in use is calculated by estimating future cash benefits that will result from each asset and discounting those cash benefits at an appropriate discount rate.

During the 2017 financial year, certain of the group's computer software assets' recoverable values were determined to be lower than their carrying values and were impaired by an amount of R447 million. These impairments are excluded from the group's headline earnings.

AFS 52 190 Refer to note 12 for intangible asset disclosure, as well as annexure F for more detail on the accounting policy relating to computer software, the capitalisation thereof, as well as amortisation and impairment policies.

Goodwill impairment

In terms of IFRS, the group is required on an annual basis to test its recognised goodwill for impairment. The impairment tests are performed by comparing the cash-generating unit's (CGU) recoverable amounts to the carrying amounts in the functional currency of the CGU being assessed for impairment. The recoverable amount is defined as the higher of the entity's fair value less costs of disposal and its value in use. The review and testing of goodwill for impairment inherently requires significant management judgement as management needs to estimate the identified CGU's future cash flows. The principal assumptions considered in determining an entity's value in use include:

- **Future cash flows:** the forecast periods adopted reflect a set of cash flows which, based on management's judgement and expected market conditions, could be sustainably generated over such a period. A forecast period of greater than five years has been used in order to take into account the level of development in these markets. The cash flows from the final discrete cash flow period are extrapolated into perpetuity to reflect the long-term plans for the entity. It is common valuation methodology to avoid placing too high a proportion of the total value on the perpetuity value.
- **Discount rates:** the cost of equity (COE) discount rates utilised in the equity pricing models are deemed appropriate based on the entities under review. The risk-free rate used to determine the COE has been derived from the respective local ten-year government bonds adjusted for inflation differential and country risk yield. The future cash flows are discounted using the COE assigned to the appropriate CGUs and by nature can have a significant impact on their valuations.

The following table summarises the impairment test methodology applied and the key inputs used in testing the group's goodwill relating to Stanbic IBTC Holdings PLC and Stanbic Holdings Plc (previously CFC Stanbic Holdings).

	Stanbic IBTC Holdings PLC Value in use		Stanbic Holdings Plc Value in use	
	2017	2016	**2017**	2016
Discounted cash flow				
Discount rate (nominal) (%)	**19.4**	22.6	**16.5**	17.9
Terminal growth rate (nominal) (%)	**10.0**	10.5	**8.0**	8.0
Forecast period (years)[1]	**10**	10	**8**	8

[1] In the instance where we value group subsidiaries where the long-term strategy is to hold and grow the investment, the preferred approach is to value future cash flows over a longer period in order to avoid placing too much value on the terminal cash flow period.

AFS 52 Note 12 summarises the group's impairment test results and the main components of goodwill.

Current and deferred taxation

The group is subject to direct and indirect taxation in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty in the ordinary course of business. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions, disclosed in note 39 and note 13 respectively, in the period in which such determination is made.

Uncertain tax positions, which do not meet the probability criteria defined within IFRS, are not provided for but are rather disclosed as contingent liabilities or assets as appropriate. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The most significant management assumption is the forecasts that are used to support the probability assessment that sufficient taxable profits will be generated by the entities in the group in order to utilise the deferred tax assets.

Post-employment benefits

The group's post-employment benefits consist of both post-employment retirement funds and healthcare benefits for South African operations which have been deemed to be most material. The measurement of the group's obligations to fund these benefits are derived from actuarial valuations performed by the appointed actuaries taking into account various assumptions. The funds are subject to a statutory financial review by the group's independent actuaries at intervals of not more than three years.

The principal assumptions used in the determination of the group's obligations include the following:

	Retirement fund		Post-employment medical aid fund	
	2017	2016	**2017**	2016
Discount rate	**Nominal government bond yield curve**	Nominal government bond yield curve	**Nominal government bond yield curve**	Nominal government bond yield curve
Return on investments (discount rate of term equal to discounted mean term of liabilities)[1]	**9.13% to 10.83%**	10.01% to 10.33%	**Unfunded liability and therefore there is no asset-backing portfolio**	Unfunded liability and therefore there is no asset-backing portfolio
Salary/benefit inflation	**Future salary increases based on inflation curve plus 1% to 2% pa to each point on the curve**	Future salary increases based on inflation curve plus 1% to 2% pa to each point on the curve	**Not applicable to fund**	Not applicable to fund
Medical cost inflation (applicable to members who retired before 1 January 2013)[2]	**Not applicable to fund**	Not applicable to fund	**Inflation curve adjusted by 1%**	Inflation curve adjusted by 1%
Medical cost inflation (applicable to all other members)	**Not applicable to fund**	Not applicable to fund	**Difference between nominal and index linked bond yield curves plus 0% to 1.5%**	Difference between nominal and index linked bond yield curves plus 0% to 1.5%
CPI inflation	**Difference between nominal and index-linked bond yield curves**	Difference between nominal and index-linked bond yield curves	**Difference between nominal and index-linked bond yield curves**	Difference between nominal and index-linked bond yield curves
Pension increase in allowance	**Inflation rate**	Inflation rates	**Not applicable to fund**	Not applicable to fund
Remaining service life of employees (years)	**9.67**	10.68	**Not applicable to fund**	Not applicable to fund

1 This relates to members of material retirement funds within the group.
2 This relates to members within the employment of Liberty.

AFS 89 Refer to note 45 for further details regarding the group's post-employment benefits.

Long-term insurance contracts

Policyholder liabilities under insurance contracts and reinsurance assets are derived from actual claims submitted which are not settled at the reporting date, and estimates of the net present value of future claims and benefits under existing contracts, offset by probable future premiums to be received or paid (net of expected service costs). The key assumptions applied and analysis of their sensitivity have been detailed in the insurance risk and sensitivity analysis components of annexure C.

Process used to decide on assumptions and changes in assumptions

Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract and class of business. Industry standard tables are used for smaller classes of business and company-specific tables are used for larger classes. In setting the assumptions, provision is made for the expected impact of Aids-related claims consistent with the requirements of Advisory Practice Note (APN) 105 issued by the Actuarial Society of South Africa (ASSA).

Morbidity

The incidence of disability claims is derived from the risk premium rates determined from annual investigations. The incidence rates are reviewed on an annual basis, based on medical claims experience. The adjusted rates are intended to reflect future expected experience.

Withdrawal

The withdrawal assumptions are based on the most recent withdrawal investigations taking into account past, as well as expected future trends. The withdrawal rates are analysed by product type and policy duration.

Investment return

Future investment returns are set for the main asset classes as follows:

- Bond rate – the derived yield from the bond yield curve, at a duration of ten years at the reporting date, 8.99% (2016: 9.12%)
- Equity rate – bond rate plus 3.5% as an adjustment for risk, 12.49% (2016: 12.62%)
- Property rate – bond rate plus 1% as an adjustment for risk, 9.99% (2016: 10.12%)
- Cash – bond rate less 1.5%, 7.49% (2016: 7.62%).

The overall investment return for a block of business is based on the investment return assumptions allowing for the current mix of assets supporting the liabilities. The pre-taxation discount rate is set at the same rate. For life annuity and guaranteed endowments, discount rates are set at risk-free rates consistent with the duration and type of the liabilities allowing for an average illiquidity premium on the backing assets and reduced by an allowance for investment expenses and the relevant prescribed margin.

Expenses

An expense analysis is performed on the actual expenses incurred in the calendar year preceding the statement of financial position date. This analysis is used to calculate the acquisition costs incurred and to set the maintenance expense assumption which is based on the budget approved by the board.

Expense inflation

The expense inflation assumption is set taking into consideration, market implied inflation, the expected future development of the number of inforce policies, as well as the expected future profile of maintenance expenses. The expense inflation assumption for pure risk, life annuity, disability in payment and guaranteed endowments business is consistent with market implied inflation rates. For other classes of business the inflation rate is set at the effective 10-year gilt yield curve rate (gilt rate) less 1.75% when the gilt rate is above 7.25%. The expense inflation rate is set at 72% of the gilt rate when this is below 5.25%. At gilt rates between 5.25% and 7.25% the inflation rate is interpolated to ensure a smooth transition between the two methodologies. This results in a best estimate inflation assumption of 7.24% at 31 December 2017 (2016: 7.37%).

Taxation

Taxation rates consistent with that position, and the likely future changes in that position, are allowed for. In respect of capital gains tax (CGT), taxation is allowed for at the full CGT rate. Deferred taxation liabilities include a provision for CGT on unrealised gains/(losses) at the valuation date, at the full undiscounted value. Allowance is also made for dividend withholding tax at the applicable rate.

Correlations

No correlations between assumptions are allowed for.

Contribution increases

In the valuation of the liabilities, voluntary premium increases that give rise to expected profits are not allowed for. However, compulsory increases, and increases that give rise to expected losses are allowed for. This is consistent with the requirements of SAP 104.

Embedded investment derivative assumptions

The assumptions used to value embedded derivatives in respect of policyholder contracts are set in accordance with APN 110. Account is taken of the yield curve at the valuation date. Both implied market volatility and historical volatility are taken into account when setting volatility assumptions. Correlations between asset classes are set based on historical data. Over 16 000 simulations are performed in calculating the liability.

Using the simulated investment returns the prices and implied volatilities of the following instruments are:

Instrument	Price 2017 %	Price 2016 %	Volatility 2017 %	Volatility 2016 %
A one-year at-the-money (spot) put on the FTSE[1]/JSE Top 40 index	**4.83**	6.07	**17.27**	21.17
A one-year put on the FTSE/JSE Top 40 index, with a strike price equal to 80% of spot	**0.92**	1.63	**21.16**	25.51
A one-year at-the-money (forward) put on the FTSE/JSE Top 40 index	**6.42**	7.86	**16.58**	20.31
A five-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**7.88**	7.97	**21.88**	23.17
A five-year put on the FTSE/JSE Top 40 index, with a strike price equal to $1{,}04^{5\#}$ of spot	**14.74**	14.45	**21.06**	22.20
A five-year (forward) put on the FTSE/JSE Top 40 index	**16.09**	16.85	**20.94**	21.95
A five-year put with a strike price equal to $1{,}04^{5\#}$ of spot on an underlying index constructed as 60% FTSE/JSE Top 40 and 40% All Bond Index (ALBI), with rebalancing of the underlying index back to these weights taking place annually	**6.48**	6.22	**Not applicable to volatility**	Not applicable to volatility
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**3.72**	3.85	**27.46**	28.30
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $1{,}04^{20\#}$ of spot	**16.72**	16.91	**28.63**	29.66
A 20-year at-the-money (forward) put on the FTSE/JSE Top 40 index	**27.70**	28.67	**29.15**	30.33
A 20-year put option based on an interest rate with a strike equal to the present 5-year forward rate as at maturity of the put option, which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than the strike price	**0.59**	0.53	**Not applicable to volatility**	Not applicable to volatility

1 Financial Times Stock Exchange.
Exponent.

AFS 46 Refer to note 7 for disclosures on policyholders' contracts.

Process used to decide on assumptions and changes in assumptions for non-South African life companies' changes in assumptions

Modelling and other changes were made to realign valuation assumptions with future experience. These changes resulted in an increase in policyholder and reinsurance net liabilities of R356 million in 2017 compared to a net increase of R689 million in 2016.

Provisions

The principal assumptions taken into account in determining the value at which provisions are recorded at, include determining whether there is an obligation, as well as assumptions about the probability of the outflow of resources and the estimate of the amount and timing for the settlement of the obligation. For legal provisions, management assesses the probability of the outflow of resources by taking into account historical data and the status of the claim in consultation with the group's legal counsel. In determining the amount and timing of the obligation once it has been assessed to exist, management exercises its judgement by taking into account all available information, including that arising after the balance sheet date up to the date of the approval of the financial statements.

AFS 75 Refer to note 24.4 for details regarding the group's legal proceedings defended.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. Cash and balances with central banks

	2017 Rm	2016 Rm
Coins and bank notes	**18 536**	19 594
Balances with central banks	**56 774**	57 880
Total cash and balances with central banks	**75 310**	77 474

Cash and balances with central banks include R48 981 million (2016: R41 755 million) that is not available for use by the group. These balances primarily comprise of reserving requirements held with central banks within the countries of operation.

2. Derivative instruments

All derivatives are classified either as held-for-trading or held-for-hedging. A summary of the total derivative assets and liabilities is shown in the table below.

	Fair value of assets		Fair value of liabilities	
	2017 Rm	2016[1] Rm	2017 Rm	2016[1] Rm
Total derivative assets/(liabilities) held-for-trading	**74 546**	65 758	**(74 317)**	(69 211)
Total derivative assets/(liabilities) held-for-hedging	**1 064**	546	**(2 579)**	(3 556)
Total derivative assets/(liabilities)	**75 610**	66 304	**(76 896)**	(72 767)

1 Refer to the accounting policy elections for details of the restatement to derivative assets and liabilities.

2.1 Use and measurement of derivative instruments

In the normal course of business, the group enters into a variety of derivative transactions for trading purposes and for hedging foreign exchange, interest rate, commodity, credit and equity exposures. Derivative instruments used by the group in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, interest rates, credit risk and the prices of commodities and equities.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

2.2 Derivatives held-for-trading

	Fair value of assets		Fair value of liabilities		Contract/notional amount[1]	
	2017 Rm	2016[2] Rm	2017 Rm	2016[2] Rm	2017 Rm	2016[2] Rm
Foreign exchange derivatives	**34 500**	32 148	**(26 552)**	(27 087)	**946 728**	1 775 591
Interest rate derivatives	**34 857**	25 560	**(40 908)**	(35 123)	**7 140 553**	6 818 656
Commodity derivatives	**280**	305	**(325)**	(270)	**10 587**	4 818
Credit derivatives	**667**	3 302	**(898)**	(3 942)	**67 997**	94 991
Equity derivatives	**4 242**	4 443	**(5 634)**	(2 789)	**1 020 974**	655 096
Total derivative assets/(liabilities)	**74 546**	65 758	**(74 317)**	(69 211)	**9 186 839**	9 349 152

1 The notional amount is the sum of the absolute value of all bought and sold contracts for both derivative assets and liabilities. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the group's participation in derivative contracts.
2 Refer to the accounting policy elections for details of the restatement to derivative assets and liabilities.

2. Derivative instruments continued

2.3 Derivatives held-for-hedging

The group enters into derivative transactions, which are designated and qualify as either fair value, cash flow, or net investment hedges for recognised financial assets or liabilities, highly probable forecast transactions and net investments in foreign operations. Derivatives designated as hedging instruments consist of the following:

	Fair value of assets		Fair value of liabilities		Notional amount[1]	
	2017 Rm	2016[2] Rm	**2017 Rm**	2016[2] Rm	**2017 Rm**	2016[2] Rm
Derivatives designated as fair value hedges	**767**	515	**(1 327)**	(1 233)	**13 472**	72 189
Interest rate swaps	**767**	515	**(1 327)**	(1 233)	**13 472**	72 189
Derivatives designated as cash flow hedges	**297**	31	**(1 252)**	(2 270)	**212 097**	378 647
Currency forwards and swaps	**279**	31	**(1 252)**	(2 270)	**210 377**	378 647
Equity forwards	**18**				**1 720**	
Derivatives designated as hedges of net investments in foreign operations				(53)		511
Forward exchange contracts				(53)		511
Total	**1 064**	546	**(2 579)**	(3 556)	**225 569**	451 347

1 The notional amount is the sum of the absolute value of all bought and sold contracts for both derivative assets and liabilities. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the group's participation in derivative contracts.
2 Refer to the accounting policy elections for details of the restatement to derivative assets and liabilities.

2.3.1 Derivatives designated in fair value relationships

Gains or losses arising from fair value hedges

The group's fair value hedges principally consist of currency swaps and interest rate swaps that are used to mitigate the risk of changes in market interest rates and currencies. The group also uses interest rate swaps for the portfolio hedge of interest rate risk.

	2017 Rm	2016 Rm
Gains/(losses)		
on hedging instruments	**243**	958
on the hedged items attributable to the hedged risk	**(181)**	(954)

2. Derivative instruments continued

2.3 Derivatives held-for-hedging continued

2.3.2 Derivatives designated in cash flow hedge relationships

The group uses currency forwards, swaps and options to mitigate against the risk of changes in future cash flows on its foreign-denominated exposures. Interest rate swaps are primarily used to hedge, by major currency, variable rate financial assets and liabilities with the objective to mitigate against changes in future interest cash flows resulting from the impact of changes in market interest rates and reinvestment or reborrowing of current balances.

The group uses currency forwards to mitigate against the changes in cash flows arising from changes in foreign currency rates on the forecasted placement of funds between group entities. The group applies hedge accounting where the forecasted intragroup placement of funds is both denominated in a currency other than the functional currency of the entity providing the funds and where the placement of funds will affect consolidated profit or loss in the future.

The forecasted timing of the release of net cash flows before tax from the cash flow hedging reserve into profit or loss at 31 December is as follows:

	Three months or less Rm	More than three months but less than one year Rm	More than one year but less than five years Rm	More than five years Rm
2017				
Net cash inflow/(outflow)	**4**	**(6)**	**(52)**	**(59)**
2016				
Net cash (outflow)/inflow	(16)	6	(15)	(252)

Reconciliation of movements in the cash flow hedging reserve

	2017 Rm	2016 Rm
Balance at the beginning of the year	**(230)**	(384)
Amounts recognised directly in OCI before tax	**235**	(1 743)
(Less)/add amounts released to profit or loss before tax	**(69)**	2 051
Total income	**(248)**	1 994
Other operating expenses	**179**	57
Less: deferred tax	**(9)**	(81)
Non-controlling interests	**(21)**	(73)
Balance at the end of the year	**(94)**	(230)

No gain or loss was recognised in profit or loss due to ineffectiveness arising from cash flow hedges in the current or prior year. There were no transactions for which cash flow hedge accounting had to be discontinued during 2017 or 2016 as a result of highly probable cash flows no longer being expected to occur.

2.3.3 Derivatives designated as hedges of net investments in foreign operations

The objective of the hedges of net investments in foreign operations is to limit the risk of a decline in the net asset value of the group's investments in foreign operations brought about by changes in exchange rates. To limit this risk, the group entered into forward exchange contracts, where considered appropriate, during 2016. No open hedges of this nature were present at 31 December 2017. No ineffectiveness was recognised in profit or loss for the current and prior year that arose from hedges of net investments in foreign operations.

2.4 Day one profit or loss – derivatives held-for-trading and held-for-hedging

The table below sets out the aggregate net day one profits to be recognised in profit or loss at the beginning and end of the year with a reconciliation of changes in the balance during the year:

	2017 Rm	2016 Rm
Unrecognised net profit at the beginning of the year	**161**	295
Additional net profit on new transactions	**544**	2
Recognised in trading revenue during the year	**(508)**	(16)
Exchange differences	**(37)**	(120)
Unrecognised net profit at the end of the year	**160**	161

3. Trading assets

3.1 Classification

	2017 Rm	2016 Rm
Collateral	**5 275**	5 881
Corporate bonds and floating rate notes	**15 347**	3 870
Government, municipality, utility bonds and treasury bills	**58 798**	37 811
Listed equities	**40 347**	26 670
Reverse repurchase and other collateralised agreements	**26 412**	46 629
Unlisted debt securities[1]	**12 334**	8 292
Other instruments	**2 381**	692
Total trading assets	**160 894**	129 845

[1] The note disclosure (including 2016) has been expanded for a better analysis of the balance.

3.2 Day one profit or loss – trading assets

The table below sets out the aggregate net day one profits to be recognised in profit or loss at the beginning and end of the year with a reconciliation of changes in the balance during the year:

	2017 Rm	2016 Rm
Unrecognised net profit at the beginning of the year	**588**	582
Additional net profit on new transactions	**162**	137
Recognised in trading revenue during the year	**(108)**	(131)
Unrecognised net profit at the end of the year	**642**	588

4. Pledged assets

	2017 Rm	2016 Rm
Financial assets that may be repledged or resold by counterparties in the absence of default		
Government, municipality and utility bonds	**13 548**	10 509
Corporate bonds	**358**	202
Listed equities	**6 879**	8 066
Total pledged assets	**20 785**	18 777

4.1 Total assets pledged

The total amount of financial assets that have been pledged as collateral for liabilities and contingent liabilities was R32 605 million (2016: R28 066 million).

The assets pledged by the group are strictly for the purpose of providing collateral to the counterparty. To the extent that the counterparty is permitted to sell or repledge the assets in the absence of default, they are classified in the statement of financial position as pledged assets.

These transactions are conducted under terms that are usual and customary to repurchase securities and lending activities.

4. Pledged assets continued

4.2 Collateral accepted as security for assets

As part of the reverse repurchase and securities borrowing agreements, the group has received securities which are not recorded on the statement of financial position that it is allowed to sell or repledge. The fair value of the financial assets accepted as collateral that the group is permitted to sell or repledge in the absence of default is R60 618 million (2016: R143 139 million).

The fair value of financial assets accepted as collateral and commodities received through commodity leases that have been sold, repledged or leased in terms of repurchase agreements or leasing transactions is R20 271 million (2016: R33 056 million).

These transactions are conducted under terms that are usual and customary to reverse repurchase and securities borrowing activities.

4.3 Assets transferred not derecognised

Securitisations

The group enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties or SEs. These transfers may give rise to full derecognition of the financial assets concerned.

Full derecognition occurs when the group transfers substantially all the risks and rewards of ownership and its contractual right to receive cash flows from the financial assets or retains the contractual rights to receive the cash flows of the financial assets but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets IFRS' derecognition requirements. The risks include interest rate, currency, prepayment and other price risks. However, where the group has retained substantially all of the credit risk associated with the transferred assets, it continues to recognise these assets.

AFS 178 For more detail on the derecognition requirements refer to accounting policy 3 on financial instruments included in annexure F.

The following table analyses the cumulative carrying amount of securitised financial assets that did not qualify for derecognition and the associated liabilities:

	Carrying amount of transferred assets[1] Rm	Carrying amount of associated liabilities[2] Rm	Fair value of transferred assets[1] Rm	Fair value of associated liabilities[2] Rm	Net fair value Rm
2017					
Mortgage loans	**47 740**	**247**	**47 848**	**246**	**47 602**
2016					
Mortgage loans	18 602	348	18 537	348	18 189

1 During 2017, the group invested in a vehicle that was specifically introduced to provide mortgage lending collateral against the Committed Liquidity Facility (CLF). To access the CLF, the SARB requires a portfolio of collateral, which is identified as a portfolio of mortgage loans. In order to support the loading of this collateral into the SARB collateral management system, the SARB requires that these assets are ring fenced in a separate legal entity, supported by a clearly defined note structure. At 31 December 2017, the mortgages within this vehicle was R30.0 billion.

2 The associated liabilities relating to the transferred assets only include external funding for the assets. The transferred assets are also funded by intercompany funding, which has been eliminated at a group level.

The interests and rights to the mortgage loans have been ceded as security for the associated liabilities, which have recourse only to the transferred assets.

The cash flows from the transferred assets are required to service the associated liabilities.

4. Pledged assets continued

4.3 Assets transferred not derecognised continued

Other assets transferred not derecognised

The majority of other financial assets that do not qualify for derecognition are debt securities held by counterparties as collateral under repurchase agreements, listed equities held as collateral under scrip lending transactions and financial assets leased out to third parties. Risks to which the group remains exposed include credit and interest rate risk.

The following table presents details of other financial assets which have been sold or otherwise transferred, but which have not been derecognised in their entirety, and their associated liabilities where applicable. This table does not disclose the total risk exposure in terms of these transactions, instead it provides disclosures as required by IFRS.

	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets[1] Rm	Fair value of associated liabilities[1] Rm	Net fair value[1] Rm
2017					
Bonds	**13 906**	**12 540**	**13 901**	**12 534**	**1 367**
Listed equities	**6 879**		**6 879**		**6 879**
Pledged assets	**20 785**	**12 540**	**20 780**	**12 534**	**8 246**
Financial investments[2]	**11 233**	**11 225**	**11 233**	**11 223**	**10**
Total	**32 018**	**23 765**	**32 013**	**23 757**	**8 256**
2016					
Bonds	10 711	4 802	10 714	4 862	5 852
Listed equities	8 066		8 066		8 066
Pledged assets	18 777	4 802	18 780	4 862	13 918
Financial investments[2]	8 868	8 860	8 868	8 858	10
Total	27 645	13 662	27 648	13 720	13 928

1 Where the counterparty has recourse to the transferred asset.
2 For these financial investments the counterparty is not permitted to sell or repledge the assets in the absence of default, hence they are not classified as pledged assets.

During the current year, there were no instances of financial assets that were sold or otherwise transferred, but which were partially derecognised. Further, there were no instances of financial assets transferred and derecognised for which the group had continuing involvement.

5. Financial investments

	2017 Rm	2016 Rm
Financial investments held in banking activities (note 5.1)	**180 104**	154 630
Financial investments held by investment management and life insurance activities (note 5.1)	**338 013**	316 149
Interest in associates and joint ventures held at fair value (annexure B)	**15 197**	12 995
Total financial investments	**533 314**	483 774

5.1 Comprising:

	Banking activities		Investment management and life insurance activities	
	2017 Rm	2016 Rm	**2017 Rm**	2016[1] Rm
Cash held with banks outside the group			**9 995**	10 512
Corporate bonds	**14 516**	6 398	**69 478**	59 295
Government, municipality, utility bonds and treasury bills[2]	**155 261**	139 345	**37 731**	36 971
Investment policies			**9 704**	8 072
Listed equities[2]	**468**	1 007	**122 077**	117 274
Mutual funds and unit-linked investments	**4 052**	2 851	**84 413**	78 635
Unlisted equities	**2 872**	2 984	**2 682**	2 970
Other instruments	**2 935**	2 045	**1 933**	2 420
Total	**180 104**	154 630	**338 013**	316 149

1 During 2017, the financial investments held by investment management and life insurance activities disclosure was aligned to the disclosure of financial investments held by banking activities and the amounts disclosed as at 31 December 2016 realigned accordingly. This did not affect the group's statement of financial position.

2 During 2016, the carrying amount of certain treasury bills amounting to R2 428 million was erroneously allocated to listed equities, consequently the amounts presented at 31 December 2016 have been reclassified from listed equities to government, municipality, utility bonds and treasury bills. The reclassification did not affect the group's statement of financial position.

6. Loans and advances

6.1 Loans and advances net of impairments

	2017 Rm	2016 Rm
Loans and advances to banks	**117 935**	143 788
Loans and advances to customers	**930 092**	921 617
Gross loans and advances to customers	**952 536**	943 410
Mortgage loans	**346 508**	336 451
Vehicle and asset finance (note 6.2)	**83 136**	82 855
Card debtors	**32 253**	31 229
Overdrafts and other demand loans	**77 175**	79 000
Other term loans	**333 133**	323 624
Loans granted under resale agreements	**6 153**	14 148
Commercial property finance	**74 178**	76 103
Credit impairments for loans and advances (note 6.3)	**(22 444)**	(21 793)
Specific credit impairments	**(15 270)**	(14 659)
Portfolio credit impairments	**(7 174)**	(7 134)
Net loans and advances	**1 048 027**	1 065 405

6.2 Vehicle and asset finance

The maturity analysis is based on the remaining periods to contractual maturity from year end.

	2017			2016		
	Gross advances Rm	**Unearned finance charges Rm**	**Net advances Rm**	Gross advances Rm	Unearned finance charges Rm	Net advances Rm
Receivable within one year	**30 033**	**(5 886)**	**24 147**	28 891	(5 853)	23 038
Receivable between one and five years	**69 186**	**(10 995)**	**58 191**	70 166	(10 731)	59 435
Receivable after five years	**843**	**(45)**	**798**	470	(88)	382
Total	**100 062**	**(16 926)**	**83 136**	99 527	(16 672)	82 855

Leases entered into are at market-related terms. Under the terms of the lease agreements, no contingent rentals are payable.

Moveable assets are leased or sold to customers under finance leases and instalment sale agreements for periods varying between 12 and 84 months. Depending on the terms of the agreement, the lessee may have the option to purchase the asset at the end of the lease term.

6. Loans and advances continued

6.3 Credit impairments for loans and advances

Total impairments

A summary of the allowance for impairment losses for loans and advances, by class:

	Mortgage loans Rm	Vehicle and asset finance Rm	Card debtors Rm	Personal unsecured lending Rm	Business lending and other Rm	Corporate lending Rm	Commercial property finance Rm	Total Rm
2017								
Specific impairments								
Balance at beginning of the year	3 640	1 410	1 598	3 593	1 528	2 727	163	14 659
Net impairments raised/(released)[1]	1 826	1 261	1 415	2 512	1 859	1 055	(31)	9 897
Impaired accounts written off	(1 159)	(1 146)	(1 383)	(2 533)	(1 328)	(221)	(24)	(7 794)
Discount element recognised in interest income	(317)	(120)	(26)	(274)	(71)	(97)	(5)	(910)
Exchange and other movements	(11)	(38)	(8)	(111)	(172)	(263)	21	(582)
Balance at end of the year	3 979	1 367	1 596	3 187	1 816	3 201	124	15 270
Portfolio impairments								
Balance at beginning of the year	1 137	801	651	1 317	1 432	1 699	97	7 134
Net impairments (released)/raised[1]	(55)	(141)	61	(70)	(89)	649		355
Exchange and other movements	(5)	(7)	(47)	(6)	(34)	(177)	(39)	(315)
Balance at end of the year	1 077	653	665	1 241	1 309	2 171	58	7 174
Total specific and portfolio impairments	5 056	2 020	2 261	4 428	3 125	5 372	182	22 444

Refer to page 46 for footnote.

6. Loans and advances continued

6.3 Credit impairments for loans and advances continued

Total impairments continued

A summary of the allowance for impairment losses for loans and advances, by class:

	Mortgage loans Rm	Vehicle and asset finance Rm	Card debtors Rm	Personal unsecured lending Rm	Business lending and other Rm	Corporate lending Rm	Commercial property finance Rm	Total Rm
2016								
Specific impairments								
Balance at beginning of the year	3 892	1 561	1 403	3 505	1 406	3 930	165	15 862
Net impairments raised[1]	2 052	1 205	1 527	2 660	1 041	817	11	9 313
Impaired accounts written off	(1 901)	(1 085)	(1 280)	(2 106)	(613)	(1 231)	(13)	(8 229)
Discount element recognised in interest income	(363)	(114)	(19)	(239)	(77)	(170)		(982)
Exchange and other movements	(40)	(157)	(33)	(227)	(229)	(619)		(1 305)
Balance at end of the year	3 640	1 410	1 598	3 593	1 528	2 727	163	14 659
Portfolio impairments								
Balance at beginning of the year	1 094	802	654	1 365	1 451	1 327	97	6 790
Net impairments raised[1]	54	23	56	152	55	811		1 151
Exchange and other movements	(11)	(24)	(59)	(200)	(74)	(439)		(807)
Balance at end of the year	1 137	801	651	1 317	1 432	1 699	97	7 134
Total specific and portfolio impairments	4 777	2 211	2 249	4 910	2 960	4 426	260	21 793

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years, as well as credit recovery on off-balance sheet exposure, equals income statement impairment charges (note 36).

7. Policyholders' contracts

	2017		2016	
	Policyholders' assets Rm	**Policyholders' liabilities Rm**	Policyholders' assets Rm	Policyholders' liabilities Rm
Policyholders' liabilities under insurance contracts	**7 484**	**(222 399)**	7 314	(215 617)
Insurance contracts (note 7.1)	**7 484**	**(210 554)**	7 314	(204 155)
Investment contracts with DPF[1] (note 7.1)		**(11 845)**		(11 462)
Policyholders' liabilities under investment contracts (note 7.2)		**(100 519)**		(91 613)
Total policyholders' assets/(liabilities)	**7 484**	**(322 918)**	7 314	(307 230)

[1] Discretionary participation features.

7. Policyholders' contracts continued

7.1 Policyholders' and reinsurance assets and liabilities

	2017			
	Insurance contracts			
	Policyholders' assets Rm	Policyholders' liabilities Rm	Reinsurance assets and liabilities[1] Rm	Investment contracts with DPF[2] Rm
Balance at the beginning of the year	7 314	(204 155)	797	(11 462)
Reinsurance assets			1 352	
Reinsurance liabilities			(555)	
Inflows	(7 838)	(48 899)	1 417	(3 066)
Insurance premiums	(7 838)	(28 152)	1 412	(2 145)
Investment returns		(20 726)	5	(921)
Fee revenue		(21)		
Outflows	7 403	41 899	(1 558)	2 551
Claims and policyholders' benefits	3 903	31 501	(1 571)	2 300
Acquisition costs associated with insurance contracts	1 441	2 315	4	83
General marketing and administration expenses	1 734	4 368	(38)	174
Profit share allocations	24	903		
Finance costs	347	924		
Taxation	(46)	1 888	47	(6)
Net income from insurance operations	605	464	167	(6)
Changes in estimates	(245)	(21)	(90)	
Planned margins and other variances	1 172	1 534	293	(7)
New business	(78)	(425)	24	
Shareholder taxation on transfer of net income	(244)	(624)	(60)	1
Exchange differences		137	(5)	138
Balance at the end of the year	7 484	(210 554)	818	(11 845)
Reinsurance assets			1 481	
Reinsurance liabilities			(663)	
Liquidity profile				
Current	2 506	(24 607)	169	(493)
Non-current	4 978	(185 947)	649	(11 352)
Balance at the end of the year	7 484	(210 554)	818	(11 845)

Refer to footnotes on page 48.

7. Policyholders' contracts continued

7.1 Policyholders' and reinsurance assets and liabilities continued

	2016			
	Insurance contracts			
	Policyholders' assets Rm	Policyholders' liabilities Rm	Reinsurance assets and liabilities[1] Rm	Investment contracts with DPF[2] Rm
Balance at the beginning of the year	7 579	(205 485)	700	(11 250)
Reinsurance assets			1 317	
Reinsurance liabilities			(617)	
Inflows	(7 320)	(42 698)	1 353	(2 398)
Insurance premiums	(7 319)	(29 868)	1 353	(2 048)
Investment returns	(1)	(12 808)		(350)
Fee revenue		(22)		
Outflows	6 401	43 065	(1 275)	1 936
Claims and policyholders' benefits	3 445	33 306	(1 204)	1 673
Acquisition costs associated with insurance contracts	1 399	2 174	(24)	91
General marketing and administration expenses	1 515	4 215	(35)	156
Profit share allocations	30	953		
Finance costs	244	1 151		
Taxation	(232)	1 266	(12)	16
Net income from insurance operations	654	798	25	58
Changes in estimates	(61)	(634)	6	
Planned margins and other variances	991	2 536	(11)	81
New business	(22)	(426)	35	
Shareholder taxation on transfer of net income	(254)	(678)	(5)	(23)
Exchange differences		165	(6)	192
Balance at the end of the year	7 314	(204 155)	797	(11 462)
Reinsurance assets			1 352	
Reinsurance liabilities			(555)	
Liquidity profile				
Current	2 486	(22 687)	150	(369)
Non-current	4 828	(181 468)	647	(11 093)
Balance at the end of the year	7 314	(204 155)	797	(11 462)

1 Reinsurance assets are included in note 8 and reinsurance liabilities are included in note 19.

2 The group cannot reliably measure the fair value of the investment contracts with DPF. The DPF is a contractual right that gives investors in these contracts the right to receive supplementary discretionary returns through participation in the surplus arising from the assets held in the investment DPF fund. These supplementary returns are subject to the discretion of the group.

7. Policyholders' contracts continued

7.2 Policyholders' liabilities under investment contracts

	2017 Rm	2016 Rm
Balance at the beginning of the year	**(91 613)**	(88 459)
Fund inflows from investment contracts (excluding switches)	**(17 417)**	(17 157)
Net fair value adjustment	**(9 116)**	(3 891)
Fund outflows from investment contracts (excluding switches)	**16 373**	16 700
Service fee income	**1 254**	1 194
Balance at the end of the year	**(100 519)**	(91 613)
Liquidity profile		
Current	**(6 797)**	(4 715)
Non-current	**(93 722)**	(86 898)
Balance at the end of the year	**(100 519)**	(91 613)
Net income from investment contracts[1]	**(63)**	(54)
Service fee income	**(1 254)**	(1 194)
Expenses	**1 191**	1 140
Property expenses applied to investment returns	**(322)**	(385)
Shareholder taxation on transfer of net income	**24**	20
Acquisition costs	**483**	496
General marketing and administration expenses	**988**	992
Finance costs	**18**	17

1 Prior to deferred acquisition costs (DAC) and deferred revenue liability (DRL) adjustments.

8. Other assets

	2017 Rm	2016 Rm
Accounts receivable	**877**	599
Deferred acquisition costs	**737**	713
Insurance prepayments[1]	**2 407**	2405
Investment debtors	**1 070**	422
Items in the course of collection	**1 520**	985
Operating leases – accrued income (note 10)	**1 030**	1 187
Prepayments	**2 797**	2 848
Properties in possession	**142**	172
Property debtors[1]	**1 110**	799
Property developments	**48**	102
Reinsurance assets[2]	**1 774**	1 674
Retirement funds (note 45)	**1 072**	1 498
Trading settlement assets	**5 255**	4 690
Other debtors	**3 157**	3 453
Total other assets	**22 996**	21 547

1 During 2017, property debtors relating to L2D were reclassified to the property debtors line and removed from Insurance debtors, the balances disclosed for 31 December 2016 of R222 million have been reclassified accordingly. This had no effect on the group's statement of financial position.
2 Reinsurance assets include short-term reinsurance assets of R293 million (2016: R322 million).

9. Interest in associates and joint ventures

	2017 Rm	2016 Rm
Equity accounted associates and joint ventures		
Carrying value at the beginning of the year	**8 196**	9 703
Share of profits	**1 102**	187
Impairments of associates and joint ventures		(10)
Acquisitions	**21**	2
Disposal of associate – carrying value		
Gain on disposal of associate		19
Disposal of associate – fair value		(19)
Share of other comprehensive income movements	**445**	(1 360)
FCTR	**360**	(1 264)
Other	**85**	(96)
Distribution of profit	**(99)**	(326)
Carrying value at the end of the year	**9 665**	8 196
Comprising:		
Cost of investments	**8 070**	8 049
Share of reserves	**2 378**	930
Cumulative impairment	**(783)**	(783)

There are no significant restrictions on the ability of associates and joint ventures to transfer funds to the group in the form of cash dividends or in the repayment of loans or advances.

AFS 122 Refer to annexure B for further information.

10. Investment property

	2017 Rm	2016 Rm
Fair value at the beginning of the year	**31 155**	30 508
Revaluations net of lease straight-lining	**523**	328
Additions – capitalised subsequent expenditure and acquisitions	**666**	822
Disposals	**(13)**	(469)
Transfers to owner-occupied properties	**(91)**	(6)
Exchange movements	**(14)**	(28)
Fair value at the end of the year	**32 226**	31 155
Investment property and related operating lease balances comprise the following:		
Investment properties at fair value	**32 226**	31 155
Operating leases – accrued income (note 8)	**1 030**	1 187
Total investment property	**33 256**	32 342
Amount recognised in profit and loss		
Rental income earned excluding straight-lining of operating leases	**2 829**	2 603
Direct operating expenses	**896**	945

Most of the investment property comprises shopping malls located in South Africa.

The South African located investment properties were independently valued as at 31 December 2017 by registered professional valuers with the South African Council for the Property Valuers Profession, as well as members of the Institute of Valuers of South Africa. The method of valuation is consistent with that described in the key management assumptions section. The Kenyan and Nigerian located properties were independently valued as at 31 December 2017 by various registered professional valuers in each territory.

AFS 32 Refer to the key management assumptions for details regarding the valuation of investment property.

11. Property and equipment

	Property		Equipment				
	Freehold Rm	Leasehold Rm	Computer equipment Rm	Furniture and fittings Rm	Office equipment Rm	Motor vehicles Rm	Total Rm
Net book value 1 January 2016	6 872	2 045	4 060	3 619	785	289	17 670
Movements	(297)	(619)	(304)	(263)	(101)	(45)	(1629)
Additions	484	366	1 736	706	212	116	3 620
Disposals	(144)	(39)	(122)	(125)	(32)	(31)	(493)
Depreciation	(166)	(454)	(1526)	(620)	(175)	(92)	(3 033)
Exchange movements	(477)	(492)	(392)	(224)	(106)	(38)	(1 729)
Transfer from investment property[1]	6						6
Net book value 31 December 2016	**6 575**	**1 426**	**3 756**	**3 356**	**684**	**244**	**16 041**
Cost	**7 503**	**3 613**	**10 526**	**6 826**	**1 508**	**592**	**30 568**
Accumulated depreciation and impairment	**(928)**	**(2 187)**	**(6 770)**	**(3 470)**	**(824)**	**(348)**	**(14 527)**
Movements	**381**	**(194)**	**140**	**(83)**	**(109)**	**3**	**138**
Additions	**568**	**352**	**1 686**	**633**	**111**	**132**	**3 482**
Disposals		**(78)**	**(54)**	**(35)**	**(23)**	**(32)**	**(222)**
Depreciation	**(152)**	**(375)**	**(1 384)**	**(617)**	**(161)**	**(80)**	**(2 769)**
Exchange movements	**(126)**	**(93)**	**(108)**	**(64)**	**(36)**	**(17)**	**(444)**
Transfer from investment property[1]	**91**						**91**
Net book value 31 December 2017	**6 956**	**1 232**	**3 896**	**3 273**	**575**	**247**	**16 179**
Cost	**8 096**	**3 600**	**10 919**	**7 013**	**1 431**	**568**	**31 627**
Accumulated depreciation and impairment	**(1 140)**	**(2 368)**	**(7 023)**	**(3 740)**	**(856)**	**(321)**	**(15 448)**

[1] Refer to note 10.

Property and equipment includes work in progress of R465 million (2016: R345 million) for which depreciation has not yet commenced.

There is no significant property or equipment for which title is restricted or which is pledged as security for liabilities.

11.1 Valuation

The fair value of completed freehold property, based on valuations undertaken for the period 2016 to 2017 was estimated at R10 931 million (2016: R9 682 million). Registers of freehold property are available for inspection by members, or their authorised agents, at the registered office of the company and its subsidiaries. Valuations were generally in terms of the investment method whereby net income is capitalised having regard to tenancy, location and the physical nature of the property.

12. Goodwill and other intangible assets

	Goodwill Rm	Computer software Rm	Present value of in-force life insurance Rm	Other intangible assets Rm	Total Rm
Net book value 1 January 2016	4 201	19 675	66	89	24 031
Cost	6 778	27 463	1 704	901	36 846
Accumulated amortisation and impairment	(2 577)	(7 788)	(1 638)	(812)	(12 815)
Movements:	(1 862)	1 554	(23)	(25)	(356)
Additions	63	3 874		40	3 977
Disposals		(60)			(60)
Amortisation		(2 026)	(21)	(25)	(2 072)
Exchange movements	(1 443)	420	(2)	(40)	(1 065)
Impairments	(482)	(654)			(1 136)
Net book value 1 January 2017	**2 339**	**21 229**	**43**	**64**	**23 675**
Cost	**4 814**	**30 650**	**1 461**	**632**	**37 557**
Accumulated amortisation and impairment	**(2 475)**	**(9 421)**	**(1 418)**	**(568)**	**(13 882)**
Movements:	**(340)**	**15**	**(12)**	**(9)**	**(346)**
Additions		**2 955**			**2 955**
Amortisation		**(2 143)**	**(10)**	**(9)**	**(2 162)**
Exchange movements	**(340)**	**(350)**	**(2)**		**(692)**
Impairments		**(447)**			**(447)**
Net book value 31 December 2017	**1 999**	**21 244**	**31**	**55**	**23 329**
Cost	**3 819**	**33 303**	**1 453**	**877**	**39 452**
Accumulated amortisation and impairment	**(1 820)**	**(12 059)**	**(1 422)**	**(822)**	**(16 123)**

During 2017, R251 million (2016: R284 million) of interest was capitalised to computer software.

Intangible assets include work in progress of R4 735 million (2016: R3 619 million) for which amortisation has not yet commenced.

12.1 Goodwill

	2017			2016		
	Gross goodwill Rm	**Accu-mulated impairment Rm**	**Net goodwill Rm**	Gross goodwill Rm	Accu-mulated impairment Rm	Net goodwill Rm
Stanbic IBTC Holdings PLC	**1 821**	**(961)**	**860**	2 314	(1 221)	1 093
Stanbic Holdings Plc	**880**		**880**	989		989
Other	**1 118**	**(859)**	**259**	1 511	(1 254)	257
Total goodwill	**3 819**	**(1 820)**	**1 999**	4 814	(2 475)	2 339

12. Goodwill and other intangible assets continued

12.1 Goodwill continued

Stanbic IBTC Holdings PLC

Based on the impairment test performed, no impairment (2016: R482 million) was recognised in the CIB CGU which was based on a recoverable amount of R860 million (2016: R1 093 million).

Stanbic Holdings Plc

Based on the impairment test performed, no impairment was identified in either 2017 or 2016.

Goodwill relating to other entities

The remaining aggregated carrying amount of the goodwill of R259 million (2016: R257 million) has been allocated to CGUs that are not considered to be individually significant. Based on the impairment testing performed, no impairment (2016: Rnil) was recognised.

13. Deferred taxation

13.1 Deferred tax analysis

	2017 Rm	2016 Rm
Accrued interest receivable	**36**	20
Assessed losses	**(78)**	(68)
Assets on lease	**180**	189
Capital gains tax	**1 134**	319
Credit impairment charges	**(1 623)**	(1 483)
Deferred acquisition costs	**205**	196
Deferred revenue liability	**(80)**	(72)
Property and equipment	**2 746**	1 930
Derivatives and financial instruments	**278**	130
Fair value adjustments on financial instruments	**(45)**	(206)
Intangible asset – present value of acquired in-force (PVIF)	**10**	36
Policyholder change in valuation basis	**2 533**	2 418
Post-employment benefits	**68**	149
Share-based payments	**(1 311)**	(708)
Special transfer to life fund	**(982)**	(668)
Provisions and other items	**(1 061)**	(1 375)
Deferred tax closing balance	**2 010**	807
Deferred tax liabilities	**3 507**	2 795
Deferred tax assets	**(1 497)**	(1 988)

The group has estimated tax losses of R265 million (2016: R316 million) which are available for set-off against future taxable income. These tax losses have arisen from the group entities incurring tax losses. This asset is anticipated to be recovered as financial projections indicate these entities are likely to produce sufficient taxable income in the near future. These deferred tax asset balances were offset against deferred tax liabilities, refer to annexure F.

13. Deferred taxation continued

13.2 Deferred tax reconciliation

	2017 Rm	2016 Rm
Deferred tax at the beginning of the year	807	3 213
Total temporary differences for the year	1 203	(2 406)
Deferred tax adjustment due to change in tax rate		22
Originating/(reversing) temporary differences for the year:	1 203	(2 428)
Accrued interest receivable	16	(3)
Assessed losses	(10)	331
Assets on lease	(9)	(41)
Capital gains tax	815	(1 548)
Credit impairment charges	(140)	(20)
Deferred acquisition costs	9	14
Deferred revenue liability	(8)	(6)
Property and equipment	816	117
Derivatives and financial instruments	148	(798)
Fair value adjustments on financial instruments	161	(117)
Intangible asset – PVIF	(26)	(4)
Policyholder change in valuation basis	115	33
Post-employment benefits	(81)	91
Share-based payments	(603)	(418)
Special transfer to life fund	(314)	(384)
Provisions and other items	314	325
Deferred tax at the end of the year	2 010	807
Temporary differences for the year comprise:		
Recognised in OCI	(238)	939
Fair value adjustments on financial instruments	(206)	893
Fair value adjustments on owner-occupied properties	14	
Defined benefit fund remeasurements	(46)	46
Recognised in equity-deferred tax on share-based payments	(276)	(207)
Recognised in the income statement	1 453	(3 869)
Exchange differences	264	731
Recognised in OCI	158	(767)
Recognised in the income statement	106	1 498
Total temporary differences	1 203	(2 406)

14. Share capital

14.1 Authorised

	2017 Rm	2016 Rm
2 billion (2016: 2 billion) ordinary shares[1]	**200**	200
8 million (2016: 8 million) first preference shares[2]	**8**	8
1 billion (2016: 1 billion) second preference shares[3]	**10**	10
Total shares	**218**	218

1 Ordinary shares comprise shares of 10 cents each traded on the JSE under the symbol SBK.
2 First preference shares comprise 6.5% first cumulative preference shares of R1 each traded on the JSE under the symbol SBKP.
3 Second preference shares comprise non-redeemable, non-cumulative, non-participating preference shares of 1 cent each traded on the JSE under the symbol SBPP. The non-redeemable, non-cumulative, non-participating preference shares are entitled to an annual dividend, if declared, payable in two semi-annual instalments of not less than 77% of the prime interest rate multiplied by the subscription price of R100 per share.

14.2 Issued

	2017 Rm	2016 Rm
Ordinary shares	**18 063**	17 960
Ordinary share capital	**162**	162
Ordinary share premium	**17 901**	17 798
Other equity instruments	**9 047**	5 503
First preference share capital	**8**	8
Second preference share capital	**1**	1
Second preference share premium	**5 494**	5 494
AT1 capital (note 14.8)	**3 544**	
Total issued shares	**27 110**	23 463

Holders of ordinary share capital hold one vote per ordinary share at the group's annual general meeting (AGM), while first preference shareholders and second preference shareholders are not entitled to voting rights, unless:

- the fixed preference dividend payable is in arrears for more than six months, or
- a resolution to be tabled at the shareholders' meeting varies or cancels any of the special rights attached to that preference share or for the reduction of its capital.

In the event that a resolution is tabled at the AGM to authorise, if circumstances are correct, the repurchase of second preference shares, the shareholders will be permitted to vote on the resolution at the AGM. In terms of paragraph 8.3.9 of the memorandum of incorporation, at this meeting the preference shareholders will be entitled to the portion of the total votes which the aggregate amount of the nominal value of the shares held, bears to the aggregate amount of the nominal value of all the shares held.

AT1 capital holders have no voting rights.

14. Share capital continued

14.2 Issued continued

	Number of ordinary shares
Reconciliation of shares issued	
Shares in issue at 1 January 2016	1 618 252 182
Shares issued during 2016 in terms of the group's equity compensation plans	2 646 456
Share buy-back	(2 477 472)
Shares in issue at 31 December 2016	**1 618 421 166**
Net shares held in terms of the group's Tutuwa initiative	**5 750 291**
Shares held by entities within the group	**16 086 916**
Shares held by other shareholders	**1 596 583 959**
Shares issued during 2016 in terms of the group's equity compensation plans	**2 877 827**
Share buy-back	**(2 030 824)**
Shares in issue at 31 December 2017	**1 619 268 169**
Net shares held in terms of the group's Tutuwa initiative	**5 750 291**
Shares held by entities within the group	**16 213 766**
Shares held by other shareholders	**1 597 304 112**

All issued shares are fully paid up. There has been no movement in the first and second preference shares during the year. The number of shares in issue for first and second preference shares are 8 000 000 and 52 982 248 respectively.

14.3 Unissued shares

	2017 Number of shares	2016 Number of shares
Ordinary unissued shares	**254 871 439**	252 840 615
Ordinary shares reserved to meet the requirements of EGS and GSIS[1]	**125 860 392**	128 738 219
Ordinary shares reserved in terms of the rules of EGS and GSIS as approved by members' resolution dated 27 May 2010	**155 825 715**	155 825 715
Less: issued to date of the above resolution for the EGS and GSIS schemes	**(29 965 323)**	(27 087 496)
Unissued ordinary shares	**380 731 831**	381 578 834
Unissued second preference shares	**947 017 752**	947 017 752

[1] During the year, 2 877 827 (2016:2 646 456) ordinary shares were issued in terms of the group's equity compensation plans, notably the EGS and GSIS. Surplus capital was used to purchase 2 030 824 (2016: 2 477 472) ordinary shares to counteract the dilutive impact of the share issues under the equity compensation plans. Effective from 2017, the group no longer issues EGS and GSIS awards. The last awards in GSIS were issued in 2011 and for the EGS, the last award was made in 2016. Awards are now provided in terms of the group's other share schemes, notably the DBS and the SARP, both of which are settled by the group to employees with shares that the group purchases from external market participants, and the CSDBS, which is settled in cash (refer to annexure D: group share incentive schemes for further information). At the end of the year, the group would need to issue 6 159 744 (2016: 5 306 247) SBG ordinary shares to settle the outstanding GSIS options and EGS rights that were awarded to participants in previous years. The shares issued to date for the EGS and GSIS together with the expected number of shares to settle the outstanding options and rights as a percentage of the total number of shares in issue is 2.2% (2016: 2.0%).

14. Share capital continued

14.4 Interest of directors in the capital of the company

	Direct beneficial[1]		Indirect beneficial[1]	
	2017 Number of shares	2016 Number of shares	**2017 Number of shares**	2016 Number of shares
Ordinary shares	**748 299**	739 201	**663 575**	769 699
A Daehnke	**61 309**	30 652	**6 024**	68 148
RMW Dunne		6 000		14 000
GJ Fraser Moleketi	**1 890**	1 890	**1 675**	1 675
TS Gcabashe[2]			**70 000**	100 000
BJ Kruger	**312 040**	275 000		
JH Maree	**97 847**	92 152		
KD Moroka[2]	**515**	515	**66 636**	66 636
ANA Peterside CON			**100 000**	100 000
SP Ridley[3]		88 536		
MJD Ruck	**50 000**	100 000		
BS Tshabalala[4]			**426**	426
SK Tshabalala	**172 248**	92 006	**418 814**	418 814
EM Woods[5]	**52 450**	52 450		
Second preference shares	**37 122**	53 790	**3 034**	3 034
BJ Kruger	**26 791**	26 791		
JH Maree[6]	**10 331**	10 331	**3 034**	3 034
SP Ridley[3]		16 668		

	2017 Number of shares	2016 Number of shares
Shares as at 31 December		
Share incentives[7]	**2 285 817**	2 938 071

1 As per JSE Listings Requirements.
2 Includes an allocation of 125 000 shares in terms of the Tutuwa Management Trust.
3 Retired as director on 30 April 2016, 2016 balances reflected are as at this date.
4 Resigned as director on 10 November 2017, 2017 balances reflected are as at this date.
5 Retired as director on 26 May 2017, 2017 balances reflected are as at this date.
6 The second preference shares held directly and indirectly by JH Maree were erroneously omitted from the above disclosure in 2016 and have now been included in both 2017 and its comparative.
7 Refer to annexure D for further details regarding directors' share incentive scheme rights.

There have been no changes to directors' interests in the group's share capital between 1 January 2018 and 7 March 2018.

14.5 General authority of directors to issue shares[1]

	2017 Number of shares	2016 Number of shares
Ordinary shares	**40 481 704**	40 456 305
Second preference shares	**947 017 752**	947 017 752

1 The general authority expires at the annual general meeting on 24 May 2018.

14. Share capital continued

14.6 Treasury shares

	2017 Number of shares	2016 Number of shares
Purchased during the year[1]	**52 972 818**	71 571 219
Total treasury shares held at end of year[2]	**16 213 766**	16 086 916
Ordinary shares delisted and reinstated to authorised[3]	**2 030 824**	2 477 472

1 Total number of ordinary shares purchased during the year by the group's banking activities to facilitate client trading activities and by the group's insurance activities for the benefit of policyholders, as well as share buy-backs to mitigate the dilutive impact as a result of the group's share incentive schemes.
2 Total number of ordinary shares held at the end of the period by the group's banking and insurance activities in terms of the transactions mentioned above.
3 Total number of ordinary shares purchased to mitigate the dilutive impact as a result of the group's share incentive schemes and reinstated to authorised share capital.

14.7 Shareholder analysis

	2017		2016	
	Number of shares	% holding	Number of shares	% holding
Spread of ordinary shareholders (million)	**1 619.3**	**100.0**	1 618.4	100.0
Public[1]	**1 074.6**	**66.4**	1 074.5	66.4
Non-public[1]	**544.7**	**33.6**	543.9	33.6
Directors and prescribed officers of Standard Bank Group, and its subsidiaries[2]	**1.1**		0.8	
ICBC	**325.0**	**20.1**	325.0	20.1
Government Employees Pension Fund (Investment managed by PIC)	**199.6**	**12.3**	191.0	11.8
Standard Bank Group retirement funds	**1.8**	**0.1**	2.8	0.2
Tutuwa participants[3]	**17.2**	**1.1**	24.2	1.5
Associates of directors	**0.01**		0.1	
Spread of first preference shareholders	**8 000 000**	**100**	8 000 000	100.0
Public[1]	**8 000 000**	**100**	8 000 000	100.0
Spread of second preference shareholders	**52 982 248**	**100.0**	52 982 248	100
Public[1]	**52 936 998**	**99.9**	52 936 998	99.9
Non-public[1]	**45 250**	**0.1**	45 250	0.1
Directors and prescribed officers of Standard Bank Group, and its subsidiaries[2]	**45 250**	**0.1**	45 250	0.1

1 As per the JSE Listings Requirements.
2 Excludes indirect holdings of strategic partners, which are included in Tutuwa participants.
3 Includes Tutuwa Strategic Holdings 1 and 2, Tutuwa Staff Holdings 1, 2 and 3, Tutuwa Community and General Staff Share Trust.

14. Share capital continued

14.8 AT1 capital

Bond	Date issued	First callable date	2017 Notional value Rm	2017 Carrying value Rm
SBT101	30 March 2017	31 March 2022	**1 744**	**1 744**
SBT102	21 September 2017	30 September 2022	**1 800**	**1 800**
Total AT1 capital			**3 544**	**3 544**

The group issued its debut Basel III compliant AT1 capital bonds during the year amounting to R3.5 billion. The capital notes are perpetual, non-cumulative with an issuer call option after a minimum period of five years and one day and on every coupon payment date thereafter. During 2017, coupons to the value of R229 million were paid to AT1 capital bond holders. Current tax of R64 million relating to the AT1 capital bonds was recognised directly in equity resulting in an aggregate net equity impact of R165 million.

The terms of the Basel III compliant AT1 capital bonds include a regulatory requirement which provides for the write-off, in whole or in part, on the earlier of a decision by the SARB that a write-off without which the issuer would have become non-viable is necessary, or a decision to make a public sector injection of capital or equivalent support, without which the issuer would have become non-viable.

The AT1 capital bonds do not have a contractual obligation to pay cash, hence they have been recognised within equity attributable to other equity instrument holders on the statement of financial position.

Holders of AT1 capital do not have voting rights at the group's annual general meeting.

15. Empowerment reserve

SBG and Liberty entered into a series of transactions in 2004 whereby investments were made in cumulative redeemable preference shares issued by Black Economic Empowerment (BEE) entities which are SEs. The initial investments made by SBG and Liberty totalled R4 017 million and R1 251 million respectively. The proceeds received were used by the BEE entities to purchase 99 190 197 ordinary shares of SBG. All participants were subject to a ten-year lock-in period which expired on 31 December 2014.

The preference shares owned by the group do not meet the definition of a financial asset in terms of IFRS and are therefore, treated as a negative empowerment reserve within the statement of changes in equity. The empowerment reserve represents SBG and Liberty shares held by the SEs that are deemed to be treasury shares in terms of IFRS.

AFS 197 Refer to accounting policy 10 in annexure F for further details relating to the accounting policies applied.

The investment in the cumulative redeemable preference shares of the BEE entities, accounted for by the group as a negative empowerment reserve, is set out below:

	2017 Rm	2016 Rm
Standard Bank Group[1]	274	274
Liberty (after non-controlling interest)	65	79
Balance at the end of the year	**339**	353
Number of SBG shares outstanding through our Tutuwa initiative	5 750 291	5 750 291

[1] Comprises the Black Managers' Trust – Tutuwa Staff Holdings 1-3 Proprietary Limited and the Community Trust – Tutuwa Community Holdings Proprietary Limited.

For the purposes of the earnings per share calculation, the weighted average number of the company's shares in issue is reduced by the number of shares held by the BEE entities bought with the proceeds received from the preference shares (note 40).

16. Trading liabilities

	2017 Rm	2016 Rm
Collateral	822	437
Credit-linked notes	6 573	5 778
Government, municipality and utility bonds	14 561	9 216
Listed equities[1]	21 577	19 118
Repurchase and other collateralised agreements[1]	13 495	6 983
Other instruments	5 827	6 335
Total trading liabilities	**62 855**	47 867

[1] During 2016, intercompany listed equities of R242 million were erroneously eliminated against repurchase and other collateralised agreements instead of listed equities. The prior year amounts have been updated accordingly.

17. Deposits and debt funding

	2017 Rm	2016 Rm
Deposits and debt funding from banks	**91 794**	119 246
Deposits and debt funding from customers	**1 152 117**	1 094 375
Current accounts	**220 933**	200 032
Cash management deposits	**166 824**	172 194
Call deposits	**315 807**	301 120
Savings accounts	**23 264**	23 570
Term deposits	**243 724**	229 272
Negotiable certificates of deposit	**137 410**	124 536
Foreign currency funding	**36 482**	36 358
Other funding	**7 673**	7 293
Total deposits and debt funding	**1 243 911**	1 213 621

18. Subordinated debt

	Redeemable/ repayable date	First callable date	Notional value[1] Million	Carrying value[1] 2017 Rm	Carrying value 2016 Rm
Banking activities					
The Standard Bank of South Africa				**17 287**	20 340
SBK15	23 January 2022	23 January 2017	**ZAR1 220**		1 242
SBK14	1 December 2022	1 December 2017	**ZAR1 780**		1 795
SBK16	15 March 2023	15 March 2018	**ZAR2 000**	**2 008**	2 008
SBK9	10 April 2023	10 April 2018	**ZAR1 500**	**1 529**	1 529
SBK17	30 July 2024	30 July 2019	**ZAR2 000**	**2 032**	2 031
SBK19	24 October 2024	24 October 2019	**ZAR500**	**509**	508
SBK20[2]	2 December 2024	2 December 2019	**ZAR2 250**	**2 268**	2 269
SBK21[2]	28 January 2025	28 January 2020	**ZAR750**	**763**	763
SBK22[2]	28 May 2025	28 May 2020	**ZAR1 000**	**1 010**	1 009
SBK24[2]	19 October 2025	19 October 2020	**ZAR880**	**899**	897
SBK18	24 October 2025	26 October 2020	**ZAR3 500**	**3 563**	3 565
SBK26[2]	25 April 2026	25 April 2021	**ZAR500**	**506**	511
SBK25[2]	25 April 2026	25 April 2021	**ZAR1 200**	**1 225**	1 225
SBK23[2]	28 May 2027	28 May 2022	**ZAR1 000**	**975**	988
Africa Regions tier II bonds	July 2016 – May 2022	July 2016 – May 2017	**Various**		180
Subordinated debt issued to group companies				**(253)**	(737)
Total bonds qualifying as SARB regulatory banking capital				**17 034**	19 783
Africa Regions' bonds not qualifying as SARB regulatory banking capital				**1 679**	1 618
Stanbic Bank Kenya	8 December 2021	1 June 2020	**KES4 000**	**476**	532
Stanbic IBTC Bank (Nigeria)	30 September 2024	1 October 2019	**NGN15 440**	**540**	686
Standard Bank Mozambique	September 2025 – October 2025	August 2025 – October 2025	**MZN1 001**	**227**	196
Other Africa Regions' bonds	October 2024 – October 2025	October 2019 – December 2019	**Various**	**436**	204
Total subordinated debt – banking activities				**18 713**	21 401
Investment management and life insurance activities					
Qualifying as regulatory insurance capital				**5 576**	4 596
LGL 02	13 August 2017		**ZAR1 000**		1 029
LGL 03	3 April 2018		**ZAR1 000**	**1 019**	1 018
LGL 04	14 August 2020		**ZAR1 000**	**1 033**	1 032
LGL 05	12 December 2021		**ZAR500**	**501**	500
LGL 06	4 October 2022		**ZAR400**	**408**	407
LGL 07	4 October 2022		**ZAR600**	**610**	610
LGL 08	28 February 2023		**ZAR900**	**902**	
LGL 09	28 February 2024		**ZAR1 100**	**1 103**	
Total subordinated debt				**24 289**	25 997

1 The difference between the carrying and notional value represents foreign exchange movements, transaction costs included in the initial carrying amounts, accrued interest and the unamortised fair value adjustments relating to bonds, where applicable, hedged for interest rate risk.
2 The terms of the issued bonds include a regulatory requirement which provides for the write-off in whole or in part on the earlier of a decision by the relevant regulator (SARB) that a write-off, or a public sector injection of capital or equivalent support is necessary, without which the issuer would have become non-viable.

19. Provisions and other liabilities

19.1 Summary

	2017 Rm	2016 Rm
Cash-settled share-based payment liability (annexure D)	**571**	516
Collateral and other insurance risk management liabilities	**9 097**	11 748
Deemed disposal taxation liability	**436**	873
Deferred revenue liability	**291**	268
Insurance payables	**9 328**	7 941
Items in the course of transmission	**2 326**	2 434
Post-employment benefits (note 45)	**1 253**	1 343
Reinsurance liabilities	**663**	555
Short-term insurance liability	**780**	925
Staff-related accruals	**9 745**	7 075
Third-party liabilities arising on consolidation of mutual funds (note 19.2)	**49 713**	44 046
Trading settlement liabilities	**7 112**	9 459
Other liabilities	**7 113**	9 633
Total provisions and other liabilities	**98 428**	96 816

19.2 Third-party liabilities arising on consolidation of mutual funds

	2017 Rm	2016 Rm
Balance at the beginning of the year	**44 046**	46 329
Additional mutual funds classified as subsidiaries	**1 946**	223
Distributions	**(1 340)**	(1 226)
Fair value adjustments	**4 619**	(619)
Mutual funds no longer classified as subsidiaries	**(4 006)**	(639)
Net capital contribution/(repayment) and change in effective ownership	**4 448**	(22)
Balance at the end of the year	**49 713**	44 046

The group has classified certain mutual funds as investments in subsidiaries. Consequently, fund interest not held by the group is classified by the group as third-party liabilities as they represent demand deposit liabilities measured at fair value.

20. Classification of assets and liabilities

Accounting classifications and fair values of assets and liabilities

	Held-for-trading Rm	Designated at fair value Rm	Held-to-maturity Rm	Loans and receivables[1] Rm	Available-for-sale Rm	Other amortised cost[1] Rm	Other assets/ liabilities Rm	Total carrying amount Rm	Fair value[2] Rm
2017									
Assets									
Cash and balances with central banks				75 310				75 310	75 310
Derivative assets	75 610							75 610	75 610
Trading assets	160 894							160 894	160 894
Pledged assets	4 978	13 751	181	358	1 517			20 785	20 780
Financial investments		395 595	81 426	12 661	43 632			533 314	533 235
Loans and advances to banks				117 935				117 935	117 867
Loans and advances to customers		110		929 982				930 092	928 673
Policyholders' assets							7 484	7 484	
Interest in associates and joint ventures							9 665	9 665	
Investment property							32 226	32 226	32 226
Other financial assets[3]				6 185				6 185	
Other non-financial assets							58 428	58 428	
Total assets	241 482	409 456	81 607	1 142 431	45 149		107 803	2 027 928	
Liabilities									
Derivative liabilities	76 896							76 896	76 896
Trading liabilities	62 855							62 855	62 855
Deposits and debt funding from banks						91 794		91 794	91 619
Deposits and debt funding from customers		13 847				1 138 270		1 152 117	1 168 549
Policyholders' liabilities[4]		100 519					222 399	322 918	100 519
Subordinated debt						24 289		24 289	24 863
Other financial liabilities[3]		58 810				30 484		89 294	
Other non-financial liabilities							17 748	17 748	
Total liabilities	139 751	173 176				1 284 837	240 147	1 837 911	

Refer to page 66 for footnotes.

20. Classification of assets and liabilities continued

Accounting classifications and fair values of assets and liabilities continued

	Held-for-trading Rm	Designated at fair value Rm	Held-to-maturity Rm	Loans and receivables[1] Rm	Available-for-sale Rm	Other amortised cost[1] Rm	Other assets/ liabilities Rm	Total carrying amount Rm	Fair value[2] Rm
2016									
Assets									
Cash and balances with central banks				77 474				77 474	77 474
Derivative assets[6]	66 304							66 304	66 304
Trading assets	129 845							129 845	129 845
Pledged assets	1 178	16 169		198	1 232			18 777	18 779
Financial investments		352 445	75 201	17 252	38 876			483 774	484 163
Loans and advances to banks				143 788				143 788	143 674
Loans and advances to customers		96		921 521				921 617	913 949
Policyholders' assets[5]							7 314	7 314	
Interest in associates and joint ventures							8 196	8 196	
Investment property							31 155	31 155	31 155
Other financial assets[3]				11 843				11 843	
Other non-financial assets							51 887	51 887	
Total assets	197 327	368 710	75 201	1 172 076	40 108		98 552	1 951 974	
Liabilities									
Derivative liabilities[6]	72 767							72 767	72 767
Trading liabilities	47 867							47 867	47 867
Deposits and debt funding from banks						119 246		119 246	118 909
Deposits and debt funding from customers		13 627				1 080 748		1 094 375	1 111 276
Policyholders' liabilities[4]		91 613					215 617	307 230	91 613
Subordinated debt						25 997		25 997	26 384
Other financial liabilities[3]		55 794				22 333		78 127	
Other non-financial liabilities							27 006	27 006	
Total liabilities	120 634	161 034				1 248 324	242 623	1 772 615	

1 Includes financial assets and financial liabilities for which the carrying value has been adjusted for changes in fair value due to designated hedged risks.
2 Carrying value has been used where it closely approximates fair values, excluding non-financial assets and liabilities.
3 The fair value of the other financial assets and liabilities approximates the carrying value due to their short-term nature. In 2016 other, financial liabilities were erroneously classified as other liabilities, rather than as designated at fair value, the prior year disclosure has been updated. This has no impact on the group's statement of financial position.
4 The fair value has been provided for financial liabilities under investment contracts which have been designated at fair value. The remaining liabilities for which fair value disclosure has not been provided relate to insurance contracts and investment contracts with discretionary participation features that are not financial instruments as defined.
5 Policyholders' assets, which are insurance contracts, were erroneously classified as designated at fair value in 2016. This balance has been reclassified to other assets. This did not change the group's statement of financial position.
6 Refer to the accounting policy elections and restatement section for details on the restatement of derivative assets and derivative liabilities.

21. Fair value disclosures

21.1 Assets and liabilities measured at fair value

	2017				2016[1]			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Assets								
Measured on a recurring basis[2]								
Derivative assets	120	71 140	4 350	75 610	183	64 006	2 115	66 304
Trading assets	95 654	60 156	5 084	160 894	54 635	70 459	4 751	129 845
Pledged assets	18 516	1 730		20 246	16 829	1 750		18 579
Financial investments	243 968	184 673	10 586	439 227	214 451	168 915	7 955	391 321
Loans and advances to customers		110		110		96		96
Investment property			32 226	32 226			31 155	31 155
Total	358 258	317 809	52 246	728 313	286 098	305 226	45 976	637 300
Liabilities								
Measured on a recurring basis[2]								
Derivative liabilities	93	71 397	5 406	76 896	145	64 068	8 554	72 767
Trading liabilities	33 433	26 383	3 039	62 855	26 995	16 691	4 181	47 867
Deposits and debt funding from customers	146	13 701		13 847		13 627		13 627
Policyholders' liabilities		100 519		100 519		91 613		91 613
Other financial liabilities[3]		57 581	1 229	58 810		54 523	1 271	55 794
Total	33 672	269 581	9 674	312 927	27 140	240 522	14 006	281 668

1 Refer to the accounting policy elections and restatement section for details of the restatement to derivative assets and derivative liabilities. The restatement impacted the level 2 hierarchy above.

2 Recurring fair value measurements of assets or liabilities are those assets and liabilities that IFRS require or permit to be carried at fair value in the statement of financial position at the end of each reporting period.

3 During 2016, other financial liabilities of R1 271 million were erroneously classified as level 2. The above disclosure for 2016 has been updated to include these liabilities in level 3. This has no impact on the group's statement of financial position. Other financial liabilities of R11 748 million were erroneously classified as other liabilities, rather than as designated at fair value. The prior year disclosure has been updated. This has no impact on the group's statement of financial position.

Assets and liabilities transferred between level 1 and level 2

During the year, no significant assets or liabilities were transferred between level 1 and level 2 (2016: Rnil).

21. Fair value disclosures continued

21.1 Assets and liabilities measured at fair value continued

Level 3 financial assets and financial liabilities

Reconciliation of level 3 assets

The following table provides a reconciliation of the opening to closing balance for all assets that are measured at fair value and incorporate inputs that are not based on observable market data (level 3).

	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Investment property Rm	Total Rm
Balance at 1 January 2016	2 457	8 942	10 013	30 508	51 920
Total gains/(losses) included in profit or loss	960	(469)	(1 055)	328	(236)
Interest income			30		30
Trading revenue	960	(469)	(47)		444
Other revenue			12		12
Investment (losses)/gains			(1 050)	328	(722)
Total gains included in OCI			117		117
Issuances and purchases	23	393	2 417	822	3 655
Sales and settlements	(1 575)	(3 846)	(3 000)	(475)	(8 896)
Transfers into level 3[1]	249	359	13		621
Transfers out of level 3[2]		(516)	(502)		(1 018)
Reclassifications[3]		(112)			(112)
Exchange movement gains/(losses)	1		(48)	(28)	(75)
Balance at 31 December 2016	2 115	4 751	7 955	31 155	45 976
Balance at 1 January 2017	**2 115**	**4 751**	**7 955**	**31 155**	**45 976**
Total gains/(losses) included in profit or loss	**2 464**	**1 000**	**(203)**	**523**	**3 784**
Interest income			**171**		**171**
Trading revenue	**2 464**	**1 000**			**3 464**
Other revenue			**85**		**85**
Investment (losses)/gains			**(459)**	**523**	**64**
Total gains included in OCI			**213**		**213**
Issuances and purchases	**241**	**36**	**4 272**	**666**	**5 215**
Sales and settlements	**(185)**	**(74)**	**(1 436)**	**(104)**	**(1 799)**
Transfers into level 3[1]	**36**		**34**		**70**
Transfers out of level 3[2]	**(291)**	**(629)**			**(920)**
Exchange movement losses	**(30)**		**(249)**	**(14)**	**(293)**
Balance at 31 December 2017	**4 350**	**5 084**	**10 586**	**32 226**	**52 246**

1 Transfers of financial assets between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. During the year, the valuation inputs of certain financial assets became unobservable. The fair value of these assets was transferred into level 3.
2 During the year, the valuation inputs of certain level 3 financial assets became observable. The fair value of these financial assets was transferred into level 2.
3 Level 3 financial assets were reclassified from held-for-trading to loans and receivables at amortised cost in terms of IFRS during 2016. Refer to note 22, reclassification of financial assets.

21. Fair value disclosures continued

21.1 Assets and liabilities measured at fair value continued

Unrealised gains/(losses) for the period included in profit or loss for level 3 assets held at the end of the reporting period

	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Investment property Rm	Total Rm
2017					
Trading revenue	**2 387**	**988**			**3 375**
Other revenue			**66**		**66**
Investment management and service fee income and gains				**1 656**	**1 656**
Total	**2 387**	**988**	**66**	**1 656**	**5 097**
2016					
Interest income			47		47
Trading revenue	1 043	(469)	(48)		526
Other revenue			(540)		(540)
Investment management and service fee income and gains				(4 297)	(4 297)
Total	1 043	(469)	(541)	(4 297)	(4 264)

Reconciliation of level 3 liabilities

The following table provides a reconciliation of the opening to closing balance for all liabilities that are measured at fair value based on the inputs that are not based on observable market data (level 3).

	Derivative liabilities Rm	Trading liabilities Rm	Other financial liabilities[1] Rm	Total Rm
Balance at 1 January 2016	14 641	2 484	1 002	18 127
Total (gains)/losses included in profit or loss – trading revenue[2]	(4 896)	310		(4 586)
Issuances and purchases		1 804	269	2 073
Sales and settlements	(1 193)	(416)		(1 609)
Transfers into level 3[3]	1			1
Exchange movement losses/(gains)	1	(1)		
Balance at 31 December 2016	8 554	4 181	1 271	14 006
Balance at 1 January 2017	**8 554**	**4 181**	**1 271**	**14 006**
Total losses/(gains) included in profit or loss – trading revenue[2]	**220**	**(568)**		**(348)**
Issuances and purchases		**1 110**		**1 110**
Sales and settlements	**(3 211)**	**(1 684)**	**(42)**	**(4 937)**
Transfers out of level 3[3]	**(157)**			**(157)**
Balance at 31 December 2017	**5 406**	**3 039**	**1 229**	**9 674**

1 These other financial liabilities were erroneously classified as level 2 and thus omitted from this reconciliation. The above disclosure has been updated (including 2016) to include these liabilities. This has no impact on the group's statement of financial position.
2 The change in fair value has been materially offset by changes in the fair value of financial assets and liabilities classified as level 2 in the fair value hierarchy which hedge this position.
3 Transfers of financial liabilities between the levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. During 2017, the valuation inputs of certain financial liabilities became observable, the fair value of these liabilities was transferred out of level 3. During 2016, the valuation inputs of certain financial liabilities became unobservable, the fair value of these liabilities was transferred into level 3.

21. Fair value disclosures continued

21.1 Assets and liabilities measured at fair value continued

Unrealised (gains)/losses for the period included in profit or loss for level 3 liabilities held at the end of the reporting period

	Derivative liabilities Rm	Trading liabilities Rm	Total Rm
2017			
Trading revenue	**63**	**(502)**	**(439)**
2016			
Trading revenue	(6 309)	26	(6 283)

Sensitivity and interrelationships of inputs

The behaviour of the unobservable parameters used to fair value level 3 assets and liabilities is not necessarily independent, and may often hold a relationship with other observable and unobservable market parameters. Where material and possible, such relationships are captured in the valuation by way of correlation factors, though these factors are, themselves, frequently unobservable. In such instances, the range of possible and reasonable fair value estimates is taken into account when determining appropriate model adjustments.

The table that follows indicates the sensitivity of valuation techniques and main assumptions used in the determination of the fair value of the level 3 assets and liabilities measured and disclosed at fair value. The table further indicates the effect that a significant change in one or more of the inputs to a reasonably possible alternative assumption would have on profit or loss at the reporting date (where the change in the unobservable input would change the fair value of the asset or liability significantly). The changes in the inputs that have been used in the analysis have been determined taking into account several considerations such as the nature of the asset or liability and the market within which the asset or liability is transacted. Stress tests have been conducted by only flexing/stressing a major significant unobservable input of risk factor (i.e. assumes that all risks are mutually exclusive).

Sensitivity and interrelationships of inputs

		Effect on profit or loss	
	Change in significant unobservable input	Favourable Rm	(Unfavourable) Rm
2017			
Derivative instruments	**From (1%) to 1%**	**444**	**(440)**
Trading assets	**From (1%) to 1%**	**216**	**(216)**
Financial investments	**From (1%) to 1%**	**41**	**(37)**
Trading liabilities	**From (1%) to 1%**	**290**	**(290)**
Investment property	**From (1%) to 1%**	**7 562**	**(3 575)**
Total		**8 553**	**(4 558)**
2016			
Derivative instruments	From (1%) to 1%	606	(605)
Trading assets	From (1%) to 1%	578	(578)
Financial investments	From (1%) to 1%	79	(77)
Trading liabilities	From (1%) to 1%	260	(260)
Investment property[1]	From (0.5%) to 0.5%	4 094	(977)
Total		5 617	(2 497)

[1] The sensitivity analysis of unobservable inputs has been expanded to include investment property. The 2016 amounts have also been included for comparative purposes. This did not have an impact on the group's statement of financial position.

In 2017, a 1% change of the significant unobservable inputs relating to the measurement of an equity investment classified as available-for-sale resulted in a R113 million favourable and unfavourable effect recognised in OCI (2016: R120 million).

The other financial liabilities categorised as level 3 relate to third party financial liabilities arising on the consolidation of mutual funds. A sensitivity analysis is therefore not provided since a similar sensitivity would arise on the assets that relate to these liabilities.

AFS 31 185 Refer to key management assumptions and accounting policy 4 in annexure F for more information about valuation techniques used.

21. Fair value disclosures continued

21.2 Assets and liabilities not measured at fair value for which fair value is disclosed

	2017				2016			
	Level 1 Rm	**Level 2 Rm**	**Level 3 Rm**	**Total Rm**	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Assets								
Cash and balances with central banks	**75 310**			**75 310**	77 474			77 474
Pledged assets		**190**	**344**	**534**			200	200
Financial investments	**25 649**	**61 367**	**6 992**	**94 008**	32 707	56 458	3 677	92 842
Loans and advances to banks	**12 427**	**104 074**	**1 366**	**117 867**	15 936	123 835	3 903	143 674
Loans and advances to customers	**196**	**58 349**	**870 018**	**928 563**		104 588	809 265	913 853
Total	**113 582**	**223 980**	**878 720**	**1 216 282**	126 117	284 881	817 045	1 228 043
Liabilities								
Deposits and debt funding from banks	**13 469**	**75 377**	**2 773**	**91 619**	43 455	71 718	3 736	118 909
Deposits and debt funding from customers	**773 516**	**364 819**	**16 367**	**1 154 702**	723 886	364 133	9 630	1 097 649
Subordinated debt		**24 863**		**24 863**	102	26 282		26 384
Total	**786 985**	**465 059**	**19 140**	**1 271 184**	767 443	462 133	13 366	1 242 942

21.3 Third-party credit enhancements

There were no significant liabilities measured at fair value that existed during the year which had been issued with inseparable third-party credit enhancements.

21.4 Deposits from customers designated at fair value through profit or loss

	2017 Rm	2016 Rm
Deposits from customers		
Current year loss on changes in fair value attributable to changes in credit risk	**(16)**	(23)
Cumulative gain on changes in fair value attributable to changes in credit risk	**21**	37
Contractual payment required at maturity	**15 778**	14 467
Carrying amount of deposits from customers	**13 874**	13 627
Difference between carrying amount and contractual payment	**1 904**	840

The changes in fair value of the designated financial liabilities attributable to changes in credit risk are calculated by reference to the change in the credit risk implicit in the market value of the group's senior notes.

22. Reclassification of financial assets

The group reclassified no assets (2016: R112 million) from held-for-trading to loans and receivables for which there was a clear change in intent to hold the assets for the foreseeable future rather than to exit or trade in the short term. This represents the estimated amounts of future cash flows expected to be recovered at the date of reclassification. During 2017 and 2016, no financial assets matured in the company.

	2017 Rm	2016 Rm
Carrying value of reclassified financial assets at the end of the year	**1 315**	1 233
Fair value of reclassified financial assets at the end of the year	**1 204**	1 140
A fair value gain after tax of R37 million (2016: R88 million gain after tax) would have been recognised in 2017 had all reclassifications not been effected.		
The table below sets out the amounts actually recognised in profit or loss:		
Period before reclassification		
Trading income		10
Period after reclassification		
Net interest income[1]	**111**	163

[1] Included are items subject to fair value hedge accounting for interest rate risk only. The total fair value adjustment recognised in net interest income in respect of the hedged items amounted to a gain of R23 million (2016: R82 million gain).

23. Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements

IFRS requires a financial asset and a financial liability to be offset and the net amount presented in the statement of financial position when, and only when, the group has a current legally enforceable right to set off recognised amounts, as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously. There are no instances where the group has a current legally enforceable right to offset without the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The following table sets out the impact of offset, as well as the required disclosures of financial assets and financial liabilities that are subject to enforceable master netting arrangements, or similar agreements, irrespective of whether they have been offset in accordance with IFRS.

It should be noted that the information below is not intended to represent the group's actual credit exposure nor will it agree to that presented in the statement of financial position.

	Gross amount of recognised financial assets[1] Rm	**Financial liabilities set off in the statement of financial position[2] Rm**	**Net amount of financial assets subject to netting agreements[3] Rm**	**Collateral received[4] Rm**	**Net amount Rm**
Assets					
2017					
Derivative assets	**46 323**	**(5)**	**46 318**	**(35 281)**	**11 037**
Trading assets	**21 219**		**21 219**	**(19 344)**	**1 875**
Loans and advances[5]	**50 545**	**(32 864)**	**17 681**	**(15 345)**	**2 336**
Total	**118 087**	**(32 869)**	**85 218**	**(69 970)**	**15 248**
2016					
Derivative assets	45 972	(38)	45 934	(41 316)	4 618
Trading assets	48 153		48 153	(45 370)	2 783
Loans and advances[5]	111 072	(33 190)	77 882	(76 589)	1 293
Total	205 197	(33 228)	171 969	(163 275)	8 694

Refer to footnotes on page 74.

23. Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements continued

	Gross amount of recognised financial liabilities[1] Rm	Financial assets set off in the statement of financial position[2] Rm	Net amount of financial liabilities subject to netting agreements[3] Rm	Collateral pledged[6] Rm	Net amount Rm
Liabilities					
2017					
Derivative liabilities	**52 418**	**(5)**	**52 413**	**(34 628)**	**17 785**
Trading liabilities	**32 425**		**32 425**	**(32 425)**	
Deposits and debt funding[5]	**40 420**	**(32 864)**	**7 556**		**7 556**
Total	**125 263**	**(32 869)**	**92 394**	**(67 053)**	**25 341**
2016					
Derivative liabilities	53 915	(38)	53 877	(46 424)	7 453
Trading liabilities	31 147		31 147	(31 147)	
Deposits and debt funding[5]	39 374	(33 190)	6 184		6 184
Total	124 436	(33 228)	91 208	(77 571)	13 637

1 Gross amounts are disclosed for recognised financial assets and financial liabilities that are either offset in the statement of financial position or are subject to a master netting arrangement or a similar agreement, irrespective of whether the offsetting criteria is met.
2 Gross amounts of recognised financial assets or financial liabilities that qualify for offset in accordance with the criteria per IFRS.
3 Related amounts not offset in the statement of financial position that are subject to a master netting arrangement or similar agreement. This could include financial collateral (whether recognised or unrecognised) and cash collateral.
4 In most cases, the group is allowed to sell or repledge collateral received.
5 The most material amounts offset in the statement of financial position pertain to cash management accounts. The cash management accounts allow holding companies (or central treasury functions) to manage the cash flows of a group by linking the current accounts of multiple legal entities within a group. It allows for cash balances of the different legal entities to be offset against each other to arrive at a net balance for the whole group. In addition, all repurchase agreements (for financial liabilities) and reverse repurchase agreements (for financial assets), subject to master netting arrangement (or similar agreement), have been included.
6 In most instances, the counterparty may not sell or repledge collateral pledged by the group.

The table below sets out the nature of agreements and the types of rights relating to items which do not qualify for offset but that are subject to a master netting arrangement or similar agreement.

	NATURE OF AGREEMENT	RELATED RIGHTS
Derivative assets and liabilities	International swaps and derivatives association agreements	The agreement allows for offset in the event of default
Trading assets and liabilities	Global master repurchase agreements	The agreement allows for offset in the event of default
Loans and advances	Customer agreement and Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banks Act requirements
Deposits and debt funding	Customer agreement and Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banks Act requirements

24. Contingent liabilities and commitments

24.1 Contingent liabilities

	2017 Rm	2016 Rm
Letters of credit and bankers' acceptances	**13 413**	12 607
Guarantees	**63 761**	64 076
Total contingent liabilities	**77 174**	76 683

Loan commitments of R62 347 million (2016: R54 617 million) that are irrevocable over the life of the facility or revocable only in response to material adverse changes are included in annexure C. In 2016, this amount was disclosed as R97 573 million for the group, which erroneously included revocable facilities of R42 956 million, which do not qualify as loan commitments.

24.2 Commitments

	2017 Rm	2016 Rm
Investment property	**385**	633
Property and equipment	**94**	315
Other intangible assets	**299**	399
Total commitments	**778**	1 347

The expenditure will be funded from the group's internal resources.

24.3 Operating lease commitments

The future minimum payments under non-cancellable operating leases are as follows:

	2017 Rm	2016 Rm
Within one year	**1 445**	1 089
After one year but within five years	**2 826**	1 859
After five years	**77**	376
Total operating lease commitments	**4 348**	3 324

The operating lease commitments comprise a number of separate operating leases in relation to properties and equipment, none of which are individually significant to the group.

24.4 Legal proceedings defended

In the ordinary course of business, the group is involved as a defendant in litigation, lawsuits and other proceedings. Management recognises the inherent difficulty of predicting the outcome of defended legal proceedings. Nevertheless, based on management's knowledge from investigation, analysis and after consulting with legal counsel, management believes that there are no individual legal proceedings that are currently assessed as being 'likely to succeed and material' or 'unlikely to succeed but material should they succeed'. The group is also the defendant in some legal cases for which the group is fully indemnified by external third parties, none of which are individually material. Management is accordingly satisfied that the legal proceedings currently pending against the group should not have a material adverse effect on the group's consolidated financial position and the directors are satisfied that the group has adequate insurance programmes and, where required in terms of IFRS for claims that are probable, provisions in place to meet claims that may succeed.

Competition Commission – trading of foreign currency

In April 2015, the South African Competition Commission announced that it had initiated a complaint against Standard New York Securities Inc. (SNYS) and 21 other institutions concerning possible contravention of the Competition Act in relation to USD/ZAR trading between 2007 and 2013. No mention was made of SBSA. On 15 February 2017 the Competition Commission lodged five complaints with the Competition Tribunal against 18 institutions, including one against SBSA and two against SNYS, in which it alleges unlawful collusion between those institutions in the trading of USD/ZAR. The group only learned of the complaints at this time. The group has conducted its own internal investigations and found no evidence that supports the complaint. Both SBSA and SNYS have, together with 12 of the other respondents, applied for dismissal of the complaint referral on various legal grounds. A date for the hearing of those applications has yet to be set. The group considers these allegations in an extremely serious light and remains committed to maintaining the highest levels of control and compliance with all relevant regulations. The allegations against SBSA are confined to USD/ZAR trading activities within SBSA and do not relate to the conduct of the group more broadly.

24. Contingent liabilities and commitments continued

24.4 Legal proceedings defended continued

Indemnities granted following disposal of Standard Bank Plc

Under the terms of the disposal of Standard Bank Plc on 1 February 2015, the group provided ICBC with certain indemnities to be paid in cash to ICBC or, at ICBC's direction, to any Standard Bank Plc (now ICBCS) group company, a sum equal to the amount of losses suffered or incurred by ICBC arising from certain circumstances. Where an indemnity payment is required to be made by the group to the ICBCS group, such payment would be grossed up from ICBC's shareholding at the time in ICBCS to 100%. These payments may, *inter alia*, arise as a result of an enforcement action, the cause of which occurred prior to the date of disposal. Enforcement actions include actions taken by regulatory or governmental authorities to enforce the relevant laws in any jurisdiction. While there have been no material claims relating to these indemnification provisions during 2017, the indemnities provided are uncapped and of unlimited duration as they reflect that the pre-completion regulatory risks attaching to the disposed-of business remain with the group post completion. The indemnification provisions covered the Deferred Prosecution Agreement (DPA) that ICBCS entered into with the United Kingdom Serious Fraud Office (SFO) (as more fully set out in the announcement made to shareholders via the JSE's Stock Exchange News Service (SENS) on 30 November 2015). In terms of the DPA, prosecution has been suspended and will be withdrawn after three years provided that ICBCS has complied with its obligations under the DPA. Any claims that may arise for SNYS with respect to the Competition Commission matter are also likely to fall within the scope of this indemnity as the alleged conduct, which is the subject of the referral, is alleged to have taken place prior to the disposal of Standard Bank Plc.

25. Maturity analysis

The group assesses the maturity of its assets and liabilities at 31 December each year. This gives an indication of the remaining life of these assets at that point in time. The following table illustrates the maturities based on a contractual discounted basis. For the maturity analysis of financial liabilities on a contractual undiscounted basis, refer to the funding and liquidity risk section within annexure C.

25.1 Financial assets and liabilities

	Note	Redeem-able on demand Rm	Within one year Rm	Within one to five years Rm	After five years Rm	Undated Rm	Total Rm
2017							
Cash and balances with central banks[1]	1	**26 407**				**48 903**	**75 310**
Trading assets	3	**3 959**	**39 323**	**26 780**	**49 520**	**41 312**	**160 894**
Pledged assets	4		**12 578**	**2 618**	**5 319**	**270**	**20 785**
Financial investments[2]	5	**12 628**	**152 496**	**62 228**	**56 742**	**250 105**	**534 199**
Gross loans and advances	6	**128 535**	**245 276**	**378 518**	**318 142**		**1 070 471**
Net derivative liability	2		**4 239**	**(5 454)**	**(71)**		**(1 286)**
Trading liabilities	16	**(835)**	**(10 191)**	**(12 218)**	**(18 034)**	**(21 577)**	**(62 855)**
Deposits and debt funding	17	**(783 534)**	**(291 910)**	**(127 103)**	**(42 249)**		**(1 244 796)**
Subordinated debt[3]	18		**(4 446)**	**(16 159)**	**(3 684)**		**(24 289)**
2016							
Cash and balances with central banks[1]	1	35 719				41 755	77 474
Trading assets	3	2 821	45 239	17 704	33 870	30 211	129 845
Pledged assets	4		15 438	2 054	1 061	224	18 777
Financial investments[2]	5	10 504	164 263	36 466	63 331	209 210	483 774
Gross loans and advances	6	117 502	296 263	358 824	314 609		1 087 198
Net derivative liability	2		357	(5 883)	(937)		(6 463)
Trading liabilities	16	(410)	(15 110)	(8 033)	(5 196)	(19 118)	(47 867)
Deposits and debt funding	17	(767 341)	(317 269)	(96 391)	(32 620)		(1 213 621)
Subordinated debt[3]	18		(4 058)	(16 601)	(5 338)		(25 997)

1 On demand cash and balances with central banks include notes and coins.

2 During 2017, the maturity of financial investments held by investment management and life insurance activities was reassessed, the amounts presented at 31 December 2016 have been reclassified accordingly to provide a more meaningful comparative with the current year. The reclassification did not affect the group's statement of financial position.

3 The maturity analysis for subordinated debt has been determined as the earlier of the contractual repayment date or the option by the issuer to redeem the debt.

26. Interest income

	2017 Rm	2016 Rm
Interest on loans and advances	**107 210**	97 893
Interest on financial investments	**13 405**	6 881
Unwinding of discount element of credit impairments for loans and advances (note 6.3)	**910**	982
Fair value adjustments on debt financial instruments	**(50)**	22
Dividends on dated securities	**2 672**	2 282
Total interest income	**124 147**	108 060
Comprising:		
Interest income on items measured at fair value through profit and loss	**1 612**	2 219
Interest income on items measured at amortised cost	**122 535**	105 841

27. Interest expense

	2017 Rm	2016 Rm
Interest on deposits and debt funding	**60 990**	47 804
Interest on subordinated debt	**3 032**	3 364
Total interest expense	**64 022**	51 168
Comprising:		
Interest expense on items measured at fair value through profit and loss	**739**	354
Interest expense on items measured at amortised cost	**63 283**	50 814

28. Fee and commission revenue

	2017 Rm	2016 Rm
Account transaction fees	**11 488**	11 389
Card-based commission	**6 535**	6 319
Documentation and administration fees	**2 197**	1 969
Electronic banking fees	**3 446**	3 219
Foreign currency service fees	**1 879**	1 870
Insurance – fees and commission	**1 945**	1 897
Knowledge-based fees and commission	**2 278**	2 235
Other	**4 522**	5 025
Total fee and commission revenue	**34 290**	33 923

All fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss.

29. Fee and commission expense

	2017 Rm	2016 Rm
Account transaction fees	**1 255**	1 092
Card-based commission	**2 163**	1 973
Documentation and administration fees	**218**	212
Electronic banking fees	**635**	669
Insurance fees and commission	**511**	536
Other	**375**	429
Total fee and commission expense	**5 157**	4 911

All fee and commission expense reported above relates to financial assets or liabilities not carried at fair value through profit and loss.

30. Trading revenue

	2017 Rm	2016 Rm
Commodities	**62**	64
Equities	**1 626**	1 993
Fixed income and currencies	**9 043**	8 931
Total trading revenue	**10 731**	10 988

31. Other revenue

	2017 Rm	2016 Rm
Banking and other revenue	**1 001**	834
Insurance – bancassurance profit	**1 805**	1 797
Property-related revenue	**367**	334
Total other revenue	**3 173**	2 965

32. Insurance premiums received

	2017 Rm	2016 Rm
Insurance premiums	**39 970**	41 288
Reinsurance premiums	**(1 950)**	(1 922)
Total insurance premiums received	**38 020**	39 366

33. Insurance benefits and claims paid

	2017 Rm	2016 Rm
Claims and policyholders' benefits under insurance contracts	**38 819**	39 664
Insurance claims recovered from reinsurers	**(1 800)**	(1 450)
Net insurance claims and policyholders' benefits	**37 019**	38 214
Change in policyholder liabilities under insurance contracts	**6 829**	(598)
Insurance contracts	**6 504**	(1 164)
Policyholder assets related to insurance contracts	**(170)**	265
Investment contracts with DPF	**521**	404
Reinsurance assets	**(26)**	(103)
Total insurance benefits and claims paid	**43 848**	37 616

34. Investment management and service fee income and gains

	2017 Rm	2016 Rm
Investment income	**22 054**	21 405
Interest income[1]	**13 408**	13 321
Dividends received	**5 303**	4 819
Listed shares	**3 406**	3 126
Unlisted instruments	**1 831**	1 584
Manufactured dividends on scrip lending	**66**	109
Rental income from investment property	**2 671**	2 518
Hotel operations' sales	**532**	585
Other	**140**	162
Investment gains/(losses)	**18 220**	(2 249)
Financial instruments held at fair value through profit or loss	**15 589**	(1 974)
Financial instruments held for trading through profit or loss	**(427)**	2 238
Investment property	**523**	327
Mutual funds	**2 563**	(2 794)
Other	**(28)**	(46)
Management and service fee income	**3 683**	3 731
Total investment management and service fee income and gains	**43 957**	22 887

1 Interest of R13 362 million (2016: R13 192 million) relates to financial assets held at fair value through profit or loss.

35. Fair value adjustments to investment management liabilities and third-party fund interests

	2017 Rm	2016 Rm
Fair value adjustments to long-term policyholder liabilities under investment contracts	**9 116**	3 891
Fair value adjustments to third-party mutual fund interests	**4 619**	(619)
Total fair value adjustments	**13 735**	3 272

36. Credit impairment charges

	2017 Rm	2016 Rm
Net credit impairments raised and released for loans and advances (note 6.3)	**10 252**	10 464
Recoveries on loans and advances previously written off	**(842)**	(931)
Total credit impairment charges	**9 410**	9 533

37. Operating expenses

	2017 Rm	2016 Rm
Banking activities	**57 512**	56 235
Communication costs	**1 105**	1 176
Information technology costs	**6 073**	5 880
Japan fraud		300
Marketing and advertising costs	**1 967**	1 653
Premises costs	**3 994**	3 870
Staff costs	**31 672**	30 976
Other	**12 701**	12 380
Investment management and life insurance activities	**17 800**	17 374
Acquisition costs	**4 935**	4 723
Office costs	**3 968**	3 335
Staff costs	**4 120**	4 030
Other	**4 777**	5 286
Total operating expenses	**75 312**	73 609
The following disclosable items are included in other operating expenses for the group:		
Auditors' remuneration	**313**	273
Audit fees	**265**	216
Current year	**234**	215
Other financial years[1]	**31**	1
Fees for other services[2]	**48**	57
Amortisation – intangible assets (note 12)	**2 162**	2 072
Depreciation (note 11)	**2 769**	3 033
Operating lease charges	**2 207**	2 258
Premises – other expenses	**1 794**	1 615
Professional fees	**1 364**	1 463

1 The amount for 2017 relates to IFRS 9 services rendered for the 2018 adoption of IFRS 9 in the financial year.
2 All fees for services paid to the group's auditors were considered and approved by the group's audit committee in terms of its non-audit services policy.

AFS 5 Refer to the report of the group audit committee for further information.

38. Non-trading and capital related items

	2017 Rm	2016 Rm
Disposal of business – associate		19
Loss on disposal of business	**(18)**	(8)
Impairment of associates and joint ventures		(10)
Impairment of goodwill		(482)
Impairment of intangible assets	**(447)**	(654)
Loss on sale of property and equipment	**(10)**	(50)
Realised foreign currency profit on disposal of foreign operations	**214**	62
Total non-trading and capital related items	**(261)**	(1 123)

39. Direct and indirect taxation

39.1 Indirect taxation

	2017 Rm	2016 Rm
Value added tax[1]	**1 677**	1 693
Other indirect taxes and levies	**804**	725
Total indirect taxation	**2 481**	2 418

[1] The group earns certain amounts of exempt income, that are exempt of value added tax (VAT), which result in these amounts of VAT input not being able to be claimed from the revenue authorities.

39.2 Direct taxation

	2017 Rm	2016 Rm
South African normal taxation	**7 494**	10 652
Current	**7 691**	10 039
Prior year	**(197)**	613
Deferred taxation	**1 203**	(2 406)
Current	**1 299**	(2 051)
Prior year	**(96)**	(377)
Change in tax rate adjustment		22
CGT, foreign normal and withholding tax – current year	**1 426**	651
Direct taxation before tax recognised in OCI and equity	**10 123**	8 897
Income tax recognised in OCI	**80**	(172)
Deferred tax recognised directly in equity	**276**	207
Direct taxation per the income statement	**10 479**	8 932

39. Direct and indirect taxation continued

Income tax recognised in OCI

The table below sets out the amount of income tax relating to each component within OCI:

	2017 Rm	2016 Rm
Items that may be reclassified subsequently to profit or loss		
Movements in the cash flow hedging reserve	**(9)**	(81)
Net change in fair value of cash flow hedges	**(25)**	444
Realised fair value adjustments of cash flow hedges transferred to profit or loss	**16**	(525)
Movements in the available-for-sale revaluation reserve	**57**	(45)
Net change in fair value of available-for-sale financial assets	**41**	(49)
Realised fair value adjustments on available-for-sale financial assets transferred to profit or loss	**16**	4
Items that may not be reclassified to profit or loss		
Defined benefit fund adjustments	**46**	(46)
Other	**(14)**	
Total income tax recognised in OCI	**80**	(172)

Tax rate reconciliation

	2017 %	2016 %
Direct taxation – statutory rate	**28.0**	28.0
Prior period tax	**(0.7)**	0.7
Direct taxation – current year	**27.3**	28.7
Capital gains tax	**2.0**	
Foreign tax and withholding tax	**2.9**	1.8
Change in tax rate		0.1
Direct taxation – current year – normal	**32.2**	30.6
Permanent differences	**(6.7)**	(4.9)
Dividends received	**(3.2)**	(4.3)
Other non-taxable income – interest[1]	**(6.1)**	(5.1)
Other non-taxable income – capital profit		0.4
Assessed loss not subject to deferred tax[2]	**1.0**	1.0
Non-deductible expenses	**2.0**	3.4
Effects of profits taxed in different jurisdictions	**(0.4)**	(0.3)
Direct effective tax rate[3]	**25.5**	25.7

1 Relates to interest income earned from certain governments in Africa Regions, which is exempt from tax.
2 The group's assessed losses result in an unrecognised deferred tax asset of R461 million (2016: R404 million).
3 Expressed as a percentage of profit before direct taxation.

40. Earnings per ordinary share

The calculations of basic earnings per ordinary share and diluted earnings per ordinary share are as follows:

	2017 Number of shares ('000)	2016 Number of shares ('000)
Earnings attributable to ordinary shareholders (Rm)	**26 235**	22 206
Weighted average number of ordinary shares in issue		
Weighted average number of ordinary shares in issue before adjustments	**1 618 544**	1 618 444
Adjusted for shares held pursuant to Tutuwa initiative[1]	**(5 750)**	(5 750)
Adjusted for deemed treasury shares held by entities within the group[2]	**(10 939)**	(14 955)
Weighted average number of ordinary shares in issue	**1 601 855**	1 597 739
Basic earnings per ordinary share (cents)	**1 637,8**	1 389,8
Diluted earnings per ordinary share		
Weighted average number of ordinary shares in issue	**1 601 855**	1 597 739
Adjusted for the following potential dilution:		
Share incentive schemes	**20 066**	21 705
Standard Bank GSIS[3]	**377**	636
Standard Bank EGS[4]	**4 436**	5 029
DBS	**7 309**	8 259
Performance reward plan (PRP)	**3 944**	3 854
SARP	**7**	
Tutuwa initiative[5]	**3 993**	3 927
Diluted weighted average number of ordinary shares in issue	**1 621 921**	1 619 444
Diluted earnings per ordinary share (cents)	**1 617,5**	1 371,2

1 The number of shares held by the Tutuwa participants are deducted as they are deemed not to be issued in terms of IFRS.
2 The number of shares held by entities within the group are deemed to be treasury shares for IFRS purposes.
3 1 022 621 (2016: 1 887 866) share options were outstanding at the end of the year in terms of the GSIS.
4 10 722 081 (2016: 17 809 194) rights outstanding at the end of the year in terms of the Standard Bank EGS, convertible into no (2016: 5 295 490) ordinary shares that is equivalent to the full value of the rights at year end.
5 Dilutive effect of shares held pursuant to Tutuwa initiative.

Dilutive impact of shares issued during the year

Equity growth scheme

No (2016: 1 515 744) rights were issued during the year in terms of the Standard Bank EGS and were convertible into no (2016: 294 765) ordinary shares and included in the calculation of diluted earnings per ordinary share.

Deferred bonus scheme

6 907 216 (2016: 7 803 319) units were issued during the year to employees domiciled in South Africa and included in the calculation of diluted earnings per ordinary share.

During the year, 5 600 001 (2016: 2 071 000) units were hedged relating to both current and prior years DBS units of which 4 728 001 (2016: 1 392 000) were included in the calculation of diluted earnings per ordinary share.

Performance reward plan

2 207 100 (2016: 2 768 300) units were issued during the year to employees domiciled in South Africa and included in the calculation of diluted earnings per ordinary share.

During 2017 and 2016, no units were hedged relating to PRP units and thus none were included in the calculation of diluted earnings per ordinary share.

Share appreciation rights scheme

677 317 (2016: nil) rights were issued during the year in terms of the Standard Bank SARP and were convertible into 137 464 (2016: nil) ordinary shares and included in the calculation of diluted earnings per ordinary share.

AFS 151 Refer to annexure D for further details on the group's share incentive schemes.

41. Headline earnings

	2017				2016			
	Gross Rm	Direct tax Rm	Non-controlling interests and other equity instrument holders Rm	Profit attributable to ordinary shareholders Rm	Gross Rm	Direct tax Rm	Non-controlling interests and other equity instrument holders Rm	Profit attributable to ordinary shareholders Rm
Profit for the year	**41 194**	**(10 479)**	**(4 480)**	**26 235**	34 726	(8 932)	(3 588)	22 206
Headline adjustable items added	**187**	**(94)**	**(58)**	**35**	989	(178)	(8)	803
Goodwill impairment – IAS 36					482			482
Loss on sale of property and equipment – IAS 16	**10**	**(4)**	**4**	**10**	50	(11)	(3)	36
Losses/(gains) on disposal of business – IAS 27/IAS 28	**18**			**18**	(11)			(11)
Realised foreign currency profit on foreign operations – IAS 21	**(214)**			**(214)**	(62)			(62)
Impairment of associate – IAS 28/IAS 36					10			10
Impairment of intangible assets – IAS 36	**447**	**(106)**	**(62)**	**279**	654	(171)		483
Realised gains on available-for-sale assets – IAS 39	**(74)**	**16**		**(58)**	(134)	4	(5)	(135)
Standard Bank Group headline earnings	**41 381**	**(10 573)**	**(4 538)**	**26 270**	35 715	(9 110)	(3 596)	23 009

	2017 Rm	2016 Rm
Headline earnings per ordinary share (cents)	**1 640,0**	1 440,1
Diluted headline earnings per ordinary share (cents)	**1 619,7**	1 420,8

Headline earnings is calculated in accordance with the circular titled *Headline Earnings* issued by SAICA, as amended from time-to-time.

42. Dividends

	2017 Rm	2016 Rm
Ordinary shares	**13 599**	11 510
Final 440 cents per share declared on 2 March 2017 (2016: 371 cents per share declared on 3 March 2016)	**7 125**	6 006
Interim 400 cents per share declared on 17 August 2017 (2016: 340 cents per share declared on 18 August 2016)	**6 474**	5 504
Second preference shares	**429**	406
Final 407,57 cents per share declared on 2 March 2017 (2016: 369,76 cents per share declared on 3 March 2016)	**216**	196
Interim 400,93 cents per share declared on 17 August 2017 (2016: 396,13 cents per share declared on 18 August 2016)	**213**	210
AT1 capital	**165**	
31 December		
SBT 101	**39**	
SBT 102	**44**	
30 September		
SBT 101	**41**	
30 June		
SBT 101	**41**	
Total dividends	**14 193**	11 916

A final dividend No. 97 of 510 cents per ordinary share was declared on 8 March 2018, payable on 16 April 2018 to all shareholders registered on 13 April 2018, bringing the total dividends declared in respect of 2017 to 910 cents per share (2016: 780 cents per share).

6.5% first cumulative preference shares dividend No. 97 of 3,25 cents per share (2016: 3,25 cents) was declared on 8 March 2018, payable on 9 April 2018 to all shareholders registered on 6 April 2018.

Non-redeemable, non-cumulative, non-participating preference shares dividend No. 27 of 398,92 cents per share (2016: 407,57 cents), was declared on 8 March 2018, payable on 9 April 2018 to all shareholders registered on 6 April 2018.

The AT1 capital bonds have coupon rates of three-month JIBAR plus 565 basis points (SBT 101) and JIBAR plus 545 basis points (SBT 102). Interest is payable quarterly. For more information on AT1 capital, refer to note 14.

43. Statement of cash flows notes

43.1 Adjustments for non-cash items and other adjustments included in the income statement

	2017 Rm	2016 Rm
Depreciation and amortisation	**4 931**	5 105
Credit impairment and other impairment losses	**9 410**	9 533
Investment gains and policyholders' transfers	**(3 423)**	5 543
Net inflows/(outflows) from third-party financial liabilities arising on consolidation of mutual funds	**1 048**	(1 664)
Interest expense[1]	**65 080**	52 299
Interest income[1]	**(137 609)**	(121 391)
Other	**(2 931)**	(7 665)
Total	**(63 494)**	(58 240)

[1] Included are non-cash flow items disclosed in income/expenses from investment management and life insurance activities.

43.2 Increase in income-earning assets

	2017 Rm	2016 Rm
Net derivative assets	**(5 237)**	(13 386)
Trading assets	**(33 605)**	(46 006)
Pledged assets	**(5 892)**	8 727
Financial investments	**(36 761)**	(7 299)
Loans and advances	**(14 516)**	(44 235)
Other assets	**(2 478)**	1 431
Total	**(98 489)**	(100 768)

43.3 Increase in deposits and debt funding, trading and other liabilities

	2017 Rm	2016 Rm
Deposit and debt funding	**62 033**	91 078
Trading liabilities	**15 712**	5 443
Provisions and other liabilities	**(1 079)**	(275)
Total	**76 666**	96 246

43.4 Reconciliation of subordinated debt

	2017 Rm	2016 Rm
Balance at the beginning of the year	**25 997**	27 141
Subordinated debt issued	**2 246**	2 694
Subordinated debt redeemed	**(4 180)**	(3 175)
Exchange movements	**(205)**	(848)
Decrease in subordinated bonds issued to group companies	**484**	52
Other movements	**(53)**	133
Balance at the end of the year	**24 289**	25 997

Refer to note 18 on page 62 details on subordinated debt.

44. Related party transactions

44.1 Key management personnel

Key management personnel include: the members of the SBG board of directors and prescribed officers active for 2017 and 2016. Non-executive directors are included in the definition of key management personnel as required by IFRS. Prescribed officers are defined by the Companies Act. The board of directors is the same for the company and the group. The definition of key management includes the close family members of key management personnel and any entity over which key management exercises control or joint control. Close family members are those family members who may be expected to influence, or be influenced by, that person in their dealings with SBG. They may include the person's domestic partner and children, the children of the person's domestic partner, and dependants of the person or the person's domestic partner.

	2017 Rm	2016 Rm
Key management compensation		
Salaries and other short-term benefits paid	142	124
Post-employment benefits	5	4
IFRS 2 value of share options, rights and units expensed	132	103
Total key management compensation	279	231
Loans and advances		
Loans outstanding at the beginning of the year	11	11
Change in key management structures	(1)	2
Net change in loans during the year	2	(2)
Loans outstanding at the end of the year	12	11
Interest income	1	1
Loans include mortgage loans, vehicle and asset finance and credit cards. No specific credit impairments have been recognised in respect of loans granted to key management in the current or prior year. The mortgage loans and vehicle and asset finance are secured by the underlying assets. All other loans are unsecured.		
Deposit and debt funding[1]		
Deposits outstanding at the beginning of the year	26	32
Change in key management structures	(4)	(11)
Net change in deposits during the year	58	5
Deposits outstanding at the end of the year	80	26
Net interest (expense)/income	(2)	5
Investment products[2]		
Balance at the beginning of the year	382	355
Change in key management structures	(15)	241
Net change in investments during the year	(8)	(214)
Balance at the end of the year	359	382
Third-party funds under management		
Fund value at the beginning of the year	239	299
Change in key management structures	(64)	(65)
Net change in deposits during the year	49	5
Fund value at the end of the year	224	239
Net investment return	38	2
Financial consulting fees and commission	6	9
Shares and share options held[3]		
Shares beneficially owned (number)	1 578 046	1 552 359
Share options held (number)	3 288 492	4 225 216

1 Deposits and debt funding include cheque, current and savings accounts.
2 During 2016, investment products of R222 million held by key management personnel were erroneously excluded from the closing balance, consisting of R193 million in the opening balance and R29 million in the net changes in investments. The 2016 amounts have been updated accordingly.
3 Aggregate details of SBG shares and share options held by key management personnel.

44. Related party transactions continued

44.2 Balances and transactions with ICBCS

Transactions with ICBCS are made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other third parties. These transactions also did not involve more than the normal risk of collectability or present other unfavourable features. There were no credit impairments related to balances and transactions with ICBCS. The following significant balances and transactions were entered into between the group and ICBCS, an associate of the group:

Amounts included in the group's statement of financial position	**2017 Rm**	2016 Rm
Derivative assets	**2 227**	1 856
Trading assets	**7**	24
Loans and advances	**31 413**	30 111
Other assets	**590**	232
Derivative liabilities	**(2 340)**	(2 271)
Deposits and debt funding	**(1 050)**	(1 315)
Other liabilities	**(759)**	(287)

Services

The group entered into certain transitional services level arrangements with ICBCS in order to manage the orderly separation of ICBCS from the group post the sale of 60% of SB Plc. In terms of these arrangements, services are delivered and received from ICBCS for the account of each respective party. As at 31 December 2017 the expense recognised in respect of these arrangements amounted to R277 million (2016: R202 million).

Tax consortium relief

The UK's tax legislation creates UK tax groups that allow for consortium relief in terms of which UK tax losses arising in one eligible consortium company are offset against UK tax profits arising in the same tax year in other eligible consortium companies. ICBCS, the group's UK subsidiary Standard Advisory London Limited (SALL) and ICBC's UK subsidiary ICBC (London) Plc are eligible companies of the same consortium group, and are therefore able to take advantage of the consortium relief rules. During 2015 and 2016, ICBCS made taxable losses, while SALL and ICBC (London) Plc made taxable profits. As such ICBCS, SALL and ICBC (London) Plc agreed to offset ICBCS's taxable losses against SALL and ICBC (London) Plc's taxable profits. During the year, ICBCS recognised a tax credit of USD19.4 million for consortium relief, of which an amount of USD7.1 million was payable by SALL to ICBCS in 2018.

44.3 Balances and transactions with ICBC

The group has several business relationships with ICBC, a 20.1% shareholder of the group. Transactions with ICBC are made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other third parties. These transactions also did not involve more than the normal risk of collectability or present other unfavourable features. There were no bad debt expenses or provisions for bad debts that related to balances and transactions with ICBC. The following significant balances and transactions were entered into between the group and ICBC, excluding those with ICBCS.

Amounts included in the group's statement of financial position	**2017 Rm**	2016 Rm
Loans and advances	**2 939**	246
Other assets[1]	**611**	656
Deposits and debt funding	**(91)**	(6 583)

[1] The group recognised losses in respect of certain commodity reverse repurchase agreements with third parties prior to the date of conclusion of the sale and purchase agreement, relating to SB Plc (now ICBCS) with ICBC. As a consequence of the sale and purchase agreement, the group holds the right to 60% of insurance and other recoveries, net of costs, relating to claims for those recognised losses prior to the date of conclusion of the transaction. Settlement of these amounts will occur based on audited information on pre-agreed anniversaries of the completion of the transaction and the full and final settlement of all claims in respect of losses incurred. As at 31 December 2017, a balance of USD50 million (R611 million) is receivable from ICBC in respect of this arrangement (2016: USD48 million; R656 million).

The group has off-balance sheet letters of credit exposure issued to ICBC as at 31 December 2017 of R766 million (2016: R349 million). The group received R8 million in fee and commission income relating to these transactions (2016: R1 million).

44. Related party transactions continued

44.4 Mutual funds

The group invests in various mutual funds that are managed by Liberty. Where the group has assessed that it has control (as defined by IFRS) over these mutual funds, it accounts for these mutual funds as subsidiaries. Where the group has assessed that it does not have control over these mutual funds, but has significant influence, it accounts for them as associates. The following significant balances and transactions were entered into between the group and the mutual funds which the group does not control:

Amounts included in the group's statement of financial position and income statement	**2017 Rm**	2016[1] Rm
Trading liabilities	**(275)**	(397)
Deposits and debt funding	**(15 706)**	(15 700)
Trading (losses)/gains	**(101)**	51
Interest expense	**(695)**	(1 017)

1 While this level of disclosure was not included in the 2016 audited group financial statements, disclosure of the assets held by mutual funds in group companies was provided only for those mutual funds which were material to the group.

44.5 Post-employment benefit plans

Details of balances with SBG and transactions between SBG and the group's post-employment benefit plans are listed below:

Amounts included in the group's statement of financial position and income statement	**2017 Rm**	2016 Rm
Fee and commission revenue	**11**	31
Deposits and debt funding	**(296)**	(80)
Interest expense	**(164)**	(175)
Financial investments held in bonds and money market	**1 089**	947

In addition to the above:

- the group manages R11 864 million (2016: R11 918 million) of the post-employment benefit plans' assets
- the post-employment benefit plans hold SBG ordinary shares to the value of R2 157 million (2016: R570 million).

45. Pensions and other post-employment benefits

	2017 Rm	2016 Rm
Amount recognised as assets in the statement of financial position (note 8)		
Standard Bank banking activities		
Retirement funds (note 45.1)	**901**	1 283
Liberty		
Retirement funds (note 45.1)	**171**	215
Total	**1 072**	1 498
Amounts recognised as liabilities in the statement of financial position (note 19.1)		
Standard Bank banking activities		
Retirement funds (note 45.1)	**21**	74
Post-employment healthcare benefits – other funds (note 45.2)	**737**	776
Liberty		
Post-employment healthcare benefits (note 45.2)	**495**	493
Total	**1 253**	1 343

The total amount recognised as an expense for the defined contribution plans operated by the group amounted to R1 063 million (2016: R1 014 million).

45. Pensions and other post-employment benefits continued

45.1 Retirement funds

Standard Bank retirement funds

Membership of the principal fund, the Standard Bank Group Retirement Fund (SBGRF), comprises in excess of 95% of SBSA's permanent staff. The fund, one of the ten largest in South Africa, is governed by the Pension Funds Act 24 of 1956 (Pension Funds Act). Member-elected trustees represent 50% of the trustee board. The assets of the fund are held independently.

SBGRF is regulated by the Pension Funds Act, as well as the Financial Services Board.

The fund is subject to a statutory financial review by actuaries at an interval of not more than three years. A full actuarial valuation was performed during the 2016 financial year and, in the opinion of the actuary, the fund was considered to be financially sound. The next actuarial valuation is to be performed on 31 December 2018.

From 1 January 1995, new employees became entitled to defined contribution benefits only. Employees who were members of the fund on 31 December 1994, were entitled to guaranteed benefits under the old rules of the defined benefit fund. Given the defined benefit nature of the guaranteed benefits, the entire plan is classified as a defined benefit plan and accounted for as such. A specific liability was recognised within the fund to provide for the guaranteed defined benefits.

On 1 November 2009, the fund introduced individual member investment choice for defined contribution members and the pre-1995 members could choose to give up their guaranteed defined benefits and instead accept an offer of a 10% enhancement to their actuarial reserve values. Over 90% of the pre-1995 defined benefit members accepted the offer and converted to defined contribution plans. The assets and liabilities of the Provider Fund were transferred by way of a Section 14 transfer in terms of the Pension Funds Act, 1956 as amended into the SBGRF.

The majority of employees in South Africa who are not members of the SBGRF are members of two other funds designed for their occupational groups. Employees in territories beyond South African jurisdiction are members of either defined contribution or defined benefit plans governed by legislation in their respective countries.

Liberty retirement funds

The Liberty defined benefit pension scheme closed to new employees from 1 March 2001 and with effect from this date, the majority of employees accepted an offer to convert their retirement plans from defined benefit to defined contribution plans. Employees joining after 1 March 2001 automatically become members of the defined contribution schemes. The ACA and Rentmeester defined benefit pension funds are all fully funded. All funds are governed by the Pension Funds Act.

Description of risks

Post-retirement obligation risk is the risk to the group's comprehensive income that arises from the requirement to contribute as an employer to an under-funded defined benefit plan. The group operates both defined contribution plans and defined benefit plans, with the majority of its employees participating in defined contribution plans. The defined benefit pension and healthcare schemes for past and certain current employees, create post-retirement obligations. The group mitigates these risks through independent asset managers and independent asset and liability management advisors for material funds. Potential residual risks, which may impact the group, are managed within the group asset and liability management process.

45. Pensions and other post-employment benefits continued

45.1 Retirement funds continued

	2017 Rm	2016 Rm
The amounts recognised in the statement of financial position in respect of the retirement funds are determined as follows:		
Present value of funded obligations	**(35 438)**	(33 456)
Fair value of plan assets	**36 553**	34 879
Surplus	**1 115**	1 423
Asset ceiling	**(64)**	2
Included in the statement of financial position	**1 051**	1 425
Comprising:		
SBGRF	**901**	1 283
Liberty retirement funds	**171**	215
Other retirement funds	**(21)**	(73)
Included in:	**1 051**	1 425
Other assets (note 8)	**1 072**	1 498
Other liabilities (note 19)	**(21)**	(73)
Movement in the present value of funded obligations		
Balance at the beginning of the year	**33 456**	32 194
Current service cost	**1 016**	966
Interest cost	**3 277**	3 148
Employee contributions	**798**	743
Actuarial losses	**705**	(608)
Exchange gains	**(3)**	(220)
Benefits paid	**(3 811)**	(2 767)
Balance at the end of the year	**35 438**	33 456
Movement in the fair value of plan assets		
Balance at the beginning of the year	**34 879**	33 643
Interest income	**3 378**	3 260
Contributions received	**1 648**	1 515
Net return on assets	**458**	(574)
Exchange gain/(loss)	**1**	(198)
Benefits paid	**(3 811)**	(2 767)
Balance at the end of the year	**36 553**	34 879
Comprising:		
Cash	**1 244**	824
Equities	**15 722**	15 210
Bonds	**10 189**	10 239
Property and other	**9 398**	8 606

Plan assets do not include property occupied by the group.

The group expects to pay R887 million in contributions to the Standard Bank retirement funds in 2018 (2017: R847 million).

45. Pensions and other post-employment benefits continued

45.1 Retirement funds continued

	2017 Rm	2016 Rm
The amounts recognised in profit or loss are determined as follows:		
Current service cost	**1 016**	966
Net interest costs	**(101)**	(112)
Included in staff costs	**915**	854
The expected long-term rate of return is based on the expected long-term returns on equities, cash and bonds. The split between the individual asset categories is considered in setting these assumptions. Adjustments were made to reflect the effect of expenses.		
Components of statement of other OCI		
Actuarial gains/(losses) under asset management	**458**	(574)
Actuarial (losses)/gains	**(705)**	608
Gain from changes in financial assumptions	**621**	243
(Loss)/gain from changes in experience adjustments	**(1 326)**	365
Asset ceiling	**(66)**	81
Remeasurements recognised in OCI	**(313)**	115
Reconciliation of net defined benefit asset		
Net defined benefit asset at the beginning of the year	**1 425**	1 370
Net expense recognised	**(915)**	(854)
Amounts recognised in OCI	**(313)**	115
Company contributions	**850**	772
Exchange gain	**4**	22
Net defined benefit asset at the end of the year	**1 051**	1 425

45.2 Post-employment healthcare benefits

The group provides the following post-employment healthcare benefits to its employees:

Standard Bank

The largest portion of this liability represents a South African post-employment healthcare benefit scheme that covers all employees who went on retirement before 1 March 2000. The liability is unfunded and is valued every year using the projected unit credit method. The latest full actuarial valuation was performed at 31 December 2015. The next actuarial valuation is to be performed on 31 December 2018.

Liberty

Liberty operates an unfunded post-employment medical aid benefit for employees who joined before 1 July 1998. For past service of employees, Liberty recognises and provides for the actuarially determined present value of post-employment medical aid employer contributions on an accrual basis using the projected unit credit method.

	2017 Rm	2016 Rm
The amounts recognised in the statement of financial position in respect of post-employment healthcare benefits are determined as follows:		
Present value of unfunded defined benefit obligations	**1 232**	1 269
Included in the statement of financial position	**1 232**	1 269
Comprising:		
Standard Bank	**737**	776
Liberty	**495**	493
Movement in the present value of defined benefit obligations		
Balance at beginning of the year	**1 269**	1 281
Net expense recognised	**134**	123
Benefits paid	**(80)**	(77)
Amounts recognised in OCI	**(91)**	(58)
Balance at end of the year	**1 232**	1 269

45. Pensions and other post-employment benefits continued

45.2 Post-employment healthcare benefits continued

	2017 Rm	2016 Rm
The amounts recognised in profit or loss are determined as follows:		
Current service cost	**57**	53
Net interest cost	**77**	70
Included in staff costs	**134**	123
Components of statement of other comprehensive income		
Actuarial gains arising from changes in financial assumptions	**(82)**	(44)
Actuarial gains arising from experience adjustments	**(9)**	(14)
Remeasurements recognised in OCI	**(91)**	(58)

Assumed medical inflation rates have a significant effect on the amounts recognised in profit or loss. A one percentage point change in the medical inflation rate would have the following effects on the amounts recognised:

	2017		2016	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Effect on the aggregate of the current service cost and interest cost	**7**	**(6)**	7	(6)
Effect on the defined benefit obligation	**62**	**(53)**	70	(60)

46. Segment reporting

46.1 Operating segments

The group is organised on the basis of products and services and the segments have been identified on this basis. The principal business units in the group are as follows:

Business units and what we offer

Personal & Business Banking

Banking and other financial services to individual customers and small- to medium-sized enterprises in South Africa, the Africa Regions and the Channel Islands. We enable customers to take control of all their financial aspects such as transacting, saving, borrowing or planning by making use of the following product sets either through face-to-face interaction or digitally according to their preference.

Transactional products

Comprehensive suite of transactional, saving, investment, trade, foreign exchange, payment and liquidity management solutions made accessible through a range of physical and electronic channels.

Mortgage lending

Residential accommodation loans to mainly personal market customers.

Card products

- Credit card facilities to individuals and businesses (credit card issuing)
- Merchant transaction acquiring services (merchant solutions).

Vehicle and asset finance

- Finance of vehicles for retail market customers
- Finance of vehicles and equipment in the business and corporate assets market
- Fleet solutions.

Lending products

- Lending products offered to both personal and business markets
- Business lending offerings constitute a comprehensive suite of lending product offerings, structured working capital finance solutions and commercial property finance solutions.

Wealth

- Short- and long-term insurance products comprising:
  - simple products, including loan protection plans sold in conjunction with related banking products, homeowners' insurance, funeral cover, household contents and vehicle insurance
  - complex insurance products, including life, disability and investment policies sold by qualified intermediaries
- Financial planning and modelling
- Integrated fiduciary services, including fiduciary advice, will drafting and custody services, as well as trust and estates administration
- Tailored banking, wealth management, investment and advisory services solutions for private high net worth individuals
- Offshore financial services to African clients in high net worth, mass-affluent and corporate sectors
- Investment services including global asset management.

Corporate & Investment Banking

Corporate and investment banking services to clients, including governments, parastatals, larger corporates, financial institutions and multinational corporates

Client coverage

Provide in-depth sector expertise to develop relevant client solutions and foster client relationships.

Global markets

Trading and risk management solutions across financial markets, including foreign exchange, money markets, interest rates, equities, credit and commodities.

Transactional products and services

Comprehensive suite of cash management, international trade finance, working capital and investor service solutions.

Investment banking

Full suite of advisory and financing solutions, from term lending to highly structured and specialised products across the equity and debt capital markets.

46. Segment reporting continued

46.1 Operating segments continued

Business units and what we offer

Liberty
Life insurance and investment management activities of the group companies in the Liberty Holdings Group

Individual arrangements
Insurance and investment solutions to individual mass-affluent and affluent consumers, mainly in South Africa.

Group arrangements
Insurance and investment solutions to corporate customers and retirement funds across sub-Saharan Africa.

Asset management
Asset management capabilities to manage investment assets on the African continent.

Central and other

- Includes the impact of the Tutuwa initiative, group hedging activities, group capital instruments, group surplus capital and strategic acquisitions
- Includes the results of centralised corporate functions, with the direct costs of corporate functions recharged to the business segments.

Other banking interests

Equity investments held in terms of strategic partnership agreements with ICBC, including:

- ICBC Standard Bank Plc (40% associate)
- ICBC Argentina (20% associate).

46. Segment reporting continued

46.1 Operating segments continued

Income statement

	Personal & Business Banking		Corporate & Investment Banking		Central and other		Banking activities		Other banking interests		Liberty		Standard Bank Group	
	2017 Rm	2016[1] Rm	**2017 Rm**	2016[1] Rm	**2017 Rm**	2016[1] Rm	**2017 Rm**	2016[1] Rm	**2017 Rm**	2016[1] Rm	**2017 Rm**	2016[1] Rm	**2017 Rm**	2016[1] Rm
Income from banking activities	**69 526**	67 635	**37 251**	35 420	**(3 615)**	(3 198)	**103 162**	99 857					**103 162**	99 857
Net interest income	**41 432**	40 067	**20 747**	18 796	**(2 054)**	(1 971)	**60 125**	56 892					**60 125**	56 892
Interest income	**75 609**	72 120	**64 257**	58 414	**(15 719)**	(22 474)	**124 147**	108 060					**124 147**	108 060
Interest expense	**(34 177)**	(32 053)	**(43 510)**	(39 618)	**13 665**	20 503	**(64 022)**	(51 168)					**(64 022)**	(51 168)
Net fee and commission revenue	**25 047**	24 626	**5 605**	5 574	**(1 519)**	(1 188)	**29 133**	29 012					**29 133**	29 012
Fee and commission revenue	**28 727**	28 290	**5 879**	5 779	**(316)**	(146)	**34 290**	33 923					**34 290**	33 923
Fee and commission expense	**(3 680)**	(3 664)	**(274)**	(205)	**(1 203)**	(1 042)	**(5 157)**	(4 911)					**(5 157)**	(4 911)
Trading revenue	**402**	398	**10 548**	10 730	**(219)**	(140)	**10 731**	10 988					**10 731**	10 988
Other revenue	**2 645**	2 544	**351**	320	**177**	101	**3 173**	2 965					**3 173**	2 965
Income from investment management and life insurance activities											**24 394**	21 365	**24 394**	21 365
Insurance premiums received											**38 020**	39 366	**38 020**	39 366
Insurance benefits and claims paid											**(43 848)**	(37 616)	**(43 848)**	(37 616)
Investment management and service fee income and gains											**43 957**	22 887	**43 957**	22 887
Fair value adjustments to investments management liabilities and third party fund interests											**(13 735)**	(3 272)	**(13 735)**	(3 272)
Total income	**69 526**	67 635	**37 251**	35 420	**(3 615)**	(3 198)	**103 162**	99 857			**24 394**	21 365	**127 556**	121 222
Credit impairment charges	**(7 785)**	(8 030)	**(1 625)**	(1 603)		100	**(9 410)**	(9 533)					**(9 410)**	(9 533)
Net income before operating expenses	**61 741**	59 605	**35 626**	33 817	**(3 615)**	(3 098)	**93 752**	90 324			**24 394**	21 365	**118 146**	111 689
Operating expenses in banking operations	**(41 926)**	(40 616)	**(19 436)**	(19 317)	**3 850**	3 698	**(57 512)**	(56 235)					**(57 512)**	(56 235)
Operating expenses in life insurance operations											**(17 800)**	(17 374)	**(17 800)**	(17 374)
Net income before capital items and equity accounted earnings	**19 815**	18 989	**16 190**	14 500	**235**	600	**36 240**	34 089			**6 594**	3 991	**42 834**	38 080
Non-trading and capital related items	**(132)**	(379)	**(162)**	(121)	**197**	(623)	**(97)**	(1 123)			**(164)**		**(261)**	(1 123)
Share of post tax profit/(loss) from associates	**241**	169	**182**	2	**1**	1	**424**	172	**600**	(8)	**78**	23	**1 102**	187
Net income before indirect taxation	**19 924**	18 779	**16 210**	14 381	**433**	(22)	**36 567**	33 138	**600**	(8)	**6 508**	4 014	**43 675**	37 144
Indirect taxation	**(588)**	(558)	**(237)**	(231)	**(1 024)**	(1 076)	**(1 849)**	(1 865)			**(632)**	(553)	**(2 481)**	(2 418)
Profit before direct taxation	**19 336**	18 221	**15 973**	14 150	**(591)**	(1 098)	**34 718**	31 273	**600**	(8)	**5 876**	3 461	**41 194**	34 726
Direct taxation	**(5 173)**	(5 022)	**(2 466)**	(2 614)	**(5)**	5	**(7 644)**	(7 631)			**(2 835)**	(1 301)	**(10 479)**	(8 932)
Profit for the year	**14 163**	13 199	**13 507**	11 536	**(596)**	(1 093)	**27 074**	23 642	**600**	(8)	**3 041**	2 160	**30 715**	25 794
Attributable to ordinary shareholders	**13 927**	12 613	**11 392**	10 239	**(1 045)**	(1 593)	**24 274**	21 259	**600**	(8)	**1 361**	955	**26 235**	22 206
Attributable to other equity instrument holders	**83**		**76**		**435**	406	**594**	406					**594**	406
Attributable to non-controlling interests	**153**	586	**2 039**	1 297	**14**	94	**2 206**	1 977			**1 680**	1 205	**3 886**	3 182
Headline earnings	**14 008**	12 724	**11 506**	10 339	**(1 246)**	(1 001)	**24 268**	22 062	**567**	(8)	**1 435**	955	**26 270**	23 009
Return on equity (ROE) (%)	**20.0**	18.8	**22.2**	19.5	**(10.1)**	(9.0)	**18.0**	16.8	**7.3**	(0.1)	**12.7**	8.4	**17.1**	15.3
Net interest margin (%)	**6.33**	6.27	**3.16**	2.76			**4.74**	4.48						
Credit loss ratio (%)	**1.20**	1.25	**0.33**	0.30			**0.86**	0.86						
Cost-to-income ratio (%)	**60.3**	60.1	**52.2**	54.5			**55.7**	56.3						
Number of employees	**28 125**	28 290	**3 800**	3 884	**16 397**	16 448	**48 322**	48 622			**6 236**	6 145	**54 558**	54 767

1 Where reporting responsibility for individual cost centres and divisions within business units changes, the segmental analysis' comparative figures are reclassified accordingly.

46. Segment reporting continued

46.2 Geographic information

	South Africa Rm	Africa Regions Rm	International Rm	Eliminations[1] Rm	Standard Bank Group Rm
2017					
Total income[2]	**91 292**	**34 998**	**2 824**	**(1 558)**	**127 556**
Banking activities	**69 681**	**32 215**	**2 824**	**(1 558)**	**103 162**
Liberty	**21 611**	**2 783**			**24 394**
Total headline earnings	**21 755**	**5 696**	**1 355**	**(2 536)**	**26 270**
Banking activities	**20 114**	**5 902**	**788**	**(2 536)**	**24 268**
Other banking interests			**567**		**567**
Liberty	**1 641**	**(206)**			**1 435**
Total assets	**1 692 567**	**316 107**	**99 940**	**(80 686)**	**2 027 928**
Banking activities	**1 276 174**	**310 033**	**92 447**	**(80 686)**	**1 597 968**
Other banking interests			**7 493**		**7 493**
Liberty	**416 393**	**6 074**			**422 467**
Non-current assets[3]	**60 228**	**11 535**	**51**	**(80)**	**71 734**
Banking activities	**25 680**	**10 986**	**51**	**(80)**	**36 637**
Liberty	**34 548**	**549**			**35 097**
2016[4]					
Total income[2]	85 559	34 066	3 165	(1 568)	121 222
Banking activities	67 041	31 219	3 165	(1 568)	99 857
Liberty	18 518	2 847			21 365
Total headline earnings	18 234	4 537	779	(541)	23 009
Banking activities	17 271	4 545	787	(541)	22 062
Other banking interests			(8)		(8)
Liberty	963	(8)			955
Total assets	1 652 354	309 543	96 680	(106 603)	1 951 974
Banking activities	1 256 929	303 197	90 235	(106 603)	1 543 758
Other banking interests			6 445		6 445
Liberty[5]	395 425	6 346			401 771
Non-current assets[3]	68 609	11 313	6 479	(20)	86 381
Banking activities	27 519	10 691	34	(20)	38 224
Other banking interests			6 445		6 445
Liberty	41 090	622			41 712

1 Eliminations include intersegmental transactions and balances, as well as central funding and other.
2 Total income is attributable based on where the operations are located.
3 Non-current assets are assets that are expected to be recovered more than 12 months after the reporting period.
4 Where reporting responsibility for individual cost centres and divisions within business units changes, the segmental analysis' comparative figures are reclassified accordingly.
5 Refer to the accounting policy elections for details of the restatement of derivative assets and derivative liabilities.

STANDARD BANK GROUP LIMITED – COMPANY ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

		COMPANY	
	Note	**2017 Rm**	2016 Rm
Assets			
Financial investments	47	**98**	116
Other assets		**170**	170
Interest in subsidiaries	48	**74 267**	67 835
Interest in associates	49	**913**	787
Current tax asset		**14**	35
Total assets		**75 462**	68 943
Equity and liabilities			
Equity		**74 771**	68 242
Share capital and premium	14	**18 063**	17 960
Equity attributable to other equity instrument holders	14	**9 047**	5 503
Reserves		**47 661**	44 779
Liabilities		**691**	701
Current tax liabilities			14
Deferred tax liabilities	50	**5**	10
Indebtedness by the company to group subsidiaries	48	**632**	625
Other liabilities		**54**	52
Total equity and liabilities		**75 462**	68 943

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

		COMPANY	
	Note	2017 Rm	2016 Rm
Interest income		41	89
Interest expense		(1)	(2)
Other losses	51	(9)	(24)
Dividends from subsidiaries		16 980	11 652
Total income		17 011	11 715
Operating expenses		(20)	(13)
Net income before impairments		16 991	11 702
Impairment of investments in subsidiaries and associates			(28)
Net income before equity accounted earnings		16 991	11 674
Share of profits from associates and joint ventures		213	192
Profit before direct taxation		17 204	11 866
Direct taxation	52	(117)	(85)
Profit for the year		17 087	11 781
Other comprehensive (loss)/income		(13)	2
Total comprehensive income		17 074	11 783

STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	Note	COMPANY 2017 Rm	COMPANY 2016 Rm
Net cash flows from operating activities		**16 994**	11 765
Profit before direct taxation		**17 204**	11 866
Adjusted for non-cash items and other adjustments included in the income statement	53.1	**(17 219)**	(11 823)
Decrease/(increase) in income-earning assets	53.2	**18**	(2)
Increase in other liabilities	53.3	**2**	15
Interest received		**41**	89
Interest expense		**(1)**	(2)
Dividends received		**16 980**	11 652
Taxation paid		**(31)**	(30)
Net cash flows (used in)/generated from investing activities		**(6 447)**	137
(Increase)/decrease in investment in subsidiaries	53.4	**(6 447)**	137
Net cash flows used in financing activities		**(10 547)**	(11 902)
Proceeds from issue of share capital		**409**	333
Share buy-backs		**(306)**	(319)
Issuance of other equity instruments		**3 544**	
Dividends paid		**(14 194)**	(11 916)
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year			
Cash and cash equivalents at end of the year			

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Note	Share capital and premium Rm	Share-based payment reserve Rm	Revaluation reserve Rm	Cash flow hedging reserve Rm	Empower-ment reserve Rm	Available-for-sale reserve Rm	Retained earnings Rm	Ordinary share-holders' equity Rm	Other equity instrument holders Rm	Total Rm
Balance at 1 January 2016		17 946	282	3 100	969	(274)	2	40 866	62 891	5 503	68 394
Issue of share capital and share premium	14	333							333		333
Repurchase of share capital and share premium	14	(319)							(319)		(319)
Equity-settled share-based payment transactions			(33)						(33)		(33)
Vested units transferred to retained earnings			(238)					238			
Total comprehensive income							2	11 781	11 783		11 783
Other comprehensive income							2		2		2
Profit for the year								11 781	11 781		11 781
Dividends paid								(11 916)	(11 916)		(11 916)
Balance at 31 December 2016		17 960	11	3 100	969	(274)	4	40 969	62 739	5 503	68 242
Balance at 1 January 2017		**17 960**	**11**	**3 100**	**969**	**(274)**	**4**	**40 969**	**62 739**	**5 503**	**68 242**
Issue of share capital and share premium	14	**409**							**409**	**3 544**	**3 953**
Repurchase of share capital and share premium	14	**(306)**							**(306)**		**(306)**
Equity-settled share-based payment transactions			**2**						**2**		**2**
Vested units transferred to retained earnings			**(9)**					**9**			
Total comprehensive income							**(13)**	**17 087**	**17 074**		**17 074**
Other comprehensive income							**(13)**		**(13)**		**(13)**
Profit for the year								**17 087**	**17 087**		**17 087**
Dividends paid								**(14 194)**	**(14 194)**		**(14 194)**
Balance at 31 December 2017		**18 063**	**4**	**3 100**	**969**	**(274)**	**(9)**	**43 871**	**65 724**	**9 047**	**74 771**

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

47. Financial investments

	2017 Rm	2016 Rm
Financial investments held in banking activities – unlisted equities	**98**	116

Financial investments comprise of unlisted equities that have been classified as available-for-sale as level 3 in the fair value hierarchy.

48. Interest in subsidiaries

	2017 Rm	2016 Rm
Shares at cost	**71 443**	65 399
Indebtedness to the company (annexure A)	**1 913**	1 523
Investment through equity-settled share incentives	**911**	913
	74 267	67 835
Indebtedness by the company (annexure A)	**(632)**	(625)
Total interest in subsidiaries	**73 635**	67 210

AFS 108 87 Principal subsidiaries and investments and related loans are listed in annexure A. For more detail regarding related party transactions, refer to note 44.

Indebtedness to the company are all current assets are not impaired and have been classified as loans and advances which are measured on an amortised cost basis. The carrying value approximates fair value and are classified as level 3 in the fair value hierarchy. Changes in the indebtedness during the year include repayments, new loans, interest accruals and exchange rate differences.

Indebtedness by the company are all liabilities repayable on demand and are measured at amortised cost. The carrying value approximates fair value and are classified as level 3 in the fair value hierarchy. Changes in the indebtedness during the year include repayments, new loans, interest accruals and exchange rate differences.

The company's investments in subsidiaries (measured at cost) are reviewed annually for impairment with reference to impairment indicators that include the following:

- Dividends declared by subsidiaries in excess of the subsidiaries' total comprehensive income earned in the reporting period.
- The carrying value of the investment exceeds the subsidiary's net asset value, including any associated goodwill.

When impairment indicators exist the recoverable amount of the company's investment in the subsidiary is determined (as the higher of the value in use and fair value less cost to sell). An impairment loss is recognised in profit or loss if the carrying value exceeds the recoverable amount.

During 2017, no impairment losses were recognised (2016: R28 million). The events and circumstances that led to the recognition of the impairment in 2016 was that the recoverable amount (being the value in use) of the entity was less than the carrying value.

49. Interest in associates

	2017 Rm	2016 Rm
Carrying value at beginning of the year	**787**	672
Share of profit	**213**	192
Dividend received	**(87)**	(77)
Carrying value at end of the year	**913**	787

The company's investments in associates include South African Home Loans Proprietary Limited.

AFS 122 Refer to annexure B for details on associates.

50. Deferred tax

	2017 Rm	2016 Rm
Deferred tax reconciliation		
Deferred tax liability at the beginning of the year	**(10)**	
Originating/(reversing) temporary difference for the year	**5**	(10)
Deferred tax on net investment hedge reserve recognised in OCI		(9)
Fair value adjustment	**5**	(1)
Deferred tax liability at end of the year	**(5)**	(10)

51. Other losses

	2017 Rm	2016 Rm
Losses on derivatives		(75)
Foreign exchange gains		20
Other	**(9)**	31
Total other losses	**(9)**	(24)

52. Direct taxation

	2017 Rm	2016 Rm
Current year		
South African normal tax	**82**	
Deferred tax charge		10
Foreign and withholding taxes	**16**	38
Prior years		
South African normal tax prior year under provision	**19**	37
Total direct taxation recognised in statement of comprehensive income	**117**	85
South African tax rate reconciliation (%)		
Direct tax – statutory rate	**28.0**	28.0
Prior year tax	**0.1**	0.3
Direct tax – current year	**28.1**	28.3
Withholding tax	**0.1**	0.3
Direct tax – current year – normal	**28.2**	28.6
Permanent differences	**(27.5)**	(27.9)
Impairment of investment		0.10
Dividends received	**(27.2)**	(27.5)
Equity accounted earnings	**(0.3)**	(0.50)
Direct effective tax rate[1]	**0.7**	0.7

[1] Expressed as a percentage of profit before direct tax.

53. Statement of cash flows notes

53.1 Adjustment for non-cash items and other adjustments included in the income statement

	2017 Rm	2016 Rm
Dividends received	**(16 980)**	(11 652)
Interest income	**(41)**	(89)
Interest expense	**1**	2
Share of profits from associates and joint ventures	**(213)**	(192)
Impairment of investment		28
Non-cash expenses	**14**	25
Fair value adjustments on derivatives		75
Foreign exchange gains and losses		(20)
Total adjustment	**(17 219)**	(11 823)

53.2 Decrease/(increase) in income-earning assets

	2017 Rm	2016 Rm
Financial investments	**18**	(2)

53.3 Increase in other liabilities

	2017 Rm	2016 Rm
Other liabilities	**2**	15

53.4 (Increase)/decrease in investment in subsidiaries

	2017 Rm	2016 Rm
Increase in investment in subsidiaries	**(6 044)**	(1 287)
Movement in indebtedness	**(403)**	1 424
Total (increase/decrease)	**(6 447)**	137

54. Liquidity, credit and market risk information

Other assets and liabilities consist mainly of non-financial assets and liabilities which are not subject to liquidity, credit and market risk.

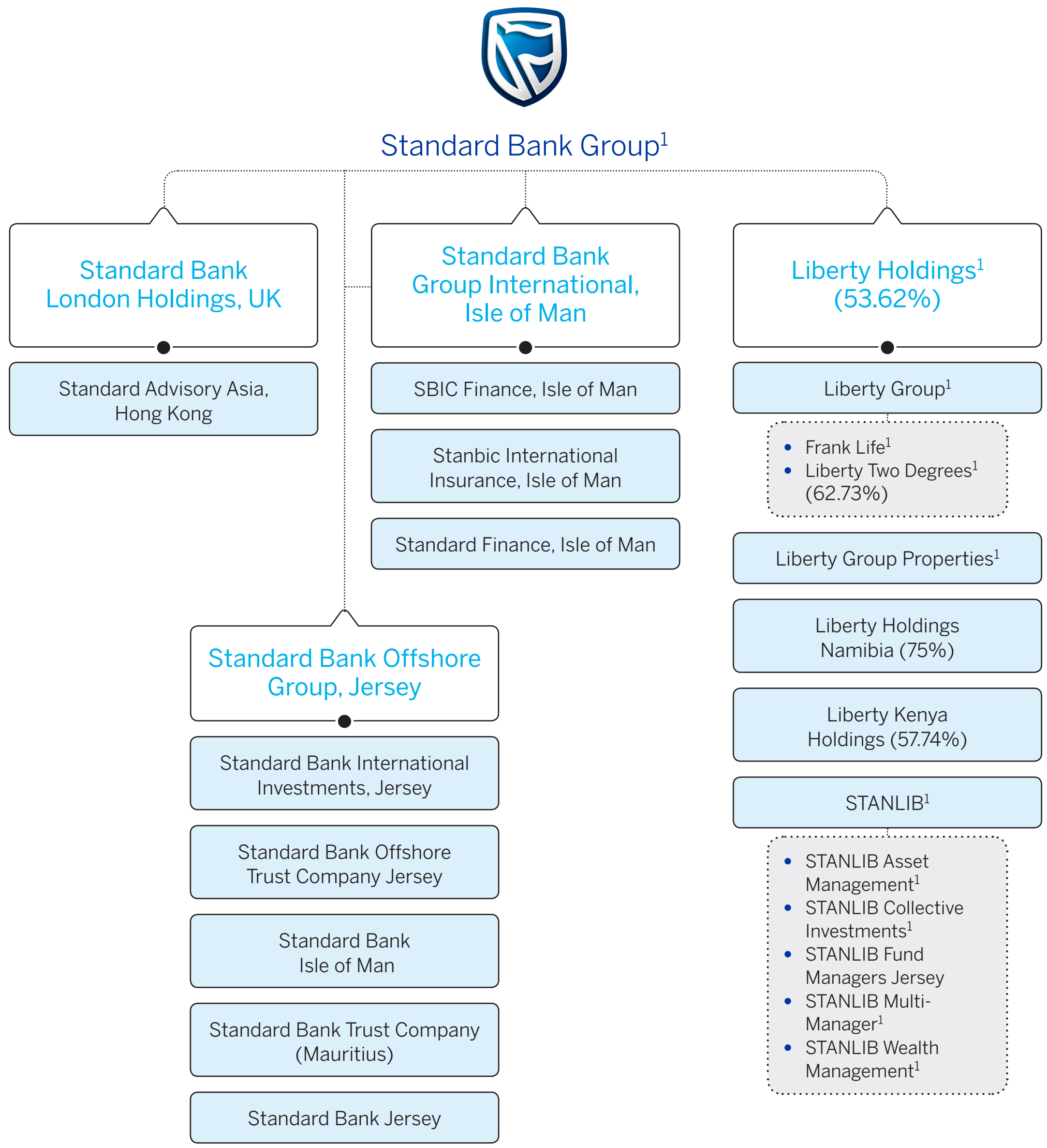
ANNEXURE A – SUBSIDIARIES, CONSOLIDATED AND UNCONSOLIDATED STRUCTURED ENTITIES

The diagram depicts principal subsidiaries only. A full list of the group's subsidiaries and consolidated structured entities is available at the company's registered office. The holding in subsidiaries is 100% unless otherwise indicated.

Standard Bank Group[1]

- **The Standard Bank of South Africa**[1]
  - Blue Managers[1,3]
  - Diners Club (S.A.)[1]
  - Standard Bank Insurance Brokers[1]
- **Melville Douglas Investment Management**[1]
  - Standard Insurance[1]
  - Standard Trust[1]
  - Stanvest[1]
  - SBG Securities[1]
  - Standard Bank Properties[1]
  - Standard Lesotho Bank (80%)
  - Standard Bank Namibia[2]
  - Standard Bank Swaziland (72.22%)
  - Standard Bank de Angola (51%)
  - Standard Advisory (China)
  - Standard Advisory London, UK
  - Standard New York, USA
- **Stanbic Africa Holdings, UK**
  - Stanbic Bank Botswana
  - Stanbic Bank Ghana (99.54%)
    - SBG Securities Ghana
  - Standard Holdings Côte d'Ivoire (99%)
    - Stanbic Bank, Côte d'Ivoire (99%)
  - Stanbic Bank Tanzania (99.99%)
  - Stanbic Bank Uganda (80%)
  - Stanbic Bank Zambia (99.99%)
  - Stanbic Holdings, Kenya (60%)
    - Stanbic Bank Kenya
    - Stanbic Insurance Agency
  - Stanbic IBTC Holdings, Nigeria (53.07%)[4]
    - Stanbic IBTC Bank (99.99%)
  - Stanbic Bank Zimbabwe
  - Standard Bank RDC, DRC (99.99%)
  - Standard Bank Malawi (60.18%)
  - Standard Bank (Mauritius)
  - Standard Bank Mozambique (98.14%)

* Refer to footnotes on page 109.



1 Incorporated in South Africa.
2 Standard Bank Group legally owns 90% of SBN Holdings in Namibia but consolidates 100% due to the degree of control it retains over its empowerment structure.
3 Previously known as Blue Bond Investments (RF) Limited.
4 Change in holding during 2017 from 53.2% to 53.07%.

The diagram above depicts principal subsidiaries only.
A full list of the group's subsidiaries and consolidated structured entities is available at the company's registered office.
The holding in subsidiaries is 100% unless otherwise indicated.

Subsidiaries

	Nature of operation	Nominal share capital issued Rm	Effective holding[2]		Non-controlling interest		Book value of shares		Net indebtedness	
			2017 Rm	2016 Rm	2017 Rm	2016 Rm	2017 Rm	2016 Rm	2017 Rm	2016 Rm
Standard Bank Group Limited will ensure that the capital adequacy of its subsidiaries denoted by # will meet the requirements of home and host regulators, as required by section 70(A) of the South African Banks Act.										
Banking subsidiaries										
Stanbic Bank Botswana Limited (Botswana)[1#]	Commercial bank	423	**100**	100						
Stanbic Bank Ghana Limited (Ghana)[1,3#]	Commercial bank	630	**99**	99	**1**	1				
Stanbic Bank Kenya Limited (Kenya)[1#]	Commercial bank	418	**60**	60	**40**	40				
Stanbic Bank S.A. (Côte d'Ivoire)[1,3#]	Commercial bank	375	**100**	100						
Stanbic Bank Tanzania Limited (Tanzania)[1,3#]	Commercial bank	44	**100**	100						
Stanbic Bank Uganda Limited (Uganda)[1,4#]	Commercial bank	227	**80**	80	**20**	20				
Stanbic Bank Zambia Limited (Zambia)[1,3#]	Commercial bank	660	**100**	100						
Stanbic Bank Zimbabwe Limited (Zimbabwe)[1#]	Commercial bank	2	**100**	100			**136**	136		
Stanbic IBTC Bank PLC (Nigeria)[1#]	Commercial bank	103	**53**	53	**47**	47				
Standard Bank de Angola S.A. (Angola)[#]	Commercial bank	768	**51**	51	**49**	49	**359**	359		
Standard Bank Isle of Man Limited (Isle of Man)[1#]	Merchant bank	25	**100**	100						
Standard Bank Jersey Limited (Jersey)[1#]	Merchant bank	320	**100**	100						
Standard Bank Limited (Malawi)[1,4#]	Commercial bank	23	**60**	60	**40**	40				
Standard Bank (Mauritius) Limited (Mauritius)[1#]	Commercial bank	342	**100**	100						
Standard Bank Namibia Limited (Namibia)[1,5#]	Commercial bank	2	**100**	100						
Standard Bank RDC S.A. (DRC)[1,3#]	Commercial bank	247	**100**	100						
Standard Bank S.A. (Mozambique)[1#]	Commercial bank	309	**98**	98	**2**	2				
Standard Bank Swaziland Limited (Swaziland)[#]	Commercial bank	15	**72**	72	**28**	28	**94**	94		
Standard Lesotho Bank Limited (Lesotho)[#]	Commercial bank	21	**80**	80	**20**	20	**13**	13		
The Standard Bank of South Africa Limited[#]	Commercial bank	60	**100**	100			**47 049**	41 005	**1 312**	870
Total banking subsidiaries							**47 651**	41 607	**1 312**	870

Refer to footnotes on page 112.

Subsidiaries continued

	Nature of operation	Nominal share capital issued	Effective holding[2] 2017 Rm	Effective holding[2] 2016 Rm	Non-controlling interest 2017 Rm	Non-controlling interest 2016 Rm	Book value of shares 2017 Rm	Book value of shares 2016 Rm	Net indebtedness 2017 Rm	Net indebtedness 2016 Rm
Non-banking subsidiaries										
Ecentric Payment Systems Proprietary Limited[1]	Development and marketing transactions – switching software and services		**100**	100						
Liberty Group Limited[1]	Insurance company	29	**54**	54	**46**	46				
Liberty Holdings Limited[4]	Insurance holding company	26	**54**	54	**46**	46	**7 668**	7 668		
Liberty Two Degrees[1,6]	Real Estate Investment Trust		**62**	67	**38**	33				
Melville Douglas Investment Management Proprietary Limited[#]	Asset and portfolio management		**100**	100			**53**	53		
SBG Securities Proprietary Limited[#]	Stockbrokers		**100**	100			**320**	320		
SBN Holdings Limited (Namibia)[5]	Bank holding company	1	**100**	100			**400**	400		
Stanbic Africa Holdings Limited (UK)	Investment holding company	1 494	**100**	100			**5 643**	5 643	**72**	
Stanbic Holdings PLC (Kenya)[1,4]	Bank holding company	275	**60**	60	**40**	40				
Stanbic IBTC Holdings PLC (Nigeria)[1,4]	Bank holding company	275	**53**	53	**47**	47				
Standard Advisory (China) Limited (China)	Trading company	8	**100**	100			**10**	10		
Standard Advisory London Limited (UK)	Arranging and advisory company	1	**100**	100			**557**	557		
Standard Bank Group International Limited (Isle of Man)	Investment holding company		**100**	100			**1 217**	1 217		
Standard Bank International Investments Limited (Jersey)[1#]	Investment service provider		**100**	100						
Standard Bank London Holdings Limited (UK)	Investment holding company	6 337	**100**	100			**7 658**	7 658		
Standard Bank Offshore Group Limited (Jersey)	Investment holding company	17	**100**	100			**49**	49		
Standard Bank Offshore Trust Company Jersey Limited (Jersey)[1#]	Trust company	6	**100**	100						
Standard Bank Trust Company (Mauritius) Limited (Mauritius)[1#]	Trust company		**100**	100						
Standard Finance (Isle of Man) Limited (Isle of Man)[1#]	Finance company		**100**	100						
Standard Insurance Limited	Short-term insurance	15	**100**	100			**30**	30		
Standard New York, Inc (US)	Securities broker/dealer	55	**100**	100			**55**	55		
Standard Trust Limited[2#]	Trust company		**100**	100						
STANLIB Limited[1]	Wealth and asset management		**54**	54	**46**	46				
Miscellaneous	Finance companies						**132**	132	**(103)**	28
Total non-banking subsidiaries							**23 792**	23 792	**(31)**	28
Total subsidiaries							**71 443**	65 399	**1 281**	898

1 Held indirectly, no book value in Standard Bank Group Limited.
2 Effective holding company comprises direct and indirect holdings.
3 Minorities hold 0.5% or less.
4 Listed on a stock exchange.
5 Standard Bank Group Limited legally owns 90% of SBN Holdings in Namibia but consolidates 100% due to the degree of control it retains over its empowerment structure.
6 Effective shareholding represents Liberty Group's direct shareholding.

The nominal share capital issued of foreign subsidiaries has been stated in the above table at their rand equivalents at the rates of exchange ruling on the dates of the provision of capital. The country of incorporation is South Africa unless otherwise indicated.

While a full list of the group's subsidiaries and consolidated structured entities is available at the company's registered office, the above disclosures includes subsidiaries for which either of the following is present:

- Standard Bank Group Limited has provided a capital adequacy statement (denoted by #)
- there is a non-controlling interest
- there is a net book value as recorded in Standard Bank Group Limited's financial statements
- there is net indebtedness to/from Standard Bank Group Limited.

No significant restrictions exist on the transfer of funds and capital within the group, subject to compliance with the corporate laws of relevant jurisdictions and appropriate motivation to, and approval by, exchange control authorities.

Consolidated structured entities

Name of the entity	Nature of the operations	Amount of support provided[1,2,3] 2017 Rm	Amount of support provided[1,2,3] 2016 Rm	Type of support[4] 2017 Rm	Type of support[4] 2016 Rm	Terms of contractual arrangements that require the group to provide financial support to the SE	Events/circumstances that could expose the group to a loss as a result of the contractual arrangement
Blue Granite Investments No.1 (RF) Limited (BG1)	Facilitates mortgage-backed securitisations. The group is the primary liquidity facility provider to BG1.	**45**	48	**Subordinated loan**	Subordinated loan	The loans do not have a fixed term or repayment date. The first loss loan incurs interest at a rate of JIBAR plus 10% per annum and is only payable to the extent of available cash reserves. The second loss loan incurs interest at a rate of JIBAR plus 8% per annum and is only payable to the extent of available cash reserves.	Should BG1's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing.
		604	735	**Mortgage-backed notes**	Mortgage-backed notes	The group holds class A4, A6, B, C, D, E and F notes. Interest for the different classes of notes accrues at the three-month JIBAR rate plus a margin ranging between 0.55% to 8%. Interest is payable quarterly. The notes' maturity date is 21 November 2032.	
Blue Granite Investments No.2 (RF) Proprietary Limited (BG2)	Facilitates mortgage-backed securitisations. The group is the primary liquidity facility provider to BG2.	**27**	23	**Subordinated loan**	Subordinated loan	The loans do not have a fixed term or repayment date. The first loss subordinated loan incurs interest at a rate of prime plus 5% while the second loss loan incurs interest at a rate of prime less 1.5% per annum and is only payable when BG2 has sufficient cash reserves.	Should BG2's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing.
Blue Granite Investments No.3 (RF) Proprietary Limited (BG3)	Facilitates mortgage-backed securitisations. The group is the primary liquidity facility provider to BG3.	**217**	204	**Subordinated loan**	Subordinated loan	The loan does not have a fixed term or repayment date. The loan incurs interest at a rate of prime less 5% per annum and is only payable when BG3 has sufficient cash reserves.	Should BG3's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing.
Blue Granite Investments No.4 (RF) Proprietary Limited (BG4)	Facilitates mortgage-backed securitisations. The group is the primary liquidity facility provider to BG4.	**16**	6	**Subordinated loan**	Subordinated loan	The loan does not have a fixed term or repayment date. The loan incurs interest at a rate of prime less 5% per annum and is only payable when BG4 has sufficient cash reserves.	Should BG4's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing.
Siyakha Fund (RF) Limited (Siyakha)	Facilitates mortgage-backed securitisations. The group is the primary liquidity facility provider to Siyakha.	**82**	82	**Subordinated loan**	Subordinated loan	The loan does not have a fixed term or repayment date. Interest is charged at prime plus 5% and is only payable when Siyakha has sufficient cash reserves.	Should Siyakha's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing.
		941	990	**Mortgage-backed notes**	Mortgage-backed notes	The group holds class A1 notes for which interest accrues at the three-month JIBAR rate plus 1.10%. The group also holds class A2, B, C and D notes for which interest accrues at a rate from prime less 2.1% to prime plus 2%. Interest is payable quarterly. The notes' maturity date is 11 February 2045.	
Blue Shield Investments 01 (RF) Limited (Blue Shield 01)	Facilitates mortgage-backed securitisations. The group is the primary liquidity facility provider to Blue Shield 01.	**504**	505	**Subordinated loan**	Subordinated loan	The subordinated loan is provided by the group. Interest is charged at the lower of prime plus 10% or net profit after tax or cash balance available in Blue Shield 01.	Should Blue Shield 01's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing.
		16 163	16 168	**Mortgage-backed notes**	Mortgage-backed notes	The group holds class A1, A2, A3 and C notes. Interest for the different classes of notes accrues at the three-month JIBAR rate plus a margin ranging between 1.55% and 4.00%. Interest is payable quarterly. The notes' maturity date is 21 November 2019.	
Blue Shield Investments 02 (RF) Limited (Blue Shield 02)	Facilitates mortgage-backed securitisations. The group is the primary liquidity facility provider to Blue Shield 02.	**1 314**		**Subordinated loan**		The subordinated loan is provided by the group. Interest is charged at 11.25%.	Should Blue Shield 02's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing.
		30 722		**Mortgage-backed notes**		The group holds class A1, A2, B and C notes. Interest for the different classes of notes accrues at prime rate less a margin ranging between 1% and 1.9%. Interest is payable quarterly. The notes' maturity date is 1 December 2055.	
Blue Banner Securitisation Vehicle RC1 Proprietary Limited (Blue Banner)	Originates mortgage loans on behalf of the group. The group is required to provide the funding for these mortgage loans.	**106**	129	**Bridging finance**	Bridging finance	The loan does not have a fixed term or repayment date. Any profits in Blue Banner are paid out as interest to the group.	Should Blue Banner's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing.

Consolidated structured entities continued

Name of the entity	Nature of the operations	Amount of support provided[1,2,3] 2017 Rm	Amount of support provided[1,2,3] 2016 Rm	Type of support[4] 2017 Rm	Type of support[4] 2016 Rm	Terms of contractual arrangements that require the group to provide financial support to the SE	Events/circumstances that could expose the group to a loss as a result of the contractual arrangement
Out of The Blue Originator Proprietary Limited (OTB)	OTB originates loans on behalf of Blue Titanium Conduit (RF) Limited (BTC). BTC is consolidated by the group.			**Overdraft facility**	Overdraft facility	OTB applies for the necessary overdraft facility as and when it originates loans. The drawn amount is settled once the originated loan is sold to BTC. The terms are negotiated and agreed upon at the time of granting of the overdraft facility. Since February 2017 up to and including 31 December 2017, OTB has not applied for an overdraft facility. As at 31 December 2017, the outstanding balance on the loan was Rnil (2016: Rnil).	This SE does not expose the group to a risk of loss as it acts as a conduit between the group and BTC. OTB draws down on the overdraft facility as and when BTC originates loans and the facility is repaid on the same day of the draw down.
Blue Titanium Conduit (RF) Limited	Purchases eligible term assets and funds such investments through the issuance of commercial paper. The group is the primary liquidity facility provider to BTC.			**Liquidity facility**	Liquidity facility	The liquidity facility is limited to the value of the underlying assets in BTC. As at 31 December 2017, the liquidity facility limit was R1 961 million (2016: R1 961 million). BTC had not drawn down on the liquidity facility as at 31 December 2017.	In the event that the underlying assets are classified as non-performing loans.
		306	382	**Commercial paper**	Commercial paper	The group periodically invests in commercial paper (CP) issued by BTC. The CP is typically short term in nature (92 days), and issued at arm's length. The group held investments in commercial paper issued by BTC of R306 million nominal size.	
				Credit enhancement facility	Credit enhancement facility	The credit enhancement facility is limited to 20% of all participating assets (the outstanding commercial paper issued in the market). BTC had not drawn down on the credit enhancement facility as at 31 December 2017.	
Rapvest Investments Proprietary Limited	Facilitates finance deals for other group companies and third parties through preference share investments and loans to clients.	**10 055**	3 961	**Loan**	Loan	The loan is repayable on demand and no interest is charged on the loan.	In the event that the underlying assets are classified as non-performing loans.
SB-Debtors Discounting No.1 Proprietary Limited (SB-Debtors)	SB-Debtors was set up to enable Main Street 367 (RF) Proprietary Limited (Main Street) to fund the subordinated loans to BG1, BG2, BG3, BG4 and Siyakha. The group provides the funding to enable SB-Debtors to originate these loans.	**466**	466	**Loan**	Loan	The loan has no fixed repayment date. Interest is calculated as the higher of the variable rate of three-month JIBAR plus 0.7% per annum and the cash available less R15 000.	In the event that customers of BG1, BG2, BG3, BG4 and Siyakha are unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing.
Main Street 367 (RF) Proprietary Limited	Facilitates financing to BG1, BG2, BG3, BG4 and Siyakha. SB-Debtors provides the funding to Main Street to enable Main Street to originate these loans.	**212**	212	**Subordinated loan**	Subordinated loan	The loan is only repayable to the extent that Main Street receives payment from BG1, BG2, BG3, BG4 and Siyakha. The interest is charged at the higher of JIBAR plus 10% and the cash available in terms of Main Street's priority of payments less R15 000.	In the event that customers of BG1, BG2, BG3, BG4 and Siyakha are unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing.

1 The amount of support provided includes loans and advances and drawn down credit facilities provided to SEs by the group.
2 During the reporting period, the group did not provide any financial or other support to any subsidiary without having a contractual obligation to do so.
3 This is the amount as reported on the balance sheet as at 31 December 2017 and 2016 respectively.
4 In addition to the financial support provided to the SEs, the group enters into other transactions with SEs in the ordinary course of business. These transactions include loans and advances, deposits and current accounts and derivatives.

Unconsolidated structured entities

The group has an interest in the following unconsolidated structured entities:

	NATURE AND PURPOSE OF ENTITY	PRINCIPAL NATURE OF FUNDING	PRINCIPAL NATURE OF ASSETS	TERMS OF CONTRACTUAL ARRANGEMENTS		EVENTS/CIRCUMSTANCES THAT COULD EXPOSE THE GROUP TO A LOSS
Blue Diamond Investments No.1 (RF) Limited (BD) **Blue Diamond Investments No.2 (RF) Limited (BD)** **Blue Diamond Investments No.3 (RF) Limited (BD)**	The group purchases credit protection from Blue Diamond Investments No. 1, 2 and 3 (BD) in the form of credit-linked notes on single or multiple corporate names. BD then purchase credit protection from third-party investors on single or multiple corporate names. The group purchases high quality collateral with maturities that match BD's obligations in respect of its issued credit-linked notes. The group provides collateral to BD which is held as credit protection for the third-party investors. The collateral is ring-fenced such that it is linked to a particular series of notes and the relevant related contract(s) as part of a transaction. This structure has been designed to provide third-party investors indirect exposure to corporate names, and in doing so, reduces the group's exposure to credit risk.	Credit-linked notes issued to third-party investors	Credit-linked notes issued by the group	12 years	The group compensates BD for providing credit protection over single or multiple corporate names. The group also settles BD's operating expenses as and when necessary, typically in the event that BD has liquidity constraints. Any payment for such amounts is to be refunded by BD to the group.	In the event of a credit event and BD is unable to pay, the group would be exposed to a credit loss. This risk is considered remote given the collateral held by BD. The group is further exposed to the risk of loss should it be unable to recover any unexpected operating expenses from BD.
Africa ETF Issuer (Limited) offering the following: • AfricaPalladium ETF (JSE code: ETFPLD) • AfricaPlatinum ETF (JSE code: ETFPLT) • AfricaGold ETF (JSE code: ETFGLD)	The palladium, platinum and gold exchange traded funds (ETFs) have been established for investors to participate in changes in the spot price of underlying commodities. The ETFs issue debentures to investors with each debenture backed by the respective physical commodity. On issuance each debenture is based on 1/100th of a troy ounce of the respective commodity. The physical commodities are stored at recognised custodian vaults in London. The ETFs are denominated in rands and are classified as domestic assets. The ETFs are regulated by the Financial Markets Act and the JSE's Listings Requirements.	The unconsolidated structured entity is funded by the issue of non-interest bearing debentures that are 100% backed by the underlying physical commodity	Physical commodities (palladium, platinum and gold)	Undated	The group established these structured entities to accommodate client requirements to hold investments in specific commodity assets. The group manages the ETFs and also provides liquidity to the ETFs by acting as a committed market maker.	The maximum exposure to loss is limited to the on-balance sheet position held by the group through acting as a committed market maker for the ETFs. This exposes the group to the commodity price risk associated with the underlying commodity and is managed in accordance with the group's market risk management policy.
Calibre Mortgage Fund (Pty) Ltd	SE into which South African Home Loans (Pty) Ltd (SAHL) originates home loans. The SE is funded by debt provided by Liberty and equity provided by SAHL. The SE has been set up by SAHL as a funding vehicle into which Liberty can lend on a secured basis.	Liberty as debt provider	Senior secured loan	The loan tenor is 20 years and bears interest at an average rate of three-month Jibar + 2.30%.		To the extent that asset quality in the vehicle deteriorates to a level where losses exceed the subordinated debt in the capital structure, the group may be exposed to a credit loss.
Greenhouse Funding 3 (Pty) Ltd	SE set up by a third-party financial institution. The SE is a securitisation vehicle into which it originates home loans. Liberty is one investor in the structure and holds listed debt instruments. Equity is provided by the third-party financial institution. The SE has been set up by a third-party financial institution as a funding vehicle into which Liberty can lend on a secured basis.	Liberty as debt provider	Senior, unrated debentures secured by underlying assets	The loan tenor is five years and bears interest at an average rate of three-month Jibar + 1.69%.		To the extent that asset quality in the vehicle deteriorates to a level where losses exceed the subordinated debt in the capital structure, the group may be exposed to a credit loss.
SA Taxi Finance Solutions (Pty) Ltd	SE set up by a third-party to raise debt funding which it in turn uses to originate taxi loans.	Liberty as debt provider	Senior, unrated debentures secured by underlying assets	The loan tenor is five years and bears interest at an average rate of three-month Jibar + 3.43%.		To the extent that asset quality in the vehicle deteriorates to a level where losses exceed the subordinated debt in the capital structure, the group may be exposed to a credit loss.
Universal Credit S.A.	Investment fund.	Liberty as debt provider	Segregated investment fund	The loan tenor is five years.		In the event of defaults in the underlying pool of credit assets, the group may be exposed to a credit loss.

Unconsolidated structured entities continued

The following represents the group's interests in these entities:

	2017 Rm	2016 Rm
Statement of financial position		
Financial investments	**192**	187
Deposits and debt funding accounts from customers	**(1 770)**	(1 776)
Trading assets	**57**	37
Total interest	**(1 521)**	(1 552)

For both 2016 and 2017, Blue Diamond No.1, No.2 and No.3 earned income via a once-off fee and commission income earned for structuring the SE.

Details of group companies with material non-controlling interests

	Liberty Group Limited		Africa Regions[1]	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
Non-controlling interests (%)	**46**	46	*****	*
Summarised financial information on an IFRS basis before intercompany eliminations				
Total assets	**444 127**	421 890	**175 556**	174 836
Total liabilities	**413 736**	392 884	**149 578**	152 292
Total income	**82 772**	62 744	**22 090**	22 326
Profit for the year	**3 704**	2 626	**7 234**	5 857
Change in cash balances[2]	**175**	(4 311)	**(6 642)**	(3 109)
Profit attributable to non-controlling interests after inter-company eliminations	**1 388**	1 442	**2 315**	1 887
Non-controlling interest within statement of financial position	**16 569**	16 458	**7 697**	6 970
Dividends paid to non-controlling interests	**998**	959	**430**	299

1 All balances except total assets and total liabilities (translated using the closing exchange rate) have been translated using cumulative average exchange rates.
2 This line has been amended to reflect the change in total cash balances, having previously being stated as the change in cash balances with central banks.
* Please refer to pages 110 to 113 for further detail.

ANNEXURE B – ASSOCIATES AND JOINT VENTURES

	Safika Holdings Proprietary Limited[1]		Industrial and Commercial Bank of China (Argentina) S.A.		South African Home Loans Proprietary Limited (SAHL)[2]		ICBC Standard Bank Plc (ICBCS)		Other joint ventures		Other associates		Total associates and joint ventures – equity accounted	
Ownership structure	Associate		Associate		Associate		Associate		Joint ventures		Associates		Associates and joint ventures	
Nature of business	Investment holding company		Banking		Finance		Banking		Various		Various		Various	
Principal place of business and country of incorporation	South Africa		Argentina		South Africa		United Kingdom		Various		Various		Various	
Year end	February		December		February		December		Various		Various		Various	
Accounting treatment	Equity accounted		Equity accounted		Equity accounted		Equity accounted		Equity accounted		Equity accounted		Equity accounted	
Date to which equity accounted	31 December 2017		31 December 2017		31 December 2017		31 December 2017		31 December 2017		31 December 2017		31 December 2017	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm	**2017 Rm**	2016 Rm	**2017 Rm**	2016 Rm	**2017 Rm**	2016 Rm	**2017 Rm**	2016 Rm	**2017 Rm**	2016 Rm
Effective holding (%)	**26.67**	26.67	**20**	20	**50**	50	**40**	40	**Various**	Various	**Various**	Various	**Various**	Various
Income statement														
Revenue	**795**	13	**15 663**	17 600	**4 237**	3 774	**5 086**	4 205						
Total comprehensive income/(loss)	**795**	13	**2 193**	2 867	**426**	384	**802**	(1 735)						
Total comprehensive income/(loss) attributed to equity holders of the associate and joint ventures[3]	**212**	3	**448**	562	**213**	192[4]	**321**	(713)						
Dividend received from associates/joint ventures		133		69	**90**	78					**9**	46		
Statement of financial position[5]														
Non-current assets	**2 623**	1 939	**1 633**	1 520	**30 157**	28 217	**131 784**	152 264						
Current assets	**162**	187	**68 237**	64 707	**3 570**	3 241	**161 835**	124 506						
Non-current liabilities			**(259)**	(200)	**(31 541)**	(21 855)	**(48 546)**	(53 877)						
Current liabilities	**(56)**	(192)	**(61 638)**	(57 931)	**(209)**	(7 878)	**(229 290)**	(209 797)						
Net asset value attributed to equity holders of the associate and joint venture	**2 729**	1 934	**7 973**	8 096	**1 977**	1 725	**15 783**	13 096						
Proportion of net asset value based on effective holding	**728**	516	**1 595**	1 619	**989**	863	**6 313**	5 238						
Goodwill			**235**	321			**(660)**	(733)						
Other			**10**		**(76)**	(76)								
Carrying value	**728**	516	**1 840**	1 940	**913**	787	**5 653**	4 505	**82**	87	**449**	361	**9 665**	8 196
Share of profits/(losses) from associate and joint ventures	**212**	3	**448**	583	**213**	192	**152**	(591)	**8**	24	**69**	(24)	**1 102**	187

1 The investments was made by the group's private equity operations and have been ring-fenced for headline earnings purposes. On the disposal of these associates and joint ventures held by the group's private equity division the gain or loss on the disposal will be included in headline earnings in terms of the circular *Headline Earnings* as issued by the South African Institute of Chartered Accountants, as amended from time-to-time.

2 In 2016, the net asset value was erroneously overstated. Furthermore, in 2016, an amount was erroneously disclosed as cumulative impairment rather than a change in shareholding that took place in 2014. The cumulative impairment line was replaced with other. Consequently the amounts presented as at 31 December 2016 have been restated. This did not affect the group's statement of financial position.

3 Includes FCTR as reported by the associates and joint ventures. Excludes FCTR that originates at a group level as a result of inclusions of the associates and joint ventures in the group's results.

4 The group's shareholding in SAHL was erroneously not applied to the total comprehensive income/(losses) attributed to equity. This has no impact on the group's statement of financial position.

5 Summarised financial information is provided based on the latest available management accounts received.

	STANLIB Income Fund		STANLIB Property Income Fund		STANLIB Balanced Cautious Fund	
Ownership structure	Associate		Associate		Associate	
Nature of business	Fund		Fund		Fund	
Principal place of business	South Africa		South Africa		South Africa	
Year end	December		December		March	
Accounting treatment	Fair value accounted		Fair value accounted		Fair value accounted	
	2017 Rm	2016 Rm	**2017 Rm**	2016[1] Rm	**2017 Rm**	2016[1] Rm
Effective holding (%)	**11**	8	**14**	13	**22**	19
Fair value	**3 118**	1 630	**1 231**	946	**1 620**	1 752
Income statement						
Revenue	**2 217**	1 883	**480**	483	**429**	538
Total profit for the year	**2 076**	1 740	**377**	381	**292**	396
Total comprehensive income	**2 076**	1 740	**377**	381	**292**	396
Dividend received from associates	**175**	110	**55**	49	**70**	71
Statement of financial position[1]						
Non-current assets	**27 551**	21 308	**8 169**	7 286	**6 852**	9 177
Current assets	**385**	668	**30**	11	**445**	259
Current liabilities	**(15)**	(320)	**(16)**	(8)	**(9)**	(46)
Net asset value	**27 921**	21 656	**8 183**	7 289	**7 288**	9 390
Total carrying value including loans measured at fair value	**3 118**	1 630	**1 231**	946	**1 620**	1 752

	STANLIB Balanced Fund		STANLIB Corporate Money Market Fund		Other associates and joint ventures – fair value accounted		Total associates and joint ventures – fair value accounted	
Ownership structure	Associate		Joint ventures		Associates		Associates and joint ventures	
Nature of business	Fund		Various		Various		Various	
Principal place of business	South Africa		Various		Various		Various	
Year end	February		Various		Various		Various	
Accounting treatment	Fair value accounted		Fair value accounted		Fair value accounted		Fair value accounted	
	2017 Rm	2016[1] Rm	**2017 Rm**	2016[1] Rm	**2017 Rm**	2016[1] Rm	**2017 Rm**	2016[1] Rm
Effective holding (%)	**27**	24	**5**	9	**Various**	Various	**Various**	Various
Fair value	**1 516**	1 531	**1 678**	2 852	**6 034**	4 284	**15 197**	12 995
Income statement								
Revenue	**227**	314	**2 874**	2 400				
Total profit for the year	**146**	216	**2 801**	2 335				
Total comprehensive income	**146**	216	**2 801**	2 335				
Dividend received from associates	**46**	50	**19**	113				
Statement of financial position[1]								
Non-current assets	**5 555**	6 244	**30 447**	27 545				
Current assets	**253**	250	**3 703**	4 136				
Current liabilities	**(9)**	(150)	**(7)**	(6)				
Net asset value	**5 799**	6 344	**34 143**	31 675				
Total carrying value including loans measured at fair value	**1 516**	1 531	**1 678**	2 852	**6 034**	4 284	**15 197**	12 995

[1] Summarised financial information of the associates and joint ventures is provided based on the latest available management accounts received.

Private equity/venture capital associates and joint ventures[1]

	2017 Rm	2016 Rm
Cost	**48**	48
Carrying value	**546**	389
Statement of financial position[2]		
Non-current assets	**2 623**	2 014
Current assets	**162**	187
Current liabilities	**(56)**	(192)
Income statement		
Attributable income before impairment	**159**	3
Realised gains on disposal for the period included in headline earnings		45
Fair value	**546**	389

[1] Included in total associates and joint ventures.
[2] Summarised financial information of the associates and joint ventures is provided based on the latest available management accounts received.

ANNEXURE C – RISK AND CAPITAL MANAGEMENT – IFRS DISCLOSURES

Overview

Capital management

The group's capital management function is designed to ensure that regulatory requirements are met at all times and that the group and its principal subsidiaries are capitalised in line with the group's risk appetite and target ratios, both of which are approved by the board.

It further aims to facilitate the allocation and use of capital, such that it generates a return that appropriately compensates shareholders for the risks incurred. Capital adequacy is actively managed and forms a key component of the group's budget and forecasting process. The capital plan is tested under a range of stress scenarios as part of the group's annual internal capital adequacy assessment process (ICAAP) and recovery plan.

The capital management function is governed primarily by management level subcommittees that oversee the risks associated with capital management, namely the group asset and liability committee (ALCO) and one of its subcommittees, the group capital management committee. The principal governance documents are the capital management governance framework and the model risk governance framework.

Risk management

The group's activities give rise to various financial as well as insurance risks. Financial risks are categorised into credit, funding and liquidity and market risk.

The group's approach to managing risk and capital is set out in the group's risk, compliance and capital management (RCCM) governance framework approved by the group risk and capital management committee (GRCMC).

The risk management disclosure that follows separately discloses the group's banking operations and investment management and life insurance activities as the group's investment management and life insurance risk is primarily managed within the Liberty group of companies which houses the group's material long-term insurance operations. The group has 55.5% interest in Liberty and therefore shares 55.5% of the risk exposure.

Banking activities

Capital management

The group manages its capital levels to support business, growth, maintain depositor and creditors' confidence, create value for its shareholders and ensure regulatory compliance.

The main regulatory requirements to be complied with are those specified in the Banks Act No.94 of 1990 and related regulations, which are aligned with Basel III.

Regulatory capital adequacy is measured through the following three risk-based ratios that follow:

Common equity tier 1 (CET 1): ordinary share capital, share premium, retained earnings, other reserves and qualifying non-controlling interest less impairments divided by total risk weighted assets (RWA).

Tier 1: CET 1 and other qualifying non-controlling interest plus perpetual, non-cumulative instruments with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA. Perpetual non-cumulative preference shares that comply with Basel I and Basel II rules are included in tier I capital but are currently subject to regulatory phase-out requirements over a ten-year period, which commenced on 1 January 2013.

Total capital adequacy: tier 1 plus other items such as general credit impairments and subordinated debt with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA. Subordinated debt that complies with Basel I and Basel II rules is included in total capital but is currently subject to regulatory phase-out requirements, over a ten-year period, which commenced on 1 January 2013.

BASEL III QUALIFYING CAPITAL EXCLUDING UNAPPROPRIATED PROFITS*

	2017 Rm	2016 Rm
IFRS ordinary shareholders' equity#	**157 020**	150 757
Qualifying non-controlling interest#	**4 892**	4 488
Less: regulatory adjustments	**(32 326)**	(32 676)
Goodwill	**(1 904)**	(2 239)
Other intangible assets	**(18 603)**	(19 289)
Shortfall of provisions to expected losses	**(2 076)**	(2 118)
Investments in financial, banking and insurance entities exceeding threshold	**(9 141)**	(8 432)
Other	**(602)**	(598)
Less: unappropriated profit	**(11 304)**	(8 168)
CET 1 capital	**118 282**	114 401
Qualifying other equity instruments (AT1)#	**6 291**	3 297
Qualifying minority interests#	**416**	322
Tier 1 capital	**124 989**	118 020
Qualifying tier II subordinated debt	**14 777**	17 773
General allowance for credit impairments	**2 173**	2 357
Tier II capital	**16 950**	20 130
Total regulatory capital	**141 939**	138 150
Total capital requirement	**102 884**	91 631
Total RWA	**957 046**	883 179

* The above table is unaudited, unless marked with #.

Credit risk

Definition

Credit risk is the risk of loss arising out of the failure of obligors to meet their financial or contractual obligations when due. It is composed of obligor risk (including borrowers and trading counterparties), concentration risk and country risk.

Approach to managing and measuring credit risk

The group's credit risk is a function of its business model and arises from wholesale and retail loans and advances, underwriting and guarantee commitments, as well as from the counterparty credit risk arising from derivative and securities financing contracts entered into with our customers and trading counterparties. To the extent equity risk is held on the banking book, it is also managed under the credit risk governance framework, except in so far as approval authority rests with the group equity risk committee (ERC). The management of credit risk is aligned to the group's three lines of defence framework. The business functions own the credit risk assumed by the group and, as the first line of defence, is primarily responsible for its management, control and optimisation in the course of business generation.

The credit function acts as the second line of defence and is responsible for providing independent and objective approval and oversight for the credit risk-taking activities of business, to ensure the process of procuring revenue, while assuming risk is undertaken with integrity. Further second-line oversight is provided by the group risk function through independent credit risk assurance.

The third line of defence is provided by group internal audit (GIA), under its mandate from the group audit committee (GAC).

Credit risk is managed through:

- maintaining a culture of responsible lending and a robust risk policy and control framework
- identifying, assessing and measuring credit risk across the group, from an individual facility level through to an aggregate portfolio level
- defining, implementing and continually re-evaluating risk appetite under actual and stressed conditions
- monitoring the group's credit risk exposure relative to approved limits
- ensuring that there is expert scrutiny and approval of credit risk and its mitigation independently of the business functions.

A credit portfolio limit framework has been defined to monitor and control the credit risk profile within the group's approved risk appetite. All primary lending credit limits are set and exposures measured on the basis of risk weighting in order to best estimate exposure at default (EAD). Pre-settlement counterparty credit risk (CCR) inherent in trading book exposures is measured on a potential future exposures (PFE) basis, modelled at a defined level of confidence, using approved methodologies and models, and controlled within explicit approved limits for the counterparties concerned.

Credit risk mitigation

Wherever warranted, the group will attempt to mitigate credit risk, including CCR to any counterparty, transaction, sector, or geographic region, so as to achieve the optimal balance between risk, cost, capital utilisation and reward. Risk mitigation may include the use of collateral, the imposition of financial or behavioural covenants, the acceptance of guarantees from parents or third parties, the recognition of parental support, and the distribution of risk.

Collateral, parental guarantees, credit derivatives and on- and off-balance sheet netting are widely used to mitigate credit risk. Credit risk mitigation policies and procedures ensure that risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforcement. Detailed processes and procedures are in place to guide each type of mitigation used.

In the case of collateral where the group has an unassailable legal title, the group's policy is such that collateral is required to meet certain criteria for recognition in loss given default (LGD) modelling, including that it:

- is readily marketable and liquid
- is legally perfected and enforceable
- has a low valuation volatility
- is readily realisable at minimum expense
- has no material correlation to the obligor credit quality
- has an active secondary market for resale.

The main types of collateral obtained by the group for its banking book exposures include:

- mortgage bonds over residential, commercial and industrial properties
- cession of book debts
- pledge and cession of financial assets
- bonds over plant and equipment
- the underlying movable assets financed under leases instalment sales.

Reverse repurchase agreements and commodity leases to customers are collateralised by the underlying assets.

Guarantees and related legal contracts are often required, particularly in support of credit extension to groups of companies and weaker obligors. Guarantors include banks, parent companies, shareholders and associated obligors. Creditworthiness is established for the guarantor as for other obligor credit approvals.

For trading and derivative transactions where collateral support is considered necessary, the group typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure (CSA).

Netting agreements, such as collateral under the CSA of an ISDA agreement, are only obtained where the group firstly has a legally enforceable right to offset credit risk by way of such an agreement, and secondly where the group has the intention of utilising such agreement to settle on a net basis.

Credit risk continued

Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if the mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's public credit rating.

Wrong-way risk arises in transactions where the likelihood of default (i.e. the probability of default (PD) by a counterparty) and the size of credit exposure (as measured by EAD) to that counterparty tend to increase at the same time. This risk is managed both at an individual counterparty level and at an aggregate portfolio level by limiting exposure to such transactions, taking adverse correlation into account in the measurement and mitigation of credit exposure and increasing oversight and approval levels. The group has no appetite for wrong-way risk arising where the correlation between EAD and PD is due to a legal, economic, strategic or similar relationship (i.e. specific wrong-way risk). General wrong-way risk, which arises when the correlation between EAD and PD for the counterparty, due mainly to macro factors, is closely managed within existing risk frameworks.

To manage actual or potential portfolio risk concentrations in areas of higher credit risk and credit portfolio growth, the group implements hedging and other strategies from time-to-time. This is done at individual counterparty, sub-portfolio and portfolio levels through the use of syndication, distribution and sale of assets, asset and portfolio limit management, credit derivatives and credit protection.

Credit portfolio characteristics and metrics in terms of IFRS

Maximum exposure to credit risk

Loans and advances are analysed and categorised based on credit quality using the following definitions.

Default

The group defines a default as occurring at the earlier of:

- when either, based on objective evidence, the counterparty is considered to be unlikely to pay amounts on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days. The overdue period may be measured using a 'days past due' or a 'number of missed payments or part thereof' approach.

Performing loans

Performing loans are classified into two categories, namely:

- **Neither past due nor specifically impaired loans:** these loans are current and fully compliant with all contractual terms and conditions. Normal monitoring loans within this category are generally rated 1 to 21, and close monitoring loans are generally rated 22 to 25 using the group's master rating scale.
- **Early arrears but not specifically impaired loans:** early arrears but not specifically impaired loans include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is unlikely but could occur if the adverse conditions persist.

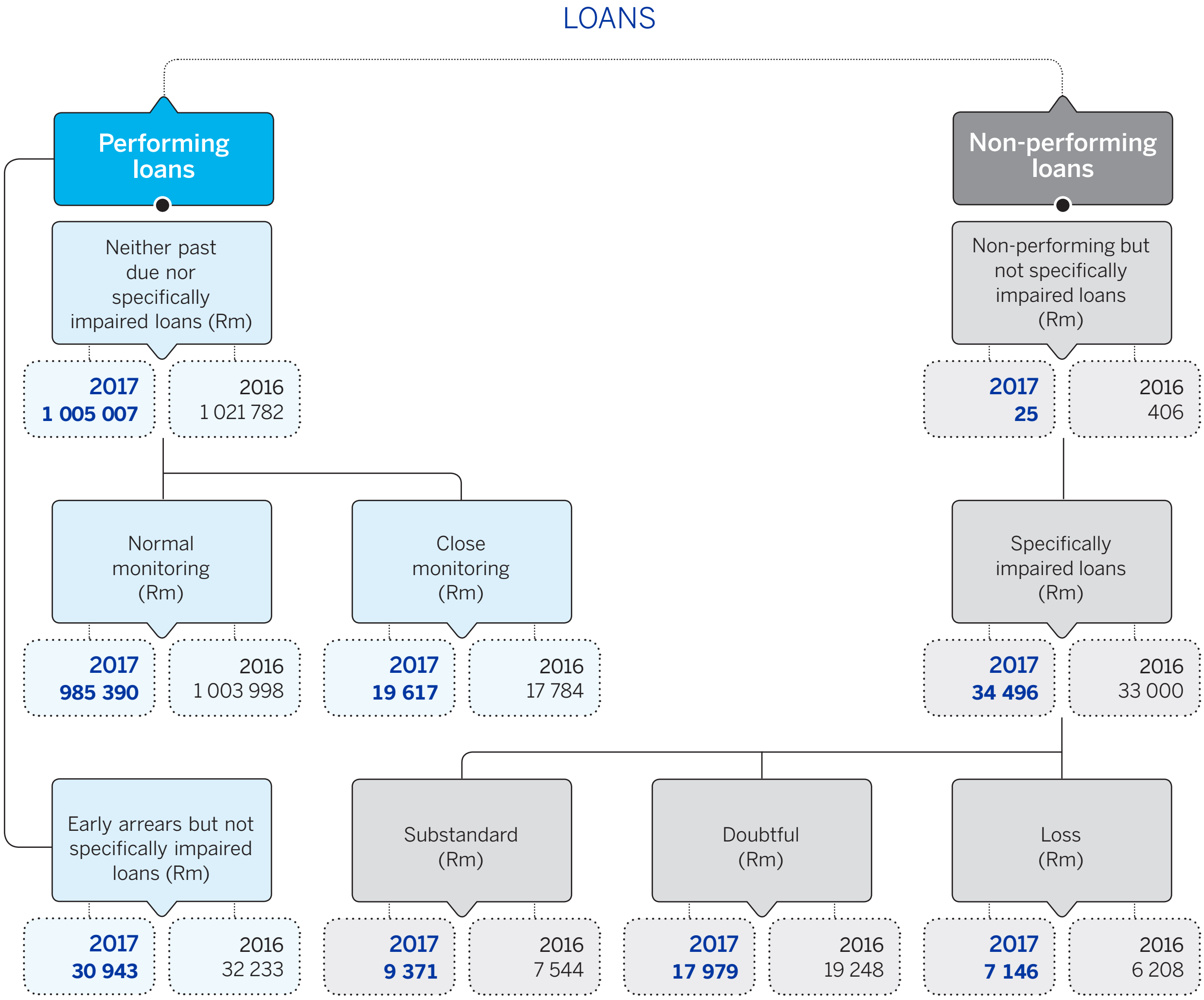
Non-performing loans

Non-performing loans are those loans for which the group has identified objective evidence of default, such as a breach of a material loan covenant or condition, or instalments are due and unpaid for 90 days or more.

Non-performing but not specifically impaired loans are not specifically impaired due to the expected recoverability of the full carrying value when considering the recoverability of future cash flows, including collateral. Non-performing specifically impaired loans are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows.

Specifically impaired loans are further analysed into the following categories:

- **substandard:** items that show underlying well-defined weaknesses and are considered to be specifically impaired.
- **doubtful:** items that are not yet considered final losses due to some pending factors that may strengthen the quality of the items.
- **loss:** items that are considered to be uncollectible in whole or in part. The group provides fully for its anticipated loss, after taking collateral into account.


LOANS
Performing loans
Non-performing loans
Neither past due nor specifically impaired loans (Rm)
2017
1 005 007
2016
1 021 782
Non-performing but not specifically impaired loans (Rm)
2017
25
2016
406
Normal monitoring (Rm)
2017
985 390
2016
1 003 998
Close monitoring (Rm)
2017
19 617
2016
17 784
Specifically impaired loans (Rm)
2017
34 496
2016
33 000
Early arrears but not specifically impaired loans (Rm)
2017
30 943
2016
32 233
Substandard (Rm)
2017
9 371
2016
7 544
Doubtful (Rm)
2017
17 979
2016
19 248
Loss (Rm)
2017
7 146
2016
6 208

Credit risk continued

IFRS: MAXIMUM EXPOSURE TO CREDIT RISK BY CREDIT QUALITY

		Performing loans				Non-performing loans									
		Neither past due nor specifically impaired		Not specifically impaired		Specifically impaired loans									
	Gross loans and advances Total Rm	Normal monitoring Rm	Close monitoring Rm	Early arrears Rm	Non-performing[1] Rm	Sub-standard Rm	Doubtful Rm	Loss Rm	Total Rm	Securities and expected recoveries on specifically impaired loans Rm	Net after securities and expected recoveries on specifically impaired loans Rm	Balance sheet impairments for non-performing specifically impaired loans Rm	Gross specific impairment coverage %	Total non-performing loans Rm	Non-performing loans %
2017															
Personal & Business Banking	645 868	569 206	17 485	30 258		7 420	14 725	6 774	28 919	16 976	11 943	11 943	41	28 919	4.5
Mortgage loans	346 518	303 125	8 564	19 325		4 273	10 675	556	15 504	11 525	3 979	3 979	26	15 504	4.5
Instalment sale and finance leases	81 640	71 873	2 393	4 248		409	1 561	1 156	3 126	1 759	1 367	1 367	44	3 126	3.8
Card debtors	32 268	27 204	1 389	1 555		542	411	1 167	2 120	524	1 596	1 596	75	2 120	6.6
Other loans and advances	185 442	167 004	5 139	5 130		2 196	2 078	3 895	8 169	3 168	5 001	5 001	61	8 169	4.4
Personal unsecured lending	51 835	41 731	2 653	3 262		395	1 343	2 451	4 189	1 002	3 187	3 187	76	4 189	8.1
Business lending and other	133 607	125 273	2 486	1 868		1 801	735	1 444	3 980	2 166	1 814	1 814	46	3 980	3.0
Corporate & Investment Banking	472 437	464 020	2 132	685	25	1 951	3 254	370	5 575	2 250	3 325	3 325	60	5 600	1.2
Corporate loans	408 624	400 426	2 132	685		1 914	3 097	370	5 381	2 180	3 201	3 201	59	5 381	1.3
Commercial property finance	63 813	63 594			25	37	157		194	70	124	124	64	219	0.3
Other services	(47 834)	(47 836)						2	2		2	2		2	
Gross loans and advances	1 070 471	985 390	19 617	30 943	25	9 371	17 979	7 146	34 496	19 226	15 270	15 270	44	34 521	3.2
Less:															
Impairments for loans and advances	(22 444)														
Net loans and advances	1 048 027														
Add the following other banking activities' exposures:															
Cash and balances with central banks	75 310														
Derivative assets	72 629														
Financial investments	180 104														
Trading assets	159 798														
Pledged assets	8 879														
Other financial assets	6 185														
Total on-balance sheet exposure	1 550 932														
Off-balance sheet exposure															
Letters of credit and bankers' acceptances	13 413														
Guarantees	63 761														
Irrevocable unutilised facilities	62 347														
Total exposure to credit risk	1 690 453														

1 Loans are past due but not specifically impaired.

Credit risk continued

IFRS: MAXIMUM EXPOSURE TO CREDIT RISK BY CREDIT QUALITY continued

		Performing loans				Non-performing loans									
		Neither past due nor specifically impaired		Not specifically impaired		Specifically impaired loans									
	Gross advances Total Rm	Normal monitoring Rm	Close monitoring Rm	Early arrears Rm	Non-performing[1] Rm	Sub-standard Rm	Doubtful Rm	Loss Rm	Total Rm	Securities and expected recoveries on specifically impaired loans Rm	Net after securities and expected recoveries on specifically impaired loans Rm	Balance sheet impairments for non-performing specifically impaired loans Rm	Gross specific impairment coverage %	Total non-performing loans Rm	Non-performing loans %
2016															
Personal & Business Banking	644 668	569 053	15 718	32 051		6 371	16 008	5 467	27 846	16 079	11 767	11 767	42	27 846	4.3
Mortgage loans	336 451	294 000	8 047	19 839		3 700	10 335	530	14 565	10 925	3 640	3 640	25	14 565	4.3
Instalment sale and finance leases	81 035	71 663	1 811	4 491		470	1 378	1 222	3 070	1 660	1 410	1 410	46	3 070	3.8
Card debtors	31 229	26 085	1 228	1 696		612	478	1 130	2 220	622	1 598	1 598	72	2 220	7.1
Other loans and advances	195 953	177 305	4 632	6 025		1 589	3 817	2 585	7 991	2 872	5 119	5 119	64	7 991	4.1
Personal unsecured lending	53 152	43 042	1 927	3 322		453	3 375	1 033	4 861	1 268	3 593	3 593	74	4 861	9.1
Business lending and other	142 801	134 263	2 705	2 703		1 136	442	1 552	3 130	1 604	1 526	1 526	49	3 130	2.2
Corporate & Investment Banking	506 034	498 227	2 066	182	406	1 173	3 240	740	5 153	2 263	2 890	2 890	114	5 559	1.1
Corporate loans	440 515	433 019	2 066	156	404	1 077	3 053	740	4 870	2 143	2 727	2 727	56	5 274	1.2
Commercial property finance	65 519	65 208		26	2	96	187		283	120	163	163	58	285	0.4
Other services	(63 281)	(63 282)						1	1	(1)	2	2		1	
Gross loans and advances	1 087 421	1 003 998	17 784	32 233	406	7 544	19 248	6 208	33 000	18 341	14 659	14 659	44	33 406	3.1

Less:	
Impairments for loans and advances	(21 793)
Net loans and advances	1 065 628
Add the following other banking activities' exposures:	
Cash and balances with central banks	77 474
Derivative assets	61 752
Financial investments	154 630
Trading assets	128 098
Pledged assets	3 313
Other financial assets	6 543
Total on-balance sheet exposure	1 497 438
Off-balance sheet exposure	
Letters of credit and bankers' acceptances	12 607
Guarantees	64 076
Irrevocable unutilised facilities[2]	54 617
Total exposure to credit risk	1 628 738

1 Included loans of R359 million that are past due but not specifically impaired.
2 Previous year the amount has been restated to exclude certain revocable facilities.

Credit risk continued

Credit impairment losses on loans and advances

Loans and advances are assessed for possible impairment at each reporting date. Before impairments are allocated to individual loans, consideration is first given to whether there is evidence of a decrease in expected cash flows from a portfolio of loans and advances. This will include estimations of the emergence period between the date of the occurrence of the loss event and the identification of that loss. Portfolio impairments are calculated for both performing and non-performing but not specifically impaired loans. Factors such as national- and industry-specific economic conditions, the extent of early arrears and any legislation that could affect recovery, are all considered when calculating the portfolio impairment charge.

For those non-performing loans (NPLs) where there is objective evidence of default, specific impairments are calculated using methodologies that include inputs such as segmentation, modelled expected loss (EL) and PD. Estimates of future cash flows on individually impaired loans are based on historical loss experience for similar loans.

IFRS: AGEING OF LOANS AND ADVANCES PAST DUE BUT NOT IMPAIRED

	Less than 31 days Rm	31 to 60 days Rm	61 to 90 days Rm	91 to 180 days Rm	Total Rm
2017					
Personal & Business Banking	**17 568**	**8 043**	**4 647**		**30 258**
Mortgage loans	**10 520**	**5 528**	**3 277**		**19 325**
Instalment sale and finance leases	**2 697**	**1 075**	**476**		**4 248**
Card debtors	**920**	**382**	**253**		**1 555**
Other loans and advances	**3 431**	**1 058**	**641**		**5 130**
Personal unsecured lending	**2 155**	**628**	**479**		**3 262**
Business term lending and other	**1 276**	**430**	**162**		**1 868**
Corporate & Investment Banking		**441**	**244**		**710**
Corporate loans		**441**	**244**	**25**	**710**
Commercial property finance					
Total	**17 568**	**8 484**	**4 891**	**25**	**30 968**
2016					
Personal & Business Banking	19 238	8 094	4 719		32 051
Mortgage loans	11 092	5 484	3 263		19 839
Instalment sale and finance leases	2 883	1 140	468		4 491
Card debtors	998	408	290		1 696
Other loans and advances	4 265	1 062	698		6 025
Personal unsecured lending	2 271	584	467		3 322
Business term lending and other	1 994	478	231		2 703
Corporate & Investment Banking		19	164	359	542
Corporate loans		13	144	359	516
Commercial property finance		6	20		26
Total	19 238	8 113	4 883	359	32 593

Credit risk continued

Concentration risk

Concentration risk is the risk of loss arising from an excessive concentration of exposure to a single counterparty, an industry, a product, a geography, maturity, or collateral. The group's credit risk portfolio is well-diversified. The group's management approach relies on the reporting of concentration risk along key dimensions, the setting of portfolio limits and stress testing.

IFRS: INDUSTRY SEGMENTAL ANALYSIS GROSS LOANS AND ADVANCES

	2017 Rm	2016 Rm
Agriculture	33 476	18 022
Construction	14 921	21 615
Electricity	19 211	15 005
Finance, real estate and other business services	295 917	348 708
Individuals	459 660	443 727
Manufacturing	60 130	63 666
Mining	25 675	31 149
Transport	24 909	26 052
Wholesale	23 552	28 942
Other services	113 020	90 535
Gross loans and advances	**1 070 471**	1 087 421

IFRS: GEOGRAPHIC SEGMENTAL ANALYSIS GROSS LOANS AND ADVANCES

	2017		2016	
	%	Rm	%	Rm
South Africa	80	857 642	79	863 243
Africa Regions	15	162 260	15	158 142
International	5	50 569	6	66 036
Gross loans and advances	**100**	**1 070 471**	100	1 087 421

IFRS: INDUSTRY SEGMENTAL ANALYSIS SPECIFIC CREDIT IMPAIRMENTS

	2017 Rm	2016 Rm
Agriculture	756	246
Construction	156	288
Electricity	245	153
Finance, real estate and other business services	1 470	1 095
Individuals	9 121	9 180
Manufacturing	295	447
Mining	853	713
Transport	474	192
Wholesale	360	441
Other services	1 540	1 904
Specific credit impairments	**15 270**	14 659

IFRS: GEOGRAPHIC SEGMENTAL ANALYSIS SPECIFIC CREDIT IMPAIRMENTS

	2017		2016	
	%	Rm	%	Rm
South Africa	82	12 583	85	12 404
Africa Regions	18	2 689	15	2 253
International		(2)		2
Specific credit impairments	**100**	**15 270**	100	14 659

Credit risk continued

Collateral

The table below shows the financial effect that collateral has on the group's maximum exposure to credit risk. The table is presented according to Basel asset categories and includes collateral that may not be eligible for recognition under Basel but that management takes into consideration in the management of the group's exposures to credit risk. All on- and off-balance sheet exposures that are exposed to credit risk, including NPL, have been included.

Collateral includes:

- financial securities that have a tradable market, such as shares and other securities
- physical items, such as property, plant and equipment
- financial guarantees, suretyships and intangible assets.

Netting agreements, which do not qualify for offset under IFRS but which are nevertheless enforceable, are included as part of the group's collateral for risk management purposes. All exposures are presented before the effect of any impairment provisions. In the retail portfolio, 56% (2016: 55%) is fully collateralised. The R3.0 billion (2016: R4.3 billion) of retail accounts that lie within the 0% to 50% range of collateral coverage mainly comprise accounts which are either in default or legal. The total average collateral coverage for all retail mortgage exposures in the 50% to 100% collateral coverage category is 95% (2016: 95%).

Of the group's total exposure, 48% is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

The group does not currently trade commodities that could give rise to physical commodity inventory or collateral exposure with the exception of precious metals. In the normal course of its precious metal trading operations the group does not hold allocated physical metal; however, this may occur from time-to-time. Where this does occur, appropriate risk and business approval is required to ensure that the minimum requirements are satisfied, including but not limited to approval of risk limits and insurance cover.

COLLATERAL

						Collateral coverage – Total collateral		
2017	**Total exposure (a+b) Rm**	**Unsecured (a) Rm**	**Secured (b) Rm**	**Netting agreements (c) Rm**	**Secured exposure after netting (b-c) Rm**	**1% to 50% Rm**	**50% to 100% Rm**	**Greater than 100% Rm**
Corporate	542 322	381 980	160 342	8 233	152 109	11 572	104 917	35 620
Sovereign	264 723	251 679	13 044	6 327	6 716	2 812	3 858	46
Bank	308 425	204 147	104 278	53 624	50 654	32 691	11 913	6 050
Retail	569 366	105 580	463 786	324	463 462	3 028	139 938	320 496
Retail mortgage	355 819	58	355 761		355 761	1 217	42 250	312 294
Other retail	213 547	105 522	108 025	324	107 701	1 811	97 688	8 202
Total	**1 684 836**	**943 386**	**741 450**	**68 508**	**672 941**	**50 103**	**260 626**	**362 212**
Add: Financial assets not exposed to credit risk	28 061							
Less: Impairments for loans and advances	(22 444)							
Less: Unrecognised off balance sheet items	(139 521)							
Total exposure	**1 550 932**							
Cash and balances with central banks	75 310							
Derivative assets	72 629							
Trading assets	159 798							
Pledged assets	8 879							
Financial investments	180 104							
Loans and advances	1 048 027							
Other financial assets	6 185							
Total	**1 550 932**							

Credit risk continued

Collateral continued

2016	Total exposure (a+b) Rm	Unsecured (a) Rm	Secured (b) Rm	Netting agreements (c) Rm	Secured exposure after netting (b-c) Rm	Collateral coverage – Total collateral 1% to 50% Rm	50% to 100% Rm	Greater than 100% Rm
Corporate	656 732	389 047	267 685	16 757	250 928	10 298	183 850	56 780
Sovereign	163 629	144 484	19 145	4 037	15 108	1 035	8 152	5 921
Bank	187 888	27 657	160 231	39 523	120 708	1 158	46 549	73 001
Retail	551 936	110 185	441 751	243	441 508	4 336	130 943	306 229
Retail mortgage	343 437	366	343 071		343 071	426	44 914	297 731
Other retail	208 499	109 819	98 680	243	98 437	3 910	86 029	8 498
Total	1 560 185	671 373	888 812	60 560	828 252	16 827	369 494	441 931
Add: Financial assets not exposed to credit risk	90 346							
Less: Impairments for loans and advances	(21 793)							
Less: Unrecognised off-balance sheet items[1]	(131 300)							
Total exposure	1 497 438							
Cash and balances with central banks	77 474							
Derivative assets	61 752							
Trading assets	128 098							
Pledged assets	3 313							
Financial investments	154 630							
Loans and advances	1 065 628							
Other financial assets	6 543							
Total	1 497 438							

1 Restated to exclude certain revocable facilities.

Funding and liquidity risk

Definition

Liquidity risk is defined as the risk that an entity, although solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

Approach to managing liquidity risk

The nature of the group's banking and trading activities gives rise to continuous exposure to liquidity risk. Liquidity risk may arise where counterparties, who provide the group with short-term funding, withdraw or do not roll over that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

The group manages liquidity in accordance with applicable regulations and within the group's risk appetite framework. The group's liquidity risk management governance framework supports the measurement and management of liquidity across both the corporate and retail sectors to ensure that payment obligations can be met by the group's legal entities, under both normal and stressed conditions. Liquidity risk management ensures that the group has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times. The group manages liquidity risk as three interrelated pillars, which are aligned to the Basel III liquidity requirements.

Funding and liquidity risk continued

Maturity analysis of financial liabilities by contractual maturity

The table on page 138 analyses cash flows on a contractual, undiscounted basis based on the earliest date on which the group can be required to pay (except for trading liabilities and derivative liabilities, which are presented as redeemable on demand) and will, therefore, not agree directly to the balances disclosed in the consolidated Statement of Financial Position (SOFP).

Derivative liabilities are included in the maturity analysis on a contractual, undiscounted basis when contractual maturities are essential for an understanding of the derivatives' future cash flows. Management considers only contractual maturities to be essential for understanding the future cash flows of derivative liabilities that are designated as hedging instruments in effective hedge accounting relationships. All other derivative liabilities, together with trading liabilities, are treated as trading and are included at fair value in the redeemable on demand bucket since these positions are typically held for short periods of time.

The table also includes contractual cash flows with respect to off-balance sheet items. Where cash flows are exchanged simultaneously, the net amounts have been reflected.

	Redeemable on demand Rm	Maturing within 1 month Rm	Maturing between 1 – 6 months Rm	Maturing between 6 – 12 months Rm	Maturing after 12 months Rm	Total Rm
2017						
Financial liabilities						
Derivative financial instruments	**73 676**		**(12)**	**(32)**	**(29)**	**73 603**
Instruments settled on a net basis	**47 023**		**(12)**	**(32)**	**(29)**	**46 950**
Instruments settled on a gross basis	**26 653**					**26 653**
Trading liabilities	**63 576**					**63 576**
Deposits and debt funding	**787 553**	**101 860**	**120 565**	**84 280**	**177 282**	**1 271 540**
Subordinated debt			**134**	**344**	**19 719**	**20 197**
Other		**14 958**				**14 958**
Total	**924 805**	**116 818**	**120 687**	**84 592**	**196 972**	**1 443 874**
Unrecognised financial liabilities						
Letters of credit and bankers' acceptances	**13 413**					**13 413**
Guarantees	**63 761**					**63 761**
Irrevocable unutilised facilities	**62 347**					**62 347**
Total	**139 521**					**139 521**
2016						
Financial liabilities						
Derivative financial instruments	68 037	236	34	142	8	68 457
Instruments settled on a net basis	43 389	198	19	142	8	43 756
Instruments settled on a gross basis	24 648	38	15			24 701
Trading liabilities	48 109					48 109
Deposits and debt funding	767 341	100 447	122 196	102 458	130 862	1 223 304
Subordinated debt		65	534	838	22 161	23 598
Other		17 181				17 181
Total	883 487	117 929	122 764	103 438	153 031	1 380 649
Unrecognised financial liabilities						
Letters of credit and bankers' acceptances	12 607					12 607
Guarantees	64 076					64 076
Irrevocable unutilised facilities[1]	54 617					54 617
Total	131 300					131 300

[1] Restated to exclude certain revocable facilities.

Market risk

Definition

Market risk is the risk of a change in the market value, actual or effective earnings, or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.

The group's key market risks are:

- trading book market risk
- interest rate in the banking book (IRRBB)
- equity risk in the banking book
- foreign currency risk
- own equity-linked transactions
- post-employment obligation risk.

Trading book market risk

Definition

Trading book market risk is represented by financial instruments, including commodities, held in the trading book, arising out of normal global markets' trading activity.

Approach to managing market risk in the trading book

The group's policy is that all trading activities are undertaken within the group's global markets' operations.

The market risk functions are independent of the group's trading operations and are accountable to the relevant legal entity ALCOs. ALCOs have a reporting line into group ALCO, a subcommittee of GROC.

All Value-at-Risk (VaR) and Stressed Value-at-Risk (SVaR) limits require prior approval from the respective entity ALCOs. The market risk functions have the authority to set these limits at a lower level.

Market risk teams are responsible for identifying, measuring, managing, monitoring and reporting market risk as outlined in the market risk governance standard.

Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk functions to bring exposures back in line with approved market risk appetite, with such breaches being reported to management and entity ALCOs.

VaR and SVaR

The group uses the historical VaR and SVaR approach to quantify market risk under normal and stressed conditions.

For risk management purposes VaR is based on 251 days of unweighted recent historical data updated at least monthly, a holding period of one day and a confidence level of 95%. The historical VaR results are calculated in four steps:

- calculate 250 daily market price movements based on 251 days' historical data. Absolute movements are used for interest rates and volatility movements; relative for spot, equities, credit spreads, and commodity prices
- calculate hypothetical daily profit or loss for each day using these daily market price movements
- aggregate all hypothetical profits or losses for day one across all positions, giving daily hypothetical profit or loss, and then repeat for all other days
- VaR is the 95th percentile selected from the 250 days of daily hypothetical total profit or loss.

Daily losses exceeding the VaR are likely to occur, on average, 13 times in every 250 days.

Limitations of historical VaR are acknowledged globally and include:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature
- the use of a one-day holding period assumes that all positions can be liquidated or the risk offset in one day. This will usually not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully
- the use of a 95% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.

VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intra-day exposures. VaR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

Market risk continued

Trading book portfolio characteristics

VaR for the year under review

Trading book market risk exposures arise mainly from residual exposures from client transactions and limited trading for the group's own account. In general, the group's trading desks have run similar levels of market risk throughout the year when compared to 2016 aggregate normal VaR, and reduced levels when compared to aggregate SVaR.

TRADING BOOK NORMAL VAR ANALYSIS BY MARKET VARIABLE

	Normal VaR			
	Maximum[1] Rm	Minimum[1] Rm	Average Rm	Closing Rm
2017				
Commodities risk	**2.1**	**0.05**	**0.3**	**0.7**
Foreign exchange risk	**38**	**13**	**22**	**13**
Equity position risk	**12**	**3**	**6**	**5**
Debt securities	**22**	**12**	**16**	**12**
Diversification benefits[2]			**(14)**	**(11)**
Aggregate	**46**	**17**	**31**	**20**
2016				
Commodities risk	0.8	0.04	0.2	0.1
Foreign exchange risk	36	17	23	36
Equity position risk	19	4	9	9
Debt securities	32	11	19	13
Diversification benefits[2]			(21)	(20)
Aggregate	48	23	31	38

1 The maximum and minimum VaR figures reported for each market variable do not necessarily occur on the same day. As a result, the aggregate VaR will not equal the sum of the individual market VaR values, and it is inappropriate to ascribe a diversification effect to VaR when these values may occur on different days.

2 Diversification benefit is the benefit of measuring the VaR of the trading portfolio as a whole, that is, the difference between the sum of the individual VaRs and the VaR of the whole trading portfolio.

Approach to managing IRRBB

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

The group's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the group operates. The group's treasury and capital management team monitors banking book interest rate risk on a monthly basis operating under the oversight of group ALCO.

Measurement

The analytical techniques used to quantify IRRBB include both earnings- and valuation-based measures. The analysis takes into account embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis.

INTEREST RATE SENSITIVITY ANALYSIS[1]

	ZAR	USD	GBP	Euro	Other	Total
2017						
Increase in basis points	**200**	**100**	**100**	**100**	**100**	
Sensitivity of annual net interest income (million)	**2 295**	**246**	**(2)**	**(15)**	**331**	**2 855**
Sensitivity of OCI (million)	**8**	**(9)**	**(1)**		**(247)**	**(249)**
Decrease in basis points	**200**	**100**	**100**	**100**	**100**	
Sensitivity of annual net interest income (million)	**(2 325)**	**(339)**			**(367)**	**(3 031)**
Sensitivity of OCI (million)	**(8)**	**9**	**1**		**247**	**249**
2016						
Increase in basis points	200	100	100	100	100	
Sensitivity of annual net interest income (million)	2 202	260	6	(29)	251	2 690
Sensitivity of OCI (million)	11	(6)	(5)		(237)	(237)
Decrease in basis points	200	100	100	100	100	
Sensitivity of annual net interest income (million)	(2 297)	(325)	(3)		(275)	(2 900)
Sensitivity of OCI (million)	(11)	6	2		237	234

1 Before tax.

Market risk continued

Equity risk in the banking book

Definition

Equity risk is defined as the risk of loss arising from a decline in the value of an equity or equity-type instrument held on the banking book, whether caused by deterioration in the underlying operating asset performance, net asset value (NAV), enterprise value of the issuing entity, or by a decline in the market price of the equity or instrument itself.

Though issuer risk in respect of tradable equity instruments constitutes equity risk, such traded issuer risk is managed under the trading book market risk framework.

Approach to managing equity risk in the banking book

Equity risk relates to all transactions and investments subject to approval by the group ERC, in terms of that committee's mandate, and includes debt, quasi-debt and other instruments that are considered to be of an equity nature.

For the avoidance of doubt, equity risk in the banking book excludes strategic investments in the group's subsidiaries, associates and joint ventures deployed in delivering the group's business and service offerings unless the group financial director and group CRO deem such investments to be subject to the consideration and approval by the group ERC.

MARKET RISK SENSITIVITY OF NON-TRADING EQUITY INVESTMENTS

	10% reduction in fair value Rm	Fair value Rm	10% increase in fair value Rm
2017			
Equity securities listed and unlisted	**3 005**	**3 339**	**3 673**
Listed		**468**	
Unlisted		**2 872**	
Impact on profit and loss	**(326)**		**326**
Impact on OCI	**(8)**		**8**
2016			
Equity securities listed and unlisted	3 591	3 990	4 390
Listed[1]		1 006	
Unlisted		2 984	
Impact on profit and loss	(389)		389
Impact on OCI	(10)		10

1 Restated to reflect total listed and unlisted equities of the group.
2 During 2016, the carrying amount of certain treasury bills were erroneously allocated to listed investments, consequently the amounts presented at 31 December 2016 have been restated. The restatement did not affect the group's statement of financial position.

Market risk continued

Foreign currency risk

Definition

The group's primary non-trading-related exposures to foreign currency risk arise as a result of the translation effect on the group's net assets in foreign operations, intragroup foreign-denominated debt and foreign-denominated cash exposures and accruals.

Approach to managing foreign currency risk

The group foreign currency management committee, a subcommittee of the group capital management committee, manages the risk according to existing legislation, South African exchange control regulations and accounting parameters. It takes into account naturally offsetting risk positions and manages the group's residual risk by means of forward exchange contracts, currency swaps and option contracts.

Hedging is undertaken in such a way that it does not constrain normal operating activities. In particular, for banking entities outside of the South African common monetary area, the need for capital to fluctuate with risk-weighted assets is taken into account.

The repositioning of the group's NAV by currency, which is managed at a group level, is a controlled process based on underlying economic views and forecasts of the relative strength of currencies. The group does not ordinarily hold open exposures of any significance with respect to its banking book.

Gains or losses on derivatives that have been designated as either net investment or cash flow hedging relationships in terms of IFRS are reported directly in OCI, with all other gains and losses on derivatives being reported in profit or loss.

Foreign currency risk sensitivity analysis

The table that follows reflects the expected financial impact, in rand equivalent, resulting from a 10% shock to foreign currency risk exposures, against ZAR. The sensitivity analysis is based on net open foreign currency exposures arising from designated net investment hedges, other derivative financial instruments, foreign-denominated cash balances and accruals and intragroup foreign-denominated debt. The sensitivity analysis reflects the sensitivity to OCI and profit or loss on the group's foreign-denominated exposures other than those trading positions for which sensitivity has been included in the trading book VaR analysis. The group's NAV in foreign operations has not been included in the table that follows.

FOREIGN CURRENCY RISK SENSITIVITY IN ZAR EQUIVALENTS

	USD	Euro	GBP	Naira	Other	Total
2017						
Total net long/(short) position (Rm)	**57**	**6**	**14**	**2**	**(1)**	**78**
Sensitivity (ZAR depreciation) (%)	**10**	**10**	**10**	**10**	**10**	
Impact on OCI (Rm)						
Impact on profit or loss (Rm)	**(6)**	**(1)**	**(1)**		**(35)**	**(43)**
2016						
Total net long/(short) position (Rm)	637	15	1		(335)	318
Sensitivity (ZAR depreciation) (%)	10	10	10	10	10	
Impact on OCI (Rm)					33	33
Impact on profit or loss (Rm)	(64)	(2)			(31)	(97)

Market risk continued

Own equity-linked transactions

Definition

The group has exposure to changes in its share price arising from its equity-linked remuneration contractual commitments.

Depending on the nature of the group's equity-linked share schemes, the group is exposed to either income statement risk or NAV risk through equity due to changes in its own share price as follows:

- Income statement risk arises as a result of losses being recognised in the group's income statement as a result of increases in the group's share price on cash-settled share schemes above the award grant price.
- NAV risk arises as a result of the group settling an equity-linked share incentive scheme at a higher price than the price at which the share incentive was granted to the group's employees.

The following table summarises the group's most material share schemes together with an explanation of which risk (where applicable) the share scheme exposes the group to, and why, and an indication as to whether the share schemes are hedged.

SHARE SCHEME	RISK TO THE GROUP	EXPLANATION	HEDGED[1]	HEDGED RISK
EGS	N/A	The EGS is an equity-settled share scheme that is settled through the issuance of new shares. Accordingly, the group does not incur any cash flow in settling the share schemes and hence, is not exposed to any risk as a result of changes in its own share price. Since the EGS results in the issuance of new shares and in order to mitigate the dilutionary impact on existing shareholders, the group re-purchases shares from the external market participants.	No. As there is no cash flow risk	Not applicable
DBS and PRP	NAV risk	The DBS and PRP awards that are equity-settled, are settled through the purchase of shares from external market participants. Accordingly, for these equity-settled share schemes, increases in the group's share price above the grant price will result in losses being recognised in the group's equity.	Yes	SBK share price risk
Quanto stock unit scheme (Quanto) and outside Africa DBS (OADBS)	Income statement risk	The Quanto is a cash-settled share scheme. The Quanto and the OADBS (which is cash-settled) result in losses being recognised in the income statement as a result of increases in the group's share price.	Yes	SBK share price risk
Cash-settled DBS and PRP	Income statement risk	The DBS and PRP awards that are cash-settled result in losses being recognised in the income statement as a result of increases in the group's share price.	Yes	SBK share price risk
SARP – equity-settled	NAV risk	SARP awards that are issued to individuals in the employment of a group entity domiciled in South Africa are classified as equity-settled and are settled through the purchase of shares from external market participants. Accordingly, changes in the group's share price above the grant price will result in gains and/or losses being recognised directly in the group's equity.	No, given the current number of awards that have been issued to date the SARP is not hedged. The number of awards are, however, monitored to evaluate for future hedging considerations.	N/A
SARP – cash-settled	Income statement risk	Awards made to individuals of a group entity outside of South Africa are settled in cash. Increases in the group's share price will result in losses being recognised in the income statement.	No, given the current number of awards that have been issued to date the SARP is not hedged. The number of awards are, however, monitored to evaluate for future hedging considerations.	N/A

[1] The group partially hedges these exposures.

Investment management and life insurance – Liberty Holdings Limited

Credit risk

The following table provides information regarding the aggregated credit risk exposure of Liberty to debt instruments categorised by credit ratings, if available, as at 31 December 2017.

EXPOSURE TO CREDIT RISK[1]

	A- and above Rm	BBB+ Rm	BBB Rm	BBB- Rm	BB+ Rm	BB Rm	BB- and below Rm	Not rated Rm	Pooled funds Rm	Total carrying value Rm
2017										
Debt instruments	**8 349**	**1 238**	**33 124**	**28 299**	**24 944**	**20 704**	**5 048**	**1 989**		**123 695**
Investment policies				**8 498**				**1 206**		**9 704**
Prepayments, insurance and other receivables	**620**	**66**	**30**	**485**	**12**			**5 148**		**6 361**
Mutual funds – interest-bearing instruments									**22 174**	**22 174**
Reinsurance assets	**1 339**	**21**	**28**		**5**		**188**	**193**		**1 774**
Derivatives and collateral deposits	**1 802**	**160**	**329**	**2 544**	**4**	**3 031**		**1**		**7 871**
Cash and cash equivalents	**2 940**	**1 627**	**594**	**5 599**		**4 087**	**128**	**194**		**15 169**
Total assets bearing credit risk	**15 050**	**3 112**	**34 105**	**45 425**	**24 965**	**27 822**	**5 364**	**8 731**	**22 174**	**186 748**
2016										
Debt instruments	8 049	19 869	46 520	27 927	5 306	4 598	3 326	2 140		117 735
Investment policies			6 591			10	108	1 363		8 072
Prepayments, insurance and other receivables	386	92	92	446			2	4 282		5 300
Mutual funds – interest-bearing instruments									22 660	22 660
Reinsurance assets	1 240	19	153		9		170	83		1 674
Derivatives and collateral deposits	1 922	427	5 047	1 186				27		8 609
Cash and cash equivalents	3 219	748	6 212	4 431		10	118	256		14 994
Total assets bearing credit risk	14 816	21 155	64 615	33 990	5 315	4 618	3 724	8 151	22 660	179 044

[1] As reported by Liberty, refer to Liberty's annual financial statements.

Funding and liquidity risk

Long-term insurance

The table below breaks down the group's assets according to time to liquidate. It is worth noting that, in a stressed environment, the market value of these assets is likely to be negatively affected.

FINANCIAL PROPERTY AND INSURANCE ASSET LIQUIDITY[1]

	2017		2016	
	%	Rm	%	Rm
Liquid[2]	**76**	**333 857**	76	317 321
Medium[3]	**14**	**63 590**	14	58 962
Illiquid[4]	**10**	**44 026**	10	42 816
Total	**100**	**441 473**	100	419 099

1 As reported by Liberty. Refer to Liberty's annual financial statements.
2 Liquid assets are those that are considered to be realisable within one month (for example, cash, listed equities and term deposits).
3 Medium assets are those that are considered to be realisable within six months (for example, unlisted equities and certain unlisted term deposits).
4 Illiquid assets are those that are considered to be realisable in excess of six months (for example, investment properties and policyholder assets).

Maturity profiles of financial instrument liabilities

The table below summarises the maturity profile of the financial instrument liabilities of the group based on the remaining undiscounted contractual obligations. These figures will be higher than amounts disclosed in the statement of financial position (where the effect of discounting is taken into account) except for short duration liabilities. Policyholder liabilities under investment contracts, investment contracts with DPF and insurance contracts are shown in a separate table below.

MATURITY PROFILE OF FINANCIAL INSTRUMENT LIABILITIES – CONTRACTUAL CASH FLOWS[1] (EXCLUDING POLICYHOLDER LIABILITIES AND DERIVATIVE LIABILITIES)

	Zero to three months[2] Rm	Four to twelve months Rm	One to five years Rm	Six to ten years Rm	Variable Rm	Total Rm
2017						
Subordinated notes[3]	**120**	**1 343**	**3 995**	**2 224**		**7 682**
Redeemable preference shares[3,4]					**5**	**5**
Third party financial liabilities arising on consolidation of mutual funds	**49 713**					**49 713**
Repurchase agreements	**3 582**	**149**	**1 006**			**4 737**
Collateral deposits	**4 426**					**4 426**
Insurance and other payables	**11 756**	**196**	**41**	**2**		**11 995**
Total	**69 597**	**1 688**	**5 042**	**2 226**	**5**	**78 558**
2016						
Subordinated notes[3]	112	281	4 439	1 107		5 939
Redeemable preference shares[3,4]					5	5
Third-party financial liabilities arising on consolidation of mutual funds	44 046					44 046
Repurchase agreements	5 602	811	723			7 136
Collateral deposits	4 684					4 684
Insurance and other payables	10 951	209	50	3		11 213
Total	65 395	1 301	5 212	1 110	5	73 023

1 As reported by Liberty. Refer to Liberty's annual financial statements.
2 0 – 3 months are either due within the timeframe or are payable on demand.
3 Contractual cash flows are at amortised cost.
4 No fixed maturity date, however, redeemable with a two-year notice period at the instance of Liberty.

Funding and liquidity risk continued

Long-term insurance continued

Liquidity risks arising from long-term insurance business

The tables that follow provide an indication of liquidity needs in respect of cash flows required to meet obligations arising under long-term insurance business.

Undiscounted cash flows are shown and the effect of discounting is taken into account to reconcile to total policyholder contract values.

EXPECTED CASH FLOWS – LONG-TERM INSURANCE CONTRACTS[1]

	Insurance contracts		Reinsurance assets and liabilities Rm	Investment contracts with DPF Rm	Investment contracts Rm
	Policyholder liabilities Rm	Policyholder assets Rm			
2017					
Investment-linked liabilities					
Within 1 year	**19 299**			**493**	**6 226**
1 – 5 years	**63 806**			**125**	**9 026**
6 – 10 years	**15 890**			**969**	**9 943**
11 – 20 years	**36 105**			**2 159**	**21 373**
Over 20 years	**33 014**			**8 099**	**51 204**
Total investment-linked liabilities	**168 114**			**11 845**	**97 772**
Non-investment-linked liabilities/(assets)					
Within 1 year	**5 308**	**(2 506)**	**(169)**		**571**
1 – 5 years	**19 287**	**(6 690)**	**(218)**		**1 239**
6 – 10 years	**13 671**	**(3 889)**	**(294)**		**2 041**
11 – 20 years	**26 070**	**2 604**	**(613)**		**40**
Over 20 years	**65 667**	**66 130**	**(2 655)**		**44**
Effect of discounting cash flows	**(87 563)**	**(63 133)**	**3 131**		**(1 188)**
Total non-investment-linked liabilities/(assets)	**42 440**	**(7 484)**	**(818)**		**2 747**
Total long-term insurance business liabilities/(assets)	**210 554**	**(7 484)**	**(818)**	**11 845**	**100 519**
Total surrender value of long-term insurance policyholder liabilities	**176 459**			**11 852**	**100 157**
2016					
Investment-linked liabilities					
Within 1 year	16 954			369	4 179
1 – 5 years	62 205			57	8 516
6 – 10 years	14 839			1 146	8 613
11 – 20 years	35 650			2 002	19 242
Over 20 years	33 303			7 888	48 536
Total investment-linked liabilities	162 951			11 462	89 086
Non-investment-linked liabilities/(assets)					
Within 1 year	5 733	(2 486)	(150)		536
1 – 5 years	16 883	(6 698)	(170)		1 167
6 – 10 years	12 969	(3 932)	(198)		2 050
11 – 20 years	25 424	2 033	(462)		35
Over 20 years	66 748	70 297	(3 029)		48
Effect of discounting cash flows	(86 553)	(66 528)	3 212		(1 309)
Total non-investment-linked liabilities/(assets)	41 204	(7 314)	(797)		2 527
Total long-term insurance business liabilities/(assets)	204 155	(7 314)	(797)	11 462	91 613
Total surrender value of long-term insurance policyholder liabilities	170 246			11 576	91 247

[1] As reported by Liberty. Refer to Liberty's annual financial statements.

Market risk

Exposure to financial, property and insurance assets

The table below summarises Liberty's exposure to financial, property and insurance assets. This exposure has been split into the relevant market risk categories and then attributed to the effective holders of the risk.

SUMMARY OF GROUP ASSETS SUBJECT TO MARKET RISK[1]

		Attributable to				
	Total assets Rm	Long-term policyholder investment-linked (including DPF) liabilities Rm	Other policyholder liabilities[5] Rm	Third-party financial liabilities arising on con-solidation of mutual funds Rm	Non-controlling interests Rm	Residual liabilities and share-holders' interest Rm
2017						
Assets subject to market risk	**247 241**	**204 691**	**(7 666)**	**31 809**	**7 497**	**10 910**
Equity price	**147 580**	**125 110**	**(4 350)**	**23 158**		**3 662**
Property price[2]	**40 180**	**25 010**	**(329)**	**5 423**	**7 497**	**2 579**
Mixed portfolios excluding investment policies[3]	**59 481**	**54 571**	**(2 987)**	**3 228**		**4 669**
Assets subject to market and credit risk	**186 748**	**86 131**	**40 425**	**17 904**	**450**	**41 838**
Interest rate	**174 890**	**76 047**	**38 944**	**17 904**	**450**	**41 545**
Investment policies in mixed portfolios	**9 704**	**9 704**				
Reinsurance assets[4]	**1 774**		**1 481**			**293**
Equity derivatives	**380**	**380**				
Long-term policyholder assets	**7 484**					**7 484**
Other assets	**2 654**					**2 654**
Total	**444 127**	**290 822**	**32 759**	**49 713**	**7 947**	**62 886**
Percentage (%)		**65.5**	**7.4**	**11.2**	**1.8**	**14.1**
2016						
Assets subject to market risk	232 741	197 440	(8 082)	27 797	5 971	9 615
Equity price	141 712	120 771	(4 506)	22 866		2 581
Property price[2]	38 100	24 976	(420)	4 068	5 971	3 505
Mixed portfolios excluding investment policies[3]	52 929	51 693	(3 156)	863		3 529
Assets subject to market and credit risk	179 044	80 474	37 953	16 249	1 359	43 009
Interest rate	167 340	70 444	36 601	16 249	1 359	42 687
Investment policies in mixed portfolios	8 072	8 072				
Reinsurance assets[4]	1 674		1 352			322
Equity derivatives	1 958	1 958				
Long-term policyholder assets	7 314					7 314
Other assets	2 791					2 791
Total	421 890	277 914	29 871	44 046	7 330	62 729
Percentage (%)		65.9	7.1	10.4	1.7	14.9

1 As reported by Liberty. Refer to Liberty's annual financial statements.
2 Equity price and interest rate risk are included in property price risk where the invested entity only has exposure to investment properties.
3 Mixed portfolios are subject to a combination of equity price, interest rate and property price risks depending on each portfolio's construction. A substantial portion of the mixed portfolios will be subject to equity price and interest rate risk. The exact proportion is practically difficult to accurately calculate given the number of mutual funds and hedge funds contained in the group portfolios.
4 Reinsurance assets are claims against reinsurers outstanding at the reporting date. They are not subject to market risk other than time value of money (interest rate) for the periods to settlement.
5 Negative exposure to the various risk categories can occur in 'Other policyholder liabilities' since the present value of future charges can exceed the present value of future benefits and expenses resulting in a negative liability. The group offsets these negative liabilities against policyholders' market-related liabilities. The policyholders' market risk exposure, however, remains unchanged. Hence, shareholders bear all the risks of shorting assets backing the policyholder market-related liabilities by the amount of these negative liabilities.

Market risk continued

Interest rate risk

The table below provides additional detail on financial instrument assets and liabilities and their specific interest rate exposure. Due to practical considerations, interest rate risk details contained in investments in non-subsidiary mutual funds and investment policies are not provided. Accounts receivable and accounts payable, where settlement is expected within 90 days, are not included in the analysis. The effect of interest rate risk on these balances is not considered significant given the short-term duration of the underlying cash flows. Derivative instrument exposure to interest rates is shown separately.

INTEREST RATE EXPOSURE[1]

Carrying value	2017 Rm	2016 Rm
Financial instruments liabilities	**14 673**	16 344
Exposed to cash flow interest rate risk	**12 213**	12 858
Exposed to fair value interest rate risk	**2 460**	3 486
Financial instruments assets	**140 682**	134 718
Exposed to cash flow interest rate risk	**81 999**	78 118
Exposed to fair value interest rate risk	**58 683**	56 600

Property market risk

Liberty's direct exposure to property market risk is shown below.

PROPERTY MARKET RISK[1]

	2017 Rm	2016 Rm
Investment properties	**33 256**	32 342
Owner-occupied properties	**1 512**	1 486
Gross direct exposure	**34 768**	33 828
Attributable to non-controlling interests	**(7 497)**	(6 887)
Net exposure	**27 271**	26 941
Concentration use risk within directly held properties is summarised below:		
Shopping malls	**28 219**	27 551
Office buildings	**2 536**	2 582
Hotels	**762**	635
Other property (mainly Melrose Arch, a convention centre and properties under development)	**3 251**	3 060
Total	**34 768**	33 828

1 As reported by Liberty. Refer to Liberty's annual financial statements.

Market risk continued

Sensitivity analysis

The table below provides a description of the sensitivities that are provided on market risk assumptions.

MARKET VALUE	DESCRIPTION OF SENSITIVITY
Interest yield curve	A parallel shift in the interest rate yield curve
Implied option volatilities	A change in the implied short-term, property and interest rate option volatility assumptions
Equity prices	A change in the local and foreign equity prices
Rand exchange rates	A change in the ZAR exchange rate to all applicable currencies

The equity price and rand currency sensitivities are applied as an instantaneous event at the financial position date with no change to long-term market assumptions used in the measurement of policyholder contract values. In other words, the assets are instantaneously impacted by the sensitivity on the financial position date. The new asset levels are applied to the measurement of policyholder contract values, where applicable, but no changes are made to the prospective assumptions used in the measurement of policyholder contract values. The interest rate yield curve and implied option volatility sensitivities are applied similarly but the assumptions used in the measurement of policyholder contract values that are dependent on interest rate yield curves and implied option volatilities are updated.

The market sensitivities are applied to all assets held by Liberty (and not just assets backing the policyholder contract values). Each sensitivity is applied in isolation with all other assumptions left unchanged.

The table below summarises the impact of the change in the aforementioned risk variables on policyholders' contract values and on ordinary shareholders' equity and attributable profit after taxation. The market risk sensitivities are net of risk mitigation activities as described in the market risk section. Consequently the comparability to the previous year is impacted by the level of risk mitigation at the respective financial position dates.

SENSITIVITY ANALYSIS OF RISK VARIABLES[1]

	2017				2016			
	Change in variable %	**Gross of reinsurance impact on policyholders' contract values Rm**	**Net of reinsurance impact on policyholders' contract values Rm**	**Impact on equity and attributable profit after taxation Rm**	Change in variable %	Gross of reinsurance impact on policyholders' contract values Rm	Net of reinsurance impact on policyholders' contract value Rm	Impact on equity and attributable profit after taxation Rm
Market assumptions								
Interest rate yield curve	**12**	**(5 267)**	**(5 236)**	**(274)**	12	(4 937)	(4 905)	(221)
	(12)	**6 567**	**6 541**	**168**	(12)	6 185	6 159	108
Option price volatilities	**20**	**16**	**16**	**(11)**	20	27	27	(19)
	(20)	**6**	**6**	**(4)**	(20)	(7)	(7)	5
Equity prices	**15**	**23 398**	**23 397**	**1 948**	15	21 632	21 631	1 686
	(15)	**(22 696)**	**(22 696)**	**(1 978)**	(15)	(20 978)	(20 977)	(1 472)
Rand exchange rates	**12[2]**	**(5 402)**	**(5 402)**	**(630)**	12	(4 906)	(4 906)	(737)
Rand exchange rates	**(12)[3]**	**5 394**	**5 394**	**643**	(12)	4 923	4 923	734

1 As reported by Liberty. Refer to Liberty's annual financial statements.
2 Strengthening of the rand.
3 Weakening of the rand.

Market risk continued

Sensitivity analysis continued

The table below provides a description of the sensitivities that are provided on insurance risk assumptions.

MARKET VALUE	DESCRIPTION OF SENSITIVITY
Assurance mortality	A level percentage change in the expected future mortality rates on assurance contracts
Annuitant longevity	A level percentage change in the expected future mortality rates on annuity contracts
Morbidity	A level percentage change in the expected future morbidity rates
Withdrawal	A level percentage change in the expected future withdrawal rates
Expense per policy	A level percentage change in the expected maintenance expenses

The table below summarises the impact of the change in the insurance risk variables on policyholders' contract values and on ordinary shareholders' equity and attributable profit after taxation.

SENSITIVITY ANALYSIS OF RISK VARIABLES[1]

	2017				2016			
	Change in variable %	**Gross of reinsurance impact on policy-holders' contract values Rm**	**Net of reinsurance impact on policy-holders' contract values Rm**	**Impact on equity and attri-butable profit after taxation Rm**	Change in variable %	Gross of reinsurance impact on policy-holders' contract values Rm	Net of reinsurance impact on policy-holders' contract values Rm	Impact on equity and attri-butable profit after taxation Rm
Insurance assumptions								
Mortality								
Assured lives	**2**	**434**	**361**	**(260)**	2	404	342	(246)
	(2)	**(436)**	**(362)**	**261**	(2)	(406)	(343)	247
Annuitant longevity	**4[2]**	**390**	**390**	**(281)**	4	384	384	(276)
Annuitant longevity	**(4)[3]**	**(374)**	**(374)**	**269**	(4)	(368)	(368)	265
Morbidity	**5**	**662**	**562**	**(405)**	5	606	521	(375)
	(5)	**(661)**	**(561)**	**404**	(5)	(606)	(521)	375
Withdrawals	**8**	**528**	**512**	**(369)**	8	478	461	(331)
	(8)	**(571)**	**(554)**	**399**	(8)	(517)	(498)	358
Expense per policy	**5**	**389**	**389**	**(282)**	5	384	384	(279)
	(5)	**(389)**	**(389)**	**282**	(5)	(384)	(384)	278

1 As reported by Liberty. Refer to Liberty's annual financial statements.
2 Annuitant life expectancy increases, i.e. annuitant mortality reduces.
3 Annuitant life expectancy reduces, i.e. annuitant mortality increases.

ANNEXURE D – GROUP SHARE INCENTIVE SCHEMES

Share-based payments

The group's share incentive schemes enable key management personnel and senior employees to benefit from the performance of the group and group companies' share price. For further detail regarding the share schemes refer to the group's governance and remuneration report.

	2017 Rm	2016 Rm
Expenses recognised in staff cost		
Equity Growth Scheme	**53**	12
Share Appreciation Rights Scheme	**7**	
Quanto Stock Scheme	**59**	238
Deferred Bonus Scheme[1]	**976**	959
Performance Reward Plan	**470**	274
Cash-Settled Deferred Bonus Scheme[1]	**249**	70
Liberty Share Incentive Scheme	**99**	138
Other share incentive schemes	**4**	(24)
Total expenses recognised in staff costs	**1 917**	1 667
Summary of liabilities recognised in other liabilities		
Share Appreciation Rights Scheme	**1**	
Quanto Stock Scheme	**92**	222
Deferred Bonus Scheme[1]	**92**	100
Performance Reward Plan	**139**	110
Cash-Settled Deferred Bonus Scheme[1]	**247**	61
Other share incentive schemes (including Liberty share incentive schemes)		23
Total liability recognised in other liabilities	**571**	516

[1] In 2016, CSDBS of R70 million was included in the DBS balance. This has been expanded to align with the current year disclosures.

Equity growth scheme

The EGS is an equity-settled scheme and represents appreciation rights allocated to employees. The converted value of the rights is settled by issue of shares equivalent to the value of the rights. The scheme has five different subtypes of vesting categories as illustrated by the table below:

	Year	% vesting	Expiry (Years)
Vesting categories			
Type A	3, 4, 5	50, 75, 100	Ten years
Type B	5, 6, 7	50, 75, 100	Ten years
Type C	2, 3, 4	50, 75, 100	Ten years
Type D	2, 3, 4	33, 67, 100	Ten years
Type E	3, 4, 5	33, 67, 100	Ten years

A reconciliation of the movement of share options is detailed below:

	Number of rights		Average price range (R)
	2017	2016	2017
Movement summary			
Rights outstanding at beginning of the year	**17 809 194**	22 626 594	
Granted		1 515 774	
Exercised	**(6 823 050)**	(6 119 878)	**62.39 – 156.96**
Lapsed/forfeited	**(214 063)**	(213 296)	**62.39 – 156.96**
Rights outstanding at the end of the year	**10 772 081**	17 809 194	

Equity growth scheme continued

During 2017, 2 023 515 (2016: 1 498 258) SBG shares were issued to settle the appreciated rights value. At the end of the year, the group would need to issue 9 217 449 (2016: 456 664) SBG shares to settle the outstanding appreciated rights value. The EGS rights are only awarded to individuals in the employment of a group entity domiciled in South Africa.

The group is required to ensure that employees' tax arising from benefits due in terms of the scheme is paid in accordance with the Fourth Schedule of the Income Tax Act of South Africa. Where employees have elected not to fund the tax from their own resources the tax due is treated as a diminution of the gross benefits due under the scheme. No[1] (2016: 456 664) SBG shares were issued and sold to settle the employees' tax due during the year. This reduces the liability to the employee in respect of the outstanding appreciated rights value. Share options were exercised regularly throughout the year. The weighted average share price for the year was R157.29 (2016: R151.63). The following rights granted to employees, including executive directors, had not been exercised at year end:

	2017			2016		
Option expiry period	**Number of ordinary shares**	**Option price range (rand)**	**Weighted average price (rand)**	Number of ordinary shares	Option price range (rand)	Weighted average price (rand)
Year to 31 December 2017				542 291	98.00 – 106.80	98.02
Year to 31 December 2018	**60 800**	**83.10 – 92.00**	**90.91**	1 866 849	83.10 – 92.00	91.94
Year to 31 December 2019	**1 126 491**	**62.39 – 95.50**	**63.35**	1 795 422	62.39 – 98.20	64.07
Year to 31 December 2020	**2 333 977**	**102.00 – 114.69**	**111.82**	3 690 526	102.00 – 116.80	111.80
Year to 31 December 2021	**2 774 059**	**92.79 – 107.55**	**98.72**	4 152 641	90.50 – 107.55	98.74
Year to 31 December 2022	**278 497**	**98.75 – 108.90**	**107.70**	701 661	98.75 – 108.90	108.42
Year to 31 December 2023	**613 283**	**115.51**	**115.51**	883 205	115.51	115.51
Year to 31 December 2024	**870 150**	**126.87**	**126.87**	1 298 937	126.87	126.87
Year to 31 December 2025	**1 270 158**	**156.96**	**156.96**	1 361 888	156.96	156.96
Year to 31 December 2026	**1 444 666**	**122.24**	**122.24**	1 515 774	122.24	122.24
Total	**10 772 081**			17 809 194		

1 Following the adoption by the group of the amendment to IFRS 2 on 1 January 2017, the employees' tax obligations are now settled directly in cash as opposed to the issuance of shares and subsequent sale to settle these taxes.

Shares appreciation right scheme

The SARP replaced the EGS in 2017, is a long term scheme and represents appreciation rights awarded to employees and is based on SBG's share price. Awards that are issued to individuals in the employment of a group entity domiciled in South Africa are classified as equity-settled and awards made to individuals of a group entity outside of South Africa are classified as cash-settled. Vesting and expiry of the rights are as follows:

	Year	**% vesting**	**Expiry**
SARP	2, 3, 4	33, 67, 100	4, 5, 6

The converted value of the rights is settled either by purchasing shares for equity-settled awards on an external market and in cash for cash-settled awards equal to the value of the converted rights.

Shares appreciation right scheme continued

A reconciliation of the movement of share options is detailed below:

	2017	
	Average price range (rand)	Number of rights
SARP		
Granted[1]	155.95	722 322
Lapsed/forfeited	155.95	(50 399)
Rights outstanding at the end of the year		671 923
Comprising:		
Outstanding equity-settled units		626 918
Outstanding cash-settled units		45 005

[1] Includes 677 317 (2016: nil) units that are equity settled, the balance will be cash settled.

During the year, no Standard Bank Group shares were issued to settle the appreciated rights value.

The following rights granted to employees, including executive directors, had not been exercised as at 31 December 2017:

	2017		
Option expiry period	Number of rights	Option price range (R)	Weighted average price (R)
Year to 31 December 2021	223 967	155.95	155.95
Year to 31 December 2022	223 967	155.95	1559.5
Year to 31 December 2023	223 989	155.95	155.95
Total	671 923		

The share appreciation rights granted during the year were valued using a Black-Scholes option pricing model. Each grant was valued separately. The weighted fair value of the options granted per vesting and the assumptions utilised are illustrated below:

	2017		
	Tranche 1	Tranche 2	Tranche 3
Number of appreciation rights granted	223 967	223 967	223 989
Weighted average fair value at grant date (rand)	35.32	39.44	43.06
The principle inputs are as follows:			
Weighted average share price (rand)	155.95	155.95	155.95
Weighted average exercise price (rand)	155.95	155.95	155.95
Expected life (years)	3.67	4.67	5.67
Expected volatility (%)	27.93	27.93	27.93
Risk-free interest rate (%)	8.13	8.34	8.51
Dividend yield (%)	4.46	4.41	4.32

Quanto stock scheme

Since 2007, Standard Bank International has operated a deferred incentive arrangement in the form of the Quanto stock unit plan. All employees granted an annual performance award over a threshold have part of their award deferred. The award units are denominated in USD, the value of which moves in parallel to the change in price of the SBG shares listed on the JSE. Awards are issued to individuals in employment of a group entity domiciled in the group's international operations and are cash-settled. Awards vest over a three-year period.

Special terms apply to employees designated by the Prudential Regulatory Authority (PRA) as Code Staff. For these employees the deferred portion of the incentive is delivered in Quanto stock units with three-year vesting and an additional six-month holding period after vesting. Thereafter half of the remaining incentive (non-deferred portion) is paid immediately in cash and the other half is delivered in Quanto stock units with a further six-month vesting period. From 2016, awards of Quanto Stock Scheme units were replaced with awards of the Cash-Settled Defined Bonus Scheme.

The change in liability due to the change in the SBG share price, is partially hedged through the use of equity options designated as cash flow hedges.

	Units	
	2017	2016
Movement summary		
Units outstanding at beginning of the year	**112 939**	263 434
Lapsed/forfeited	**(164)**	(6 450)
Exercised	**(78 792)**	(144 045)
Units outstanding at end of the year	**33 983**	112 939

Deferred bonus scheme

All employees granted an annual performance award over a threshold have part of their award deferred. The awards are indexed to the group's share price and accrue notional dividends during the vesting period, which are payable on vesting. Awards vest in three equal amounts at 18 months, 30 months and 42 months from the date of award. The final payout is determined with reference to the group's share price on vesting date. These awards have been partially hedged through the use of equity forwards.

Awards that are issued to individuals in employment of a group entity domiciled in South Africa are classified as equity-settled and awards that are made to individuals of a group entity outside of South Africa are classified as cash-settled.

	Units	
	2017	2016[1]
Movement summary		
Units outstanding at beginning of the year	**14 272 817**	11 148 980
Units granted during the year[2]	**7 037 201**	8 885 561
Exercised	**(6 291 609)**	(5 164 076)
Lapsed/forfeited	**(664 605)**	(597 648)
Units outstanding at end of the year	**14 353 804**	14 272 817
Comprising:		
Outstanding equity-settled units	**13 365 219**	13 672 693
Outstanding cash settled units	**988 585**	600 124
Weighted average fair value at grant date (R)	**155.87**	141.13
Expected life (years)	**2.51**	2.51

1 In 2016, amounts were included in the 2016 awards which replaced the Quanto awards. The 2016 amounts were reclassified to only show the DBS awards. The 2016 Quanto replacement awards are included in the CSDBS disclosure.
2 Includes 6 907 216 (2016: 7 803 319) units that are equity settled, the balance relates to cash-settled rewards.

Performance reward plan

The PRP is a performance-driven share plan which rewards value delivered against specific targets. The PRP incentivises a group of senior executives to meet the strategic long-term objectives that deliver value to shareholders, to align the interests of those executives with those of shareholders and to act as an attraction and retention mechanism in a highly competitive marketplace for skills. The PRP operates alongside the existing conditional, equity-settled long-term plans, namely the EGS, DBS, and other share incentive schemes.

The awards are indexed to the group's share price, accrue notional dividends during the vesting period payable on vesting. Shares that vest (if any), and that are delivered to the employee, are conditional on the pre-specified performance metrics. These awards have been partially hedged through the use of equity forwards.

Awards issued to individuals in the employment of a group entity domiciled in South Africa are classified as equity-settled and awards made to individuals of a group entity outside of South Africa are classified as cash-settled.

	Units	
	2017	2016
Movement summary		
Units outstanding at beginning of the year	**7 703 203**	5 014 170
Units granted during the year[1]	**2 658 600**	3 124 400
Exercised	**(1 771 046)**	
Lapsed/forfeited	**(1 072 782)**	(435 367)
Units outstanding at the end of the year	**7 517 975**	7 703 203
Comprising:		
Outstanding equity-settled units	**6 103 839**	6 753 333
Outstanding cash settled units	**1 414 136**	949 870
Weighted average fair value at grant date (R)	**155.95**	122.24
Expected life (years)	**3.07**	3.07

1 Includes 2 207 100 (2016: 2 768 300) units that are cash settled, the balance relates to cash-settled rewards.

Cash-settled deferred bonus scheme

Effective for awards made in 2017, employees granted an annual performance award over a threshold and who are in employment in South Africa and meet other specific criteria have part of their award deferred. This replaces the DBS from 2017 for these employees. In addition, employees who are employees outside of South Africa, and for whom an annual performance award over a threshold is granted, have part of their award deferred. For employees who are awarded CSDBS, and who qualify, the group may award additional special awards. From 2016, included in the CSDBS are awards to employees that replaced the Quanto share scheme and repeat awards that succeed pre-defined thresholds and are deferred.

Awards in rand are indexed to SBG's share price and accrues notional dividends during the vesting period, which are payable on vesting. Awards vest in three equal amounts at 18, 30 and 42 months from the date of the award. The maturity value is determined with reference to the SBG share price on the vesting date. These awards are classified as equity-settled from a group perspective. Awards in currencies other than rand (being the employee's host country) are denominated in that currency with the same terms as rand-denominated awards with the value of the awards, in foreign currency, moving in parallel with changes in the SBG share price. These awards are classified as cash-settled from a group perspective. These awards have been partially hedged through the use of equity forwards.

Cash-settled deferred bonus scheme continued

Currency	Weighted average fair value at grant date	Expected life at grant date (years)	2017 Opening balance	2017 Granted	2017 Exercised	2017 Lapsed	2017 Outstanding	2016 Opening balance	2016 Granted	2016 Exercised	2016 Lapsed	2016 Outstanding
AOA	155.95	2.51		131 155		(4 829)	126 326					
BWP	155.95	2.51		19 409			19 409					
CNY	155.95	2.51	23 573	27 149	(7 713)	(1 088)	41 921		23 573			23 573
GBP	155.01	2.51	44 013	37 526	(14 576)	(732)	66 231		48 393		(4 380)	44 013
GHS	155.95	2.51		8 054			8 054					
HKD	158.34	2.51	41 445	24 642	(13 813)		52 274		41 445			41 445
KES	155.95	2.51		608 231		(50 690)	557 541					
LSL	155.95	2.51		7 248			7 248					
MUR	155.95	2.51		46 745			46 745					
MWK	155.95	2.51		797 223			797 223					
MZN	155.95	2.51		77 907		(770)	77 137					
NAD	155.95	2.51		33 317			33 317					
NGN	155.95	2.51		4 867 325		(73 102)	4 794 223					
SZL	155.95	2.51		7 793			7 793					
TZS	155.95	2.51		143 636		(143 636)						
UGX	155.95	2.51		11 840 183		(375 121)	11 465 062					
USD	155.95	2.51	19 930	21 913	(6 638)	(895)	34 310		19 930			19 930
XOF	155.95	2.51		176 915			176 915					
ZAR	155.95	2.51		918 740			918 740					
ZMW	155.95	2.51		23 367		(8 802)	14 565					

Other share schemes

SCHEME	DESCRIPTION	CLASSIFICATION	STOCK SYMBOL	2017 Outstanding units	2016 Outstanding units
Liberty Holdings group restricted share plan	During 2012, Liberty introduced the Liberty Holdings group restricted share plan which has two methods of participation: 1) Long-term plan awards granted prior to 28 February 2013 vest 33 1/3% at the end of year two, three and four respectively while awards granted subsequently vest 33 1/3% at the end of year three, four and five respectively. 2) Deferred-plan – awards vest 33 1/3% at the end of 18 months, 30 months and 42 months respectively.	Equity-settled scheme	LBH	4 013 757	3 794 112
Liberty share unit rights (SUR)	In 2010, Liberty introduced a SUR plan where units are allocated to qualifying executives and senior management. The units are settled in cash up to three years after grant date.	Cash-settled scheme	LBH		41 867
Nigeria share schemes	On 1 March 2010 and 1 March 2011, share appreciation rights were issued to key management personnel. 50% of the rights vests three years after grant date, 25% of the rights vest four years after grant date and 25% of the rights vest five years after grant date.	Cash-settled scheme	IBTCCB: NL		59 113 755
Group share incentive scheme (GSIS)	GSIS confers rights to employees to acquire shares at the value of the SBG share price at the date the option was granted. The scheme has various vesting periods, and expires ten years after grant date. During the year, 854 312 (2016: 691 534) SBG shares were issued to settle the GSIS awards.	Equity-settled scheme	SBK	1 022 621	1 887 866

ANNEXURE E – EMOLUMENTS AND SHARE INCENTIVES OF DIRECTORS AND PRESCRIBED OFFICERS

Executive directors' and prescribed officers' emoluments

	SK Tshabalala*		BJ Kruger*		A Daehnke[1,*]		A Fihla[2]	M Nienaber[3]	PL Schlebusch	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000	**2017 R'000**	2016 R'000	**2017 R'000**	**2017 R'000**	**2017 R'000**	2016 R'000
Cost to company package	**9 103**	9 198	**9 079**	9 105	**5 697**	3 363	**4 015**	**5 517**	**6 950**	6 852
Cash package paid during the year	**7 899**	7 850	**7 847**	7 809	**5 084**	2 986	**3 507**	**4 829**	**5 951**	5 834
Retirement contributions paid during the year	**1 076**	1 106	**1 076**	1 106	**610**	375	**444**	**542**	**704**	812
Other allowances	**128**	242	**156**	190	**3**	2	**64**	**146**	**295**	206
Short-term incentive	**25 400**	22 880	**24 950**	22 880	**16 750**	15 500	**20 000**	**14 000**	**27 000**	25 000
Short-term incentive (cash)[4]	**11 350**	10 090	**11 125**	10 090	**8 025**	7 400	**9 150**	**6 650**	**12 150**	11 150
Short-term incentive (share-linked deferral)[5]	**14 050**	12 790	**13 825**	12 790	**8 725**	8 100	**10 850**	**7 350**	**14 850**	13 850
Total reward (excluding conditional long-term incentive awards)	**34 503**	32 078	**34 029**	31 985	**22 447**	18 863	**24 015**	**19 517**	**33 950**	31 852
EGS awards vesting[6]	**4 312**	3 459	**3 934**	3 661					**2 723**	1 741
PRP awards vesting[7]	**14 658**	10 219	**14 658**	10 219	**8 790**	4 907	**10 263**	**4 395**	**14 658**	8 176
PRP notional dividend[8]	**1 643**	1 288	**1 643**	1 288	**985**	618	**1 150**	**493**	**1 643**	1 030
Total reward (including conditional long-term incentive awards)	**55 116**	47 044	**54 264**	47 153	**32 222**	24 388	**35 428**	**24 405**	**52 974**	42 799

Former prescribed officer's emoluments

	2017 R'000	2016 R'000
DC Munro[9]		
Cost to company package	**2 844**	6 792
Cash package paid during the year	**2 399**	5 802
Retirement contributions paid during the year	**334**	847
Other allowances	**111**	143
Short-term incentive	**13 100**	28 500
Short-term incentive (cash)[4]	**7 700**	12 900
Short-term incentive (share-linked deferral)[5]	**5 400**	15 600
Total reward (excluding conditional long-term incentive awards)	**15 944**	35 292
EGS conditional reflecting[6]	**3 101**	2 175
PRP reflecting[7]	**20 526**	8 176
PRP notional dividend reflecting[8]	**2 301**	1 030
Total reward (including conditional long-term incentive awards)	**41 872**	46 673
Five-year long-term incentive[10]	**20 000**	
Total reward	**61 872**	46 673

1 A Daehnke was appointed as the group financial director on 1 May 2016. His fixed remuneration is shown from that date.
2 AKL Fihla was appointed as a prescribed officer on 1 June 2017. His fixed remuneration is shown from that date.
3 M Nienaber was appointed as a prescribed officer on 1 January 2017. Her fixed remuneration is shown from that date.
4 These are performance related short-term incentive payments in respect of the financial year under review.
5 These are the deferred bonus scheme awards issued in March of each year (relates to the previous performance year) which are subject to choice. The deferred award is the total award relating to the respective performance year. Deferred bonus amounts are subject to choice. Participants can elect to have the value of the deferred award, or a part thereof, invested in the SARP (prior to the 2015 performance year to EGS), rather than the default DBS. To the extent that SARP is selected, a 10% premium of the value of the award is added. Deferred bonus amounts that were not invested in either the EGS or the SARP are unitised with respect to the group's closing share price on the date on which the group's year end financial results are communicated publicly. The award will be updated in the group's 2018 financial reporting suite to reflect the choices made and units/rights awarded.
6 EGS vesting on March 2018 were awarded in March 2011 and 2013. Relevant performance conditions were met.
7 PRP units vesting were awarded in March 2014 (disclosed for the performance year 2016) and 2015 (disclosed for the 2017 performance year). The PRP value delivered is calculated based on the group's closing share price of R195.66 as at 31 December 2017 (R151.75 for 2016) after calculating the delivery percentage based on the three-year performance conditions (117.61% delivery on the 2015 awards and 68.37% delivery on the 2014 awards). The amount included in the single figure will not be updated in the 2018 remuneration report but rather included at payment value in the settlement schedule.
8 PRP notional dividend is calculated by multiplying the vesting PRP units by the cumulative notional dividend incurred between the grant date and vesting date. The amount included in the single figure will not be updated in the 2018 remuneration report but rather included at payment value in the settlement schedule.
9 DC Munro transferred to Liberty on 1 June 2017 and was a prescribed officer of the group until that date. Therefore, his cost to company package and short-term incentive has been pro-rated based on the period up to transfer, however, all long-term incentives reflect for the full year.
10 The group awarded David Munro a five-year long-term incentive award, 50% of which will be delivered on completion of three years at Liberty and 50% which will be delivered after five years at Liberty. The award is linked to the performance of selected Melville Douglas funds.
* All executive directors were also prescribed officers of the group.

Non-executive directors 2017

		Fixed remuneration				
		Services as directors of Standard Bank Group R'000	Standard Bank Group committee fees R'000	Services as directors of group subsidiaries R'000	Other benefits R'000	Total compensation for the year R'000
TS Gcabashe	**2017**	**6 306**			**503[1]**	**6 809**
	2016	5 978			538	6 516
RMW Dunne	**2017**	**263**	**1 280**	**263**		**1 806**
	2016	248	1 208	248		1 704
GJ Fraser-Moleketi	**2017**	**263**	**644**	**263**		**1 170**
	2016	28		28		56
S Gu[2]	**2017**	**365**	**248**	**110**		**723**
	2016	991	562	28		1 581
H Hu[3]	**2017**	**511**	**347**	**511**		**1 369**
	2016					
GMB Kennealy	**2017**	**263**	**904**	**263**		**1 430**
	2016	28		28		56
JH Maree	**2017**	**263**	**921**	**3 023[4]**		**4 207**
	2016	28		2 627		2 655
NNA Matyumza	**2017**	**263**	**639**	**263**		**1 165**
	2016	28		28		56
Adv KD Moroka	**2017**	**263**	**818**	**263**		**1 344**
	2016	248	772	248		1 268
Dr ML Oduor-Otieno	**2017**	**876**	**526**	**876**		**2 278**
	2016	991	293	991		2 275
AC Parker	**2017**	**263**	**676**	**263**		**1 202**
	2016	248	401	372		1 021
ANA Peterside CON	**2017**	**876**	**655**	**1 483[5]**		**3 014**
	2016	991	450	991		2 432
MJD Ruck	**2017**	**263**	**1 393**	**1 722[6]**		**3 378**
	2016	248	870	2 298		3 416
PD Sullivan	**2017**	**876**	**1 381**	**876**		**3 133**
	2016	991	1 405	1 146		3 542
BS Tshabalala[7]	**2017**	**226**	**690**	**226**		**1 142**
	2016	248	681	356		1 285
JM Vice	**2017**	**263**	**1 274**	**263**		**1 800**
	2016	28	237	28		293
L Wang[3]	**2017**	**154**	**157**	**154**		**465**
	2016					
W Wang[2]	**2017**	**110**	**52**	**110**		**272**
	2016	248	296	28		572
EM Woods[8]	**2017**	**106**	**316**	**106**		**528**
	2016	248	973	273		1 494
Total	**2017**	**12 773**	**12 921**	**11 038**	**503**	**37 235**
Total	**2016**	11 818	8 148	9 718	538	30 222

1 Use of motor vehicle.
2 Resigned at 1 June 2017.
3 Appointed on 1 June 2017.
4 Paid by Liberty Holdings Limited.
5 Paid by Stanbic IBTC.
6 Paid by Industrial and Commercial Bank of China (Argentina) S.A.
7 Resigned at 10 November 2017.
8 Retired at 26 May 2017.

Fees are excluding VAT.

Share incentives

Standard Bank equity growth scheme

The EGS represents participation rights in the future growth of the Standard Bank Group share price. The eventual value of the right is settled by the receipt of Standard Bank Group shares equivalent to the full value of the participation rights. Certain EGS awards issued prior to March 2014 included performance conditions.

Deferred bonus scheme

Employees are awarded a deferred bonus, as a mandatory deferral of their short-term incentive or as discretionary award, into the Deferred Bonus Scheme. The deferred bonus is unitised into a number of units with respect to the group's share price on the date of award. The shares are delivered to the employee on the vesting date for equity-settled share incentives. The cash-settled deferred bonus scheme awards are settled in cash on the vesting date. Notional dividends on the units are paid to the employees on the vesting date.

Performance reward plan

The group's PRP, effective from March 2014, is an equity-settled share scheme with a three-year vesting period and is designed to incentivise the group's senior executives whose roles enable them to contribute to and influence the group's long-term decision-making and performance results. The PRP seeks to promote the achievement of the group's strategic long-term objectives and to align the interests of those executives with overall group performance in both earnings growth and ROE. These are the most important financial metrics to create shareholder value and, therefore aligns the interests of management and shareholders. The awards are subject to the achievement of performance conditions set at award date and that determine the number of shares that ultimately vest. The awards will only vest in future in terms of the rules of the PRP. The shares, subject to meeting the pre-specified conditions, are delivered to the employee on vesting date. Notional dividends accrue during the vesting period and will be payable on vesting date.

Wealth and investment medium term investment scheme

Selected employees are awarded an incentive award into the Wealth and investment medium term investment scheme. The incentive awards are unitised into a number of units with respect to the selected Melville Douglas funds. The incentive awards are settled in cash or units at the election of the employee.

Share incentives continued

SK Tshabalala[5]						Units						Value on settlement		Fair value at year end	
Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date	Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2017	Exercise date share price	Award[1] (R'000)	Notional dividend[2] (R'000)	Award[3] (R'000)	Notional dividend[4] (R'000)
Deferred bonus scheme															
2013	2014/03/06	126.87	3 700	2017/09/30		29 164		(29 164)			157.81	4 602	803		
2014	2015/03/05	156.96	2 679	2017/09/30		17 069		(17 069)			157.81	2 694	374		
2014	2015/03/05	156.96	2 679	2018/09/30		17 070				17 070				3 340	374
2015	2016/03/03	122.24	3 950	2017/09/30		32 313		(32 313)			157.81	5 099	501		
2015	2016/03/03	122.24	3 950	2018/09/30		32 313				32 313				6 322	501
2015	2016/03/03	122.24	3 950	2019/09/30		32 315				32 315				6 323	501
2016	**2017/03/02**	**155.95**	**1 667**	**2018/09/30**			10 687			10 687				2 091	90
2016	**2017/03/02**	**155.95**	**1 667**	**2019/09/30**			10 687			10 687				2 091	90
2016	**2017/03/02**	**155.95**	**1 667**	**2020/09/30**			10 688			10 688				2 091	90
2016*	**2017/03/02**	**155.95**	**2 597**	**2018/09/30**			16 650			16 650				3 258	140
2016*	**2017/03/02**	**155.95**	**2 597**	**2019/09/30**			16 650			16 650				3 258	140
2016*	**2017/03/02**	**155.95**	**2 597**	**2020/09/30**			16 652			16 652				3 258	140
Performance reward plan[8]															
2013	2014/03/06	126.87	12 500	2017/03/31		98 500		(67 344)	(31 156)		153.70	10 351	1 584		
2014	2015/03/05	156.96	10 000	2018/03/31		63 700	11 216			74 916				14 658	1 643
2015	2016/03/03	122.24	12 500	2019/03/31		102 300				102 300				20 016	1 587
2016	**2017/03/02**	**155.95**	**12 500**	**2020/03/31**			80 200			80 200				15 692	674
Equity growth scheme															
Vested															
2007	2008/03/06	92.00		B	2018/03/06	100 000		(100 000)			158.50	6 650			
2008	2009/03/06	62.39		B	2019/03/06	37 500		(37 500)			158.50	3 604			
2009	2010/03/05	111.94		A	2020/03/05	62 500		(62 500)			162.79	3 178			
2009	2010/03/05	111.94		B	2020/03/05	62 500		(62 500)			162.79	3 178			
2010	2011/03/04	98.80		A	2021/03/04	100 000		(100 000)			158.50	5 970			
2010	2011/03/04	98.80		B	2021/03/04	75 000		(75 000)			158.50	4 478			
2011	2012/03/08	108.90		A	2022/03/08	61 471		(61 471)			159.57	3 115			
2011	2012/03/08	108.90		D	2022/03/08	212 834		(212 834)			162.79	11 470			
2012	2013/03/07	115.51		E	2023/03/07	47 161		(11 790)		35 371	162.79	557			
2012	2013/03/07	115.51		D	2023/03/07	231 367				231 367					
Unvested rights															
2010[8]	2011/03/04	98.80	864	2018/03/04	2021/03/04	25 000				25 000				2 422	
2012[8]	2013/03/07	115.51	833	2018/03/07	2023/03/07	23 581				23 581				1 890	
Total			82 897									64 946	3 262	86 710	5 970

Refer to footnotes on page 174.

Share incentives continued

BJ Kruger						Units						Value on settlement		Fair value at year end	
Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date	Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2017	Exercise date share price	Award[1] (R'000)	Notional dividend[2] (R'000)	Award[3] (R'000)	Notional dividend[4] (R'000)
Deferred bonus scheme															
2014	2015/03/05	156.96	1 658	2017/09/30		10 565		(10 565)			157.81	1 667	232		
2014	2015/03/05	156.96	1 658	2018/09/30		10 566				10 566				2 067	232
2015	2016/03/03	122.24	3 950	2017/09/30		32 313		(32 313)			157.81	5 099	501		
2015	2016/03/03	122.24	3 950	2018/09/30		32 313				32 313				6 322	501
2015	2016/03/03	122.24	3 950	2019/09/30		32 315				32 315				6 323	501
2016	**2017/03/02**	**155.95**	**1 667**	**2018/09/30**			10 687			10 687				2 091	90
2016	**2017/03/02**	**155.95**	**1 667**	**2019/09/30**			10 687			10 687				2 091	90
2016	**2017/03/02**	**155.95**	**1 667**	**2020/09/30**			10 688			10 688				2 091	90
2016*	**2017/03/02**	**155.95**	**2 597**	**2018/09/30**			16 650			16 650				3 258	140
2016*	**2017/03/02**	**155.95**	**2 597**	**2019/09/30**			16 650			16 650				3 258	140
2016*	**2017/03/02**	**155.95**	**2 597**	**2020/09/30**			16 652			16 652				3 258	140
Performance reward plan[8]															
2013	2014/03/06	126.87	12 500	2017/03/31		98 500		(67 344)	(31 156)		153.70	10 351	1 584		
2014	2015/03/05	156.96	10 000	2018/03/31		63 700	11 216			74 916				14 658	1 643
2015	2016/03/03	122.24	12 500	2019/03/31		102 300				102 300				20 016	1 745
2016	**2017/03/02**	**155.95**	**12 500**	**2020/03/31**			80 200			80 200				15 692	741
Equity growth scheme															
Vested															
2009	2010/03/05	111.94		B	2020/03/05	100 000		(100 000)			157.90	4 596			
2010	2011/03/04	98.80		B	2021/03/04	25 000		(25 000)			157.90	1 478			
2011	2012/03/07	108.90		A	2022/03/07	61 471		(61 471)			157.90	3 012			
2012	2013/03/07	115.51		E	2023/03/07	37 729		(37 729)			157.90	1 599			
2013	2016/03/06	126.87		D	2026/03/06	210 880		(210 880)			162.79	7 575			
Unvested rights															
2010[8]	2011/03/04	98.80	864	2018/03/04	2021/03/04	25 000				25 000				2 422	
2012[8]	2013/03/07	115.51	667	2018/03/07	2023/03/07	18 865				18 865				1 512	
2013	2014/03/06	126.87	4 070	2018/03/06	2024/03/06	105 442				105 442				7 253	
Total			81 059									35 377	2 317	92 312	6 053

Refer to footnotes on page 174.

Share incentives continued

A Daehnke						Units						Value on settlement		Fair value at year end	
Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date	Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2017	Exercise date share price	Award[1] (R'000)	Notional dividend[2] (R'000)	Award[3] (R'000)	Notional dividend[4] (R'000)
Deferred bonus scheme															
2013	2014/03/06	126.87	804	2017/09/30		6 340		(6 340)			157.81	1 001	174		
2014	2015/03/05	156.96	1 800	2017/09/30		11 468		(11 468)			157.81	1 810	251		
2014	2015/03/05	156.96	1 800	2018/09/30		11 468				11 468				2 244	251
2015	2016/03/03	122.24	2 072	2017/09/30		16 954		(16 954)			157.81	2 676	263		
2015	2016/03/03	122.24	2 072	2018/09/30		16 954				16 954				3 317	263
2015	2016/03/03	122.24	2 073	2019/09/30		16 956				16 956				3 318	263
2016	**2017/03/02**	**155.95**	**1 000**	**2018/09/30**			6 412			6 412				1 255	54
2016	**2017/03/02**	**155.95**	**1 000**	**2019/09/30**			6 412			6 412				1 255	54
2016	**2017/03/02**	**155.95**	**1 000**	**2020/09/30**			6 413			6 413				1 255	54
2016*	**2017/03/02**	**155.95**	**1 700**	**2018/09/30**			10 901			10 901				2 133	92
2016*	**2017/03/02**	**155.95**	**1 700**	**2019/09/30**			10 901			10 901				2 133	92
2016*	**2017/03/02**	**155.95**	**1 700**	**2020/09/30**			10 901			10 901				2 133	92
Performance reward plan[8]															
2013	2014/03/06	126.87	6 001	2017/03/31		47 300		(32 339)	(14 961)		153.70	4 971	761		
2014	2015/03/05	156.96	5 996	2018/03/31		38 200	6 726			44 926				8 790	985
2015	2016/03/03	122.24	7 004	2019/03/31		57 300				57 300				11 211	889
2016	**2017/03/02**	**155.95**	**7 002**	**2020/03/31**			44 900			44 900				8 785	337
Equity growth scheme															
Vested															
2006	2007/03/08	98.00		A	2017/03/08	4 100		(4 100)			158.50	248			
2006	2007/03/08	98.00		B	2017/03/08	4 100		(4 100)			158.50	248			
2007	2008/03/06	92.00		A	2018/03/06	7 500		(7 500)			173.17	609			
2007	2008/03/06	92.00		B	2018/03/06	7 500		(7 500)			173.17	609			
2007	2008/03/06	92.00		B	2018/03/06	20 000		(20 000)			173.17	1 623			
2008	2009/03/06	62.39		A	2019/03/06	12 500				12 500					
2008	2009/03/06	62.39		B	2019/03/06	12 500				12 500					
2009	2010/03/05	111.94		A	2020/03/05	12 500				12 500					
2009	2010/03/05	111.94		B	2020/03/05	12 500				12 500					
2010	2011/03/04	98.80		A	2021/03/04	12 500				12 500					
2010	2011/03/04	98.80		B	2021/03/04	9 375				9 375					
2013	2014/03/06	126.87		D	2024/03/06	45 832				45 832					
Unvested rights															
2010	2011/03/04	98.80	109	2018/03/04	2021/03/04	3 125				3 125				303	
2013	2014/03/06	126.87	742	2018/03/06	2024/03/06	22 918				22 918				1 577	
Total			**45 575**									**13 795**	**1 449**	**49 709**	**3 426**

Refer to footnotes on page 174.

Share incentives continued

AKL Fihla[6]

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date	Units: Opening balance	Units: Awards made during the year	Units: Number of awards exercised during the year	Units: Number of awards forfeited during the year	Balance of awards 31 December 2017	Exercise date share price	Value on settlement: Award[1] (R'000)	Value on settlement: Notional dividend[2] (R'000)	Fair value at year end: Award[3] (R'000)	Fair value at year end: Notional dividend[4] (R'000)
Deferred bonus scheme															
2013	2014/03/06	126.87	1 784	2017/09/30		14 058		(14 058)			157.81	2 218	387		
2014	2015/03/05	156.96	1 617	2017/09/30		10 300		(10 300)			157.81	1 625	226		
2014	2015/03/05	156.96	1 617	2018/09/30		10 300				10 300				2 015	226
2015	2016/03/03	122.24	2 450	2017/09/30		20 042		(20 042)			157.81	3 163	311		
2015	2016/03/03	122.24	2 450	2018/09/30		20 042				20 042				3 921	304
2015	2016/03/03	122.24	2 450	2019/09/30		20 044				20 044				3 922	304
2016	**2017/03/02**	**155.95**	**833**	**2018/09/30**		5 343				5 343				1 045	45
2016	**2017/03/02**	**155.95**	**833**	**2019/09/30**		5 343				5 343				1 045	45
2016	**2017/03/02**	**155.95**	**834**	**2020/09/30**		5 345				5 345				1 046	45
2016*	**2017/03/02**	**155.95**	**2 033**	**2018/09/30**		13 038				13 038				2 551	110
2016*	**2017/03/02**	**155.95**	**2 033**	**2019/09/30**		13 038				13 038				2 551	110
2016*	**2017/03/02**	**155.95**	**2 034**	**2020/09/30**		13 040				13 040				2 551	110
Performance reward plan[8]															
2014	2015/03/05	156.96	7 000	2018/03/31		44 600	7 852			52 452				10 263	1 150
2015	2016/03/03	122.24	6 002	2019/03/31		49 100				49 100				9 607	762
2016	**2017/03/02**	**155.95**	**6 004**	**2020/03/31**			38 500			38 500				7 533	323
Equity growth scheme															
Vested															
2007	2008/03/06	92.00		B	2018/03/06	7 500		(7 500)			173.17	609			
2007	2008/03/06	92.00		B	2018/03/06	7 500		(7 500)			173.17	609			
2007	2008/03/06	92.00		B	2018/03/06	90 000		(90 000)			173.17	7 305			
2008	2009/03/06	62.39		B	2019/03/06	10 000				10 000					
2008	2009/03/06	62.39		B	2019/03/06	10 000				10 000					
2009	2010/03/05	111.94		A	2020/03/05	12 500				12 500					
2009	2010/03/05	111.94		B	2020/03/05	12 500				12 500					
2010	2011/03/04	98.80		A	2021/03/04	13 750				13 750					
2010	2011/03/04	98.80		B	2021/03/04	10 312				10 312					
Unvested rights															
2010	2011/03/04	98.80	120	2018/03/04	2021/03/04	3 438				3 438				333	
Total			40 094									15 529	924	48 383	3 534

Refer to footnotes on page 174.

Share incentives continued

M Nienaber						Units						Value on settlement		Fair value at year end	
Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date	Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2017	Exercise date share price	Award[1] (R'000)	Notional dividend[2] (R'000)	Award[3] (R'000)	Notional dividend[4] (R'000)
Deferred bonus schemes															
2013	2014/03/06	126.87	1 033	2017/09/30		8 145		(8 145)			157.81	1 285	224		
2014	2015/03/05	156.96	1 283	2017/09/30		8 176		(8 176)			157.81	1 290	179		
2014	2015/03/05	156.96	1 283	2018/09/30		8 177				8 177				1 600	179
2015	2016/03/03	122.24	1 267	2017/09/30		10 362		(10 362)			157.81	1 635	161		
2015	2016/03/03	122.24	1 267	2018/09/30		10 362				10 362				2 027	157
2015	2016/03/03	122.24	1 267	2019/09/30		10 363				10 363				2 028	157
2016	**2017/03/02**	**155.95**	**1 000**	**2018/09/30**			6 412			6 412				1 255	54
2016	**2017/03/02**	**155.95**	**1 000**	**2019/09/30**			6 412			6 412				1 255	54
2016	**2017/03/02**	**155.95**	**1 000**	**2020/09/30**			6 413			6 413				1 255	54
2016*	**2017/03/02**	**155.95**	**1 283**	**2018/09/30**			8 229			8 229				1 610	69
2016*	**2017/03/02**	**155.95**	**1 283**	**2019/09/30**			8 229			8 229				1 610	69
2016*	**2017/03/02**	**155.95**	**1 283**	**2020/09/30**			8 230			8 230				1 610	69
Performance reward plan[8]															
2013	2014/03/06	126.87	2 994	2017/03/31		23 600		(16 136)	(7 464)		153.70	2 480	380		
2014	2015/03/05	156.96	2 998	2018/03/31		19 100	3 363			22 462				4 395	493
2015	2016/03/03	122.24	3 496	2019/03/31		28 600				28 600				5 596	444
2016	**2017/03/02**	**155.95**	**9 996**	**2020/03/31**			64 100			64 100				12 542	538
Equity growth scheme															
Vested															
2009	2010/05/03	114.69		A	2020/05/03	1 625		(1 625)			157.37	69			
2009	2010/05/03	114.69		B	2020/05/03	3 125		(3 125)			163.47	152			
2010	2011/03/04	98.80		A	2021/03/04	3 125		(3 125)			157.28	183			
Unvested rights															
2010	2011/03/04	98.80	109	2018/03/04	2021/03/04	3 125				3 125				303	
Total			33 842									7 094	944	37 086	2 337

Refer to footnotes on page 174.

Share incentives continued

PL Schlebusch

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date	Units: Opening balance	Units: Awards made during the year	Units: Number of awards exercised during the year	Units: Number of awards forfeited during the year	Units: Balance of awards 31 December 2017	Exercise date share price	Value on settlement: Award[1] (R'000)	Value on settlement: Notional dividend[2] (R'000)	Fair value at year end: Award[3] (R'000)	Fair value at year end: Notional dividend[4] (R'000)
Deferred bonus scheme															
2013	2014/03/06	126.87	3 617	2017/09/30		28 507		(28 507)			157.81	4 499	785		
2014	2015/03/05	156.96	2 883	2017/09/30		18 370		(18 370)			157.81	2 899	403		
2014	2015/03/05	156.96	2 883	2018/09/30		18 370				18 370				3 594	403
2015	2016/03/03	122.24	4 117	2017/09/30		33 677		(33 677)			157.81	5 315	522		
2015	2016/03/03	122.24	4 117	2018/09/30		33 677				33 677				6 589	522
2015	2016/03/03	122.24	4 117	2019/09/30		33 677				33 677				6 589	522
2016	**2017/03/02**	**155.95**	**1 667**	**2018/09/30**			10 687			10 687				2 091	90
2016	**2017/03/02**	**155.95**	**1 667**	**2019/09/30**			10 687			10 687				2 091	90
2016	**2017/03/02**	**155.95**	**1 667**	**2020/09/30**			10 688			10 688				2 091	90
2016*	**2017/03/02**	**155.95**	**2 950**	**2018/09/30**			18 916			18 916				3 701	159
2016*	**2017/03/02**	**155.95**	**2 950**	**2019/09/30**			18 916			18 916				3 701	159
2016*	**2017/03/02**	**155.95**	**2 950**	**2020/09/30**			18 917			18 917				3 701	159
Performance reward plan[8]															
2013	2014/03/06	126.87	9 997	2017/03/31		78 800		(53 876)	(24 924)		153.70	8 281	1 267		
2014	2015/03/05	156.96	9 998	2018/03/31		63 700	11 216			74 916				14 658	1 643
2015	2016/03/03	122.24	9 999	2019/03/31		81 800				81 800				16 005	1 269
2016	**2017/03/02**	**155.95**	**9 996**	**2020/03/31**			64 100			64 100				12 542	538
Equity growth scheme															
Vested															
2009	2010/03/05	111.94		B	2020/03/05	12 500		(12 500)			157.54	570			
2010	2011/03/04	98.80		B	2021/03/04	12 500		(12 500)			157.52	734			
2011	2012/03/08	108.90		A	2022/03/08	18 442		(18 442)			156.83	884			
2012	2013/03/07	115.51		E	2023/03/07	37 729		(37 729)			158.00	1 603			
Unvested rights[8]															
2010	2011/03/04	98.80	355	2018/03/04	2021/03/04	12 500				12 500				1 211	
2012	2013/03/07	115.51	658	2018/03/07	2023/03/07	18 865				18 865				1 512	
Total			**76 588**									24 785	2 977	80 076	5 644

JH Maree

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date	Units: Opening balance	Units: Awards made during the year	Units: Number of awards exercised during the year	Units: Number of awards forfeited during the year	Units: Balance of awards 31 December 2017	Exercise date share price	Value on settlement: Award[1] (R'000)	Value on settlement: Notional dividend[2] (R'000)	Fair value at year end: Award[3] (R'000)	Fair value at year end: Notional dividend[4] (R'000)
Deferred bonus scheme															
2013	2014/03/06	126.87	1 314	2017/09/30		10 354		(10 354)			157.81	1 634	285		
Equity growth scheme															
Vested															
2008	2009/03/06	62.39		A	2019/03/06	62 500				62 500					
2009	2010/03/05	111.94		A	2020/03/05	500 000				500 000					
2011	2012/03/08	108.90		A	2022/03/08	61 471				61 471					
2012	2013/03/07	115.51		A	2023/03/07	37 729				37 729					
2014	2015/03/05	156.96		D	2025/03/05	26 148				26 148					
Unvested rights															
2012	2013/03/07	115.51	535	2018/03/07	2023/03/07	18 865				18 865				1 512	
2014	2015/03/05	156.96	241	2018/03/05	2025/03/05	26 148				26 148				1 012	
2014	2015/03/05	156.96	241	2019/03/05	2025/03/05	26 149				26 149				1 012	
Total			**2 331**									1 634	285	3 536	

Refer to footnotes on page 174.

Share incentives continued

DC Munro						Units						Value on settlement		Fair value at year end	
Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date	Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 May 2017	Exercise date share price	Award[1] (R'000)	Notional dividend[2] (R'000)	Award[3] (R'000)	Notional dividend[4] (R'000)
Deferred bonus scheme															
2013	2014/03/06	126.87	3 713	2017/09/30[7]		29 263				29 263				4 288	688
2014	2015/03/05	156.96	1 950	2017/09/30[7]		12 423				12 423				1 820	223
2014	2015/03/05	156.96	1 950	2018/09/30		12 425				12 425				1 821	223
2015	2016/03/03	122.24	4 617	2017/09/30[7]		37 767				37 767				5 534	421
2015	2016/03/03	122.24	4 617	2018/09/30		37 767				37 767				5 534	421
2015	2016/03/03	122.24	4 617	2019/09/30		37 768				37 768				5 535	421
2016	**2017/03/02**	**155.95**	**1 667**	**2018/09/30**			10 687			10 687				1 566	47
2016	**2017/03/02**	**155.95**	**1 667**	**2019/09/30**			10 687			10 687				1 566	47
2016	**2017/03/02**	**155.95**	**1 667**	**2020/09/30**			10 688			10 688				1 566	47
2016*	**2017/03/02**	**155.95**	**3 533**	**2018/09/30**			22 657			22 657				3 320	100
2016*	**2017/03/02**	**155.95**	**3 533**	**2019/09/30**			22 657			22 657				3 320	100
2016*	**2017/03/02**	**155.95**	**3 533**	**2020/09/30**			22 657			22 657				3 320	100
Performance reward plan[8]															
2013	2014/03/06	126.87	10 000	2017/03/31		78 800		(53 876)	(24 924)		153.70	8 281	1 267		
2014	2015/03/05	156.96	14 000	2018/03/31		89 200	15 704			104 904				20 526	2 301
2015	2016/03/03	122.24	10 000	2019/03/31		81 800				81 800				11 987	942
2016	**2017/03/02**	**155.95**	**10 000**	**2020/03/31**			64 100			64 100				9 393	282
Wealth & investment medium term incentive scheme															
2017	**2017/05/31**	**2.20**	**5 000**	**2020/05/31**			2 268 191			2 268 191				4 974	
2017	**2017/05/31**	**2.20**	**5 000**	**2022/05/31**			2 268 191			2 268 191				4 974	
2017	**2017/05/31**	**4.88**	**5 000**	**2020/05/31**			1 024 548			1 024 548				4 984	
2017	**2017/05/31**	**4.88**	**5 000**	**2022/05/31**			1 024 548			1 024 548				4 984	
Equity growth scheme															
Vested															
2007	2008/03/06	92.00		B	2018/03/06	50 000		(50 000)			155.00	3 150			
2008	2009/03/06	62.39		B	2019/03/06	25 000		(25 000)			158.50	2 403			
2009	2010/03/05	111.94		A	2020/03/05	50 000				50 000					
2009	2010/03/05	111.94		B	2020/03/05	50 000				50 000					
2010	2011/03/04	98.80		A	2021/03/04	50 000				50 000					
2010	2011/03/04	98.80		B	2021/03/04	37 500				37 500					
2011	2012/03/08	108.90		A	2022/03/08	61 471				61 471					
2012	2013/03/07	115.51		E	2023/03/07	47 161				47 161					
2012	2013/03/07	115.51		D	2023/03/07	60 948				60 948					
2013	2014/03/06	126.87		D	2024/03/06	70 530				70 530					
Unvested rights															
2010[8]	2011/03/04	98.80	432	2018/03/04	2021/03/04	12 500				12 500				1 211	
2012[8]	2013/03/07	115.51	959	2018/03/07	2023/03/07	23 581				23 581				1 890	
2013	2014/03/06	126.87	1 246	2018/03/06	2024/03/06	35 267				35 267				2 426	
Total			**103 701**									**13 834**	**1 267**	**106 539**	**6 363**

* These awards will be settled in cash.

1 Value on settlement is calculated by multiplying the vesting share price by the total units vesting and applying performance conditions (where applicable). Performance conditions applied to the 2013 PRP award that vested in 2017 was 68.37%, against the performance conditions as explained in the remuneration structure section of the group's remuneration report within the governance and remuneration report.

2 Value is calculated by multiplying the notional dividend per unit with the total vesting units and applying performance conditions (where applicable).

3 Value is calculated by multiplying the year end SBK share price of R195.66 by the total outstanding units and applying performance conditions (where applicable).

4 Value is calculated by multiplying the notional dividend (accumulated from grant date to year end) with the total outstanding units and applying performance conditions (where applicable). Notional dividends are subject to the vesting conditions.

5 As at 31 December 2017, SK Tshabalala has a right to 418 814 (2016: 418 814) shares as a beneficiary of Tutuwa Managers' Trust. At 31 December 2017 the debt per share was R54.62 (2016: R56.82).

6 As at 31 December 2017, AK Fihla has a right to 134 232 shares as a beneficiary of Tutuwa Managers' Trust. At 31 December 2017 the debt per share was R54.62.

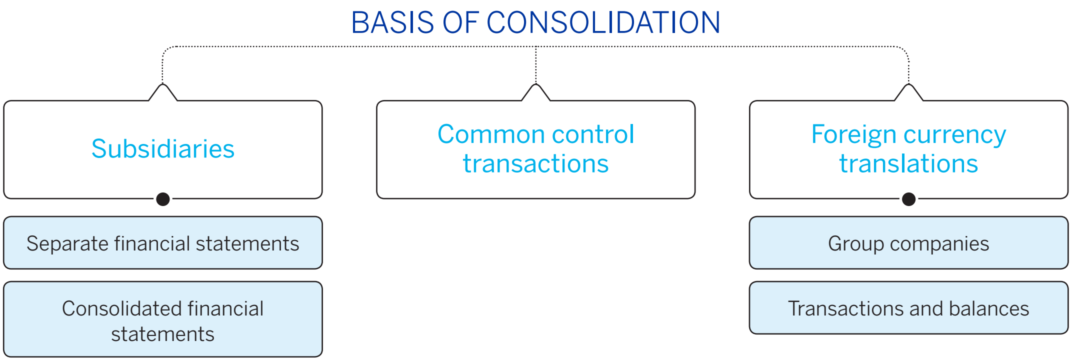
7 In October 2017 the settlement value of these units were R14.2 million.

8 These awards are subjected to performance conditions. The fair value of awards vesting in 2018 are included in the single figure disclosure included in the SBG remuneration report.

ANNEXURE F – DETAILED ACCOUNTING POLICIES

The following accounting policies were applied in the preparation of the group and company financial statements. A copy of the group's full set of accounting policies is available at the company's registered office.

1. Basis of consolidation



Subsidiaries

Separate financial statements

Investments in subsidiaries are accounted for at cost less accumulated impairment losses (where applicable) in the separate financial statements. The carrying amounts of these investments are reviewed annually for impairment indicators and, where an indicator of impairment exists, are impaired to the higher of the investment's fair value less costs to sell or value in use.

Consolidated financial statements

The accounting policies of subsidiaries that are consolidated by the group conform to the group's accounting policies. Intragroup transactions, balances and unrealised gains (losses) are eliminated on consolidation. Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment. The proportion of comprehensive income and changes in equity allocated to the group and non-controlling interest are determined on the basis of the group's present ownership interest in the subsidiary.

Subsidiaries are consolidated from the date on which the group acquires control up to the date that control is lost. Control is assessed on a continuous basis. For mutual funds the group further assesses its control by considering the existence of either voting rights or significant economic power.

Common control transactions

Common control transactions, in which the company is the ultimate parent entity both before and after the transaction, are accounted for at book value.

Foreign currency translations

Group companies

The results and financial position of foreign operations that have a functional currency that is different from the group's presentation currency are translated into the group's presentation currency as follows:

- assets and liabilities (including goodwill, intangible assets and fair value adjustments arising on acquisition) are translated at the closing rate at the reporting date
- income and expenses are translated at average exchange rates
- all resulting foreign exchange differences are accounted for directly in a separate component of OCI, being the group's FCTR.

1. Basis of consolidation continued

Transactions and balances

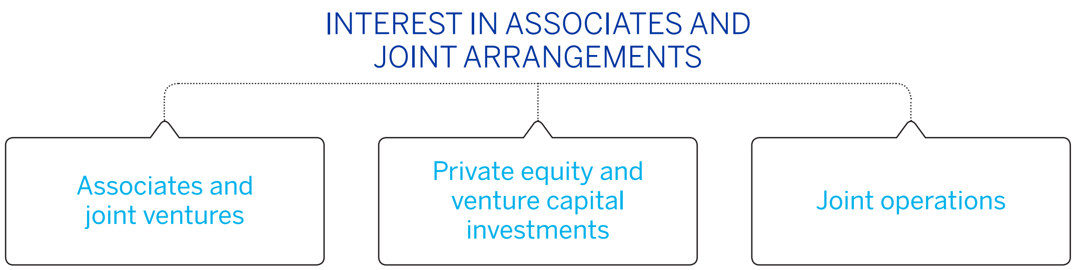
Foreign currency transactions are translated into the respective group entities' functional currencies at exchange rates prevailing at the date of the transactions (in certain instances a rate that approximates the actual rate at the date of the transaction is utilised, for example, an average rate for a month). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in profit or loss (except when recognised in OCI as part of qualifying cash flow hedges and net investment hedges).

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items.

Foreign exchange gains and losses on equities (debt) classified as available-for-sale financial assets are recognised in the available-for-sale reserve in OCI (interest income) whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of the other revenue (interest income).

Foreign currency gains and losses on intragroup loans are recognised in profit or loss except where the settlement of the loan is neither planned nor likely to occur in the foreseeable future. In these cases the foreign currency gains and losses are recognised in the group's FCTR.

2. Interest in associates and joint arrangements



Associates and joint ventures

Associates and joint ventures are initially measured at cost and subsequently accounted for using the equity method at an amount that reflects the group's share of the net assets of the associate or joint venture (including goodwill).

Equity accounting is applied from the date on which the entity becomes an associate or joint venture up to the date on which the group ceases to have significant influence or joint control.

Equity accounting of losses is restricted to the interests in these entities, including unsecured receivables or other commitments, unless the group has an obligation or has made payments on behalf of the associate or joint ventures.

Unrealised profits from transactions are eliminated in determining the group's share of equity accounted profits. Unrealised losses are eliminated in the same way as unrealised gains (but only to the extent that there is no evidence of impairment).

Where there is an indicator of impairment the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying amount.

Impairment losses are recognised through non-trading and capital related items. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the investment's carrying amount does not exceed the carrying amount that would have been determined, net of equity accounted losses, if no impairment loss had been recognised.

For a disposal of an associate or joint venture, being where the group loses significant influence over an associate or loses joint control over a joint venture, the difference between the sales proceeds and any retained interest and the carrying value of the equity accounted investment is recognised as a gain or loss in non-trading and capital related items. Any gains or losses in OCI reserves that relate to the associate or joint venture are reclassified to non-trading and capital related items at the time of the disposal.

The accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies of the group.

2. Interest in associates and joint arrangements continued

Private equity and venture capital investments

Private equity and venture capital investments, including mutual funds held by investment-linked insurance funds that are associates. These associates are either designated on initial recognition at fair value through profit or loss, or are equity accounted.

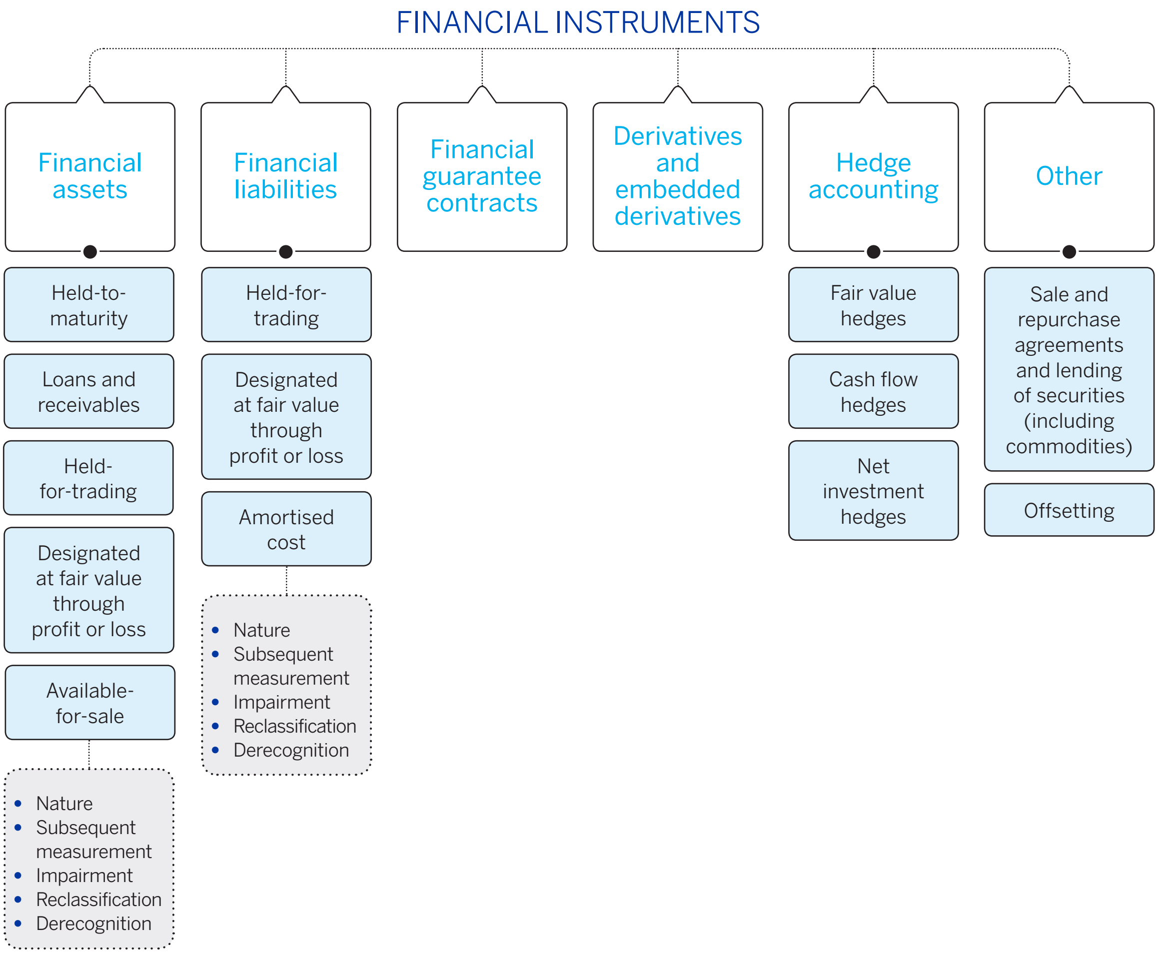
Joint operations

The following is recognised for joint operations:

- assets it controls, including its share of assets jointly controlled
- liabilities, including its share of liabilities incurred jointly
- revenue from the sale of its share of output and from the sale of the output by a joint operation
- expenses, including the share of expenses incurred jointly.

Individual assets are individually assessed for impairment and, where applicable, are impaired to the higher of the fair value less cost to sell and the asset's value in use.

3. Financial instruments



Initial measurement – financial instruments

All financial instruments are measured initially at fair value plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the group commits to purchase (sell) the instruments (trade date accounting).

3. Financial instruments continued

Financial assets

Nature

Held-to-maturity
Non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold-to-maturity.

Loans and receivables
Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified as at fair value through profit or loss or available-for-sale.

Held-for-trading
Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets), those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Included are commodities that are acquired principally for the purpose of selling in the near future or generating a profit from fluctuations in price or broker-traders' margin.

Designated at fair value through profit or loss
Financial assets are designated to be measured at fair value in the following instances:
- to eliminate or significantly reduce an accounting mismatch that would otherwise arise
- where the financial assets are managed and their performance evaluated and reported on a fair value basis
- where the financial asset contains one or more embedded derivatives that significantly modify the financial asset's cash flows.

Available-for-sale
Financial assets that are not classified into one of the abovementioned financial asset categories.

Subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-to-maturity and loans and receivables
Amortised cost using the effective interest method with interest recognised in interest income, less any impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.

Available-for-sale
Fair value, with gains and losses recognised directly in the available-for-sale reserve until the financial asset is derecognised or impaired.

Interest income on debt financial assets is recognised in interest income in terms of the effective interest rate method. Dividends received on debt (equity) available-for-sale financial assets are recognised in interest income (other revenue) within profit or loss.

When debt (equity) available-for-sale financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified to interest income (other revenue).

Held-for-trading
Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.

Designated at fair value through profit or loss
Fair value, with gains and losses recognised in interest income/(other revenue) for all debt/(equity) financial assets.

3. Financial instruments continued

Financial assets continued

Impairment

A financial asset is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the financial asset that can be estimated reliably. The group assesses at each reporting date whether there is objective evidence that a financial asset which is either carried at amortised cost or classified as available-for-sale is impaired as follows:

Held-to-maturity and loans and receivables ('amortised cost')

The following criteria are used in determining whether there is objective evidence of impairment for loans or groups of loans:

- known cash flow difficulties experienced by the borrower
- a breach of contract, such as default or delinquency in interest and/or principal payments
- breaches of loan covenants or conditions
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation
- where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider.

The group first assesses whether there is objective evidence of impairment individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Non-performing loans include those loans for which there is identified objective evidence of impairment, such as a breach of a material loan covenant or condition, as well as those loans for which instalments are due and unpaid for 90 days or more. The impairment of non-performing loans takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

When a loan carried at amortised cost has been identified as specifically impaired, the carrying amount of the loan is reduced to an amount equal to the present value of its estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the loan is reduced through the use of a specific credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired (including loans that have been written off), are reflected within credit impairment charges in profit or loss. Subsequent to impairment, the effects of discounting unwind over time as interest income.

The calculation of the present value of the estimated future cash flows of collateralised financial assets recognised on an amortised cost basis includes cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

If the group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of financial loans with similar credit risk characteristics and collectively assesses for impairment. Loans that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment for impairment.

Impairment of groups of loans that are assessed collectively is recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of loans but before the reporting date. In order to provide for latent losses in a group of loans that have not yet been identified as specifically impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods (time period between the loss event and the date on which the group identifies the losses). Groups of loans are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows. The carrying amount of groups of loans is reduced through the use of a portfolio credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

Previously impaired loans are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

3. Financial instruments continued

Financial assets continued

Available-for-sale

Available-for-sale debt instruments are impaired when there has been a significant or prolonged decline in the fair value of the instrument below its cost and for equity instruments where there is information about significant changes with an adverse effect on the environment in which the issuer operates that indicates that the cost of the investment in the equity instrument may not be recovered.

When an available-for-sale asset has been identified as impaired, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from OCI to profit or loss, within interest income (other revenue) for debt (equity) instruments. If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through interest income for available-for-sale debt instruments. Any reversal of an impairment loss in respect of an available-for-sale equity instrument is recognised directly in OCI.

Reclassification of financial assets are permitted only in the following instances:

Reclassifications are made at fair value as of the reclassification date. Effective interest rates for financial assets reclassified to loans and receivables, held-to-maturity and available-for-sale categories are determined at the reclassification date. Subsequent changes in estimates of cash flows (other than credit impairment changes) adjust the financial asset's effective interest rates prospectively. On reclassification of a trading asset, all embedded derivatives are reassessed and, if necessary, accounted for separately.

Held-to-maturity

Where the group is to sell more than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale assets with the difference between amortised cost and fair value being accounted for in OCI.

Available-for-sale

The group may choose to reclassify financial assets that would meet the definition of loans and receivables if the group, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Held-for-trading

The group may elect to reclassify non-derivative financial assets out of held-for-trading category in the following instances: if the financial asset is no longer held for the purpose of selling it in the near term and the financial asset would not otherwise have met the definition of loans and receivables, it is permitted to be reclassified only in rare circumstances if the financial asset is no longer held for the purpose of selling it in the near team and the financial asset would have met the definition of loans and receivables, it is permitted to be reclassified if the group, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Financial liabilities

Nature

Held-for-trading

Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Designated at fair value through profit or loss

Financial liabilities are designated to be measured at fair value in the following instances:

- to eliminate or significantly reduce an accounting mismatch that would otherwise arise
- where the financial liabilities are managed and their performance evaluated and reported on a fair value basis
- where the financial liability contains one or more embedded derivatives that significantly modify the financial asset's cash flows.

At amortised cost

All other financial liabilities not included in the above categories.

3. Financial instruments continued

Financial liabilities continued

Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-for-trading
Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.

Designated at fair value through profit or loss
Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in interest expense.

Amortised cost
Amortised cost using the effective interest method with interest recognised in interest expense.

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

	DERECOGNITION	MODIFICATION
Financial assets	Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the group is recognised as a separate asset or liability. The group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.	Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss. In all other instances, the renegotiated asset or liability's effective interest rate is redetermined at date of modification taking into account the renegotiated terms.
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	

3. Financial instruments continued

Financial guarantee contracts

A financial guarantee contract is a contract that requires the group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts are subsequently measured at the higher of the:

- present value of any expected payment, when a payment under the guarantee has become probable
- unamortised premium.

Derivatives and embedded derivatives

In the normal course of business, the group enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation, credit, commodity and equity exposures. Derivative instruments used by the group in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of commodities and equities.

Derivatives are initially recognised at fair value. Derivatives that are not designated in a qualifying hedge accounting relationship are classified as held-for-trading with all changes in fair value being recognised within trading revenue. This includes forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle another derivative contract. All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant group accounting policy.

The method of recognising fair value gains and losses on derivatives designated as a hedging instrument depends on the nature of the hedge relationship.

Hedge accounting

Derivatives are designated by the group into the following relationships:

TYPE OF HEDGE	NATURE	TREATMENT
Fair value hedges	Hedges of the fair value of recognised financial assets, liabilities or firm commitments.	Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the remeasurement of both the derivative and the hedged item are recognised in profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same line item in profit or loss as the related hedged item. Any hedge ineffectiveness is recognised immediately in trading revenue. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The adjustment to the carrying amount of a hedged item measured at amortised cost, for which the effective interest method is used, is amortised to profit or loss as part of the hedged item's recalculated effective interest rate over the period to maturity.

3. Financial instruments continued

Hedge accounting continued

TYPE OF HEDGE	NATURE	TREATMENT
Cash flow hedges	Hedges of highly probable future cash flows attributable to a recognised asset or liability, a forecasted transaction, or a highly probable forecast intragroup transaction.	The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve. The ineffective part of any changes in fair value is recognised immediately in profit or loss as trading revenue. Amounts recognised in OCI are transferred to profit or loss in the periods in which the hedged forecast cash flows affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses recognised previously in OCI are transferred and included in the initial measurement of the cost of the asset or liability. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The cumulative gains or losses recognised in OCI remain in OCI until the forecast transaction is recognised in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects profit or loss in the case of a financial asset or a financial liability. If the forecast transaction is no longer expected to occur, the cumulative gains and losses recognised in OCI are immediately reclassified to profit or loss and classified as trading revenue.
Net investment hedges	Hedges of net investments in a foreign operation.	The designated component of the hedging instrument that relates to the effective portion of the hedge, is recognised directly in the foreign currency hedge of net investment reserve. The ineffective part of any changes in fair value is recognised immediately in profit or loss as trading revenue. The cumulative gains and losses in OCI are accounted for similarly to cash flow hedges.

Other

Sale and repurchase agreements and lending of securities (including commodities)

Securities sold subject to linked repurchase agreements (repurchase agreements) are reclassified in the statement of financial position as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is included under deposit and current accounts or trading liabilities, as appropriate.

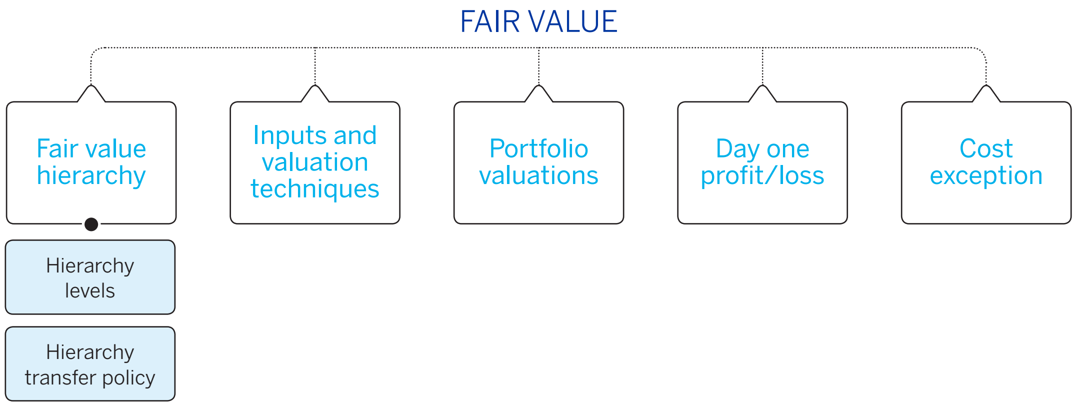
Securities purchased under agreements to resell (reverse repurchase agreements), at either a fixed price or the purchase price plus a lender's rate of return, are recorded as loans and included under trading assets or loans and advances, as appropriate. For repurchase and reverse repurchase agreements measured at amortised cost, the difference between the purchase and sales price is treated as interest and amortised over the expected life using the effective interest method.

Securities lent to counterparties are retained in the annual financial statements. Securities borrowed are not recognised in the annual financial statements unless sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability. Income and expenses arising from the securities borrowing and lending business are recognised over the period of the transactions.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the counterparties to the transaction.

4. Fair value



In terms of IFRS, the group is either required to or elects to measure a number of its financial assets and financial liabilities at fair value. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions. Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. In estimating the fair value of an asset or a liability, the group takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date.

Fair value hierarchy

The group's financial instruments that are both carried at fair value and for which fair value is disclosed are categorised by level of fair value hierarchy. The different levels are based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

Hierarchy levels

The levels have been defined as follows:

Level 1
Fair value is based on quoted market prices (unadjusted) in active markets for an identical financial asset or liability. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2
Fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3
Fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instrument being valued and the similar instrument.

4. Fair value continued

Hierarchy transfer policy

Transfers of financial assets and financial liabilities between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Inputs and valuation techniques

Fair value is measured based on quoted market prices or dealer price quotations for identical assets and liabilities that are traded in active markets, which can be accessed at the measurement date, and where those quoted prices represent fair value. If the market for an asset or liability is not active or the instrument is not quoted in an active market, the fair value is determined using other applicable valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Fair value measurements are categorised into level 1, 2 or 3 within the fair value hierarchy based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market-related discount rate at the reporting date for an asset or liability with similar terms and conditions.

If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

The group's valuation control framework governs internal control standards, methodologies, and procedures over its valuation processes, which include the following valuation techniques and main inputs and assumptions per type of instrument:

ITEM AND DESCRIPTION	VALUATION TECHNIQUE	MAIN INPUTS AND ASSUMPTIONS
Derivative financial instruments Derivative financial instruments comprise foreign exchange, interest rate, commodity, credit and equity derivatives that are either held-for-trading or designated as hedging instruments in hedge relationships.	Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using more sophisticated modelling techniques applicable to the instrument. Techniques include: • discounted cash flow model • Black-Scholes model • combination technique models.	For level 2 and 3 fair value hierarchy items: • discount rate* • spot prices of the underlying • correlation factors • volatilities • dividend yields • earnings yield • valuation multiples.
Trading assets and trading liabilities Trading assets and liabilities comprise instruments which are part of the group's underlying trading activities. These instruments primarily include sovereign and corporate debt, commodities, collateral, collateralised lending agreements and equity securities.	Where there are no recent market transactions in the specific instrument, fair value is derived from the last available market price adjusted for changes in risks and information since that date. Where a proxy instrument is quoted in an active market, the fair value is determined by adjusting the proxy fair value for differences between the proxy instrument and the financial investment being fair valued. Where proxies are not available, the fair value is estimated using more complex modelling techniques. These techniques include discounted cash flow and Black-Scholes models using current market rates for credit, interest, liquidity, volatility and other risks. Combination techniques are used to value unlisted equity securities and include inputs such as earnings and dividend yields of the underlying entity.	
Pledged assets Pledged assets comprise instruments that may be sold or repledged by the group's counterparty in the absence of default by the group. Pledged assets include sovereign and corporate debt, equities, commodities pledged in terms of repurchase agreements and commodities that have been leased to third parties.		
Financial investments Financial investments are non-trading financial assets and primarily comprise of sovereign and corporate debt, listed and unlisted equity instruments, investments in debentures issued by the SARB, investments in mutual fund investments and unit-linked investments.		

Refer to footnote on page 188.

4. Fair value continued

Inputs and valuation techniques continued

ITEM AND DESCRIPTION	VALUATION TECHNIQUE	MAIN INPUTS AND ASSUMPTIONS
Loans and advances to banks and customers Loans and advances comprise: • Loans and advances to banks: call loans, loans granted under resale agreements and balances held with other banks • Loans and advances to customers: mortgage loans (home loans and commercial mortgages), other asset-based loans, including collateralised debt obligations (instalment sale and finance leases), and other secured and unsecured loans (card debtors, overdrafts, other demand lending, term lending and loans granted under resale agreements).	For certain loans fair value may be determined from the market price of a recently occurring transaction adjusted for changes in risks and information between the transaction and valuation dates. Loans and advances are reviewed for observed and verified changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value. Discounted cash flow models incorporate parameter inputs for interest rate risk, foreign exchange risk, liquidity and credit risk, as appropriate. For credit risk, probability of default and loss given default parameters are determined using credit default swaps (CDS) markets, where available and appropriate, as well as the relevant terms of the loan and loan counterparty such as the industry classification and subordination of the loan.	For level 2 and 3 fair value hierarchy items: • discount rate*.
Deposits and debt funding Deposits and debt funding comprise amounts owed to banks and customers, deposits under repurchase agreements, negotiable certificates of deposit, credit-linked deposits and other deposits.	For certain deposits, fair value may be determined from the market price on a recently occurring transaction adjusted for all changes in risks and information between the transaction and valuation dates. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value based on the contractual cash flows related to the instrument. The fair value measurement incorporates all market risk factors, including a measure of the group's credit risk relevant for that financial liability. The market risk parameters are valued consistently to similar instruments held as assets stated in the section above. The credit risk of the reference asset in the embedded CDS in credit-linked deposits is incorporated into the fair value of all credit-linked deposits that are designated to be measured at fair value through profit or loss. For collateralised deposits that are designated to be measured at fair value through profit or loss, such as securities repurchase agreements, the credit enhancement is incorporated into the fair valuation of the liability.	For level 2 and 3 fair value hierarchy items: • discount rate*.

Refer to footnote on page 188.

4. Fair value continued

Inputs and valuation techniques continued

ITEM AND DESCRIPTION	VALUATION TECHNIQUE	MAIN INPUTS AND ASSUMPTIONS
Policyholders' assets and liabilities Policyholders' assets and liabilities comprise unit-linked policies and annuity certains.	Unit-linked policies: assets which are linked to the investment contract liabilities are owned by the group. The investment contract obliges the group to use these assets to settle these liabilities. Therefore, the fair value of investment contract liabilities is determined with reference to the fair value of the underlying assets (i.e. amount payable on surrender of the policies). Annuity certains: discounted cash flow models are used to determine the fair value of the stream of future payments.	For level 2 and 3 fair value hierarchy items: • discount rate* • spot price of underlying
Third-party financial liabilities arising on the consolidation of mutual funds (included in other liabilities) These are liabilities that arise on the consolidation of mutual funds.	The fair values of third-party financial liabilities arising on the consolidation of mutual funds are determined using the quoted put (exit) price provided by the fund manager and discounted for the applicable notice period. The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.	For level 2 and 3 fair value hierarchy items: • discount rate*.

* Discount rates, where applicable, include the risk-free rate, risk premiums, liquidity spreads, credit risk (own and counterparty as appropriate), timing of settlement, storage/service costs, prepayment and surrender risk assumptions and recovery rates/loss given default.

Portfolio valuations

The group has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits the group of financial assets and financial liabilities to be measured at fair value on a net basis, with the net fair value being allocated to the financial assets and financial liabilities.

Day one profit or loss

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models with only observable market data as inputs.

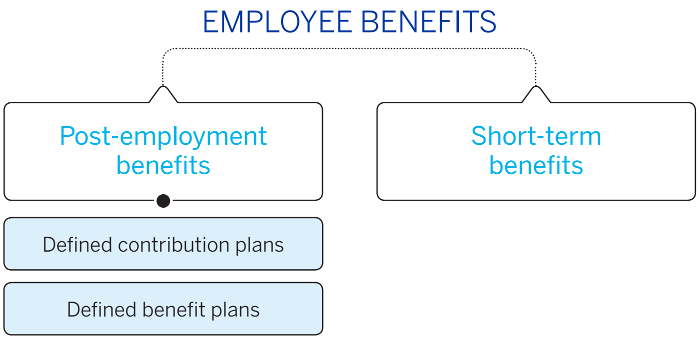
Day one profit or loss is deferred where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models that utilise non-observable market data as inputs.

The timing of the recognition of deferred day one profit or loss is determined individually depending on the nature of the instrument and availability of market observable inputs. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Cost exception

Where the fair value of investments in equity instruments or identical instruments do not have a quoted price in an active market, and derivatives that are linked to and must be settled by delivery of such equity instruments, are unable to be reliably determined, those instruments are measured at cost less impairment losses. Impairment losses on these financial assets are not reversed.

5. Employee benefits



TYPE AND DESCRIPTION	STATEMENT OF FINANCIAL POSITION	STATEMENT OF OTHER COMPREHENSIVE INCOME	INCOME STATEMENT
Defined contribution plans The group operates a number of defined contribution plans. See note 45 for more information.	Accruals are recognised for unpaid contributions.	No direct impact.	Contributions are recognised as an operating expense in the periods during which services are rendered by the employees.
Defined benefit plans The group operates a number of defined benefit retirement and post-employment medical aid plans. Employer companies contribute to the cost of benefits taking account of the recommendations of the actuaries. See note 45 for more information.	Assets or liabilities measured at the present value of the estimated future cash outflows, using interest rates of government bonds denominated in the same currency as the defined benefit plan (corporate bonds are used for currencies for which there is a deep market of high-quality corporate bonds), with maturity dates that approximate the expected maturity of the obligations, less the fair value of plan assets. A net defined benefit asset is only recognised to the extent that economic benefits are available to the group from reductions in future contributions or future refunds from the plan.	Remeasurements of the net defined benefit obligation, including actuarial gains and losses, the return on plan assets (excluding interest calculated) and the effect of any asset ceiling are recognised within OCI.	Net interest income/(expense) is determined on the defined benefit asset/(liability) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset/(liability). Other expenses related to the defined benefit plans are also recognised in operating expenses. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in operating expenses. The group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.
Short-term benefits Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions.	A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.	No direct impact.	Short-term employee benefit obligations are measured on an undiscounted basis and are expensed in operating expenses as the related service is provided.

6. Non-financial assets

NON-FINANCIAL ASSETS

- **Tangible assets**
  - Property
  - Equipment
  - Land
- **Intangible assets**
  - Goodwill
  - Present value of acquired in-force policyholder contracts and investment contracts with discretionary participation features
  - Computer software
  - Other intangible assets
- **Investment property**

TYPE AND INITIAL AND SUBSEQUENT MEASUREMENT	USEFUL LIVES, DEPRECIATION/ AMORTISATION METHOD OR FAIR VALUE BASIS	IMPAIRMENT
Tangible assets (property, equipment and land) Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Land is measured at cost less accumulative impairment losses. Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the group and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised in operating expenses as incurred. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate major components of property and equipment.	Property and equipment are depreciated on the straight-line basis over estimated useful lives (see below) of the assets to their residual values. Land is not depreciated. Buildings: 40 years Computer equipment: 3 – 5 years Motor vehicles: 4 – 5 years Office equipment: 5 – 10 years Furniture: 5 – 13 years Leased assets Shorter of useful life or lease term. The residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year end.	These assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in non-trading and capital related items for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

6. Non-financial assets continued

TYPE AND INITIAL AND SUBSEQUENT MEASUREMENT	USEFUL LIVES, DEPRECIATION/ AMORTISATION METHOD OR FAIR VALUE BASIS	IMPAIRMENT
Tangible assets (property, equipment and land) continued		For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest CGUs. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a *pro rata* basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs to sell and its value in use. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through non-trading and capital related items only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

6. Non-financial assets continued

TYPE AND INITIAL AND SUBSEQUENT MEASUREMENT	USEFUL LIVES, DEPRECIATION/ AMORTISATION METHOD OR FAIR VALUE BASIS	IMPAIRMENT
Goodwill Goodwill represents the excess of the consideration transferred and the acquisition date fair value of any previously held equity interest over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of the acquisition. The group's interest in acquired subsidiaries takes into account any non-controlling interest. Goodwill arising on the acquisition of subsidiaries (associates or joint ventures) is reported in the statement of financial position as part of 'Goodwill and other intangible assets' ('Interest in associates and joint ventures').	Not applicable.	The accounting treatment is generally the same as that for tangible assets except as noted below. Goodwill is tested annually for impairment and additionally when an indicator of impairment exists. An impairment loss in respect of goodwill is not reversed.
Present value of acquired inforce policyholder contracts and investment contracts with discretionary participation features Where a portfolio of policyholder contracts is acquired either directly from another insurer or through the acquisition of a subsidiary, the PVIF business on the portfolio, being the net present value of estimated future cash flows of the existing contracts, is recognised as an intangible asset. The PVIF intangible asset is carried in the statement of financial position at cost less accumulated amortisation and accumulated impairment losses.	The PVIF intangible asset is amortised on a basis consistent with the settlement of the relevant liability in respect of the purchased contracts (four to 12 years). The estimated life is re-evaluated annually.	Same accounting treatment as for tangible assets.

6. Non-financial assets continued

TYPE AND INITIAL AND SUBSEQUENT MEASUREMENT	USEFUL LIVES, DEPRECIATION/ AMORTISATION METHOD OR FAIR VALUE BASIS	IMPAIRMENT
Computer software Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the group and have a probable future economic benefit beyond one year, are recognised as intangible assets. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses from the date that the assets are available for use. Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.	Amortisation is recognised in operating expenses on a straight line basis at rates appropriate to the expected lives of the assets (two to 15 years) from the date that the asset is available for use. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary.	Intangible assets that have an indefinite useful life are tested annually for impairment and additionally when an indicator of impairment exists. The accounting treatment for computer software and other intangible assets is otherwise the same as for tangible assets.
Other intangible assets The group recognises the costs incurred on internally generated intangible assets such as brands, customer lists, customer contracts and similar rights and assets, in operating expenses as incurred. The group capitalises brands, customer lists, customer contracts, distribution forces and similar rights acquired in business combinations. Capitalised intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses.	Amortisation is recognised in operating expenses on a straight-line basis over the estimated useful lives of the intangible assets, not exceeding 20 years, from the date that the asset is available for use. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary.	
Derecognition Non-financial assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds and the carrying amount of the non-financial asset.		
Investment property Initially measured at cost, including transaction costs. Subsequently measured at fair value and included as part of investment management and service fee income and gains within the profit or loss.	The fair value is based on valuation information at the reporting date. If the valuation information cannot be reliably determined, the group uses alternative valuation methods such as discounted cash flow projections or recent prices in active markets. Fair value adjustments recognised in investment management and service fee income and gains are adjusted for any double-counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.	Not applicable.

6. Non-financial assets continued

Derecognition

Investment property is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on derecognition is recognised in investment management and service fee income and gains and is determined as the difference between the net disposal proceeds and the carrying amount of the non-financial asset.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

When the use of a property changes such that it is reclassified from property and equipment to investment property, the difference between the carrying value at date of reclassification and its fair value is recognised in OCI.

7. Property developments and properties in possession

PROPERTY DEVELOPMENTS
AND PROPERTIES IN POSSESSION

Property developments

Properties in possession

Property developments

Property developments are stated at the lower of cost or net realisable value. Cost is assigned by specific identification and includes the cost of acquisition and where applicable, development and borrowing costs during development.

Properties in possession

Properties in possession are properties acquired by the group which were previously held as collateral for underlying lending arrangements that, subsequent to origination, have defaulted. The properties are initially recognised at cost and are subsequently measured at the lower of cost and its net realisable value. Any subsequent write-down in the value of the acquired properties is recognised as an operating expense. Any subsequent increases in the net realisable value, to the extent that it does not exceed its original cost, are also recognised within operating expenses.

8. Equity-linked transactions

EQUITY COMPENSATION PLANS

Equity-settled share-based payments

Cash-settled share-based payments

Equity-settled share-based payments

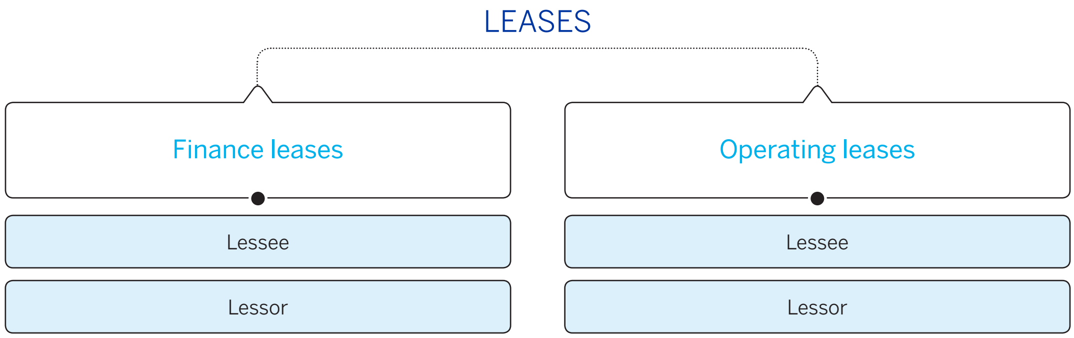
The fair value of the equity-settled share-based payments are determined on grant date and accounted for within operating expenses – staff costs over the vesting period with a corresponding increase in the group's share-based payment reserve. Non-market vesting conditions, such as the resignation of employees and retrenchment of staff, are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each reporting date, the estimate of the number of options expected to vest is reassessed and adjusted against operating expenses and share-based payment reserve over the remaining vesting period.

On vesting of the equity-settled share-based payments, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer. On exercise of the equity-settled share-based payment, any proceeds received are credited to share capital and premium.

Cash-settled share-based payments

Cash-settled share-based payments are accounted for as liabilities at fair value until the date of settlement. The liability is recognised over the vesting period and is revalued at every reporting date up to and including the date of settlement. All changes in the fair value of the liability are recognised in operating expenses.

9. Leases

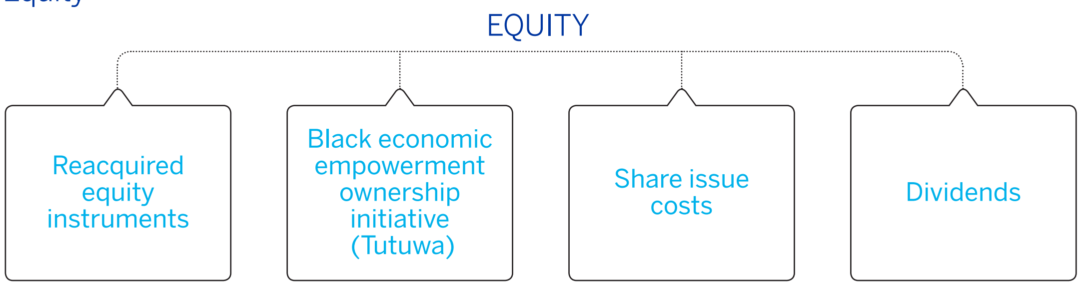


TYPE AND DESCRIPTION	STATEMENT OF FINANCIAL POSITION	INCOME STATEMENT
Finance leases – lessee Leases, where the group assumes substantially all the risks and rewards incidental to ownership, are classified as finance leases.	The leased asset is capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments together with an associated liability to the lessor. Refer to non-financial assets accounting policy for the treatment of the leased asset. Lease payments less the interest component, which is calculated using the interest rate implicit in the lease or the group's incremental borrowing rate, are recognised as a capital repayment which reduces the liability to the lessor.	A lease finance cost, determined with reference to the interest rate implicit in the lease or the group's incremental borrowing rate, is recognised within interest expense over the lease period.
Finance leases – lessor Leases, where the group transfers substantially all the risks and rewards incidental to ownership, are classified as finance leases.	Finance lease receivable, including initial direct costs and fees, are primarily accounted for as financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances.	Finance charges earned within interest income are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. The tax benefits arising from investment allowances on assets leased to clients are accounted for within direct taxation.

9. Leases continued

TYPE AND DESCRIPTION	STATEMENT OF FINANCIAL POSITION	INCOME STATEMENT
Operating leases – lessee All leases that do not meet the criteria of a financial lease are classified as operating leases.	Accruals for unpaid lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease expense are recognised.	Payments made under operating leases, net of any incentives received from the lessor, are recognised in operating expenses on a straight-line basis over the term of the lease. Contingent rentals are expensed as they are incurred. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating expenses in the period in which termination takes place.
Operating leases – lessor All leases that do not meet the criteria of a financial lease are classified as operating leases.	The asset underlying the lease continues to be recognised and accounted for in terms of the relevant group accounting policies. Accruals for outstanding lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease income are recognised.	Operating lease income net of any incentives given to lessees, is recognised on the straight-line basis or a more representative basis where applicable over the lease term and is recognised as income. When an operating lease is terminated before the lease period has expired, any payment required by the group by way of a penalty is recognised as income in the period in which termination takes place.

10. Equity



Reacquired equity instruments

Where subsidiaries purchase/(short sell) Standard Bank Group Limited's equity instruments, the consideration paid/(received) is deducted/(added) from/(to) equity attributable to ordinary shareholders as treasury shares on consolidation.

Fair value changes recognised by subsidiaries on these instruments are reversed on consolidation and dividends received are eliminated against dividends paid. Where such shares are subsequently sold or reissued/(reacquired) outside the group, any consideration received/(paid) is included in equity attributable to ordinary shareholders.

Black economic empowerment ownership initiative (Tutuwa)

The group subscribed for 8.5% redeemable, cumulative, preference shares issued by the Tutuwa entities controlled by the group. The initial repurchase of group shares by the Tutuwa entities was treated as a reduction in the group's equity. Subsequent to the repurchase of the group shares, the Tutuwa entities containing these shares were sold to the black participants. The capital and dividends on the preference shares are repayable from future ordinary dividends received on group shares or from the disposal of the group's shares. As a result of the group's right to receive its own dividends back in the form of preference dividends and capital on the preference shares, the subsequent sale of the Tutuwa entities and consequent delivery of the group shares to the black participants (although legally effected) is not accounted for as a sale. The preference share investment in the Tutuwa entities is also not accounted for as an asset. The preference share asset is effectively eliminated against equity as a negative empowerment reserve.

As a consequence of the above, the IFRS accounting treatment followed until full redemption, or third-party financing, is as follows:

- the 8.5% redeemable, cumulative, preference shares issued by the Tutuwa entities and subscribed for by the group are not recognised as financial assets, but eliminated against equity as a negative empowerment reserve
- the preference dividends received from the Tutuwa entities are eliminated against the ordinary dividends paid on the group shares held by the Tutuwa entities
- preference dividends accrued but not received, due to cash distributions paid to participants, increase the empowerment reserve
- for purposes of the calculation of earnings per share, the weighted average number of shares in issue is reduced by the number of shares held by those Tutuwa entities that have been sold to the black participants. The shares will be restored on full redemption of the preference shares, or to the extent that the preference share capital is financed by a third party
- perpetual preference shares issued by the group for the purposes of financing the repurchased group shares are classified as equity. Dividends paid are accounted for on declaration.

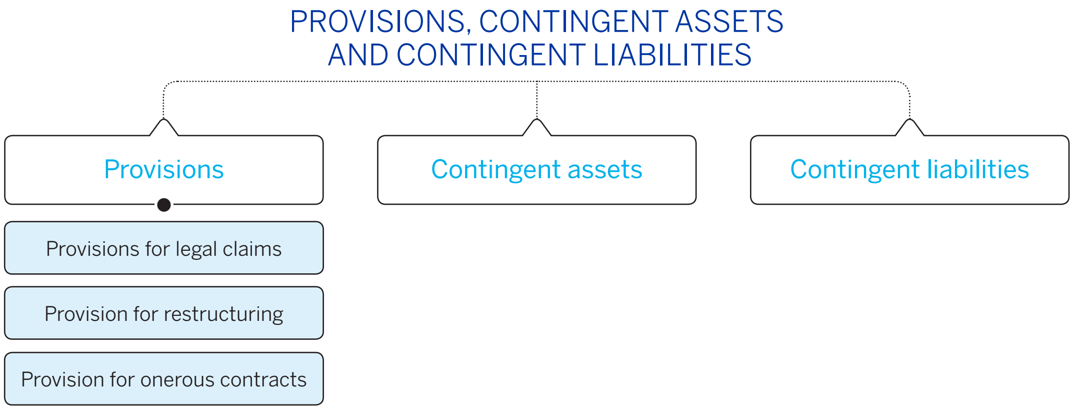
Share issue costs

Incremental external costs directly attributable to a transaction that increases or decreases equity are deducted from equity, net of related tax. All other share issue costs are expensed.

Dividends

Distributions are recognised in equity in the period in which they are declared. Distributions declared after the reporting date are disclosed in the distributions note to the annual financial statements.

11. Provisions, contingent assets and contingent liabilities



Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The group's provisions typically (when applicable) include the following:

Provisions for legal claims

Provisions for legal claims are recognised on a prudent basis for the estimated cost for all legal claims that have not been settled or reached conclusion at the reporting date. In determining the provision management considers the probability and likely settlement (if any). Reimbursements of expenditure to settle the provision are recognised when and only when it is virtually certain that the reimbursement will be received.

Provision for restructuring

A provision for restructuring is recognised when the group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

Provision for onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on the assets associated with that contract.

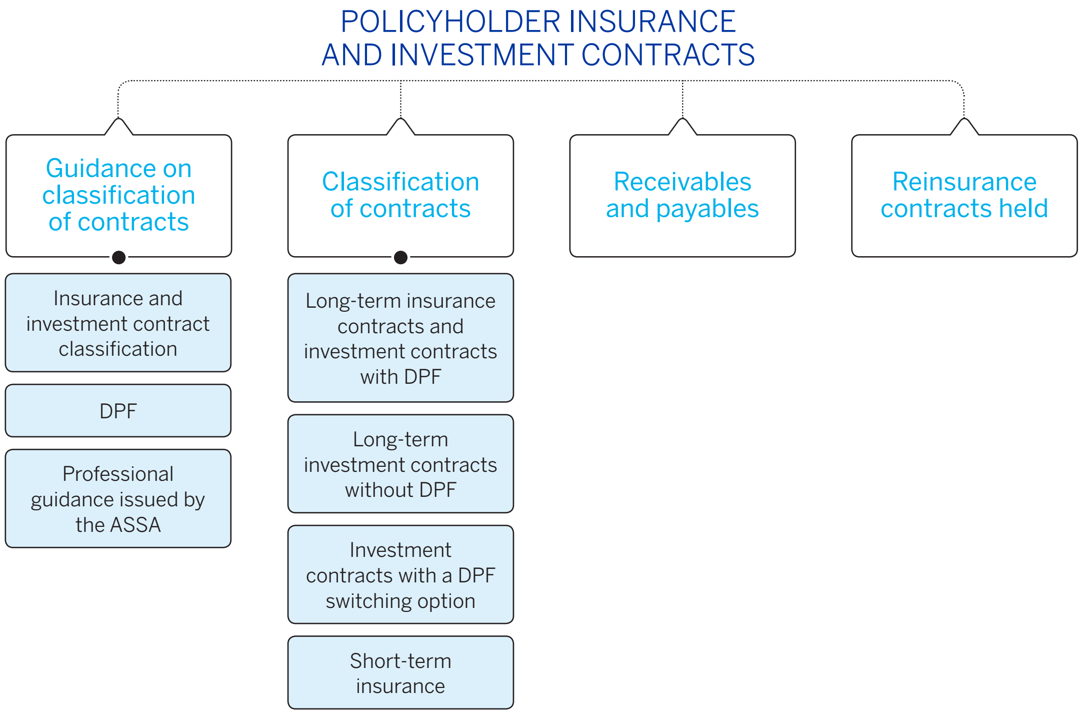
Contingent assets

Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the group, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the group's control.

Contingent liabilities

Contingent liabilities include certain guarantees (other than financial guarantees) and letters of credit and are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are considered remote.

12. Policyholder insurance and investment contracts



Guidance on classification of contracts

Insurance and investment contract classification

The group issues contracts that transfer insurance risk or financial risk or, in some cases, both.

An insurance contract is a contract under which the group (insurer) accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder or, in the case of life annuities, the lifespan of the policyholder is greater than that assumed. Such contracts may also transfer financial risk. The group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur.

Short-term insurance provides benefits under short-term policies, typically one year or less, which include engineering, fire, personal liability, marine and aviation, motor, personal accident, medical expenses, theft and the Workmen's Compensation Act, or a contract comprising a combination of any of those policies.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Discretionary participation features

A number of insurance and investment contracts contain a DPF feature. This feature entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses at the discretion of the group. The terms and conditions or practice relating to these contracts are in accordance with the group's published Principles and Practices of Financial Management, as approved by the FSB. The terms 'reversionary bonus' and 'smoothed bonus' refer to the specific forms of DPF contracts underwritten by the group. All components in respect of DPFs are included in policyholders' assets and liabilities.

Professional guidance issued by the Actuarial Society of South Africa

In terms of IFRS 4 Insurance Contracts (IFRS 4), insurance liabilities are measured under existing local practice. The group had, prior to the adoption of IFRS 4, adopted the Professional Guidance Notes (PGNs) issued by the ASSA to determine the liability in respect of insurance contracts issued in South Africa. The group has continued to value long-term insurance liabilities in accordance with these.

In 2012, the naming convention was changed and the term PGN was replaced with either APN or SAP depending on whether the former PGN was best-practice or mandatory respectively.

These are available on the ASSA website – **www.actuarialsociety.org.za**
Where applicable, the APNs and SAPs are referred to in the accounting policies and notes to the annual financial statements.

12. Policyholder insurance and investment contracts continued

Classification of contracts

Policyholder contracts are classified into four categories, depending on the duration of or type of investment benefit or insurance risks. The accounting for each of these contracts are detailed below.

Long-term insurance contracts and investment contracts with DPF

Measurement

These contracts are valued in terms of the FSV basis as described in SAP 104 Life offices – valuation of long-term insurers (SAP 104), using a discounted cash flow methodology. The assets and liabilities are reflected as policyholders' assets and liabilities in the statement of financial position. The discounted cash flow methodology allows for premiums and benefits payable in terms of the contract, future administration expenses and commission, investment return, tax and any expected losses in respect of options.

The liability is based on assumptions of the best estimate of future experience, plus compulsory margins as required in terms of SAP 104, plus additional discretionary margins. Derivatives embedded in the group's insurance contracts are not separated and measured at fair value if the embedded derivative itself meets the definition of an insurance contract.

The liabilities in respect of the investment guarantees' underlying maturity and death benefits, and guaranteed annuity options are measured in accordance with APN 110 Reserving for minimum investment return guarantees on a market-consistent basis. Discretionary margins are held to ensure that the profit and risk margins in the premiums are not capitalised before it is probable that future economic benefits will flow to the entity.

These profits emerge over the lifetime of the contract in line with the risk borne by the group. Liabilities for individual market-related policies, where benefits are in part dependent on the performance of underlying investment portfolios, are taken as the aggregate value of the policies' investment in the investment portfolio at the valuation date (the unit reserve element), reduced by the excess of the present value of the expected future risk and expense charges over the present value of the expected future risk benefits and expenses on a policy-by-policy cash flow basis (the rand reserve element).

Reversionary bonus classes of policies, and policies with fixed and guaranteed benefits are valued by discounting the expected future cash flows at market-related rates of interest reduced by an allowance for investment expenses and the relevant compulsory margins (the guaranteed element). Future bonuses have been allowed for at the latest declared rates where appropriate. The rand reserve element of market-related policies and the guaranteed element in respect of other policies are collectively known as the rand reserve.

In respect of corporate life and lump sum disability business, no discounting of future cash flows is performed. However, a provision will be held if the expected guaranteed premiums under the current basis and investment returns in the short term are not sufficient to meet expected future claims and expenses. For corporate investment contracts with DPF, in addition to the value of the policies' investment in the investment portfolios held, an additional provision will be held if the expected fee recoveries in the short term are not sufficient to meet expected expenses.

Within the group all investment contracts invested in smoothed bonus portfolios are classified as investment contracts with DPF. In respect of insurance and investment contracts with DPF where bonuses are smoothed, bonus stabilisation provisions are held arising from the difference between the after taxation investment performance of the assets net of the relevant management fees and the value of the bonuses declared. In accordance with SAP 104, where the bonus stabilisation provision is negative, this provision is restricted to an amount that can reasonably be expected to be recovered through under distribution of bonuses during the ensuing three years. All bonus stabilisation provisions are included in policyholders' liabilities. The liability estimates are reviewed bi-annually. The effect of any change in estimates is recognised in profit or loss.

Where policyholders, in respect of certain policies, are entitled to a part surrender, any part surrender is treated as a derecognition of the policyholders' asset or liability.

Shadow accounting is applied to policyholder insurance contracts where the underlying measurement of the policyholder insurance liability depends directly on the fair value of any owner-occupied properties.

Any unrealised gains and losses on such owner-occupied properties are recognised in OCI. The shadow accounting adjustment to policyholder insurance contracts is recognised in OCI to the extent that the unrealised gains or losses, together with any related taxation on owner-occupied properties backing policyholder insurance liabilities are also recognised directly in OCI.

Incurred but not reported claims (IBNR)

Provision is made in policyholders' assets and liabilities for the estimated cost at the end of the year of claims incurred but not reported at that date. IBNR provisions for the main categories of business are calculated using run-off triangle techniques. These liabilities are not discounted due to the short-term nature of IBNR claims. Outstanding claims and benefit payments are stated gross of reinsurance.

12. Policyholder insurance and investment contracts continued

Classification of contracts continued

Long-term insurance contracts and investment contracts with DPF continued

Liability adequacy test
At each reporting date the adequacy of the insurance liabilities is assessed. If that assessment shows that the carrying amount of insurance liabilities net of any related intangible PVIF business assets is inadequate in the light of the estimated future cash flows, then the deficiency is recognised in profit or loss.

Premium income
Premiums and annuity considerations on insurance contracts, other than in respect of universally costed policies (policies where insurance risk charges are dependent on the excess of the sum assured over the value of units underlying the contract), recurring premium pure risk policies (collectively the Lifestyle series) and corporate schemes, are recognised when due in terms of the contract. Premiums receivable in respect of corporate schemes are recognised when there is a reasonable assurance of collection in terms of the policy contract. Premiums in respect of the Lifestyle series of policies are recognised when premiums are received, as failure to pay a premium will result in a reduction of attributable fund value, if available, or else in the lapse of the policy. Premium income on insurance contracts is recognised gross of reinsurance. Premiums are shown before deduction of commission.

Claims
Claims on insurance contracts, which include death, disability, maturity, surrender and annuity payments, are recognised in insurance benefits and claims paid when the group is notified of a claim, based on the estimated liability for compensation owed to policyholders. Changes in the provision for IBNR claims are also recognised in insurance benefits and claims paid. Reinsurance recoveries are accounted for in the same period as the related claims.

Acquisition costs
Acquisition costs for insurance contracts represent commission and other costs that relate to the securing of new contracts and the renewing of existing contracts. These costs are expensed as incurred in insurance benefits and claims paid.

The FSV method for valuing insurance contracts and investment contracts with DPF makes implicit allowance for the deferral of acquisition costs and hence, no explicit deferred acquisition cost asset is recognised in the statement of financial position for these contracts.

Long-term investment contracts without DPF

Measurement
The group issues investment contracts without fixed benefits (unit-linked and structured products) and investment contracts with fixed and guaranteed benefits (term certain annuity). Investment contracts without fixed benefits are financial liabilities whose fair value is dependent on the fair value of the underlying financial assets, derivatives and/or investment property and are designated at inception as at fair value through profit or loss. These investment contracts are accounted for as financial liabilities and are designated at fair value through profit or loss.

For investment contracts with fixed and guaranteed terms, future benefit payments and premium receipts are discounted using market-related rates at the relevant statement of financial position date. No initial profit is recognised immediately as any profit on initial recognition is amortised over the life of the contract.

Amounts received and claims incurred on investment contracts
Amounts received under investment contracts, such as premiums, are recorded as deposits to investment contract liabilities, whereas claims incurred are recorded as deductions from investment contract liabilities.

DRL on investment management contracts
A DRL is recognised in respect of upfront fees, which are directly attributable to a contract, that are charged for investment management services. The DRL is then released to investment management and service fee income and gains when the services are provided, over the expected duration of the contract on a straight-line basis.

Regular charges billed in advance are recognised on a straight-line basis over the billing period, which is the period over which the service is rendered. Outstanding fees are accrued as a receivable in terms of the investment management contract.

DAC in respect of investment contracts
Commissions paid and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed. These costs are expensed as incurred, unless specifically attributable to an investment contract with an investment management service element. Such costs are deferred and amortised on a straight-line basis over the expected life of the contract (ten to 16 years for linked annuities, one year for corporate business and five years for other investment contracts), taking into account all decrements, as they represent the right to receive future management fees.

A DAC asset is recognised for all applicable policies with the amortisation being calculated on a portfolio basis. An impairment test is conducted annually at the reporting date on the DAC balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contracts.

12. Policyholder insurance and investment contracts continued

Investment contracts with a DPF switching option

Measurement

On certain investment contracts, policyholders have an option to switch some or all of their investment from a DPF fund to a non-DPF fund (and vice versa). The value of the liability held with respect to these contracts is taken at the aggregate value of the policyholder investment in the investment portfolio at the valuation date.

Short-term insurance

Gross written premiums

Gross premiums exclude value added tax (VAT). Premiums are accounted for as income when the risk related to the insurance policy commences and are amortised over the contractual period of risk cover by using an unearned premium provision. All premiums are shown before deduction of commission payable to intermediaries.

Provision for unearned premiums

The provision for unearned premiums represents the portion of the current year's premiums that relate to risk periods extending into the following year. The unearned premiums are calculated using a straight-line basis, except for those insurance contracts where allowance is made for uneven exposure.

Liability adequacy

Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims, as well as claims-handling fees and related administrative costs.

Provision for reported claims and IBNR claims

Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. The group's own assessors or contracted external assessors individually assess claims. The claims provision includes an estimated portion of the direct expenses of the claims and assessment charges.

Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the group at that date (IBNR claims). This provision is calculated using run-off triangle techniques. The provision for claims is not discounted for the time value of money due to the expected short duration to settlement.

DAC

Commissions that vary and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned, and recognised as a current asset. All other costs are recognised as expenses within insurance benefits and claims paid when incurred.

DRL

A DRL is raised for any income receivable on the placement of reinsurance for risks arising from short-term insurance contracts. The DRL is released to income systematically over the coverage period of the respective reinsurance contract.

Receivables and payables

Receivables and payables related to insurance contracts and investment contracts are recognised when due. These include amounts due to and from agents, brokers and policyholders. Receivables and payables related to insurance contracts are subsequently measured in terms of IFRS 4 Insurance Contracts (IFRS 4), while those related to investment contracts are designated at fair value.

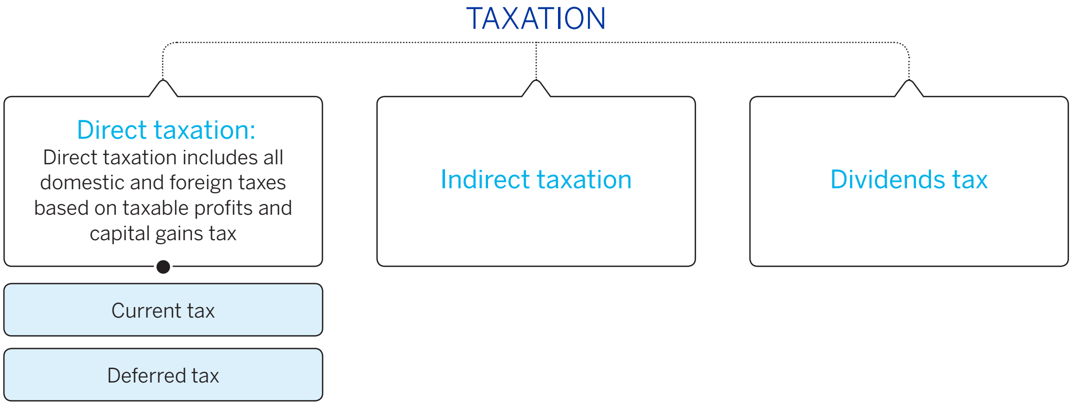
Reinsurance contracts held

The group cedes some insurance risk in the normal course of business. Reinsurance contracts are contracts entered into by the group with reinsurers under which the group is compensated for the entire, or a portion of, losses arising on one or more of the insurance contracts issued by the group.

The expected benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets and included in 'Other assets' in the statement of financial position. Reinsurance assets are assessed for impairment at each reporting date. Any impairment loss is recognised in profit or loss.

Outward reinsurance premiums are recognised as an expense and are accounted for in the same accounting period that premiums received are recognised as revenue in insurance premiums.

13. Taxation

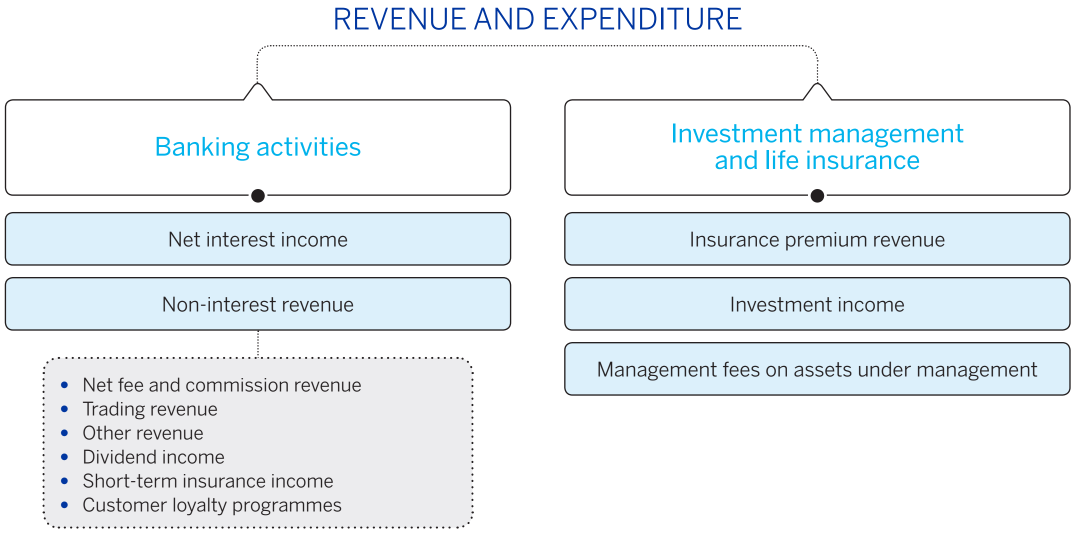


TYPE	DESCRIPTION, RECOGNITION AND MEASUREMENT	OFFSETTING
Direct taxation: current tax	Current tax is recognised in the direct taxation line in the income statement except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI. Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.	Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.
Direct taxation: deferred tax	Deferred tax is recognised in direct taxation except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI. Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax is not recognised for the following temporary differences: • the initial recognition of goodwill • the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses • investments in subsidiaries, associates and jointly controlled arrangements (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.	

13. Taxation continued

TYPE	DESCRIPTION, RECOGNITION AND MEASUREMENT	OFFSETTING
Direct taxation: deferred tax continued	The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the group is unable to control the reversal of the temporary difference for associates unless there is an agreement in place that gives the group the ability to control the reversal of the temporary difference. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.	
Indirect taxation	Indirect taxes, including non-recoverable value added tax (VAT), skills development levies and other duties for banking activities, are recognised in the indirect taxation line in the income statement.	Not applicable
Dividend tax	Taxes on dividends declared by the group are recognised as part of the dividends paid within equity as dividend tax represents a tax on the shareholder and not the group. Dividend tax withheld by the group on dividends paid to its shareholders and payable at the reporting date to the South African Revenue Service (where applicable) is included in 'Other liabilities' in the statement of financial position.	Not applicable

14. Revenue and expenditure



TYPE	DESCRIPTION,	RECOGNITION AND MEASUREMENT
Banking activities	Net interest income	Interest income and expense (with the exception of borrowing costs that are capitalised on qualifying assets, that is assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value) are recognised in net interest income using the effective interest method for all interest-bearing financial instruments. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate. Where the estimates of payments or receipts on financial assets (except those that have been reclassified from held-for-trading) or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the adjusted cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income. Where financial assets have been impaired, interest income continues to be recognised on the impaired value (gross carrying value less specific impairment) based on the original effective interest rate. Fair value gains and losses on realised debt financial instruments, including amounts reclassified from OCI in respect of available-for-sale debt financial assets are included in net interest income. Dividends received on preference share investments classified as debt form part of the group's lending activities and are included in interest income.

14. Revenue and expenditure continued

TYPE	DESCRIPTION	RECOGNITION AND MEASUREMENT
	Net fee and commission revenue	Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the group does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised to the income statement as interest income. The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract. Fee and commission expenses, included in net fee and commission revenue, are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.
	Trading revenue	Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.
	Other revenue	Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss, dividends relating to those financial instruments, underwriting profit from the group's short-term insurance operations and related insurance activities and remeasurement gains and losses from contingent consideration on disposals and purchases. Gains and losses on equity available-for-sale financial assets are reclassified from OCI to other revenue on derecognition or impairment of the investments. Dividends on these instruments are also recognised in other revenue.
	Dividend income	Dividends are recognised in interest income (other revenue) for debt (equity instruments) when the right to receipt is established. Scrip dividends are recognised as dividends received where the dividend declaration allows for a cash alternative.
	Short-term insurance income	Includes premium income, commission and policy fees earned, as well as net incurred claim losses and broker commission paid. Annual business income is accounted for on the accrual basis and comprises the cash value of commission and fees earned when premiums or fees are payable directly to the group and comprises the cash value of commission earned when premiums are payable directly to the underwriters.
	Customer loyalty programmes	The group's banking activities operate a customer loyalty programme in terms of which it undertakes to provide goods and services to certain customers. The reward credits are accounted for as a separately identifiable component of the fee and commission income transactions of which they form a part. The consideration allocated to the reward credits is measured at the fair value of the reward credit and is recognised over the period in which the customer utilises the reward credits. Expenses relating to the provision of the reward credits are recognised in operating expenses as and when they are incurred.

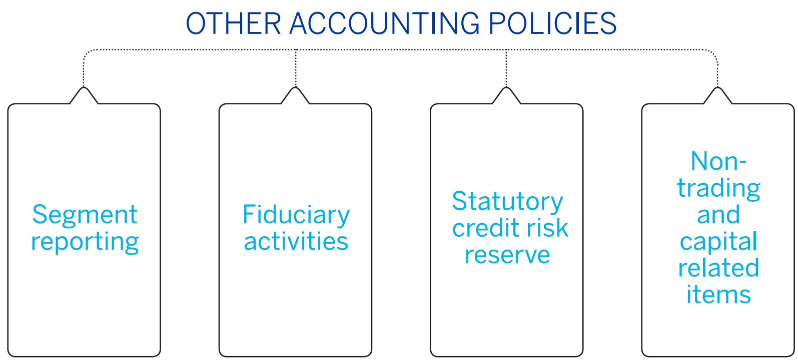
14. Revenue and expenditure continued

TYPE	DESCRIPTION	RECOGNITION AND MEASUREMENT
Investment management and life insurance	Insurance premium revenue	Insurance premium revenue includes life insurance premiums, health insurance premiums and short-term insurance premiums. Refer to accounting policy 12.
	Investment income	Investment income for investment management and life insurance activities comprises mainly rental income from properties, interest, hotel operations' sales and dividends. Dividends are recognised when the right to receive payment is established and interest income is recognised using the effective interest method. Hotel operation sales comprise the fair value of the sale of accommodation, food and beverage, other guest facilities and rentals received. Revenue is shown net of VAT, returns, rebates and discounts.
	Management fees on assets under management	Fee income includes management fees on assets under management and administration fees. Management fees on assets under management are recognised over the period for which the services are rendered, in accordance with the substance of the relevant agreements. Administration fees received for the administration of medical schemes are recognised when the services are rendered.

Offsetting

Income and expenses are presented on a net basis only when permitted by IFRS, or for gains and losses arising from a group of similar transactions.

15. Other accounting policies



Segment reporting

An operating segment is a component of the group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. The group's identification of segments and the measurement of segment results is based on the group's internal reporting to the chief operating decision maker.

Fiduciary activities

The group commonly engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these annual financial statements as they are not assets of the group. However, fee income earned and fee expenses incurred by the group relating to the group's responsibilities from fiduciary activities are recognised in profit or loss.

Statutory credit risk reserve

The statutory credit risk reserve includes the amount by which local regulatory authorities within the group's Africa Regions operations require in addition to the IFRS impairment provision. Changes in this reserve are accounted for as transfers to and from retained earnings as appropriate.

15. Other significant accounting policies continued

Non-trading and capital related items

Non-trading and capital related items primarily include the following:

- gains and losses on disposal of subsidiaries, joint ventures and associates (including foreign exchange translation gains and losses)
- gains and losses on the disposal of property and equipment and intangible assets
- impairment and reversals of impairments of joint ventures and associates
- impairment of investments in subsidiaries, associates and joint ventures, property and equipment, and intangible assets
- other items of a capital related nature.

16. New standards and interpretations not yet adopted

The following new or revised standards, amendments and interpretations are not yet effective for the year ended 31 December 2017 and have not been applied in preparing these annual financial statements.

Title: IFRS 4 Insurance Contracts (amendment)

Effective date 1 January 2018 with earlier application permitted

The amendment to applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* introduced two approaches: an overlay approach and a deferral approach. The amended standard will provide all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and provide companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility.

The amendments will be applied retrospectively. The group will not apply the optional temporary exemption from applying IFRS 9 until 2021. Refer to the IFRS 9 section that follows for more information.

Title: IFRS 9 Financial Instruments (IFRS 9)

Effective date: 1 January 2018

Background

IFRS 9 *Financial Instruments* (IFRS 9) will replace the IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) that deals with the accounting treatment for financial instruments from 1 January 2018.

IFRS 9 consists of the following key areas which represent changes from that of IAS 39:

- Revised requirements for the classification and measurement of financial assets and consequential changes in the classification and measurement of financial liabilities, mainly relating to the recognition of changes in fair value due to changes in own credit risk on fair value designated financial liabilities in OCI as opposed to the income statement.
- An expected credit loss (ECL) impairment model.
- Revised requirements and simplifications for hedge accounting.

Comparative financial results and elections

IFRS 9 is required to be adopted retrospectively from 1 January 2018, with the exception of IFRS 9's hedge accounting requirements where the standard permits an entity to choose as its accounting policy to continue to apply IAS 39's hedge accounting requirements instead of the requirements in IFRS 9.

The group has elected not to restate its comparative financial statements. Accordingly, the difference between the previous IAS 39 and new IFRS 9 carrying values will be recognised in the group's opening retained earnings as at 1 January 2018.

The group's date of adoption of the IFRS 9 revised hedge accounting requirements will be based on further IFRS developments with respect to the IASB's macro hedge accounting project or on the group deeming it opportune to adopt the revised requirements. The group has elected to continue with IAS 39's hedge accounting requirements, but will implement IFRS 9's revised hedge accounting disclosures.

16. New standards and interpretations not yet adopted continued

Title: IFRS 9 Financial Instruments (IFRS 9) continued

Project governance

The group structured its IFRS 9 implementation project in such a way as to effectively enable the delivery of the IFRS 9 requirements across the group. The IFRS 9 implementation project board provided strategic direction to the project, monitored the project's progress, and identified required interventions and project interdependencies with other group initiatives. In addition, an overall project steering committee and Africa Regions' country steering committees were established.

In order to ensure appropriate board oversight, the IFRS 9 project reported on its activities, status and outcomes to the GAC.

The group's IFRS 9 implementation project included a September 2017 assessment which was used to test the group's readiness for the transition to IFRS 9. The results of this assessment were assessed by external audit to assist management in determining the group's readiness and the results and findings were communicated to both the GAC and the board.

IFRS 9 requirements

A summary of IFRS 9's key requirements and the estimated impact on the group is explained below. It should be noted that the group's final transition impact was, at the time of the preparation of these financial statements, being finalised and will be more fully explained as part of the group's first quarter's SENS announcement.

Classification of financial assets and liabilities

IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and its contractual cash flow characteristics. The accounting for financial assets differs in various other areas to existing requirements such as embedded derivatives and the recognition of fair value adjustments in OCI.

All changes in the fair value of financial liabilities that are designated at fair value through profit or loss due to changes in own credit risk will be required to be recognised in OCI with no subsequent recognition in the income statement.

Expected credit loss (ECL) impairment model

IFRS 9's ECL impairment model's requirements will represent the most material IFRS 9 impact for the group.

The IASB developed the IFRS 9 ECL impairment model with the objective of transitioning from an incurred loss approach to an expected loss model which will require entities to recognise impairment losses in advance of an exposure having objective evidence of impairment. The ECL model will apply to financial assets measured at either amortised cost or at fair value through OCI, as well as loan commitments when there is present commitment to extend credit (unless these are measured at fair value through profit or loss).

With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to either a 12-month expected credit losses or full lifetime expected credit losses. A loss allowance for full lifetime expected credit losses is recognised for a financial asset where the credit risk of that financial asset has increased significantly since initial recognition (unless the credit risk of the financial asset is low), as well as for certain contract assets and trade receivables or where the exposure is classified as in default. For all other financial instruments, expected credit losses are measured at an amount equal to the expected lifetime loss associated with the probability of default over the next 12 months.

Significant increase in credit risk or low credit risk

The assessment of a significant increase in credit risk for the group's PBB exposures will be based on changes in a customer's credit score and for the group's CIB exposures on changes in internal credit ratings, together with the expected outlook for the specific sector and industry and other relevant available information. For both the group's PBB and CIB exposures, the determination will be set to identify significant deterioration in credit risk before the exposure reaches a past due status of 30 days. Exposures for which there is a significant increase in credit risk but for which the credit risk is low remain in stage one. Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions are unlikely to reduce the exposure's ability to fulfil its contractual obligations.

16. New standards and interpretations not yet adopted continued

Title: IFRS 9 financial instruments (IFRS 9) continued

Forward-looking information

In determining whether there has been a significant increase in credit risk and in determining the expected credit loss calculation, IFRS 9 requires the consideration of forward-looking information. The determination of a significant increase in credit risk is required to include consideration of all reasonable and supportable information that is available without undue cost or effort. This information will typically include forward-looking information based on expected macro-economic conditions and specific factors that are expected to impact individual portfolios.

The incorporation of forward-looking information represents a significant change from existing accounting requirements which are based on observable events. The forward-looking information will be based on the group's economic expectations, industry and sub-sector-specific expectations, as well as expert management judgement. The use of such information will incorporate management judgement and is hence, expected to increase the volatility of impairment provisions as a result of continuous changes in future expectations.

Default

While default is not specifically defined by IFRS 9, the group has aligned the determination of default with its existing internal credit risk management definitions and approaches. Default is determined as occurring at the earlier of:

- when either, based on objective evidence, the counterparty is considered to be unlikely to pay amounts on the due date or shortly thereafter without recourse to actions such as realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

In some cases, additional specific criteria are set according to the nature of the lending product.

Impact assessment

The ECL impairment requirements, which comprise IFRS 9's most material impact for the group, is expected to result in an increase of approximately R8.7 billion in balance sheet impairments; an increase of 32% on IAS 39 balance sheet impairments (including interest in suspense). While IFRS 9's classification and measurement requirements are expected to have a negligible net impact on the group's reserves as at 1 January 2018, there were instances in which the measurement of certain financial assets and liabilities changed from amortised cost to fair value or vice versa due to the business model implementation within underlying business portfolios.

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

IFRS 9 DRIVER	REASON
Minimum of a 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 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 requirement will affect both PBB and CIB.
ECL held for unutilised client exposures, letters of credit and guarantees	The IFRS 9 requirement for impairments for unutilised client facilities, letters of credit and guarantees results in additional balance sheet impairments for both PBB and CIB.
Lifetime workout period	In terms of determining ECL, the exposure's full lifetime is considered. This includes the probability of recovery or cure post default and subsequent future defaults.
Forward looking economic expectations for ECL	The inclusion of forward-looking economic information is expected to increase the level of provisions as a result of the nature and timing of both current and forecasted economic assumptions as at 1 January 2018.

16. New standards and interpretations not yet adopted continued

Title: IFRS 9 financial instruments (IFRS 9) continued

Tax implications

Within South Africa, National Treasury released a Taxation Laws Amendment Bill which contained requirements for the deductibility of impairments in accordance with IFRS 9 being a 25% allowance for impairment provisions for all performing exposures that have not demonstrated a significant increase in credit risk (stage 1), a 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. 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 the threshold deduction for investments in financial entities, will reduce qualifying CET1 capital. This reduction in qualifying CET1 capital will, however, be partially offset by the release of the existing deduction against qualifying CET1 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 CET1 ratio by approximately 70 bps and will be phased in over three years.

Communication of transition impact

The group will, together with its Q1:2018 SENS announcement regarding the group's quarterly statement of changes in equity, release a transition report which will outline the impact of the transition to IFRS 9 on the group's financial results.

Title: IFRS 9 Financial Instruments (amendment)

Effective date: 1 January 2019 with earlier application permitted

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The amendment is required to be applied retrospectively. The amendment is not expected to have a material impact on the group.

Title: IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Effective date: To be determined

The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The amendments will be applied prospectively and are not expected to have a material impact on the group's financial statements.

Title: IFRS 15 Revenue from Contracts with Customers

Effective date: 1 January 2018

This standard will replace the existing revenue standards and their related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments).

The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five step analysis to determine the amount and timing of revenue recognition.

The standard will be applied retrospectively. The standard does not apply to revenue associated with financial instruments, and therefore does not impact the majority of the group's revenue. The group has identified and reviewed the contracts with customers that are within the scope of this standard which indicate that IFRS 15 will not materially impact the group on transition.

16. New standards and interpretations not yet adopted continued

Title: IFRS 16 Leases

Effective date: 1 January 2019 with earlier application permitted

This standard will replace the IAS 17 *Leases* as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier).

The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet.

The most significant change pertaining to the accounting treatment for operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a right of use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The lessor accounting requirements in IAS 17 have not changed substantially in terms of this standard . A lessor hence continues to classify its leases as operating leases or finance leases and accounts for these as it currently done in terms of IAS 17. In addition, the standard requires lessors to provide enhanced disclosures about its leasing activities and, in particular, about its exposure to residual value risk and how it is managed.

The group has established an IFRS 16 working group and detailed project plan, identifying key responsibilities and milestones of the project. The group is in the process of determining the estimated impact as well as discussing the system requirements to accommodate IFRS 16's principles. The standard will be applied retrospectively.

Title: IFRS 17 Insurance Contracts

Effective date: 1 January 2021 with earlier application permitted

This standard replaces IFRS 4 *Insurance Contracts* which provided entities with dispensation to account for insurance contracts (particularly measurement) using local actuarial practice, resulting in a multitude of different approaches.

The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts globally. The standard requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. A general measurement model (GMM) will be applied to long-term insurance contracts, and is based on a fulfilment objective (risk-adjusted present value of best estimate future cash flows) and uses current estimates, informed by actual trends and investment markets. IFRS 17 establishes what is called a contractual service margin (CSM) in the initial measurement of the liability which represents the unearned profit on the contract and results in no gain on initial recognition. The CSM is released over the life of the contract, but interest on the CSM is locked in at inception rates. The CSM will be utilised as a "shock absorber" in the event of changes to best estimate cash flows. On loss making (onerous) contracts, no CSM is set up and the full loss is recognised at the point of contract inception. The GMM is modified for contracts which have participation features.

An optional simplified premium allocation approach (PAA) is available for all contracts that are less than 12 months at inception. The PAA is similar to the current unearned premium reserve profile over time.

The requirement to eliminate all treasury shares has been amended such that treasury shares held for a group of direct participating contracts or investment funds are not required to be eliminated and can be accounted for as financial assets.

These requirements will provide transparent reporting about an entities' financial position and risk and will provide metrics that can be used to evaluate the performance of insurers and how that performance changes over time. An entity may re-assess its classification and designation of financial instruments under IFRS 9, on adoption of IFRS 17.

The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

Title: IAS 19 Employee Benefits (amendments)

Effective date: 1 January 2019 with earlier application permitted

The amendments require a company to use the updated assumptions when a change to a plan either an amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The amendment will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

16. New standards and interpretations not yet adopted continued

Title: IAS 28 Interest in Associates and Joint Ventures (amendment)

Effective date: 1 January 2019 with earlier application permitted

This amendment clarifies that an entity should apply IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture only when the equity method is not applied. The amendments will be applied retrospectively. The amendment is not expected to have a significant impact on the annual financial statements.

Title: Annual improvements 2015-2017 cycle

Effective date: 1 January 2019 with earlier application permitted

The IASB has issued various amendments and clarifications to existing IFRS, none of which is expected to have a significant impact on the group's annual financial statements.

Title: IFRIC 22 Foreign Currency Transactions and Advance Consideration

Effective date: 1 January 2018 with earlier application permitted

The IFRIC provides guidance on how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The IFRIC will be applied retrospectively or prospectively. IFRIC will not materially impact the annual financial statements.

Title: IFRIC 23 Uncertainty over Income Tax Treatments

Effective date: 1 January 2019 with earlier application permitted

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined by applying this interpretation. This interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

ANNEXURE G – SIX-YEAR REVIEW

Consolidated statement of financial position

	2017									
	USDm*	GBPm*	EURm*	CAGR** %	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm	2012 Rm
Assets										
Cash and balances with central banks	6 118	4 549	5 123	4	75 310	77 474	75 112	64 302	53 310	61 985
Financial investments, trading and pledged assets	58 086	43 193	48 634	9	714 993	632 396	607 352	537 146	457 018	473 216
Loans and advances	85 142	63 311	71 287	5	1 048 027	1 065 405	1 076 917	928 241	839 620	811 171
Current and deferred taxation assets	171	127	143	7	2 109	2 467	2 415	2 213	1 943	1 514
Derivative and other assets	8 011	5 957	6 707	(9)	98 606	87 851	131 741	82 324	88 691	153 915
Non-current assets held for sale				(100)				219 958	183 284	960
Interest in associates and joint ventures	785	584	657	26	9 665	8 196	9 703	3 727	4 797	3 035
Goodwill and other intangible assets	1 895	1 409	1 587	10	23 329	23 675	24 031	21 175	18 085	14 687
Property and equipment	1 314	977	1 100	1	16 179	16 041	17 670	16 737	16 882	15 733
Investment property	2 618	1 947	2 192	6	32 226	31 155	30 508	27 022	27 299	24 133
Policyholders' assets	608	452	509		7 484	7 314	7 579	6 507		
Total assets	**164 748**	**122 506**	**137 939**	**5**	**2 027 928**	1 951 974	1 983 028	1 909 352	1 690 929	1 560 349
Equity and liabilities										
Equity	**15 437**	**11 480**	**12 925**	**8**	**190 017**	179 359	178 908	161 634	152 648	130 889
Equity attributable to ordinary shareholders	12 756	9 486	10 681	7	157 020	150 757	151 069	136 985	128 936	111 085
Equity attributable to other equity instrument holders	735	547	615	10	9 047	5 503	5 503	5 503	5 503	5 503
Equity attributable to non-controlling interests	1 946	1 447	1 629	11	23 950	23 099	22 336	19 146	18 209	14 301
Liabilities	**149 311**	**111 026**	**125 014**	**5**	**1 837 911**	1 772 615	1 804 120	1 747 614	1 538 281	1 429 460
Deposits and debt funding	101 055	75 145	84 611	6	1 243 911	1 213 621	1 186 514	1 047 212	921 738	910 682
Derivative and other liabilities	14 243	10 590	11 925	(2)	175 324	169 583	232 569	146 558	149 304	198 150
Trading liabilities	5 106	3 797	4 275	7	62 855	47 867	43 304	43 761	35 368	44 474
Current and deferred taxation liabilities	700	520	586	2	8 614	8 317	9 398	8 980	8 907	7 922
Non-current liabilities held for sale								182 069	134 504	
Subordinated debt	1 973	1 467	1 652	(5)	24 289	25 997	27 141	25 521	24 516	31 548
Policyholders' liabilities	26 234	19 507	21 965	6	322 918	307 230	305 194	293 617	263 944	236 684
Total equity and liabilities	**164 748**	**122 506**	**137 939**	**5**	**2 027 928**	1 951 974	1 983 028	1 909 352	1 690 929	1 560 349

* The foreign-denominated results above have been derived from the group's audited ZAR results by using the closing exchange rates. The foreign denominated results above have not been audited and have been presented for illustrative purposes only. This illustration would not be equivalent to that which would have resulted had the group presented its results in a currency other than ZAR in terms of IAS 21 The Effects of Changes in Foreign Exchange Rates.
** Compound annual growth rate.

Exchange rates (rounded) utilised to convert the 31 December 2017 statement of financial position rand exchange rates (closing):

USD – 12.31 (2016: 13.69)
GBP – 16.55 (2016: 16.94)
EUR – 14.70 (2016: 14.43)

Consolidated income statement

	2017 USDm*	2017 GBPm*	2017 EURm*	CAGR** %	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm	2012 Rm
Net interest income	4 522	3 510	4 003	12	60 125	56 892	49 310	45 152	39 095	33 966
Non-interest revenue	3 237	2 512	2 865	6	43 037	42 965	41 803	38 891	34 311	32 286
Net fee and commission revenue	2 191	1 701	1 940	6	29 133	29 012	26 920	26 079	23 184	21 694
Trading revenue	807	626	714	10	10 731	10 988	11 016	9 294	7 811	6 789
Other revenue	239	185	211	(4)	3 173	2 965	3 867	3 518	3 316	3 803
Income from banking activities	7 759	6 022	6 868	9	103 162	99 857	91 113	84 043	73 406	66 252
Income from investment management and life insurance activities	1 835	1 424	1 624	5	24 394	21 365	23 997	21 209	21 945	18 841
Net insurance premiums	(438)	(340)	(388)	(16)	(5 828)	1 750	688	(6 476)	(10 779)	(14 233)
Investment management and service fee income and gains	3 306	2 566	2 927	(2)	43 957	22 887	36 791	38 743	50 774	47 949
Fair value adjustments to investment management liabilities and third-party fund interests	(1 033)	(802)	(915)	(2)	(13 735)	(3 272)	(13 482)	(11 058)	(18 050)	(14 875)
Total income	9 594	7 446	8 492	8	127 556	121 222	115 110	105 252	95 351	85 093
Credit impairment charges	(708)	(549)	(627)	2	(9 410)	(9 533)	(9 371)	(9 009)	(9 158)	(8 714)
Income after credit impairment charges	8 886	6 897	7 865	9	118 146	111 689	105 739	96 243	86 193	76 379
Operating expenses in banking activities	(4 325)	(3 357)	(3 829)	9	(57 512)	(56 235)	(51 434)	(46 596)	(42 055)	(37 221)
Operating expenses in insurance activities	(1 339)	(1 039)	(1 185)	8	(17 800)	(17 374)	(16 184)	(14 546)	(14 226)	(12 080)
Net income before non-trading and capital related items	3 222	2 501	2 851	10	42 834	38 080	38 121	35 101	29 912	27 078
Non-trading and capital related items	(20)	(15)	(17)	(18)	(261)	(1 123)	(1 512)	986	(78)	(704)
Share of post tax results from associates and joint ventures	83	64	73	9	1 102	187	(323)	626	685	701
Net income before indirect taxation	3 285	2 550	2 907	10	43 675	37 144	36 286	36 713	30 519	27 075
Indirect taxation	(187)	(145)	(165)	9	(2 481)	(2 418)	(2 739)	(2 439)	(1 911)	(1 621)
Profit before direct taxation	3 098	2 405	2 742	10	41 194	34 726	33 547	34 274	28 608	25 454
Direct taxation	(788)	(612)	(698)	8	(10 479)	(8 932)	(8 187)	(8 061)	(7 580)	(7 002)
Profit for the year from continuing operations	2 310	1 793	2 044	11	30 715	25 794	25 360	26 213	21 028	18 452
Profit/(loss) for the year from discontinued operation				(100)			2 741	(4 048)	(1 022)	817
Profit for the year	2 310	1 793	2 044	10	30 715	25 794	28 101	22 165	20 006	19 269
Attributable to non-controlling interests and other equity instrument holders	(337)	(262)	(298)	7	(4 480)	(3 588)	(4 347)	(4 260)	(3 800)	(3 223)
Attributable to group ordinary shareholders	1 973	1 531	1 746	10	26 235	22 206	23 754	17 905	16 206	16 046
Headline earnings	1 976	1 533	1 749	13	26 270	23 009	22 187	20 882	16 986	14 564

* The foreign-denominated results above have been derived from the group's audited ZAR results by using the average exchange rates. The foreign-denominated results above have not been audited and have been presented for illustrative purposes only. This illustration would not be equivalent to that which would have resulted had the group presented its results in a currency other than ZAR in terms of IAS 21 The Effects of Changes in Foreign Exchange Rates.

** Compound annual growth rate.

Exchange rates (rounded) utilised to convert the 31 December 2017 income statement rand exchange rates – (average)

USD 13.30 (2016: 14.69)
GBP 17.13 (2016: 19.96)
EUR 15.02 (2016: 16.26)

Share statistics and market indicators

	CAGR** %	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm	2012 Rm
Share statistics							
Dividend cover (times)	(3)	1.8	1.9	2.0	1.8	2.0	2.1
Dividend yield (%)	4	4.7	5.1	5.9	4.2	4.1	3.8
Earnings yield (%)	1	8.4	9.5	12.0	7.5	8.2	7.9
Price earnings ratio (times)	(1)	11.9	10.5	8.3	13.4	12.2	12.7
Price-to-book (times)	3	2.0	1.6	1.2	1.7	1.6	1.7
Number of shares traded (millions)	11	1 584.4	1 271.8	1 052.8	798.0	1 012.2	938.2
Turnover in shares traded (%)		98	79	65	49	63	59
Market capitalisation (Rm)	11	316 826	245 595	183 672	232 203	209 381	190 937
Market indicators at 31 December							
Standard Bank Group share price							
High for the year (cents)	11	20 000	15 748	17 700	14 930	13 054	12 030
Low for the year (cents)	6	13 401	9 700	9 480	11 416	10 316	9 876
Closing (cents)	10	19 566	15 175	11 350	14 348	12 942	11 888
Prime overdraft rate (closing) (%)	4	10.25	10.50	9.75	9.25	8.50	8.50
JSE All Share Index (closing)	9	59 505	50 654	50 694	49 771	46 256	39 250
JSE Banks Index (closing)	13	96 187	77 545	61 072	72 998	57 745	53 362
ZAR exchange rates (closing)							
USD	8	12.31	13.69	15.50	11.57	10.49	8.48
GBP	4	16.55	16.94	22.93	18.02	17.36	13.71
EUR	6	14.70	14.43	16.86	14.01	14.44	11.18
ZAR exchange rates – (average)							
USD	10	13.30	14.69	12.75	10.84	9.64	8.21
GBP	6	17.13	19.96	19.49	17.85	15.09	13.01
EUR	7	15.02	16.26	14.14	14.39	12.81	10.55

Results and ratios

	CAGR %	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm	2012 Rm
Standard Bank Group							
Share statistics							
Number of ordinary shares listed on JSE (millions)							
Weighted average	1	1 602	1 598	1 597	1 585	1 567	1 522
End of period	1	1 597	1 597	1 601	1 578	1 584	1 536
Share statistics per ordinary share (cents)							
Basic earnings (cents)	9	1 637,8	1 389,8	1 487,0	1 129,9	1 034,4	1 054,6
Headline earnings (cents)	11	1 640,0	1 440,1	1 388,9	1 081,4	1 084,2	957,2
Dividends (cents)	15	910	780	674	598	533	455
Net asset value (cents)	6	9 830	9 442	9 434	8 682	8 138	7 233
ROE (%)	4	17.1	15.3	15.6	13.0	14.2	14.2

Capital adequacy, employee and other relevant statistics

	CAGR** %	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm	2012 Rm
Capital adequacy[1]							
Risk-weighted assets (Rm)	**3**	**957 046**	883 179	944 039	915 213	841 272	841 835
Tier I capital[2] (Rm)	**8**	**136 293**	126 188	125 710	117 970	110 834	94 420
Total capital[2] (Rm)	**5**	**153 243**	146 318	147 998	141 963	136 084	120 173
Tier I capital to risk-weighted assets[3] (%)		**14.20**	14.3	13.3	12.9	13.2	11.2
Total capital to risk-weighted assets[3] (%)		**16.00**	16.6	15.7	15.5	16.2	14.3
Employee statistics							
Number of employees							
Banking activities		**48 322**	48 622	47 958	42 642	42 221	42 736
Group		**54 558**	54 767	54 361	49 259	48 808	49 017
Normalised headline earnings per employee (Rm)	**10**	**481 506**	420 125	404 739	355 635	354 871	302 508
Points of representation							
ATMS and ANAs*		**7 362**	7 189	7 193	7 065	7 861	7 841
Banking branches and service centres		**1 212**	1 211	1 221	1 233	1 283	1 249
Social investment and environment							
Corporate social investment spend[2] (Rm)	**(0.1)**	**106.0**	95.7	115.9	115.0	104.0	106.4
Carbon footprint (metric tons CO_2)[2]		**252 092**	281 264	324 637	309 017	392 159	412 089

1 In accordance with Basel II principles relating to the treatment of insurance entities, insurance operations are excluded from the capital base of the banking group and its related risk-weighted assets. Capital in insurance operations in excess of statutory minimum requirements is not recognised in group capital.
2 South African banking activities only.
3 Capital includes unappropriated profit.
* Automated.

ANNEXURE H – THIRD-PARTY FUNDS UNDER MANAGEMENT

Third-party assets under management and funds under administration

Members of the group provide discretionary and non-discretionary investment management services to institutional and private investors. Commissions and fees earned in respect of trust and management activities performed are included in profit or loss. Assets managed and funds administered on behalf of third parties include:

	2017 Rm	2016 Rm
Banking activities		
Asset management	**280**	242
Trusts and estates	**56**	52
Unit trusts/collective investments	**20**	9
Segregated funds	**57**	28
Portfolio management	**142**	144
Other	**5**	9
Fund administration	**356**	299
Unit trusts/collective investments	**39**	32
Segregated funds	**49**	73
Portfolio management	**51**	48
Other	**217**	146
Total	**636**	541
Geographical area[1]		
Africa Regions	**559**	474
International	**77**	67
Liberty		
Asset management	**48**	53
Segregated funds	**48**	49
Properties	**0**	4
Wealth management – funds under administration	**337**	312
Single manager unit trust	**128**	122
Institutional marketing	**56**	51
Linked and structured life products	**84**	74
Multi-manager	**16**	14
Rest of Africa	**53**	51
Total Liberty	**385**	365
Total assets under management and funds under administration	**1 021**	906

Included in the balances above are funds for which the fund value is determined using directors' valuations.

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