# Annual 2015 report

THE STANDARD BANK OF SOUTH AFRICA

Standard Bank Moving Forward™

# Contents

# Our reports

We produce a full suite of reporting publications to cater for the diverse needs of our broad stakeholder base. Supplementary reports and sources of information support our annual report, and are tailored to meet our readers' specific information requirements.

## THE STANDARD BANK OF SOUTH AFRICA ANNUAL REPORT (this report)

The Standard Bank of South Africa Limited (SBSA or the company) is the Standard Bank Group's (SBG) largest subsidiary. The group's other subsidiaries also produce their own annual reports, which includes their audited annual financial statements, some of which are available at **www.standardbank.com/reporting**. The financial results and commentary describe the consolidated results of The Standard Bank of South Africa group (group) unless otherwise indicated as relating to SBSA.

In addition to this report, SBG produces a full suite of reporting publications tailored to readers with specific information requirements.

### AIR — ANNUAL INTEGRATED REPORT

As SBG's primary report, the annual integrated report provides a holistic assessment of SBG's ability to create value over time. This report includes information extracted from the full governance and remuneration report.

**www.standardbank.com/reporting**

### GR — GOVERNANCE AND REMUNERATION REPORT

Provides shareholders with the notice of the annual general meeting together with proxy forms and SBG's full governance and remuneration information.

**www.standardbank.com/reporting**

### RTS — REPORT TO SOCIETY

Provides an analysis of the issues material to SBG's sustainability and to its stakeholders.

**www.standardbank.com/sustainability**

### RCM AFS — RISK AND CAPITAL MANAGEMENT REPORT AND ANNUAL FINANCIAL STATEMENTS

Provides a detailed discussion of the management of strategic risks related to SBG's banking and insurance operations, and sets out the full audited annual financial statements for SBG, including the report of the group audit committee.

**www.standardbank.com/reporting**

This icon refers readers to information elsewhere in this report, or in other reports that form part of SBG's suite of reporting publications.

Indicates that additional information is available online at **www.standardbank.com/reporting**.

Denotes text in the risk and capital management report that forms part of the group's audited financial statements.

We welcome the views of our stakeholders on our reports. Please email your feedback to **InvestorRelations@standardbank.co.za**. You can also use this address to request printed copies of our reports.

For the latest financial information, refer to our investor relations page at **www.standardbank.com/reporting** or scan the QR code to be taken there directly.

# About this report

As a South African financial services group we have a fundamental role to play in the development of the society in which we operate. The success of our customers and stakeholders underpins our commercial sustainability and our ability to deliver returns to our stakeholders over the long term.

# Our strategy

Our strategy represents our commitment to Africa and to the shared future that we intend to create for our clients, our people and all our stakeholders.

## Purpose

Africa is our home, we drive her growth.

## Vision

To be the leading financial services organisation in, for and across Africa, delivering exceptional client experiences and superior value.

## Legitimacy

Our legitimacy is premised on what makes us unique, and is the basis for our credibility.

- Our more than 150-year heritage and brand
- Commitment to our clients and the trust they have in us
- Pioneering spirit
- Presence in Africa and beyond
- Commercial pragmatism
- Brave long-term decisions
- Our passion for Africa
- Our great people

## Values

Our values support our legitimacy, and are the basis on which we earn the trust of our stakeholders.

- Serving our customers
- Growing our people
- Delivering to our shareholders
- Being proactive
- Working in teams
- Constantly raising the bar
- Respecting each other
- Upholding the highest levels of integrity

### Our guiding principles

provide the basis for how our businesses execute our strategy.

1 The promises we make to our clients

2 The way we execute

3 The culture we wish to build for our people

## Integrated pillars

Our purpose and vision, supported by our legitimacy and values, guide our strategic execution through our integrated pillars, all of which are being strategically realigned to focus on our clients.

| BUSINESS UNITS | ENABLING FUNCTIONS | |
|---|---|---|
| **Corporate & Investment Banking (CIB)** | Risk | Compliance |
| | Finance | Legal |
| | IT | Internal audit |
| **Personal & Business Banking (PBB)*** | Operations | Group real estate services |
| | Human capital | |
| | Marketing and communications | |

**The delivery of our strategy is primarily enabled by:**

OUR PEOPLE / OUR TECHNOLOGY / OUR BRAND / OUR LEGAL ENTITIES/ GEOGRAPHIES

* Including wealth and investment component of Standard Bank Wealth.

# How we create value

We manage our business activities and associated trade-offs, in a way that connects profitability to socially beneficial outcomes.

1

**Lending** enables individual customers to create wealth and generate income, helps business clients remain sustainable and supports employment and economic growth in Africa. Regulatory capital requirements and risk appetite limit how much we are able to lend, and deteriorating economic conditions may limit the ability of clients to borrow or service their loans.

2

**Funding** provides our depositors with returns, while mitigating against the erosion of their capital due to inflation. We need to meet capital requirements to protect depositor funds, our own sustainability and that of the broader financial system. Higher interest rates increase the cost of funding.

3

**Transactional banking** facilitates the movement of money, providing clients with convenient access to their funds. Maintaining low fees requires that we grow transaction volumes to mitigate the loss of revenue.
Our **knowledge-based services**, which include corporate advisory and loan structuring services, allow our clients to benefit from our experience and track record on the continent.

4

**Market access** enables businesses to grow, provides a conduit for investment into Africa and helps economies monetise resources and diversify. **Risk mitigation** products enable financial protection and diversification through risk transfer. Country and market risk could limit our ability to facilitate market access.

– Expenses = Net profit – Dividends to our shareholders / Taxes to governments = Retained equity which is reinvested to sustain and grow our business

**Invest in our operations**, including information technology (IT) infrastructure, to enhance our capabilities and improve efficiency, and to deliver relevant products and services that meet our clients' needs.

Other operating costs

**Invest in our people** to align them to our objective of consistently delivering excellent client experiences.

For more information refer to the human capital report on **page 28**.

Staff costs

**5**

**Strategic investments** support economic activity and enable wealth creation. However, regulatory capital and risk appetite limits our ability to invest to ensure we deliver appropriate risk-adjusted returns.

**6**

As a significant **employer** we hire locally wherever possible and through our activities sustain other jobs in the local economy. Training and development enhances the level of financial services and related skills. Digital transformation in banking requires greater investment in people which includes hiring new skills and training interventions for current employees.

**7**

**Investing in our operations** enables us to continue meeting our clients' needs and strengthen our competitive position. Although our investment in technology is currently reducing our return on equity (ROE), it will ensure future income-enhancing opportunities, as well as access to new markets, thereby supporting our growth and sustainability.

Principal risks arising from this activity

- Credit risk
- Interest rate risk
- Liquidity risk
- Market risk
- Insurance risk
- Business and reputational risk
- Operational risk, including compliance, environmental and/or social risk

RCM AFS

For more information refer to the risk and capital management report.

# Key socioeconomic impact metrics

## Transformation

We view transformation as an ongoing change process through which we seek to become relevant in, responsive to and reflective of the societies in which we operate.

93.42
Black economic empowerment (BEE) transformation score out of 107
**2014: 94.25**

The decrease of 0.83 in comparison to our 2014 BEE score was a result of lower points for ownership (-0.27), management control (-0.38), skills development (-0.18) and access to financial services (-0.12), partly mitigated by an improvement in employment equity (+0.12). We retained full points for preferential procurement, enterprise development, empowerment finance and socioeconomic development. With respect to our 2015 ownership score being lower than 2014, this was due to the repatriation of capital to South Africa, following the disposal of Standard Bank Plc (SB Plc) in London in February 2015. This meant that the South African component of SBG's operations became proportionately larger. When related to a larger South African portion of SBG, the original Tutuwa ownership shares generate a reduced ownership score. Under Tutuwa, Standard Bank's BEE ownership transaction, a significant number of Tutuwa beneficiaries realised value during 2015 following the expiry of the scheme's ten-year lock-in period at the end of 2014. At December 2015, the scheme's remaining participants consisted of **1 881** black managers (2014: 6 188). Dividend payouts to the remaining Tutuwa Managers' Trust beneficiaries amounted to approximately **R41 million** (2014: R164 million).

We hosted the 'eKasi Rising' dialogue in Soweto with participating representatives from a number of government departments. Topics included improving access to financial services for township businesses and strengthening the linkages between township and formal urban economies.

## Supply chain

We actively look for ways to increase our procurement spend with black-owned and black women-owned businesses, particularly SMEs.

R21,8 billion
Total procurement spend, benefiting 11 406 suppliers.
**2014: R22,9 billion and 9 546 suppliers**

We met the financial sector code's target for preferential procurement, scoring 16 points out of a possible 16. As a level 2 BEE contributor, we are classified as a value adding supplier.

Monthly reviews measure our progress against targets to diversify our procurement portfolios. Our supplier development programme assists potential black-owned suppliers in the tender process.

### WEIGHTED PREFERENTIAL PROCUREMENT SPEND WITH BEE SUPPLIERS


## Corporate social investment

Our corporate social investment (CSI) focuses on transformational projects that benefit the communities in which we operate. We take into account the priority needs identified by government and society, and shape our CSI programmes accordingly.

R84 million
CSI spend.
**2014: R70 million**

A total of R15 million was invested in the development of early childhood development practitioners, an effective measure to improve schools.

Our employee matching initiative encourages employees to support non-profit organisations that benefit the broader community through monetary contributions. In 2015, approximately 140 organisations were supported through the programme with Standard Bank matching employee contributions to the value of R1,5 million.

## SMEs

A strong and growing small and medium enterprise (SME) sector is essential to the long-term development and transformation of South Africa's economy.

**R13,8 billion**
Total lending to small, micro- and start-up businesses.
**2014: R14,3 billion**

**R25 million**
Enterprise development spend
**2014: R26 million**

Towards the end of 2014, we introduced a specialised enterprise development customer proposition. It provides financing solutions to mainly black-owned companies that have gained access to preferential procurement opportunities from corporates or public sector entities. We work to understand each company's financial needs and, where there are inherent risks in operational and financial management, we provide non-financial and technical development support to mitigate these risks. This ensures that the supplier is able to fulfil their contractual obligations. In 2015, we distributed loans of over R450 million to enterprise development customers (2014: >R50 million).

We are working with government departments and other role-players to facilitate owner-investment in Reconstruction and Development Programme township properties with the aim of raising property values to enable SME owners to use this as financing collateral. Together with the Johannesburg Chamber of Commerce and Industry, we have launched an SME Export Incubator, a three-year training and mentoring programme for small businesses in the export sector.

## Inclusive banking

An important part of remaining socially relevant is to offer products and services that are accessible to marginalised individuals. This includes supporting financial literacy initiatives that enable informed financial decision-making.

**4,4 million**
Inclusive banking customers with a transactional account.
**2014: 4,4 million**

**35%** Market share of residential mortgages in the affordable housing sector.
**2014: 34%**

**R4,4 billion** Loans disbursed to customers in the affordable housing sector.
**2014: R4,8 billion**

Around 10 600 (2014: 12 000) affordable housing loans were financed in 2015 with R1,3 million invested in borrower education, benefiting 2 536 (2014: 2 937) home buyers.

**R35 million** Invested in consumer education.
**2014: R18 million**

We are investigating opportunities to partner with big retailers and corporates to introduce financial literacy to their employees.

## Infrastructure financing

We play an important role in allocating our financial resources to activities that will generate growth and development, and support economic transformation.

**R3,2 billion**
Average weighted transformational infrastructure lending. This is the financing we provide to projects that support social and economic activity in historically underserviced areas in South Africa.
**2014: R3,4 billion**

We partnered with Eskom to sell USD1,25 billion ten-year fixed-rate bonds to international capital markets to raise funds for the state utility's generation expansion programme.

Under the government's Renewable Energy Independent Power Producer Procurement (REIPPP) Programme, more than 40% of the 1 760 megawatts (MW) currently produced by independent power producers are Standard Bank financed projects.

Provided a R1 billion debt facility to the Siyakha Education Trust to help develop black empowerment initiatives in the property sector.

# Chief executive's report

Sim Tshabalala

## Overview

SBSA, as a major integrated financial services organisation, continues to facilitate the real economic activity which supports the country's socioeconomic development.

The group delivered a good performance in 2015 in a competitive low-growth environment. As the largest subsidiary and earnings contributor to SBG, the capital that the group generates continues to enable SBG's investment in its future competitiveness. The group's headline earnings grew 11% to R13,4 billion and achieved a return on equity of 15.5% (2014: 15.1%).

South Africa's GDP growth rate declined to 1.3% for 2015 as the economy suffered from lower commodity prices, and the worst drought the country has experienced in over a century. This was compounded by internal socio-political factors and policy missteps. Sustained economic weakness heightens the threat of increased unemployment and credit risk among personal and business clients. It also led to declining business and consumer confidence, exacerbated by market concerns related to the unexpected removal of South Africa's Finance Minister in December. While the instability of the country's power supply, which impacted growth in 2014, was largely resolved during the course of 2015, risks remain. In spite of these pressures, many South African businesses remained resilient and continued to grow at a faster pace than South Africa's GDP.

PBB SA operates in a fiercely competitive market. An ever-increasing number of banking and non-banking enterprises vie for the business of a relatively static number of bankable customers constrained by a low-growth economy. Our main priority in the current market environment is to redefine customer experiences by understanding and delivering what matters to customers. With the support of continuous technological advances, we are providing our customers with simpler and more efficient payment and banking products through integrated channels, including mobile banking.

The strong relationships that CIB has built with quality corporate South African clients enabled the franchise to facilitate their investments in markets in the rest of Africa, which are achieving higher levels of growth than the domestic economy. The relative economic buoyancy of these markets has encouraged significant growth in South African exports to the rest of Africa, higher than the value of domestic exports to Europe. This has resulted in a greater dependency on our neighbours to attract foreign currency inflows. Foreign direct investment by domestic companies has grown more than tenfold since 2000 with approximately 100 large South African corporations having substantial operations on the continent, many of which contribute 10% or more to their revenue.

The excellence of our local operations was recognised in a number of awards, including PBB's ranking as the leading brand in consumer banking by the 2015 Sunday Times/TNS Top Brands survey for the third consecutive year, while Business and Commercial Banking was awarded Brand of the Year in the 2015 Assegai Awards.

## Strategy

SBSA maintains a strong position in the domestic market and is able to leverage its size and scope to compete for opportunities in a transforming South African marketplace. Our strategy is to serve the full value chain of customers in our domestic operation – from the basic to the most sophisticated financial services needs – and to maintain high standards of customer service and cost-effective delivery channels. In line with SBG's strategy, our intention is to place our customers at the centre of everything we do

R13 376 million
Headline earnings +11%
**2014: R12 024 million**

15.5%
ROE
**2014: 15.1%**

and we are aligning our internal processes, systems and people to meet this goal.

The commitment of our people and ongoing investment in our systems in support of our strategy has enabled us to remain competitive and maintain our strong growth trend. Our people remain the critical success factor in our efforts to strengthen and maintain excellent customer service. We offer rewarding careers to our people and are dedicated to their ongoing development. In return, we expect their commitment to a culture of high performance, honesty, transparency, teamwork and collaboration. The training and development expenditure on South African staff in 2015 was R617 million.

SBSA is fully integrated with the rest of SBG and plays a key role in positioning SBG to capitalise on growth in the rest of sub-Saharan Africa. As SBG's largest business entity, SBSA holds the bulk of the capital resources required to execute the SBG's strategy in Africa. SBSA also provides support to SBG's operations in the rest of Africa through its deep knowledge and experience in a relatively mature market, and, therefore, carries assets from outside

"Our business units have been repositioned to enable them to adapt to the external forces that are reshaping our industry, which has made them more resilient in weak economic cycles. Our significant investment in developing a digitally enabled financial services organisation is strengthening our relationships with clients, enhancing cost-efficiency and improving risk management. This is allowing us to deliver better service to our clients, and more competitive pricing of our products and services."

South Africa on its balance sheet and bears costs on its income statement that emerge from the rest of SBG. Accordingly, SBSA cannot be viewed as a purely South African operation.

## Being a bank which drives the South African economy

PBB SA achieved pleasing earnings growth, maintaining its trend of steady growth in earnings and improvement in customer service, despite declining consumer and business confidence, fierce competition and ongoing regulatory changes. The franchise remained focused on acquiring primary transaction and deposit accounts. Retail deposits reduce our reliance on expensive wholesale funding and assist in building a track record of customer cash flows and rich customer information to assess risk. Our portfolio of products offers value to customers and we kept fee increases for our personal customers below inflation.

Our core banking programme underpins our transformation into an agile, customer-centred and digitally enabled bank. The comprehensive nature of the programme involves overhauling both the back office and front-end operations simultaneously. It is a lengthy, complex and capital-intensive process which continues to receive the highest levels of executive attention to ensure that we complete it, with minimal disruption, in 2017.

In South Africa, approximately 50% of our accounts, numbering 6,7 million, are on the new core banking platform, on which approximately 600 million transactions were processed in 2015, 33% more than in 2014. We migrated 34 million customer profiles to the new core banking platform as a single customer master file in March 2015 and successfully deployed retail savings in August 2015, with the new savings product available for origination. In 2016, we intend to migrate all savings and investment customers onto the platform, representing R190 billion in balances. By the end of 2017, 6,4 million additional savings, investment, complex personal and business accounts will be on the new core banking platform.

Over the past two years, we have focused on building convenient mobile banking solutions which provide customers with control of all aspects of their finances on their smart mobile devices. During 2015, we focused on strengthening these mobile offerings. We achieved a number of digital milestones, with several firsts in the South African banking market. Mobile banking transactional volumes have grown by over 90% compared to the previous year and we have seen 825 million financial transactions processed via the app during the year (R430 billion worth of transactions).

Our system stability was unfortunately less than satisfactory in 2015 and let down our customers and frontline staff. We experienced system instability in April following the migration of customer files, as well as outages in August and September, caused by hardware failures, and these have been disruptive to our customers. While some interruption is inevitable given the scale of the transformation we have undertaken, we understand that it is frustrating for our customers and staff and we are truly sorry for the inconvenience that we caused.

PBB Business and Commercial Banking experienced positive growth in many aspects of its business. Better access to and use of technology by the relationship teams has been a noteworthy development in improving our capability to respond to our clients' needs. A focus area for 2015 was those clients looking to expand into the African continent. Units aimed to support African expansion, as well as international trade, have been established to meet this need. In addition, the expertise embedded in the sector teams improved our relevance in focus sectors – agriculture, public sector, natural resources, and wholesale and retail trade. Business and Commercial Banking, including small and medium enterprises, banks more than 500 000 businesses and, according to independent research, has maintained the largest market share.

Our South African corporate clients continued to demonstrate their resilience in 2015. This reflects the underlying strength of many businesses that have shored up their balance sheets during the period following the 2008 crisis and have continued to grow in spite of a largely unsupportive macroeconomic environment. Much of their growth is attributable to their expansion into markets beyond South Africa. Our capacity to support their growth ambitions beyond domestic borders demonstrated the benefits of our unrivalled presence in all the continent's key markets. Hallmark transactions completed by CIB during the year reflect the franchise's capacity to facilitate acquisitions, disposals or capital-raising activities that protect and grow their clients' businesses.

Winning the mandate to provide a full range of investor service and product solutions for the Government Employees Pension Fund, Africa's largest institutional investor, and among one of the largest government pension funds in the world, was a particularly noteworthy achievement.

CIB was the sole corporate finance advisor for Brait's R12,2 billion acquisition of Virgin Active and co-investment bank and funder for its GBP780 million acquisition of New Look, both in the UK. Both deals reinforced our ability to facilitate significant transactions in the consumer sector, and support clients as they expand their geographic presence.

Our participation in the rights offer of Oceana, South Africa's largest fishing company and an important participant in the Namibian fishing industry, and our role in advising and funding the acquisition of Daybrook Fisheries in the US demonstrated strong investor appetite for quality South African equity issuers, even in an environment of heightened risk aversion. We demonstrated our ability to place the full weight of our corporate and investment funding franchise behind a client to facilitate their global expansion strategy.

The intensity of our focus on these major transactions does not detract from the quality of the basic banking services we offer daily, such as payments, collections, continuous settlement and regular interactions with individual clients. We believe that, through high-quality execution, we earn the right to deliver highly strategic value propositions to our clients.

Further progress was achieved in the implementation of three major online banking projects, due for completion in 2016, and they are already contributing to an improved experience for CIB's clients across its markets and product lines. By enabling clients to conduct their business electronically, New Business Online, eMarket Trader and the International Trade and Payments System are strengthening our competitiveness in South Africa and the rest of Africa.

## Transformation

Our targets are set out annually and approved by the board's social and ethics committee. External auditors accredited to conduct BEE verification processes conduct independent assessments of SBSA's BEE performance against the Financial Sector Codes. SBSA qualifies favourably as a level 2 BEE contributor in the nine-level model.

In the employment equity pillar, we have made progress in achieving our employment equity targets at senior and middle management levels. Representation of black people, black women and Africans in top management remains an area of focus and initiatives are in place to accelerate the development of black talent. PBB SA employs the largest staff complement in SBG. 81.1% of junior staff, 70.8% of middle staff and 48.3% of senior staff is black. We are encouraged with the progress made against internal transformation targets although we have more work to do in achieving our targets for senior staff and particularly women executives. We are committed to working towards achievement of the new codes. Our Employment Equity Plan was signed off in December 2014, setting out our employment equity strategy, targets and action plans to December 2016 to address these challenges.

## The year ahead

Challenges in our macroeconomic environment are likely to persist in 2016, putting pressure on our Personal & Business banking clients and increasing credit risk. Competition will remain intense in all segments. We expect South Africa's political economy to remain volatile. This climate is likely to be exacerbated by political activity ahead of the municipal elections. SBSA's ROE performance will, however, be affected by factors such as economic growth in South Africa and the rest of Africa, and the retention of a South African investment grade sovereign credit rating. As such, we are working closely with the authorities to promote a stable, growth-friendly domestic environment.

Our business units have been repositioned to enable them to adapt to the external forces that are reshaping our industry, which has made them more resilient in weak economic cycles. Our significant investment in becoming a digitally enabled financial services organisation is strengthening our relationships with clients, enhancing cost-efficiency and improving risk management. This is allowing us to deliver better service to our clients, and more competitive pricing of our products and services.

SBSA will continue to underpin the sustainable growth of SBG by fulfilling its role as an integrated financial services organisation that facilitates the growth of the real economy and socioeconomic development in South Africa.

# Executive committee

as at 31 December 2015

The board has delegated authority to the chief executive to manage the day-to-day business and affairs of the group, with full power on behalf of and in the name of the group.

The chief executive has in turn established the SBSA executive committee to assist him with the general executive control of the group.

The committee develops the group's strategy for consideration and approval by the board, monitors its execution, and agrees on priorities with the board, subject to statutory limits and the board's limitations on delegation of authority to the chief executive. It assists the chief executive in exercising general executive control of the business of the group and in the development of long-term direction and targets. It acts as a medium of communication and coordination between business units, the board, regulators and other key stakeholders.




## 1 SIM TSHABALALA /48

**Chief executive, SBSA**

- BA LLB (Rhodes)
- LLM (University of Notre Dame, USA)
- HDip Tax (Wits)
- AMP (Harvard)

Sim Tshabalala is the chief executive of SBG and of SBSA.

Sim joined the group in 2000 in the project finance division of SCMB. From 2001 to 2006, he was managing director of Stanbic Africa, and from 2003, he served concurrently as deputy chief executive of PBB. He was appointed chief executive of PBB in 2006. In June 2008, he was appointed chief executive of SBSA. In 2009, he was appointed deputy chief executive of SBG. In 2013, he was appointed chief executive of SBG.

## 2 STEVEN BRAUDO /44

**Chief executive, Standard Bank Wealth**

- BEconSci (Wits)
- BSc (Hons)
- CFA (USA)
- AMP (Harvard)
- FASSA

Steven Braudo was appointed chief executive, Standard Bank Wealth in July 2015. He is responsible and accountable for the implementation of the strategy, as well as the management of SBG's Wealth business. In 2008, he was appointed chief executive, Liberty Retail SA and in 2013, he was appointed deputy chief executive of Liberty Holdings. He is a member of the Actuarial Society of South Africa, as well as the Young Presidents' Association and the CFA Institute in the USA.

## 3 LIBBY KING /51

**Chief financial officer**

- BAcc (Wits)
- BCom (Wits)
- CA(SA)

Libby King joined the financial control department of Standard Corporate and Merchant Bank (SCMB) in 1994, and was appointed head of the department in 1998. In 2008, she was appointed chief operating officer of CIB, South Africa. In 2011, Libby was appointed chief financial officer, SBSA.

## 4 ISABEL LAWRENCE /47

**Chief compliance officer**

- BA LLB (RAU)
- BA (Hons) (RAU)
- LLM in Banking Law (RAU)

Isabel Lawrence joined the group's legal division in 1998, where she was responsible for legal risk and transacting for PBB. She was appointed head of the group legal division in 2003. In January 2012, Isabel was appointed group chief compliance officer (GCCO). In 2014, Isabel was appointed as a director on Standard Advisory London Limited.

## 5 FUNEKA MONTJANE /37

**Chief executive, PBB SA**

- BCom (Accounting) (Wits)
- BCom (Hons) (Wits)
- CA(SA)
- Masters of Commerce (University of Johannesburg)

Funeka Montjane joined the group in 2008 and was appointed chief financial officer of PBB South Africa. In 2010, she was appointed head of credit, PBB South Africa. In 2012, Funeka was appointed chief executive, PBB South Africa.

## 6 DAVID MUNRO /44

**Chief executive, CIB**

- BCom PDGA (UCT)
- CA(SA)
- AMP (Harvard)

David Munro joined the group in 1996, and was appointed to exco in 2013.

David Munro is the chief executive officer of CIB (SBG and SBSA).

In 2003, he was appointed deputy chief executive, CIB South Africa and in 2006 was appointed chief executive, CIB South Africa. He was appointed global head, investment banking in 2009 and chief executive, global CIB in 2011. In 2014, he was appointed director, Standard Bank London Holdings Limited, and in 2015 he was appointed director, ICBC Standard Bank Plc (ICBCS).

## 7 NEIL SURGEY /57

**Group chief risk officer**

- BCom (UCT)
- AMP (Insead)

Neil Surgey joined the commercial banking division of Standard Bank in 2002 as director, strategy and business support. In 2003, he joined SCMB as director of finance and operations. In 2006, he was appointed global chief operating officer in CIB and in 2010, was appointed head of transactional products and Services, CIB. In 2015, Neil was appointed group chief risk officer.

## 8 SHARON TAYLOR /46

**Head, Human capital**

- BCom (Natal)
- BCom (Hons) (Unisa)

Sharon Taylor joined the group's education and training division in 1991. In 2002, she was appointed as head, human resources for business banking. In 2005, she assumed responsibility for the human resource partnership in South Africa. In 2011, her responsibilities increased to include human resources for global investment banking. She was appointed as head, human capital for South Africa in 2012.

# Financial review

Libby King, chief financial officer

## THIS REVIEW PROVIDES

- An overview of the key features of the group's 2015 financial results
- An analysis of the group's financial performance and financial position.

## KEY FINANCIAL RESULTS AND RATIOS

| | Change % | 2015 | 2014 |
|---|---|---|---|
| Headline earnings (Rm) | 11 | **13 376** | 12 024 |
| Headline earnings per ordinary share (cents) | 11 | **22 294** | 20 041 |
| Return on equity (ROE) (%) | | **15.5** | 15.1 |
| Tier 1 capital adequacy ratio[1] (%) | | **12.1** | 12.3 |
| Total capital adequacy ratio[1] (%) | | **15.3** | 15.8 |
| Net asset value per share (cents) | 10 | **151 197** | 137 360 |
| Non-interest revenue to total income (%) | | **43.0** | 43.2 |
| Credit loss ratio (%) | | **0.84** | 1.04 |
| Cost-to-income ratio (%) | | **57.6** | 56.2 |

1 Including unappropriated profits.

## Results overview

2015 economic growth forecasts for South Africa were marked down progressively during the year as the full impact of commodity price deflation, and weakening business and consumer confidence limited demand. Although there was notable stabilisation of electricity supply in the second half of 2015, unfolding drought conditions, higher interest rates and policy uncertainty subdued investment and cyclical consumption. A sharply weaker exchange rate in response to investment portfolio outflows and a continued current account deficit accompanied broad acceleration in market volatility towards the end of the year, which was exacerbated by market concerns related to the unexpected removal of South Africa's Minister of Finance in December.

## Business unit performance

PBB's headline earnings of R10 125 million was up 15% on 2014, supported by growth in net interest income and non-interest revenue and a decrease in credit impairment charges but was partly offset by an increase in operating expenses. The increase in net interest income was assisted by balance sheet growth, improved risk-based pricing of new business and the positive endowment impact of higher average interest rates. Net fee and commission revenue was up due to higher cash withdrawal, debit order and service fee income as a result of growth in the active account base and transactional volumes. This growth was further supported by growth in fleet management service fees in personal and business portfolios but partly offset by lower card-based commission driven by a declining account base and a reduction in the legislative prescribed interchange rate. Other revenue increased as a result of higher net premium income that arose from a higher active insurance policy base, as well as a lower net incurred loss due to fewer claims. The mortgage lending, vehicle and asset finance and lending business showed strong headline earnings growth which was assisted by lower credit impairments and business operating model improvements. Growth in both card and transactional products' headline earnings was lower as a result of a

**R13 376 million** ↑

Headline earnings +11%

**2014: R12 024 million**

**151 197 cents** ↑

Net asset value per share +10%

**2014: 137 360 cents**

combination of interchange fee reform, competitive pricing and a reduced account base in some areas. PBB's ROE increased to 22.0% as growth in headline earnings offset the increased capital utilisation due to higher intangible asset balances and increased capital requirements under Basel III phase-in requirements.

CIB recorded headline earnings of R4 331 million, up 18% on the prior year. This growth was largely as a result of growth in non-interest revenue and a decrease in credit impairment charges. CIB's trading revenue benefited from good equities trading income and dividends received on equity transactions, as well as increased commodity-based revenue from higher client activity and the restructure of a commodity-based derivative transaction. This growth was, however, partly offset by lower fixed income and currencies (FIC) income as a result of reduced credit derivative revenue following tightened credit spreads and reduced client risk appetite. CIB's equity derivatives' business also performed well due to good risk positioning, as well as increased volumes in both the retail and corporate businesses. CIB's ROE decreased to 13.5% as a result of an increase in capital utilisation from the higher capital requirements being phased-in under Basel III rules which offset the growth in headline earnings.

Other services' loss of R1 080 million (2014: loss of R414 million) was mainly due to lower net interest income. This was as a result of a decrease in the funding benefit on excess capital following an increase in the tier I capital allocation to business units, coupled with increased term funding costs to meet the group's internal net stable funding ratio.

“Despite the increasingly challenging economic and regulatory environment, the group increased its headline earnings by 11% to R13,4 billion, demonstrating the franchises' strength and resilience.”

## BUSINESS UNIT PERFORMANCE[1]

| | Change | Headline earnings | | ROE | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| | % | Rm | Rm | % | % |
| PBB | 15 | **10 125** | 8 783 | **22.0** | 21.5 |
| CIB | 18 | **4 331** | 3 655 | **13.5** | 15.2 |
| Other services | (>100) | **(1 080)** | (414) | **(22.6)** | (8.0) |
| **Total** | 11 | **13 376** | 12 024 | **15.5** | 15.1 |

[1] Where reporting responsibility for individual cost centres and divisions within business units change, the segmental analysis of comparative figures are reclassified accordingly.

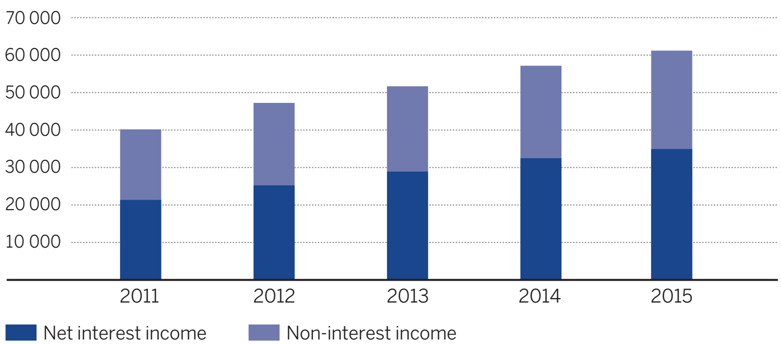
## Income statement analysis

The income statement reflects the revenue generation by the group and costs incurred in generating the revenue for the year ended 31 December 2015.

## INCOME STATEMENT

| for the year ended 31 December 2015 | Change % | 2015 Rm | 2014 Rm |
|---|---|---|---|
| Net interest income | 8 | **34 958** | 32 492 |
| Interest income | 11 | **74 035** | 66 749 |
| Interest expense | 14 | **(39 077)** | (34 257) |
| Non-interest revenue | 7 | **26 347** | 24 725 |
| Net fee and commission revenue | 1 | **19 094** | 18 815 |
| Trading revenue | 21 | **4 188** | 3 453 |
| Other revenue | 25 | **3 065** | 2 457 |
| **Total income** | 7 | **61 305** | 57 217 |
| Credit impairment charges | (6) | **(7 385)** | (7 876) |
| Revenue sharing agreements | (36) | **(1 125)** | (1 759) |
| **Income after credit impairment charges and revenue sharing agreements** | 11 | **52 795** | 47 582 |
| Operating expenses | 11 | **(34 693)** | (31 211) |
| **Net income before non-trading and capital related items and equity accounted earnings** | 11 | **18 102** | 16 371 |
| Non-trading and capital related items | (>100) | **(1 234)** | (475) |
| Share of profits from associates and joint ventures | (46) | **65** | 121 |
| **Profit before indirect taxation** | 6 | **16 933** | 16 017 |
| Indirect taxation | 11 | **(1 550)** | (1 398) |
| **Profit before direct taxation** | 5 | **15 383** | 14 619 |
| Direct taxation | (1) | **(2 904)** | (2 942) |
| **Profit for the year** | 7 | **12 479** | 11 677 |
| Attributable to non-controlling interest | (67) | **(1)** | (3) |
| Attributable to the ordinary shareholder | 7 | **12 478** | 11 674 |
| **Headline earnings adjustable items added** | >100 | **898** | 350 |
| Impairment of intangible assets – IAS 38 | | **879** | 339 |
| Goodwill impairment – IFRS 3 | | | 4 |
| Disposal of associate – IAS 28 | | **(4)** | (19) |
| Loss on sale of property and equipment – IAS 16 | | **23** | 26 |
| **Headline earnings** | 11 | **13 376** | 12 024 |

**INCOME CONTRIBUTION** (Rm)
CAGR (2011 – 2015): 11%




## Net interest income

Net interest income represents the difference between interest received on lending products and investments, and the interest paid on deposits and debt funding. This can be expressed as a ratio by our net interest margin. The movement in benchmark lending rates, being the prime rate in South Africa, is a key factor that causes the net interest margin to vary.

The group's net interest income increased 8% to R35 billion. During the year, net interest income benefited from the positive endowment effect of higher average interest rates, continued pricing concession management, improved risk-based pricing in unsecured personal and business lending portfolios and growth in average asset balances, particularly in cash management services. This was partly offset by competitive pricing in CIB, higher funding costs and the impact of additional low margin high-quality liquid assets (HQLA) held to meet Basel III liquidity requirements.

## Non-interest revenue

Non-interest revenue comprises net fee and commission revenue, trading and other revenue. The net fee and commission revenue is a function of transactional banking volumes, which are a function of economic activity and competition for banking services. Trading revenue is a function of trading volumes and market volatility that affects trading spreads. Other revenue consists of other banking activity-related revenue, including property-related revenue and income derived from bancassurance agreements.

Non-interest revenue increased during the year by R1,6 billion to R26,3 billion with net fee and commission revenue up 1%, trading revenue up 21% and other revenue increasing by 25%.

Growth in transactional volumes was offset by a reduction in the fees charged on card transactions (known as interchange fees) and a declining account base which resulted in muted growth in fee and commission revenue. Lower advisory, commitment, upfront and guarantee fees due to a decrease in client activity and reduced risk appetite further contributed to the low growth.

The increase in trading revenue was a result of higher dividend income in the equities business together with higher commodity-based revenue as a result of the restructure of certain commodity derivatives and an increase in the volume of physical commodities traded. This growth was partly offset by lower FIC income due to lower credit derivative revenue on the back of reduced risk appetite and tightened credit spreads.

The increase in other revenue was largely due to fair value gains in the strategic investment portfolio.

## Credit impairment charges

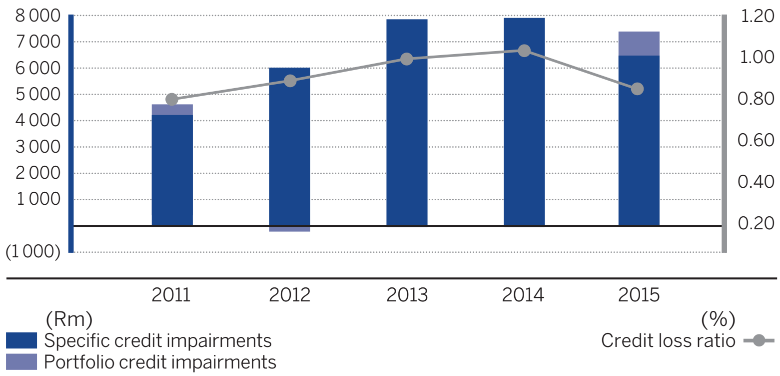
Credit impairments represent the losses incurred as a result of the inability of our customers and clients to repay their debt obligations to the group. The credit loss ratio expresses these impairment charges as a percentage of average loans and advances and indicates how much, on average, of each rand lent by the group results in credit impairments.

Credit impairments decreased by R491 million or 6% from 2014. Contributing to the reduction in the impairments in PBB were improvements in collection strategies combined with the origination of better quality business which contributed to lower mortgage lending and vehicle and asset finance related credit impairment charges. In low income, unsecured lending, credit impairment charges reduced due to the lower loan book balance following a reduction in risk appetite for this segment, as well as enhanced collection strategies. Increased consumer strain in South Africa, however, resulted in higher specific impairment charges in credit card debtors and revolving credit plans.

In CIB, despite specific impairments being raised against clients in the oil and gas, and power and infrastructure sectors, CIB reported a reduction in specific credit impairments, driven by the non-recurrence of prior year specific impairments. The decrease in the specific impairments was offset by higher performing portfolio impairments, as compared to the release in the prior year and was as a result of model enhancements to exposure at default (EAD) and emergence periods.

As a result of the above, the credit loss ratio improved to 0.84% from 1.04% in 2015 and non-performing loans as a percentage of total loans decreased to 3.1% from 3.3% in the previous year.

**CREDIT IMPAIRMENT CHARGES**
CAGR (2011 – 2015): 12%




A detailed analysis of performing and non-performing loans is provided in the risk and capital management report on **page 63**.

## Revenue sharing agreements

Revenue sharing agreements are agreements that allow for the sharing of income with other SBG companies.

Revenue sharing agreements decreased 36% or R634 million from the previous year. The decrease is mainly due to a change in CIB's global operating model which resulted in certain agreements changing to cost recovery models with costs now reflected within operating expenses.

## Operating expenses

Operating expenses represent the costs that the group incurs to support current and future revenues. Inflation and foreign exchange rates are key external indicators that contribute to the increase in such expenses. Many internal factors also affect the growth in operating expenses, such as our staff and investments in branch and IT infrastructure.

The group continues to invest in both its staff and infrastructure to improve customer service and deliver on strategic priorities while maintaining control of costs and investing for long-term growth.

| | Change % | 2015 Rm | 2014 Rm |
|---|---|---|---|
| Staff costs | 11 | **17 795** | 16 039 |
| Other operating expenses | 11 | **16 898** | 15 172 |
| Total operating expenses | 11 | **34 693** | 31 211 |
| Cost-to-income ratio (%) | | **57.6** | 56.2 |

### Staff costs

Staff cost growth of 11% was relatively high in 2015 due to the conversion of 4 360 staff from temporary staff to permanent staff in recognition of changes in South African labour legislation and higher headcount in the innovation and digital banking specialist areas.

### Other operating expenses

The 11% growth in other operating expenses included the effects of ongoing IT investment as SBSA seeks to enhance its operational platforms and digital capabilities to improve operational efficiency and enhance customer experience. Cost growth was also impacted by higher amortisation of IT intangible assets due to core banking and cross-border payment systems going live, as well as professional fees linked to various compulsory regulatory projects and legal matters. The change in the CIB operating model as explained under revenue sharing agreements also had an impact on other operating expenses.

## Non-trading and capital related items

This line item materially comprises gains and losses on the disposal of businesses, property and equipment and the impairment of intangible assets.

A loss of R1 234 million was recognised in 2015 as compared to a loss of R475 million in the previous year. Contributing to the current year loss was the recognition of an impairment of R879 million (post-tax) of core banking and cross-border payment systems, as well as sub-ledger rules engines. These impairments followed a comprehensive review of system-related assets particularly where there had been a change in underlying system strategy. The group's branch in Taipei, Taiwan, was liquidated during the year resulting in a gain of R46 million and CIB disposed of its associate investment in Reatile Resources (Pty) Ltd resulting in a loss of R21 million. These non-trading and capital related items were all excluded from headline earnings.

## Balance sheet analysis

The balance sheet or statement of financial position (SOFP) reflects what the group owns, owes and the equity that is attributable to the shareholder at 31 December 2015.

### STATEMENT OF FINANCIAL POSITION

| as at 31 December 2015 | Change % | 2015 Rm | 2014 Rm |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | (6) | **30 252** | 32 218 |
| Derivative assets | 86 | **100 356** | 54 062 |
| Trading assets | 23 | **63 282** | 51 436 |
| Pledged assets | 49 | **7 879** | 5 281 |
| Financial investments | (3) | **98 944** | 101 856 |
| Current tax asset | (23) | **242** | 313 |
| Loans and advances | 14 | **897 344** | 785 483 |
| Other assets | 21 | **9 003** | 7 470 |
| Interest in SBG companies, associates and joint ventures | (38) | **41 347** | 66 907 |
| Property and equipment | (2) | **8 931** | 9 085 |
| Goodwill and other intangible assets | 14 | **19 315** | 16 999 |
| Deferred taxation | 45 | **58** | 40 |
| **Total assets** | 13 | **1 276 953** | 1 131 150 |
| **Equity and liabilities** | | | |
| **Equity** | 10 | **90 714** | 82 418 |
| Equity attributable to the ordinary shareholder | 10 | **90 714** | 82 412 |
| Ordinary share capital | | **60** | 60 |
| Ordinary share premium | 11 | **40 138** | 36 296 |
| Reserves | 10 | **50 516** | 46 056 |
| Non-controlling interest | (100) | | 6 |
| **Liabilities** | 13 | **1 186 239** | 1 048 732 |
| Derivative liabilities | 82 | **120 857** | 66 298 |
| Trading liabilities | 8 | **24 625** | 22 709 |
| Current tax liability | (12) | **2 945** | 3 338 |
| Deposit and debt funding | 9 | **874 372** | 799 936 |
| Liabilities to SBG companies | 3 | **127 185** | 123 794 |
| Subordinated debt | 3 | **21 309** | 20 734 |
| Provisions and other liabilities | 23 | **14 403** | 11 691 |
| Deferred tax liability | (>100) | **543** | 232 |
| **Total equity and liabilities** | 13 | **1 276 953** | 1 131 150 |

### Derivative assets and liabilities

The group transacts derivatives on behalf of its customers and clients and hedges those positions with other market participants. The group's participation in derivative transactions is primarily a flow-based business in terms of which a margin is earned.

Derivative assets and liabilities increased during the year, largely linked to volatility in interest and exchange rates, particularly towards the end of the year.

## Financial investments, trading and pledged assets and trading liabilities

Financial investments principally comprise listed and unlisted equity instruments, government and corporate debt listed on a recognised exchange, as well as other regulatory prescribed instruments that the group is required to hold.

The group's trading assets and liabilities comprise those assets and liabilities held for short-term purposes to realise gains as a result of changes in underlying market variables.

Pledged assets are those assets provided to other market participants, who may use the assets for their own purposes, but may not be derecognised from the group's balance sheet.

Financial investments decreased by 3%, or R2,9 billion as a result of a decrease in treasury bill holdings offset by an increase in the level of government bonds held following a strategic focus to place excess liquidity in higher yielding bonds to optimise earnings.

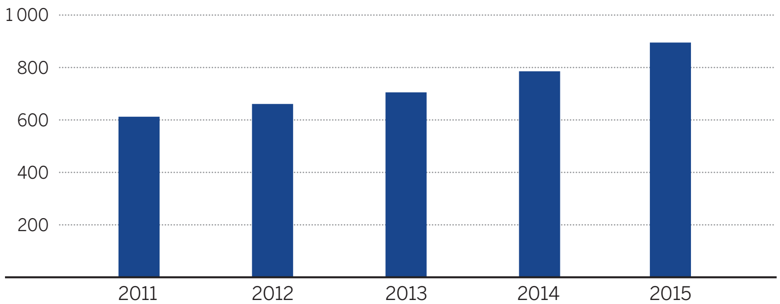
Trading assets increased 23% or R11,8 billion primarily as a result of holding more corporate bonds and increased repurchase and other collateralised lending arrangements.

Pledged assets increased 49% or R2,6 billion as a result of higher levels of pledged government securities held as well as commodities lent to external parties in terms of commodity lease contracts.

## Loans and advances

Loans and advances represent the largest asset class on the group's balance sheet. They provide the group's biggest source of revenue in the form of interest income, and creates cross-selling opportunities to earn transactional fees and insurance-related revenues. Growing loans and advances within the group's accepted risk levels is, therefore, essential to growing revenue. In the personal market, in particular, this growth depends on the customers' ability to repay debt.

**LOANS AND ADVANCES** (Rbn)
CAGR (2011 – 2015): 10%




## ANALYSIS OF LOANS AND ADVANCES

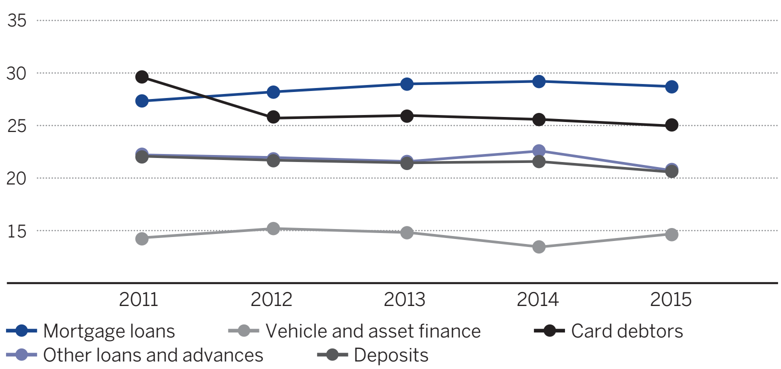
| | Change % | 2015 Rm | 2014 Rm |
|---|---|---|---|
| **Personal & Business Banking** | 4 | **498 482** | 477 399 |
| Mortgage loans | 2 | **310 330** | 302 847 |
| Vehicle and asset finance | 10 | **69 574** | 63 299 |
| Card debtors | 3 | **30 389** | 29 496 |
| Other loans and advances | 8 | **88 189** | 81 757 |
| Personal loans (incl. access loans) | 5 | **37 741** | 35 979 |
| Corporate, business and other | 10 | **50 448** | 45 778 |
| **Corporate & Investment Banking** | 26 | **402 608** | 320 465 |
| Loans to banks | 8 | **110 784** | 102 601 |
| Loans to customers | 34 | **291 824** | 217 864 |
| **Other services** | >100 | **14 177** | 2 982 |
| **Gross loans and advances** | 14 | **915 207** | 800 846 |
| **Credit impairments for loans and advances** | (16) | **(17 863)** | (15 363) |
| Credit impairments for non-performing loans | (14) | **(12 738)** | (11 148) |
| Credit impairment for performing loans | (22) | **(5 125)** | (4 215) |
| **Net loans and advances to customers** | 14 | **897 344** | 785 483 |

Loans and advances increased by 14% to R897 billion in 2015, with PBB and CIB reporting growth of 4% and 26% respectively.

In PBB, mortgage loans and advances grew 2% as a result of new business registrations offset by a higher loan prepayment rate. Vehicle and asset finance loans and advances increased by 10% mainly due to process improvements and improved integration into the dealer network which resulted in higher transaction volumes. This growth was achieved despite the tougher economic conditions and a 4.1% decline in aggregate new vehicle sales. Corporate, business and other term loans reported growth of 10%, driven partly by account restructures in the agriculture sector, providing customers extended settlement terms as drought conditions persist in the sector. Other personal term loans saw an increase in revolving credit plan balances due to new business, card debtors reported an increase on the back of higher spend by customers and commercial property finance showed some growth as a result of increased focus on growing the real estate sector.

CIB's loans and advances increased 26% in 2015. This growth was impacted by loans to ICBCS, previously named SB Plc in which a controlling interest was disposed of by SBG on 1 February 2015 as these loans were previously disclosed within interest in SBG companies. Corporate, business and term loans (within loans to customers) increased R39,8 billion driven partly by increased foreign currency lending. Loans to banks increased 8% during the year, impacted by the group needing to meet internal and Basel III liquidity requirements.

## SBSA'S MARKET SHARE MOVEMENTS (%)




## Interest in SBG companies, associates and joint ventures and liabilities to SBG companies

The group's interest in other SBG companies, associates and joint ventures and liabilities to other SBG companies primarily comprises lending, borrowing and related transactional balances with fellow SBG subsidiaries, primarily in the rest of Africa.

Interest in SBG companies, associates and joint ventures decreased by 38% over the course of 2015. This was largely attributable to the disposal of a controlling interest in SB Plc. Following the disposal of SB Plc, all balances with ICBCS are recognised within loans and advances and deposits and debt funding as opposed to being shown within interest in SBG companies and liabilities to SBG companies as was the case prior to the disposal.

## Goodwill and other intangible assets

Goodwill and other intangible assets primarily comprise intangible assets developed to support the group's banking activities and provide the group with the ability to enhance customer experience using its digital platforms.

Goodwill and other intangible assets increased by 14% during the year, mainly due to the capitalisation of costs for strategic IT projects. As mentioned above, the intangible assets were subject to a comprehensive group-wide impairment assessment in 2015 which resulted in an impairment of R879 million (post tax) linked to select components of core banking and cross-border payments systems, as well as some redundancy in sub-ledgers as part of a standardisation process.

## Ordinary shareholder's funds

The group's ordinary shareholder's equity comprises ordinary share capital and share premium, as well as reserves (primarily retained reserves). The shareholder's equity continues to support the progressively higher levels of regulatory and internal capital requirements required to comply with Basel III.

Ordinary shareholder's reserves increased during the period by 10% primarily as a result of the profit for the year attributable to the ordinary shareholder of R12,5 billion.

A disciplined use of risk-weighted assets, together with this internal capital generation, resulted in the group maintaining strong Basel III capital ratios during the year. At 31 December 2015, the group's tier 1 capital ratio and total capital adequacy ratios of 12.1% and 15.3% respectively were both well above the regulatory and internal capital requirements.

## Deposits, current accounts, debt funding, subordinated debt, capital and liquidity

Deposits and debt funding provide the group with the means to lend to its customers and clients. This fulfils the group's role in connecting providers of capital with those that require additional capital and thereby contributes to the broader financial system. The group pays interest on the funds borrowed but also derives fee income from transactional activity with respect to its customer and client deposits. The group's subordinated debt provides further funding for the group's growth requirements and importantly qualifies as tier II capital.

During 2015, deposit and debt funding increased 9% to R874,4 billion.

PBB's deposits and current accounts increased 10% in 2015. Growth in call deposits was mainly attributable to growth in money market call deposits as a result of higher customer balances in business and commercial banking due to the higher interest rate environment, as well as increased product awareness and number of accounts following several successful marketing campaigns. Balances on current accounts grew in business and commercial banking due to both reduced infrastructure spend and growth in the customer account base. Term deposits increased as a result of both an increase in the number of accounts and higher balances per account. Other funding grew due to higher client foreign currency balances supported by the weaker rand as did cash management deposits, on the back of growth in business and commercial banking from both higher balances from existing clients, as well as new business.

CIB's deposits and debt funding increased 8% from the previous year as a result of additional funding from syndicated loans, higher foreign placements and repo balances, as well as deposits from local banks. Negotiable certificates of deposits increased by R7,6 billion to meet internal targets in anticipation of Basel III's Net Stable Funding Ratio (NSFR) implementation. Call deposits decreased but this was offset by an increase in cash management and term deposits. Deposits under repurchase agreements decreased following the expiry of certain client repurchase agreements.

During 2015, the group maintained an average liquidity coverage ratio (LCR) of 82.1% which was comfortably in excess of the minimum regulatory requirement of 60%.

During the year, SBSA successfully raised R3,6 billion of tier II subordinated debt, the terms of which include a regulatory requirement which provides for the write-off, in whole or in part, on the earlier of a decision by the South African Reserve Bank (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.

A detailed analysis of capital management is provided in the risk and capital management report starting on **page 44**.

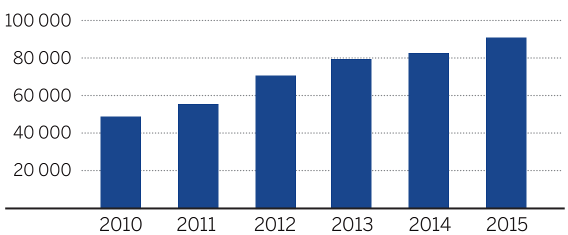
# Six-year review

## STATEMENT OF FINANCIAL POSITION

| | CAGR[1] % | 2015 Rm | 2014 Rm | 2013 Rm | 2012 Rm | 2011 Rm | 2010 Rm |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 11 | **30 252** | 32 218 | 29 934 | 25 926 | 20 865 | 18 181 |
| Derivative assets | (1) | **100 356** | 54 062 | 59 974 | 78 844 | 93 422 | 105 221 |
| Trading assets | 36 | **63 282** | 51 436 | 35 574 | 35 685 | 24 626 | 13 825 |
| Pledged assets | 31 | **7 879** | 5 281 | 4 394 | 5 706 | 3 737 | 2 035 |
| Financial investments | 5 | **98 944** | 101 856 | 73 604 | 76 679 | 79 809 | 79 388 |
| Current tax asset | 5 | **242** | 313 | 286 | 191 | 170 | 191 |
| Loans and advances | 11 | **897 344** | 785 483 | 704 919 | 659 500 | 611 165 | 536 188 |
| Other assets | 10 | **9 003** | 7 470 | 11 623 | 18 960 | 11 507 | 5 665 |
| Non-current assets held for sale | | | | | 960 | | |
| Interest in SBG companies, associates and joint ventures – banking operations | (8) | **41 347** | 66 907 | 72 757 | 58 430 | 62 099 | 63 013 |
| Property and equipment | 2 | **8 931** | 9 085 | 8 989 | 8 895 | 8 430 | 7 906 |
| Goodwill and other intangible assets | 34 | **19 315** | 16 999 | 13 785 | 10 350 | 6 469 | 4 410 |
| Deferred taxation | (28) | **58** | 40 | 38 | 26 | 138 | 293 |
| Total assets | 9 | **1 276 953** | 1 131 150 | 1 015 877 | 980 152 | 922 437 | 836 316 |
| **Equity and liabilities** | | | | | | | |
| **Equity** | 13 | **90 714** | 82 418 | 79 204 | 70 625 | 55 385 | 48 704 |
| Equity attributable to the ordinary shareholder | 13 | **90 714** | 82 412 | 79 201 | 70 562 | 55 333 | 48 662 |
| Ordinary share capital | | **60** | 60 | 60 | 60 | 60 | 60 |
| Ordinary share premium | 10 | **40 138** | 36 296 | 36 296 | 35 196 | 27 230 | 25 230 |
| Reserves | 17 | **50 516** | 46 056 | 42 845 | 35 306 | 28 043 | 23 372 |
| Non-controlling interests | (100) | | 6 | 3 | 63 | 52 | 42 |
| **Liabilities** | 9 | **1 186 239** | 1 048 732 | 936 673 | 909 527 | 867 052 | 787 612 |
| Derivative liabilities | 3 | **120 857** | 66 298 | 65 813 | 81 744 | 98 730 | 102 476 |
| Trading liabilities | 10 | **24 625** | 22 709 | 20 424 | 21 221 | 20 600 | 15 509 |
| Current tax liability | 7 | **2 945** | 3 338 | 3 361 | 2 940 | 972 | 2 074 |
| Deposits and debt funding | 8 | **874 372** | 799 936 | 721 350 | 712 676 | 681 043 | 601 612 |
| Liabilities to SBG companies | 26 | **127 185** | 123 794 | 90 688 | 50 201 | 35 007 | 39 888 |
| Subordinated debt | 6 | **21 309** | 20 734 | 20 815 | 22 400 | 16 095 | 15 683 |
| Provisions and other liabilities | 7 | **14 403** | 11 691 | 14 084 | 17 573 | 13 693 | 10 367 |
| Deferred tax liability | >100 | **543** | 232 | 138 | 772 | 912 | 3 |
| **Total equity and liabilities** | 9 | **1 276 953** | 1 131 150 | 1 015 877 | 980 152 | 922 437 | 836 316 |

[1] CAGR refers to compound annual growth rate for the period 2010 to 2015.

### ORDINARY SHAREHOLDER'S EQUITY – GROUP (Rm)

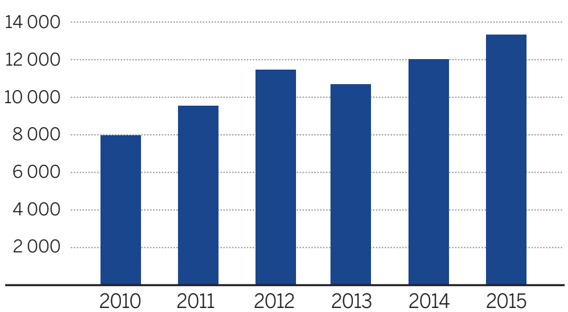


## INCOME STATEMENT

| | CAGR[1] % | 2015 Rm | 2014 Rm | 2013 Rm | 2012 Rm | 2011 Rm | 2010 Rm |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| Net interest income | 12 | **34 958** | 32 492 | 28 888 | 25 249 | 21 348 | 20 185 |
| Interest income | 7 | **74 035** | 66 749 | 58 069 | 55 677 | 49 714 | 51 601 |
| Interest expense | 4 | **(39 077)** | (34 257) | (29 181) | (30 428) | (28 366) | (31 416) |
| Non-interest revenue | 8 | **26 347** | 24 725 | 22 848 | 22 032 | 18 804 | 18 329 |
| Net fee and commission revenue | 7 | **19 094** | 18 815 | 16 976 | 16 364 | 14 582 | 13 588 |
| Fee and commission revenue | 7 | **23 095** | 22 770 | 20 508 | 19 483 | 17 355 | 16 107 |
| Fee and commission expense | 10 | **(4 001)** | (3 955) | (3 532) | (3 119) | (2 773) | (2 519) |
| Trading revenue | 9 | **4 188** | 3 453 | 3 521 | 3 147 | 3 220 | 2 686 |
| Other revenue | 8 | **3 065** | 2 457 | 2 351 | 2 521 | 1 002 | 2 055 |
| **Total income** | 10 | **61 305** | 57 217 | 51 736 | 47 281 | 40 152 | 38 514 |
| Credit impairment charges | 3 | **(7 385)** | (7 876) | (7 815) | (5 785) | (4 623) | (6 352) |
| Revenue sharing agreements | | **(1 125)** | (1 759) | (1 646) | (1 642) | (230) | |
| **Income after credit impairment charges and revenue sharing agreements** | 10 | **52 795** | 47 582 | 42 275 | 39 854 | 35 299 | 32 162 |
| Operating expenses | 10 | **(34 693)** | (31 211) | (27 956) | (25 496) | (21 899) | (21 239) |
| **Net income before non-trading and capital related items and equity accounted earnings** | 11 | **18 102** | 16 371 | 14 319 | 14 358 | 13 400 | 10 923 |
| Non-trading and capital related items | | **(1 234)** | (475) | (287) | 182 | (123) | (136) |
| Share of profits from associates and joint ventures | (12) | **65** | 121 | 303 | 676 | 155 | 124 |
| **Profit before indirect taxation** | 9 | **16 933** | 16 017 | 14 335 | 15 216 | 13 432 | 10 911 |
| Indirect taxation | 13 | **(1 550)** | (1 398) | (1 211) | (974) | (745) | (856) |
| **Profit before direct taxation** | 9 | **15 383** | 14 619 | 13 124 | 14 242 | 12 687 | 10 055 |
| Direct taxation | 6 | **(2 904)** | (2 942) | (2 608) | (2 347) | (3 167) | (2 147) |
| **Profit for the year** | 10 | **12 479** | 11 677 | 10 516 | 11 895 | 9 520 | 7 908 |
| Attributable to non-controlling interest | (54) | **1** | 3 | (21) | 11 | 10 | 50 |
| Attributable to the ordinary shareholder | 10 | **12 478** | 11 674 | 10 537 | 11 884 | 9 510 | 7 858 |

[1] CAGR refers to compound annual growth rate for the period 2010 to 2015.

### HEADLINE EARNINGS – GROUP (Rm)

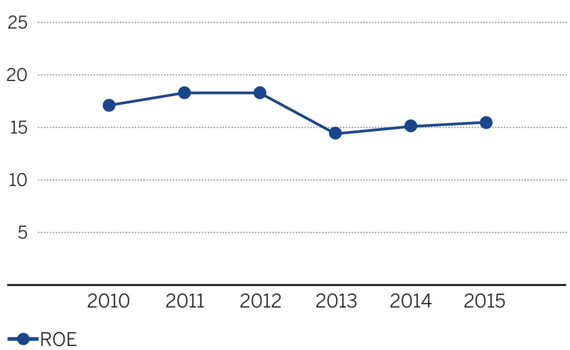


## STATISTICS, RETURNS AND CAPITAL ADEQUACY

| | CAGR[1] % | 2015 Rm | 2014 Rm | 2013 Rm | 2012 Rm | 2011 Rm | 2010 Rm |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| Headline earnings (Rm) | 11 | **13 376** | 12 024 | 10 709 | 11 461 | 9 530 | 7 954 |
| **Share statistics** | | | | | | | |
| **Number of ordinary shares in issue (thousands)** | | | | | | | |
| Weighted average | | **59 997** | 59 997 | 59 997 | 59 997 | 59 997 | 59 997 |
| End of period | | **59 997** | 59 997 | 59 997 | 59 997 | 59 997 | 59 997 |
| **Share statistics per ordinary share (cents)** | | | | | | | |
| Basic earnings | 10 | **20 798** | 19 458 | 17 563 | 19 808 | 15 851 | 13 097 |
| Headline earnings | 11 | **22 294** | 20 041 | 17 849 | 19 103 | 15 884 | 13 257 |
| Dividends | 31 | **15 834** | 14 334 | 10 667 | 4 163 | 12 335 | 4 167 |
| Net asset value | 13 | **151 198** | 137 360 | 132 008 | 117 609 | 92 227 | 81 108 |
| **Selected returns and ratios** | | | | | | | |
| ROE (%) | | **15.5** | 15.1 | 14.4 | 18.3 | 18.3 | 17.1 |
| Non-interest revenue to total income (%) | | **43.0** | 43.2 | 44.2 | 46.6 | 46.8 | 47.6 |
| Average ordinary shareholder's equity to average total assets (%) | | **7.2** | 7.4 | 7.5 | 6.6 | 6.0 | 5.7 |
| Loans-to-deposits ratio (%) | | **102.6** | 98.2 | 97.7 | 92.5 | 89.7 | 89.1 |
| Cost-to-income ratio (%) | | **57.6** | 57.0 | 56.0 | 54.5 | 54.8 | 55.3 |
| Credit loss ratio (%) | | **0.84** | 1.04 | 1.11 | 0.89 | 0.80 | 1.18 |
| Effective tax rate (%) | | **26.3** | 27.1 | 26.6 | 21.8 | 29.1 | 27.5 |
| Headline earnings per employee (rand) | 10 | **412 305** | 442 808 | 392 242 | 406 880 | 335 304 | 261 679 |
| Number of employees | 1 | **32 442** | 27 154 | 27 302 | 28 168 | 28 422 | 30 396 |

[1] CAGR refers to compound annual growth rate for the period 2010 to 2015.

### FINANCIAL PERFORMANCE – GROUP (%)

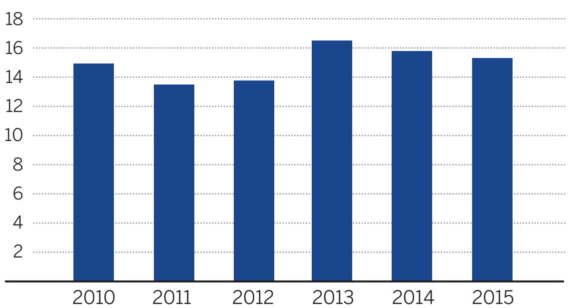


## STATISTICS, RETURNS AND CAPITAL ADEQUACY CONTINUED

| | CAGR[1] % | 2015 Rm | 2014 Rm | 2013 Rm | 2012 Rm | 2011 Rm | 2010 Rm |
|---|---|---|---|---|---|---|---|
| **Company** | | | | | | | |
| **Capital adequacy[2]** | | | | | | | |
| Risk-weighted assets (Rm) | 10 | **580 944** | 513 856 | 489 045 | 528 266 | 430 484 | 368 262 |
| Tier I capital (Rm) | 11 | **70 550** | 63 312 | 62 379 | 55 988 | 46 214 | 42 172 |
| Total capital (Rm) | 10 | **88 943** | 81 027 | 80 680 | 72 694 | 58 284 | 54 965 |
| Tier I capital adequacy ratio (%) | | **12.1** | 12.3 | 12.8 | 10.6 | 10.7 | 11.5 |
| Total capital adequacy ratio (%) | | **15.3** | 15.8 | 16.5 | 13.8 | 13.5 | 14.9 |
| **Headline earnings (Rm)** | 11 | **12 721** | 11 738 | 10 279 | 11 140 | 9 489 | 7 697 |
| **Return on average risk-weighted assets (%)** | | **2.2** | 2.3 | 2.0 | 2.3 | 2.4 | 2.1 |
| **Rand exchange rates at 31 December** | | | | | | | |
| US dollar | | **15,50** | 11,57 | 10,49 | 8,48 | 8,09 | 6,64 |
| Sterling | | **22,93** | 18,02 | 17,36 | 13,71 | 12,48 | 10,29 |
| Euro | | **16,86** | 14,01 | 14,44 | 11,18 | 10,46 | 8,87 |
| **Market indicators at 31 December** | | | | | | | |
| SA prime overdraft rate (%) | | **9.75** | 9.1 | 8.5 | 8.5 | 9.0 | 9.0 |
| JSE[3] All Share Index | 10 | **50 694** | 49 771 | 46 256 | 39 250 | 31 986 | 32 119 |
| JSE[3] Banks Index | 8 | **61 072** | 72 998 | 57 745 | 53 362 | 41 178 | 40 985 |

1 CAGR refers to compound annual growth rate for the period 2010 to 2015.
2 Capital adequacy for 2010 to 2011 are on a Basel II basis. Basel III was implemented on 1 January 2013. 2012 is on a *pro forma* Basel III basis.
3 JSE Limited, the licensed securities exchange in Johannesburg.

### TOTAL CAPITAL ADEQUACY RATIO – COMPANY
(%)



# Human capital report

> We believe in harnessing the full potential of our people as a critical driver of our business success in delivering a superior client experience. Our purpose, vision and principles guide our efforts to create a supportive work environment.

**SHARON TAYLOR** / Head of human capital

To be successful in the work that lies ahead to achieve our vision, our people need to have a commercial mindset, a passion for the continent and be motivated to deliver exceptional client experiences. Current and future trends, ranging from digitalisation to working with a multi-generational workforce, are influencing how we shape our broader people, leadership and engagement strategies.

We are committed to driving a culture where our people feel valued, have a clear sense of belonging, know what is expected of them and are recognised and rewarded for their contribution to achieving our ambition – to place our clients at the centre of everything we do.

As at 31 December 2015, 33 057 (2014: 27 926) employees were employed in SBG's South African operations (excluding Liberty) of which 32 442 (2014: 27 154) employees were employed by the group. The level of voluntary turnover in 2015 remained healthy at 6.4%, which is well below the international financial services benchmark of 13.9% (2014 corporate executive board benchmark). A sizeable portion of our temporary employees in South Africa were offered permanent positions in 2015, in line with our commercial requirements and amendments to the Labour Relations Act. As a result, our non-permanent workforce has reduced significantly.

## Meaningful work

> We strive to make Standard Bank a place that our people are proud to work for.

How our people think and feel about work directly correlates with client satisfaction levels. We firmly believe that our people want more than to just go about their daily work and receive a salary – they have a deeper expectation of serving a higher purpose. Our leaders invest time and effort to ensure that all our people feel deeply connected with our purpose and our clients.

We are interested in understanding our people's perceptions and experiences of their work environment. In our retail business in South Africa, for example, the Connect programme builds productive two-way conversations where we can tap into suggestions for improvement across a range of discussion topics relevant to our people. Insights obtained from our SBSA employment equity and engagement survey in 2014 have been used to inform our strategy and our people priorities for the short to medium term. Going forward, we will focus on gathering and responding to insights shared, utilising innovative, real-time platforms, and using these insights to shape our culture on an ongoing basis.

## Caring and fair work practices

> We aim to ensure that caring, supportive and fair work practices are applied, respecting the rights of our people.

Our values commit us to having the highest regard for the dignity of all people, respecting each other, and what we stand for. We respect the individual and collective rights of our people in the workplace and adhere to local and international labour regulations and legislation. We have developed an open and robust relationship with the South African Society of Bank Officials (SASBO), the recognised trade union in South Africa, whom we view as a crucial stakeholder and partner in our long-term success and sustainability in our home territory. At December

2015, 59.3% (2014: 65%) of our general staff and 21.1% (2014: 9.3%) of our managers were members of SASBO.

Our investment in health and wellness initiatives provides our employees with a wide array of services, empowering them to effectively manage any personal, workplace and health-related challenges they may encounter. Training on building personal resilience, managing change and financial fitness is available to all employees. Training is provided to managers in South Africa specifically to assist them in managing absenteeism due to illness. As of 2015, we have started using the cost of total sick leave as a percentage of total payroll as our key measure of absenteeism. For the reporting year, this equated to 1.27%, which is below the South African financial sector norm of 1.7%.

## Ability to adapt and prosper

To deliver our strategy we need to ensure that we have enough of the right people, in the right roles, at the right time, with the required skills and capabilities.

We work in a fast-paced, highly competitive industry with ever-changing demands as we build a digital bank. Our people, therefore, must be equipped with the necessary skills to drive a client-focused approach now and into the future.

We make a clear commitment in our strategy to develop our people in terms of their leadership and technical ability and product knowledge. We aim to do this by creating a culture of continuous professional development and adaptability.

The introduction of a single learning management system in 2015 has provided all our people with online access to learning opportunities and enables them to fulfil their compliance training obligations.

Our learning offerings include an extensive range of online courses, as well as classroom-based training and experiential learning to ensure that our people can actively pursue upskilling opportunities that will benefit their career, our clients and the group. We invested R617 million, 3.3% of total staff costs, in skills development in 2015 and assisted 581 employees with bursaries to further their studies. 85% (2014: 60%) of our training spend was on black employees and 51% (2014: 34%) on black women employees. Of the 34 671 (2014: 20 554) employees trained in South Africa, 80% (2014: 74%) were black employees.

We support a philosophy of promoting from within, building a strong track record of career development for our people. Our internal careers website provides our people with access to information on career opportunities in the group, promoting both lateral and upward mobility.

Our talent management philosophy and approach enable succession planning across key levels of leadership, supported by focused development propositions and engagement strategies for identified talent. Greater effort is being made to drive succession planning across our various business lines. We have achieved good depth in our talent pools to strengthen succession pipelines for key management positions, evidenced by the number of internal moves and promotions into key leadership positions across the group during the year.

We continue to focus on:

- Enhancing our development propositions so that future executive leaders gain critical experience and skills that will prepare them for future roles.
- Accelerating initiatives to enable the development of black talent in South Africa.

In our increasingly competitive industry, we must consistently attract and retain smart, independent thinkers who are focused, tenacious and energetic, and who will keep our business agile and innovative. We invest in hiring and developing young people who have scarce or specialised skills and have the potential to become future leaders. We assist with their tertiary studies through bursary programmes that focus on technology, engineering, mathematics and commerce disciplines. In 2015, we assisted 142 bursary recipients, investing R22 million to help young students to build better and brighter futures.

Our market-leading graduate development programme aims to identify and develop high-potential individuals. In 2015, we provided 227 talented graduates (71% black and 43% female) across multiple disciplines with first-time work opportunities.

Awarded the 2015 South African Graduate Employers Association **Employer of Choice in the Young Talent Market** in the Retail and Commercial Banking category.

In South Africa, we provide matriculants and graduates with learnership opportunities to gain work experience. Targeted at black learners in line with our transformation strategy and objectives, learnerships offer access to development opportunities and the possibility of full-time employment. In 2015, 400 learners completed a learnership programme with 92% subsequently being employed by Standard Bank. A further 571 young people were offered learnerships in 2015 to be concluded in 2016.

## Diversity and inclusion

The diversity of our people brings richness in perspective, skills and experience that we leverage as an advantage in serving an equally diverse client base.

In 2015, our diversity and inclusion efforts in South Africa continued to focus on educating our people on an unconscious bias and to ensure that every business unit has a diversity and transformation forum. These forums support management in addressing potential barriers to equity and introducing specific initiatives to drive the creation of an inclusive culture. Our newly introduced Lean-In initiative is aimed at working with women to identify and address barriers to gender equity, while providing them with networking opportunities.

Standard Bank is the first (and to date the only) Africa-based organisation to become a signatory to the International Labour Organisation's (ILO) Disability Charter, launched in 2015.

Progress has been made in achieving our employment equity targets at senior, middle and junior management levels. Representation of black people, black women and Africans in top management remains a key focus area. Representation of persons with disabilities declined in 2015 to 0.83% (2014: 1.32%) of the workforce, partly as a result of a larger permanent employee base due to the non-permanent conversions referred to earlier.

We are reviewing our policies, as well as formal and informal procedures to further drive and support our transformation agenda and to firmly entrench a culture of inclusion.

Standard Bank received the private sector award for **Innovation and Special Projects for Gender Equality** from the Department of Labour and the Commission for Employment Equity in South Africa. We were also a top five finalist for the overall employment equity award for the private sector.

## Delivering value to our clients

Empowering our people with the right skills, tools, processes and technology to deliver on our commitment to place our clients at the centre of everything we do, is at the heart of our people strategy.

We are reviewing processes, systems and work practices that are counterproductive to entrenching a client-centric culture and that create barriers that hamper our people's ability to deliver what matters to our clients. We are testing new ways of working that will empower our people to respond to clients' needs with agility and speed. This new work design structure will embrace digitalisation and find the appropriate balance between providing exceptional client experiences and meeting our risk and regulatory responsibilities.

In line with our commitment to make fit-for-purpose services and solutions easily accessible to our clients, we aim to do the same for our people.

In 2016, we will streamline transactional services for all our people and provide them with easy access to systems and human capital-related solutions. We will also introduce a people portal in 2016 which will serve as a single point of entry for human capital-related information, solutions and practices.

## Performance and reward

We aim to further embed a high-performance culture where our people are motivated to deliver exceptional client experiences, and are rewarded for their meaningful contribution to realising our purpose and vision.

Our people have performance contracts, linked to commercial objectives, against which they are reviewed annually. The performance management process emphasises growth through constructive dialogue, focuses on 'what' is achieved, but importantly also 'how' it is achieved and addresses learning and career development needs. We have made good progress towards introducing a performance management system across all our businesses which will be concluded in 2016.

GR Our remuneration philosophy is set out in the governance and remuneration report.

Our Beyond Excellence and Mark of Excellence initiatives ensure that individuals and teams are recognised for exceptional contributions that add value to the business. These programmes support a culture where success is celebrated and our people feel valued for their meaningful contribution to the business.

Our 2015 remuneration report won the South African Reward Association's **2015 Remuneration Report of the Year**.

## Bold and inspirational leadership

We recognise the need to capacitate leadership to deal with increased complexity, adapt quickly to a rapidly changing operating environment and lead, rather than manage, an increasingly diverse workforce.

The execution of our strategy will challenge our leaders to create meaning and direction, and to inspire and influence others. To this end, we invest in our top leaders, supporting their development in becoming true catalysts of change and serving as inspirational role models, moving the group towards its desired future.

Bespoke development initiatives aimed at our executive leaders support their personal development priorities and range from participating in world-class international business school programmes, international assignments and specific business initiatives that broaden exposure to different parts of the business, to customised leadership development programmes within specific business areas.

To accelerate a supportive environment for bold and inspirational leadership, we will work to identify the competencies our leaders require to support our future strategic intent. This will inform how we reshape the leadership development landscape, including a review of the Global Leadership Centre offerings, to shift the centre from being a training facility to playing a vital role as a vehicle for strategic change and dialogue.

We continue to focus on equipping team leaders and managers with the right skills to be great people managers. 1 718 (2014: 1 645) managers in South Africa benefited from participating in a wide range of leadership development programmes.

## Looking ahead

Our purpose and principles add a layer of richness to our strategy, driving a deeper connection between our people and the brand. They also underline the importance of the role every single employee has in enabling us to consistently deliver an excellent client experience.

Looking ahead, we aim to:

- Strengthen our culture and people practices in line with our group purpose, vision and values. We will introduce an employee Net Promoter Score to facilitate the purposeful engagement of our people and continue our efforts to enhance our employee value proposition to ensure that our people feel deeply connected with our purpose and our clients.
- Revise our performance management and remuneration practices to support new ways of working that are focused on delivering to our clients.
- Invest in the development of talented people to ensure that they are ready to take up more senior and critical roles when the time is right.
- Strengthen a diverse leadership base, who are ready and able to lead in times of uncertainty, can inspire others and are passionate about helping our people reach their full potential.
- Conclude the roll-out of groupwide technology platforms that will simplify our human capital practices and transactional capabilities.
- Enhance our speed and agility to adapt to an ever-changing world of work through a continued focus on learning and development.
- Actively drive and support our transformation agenda to firmly entrench a culture of diversity and inclusion.

## KEY SBG SOUTH AFRICAN OPERATIONS' (EXCLUDING LIBERTY) WORKFORCE INDICATORS

### Employee headcount

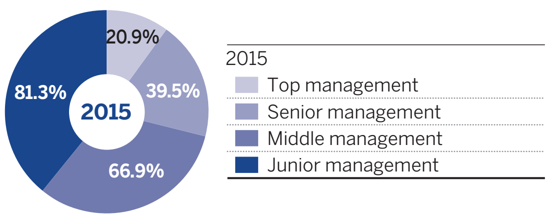
**Permanent employees**
33 057
**2014:** 27 926

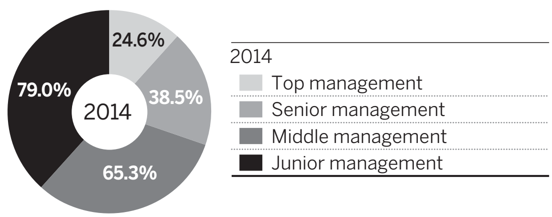
**Non-permanent employees**
3 735
**2014:** 8 062

**Overall turnover**
9.5%
**2014:** 10.4%

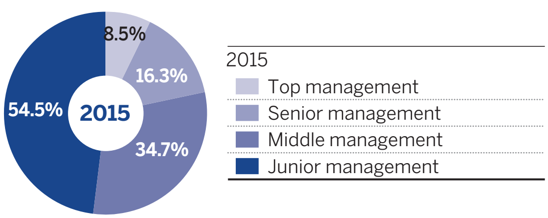
**Voluntary turnover**
6.4%
**2014:** 7.8%

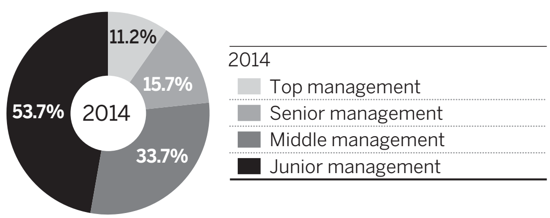
### Percentage black representation at all management levels – SBG's South African Operations' (excluding Liberty)




### Percentage black women representation at top and senior management level – SBG's South African Operations' (excluding Liberty)



## SBG'S SOUTH AFRICAN OPERATIONS' (EXCLUDING LIBERTY) SKILLS DEVELOPMENT INVESTMENT

### Training spend

| | **2015** | 2014 |
|---|---|---|
| Training spend | **R617 million** | R534 million |
| Training spend as a percentage of staff costs (%) | **3.3** | 3.3 |
| Number of employees trained | **34 671** | 27 640 |
| Number of women employees trained | **21 601** | 17 072 |
| Number of black employees trained | **27 860** | 20 554 |

### Bursary spend

**Total bursary spend**

| **2015** | 2014 |
|---|---|
| R10,3 million | R12,2 million |

**Total number of employees assisted**

| **2015** | 2014 |
|---|---|
| 581 | 695 |

### Leadership development programme participation

| | **2015** | 2014 |
|---|---|---|
| **Total number of participants** | 1 718 | 1 645 |
| **Number of black participants** | 1 201 | 1 098 |

## SBG'S SOUTH AFRICAN OPERATIONS' (EXCLUDING LIBERTY) YOUNG TALENT DEVELOPMENT INVESTMENT

### Graduate programme participants

| | **2015** | 2014 |
|---|---|---|
| **Total graduate development programme participants** | 277 | 104 |
| **% black graduate participants** | 71% | 68% |

### Learnership programmes

| | **2015** | 2014 |
|---|---|---|
| **Successfully completed learnerships** | 400* | 317 |
| **Number of learnerships started** | 571 | 490 |

* 92% of whom were subsequently employed by Standard Bank.

## SUMMARY OF EMPLOYMENT EQUITY PROGRESS REPORT (ALL EMPLOYEES)

| OCCUPATIONAL LEVELS | MALE | | | | FEMALE | | | | FOREIGN NATIONALS | | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | A | C | I | W | A | C | I | W | MALE | FEMALE | |
| Top management | 11 | 1 | 5 | 64 | 9 | 1 | 4 | 14 | 18 | 4 | 131 |
| Senior management | 208 | 111 | 308 | 976 | 163 | 75 | 203 | 508 | 137 | 53 | 2 742 |
| Professionally qualified and experienced specialists and mid-management | 1 478 | 493 | 864 | 1 517 | 1 395 | 673 | 940 | 1 393 | 197 | 119 | 9 069 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents | 2 846 | 979 | 673 | 466 | 5 851 | 2 470 | 1 414 | 1 773 | 43 | 104 | 16 619 |
| Semi-skilled and discretionary decision-making | 1 506 | 367 | 200 | 57 | 3 473 | 834 | 325 | 272 | 21 | 36 | 7 091 |
| Unskilled and defined decision-making | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total permanent[1]** | 6 049 | 1 951 | 2 050 | 3 080 | 10 891 | 4 053 | 2 886 | 3 960 | 416 | 316 | 35 652 |
| Temporary employees | 234 | 54 | 20 | 41 | 490 | 77 | 58 | 46 | 32 | 17 | 1 069 |
| **Grand total** | 6 283 | 2 005 | 2 070 | 3 121 | 11 381 | 4 130 | 2 944 | 4 006 | 448 | 333 | 36 721 |

## SUMMARY OF EMPLOYMENT EQUITY PROGRESS REPORT (PERSONS WITH DISABILITIES ONLY)

| OCCUPATIONAL LEVELS | MALE | | | | FEMALE | | | | FOREIGN NATIONALS | | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | A | C | I | W | A | C | I | W | MALE | FEMALE | |
| Top management | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Senior management | 2 | 0 | 1 | 9 | 1 | 1 | 3 | 2 | 0 | 1 | 20 |
| Professionally qualified and experienced specialists and mid-management | 4 | 3 | 6 | 17 | 4 | 3 | 7 | 12 | 0 | 0 | 56 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents | 35 | 4 | 8 | 11 | 23 | 22 | 13 | 38 | 1 | 1 | 156 |
| Semi-skilled and discretionary decision-making | 10 | 1 | 2 | 2 | 25 | 5 | 2 | 10 | 0 | 0 | 57 |
| Unskilled and defined decision-making | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total permanent[1]** | 51 | 8 | 17 | 39 | 53 | 31 | 25 | 62 | 1 | 2 | 289 |
| Temporary employees | 0 | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 2 |
| **Grand total** | 51 | 9 | 17 | 39 | 54 | 31 | 25 | 62 | 1 | 2 | 291 |

A African   C Coloured   I Indian   W White

[1] Permanent employees is as defined in the Labour Relations Act which includes temporary staff that have been employed by SBG's South African operations (excluding Liberty) for more than three months, as well as rest of Africa personnel located in South Africa, as measured at 30 September 2015.

# Environmental report

## 2015 HIGHLIGHTS

Committed **R2,1 billion** for one concentrated solar power project and one photovoltaic (PV) project with an installed renewable energy capacity of 175 MW in the third phase of the REIPPP Programme.

Reduced our energy consumption across our South African operations by 9%, influenced significantly by means of a **R12 million** investment into energy efficiency improvements.

SBSA is financing more than **40%** of the 1 760 MW provided by REIPPP projects that are currently operating.

## Our indirect impact

Given that the financial services industry generally has a low direct impact on the environment, our greatest opportunity for managing environmental risk lies in mitigating the potential impacts related to our financing activities. We are proactive in our approach to environmental and social risk management and go beyond minimum compliance.

RTS For more comprehensive information refer to our report to society at **www.standardbank.com/sustainability**.

### Lending responsibly

Environmental and social risk management evaluates a transaction's potential risks to the environment and society, and its impacts in its area of influence. All CIB transactions go through pre-credit checks where environmental and social risks are identified in the application phase. During the credit approval stage, the environmental unit works with the respective credit teams where a social or environmental concern has been identified, and facilitates the requisite due diligence process. Environmental and social risk analysis in PBB is less advanced and we are reviewing various tools to improve the business unit's analysis of environmental and social risks.

We use two approaches to screen and evaluate transactions – the Equator Principles and a transaction-specific process to assess transactions with no known use of proceeds and where the loan is not required to physically develop or expand a project. The Equator Principles are a set of standards for managing social and environmental risk and is applied to all new project finance loans of USD10 million or more, across all industry sectors. It is also applicable to any advisory services we provide on project finance loans. During 2015, we financed three Equator Principle (EP) deals in South Africa and a further five throughout the rest of Africa.

### Environmental products and services

**Clean energy and energy efficiency**

In South Africa, we remain active in the REIPPP, which is aimed at securing a total of 17 800 MW of renewable energy by 2030. Local manufacturing requirements are structured into the construction and operation of the projects, creating opportunities for job and wealth creation. It is compulsory for the project deals to include local communities as equity participants, funded by local development finance institutions.

We have a R20 billion funding support agreement with ICBC for renewable energy projects in South Africa. Under the agreement, ICBC will co-lend to renewable energy projects with Standard Bank, where we are mandated as the lead arranger, through to 2025.

ICBC's involvement will help to reduce liquidity and capital pressure and will provide further diversification of our sources of funding, in addition to domestic asset managers who are keen to invest in such projects.

Bid submission round **1**

28 projects to produce 1 416 MW

Standard Bank underwrote **R9,5 billion** for this round, having been awarded **11 out of the 28 projects**

x 5 (wind)
x 6 (solar)
= **607 MW**

(closed: now in construction phase)

Bid submission round **2**

19 projects to produce 1 044 MW

Standard Bank underwrote **R5,3 billion** for this round, having been awarded **five out of the 19 projects**

x 1 (wind)
x 4 (solar)
= **258 MW**

(closed: now in construction phase)

Bid submission round **3**

17 projects to produce 1 365 MW

Standard Bank underwrote **R2,1 billion** for this round, having been awarded **two out of the 17 projects**

x 1 (wind)
x 1 (solar)
= **200 MW**

(closed: now in either construction or pre-construction phase)

## Our direct impact

Our direct impact arises out of our operational activities in which we consume natural resources and generate waste. Given the large number of premises we occupy and manage, our focus and investment in energy efficiency projects is making a difference to our natural resource consumption.

### Resource consumption and emissions

We have systems in place to track and manage our direct impact on the environment resulting from our day-to-day business activities, and processes are in place to reduce our environmental footprint. We track and manage our energy and water usage, carbon emissions and waste.

We continue to focus on improving the integrity of our data for all environmental indicators, with energy being our primary focus. In 2015, we made progress in improving the scope and accuracy of measuring our water consumption in South Africa, with 44 sites now being metered as opposed to 15 in 2014.

## Energy

Managing and reducing our energy consumption reduces our direct environmental impact and lowers operational costs. Actively managing our energy consumption also mitigates the impact of rising electricity costs, pending carbon tax costs and energy supply concerns. Our three biggest energy consumers in our facilities are heating, ventilation and air-conditioning systems, lighting and information technology.

We participated in the Private Sector Energy Efficiency (PSEE) project, which aims to assist South African companies in implementing energy management strategies with achievable targets. Through this project we developed an energy management strategy aligned with international best practices.

Our online energy monitoring system is constantly being improved to monitor more of our facilities and to do so with a greater level of granularity, to reduce uncertainty.

In 2015, we reduced our energy consumption across our South African operations by 9%, influenced significantly by means of a R12 million investment into energy efficiency improvements (a 10% increase on 2014), resulting in a consumption reduction of 28 gigawatt hours.

Our renewable energy solutions provided 782 320 kilowatt hours (kwh) of renewable energy during 2015, reducing our carbon emissions.

RTS For more information on our energy programmes, refer to our report to society.

## Carbon footprint

Our carbon footprint has been calculated according to the International Greenhouse Gas (GHG) Protocol's Corporate Accounting and Reporting Standard. We use the operational control approach to determine what is included in our scope of reporting. SBSA's carbon dioxide equivalent for 2015 was 294 984 metric tons, 2% lower than 2014 due to a refined carbon footprint calculation following the assurance process in 2014. This allowed for improved data integrity with regards to our energy consumption and changes in line with our approach to follow the operational control method of reporting.

RTS For more information, refer to our report to society.

## KEY INDICATORS

| | Metric | 2015 | 2014 |
|---|---|---|---|
| **Equator Principles** | | | |
| Number of projects financed | | **8** | 6 |
| Number of project-related corporate loans | | **1*** | 2 |
| Number of advisory services | | **1** | 3 |
| **Total energy consumption of premises** | | | |
| Diesel (generators) | kwh | **8 659 398** | 5 608 551 |
| Electricity purchased: premises | kwh | **193 979 353** | 220 352 899 |
| Electricity purchased: ATMs | kwh | **3 881 348** | 5 447 900 |
| Electricity purchased: data centres | kwh | **48 108 233** | 49 261 142 |
| Natural gas purchased | kwh | **23 875 788** | 26 218 167 |
| Renewable energy generated | kwh | **782 320** | 261 158 |
| **Water consumption** | | | |
| SBSA | kilolitres | **698 018** | 980 117 |
| **Paper consumption** | | | |
| Paper consumed | tons | **1 925** | 2 502 |
| Paper recycled | tons | **676** | 1 496 |

* Transaction did not meet the EP III Project Related Corporate Loan (PRCL) criteria; however, treated as a PRCL in terms of best practice.

### Water consumption

During 2015, we installed additional meters at key sites in South Africa, now measuring 44 sites, and gathered historic data to indicate consumption patterns. Using this data, we developed a methodology similar to that used to measure electricity and this has enabled us to extrapolate water consumption for all our premises in the country. We have implemented some water saving initiatives, including the retrofitting of water-cooled equipment with air-cooled equipment, the installation of low flush toilets, timers for bathroom taps, rain water harvesting systems for irrigation and monitoring equipment that eliminates the need for garden sprinklers during the rainy season.

### Waste generated

In South Africa, we prioritised waste practices such as minimisation, reuse, recycling and responsible disposal. We receive disposal, reuse and recycling certificates from our service providers. We undertake campaigns to raise employee awareness around minimising and sorting waste and specific interventions such as the reuse of stationery and the use of recycling bins are in place. As our branches are generally located in multi-tenanted buildings, we engage with our landlords on waste management services and recycling systems.

### Paper consumption and recycling

We completed our programme to make electronic statements available across all products, and introduced digital imaging into the application process for new customers. The reduction in paper consumed, from 2 502 tons in 2014 to 1 925 tons in 2015, is mostly as a result of the transition to electronic statements and controlling printing in our offices.

## Green buildings

Standard Bank Properties is a member of the Green Building Council of South Africa (GBCSA) and when designing new buildings, we consider the Green Star SA building rating system that measures the environmental impact of buildings, taking into account factors such as building management, indoor environmental quality, the building's energy and water consumption, users' transportation needs, materials used, land use and site emissions. Our effort to green our buildings is implemented throughout our property portfolio, including offices and branches, as well as cash and data centres. Buildings are certified at the design stage and once the building is complete. Ratings range from four stars for best practice to six stars for world leadership. Completed in 2013, our office building in Rosebank, Johannesburg, achieved a 5-star design rating by the GBCSA and a 5-star Green Star rating on completion. The 65 000 $m^2$ Rosebank building also achieved a 5-star 'as built' rating in 2014, one of seven buildings in South Africa to have achieved this rating. The building cost R2,7 billion to build and it is estimated that attaining a Green Star 5-star rating added about 3% to the overall cost.

**CASE STUDY**

## Financing **renewable energy**

where we can make a difference

Standard Bank are financing more than 40% of the approximate 1 760 MW currently provided by the REIPPP. The REIPPP, which was initiated in 2011, has resulted in the allocation of power purchase agreements for 92 projects after four rounds of bidding, with the projects that have already been connected to the grid currently contributing about 1 760 MW to South Africa's total generating capacity.

Standard Bank has provided finance for 14 active renewable energy projects (the other four projects are either still in the construction or pre-construction phase), which deliver power to South Africa through state-owned power utility Eskom's main power grid, helping to alleviate the national energy shortage. These projects comprise wind and solar projects, providing a total of more than 700 MW. Of the 14 projects, nine are solar PV, including six in the Northern Cape – the 75 MW Kalkbult, the 20 MW Herbert, the 10 MW Greefspan, the 75 MW Solar Capital, the 10 MW Upington Airport and the 40 MW Linde projects; two in Limpopo – the 30 MW Witkop and 28 MW Soutpan projects; and the 75 MW Dreunberg project in the Eastern Cape. The remaining five projects are wind projects totalling about 350 MW, including the Eastern Cape-based 140 MW Cookhouse and the 27 MW Metrowind projects; the 80 MW RedCap project at Coega near Port Elizabeth; the 75 MW Noblesfontein project, in the Northern Cape; and the 27 MW Klipheuwel project, in the Western Cape.

Refer to the following article for further information: **http://www.engineeringnews.co.za/article/banks-ipp-projects-producing-more-than-40-of-current-connected-renewables-2015-12-11**.

## BIODIVERSITY

Standard Bank's Mogale's Gate conservation centre in the Cradle of Humankind, Johannesburg, South Africa, is an area of high biodiversity value. This 3 060 hectare farm has 148 hectares of wetland and covers three veld types with over 700 plant species and 21 game species. Mogale's Gate works to conserve the biodiversity of South Africa's savannahs and provides quality environmental education to schools and communities.

Mogale's Gate is in the upper catchment area of the Hekpoortspruit River and captures and naturally releases on average 24,17 billion litres of water annually into the system. Since 1988, 13 large mammal species have been reintroduced into the area. To add to the biodiversity of the area, the centre plans to propagate indigenous trees to further increase awareness of and beautify the area with indigenous plants.

Within Mogale's Gate the following vegetation types are protected:

- 148 hectares of wetlands
- Gold Reef Mountain Bushveld (least threatened)
- Moot Plains Bushveld (vulnerable)
- Andesite Mountain Bushveld (least threatened).

### ANIMALS AND PLANTS PROTECTED AT MOGALE'S GATE AND THAT ARE LISTED IN THE SOUTH AFRICAN RED DATA LIST

| | | |
|---|---|---|
| Mammals | **Near threatened:** | Brown Hyena, Leopard |
| | **Vulnerable:** | Small-spotted Cat |
| | **Least concern:** | South African Hedgehog, Aardwolf, Honey Badger, Oribi |
| Birds | **Near threatened:** | Martial Eagle, African White-backed Vulture, Blue Korhaan |
| | **Vulnerable:** | Cape Vulture, Lappet-faced Vulture, Blue Crane, Lesser Kestrel |
| | **Least concern:** | African Grass Owl, Marabou Stork, Secretary Bird, Peregrine Falcon, Lanner Falcon, Black-bellied Bustard, Half-collared Kingfisher |
| Reptiles | **Near threatened:** | Striped Harlequin Snake |
| Plants | **Endangered:** | Turk's Cap |
| | **Vulnerable:** | Climbing Potato, Red Stinkwood |
| | **Declining:** | Pineapple Flower, Poison Bulb, River Pumpkin, Star Flower, Cape Holly |
| | **Least concern:** | Copper Leaf, Large Turret Flower, Wild Pear, Cape Valerian |

Mogale's Gate is involved in environmental education programmes for schools and organisations, including a number of Lions Club community service volunteer groups, by providing disadvantaged children with the opportunity to learn about biodiversity. The centre is an active partner to the Wildlife and Environment Society of South Africa in its drive to register schools on the international Eco-Schools Programme and it cooperates with the College of Environmental Sciences at the University of South Africa, providing students with the opportunity to undertake practical lessons on conservation.

# Risk and capital management report

# Risk governance



## BOARD RESPONSIBILITY

The group's board of directors (board) has the ultimate responsibility for the oversight of risk.

For the year ended 31 December 2015, the board is satisfied that:
- the group's risk, compliance, treasury, capital management and group internal audit (GIA) processes generally operated effectively
- the group's business activities have been managed within the board-approved risk appetite
- the group is adequately funded and capitalised to support the execution of the group's strategy.

In the instances where the group incurred losses, breached risk appetite or was fined by its regulators, the board is satisfied that management have taken appropriate remedial action.

## RISK TYPES

The group's business activities give rise to various risks, which include:

| | | |
|---|---|---|
| credit risk | funding and liquidity risk | business risk |
| compliance risk | market risk | reputational risk |
| country risk | operational risk | |

Each risk is defined within the relevant section, together with:
- an explanation of the application of the group's risk, compliance and capital management (RCCM) governance framework to the specific risk
- the approved regulatory treatment for capital requirements to be held against the specific risk in terms of the Basel Capital Accord (Basel)
- a description of the relevant portfolio characteristics both in terms of prescribed disclosure and the group's business model.

Refer to **page 53** for information relating to risk appetite.

## GOVERNANCE FRAMEWORK

The group's approach to managing risk and capital is set out in the group's RCCM governance framework, which is approved by the group risk and capital management committee (GRCMC). The framework has two components:

- governance committees
- governance documents such as standards, frameworks and policies.

## GOVERNANCE COMMITTEES

Governance committees that operate within the RCCM governance framework are in place at both a board and management level. These committees have mandates and delegated authorities that are reviewed regularly.

### Board committees

The board committees that are responsible for the oversight of the group's RCCM comprise the group audit committee (GAC), the GRCMC, SBG IT committee, the group large exposure credit committee and the SBG model approval committee. The key roles and responsibilities of these committees, as they relate to RCCM, are summarised in the sections that follow.

#### The group risk and capital management committee

The GRCMC provides independent oversight of RCCM across the group by:

- ensuring adequate and effective implementation of risk governance processes, standards, policies and frameworks
- ensuring that the risk strategy is executed by management in accordance with the board-approved risk appetite and the RCCM governance framework
- considering the quarterly risk management report which includes detailed updates on risk types, as well as the separate updates from legal, compliance, capital and liquidity risk, and intragroup exposures
- reporting material risk and capital management matters to the board.

#### The SBG IT committee

The SBG IT committee's purpose is to assist the board in fulfilling its corporate governance responsibilities with respect to IT and reports to the board through its chairman. 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 group audit committee

The GAC has oversight of the group's financial position and makes recommendations to the board on all financial matters, financial risks, internal financial controls, fraud, compliance, IT risks and the impact of IT on financial controls. In relation to RCCM, the GAC plays a role in assessing the adequacy and operating effectiveness of the group's internal financial controls.

A risk management report is tabled at the GAC meetings and the group chief risk officer (CRO) provides the committee with an overview of key issues raised at the GRCMC. In order to ensure the independence of the second line of defence functions, the chairman of the GAC, who is also a member of the GRCMC, meets individually with the group chief compliance officer (GCCO), the SBG financial director, the group chief audit officer and the head of operational risk management, who is responsible for financial crime control, without management being present on a quarterly basis and as required.

#### The group large exposure credit committee

The group large exposure credit committee is designated by the group board to discharge the regulatory responsibility of ensuring compliance with the South African Banks Act 94 of 1990 (Banks Act) regulations in respect of large exposures. It meets as required and reports quarterly to the group board through its chairman on all large exposures as defined in the regulations.

#### The SBG model approval committee

The SBG model approval committee is designated by the board to discharge the board's regulatory responsibility of reviewing and approving the group's material risk models, as well as models used in the calculation of regulatory capital. This committee is supported by PBB and CIB model approval subcommittees, with the models being assigned to these three committees for approval based on an assessment of the materiality of each model.

### Management committees

#### The SBG risk oversight committee

Executive management responsibility for all material risk types has been delegated by the group management committee to the SBG risk oversight committee (GROC) which, in turn, assists the GRCMC in fulfilling its mandate.

As is the case with the GRCMC, GROC calls for and evaluates in-depth investigations and reports based on its assessment of the group's risk profile and external factors.

GROC delegates authority to various subcommittees which deal with specific risk types or oversight activities. Material matters are escalated to GROC through reports or feedback from each subcommittee chairman.

## GOVERNANCE DOCUMENTS

Governance documents within the RCCM 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.

Group policies are approved by the group management committee or subcommittee, relevant GROC subcommittee, GROC itself or, where regulations require board approval, by the board or relevant board committee.

Business line and legal entity policies are aligned to these group policies and are applied within their governance structures.

## THREE LINES OF DEFENCE MODEL

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 involves, 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
- 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 groupwide 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 and implement governance standards, frameworks and policies for each material risk type to which the group is exposed. This ensures consistency in approach across the group's business lines and legal entities. Compliance with the standards and frameworks is ensured through annual self-assessments by the second line of defence and reviews by GIA.

The third line of defence is GIA who provides independent and objective assurance to the board and senior management on the effectiveness of the first and second lines of defence.

All three levels report to the board, either directly or through the GRCMC and GAC.

# Capital management



## OBJECTIVES

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.

The capital management division within treasury and capital management comprises:

- **Strategic capital management function:** key responsibilities include raising capital to enable growth opportunities and to provide an optimal capital structure, advising on the dividend policy, facilitating capital allocation and risk-adjusted performance measurement (RAPM), and managing the internal capital adequacy assessment process (ICAAP) and capital planning process, including stress testing of capital supply and demand.
- **Portfolio analysis and reporting function:** key responsibilities include the measurement and analysis of regulatory and economic capital, internal and external reporting and implementation of new regulatory requirements.
- **CIB and PBB capital management functions:** key responsibilities include providing support on deal pricing, balance sheet utilisation and management of capital consumption against budgets.

## GOVERNANCE

The primary management level subcommittees that oversee the risks associated with capital management are the group asset and liability committee (ALCO) and its subcommittee, the group capital management committee.

The principal governance documents are the capital management governance framework and the model risk governance framework.

## CAPITAL TRANSFERABILITY

Subject to compliance with the corporate laws of relevant jurisdictions and appropriate motivation to and approval by exchange control authorities, no significant restrictions exist on the transfer of funds and regulatory capital within the group.

## BASEL III CAPITAL REQUIREMENTS

SARB adopted the Basel III framework introduced by the Basel Committee on Banking Supervision (BCBS) from 1 January 2013. The group has been compliant with the minimum requirements from that date.

The group is well positioned to comply with the requirements that are subject to phase-in rules when they become effective.

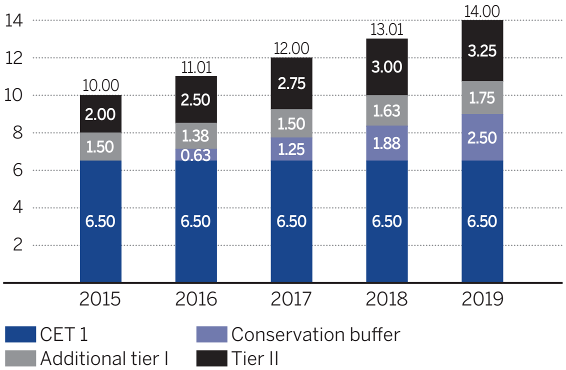
Basel III aims to improve the quality of capital, increase capital levels and remove inconsistencies in the definition of capital across jurisdictions as explained in the table below.

| OBJECTIVES OF BASEL III | |
|---|---|
| Increased quality, quantity and consistency of capital | • increased focus on common equity tier (CET I)<br>• increased capital levels. |
| Increased risk coverage | • credit valuation adjustment for over-the-counter (OTC) derivatives, being the capital charge for potential mark-to-market losses associated with deterioration in counterparty creditworthiness<br>• asset value correlation, being the increased capital charge on exposures to financial institutions<br>• strengthened standards for collateral management, margin period of risk, management of general wrong-way risk and stress testing. |
| Capital conservation buffer | • 2.5% CET I capital buffer by 2019 to decrease pro-cyclicality<br>• build up capital during favourable economic conditions that can be drawn on during times of stress. |
| Pillar 2a domestic systemically important banks (D-SIBs) buffer | • up to 2% of pillar 2a buffer prescribed by the SARB to be held against systemic risk requirements<br>• 0% – 2.5% D-SIB buffer required for banks deemed by the SARB to be systemically important<br>• the sum of the two requirements is limited to 3.5% and is split over all three tiers of capital. |
| Countercyclical buffer | • 0% – 2.5% CET I capital buffer deployed by national jurisdictions when system-wide risk builds up<br>• ensures capital adequacy takes macro-financial environment into account. |
| Leverage ratio | • constrain build-up of leverage in the banking sector<br>• the ratio is calculated as tier I qualifying capital/on- and off-balance sheet exposures, as defined by the BCBS, and is measured against the SARB prescribed minimum ratio of 4%. |

The graph below reflects the capital requirements and phase-in periods applicable to South Africa.

## SARB RATIOS

(capital as a % of risk-weighted assets)[1]
effective 1 January each year (%)




1 Graph excludes countercyclical buffer and confidential bank-specific pillar 2b capital requirement, but includes a maximum potential D-SIB requirement which is also bank-specific and, therefore, confidential.

The South African D-SIB framework assesses the systemic importance of banks, controlling companies and branches of foreign banks licensed to operate in South Africa and came into effect on 1 January 2016. The requirements will be phased-in over a three-year period with full implementation from 1 January 2019.

## REGULATORY CAPITAL

The group manages its capital levels to support business growth, maintain depositor and creditor confidence, create value for shareholders, and ensure regulatory compliance.

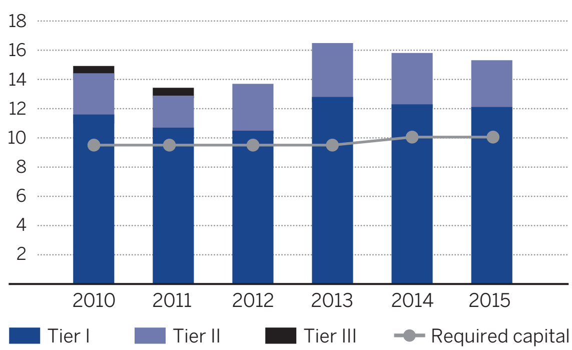
The main regulatory requirements to be complied with are those specified in the Banks Act and related regulations, which are aligned with Basel III.

Regulatory capital adequacy is measured through the following three risk-based ratios:

- **CET I:** ordinary share capital, share premium, retained earnings and qualifying non-controlling interest less impairments divided by total risk-weighted assets.
- **Tier I:** CET I and other qualifying non-controlling interest plus perpetual, non-cumulative instruments with principal loss-absorption features issued under the Basel III rules divided by total risk-weighted assets. Perpetual non-cumulative preference shares issued under Basel I and Basel II are included in tier I capital but are subject to regulatory phase-out requirements, over a ten-year period, which commenced on 1 January 2013.
- **Total capital adequacy:** tier I plus other items such as the general allowance for credit impairments and subordinated debt with principal loss-absorption features issued under Basel III divided by total risk-weighted assets. Subordinated debt issued under Basel I and Basel II is included in total capital but is subject to regulatory phase-out requirements, over a ten-year period, which commenced on 1 January 2013.

The ratios are measured against internal targets and regulatory minimum requirements.

## CAPITAL ADEQUACY[1] (%)




1 2010 and 2011 are on a Basel II basis. Basel III was implemented on 1 January 2013. Risk-weighted assets and capital adequacy for 2012 are on a *pro forma* Basel III basis.

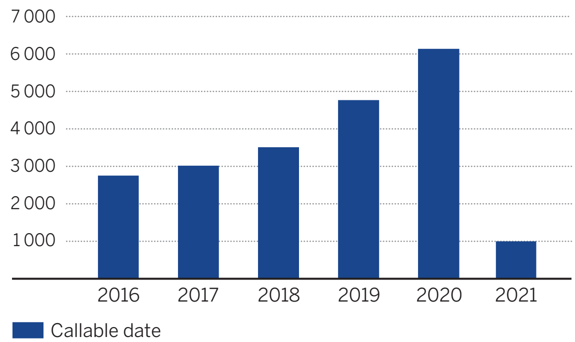
Risk-weighted assets are calculated in terms of the Banks Act and related regulations, which are aligned with Basel III.

The group complied with all regulatory capital requirements during the current period and prior year.

The group's tier I capital, including unappropriated profit, is R70,6 billion in 2015 (2014: R63,3 billion) and total capital, including unappropriated profit was R88,9 billion in 2015 (2014: R81 billion).

SBSA has a balanced tier II subordinated debt maturity profile. During 2015, SBSA issued R3,6 billion Basel III compliant tier II instruments (2014: R2,3 billion).

**TIER II INSTRUMENT MATURITY PROFILE** (Rm)




## BASEL III QUALIFYING CAPITAL EXCLUDING UNAPPROPRIATED PROFITS

| | 2015 Rm | 2014 Rm |
|---|---|---|
| Share capital and premium | **40 198** | 36 356 |
| Retained earnings | **49 304** | 45 367 |
| Other reserves | **1 212** | 689 |
| *Less:* regulatory adjustments | **(20 164)** | (19 100) |
| Goodwill | **(36)** | (36) |
| Other intangible assets | **(17 494)** | (15 486) |
| Deferred tax assets | **(4)** | (183) |
| Shortfall of provisions to expected losses | **(2 188)** | (2 750) |
| Other adjustments | **(442)** | (645) |
| *Less:* unappropriated profit | **(3 833)** | (6 156) |
| **Tier I capital** | **66 717** | 57 156 |
| Qualifying tier II subordinated debt | **20 965** | 19 490 |
| General allowance for credit impairments | **351** | 189 |
| *Less:* regulatory adjustments – investment in tier II instruments in other banks | **(2 923)** | (1 964) |
| **Tier II capital** | **18 393** | 17 715 |
| **Total regulatory capital** | **85 110** | 74 871 |
| **Total capital requirement** | **58 094** | 51 386 |
| **Total risk-weighted assets** | **580 944** | 513 856 |

## BASEL III RISK-WEIGHTED ASSETS AND ASSOCIATED CAPITAL REQUIREMENTS

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Risk-weighted assets Rm** | **Capital requirement[1] Rm** | Risk-weighted assets Rm | Capital requirement[1] Rm |
| **Credit risk** | **439 131** | **43 912** | 396 231 | 39 624 |
| *Portfolios subject to the standardised approach[2]* | **25 723** | **2 572** | 23 780 | 2 379 |
| Corporate | **21 352** | **2 135** | 19 021 | 1 902 |
| Sovereign | **2** | | | |
| Banks | **355** | **36** | 155 | 16 |
| Retail mortgages | **273** | **27** | 1 061 | 106 |
| Retail other[3] | **3 460** | **346** | 3 278 | 328 |
| Securitisation exposures | **281** | **28** | 265 | 27 |
| *Portfolios subject to the advanced internal ratings-based (AIRB) approach* | **398 139** | **39 813** | 357 457 | 35 746 |
| Corporate | **177 133** | **17 713** | 143 862 | 14 386 |
| Sovereign | **23 926** | **2 393** | 19 456 | 1 946 |
| Banks | **24 214** | **2 421** | 19 352 | 1 935 |
| Retail mortgages | **84 007** | **8 400** | 83 907 | 8 391 |
| Qualifying retail revolving exposure (QRRE) | **47 510** | **4751** | 46 918 | 4 692 |
| Retail other[3] | **40 874** | **4087** | 41 834 | 4 183 |
| Securitisation exposures | **475** | **48** | 2 128 | 213 |
| Other assets | **15 269** | **1 527** | 14 994 | 1 499 |
| **Counterparty credit risk** | **19 682** | **1 969** | 10 930 | 1 093 |
| *Portfolios subject to the standardised approach[2]* | **2 320** | **232** | 694 | 69 |
| Corporate | **2 309** | **231** | 692 | 69 |
| Banks | **11** | **1** | 2 | |
| *Portfolios subject to the AIRB approach* | **17 362** | **1 737** | 10 236 | 1 024 |
| Corporate | **6 397** | **640** | 6 317 | 632 |
| Sovereign | **329** | **33** | 971 | 97 |
| Banks | **10 636** | **1 064** | 2 948 | 295 |

Footnotes on the following page.

## BASEL III RISK-WEIGHTED ASSETS AND ASSOCIATED CAPITAL REQUIREMENTS CONTINUED

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Risk-weighted assets Rm | Capital requirement[1] Rm | Risk-weighted assets Rm | Capital requirement[2] Rm |
| **Equity risk in the banking book** | 9 687 | 969 | 12 135 | 1 213 |
| *Portfolios subject to the market-based approach* | 8 099 | 810 | 5 315 | 531 |
| Listed | | | 282 | 28 |
| Unlisted | 8 099 | 810 | 5 033 | 503 |
| *Portfolios subject to the probability of default (PD)/loss given default (LGD) approach* | 1 588 | 159 | 6 820 | 682 |
| **Market risk** | 27 724 | 2 772 | 18 912 | 1 891 |
| *Portfolios subject to the standardised approach*[2] | 12 715 | 1 271 | 7 497 | 750 |
| Interest rate risk | 11 696 | 1 170 | 6 976 | 698 |
| Equity position risk | 104 | 10 | 78 | 8 |
| Foreign exchange risk | 871 | 87 | 372 | 37 |
| Commodities risk | 44 | 4 | 71 | 7 |
| *Portfolios subject to the internal models approach* | 15 009 | 1 501 | 11 415 | 1 141 |
| Value-at-risk (VaR) based | 15 009 | 1 501 | 11 415 | 1 141 |
| Interest rate risk | 5 527 | 553 | 6 734 | 673 |
| Equity position risk | 9 203 | 920 | 7 921 | 792 |
| Foreign exchange risk | 12 442 | 1 244 | 5 087 | 509 |
| Commodities risk | 37 | 4 | 41 | 4 |
| Diversification benefit | (12 200) | (1 220) | (8 368) | (837) |
| **Operational risk** | 79 908 | 7 991 | 75 359 | 7 536 |
| *Portfolios subject to the standardised approach*[2] | 28 019 | 2 802 | 26 831 | 2 683 |
| *Portfolios subject to the advanced measurement approach (AMA)* | 51 889 | 5 189 | 48 528 | 4 853 |
| **Risk-weighted assets for investments in financial entities** | 4 812 | 481 | 289 | 29 |
| **Total risk-weighted assets/capital requirement** | 580 944 | 58 094 | 513 856 | 51 386 |

1 Capital requirement at 10% (December 2014: 10%) excludes confidential bank-specific add-ons.
2 Portfolios on the standardised approach relate to the portfolios for which application to adopt the internal models approach has not been submitted, or for which an application has been submitted but approval has not been granted.
3 Retail other includes retail small and medium enterprises, vehicle and asset finance, and term lending.

## CAPITAL ADEQUACY RATIOS

| | 2015 SARB minimum regulatory requirement | Internal target ratios, including unappropriated profits | Including unappropriated profits | | Excluding unappropriated profits | |
|---|---|---|---|---|---|---|
| | | | 2015 | 2014 | 2015 | 2014 |
| | % | % | % | % | % | % |
| Total capital adequacy ratio | 10.0 | 14.0 – 15.0 | **15.3** | 15.8 | **14.7** | 14.6 |
| Tier I capital adequacy ratio | 8.0 | 11.0 – 12.0 | **12.1** | 12.3 | **11.5** | 11.1 |
| CET I capital adequacy ratio | 6.5 | 10.0 – 11.0 | **12.1** | 12.3 | **11.5** | 11.1 |

The SARB adopted the leverage framework that was issued by the BCBS in January 2014, with final calibrations expected by 2017. Formal disclosure requirements commenced from 1 January 2015 and the ratio is expected to transition to a pillar 1 requirement by 2018.

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 5.3% in 2015 (2014: 5.2%), in excess of the SARB minimum requirement of 4%.

## TOTAL ASSETS VS LEVERAGE RATIO

| | 2015 Rm |
|---|---|
| **Total consolidated assets as per published financial statements** | **1 276 953** |
| Adjustment for derivative financial instruments | **(49 447)** |
| Adjustments for securities financing transactions | **1 806** |
| Adjustment for off-balance sheet items | **74 132** |
| Other adjustments | **20 604** |
| **Leverage ratio exposure** | **1 324 048** |

## LEVERAGE RATIO COMMON DISCLOSURE TABLE

| | 2015<br>Rm |
|---|---|
| **On-balance sheet exposures (excluding derivatives and securities financing transactions)** | **1 103 670** |
| On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral) | 1 123 655 |
| Asset amounts deducted in determining Basel III tier I capital | (19 985) |
| **Derivative exposures** | **52 694** |
| Replacement cost associated with all derivatives transactions | 13 741 |
| Add-on amounts for potential future exposure associated with all derivative transactions | 41 176 |
| Deductions of receivables assets for cash variation margin provided in derivative transactions | (17 513) |
| Exempted CCP leg of client-cleared trade exposures | (8 614) |
| Adjusted effective notional amount of written credit derivatives | 23 904 |
| **Securities financing transactions exposures** | **93 552** |
| Gross securities financing transactions assets (with no recognition of netting), after adjusting for sales accounting transactions | 91 745 |
| Counterparty credit risk exposures for securities financing transactions assets | 1 807 |
| **Other off-balance sheet exposures** | **74 132** |
| Off-balance sheet exposure at gross notional amount | 255 179 |
| Adjusted for conversion to credit equivalent amounts | (181 047) |
| **Capital and total exposures** | |
| Tier I capital | 66 717 |
| Total exposures | 1 324 048 |
| **Leverage ratio** | |
| Basel III leverage ratio (%) | 5.04 |
| Basel III leverage ratio (%) (including unappropriated profits) | 5.33 |

## RECONCILIATION WITH ANNUAL FINANCIAL STATEMENTS

| | 2015 Rm |
|---|---|
| **Total consolidated assets as per annual financial statements (excluding derivatives and gross securities financing transactions assets)** | **1 083 067** |
| Gross-up for cash management schemes | **40 588** |
| **Total on-balance sheet exposure (excluding derivatives and gross securities financing transactions assets)** | **1 123 655** |

## ECONOMIC CAPITAL

Economic capital adequacy is the internal basis for measuring and reporting all quantifiable risks on a consistent risk-adjusted basis. The group assesses its economic capital adequacy by measuring its risk profile under both normal and stress conditions.

ICAAP considers the qualitative capital management processes within the organisation and includes the organisation's governance, risk management, capital management and financial planning standards and frameworks. Furthermore, the quantitative internal assessments of the group's business models are used to assess capital requirements to be held against all risks the group is or may become exposed to, in order to meet current and future needs, as well as to assess the group's resilience under stressed conditions.

## ECONOMIC CAPITAL BY RISK TYPE

| | 2015 Rm | 2014 Rm |
|---|---|---|
| Credit risk | **44 484** | 39 726 |
| Equity risk | **2 602** | 3 072 |
| Market risk | **1 030** | 737 |
| Operational risk | **4 800** | 4 511 |
| Business risk | **2 585** | 3 606 |
| Interest rate risk in the banking book | **1 774** | 1 366 |
| **Banking activities – economic capital** | **57 275** | 53 018 |
| **Available financial resources** | **89 287** | 78 112 |
| **Capital coverage ratio (times)** | **1.56** | 1.47 |

Economic capital of R57,3 billion (2014: R53 billion) is the internal assessment of the amount of capital that is required to support the group's banking operations' economic risk profile. For potential losses arising from risk types that are statistically quantifiable, economic capital reflects the worst-case loss commensurate with a confidence level of 99.92%.

Available financial resources refer to capital supply as defined by the group for economic capital purposes and includes capital and reserve funds after adjusting for certain non-qualifying items.

## RISK-ADJUSTED PERFORMANCE MEASUREMENT

RAPM supports the maximisation of shareholder value by optimally managing financial resources within the board-approved risk appetite. Capital is centrally monitored and allocated, based on usage and performance, in a manner that enhances overall group economic profit and return on equity. Business units are held accountable for achieving their RAPM targets. RAPM is calculated on both regulatory and economic capital measures.

# Risk appetite and stress testing



Risk appetite is set, and stress testing activities are undertaken, at a group level, in business lines, in risk types and at a legal entity level within the risk appetite and stress testing governance frameworks.

## GOVERNANCE

The primary management level governance committee overseeing risk appetite and stress testing is the SBG stress testing and risk appetite committee. It is chaired by the group CRO and is a subcommittee of GROC.

The principal governance documents are the risk appetite governance framework and the stress testing governance framework.

## RISK APPETITE

### Risk appetite governance framework

The risk appetite governance framework provides guidance on the following:

- setting and cascading of risk appetite by group, business line, risk type and legal entity
- measurement and methodology
- governance
- monitoring and reporting of the risk profile
- 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. The metric is referred to as a risk appetite trigger.
- **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 risk profile 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 to which the entity is currently exposed. 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.

The diagram on the next page provides a schematic view of the three levels of risk appetite and the integral role that risk types play in the process of cascading risk appetite from dimensions such as regulatory capital, economic capital, stressed earnings and liquidity to more granular portfolio limits.

## RISK APPETITE

LEVEL 1

RISK APPETITE DIMENSIONS

| Regulatory capital | Economic capital | Stressed earnings | Liquidity |
|---|---|---|---|

LEVEL 2

RISK APPETITE DIMENSIONS BY RISK TYPE

| Credit and equity risk | Operational risk | Market risk | Interest rate risk | Business risk | Liquidity risk |
|---|---|---|---|---|---|
| Capital demand/earnings at risk utilisation per risk type | | | | | |

LEVEL 3

PORTFOLIO LIMITS BY RISK TYPE

| Credit and equity risk e.g. | Operational risk e.g. | Market risk e.g. | Interest rate risk e.g. | Business risk e.g. | Liquidity risk e.g. |
|---|---|---|---|---|---|
| • loss ratio<br>• non-performing loan (NPL) %<br>• concentrations | • operational losses % to gross income | • normal and stressed value-at-risk (SVaR) limits | • interest rate sensitivity | • cost-to-income ratio | • net stable funding ratio (NSFR) |

RAS

### Risk appetite statement

Executive management is responsible for recommending the group's RAS, which is then approved by the GRCMC on behalf of the board. In developing the RAS, executive management considers the group's strategy and the desired balance between risk and return. The GRCMC reviews the group's current risk profile on a quarterly basis and forward risk profile (both stressed and unstressed) at least annually.

Level one risk appetite dimensions can be either qualitative or quantitative. Quantitative level one risk appetite dimensions relate to available financial resources and earnings volatility. The standardised quantitative dimensions used by the group, as well as legal entities and business lines, are:

- stressed earnings
- economic capital
- regulatory capital
- liquidity (short-term liquidity and term liquidity).

Level two risk appetite represents the allocation of level one risk appetite to risk types. Specifically, the contribution of individual risk types to earnings volatility and overall capital demand (both economic and regulatory) is controlled through triggers and limits.

Level three consists of key metrics used to monitor the portfolio. Portfolio triggers and limits are required to be broadly congruent with level one and level two triggers and limits. These metrics are regularly monitored at a risk type level and ensure proactive risk management.

## STRESS TESTING

### Stress testing governance framework

Stress testing is a key management tool within the group and is used to evaluate the sensitivity of the current and forward risk profile relative to different levels of risk appetite. Stress testing supports a number of business processes, including:

- strategic planning and financial budgeting
- the ICAAP, 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
- supporting communication with internal and external stakeholders, including industrywide stress tests performed by the regulator.

Stress testing within the group is subject to the group's stress testing governance framework which sets out the responsibilities for and approaches to stress testing activities. Stress tests are conducted at group, business line, material legal entity and risk type level. Broadly aligned and fit-for-purpose stress testing programmes are implemented for the group to ensure appropriate coverage of the different risks.

### Stress testing programme

The group's 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.

#### Groupwide macroeconomic stress testing

Macroeconomic stress testing is conducted across all major risk types on an integrated basis for a range of economic scenarios varying in severity from mild to very severe but plausible macroeconomic shocks. The impact, after consideration of mitigating actions, on the group's income statement, statement of financial position (SOFP) and capital demand and supply of the group is measured against risk appetite.

Groupwide macroeconomic stress testing is performed, as a minimum, once a year for selected scenarios that are specifically designed by a scenario working group targeting the group's risk profile, geographical presence and strategy.

The results of the groupwide macroeconomic stress testing are presented at a board level in order to consider whether the group's risk profile is consistent with the group's risk appetite and to set the capital buffer. Groupwide macroeconomic stress testing results are submitted as part of the annual ICAAP.

#### Additional stress testing

Groupwide macroeconomic stress testing results are supplemented with additional ad hoc stress testing at the group, legal entity, business line, or risk type level that may be required from time-to-time for risk management or planning purposes. The purpose of this stress testing is to inform management of risks that may not yet form part of routine stress testing or where the focus is on a specific portfolio or business unit. Additional stress testing can take the form of either scenario analysis or sensitivity analysis. This type of stress testing will be performed and governed at the appropriate group, legal entity, business line, or risk type level.

The focus of additional stress tests for 2015 included various commodity-related stress tests, the impact of infrastructure challenges and interest rate scenarios.

## Supervisory stress tests

From time-to-time, a regulator may call for the group or a legal entity to run a supervisory stress test or common scenario with prescribed assumptions and methodologies. The purpose of these stress test requests could be for the regulator to assess the financial stability of the entire financial sector, or targeted stress tests where they may have a specific concern regarding a specific asset class or other potential stress event.

## Business model stress testing

Business model stress testing utilises the reverse stress testing technique to explore vulnerabilities in a particular strategy or business model. The outcome does not necessarily target business or bank failure, but rather seeks to inform what could have a severe impact, given a plausible but in most cases highly improbable event within a given set of circumstances and assumptions.

The purpose of business model stress testing is to identify potential vulnerabilities by:

- assuming the business model is severely impacted
- identifying potential circumstances/scenarios that could have led to this impact
- identifying vulnerabilities in the business model, human capital, infrastructure and control framework, as and when highlighted by underlying failures
- reviewing the existing risk mitigants
- supplementing risk mitigants if considered necessary.

## Stress testing for the recovery plan

As part of the annual review of the group's recovery plan, the group's procedures require the execution of stress tests in order to test the effectiveness of the recovery options proposed in the recovery plan, and to provide guidance on the selection of early warning indicators. The range of scenarios that are considered include both systemic, group-specific and combination events, as well as fast- and slow-moving scenarios.

## Risk type stress testing

Risk type stress tests apply to individual risk types. Risk type stress testing could take the form of scenario or sensitivity analysis.

# Credit risk



## DEFINITION

Credit risk is the risk of loss arising out of the failure of counterparties to meet their financial or contractual obligations when due.

It is composed of counterparty risk (i.e. obligor risk, as distinct from counterparty credit risk, a subset of counterparty risk specific to the bilateral credit risks arising between trading counterparties), concentration risk, and country risk.

## APPROACH TO MANAGING CREDIT RISK

The group's credit risk comprises mainly wholesale and retail loans and advances, underwriting and guarantee commitments together with 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.

The group manages credit risk 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 the level of individual facilities up to the total portfolio
- defining, implementing and continually re-evaluating our risk appetite under actual and stressed conditions
- monitoring the group's credit risk exposure relative to limits
- ensuring that there is expert scrutiny and approval of credit risks and its mitigation independently of the business functions.

Primary responsibility for credit risk management resides with the business lines within the group's business units. This is complemented by an independent credit risk function embedded within the business units, which is in turn supported with standards and oversight provided through the group risk function.

## GOVERNANCE

The primary management level governance committees overseeing credit risk are the CIB and PBB credit governance committees, the group equity risk committee (ERC) and the intragroup exposure committee, which are all GROC subcommittees. These committees are responsible for credit risk and credit concentration risk decision-making, and delegation thereof to credit officers and committees within defined parameters.

The PBB, CIB and group model approval committees approve key aspects of rating systems and credit risk models. Regular model validation and reporting to these committees is undertaken by the central validation function that is independent of the credit risk function.

The principal governance documents are the group credit risk governance standard and the model risk governance framework.

The group does not currently trade commodities that could arise in physical commodity inventory or collateral exposure with the exception of precious metals. Within the CIB lending business where transactions are reliant on physical commodity collateral, the group rigorously applies customer, collateral manager and location concentration limits in the approval process.

## APPROVED REGULATORY CAPITAL APPROACHES

The group has approval from the SARB to adopt the AIRB approach for most credit portfolios. The group has adopted the standardised approach for some of its less material subsidiaries and portfolios. The group has approval from the SARB to adopt the market-based and PD/LGD approaches for material equity portfolios, with the latter applied to equity held on the banking book.

### Standardised approach

The calculation of regulatory capital is based on a risk weighting and the net counterparty exposures after recognising a limited set of qualifying collateral. The risk weighting is based on the exposure characteristics and, in the case of corporate, bank and sovereign exposures, the external agency credit rating of the counterparty. In the case of counterparties for which there are no credit ratings available, exposures are classified as unrated for determining regulatory capital requirements.

### Internal ratings-based approach

#### Introduction

Under the internal ratings-based (IRB) regulatory capital approaches, the calculation of regulatory capital is based on an estimate of exposure at default (EAD) and a risk weighting. The risk weighting is based on asset class, and estimates of PD, LGD, and maturity. Under the AIRB approaches all the parameters need to be estimated internally, while only PD is estimated internally under the foundation internal ratings-based (FIRB) approach. EAD, LGD and maturity are regulatory-prescribed under the FIRB approach. All IRB models are managed under model development and validation policies that set out the requirements for model governance structures and processes, and the technical framework within which model performance and appropriateness is maintained. The models are developed using internal historical default and recovery data. In low-default portfolios, internal data is supplemented with external benchmarks and studies. Models are assessed frequently to ensure ongoing appropriateness as business environments and strategic objectives change, and are recalibrated annually using the most recent internal data.

#### IRB risk components

**Probability of default**

The group uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (retail asset classes), as illustrated in the table below. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable portfolio. 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.

The table below describes the internally defined relationship between the group master rating scale, generally accepted defined investment gradings, the group's credit quality definitions and external rating scales.

**CREDIT RATING SCALES**

| Group master rating scale | Grading | Credit quality | Moody's Investor Services | Standard & Poor's | Fitch |
|---|---|---|---|---|---|
| 1 – 4 | Investment grade | Normal monitoring | Aaa, Aa1, Aa2, Aa3 | AAA, AA+, AA, AA- | AAA, AA+, AA, AA- |
| 5 – 7 | | | A1, A2, A3 | A+, A, A- | A+, A, A- |
| 8 – 12 | | | Baa1, Baa2, Baa3 | BBB+, BBB, BBB- | BBB+, BBB, BBB- |
| 13 – 21 | Sub-investment grade | | Ba1, Ba2, Ba3, B1, B2, B3 | BB+, BB, BB-, B+, B, B- | BB+, BB, BB-, B+, B, B- |
| 22 – 25 | | Close monitoring | Caa1, Caa2, Caa3, Ca | CCC+, CCC, CCC- | CCC+, CCC, CCC- |
| Default | Default | Default | C | D | D |

### Loss given default

LGD measures are a function of customer type, product type, seniority of loan, country of risk and level of collateralisation.

LGDs are estimated based on historic recovery data per category of LGD. A downturn LGD is used in the estimation of the capital charge and reflects the anticipated recovery rates in a downturn period.

### Exposure at default

EAD captures the impact of potential drawdowns against unutilised facilities and potential changes in counterparty credit risk positions due to changes in market prices. By using historical data, it is possible to estimate an account's average utilisation of limits when default occurs, recognising that customers may use more of their facilities as they approach default.

### Expected loss

The expected loss provides a measure of the value of the credit losses that may reasonably be expected to occur in the portfolio. Provisions must be sufficient to cover the expected losses in the credit portfolio. In its most basic form the expected loss can be represented as: PD x EAD x LGD.

## Use of internal estimates

The group's credit risk rating systems and processes differentiate and quantify credit risk across counterparties and asset classes. Internal risk parameters are used extensively in risk management and business processes, including:

- setting risk appetite
- setting limits for concentration risk and counterparty limits
- credit approval and monitoring
- pricing transactions
- determining portfolio impairment provisions
- calculating economic capital.

## Portfolios

### Corporate, sovereign and bank portfolios

**Corporate** entities include large companies, as well as small and medium enterprises that are managed on a relationship basis or have a combined exposure to the group of more than R7,5 million. Corporate exposures also include specialised lending (project, object and commodity finance, as well as income-producing real estate), public sector entities and CCPs.

**Sovereign and bank borrowers** include sovereign government entities, central banks, local and provincial government entities, bank and non-bank financial institutions.

The creditworthiness of corporate (excluding specialised lending), sovereign and bank exposures is assessed based on a detailed individual assessment of the financial strength of the borrower. This quantitative analysis coupled with a detailed qualitative analysis of the entity together with expert judgement and external rating agency ratings, leads to an assignment of an internal rating to the entity.

Specialised lending's creditworthiness is assessed on a transactional level, rather than on the financial strength of the borrower, insofar as the group relies only on repayment from the cash flows generated by the underlying assets thus financed.

### Retail portfolio

**Retail mortgage** exposures relate to mortgage loans to individuals and are a combination of both drawn and undrawn EADs.

**QRRE** relates to cheque accounts, credit cards and revolving personal loans and products, and include both drawn and undrawn exposures.

**Retail other** covers other branch lending and vehicle finance for retail personal and small and medium enterprise portfolios. Branch lending includes both drawn and undrawn exposures, while vehicle and asset finance only has drawn exposures.

Internally developed behavioural scorecards are used to measure the anticipated performance for each account. Mapping of the behaviour score to a PD is performed for each portfolio using a statistical calibration of portfolio-specific historical default experience.

The behavioural scorecard PDs are used to determine the portfolio distribution on the master rating scale. Separate LGD models are used for each product portfolio and are based on historical recovery data. EAD is measured as a percentage of the credit facility limit and is based on historical averages. EAD is estimated per portfolio and per portfolio-specific segment, using internal historical data on limit utilisation.

### Equity portfolio

Equity risk held on the banking book is substantively controlled in accordance with the credit risk governance standard, except insofar as it is approved and overseen under the mandate of the ERC rather than under the normal credit risk-delegated authority structures.

Please refer to **page 93** for more information regarding equity risk on the banking book.

## CREDIT PORTFOLIO CHARACTERISTICS AND METRICS IN TERMS OF BASEL

### Credit portfolio analysis

The credit portfolio is analysed in the tables that follow in terms of the Basel approach and asset class.

#### 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.

#### Credit risk mitigation

Collateral, 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 credit 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.

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 and 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 counterparties. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties. Creditworthiness is established for the guarantor as for other counterparty credit approvals.

For derivative transactions and where collateral support is considered necessary, the group typically uses internationally recognised and enforceable International Swaps and Derivatives Association agreements, with a credit support annexure. 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 by a counterparty and the size of credit exposure 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.

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.

### Counterparty credit risk

The group is exposed to counterparty credit risk through movements in the fair value of securities financing and derivative contracts. The risk amounts reflect the aggregate replacement costs that would be incurred by the group in the event of counterparties defaulting on their obligations.

The group's exposure to counterparty credit risk is affected by the nature of the trades, the creditworthiness of the counterparty, and underlying netting and collateral arrangements. Counterparty credit risk is measured in potential future exposure terms and recognised on a net basis where netting agreements are in place and are legally enforceable, or otherwise on a gross basis. Exposures are generally marked-to-market daily. Cash or near cash collateral is posted where contractually provided for.

Counterparty credit risk, reflecting both pre-settlement and settlement risk, is subjected to explicit credit limits which are formulated and approved for each counterparty and economic group, with specific reference to its credit rating and other credit exposures to that counterparty.

## Securitisation

Securitisation is a transaction whereby the credit risk associated with an exposure, or pool of exposures, is tranched, typically through loan notes, and where payments to investors via the loan notes in the transaction are dependent upon the performance of the underlying exposure or pool of exposures.

A traditional securitisation involves the transfer of the exposures being securitised to a structured entity (SE) which issues securities. In a synthetic securitisation, the tranching is achieved by the use of credit derivatives and the exposures are not removed from the SOFP.

The group uses SEs to securitise customer loans and advances that it has originated to diversify its sources of funding for asset origination, for capital efficiency purposes and to reduce risk. In addition, the group plays a secondary role as an investor in certain third-party securitisation note issuances (SEs established by third parties).

The following SEs have been established by the group:

- Blue Granite Investments No. 1 (RF) Limited (BG1)
- Blue Granite Investments No. 2 (RF) Limited (BG2)
- Blue Granite Investments No. 3 (RF) Limited (BG3)
- Blue Granite Investments No. 4 (RF) Limited (BG4)
- Siyakha Fund (RF) Limited (Siyakha)
- Blue Titanium Conduit (RF) Limited (BTC).

### BASEL: ROLES FULFILLED IN SECURITISING ASSETS

| Securitisation transactions | Originator | Investor | Servicer | Liquidity provider | Credit enhancement provider | Swap counter-party |
|---|---|---|---|---|---|---|
| **Traditional securitisations** | | | | | | |
| BG1 | ✓ | ✓ | ✓ | | ✓ | ✓ |
| BG2 | ✓ | ✓ | ✓ | | ✓ | ✓ |
| BG3 | ✓ | ✓ | ✓ | | ✓ | ✓ |
| BG4 | ✓ | ✓ | ✓ | | ✓ | ✓ |
| Siyakha | ✓ | ✓ | ✓ | | ✓ | ✓ |
| **Asset-backed commercial paper programme** | | | | | | |
| BTC | | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Third-party transactions** | | ✓ | | ✓ | ✓ | ✓ |

## BASEL: SECURITISATION TRANSACTIONS

| | Asset type | Year initiated | Expected close | Assets securitised Rbn | Assets outstanding 2015 Rbn | Assets outstanding 2014 Rbn | Notes outstanding[1] 2015 Rbn | Notes outstanding[1] 2014 Rbn | Retained exposure[1,2] 2015 Rbn | Retained exposure[1,2] 2014 Rbn |
|---|---|---|---|---|---|---|---|---|---|---|
| **Traditional securitisations** | | | | 17,9 | **7,8** | 8,9 | **8,5** | 9,8 | **4,3** | 5,1 |
| BG1[3] | Retail mortgages | 2005 | 2032 | 4,6 | **0,8** | 1,0 | **0,9** | 1,1 | **0,6** | 0,9 |
| BG2[3] | Retail mortgages | 2006 | 2041 | 2,8 | **1,8** | 2,0 | **2,0** | 2,2 | **1,0** | 1,1 |
| BG3[3] | Retail mortgages | 2006 | 2032 | 3,0 | **1,4** | 1,6 | **1,6** | 1,8 | **0,9** | 1,1 |
| BG4[3] | Retail mortgages | 2007 | 2037 | 5,1 | **2,3** | 2,7 | **2,5** | 3,0 | **0,9** | 1,1 |
| Siyakha | Retail mortgages | 2007 | 2043 | 2,4 | **1,5** | 1,6 | **1,5** | 1,7 | **0,9** | 0,9 |
| **Asset-backed commercial paper programme** | | | | | | | | | | |
| BTC[4] | Various | 2002 | N/A | N/A | **3,2** | 4,1 | **3,2** | 4,1 | **0,2** | 0,7 |
| **Total** | | | | 17,9 | **11,0** | 13,0 | **11,7** | 13,9 | **4,5** | 5,8 |

1 Capital plus accrued interest.
2 Includes notes, first and second loss sub-loans and notes held by BTC.
3 Rating agency: Moody's.
4 Rating agency: Fitch.

## CREDIT PORTFOLIO CHARACTERISTICS AND METRICS IN TERMS OF IFRS

### Analysis of loans and advances

The tables on the pages that follow analyse the credit quality of loans and advances measured in terms of IFRS.

### Maximum exposure to credit risk

Loans and advances are analysed and categorised based on credit quality using the following definitions.

#### 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:

- **Sub-standard:** 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

| | 2015 | 2014 |
|---|---|---|
| **Neither past due nor specifically impaired loans** (Rm) | **859 355** | 751 152 |
| **Normal monitoring** (Rm) | **846 571** | 733 525 |
| **Close monitoring** (Rm) | **12 784** | 17 627 |
| **Early arrears but not specifically impaired loans** (Rm) | **27 647** | 23 512 |

## Non-performing loans

| | 2015 | 2014 |
|---|---|---|
| **Non-performing but not specifically impaired loans** (Rm) | **10** | 6 |
| **Specifically impaired loans** (Rm) | **28 195** | 26 176 |
| **Sub-standard** (Rm) | **6 435** | 5 927 |
| **Doubtful** (Rm) | **17 738** | 17 589 |
| **Loss** (Rm) | **4 022** | 2 660 |

Portfolio credit impairment

Specific credit impairment

## IFRS: MAXIMUM EXPOSURE TO CREDIT RISK BY CREDIT QUALITY

| | | Performing loans | | | |
|---|---|---|---|---|---|
| | | Neither past due nor specifically impaired | | Not specifically impaired | |
| | Gross advances total Rm | Normal monitoring Rm | Close monitoring Rm | Early arrears Rm | Non-performing Rm |
| **2015** | | | | | |
| **Personal & Business Banking** | 498 482 | 434 587 | 12 493 | 27 647 | |
| Mortgage loans | 310 330 | 269 198 | 7 319 | 19 915 | |
| Vehicle and asset finance | 69 574 | 62 789 | 1 202 | 3 261 | |
| Card debtors | 30 389 | 25 070 | 1 444 | 1 870 | |
| Other loans and advances | 88 189 | 77 530 | 2 528 | 2 601 | |
| Personal unsecured lending | 37 741 | 30 545 | 1 692 | 1 705 | |
| Business lending and other | 50 448 | 46 985 | 836 | 896 | |
| **Corporate & Investment Banking** | 402 608 | 397 869 | 291 | | 10 |
| Corporate loans | 346 772 | 342 320 | 291 | | |
| Commercial property finance | 55 836 | 55 549 | | | 10 |
| **Central and other** | 14 117 | 14 115 | | | |
| **Gross loans and advances** | 915 207 | 846 571 | 12 784 | 27 647 | 10 |
| *Less:* | | | | | |
| Impairments for loans and advances | (17 863) | | | | |
| **Net loans and advances** | 897 344 | | | | |
| *Add the following other banking activities' exposures:* | | | | | |
| Cash and balances with central banks | 30 252 | | | | |
| Derivatives | 100 356 | | | | |
| Financial investments[1] | 98 944 | | | | |
| Trading assets[1] | 63 282 | | | | |
| Pledged assets[1] | 7 879 | | | | |
| Other financial assets | 6 476 | | | | |
| Interest in financial instruments of SBG companies | 39 557 | | | | |
| **Total on-balance sheet exposures** | 1 244 090 | | | | |
| *Unrecognised financial assets:* | | | | | |
| Letters of credit and bankers' acceptance | 9 304 | | | | |
| Financial guarantees | 47 777 | | | | |
| Irrevocable unutilised facilities | 93 482 | | | | |
| Commodities and securities lending transactions | 2 123 | | | | |
| **Total exposure to credit risk** | 1 396 776 | | | | |

1 Includes exposure to equity instruments as managed under the credit risk governance framework.

| 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 impairment coverage % | Total non-performing loans Rm | Non-performing loans % |
| 5 548 | 14 680 | 3 527 | 23 755 | 13 952 | 9 803 | 9 803 | 41 | 23 755 | 4.8 |
| 3 942 | 9 893 | 63 | 13 898 | 10 198 | 3 700 | 3 700 | 27 | 13 898 | 4.5 |
| 314 | 1 037 | 971 | 2 322 | 1 255 | 1 067 | 1 067 | 46 | 2 322 | 3.3 |
| 588 | 466 | 951 | 2 005 | 641 | 1 364 | 1 364 | 68 | 2 005 | 6.6 |
| 704 | 3 284 | 1 542 | 5 530 | 1 858 | 3 672 | 3 672 | 66 | 5 530 | 6.3 |
| 258 | 3 150 | 391 | 3 799 | 1 148 | 2 651 | 2 651 | 70 | 3 799 | 10.1 |
| 446 | 134 | 1 151 | 1 731 | 710 | 1 021 | 1 021 | 59 | 1 731 | 3.4 |
| 885 | 3 058 | 495 | 4 438 | 1 505 | 2 933 | 2 933 | 67 | 4 448 | 1.1 |
| 825 | 2 854 | 482 | 4 161 | 1 386 | 2 775 | 2 775 | 67 | 4 161 | 1.2 |
| 60 | 204 | 13 | 277 | 119 | 158 | 158 | 57 | 287 | 0.5 |
| 2 | | | 2 | | 2 | 2 | | 2 | |
| 6 435 | 17 738 | 4 022 | 28 195 | 15 457 | 12 738 | 12 738 | 45 | 28 205 | 3.1 |

## 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 |
| **2014** | | | | | |
| **Personal & Business Banking** | 477 399 | 414 959 | 17 627 | 22 924 | |
| Mortgage loans | 302 847 | 263 317 | 11 429 | 14 856 | |
| Vehicle and asset finance | 63 299 | 57 130 | 1 412 | 2 581 | |
| Card debtors | 29 496 | 24 287 | 1 910 | 1 829 | |
| Other loans and advances | 81 757 | 70 225 | 2 876 | 3 658 | |
| Personal unsecured lending | 35 979 | 29 142 | 1 556 | 1 823 | |
| Business lending and other | 45 778 | 41 083 | 1 320 | 1 835 | |
| **Corporate & Investment Banking** | 320 465 | 315 584 | | 588 | 6 |
| Corporate loans | 272 782 | 268 201 | | 587 | 4 |
| Commercial property finance | 47 683 | 47 383 | | 1 | 2 |
| **Central and other** | 2 982 | 2 982 | | | |
| **Gross loans and advances** | 800 846 | 733 525 | 17 627 | 23 512 | 6 |
| *Less:* | | | | | |
| Impairments for loans and advances | (15 363) | | | | |
| **Net loans and advances** | 785 483 | | | | |
| *Add the following other banking activities' exposures:* | | | | | |
| Cash and balances with central banks | 32 218 | | | | |
| Derivatives | 54 062 | | | | |
| Financial investments | 101 856 | | | | |
| Trading assets | 51 436 | | | | |
| Pledged assets | 5 281 | | | | |
| Other financial assets | 5 462 | | | | |
| Interest in financial instruments of SBG companies | 62 499 | | | | |
| **Total on-balance sheet exposures** | 1 098 297 | | | | |
| *Unrecognised financial assets:* | | | | | |
| Letters of credit[1] | 12 424 | | | | |
| Financial guarantees[1] | 45 328 | | | | |
| Irrevocable unutilised facilities | 74 610 | | | | |
| Commodities and securities lending transactions | 6 026 | | | | |
| **Total exposure to credit risk** | 1 236 685 | | | | |

1 Restated. Refer to page 102.

| 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 impairment coverage % | Total non-performing loans Rm | Non-performing loans % |
| 3 879 | 15 391 | 2 619 | 21 889 | 12 960 | 8 929 | 8 929 | 41 | 21 889 | 4.6 |
| 2 822 | 10 237 | 186 | 13 245 | 9 806 | 3 439 | 3 439 | 26 | 13 245 | 4.4 |
| 126 | 1 189 | 861 | 2 176 | 1 049 | 1 127 | 1 127 | 52 | 2 176 | 3.4 |
| 384 | 324 | 762 | 1 470 | 468 | 1 002 | 1 002 | 68 | 1 470 | 5.0 |
| 547 | 3 641 | 810 | 4 998 | 1 637 | 3 361 | 3 361 | 67 | 4 998 | 6.1 |
| 263 | 2 781 | 414 | 3 458 | 1 153 | 2 305 | 2 305 | 67 | 3 458 | 9.6 |
| 284 | 860 | 396 | 1 540 | 484 | 1 056 | 1 056 | 69 | 1 540 | 3.4 |
| 2 048 | 2 198 | 41 | 4 287 | 2 070 | 2 217 | 2 217 | 52 | 4 293 | 1.3 |
| 1 883 | 2 100 | 7 | 3 990 | 1 908 | 2 082 | 2 082 | 52 | 3 994 | 1.5 |
| 165 | 98 | 34 | 297 | 162 | 135 | 135 | 45 | 299 | 0.6 |
| | | | | (2) | 2 | 2 | | | |
| 5 927 | 17 589 | 2 660 | 26 176 | 15 028 | 11 148 | 11 148 | 43 | 26 182 | 3.3 |

## 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 | Total Rm |
|---|---|---|---|---|
| **2015** | | | | |
| **Personal & Business Banking** | **16 787** | **6 857** | **4 003** | **27 647** |
| Mortgage loans | **11 814** | **5 145** | **2 956** | **19 915** |
| Vehicle and asset finance | **2 178** | **718** | **365** | **3 261** |
| Card debtors | **1 074** | **469** | **327** | **1 870** |
| Other loans and advances | **1 721** | **525** | **355** | **2 601** |
| Personal unsecured lending | **1 025** | **399** | **281** | **1 705** |
| Business term lending and other | **696** | **126** | **74** | **896** |
| **Total** | **16 787** | **6 857** | **4 003** | **27 647** |
| **2014** | | | | |
| **Personal & Business Banking** | 15 135 | 4 970 | 2 819 | 22 924 |
| Mortgage loans | 9 707 | 3 447 | 1 702 | 14 856 |
| Vehicle and asset finance | 1 884 | 520 | 177 | 2 581 |
| Card debtors | 1 177 | 418 | 234 | 1 829 |
| Other loans and advances | 2 367 | 585 | 706 | 3 658 |
| Personal unsecured lending | 994 | 466 | 363 | 1 823 |
| Business term lending and other | 1 373 | 119 | 343 | 1 835 |
| **Corporate & Investment Banking** | | 102 | 486 | 588 |
| **Total** | 15 135 | 5 072 | 3 305 | 23 512 |

## IFRS: INDUSTRY SEGMENTAL ANALYSIS – GROSS LOANS AND ADVANCES

| | 2015 Rm | 2014 Rm |
|---|---|---|
| Agriculture | **18 176** | 14 270 |
| Construction | **15 860** | 16 415 |
| Electricity | **10 833** | 8 574 |
| Finance, real estate and other business services | **297 001** | 187 261 |
| Individuals | **402 050** | 386 503 |
| Manufacturing | **34 267** | 30 284 |
| Mining | **34 822** | 26 009 |
| Transport | **73 199** | 61 084 |
| Wholesale | **15 242** | 12 769 |
| Other services | **13 757** | 57 677 |
| **Gross loans and advances** | **915 207** | 800 846 |

## IFRS: GEOGRAPHIC SEGMENTAL ANALYSIS – GROSS LOANS AND ADVANCES

| | 2015 Rm | 2014 Rm |
|---|---|---|
| South Africa | **698 612** | 641 778 |
| Rest of Africa | **59 720** | 42 123 |
| Outside Africa | **156 875** | 116 945 |
| **Gross loans and advances** | **915 207** | 800 846 |

## IFRS: INDUSTRY SEGMENTAL ANALYSIS – SPECIFIC CREDIT IMPAIRMENTS

| | 2015 Rm | 2014 Rm |
|---|---|---|
| Agriculture | **238** | 223 |
| Construction | **393** | 352 |
| Electricity | **3** | 2 |
| Finance, real estate and other business services | **900** | 735 |
| Individuals | **8 084** | 7 032 |
| Manufacturing | **219** | 212 |
| Mining | **1 195** | 811 |
| Transport | **35** | 101 |
| Wholesale | **1 457** | 325 |
| Other services | **214** | 1 355 |
| **Total specific credit impairments** | **12 738** | 11 148 |

### Renegotiated loans and advances

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified following weaknesses in the counterparty's financial position, and where it has been judged that normal repayment under the revised conditions will likely continue after the restructure. Loans renegotiated in 2014 that would otherwise be past due or impaired comprised R4,3 billion.

Of this amount, R3,4 billion of mortgage loans that would otherwise be past due or impaired were restructured during 2015. During 2015, the group adopted the SARB directive D7/2015 which requires distressed restructures that are in a default or early arrears status to retain such status for a minimum period of six months to ensure that the minimum payment requirements are met. Consequently, the adoption of the directive has resulted in renegotiated loans being reflected as past due or impaired rather than as performing as historically was applied. Accordingly, no disclosure has been provided of loans that were renegotiated in 2015 on a similar basis to that provided for 2014, since such disclosures would not be directly comparable with one another.

### Collateral

The table on the following page 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 non-performing loans, 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, 62% (2014: 61%) is fully collateralised. The R514 million (2014: R561 million) 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 94% (2014: 90%). Of the group's total exposure, 47% (2014: 33%) 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 arise in 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 metals; 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.

## IFRS: COLLATERAL

| | | | | | | Total collateral coverage | | |
|---|---|---|---|---|---|---|---|---|
| | Total exposure Rm | Unsecured Rm | Secured Rm | Netting agreements Rm | Secured exposure after netting Rm | <=50% Rm | >50% – ≤100% Rm | >100% Rm |
| **2015** | | | | | | | | |
| Corporate | 534 924 | 337 667 | 197 257 | 34 746 | 162 511 | 8 653 | 109 315 | 44 543 |
| Sovereign | 137 532 | 132 953 | 4 579 | 900 | 3 679 | | 728 | 2 951 |
| Bank | 204 086 | 69 534 | 134 552 | 66 228 | 68 324 | | 11 311 | 57 013 |
| Retail | 459 075 | 83 132 | 375 943 | | 375 943 | 514 | 89 822 | 285 607 |
| Retail mortgages | 311 650 | | 311 650 | | 311 650 | 514 | 28 567 | 282 569 |
| Other retail | 147 425 | 83 132 | 64 293 | | 64 293 | | 61 255 | 3 038 |
| **Total** | 1 335 617 | 623 286 | 712 331 | 101 874 | 610 457 | 9 167 | 211 176 | 390 114 |
| *Add:* financial assets not exposed to credit risk | 39 465 | | | | | | | |
| *Add:* interest in financial instruments of SBG companies | 39 557 | | | | | | | |
| *Less:* impairments for loans and advances | (17 863) | | | | | | | |
| *Less:* unrecognised off-balance sheet items | (152 686) | | | | | | | |
| **Total exposure** | 1 244 090 | | | | | | | |
| *Reconciliation to SOFP* | | | | | | | | |
| Cash and balances with central banks | 30 252 | | | | | | | |
| Derivative assets | 100 356 | | | | | | | |
| Financial investments | 63 282 | | | | | | | |
| Trading assets | 7 879 | | | | | | | |
| Pledged assets | 98 944 | | | | | | | |
| Loans and advances | 897 344 | | | | | | | |
| Other financial assets | 6 476 | | | | | | | |
| Interest in financial instruments of SBG companies | 39 557 | | | | | | | |
| **Total** | 1 244 090 | | | | | | | |

## IFRS: COLLATERAL CONTINUED

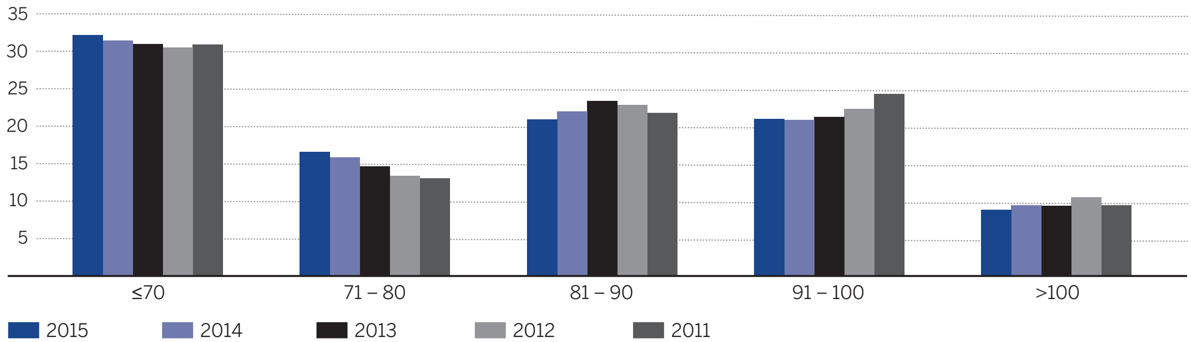
| | Total exposure Rm | Unsecured Rm | Secured Rm | Netting agreements Rm | Secured exposure after netting Rm | Total collateral coverage <50% Rm | 51% – 100% Rm | >100% Rm |
|---|---|---|---|---|---|---|---|---|
| **2014**[1] | | | | | | | | |
| Corporate | 428 053 | 160 169 | 267 884 | 13 536 | 254 348 | 71 205 | 155 842 | 27 301 |
| Sovereign | 118 445 | 102 087 | 16 358 | 3 200 | 13 158 | | 3 241 | 9 917 |
| Bank | 168 628 | 48 088 | 120 540 | 41 258 | 79 282 | 4 333 | 3 473 | 71 476 |
| Retail | 445 738 | 81 889 | 363 849 | | 363 849 | 561 | 89 391 | 273 897 |
| Retail mortgages | 304 756 | | 304 756 | | 304 756 | 561 | 30 298 | 273 897 |
| Other retail | 140 982 | 81 889 | 59 093 | | 59 093 | | 59 093 | |
| **Total** | 1 160 864 | 377 195 | 768 631 | 57 994 | 710 637 | 76 099 | 251 947 | 382 591 |
| *Add:* financial assets not exposed to credit risk | 41 531 | | | | | | | |
| *Add:* interest in financial instruments of SBG companies | 62 499 | | | | | | | |
| *Less:* impairments for loans and advances | (15 363) | | | | | | | |
| *Less:* unrecognised off-balance sheet items | (151 234) | | | | | | | |
| **Total exposure** | 1 098 297 | | | | | | | |
| *Reconciliation to SOFP* | | | | | | | | |
| Cash and balances with central banks | 32 218 | | | | | | | |
| Derivative assets | 54 062 | | | | | | | |
| Financial investments | 101 856 | | | | | | | |
| Trading assets | 51 436 | | | | | | | |
| Pledged assets | 5 281 | | | | | | | |
| Loans and advances | 785 483 | | | | | | | |
| Other financial assets | 5 462 | | | | | | | |
| Interest in financial instruments of SBG companies | 62 499 | | | | | | | |
| **Total** | 1 098 297 | | | | | | | |

1 Restated. Refer to page 102.

## ANALYSIS OF THE GROUP'S RESIDENTIAL MORTGAGE PORTFOLIO BALANCE TO VALUE RATIOS

The balance-to-value (BTV) ratios of the group's residential mortgage loans portfolio are set out in the graph below.

**LOAN BALANCE TO INITIAL PROPERTY VALUE** (% of total book as at 31 December 2015)




The BTV is based on original property valuation estimate as at initial origination and does not consider the latest property valuation. The positive upward trajectory in 71% – 80% BTV and ≤70% BTV is predominantly due to new business being originated in these bands, which is aligned to the group's current strategy. The 91% – 100% BTV is positively amortising in terms of its contractual payment requirements.

# Compliance risk



## DEFINITION

Compliance risk is the risk of legal or regulatory sanction, financial loss or damage to reputation that the group may suffer as a result of its failure to comply with laws, regulations, codes of conduct and standards of good practice applicable to its financial services activities.

## APPROACH TO MANAGING COMPLIANCE RISK

### General approach

The compliance function operates independently of business as a second line of defence function, in terms of its mandate. The mandate is approved annually by the GAC and is drawn primarily from regulation 49 of the Banks Act.

The group's proactive approach to managing compliance risk is standardised across the group and is premised on internationally accepted principles of compliance risk management and supervisory expectations.

Compliance risk management is a core risk management activity overseen by the GCCO. The GCCO has unrestricted access to the chief executive and to the chairman of the GAC, thereby supporting the function's independence.

A robust risk management reporting and escalation procedure requires business unit and functional area compliance heads to report on the status of compliance risk management in the group to the GCCO, who escalates significant matters to group management, executive and independent board committees.

These matters relate to key regulatory interaction and legislative developments, as well as significant compliance initiatives, current and developing compliance risks and exposures. The focus on market integrity supports the group's code of ethics.

Attention to the group's technological capability and coverage in all jurisdictions continues to support both regulatory requirements and supervisory expectations.

The relationship with our primary regulator, the SARB, is based on mutual trust with an emphasis on regular and transparent communication.

### Approach to conduct risk

Conduct risk is the risk that detriment is caused to the group's customers, the markets or the group itself because of inappropriate execution of business activities.

The group's approach to managing conduct risk is integrated and covers all aspects of market conduct.

Risk management processes and structures for the conduct of business include the groupwide treating customers fairly (TCF) programme and the privacy office, which oversees the protection of personal information. The embedding of a culture of doing the right business the right way focuses on both the compliance culture in the group, and the controls in place to manage and mitigate conduct-related risks. Group programmes focus on placing the customer first and managing interactions with customers to ensure that the service and products they receive are fair, relevant and appropriate to their needs. A dedicated customer resolution centre deals with complaints, and the internal complaints adjudicator is empowered to make findings and award compensation to customers.

The management of conduct risk is integral to the group's code of ethics.

## Approach to managing money laundering and terrorist financing

Legislation pertaining to money laundering and terrorist financing control imposes significant requirements in terms of customer due diligence, record keeping, staff training and the obligation to detect, prevent and report suspected money laundering and terrorist financing. The group subscribes to the principles of the Financial Action Task Force, an intergovernmental body that develops and promotes policies to combat money laundering and terrorist financing. An integrated systems approach is being followed to support surveillance and reporting responsibilities.

Group minimum standards are implemented throughout the group, taking into account local jurisdictional requirements.

## Approach to sanctions management

The group actively manages the legal, regulatory, reputational and operational risks associated with doing business in jurisdictions which, or with customers who, are subject to embargoes or sanctions imposed by competent authorities. Sanctions surveillance capability has been enhanced to manage sanctions alerts and the staff complement has been increased to meet supervisory expectations. The group sanctions review committee, supported by a sanctions desk, is responsible for providing advice on all sanctions-related matters in a fluid sanctions environment.

## Approach to managing regulatory change

The group operates in a highly regulated industry across multiple jurisdictions and is increasingly subject to international legislation with extra-territorial reach.

The group aims to embed regulatory best-practice in its operations in a way that balances the interests of various stakeholders, while supporting the long-term stability and growth in the markets where the group has a presence.

The group's regulatory advocacy and regulatory impact and strategy units assess the impact that emerging policy and regulation will have on the business. The group's approach to regulatory advocacy is to engage with government policymakers, legislators, regulators and standard and policy setters in a proactive and constructive manner. The businesses impacted by new regulatory developments identify business model changes that will ensure the most efficient and effective approach to adoption and continued excellence in customer service. An integrated regulatory change management strategy ensures agility in a dynamic business and regulatory environment across multiple jurisdictions.

The group regulatory and legislative oversight committee enhances regulatory risk management by proactively considering the impacts of regulatory developments on the group. The governance structure for regulatory change ensures that clear active board-level sponsorship provides correct ownership and accountability.

## Approach to occupational health and safety

Any risks to the health and safety of employees and stakeholders resulting from hazards in the workplace and/or potential exposure to occupational illness are managed by the occupational health and safety team and are supported by executive management accountability structures.

## GOVERNANCE

The primary management level governance committee overseeing compliance risk is the group compliance committee. It is chaired by the GCCO and is a subcommittee of GROC. Compliance is also represented on the group management committee which facilitates executive awareness of compliance risk-related matters.

The group compliance committee reports, through the GCCO, to both the GAC and GRCMC.

The principal governance document is the group compliance risk governance standard.

# Country risk



## DEFINITION

Country risk, also referred to as cross-border country risk, is the uncertainty that obligors (including the relevant sovereign, and including the obligations of group branches and subsidiaries in a country) will be able to fulfil obligations to the group given political or economic conditions in the host country.

## APPROACH TO MANAGING COUNTRY RISK

All countries to which the group is exposed are reviewed at least annually. Internal rating models are employed to determine ratings for country, 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 country risk grade (CR) from CR01 to CR25, as well as sovereign risk grade and transfer and convertibility risk grade (SB) from SB01 to SB25. Countries rated CR08 and higher, referred to as medium- and high-risk countries, are subject to increased analysis and monitoring.

Country risk is mitigated through a number of methods, including:

- political and commercial risk insurance
- co-financing with multilateral institutions
- structures to mitigate transferability and convertibility risk such as collection, collateral and margining deposits outside the jurisdiction in question.

## GOVERNANCE

The primary management level governance committee overseeing this risk type is the group country risk management committee. It is chaired by the group CRO and is a subcommittee of GROC.

The principal governance document is the country risk governance standard.

## APPROVED REGULATORY CAPITAL APPROACHES

There are no regulatory capital requirements for country risk. Country risk is, however, incorporated into regulatory capital for credit in the IRB approaches through the country risk and transfer and convertibility risk ratings' impact on credit grades.

## COUNTRY RISK PORTFOLIO CHARACTERISTICS AND METRICS

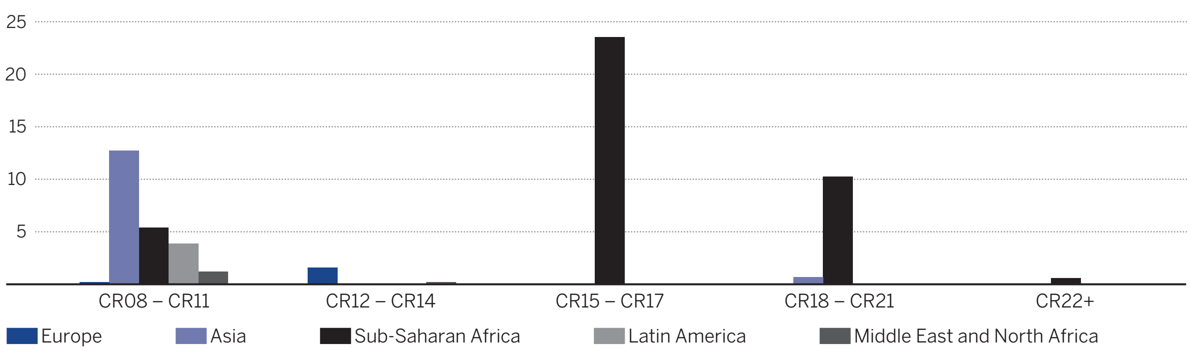
The risk distribution of cross-border country risk exposures is weighted towards European, Asian and North American low-risk countries, as well as sub-Saharan African medium- and high-risk countries.

## COUNTRY RISK EXPOSURE BY REGION AND RISK GRADE

| | Europe % | Asia % | North America % | Sub-Saharan Africa % | Latin America % | Middle East and North Africa % | Australasia % | Total |
|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | |
| **Risk grade** | | | | | | | | |
| CR01 – CR07 | **23.7** | **1.6** | **12.1** | | **0.1** | **0.4** | **2.6** | **40.6** |
| CR08 – CR11 | **0.1** | **12.8** | | **5.3** | **3.8** | **1.1** | | **23.0** |
| CR12 – CR14 | **1.5** | | | | | **0.1** | | **1.6** |
| CR15 – CR17 | | | | **23.5** | | | | **23.5** |
| CR18 – CR21 | | **0.6** | | **10.2** | | | | **10.8** |
| CR22+ | | | | **0.5** | | | | **0.5** |
| **Total** | **25.3** | **15.0** | **12.1** | **39.5** | **3.9** | **1.6** | **2.6** | **100** |
| **2014** | | | | | | | | |
| **Risk grade** | | | | | | | | |
| CR01 – CR07 | 27.7 | 2.7 | 7.1 | | 0.2 | 0.2 | 2.3 | 40.2 |
| CR08 – CR11 | 0.1 | 7.8 | | 6.2 | 3.6 | 1.4 | | 19.1 |
| CR12 – CR14 | 1.8 | | | 8.4 | | 0.1 | | 10.3 |
| CR15 – CR17 | | 0.7 | | 26.7 | | | | 27.4 |
| CR18 – CR21 | | | | 2.9 | | | | 2.9 |
| CR22+ | | | | 0.1 | | | | 0.1 |
| **Total** | 29.6 | 11.2 | 7.1 | 44.3 | 3.8 | 1.7 | 2.3 | 100 |

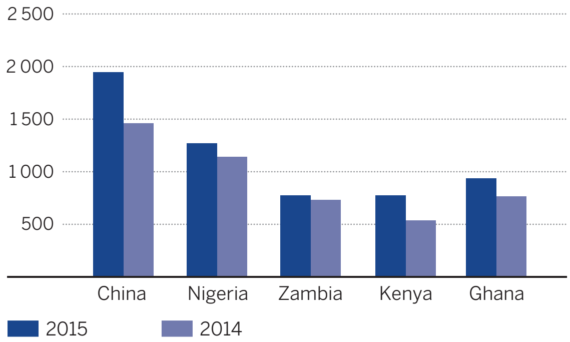
Total medium- and high-risk country risk exposures and total low-risk country risk exposures for the year ended 31 December 2015 amounted to USD9 billion and USD6 billion respectively (2014: USD9 billion and USD6 billion respectively).

## MEDIUM- AND HIGH-RISK COUNTRY EXPOSURE BY REGION (%)

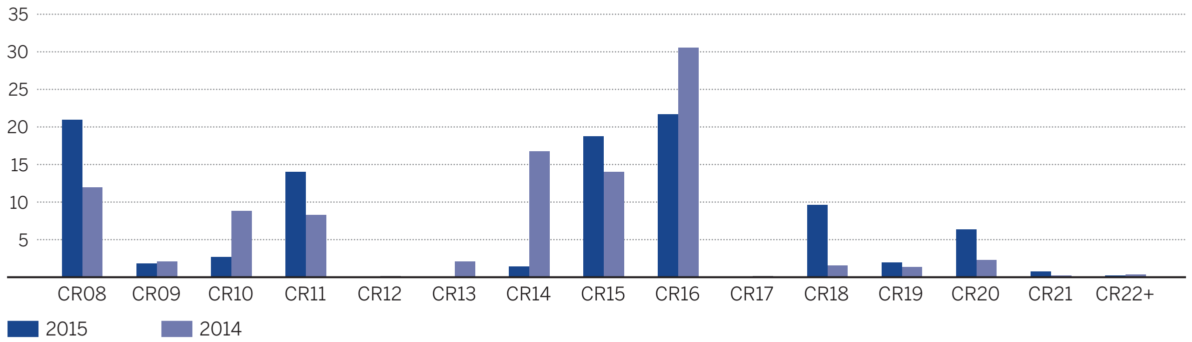


Exposure to the top five medium- and high-risk countries is shown together with comparatives in the graph below. These exposures are in line with the group's growth strategy focused on Africa and selected emerging markets.

**TOP FIVE MEDIUM- AND HIGH-RISK COUNTRY RISK EAD** (USDm)




**MEDIUM- AND HIGH-RISK COUNTRY EAD CONCENTRATION BY COUNTRY RATING** (%)



# 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.

The group's liquidity risk framework is designed to ensure the comprehensive management of liquidity risks and that regulatory, prudential, as well as internal minimum requirements are met at all times. This is achieved through a combination of maintaining adequate liquidity buffers to ensure that cash flow requirements can be met and ensuring that the group's SOFP is structurally sound and supportive of the group's strategy.

Information relating to the year ended 31 December 2015, is based on Basel III principles, including behavioural profiling methods and assumptions, as well as phasing-in requirements where applicable.

## APPROACH TO MANAGING LIQUIDITY RISK

A

The nature of the group's banking and trading activities gives rise to continuous exposure to liquidity risk. Liquidity risk arises when the group, despite being solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so at materially disadvantageous terms. This type of event may arise where counterparties, who provide 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 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 Basel III liquidity requirements.

## LIQUIDITY MANAGEMENT CATEGORIES

### TACTICAL (SHORT-TERM) LIQUIDITY RISK MANAGEMENT

- manage intra-day liquidity positions
- monitor interbank and repo shortage levels
- monitor daily cash flow requirements
- manage short-term cash flows
- manage daily foreign currency liquidity
- set deposit rates in accordance with structural and contingent liquidity requirements as informed by ALCO.

### STRUCTURAL (LONG-TERM) LIQUIDITY RISK MANAGEMENT

- ensure a structurally sound balance sheet
- identify and manage structural liquidity mismatches
- determine and apply behavioural profiling
- manage long-term cash flows
- preserve a diversified funding base
- inform term funding requirements
- assess foreign currency liquidity exposures
- establish liquidity risk appetite
- ensure appropriate transfer pricing of liquidity costs
- ensure Basel III NSFR readiness by 1 January 2018.

### CONTINGENCY LIQUIDITY RISK MANAGEMENT

- monitor and manage early warning liquidity indicators
- establish and maintain contingency funding plans
- undertake regular liquidity stress testing and scenario analysis
- convene liquidity crisis management committees, if needed
- set liquidity buffer levels in accordance with anticipated stress events
- advise on the diversification of liquidity buffer portfolios
- ensure compliance with Basel III liquidity coverage ratio (LCR).

The LCR, which was implemented on 1 January 2015, 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 HQLAs and dividing it by net cash outflows. The minimum regulatory LCR requirement for 2015 is 60%, increasing by 10% annually to reach 100% by 1 January 2019.

The group's LCR of 82.1% has exceeded the 60% minimum phase-in requirement for 2015.

From 2018, the group will also be required to comply with the Basel III NSFR. This is a metric designed to ensure that the majority of term assets are funded by stable sources, such as capital, term borrowings or other stable funds.

The group continues to evaluate the funding impact relating to the Basel III NSFR. Towards the latter part of 2015, the SARB issued a draft directive whereby it is suggested that the funding received from financial corporates maturing within six months receive an available stable funding factor of 35%. The group, together with the local banking industry, continue to engage with the Banking Association of South Africa (BASA) and the SARB to explore alternate market-based solutions to ensure that the NSFR framework aligns to local industry conditions and requirements.

## BASEL III IMPLEMENTATION TIMELINE

| Liquidity | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|
| LCR | Bank disclosure starts | | 60% minimum standard | 70% minimum standard | 80% minimum standard | 90% minimum standard | 100% |
| NSFR | Bank disclosure starts | | | | | 100% | 100% |

## GOVERNANCE

The primary governance committee overseeing liquidity risk is the group ALCO, which is chaired by the group chief executive and is a subcommittee of the SBG ALCO.

The principal governance documents are the liquidity risk governance standard and model risk governance framework.

## LIQUIDITY CHARACTERISTICS AND METRICS

### Contingency liquidity risk management

#### 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. 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.

The group, in line with the SARB's requirements, updates and submits its recovery and resolution plans to the SARB on an annual basis. The group's recovery plan incorporates the contingent liquidity funding plan in addition to the focus given to capital planning and business continuity planning.

#### Liquidity stress testing and scenario analysis

Stress testing and scenario analysis are based on both 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 in monitoring the group's ability to survive severe stress scenarios.

The Basel III LCR analysis that follows includes banking and/or deposit taking entities and represents an aggregation of the relevant individual net cash outflows and HQLA portfolios. These results reflect the simple average of the month-end values at 31 October 2015, 30 November 2015 and 31 December 2015, based on the regulatory submissions to the SARB.

## LCR (AVERAGE)

| | Total unweighted[1] value (average) Rm | Total weighted[2] value (average) Rm |
|---|---|---|
| **HQLA** | | |
| Total HQLA | | 121 150 |
| **Cash outflows** | 957 462 | 301 234 |
| Retail deposits and deposits from small business customers, of which: | 303 377 | 19 572 |
| Stable deposits | 29 778 | |
| Less stable deposits | 273 599 | 19 572 |
| Unsecured wholesale funding, of which: | 403 746 | 242 785 |
| Operational deposits (all counterparties) and deposits in networks of cooperative banks | 144 786 | 41 626 |
| Non-operational deposits (all counterparties) | 258 924 | 201 123 |
| Unsecured debt | 36 | 36 |
| Secured wholesale funding | | 12 789 |
| Additional requirements | 87 420 | 18 288 |
| Outflows related to derivative exposures and other collateral requirements | 7 196 | 7 150 |
| Outflows related to loss of funding on debt products | 2 694 | 2 694 |
| Credit and liquidity facilities | 77 530 | 8 444 |
| Other contractual funding obligations | 3 508 | 3 508 |
| Other contingent funding obligations | 159 411 | 4 292 |
| **Cash inflows** | 188 891 | 153 711 |
| Secured lending | 27 909 | 24 314 |
| Inflows from fully performing exposures | 140 301 | 121 206 |
| Other cash inflows | 20 681 | 8 191 |

| | Total adjusted value[3] Rm |
|---|---|
| **Total HQLA** | 121 150 |
| **Total net cash outflows** | 147 523 |
| **LCR (%)** | 82.1% |

1 Unweighted value represents the outstanding balances maturing or callable within 30 days (for inflows and outflows).
2 Total weighted value is calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).
3 Adjusted value calculated after the application of both (i) haircuts and inflow and outflow rates, and (ii) any applicable caps (i.e. cap on level 2B and level 2 assets for HQLA and cap on inflows).

The group seeks to exceed the minimum LCR requirement with a sufficient buffer to allow for funding flow volatility as determined by its internal liquidity risk appetite. A buffer is maintained above the minimum regulatory requirement to cater for balance sheet and market volatility.

### Total contingent liquidity

Portfolios of highly marketable liquid securities to meet prudential, 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 below provides a breakdown of the group's liquid and marketable securities for 2015 and 2014. Eligible Basel III LCR 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

| | 2015 Rm | 2014[1] Rm |
|---|---|---|
| **Eligible LCR HQLA comprising:** | **113,0** | 102,5 |
| Notes and coins | **11,7** | 12,7 |
| Cash and deposits with central banks | **18,6** | 19,5 |
| Government bonds and bills | **77,0** | 70,3 |
| Other eligible assets | **5,7** | |
| **Managed liquidity** | **97,5** | 118,4 |
| **Total contingent liquidity** | **210,5** | 220,9 |
| **Total contingent liquidity as a % of funding-related liabilities** | **20.6%** | 23.6% |

[1] Restated. Refer to page 102.

Liquid assets held remain adequate to meet all internal stress testing, prudential and regulatory requirements.

## Structural liquidity mismatch

### Maturity analysis of financial liabilities using behavioural profiling

With actual cash flows typically varying significantly from the contractual position, behavioural profiling is applied to assets, liabilities and off-balance sheet commitments, as well as to certain liquid assets. Behavioural profiling assigns probable maturities based on historical customer behaviour. This is used to identify significant additional sources of structural liquidity in the form of core deposits, such as current and savings accounts, which exhibit stable behaviour despite being repayable on demand or at short notice.

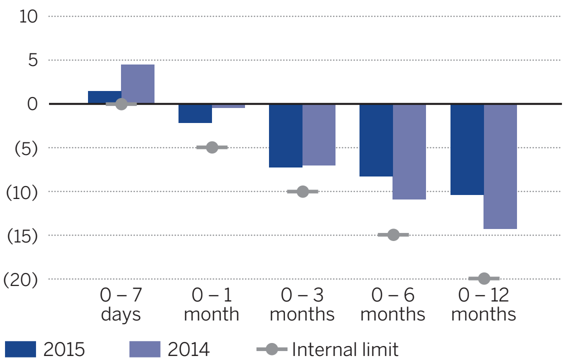
In order to highlight potential risks within the group's defined liquidity risk thresholds, structural liquidity mismatch analyses are performed regularly to anticipate the mismatch between payment profiles of SOFP items.

The graph on the next page shows the group's cumulative maturity mismatch between assets and liabilities for the 0 to 12 months bucket, after applying behavioural profiling. The cumulative maturity is expressed as a percentage of the group's total funding-related liabilities.

Expected aggregate cash outflows are subtracted from expected aggregate cash inflows. Guidelines are set internally to restrict the cumulative liquidity mismatch between expected inflows and outflows of funds in different time buckets. These mismatches are monitored on a regular basis with active management intervention if potential limit breaches are evidenced. The behaviourally adjusted cumulative liquidity mismatch remains within the group's liquidity risk appetite.

While following a consistent approach to liquidity risk management in respect of the foreign currency component of the SOFP, specific indicators are observed in order to monitor changes in market liquidity, as well as the impacts on liquidity as a result of movements in exchange rates.

## BEHAVIOURALLY ADJUSTED CUMULATIVE LIQUIDITY MISMATCH[1] (%)




1 % of funding-related liabilities.

## Maturity analysis of financial liabilities by contractual maturity

The table on the following page 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 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 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.

## MATURITY ANALYSIS OF FINANCIAL LIABILITIES BY CONTRACTUAL MATURITY

| | 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 |
|---|---|---|---|---|---|---|
| **2015** | | | | | | |
| **Financial liabilities** | | | | | | |
| Derivative financial instruments | **118 266** | **304** | **640** | **982** | **93** | **120 285** |
| Instruments settled on a net basis | **73 473** | **304** | **640** | **1 115** | **477** | **76 009** |
| Instruments settled on a gross basis | **44 793** | | | **(133)** | **(384)** | **44 276** |
| Trading liabilities | **24 625** | | | | | **24 625** |
| Deposits and debt funding | **499 181** | **75 182** | **117 361** | **54 405** | **140 563** | **886 692** |
| Subordinated debt | | **51** | **651** | **3 739** | **18 728** | **23 169** |
| Other liabilities | | **9 812** | | | | **9 812** |
| **Total** | **642 072** | **85 349** | **118 652** | **59 126** | **159 384** | **1 064 583** |
| **Unrecognised financial liabilities** | | | | | | |
| Letters of credit | **9 304** | | | | | **9 304** |
| Guarantees | **47 777** | | | | | **47 777** |
| Irrevocable unutilised facilities | **93 482** | | | | | **93 482** |
| **Total** | **150 563** | | | | | **150 563** |
| **2014** | | | | | | |
| **Financial liabilities** | | | | | | |
| Derivative financial instruments | 66 298 | 132 | 3 | 8 | 336 | 66 777 |
| Instruments settled on a net basis | 42 153 | 132 | 3 | 3 | 322 | 42 613 |
| Instruments settled on a gross basis | 24 145 | | | 5 | 14 | 24 164 |
| Trading liabilities | 22 709 | | | | | 22 709 |
| Deposits and debt funding | 478 485 | 66 015 | 89 365 | 52 908 | 139 817 | 826 590 |
| Subordinated debt | | 40 | 3 613 | 738 | 23 445 | |
| Other liabilities | | 9 329 | | | | 9 329 |
| **Total** | 567 492 | 75 516 | 92 981 | 53 654 | 163 598 | 953 241 |
| **Unrecognised financial liabilities** | | | | | | |
| Letters of credit[1] | 12 424 | | | | | 12 424 |
| Guarantees[1] | 45 328 | | | | | 45 328 |
| Irrevocable unutilised facilities | 74 610 | | | | | 74 610 |
| Commodities and securities borrowing transactions | 5 757 | | | | | 5 757 |
| **Total** | 138 119 | | | | | 138 119 |

[1] Restated. Refer to page 102.

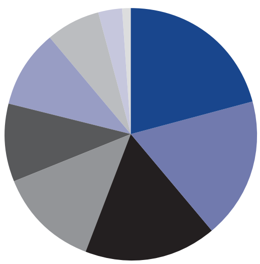
## Funding activities

Funding markets are evaluated on an ongoing basis to ensure appropriate group funding strategies are executed depending on the market, competitive and regulatory environment. The group employs a diversified funding strategy, sourcing liquidity in both 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 across the group. Total funding-related liabilities grew from R935 billion in 2014 to R1 021 billion as in 2015.

Growth and composition of funding-related liabilities are reflected in the graph below.

### FUNDING DIVERSIFICATION BY PRODUCT (%)



| | 2015 | 2014 |
|---|---|---|
| Deposits from banks and central banks | **21** | 15 |
| Call deposits | **18** | 18 |
| Term deposits | **17** | 18 |
| Cash management deposits | **13** | 14 |
| Current accounts | **10** | 13 |
| Negotiable certificates of deposits | **10** | 10 |
| Senior subordinated debt | **7** | 7 |
| Other funding | **3** | 3 |
| Savings accounts | **1** | 2 |

### FUNDING-RELATED LIABILITIES COMPOSITION[1]

| | 2015 Rbn | 2014[2] Rbn |
|---|---|---|
| Corporate funding | **240** | 218 |
| Deposits from banks | **239** | 183 |
| Institutional funding | **214** | 230 |
| Retail deposits[3] | **208** | 187 |
| Government and parastatals | **52** | 55 |
| Senior debt | **47** | 41 |
| Subordinated debt issued | **21** | 21 |
| **Total funding-related liabilities** | **1 021** | 935 |

1 Group banking operations, excluding foreign branches as per the BA900.
2 Restated. Refer to page 102.
3 Comprises individual and small business customers.

Concentration risk limits are used within the group to ensure that funding diversification is maintained across products, sectors, geographic regions and counterparties.

### DEPOSITOR CONCENTRATION

| | 2015 % | 2014 % |
|---|---|---|
| Single depositor | **1.8** | 2.4 |
| Top ten depositors | **10.0** | 9.3 |

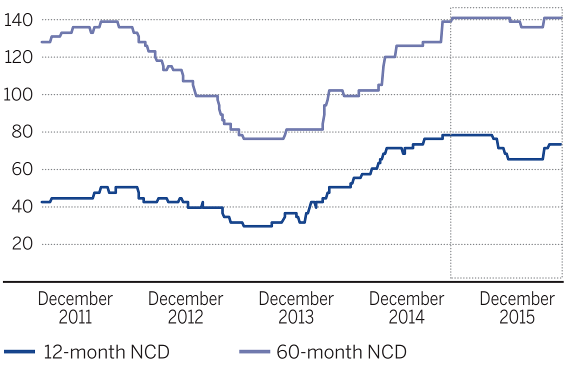
A component of the group's funding strategy is to ensure that sufficient contractual term funding is raised in support of term lending and to ensure adherence to the structural mismatch tolerance limits and appetite guidelines.

The group successfully accessed the longer-term funding market during 2015 raising R21,6 billion (2014: R15,5 billion) in the form of senior and subordinated debt, as well as syndicated loans.

SBSA issued R3,6 billion Basel III compliant tier II capital instruments in 2015 (2014: R2,3 billion).

The graph below is a representation of the market cost of liquidity, which is measured as the spread paid on the negotiable certificates of deposits (NCDs) relative to the prevailing swap curve for that tenor. The graph is based on actively-issued money market instruments by banks, namely 12- and 60-month NCDs. For the year under review, increased volatility was noted in liquidity spreads across both short- and long-term funding tenors. Market demand for term liquidity impacted by changes in bank liquidity regulation and market risk sentiment was a key driver of liquidity spreads.

## 12- AND 60-MONTH LIQUIDITY SPREAD (bps)




## THE GROUP'S CREDIT RATINGS

The group's ability to access funding at cost-effective levels is dependent on maintaining or improving the borrowing entity's credit rating.

The following table provides a summary of the group's major credit ratings.

## CREDIT RATINGS

| Long-term | Fitch |
|---|---|
| Group foreign currency issuer default rating | BBB- |
| RSA sovereign foreign currency issuer default rating | BBB- |
| | Moody's |
| Group foreign currency deposit rating | Baa2 |
| RSA sovereign foreign currency rating | Baa2 |

Credit ratings are dependent on multiple factors, including the South African sovereign rating, capital adequacy levels, quality of earnings, credit exposure, the credit risk governance framework and funding diversification. These parameters and their possible impact on the borrowing entity's credit rating are monitored closely and incorporated into the group's liquidity risk management and contingency planning considerations.

A downgrade in these ratings could have an adverse effect on the group's access to liquidity sources and funding costs, may trigger collateral calls or lead to the activation of downgrade clauses and early termination associated with certain structured deposits. The group is implementing plans to mitigate the impact that a potential sovereign ratings downgrade could have on the group's liquidity position and accompanying funding costs. Notwithstanding this mitigation, a ratings downgrade would likely have a meaningful impact on the cost and availability of foreign currency funding for the group.

Rating downgrades will reduce thresholds above which collateral must be posted with counterparties to cover the group's negative mark-to-market on derivative contracts. These are managed within the liquidity management pillar.

## CONDUITS

The group provides standby liquidity facilities to two conduits, namely BTC and Thekwini Warehouse Conduit. These facilities, which totalled R5,7 billion in 2015 (2014: R4,7 billion), had not been drawn on.

The liquidity risk associated with these facilities is managed in accordance with the group's overall liquidity position and represents less than 3% of the group's total liquidity (2014: 2%). The liquidity facilities are included in both the group's structural liquidity mismatch, as well as in liquidity risk stress testing.

# 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 risk in the banking book (IRRBB)
- equity risk in the banking book
- foreign currency risk
- SBG equity-linked transactions
- post-employment obligation risk.

## GOVERNANCE

The governance management level committees overseeing market risk are group ALCO, which is chaired by the group financial director, and the group equity risk committee, which is chaired by the CIB CRO. Both are subcommittees of GROC.

The principal governance documents are the market risk governance standard and the model risk governance framework.

## APPROVED REGULATORY CAPITAL APPROACHES

The group has approval from the SARB to adopt the internal models approach for most asset classes and across most market variables with the balance on the standardised model.

For material equity portfolios, the group has approval from the SARB to adopt either the market-based or PD/LGD approach.

There are no regulatory capital requirements for IRRBB, structural foreign exchange exposures or SBG equity-linked transactions.

## 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.

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.

### 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 normal and stressed conditions.

For risk management purposes VaR is based on 251 days of unweighted recent historical data, 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
- 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 a period of financial stress and assumes a ten-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 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 moves.

#### Trading book credit risk

Credit issuer risk is assumed in the trading book by virtue of normal trading activity, and managed according to the market risk governance standard. These exposures arise from, among others, trading in debt securities issued by corporate and government entities, as well as trading derivative transactions with other banks and corporate clients. The credit spread risk is incorporated into the daily price movements used to compute VaR and SVaR mentioned above.

The VaR models used for credit 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 for the group. The group's largest single issuer risk exposure is to the South African sovereign with an EAD of R17,7 billion (2014: R12,8 billion).

#### 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 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 2015 did not exceed the maximum tolerable losses as represented by the group's stress scenario limits.

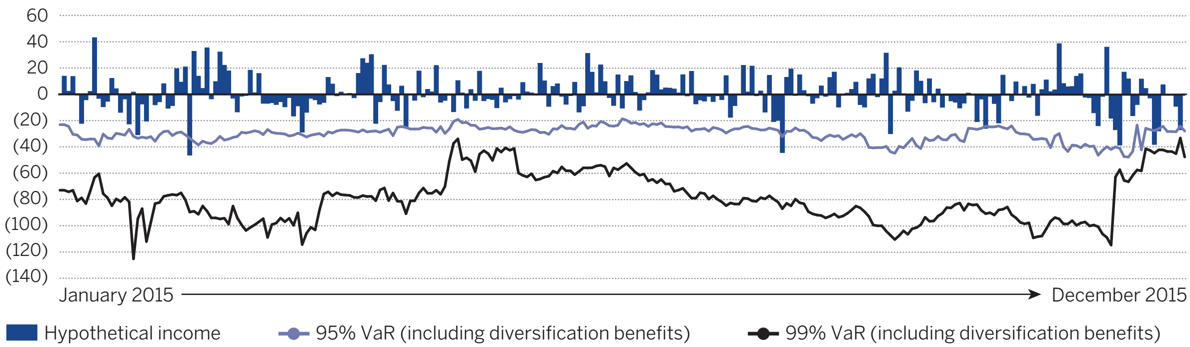
### Backtesting

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.

Refer to the graph below for the results of the group's backtesting for the year ended 31 December 2015.

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. All of the group's approved models were assigned green status for the year ended 31 December 2015 (2014: green). Three exceptions occurred during the year ended 31 December 2015 (2014: 11) for 95% VaR and no exceptions (2014: one) for 99% VaR.

**HYPOTHETICAL INCOME AND VaR** (Rm)




### 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.

## 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 increased levels of market risk throughout the year when compared to 2014.

## TRADING BOOK NORMAL VaR ANALYSIS BY MARKET VARIABLE

| | Normal VaR | | | |
|---|---|---|---|---|
| | Maximum[1] Rm | Minimum[1] Rm | Average Rm | Closing Rm |
| **2015** | | | | |
| Commodities | **1,6** | **0,1** | **0,2** | **0,1** |
| Foreign exchange | **35,1** | **11,8** | **20,3** | **17,7** |
| Equities | **24,8** | **3,4** | **9,3** | **12,1** |
| Debt securities | **27,3** | **11,8** | **19,6** | **18,1** |
| Diversification benefits[2] | | | **(19,6)** | **(20,2)** |
| **Aggregate of all risk variables** | **47,6** | **18,5** | **29,8** | **27,8** |
| **2014** | | | | |
| Commodities | 2,9 | 0,1 | 0,2 | 0,1 |
| Foreign exchange | 16,8 | 1,5 | 6,1 | 16,1 |
| Equities | 17,1 | 1,4 | 7,1 | 5,3 |
| Debt securities | 30,3 | 15,5 | 21,0 | 19,4 |
| Diversification benefits[2] | | | (14,4) | (17,0) |
| **Aggregate of all risk variables** | 27,7 | 14,1 | 20,3 | 23,9 |

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 dates.
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

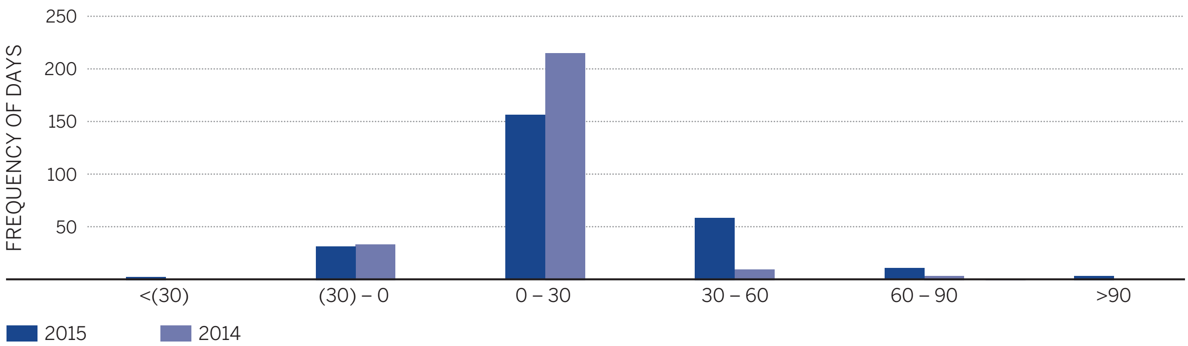
| | SVaR | | | |
|---|---|---|---|---|
| | Maximum[1] Rm | Minimum[1] Rm | Average Rm | Closing Rm |
| **2015** | | | | |
| Commodities | **20,8** | **0,3** | **3,7** | **1,8** |
| Foreign exchange | **269,9** | **39,8** | **181,3** | **143,5** |
| Equities | **311,1** | **21,3** | **109,4** | **171,0** |
| Debt securities | **271,2** | **137,6** | **197,7** | **271,2** |
| Diversification benefits[1] | | | **(197,1)** | **(236,2)** |
| **Aggregate of all risk variables** | **406,2** | **187,1** | **295,0** | **351,2** |
| **2014** | | | | |
| Commodities | 27,0 | 0,8 | 3,1 | 1,4 |
| Foreign exchange | 130,8 | 15,2 | 64,1 | 91,6 |
| Equities | 281,0 | 61,6 | 119,6 | 96,5 |
| Debt securities | 253,4 | 123,4 | 169,5 | 178,3 |
| Diversification benefits[2] | | | (135,3) | (145,3) |
| **Aggregate of all risk variables** | 340,9 | 149,9 | 221,0 | 222,5 |

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 dates.
2 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 SVaRs and the SVaR of the whole trading portfolio.

**Analysis of trading profit**
The graph below shows the distribution of daily profit and losses for the year. It captures trading volatility and shows the number of days in which the group's trading-related revenues fell within particular ranges. The distribution is skewed favourably to the profit side.

For the year ended 31 December 2015, trading profit was positive for 227 out of 260 days (2014: 227 out of 260 days) on an aggregated global basis.

**DISTRIBUTION OF DAILY TRADING PROFIT OR LOSS** (Rm)




## INTEREST RATE RISK IN THE BANKING BOOK

### Definition

This risk results from the different repricing characteristics of banking book assets and liabilities.

IRRBB is further divided into the following sub-risk types:

- **Repricing risk:** timing differences in the maturity (fixed rate) and repricing (floating rate) of assets and liabilities.
- **Yield curve risk:** shifts in the yield curve that have an adverse impact on the group's income or underlying economic value.
- **Basis risk:** hedge price not moving in line with the price of the hedged position. Examples include bonds/swap basis, futures/underlying basis and prime/Johannesburg Interbank Agreed Rate (JIBAR) basis.
- **Optionality risk:** options embedded in bank asset and liability portfolios, providing the holder with the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial contract.
- **Endowment risk:** exposure arising from the net differential between interest rate insensitive assets such as non-earning assets and interest rate insensitive liabilities such as non-interest paying liabilities and equity.

### 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.

Desired changes to a particular interest rate risk profile are achieved through the restructuring of on-balance sheet repricing or maturity profiles, or through derivative overlays.

## Limits

Interest rate risk limits are set in relation to changes in forecast banking book earnings and the economic value of equity. The economic value of equity sensitivity is calculated as the net present value of aggregate asset cash flows less the net present value of aggregate liability cash flows.

All assets, liabilities and derivative instruments are allocated to gap intervals based on either their repricing or maturity characteristics. Assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to gap intervals based on behavioural profiling.

## Hedging of endowment risk

IRRBB is predominantly the consequence of endowment exposures, being the net exposure of non-rate sensitive liabilities and equity less non-rate sensitive assets.

The endowment risk is hedged using liquid instruments as and when it is considered opportune. Where permissible, hedge accounting (in terms of IFRS) is adopted using the derivatives designated as hedging instruments. Following meetings of the monetary policy committees, or notable market developments, the interest rate view is formulated through ALCO processes.

Non-endowment IRRBB (repricing, yield curve, basis and optionality) is managed within the treasury and the global markets portfolios.

## Banking book interest rate exposure characteristics

The table below indicates the rand equivalent sensitivity of the group's banking book earnings (net interest income and banking book mark-to-market profit or loss) and other comprehensive income (OCI) given a parallel yield curve shock. A floor of 0% is applied to all interest rates under the decreasing interest rate scenario resulting in asymmetric rate shocks in low-rate environments. Hedging transactions are taken into account while other variables are kept constant.

Assuming no management intervention, an upward 100 basis point parallel interest rate shock across all foreign currency yield curves and a 200 basis point parallel interest rate shock across rand yield curves would, based on the 31 December 2015 SOFP, increase the forecast 12-month net interest income by R2,6 billion (2014: R2 billion).

The group is well positioned for a rising interest rate environment.

## INTEREST RATE SENSITIVITY ANALYSIS

| | | ZAR | USD | GBP | Euro | Other | Total |
|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | |
| **Increase in basis points** | % | **200** | **100** | **100** | **100** | **100** | |
| Sensitivity of annual net interest income | Rm | **2 603** | **(20)** | **(3)** | **(13)** | | **2 567** |
| Sensitivity of OCI | Rm | **(1)** | **(48)** | | | **36** | **(13)** |
| **Decrease in basis points** | % | **200** | **100** | **100** | **100** | **100** | |
| Sensitivity of annual net interest income | Rm | **(2 672)** | **12** | **2** | | | **(2 658)** |
| Sensitivity of OCI | Rm | **1** | **29** | | | **(36)** | **(6)** |
| **2014** | | | | | | | |
| **Increase in basis points** | % | 200 | 100 | 100 | 100 | 100 | |
| Sensitivity of annual net interest income | Rm | 1 975 | 14 | (11) | (13) | 1 | 1 966 |
| Sensitivity of OCI | Rm | 24 | (62) | | | 53 | 15 |
| **Decrease in basis points** | % | 200 | 100 | 100 | 100 | 100 | |
| Sensitivity of annual net interest income | Rm | (2 170) | (4) | 6 | 1 | | (2 167) |
| Sensitivity of OCI | Rm | (24) | 16 | | | (53) | (61) |

## 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 by the group in subsidiaries, associates and joint ventures deployed in delivering the group's business and service offerings unless the SBG financial director and group CRO deem such investments to be subject to the consideration and approval by the group ERC.

### Governance

The group ERC is constituted as a subcommittee of GROC and operates under delegated authority from that committee, with additional reporting accountability to the CIB credit governance equity risk portfolio committee.

GROC grants the group ERC authority to approve equity risk transactions to be held on the banking book and to manage such equity risk in accordance with the provisions of the group equity risk governance standard and associated policies. This includes the authority to:

- exercise such powers as are necessary to discharge its responsibilities in terms of this mandate
- seek independent advice at the group's expense, and investigate matters within its mandate
- delegate authority to a combination of group ERC voting members based on the investment size.

To the extent equity exposures approved by the group ERC are held on the banking book, they are substantively managed and reviewed according to the credit risk governance standard.

### Equity banking book price risk sensitivity analysis

The table below illustrates the market risk sensitivity for all non-trading equity investments assuming a 10% shift in the fair value. The analysis is shown before tax.

#### MARKET RISK SENSITIVITY OF NON-TRADING EQUITY INVESTMENTS

| | 10% reduction Rm | Fair value Rm | 10% increase Rm |
|---|---|---|---|
| **2015** | | | |
| Equity securities listed and unlisted | **2 463** | **2 737** | **3 011** |
| Impact on profit or loss | **(271)** | | **271** |
| Impact on OCI | **(3)** | | **3** |
| **2014** | | | |
| Equity securities listed and unlisted | 1 765 | 1 961 | 2 157 |
| Impact on profit or loss | (183) | | 183 |
| Impact on OCI | (13) | | 13 |

The market-based and PD/LGD approaches are used to model the capital requirement for equity exposure. The market-based approach includes portfolios subject to the simple risk-weight method. For the PD/LGD approach, the group's approved credit risk grade models are used together with the regulatory prescribed LGD of 90% and maturity factor of five years.

## 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 below reflects the expected financial impact, in rand equivalent, resulting from a 15% (2014: 10%) shock to foreign currency risk exposures, against ZAR. As a result of the significant depreciation of the rand over the past 12 months, a 15% sensitivity has been applied (2014: 10%). 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 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.

## FOREIGN CURRENCY RISK SENSITIVITY IN ZAR EQUIVALENTS

| | | USD | Euro | GBP | Naira | Other | Total |
|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | |
| Total net long/(short) position | Rm | **422** | **(12)** | **(10)** | **3** | **(44)** | **359** |
| Sensitivity(ZAR depreciation) | % | **15** | **15** | **15** | **15** | **15** | |
| Impact on profit or loss | Rm | **(63)** | **2** | **1** | | **8** | **(52)** |
| **2014** | | | | | | | |
| Total net long/(short) position | Rm | 197 | (11) | 5 | 6 | (1) | 196 |
| Sensitivity(ZAR depreciation) | % | 10 | 10 | 10 | 10 | 10 | |
| Impact on profit or loss | Rm | (20) | 1 | | (1) | | (20) |

## SBG EQUITY-LINKED TRANSACTIONS

### Definition

The group has exposure to changes in SBG's 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 risk 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 price of 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 scheme at a higher price than the price at which the share incentive was granted to the group's employees.

The table on the next page summarises the group's most material share schemes together with an explanation of the 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 |
|---|---|---|---|
| Group share incentive scheme (GSIS) | N/A | The GSIS is an equity-settled share scheme in both the group and SBG's financial statements. The GSIS is settled through the issuance of new shares. Accordingly, the group does not incur any cash flow in settling the share scheme and hence it is not exposed to any risk as a result of changes in its own share price. | No |
| Equity growth scheme (EGS) | Income statement risk | EGS is a cash-settled share scheme. At an SBG level the EGS is an equity-settled share scheme that is settled through the issuance of new shares. Since at an SBG level there is no cash flow to settle the scheme, there is no exposure to any risk as a result of changes in its own share price. | No |
| Quanto stock unit scheme (Quanto) | Income statement risk | The Quanto is a cash-settled share scheme in both the group and SBG's financial statements. | Yes |
| Deferred bonus scheme (DBS) and performance reward plan (PRP) | Income statement risk | The DBS and PRP are cash-settled share schemes. At an SBG level the DBS is a cash-settled share scheme and the DBS (2012) and performance reward plan are equity-settled share schemes settled through the purchase of shares from the external market – increases in SBG's share price above the grant price will, therefore, result in the losses being recognised in equity. | Yes |

## Approach to managing SBG equity-linked transactions

The ALCOs of the respective group entities that issue the equity-linked transactions approve hedges of SBG's share price risk with quarterly reporting to group ALCO which is chaired by SBG financial director. Hedging is undertaken taking into account a number of considerations which include:

- expected share price levels based on investment analyst reports
- the value of the issued share scheme awards
- the cost of hedging
- the ability to hedge taking into account the nature of the share scheme and applicable legislative requirements.

Hedging instruments typically include equity forwards and equity options. Hedge accounting in terms of IFRS is applied to the extent that the hedge accounting requirements are complied with.

In terms of the Johannesburg Stock Exchange's Listings Requirements, hedges are only permitted to be transacted outside of SBG's closed periods which are in effect from 1 January and 1 July until the publication of SBG's year end and interim results respectively where the group is trading under a cautionary announcement.

## POST-EMPLOYMENT OBLIGATION RISK

The group operates both defined contribution plans and defined benefit plans, with the majority of its employees participating in defined contribution plans. The group's defined benefit pension and healthcare provider schemes for past and certain current employees create post-employment obligations. Post-employment obligation risk arises from the requirement to contribute as an employer to an under-funded defined benefit plan.

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. Refer to note 33 in the annual financial statements for more detail on the group's post-employment obligation risk.

# Operational risk



## DEFINITION

Operational risk is defined as the risk of loss suffered as a result of the inadequacy of, or failure in, internal processes, people and/or systems or from external events.

Operational risk subtypes are managed and overseen by specialist functions. These subtypes include:

- model risk
- tax risk
- legal risk
- environmental and social risk
- IT risk and IT change risk
- information risk
- cyber risk
- compliance risk (more information on page 73)
- financial crime risk
- physical commodities risk.

The following risk types are part of the extended operational risk taxonomy and are necessary for capital allocation purposes in the ICAAP process:

- physical assets risk
- human capital risk
- accounting and financial risk.

## APPROACH TO MANAGING OPERATIONAL RISK

Operational risk exists in the natural course of business activity. The group operational risk governance standard sets out the minimum standards for operational risk management to be adopted across the group. The governance standard seeks to ensure adequate and consistent governance, identification, assessment, monitoring, managing and reporting of operational risk to support the group's business areas. In addition, it ensures that the relevant regulatory criteria can be met by those banking entities adopting the AMA, and those adopting the basic indicator approach or the standardised approach for regulatory capital purposes.

It is not an objective to eliminate all exposure to operational risk as this would be neither commercially viable nor possible. The group's approach to managing operational risk is to adopt fit-for-purpose operational risk practices that assist business line management in understanding their inherent risk and reducing their risk profile while maximising their operational performance and efficiency.

The integrated operational risk (IOR) management function is independent from business line management and is part of the second line of defence reporting to the group CRO. It is responsible for the development and maintenance of the operational risk governance framework, facilitating business's adoption of the framework, oversight and reporting, and challenging the risk profile. The team proactively analyses root causes, trends and emerging threats, advises on the remediation of potential control weaknesses and recommends best-practice solutions.

Individual teams are dedicated to each business line and report to the business unit CRO with a functional reporting line to the group head of operational risk management. The IOR team provides dedicated teams to enabling functions such as finance, IT and human capital. These teams work alongside their business areas and facilitate the adoption of the operational risk governance framework. As part of the second line of defence, they also monitor and challenge the business units' and enabling functions' management in respect of their operational risk profile.

Business continuity management is a process that identifies potential operational disruptions and provides a basis for planning for the mitigation of the negative impact from such disruptions. In addition, it promotes operational resilience and ensures an effective response that safeguards the interests of both the group and its stakeholders. The group's business continuity management framework encompasses emergency response preparedness and crisis management capabilities to manage the business through a crisis to full recovery. The group's business continuity capabilities are evaluated by testing business continuity plans and conducting crisis simulations.

The group is fully cognisant of the risks which the prevailing electricity shortages in South Africa pose to the continuity of its services and operations and to SBG through services provided out of South Africa. The group has completed a high-level assessment of its readiness to withstand both routine load shedding and a national grid interruption to ensure that the risks are proactively mitigated.

### Insurance cover

The group buys insurance to mitigate operational risk. This cover is reviewed on an annual basis. The group insurance committee oversees a substantial insurance programme designed to protect the group against loss resulting from its business activities.

The principal insurance policies in place are the group crime, professional indemnity, and group directors' and officers' liability policies. In addition, the group has fixed assets and liabilities coverage in respect of office premises and business contents; third-party liability for visitors to the group's premises, and employer's liability. The group's business travel policy provides cover for group staff while travelling on behalf of the group.

## GOVERNANCE

The primary management level governance committees overseeing operational risk are GROC and the group 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.

## APPROVED REGULATORY CAPITAL APPROACH

The group has approval from the SARB to adopt the AMA.

The group does not include insurance as a mitigant in the calculation of regulatory capital.

## OPERATIONAL RISK SUBTYPES

### Operational risk subtype: model risk

Model risk arises from potential weaknesses in a model that is used in the measurement, pricing and management of risk. These weaknesses include incorrect assumptions, incomplete information, inaccurate implementation, limited model understanding, inappropriate use or inappropriate methodologies leading to incorrect conclusions by the user.

The group's approach to managing model risk is based on the following principles:

- fit-for-purpose governance, which includes:
  - an approved model risk governance framework
  - a three lines of defence governance structure comprising independent model development, model validation and GIA oversight functions
  - technical forums that challenge and recommend models for approval to model approval committees
  - model approval committees with board and executive management membership based on model materiality and regulatory requirements
  - policies that define minimum standards, materiality, validation criteria, approval criteria, validation frequency, and roles and responsibilities

- a skilled and experienced pool of technically competent staff is maintained in the development, validation and audit functions
- robust model-related processes, including:
  - the application of best-practice modelling methodologies
  - independent model validation in accordance with both regulatory and internal materiality assessments to test the appropriateness and effectiveness of models
  - validation of regulatory capital models at initial development and at least annually thereafter
  - validation of other models at initial development and thereafter reviewed at intervals determined by materiality and performance criteria
  - adequate model documentation, including the coverage of model use and limitations
  - controlled implementation of approved models into production systems
  - ongoing monitoring of model performance
  - review and governance of data used as model inputs
  - peer challenge in technical forums.

## Operational risk subtype: tax risk

Tax risk is the possibility of suffering unexpected loss, financial or otherwise, as a result of the application of tax systems, whether in legislative systems, rulings or practices, applicable to the entire spectrum of taxes and other fiscal imposts to which the group is subject.

The group's approach to tax risk is governed by the GAC-approved tax risk control framework which, in turn, is supported by policies dealing with specific aspects of tax risk such as, for example, transfer pricing, indirect taxes, withholding taxes and remuneration taxes.

## Operational risk subtype: legal risk

Legal risk is defined as the exposure to adverse consequences attendant upon non-compliance with legal or statutory responsibilities and/or inaccurately drafted contracts and their execution, as well as the absence of written agreements or inadequate agreements. This includes the exposure to new laws, as well as changes in interpretations of existing law by appropriate authorities and exceeding authority as contained in the contract. This applies to the full scope of group activities and may also include others acting on behalf of the group.

The group has processes and controls in place to identify, manage and mitigate its legal risks.

## Operational risk subtype: environmental and social risk

Environmental risk is described as a measure of the potential threats to the environment. It combines the probability that events will cause or lead to the degradation of the environment and the magnitude of such degradation. Environmental risk includes risks related to or resulting from climate change, human activities or from natural processes that are disturbed by changes in natural cycles.

Social risk is described as risks to people, their livelihoods, health and welfare, socioeconomic development, social cohesion and the ability to adapt to changing circumstances.

Environmental and social risk assessment and management deals with two aspects:

- risks over which the group has direct control. These include our immediate direct impact, such as our waste management and the use of energy and water, as well as our broader impact, including risks that occur as a result of our lending or financial services activities
- risks over which the group does not have control but which have the potential to impact on the group's operations and its clients.

The group sustainability management unit develops the strategy, policy and management frameworks that enable the identification, management, monitoring and reporting of both aspects.

Group policy, advocacy and sustainability has an environmental and social risk management policy and subscribes to a number of international norms and codes, such as those of the United Nations Environment Programme Finance Initiative, the Equator Principles and the BASA's code of conduct for banks. In support of these policy commitments, it has developed guidance to bankers, screening tools to assist in categorising environmental and social risk and various training programmes to assist credit evaluators, dealmakers and other key individuals.

## Operational risk subtype: IT risk and IT change risk

IT risk encompasses both IT risk and IT change risk. The group's IT risk refers to the risk associated with the use, ownership, operation, involvement, influence and adoption of IT within the group. It consists of IT-related events and conditions that could potentially impact the business. IT change risk refers to the risk arising from changes, updates or alterations made to the IT infrastructure, systems or applications that could affect service reliability and availability.

The advancement of IT has brought about rapid changes in the way businesses and operations are being conducted in the financial industry. IT is no longer a support function within the organisation but is a key enabler for business strategies, including reaching out to external customers and meeting their needs. As technology becomes increasingly important and integrated into business processes, the need for adequate and effective governance and management of IT resources, risks and any constraints becomes imperative.

The board is responsible for ensuring that prudent and reasonable steps have been taken with respect to fulfilling its responsibilities for IT governance. To assist the board to fulfil this obligation, the group IT committee has been delegated the authority to ensure the implementation of the IT governance framework. It delegates this responsibility to management. A group IT executive committee has been established to provide assurance that management has implemented an effective IT governance framework. The group IT executive committee has established a group IT architecture governance committee and a group IT risk and compliance committee to assist in the fulfilment of its architecture and risk obligations.

IT, as it relates to financial reporting and the ongoing concern aspects of the organisation, is the responsibility of the GAC.

The group's main IT risks include the failure or interruption of critical systems, cybercrime, unauthorised access to systems and the inability to serve our customers' needs in a timely manner. These risks are mitigated through various controls which are implemented and closely monitored by management. The group continuously reviews and invests in its security systems and processes to ensure our customers are well protected. Actions to reduce the likelihood of risks materialising are identified and accountabilities for remediation are allocated to management.

## Operational risk subtype: information risk

Information risk encompasses the risk of accidental or intentional unauthorised use, modification, disclosure or destruction of information resources, which would compromise the confidentiality, integrity or availability of information and which would potentially be harmful to the group's business. Additionally, it comprises of all the challenges that result from the need to control and protect the group's information.

The group has adopted a risk-based approach to managing information risks. The IOR management function oversees the information risk management system, policies and practices across the group.

The Promotion of Access to Information Act 2 of 2000 gives effect to the constitutional right of access to information that is held by a private or public body. The following information was disclosed in terms of applicable regulations.

- During 2015, the group processed 18 (2014: six) requests for access to information, of which four were granted, 11 were denied, five are still in progress.
- The reason for the denial of access was that the owners of the personal information declined to give consent for access to be given to the requestor.

## Operational risk subtype: cyber risk

Cyber risk is the risk associated with injury, damage or loss from electronic exposure that can result in an adverse impact on the group's business. This risk may arise due to the disclosure, modification, destruction or theft of information, or from the unavailability of the transaction site, systems or networks. The cybersecurity operations centre, within IOR, manages this risk by proactively identifying malicious activity that poses a risk to the confidentiality, integrity and availability of the group's information assets. Identification and mitigation of cyber threats includes services to deliver both the proactive immobilisation of threats that are active in the group and the identification, investigation, resolution and reporting of threats that have materialised into cyber incidents.

## Operational risk subtype: financial crime risk

Financial crime risk is defined as the risk of economic loss, reputational risk and regulatory sanction arising from any type of financial crime against the group. It includes fraud, bribery, corruption, theft and integrity misconduct by staff, customers, suppliers, business partners, stakeholders and third parties. The group financial crime control function combats financial crime risk through the prevention and detection of, and response to, all financial crime incidents to mitigate economic loss, reputational risk and regulatory sanction. As is the case with the other functions within operational risk, group financial crime control maintains close working relationships with other risk functions, specifically compliance, legal risk and credit risk, and with other group functions such as IT, human capital and finance.

## Operational risk subtype: physical commodities risk

Physical commodities risk relates primarily to collateral held. Exposure to physical commodities arises as a result of collateral held in relation to lending activity, and periodically from inventory held as a result of trading activity. This is managed by the relevant lending or trading business area together with the group's operations department.

# Business risk

Business risk is the risk of loss due to operating revenues not covering operating costs after excluding the effects of market risk, credit risk, structural interest rate risk and operational risk.

Business risk is, therefore, not directly attributable to internal operational failures or external market price events, but nevertheless covers a host of internal and external factors.

Business risk is usually caused by the following:

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

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. The group's business plans and strategies are discussed and approved by executive management and the board and, where appropriate, subjected to stress tests.

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The group mitigates business risk in a number of ways, including:

- performing extensive due diligence during the investment appraisal process, in particular for new acquisitions and joint ventures
- detailed analysis of the business case for, and financial, operational and reputational risk associated with, disposals
- the application of new product processes per business line through which the risks and mitigating controls for new and amended products and services are evaluated
- stakeholder management to ensure favourable outcomes from external factors beyond the group's control
- monitoring the profitability of product lines and customer segments
- maintaining tight control over the group's cost base, including the management of its cost-to-income ratio, which allows for early intervention and management action to reduce costs
- being alert and responsive to changes in market forces
- a strong focus in the budgeting process on achieving headline earnings growth while containing cost growth; and building contingency plans into the budget that allow for costs to be significantly reduced in the event that expected revenues do not materialise
- increasing the ratio of variable costs to fixed costs which creates flexibility to reduce costs during an economic downturn.

The primary governance committee for overseeing this risk is the group ALCO which is chaired by the SBG financial director. The primary governance document is the business risk governance standard.

# Reputational risk

Reputational risk is the risk of potential or actual damage to the group's image which may impair the profitability and/or sustainability of its business.

Such damage may result from a breakdown of trust, confidence or business relationships on the part of customers, counterparties, shareholders, investors or regulators that can adversely affect the group's ability to maintain existing business or generate new business relationships and continued access to sources of funding. The breakdown may arise from a number of factors or incidents such as a poor business model, continued losses and failures in risk management.

Safeguarding the group's reputation is of paramount importance. There is growing emphasis on reputational risks arising from compliance breaches, as well as from ethical considerations linked to countries, clients and sectors, and environmental considerations.

The breakdown may be triggered by an event or may occur gradually over time. The group's crisis management processes are designed to minimise the reputational impact of such events or developments. Crisis management teams are in place both at executive and business line level. This includes ensuring that the group's perspective is fairly represented in the media.

The principal governance document is the reputational risk governance standard.

The group's code of ethics is an important reference point for all staff. The group ethics officer and chief executive are the formal custodians of the code of ethics.

# Restatements

## CONTINGENT LIABILITIES

Letters of credit and guarantees were restated in the annual financial statements. Refer to note 24.1 in the annual financial statements for further details.

Refer to **pages 66, 71 and 84**.

## TOTAL CONTINGENT LIQUIDITY

Liquidity policies and calculations have been updated in line with the Basel III liquidity framework and the comparative results have been restated accordingly.

Refer to **page 82**.

## FUNDING-RELATED LIABILITIES COMPOSITION

The funding-related liabilities composition has been restated to align to regulatory disclosures.

Refer to **page 85**.

# Annexure A

## Composition of capital[1]

| | Basel III Rm | Amounts subject to pre-Basel II treatment Rm |
|---|---|---|
| **2015** | | |
| **CET I capital** | **66 717** | |
| **Instruments and reserves** | | |
| CET I capital before regulatory adjustments | **86 881** | |
| Directly issued qualifying common share capital plus related stock surplus | **40 198** | |
| Retained earnings | **45 467** | |
| Accumulated other comprehensive income (and other reserves) | **1 216** | |
| Directly issued capital subject to phase-out from CET I (only applicable to non-joint stock companies) | | |
| *Public sector capital injections grandfathered until 1 January 2018* | | |
| Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET I) | | |
| **Regulatory adjustments** | | |
| *Less:* total regulatory adjustments to CET I | **(20 164)** | |
| Prudential valuation adjustments | | |
| Goodwill (net of related tax liability) | **(36)** | |
| Other intangibles other than mortgage-servicing rights (net of related tax liability) | **(17 494)** | |
| Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability) | **(4)** | |
| Cash flow hedge reserve | **92** | |
| Shortfall of provisions to expected losses | **(2 188)** | |
| Securitisation gain on sale | | |
| Gains and losses due to changes in own credit risk on fair valued liabilities | **(179)** | |
| Defined benefit pension fund net assets | **(355)** | |
| Investments in own shares (if not already netted of paid-in capital on reported balance sheet) | | |
| Reciprocal cross-holdings in common equity | | |
| Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) | | |
| Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) | | |
| Mortgage servicing rights (amount above 10% threshold) | | |
| Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) | | |
| Amount exceeding the 15% threshold, relating to: | | |
| Significant investments in the common stock of financials | | |
| Mortgage servicing rights | | |
| Deferred tax assets arising from temporary differences | | |
| National specific regulatory adjustments | | |
| *Regulatory adjustments applied to CET I in respect of amounts subject to pre-Basel II treatment* | | |
| Regulatory adjustments applied to CET I due to insufficient additional tier I and tier II to cover deductions | | |

[1] Disclosure based on prescribed SARB template. All blank line items are not applicable as at 31 December 2015.

| | Basel III Rm | Amounts subject to pre-Basel II treatment Rm |
|---|---|---|
| **2015** | | |
| **Additional tier I capital** | | |
| **Instruments** | | |
| Additional tier I capital before regulatory adjustments | | |
| Directly issued qualifying additional tier I instruments plus related stock surplus, classified as: | | |
| Equity under applicable accounting standards | | |
| Liabilities under applicable accounting standards | | |
| *Directly issued capital instruments subject to phase-out from additional tier I* | | |
| Additional tier I instruments (and CET I instruments not included in common share capital) issued by subsidiaries and held by third parties (amount allowed in group additional tier I), including: | | |
| Instruments issued by subsidiaries subject to phase-out | | |
| **Regulatory adjustments** | | |
| Total regulatory adjustments to additional tier I capital | | |
| Investments in own additional tier I instruments | | |
| Reciprocal cross-holdings in additional tier I instruments | | |
| Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) | | |
| Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) | | |
| National specific regulatory adjustments: | | |
| Regulatory adjustments applied to CET I in respect of amounts subject to pre-Basel III treatment | | |
| Regulatory adjustments applied to additional tier I due to insufficient additional tier I due to insufficient tier II to cover deductions | | |
| **Tier I capital** | **66 717** | |
| **Capital and provisions** | | |
| Tier II capital before regulatory adjustments | 21 316 | |
| Directly issued qualifying tier II instruments plus related stock surplus | 20 965 | |
| *Directly issued capital instruments subject to phase-out from tier II* | 15 250 | |
| Tier II instruments (and CET I and additional tier I instruments not included in common share capital and additional tier I instruments) issued by subsidiaries and held by third parties (amount allowed in group tier II), including: | | |
| Instruments issued by subsidiaries subject to phase-out | | |
| Provisions | 351 | |

1 Disclosure based on prescribed SARB template. All blank line items are not applicable as at 31 December 2015.

| | | Basel III Rm | Amounts subject to pre-Basel II treatment Rm |
|---|---|---|---|
| **2015** | | | |
| **Regulatory adjustments** | | | |
| Total regulatory adjustments to tier II capital | | **(2 923)** | |
| Investments in own tier II instruments | | | |
| Reciprocal cross-holdings in tier II instruments | | | |
| Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) | | | |
| Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) | | **(2 923)** | |
| National specific regulatory adjustments | | | |
| *Regulatory adjustments applied to tier II in respect of amounts subject to pre-Basel III treatment* | | | |
| **Tier II capital** | | **18 393** | |
| **Total capital** | | **85 110** | |
| **Total risk-weighted assets** | | **580 944** | |
| Risk-weighted assets in respect of amounts subject to pre-Basel III treatment | | | |
| **Capital ratios and buffers** | | | |
| CET I (as a percentage of risk-weighted assets) | % | **11.5** | |
| Tier I (as a percentage of risk-weighted assets) | % | **11.5** | |
| Total capital (as a percentage of risk-weighted assets) | % | **14.7** | |
| Institution specific buffer requirement (minimum CET I requirement plus capital conservation buffer plus countercyclical buffer requirements plus global systemically important banks (G-SIBs) buffer requirement, expressed as a percentage of risk-weighted assets) | % | **6.5** | |
| Capital conservation buffer requirement | % | | |
| Bank-specific countercyclical buffer requirement | % | | |
| G-SIB buffer requirement | % | | |
| Common equity tier I available to meet buffers (as a percentage of risk-weighted assets) | % | **4.1** | |

[1] Disclosure based on prescribed SARB template. All blank line items are not applicable as at 31 December 2015.

| | | Basel III Rm | Amounts subject to pre-Basel II treatment Rm |
|---|---|---|---|
| **National minima (if different from Basel III)** | | | |
| National CET I minimum ratio (if different from Basel III minimum) – excluding individual capital requirement (ICR) and D-SIBs | % | 6.5 | |
| National tier I minimum ratio (if different from Basel III minimum) – excluding ICR and D-SIB | % | 8.0 | |
| National total capital minimum ratio (if different from Basel III minimum) – excluding ICR and D-SIB | % | 10.0 | |
| **Amounts below the threshold for deductions (before risk weighting)** | | | |
| Non-significant investments in the capital of other financials | | 756 | |
| Significant investments in the common stock of financials | | 490 | |
| Mortgage servicing rights (net of related tax liability) | | | |
| Deferred tax assets arising from temporary differences (net of related tax liability) | | 1 435 | |
| **Applicable caps on the inclusion of provisions in tier II** | | | |
| Provisions eligible for inclusion in tier II in respect of exposures subject to standardised approach (prior to application of cap) | | 507 | |
| Cap on inclusion of provisions in tier II under standardised approach | | 351 | |
| Provisions eligible for inclusion in tier II in respect of exposures subject to internal ratings-based approach (prior to application of cap) | | | |
| Cap for inclusion of provisions in tier II under internal ratings-based approach | | 2 585 | |
| **Capital instruments subject to phase-out arrangements (only applicable between 1 January 2018 and 1 January 2022)** | | | |
| Current cap on CET I instruments subject to phase-out arrangements | | | |
| Amount excluded from CET I due to cap (excess over cap after redemptions and maturities) | | | |
| Current cap on additional tier I instruments subject to phase-out arrangements | | | |
| Amount excluded from additional tier I due to cap (excess over cap after redemptions and maturities) | | | |
| Current cap on tier II instruments subject to phase-out arrangements | | | |
| Amount excluded from tier II due to cap (excess over cap after redemptions and maturities) | | | |

[1] Disclosure based on prescribed SARB template. All blank line items are not applicable as at 31 December 2015.

# Annexure B

## Reconciliation of audited statement of financial position and regulatory capital and reserves

| | Statement of financial position Rm | Under regulatory scope of consolidation Rm |
|---|---|---|
| **2015** | | |
| **Assets** | | |
| Cash and balances with central banks | 30 252 | 30 252 |
| Derivative assets and other assets | 109 359 | 109 359 |
| Trading assets | 63 282 | 63 282 |
| Pledged assets | 7 879 | 7 879 |
| Financial investments | 98 944 | 98 944 |
| Loans and advances | 897 344 | 897 344 |
| Current tax assets | 242 | 242 |
| Deferred tax assets | 58 | 58 |
| Interest in SBG companies, associates and joint ventures | 41 347 | 41 347 |
| Goodwill and other intangible assets | 19 315 | 19 315 |
| Property and equipment | 8 931 | 8 931 |
| **Total assets** | 1 276 953 | |
| **Equity and liabilities** | | |
| **Equity** | 90 714 | 90 714 |
| Equity attributable to ordinary shareholders | 90 714 | 90 714 |
| Ordinary share capital | 60 | 60 |
| Ordinary share premium | 40 138 | 40 138 |
| Reserves | 50 516 | 50 516 |
| Non-controlling interests | | |
| **Liabilities** | 1 186 239 | 1 185 895 |
| Derivative liabilities | 120 857 | 120 857 |
| Trading liabilities | 24 625 | 24 625 |
| Deposits and debt funding | 874 372 | 874 372 |
| Current tax liabilities | 2 945 | 2 945 |
| Liabilities to SBG companies | 127 185 | 127 185 |
| Provision and other liabilities | 14 403 | 14 403 |
| Subordinated debt | 21 309 | 20 965 |
| Deferred tax liability | 543 | 543 |
| **Total equity and liabilities** | 1 276 953 | |

# Annexure C

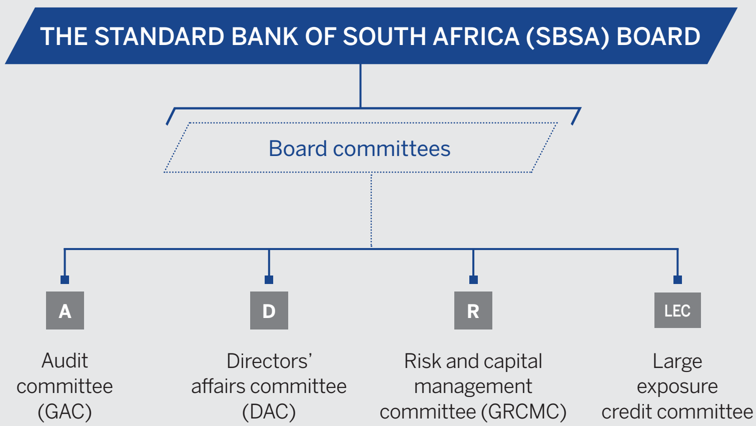
## Main features disclosure template

| 31 December 2015 | Ordinary share capital (including share premium) | Subordinated bond – SBK9 | Subordinated bond – SBK12 | Subordinated bond – SBK13 | Subordinated bond – SBK14 | Subordinated bond – SBK15 |
|---|---|---|---|---|---|---|
| Issuer | SBSA | SBSA | SBSA | SBSA | SBSA | SBSA |
| Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | | ZAG000029687 | ZAG000073388 | ZAG000073396 | ZAG000091018 | ZAG000092339 |
| Governing law(s) of the instrument | SA | SA | SA | SA | SA | SA |
| **Regulatory treatment** | | | | | | |
| Transitional Basel III rules | CET I | Tier II | Tier II | Tier II | Tier II | Tier II |
| Post-transitional Basel III rules | CET I | Tier II | Tier II | Tier II | Tier II | Tier II |
| Eligible at solo/group/group & solo | Solo | Group & solo | Group & solo | Group & solo | Group & solo | Group & solo |
| Instrument type (types to be specified by each jurisdiction) | Ordinary share capital and premium | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt |
| Amount recognised in regulatory capital (currency in Rm, as of most recent reporting date) | ZAR40 198 | ZAR1 050 | ZAR1 120 | ZAR805 | ZAR1 246 | ZAR854 |
| Par value of instrument | ZAR1 | ZAR1 500 | ZAR1 600 | ZAR1 150 | ZAR1 780 | ZAR1 220 |
| Accounting classification | Equity attributable to ordinary shareholders | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt |
| Original date of issuance | Ongoing | 10/04/2006 | 24/11/2009 | 24/11/2009 | 01/12/2011 | 23/01/2012 |
| Perpetual or dated | Perpetual | Dated | Dated | Dated | Dated | Dated |
| Original maturity date | N/A | 10/04/2023 | 24/11/2021 | 24/11/2021 | 01/12/2022 | 23/01/2022 |
| Issuer call subject to prior supervisory approval | No | Yes | Yes | Yes | Yes | Yes |
| Optional call date, contingent call dates and redemption amount (currency in Rm) | N/A | 2018/04/10 ZAR1 500 | 2016/11/24 ZAR1 600 | 2016/11/24 ZAR1 150 | 2017/12/01 ZAR1 780 | 2017/01/23 ZAR1 220 |
| Subsequent call dates, if applicable | N/A | 2018/04/10 or any subsequent interest payment date | N/A | N/A | 2017/12/01 or any subsequent interest payment date | N/A |
| **Coupons/dividends** | | | | | | |
| Fixed or floating dividend/coupon | N/A | Fixed | Fixed | Floating | Fixed | Floating |
| Coupon rate and any related index | N/A | 8.40% semi-annual | 10.82% semi-annual | JIBAR + 2.20 | 9.66% semi-annual | JIBAR + 2.00 |
| Existence of a dividend stopper | No | No | No | No | No | No |
| Fully discretionary, partially discretionary or mandatory | Full discretionary | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory |
| Existence of step up or other incentive to redeem | No | Yes | Yes | Yes | No | No |
| Non-cumulative or cumulative | Non-cumulative | Non-cumulative | Non-cumulative | Non-cumulative | Non-cumulative | Non-cumulative |
| Convertible or non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible |
| If convertible, conversion trigger(s) | N/A | N/A | N/A | N/A | N/A | N/A |
| If convertible, fully or partially | N/A | N/A | N/A | N/A | N/A | N/A |
| If convertible, conversion rate | N/A | N/A | N/A | N/A | N/A | N/A |
| If convertible, mandatory or optional conversion | N/A | N/A | N/A | N/A | N/A | N/A |
| If convertible, specify instrument type convertible into | N/A | N/A | N/A | N/A | N/A | N/A |
| If convertible, specify issuer of instrument it converts into | N/A | N/A | N/A | N/A | N/A | N/A |
| Write-down feature | N/A | N/A | N/A | N/A | N/A | N/A |
| If write-down, write-down trigger(s) | N/A | N/A | N/A | N/A | N/A | N/A |
| If write-down, full or partial | N/A | N/A | N/A | N/A | N/A | N/A |
| If write-down, permanent or temporary | N/A | N/A | N/A | N/A | N/A | N/A |
| If temporary write-down, description of write-up mechanism | N/A | N/A | N/A | N/A | N/A | N/A |
| Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Most subordinated | Senior unsecured | Senior unsecured | Senior unsecured | Senior unsecured | Senior unsecured |
| Non-compliant transitioned features | No | Yes | Yes | Yes | Yes | Yes |
| If yes, specify non-compliant features | N/A | Regulation 38(14) (a)(i) Regulation 38(14) (a)(iv)(D) Regulation 38(14) (a)(iv)(H)(ii) | Regulation 38(14) (a)(i) Regulation 38(14) (a)(iv)(D) Regulation 38(14) (a)(iv)(H)(ii) | Regulation 38(14) (a)(i) Regulation 38(14) (a)(iv)(D) Regulation 38(14) (a)(iv)(H)(ii) | Regulation 38(14) (a)(i) Regulation 38(14) (a)(iv)(H)(ii) | Regulation 38(14) (a)(i) Regulation 38(14) (a)(iv)(H)(ii) |

| Subordinated bond – SBK16 | Subordinated bond – SBK17 | Subordinated bond – SBK18 | Subordinated bond – SBK19 | Subordinated bond – SBK20 | Subordinated bond – SBK21 | Subordinated bond – SBK22 | Subordinated bond – SBK23 | Subordinated bond – SBK24 |
|---|---|---|---|---|---|---|---|---|
| SBSA | SBSA | SBSA | SBSA | SBSA | SBSA | SBSA | SBSA | SBSA |
| ZAG000093741 | ZAG000097619 | ZAG000100827 | ZAG000100835 | ZAG00121781 | ZAG000123258 | ZAG000126442 | ZAG000126434 | ZAG000130584 |
| SA | SA | SA | SA | SA | SA | SA | SA | SA |
| Tier II | Tier II | Tier II | Tier II | N/A | N/A | N/A | N/A | N/A |
| Tier II | Tier II | Tier II | Tier II | Tier II | Tier II | Tier II | Tier II | Tier II |
| Group & solo | Group & solo | Group & solo | Group & solo | Group & solo | Group & solo | Group & solo | Group & solo | Group & solo |
| Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt |
| ZAR1 400 | ZAR1 400 | ZAR2 450 | ZAR350 | ZAR2 250 | ZAR750 | ZAR1 000 | ZAR1 000 | ZAR880 |
| ZAR2 000 | ZAR2 000 | ZAR3 500 | ZAR500 | ZAR2 250 | ZAR750 | ZAR1 000 | ZAR1 000 | ZAR880 |
| Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt |
| 15/03/2012 | 30/07/2012 | 24/10/2012 | 24/10/2012 | 02/12/2014 | 28/01/2015 | 28/05/2015 | 28/05/2015 | 19/10/2015 |
| Dated | Dated | Dated | Dated | Dated | Dated | Dated | Dated | Dated |
| 15/03/2023 | 30/07/2024 | 24/10/2025 | 24/10/2024 | 02/12/2024 | 28/01/2025 | 28/05/2025 | 28/05/2027 | 19/10/2025 |
| Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 2018/03/15 ZAR2 000 | 2019/07/30 ZAR2 000 | 2020/10/24 ZAR3 500 | 2019/10/24 ZAR500 | 2019/12/02 ZAR2 250 | 2020/01/28 ZAR750 | 2020/05/28 ZAR1 000 | 2022/05/28 ZAR1 000 | 2020/10/19 ZAR880 |
| N/A | N/A | N/A | N/A | 2019/12/02 or any interest payment date thereafter | 2020/01/28 or any interest payment date thereafter | 2020/05/28 or any interest payment date thereafter | 2022/05/28 or any interest payment date thereafter | 2020/10/19 or any interest payment date thereafter |
| Floating | Floating | Floating | Floating | Floating | Floating | Floating | Fixed | Floating |
| JIBAR + 2.10 | JIBAR + 2.20 | JIBAR + 2.35 | JIBAR + 2.20 | JIBAR + 3.50 | JIBAR + 330 | JIBAR + 350 | 11.56% semi-annual | JIBAR + 350 |
| No | No | No | No | No | No | No | No | No |
| Mandatory | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory |
| No | No | No | No | No | No | No | No | No |
| Non-cumulative | Non-cumulative | Non-cumulative | Non-cumulative | Non-cumulative | Non-cumulative | Non-cumulative | Non-cumulative | Non-cumulative |
| Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | Yes | Yes | Yes | Yes | Yes |
| N/A | N/A | N/A | N/A | Point of non-viability | Point of non-viability | Point of non-viability | Point of non-viability | Point of non-viability |
| N/A | N/A | N/A | N/A | Regulatory discretion | Regulatory discretion | Regulatory discretion | Regulatory discretion | Regulatory discretion |
| N/A | N/A | N/A | N/A | Permanent | Permanent | Permanent | Permanent | Permanent |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Senior unsecured | Senior unsecured | Senior unsecured | Senior unsecured | Senior unsecured | Senior unsecured | Senior unsecured | Senior unsecured | Senior unsecured |
| Yes | Yes | Yes | Yes | No | No | No | No | No |
| Regulation 38(14) (a)(i) Regulation 38(14) (a)(iv)(H)(ii) | Regulation 38(14) (a)(i) Regulation 38(14) (a)(iv)(H)(ii) | Regulation 38(14) (a)(i) Regulation 38(14) (a)(iv)(H)(ii) | Regulation 38(14) (a)(i) Regulation 38(14) (a)(iv)(H)(ii) | N/A | N/A | N/A | N/A | N/A |

# Corporate governance report

# Our governance structure



# Our board


## **1.** THULANI GCABASHE /58

**Chairman, SBG and SBSA**
**Chairman, DAC**
Appointed 2003
Appointed chairman 2015

- BA (Botswana and Swaziland)
- Master's degree in urban and regional planning (Ball State)

Thulani Gcabashe was previously the chairman of Imperial Holdings, chief executive of Eskom and a director of the National Research Foundation.

### External appointments

- Built Environmental Africa Capital (chairman) and related entities
- African Olive Trading 160

R D LEC

## **2.** RICHARD DUNNE /67

**Independent non-executive director, SBG and SBSA**
**Chairman, audit committee**
Appointed 2009

- CTA (Wits)
- CA(SA)

Richard Dunne was previously the chief operating officer of Deloitte, South Africa.

### External appointments

- Anglo American Platinum
- AECI

A R

## **3.** BEN KRUGER /56

**Chief executive, SBG, and executive director, SBSA**
Appointed 2013

- BCom (Hons) (Pretoria)
- CA(SA)
- AMP (Harvard)

Ben Kruger is the SBG chief executive, and executive director of SBSA. He previously served as chairman of SB Plc.

Ben joined the group in 1985, taking up various roles in Standard Corporate Merchant Bank (SCMB). In 1998, he was appointed deputy chief executive of SCMB and chief executive of SCMB in 2001.

He was appointed to SBG exco in 2000. From 2006 to 2008, he held the position of chief executive of global Corporate & Investment Banking (CIB) and assumed the position of deputy chief executive of SBG in 2009. In 2011, in his capacity as deputy chief executive, Ben assumed responsibility for both the CIB and Personal & Business Banking (PBB) business lines. In 2013, he was appointed chief executive of SBG.

### Other appointments

- ICBCS
- Stanbic Africa Holdings
- Institute of International Finance
- Leadership for Conservation in Africa

LEC


## 4. KGOMOTSO MOROKA /61

**Independent non-executive director, SBG and SBSA**
**Chairman, group social and ethics committee**
Appointed 2003

- BProc (University of the North)
- LLB (Wits)

Advocate Kgomotso Moroka is a senior advocate and for 15 years was a member of the Judicial Services Commission. She is currently a trustee of the Nelson Mandela Children's Fund, Project Literacy and the Apartheid Museum.

### External appointments

- Gobodo Forensic and Investigative Accounting (chairman)
- Grinding Power (chairman)
- Kalagadi Manganese
- Royal Bafokeng Platinum (chairman)
- Temitayo (chairman)
- South African Breweries
- Multichoice South Africa Holdings
- Netcare

R D

## 5. MARTIN LUKE ODUOR-OTIENO /59

**Independent non-executive director, SBG and SBSA**
Appointed 2016

- BCom (accounting) (University of Nairobi)
- Executive MBA (ESAMI/Maastricht Business School)
- Honorary doctorate of business leadership (KCA University)
- AMP (Harvard)

Dr Martin Oduor-Otieno was previously the chief executive officer of the Kenya Commercial Bank Group. He is currently an independent business advisor, having retired as partner at Deloitte East Africa.

He is a fellow of the Kenya Institute of Bankers and Institute of Certified Public Accountants of Kenya and a member of the Institute of Certified Public Secretaries of Kenya and the Institute of Directors of Kenya.

### External appointments

- GA Life Insurance Company

## 6. ANDRÉ PARKER /64

**Independent non-executive director, SBG and SBSA**
Appointed 2014

- BEcon (University of Stellenbosch)
- BEcon (Hons) (University of Stellenbosch)
- MCom (University of Stellenbosch)

André Parker was previously managing director for Africa and Asia, SAB Miller Plc.

### External appointments

- Tiger Brands (chairman)
- Distell
- Empresas Carozzi (Chile)

D LEC

| | |
|---|---|
| A | Audit committee |
| D | Directors' affairs committee |
| R | Risk and capital management committee |
| LEC | Large exposure credit committee |
| ☐ | Chairman of committee |




### 7. ATEDO PETERSIDE CON /60

**Independent non-executive director, SBG and SBSA**
Appointed 2014

- BSc (economics) (The City University, London)
- MSc (economics) (London School of Economics and Political Science)

Atedo Peterside CON was previously the chairman of the Committee on Corporate Governance of Public Companies in Nigeria. He is the founder of Stanbic IBTC Bank Plc, where he was the chief executive (then IBTC) until 2007 and chairman from 2007 until September 2014. He is currently the chairman of Stanbic IBTC Holdings Plc.

**External appointments**

- ANAP Holdings Limited (chairman) and related entities
- Cadbury Nigeria Plc (chairman)
- Flour Mills of Nigeria Plc
- Nigerian Breweries Plc
- Unilever Nigeria Plc

A

### 8. SIMON RIDLEY /60

**Executive director of SBG and SBSA**
Appointed 2009

- BCom (Natal)
- CA(SA)
- AMP (Oxford)

Simon Ridley is the financial director of SBG and an executive director of SBG and SBSA.

Simon joined the group in 1999 as chief operating officer of SCMB and was appointed chief financial officer of SBG in 2002. He was appointed to SBG exco in 2013.

**Other appointments**

- Standard Bank London Holdings Limited (chairman)
- Standard Advisory London Limited (chairman)
- Stanbic Africa Holdings
- Tutuwa Community Holdings
- Tutuwa Staff Holdings

LEC

### 9. MYLES RUCK /60

**Independent non-executive director, SBG and SBSA**
**Chairman, GRCMC and the SBSA large exposure credit committee**
Appointed 2002

- BBusSc (University of Cape Town)
- PMD (Harvard)

Myles Ruck was previously chief executive of SCMB, deputy chief executive of SBG and chief executive of the Liberty Group.

**External appointments**

- ICBC (Argentina) (vice chairman)
- Mr Price Group

R D LEC



## **10.** PETER SULLIVAN /67

**Independent non-executive director, SBG and SBSA**
Appointed 2013

- BSc (physical education) (University of New South Wales)

Peter Sullivan was previously chief executive of Standard Chartered Bank, Africa, and an executive director and chief executive of Standard Chartered Bank, Hong Kong. He previously served as a director on SB Plc.

### External appointments

- AXA China Region
- AXA Asia
- Healthcare Locums Plc (chairman)
- Techtronic Industries
- Winton Capital Group Limited

A R

## **11.** SIM TSHABALALA /48

**Chief executive SBG and SBSA**
Appointed 2013

- BA LLB (Rhodes)
- LLM (University of Notre Dame, USA)
- HDip Tax (Wits)
- AMP (Harvard)

Sim Tshabalala is the chief executive of SBG and of SBSA.

Sim joined the group in 2000 in the project finance division of SCMB and was appointed to SBG exco in 2001. From 2001 to 2006, he was managing director of Stanbic Africa, and from 2003, he served concurrently as deputy chief executive of PBB. He was appointed chief executive of PBB in 2006. In June 2008, he was appointed chief executive of SBSA. In 2009, he was appointed deputy chief executive of SBG. In 2013, he was appointed chief executive of SBG.

### Other appointments

- Liberty Holdings
- Liberty Group
- Stanbic IBTC Bank (chairman)
- Stanbic Africa Holdings (chairman)
- Tutuwa Community Holdings
- Banking Association of South Africa (BASA)

LEC

A Audit committee

D Directors' affairs committee

R Risk and capital management committee

LEC Large exposure credit committee

Chairman of committee



### **12.** SWAZI TSHABALALA /50

**Independent non-executive director, SBG and SBSA**
Appointed 2014

- BA (economics) (Lawrence University, USA)
- MBA (Babcock School of Management, Wake Forest University)

Swazi Tshabalala was previously the chief executive officer of the Industrial Development Group. Since 2013, she has been an executive director of Kupanua Investments.

**External appointments**
- Barbican Engineering Solutions
- Barbican Advisory Group
- Liberty Group
- Liberty Holdings
- Luxehold
- Top Form Trading 7
- Vivicite Africa Luxury Holdings
- XAU Investments

A R

### **13.** TED WOODS /69

**Independent non-executive director, SBG and SBSA**
Appointed 2007

- BCom (Wits)
- CA(SA)
- MBA (Cape Town)
- CFA

A R

A Audit committee

D Directors' affairs committee

R Risk and capital management committee

LEC Large exposure credit committee

Chairman of committee

# Overview

The board is ultimately responsible for corporate governance within the group and providing effective leadership based on an ethical foundation. The board is accountable for the group's success in the interests of all its stakeholders.

The board's role and responsibilities are included in the terms of reference as set out in the board mandate. The mandate is reviewed at least annually and complies with the provisions of the Companies Act, Banks Act, as well as the company's memorandum of incorporation (MOI).

The group's governance framework provides for the delegation of authority for the day-to-day management of the group to the chief executive without abdicating the board's accountability. The delegated authority is set out in writing. The group secretary monitors compliance and provides guidance on matters reserved for board decision. The delegation of authority framework is reviewed annually in consultation with the finance function to ensure that the limits remain appropriate, taking into account the size of the group and its specific operational context.

Matters reserved for board decision include the determination of strategy for the group, any material changes in strategic direction, the approval of annual budgets, the appointment and dismissal of the chief executive and approval of significant acquisitions or investments.

GR For more details on the board's terms of reference, refer to **page 129**.

During the year, the board held five meetings, which included two days dedicated to the review of the group's strategy and its execution across the group. Board meetings allow for sufficient time for consideration of all matters and are normally scheduled for a full day. Care is taken to ensure that the board spends sufficient time considering matters critical to the group's success, as well as compliance and administrative matters. At the close of each board meeting, non-executive directors meet without the executive directors in closed sessions led by the chairman. The primary objective of these sessions is to provide non-executive directors with the opportunity to test thoughts among peers. The chairman, as the primary link between the board and executive management, provides feedback from the closed sessions to the chief executive.

The board is cognisant that its actions and the interaction at board meetings help set the tone for the group's culture. Focus is placed on ensuring that all decisions taken are rational and in the best interests of the group. There is appropriate communication between the board and executive management, and respect for respective roles.

# Key activities of the board in 2015

| | |
|---|---|
| **Strategy** | The board approved the central theme of the group's strategy at the annual strategy session, together with the decisions required to implement the strategy. |
| **Operational and financial performance, including monitoring** | • reviewed the performance of the chief executive against agreed measures<br>• considered strategic and operational updates from the chief executive, as well as matters highlighted for the board's attention at board meetings<br>• reviewed quarterly finance reports against the group's budget and financial position<br>• approved the group's annual report and financial results, and agreed dividend payments<br>• approved the group's budget for 2016<br>• reviewed and approved the mandates of the board and the board committees. |
| **Governance and risk** | • implemented a succession plan for the role of chairman following the retirement of Fred Phaswana as group chairman at the 2015 annual general meeting (AGM)<br>• engaged with the Registrar of Banks and the supervisory team in line with the SARB annual supervisory programme<br>• reviewed risk reports and the preparation of the financial statements on a going concern basis<br>• considered the group's talent management and succession plans, including an in-depth review of the succession plans for the group executive and management committee roles<br>• received regular updates on engagement with stakeholders<br>• reviewed the results of the internal 2015 board evaluation process and implemented the action plans arising from the 2014/2015 external board evaluation process. |
| **Other activities** | • monitored the close of the ten-year lock-in period in the Tutuwa black ownership initiative which delivered a net value of R10,7 billion for participants. |

# Functioning of the board and its governance processes

## Composition of the board

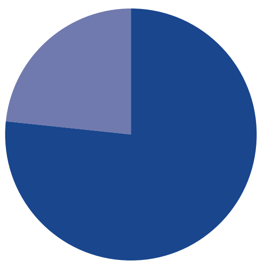
The board is constituted in terms of the company's MOI. The group has a unitary board structure comprising 13 directors, ten (77%) of whom are independent non-executive directors, and three (23%) are executive directors. The executive directors are the SBSA chief executive, the SBG chief executive and the SBG financial director.

In line with the provisions of King III, the majority of the board directors are independent non-executive directors who bring diverse perspectives to board deliberations and constructively challenge management. The board's in-depth interactions with management strengthen the group's decision-making and ensure an appropriate balance of power. A clear division of responsibilities at board level ensures that no one director has unfettered powers in the decision-making process.

Apart from the executive directors, the group's prescribed officers, as defined by the Companies Act, also attend board meetings. The Act defines prescribed officers as persons who exercise general executive control over and management of the whole or a significant portion of the business and activities of the company. This ensures that there are more points of contact between the board and management.

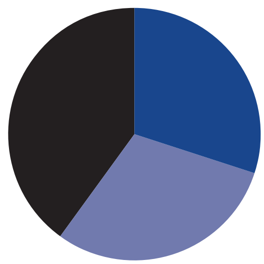
The board is effective and is considered to be of an appropriate size for the group, taking into account, among other considerations, the need to have a sufficient number of directors to structure board committees, meet regulatory requirements and adequately address the board's succession plans.

### BOARD COMPOSITION



| | **2015** | 2014 |
|---|---|---|
| Independent non-executive directors | **10** | 12 |
| Executive directors | **3** | 3 |

### NON-EXECUTIVE DIRECTOR DEMOGRAPHICS



| | **2015** | 2014 |
|---|---|---|
| White | **3** | 4 |
| Black | **3** | 4 |
| Non-South African | **4** | 4 |

Following the decision by the board to appoint directors with experience of doing business in regions outside South Africa and where the group has operations, Dr Martin Oduor-Otieno from Kenya was appointed to the board with effect from 1 January 2016. In line with the provisions of the MOI, he will retire at the AGM and will offer himself for re-election.

GR Please refer to **page 112** for qualifications and brief curriculum vitae.

## Composition of the board continued

Having reached the retirement age as set out in the company's MOI, Fred Phaswana and Lord Smith of Kelvin retired from the board at the AGM in May 2015. Fran du Plessis also stepped down from the board at the AGM. The chairman and the board extend their appreciation for the invaluable contribution made by Fred, Lord Smith and Fran, and wish them well.

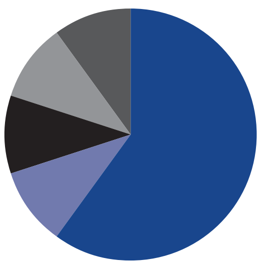
Simon Ridley, having reached the executive retirement age in 2015, will retire from the group on 30 April 2016 and step down from the board. The group is grateful for his significant contribution over the past 16 years and wishes him a long and happy retirement.

Dr Arno Daehnke takes over as the SBG financial director and executive director with effect from 1 May 2016. In line with the provisions of the company's MOI, he will stand for election by members of the company at the AGM.

## Skills, experience and diversity

The board members' collective experience provides for a balanced mix of attributes to fulfil its duties and responsibilities. The board's breadth of experience includes retail and investment banking, risk management, legal and regulatory, finance and accounting, marketing, public sector, remuneration and overall business, with several directors having chief executive experience.

### MIX OF NON-EXECUTIVE DIRECTOR NATIONALITIES



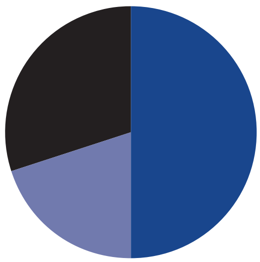
| | **2015** | 2014 |
|---|---|---|
| South African | **6** | 8 |
| Australian | **1** | 1 |
| British | **1** | 2 |
| Kenyan | **1** | 0 |
| Nigerian | **1** | 1 |

Two of the 13 directors are women. The board continuously looks to increase its gender diversity, which is taken into account in the board succession planning.

## Independence of directors

The directors' affairs committee assesses directors' independence for board approval. Independence is determined against the criteria set out in King III and in line with King III's recommendation, the board reviews non-executive directors with tenure beyond nine years. The review takes into account performance and factors that may impair independence. Thulani Gcabashe, Kgomotso Moroka, and Myles Ruck, have all served longer than nine years. Following the review they are considered to be independent both in character and judgement, notwithstanding tenure. All other non-executive directors are considered independent.

### NON-EXECUTIVE DIRECTOR TENURE



| | 2015 | 2014 |
|---|---|---|
| Less than three years | **5** | 5 |
| Greater than three but lesser than six years | **0** | 2 |
| Greater than six but lesser than nine years | **2** | 2 |
| Greater than nine years | **3** | 3 |

## Board appointment process and re-election of directors

The board has a formal and transparent process in place for the appointment of directors. While the appointments are a matter for the board, the authority to oversee the nomination and to carry out the interview processes has been delegated to the directors' affairs committee. Where necessary, a human resources placement agency supports the committee in identifying a broad pool of appropriate candidates. The particular attributes and experience required are identified and agreed prior to the search process. Apart from a candidate's experience, availability and likely fit, the committee also considers the candidate's integrity, as well as other directorships and commitments to ensure that they will have sufficient time to discharge their role properly. Candidates must satisfactorily meet the fit and proper test, as required by the Banks Act. The committee also considers race and gender diversity in its assessment. In line with the JSE Listings Requirement, which came into effect in November 2015, the committee is in the process of finalising the board gender diversity policy. In terms of the company's MOI a director appointed by the board holds office until the next AGM, where they must retire and stand for re-election by shareholders.

In terms of King III and the MOI, one-third of the non-executive directors are required to retire and if available and eligible, stand for re-election at the company's AGM. Those directors who have been in office the longest, as calculated from the last re-election or appointment date, are also required to stand for re-election.

| | |
|---|---|
| Succession planning | The careful management of the board succession process is vital to the effective functioning of the board. The directors' affairs committee ensures that as directors retire, candidates with the necessary skills and experience have been identified to ensure that the board's competence and balance is maintained and enhanced taking into account the group's current and future needs.<br><br>Given that new non-executive directors often need time to acquaint themselves with the business of the group and its strategy, the committee takes the view that it is preferable to appoint replacement independent non-executive directors before the directors being replaced vacate office. While this temporarily increases the number of directors on the board, this is rebalanced as the retiring directors reach the end of their term, by which time, the new directors will have had sufficient time to be inducted into the business of the group, ensuring seamless continuation of the business of the board.<br><br>In addition to managing non-executive director succession, the board considers the talent management and development of the senior leadership team. It is satisfied with the depth of talent in the group's senior leadership team. |
| Separation of chairman and chief executive's roles | The role of chairman is distinct and separate from that of the chief executive and there is a clear division of responsibilities. The chairman has the respect and confidence of the board, which is vital to the effective performance of his role.<br><br>The chairman's responsibilities include:<br>• leading the board and ensuring its effective functioning<br>• setting the ethical tone for the company<br>• setting the board's annual work plan and the agenda, in consultation with the group secretary, the chief executive and the other board directors<br>• ensuring that the board observes the highest standard of integrity and good governance<br>• conveying feedback in a balanced and accurate manner between the board and chief executive<br>• assessing the individual performance of directors.<br><br>The board holds the chief executive Sim Tshabalala accountable and responsible for the group, and in the year under review, the chief executive acted within the authority delegated to him by the board.<br><br>The chief executive's responsibilities include:<br>• appointing the executive team and ensuring proper succession planning and performance appraisals<br>• developing the company's strategy for consideration and approval by the board<br>• developing and recommending budgets to the board that support the group's long-term strategy<br>• monitoring and reporting to the board the performance of the group and its conformance with compliance laws<br>• establishing an organisational structure for the group which is appropriate for the execution of its strategy<br>• setting the tone for ethical leadership and creating an ethical environment<br>• ensuring that the group complies with all relevant laws and corporate governance principles. |

| | |
|---|---|
| Appointment of the new chairman | With the retirement of Fred Phaswana as group chairman in 2015 and in line with the board's succession plans, the directors' affairs committee, in consultation with the full board, led the process to define the attributes required for the role of chairman of the group. Focus was placed on identifying a candidate who would ensure the group's continued success over the longer term.<br><br>Together with the recommendations of King III and the JSE Listings Requirements, we looked for an individual who:<br>• is highly respected by the directors and management<br>• is independent and free of any conflicts of interest<br>• has knowledge of the group's markets, operations, values and shareholder expectations<br>• is compatible with the chief executive and other members of management, to ensure good working relationships<br>• has a low personal ego quotient<br>• is a good fit with the board as a whole<br>• has the ability to guide dialogue, letting all viewpoints be heard while keeping the discussion on track.<br><br>The directors' affairs committee considered external and internal candidates. Having undertaken a rigorous process, it concluded that Thulani Gcabashe was the suitable candidate for the position and recommended his appointment to the board. The board unanimously approved his appointment and believes that the group will derive substantial benefit from the appointment.<br><br>Thulani Gcabashe has been a non-executive director of the group since 2003 and, in accordance with King III, is considered independent. |
| Induction and director development | Induction of new directors and ongoing education of directors is the responsibility of the group secretary. The directors' affairs committee is responsible for monitoring the implementation of director induction and training plans.<br><br>On appointment, directors are provided with the group's governance manual containing all relevant governance information, including the company's founding documents, mandates, governance structures, significant reports, relevant legislation and policies. One-on-one meetings and site visits are scheduled with management to introduce new directors to the group. The remainder of the induction programme is tailored to the new director's specific requirements.<br><br>To ensure maximum participation in ongoing director training, dates for training are scheduled in advance and form part of the board-approved annual calendar. The directors are kept abreast of applicable legislation and regulations, changes to rules, standards and codes, as well as relevant sector developments that could affect the group and its operations. Director training in 2015 covered the following topics:<br>• Twin Peaks, market conduct and the TCF framework<br>• impact of macroeconomic changes on Standard Bank's value<br>• IFRS 9: Financial Instruments' expected loss impairment requirements<br>• Basel III compliant capital instruments<br>• anti-money laundering. |

| | |
|---|---|
| Board access to information and resources | Directors have unrestricted access to group management and company information, as well as the resources required to carry out their duties and responsibilities. Access to external specialist advice is available to directors at the group's expense, in terms of the board-approved policy on independent professional advice. In addition, the group's prescribed officers, as defined in the Companies Act, attend all board meetings. External auditors are invited to attend GAC and GRCMC committee meetings. |
| Group secretary | The board is satisfied that an arm's length relationship exists between it and the group secretary, Zola Stephen, who is not a member of the board or a prescribed officer of the group. She holds a BProc, LLB (University of KwaZulu-Natal), and postgraduate Diploma in Corporate Law, and has over 15 years' experience in corporate governance. In addition to guiding the board on discharging its duties and responsibilities, the group secretary keeps the board abreast of relevant changes in legislation and governance best practice.<br><br>All directors have access to the services of the group secretary.<br><br>In line with the JSE Listings Requirements, the board considered on 2 March 2016, the competence, qualifications and experience of the group secretary and concluded that she is competent to carry out her duties. |
| Conflicts of interests and other commitments | In terms of the Companies Act, directors are required to disclose their outside business interests. The group secretary maintains a register of directors' interests, which is tabled at the board annually 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 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. |

Board evaluation

In line with the provisions of King III the board annually conducts an evaluation of its performance. Since 2011, the board evaluation process has been externally facilitated. The services of Korn/Ferry International were retained from 2011 to 2013, and PricewaterhouseCoopers in 2014, for the purposes of conducting the board evaluation process.

In 2015, the board and committee evaluation process was undertaken internally by the group secretary. It is the intention going forward that externally facilitated evaluations will be carried out every two years.

## Board and committee evaluation process

The group secretary undertook a formal evaluation by:

- preparing questionnaires that were completed by each director
- discussing the outcomes and recommendations with the chairman
- recommending actions for continuous improvement to the board.

Among the areas reviewed were board and committee composition, board dynamics, culture and interactions, the board's role in the development and implementation of strategy across the group, board and committee meetings and processes, information quality and flows, stakeholder engagement and overall board effectiveness. These topics were appropriately addressed and will be regularly reviewed as a matter of good governance.

## Outcomes

The evaluation concluded that the board dynamics are effective and that the board is resilient and able to confront difficult issues when they arise. The interactions between the board and its committees are considered sufficient and interactions between directors are positive and allow for sufficient candor and for each director to exercise independent judgement.

The board has a clear understanding of the boundaries where it should take the lead, where it should collaborate with management and where it should refrain from interfering with the execution and the day-to-day management of the group.

Both the board and executive succession plans are effective and take into account the current and future needs of the group.

Overall, the board and its processes were considered effective.

The key themes identified during the board evaluation process are set out below.

| KEY THEMES | ACTIONS |
|---|---|
| Board and committee compositions | • through the appointment of new directors and director development, continue to ensure that the appropriate balance of skills, experience, independence, knowledge and diversity is maintained at board and committee level<br>• staggering of the retirement dates. |
| Board and committee operations | • review committee mandates and minimise overlap. |
| Information to board | • continue to enhance the content and reduce the volume of information provided to the board and its committees. |
| Oversight over group strategy implementation | • increase oversight over subsidiaries to ensure alignment with the group's strategy. |
| Stakeholder engagement | • continue engaging with government and other key stakeholders. |

| | |
|---|---|
| King Code | The group continues to apply the principles of the King Code, which adopts an 'apply or explain' approach requiring that the group provides a reasonable explanation in instances where a principle is not applied. Exceptions and differences to the application of the King Code are monitored and reviewed annually. The board is satisfied with the group's application of the principles and the instances of non-application which occurred throughout the reporting year, have been considered and explained below.<br><br>**Exceptions to the application of the King Code principles**<br>• Principle 2.19 (paragraph 88.7): The King Code III requires disclosure of actual or potential political connections or exposure for directors. The group does not discourage directors from being affiliated to political parties as it believes this contributes to strengthening South Africa's democracy. While some of the group's directors are involved with political parties in South Africa, no director is an office bearer of any political party.<br>• Principle 2.25 (paragraph 153): The board has considered the King Code requirement that non-executive remuneration should comprise a base fee and an attendance fee per meeting. The board has agreed that the current single comprehensive annual fee structure is more appropriate for the group and is of the view that the contribution of directors cannot only be judged by meeting attendance alone.<br>• Principle 2.25 (paragraph 173): The King Code requires that options or other conditional share awards should not vest or be exercisable within three years from the date of the grant. While the deferred bonus scheme (DBS), which is settled in Standard Bank equity shares, has an initial vesting period shorter than three years, the average vesting period for deferred bonuses is approximately three years.<br><br>**Statement of differences to the King Code**<br>Principle 7.1 (paragraph 5): The King Code recommends that the board approves the group internal audit (GIA) charter. The board has delegated this responsibility to the GAC. |
| Codes of banking practice | Endorsed by the members of BASA, which include Standard Bank, the code of banking practice in South Africa safeguards the interests of consumers. It is based on four key principles: fairness, transparency, accountability and reliability. These principles resonate with the group's values and will help to ensure that the Financial Services Board's TCF framework, which seeks to create a more meaningful focus on the fair treatment of customers is met. |
| Codes of conduct | Standard Bank is regulated by various codes of conduct in terms of the Financial Advisory and Intermediary Services Act 37 of 2002. The Act regulates financial service providers in South Africa who render advice and/or provide intermediary services to clients in relation to certain financial products.<br><br>Standard Bank has also adopted BASA's code for the selling of unsecured credit that governs the relationship between banks and customers in respect of credit extension. Regular risk reviews are embedded in the credit function and provide the means to regulate credit risk appetite. |
| Going concern | The board considers and assesses the group's status as a going concern in the preparation of the annual financial statements at year end. During the interim reporting period, a similar process is followed. In addition, the board considers the solvency and liquidity requirements in line with the provisions of the Companies Act.<br><br>RCM AFS The board's conclusion regarding the going concern status of the group can be found in the statement of directors' responsibility for financial reporting **on page 136**. |

## Connecting with our stakeholders

The group's relevance to the markets and societies in which it operates depends on continued and meaningful engagement with all stakeholders. Building and maintaining good stakeholder relationships helps us to manage and respond to expectations, minimise reputational risk and form strong partnerships, all of which support commercial sustainability.

Individual business units undertake stakeholder engagement activities appropriate to their particular areas. At group level, the group policy, advocacy and sustainability unit engages with key stakeholders in the public and private sectors.

Board meetings include oversight of stakeholder engagement activities as a standing item. The board receives a quarterly stakeholder engagement report that collates input from the group's business units and provides an overview of engagement activities across the group.

The investor relations department facilitates regular and pertinent communication with shareholders. The chairman also encourages shareholders to attend the AGM where interaction is welcomed.

## Political party contributions

Since 2004, the group has sought to strengthen democracy in South Africa by making donations to political parties represented in the National Assembly, to help them effectively engage and represent the people of the country.

An amount of R13,5 million was allocated to the democracy support programme for the electoral cycle from 2009 to 2014. The annual donation to each party was calculated using a formula based on that used by the Independent Electoral Commission to allocate its party funding: 10% of the annual disbursement amount is divided equally between all parties represented in the National Assembly, and 90% is assigned in proportion to the number of seats held by each party. The disbursement for each party is doubled in the year of a general election, to assist with campaigning activities.

Every year, each party is required to account for the use of the funds. Reports indicate that the donations are used mainly for administrative costs and party campaign materials. In 2015, the mandate for the programme was renewed for the next five years.

In 2015, the group allocated a total of R2,2 million as a direct donation (2014: R4,2 million).

## Ethics and organisational integrity

Company values and ethics promote a healthy working environment and a sustainably profitable organisation. The board aims to provide effective and ethical leadership, and ensures that its conduct and that of management is aligned with the group's values and the code of ethics. The code is designed to empower employees and enable effective decision-making at all levels of the business according to defined ethical principles and values.

In ensuring that the group operates ethically, the board uses the inclusive stakeholder model of governance that considers the interests of all the group's stakeholders.

The group is a member of the Ethics Institute of South Africa, which advances the practice of ethics in South Africa and a number of other countries in Africa. The Ethics Institute has certified that the group's code meets the highest standards of international best practice. The code is aligned with and supported by other group policies and procedures, and supports compliance with the relevant industry regulations and laws.

Information on accessibility, anonymity, processes and the policy relating to the whistle-blowing service was published in all business units and geographies during the year. Overall, the group's financial crime control unit held over 2 258 awareness sessions and 547 disclosures were made to the independantly operated hotline during 2015.

Liberty has its own code of ethics, policy and ethics line, which is operated by an independent service provider.

The Protection of Personal Information (PoPI) Act was signed into law in 2013. While a commencement date for PoPI is yet to be decided, organisations will need to be compliant within one year of its commencement. A groupwide regulatory privacy programme is being undertaken to facilitate adherence to privacy requirements in the various jurisdictions in which the group does business.

The group is focused on bringing positive change to the markets in which it operates. As a result, we have a supportive governance framework to enable the highest standards of responsible business practice in our interactions with all our stakeholders.

## Ethics management framework

Management has set up an ethics management framework in which:

- the chief executive and ethics officer are the formal custodians of the code and are ultimately responsible for ensuring it is applied throughout the group
- each business unit has a senior executive (business unit ethics officer) who is responsible for driving awareness of the code and acts as a final arbiter in cases where difficult decisions arise
- the ethics officer takes responsibility for the internal reporting of ethics-related incidents to management and the board through the SBG social and ethics committee and GAC
- the code is applicable in all countries in which the group has banking operations
- ethical incidents are reported through the ethics and fraud hotline, the group financial crime control unit, the human capital department, the ethics mailbox, business unit ethics officers and line managers
- an independent service provider operates a confidential and anonymous hotline on behalf of the group
- awareness building and training is provided throughout the organisation to ensure employees are aware of the ethics reporting options available to them
- the group's values and code are included in leadership and management training, employee orientation programmes and the employee handbook
- during 2014, an ethics e-learning programme was launched for all employees, including non-permanent employees. Training is provided in English, French and Portuguese
- values and ethics are incorporated into the group's performance management approach, where team members hold themselves and each other accountable for following the required values-based behaviours
- the most recent review of the code was undertaken in the latter part of 2013 where the principle of 'serving our customers' was amended to align with TCF regulatory requirements. The revised code of ethics was launched in March 2014. In December 2014, the value 'guarding against arrogance' was amended to 'raising the bar'.

## Sustainability

The report to society sets out a detailed analysis of the issues material to the group's sustainability and its stakeholders. It can be found at **www.standardbank.com/sustainability.**

# Board and board committees

## Board

**Members and 2015 meeting attendance /5** (including the SARB meeting and annual strategy session)

| | |
|---|---|
| Thulani Gcabashe[1,2] (chairman) | **5/5** |
| Richard Dunne[2] | **5/5** |
| Ben Kruger[3] | **5/5** |
| Kgomotso Moroka[2] | **5/5** |
| Martin Oduor-Otieno[2,4] | **5/5** |
| André Parker[2] | **5/5** |
| Atedo Peterside[2] | **5/5** |
| Simon Ridley[3] | **5/5** |
| Myles Ruck[2] | **5/5** |
| Peter Sullivan[2] | **5/5** |
| Sim Tshabalala[3] | **5/5** |
| Swazi Tshabalala[2] | **5/5** |
| Ted Woods[2] | **5/5** |

1 Appointed chairman effective 28 May 2015.
2 Independent non-executive director.
3 Executive director.
4 Appointed 1 January 2016.

**Summary of key terms of reference:**

- provides effective leadership based on an ethical foundation
- approves the strategy and ensures that the group's objectives take into account the need to align its strategy and risk profile, together with the performance levels and sustainability concerns of stakeholders
- reviews the corporate governance and risk and capital management processes, and ensures that there is an effective risk management process throughout the group
- delegates relevant authority to the chief executive and monitors his performance
- determines the terms of reference and procedures of all board committees
- reviews the board and committees' performance annually
- reviews reports and minutes of board and committee meetings
- ensures that the GAC is effective and independent
- ensures consideration is given to succession planning in relation to the board, chief executive and executive management
- considers and approves the audited annual financial statements and the annual report, interim financial results and dividend announcements
- monitors stakeholder relations
- approves significant acquisitions, mergers, takeovers, divestments of operating companies, equity investments and new strategic alliances
- assumes ultimate responsibility for financial and IT governance, operational and internal systems of control, and ensures adequate reporting on these by the respective committees.

GR Key activities of the board in 2015 is discussed on **page 118.**

A

## Audit committee

**Members and 2015 meeting attendance /5**

| Member | Attendance |
|---|---|
| Richard Dunne[1,6] (chairman) | **5/5** |
| Atedo Peterside[2,6] | **2/2** |
| Peter Sullivan[3,6] | **5/5** |
| Swazi Tshabalala[4,6] | **2/2** |
| Ted Woods[5,6] | **5/5** |

1 Appointed 3 December 2009.
2 Appointed 27 May 2015.
3 Appointed 6 March 2013.
4 Appointed 27 May 2015.
5 Appointed 22 May 2008.
6 Independent non-executive director.

**Summary of key terms of reference:**

### Combined assurance model

- ensures that the group applies a combined assurance model to provide a coordinated approach to all assurance activities.

### External audit

- reviews and approves the group's external audit plan
- assesses the independence and effectiveness of the external auditors on an annual basis
- oversees the appointment of external auditors, their terms of engagement and fees
- reviews significant differences of opinion between external auditors and management
- reviews the external auditors' management reports concerning deviations from and weaknesses in accounting and operational controls, and ensures that management takes appropriate action to satisfactorily resolve any issues
- annually reviews and approves the policy setting out the nature and extent for using external auditors for non-audit work.

### Internal audit and financial crime

- reviews, approves and monitors the internal audit plan
- reviews and approves the internal audit charter as per the board's delegated authority
- considers and reviews the internal auditors' significant findings and management's response
- annually re-evaluates the role, independence and effectiveness of the internal audit function in the overall context of the group's risk management system
- reviews the reports and activities of the financial crime control unit to ensure the mitigation and control of fraud and related risks.

### Compliance

- reviews, approves and monitors the group's compliance plan
- monitors compliance with the Companies Act, Banks Act, the JSE Rules and Listings Requirements, and all other applicable legislation and governance codes.

### Financial reporting and financial controls

- reviews the group's audited annual financial statements, summarised financial information, dividend announcements, governance report and the risk and capital management and annual financial statements and recommends them to the board for approval
- evaluates the adequacy and effectiveness of the group's accounting policies and all proposed changes in accounting policies and practices
- satisfies itself as to the expertise, resources and experience of the group's finance function and the expertise of the chief financial officer
- reviews the basis for determination as a going concern
- reviews the effectiveness of financial management, including the management of financial risks, the quality of internal accounting control systems and reports produced, including financial reporting risks and internal financial controls
- reviews the impact of new financial systems, tax and litigation matters on financial reporting
- monitors the maintenance of proper and adequate accounting records, and the overall financial and operational environment

- evaluates management's judgements and reporting decisions in relation to the annual report and ensures that all material disclosures are included
- reviews forward-looking statements, financial and sustainability information.

**Risk management**
- reviews the quarterly risk management report noting all significant financial and non-financial risks that may have an impact on the group
- considers any significant matters raised at GRCMC meetings.

**Information technology**
- considers the auditors' use of relevant technology and techniques to improve audit coverage and audit efficiency
- oversees IT risk in relation to financial reporting
- considers the impact of IT on financial controls.

**Summary of key focus areas in 2015:**
- reviewed the financial information published by the group, including the content of the annual report and all other financial reports such as the annual financial statements and interim reports, and recommended them to the board for approval
- evaluated financial accounting and reporting issues that affected the group
- reviewed, approved and monitored the external audit, internal audit and compliance plans
- considered tax matters, including current and upcoming tax legislation
- monitored the group's internal control framework and the results of activities of the group internal financial control governance committee
- considered reports from internal audit, compliance and financial crime control, and monitored responses from management where required
- considered the group's external auditors' annual assessment of internal audit against the International Standards on Auditing, which confirmed that the external auditors could place reliance on internal audit's work for the purpose of the external audit
- considered the routine independent quality assurance review of audit execution, the results of which confirmed that internal audit had generally conformed with the International Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing
- considered the requirements of the Companies Act in terms of assessing the independence of external auditors
- monitored compliance with relevant legislation, including Regulation 40(4) of the Banks Act requiring directors to report annually to the Registrar of Banks on the status of internal controls, any material malfunctions and the going concern determination
- approved the audit committee report for publication in the financial statements
- reviewed and approved non-audit fees as per the policy on non-audit services

RCM AFS The fees for audit and non-audit services are set out on **page 216** of the audited annual financial statements.

- considered significant matters discussed at the GRCMC meetings
- held a closed session with the group's external auditors and the audit committee chairman, who is also a member of the GRCMC, and met individually with the chief compliance officer, the SBG financial director, the chief audit officer and the head of operational risk management (who is responsible for financial crime control), without management being present on a quarterly basis and as deemed necessary.

R

## Risk and capital management committee

### Members and 2015 meeting attendance /4

| | | | |
|---|---|---|---|
| Myles Ruck[1] (chairman) | 4/4 | Peter Sullivan[1] | 3/4 |
| Richard Dunne[1] | 4/4 | Swazi Tshabalala[1] | 4/4 |
| Thulani Gcabashe[1,2] | 2/2 | Ted Woods[1] | 4/4 |
| Kgomotso Moroka[1] | 4/4 | | |

1 Independent non-executive director.
2 Appointed 27 May 2015.

**Summary of key terms of reference:**

- ensures the establishment of independent risk and capital management functions at a group level
- reviews and approves the risk, compliance and capital management (RCCM) governance framework, risk governance standards, governance frameworks and relevant policies
- considers and approves the group's risk appetite as set out in the risk appetite framework and risk appetite statement
- monitors the risk profile to ensure that the group is managed within its risk appetite
- considers and approves macroeconomic scenarios used for stress testing and evaluates the stress testing results
- reviews management reports on all risk types and ensures that management considers and implements appropriate risk responses
- approves the risk and capital management disclosure in published reports
- reviews and recommends the internal capital adequacy assessment process (ICAAP) and internal capital target ratio ranges to the board for approval
- reviews the impact on capital of significant transactions entered into by the group
- reviews minutes of significant credit and risk management committees.

**Summary of key focus areas in 2015:**

- approved relevant risk governance standards, frameworks and policies
- considered and approved the risk appetite statement for the group's banking operations
- considered and approved the macroeconomic scenarios used for 2015 group stress testing
- considered risk overviews from the group and business unit chief risk officers on events and risks that had occurred or were emerging, and which were expected to have a direct or indirect impact on the group's risk profile. This included the impact of persisting drought conditions, particularly in sub-Saharan Africa, declining oil and other commodity prices on specific entities and portfolios, the associated impact on non-performing loans and credit impairments, as well as the risk of contagion and the impact of potential sovereign credit rating downgrades
- considered reports from management that covered key risks, including credit, equity, compliance, country, capital and liquidity, market, operational, legal and insurance risks
- considered reports on the group's recovery and resolution plan
- considered the group's approach to compliance with principles for effective risk data aggregation and risk reporting
- recommended the ICAAP and internal capital target ratio ranges to the board for approval
- monitored capital and liquidity ratios for the group
- considered management's report on legal matters significant to the group
- approved the risk and capital management disclosure in published reports
- considered key matters raised at SBG risk oversight committee meetings.

RCM AFS

Further details on this committee and the chairman's overview of its activities are set out in the risk and capital management report starting **on page 40**.

D

## Directors' affairs committee

### Members and 2015 meeting attendance /6

| Member | Attendance | Member | Attendance |
|---|---|---|---|
| Thulani Gcabashe[1,2] (chairman) | 4/6 | André Parker[2,3] | 2/2 |
| Kgomotso Moroka[2] | 5/6 | Myles Ruck[2] | 6/6 |

1 Appointed chairman on 27 May 2015.
2 Independent non-executive director.
3 Appointed 27 May 2015.

**Summary of key terms of reference:**
To assist the board in:

- evaluating the adequacy, efficiency and appropriateness of the governance framework and practices across the group
- establishing director induction and training programmes
- approving the board evaluation methodology
- nominating directors as part of succession planning
- ensuring corporate governance best practice and statutory compliance.

**Summary of key focus areas in 2015:**

- finalised the appointment of the chairman of the board as at 28 May 2015 and the appointment of a non-executive director from East Africa as at 1 January 2016
- monitored and ensured the successful implementation of the end of the lock-in period in respect of the group's Tutuwa initiative
- ensured training and director development
- assisted the board in ensuring that the composition of the board and its committees is adequate and meets the group's requirements.

LEC

## Large exposure credit committee

### Members and 2015 non-executive director meeting attendance

| Member | Attendance |
|---|---|
| Myles Ruck[1] (chairman) | 5/6 |
| Suné Brugman | |
| Carel Buitendag | |
| Thulani Gcabashe[1,2] | 2/2 |
| Libby King | |
| Ben Kruger[3] | |
| David Munro | |
| André Parker[1] | 3/6 |
| Simon Ridley[3] | |
| Neil Surgey | |
| Sim Tshabalala[3] | |

1 Independent non-executive director.
2 Appointed 27 May 2015.
3 Executive director.

**Summary of key terms of reference:**

- ensures compliance with the requirements of the Banks Act Regulations (Regulations) in respect of large exposures as defined to the extent and on the basis as set out in its mandate
- approves the counterparty and portfolio definitions of large exposures for the purpose of the committee and the methodology for the determination thereof
- approves all counterparty and non-bank large exposures as required in terms of the SARB's requirements which are subsequently ratified by the board at the next board meeting.

**Summary of key focus areas in 2015:**

- considered management reports recommending the approval and annual renewals of large exposures as defined in the Banks Act
- reviewed and approved the committee's mandate.

# **Annual** financial statements

The group and company annual financial statements were audited in terms of the Companies Act 71 of 2008.

The preparation of the Standard Bank of South Africa's (SBSA) consolidated and separate annual financial statements was supervised by the group chief financial officer, Libby King, BAcc (Wits), BCom (Wits), CA(SA).

A summary of these results was made publically available on 3 March 2016.

# Directors' responsibility for financial reporting

In accordance with the Companies Act, the directors are responsible for the preparation of the annual financial statements. The annual financial statements conform to IFRS as issued by the International Accounting Standards Board (IASB), and fairly present the affairs of the group and the company as at 31 December 2015, and the net income and cash flows for the year then ended.

It is the responsibility of the independent auditors to report on the fair presentation of the financial statements.

The directors are ultimately responsible for both the group and company's internal controls. Management enables the directors to meet these responsibilities. Standards and systems of internal controls are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability for shareholder investments, and group and company assets.

Accounting policies, supported by judgements, estimates and assumptions in compliance with IFRS, are applied on the basis that the group and the company will continue as a going concern.

Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties. Systems and controls are monitored throughout the group and the company. Greater detail of these systems and controls, including the operation of the group's internal audit function, is provided in the corporate governance and the risk and capital management sections of this annual report.

Based on the information and explanations provided by management and the 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 group and the company'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 group and company, has occurred during the year and up to the date of this report.

The directors have a reasonable expectation that the group and the company will have adequate resources to continue in operational existence and as a going concern in the financial year ahead.

The 2015 annual financial statements and specified sections of the risk and capital were approved by the board of directors on 2 March 2016 and signed on its behalf by:

**Thulani Gcabashe**
**Chairman**
2 March 2016

**Sim Tshabalala**
**Chief executive**
2 March 2016

# Group secretary's certification

## Compliance with the Companies Act 71 of 2008

In terms of the Companies Act and for the year ended 31 December 2015, I certify that The Standard Bank of South Africa Limited 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**
2 March 2016

# Report of the group audit committee

This report is provided by the audit committee (the committee), in respect of the 2015 financial year of The Standard Bank of South Africa Limited, in compliance with section 94 of the Companies Act, as amended from time to time. The committee's operation is guided by a detailed mandate that is informed by the Companies Act, the Banks Act 94 of 1990 (Banks Act) and the Code of Corporate Practices and Conduct set out in the King Report on Corporate Governance for South Africa 2009 (King Code) and is approved by the board.

The committee is appointed by the board annually. Information on the committee's membership and composition, its terms of reference and its activities is provided in greater detail in the corporate governance statement.

## Execution of functions

The committee 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:
  - approved the reappointment of KPMG Inc. and PricewaterhouseCoopers Inc. as joint external auditors for the financial year ended 31 December 2015, 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 external audit
  - obtained assurance from the external auditors that their independence was not impaired
  - considered the nature and extent of all non-audit services provided by the external auditors
  - 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
  - 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 principle as the basis of preparation of the annual financial statements
  - examined and reviewed the annual financial statements prior to submission and approval by the board
  - reviewed reports on the adequacy of the provisions for performing and non-performing loans and impairment of other assets, and the formulae applied by the group in determining charges for and levels of impairment of performing loans
  - ensured that the annual financial statements fairly present the financial position of the group and of the company as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the group and the company was determined to be a going concern
  - ensured that the annual financial statements conform with IFRS
  - considered accounting treatments, significant unusual transactions and accounting judgements
  - considered the appropriateness of the accounting policies adopted and changes thereto
  - reviewed and discussed the external auditors' audit report
  - considered and made recommendations to the board on the interim and final dividend payments to the shareholder
  - noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of the annual financial statements, internal controls and related matters.
- In respect of the annual report:
  - recommended the annual report to the board for approval
  - evaluated management's judgments and reporting decisions in relation to the annual report and ensured that all material disclosures are included
  - reviewed forward-looking statements, financial and sustainability information

- In respect of internal control, internal audit and financial crime control:
  - 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 in response to such findings
  - noted that there were no significant differences of opinion between the internal audit function and management
  - assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory
  - based on the above, the committee formed the opinion that, at the date of this report, there were no material breakdowns in internal controls, including internal financial controls, resulting in any material loss to the group
  - reviewed and approved the mandate of financial crime as an independent risk function
  - discussed significant financial crime matters and control weaknesses identified
  - over the course of the year, met with the chief audit officer, chief compliance officer, the chief risk officer, the head of financial crime control, management and the external auditors
  - reviewed any significant legal and tax matters that could have a material impact on the financial statements
  - considered quarterly reports from the group and company's internal financial controls committee
  - considered the routine independent quality assurance review of audit execution the results of which confirmed that internal audit had generally conformed with the International Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.
- In respect of legal, regulatory and compliance requirements:
  - reviewed, with management, matters that could have a material impact on the group and company
  - monitored compliance with the Companies Act, the Banks Act, all 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 and company'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
  - reviewed and approved the annual compliance mandate and compliance plan.
- In respect of risk management and IT:
  - considered and reviewed reports from management on risk management, including fraud and IT risks as they pertain to financial reporting and the going concern assessment
  - the chairman is a member of and attended the risk and capital management committee and the group IT committee meetings held during the year under review.
- 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 financial crime control, and concluded that these were adequate to address all significant financial risks facing the business
  - 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 SBG financial director and concluded that these were appropriate.

## Independence of the external auditors

The audit committee is satisfied that KPMG Inc. and PricewaterhouseCoopers Inc. are independent of the group and company. 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
- 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
- The criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies were met.

In conclusion, the committee has complied with its legal, regulatory and governance responsibilities as set out in its mandate.

On behalf of the audit committee

Richard Dunne

**Richard Dunne**
**Chairman, audit committee**
1 March 2016

# Directors' report

for the year ended 31 December 2015

## Nature of business

SBSA is a wholly-owned subsidiary of SBG, an African banking group with South African roots. SBSA is the single largest operating entity within SBG.

## Group results

Group headline earnings increased by 11% to R13,4 million. Net asset value per share increased by 10% and the group return on equity increased to 15.5%.

A general review of the business and its operations is provided in the chief executive's review.

## Share capital

### Ordinary shares

During 2015, two shares were issued at a premium of R3,8 billion (2014: no shares were issued).

## Directors' and prescribed officers' interest in shares

At the date of this report, no directors or prescribed officers held, directly and indirectly, interests in the company's ordinary issued share capital or preference share capital.

## Directors' and prescribed officers' emoluments and share incentives

Directors' and prescribed officers' emoluments as well as information relating to the determination of their share incentive allocations and related matters are contained in annexure E.

## Dividends to the shareholder

### Ordinary shares

On 5 March 2015, a dividend of R4,3 billion was declared to the shareholder recorded at the close of business on 6 March 2015, and paid on 31 March 2015.

On 14 August 2015, a dividend of R4,0 billion was declared to the shareholder recorded at the close of business on 17 August 2015, and paid on 4 September 2015.

On 2 March 2016, a dividend of R5,5 billion was declared to the shareholder recorded at the close of business on 15 April 2016, and payable on 18 April 2016.

## Board of directors

The following changes in directorate have taken place during the 2015 financial year end up to 2 March 2016:

| **Appointments** | | |
|---|---|---|
| TC Gcabashe | as chairman | 28 May 2015 |
| Dr HL Oduor-Otieno | as director | 1 January 2016 |
| **Resignations** | | |
| TMF Phaswana | as chairman | 28 May 2015 |
| Lord Smith of Kelvin, KT | as director | 28 May 2015 |
| FA du Plessis | as director | 28 May 2015 |

## Group secretary and registered office

The group secretary is Zola Stephen. The address of the group secretary is that of the registered office, 9th Floor, Standard Bank Centre, 5 Simmonds Street, Johannesburg, 2001.

## Insurance

The group protects itself against 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.

# Independent auditors' report

## To the shareholder of The Standard Bank of South Africa Limited

### Report on the Financial Statements

We have audited the group's consolidated and company's separate financial statements of The Standard Bank of South Africa Limited, which comprise the statements of financial position as at 31 December 2015, and the income statements and the statements of comprehensive income, statement of changes in equity and statements of cash flows for the year then ended and a summary of significant accounting policies and notes to the financial statements including the appendices, as set out on pages 142 to 289, and specified sections marked as "audited" in the risk and capital management report.

#### Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these 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.

#### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of The Standard Bank of South Africa Limited as at 31 December 2015, 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.

#### Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 December 2015, we have read the directors' report, the report of the group audit committee and the group secretary's certification for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on our reading of these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

#### Report on other legal and regulatory requirements

In terms of the IRBA notice published in the Government Gazette Number 39475 dated 4 December 2015, we report that based on available statutory records, PricewaterhouseCoopers Inc. and KPMG Inc. have been the joint auditors of The Standard Bank of South Africa Limited for 53 years.

KPMG Inc.

**KPMG Inc.**
**Registered Auditor**

*Per Peter MacDonald*
*Chartered Accountant (SA)*
*Registered Auditor*
*Director*
*2 March 2016*

85 Empire Road
Parktown
2193

PricewaterhouseCoopers Inc.

**PricewaterhouseCoopers Inc.**
**Registered Auditor**

*Per Johannes Grosskopf*
*Chartered Accountant (SA)*
*Registered Auditor*
*Director*
*2 March 2016*

2 Eglin Road
Sunninghill
2157

# Statements of financial position

| as at 31 December 2015 | Note | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with central banks | 1 | **30 252** | 32 218 | **30 253** | 32 202 |
| Derivative assets | 2 | **100 356** | 54 062 | **100 355** | 54 060 |
| Trading assets | 3 | **63 282** | 51 436 | **63 280** | 51 436 |
| Pledged assets | 4.1 | **7 879** | 5 281 | **7 879** | 5 281 |
| Financial investments | 5 | **98 944** | 101 856 | **97 993** | 100 445 |
| Current tax asset | | **242** | 313 | **241** | 313 |
| Loans and advances | 6.1 | **897 344** | 785 483 | **882 278** | 769 402 |
| Other assets | 7 | **9 003** | 7 470 | **8 800** | 7 175 |
| Interest in SBG companies, associates and joint ventures – banking operations | 8 | **41 347** | 66 907 | **49 935** | 76 394 |
| Property and equipment | 9 | **8 931** | 9 085 | **8 868** | 9 028 |
| Goodwill and other intangible assets | 10 | **19 315** | 16 999 | **19 262** | 16 952 |
| Deferred tax asset | 14 | **58** | 40 | **10** | 7 |
| Total assets | | **1 276 953** | 1 131 150 | **1 269 154** | 1 122 695 |
| **Equity and liabilities** | | | | | |
| **Equity** | | **90 714** | 82 418 | **88 766** | 80 959 |
| Equity attributable to the ordinary shareholder | | **90 714** | 82 412 | **88 766** | 80 959 |
| Ordinary share capital | 11.2 | **60** | 60 | **60** | 60 |
| Ordinary share premium | 12 | **40 138** | 36 296 | **40 138** | 36 296 |
| Reserves | | **50 516** | 46 056 | **48 568** | 44 603 |
| Non-controlling interests | | | 6 | | |
| **Liabilities** | | **1 186 239** | 1 048 732 | **1 180 388** | 1 041 736 |
| Derivative liabilities | 2 | **120 857** | 66 298 | **120 857** | 66 298 |
| Trading liabilities | 13 | **24 625** | 22 709 | **24 625** | 22 709 |
| Current tax liability | | **2 945** | 3 338 | **2 936** | 3 326 |
| Deposits and debt funding | 15 | **874 372** | 799 936 | **867 358** | 790 995 |
| Liabilities to SBG companies | 8.3 | **127 185** | 123 794 | **128 668** | 126 034 |
| Subordinated debt | 16 | **21 309** | 20 734 | **21 309** | 20 734 |
| Provisions and other liabilities | 17 | **14 403** | 11 691 | **14 094** | 11 419 |
| Deferred tax liability | 14 | **543** | 232 | **541** | 221 |
| **Total equity and liabilities** | | **1 276 953** | 1 131 150 | **1 269 154** | 1 122 695 |

# Income statements

| for the year ended 31 December 2015 | Note | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|---|
| Net interest income | | **34 958** | 32 492 | **34 212** | 32 097 |
| Interest income | 25 | **74 035** | 66 749 | **72 840** | 65 836 |
| Interest expense | 26 | **(39 077)** | (34 257) | **(38 628)** | (33 739) |
| **Non-interest revenue** | | **26 347** | 24 725 | **25 485** | 23 907 |
| Net fee and commission revenue | | **19 094** | 18 815 | **18 120** | 17 823 |
| Fee and commission revenue | 27 | **23 095** | 22 770 | **22 091** | 21 764 |
| Fee and commission expense | 28 | **(4 001)** | (3 955) | **(3 971)** | (3 941) |
| Trading revenue | 29 | **4 188** | 3 453 | **4 216** | 3 467 |
| Other revenue | 30 | **3 065** | 2 457 | **3 149** | 2 617 |
| **Total income** | | **61 305** | 57 217 | **59 697** | 56 004 |
| Credit impairment charges | 31 | **(7 385)** | (7 876) | **(7 282)** | (7 757) |
| Revenue sharing agreements | | **(1 125)** | (1 759) | **(1 125)** | (1 759) |
| **Income after credit impairment charges and revenue sharing agreements** | | **52 795** | 47 582 | **51 290** | 46 488 |
| Operating expenses | 32 | **(34 693)** | (31 211) | **(33 959)** | (30 446) |
| **Net income before non-trading and capital related items and equity accounted earnings** | | **18 102** | 16 371 | **17 331** | 16 042 |
| Non-trading and capital related items | 33 | **(1 234)** | (475) | **(1 110)** | (14) |
| Share of profits from associates and joint ventures | 8.2 | **65** | 121 | | |
| **Profit before indirect taxation** | | **16 933** | 16 017 | **16 221** | 16 028 |
| Indirect taxation | 34.1 | **(1 550)** | (1 398) | **(1 543)** | (1 396) |
| **Profit before direct taxation** | | **15 383** | 14 619 | **14 678** | 14 632 |
| Direct taxation | 34.2 | **(2 904)** | (2 942) | **(2 731)** | (2 783) |
| **Profit for the year** | | **12 479** | 11 677 | **11 947** | 11 849 |
| Attributable to non-controlling interest | | **1** | 3 | | |
| Attributable to the ordinary shareholder | | **12 478** | 11 674 | **11 947** | 11 849 |
| **Basic earnings per ordinary share (cents)** | 35 | **20 798** | 19 458 | **19 913** | 19 749 |

# Statements of other comprehensive income

| for the year ended 31 December 2015 | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| **Profit for the year** | **12 479** | 11 677 | **11 947** | 11 849 |
| **Other comprehensive income – net of taxation** | **419** | 24 | **417** | 23 |
| **Items that may be reclassified subsequently to profit and loss** | | | | |
| Exchange differences on translating foreign operations | **583** | 141 | **581** | 140 |
| Movements in the cash flow hedging reserve | **(115)** | (2) | **(115)** | (2) |
| Change in fair value on cash flow hedges | **1 663** | 161 | **1 663** | 161 |
| Realised fair value adjustments of cash flow hedges transferred to profit or loss | **(1 778)** | (163) | **(1 778)** | (163) |
| Net change in fair value of available-for-sale financial assets | **61** | (5) | **61** | (5) |
| **Items that may not be reclassified to profit and loss** | | | | |
| Defined benefit fund remeasurements | **(110)** | (110) | **(110)** | (110) |
| **Total comprehensive income for the year** | **12 898** | 11 701 | **12 364** | 11 872 |
| Attributable to the ordinary shareholder | **12 897** | 11 698 | **12 364** | 11 872 |
| Attributable to non-controlling interests | **1** | 3 | | |

# Statements of cash flows

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| for the year ended 31 December 2015 | Note | Rm | Rm | Rm | Rm |
| **Net cash flows from operating activities** | | **7 458** | 15 480 | **7 515** | 15 452 |
| **Cash flows used in operations** | | **(24 427)** | (13 213) | **(23 839)** | (12 965) |
| Net income before non-trading and capital related items and equity accounted earnings | | **18 102** | 16 371 | **17 331** | 16 042 |
| Adjusted for non-cash items and other adjustments included in the income statement | 38.1 | **(26 491)** | (22 302) | **(25 856)** | (22 031) |
| Increase in income-earning assets | 38.2 | **(98 034)** | (117 411) | **(98 443)** | (118 735) |
| Increase in deposits, trading and other liabilities | 38.3 | **82 447** | 111 522 | **83 580** | 113 152 |
| Movement in post-employment remeasurements | | **(451)** | (1 393) | **(451)** | (1 393) |
| **Dividends received** | | **2 937** | 2 463 | **2 625** | 2 159 |
| **Interest paid** | | **(39 486)** | (35 133) | **(39 037)** | (34 615) |
| **Interest received** | | **71 445** | 64 218 | **70 577** | 63 617 |
| **Direct taxation paid** | | **(3 011)** | (2 855) | **(2 811)** | (2 744) |
| **Net cash flows used in investing activities** | | **(6 179)** | (5 187) | **(6 217)** | (5 174) |
| Capital expenditure on property and equipment | 9 | **(1 809)** | (2 068) | **(1 788)** | (2 039) |
| Proceeds from sale of property and equipment | | **68** | 64 | **65** | 64 |
| Capital expenditure on intangible assets | | **(4 738)** | (4 437) | **(4 729)** | (4 434) |
| Proceeds from sale of intangible assets | | **74** | | **74** | |
| Proceeds from sale of associates | 8.2 | **161** | 1 235 | **161** | 1 235 |
| Distributions from investments in associates and joint ventures | 8.2 | **65** | 19 | | |
| **Net cash flows used in financing activities** | | **(3 828)** | (8 150) | **(3 828)** | (8 150) |
| Proceeds from issue of share capital to shareholders | 11.2 | **3 842** | | **3 842** | |
| Subordinated debt issued | | **3 630** | 2 250 | **3 630** | 2 250 |
| Subordinated debt redeemed | | **(3 000)** | (1 800) | **(3 000)** | (1 800) |
| Dividends paid | 37 | **(8 300)** | (8 600) | **(8 300)** | (8 600) |
| **Effects of exchange rate changes** | | **583** | 141 | **581** | 140 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(1 966)** | 2 284 | **(1 949)** | 2 268 |
| **Cash and cash equivalents at the beginning of the year** | 1 | **32 218** | 29 934 | **32 202** | 29 934 |
| **Cash and cash equivalents at the end of the year** | 1 | **30 252** | 32 218 | **30 253** | 32 202 |

# Statements of changes in equity

| for the year ended 31 December 2015 | Note | Ordinary share capital and premium Rm | Foreign currency translation reserve Rm |
|---|---|---|---|
| **Group** | | | |
| **Balance at 1 January 2014** | | 36 356 | 370 |
| **Total comprehensive income/(loss) for the year** | | | 141 |
| Profit for the year | | | |
| Other comprehensive income/(loss) after tax for the year | | | 141 |
| **Transactions with the shareholder, recorded directly in equity** | | | |
| Equity-settled share-based payment transactions | | | |
| Transfer of vested equity options | | | |
| Dividends paid | 37 | | |
| **Balance at 31 December 2014** | | 36 356 | 511 |
| **Balance at 1 January 2015** | | **36 356** | **511** |
| **Total comprehensive income/(loss) for the year** | | | **583** |
| Profit for the year | | | |
| Other comprehensive income/(loss) after tax for the year | | | **583** |
| **Transactions with the shareholder, recorded directly in equity** | | **3 842** | |
| Equity-settled share-based payment transactions | | | |
| Transactions with non-controlling shareholders | | | |
| Issue of share capital and share premium | | **3 842** | |
| Transfer of vested equity options | | | |
| Dividends paid | 37 | | |
| **Balance at 31 December 2015** | | **40 198** | **1 094** |

Details relating to each reserve are provided in the accounting policies detailed in annexure D.

All balances are stated net of tax where applicable.

| | Cash flow hedging reserve Rm | Available-for-sale reserve Rm | Share-based payment reserve Rm | Retained earnings Rm | Ordinary shareholder's equity Rm | Non-controlling interest Rm | Total equity Rm |
|---|---|---|---|---|---|---|---|
| | 25 | 118 | 31 | 42 301 | 79 201 | 3 | 79 204 |
| | (2) | (5) | | 11 564 | 11 698 | 3 | 11 701 |
| | | | | 11 674 | 11 674 | 3 | 11 677 |
| | (2) | (5) | | (110) | 24 | | 24 |
| | | | 11 | (8 498) | (8 487) | | (8 487) |
| | | | 27 | 86 | 113 | | 113 |
| | | | (16) | 16 | | | |
| | | | | (8 600) | (8 600) | | (8 600) |
| | 23 | 113 | 42 | 45 367 | 82 412 | 6 | 82 418 |
| | **23** | **113** | **42** | **45 367** | **82 412** | **6** | **82 418** |
| | **(115)** | **61** | | **12 368** | **12 897** | **1** | **12 898** |
| | | | | **12 478** | **12 478** | **1** | **12 479** |
| | **(115)** | **61** | | **(110)** | **419** | | **419** |
| | | | **(2)** | **(8 435)** | **(4 595)** | **(7)** | **(4 602)** |
| | | | **4** | **(107)** | **(103)** | | **(103)** |
| | | | | **(34)** | **(34)** | **(7)** | **(41)** |
| | | | | | **3 842** | | **3 842** |
| | | | **(6)** | **6** | | | |
| | | | | **(8 300)** | **(8 300)** | | **(8 300)** |
| | **(92)** | **174** | **40** | **49 300** | **90 714** | | **90 714** |

# Statements of changes in equity

| for the year ended 31 December 2015 | Note | Ordinary share capital and premium Rm |
|---|---|---|
| **Company** | | |
| **Balance at 1 January 2014** | | 36 356 |
| **Total comprehensive income for the year** | | |
| Profit for the year | | |
| Other comprehensive income/(loss) after tax for the year | | |
| **Transactions with the shareholder, recorded directly in equity** | | |
| Equity-settled share-based payment transactions | | |
| Transfer of vested equity options | | |
| Dividends paid | 37 | |
| **Balance at 31 December 2014** | | 36 356 |
| **Balance at 1 January 2015** | | **36 356** |
| **Total comprehensive income/(loss) for the year** | | |
| Profit for the year | | |
| Other comprehensive income/(loss) after tax for the year | | |
| **Transactions with the shareholder, recorded directly in equity** | | **3 842** |
| Equity-settled share-based payment transactions | | |
| Issue of share capital and share premium | | **3 842** |
| Transfer of vested equity options | | |
| Dividends paid | 37 | |
| **Balance at 31 December 2015** | | **40 198** |

Details relating to each reserve are provided in the accounting policies detailed in annexure D.

All balances are stated net of tax where applicable.

| Foreign currency translation reserve Rm | Cash flow hedging reserve Rm | Available-for-sale reserve Rm | Share-based payment reserve Rm | Retained earnings Rm | Ordinary shareholder's equity Rm |
|---|---|---|---|---|---|
| 337 | 25 | 118 | 31 | 40 707 | 77 574 |
| 140 | (2) | (5) | | 11 739 | 11 872 |
| | | | | 11 849 | 11 849 |
| 140 | (2) | (5) | | (110) | 23 |
| | | | 11 | (8 498) | (8 487) |
| | | | 27 | 86 | 113 |
| | | | (16) | 16 | |
| | | | | (8 600) | (8 600) |
| 477 | 23 | 113 | 42 | 43 948 | 80 959 |
| **477** | **23** | **113** | **42** | **43 948** | **80 959** |
| **581** | **(115)** | **61** | | **11 837** | **12 364** |
| | | | | **11 947** | **11 947** |
| **581** | **(115)** | **61** | | **(110)** | **417** |
| | | | **(2)** | **(8 397)** | **(4 557)** |
| | | | **4** | **(103)** | **(99)** |
| | | | | | **3 842** |
| | | | **(6)** | **6** | |
| | | | | **(8 300)** | **(8 300)** |
| **1 058** | **(92)** | **174** | **40** | **47 388** | **88 766** |

# Accounting policy elections

## Basis of preparation

The principal accounting policies applied in the presentation of the group and company's annual financial statements are set out below. The group and company's accounting policies are consistent unless stated otherwise.

The consolidated and 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 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:

- Available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, and liabilities for cash-settled share-based payment arrangements
- 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 fluctuations in price or broker-traders' margin are measured at fair value less cost to sell (accounting policy 3)
- Tangible assets (intangible assets other than goodwill) are accounted for at cost less accumulated depreciation (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).

## Functional and presentation currency

The annual financial statements are presented in South African rand, which is the functional 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 periods

- IAS 19 *Employee Benefits* (IAS 19): Amendment to employee contributions for defined benefit plans requires contributions that are dependent on the number of years of service are to be attributed to periods of service based on the plan's contribution formula or a straight-line basis. Contributions that are independent of the number of years of service are to be recognised as a reduction in service cost in the period in which the related service is rendered.

### Early adoption of revised standards

- *Annual improvements 2010 – 2012, 2011 – 2013 and 2012 – 2014 cycle*: the IASB issued various amendments and clarifications to existing IFRS, none of which had a significant impact on the group's and company's financial statements.
- Amendment to IAS 1 *Presentation of Financial Statements* (IAS 1): the group and company early adopted the amendment which clarified that materiality applies to the whole set of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. As a consequence of early adopting the amendment, the group and company undertook a project to assess the effectiveness of disclosures in the annual financial statements and, where necessary, remove immaterial and unnecessary information. The main impact of these enhancements is as follows:

## Income statement

| Item | As previously presented Group Rm | As previously presented Company Rm | Revised presentation Group Rm | Revised presentation Company Rm | Enhancement |
|---|---|---|---|---|---|
| Operating expenses | **31 701** | 30 936 | **31 211** | 30 446 | Impairment of intangible assets and losses on sale of property and equipment now included in 'Non-trading and capital related items' |
| Goodwill impairment | **4** | | | | Now included in 'Non-trading and capital related items' |
| Share of profit from associates and joint ventures | **140** | 476 | **121** | | Gains and losses on disposal of associates, now included in 'Non-trading and capital related items' |
| Non-trading and capital related items | | | **(475)** | (14) | New line item – refer to accounting policy 14 in annexure D |

## Statement of cash flows

| Item | As previously presented Group Rm | As previously presented Company Rm | Revised presentation Group Rm | Revised presentation Company Rm | Enhancement |
|---|---|---|---|---|---|
| Income before share of profit from associates and joint ventures | **15 877** | 15 552 | | | Total no longer presented on the face of the income statement |
| Net income before non-trading and capital related items and equity accounted earnings | | | **16 371** | 16 042 | New total used as starting point for income statement items in determining 'Cash flows used in operations'. |
| Adjusted for non-cash items and other adjustments included in the income statement | **(21 808)** | (21 541) | **(22 302)** | (22 031) | Impairment of intangible assets, goodwill impairment and loss on sale of property and equipment no longer adjusted for as these are not included in the income statement line item 'Net income before non-trading and capital related items and equity accounted earnings'. |

# Key management assumptions

In preparing the annual 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.

## Credit impairment losses on loans and advances

### Portfolio loan impairments

The group and company assess loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in profit or loss, the group and company make 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 and other indicators of potential default, such as changes in macroeconomic conditions and legislation affecting credit recovery. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period. At year end, the group applied an average loss emergence period of three months (2014: three months) for PBB and 12 months (2014: 12 months) for CIB loans and advances.

### Specific loan impairments

Non-performing loans include those loans for which the group and company have 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 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 securities and recoveries of individual loans as a percentage of the outstanding balances are estimated as follows:

| | Expected time to recovery | | Expected recoveries as a percentage of impaired loans | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **Months** | Months | **%** | % |
| **Personal & Business Banking** | **10 – 15** | 10 – 15 | **59** | 59 |
| Mortgage lending | **15** | 15 | **73** | 74 |
| Vehicle and asset finance | **10** | 10 | **54** | 48 |
| Card debtors | **15** | 15 | **32** | 32 |
| Other lending | **14** | 14 | **34** | 33 |
| **Corporate & Investment Banking**[1] | **22** | 22 | **34** | 50 |

1 The reduction in expected recoveries as a percentage of impaired loans has been influenced by market movements, including changes in collateral fair values.

## Fair value

### Financial instruments

In terms of IFRS, the group and company are either required to or elect to measure a number of their 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 represent 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 and company's valuation control framework govern 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 adjustments to reflect the terms of the actual instrument being valued and current market conditions. Unobservable inputs are subject to management judgement and although the group believes that its estimates of fair values are appropriate, changing one or more of these assumptions to reasonably possible alternative values 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 stocks, correlation between risk factors, prepayment rates, and 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 this 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 and company have, 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 (level 3) that was recognised in profit or loss for the year ended 31 December 2015 was a net loss of R5 705 million (2014: R289 million net loss) for the group and R5 706 million (2014: R289 million net loss) for the company. Other financial instruments (materially level 2) are utilised to mitigate the risk of these changes in fair value.

### Impairment of available-for-sale equity investments

The group and company determine 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 and company evaluate, among other factors, the normal volatility in the underlying instrument's fair value. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry or sector, or operating and financing cash flows or significant changes in technology.

## 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. An interest would 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 for events such as litigation, tax and operational difficulties.

## Computer software intangible assets

The group and company review assets brought into use for impairment at each reporting date and test for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. These circumstances include, but are not limited to, 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 assets' recoverable amount. The recoverable amount is based on the value in use and is calculated by estimating future cash benefits that will result from each asset and discounting those cash benefits at an appropriate pre-tax discount rate.

During the 2015 financial year, impairment indicators were identified with regard to certain components of the group and company's computer software assets. The recoverable values for these identified components were determined to be Rnil due to components being obsolete, redundant or unusable. The carrying value of these components was fully impaired.

## 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 their carrying amounts. The recoverable amount is determined as the higher of the CGU's fair value less costs to sell and its value in use. The review and testing of goodwill for impairment inherently requires significant management judgement as it requires management to derive the estimates of the identified CGUs' 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 that, based on management judgement and expected market conditions, could be sustainably generated over such a period. A forecast period of 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.

**Discount rates:** The cost of equity (CoE) percentages were derived from an equity pricing model 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. The future cash flows are discounted using the CoE assigned to the appropriate CGUs and, by nature, can have a significant effect on their valuations.

## Current and deferred tax

The group and company are 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 during the ordinary course of business. The group and company recognise provisions for tax based on objective estimates of the amount of taxes that may be due. 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 34 and note 14, 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 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.

## 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 reporting date up to the date of the approval of the financial statements.

## Share-based payments

The group and company have both cash and equity-settled share incentive schemes which are issued to qualifying employees based on the rules of the respective schemes. The group and company use valuation techniques which include the Black-Scholes option pricing model to determine the fair value of awards on grant date for its cash- and equity-settled share incentive schemes. The valuation of the group and company's obligations with respect to its cash- and equity-settled share incentive scheme obligations are determined with reference to SBG's share price, which is an observable market input. In determining the expense to be recognised for share schemes, the group estimates the expected future vesting of the awards by considering staff attrition levels. The group and company also makes estimates of the future vesting of awards that are subject to non-market vesting conditions by taking into account the probability of such conditions being met.

Refer to annexure C for further details regarding the carrying amount of the liabilities arising from the group's cash-settled share incentive schemes and the expenses recognised in the income statement.

## Post-employment benefits

The group and company's post-employment benefits consist of both post-employment retirement funds and healthcare benefits. The group and company'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 and company's obligations include the following:

| | **Retirement fund** | **Post-employment medical aid fund** |
|---|---|---|
| **2015** | | |
| **Discount rate** | **Nominal government bond yield curve** | **Nominal government bond yield curve** |
| **Return on investments** | **10.01% – discounted rate of term equal to the discounted mean term of the liabilities** | **Not applicable to fund** |
| **Salary/benefit inflation** | **Inflation rate plus 1% plus a merit scale** | **Not applicable to fund** |
| **CPI inflation** | **Difference between nominal and index-linked bond yield curves** | **Difference between nominal and index-linked bond yield curves** |
| **Medical inflation** | **Not applicable to fund** | **Difference between nominal and index-linked bond yield curves plus 1.5%** |
| **Provider benefit escalation** | **Inflation rates plus 2%** | **Not applicable to fund** |
| **Pension increase in allowance** | **Inflation rates** | **Not applicable to fund** |
| **Remaining service life of employees (years)** | **11.62** | **Not applicable to fund** |

| | Retirement fund | Post-employment medical aid fund |
|---|---|---|
| **2014** | | |
| **Discount rate** | Nominal government bond yield curve | Nominal government bond yield curve |
| **Return on investments** | 8.29% – discounted rate of term equal to the discounted mean term of the liabilities | Not applicable to fund |
| **Salary/benefit inflation** | Inflation rate plus 1% plus a merit scale | Not applicable to fund |
| **CPI inflation** | Difference between nominal and index-linked bond yield curves | Difference between nominal and index-linked bond yield curves |
| **Medical inflation** | Not applicable to fund | Difference between nominal and index-linked bond yield curves plus 1.5% |
| **Provider benefit escalation** | Inflation rates plus 2% | Not applicable to fund |
| **Pension increase in allowance** | Inflation rates | Not applicable to fund |
| **Remaining service life of employees (years)** | 12.50 | Not applicable to fund |

# Notes to the financial statements

## 1. Cash and balances with central banks

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **Rm** | Rm | **Rm** | Rm |
| Coins and bank notes | **11 688** | 12 755 | **11 689** | 12 739 |
| Balances with central banks | **18 564** | 19 463 | **18 564** | 19 463 |
| | **30 252** | 32 218 | **30 253** | 32 202 |

Cash and balances with the central bank includes R18 564 million (2014: R18 400 million) that is not available for use by the group and company. These balances primarily comprise of reserving requirements held with the central bank.

## 2. Derivative instruments

All derivatives are classified as either derivatives held-for-trading or derivatives held-for-hedging. A summary of the fair values of the derivative assets and derivative liabilities is shown in the table below:

| | Fair value of assets | | Fair value of liabilities | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **Rm** | Rm | **Rm** | Rm |
| **Group** | | | | |
| Held-for-trading | **97 133** | 51 812 | **(118 266)** | (65 213) |
| Held-for-hedging | **3 223** | 2 250 | **(2 591)** | (1 085) |
| **Total** | **100 356** | 54 062 | **(120 857)** | (66 298) |
| **Company** | | | | |
| Held-for-trading | **97 148** | 51 826 | **(118 266)** | (65 213) |
| Held-for-hedging | **3 207** | 2 234 | **(2 591)** | (1 085) |
| **Total** | **100 355** | 54 060 | **(120 857)** | (66 298) |

### 2.1 Use and measurement of derivative instruments

In the normal course of business, the group and company 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, credit, interest rate, inflation, commodity and equity exposures. Derivative instruments used by the group and company in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, interest rates, inflation 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. Derivative instruments continued

## 2.2 Derivatives held-for-trading

The group and company transact derivative contracts to address client demand, both as a market maker in the wholesale markets and in structuring tailored derivatives for clients. The group and company also takes proprietary positions for its own account. Trading derivative products include the following:

| | Fair value of assets | | Fair value of liabilities | | Contract/notional amount | |
|---|---|---|---|---|---|---|
| | **2015 Rm** | 2014 Rm | **2015 Rm** | 2014 Rm | **2015 Rm** | 2014 Rm |
| **Group** | | | | | | |
| Foreign exchange derivatives | **44 357** | 20 429 | **(45 774)** | (24 040) | **1 506 626** | 1 114 318 |
| Interest rate derivatives | **45 283** | 27 449 | **(62 043)** | (34 892) | **5 510 815** | 4 273 085 |
| Commodity derivatives | **1 404** | 194 | **(1 208)** | (1 092) | **14 083** | 8 315 |
| Credit derivatives | **4 320** | 3 102 | **(6 345)** | (3 654) | **67 685** | 65 112 |
| Equity derivatives | **1 769** | 638 | **(2 896)** | (1 535) | **228 315** | 130 749 |
| **Total** | **97 133** | 51 812 | **(118 266)** | (65 213) | **7 327 524** | 5 591 579 |
| **Company** | | | | | | |
| Foreign exchange derivatives | **44 357** | 20 429 | **(45 774)** | (24 040) | **1 506 626** | 1 114 318 |
| Interest rate derivatives | **45 298** | 27 463 | **(62 043)** | (34 892) | **5 504 533** | 4 265 739 |
| Commodity derivatives | **1 404** | 194 | **(1 208)** | (1 092) | **14 083** | 8 315 |
| Credit derivatives | **4 320** | 3 102 | **(6 345)** | (3 654) | **67 685** | 65 112 |
| Equity derivatives | **1 769** | 638 | **(2 896)** | (1 535) | **228 315** | 130 749 |
| **Total** | **97 148** | 51 826 | **(118 266)** | (65 213) | **7 321 242** | 5 584 233 |

## 2.3 Derivatives held-for-hedging

The group and company enters into derivative transactions, which are designated and qualify as either fair value or cash flow hedges for recognised assets or liabilities or highly probable forecast transactions. Derivatives designated as hedging instruments consist of:

| | Fair value of assets | | Fair value of liabilities | | Contract/notional amount | |
|---|---|---|---|---|---|---|
| | **2015 Rm** | 2014 Rm | **2015 Rm** | 2014 Rm | **2015 Rm** | 2014 Rm |
| **Group** | | | | | | |
| Derivatives designated as fair value hedges | **763** | 1 709 | **(2 280)** | (1 085) | **79 464** | 25 172 |
| Derivatives designated as cash flow hedges | **2 460** | 541 | **(311)** | | **4 776** | 9 403 |
| **Total** | **3 223** | 2 250 | **(2 591)** | (1 085) | **84 240** | 34 575 |
| **Company** | | | | | | |
| Derivatives designated as fair value hedges | **747** | 1 693 | **(2 280)** | (1 085) | **78 739** | 24 447 |
| Derivatives designated as cash flow hedges | **2 460** | 541 | **(311)** | | **4 776** | 9 403 |
| **Total** | **3 207** | 2 234 | **(2 591)** | (1 085) | **83 515** | 33 850 |

## 2. Derivative instruments continued

### 2.3 Derivatives held-for-hedging continued

#### 2.3.1 Derivatives designated in fair value hedge relationships

The group and company's fair value hedges principally consist of interest rate swaps that are used to mitigate the risk of changes in market interest rates. The (loss)/gains arising from fair value hedges during the year were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **Rm** | Rm | **Rm** | Rm |
| Hedging instruments | **(1 274)** | 245 | **(1 267)** | 248 |
| Hedged items attributable to the hedged risk | **1 427** | (200) | **1 420** | (197) |

#### 2.3.2 Derivatives designated in cash flow hedge relationships

The group and company use currency forwards and 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 of mitigating 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 and company manage the risks arising from changes in cash flows from cash-settled share incentive schemes by using equity forwards. The equity forward partially mitigates the changes in SBG's share price by locking in a fixed price at maturity.

The forecasted timing of the release of net cash flows before tax from the cash flow hedging reserve into profit or loss for the group and company is as follows:

| | 3 months or less Rm | More than 3 months but less than 1 year Rm | More than 1 year but less than 5 years Rm |
|---|---|---|---|
| **2015** | | | |
| Net cash outflow | **(2)** | **(22)** | **(104)** |
| **2014** | | | |
| Net cash inflow | 16 | 14 | 2 |

**Reconciliation of movements in the cash flow hedging reserve**

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **Rm** | Rm | **Rm** | Rm |
| Balance at the beginning of the year | **23** | 25 | **23** | 25 |
| Amounts recognised directly in OCI before tax | **2 305** | 224 | **2 305** | 224 |
| *Less:* amounts released to profit or loss before tax | **(2 467)** | (225) | **(2 467)** | (225) |
| Net interest income | **(2 491)** | 17 | **(2 491)** | 17 |
| Other operating expenses | **24** | (242) | **24** | (242) |
| Deferred tax | **47** | (1) | **47** | (1) |
| **Balance at the end of the year** | **(92)** | 23 | **(92)** | 23 |

Ineffectiveness that arises from cash flow hedges is recognised immediately in profit or loss. No amounts were recognised in profit or loss during 2015 and 2014.

## 2. Derivative instruments continued

### 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:

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014[1] Rm |
|---|---|---|---|---|
| Unamortised profit at the beginning of the year | **61** | 391 | **61** | 391 |
| Additional profit on new transactions | | 144 | | 144 |
| Recognised in profit or loss during the year | **(36)** | (84) | **(36)** | (84) |
| Transfer to trading assets | | (390) | | (390) |
| **Unamortised profit at the end of the year** | **25** | 61 | **25** | 61 |

[1] The group identified day one gains and losses which were not appropriately disclosed previously. This correction to the disclosure had no impact on the income statement or statement of financial position in the current or prior reporting period.

## 3. Trading assets

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014[1] Rm |
|---|---|---|---|---|
| Government, municipality and utility bonds | **7 795** | 8 193 | **7 795** | 8 193 |
| Corporate bonds | **7 635** | 3 852 | **7 635** | 3 852 |
| Collateral | **2 730** | 1 308 | **2 730** | 1 308 |
| Reverse repurchase and other collateralised agreements | **21 958** | 16 840 | **21 958** | 16 840 |
| Listed equities | **12 556** | 11 761 | **12 556** | 11 761 |
| Other instruments | **10 608** | 9 482 | **10 606** | 9 482 |
| | **63 282** | 51 436 | **63 280** | 51 436 |

### 3.1 Day one profit or loss – trading assets

This table 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:

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014[1] Rm |
|---|---|---|---|---|
| Unamortised profit at the beginning of the year | **418** | | **418** | |
| Additional profit on new transactions and transfers | **268** | 68 | **268** | 68 |
| Recognised in profit or loss during the year | **(104)** | (40) | **(104)** | (40) |
| Transfer to trading assets | | 390 | | 390 |
| **Unamortised (loss)/profit at the end of the year** | **582** | 418 | **582** | 418 |

[1] The group identified day one gains and losses which were not appropriately disclosed previously. This correction to the disclosure had no impact on the income statement or statement of financial position in the current or prior reporting period.

# 4. Pledged assets

## 4.1 Pledged assets

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| **Financial assets that may be repledged or resold by counterparties** | | | | |
| Government, municipality and utility bonds | **4 722** | 4 142 | **4 722** | 4 142 |
| Corporate bonds | **1 033** | 870 | **1 033** | 870 |
| Commodity leases | **2 124** | 269 | **2 124** | 269 |
| | **7 879** | 5 281 | **7 879** | 5 281 |

## 4.2 Total assets pledged

The total amount of financial assets that have been pledged as collateral for liabilities and contingent liabilities is R17 371 million (2014: R12 691 million).

The assets pledged by the group and company are strictly for the purpose of providing collateral to the counterparty. To the extent that the counterparty is permitted to sell and/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 customary to standard reverse repurchase agreements and securities lending activities.

## 4.3 Collateral accepted as security for assets

As part of the reverse repurchase and securities lending agreements, the group and company have received securities which are not recorded in the statement of financial position that they are allowed to sell or repledge. The fair value of the financial assets accepted as collateral that the group and company are permitted to sell or repledge in the absence of default is R115 202 million (2014: R100 850 million).

The fair value of financial assets accepted as collateral and commodities received through commodity leases that have been sold or repledged in terms of repurchase agreements or leased in terms of leasing transactions is R19 625 million (2014: R23 685 million).

These transactions are conducted under terms that are customary to standard reverse repurchase agreements and securities borrowing activities.

## 4.4 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 or partial derecognition of the financial assets concerned.

Full derecognition occurs when the group and company 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 the conditions in IFRS. The risks include interest rate, currency, prepayment and other price risks.

However, where the group and company have retained substantially all of the credit risk associated with the transferred assets, it continues to recognise these assets.

# 4. Pledged assets continued

## 4.4 Assets transferred not derecognised continued

**Securitisations** continued

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 Rm | Carrying amount of associated liabilities[1] Rm | Fair value of transferred assets Rm | Fair value of associated liabilities[1] Rm | Net fair value Rm |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2015** | | | | | |
| Mortgage loans | **23 912** | **4 394** | **23 172** | **4 401** | **18 771** |
| **2014** | | | | | |
| Mortgage loans | 25 117 | 4 976 | 24 394 | 4 989 | 19 405 |
| **Company** | | | | | |
| **2015** | | | | | |
| Mortgage loans | **16 187** | **16 344** | **15 848** | **16 337** | **(489)** |
| **2014** | | | | | |
| Mortgage loans | 16 210 | 16 248 | 15 826 | 16 243 | (417) |

[1] 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 advances have been ceded as security for the associated liabilities, which have recourse only to the transferred assets.

The following table analyses the carrying amount of the company's continuing involvement within securitisations:

| | Carrying value Rm | Fair value Rm | Maximum exposure to risk Rm |
|---|---|---|---|
| **Company** | | | |
| **2015** | | | |
| Mortgage loans | **204** | **204** | **204** |
| **2014** | | | |
| Mortgage loans[1] | 223 | 223 | 223 |

[1] Restated as the 2014 disclosures incorrectly included R477 million of mortgage loans that were transferred to Tabistone (a consolidated SE) and which were not derecognised by SBSA.

## 4. Pledged assets continued

### 4.4 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, and commodities leased out to third parties. Risks to which the group and company remain 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 or which were partially derecognised, and their associated liabilities.

| | 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 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2015** | | | | | |
| **Pledged assets** | **7 879** | **5 755** | **7 885** | **5 756** | **2 129** |
| Bonds | **5 755** | **5 755** | **5 761** | **5 756** | **5** |
| Commodities | **2 124** | | **2 124** | | **2 124** |
| **Financial investments** | **11 615** | **11 548** | **11 615** | **11 548** | **67** |
| | **19 494** | **17 303** | **19 500** | **17 304** | **2 196** |
| **2014** | | | | | |
| **Pledged assets** | 5 281 | 4 671 | 5 287 | 4 671 | 616 |
| Bonds | 5 012 | 4 671 | 5 018 | 4 671 | 347 |
| Commodities | 269 | | 269 | | 269 |
| **Financial investments** | 7 679 | 6 993 | 7 679 | 7 670 | 9 |
| | 12 960 | 11 664 | 12 966 | 12 341 | 625 |
| **Company** | | | | | |
| **2015** | | | | | |
| **Pledged assets** | **7 879** | **5 755** | **7 885** | **5 756** | **2 129** |
| Bonds | **5 755** | **5 755** | **5 761** | **5 756** | **5** |
| Commodities | **2 124** | | **2 124** | | **2 124** |
| **Financial investments** | **11 615** | **11 548** | **11 615** | **11 548** | **67** |
| | **19 494** | **17 303** | **19 500** | **17 304** | **2 196** |
| **2014** | | | | | |
| **Pledged assets** | 5 281 | 4 671 | 5 287 | 4 671 | 616 |
| Bonds | 5 012 | 4 671 | 5 018 | 4 671 | 347 |
| Commodities | 269 | | 269 | | 269 |
| **Financial investments** | 7 679 | 6 993 | 7 679 | 7 670 | 9 |
| | 12 960 | 11 664 | 12 966 | 12 341 | 625 |

[1] Where the group and company has recourse to the transferred asset.

During the current year of assessment there were no instances of financial assets that were sold or otherwise transferred, but were partially derecognised. Further, there were no instances of financial assets transferred and derecognised where the group had continuing involvement.

## 5. Financial investments

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Short-term negotiable securities | **54 887** | 61 994 | **54 887** | 61 994 |
| Other financial investments | **44 057** | 39 862 | **43 106** | 38 451 |
| | **98 944** | 101 856 | **97 993** | 100 445 |
| **Comprising:** | | | | |
| Government, municipality and utility bonds | **38 924** | 29 475 | **38 867** | 29 357 |
| Corporate bonds | **6 560** | 7 640 | **5 666** | 6 347 |
| Listed equities | **105** | 147 | **105** | 147 |
| Unlisted equities | **2 632** | 1 798 | **2 632** | 1 798 |
| Mutual funds | **1 149** | 6 166 | **1 149** | 6 166 |
| Treasury bills | **49 574** | 55 647 | **49 574** | 55 647 |
| Other instruments | | 983 | | 983 |
| | **98 944** | 101 856 | **97 993** | 100 445 |

## 6. Loans and advances

### 6.1 Loans and advances net of impairments

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| **Loans and advances to banks** | **113 600** | 100 152 | **112 944** | 99 896 |
| **Loans and advances to customers** | **783 744** | 685 331 | **769 334** | 669 506 |
| Gross loans and advances to customers | **801 607** | 700 694 | **787 018** | 684 727 |
| Mortgage loans | **310 330** | 302 847 | **302 655** | 293 988 |
| Vehicle and asset finance (note 6.2) | **69 618** | 63 380 | **69 618** | 63 380 |
| Card debtors | **30 389** | 29 496 | **29 225** | 28 326 |
| Overdrafts and other demand lending | **49 755** | 49 171 | **49 763** | 49 186 |
| Personal loans | **8 485** | 8 778 | **8 495** | 8 786 |
| Corporate, business and other loans | **41 270** | 40 393 | **41 268** | 40 400 |
| Other term loans | **242 572** | 190 720 | **236 791** | 184 769 |
| Personal loans | **29 256** | 27 201 | **29 256** | 24 755 |
| Corporate, business and other loans | **213 316** | 163 519 | **207 535** | 160 014 |
| Loans granted under resale agreements | **36 391** | 10 949 | **36 391** | 10 949 |
| Commercial property finance | **62 552** | 54 131 | **62 575** | 54 129 |
| Credit impairments for loans and advances (note 6.3) | **(17 863)** | (15 363) | **(17 684)** | (15 221) |
| Specific credit impairments | **(12 738)** | (11 148) | **(12 593)** | (11 034) |
| Portfolio credit impairments | **(5 125)** | (4 215) | **(5 091)** | (4 187) |
| **Net loans and advances** | **897 344** | 785 483 | **882 278** | 769 402 |

## 6. Loans and advances continued

### 6.2 Vehicle and asset finance

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **Rm** | Rm | **Rm** | Rm |
| **Gross investment in vehicle and asset finance** | **83 502** | 74 714 | **83 502** | 74 714 |
| Receivable within one year | **27 191** | 24 984 | **27 191** | 24 984 |
| Receivable after one year but within five years | **56 126** | 49 555 | **56 126** | 49 555 |
| Receivable after five years | **185** | 175 | **185** | 175 |
| Unearned finance charges deducted | **(13 884)** | (11 334) | **(13 884)** | (11 334) |
| **Net investment in vehicle and asset finance** | **69 618** | 63 380 | **69 618** | 63 380 |
| Receivable within one year | **21 582** | 20 240 | **21 582** | 20 240 |
| Receivable after one year but within five years | **47 872** | 42 992 | **47 872** | 42 992 |
| Receivable after five years | **164** | 148 | **164** | 148 |

Leases entered into are at market-related terms. Under the terms of the lease agreements, no contingent rentals are receivable. Moveable assets are leased or sold to customers under finance leases and instalment sale agreements for periods varying between 60 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

A reconciliation of the allowance for impairment losses for loans and advances to customers, by class:

| | Mortgage loans Rm | Vehicle and asset finance Rm | Card debtors Rm |
|---|---|---|---|
| **2015** | | | |
| **Group** | | | |
| **Specific impairments** | | | |
| Balance at the beginning of the year | **3 439** | **1 127** | **1 002** |
| Impaired accounts written off | **(1 270)** | **(915)** | **(1 086)** |
| Discount element recognised in interest income | **(401)** | **(85)** | **(42)** |
| Net impairments raised[1] | **1 932** | **940** | **1 490** |
| Exchange and other movements | | | |
| **Balance at the end of the year** | **3 700** | **1 067** | **1 364** |
| **Portfolio impairments** | | | |
| Balance at the beginning of the year | **729** | **557** | **570** |
| Net impairments raised/(released)[1] | **283** | **131** | **72** |
| Exchange and other movements | **2** | | |
| **Balance at the end of the year** | **1 014** | **688** | **642** |
| **Total** | **4 714** | **1 755** | **2 006** |
| **2014** | | | |
| **Group** | | | |
| **Specific impairments** | | | |
| Balance at the beginning of the year | 3 852 | 895 | 873 |
| Impaired accounts written off | (2 549) | (845) | (1 072) |
| Discount element recognised in interest income | (348) | (47) | (63) |
| Net impairments raised[1] | 2 484 | 1 124 | 1 264 |
| Exchange and other movements | | | |
| **Balance at the end of the year** | 3 439 | 1 127 | 1 002 |
| **Portfolio impairments** | | | |
| Balance at the beginning of the year | 684 | 427 | 580 |
| Net impairments raised/(released)[1] | 45 | 130 | (10) |
| Exchange and other movements | | | |
| **Balance at the end of the year** | 729 | 557 | 570 |
| **Total** | 4 168 | 1 684 | 1 572 |

1 Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charges (note 31).

| Personal unsecured lending Rm | Business lending and other Rm | Corporate lending Rm | Commercial property finance Rm | Total Rm |
|---|---|---|---|---|
| **2 307** | **1 056** | **2 082** | **135** | **11 148** |
| **(1 528)** | **(430)** | **(189)** | **(23)** | **(5 441)** |
| **(238)** | **(51)** | | | **(817)** |
| **2 112** | **446** | **320** | **46** | **7 286** |
| **(2)** | **2** | **562** | | **562** |
| **2 651** | **1 023** | **2 775** | **158** | **12 738** |
| **891** | **1 077** | **276** | **115** | **4 215** |
| **152** | **149** | **142** | **(19)** | **910** |
| | **(9)** | **7** | | |
| **1 043** | **1 217** | **425** | **96** | **5 125** |
| **3 694** | **2 240** | **3 200** | **254** | **17 863** |
| 2 238 | 1 258 | 1 656 | 160 | 10 932 |
| (1 911) | (711) | (756) | (35) | (7 879) |
| (234) | (49) | (9) | (1) | (751) |
| 2 214 | 558 | 1 078 | 11 | 8 733 |
| | | 113 | | 113 |
| 2 307 | 1 056 | 2 082 | 135 | 11 148 |
| 982 | 876 | 580 | 115 | 4 244 |
| (91) | 199 | (304) | | (31) |
| | 2 | | | 2 |
| 891 | 1 077 | 276 | 115 | 4 215 |
| 3 198 | 2 133 | 2 358 | 250 | 15 363 |

# 6. Loans and advances continued

## 6.3 Credit impairments for loans and advances continued

| | Mortgage loans Rm | Vehicle and asset finance Rm | Card debtors Rm |
|---|---|---|---|
| **2015** | | | |
| **Company** | | | |
| **Specific impairments** | | | |
| Balance at the beginning of the year | **3 357** | **1 130** | **966** |
| Impaired accounts written off | **(1 246)** | **(915)** | **(1 035)** |
| Discount element recognised in interest income | **(390)** | **(85)** | **(38)** |
| Net impairments raised[1] | **1 879** | **940** | **1 423** |
| Exchange and other movements | **52** | **(3)** | |
| **Balance at the end of the year** | **3 652** | **1 067** | **1 316** |
| **Portfolio impairments** | | | |
| Balance at the beginning of the year | **684** | **555** | **557** |
| Net impairments raised/(released)[1] | **283** | **131** | **69** |
| Exchange and other movements | **44** | | |
| **Balance at the end of the year** | **1 011** | **686** | **626** |
| **Total** | **4 663** | **1 753** | **1 942** |
| **2014** | | | |
| **Company** | | | |
| **Specific impairments** | | | |
| Balance at the beginning of the year | 3 784 | 897 | 835 |
| Impaired accounts written off | (2 518) | (846) | (1 011) |
| Discount element recognised in interest income | (341) | (45) | (63) |
| Net impairments raised[1] | 2 428 | 1 124 | 1 205 |
| Exchange and other movements | 4 | | |
| **Balance at the end of the year** | 3 357 | 1 130 | 966 |
| **Portfolio impairments** | | | |
| Balance at the beginning of the year | 666 | 425 | 569 |
| Net impairments raised/(released)[1] | 22 | 130 | (12) |
| Exchange and other movements | (4) | | |
| **Balance at the end of the year** | 684 | 555 | 557 |
| **Total** | 4 041 | 1 685 | 1 523 |

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charges (note 31).

| | Personal unsecured lending Rm | Business lending and other Rm | Corporate lending Rm | Commercial property finance Rm | Total Rm |
|---|---|---|---|---|---|
| | **2 305** | **1 118** | **2 015** | **143** | **11 034** |
| | **(1 528)** | **(430)** | **(170)** | **(23)** | **(5 347)** |
| | **(238)** | **(51)** | | | **(802)** |
| | **2 112** | **447** | **320** | **47** | **7 168** |
| | | **(62)** | **562** | **(9)** | **540** |
| | **2 651** | **1 022** | **2 727** | **158** | **12 593** |
| | **1 106** | **864** | **265** | **156** | **4 187** |
| | **(63)** | **360** | **142** | **(19)** | **903** |
| | | **(9)** | **7** | **(41)** | **1** |
| | **1 043** | **1 215** | **414** | **96** | **5 091** |
| | **3 694** | **2 237** | **3 141** | **254** | **17 684** |
| | 2 237 | 1 347 | 1 566 | 162 | 10 828 |
| | (1 911) | (708) | (762) | (35) | (7 791) |
| | (235) | (49) | (10) | | (743) |
| | 2 214 | 592 | 1 077 | 11 | 8 651 |
| | | (64) | 144 | 5 | 89 |
| | 2 305 | 1 118 | 2 015 | 143 | 11 034 |
| | 1 196 | 663 | 578 | 121 | 4 218 |
| | (90) | 198 | (324) | 19 | (57) |
| | | 3 | 11 | 16 | 26 |
| | 1 106 | 864 | 265 | 156 | 4 187 |
| | 3 411 | 1 982 | 2 280 | 299 | 15 221 |

## 7. Other assets

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Trading settlement assets | **5 077** | 4 060 | **5 017** | 4 011 |
| Items in the course of collection | **287** | 424 | **287** | 424 |
| Post-employment benefits (note 40) | **1 160** | 1 382 | **1 160** | 1 382 |
| Prepayments | **1 002** | 715 | **996** | 714 |
| Other debtors | **1 477** | 889 | **1 340** | 644 |
| | **9 003** | 7 470 | **8 800** | 7 175 |

## 8. Interest in SBG companies, associates and joint ventures – banking operations

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Interest in SBG companies (note 8.1) | **40 535** | 65 956 | **49 824** | 76 266 |
| Interest in associates and joint ventures (note 8.2) | **812** | 951 | **111** | 128 |
| | **41 347** | 66 907 | **49 935** | 76 394 |

### 8.1 Interest in SBG companies

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| **Holding company** | | | | |
| – Indebtedness to the group/company | **215** | 387 | **215** | 387 |
| **Interest in subsidiary companies** | | | **9 128** | 9 370 |
| – Shares at cost | | | **134** | 96 |
| – Indebtedness to the company | | | **8 994** | 9 274 |
| **Interest in fellow banking subsidiary companies** | | | | |
| – Indebtedness to the group/company | **40 320** | 65 569 | **40 481** | 66 509 |
| | **40 535** | 65 956 | **49 824** | 76 266 |
| **Comprising:** | | | | |
| Shares at cost | | | **134** | 96 |
| Derivative assets | **1 785** | 7 546 | **1 788** | 7 553 |
| Trading assets | | 34 | | 34 |
| Financial investments | | | **3 568** | 4 136 |
| Loans and advances | **36 027** | 55 311 | **41 415** | 60 974 |
| Other | **2 723** | 3 065 | **2 919** | 3 473 |
| | **40 535** | 65 956 | **49 824** | 76 266 |

## 8. Interest in SBG companies, associates and joint ventures – banking operations continued

### 8.2 Interest in associates and joint ventures

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Carrying value at the beginning of the year | **951** | 2 065 | **128** | 887 |
| Share of profits | **65** | 121 | | |
| Disposal of associate – carrying value | **(142)** | (1 216) | **(20)** | (759) |
| Gain on disposal of associate | **19** | 19 | **141** | 476 |
| Disposal of associate – fair value (proceeds) | **(161)** | (1 235) | **(161)** | (1 235) |
| Acquisition | **3** | | **3** | |
| Distribution of profit | **(65)** | (19) | | |
| **Carrying value at the end of the year** | **812** | 951 | **111** | 128 |
| **Comprising:** | | | | |
| Cost of investments | **175** | 265 | **135** | 152 |
| Share of reserves | **645** | 694 | | |
| Impairments | **(8)** | (8) | **(24)** | (24) |
| **Carrying value at the end of the year** | **812** | 951 | **111** | 128 |
| Share of profits | **65** | 121 | | |
| Gain on disposal of associate | **19** | 19 | **141** | 476 |
| **Share of profits from associates and joint ventures** | **84** | 140 | **141** | 476 |

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 repayments of loans and advances.

Associates and joint ventures are listed in annexure B.

### 8.3 Liabilities to SBG companies

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| **Indebtedness by the group/company to:** | | | | |
| Ultimate holding company | **176** | 1 386 | **176** | 1 386 |
| Subsidiaries | | | **1 825** | 1 994 |
| Fellow banking subsidiaries | **127 009** | 122 408 | **126 667** | 122 654 |
| | **127 185** | 123 794 | **128 668** | 126 034 |
| **Comprising:** | | | | |
| Derivative liabilities | **660** | 7 219 | **669** | 7 235 |
| Deposits and debt funding | **126 016** | 114 205 | **127 545** | 116 479 |
| Trading liabilities | **2** | 400 | **2** | 400 |
| Other | **507** | 1 970 | **452** | 1 920 |
| | **127 185** | 123 794 | **128 668** | 126 034 |

# 9. Property and equipment

## 9.1 Group

| | Property | | Equipment | | | | |
|---|---|---|---|---|---|---|---|
| | Freehold Rm | Leasehold Rm | Computer equipment Rm | Motor vehicles Rm | Office equipment Rm | Furniture and fittings Rm | Total Rm |
| **Group** | | | | | | | |
| **Net book value at 1 January 2014** | 2 581 | 1 412 | 2 716 | 146 | 245 | 1 889 | 8 989 |
| **Movements** | 523 | (89) | (338) | (22) | 75 | (53) | 96 |
| Additions[1] | 598 | 247 | 719 | 50 | 148 | 315 | 2 077 |
| Disposals | (3) | (26) | (10) | (33) | (7) | (30) | (109) |
| Depreciation | (72) | (310) | (1 047) | (39) | (66) | (338) | (1 872) |
| **Net book value at 31 December 2014[2]** | **3 104** | **1 323** | **2 378** | **124** | **320** | **1 836** | **9 085** |
| Cost | **3 536** | **2 450** | **6 069** | **265** | **698** | **3 864** | **16 882** |
| Accumulated depreciation | **(432)** | **(1 127)** | **(3 691)** | **(141)** | **(378)** | **(2 028)** | **(7 797)** |
| **Movements** | **(19)** | **(128)** | **7** | **(21)** | **(2)** | **9** | **(154)** |
| Additions[1] | **67** | **233** | **973** | **38** | **113** | **385** | **1 809** |
| Disposals | **(1)** | **(18)** | **(6)** | **(28)** | **(10)** | **(37)** | **(100)** |
| Depreciation | **(85)** | **(343)** | **(960)** | **(31)** | **(105)** | **(339)** | **(1 863)** |
| **Net book value at 31 December 2015[2]** | **3 085** | **1 195** | **2 385** | **103** | **318** | **1 845** | **8 931** |
| Cost | **3 602** | **2 528** | **6 669** | **229** | **698** | **3 693** | **17 419** |
| Accumulated depreciation | **(517)** | **(1 333)** | **(4 284)** | **(126)** | **(380)** | **(1 848)** | **(8 488)** |

1 During 2015, no interest was capitalised (2014: R9 million).
2 Includes work in progress of R289 million (2014: R592 million) for which depreciation has not yet commenced.

# 9. Property and equipment continued

## 9.2 Company

| | Property | | Equipment | | | | |
|---|---|---|---|---|---|---|---|
| | Freehold Rm | Leasehold Rm | Computer equipment Rm | Motor vehicles Rm | Office equipment Rm | Furniture and fittings Rm | Total Rm |
| **Company** | | | | | | | |
| **Net book value at 1 January 2014** | 2 579 | 1 412 | 2 698 | 138 | 240 | 1 887 | 8 954 |
| **Movements** | 518 | (95) | (347) | (20) | 71 | (53) | 74 |
| Additions[1] | 593 | 241 | 710 | 48 | 144 | 312 | 2 048 |
| Disposals | (3) | (26) | (12) | (31) | (7) | (30) | (109) |
| Depreciation | (72) | (310) | (1 045) | (37) | (66) | (335) | (1 865) |
| **Net book value at 31 December 2014[2]** | **3 097** | **1 317** | **2 351** | **118** | **311** | **1 834** | **9 028** |
| Cost | **3 529** | **2 443** | **5 992** | **245** | **670** | **3 855** | **16 734** |
| Accumulated depreciation | **(432)** | **(1 126)** | **(3 641)** | **(127)** | **(359)** | **(2 021)** | **(7 706)** |
| **Movements** | **(19)** | **(128)** | **1** | **(20)** | | **6** | **(160)** |
| Additions[1] | **67** | **232** | **960** | **37** | **112** | **380** | **1 788** |
| Disposals | | **(18)** | **(6)** | **(28)** | **(8)** | **(37)** | **(97)** |
| Depreciation | **(86)** | **(342)** | **(953)** | **(29)** | **(104)** | **(337)** | **(1 851)** |
| **Net book value at 31 December 2015[2]** | **3 078** | **1 189** | **2 352** | **98** | **311** | **1 840** | **8 868** |
| Cost | **3 595** | **2 521** | **6 600** | **211** | **669** | **3 681** | **17 277** |
| Accumulated depreciation | **(517)** | **(1 332)** | **(4 248)** | **(113)** | **(358)** | **(1 841)** | **(8 409)** |

1 During 2015, no interest was capitalised (2014: R9 million).
2 Includes work in progress of R289 million (2014: R592 million) for which depreciation has not yet commenced,

A register of freehold land and buildings is available for inspection at the registered office of the company.

## 9.3 Valuation

The fair value of completed freehold property was based on valuations performed by valuers registered under the Valuers Act 23 of 1982, for the 2014 to 2016 period, and was estimated at R5 286 million (2014: R5 258 million) for the group and R5 279 million (2014: R5 251 million) for the company. The previous valuation was performed for the 2011 to 2013 period.

# 10. Goodwill and other intangible assets

## 10.1 Group

| | Goodwill | Computer software | Total |
|---|---|---|---|
| **Net book value at 1 January 2014** | 40 | 13 745 | 13 785 |
| **Movements** | (4) | 3 218 | 3 214 |
| Additions[1] | | 4 774 | 4 774 |
| Amortisation | | (1 111) | (1 111) |
| Impairments | (4) | (445) | (449) |
| **Net book value at 31 December 2014[2]** | **36** | **16 963** | **16 999** |
| Cost | **79** | **21 154** | **21 233** |
| Accumulated amortisation and impairment | **(43)** | **(4 191)** | **(4 234)** |
| **Movements** | | **2 316** | **2 316** |
| Additions[1] | | **5 092** | **5 092** |
| Disposals | | **(74)** | **(74)** |
| Amortisation | | **(1 482)** | **(1 482)** |
| Impairments | | **(1 220)** | **(1 220)** |
| **Net book value at 31 December 2015[2]** | **36** | **19 279** | **19 315** |
| Cost | **79** | **26 170** | **26 249** |
| Accumulated amortisation and impairment | **(43)** | **(6 891)** | **(6 934)** |

## 10.2 Company

| | Goodwill | Computer software | Total |
|---|---|---|---|
| **Net book value at 1 January 2014** | | 13 737 | 13 737 |
| **Movements** | | 3 215 | 3 215 |
| Additions[1] | | 4 771 | 4 771 |
| Amortisation | | (1 111) | (1 111) |
| Impairments | | (445) | (445) |
| **Net book value at 31 December 2014[2]** | | **16 952** | **16 952** |
| Cost | **39** | **21 132** | **21 171** |
| Accumulated amortisation and impairment | **(39)** | **(4 180)** | **(4 219)** |
| **Movements** | | **2 310** | **2 310** |
| Additions[1] | | **5 083** | **5 083** |
| Disposals | | **(74)** | **(74)** |
| Amortisation | | **(1 480)** | **(1 480)** |
| Impairments | | **(1 219)** | **(1 219)** |
| **Net book value at 31 December 2015[2]** | | **19 262** | **19 262** |
| Cost | **39** | **26 142** | **26 181** |
| Accumulated amortisation and impairment | **(39)** | **(6 880)** | **(6 919)** |

1 During 2015, R354 million (2014: R337 million) of interest was capitalised.
2 Includes work in progress of R6 239 million (2014: R6 722 million) for which amortisation has not yet commenced.

## 10. Goodwill and other intangible assets continued

### 10.3 Goodwill composition

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **Gross goodwill Rm** | **Accumulated impairment Rm** | **Net goodwill Rm** | Gross goodwill Rm | Accumulated impairment Rm | Net goodwill Rm |
| eCentric Payment Systems Proprietary Limited | **36** | | **36** | 36 | | 36 |
| MTN Mobile Money | **39** | **(39)** | | 39 | (39) | |
| LC Golf SA Proprietary Limited | **4** | **(4)** | | 4 | (4) | |
| | **79** | **(43)** | **36** | 79 | (43) | 36 |

## 11. Ordinary share capital

### 11.1 Authorised

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 Rm** | 2014 Rm | **2015 Rm** | 2014 Rm |
| 80 million (2014: 80 million) ordinary shares | **80** | 80 | **80** | 80 |
| 1 billion (2014: 1 billion) preference shares | **10** | 10 | **10** | 10 |
| | **90** | 90 | **90** | 90 |
| Ordinary shares consist of shares of R1 each. Preference shares consist of non-redeemable, non-cumulative, non-participating preference shares of R0,01 each. | | | | |
| **11.2 Issued** | | | | |
| 59 997 129 (2014: 59 997 127) ordinary shares | **60** | 60 | **60** | 60 |
| During 2015, 2 ordinary shares (2014: nil) of R1 each were issued. The shares which were issued on 31 March 2015 and 17 August 2015, were issued at a premium of R2 700 million and R1 142 million respectively. | | | | |
| **11.3 Unissued shares** | | | | |
| 20 002 871 (2014: 20 002 873) ordinary shares | **20** | 20 | **20** | 20 |
| 1 billion (2014: 1 billion) preference shares | **10** | 10 | **10** | 10 |
| | **30** | 30 | **30** | 30 |

The unissued ordinary shares and preference shares are under the general authority of the directors, whose authority expires at the annual general meeting to be held on 25 May 2016.

## 12. Ordinary share premium

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **Rm** | Rm | **Rm** | Rm |
| Share premium on issue of shares | **40 138** | 36 296 | **40 138** | 36 296 |

The share premium consists of capital investments into SBSA from its holding company, SBG, to ensure that SBSA continues to comply with regulatory requirements.

## 13. Trading liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **Rm** | Rm | **Rm** | Rm |
| Government, municipality and utility bonds | **4 400** | 1 863 | **4 400** | 1 863 |
| Listed equities | **320** | | **320** | |
| Collateral | **367** | 346 | **367** | 346 |
| Repurchase and other collateralised agreements | **10 952** | 12 769 | **10 952** | 12 769 |
| Credit-linked notes | **3 828** | 2 570 | **3 828** | 2 570 |
| Other instruments | **4 758** | 5 161 | **4 758** | 5 161 |
| | **24 625** | 22 709 | **24 625** | 22 709 |

## 14. Deferred taxation

### 14.1 Deferred tax analysis

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Assessed losses | **(4)** | (3) | | |
| Assets on lease | **223** | 253 | **223** | 253 |
| Depreciation | **1 876** | 1 423 | **1 876** | 1 423 |
| Other derivatives and financial instruments | **727** | 273 | **727** | 273 |
| Derivatives as defined for income tax purposes | **196** | 392 | **196** | 392 |
| Fair value adjustments on financial instruments | **(225)** | 8 | **(225)** | 8 |
| Impairment charges on loans and advances | **(820)** | (572) | **(794)** | (556) |
| Deferred income | **(519)** | (474) | **(519)** | (474) |
| Share-based payments | **(294)** | (581) | **(294)** | (581) |
| Other differences | **(675)** | (527) | **(659)** | (524) |
| **Deferred tax (net liability) closing balance** | **485** | 192 | **531** | 214 |
| Deferred taxation asset | **(58)** | (40) | **(10)** | (7) |
| Deferred taxation liability | **543** | 232 | **541** | 221 |

### 14.2 Deferred tax reconciliation

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Deferred tax balance at the beginning of the year | **192** | 100 | **214** | 160 |
| Prior year tax adjustment: | **20** | (35) | **22** | (39) |
| Assessed losses | **(1)** | | | |
| Depreciation | **1** | 6 | | 6 |
| Other derivatives and financial instruments | | (35) | | (35) |
| Fair value adjustments of financial instruments[1] | **25** | 48 | **25** | 49 |
| Impairment charges on loans and advances | **(121)** | (82) | **(119)** | (82) |
| Other differences | **116** | 28 | **116** | 23 |
| **Reversing temporary differences for the year:** | **273** | 127 | **295** | 93 |
| Assessed losses | | 32 | | |
| Assets on lease | **(30)** | (33) | **(30)** | (33) |
| Depreciation | **452** | 469 | **453** | 470 |
| Other derivatives and financial instruments | **454** | 50 | **454** | 50 |
| Derivatives as defined for income tax purposes[2] | **(196)** | (196) | **(196)** | (196) |
| Fair value adjustments of financial instruments[1] | **(258)** | (6) | **(258)** | (10) |
| Impairment charges on loans and advances | **(127)** | 2 | **(119)** | 1 |
| Deferred income | **(45)** | (76) | **(45)** | (76) |
| Share-based payments | **287** | (99) | **287** | (99) |
| Other differences | **(264)** | (16) | **(251)** | (14) |
| **Deferred tax balance at the end of the year** | **485** | 192 | **531** | 214 |
| **Temporary differences for the year comprise:** | | | | |
| Recognised in OCI | **(78)** | (45) | **(79)** | (45) |
| Recognised in profit or loss | **371** | 137 | **396** | 99 |
| | **293** | 92 | **317** | 54 |

[1] Included in the fair value adjustments of financial instruments is a deferred tax credit of R36 million (2014: R2 million credit) relating to OCI. The R36 million credit (2014: R2 million credit) is made up of R12 million charge (2014: R1 million charge) relating to fair value adjustments on cash flow hedges and R48 million credit (2014: R1 million credit) relating to fair value adjustments on available-for-sale investments.

[2] Derivatives as defined in section 24JB of the Income Tax Act No 58 of 1962 of South Africa.

## 15. Deposits and debt funding

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| **Deposits and debt funding from banks** | **118 325** | 91 357 | **118 554** | 91 353 |
| **Deposits and debt funding from customers** | **756 047** | 708 579 | **748 804** | 699 642 |
| Current accounts | **100 927** | 96 099 | **100 927** | 96 099 |
| Cash management deposits | **132 068** | 127 338 | **132 068** | 127 338 |
| Card creditors | **1 474** | 1 491 | **1 474** | 1 491 |
| Call deposits | **179 062** | 167 422 | **179 066** | 167 421 |
| Savings accounts | **14 117** | 14 043 | **14 117** | 14 043 |
| Term deposits | **187 697** | 169 480 | **184 530** | 165 506 |
| Negotiable certificates of deposit | **100 059** | 92 418 | **100 059** | 92 418 |
| Repurchase agreements | | 3 345 | | 3 345 |
| Securitisation issuances | **4 103** | 4 975 | | |
| Other funding | **36 540** | 31 968 | **36 563** | 31 981 |
| **Deposits and debt funding** | **874 372** | 799 936 | **867 358** | 790 995 |

## 16. Subordinated debt

| | Redeemable/ repayable date | Callable date | Notional value 2015 Rm | Carrying value[1] 2015 Rm | Carrying value[1] 2014 Rm |
|---|---|---|---|---|---|
| **Group and company** | | | | | |
| **Unsecured, subordinated, redeemable tier II bonds** | | | | | |
| SBK 7 | 24 May 2020 | 24 May 2015 | | | 3 030 |
| SBK 12 | 24 November 2021 | 24 November 2016 | **1 600** | **1 618** | 1 618 |
| SBK 13 | 24 November 2021 | 24 November 2016 | **1 150** | **1 160** | 1 160 |
| SBK 15 | 23 January 2022 | 23 January 2017 | **1 220** | **1 239** | 1 239 |
| SBK 14 | 1 December 2022 | 1 December 2017 | **1 780** | **1 795** | 1 795 |
| SBK 16 | 15 March 2023 | 15 March 2018 | **2 000** | **2 008** | 2 008 |
| SBK 9 | 10 April 2023 | 10 April 2018 | **1 500** | **1 529** | 1 529 |
| SBK 17 | 30 July 2024 | 30 July 2019 | **2 000** | **2 029** | 2 029 |
| SBK 19 | 24 October 2024 | 24 October 2019 | **500** | **508** | 508 |
| SBK 20[2] | 2 December 2024 | 2 December 2019 | **2 250** | **2 269** | 2 261 |
| SBK 21[2] | 28 January 2025 | 28 January 2020 | **750** | **763** | |
| SBK 22[2] | 28 May 2025 | 28 May 2020 | **1 000** | **1 009** | |
| SBK 24[2] | 20 October 2025 | 19 October 2020 | **880** | **897** | |
| SBK 18 | 24 October 2025 | 24 October 2020 | **3 500** | **3 557** | 3 557 |
| SBK 23[2] | 28 May 2027 | 28 May 2022 | **1 000** | **928** | |
| **Total subordinated debt** | | | | **21 309** | 20 734 |

[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.

## 17. Provisions and other liabilities

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Trading settlement liabilities | **1 636** | 1 400 | **1 636** | 1 400 |
| Items in the course of transmission | **991** | | **1 052** | 41 |
| Post-employment benefits (note 40.2) | **665** | 665 | **665** | 665 |
| Equity-linked transactions (annexure C) | **1 329** | 2 144 | **1 329** | 2 144 |
| Staff-related accruals | **4 199** | 4 789 | **4 128** | 4 776 |
| Accrued expenses | **2 091** | 1 814 | **2 007** | 1 725 |
| Other liabilities, accruals and provisions | **3 492** | 879 | **3 277** | 668 |
| | **14 403** | 11 691 | **14 094** | 11 419 |

# 18. Classification of assets and liabilities

## Accounting classifications and fair values of assets and liabilities

The tables that follow set out the group and company classification of financial assets and liabilities, and their fair values.

| | Note | Held-for-trading Rm | Designated at fair value Rm |
|---|---|---|---|
| **Group** | | | |
| **2015** | | | |
| **Assets** | | | |
| Cash and balances with central banks | 1 | | |
| Derivative assets | 2 | **100 356** | |
| Trading assets | 3 | **63 282** | |
| Pledged assets | 4.1 | **4 610** | **3 094** |
| Financial investments | 5 | | **24 247** |
| Loans and advances to banks | 6.1 | | |
| Loans and advances to customers | 6.1 | | **66** |
| Interest in SBG companies, associates and joint ventures – banking operations | 8 | **1 785** | **114** |
| Other financial assets[3] | | | |
| Other non-financial assets | | | |
| | | **170 033** | **27 521** |
| **Liabilities** | | | |
| Derivative liabilities | 2 | **120 857** | |
| Trading liabilities | 13 | **24 625** | |
| Deposits and debt funding from banks | 15 | | |
| Deposits and debt funding from customers | 15 | | **16 689** |
| Subordinated debt | 16 | | |
| Liabilities to SBG companies | 8.3 | **662** | |
| Other financial liabilities[3] | | | |
| Other non-financial liabilities | | | |
| | | **146 144** | **16 689** |
| **2014** | | | |
| **Assets** | | | |
| Cash and balances with central banks | 1 | | |
| Derivative assets | 2 | 54 062 | |
| Trading assets | 3 | 51 436 | |
| Pledged assets | 4.1 | 5 075 | |
| Financial investments | 5 | | 79 294 |
| Loans and advances to banks | 6.1 | | |
| Loans and advances to customers | 6.1 | | 72 |
| Interest in SBG companies, associates and joint ventures – banking operations[4] | 8 | 7 579 | 1 035 |
| Other financial assets[3] | | | |
| Other non-financial assets | | | |
| | | 118 152 | 80 401 |
| **Liabilities** | | | |
| Derivative liabilities | 2 | 66 298 | |
| Trading liabilities | 13 | 22 709 | |
| Deposits and debt funding from banks | 15 | | |
| Deposits and debt funding from customers | 15 | | 16 788 |
| Subordinated debt | 16 | | |
| Liabilities to SBG companies[5] | 8.3 | 7 822 | 3 |
| Other financial liabilities[3] | | | |
| Other non-financial liabilities | | | |
| | | 96 829 | 16 791 |

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 instruments. Refer to the fair value section in accounting policy 4 – Fair value and key management assumptions for a description on how fair values are determined.
3 The fair value of other financial assets and liabilities approximates the carrying value due to their short-term nature.
4 During the reporting period, the nature of items within interest in SBG companies, associates and joint ventures – banking operations were reassessed. This assessment led to R1 724 million being reclassified from other assets to loans and receivables.
5 During the reporting period, the nature of items within liabilities to SBG companies were reassessed. This assessment led to R1 954 million being reclassified from other liabilities to other amortised cost.

| | 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 |
|---|---|---|---|---|---|---|---|
| | | **30 252** | | | | **30 252** | **30 252** |
| | | | | | | **100 356** | **100 356** |
| | | | | | | **63 282** | **63 282** |
| | | **175** | | | | **7 879** | **7 885** |
| | **72 345** | **894** | **1 458** | | | **98 944** | **99 504** |
| | | **113 600** | | | | **113 600** | **114 569** |
| | | **783 678** | | | | **783 744** | **782 299** |
| | | **37 658** | | | **1 790** | **41 347** | **39 778** |
| | | **6 476** | | | | **6 476** | |
| | | | | | **31 073** | **31 073** | |
| | **72 345** | **972 733** | **1 458** | | **32 863** | **1 276 953** | |
| | | | | | | **120 857** | **120 857** |
| | | | | | | **24 625** | **24 625** |
| | | | | **118 320** | | **118 320** | **118 352** |
| | | | | **739 363** | | **756 052** | **757 761** |
| | | | | **21 309** | | **21 309** | **21 202** |
| | | | | **126 512** | **11** | **127 185** | **148 363** |
| | | | | **13 815** | | **13 815** | |
| | | | | | **4 076** | **4 076** | |
| | | | | **1 019 319** | **4 087** | **1 186 239** | |
| | | 32 218 | | | | 32 218 | 32 218 |
| | | | | | | 54 062 | 54 062 |
| | | | | | | 51 436 | 51 436 |
| | | 206 | | | | 5 281 | 5 287 |
| | 14 874 | 1 329 | 6 359 | | | 101 856 | 102 610 |
| | | 100 152 | | | | 100 152 | 100 665 |
| | | 685 259 | | | | 685 331 | 682 695 |
| | | 55 609 | | | 2 684 | 66 907 | 64 587 |
| | | 5 462 | | | | 5 462 | |
| | | | | | 28 445 | 28 445 | |
| | 14 874 | 880 235 | 6 359 | | 31 129 | 1 131 150 | |
| | | | | | | 66 298 | 66 298 |
| | | | | | | 22 709 | 22 709 |
| | | | | 91 357 | | 91 357 | 91 630 |
| | | | | 691 791 | | 708 579 | 710 989 |
| | | | | 20 734 | | 20 734 | 20 965 |
| | | | | 115 953 | 16 | 123 794 | 142 682 |
| | | | | 9 348 | | 9 348 | |
| | | | | | 5 913 | 5 913 | |
| | | | | 929 183 | 5 929 | 1 048 732 | |

## 18. Classification of assets and liabilities continued

| | Note | Held-for-trading Rm | Designated at fair value Rm |
|---|---|---|---|
| **Company** | | | |
| **2015** | | | |
| **Assets** | | | |
| Cash and balances with central banks | 1 | | |
| Derivative assets | 2 | **100 355** | |
| Trading assets | 3 | **63 280** | |
| Pledged assets | 4.1 | **4 610** | **3 094** |
| Financial investments | 5 | | **24 190** |
| Loans and advances to banks | 6.1 | | |
| Loans and advances to customers | 6.1 | | **66** |
| Interest in SBG companies, associates and joint ventures – banking operations | 8 | **1 788** | **223** |
| Other financial assets[3] | | | |
| Other non-financial assets | | | |
| | | **170 033** | **27 573** |
| **Liabilities** | | | |
| Derivative liabilities | 2 | **120 857** | |
| Trading liabilities | 13 | **24 625** | |
| Deposits and debt funding from banks | 15 | | |
| Deposits and debt funding from customers | 15 | | **16 671** |
| Subordinated debt | 16 | | |
| Liabilities to SBG companies | 8.3 | **671** | |
| Other financial liabilities[3] | | | |
| Other non-financial liabilities | | | |
| | | **146 153** | **16 671** |
| **2014** | | | |
| **Assets** | | | |
| Cash and balances with central banks | 1 | | |
| Derivative assets | 2 | 54 060 | |
| Trading assets | 3 | 51 436 | |
| Pledged assets | 4.1 | 5 075 | |
| Financial investments | 5 | | 79 176 |
| Loans and advances to banks | 6.1 | | |
| Loans and advances to customers | 6.1 | | 72 |
| Interest in SBG companies, associates and joint ventures – banking operations[4] | 8 | 7 587 | 835 |
| Other financial assets[3] | | | |
| Other non-financial assets | | | |
| | | 118 158 | 80 083 |
| **Liabilities** | | | |
| Derivative liabilities | 2 | 66 298 | |
| Trading liabilities | 13 | 22 709 | |
| Deposits and debt funding from banks | 15 | | |
| Deposits and debt funding from customers | 15 | | 16 788 |
| Subordinated debt | 16 | | |
| Liabilities to SBG companies[5] | 8.3 | 7 902 | 2 |
| Other financial liabilities[3] | | | |
| Other non-financial liabilities | | | |
| | | 96 909 | 16 790 |

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 instruments. Refer to the fair value section in accounting policy 4 – Fair value and key management assumptions for a description on how fair values are determined.
3 The fair value of other financial assets and liabilities approximates the carrying value due to their short-term nature.
4 During the reporting period, the nature of items within interest in SBG companies, associates and joint ventures – banking operations were reassessed. This assessment led to R1 741 million being reclassified from other assets to loans and receivables.
5 During the reporting period, the nature of items within liabilities to SBG companies were reassessed. This assessment led to R1 903 million being reclassified from other liabilities to other amortised cost.

| 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 |
|---|---|---|---|---|---|---|
| | **30 253** | | | | **30 252** | **30 252** |
| | | | | | **100 355** | **100 355** |
| | | | | | **63 280** | **63 280** |
| | **175** | | | | **7 879** | **7 885** |
| **72 345** | | **1 458** | | | **97 993** | **98 492** |
| | **112 944** | | | | **112 944** | **113 960** |
| | **769 268** | | | | **769 334** | **768 129** |
| **837** | **45 866** | | | **1 221** | **49 935** | **49 090** |
| | **6 353** | | | | **6 353** | |
| | | | | **30 828** | **30 828** | |
| **73 182** | **964 859** | **1 458** | | **32 049** | **1 269 154** | |
| | | | | | **120 857** | **120 857** |
| | | | | | **24 625** | **24 625** |
| | | | **118 556** | | **118 556** | **118 589** |
| | | | **732 131** | | **748 802** | **750 508** |
| | | | **21 309** | | **21 309** | **21 202** |
| | | | **127 986** | **11** | **128 668** | **128 686** |
| | | | **13 533** | | **13 533** | |
| | | | | **4 038** | **4 038** | |
| | | | **1 013 515** | **4 049** | **1 180 388** | |
| | 32 202 | | | | 32 202 | 32 202 |
| | | | | | 54 060 | 54 060 |
| | | | | | 51 436 | 51 436 |
| | 206 | | | | 5 281 | 5 287 |
| 14 874 | 36 | 6 359 | | | 100 445 | 101 170 |
| | 99 896 | | | | 99 896 | 100 409 |
| | 669 434 | | | | 669 506 | 666 982 |
| 719 | 65 299 | | | 1 954 | 76 394 | 75 083 |
| | 5 351 | | | | 5 351 | |
| | | | | 28 124 | 28 124 | |
| 15 593 | 872 424 | 6 359 | | 30 078 | 1 122 695 | |
| | | | | | 66 298 | 66 298 |
| | | | | | 22 709 | 22 709 |
| | | | 91 353 | | 91 353 | 91 626 |
| | | | 682 854 | | 699 642 | 702 031 |
| | | | 20 734 | | 20 734 | 20 965 |
| | | | 118 113 | 17 | 126 034 | 123 786 |
| | | | 9 088 | | 9 088 | |
| | | | | 5 878 | 5 878 | |
| | | | 922 142 | 5 895 | 1 041 736 | |

# 19. Assets and liabilities at fair value

## 19.1 Financial assets and liabilities measured at fair value

The table below sets out the financial assets and liabilities measured at fair value for the group.

| | Level 1 Rm | Level 2 Rm | Level 3 Rm | Total Rm |
|---|---|---|---|---|
| **Group** | | | | |
| **2015** | | | | |
| **Financial assets** | | | | |
| **Measured on a recurring basis** | | | | |
| Derivative assets | **370** | **97 529** | **2 457** | **100 356** |
| Trading assets | **19 842** | **34 498** | **8 942** | **63 282** |
| Pledged assets | **6 556** | **1 148** | | **7 704** |
| Financial investments | **12 583** | **10 495** | **2 627** | **25 705** |
| Loans and advances to customers | | **66** | | **66** |
| Interest in SBG companies[1] | | **1 857** | **42** | **1 899** |
| | **39 351** | **145 593** | **14 068** | **199 012** |
| **Financial liabilities** | | | | |
| **Measured on a recurring basis** | | | | |
| Derivative liabilities | **327** | **105 889** | **14 641** | **120 857** |
| Trading liabilities | **3 034** | **19 381** | **2 210** | **24 625** |
| Deposits and debt funding from customers | | **16 689** | | **16 689** |
| Liabilities to SBG companies | | **499** | **163** | **662** |
| | **3 361** | **142 458** | **17 014** | **162 833** |
| **2014** | | | | |
| **Financial assets** | | | | |
| **Measured on a recurring basis** | | | | |
| Derivative assets | 157 | 53 259 | 646 | 54 062 |
| Trading assets | 19 238 | 27 550 | 4 648 | 51 436 |
| Pledged assets | 2 491 | 2 584 | | 5 075 |
| Financial investments | 14 776 | 68 137 | 2 740 | 85 653 |
| Loans and advances to customers | | 72 | | 72 |
| Interest in SBG companies[1] | 288 | 7 835 | 491 | 8 614 |
| | 36 950 | 159 437 | 8 525 | 204 912 |
| **Financial liabilities** | | | | |
| **Measured on a recurring basis** | | | | |
| Derivative liabilities | 17 | 60 323 | 5 958 | 66 298 |
| Trading liabilities | 968 | 20 219 | 1 522 | 22 709 |
| Deposits and debt funding from customers | | 16 788 | | 16 788 |
| Liabilities to SBG companies | 19 | 7 321 | 485 | 7 825 |
| | 1 004 | 104 651 | 7 965 | 113 620 |

[1] For purposes of all fair value disclosures, interest in SBG companies includes associates and joint ventures.

## 19. Assets and liabilities at fair value continued

### 19.1 Financial assets and liabilities measured at fair value continued

The table below sets out the financial assets and liabilities measured at fair value for the company:

| | Level 1 Rm | Level 2 Rm | Level 3 Rm | Total Rm |
|---|---|---|---|---|
| **Company** | | | | |
| **2015** | | | | |
| **Assets** | | | | |
| **Measured on a recurring basis** | | | | |
| Derivative assets | **370** | **97 528** | **2 457** | **100 355** |
| Trading assets | **19 842** | **34 496** | **8 942** | **63 280** |
| Pledged assets | **6 556** | **1 148** | | **7 704** |
| Financial investments | **12 525** | **10 496** | **2 627** | **25 648** |
| Loans and advances to customers | | **66** | | **66** |
| Interest in SBG companies | | **1 969** | **42** | **2 011** |
| | **39 293** | **145 703** | **14 068** | **199 064** |
| **Liabilities** | | | | |
| **Measured on a recurring basis** | | | | |
| Derivative liabilities | **327** | **105 889** | **14 641** | **120 857** |
| Trading liabilities | **3 034** | **19 381** | **2 210** | **24 625** |
| Deposits and debt funding from customers | | **16 671** | | **16 671** |
| Liabilities to SBG companies | | **506** | **165** | **671** |
| | **3 361** | **142 447** | **17 016** | **162 824** |
| **2014** | | | | |
| **Assets** | | | | |
| **Measured on a recurring basis** | | | | |
| Derivative assets | 157 | 53 257 | 646 | 54 060 |
| Trading assets | 19 238 | 27 550 | 4 648 | 51 436 |
| Pledged assets | 2 491 | 2 584 | | 5 075 |
| Financial investments | 14 658 | 68 138 | 2 739 | 85 535 |
| Loans and advances to customers | | 72 | | 72 |
| Interest in SBG companies | | 7 926 | 496 | 8 422 |
| | 36 544 | 159 527 | 8 529 | 204 600 |
| **Liabilities** | | | | |
| **Measured on a recurring basis** | | | | |
| Derivative liabilities | 17 | 60 323 | 5 958 | 66 298 |
| Trading liabilities | 968 | 20 219 | 1 522 | 22 709 |
| Deposits and debt funding from customers | | 16 788 | | 16 788 |
| Liabilities to SBG companies | 18 | 7 401 | 485 | 7 904 |
| | 1 003 | 104 731 | 7 965 | 113 699 |

# 19. Assets and liabilities at fair value continued

## 19.1 Financial assets and liabilities measured at fair value continued

### 19.1.1 Reconciliation of level 3 financial assets measured at fair value on a recurring basis

The table below sets out the reconciliation of financial assets that are measured at fair value based on inputs that are not based on observable market data (level 3):

| | Derivative assets Rm | Trading assets Rm | Financial investments Rm | Interest in SBG companies Rm | Total Rm |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **Balance at 1 January 2014** | 2 029 | 2 096 | 2 077 | 1 601 | 7 803 |
| Total gains/(losses) included in profit or loss | 95 | (116) | 347 | 305 | 631 |
| Interest income | | | 97 | | 97 |
| Trading revenue | 95 | (116) | | 305 | 284 |
| Other revenue | | | 250 | | 250 |
| Originations and purchases | 601 | 3 875 | 16 | 245 | 4 737 |
| Sales and settlements | (1 889) | (661) | (357) | (1 660) | (4 567) |
| Reclassifications[1] | | (546) | | | (546) |
| Transfers into level 3[2] | | | 657 | | 657 |
| Transfers out of level 3[3] | (190) | | | | (190) |
| **Balance at 31 December 2014** | 646 | 4 648 | 2 740 | 491 | 8 525 |
| **Balance at 1 January 2015** | **646** | **4 648** | **2 740** | **491** | **8 525** |
| Total gains/(losses) included in profit or loss | **1 054** | **212** | **(654)** | **7** | **619** |
| Interest income | | | **65** | | **65** |
| Trading revenue | **1 054** | **212** | **(54)** | **7** | **1 219** |
| Other revenue | | | **(665)** | | **(665)** |
| Total gains included in OCI | | | **113** | | **113** |
| Originations and purchases | **1 669** | **1 100** | **1 317** | | **4 086** |
| Sales and settlements | **(912)** | **(495)** | **(889)** | **(456)** | **(2 752)** |
| Transfers into level 3[2] | | **3 477** | | | **3 477** |
| **Balance at 31 December 2015** | **2 457** | **8 942** | **2 627** | **42** | **14 068** |

[1] Level 3 financial assets were reclassified from held-for-trading to loans and receivables at amortised cost in terms of IFRS during the 2014 year. Refer to note 21.

[2] The valuation inputs of certain financial assets became unobservable during the year. The fair value of these financial assets was transferred into level 3.

[3] The valuation inputs of certain level 3 financial assets became observable during the year. The fair value of these financial assets was transferred into level 2.

## 19. Assets and liabilities at fair value continued

### 19.1 Financial assets and liabilities measured at fair value continued

#### 19.1.1 Reconciliation of level 3 financial assets measured at fair value on a recurring basis continued

| | Derivative assets Rm | Trading assets Rm | Financial invest-ments Rm | Interest in SBG companies Rm | Total Rm |
|---|---|---|---|---|---|
| **Company** | | | | | |
| **Balance at 1 January 2014** | 2 029 | 2 096 | 2 076 | 1 601 | 7 802 |
| Total gains/(losses) included in profit or loss | 95 | (116) | 347 | 305 | 631 |
| Interest income | | | 97 | | 97 |
| Trading revenue | 95 | (116) | | 305 | 284 |
| Other revenue | | | 250 | | 250 |
| Originations and purchases | 601 | 3 875 | 16 | 250 | 4 742 |
| Sales and settlements | (1 889) | (661) | (357) | (1 660) | (4 567) |
| Reclassifications[1] | | (546) | | | (546) |
| Transfers into level 3[2] | | | 657 | | 657 |
| Transfers out of level 3[3] | (190) | | | | (190) |
| **Balance at 31 December 2014** | 646 | 4 648 | 2 739 | 496 | 8 529 |
| **Balance at 1 January 2015** | **646** | **4 648** | **2 739** | **496** | **8 529** |
| Total gains/(losses) included in profit or loss | **1 054** | **212** | **(654)** | **7** | **619** |
| Interest income | | | **65** | | **65** |
| Trading revenue | **1 054** | **212** | **(54)** | **7** | **1 219** |
| Other revenue | | | **(665)** | | **(665)** |
| Total gains included in OCI | | | **113** | | **113** |
| Originations and purchases | **1 669** | **1 100** | **1 317** | | **4 086** |
| Sales and settlements | **(912)** | **(495)** | **(888)** | **(461)** | **(2 756)** |
| Transfers into level 3[1] | | **3 477** | | | **3 477** |
| **Balance at 31 December 2015** | **2 457** | **8 942** | **2 627** | **42** | **14 068** |

1 Level 3 financial assets were reclassified from held-for-trading to loans and receivables at amortised cost in terms of IFRS during the prior year. Refer to note 21.

2 The valuation inputs of certain financial assets became unobservable during the year. The fair value of these financial assets was transferred into level 3.

3 The valuation inputs of certain level 3 financial assets became observable during the year. The fair value of these financial assets was transferred into level 2.

# 19. Assets and liabilities at fair value continued

## 19.1 Financial assets and liabilities measured at fair value continued

### 19.1.2 Reconciliation of level 3 financial liabilities measured on a recurring basis

The following tables provide a reconciliation of the opening to closing balance for all financial liabilities that are measured at fair value based on inputs that are not based on observable market data (level 3):

| | Trading liabilities Rm | Derivative liabilities Rm | Liabilities to SBG companies Rm | Total Rm |
|---|---|---|---|---|
| **Group** | | | | |
| **Balance at 1 January 2014** | 432 | 7 873 | | 8 305 |
| Total losses included in profit or loss – trading revenue | 179 | 699 | 42 | 920 |
| Issuances | 911 | 764 | 93 | 1 768 |
| Sales and settlements | | (2 444) | | (2 444) |
| Transfers into level 3[1] | | 306 | 350 | 656 |
| Transfers out of level 3[2] | | (1 240) | | (1 240) |
| **Balance at 31 December 2014** | 1 522 | 5 958 | 485 | 7 965 |
| **Balance at 1 January 2015** | **1 522** | **5 958** | **485** | **7 965** |
| Total losses included in profit or loss – trading revenue[3] | **682** | **5 641** | **2** | **6 325** |
| Issuances | **690** | **3 343** | **34** | **4 067** |
| Sales and settlements | **(684)** | **(301)** | **(358)** | **(1 343)** |
| **Balance at 31 December 2015** | **2 210** | **14 641** | **163** | **17 014** |
| **Company** | | | | |
| **Balance at 1 January 2014** | 432 | 7 872 | | 8 304 |
| Total losses included in profit or loss – trading revenue | 179 | 699 | 42 | 920 |
| Issuances | 911 | 764 | 93 | 1 768 |
| Sales and settlements | | (2 443) | | (2 443) |
| Transfers into level 3[1] | | 306 | 350 | 656 |
| Transfers out of level 3[2] | | (1 240) | | (1 240) |
| **Balance at 31 December 2014** | 1 522 | 5 958 | 485 | 7 965 |
| **Balance at 1 January 2015** | **1 522** | **5 958** | **485** | **7 965** |
| Total losses included in profit or loss – trading revenue[3] | **682** | **5 641** | **2** | **6 325** |
| Issuances | **690** | **3 343** | **34** | **4 067** |
| Sales and settlements | **(684)** | **(301)** | **(356)** | **(1 341)** |
| **Balance at 31 December 2015** | **2 210** | **14 641** | **165** | **17 016** |

1 The valuation inputs of certain financial liabilities became unobservable. The fair value of these financial liabilities were transferred into level 3.
2 The valuation inputs of certain level 3 financial liabilities became observable. The fair values of these financial liabilities were transferred into level 2.
3 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.

## 19. Assets and liabilities at fair value continued

### 19.1 Financial assets and liabilities measured at fair value continued

**19.1.3 Gains/(losses) for the year included in profit or loss for level 3 fair value measured financial assets held at the end of the year**

| | Derivative assets Rm | Trading assets Rm | Financial investments Rm | Interest in SBG companies Rm | Total Rm |
|---|---|---|---|---|---|
| **Group and Company** | | | | | |
| **2015** | | | | | |
| Interest income | | | **47** | | **47** |
| Trading revenue | **812** | **266** | **(58)** | **7** | **1 027** |
| Other revenue | | | **(326)** | | **(326)** |
| **Total** | **812** | **266** | **(337)** | **7** | **748** |
| **2014** | | | | | |
| Interest income | | | 97 | | 97 |
| Trading revenue | 49 | (102) | | | (53) |
| Other revenue | | | 179 | | 179 |
| **Total** | 49 | (102) | 276 | | 223 |

**19.1.4 Losses/(gains) for the year included in profit or loss for level 3 fair value measured financial liabilities held at the end of the year**

| | Trading liabilities Rm | Derivative liabilities Rm | Liabilities to SBG companies Rm | Total Rm |
|---|---|---|---|---|
| **Group** | | | | |
| **2015** | | | | |
| Trading revenue | **682** | **5 879** | **2** | **6 563** |
| **Total** | **682** | **5 879** | **2** | **6 563** |
| **2014** | | | | |
| Trading revenue | 179 | 692 | 42 | 913 |
| **Total** | 179 | 692 | 42 | 913 |
| **Company** | | | | |
| **2015** | | | | |
| Trading revenue | **682** | **5 879** | **2** | **6 563** |
| **Total** | **682** | **5 879** | **2** | **6 563** |
| **2014** | | | | |
| Trading revenue | 179 | 692 | 42 | 913 |
| **Total** | 179 | 692 | 42 | 913 |

## 19. Assets and liabilities at fair value continued

### 19.1 Financial assets and liabilities measured at fair value continued

#### 19.1.5 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 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 reasonable 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.

| | Variance in fair value measurement | Effect on comprehensive income | |
|---|---|---|---|
| | | Favourable Rm | (Unfavourable) Rm |
| **Group and company** | | | |
| **2015** | | | |
| Derivative instruments | From (1%) to 1% | **48** | **(48)** |
| Trading assets | From (1%) to 1% | **239** | **(239)** |
| Financial investments | From (1%) to 1% | **283** | **(232)** |
| Trading liabilities | From (1%) to 1% | **163** | **(163)** |
| **Total** | | **733** | **(682)** |
| **2014** | | | |
| Derivative instruments | From (3%) to 6% | 360 | (360) |
| Trading assets | From (2%) to 2% | 254 | (254) |
| Financial investments | From (5%) to 25% | 97 | (107) |
| Trading liabilities | From (1%) to 1% | 157 | (157) |
| **Total** | | 868 | (878) |

## 19. Assets and liabilities at fair value continued

### 19.2 Assets and liabilities not measured at fair value for which fair value is disclosed

#### 19.2.1 Fair value hierarchy of items for which fair value is disclosed

| | Level 1 Rm | Level 2 Rm | Level 3 Rm | Total Rm |
|---|---|---|---|---|
| **Group** | | | | |
| **2015** | | | | |
| **Assets** | | | | |
| Cash and balances with central banks | **30 252** | | | **30 252** |
| Pledged assets | | | **181** | **181** |
| Financial investments | **14 921** | **57 919** | **959** | **73 799** |
| Loans and advances to banks | **6 373** | **107 145** | **1 051** | **114 569** |
| Loans and advances to customers | | **72 120** | **710 113** | **782 233** |
| Interest in SBG companies | **934** | **21 821** | **15 124** | **37 879** |
| | **52 480** | **259 005** | **727 428** | **1 038 913** |
| **Liabilities** | | | | |
| Deposits and debt funding from banks | **37 345** | **79 812** | **1 195** | **118 352** |
| Deposits and debt funding from customers | **471 799** | **268 472** | **801** | **741 072** |
| Subordinated debt | | **21 202** | | **21 202** |
| Liabilities to SBG companies | **9 831** | **119 469** | **18 401** | **147 701** |
| | **518 975** | **488 955** | **20 397** | **1 028 327** |
| **2014** | | | | |
| **Assets** | | | | |
| Cash and balances with central banks | 32 218 | | | 32 218 |
| Pledged assets | | | 212 | 212 |
| Financial investments | 15 593 | 1 322 | 42 | 16 957 |
| Loans and advances to banks | 4 761 | 95 530 | 374 | 100 665 |
| Loans and advances to customers | | 40 531 | 642 092 | 682 623 |
| Interest in SBG companies[1] | 3 208 | 48 459 | 4 306 | 55 973 |
| | 55 780 | 185 842 | 647 026 | 888 648 |
| **Liabilities** | | | | |
| Deposits and debt funding from banks | 39 917 | 51 121 | 592 | 91 630 |
| Deposits and debt funding from customers | 457 210 | 234 972 | 2 019 | 694 201 |
| Subordinated debt | | 20 965 | | 20 965 |
| Liabilities to SBG companies[2] | 8 342 | 123 881 | 2 634 | 134 857 |
| | 505 469 | 430 939 | 5 245 | 941 653 |

1 During the reporting period, the nature of items within interest in SBG companies, associates and joint ventures – banking operations were reassessed. This assessment led to R1 724 million being reclassified from other assets to loans and receivables which were included in level 3.

2 During the reporting period, the nature of items within liabilities to SBG companies were reassessed. This assessment led to R1 954 million being reclassified from other liabilities to other amortised cost which were included in level 3.

# 19. Assets and liabilities at fair value continued

## 19.2 Assets and liabilities not measured at fair value for which fair value is disclosed continued

### 19.2.1 Fair value hierarchy of items for which fair value is disclosed continued

| | Level 1 Rm | Level 2 Rm | Level 3 Rm | Total Rm |
|---|---|---|---|---|
| **Company** | | | | |
| **2015** | | | | |
| **Assets** | | | | |
| Cash and balances with central banks | **30 252** | | | **30 252** |
| Pledged assets | | | **181** | **181** |
| Financial investments | **14 921** | **57 918** | **5** | **72 844** |
| Loans and advances to banks | **5 765** | **107 144** | **1 051** | **113 960** |
| Loans and advances to customers | | **72 017** | **696 046** | **768 063** |
| Interest in SBG companies[1] | **1 153** | **39 726** | **6 200** | **47 079** |
| | **52 091** | **276 805** | **703 483** | **1 032 379** |
| **Liabilities** | | | | |
| Deposits and debt funding from banks | **37 345** | **80 049** | **1 195** | **118 589** |
| Deposits and debt funding from customers | **468 844** | **264 993** | | **733 837** |
| Subordinated debt | | **21 202** | | **21 202** |
| Liabilities to SBG companies[2] | **11 282** | **116 292** | **441** | **128 015** |
| | **517 471** | **482 536** | **1 636** | **1 001 643** |
| **Company** | | | | |
| **2014** | | | | |
| **Assets** | | | | |
| Cash and balances with central banks | 32 202 | | | 32 202 |
| Pledged assets | | | 212 | 212 |
| Financial investments | 15 593 | | 42 | 15 635 |
| Loans and advances to banks | 4 505 | 95 530 | 374 | 100 409 |
| Loans and advances to customers | | 40 514 | 626 396 | 666 910 |
| Interest in SBG companies[1] | 2 383 | 57 666 | 6 612 | 66 661 |
| | 54 683 | 193 710 | 633 636 | 882 029 |
| **Liabilities** | | | | |
| Deposits and debt funding from banks | 39 911 | 51 123 | 592 | 91 626 |
| Deposits and debt funding from customers | 449 728 | 234 090 | 1 425 | 685 243 |
| Subordinated debt | | 20 965 | | 20 965 |
| Liabilities to SBG companies[2] | 6 074 | 107 905 | 1 903 | 115 882 |
| | 495 713 | 414 083 | 3 920 | 913 716 |

[1] During the reporting period, the nature of items within interest in SBG companies, associates and joint ventures – banking operations were reassessed. This assessment led to R1 741 million being reclassified from other assets to loans and receivables which were included in level 3.
[2] During the reporting period, the nature of items within liabilities to SBG companies were reassessed. This assessment led to R1 903 million being reclassified from other liabilities to other amortised cost which were included in level 3.

## 19.3 Third-party credit announcements

There were no significant liabilities measured at fair value that existed during the year which had been issued with inseparable third-party credit enhancements.

## 20. Loans and advances and financial liabilities designated at fair value through profit or loss

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **Rm** | Rm | **Rm** | Rm |
| **Loans and advances** | | | | |
| Maximum exposure to credit risk | **66** | 72 | **66** | 72 |
| Exposure mitigated | | 62 | | 62 |
| Current year gain/(loss) on changes in fair value attributable to changes in credit risk | | (10) | | 10 |
| **Financial liabilities** | | | | |
| Current year gain/(loss) on changes in fair value attributable to changes in credit risk | **1** | 27 | **1** | 27 |
| Cumulative gain/(loss) on changes in fair value attributable to changes in credit risk | **60** | 59 | **60** | 59 |
| Contractual payment required at maturity | **19 413** | 18 058 | **19 413** | 18 058 |
| Carrying amount | **16 689** | 16 791 | **16 671** | 16 790 |
| Difference between carrying amount and contractual payment | **2 724** | 1 267 | **2 742** | 1 268 |

The changes in fair value of the designated financial liabilities attributable to changes in credit risk are calculated with reference to the change in the credit risk implicit in the market value of the bank's senior notes.

## 21. Financial assets reclassified from held-for-trading to loans and receivables at amortised cost

The group and company reclassified financial assets from held-for-trading to loans and receivables for which there was a clear change of intent to hold the assets for the foreseeable future rather than to exit or trade in the short term. In the current financial year, no assets (2014: R546 million) were reclassified from held-for-trading to loans and receivables. This represents the estimated amounts of future cash flows expected to be recovered at the date of reclassification. During 2015, financial assets with a carrying value and fair value of R499 million matured in the company.

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **Rm** | Rm | **Rm** | Rm |
| Carrying value of reclassified financial assets at the end of the year | **997** | 1 045 | **997** | 1 544 |
| Fair value of reclassified financial assets at the end of the year | **917** | 1 058 | **917** | 1 557 |

A fair value gain after tax of R92 million (2014: R49 million loss) for the group and R86 million (2014: R45 million loss) for the company would have been recognised in 2015 had these reclassifications not been affected.

The table below sets out the amounts actually recognised in profit or loss:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **Rm** | Rm | **Rm** | Rm |
| Net interest income | **29** | 54 | **22** | 51 |

## 22. 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 instances where the group and company have 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 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. There are no items measured on different measurement bases within the line items in the tables below.

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.

| Group and Company | 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 offset Rm | Collateral received[3] Rm | Net amount Rm |
|---|---|---|---|---|---|
| **2015** | | | | | |
| **Assets** | | | | | |
| Derivative assets | 72 109 | | 72 109 | (65 390) | 6 719 |
| Trading assets | 21 935 | | 21 935 | (19 600) | 2 335 |
| Loans and advances[4] | 110 748 | (34 862) | 75 886 | (74 256) | 1 630 |
| | 204 792 | (34 862) | 169 930 | (159 246) | 10 684 |

| Group and Company | Gross amount of recognised financial liabilities[1] Rm | Financial assets set off in the statement of financial position[2] Rm | Net amounts of financial liabilities subject to offset Rm | Collateral pledged[5,6] Rm | Net amount Rm |
|---|---|---|---|---|---|
| **2015** | | | | | |
| **Liabilities** | | | | | |
| Derivative liabilities | 82 647 | | 82 647 | (64 466) | 18 181 |
| Trading liabilities | 10 277 | | 10 277 | (10 277) | |
| Deposits and debt funding[4] | 42 848 | (34 862) | 7 986 | (1 803) | 6 183 |
| | 135 772 | (34 862) | 100 910 | (76 546) | 24 364 |

1 Gross amounts are disclosed for recognised financial assets and financial liabilities that are either offset in the statement of financial position or subject to a master netting arrangement or a similar agreement, irrespective of whether the IFRS 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, including financial collateral (whether recognised or unrecognised) and cash collateral. In most cases the group and company is 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 its group by linking the current accounts of multiple legal entities within a group. This allows for cash balances of the different legal entities to be offset against each other to arrive at a net balance for those groups. In addition, it should be noted that all repurchase agreements and reverse repurchase agreements, subject to a master netting arrangement (or similar agreement), have been included.
5 Related amounts not offset in the statement of financial position that are subject to a master netting arrangement or similar agreement, including financial collateral (whether recognised or unrecognised) and cash collateral.
6 In most instances, the counterparty may not sell or repledge collateral pledged by the group and company.

## 22. Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements continued

| Group and Company | 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 offset Rm | Collateral received[3] Rm | Net amount Rm |
|---|---|---|---|---|---|
| **2014** | | | | | |
| **Assets** | | | | | |
| Derivative assets | 53 241 | (108) | 53 133 | (49 110) | 4 023 |
| Trading assets | 5 662 | | 5 662 | (5 628) | 34 |
| Loans and advances[4] | 120 231 | (39 082) | 81 149 | (79 402) | 1 747 |
| | 179 134 | (39 190) | 139 944 | (134 140) | 5 804 |

| Group and Company | Gross amount of recognised financial liabilities[1] Rm | Financial assets set off in the statement of financial position[2] Rm | Net amounts of financial liabilities subject to offset Rm | Collateral pledged[5,6] Rm | Net amount Rm |
|---|---|---|---|---|---|
| **2014** | | | | | |
| **Liabilities** | | | | | |
| Derivative liabilities | 68 432 | (108) | 68 324 | (52 499) | 15 825 |
| Trading liabilities | 9 667 | | 9 667 | (9 665) | 2 |
| Deposit and debt funding[4] | 56 861 | (39 082) | 17 779 | (7 043) | 10 736 |
| | 134 960 | (39 190) | 95 770 | (69 207) | 26 563 |

1 Gross amounts are disclosed for recognised financial assets and financial liabilities that are either offset in the statement of financial position or subject to a master netting arrangement or a similar agreement, irrespective of whether the IFRS 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, including financial collateral (whether recognised or unrecognised) and cash collateral. In most cases the group and company is 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 its group by linking the current accounts of multiple legal entities within a group. This allows for cash balances of the different legal entities to be offset against each other to arrive at a net balance for those groups. In addition, it should be noted that all repurchase agreements and reverse repurchase agreements, subject to a master netting arrangement (or similar agreement), have been included.
5 Related amounts not offset in the statement of financial position that are subject to a master netting arrangement or similar agreement, including financial collateral (whether recognised or unrecognised) and cash collateral.
6 In most instances, the counterparty may not sell or repledge collateral pledged by the group and company.

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 derivative liabilities | International swaps and derivatives association agreements | The agreement allows for offset in the event of default |
| Trading assets and trading 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 the Banks Act requirements being met |
| Deposit and debt funding | Customer agreement and Banks Act | In the event of liquidation or bankruptcy, offset shall be enforceable subject to the Banks Act requirements being met |

## 23. Maturity analysis

The group and company assess the maturity of financial assets and financial liabilities at 31 December each year which provides an indication of the remaining contractual life of these assets at that point in time. The following table discloses the maturity analysis for the group and company's financial assets and liabilities on a contractual discounted basis:

| | Note | On demand Rm | Within 1 year Rm | Within 1 – 5 years Rm | After 5 years Rm | Undated Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **2015** | | | | | | | |
| Trading assets | 3 | **2 822** | **18 872** | **28 966** | | **12 622** | **63 282** |
| Pledged assets | 4.1 | | | **5 755** | | **2 124** | **7 879** |
| Financial investments | 5 | | **72 371** | **18 474** | **4 876** | **3 223** | **98 944** |
| Gross loans and advances | | **87 897** | **237 577** | **298 993** | **290 740** | | **915 207** |
| Net derivative liability | | | **(7 340)** | **(14 024)** | **(14)** | | **(21 378)** |
| Trading liabilities | 13 | **(283)** | **(17 666)** | **(6 264)** | **(412)** | | **(24 625)** |
| Deposits and debt funding | 15 | **(499 181)** | **(237 259)** | **(104 769)** | **(33 163)** | | **(874 372)** |
| Subordinated debt | 16 | | **(2 778)** | **(17 603)** | **(928)** | | **(21 309)** |
| **2014** | | | | | | | |
| Trading assets | 3 | 1 462 | 12 965 | 25 245 | | 11 764 | 51 436 |
| Pledged assets | 4.1 | | | 5 012 | | 269 | 5 281 |
| Financial investments | 5 | | 66 579 | 21 435 | 5 685 | 8 157 | 101 856 |
| Gross loans and advances | | 82 293 | 177 063 | 271 247 | 270 243 | | 800 846 |
| Net derivative liability | | | (6 018) | (4 279) | (1 644) | | (11 941) |
| Trading liabilities | 13 | (716) | (15 099) | (6 641) | | (253) | (22 709) |
| Deposits and debt funding | 15 | (478 485) | (200 505) | (92 134) | (28 812) | | (799 936) |
| Subordinated debt | 16 | | (3 030) | (14 147) | (3 557) | | (20 734) |
| **Company** | | | | | | | |
| **2015** | | | | | | | |
| Trading assets | 3 | **2 822** | **18 872** | **28 966** | | **12 620** | **63 280** |
| Pledged assets | 4.1 | | | **5 755** | | **2 124** | **7 879** |
| Financial investments | 5 | | **72 002** | **17 891** | **4 877** | **3 223** | **97 993** |
| Gross loans and advances | | **86 137** | **236 082** | **292 688** | **285 055** | | **899 962** |
| Net derivative liability | | | **(6 636)** | **378** | **(13 097)** | | **(19 355)** |
| Trading liabilities | 13 | **(283)** | **(17 666)** | **(6 264)** | **(412)** | | **(24 625)** |
| Deposits and debt funding | 15 | **(499 453)** | **(232 607)** | **(102 152)** | **(33 146)** | | **(867 358)** |
| Subordinated debt | 16 | | **(2 778)** | **(17 603)** | **(928)** | | **(21 309)** |
| **2014** | | | | | | | |
| Trading assets | 3 | 1 462 | 12 965 | 25 245 | | 11 764 | 51 436 |
| Pledged assets | 4.1 | | | 5 012 | | 269 | 5 281 |
| Financial investments | 5 | | 66 579 | 20 023 | 5 686 | 8 157 | 100 445 |
| Gross loans and advances | | 80 178 | 173 848 | 267 217 | 263 380 | | 784 623 |
| Net derivative liability | | | (6 020) | (4 279) | (1 644) | | (11 943) |
| Trading liabilities | 13 | (716) | (15 099) | (6 641) | | (253) | (22 709) |
| Deposits and debt funding | 15 | (477 899) | (197 064) | (87 220) | (28 812) | | (790 995) |
| Subordinated debt | 16 | | (3 030) | (14 147) | (3 557) | | (20 734) |

# 24. Contingent liabilities and commitments

## 24.1 Contingent liabilities

| | Group 2015 Rm | Group 2014[1] Rm | Company 2015 Rm | Company 2014[1] Rm |
|---|---|---|---|---|
| Letters of credit | **9 304** | 12 424 | **9 304** | 12 424 |
| Guarantees | **47 777** | 45 328 | **47 777** | 45 328 |
| | **57 081** | 57 752 | **57 081** | 57 752 |

[1] Restated as amounts with fellow subsidiaries of R1 713 million and R477 million, for letters of credit and guarantees respectively, were incorrectly excluded from the disclosures in the prior year. These fellow subsidiary balances have been included in the disclosures above.

Loan commitments of R93 482 million (2014: R74 610 million) in the group that are irrevocable over the life of the facility or revocable only in response to material adverse changes are included in the risk and capital management report.

## 24.2 Commitments

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Property and equipment | **163** | 277 | **163** | 277 |
| Other intangible assets | **758** | 814 | **758** | 814 |
| | **921** | 1 091 | **921** | 1 091 |

The expenditure will be funded from internal resources.

In addition, in February 2016, the SBSA (on behalf of the SBG) concluded conditional agreements to subscribe for R595 million of ordinary shares in 'Good Bank' to be created from the restructuring and resolution of African Bank Limited, as part of the consortium of parties, including the SARB, Government Employees Pension Fund and several other banks, contributing to this capitalisation. This subscription will entitle the SBG to 5.95% of the ordinary shares of 'Good Bank'. This transaction remains subject to a number of conditions, which are only expected to be fulfilled in March 2016.

## 24.3 Operating lease commitments

The future minimum payments under non-cancellable operating leases are as follows:

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| **Property and equipment** | | | | |
| Within one year | **669** | 744 | **664** | 740 |
| After one year but within five years | **1 415** | 1 461 | **1 399** | 1 446 |
| After five years | **115** | 90 | **115** | 90 |
| | **2 199** | 2 295 | **2 178** | 2 276 |

The commitments comprise a number of separate operating leases in relation to properties, none of which is individually significant to the group or company.

## 24. Contingent liabilities and commitments continued

### 24.4 Legal proceedings

In the conduct of its ordinary course of business, the group and company is involved in litigation, lawsuits and other proceedings relating to alleged errors and omissions, or receives claims arising from the conduct of its business which can require the group and company to engage in legal proceedings in order to enforce and/or defend its rights.

From time to time the group is also the subject of various regulatory reviews, requests for information and investigations by various governmental and regulatory bodies arising from the group's business operations. While the group seeks to comply with the letter and spirit of all applicable laws and regulations, the outcome of these reviews, requests for information and investigations is uncertain and it is not possible to predict the extent of any liabilities or other consequences that may arise.

While recognising the inherent difficulty of predicting the outcome of defended legal proceedings, management believes, based upon current knowledge and after consulting with legal counsel, that the legal proceedings currently pending against it should not have a material adverse effect on the consolidated financial position. The directors are satisfied, based on present information and the assessed probability of claims eventuating, that the group has adequate insurance programmes and provisions in place to meet such claims.

## 25. Interest income

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **Rm** | Rm | **Rm** | Rm |
| Interest on loans and advances and investments | **71 445** | 64 218 | **70 577** | 63 617 |
| Unwinding of discount element of credit impairments for loans and advances (note 6.3) | **817** | 751 | **802** | 743 |
| Fair value adjustments on debt financial instruments | **23** | 60 | **23** | 60 |
| Dividends on dated securities | **1 750** | 1 720 | **1 438** | 1 416 |
| | **74 035** | 66 749 | **72 840** | 65 836 |
| **Comprising:** | | | | |
| Interest income on items measured at fair value through profit or loss | **3 219** | 4 434 | **3 204** | 4 404 |
| Interest income on items measured on an amortised cost basis | **70 816** | 62 315 | **69 636** | 61 432 |
| | **74 035** | 66 749 | **72 840** | 65 836 |

## 26. Interest expense

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Current accounts | **152** | 151 | **152** | 151 |
| Savings and deposit accounts | **10 500** | 10 162 | **10 559** | 10 187 |
| Foreign finance creditors | **893** | 635 | **893** | 635 |
| Subordinated debt | **1 807** | 1 646 | **1 807** | 1 646 |
| Other interest-bearing liabilities | **25 725** | 21 663 | **25 217** | 21 120 |
| | **39 077** | 34 257 | **38 628** | 33 739 |
| **Comprising:** | | | | |
| Interest income on items measured at fair value through profit or loss | **1 554** | 1 449 | **1 560** | 1 451 |
| Interest income on items measured on an amortised cost basis | **37 523** | 32 808 | **37 068** | 3 288 |
| | **39 077** | 34 257 | **38 628** | 33 739 |

## 27. Fee and commission revenue

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Account transaction fees | **8 927** | 8 440 | **8 917** | 8 434 |
| Bancassurance | **1 918** | 1 890 | **790** | 715 |
| Card-based commission | **4 949** | 5 093 | **4 566** | 4 698 |
| Documentation and administration fees | **1 025** | 1 057 | **1 000** | 1 044 |
| Electronic banking fees | **2 427** | 2 429 | **2 427** | 2 429 |
| Foreign currency service fees | **1 237** | 920 | **1 890** | 242 |
| Knowledge-based fees and commission | **759** | 837 | **759** | 837 |
| Other | **1 853** | 2 104 | **1 742** | 3 365 |
| | **23 095** | 22 770 | **22 091** | 21 764 |

All fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss for the group and company.

## 28. Fee and commission expense

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Account transaction fees | **981** | 913 | **981** | 913 |
| Bancassurance | **535** | 492 | **519** | 492 |
| Card-based commission | **1 538** | 1 621 | **1 524** | 1 607 |
| Documentation and administration fees | **119** | 117 | **119** | 117 |
| Electronic banking fees | **621** | 600 | **621** | 600 |
| Other | **207** | 212 | **207** | 212 |
| | **4 001** | 3 955 | **3 971** | 3 941 |

All fee and commission expenses reported above relate to financial assets or liabilities not carried at fair value through profit or loss for the group and company.

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| **29. Trading revenue** | | | | |
| Fixed income and currencies (FIC) | **2 859** | 2 769 | **2 887** | 2 783 |
| Equities | **1 187** | 759 | **1 187** | 759 |
| Commodities | **197** | 107 | **197** | 107 |
| Other | **(55)** | (182) | **(55)** | (182) |
| | **4 188** | 3 453 | **4 216** | 3 467 |
| **30. Other revenue** | | | | |
| Banking and other[1] | **2 024** | 1 426 | **2 104** | 1 585 |
| Property-related revenue | **95** | 73 | **99** | 74 |
| Insurance – bancassurance income | **946** | 958 | **946** | 958 |
| | **3 065** | 2 457 | **3 149** | 2 617 |

[1] Included in banking and other income for the company is dividend income from subsidiaries of R100 million (2014: R209 million).

## 31. Credit impairment charges

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Net credit impairments raised for loans and advances | **8 196** | 8 702 | **8 071** | 8 594 |
| Recoveries on loans and advances previously written off | **(811)** | (826) | **(789)** | (837) |
| | **7 385** | 7 876 | **7 282** | 7 757 |
| **Comprising:** | | | | |
| Net specific credit impairment charges | **6 475** | 7 907 | **6 379** | 7 814 |
| Specific credit impairment charges (note 6.3) | **7 286** | 8 733 | **7 168** | 8 651 |
| Recoveries on loans and advances previously written off | **(811)** | (826) | **(789)** | (837) |
| Portfolio credit impairment reversals (note 6.3) | **910** | (31) | **903** | (57) |
| | **7 385** | 7 876 | **7 282** | 7 757 |

## 32. Operating expenses

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Amortisation – intangible assets (note 10) | **1 482** | 1 111 | **1 480** | 1 111 |
| Auditors' remuneration | **165** | 125 | **159** | 121 |
| Audit fees – current year | **137** | 107 | **131** | 103 |
| Fees for other services | **28** | 18 | **28** | 18 |
| Communication expense | **796** | 774 | **770** | 752 |
| Depreciation (note 9) | **1 863** | 1 872 | **1 851** | 1 865 |
| Property | **428** | 382 | **428** | 382 |
| Equipment | **1 435** | 1 490 | **1 423** | 1 483 |
| Information technology | **5 000** | 4 566 | **4 970** | 4 545 |
| Operating lease charges | **1 390** | 1 418 | **1 378** | 1 407 |
| Premises | **1 005** | 962 | **1 003** | 959 |
| Professional fees | **1 570** | 1 180 | **1 558** | 1 171 |
| Staff costs | **17 795** | 16 039 | **17 401** | 15 712 |
| Salaries and wages | **16 759** | 14 120 | **16 365** | 13 793 |
| Current service cost | **718** | 652 | **718** | 652 |
| Equity-linked transactions (annexure C) | **318** | 1 267 | **318** | 1 267 |
| Other expenses | **3 627** | 3 164 | **3 389** | 2 803 |
| | **34 693** | 31 211 | **33 959** | 30 446 |

## 33. Non-trading and capital related items

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Impairment of intangible assets (note 10) | **1 220** | 445 | **1 219** | 445 |
| Loss on sale of property and equipment | **33** | 45 | **32** | 45 |
| Goodwill impairment charge on subsidiaries | | 4 | | |
| Gain on disposal of associate (note 8) | **(19)** | (19) | **(141)** | (476) |
| | **1 234** | 475 | **1 110** | 14 |

## 34. Taxation

### 34.1 Indirect taxation

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **Rm** | Rm | **Rm** | Rm |
| Value added tax | **1 361** | 1 261 | **1 360** | 1 261 |
| Other indirect taxes and levies | **189** | 137 | **183** | 135 |
| | **1 550** | 1 398 | **1 543** | 1 396 |

### 34.2 Direct taxation

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **Rm** | Rm | **Rm** | Rm |
| **South African normal tax** | **2 478** | 2 796 | **2 280** | 2 675 |
| Current year | **2 502** | 2 816 | **2 297** | 2 696 |
| Prior year | **(24)** | (20) | **(17)** | (21) |
| **Deferred taxation** | **371** | 137 | **396** | 99 |
| Current year | **351** | 172 | **374** | 138 |
| Prior year | **20** | (35) | **22** | (39) |
| Capital gains, foreign and withholding tax | **55** | 9 | **55** | 9 |
| | **2 904** | 2 942 | **2 731** | 2 783 |

The aggregate current and deferred tax relating to items charged or credited to OCI for the group and company amounted to a credit of R78 million (2014: R45 million credit) and R79 million (2014: R45 million credit) respectively.

**Income tax recognised in OCI**

The table below sets out the amount of income tax relating to each component within OCI:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **Rm** | Rm | **Rm** | Rm |
| Net change in fair value on cash flow hedges | **(644)** | (63) | **(642)** | (63) |
| Realised fair value adjustments on cash flow hedges transferred to profit or loss | **691** | 64 | **690** | 64 |
| Net change in fair value of available-for-sale financial assets | **(12)** | 1 | **(12)** | 1 |
| Defined benefit fund remeasurements | **43** | 43 | **43** | 43 |
| | **78** | 45 | **79** | 45 |

## 34. Taxation continued

### 34.2 Direct taxation continued

**Future tax relief**

The group has estimated tax losses of R14 million (2014: R10 million) which are available for set off against future taxable income, for which a deferred tax asset was recognised. These deferred tax asset balances were offset, where applicable, against deferred tax liabilities, refer to annexure D – accounting policy 12 – Taxation.

**South African tax rate reconciliation**

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | % | % | % | % |
| **Direct tax charge for the year as a percentage of profit before direct tax** | **19** | 20 | **19** | 19 |
| **Tax charge for the year has been reduced/(increased) as a consequence of the following permanent differences** | **9** | 8 | **9** | 9 |
| Dividends received | **6** | 6 | **6** | 6 |
| Other non-taxable income | **4** | 3 | **4** | 4 |
| Other permanent differences | **(1)** | (1) | **(1)** | (1) |
| **Direct taxation – statutory rate** | **28** | 28 | **28** | 28 |

## 35. Earnings per share

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Earnings** | | | | |
| The calculations of basic earnings and headline earnings per ordinary share are as follows: | | | | |
| Basic earnings (Rm) | **12 478** | 11 674 | **11 947** | 11 849 |
| Headline earnings (Rm) (note 36) | **13 376** | 12 024 | **12 721** | 11 738 |
| Weighted average number of ordinary shares in issue (thousands) (note 11.2) | **59 997** | 59 997 | **59 997** | 59 997 |
| Basic earnings per ordinary share (cents) | **20 798** | 19 458 | **19 913** | 19 749 |
| Headline earnings per ordinary share (cents) | **22 294** | 20 041 | **21 203** | 19 564 |
| Shares in issue at the beginning of the year | **59 997** | 59 997 | **59 997** | 59 997 |
| Weighted average number of ordinary shares in issue (number of shares) | **59 997** | 59 997 | **59 997** | 59 997 |

Basic earnings and headline earnings per ordinary share equals diluted earnings and headline earnings per share as there are no potential dilutive ordinary shares in issue.

## 36. Headline earnings

| | Gross Rm | Tax Rm | Non-controlling interest Rm | Net Rm |
|---|---|---|---|---|
| **Group** | | | | |
| **2015** | | | | |
| **Profit for the year** | **15 383** | **(2 904)** | **(1)** | **12 478** |
| **Headline earnings adjustable items added/(reversed)** | **1 234** | **(336)** | | **898** |
| Impairment of intangible assets – IAS 38 | **1 220** | **(341)** | | **879** |
| Disposal of associate – IAS 28 | **(19)** | **15** | | **(4)** |
| Loss on sale of property and equipment – IAS 16 | **33** | **(10)** | | **23** |
| **Headline earnings** | **16 617** | **(3 240)** | **(1)** | **13 376** |
| **Company** | | | | |
| **Profit for the year** | **14 678** | **(2 731)** | | **11 947** |
| **Headline earnings adjustable items added/(reversed)** | **1 110** | **(336)** | | **774** |
| Impairment of intangible assets – IAS 38 | **1 219** | **(341)** | | **878** |
| Disposal of associate – IAS 28 | **(141)** | **15** | | **(126)** |
| Loss on sale of property and equipment – IAS 16 | **32** | **(10)** | | **22** |
| **Headline earnings** | **15 788** | **(3 067)** | | **12 721** |
| **Group** | | | | |
| **2014** | | | | |
| **Profit for the year** | 14 619 | (2 942) | (3) | 11 674 |
| **Headline earnings adjustable items added/(reversed)** | 475 | (125) | | 350 |
| Impairment of intangible assets – IAS 38 | 445 | (106) | | 339 |
| Goodwill impairment – IFRS 3 | 4 | | | 4 |
| Disposal of associate – IAS 28 | (19) | | | (19) |
| Loss on sale of property and equipment – IAS 16 | 45 | (19) | | 26 |
| **Headline earnings** | 15 094 | (3 067) | (3) | 12 024 |
| **Company** | | | | |
| **Profit for the year** | 14 632 | (2 783) | | 11 849 |
| **Headline earnings adjustable items added/(reversed)** | 14 | (125) | | (111) |
| Impairment of intangible assets – IAS 38 | 445 | (106) | | 339 |
| Disposal of associate – IAS 28 | (476) | | | (476) |
| Loss on sale of property and equipment – IAS 16 | 45 | (19) | | 26 |
| **Headline earnings** | 14 646 | (2 908) | | 11 738 |

Headline earnings is calculated in accordance with Circular 2/2013 Headline Earnings issued by SAICA at the request of the JSE Limited. The circular allows for the inclusion in headline earnings for any gains or losses on the sale of ring-fenced private equity joint ventures or associates that are held by a banking institution.

## 37. Dividends

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| **Ordinary dividends** | | | | |
| Dividend No. 140 of 7 167 cents per share paid on 31 March 2014 to the shareholder registered on 6 March 2014 | | 4 300 | | 4 300 |
| Dividend No. 141 of 7 167 cents per share paid on 29 August 2014 to the shareholder registered on 29 August 2014 | | 4 300 | | 4 300 |
| Dividend No. 142 of 7 167 cents per share paid on 31 March 2015 to the shareholder registered on 6 March 2015 | **4 300** | | **4 300** | |
| Dividend No. 143 of 6 667 cents per share paid on 4 September 2015 to the shareholder registered on 17 August 2015 | **4 000** | | **4 000** | |
| | **8 300** | 8 600 | **8 300** | 8 600 |

On 2 March 2016, dividend No. 144 of 9 167 cents per share payable on 18 April 2016 was declared, to the shareholder registered on 15 April 2016, bringing the total dividends declared in respect of 2015 to 15 834 cents per share (2014: 14 334 cents per share).

## 38. Statement of cash flows notes

### 38.1 Adjustment for non-cash items and other adjustments included within the income statement

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Amortisation of intangible assets | **1 482** | 1 111 | **1 480** | 1 111 |
| Depreciation of property and equipment | **1 863** | 1 872 | **1 851** | 1 865 |
| Credit impairment charges on loans and advances | **7 385** | 7 876 | **7 282** | 7 757 |
| Interest income | **(73 250)** | (65 938) | **(72 070)** | (65 033) |
| Interest expense | **39 077** | 34 257 | **38 628** | 33 739 |
| Equity-linked transactions | **318** | 1 267 | **318** | 1 267 |
| Indirect taxation | **(1 550)** | (1 398) | **(1 543)** | (1 396) |
| Dividends included in trading revenue | **(1 187)** | (743) | **(1 187)** | (743) |
| Other adjustments | **(629)** | (606) | **(615)** | (598) |
| | **(26 491)** | (22 302) | **(25 856)** | (22 031) |

### 38.2 Decrease/(increase) in income-earning assets

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| Financial investments | **2 990** | (28 258) | **2 530** | (26 841) |
| Trading assets | **(11 846)** | (15 862) | **(11 844)** | (16 043) |
| Pledged assets | **(2 598)** | (887) | **(2 598)** | (887) |
| Loans and advances | **(118 406)** | (87 629) | **(119 333)** | (89 218) |
| Net derivative assets | **8 118** | 6 394 | **8 117** | 6 415 |
| Interest in SBG companies, associates and joint ventures – banking operations | **25 353** | 4 736 | **26 439** | 3 713 |
| Other assets | **(1 645)** | 4 095 | **(1 754)** | 4 126 |
| | **(98 034)** | (117 411) | **(98 443)** | (118 735) |

## 38. Statement of cash flows notes continued

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 Rm |
|---|---|---|---|---|
| **38.3 Increase/(decrease) in deposits, trading and other liabilities** | | | | |
| Deposit and debt funding | **74 436** | 78 586 | **76 363** | 79 886 |
| Trading liabilities | **1 916** | 2 285 | **1 916** | 2 285 |
| Liabilities to SBG companies | **3 391** | 33 106 | **2 634** | 33 432 |
| Other liabilities | **2 704** | (2 455) | **2 667** | (2 451) |
| | **82 447** | 111 522 | **83 580** | 113 152 |

## 39. Related party transactions

### 39.1 Parent

SBSA is a wholly-owned subsidiary of SBG.

### 39.2 Subsidiaries

Details of effective interest, investments in and loans to material subsidiaries are disclosed in annexure A.

### 39.3 Associates and joint ventures

Details of effective interest, investments in and loans to associates and joint ventures are disclosed in annexure B.

### 39.4 Key management personnel

Key management personnel has been defined as SBSA board of directors and prescribed officers effective for 2015 and 2014. Non-executive directors are included in the definition of key management personnel as required by IFRS. 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 the group. 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.

## 39. Related party transactions continued

### 39.4 Key management personnel continued

| | 2015 Rm | 2014 Rm |
|---|---|---|
| **Key management compensation** | | |
| Salaries and other short-term benefits paid | 117 | 108 |
| Post-employment benefits | 5 | 5 |
| IFRS 2 value of share options and rights expensed | 18 | 67 |
| | 140 | 180 |
| **Loans and advances** | | |
| Loans outstanding at the beginning of the year | 10 | 10 |
| Change in key management structures | (2) | (1) |
| Net loans granted during the year | 3 | 1 |
| **Loans outstanding at the end of the year** | 11 | 10 |
| Interest income | 1 | 1 |
| Loans include mortgage loans, vehicle and asset finance and credit cards. No specific 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 current accounts** | | |
| Deposits outstanding at the beginning of the year | 149 | 124 |
| Change in key management structures | (117) | (64) |
| Net deposits received during the year | | 89 |
| **Deposits outstanding at the end of the year** | 32 | 149 |
| Net interest income/(expense) | 3 | (2) |
| Deposits include cheque, current and savings accounts. | | |
| **Investment products** | | |
| Balance at the beginning of the year | 239 | 293 |
| Change in key management structures | (96) | (110) |
| Net investments placed during the year | 19 | 56 |
| **Balance at the end of the year** | 162 | 239 |
| Investment return to key management personnel | 24 | 98 |
| **Third-party funds under management** | | |
| Fund value at the beginning of the year | 858 | 748 |
| Change in key management structures | (589) | 27 |
| Net deposits, including commission and other transaction fees | 30 | 83 |
| **Fund value at the end of the year** | 299 | 858 |
| Net investment return | 7 | 74 |
| Financial consulting fees and commission | 9 | 12 |
| **Shares and share options held** | | |
| Aggregate details of SBG shares and share options held by key management personnel: | | |
| Shares beneficially owned (number) | 1 349 917 | 1 647 808 |
| Share options held (number) | 3 982 654 | 4 938 802 |

## 39. Related party transactions continued

### 39.5 Holding company, subsidiaries and fellow subsidiaries

| | Holding company | | Subsidiaries | | Fellow subsidiaries[1] | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | **Rm** | Rm | **Rm** | Rm | **Rm** | Rm |
| **Assets** | | | | | | |
| **Group** | | | | | | |
| Assets outstanding at the beginning of the year | **387** | 147 | | | **65 569** | 70 545 |
| Net movement for the year | **(172)** | 240 | | | **(25 249)** | (4 976) |
| **Assets outstanding at the end of the year** | **215** | 387 | | | **40 320** | 65 569 |
| Interest income | | | | | **959** | 1 165 |
| Non-interest revenue | **168** | | | | **1 528** | 1 534 |
| **Company** | | | | | | |
| Assets outstanding at the beginning of the year | **387** | 147 | **9 274** | 8 784 | **66 509** | 70 963 |
| Net movement for the year | **(172)** | 240 | **(280)** | 490 | **(26 028)** | (4 454) |
| **Assets outstanding at the end of the year** | **215** | 387 | **8 994** | 9 274 | **40 481** | 66 509 |
| Interest income | | | **472** | 516 | **813** | 1 188 |
| Non-interest revenue | **168** | | **653** | 678 | **1 229** | 1 257 |
| The loans issued to subsidiaries and fellow subsidiaries are repayable on demand. Interest is charged based on the group's internal funding rate. The loans are secured. | | | | | | |
| **Liabilities** | | | | | | |
| **Group** | | | | | | |
| Liabilities outstanding at the beginning of the year | **1 386** | 594 | | | **135 117** | 99 785 |
| Net movement for the year | **(1 210)** | 792 | | | **(8 107)** | 35 332 |
| **Liabilities outstanding at the end of the year** | **176** | 1 386 | | | **127 010** | 135 117 |
| Interest expense | | | | | **(2 332)** | (1 552) |
| **Company** | | | | | | |
| Liabilities outstanding at the beginning of the year | **1 323** | 594 | **1 994** | 1 958 | **135 363** | 99 741 |
| Net movement for the year | **(1 147)** | 729 | **(169)** | 36 | **(8 695)** | 35 622 |
| **Liabilities outstanding at the end of the year** | **176** | 1 323 | **1 825** | 1 994 | **126 668** | 135 363 |
| Interest expense | | (30) | **(141)** | (113) | **(2 330)** | (1 552) |

1 Includes both banking and insurance fellow subsidiaries.

## 39. Related party transactions continued

### 39.5 Holding company, subsidiaries and fellow subsidiaries continued

| | Deposits and debt funding 2015 Rm | Deposits and debt funding 2014 Rm | Fees received 2015 Rm | Fees received 2014 Rm | Net interest paid 2015 Rm | Net interest paid 2014 Rm |
|---|---|---|---|---|---|---|
| **Banking arrangements** | | | | | | |
| Liberty and its subsidiaries hold the following deposits and debt funding as issued by the group and company: | | | | | | |
| **Deposits and debt funding** | | | | | | |
| – Liberty[1] | **13** | 15 | | | **2** | 30 |
| – Liberty[1] subsidiaries | **5 091** | 5 916 | **49** | 45 | **63** | 78 |
| | **5 104** | 5 931 | **49** | 45 | **65** | 108 |

[1] Liberty Holdings Limited.

### 39.6 Transactions with fellow subsidiaries

Below is a summary of the nature and value of transactions with fellow subsidiaries. Balances outstanding with respect to the following related party transactions as at 31 December 2015 are included in the note above.

#### Information technology outsourcing arrangement

Liberty partially outsources its IT services to the company in terms of various agreements until 30 April 2021. Fees charged for 2015 amounted to R29 million (2014: R24 million).

#### Royalty fees

Royalty fees are charged by the group to its fellow SBG subsidiaries in the rest of Africa in terms of a licencing agreement for the use of IT software owned by the group and the use of the group's core banking system. The group also earns fees relating to the development of new IT software. Fees charged for 2015 amounted to R372 million (2014: R269 million).

#### Software development fees

Liberty developed a number of distribution systems on behalf of the company in prior years. The 2015 annual maintenance fees paid to the company were R7 million (2014: R7 million).

#### Systems development fees

The group develops new IT systems and enhances existing IT systems for its fellow SBG subsidiaries in the rest of Africa. In terms of the agreement, fees charged for 2015 amounted to R160 million (2014: R190 million).

#### Operating leases

The company leases several properties from Liberty, including 50% of its head office at 5 Simmonds Street, Johannesburg, and various retail branches in shopping centres. These leases are governed by numerous separate lease agreements. Total lease payments for 2015 amounted to R73 million (2014: R71 million).

#### Franchise and management fees

The group charges its fellow SBG subsidiaries franchise or management fees for the provision of related management services, granting the fellow subsidiaries the right to operate the licensed business and providing the use of group provided business systems. Fees charged relating to 2015 amounted to R671 million (2014: R670 million). Included in the fellow subsidiary balances in note 39.5 are balances due to the group as at 31 December 2015 of R1,4 billion (2014: R1,1 billion).

## 39. Related party transactions continued

### 39.6 Transactions with fellow subsidiaries continued

**Nigeria**

As at 31 December 2015, the group had a recognised receivable of R602 million (2014: R542 million) with respect to amounts owing by Stanbic IBTC Bank Plc (SIBTC) for services rendered in terms of certain franchise and management fee agreements. SIBTC is currently appealing a judgement with respect to the enforceability of these agreements and has obtained a court-ordered injunction against that judgement being enforced pending that appeal. The group does not regard the agreements to be illegal, unenforceable or null and void. Given the uncertainty of the timing for which these amounts will be recoverable by the group, a time value of money adjustment of R292 million (2014: R112 million) has been recognised.

**Bancassurance**

The Liberty group extended the bancassurance agreements with the company for the manufacture, sale and promotion of insurance, investment and health products through the company's African distribution capability. New business premium income in respect of this business in 2015 amounted to R7 503 million (2014: R7 984 million). In terms of the agreements, Liberty's group subsidiaries pay profit shares to the company's various operations. The amounts to be paid are in most cases dependent on source and type of business and are paid along geographical lines. The total combined net profit share amounts receivable for the year ended 31 December 2015 is R896 million (2014: R866 million).

The bancassurance agreements are evergreen agreements with a 24-month notice period for termination. As at the date of the approval of this annual report, neither party had given notice.

A binder agreement has been entered into with Liberty effective from 31 December 2012. The binder agreement is associated with the administration of policies sold under the bancassurance agreement, and shall remain in force for an indefinite period with a 90-day notice period for termination. Fees receivable for the year ended 31 December 2015 are R110 million (2014: R100 million).

**Insurance**

Certain insured risks for Liberty are included in the SBG insurance programme. These include cover for crime, fraud and professional indemnity, directors' and officers' and asset all risks insurance. The proportionate share of premiums charged to Liberty by SBG for 2015 is R11 million (2014: R14 million).

**Asset management fees**

Asset management fees of R23 million (2014: R10 million) were paid to STANLIB Asset Management Limited by the Standard Bank Group Retirement Fund (SBGRF).

**Derivatives**

Certain derivative transactions were entered into between the company and Liberty. Transactions were entered into on an arm's length basis. The fair value of these derivatives at 31 December 2015 is R1 185 million (2014: R273 million).

Collateral deposits of R505 million as at 31 December 2015 (2014: R1 582 million) were deposited by Liberty with the company supporting South African Futures Exchange traded derivatives.

**Sale and repurchase agreements**

The company entered into certain reverse repurchase agreements with Liberty during the year ended 31 December 2015.

Open contracts totalled R1 942 million as at 31 December 2015 (2014: R26 million). Income recognised in respect of these agreements as at 31 December 2015 was R119 million (2014: R174 million).

# 39. Related party transactions continued

## 39.6 Transactions with fellow subsidiaries continued

**Commission received from Liberty**

The group received commission from Liberty for policies sold through the company and its subsidiaries' various distribution channels. Commission received for the year to 31 December 2015 was R1 053 million (2014: R902 million). STANLIB also paid commission of R175 million (2014: R57 million) to the group for the year to 31 December 2015 in relation to its management business.

**Advisory fees received in respect of bond issue**

During December 2014, Liberty issued a R500 million subordinated note. An advisory fee of R3 million was paid to the company for advisory fees in respect of the note issue.

**Liberty PropCo Proprietary Limited**

On 9 June 2015, Liberty PropCo Proprietary Limited issued notes to the group amounting to R223 million.

**Transfer pricing arrangements for 2015 and 2014**

The company entered into various transfer pricing agreements with other group entities. These agreements have all been entered into on an arm's length basis in accordance with the pricing principles contained in the Organisation for Economic Cooperation and Development Guidelines and relevant domestic legislation. The nature of the agreements are such that the related parties performing relevant functions, assuming relevant risks and owning relevant assets in the day-to-day business activities of the group and company, are compensated on an arm's length basis. The integrated business model, in relation to functional, risk and asset profile and in accordance with the nature of the agreement, resulted in payments being made by both the group and fellow SBG subsidiaries during the 2015 and 2014 financial years.

The following amounts were recognised in the group and company income statements for the agreements:

| | 2015<br>Rm | 2014<br>Rm |
|---|---|---|
| Revenue sharing agreements | **1 125** | 1 759 |
| Other operating expenses | **872** | 505 |
| **Total cost of transfer pricing agreements** | **1 997** | 2 264 |

# 39. Related party transactions continued

## 39.7 Balances and transactions with ICBCS

On 1 February 2015, SBG disposed of its controlling interest in SB Plc to ICBC. With effect from that date, SB Plc was renamed to ICBCS and became a supported subsidiary of ICBC. SBG retained a 40% interest in ICBCS and with effect from the disposal date, classified and equity accounted its investment in ICBCS as an interest in an associate during the period ended 31 December 2015, the group entered into transactions with ICBCS on market-related terms as follows:

| | 2015<br>Rm |
|---|---|
| Derivative assets | **4 653** |
| Trading assets | **35** |
| Loans and advances | **23 930** |
| Other assets | **139** |
| Derivative liabilities | **(5 109)** |
| Deposits | **(3 238)** |
| Other liabilities | **(132)** |

During the year, transactions were entered into with ICBCS that resulted in: interest income of R152 million and interest expense of R92 million. In addition as part of SBG's divesture of SB Plc, SB Plc and the group entered into certain transitional service level arrangements in order to manage the orderly separation of SB Plc from SBG post the sale of 60% thereof. In terms of these arrangements, services are delivered to and received from ICBCS for the account of each respective party under formal service level agreements. Revenue and expenses recognised in respect of these arrangements amounted to R402 million and R58 million respectively for the period ending 31 December 2015.

## 39.8 Shareholder of the parent

The group has several business relationships with ICBC, a 20.1% shareholder of Standard Bank Group Limited. 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 and provisions for bad debts that related to balances and transactions with ICBC.

### 39.8.1 Balances with a shareholder of the parent

The following balances are outstanding between the group and ICBC at 31 December:

| | 2015<br>Rm | 2014<br>Rm |
|---|---|---|
| **Trading assets** | | |
| Trading assets outstanding at the beginning of the year | **20** | |
| Net trading positions opened during the year | **(13)** | 20 |
| **Trading assets outstanding at the end of the year** | **7** | 20 |

The group entered into commodity leasing transactions with ICBC at market-related terms and conditions, from which gross trading revenue of R74 million was recognised (2014: R94 million). As at 31 December 2015, a trading asset of R7 million with respect to these transactions was recognised (2014: R20 million).

# 39. Related party transactions continued

## 39.8 Shareholder of the parent continued

### 39.8.1 Balances with a shareholder of the parent continued

| | 2015 Rm | 2014 Rm |
|---|---|---|
| **Net loans and advances** | | |
| Loans and advances outstanding at the beginning of the year | **1 462** | |
| Loans and advances (repaid)/granted during the year | **(1 309)** | 1 462 |
| **Net loans and advances outstanding at the end of the year** | **153** | 1 462 |

Loans and advances to ICBC include fixed term loans with a maturity of less than 12 months from the reporting date, current account balances and confirmed letters of credit. Net interest income from these arrangements amounted to R39 million in 2015 (2014: R60 million).

**Letters of credit**
The group has off-balance sheet letters of credit exposure issued to ICBC as at 31 December 2015 of R216 million (2014: R646 million). The group received R2 million in fee and commission income relating to these transactions (2014: R2 million).

## 39.9 Post-employment benefit plans

Details of transactions between the group and the company's post-employment benefit plans are listed below:

| | 2015 Rm | 2014 Rm |
|---|---|---|
| Fee income | **25** | 15 |
| Deposits held with the company | **32** | 35 |
| Interest paid | **2** | 3 |
| Value of assets under management | **8 092** | 7 960 |
| Investments held in bonds and money market | **251** | 449 |
| Value of ordinary SBG shares held | **471** | 330 |

# 40. Pensions and other post-employment benefits

## 40.1 Retirement funds

Membership of the principal fund, the Standard Bank Group Retirement Fund (SBGRF), exceeds 95% (2014: 95%) of the group's permanent staff. The fund, one of the ten largest in South Africa, is a defined contribution fund governed by the Pension Funds Act 24 of 1956. 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 will be performed on 31 December 2015 during 2016. The previous full actuarial valuation was performed on 31 December 2012 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, as amended, into SBGRF and are no longer disclosed separately.

### 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 (note 40.2) 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.

# 40. Pensions and other post-employment benefits continued

## 40.1 Retirement funds continued

| | Group and Company 2015 Rm | Group and Company 2014 Rm |
|---|---|---|
| **The amounts recognised in the statement of financial position in respect of the retirement fund is as follows:** | | |
| Present value of funded obligations | **(30 082)** | (28 308) |
| Fair value of plan assets | **31 242** | 29 690 |
| **Surplus** | **1 160** | 1 382 |
| **Included in other assets in the statement of financial position** | **1 160** | 1 382 |
| **Movement in the present value of funded obligations** | | |
| Balance at the beginning of the year | **28 308** | 27 009 |
| Current service cost | **818** | 772 |
| Interest cost | **2 284** | 2 252 |
| Contributions paid by employees | **632** | 588 |
| Actuarial losses | **1 158** | 405 |
| Benefits paid | **(3 118)** | (2 718) |
| **Balance at the end of the year** | **30 082** | 28 308 |
| **Movement in the fair value of plan assets** | | |
| Balance at the beginning of the year | **29 690** | 28 594 |
| Interest income | **2 384** | 2 372 |
| Contributions received | **1 273** | 1 182 |
| Net return on assets | **1 013** | 260 |
| Benefits paid | **(3 118)** | (2 718) |
| **Balance at the end of the year** | **31 242** | 29 690 |
| Plan assets consist of the following: | | |
| Cash | **844** | 683 |
| Equities | **13 278** | 13 034 |
| Bonds | **8 592** | 8 729 |
| Property and other | **8 528** | 7 244 |
| | **31 242** | 29 690 |

## 40. Pensions and other post-employment benefits continued

### 40.1 Retirement funds continued

The group expects to pay R752 million in contributions to SBGRF in 2016 (2015: R641 million).

| | Group and Company 2015 Rm | Group and Company 2014 Rm |
|---|---|---|
| **The amounts recognised in profit or loss are determined as follows:** | | |
| Current service cost | **(818)** | (772) |
| Net interest income | **100** | 120 |
| **Included in staff costs** | **(718)** | (652) |

The expected long-term rate of return is based on the expected long-term returns on equities, cash, bonds and properties (where applicable). The split between the individual asset categories is considered in setting these assumptions. Adjustments are made to reflect the effect of expenses.

| | Group and Company 2015 Rm | Group and Company 2014 Rm |
|---|---|---|
| **Components of statement of OCI** | | |
| Net return on assets | **1 013** | 260 |
| Actuarial losses | **(1 158)** | (405) |
| (Loss)/gain from changes in demographic assumptions | **(1 264)** | 64 |
| Gain/(loss) from changes in financial assumptions | **106** | (469) |
| **Decrease in remeasurements recognised in OCI** | **(145)** | (145) |
| **Reconciliation of net defined benefit asset** | | |
| Net defined benefit asset at the beginning of the year | **1 382** | 1 585 |
| Net expense recognised | **(718)** | (652) |
| Amounts recognised in OCI | **(145)** | (145) |
| Company contributions | **641** | 594 |
| **Net defined benefit asset at the end of the year** | **1 160** | 1 382 |

# 40. Pensions and other post-employment benefits continued

## 40.1 Retirement funds continued

**Sensitivity analysis for post-retirement fund**

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | 1% increase Rm | 1% decrease Rm | 1% increase Rm | 1% decrease Rm |
| **Group and company** | | | | |
| **Inflation rate** | | | | |
| Effect on the defined benefit obligation | 553 | (434) | 576 | (459) |
| **Discount rate** | | | | |
| Effect on the defined benefit obligation | (411) | 528 | (436) | 551 |
| | +10% increase | -10% decrease | +10% increase | -10% decrease |
| **Mortality improvements** | | | | |
| Effect on the defined benefit obligation | (56) | 62 | (63) | 57 |
| | +1 year | -1 year | +1 year | -1 year |
| **Mortality improvements** | | | | |
| Effect on the defined benefit obligation | (56) | 56 | (63) | 51 |

| | 2015 Rm | 2014 Rm |
|---|---|---|
| **Historical information** | | |
| Experience adjustments arising on plan liabilities | 1 158 | 405 |
| Experience adjustments arising on plan assets | 1 013 | 260 |

## 40.2 Post-employment healthcare benefits

**Post-employment medical aid**

The post-employment healthcare benefit fund provides eligible employees, who were in service on 29 February 2000, with a lump sum benefit on retirement enabling them to purchase an annuity to be applied towards their post-employment healthcare costs. This benefit is prefunded in a provident fund and replaced the subsidy arrangement that was in place prior to this. Any shortfall in the payment to be made by these employees towards their healthcare costs subsequent to retirement is the responsibility of the employee.

The liability represents a post-employment healthcare benefit scheme that covers all employees who retired before 1 March 2000. The liability is unfunded and is valued every year using the projected unit credit method. The latest full statutory actuarial valuation was performed as at 31 December 2015. The next actuarial valuation will be performed as at 31 December 2016.

## 40. Pensions and other post-employment benefits continued

### 40.2 Post-employment healthcare benefits continued

| | Group 2015 Rm | Group 2014 Rm | Company 2015 Rm | Company 2014 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 | **665** | 665 | **665** | 665 |
| **Unfunded shortfall included in the statement of financial position** | **665** | 665 | **665** | 665 |
| **Comprising:** | | | | |
| Post-employment medical aid | **665** | 665 | **665** | 665 |
| | **665** | 665 | **665** | 665 |
| **Movement in the present value of defined benefit obligations** | | | | |
| Balance at the beginning of the year | **665** | 663 | **665** | 663 |
| Interest cost | **51** | 51 | **51** | 51 |
| Actuarial losses | **8** | 8 | **8** | 8 |
| Benefits paid | **(59)** | (57) | **(59)** | (57) |
| **Balance at the end of the year** | **665** | 665 | **665** | 665 |
| **The amounts recognised in profit or loss are determined as follows:** | | | | |
| Net interest cost | **(51)** | (51) | **(51)** | (51) |
| **Included in staff costs** | **(51)** | (51) | **(51)** | (51) |
| **Components of statement of OCI** | | | | |
| Actuarial losses arising from changes in financial assumptions | **(16)** | (18) | **(16)** | (18) |
| Gains arising from experience adjustments | **8** | 10 | **8** | 10 |
| **Decrease in remeasurement recognised in OCI** | **8** | 8 | **8** | 8 |

# 40. Pensions and other post-employment benefits continued

## 40.2 Post-employment healthcare benefits continued

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 amounts recognised in 2015 and 2014:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | 1% increase Rm | 1% decrease Rm | 1% increase Rm | 1% decrease Rm |
| **Sensitivity analysis for post-employment medical aid fund** | | | | |
| **Group and company** | | | | |
| Effect on the aggregate of the current service cost and interest cost | **17** | **14** | 5 | 2 |
| Effect on the defined benefit obligation | **56** | **(48)** | 56 | (48) |

| | 2015 Rm | 2014 Rm |
|---|---|---|
| **Historical information** | | |
| Experience adjustments arising on plan liabilities | **8** | 8 |

## 41. Segment reporting

The principal business units for the group and company are as follows:

| BUSINESS UNIT | SCOPE OF OPERATIONS |
|---|---|
| Personal & Business Banking | Banking and other financial services to individual customers and small- to medium-sized enterprises.<br><br>Transactional products – comprehensive suite of transactional, savings, investment, trade, foreign exchange, payment and liquidity management solutions made accessible through a range of physical and electronic channels.<br><br>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.<br><br>Mortgage lending – residential accommodation loans mainly to personal market customers.<br><br>Card products – credit card facilities to individuals and businesses (credit card issuing) and merchant transaction acquiring services (card acquiring).<br><br>Vehicle and asset finance – finance of vehicles for retail market customers and equipment in the business and corporate assets markets.<br><br>Bancassurance – short- and long-term insurance products comprising simple embedded products, including homeowners' insurance, funeral cover, household contents and vehicle insurance and loan protection plans sold in conjunction with related banking products, financial planning and wealth services. |
| Corporate & Investment Banking | Corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties.<br><br>Client coverage – relationship management and sector expertise.<br><br>Global markets – includes FIC, commodities and equities.<br><br>Transactional products and services – includes transactional banking, investor services and trade finance.<br><br>Investment banking – includes advisory, debt products, structured finance, structured trade and commodity finance, debt capital markets and equity capital markets.<br><br>Real estate – includes real estate finance and investment in real estate. |
| Other services | Includes the results of support functions, which are either centralised or embedded in the business segments. The direct costs of support functions are recharged to the business segments. These functions include, legal, human capital, finance, governance, assurance, IT, procurement, marketing, real estate, risk management and group shared services. |

The segment report includes only those business unit activities conducted within the group. No geographical segment information is disclosed due to the fact that business activities predominantly relate to South Africa. The consolidated results of each business unit, containing all the activities of the business units across SBG, are reflected in the segment report in SBG's annual financial statements.

## 41. Segment reporting continued

| | Personal & Business Banking | |
|---|---|---|
| | 2015 Rm | 2014[1] Rm |
| **Group** | | |
| Net interest income | 27 470 | 24 902 |
| Interest income | 51 342 | 46 705 |
| Interest expense | (23 872) | (21 803) |
| Non-interest revenue | 17 554 | 16 988 |
| Net fee and commission revenue | 16 505 | 15 960 |
| Trading revenue | | |
| Other revenue | 1 049 | 1 028 |
| **Total income** | 45 024 | 41 890 |
| Credit impairment charges | (6 603) | (7 172) |
| Revenue sharing agreements | | (2) |
| **Net income before non-trading and capital related items and equity accounted earnings** | 38 421 | 34 716 |
| Operating expenses | (24 413) | (22 507) |
| **Income after credit impairment charges and revenue sharing agreements** | 14 008 | 12 209 |
| Non-trading and capital related items | (683) | (258) |
| Share of profits from associates and joint ventures | 13 | 56 |
| **Profit/(loss) before indirect taxation** | 13 338 | 12 007 |
| Indirect taxation | (369) | (359) |
| **Profit/(loss) before direct taxation** | 12 969 | 11 648 |
| Direct taxation | (3 352) | (3 044) |
| **Profit/(loss) for the year** | 9 617 | 8 604 |
| Attributable to non-controlling interest | (1) | (3) |
| **Attributable to the ordinary shareholder** | 9 616 | 8 601 |
| **Headline earnings** | 10 125 | 8 783 |
| **Operating information** | | |
| Total assets | 501 877 | 479 294 |
| Total liabilities | 455 027 | 437 196 |
| **Other information** | | |
| Interest in associates and joint ventures | 328 | 332 |
| Depreciation and amortisation | 1 506 | 1 191 |
| Impairments of intangible assets | 658 | 229 |

[1] Where reporting responsibility for individual cost centres and divisions within business units change, the segmental analysis comparative figures have been reclassified accordingly.

| Corporate & Investment Banking | | Other services | | Total | |
|---|---|---|---|---|---|
| 2015 | 2014[1] | 2015 | 2014[1] | 2015 | 2014[1] |
| Rm | Rm | Rm | Rm | Rm | Rm |
| **7 979** | 7 493 | **(491)** | 97 | **34 958** | 32 492 |
| **36 003** | 31 377 | **(13 310)** | (11 333) | **74 035** | 66 749 |
| **(28 024)** | (23 884) | **12 819** | 11 430 | **(39 077)** | (34 257) |
| **8 813** | 7 880 | **(20)** | (143) | **26 347** | 24 725 |
| **3 406** | 3 471 | **(817)** | (616) | **19 094** | 18 815 |
| **4 223** | 3 477 | **(35)** | (24) | **4 188** | 3 453 |
| **1 184** | 932 | **832** | 497 | **3 065** | 2 457 |
| **16 792** | 15 373 | **(511)** | (46) | **61 305** | 57 217 |
| **(507)** | (704) | **(275)** | | **(7 385)** | (7 876) |
| **(1 125)** | (1 757) | | | **(1 125)** | (1 759) |
| **15 160** | 12 912 | **(786)** | (46) | **52 795** | 47 582 |
| **(10 769)** | (8 996) | **489** | 292 | **(34 693)** | (31 211) |
| **4 391** | 3 916 | **(297)** | 246 | **18 102** | 16 371 |
| **(257)** | (140) | **(294)** | (77) | **(1 234)** | (475) |
| **51** | 65 | **1** | | **65** | 121 |
| **4 185** | 3 841 | **(590)** | 169 | **16 933** | 16 017 |
| **(213)** | (193) | **(968)** | (846) | **(1 550)** | (1 398) |
| **3 972** | 3 648 | **(1 558)** | (677) | **15 383** | 14 619 |
| **168** | (106) | **280** | 208 | **(2 904)** | (2 942) |
| **4 140** | 3 542 | **(1 278)** | (469) | **12 479** | 11 677 |
| | | | | **(1)** | (3) |
| **4 140** | 3 542 | **(1 278)** | (469) | **12 478** | 11 674 |
| **4 331** | 3 655 | **(1 080)** | (414) | **13 376** | 12 024 |
| **729 944** | 610 875 | **45 132** | 40 981 | **1 276 953** | 1 131 150 |
| **692 688** | 582 454 | **38 524** | 29 082 | **1 186 239** | 1 048 732 |
| **484** | 619 | | | **812** | 951 |
| **233** | 8 | **1 607** | 1 784 | **3 346** | 2 983 |
| **110** | 134 | **452** | 82 | **1 220** | 445 |

# Annexure A

## Subsidiaries, consolidated and unconsolidated structured entities

### Subsidiaries

| | Nature of operation | Issued share capital Rm |
|---|---|---|
| Blue Bond Investments Limited | Participation mortgage bond finance | * |
| Blue Granite Investments No. 1 (RF) Limited[1] | Securitisation vehicle | |
| Blue Granite Investments No. 2 (RF) Limited[1] | Securitisation vehicle | |
| Blue Granite Investments No. 3 (RF) Limited[1] | Securitisation vehicle | |
| Blue Granite Investments No. 4 (RF) Limited[1] | Securitisation vehicle | |
| Blue Titanium Conduit (RF) Limited[1] | Asset-backed commercial paper conduit | |
| Diners Club (S.A.) (RF) Limited | Travel and entertainment card | * |
| Out of the Blue Originator Proprietary Limited[1] | Securitisation vehicle | |
| Siyakha Fund (RF) Limited[1] | Securitisation vehicle | |
| Tabistone 06 (RF) Limited[1] | Securitisation vehicle | |
| Standard Bank Insurance Brokers Proprietary Limited | Insurance broking | * |
| Rapitrade 584 Proprietary Limited | Financing company | * |
| Miscellaneous | Finance companies | |
| **Total investment in subsidiaries** | | |

1 SE, no shareholding.
* Issued share capital less than R1 million.
** Book value less than R1 million.
*** Held indirectly.
**** Various holding.

All subsidiaries are incorporated within South Africa. The detailed information is only given in respect of subsidiaries which are material to the grou

## Consolidation of securitisation vehicles

The securitisation vehicles are dependent on the company for financing and for the provision of critical services. Should the company terminate funding and suspend provision of these services, these vehicles would not be able to continue in operation. The company also has residual risk as the financing provided by the company is subordinate to all other loans provided to the securitisation vehicles. The company also makes decisions regarding advances to be included in the securitisation portfolio and hence directs the vehicles' relevant activities. Accordingly, the company is considered, for IFRS purposes, to control these securitisation vehicles and hence the securitisation vehicles' results are consolidated into the group's results.

| Effective holding | | Non-controlling interest | | Book value of shares | | Net indebtedness to/(by) SBSA | |
|---|---|---|---|---|---|---|---|
| **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| **%** | % | **%** | % | **Rm** | Rm | **Rm** | Rm |
| **100** | 100 | | | ****** | ** | | 30 |
| | | | | | | **441** | 449 |
| | | | | | | **250** | 303 |
| | | | | | | **455** | 558 |
| | | | | | | **112** | 270 |
| | | | | | | **154** | 666 |
| **100** | 100 | | | ****** | ** | **582** | 625 |
| | | | | | | **(3)** | 655 |
| | | | | | | **694** | 652 |
| | | | | | | **185** | 69 |
| **100** | 100 | | | ******* | *** | **(109)** | (313) |
| **100** | 100 | | | ******* | *** | **4 309** | 3 375 |
| ******** | **** | | **** | **134** | 96 | **99** | (59) |
| | | | | **134** | 96 | **7 169** | 7 280 |

up's financial position. Details of all the group's subsidiaries and SEs are available upon request at the company's registered office.

## Consolidated structured entities

The following table discloses the consolidated SEs to which the group provides financial support[1]:

| | Nature of operations | Amount of support provided as at[2,4] 2015 Rm | 2014 Rm | Type of support[3] 2015 | 2014 |
|---|---|---|---|---|---|
| **Blue Granite Investments No. 1 (RF) Limited (BG1)** | Facilitates mortgage-backed securitisations. SBSA is the primary liquidity facility provider to Blue BG1. | **1** | 1 | **Sub-ordinated loan** | Sub-ordinated loan |
| | | **617** | 871 | **Mortgage-backed notes** | Mortgage-backed notes |
| **Blue Granite Investments No. 2 (RF) Limited (BG2)** | Facilitates mortgage-backed securitisations. SBSA is the primary liquidity facility provider to BG2. | **1 003** | 1 114 | **Mortgage-backed notes** | Mortgage-backed notes |
| **Blue Granite Investments No. 3 (RF) Limited (BG3)** | Facilitates mortgage-backed securitisations. SBSA is the primary liquidity facility provider to BG3. | **58** | 60 | **Sub-ordinated loan** | Sub-ordinated loan |
| | | **868** | 990 | **Mortgage-backed notes** | Mortgage-backed notes |
| **Blue Granite Investments No. 4 (RF) Limited (BG4)** | Facilitates mortgage-backed securitisations. SBSA is the primary liquidity facility provider to BG4. | **81** | 118 | **Sub-ordinated loan** | Sub-ordinated loan |
| | | **1 028** | 1 028 | **Mortgage-backed notes** | Mortgage-backed notes |

Refer to footnotes on page 230.

| Terms of contractual arrangements | Events/circumstances that could expose the group to a loss as a result of the contractual arrangements |
|---|---|
| The subordinated loan does not have a fixed term or repayment date. All the profits in BG1 are paid out to SBSA as interest on the loan. | Should BG1'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 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. | |
| The group holds the class A1, A2, A3, B, C and D notes. Interest for the different classes of notes accrues at the three-month JIBAR rate plus a margin ranging between 1.4% and 4%. Interest is payable quarterly. Furthermore, the group holds class Y notes for which interest accrues at prime plus 3%. Interest is payable quarterly. The notes' maturity date is 21 July 2041. | Should BG2's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing. |
| The subordinated loan does not have a fixed term or repayment date. Interest is charged at prime plus 5% 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. |
| The group holds notes of classes A1, A2,A3,A4, B and C, for which interest for the different classes of notes accrues at the three-month JIBAR rate plus a margin ranging between 1.15% and 3.1%. The group also holds notes of classes D and Y, for which interest accrues at prime plus a margin ranging between 1% and 3%. Interest is payable quarterly. The notes' maturity date is 30 October 2031. | |
| The subordinated loan does not have a fixed term or repayment date. Interest is charged at prime plus 5.5% 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. |
| The group holds class A1, A2, A3, B and C notes for which interest for the different classes of notes accrues at the three-month JIBAR rate plus a margin ranging between 1.15% and 3.1%. The group also hold class A4 notes with interest which accrues semi-annually at 8.8%. Furthermore, the group holds class D and Y notes for which interest accrues at prime plus a margin ranging between 1% and 3%. Interest is payable quarterly. The notes' maturity date is 15 June 2037. | |

## Consolidated structured entities continued

| | Nature of operations | Amount of support provided as at[2,4] 2015 Rm | 2014 Rm | Type of support[3] 2015 | 2014 |
|---|---|---|---|---|---|
| **Siyakha Fund (RF) Limited (Siyakha)** | Facilitates mortgage-backed securitisations. SBSA is the primary liquidity facility provider to Siyakha. | **43** | 43 | **Sub-ordinated loan** | Sub-ordinated loan |
| | | **836** | 836 | **Mortgage-backed notes** | Mortgage-backed notes |
| **Blue Banner Securitisation RC1 Proprietary Limited (Blue Banner)** | Originates mortgage loans on behalf of SBSA. SBSA provides the funding for these mortgage loans to Blue Banner. | **160** | 195 | **Bridging finance** | Bridging finance |
| **Tabistone 06 (RF) Limited (Tabistone)** | Facilitates mortgage-backed securitisations. SBSA is the primary liquidity facility provider to Tabistone. | **503** | 477 | **Sub-ordinated loan** | Sub-ordinated loan |
| | | **16 073** | 16 073 | **Mortgage-backed notes** | Mortgage-backed notes |
| **Out of the Blue Originator (RF) Proprietary Limited (OTB)** | OTB originates loans on behalf of BTC. BTC is consolidated by the group. | **–** | 650 | **Overdraft facility** | Overdraft facility |

Refer to footnotes on page 230.

| Terms of contractual arrangements | Events/circumstances that could expose the group to a loss as a result of the contractual arrangements |
|---|---|
| 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 be 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 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 be classified as non-performing. |
| The subordinated loan does not have a fixed term or repayment date. Interest is charged at the lower of prime plus 10% or net profit after tax or an amount equivalent to the cash balance available in Tabistone. | Should Tabistone'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. | |
| 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 the grant of the overdraft facility. OTB applied for and was granted an overdraft facility of R600 million in 2015 (2014: R650 million). OTB had not drawn down on the overdraft facility in both the current and prior year. As at 31 December 2015, the outstanding balance on the loan was nil (2014: R650 million). | This SE does not expose the group to a risk of loss as it acts as a conduit between SBSA 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. |

## Consolidated structured entities continued

| | Nature of operations | Amount of support provided as at[2,4] 2015 Rm | 2014 Rm | Type of support[3] 2015 | 2014 |
|---|---|---|---|---|---|
| **Blue Titanium Conduit Limited (BTC)** | Purchases eligible term assets and funds such as investments through the issuance of commercial paper. SBSA is the primary liquidity facility provider to BTC. | **2 463** | 2 845 | **Liquidity facility – undrawn** | Liquidity facility – undrawn |
| | | **233** | 715 | **Commercial paper** | Commercial paper |
| | | **475** | 518 | **Credit enhancement facility** | Credit enhancement facility |
| **Rapvest Investment (Proprietary) Limited** | Facilitates finance deals for other SBG companies and third parties through preference share investments and loans to clients. | **3 253** | 2 321 | **Loan** | Loan |
| | | **1 056** | 1 054 | **Preference shares** | Preference shares |

1 During the reporting period, the group did not provide any financial or other support to any SE without having a contractual obligation to do so.
2 The amount of support provided includes loans and advances and undrawn credit facilities provided to SEs. All amounts are disclosed as at 31 December 2015.
3 In addition to the financial support provided to the SEs, the group enters into other transactions with SEs in the ordinary course of business which include loans and advances, deposits and debt funding and derivatives.
4 This is the amount as reported on the company's statements of financial position as at 31 December 2015 and 2014 respectively. For credit facilities, the amount shown is the undrawn balance as at the reporting date.

| Terms of contractual arrangements | Events/circumstances that could expose the group to a loss as a result of the contractual arrangements |
|---|---|
| The liquidity facility is limited to the value of the underlying assets in BTC. As at 31 December 2015, the liquidity facility limit was R3 171 million (2014: R4 078 million). BTC had not drawn down on the liquidity facility as at 31 December 2015. | In the event that the underlying assets are classified as non-performing loans. |
| SBSA periodically invests in commercial paper (CP) issued by BTC. The CP is typically short term in nature, and issued at arm's length. During the year ended 31 December 2015, commercial paper issued by BTC was priced at a spread of between 34 and 48 basis points over JIBAR. | |
| The credit enhancement facility is limited to 14.9% of the outstanding commercial paper issued in the market. BTC had not drawn down on the credit enhancement facility as at 31 December 2015. | |
| The loan is payable on demand. No interest is charged on the loan. | In the event that the underlying assets are classified as non-performing loans. |
| The preference shares accrue dividends at a rate of 85% of the prime interest rate payable in April and October annually. The maturity date of the preference shares is 28 November 2022. | |

## Unconsolidated structured entities

The following table discloses the unconsolidated SEs in which the group has an interest:

| Name of entity | Nature and purpose of entity | Principal nature of funding | Principal nature of assets |
|---|---|---|---|
| **Blue Diamond Investments No. 1 (RF) Limited (BD)[2]**<br>**Blue Diamond Investments No. 2 (RF) Limited (BD)[2]**<br>**Blue Diamond Investments No. 3 (RF) Limited (BD)[3]** | The group purchases credit protection from Blue Diamond Investments No. 1, No. 2 and No. 3 (BD) in the form of credit-linked notes on single or multiple corporate names. BD then purchases 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 |
| **Africa ETF Issuer Limited offering the following:**<br>• **AfricaPalladium ETF (JSE code: ETFPLD)**<br>• **AfricaPlatinum ETF (JSE code: ETFPLT)**<br>• **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 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 and gold) |

The following represents the group's interest in these entities:

| | **2015**<br>**Rm** | 2014<br>Rm |
|---|---|---|
| Trading assets | **36** | 60 |
| Deposits and debt funding | **(1 658)** | (1 732) |
| **Net carrying amount** | **(1 622)** | (1 672) |

Information relating to the size of these entities has not been provided as the information is not readily available to the group.

| Weighted average remaining useful life of assets | Terms of contractual arrangements | Events/circumstances that could expose the group to a loss | Types of income received 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.<br><br>The group is further exposed to the risk of loss should it be unable to recover any unexpected operating expenses from BD. | Once-off fee and commission income earned for structuring the SE. |
| 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 group earns fees net of related expenses for managing the ETFs. These fees are recognised within non-interest revenue. Interest income is recognised on any funding provided to the SEs. Any trading revenue, as a result of transactions with the SEs is recognised in trading revenue. |

# Annexure B

## Associates and joint ventures

| | Safika Holdings Proprietary Limited | | Other associates | | Total associates | |
|---|---|---|---|---|---|---|
| **Ownership structure** | Associate | | Associate | | Associate | |
| **Nature of business** | Investment holding company | | Various | | Various | |
| **Principal place of business and country of incorporation** | South Africa | | South Africa | | South Africa | |
| **Year end** | February | | Various | | Various | |
| **Accounting treatment** | Equity accounted | | Equity accounted | | Equity accounted | |
| **Date to which equity accounted** | 31 December 2015 | | 31 December 2015 | | 31 December 2015 | |
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Effective holding (%) | 20 | 20 | **Various** | Various | **Various** | Various |
| | **Rm** | Rm | **Rm** | Rm | **Rm** | Rm |
| **Income statement** | | | | | | |
| Total comprehensive income | **55** | 306 | **186** | 198 | **241** | 504 |
| Dividends received from the associate | **50** | 15 | **15** | 1 | **65** | 16 |
| **Statement of financial position**[1] | | | | | | |
| Non-current assets | **3 119** | 2 819 | | | | |
| Current assets | **235** | 179 | | | | |
| Non-current liabilities | **(125)** | (248) | | | | |
| Current liabilities | **(807)** | (27) | | | | |
| Non-controlling interest | | (108) | | | | |
| **Net asset value attributed to the equity holders of the associate** | **2 422** | 2 615 | | | | |
| Proportion of net asset value based on effective holding | **484** | 523 | | | | |
| **Carrying value** | **484** | 523 | **271** | 381 | **755** | 904 |
| **Loans to/(from) group companies**[2] | | | **(14)** | 2 | **(14)** | 2 |
| **Share of total comprehensive income from associates** | **11** | 56 | **48** | 32 | **59** | 88 |

1 Summarised financial information of the associates is provided based on the latest available management accounts received.
2 These loans are provided on an arm's length basis.

| | Joint ventures | | Total associates and joint ventures | |
|---|---|---|---|---|
| **Ownership structure** | Joint ventures | | Various | |
| **Nature of business** | Various | | Various | |
| **Principal place of business and country of incorporation** | South Africa | | South Africa | |
| **Year end** | Various | | Various | |
| **Accounting treatment** | Equity accounted | | Equity accounted | |
| **Date to which equity accounted** | 31 December 2015 | | 31 December 2015 | |
| | **2015** | 2014 | **2015** | 2014 |
| Effective holding (%) | **Various** | Various | **Various** | Various |
| | **Rm** | Rm | **Rm** | Rm |
| **Income statement** | | | | |
| Revenue | | | | |
| Total comprehensive income | **11** | (19) | | |
| Non-controlling interest | | | | |
| **Total comprehensive income attributed to equity holders of the associate** | **11** | (19) | | |
| **Statement of financial position**[1] | | | | |
| Cash and cash equivalents | | | | |
| Non-current assets | | | | |
| Current assets | | | | |
| Non-current liabilities | | | | |
| Current liabilities | | | | |
| **Net asset value attributed to the equity holders of the associate** | | | | |
| Proportion of net asset value based on effective holding | | | | |
| Goodwill | | | | |
| Cumulative impairment | | | | |
| **Carrying value** | **57** | 47 | **812** | 951 |
| **Loans to/(from) group companies**[2] | | | **(19)** | 2 |
| **Share of total comprehensive income from associates and joint ventures** | **6** | (10) | **65** | 121 |

1 Summarised financial information of the associates and joint ventures is provided based on the latest available management accounts received.
2 These loans are provided on an arm's length basis.

| | Private equity/venture capital associates and joint ventures[1] |
|---|---|
| **Ownership structure** | **Various** |
| **Nature of business** | **Various** |
| **Principal place of business and country of incorporation** | **South Africa** |
| **Year end** | **Various** |
| **Accounting treatment** | **Equity accounted** |
| **Date to which equity accounted** | **31 December 2015** |

| | 2015 | 2014 |
|---|---|---|
| Effective holding (%) | **Various** | Various |
| | **Rm** | Rm |
| **Carrying value** | **484** | 619 |
| **Cost of private equity/venture capital associates and joint ventures** | | |
| Other income | **81** | 93 |
| Total comprehensive income for the year | **34** | 83 |
| Dividends received from the associate | **50** | 15 |
| **Statement of financial position[2]** | | |
| Non-current assets | **3 119** | 3 881 |
| Current assets | **235** | 596 |
| Non-current liabilities | **(125)** | (893) |
| Current liabilities | **(807)** | (225) |
| **Net asset value** | **2 422** | 3 359 |
| Loans to group companies | | 2 |
| Share of profits from associates/joint ventures | **51** | 65 |
| Fair value | **482** | 583 |

1 Included in note 8.2.
2 Summarised financial information of the associates and joint ventures is provided based on the latest available management accounts received.

The investments in associates and joint ventures above were 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 private equity division of the group, the gain or loss on the disposal will be included in headline earnings in terms of Circular 2/2013 Headline Earnings, issued by the South African Institute of Chartered Accountants at the request of the JSE.

# Annexure C

## Equity-linked transactions

| | 2015 Rm | 2014 Rm |
|---|---|---|
| **Summary of the group and company's share incentive schemes and expenses recognised in staff costs:** | | |
| Equity-settled share-based payments (other) | **4** | 27 |
| Cash-settled share-based payments | **314** | 1 240 |
| Equity growth scheme (EGS) | **(337)** | 513 |
| Deferred bonus scheme (DBS (2012)) | **536** | 642 |
| Performance reward plan (PRP) | **112** | 75 |
| Other schemes | **3** | 10 |
| **Total expenses recognised in staff costs** | **318** | 1 267 |
| **Summary of liabilities recognised in other liabilities** | | |
| EGS | **625** | 1 375 |
| DBS (2012) | **514** | 647 |
| PRP | **186** | 75 |
| Other schemes | **4** | 47 |
| **Total liability recognised in other liabilities** | **1 329** | 2 144 |

### Equity growth scheme

The EGS is a cash-settled share scheme and represents appreciation rights allocated to employees. The converted value of the rights is effectively settled by the 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 the appreciation rights is detailed below:

| | Average price range (rand) 2015 | Number of rights 2015 | Number of rights 2014 |
|---|---|---|---|
| **EGS** | | | |
| Rights outstanding at the beginning of the year | | **28 082 473** | 34 637 318 |
| Transfers to other group companies | **62,39 – 156,96** | **(153 956)** | 529 299 |
| Granted | **156,96** | **1 315 544** | 1 433 067 |
| Exercised | **60,35 – 116,21** | **(5 911 957)** | (7 097 119) |
| Lapsed | **62,39 – 128,87** | **(1 321 345)** | (1 420 092) |
| **Rights outstanding at the end of the year** | | **22 010 759** | 28 082 473 |

During the year, 1 336 483 (2014: 2 831 168) SBG shares were issued to settle the appreciated rights value.

At the end of the year, SBG would need to issue 2 920 490 (2014: 9 208 401) SBG shares to settle the outstanding appreciated rights value.

The EGS rights are only awarded to individuals in employment of a group entity domiciled within 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 South African Income Tax Act 68 of 1962. 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. A total of 628 008 (2014: 762 736) SBG shares were issued and sold to settle the employees' tax due during the year. This amount settled, reduces the liability due in respect of the outstanding appreciated rights value.

The following rights granted to employees, including executive directors, had not been exercised at 31 December 2015:

| **Number of ordinary shares** | **Option price range (rand)** | **Weighted average (rand)** | **Option expiry period** |
|---:|---:|---:|---:|
| **984 484** | **77,83 – 82,00** | **79,53** | **Year to 31 December 2016** |
| **1 228 101** | **77,83 – 106,80** | **98,03** | **Year to 31 December 2017** |
| **2 557 284** | **83,10 – 90,00** | **91,98** | **Year to 31 December 2018** |
| **2 539 970** | **62,39 – 98,20** | **64,14** | **Year to 31 December 2019** |
| **4 510 685** | **102,00 – 116,80** | **111,77** | **Year to 31 December 2020** |
| **5 903 841** | **90,50 – 107,55** | **98,76** | **Year to 31 December 2021** |
| **720 835** | **98,75 – 108,90** | **108,44** | **Year to 31 December 2022** |
| **914 119** | **115,51** | **115,51** | **Year to 31 December 2023** |
| **1 335 896** | **126,87** | **126,87** | **Year to 31 December 2024** |
| **1 315 544** | **156,96** | **156,96** | **Year to 31 December 2025** |
| **22 010 759** | | | |

The following rights granted to employees, including executive directors, had not been exercised at 31 December 2014:

| Number of ordinary shares | Option price range (rand) | Weighted average price (rand) | Option expiry period |
|---:|---:|---:|---:|
| 590 702 | 60,35 – 65,60 | 65,40 | Year to 31 December 2015 |
| 1 699 363 | 77,83 – 87,00 | 79,76 | Year to 31 December 2016 |
| 1 711 570 | 98,00 – 111,00 | 98,18 | Year to 31 December 2017 |
| 3 799 957 | 69,99 – 100,08 | 91,93 | Year to 31 December 2018 |
| 3 787 010 | 62,39 – 98,20 | 64,09 | Year to 31 December 2019 |
| 6 275 328 | 102,00 – 116,80 | 111,69 | Year to 31 December 2020 |
| 7 024 006 | 90,50 – 107,55 | 98,77 | Year to 31 December 2021 |
| 847 351 | 98,75 – 110,56 | 108,25 | Year to 31 December 2022 |
| 914 119 | 115,51 | 115,51 | Year to 31 December 2023 |
| 1 433 067 | 126,87 | 126,87 | Year to 31 December 2024 |
| 28 082 473 | | | |

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 type and the assumptions utilised are illustrated below:

| | Type D 2015 | Type D 2014 |
|---|---|---|
| **Number of appreciation rights granted** | **1 315 544** | 1 433 067 |
| **Weighted average fair value at grant date (rand)** | **37,72** | 32,39 |
| The principal inputs are as follows: | | |
| Weighted average share price and exercised price (rand) | **156,96** | 126,87 |
| Expected life (years) | **6,2** | 6,0 |
| Expected volatility (%) | **22.19** | 22.45 |
| Risk-free interest rate (%) | **7.24** | 7.94 |
| Dividend yield (%) | **3.87** | 3.80 |

The appreciation rights granted during the year, which are estimated to vest, had a fair value of R62 million (2014: R46 million) at grant date.

## Deferred bonus scheme

The purpose of the DBS (2012) is to encourage a longer-term outlook in business decision-making and closer alignment of performance with long-term value creation.

All employees granted an annual performance award over a threshold have part of their award deferred. The award is indexed to the SBG share price and accrues notional dividends during the vesting period, which are payable on vesting. The awards vest in three equal amounts at 18, 30 and 42 months from the date of award. The final payout is determined with reference to SBG's share price on the vesting date.

The change in the liability is due to the change in the SBG share price, and is also hedged through the use of equity forwards designated as cash flow hedges.

| | Units 2015 | Units 2014 |
|---|---|---|
| **Reconciliation** | | |
| Units outstanding at the beginning of the year | **9 776 286** | 7 822 141 |
| Granted | **4 895 306** | 5 464 274 |
| Exercised | **(4 579 000)** | (2 819 300) |
| Lapsed | **(431 035)** | (675 587) |
| Transfers from/(to) other group companies | **157 678** | (15 242) |
| **Units outstanding at the end of the year** | **9 819 235** | 9 776 286 |
| Weighted average fair value at grant date (R) | **154,89** | 127,82 |
| Expected life (years) | **2,51** | 2,51 |
| Risk-free interest rate (%) | **8.23** | 7.12 |

## Performance reward plan

The PRP operates alongside the existing conditional, equity-settled long-term plans, namely the EGS, GSIS and DBS (2012). The group's PRP is an equity-settled share scheme with a three-year vesting period which is in effect from March 2014, 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 headline 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 for future financial years 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.

Awards issued to individuals in employment of a group entity domiciled in South Africa are equity-settled. These awards have been partially hedged through the use of equity forwards.

| | Units | |
|---|---|---|
| | **2015** | **2014** |
| **Reconciliation** | | |
| Units outstanding at the beginning of the year | **2 558 100** | |
| Granted | **1 983 200** | 2 451 700 |
| Lapsed | **(446 667)** | 106 400 |
| Transfers | **(23 700)** | |
| **Units outstanding at the end of the year** | **4 070 933** | 2 558 100 |
| Weighted average fair value at grant date (R) | **157,06** | 126,26 |
| Expected life (years) | **3,00** | 3,00 |
| Risk-free interest rate (%) | **8.23** | 7.12 |

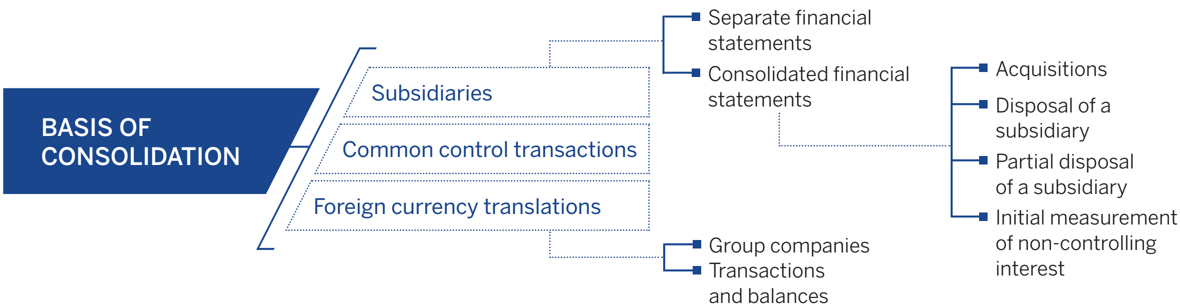
## Other share schemes

| | | | | Outstanding | |
|---|---|---|---|---|---|
| | | | | **2015** | **2014** |
| **Scheme** | **Description** | **Classification** | **Stock Symbol** | **Units** | Units |
| Deferred bonus scheme (DBS) | The old deferred bonus scheme (DBS) commenced in 2009. Vesting of the deferred bonus occurs after three years, conditional on continued employment. Payment of the deferred bonus is calculated with increments at vesting and one year thereafter. The scheme expired at 30 November 2015. | Cash-settled scheme | SBK | | 326 372 |
| Quanto awards (Quanto) | The Quanto stock scheme (Quanto) commenced in 2007 and generally vests over three years. The Quanto units are denominated in USD for nil consideration. | Cash-settled scheme | SBK | **10 314** | |
| Group share incentive scheme (GSIS) | The group share incentive scheme (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. | Equity-settled scheme | SBK | **622 168** | 719 563 |

# Annexure D

## Detailed accounting policies

### 1. Basis of consolidation




### Subsidiaries (including mutual funds, in which the group has both an irrevocable asset management agreement and a significant investment)

**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 interests 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.

## 1. Basis of consolidation continued

### 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 foreign currency translation reserve (FCTR).

#### 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. 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

**INTEREST IN ASSOCIATES AND JOINT ARRANGEMENTS**

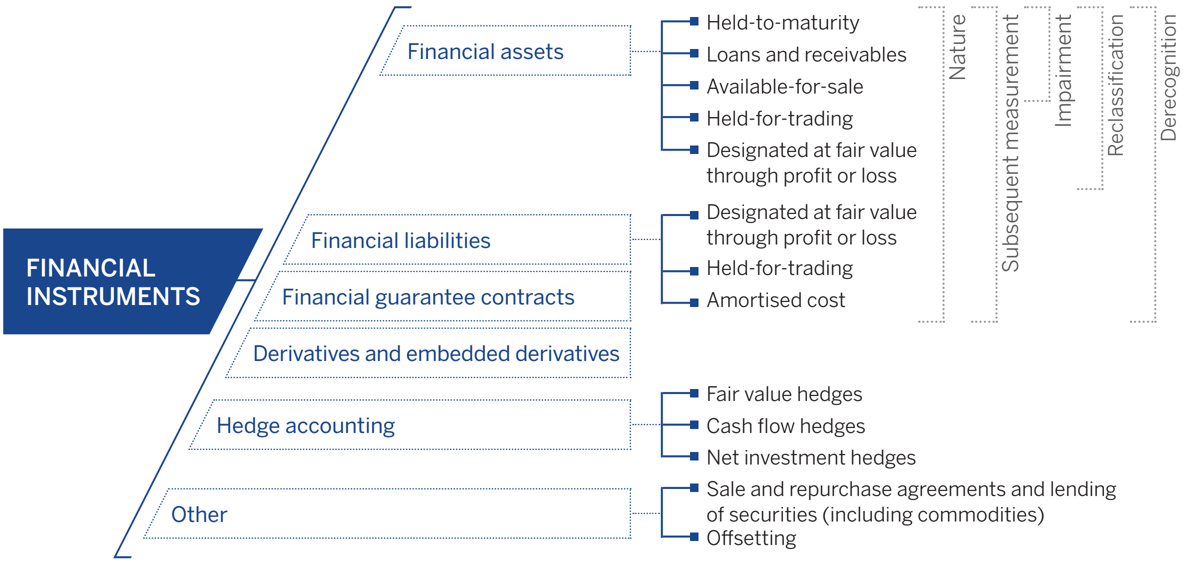
- Associates and joint ventures
- Private equity and venture capital investments
- Joint operations

| TYPE | INITIAL AND SUBSEQUENT MEASUREMENT (CONSOLIDATED ACCOUNTS) |
|---|---|
| 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).<br><br>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.<br><br>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.<br><br>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).<br><br>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.<br><br>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.<br><br>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. On disposal of an associate or joint venture that is a foreign operation, the relevant amount in the FCTR is reclassified to non-trading and capital related items at the time at which the profit or loss on disposal is recognised. Any gains or losses in other OCI reserves that relate to the associate or joint venture are reclassified to non-trading and capital related items at time of the disposal. |
| | **SEPARATE FINANCIAL STATEMENTS**<br>Associates and joint ventures are accounted for at cost less impairment losses. |

## 2. Interest in associates and joint arrangements continued

| TYPE | INITIAL AND SUBSEQUENT MEASUREMENT (CONSOLIDATED ACCOUNTS) |
|---|---|
| Associates and joint ventures continued | For a partial disposal of an associate or joint venture, being where there is a reduction in an interest in an associate whilst retaining significant influence and the reduction of an interest in a joint venture while retaining joint control, the difference between the consideration received and the carrying value of the proportionate share of the investment disposed is accounted for as gain or loss on disposal and are accounted for in non-trading and capital related items. For the partial disposal of an associate or a joint venture, that includes a foreign operation, the proportionate share of the balance of the FCTR is reclassified to non-trading and capital related items. Any gains or losses in other 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 to the extent of the proportionate share disposed of.<br><br>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. |
| Joint operations | The following is recognised for joint operations:<br>• Assets it controls, including its share of assets jointly controlled<br>• Liabilities, including its share of liabilities incurred jointly<br>• Revenue from the sale of its share of output and from the sale of the output by a joint operation<br>• Expenses including the share of expenses incurred jointly.<br><br>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. |
| | **SEPARATE FINANCIAL STATEMENTS**<br>Same accounting treatment as for group financial statements. |

## 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 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).

### 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. |

## 3. Financial instruments continued

### Financial assets continued

**Nature** continued

| | |
|---|---|
| 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.<br>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:<br>• To eliminate or significantly reduce an accounting mismatch that would otherwise arise<br>• Where the financial assets are managed and their performance evaluated and reported on a fair value basis or<br>• 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.<br>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.<br>Interest 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.<br>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

### 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:<br>• known cash flow difficulties experienced by the borrower<br>• a breach of contract, such as default or delinquency in interest and/or principal payments<br>• breaches of loan covenants or conditions<br>• becomes probable that the borrower will enter bankruptcy or other financial reorganisation; and<br>• 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.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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

**Impairment** continued

| | |
|---|---|
| Available-for-sale | Available-for-sale financial assets 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.<br><br>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.<br><br>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**

Reclassifications of financial assets are permitted only in the following instances:

| | |
|---|---|
| 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:<br>• 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<br>• 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 |

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 increases in estimates of cash flows 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.

## 3. Financial instruments continued

### Financial liabilities

**Nature**

| | |
|---|---|
| Held-for-trading | Those financial liabilities incurred principally for the purpose of re-purchasing 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:<br>• to eliminate or significantly reduce an accounting mismatch that would otherwise arise; or<br>• where the financial liabilities are managed and their performance evaluated and reported on a fair value basis; or<br>• 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 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 recognised in interest expense. |
| Amortised cost | Amortised cost using the effective interest method with interest recognised in interest expense. |

## 3. 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.<br><br>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.<br><br>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.<br><br>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 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, and
- 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.<br><br>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.<br><br>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.<br><br>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. |

### 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.

## 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 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 minimises 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**<br>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:<br>• Discounted cash flow model<br>• Black-Scholes model<br>• Combination technique models. | **FOR LEVEL 2 AND 3 FAIR VALUE HIERARCHY ITEMS**<br>• Discount rate*<br>• Spot prices of the underlying<br>• Correlation factors<br>• Volatilities<br>• Dividend yields<br>• Earnings yield<br>• Valuation multiples. |
| **Trading assets and trading liabilities**<br>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**<br>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**<br>Financial investments are non-trading financial assets and primarily comprise of sovereign and corporate debt, listed and unlisted equity instruments, listed sovereign or corporate debt, 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 | VALUATION TECHNIQUE | MAIN INPUTS AND ASSUMPTIONS |
|---|---|---|
| **Loans and advances to banks and customers**<br>Loans and advances comprise:<br>• Loans and advances to banks: call loans, loans granted under resale agreements and balances held with other banks<br>• 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 (CDSs) 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**<br>• Discount rate*. |
| **Deposits from bank and customers**<br>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**<br>• 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

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

**EMPLOYEE BENEFITS**

- Post-employment benefits
  - Defined contribution plans
  - Defined benefit plan
- Termination benefits
- Short-term benefits

| TYPE AND DESCRIPTION | STATEMENT OF FINANCIAL POSITION | STATEMENT OF OTHER COMPREHENSIVE INCOME | INCOME STATEMENT |
|---|---|---|---|
| **Defined contribution plans**<br>The group operates a number of defined contribution plans. See note 40 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**<br>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 40 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.<br>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).<br>Other expenses related to the defined benefit plans are also recognised in operating expenses.<br>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. |

## 5. Employee benefits continued

| TYPE AND DESCRIPTION | STATEMENT OF FINANCIAL POSITION | STATEMENT OF OTHER COMPREHENSIVE INCOME | INCOME STATEMENT |
|---|---|---|---|
| **Termination benefits**<br>Termination benefits are recognised when the group is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy when it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. | A liability is recognised for the termination benefit representing the best estimate of the amount payable. | No direct impact. | Termination benefits are recognised as an expense in operating expenses if the group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. |
| **Short-term benefits**<br>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
  - Computer software
  - Other intangible assets

## 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)**<br>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.<br><br>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.<br><br>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.<br><br>**Land** N/A<br>**Buildings** 40 years<br>**Computer equipment** 3 – 5 years<br>**Motor vehicles** 4 – 5 years<br>**Office equipment** 5 – 10 years<br>**Furniture** 5 – 13 years<br>**Capitalised leased assets** Shorter of lease term or useful life<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (CGUs).<br><br>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.<br><br>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**<br>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 NCI interest.<br>Goodwill arising on the acquisition of subsidiaries (associates or joint venture) 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.<br>Goodwill is tested annually for impairment and additionally when an indicator of impairment exists.<br>An impairment loss in respect of goodwill is not reversed. |

## 6. Non-financial assets continued

| TYPE AND INITIAL AND SUBSEQUENT MEASUREMENT | USEFUL LIVES, DEPRECIATION/ AMORTISATION METHOD OR FAIR VALUE BASIS | IMPAIRMENT |
|---|---|---|
| **Computer software**<br>Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred.<br><br>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.<br><br>Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses from the date that the assets are available for use.<br><br>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.<br><br>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.<br><br>The accounting treatment for computer software and other intangible assets is otherwise the same as for tangible assets. |
| **Other intangible assets**<br>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.<br><br>The group capitalises brands, customer lists, customer contracts, distribution forces and similar rights acquired in business combinations.<br><br>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.<br><br>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.

## 7. Property developments and properties in possession

**PROPERTY DEVELOPMENT 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.<br>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.<br>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**<br>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.<br>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**<br>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.<br>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**<br>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.<br>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**<br>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.<br>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.<br>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

**EQUITY**
- Share issue costs
- Dividends

| | |
|---|---|
| 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 financial statements. |

## 11. Provisions, contingent assets and contingent liabilities

**PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

- Provisions
  - Provisions for legal claims
  - Provision for restructuring
  - Provision for onerous contracts
- Contingent assets
- 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. 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 tax
- 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.<br><br>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.<br><br>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:<br>• the initial recognition of goodwill<br>• 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; and<br>• 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. | |

## 12. 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.<br><br>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.<br><br>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.<br><br>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 VAT, skills development levies and other duties for banking activities, are recognised in the indirect taxation line in the income statement. | Not applicable. |
| Dividends tax | Taxes on dividends declared by the group are recognised as part of the dividends paid within equity as dividends tax represents a tax on the shareholder and not the group.<br><br>Dividends 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. |

## 13. Revenue and expenditure

**REVENUE AND EXPENDITURE**

- Banking activities
  - Net interest income
  - Non-interest revenue
    - Net fee and commission revenue
    - Trading revenue
    - Other revenue
    - Dividend income
    - Revenue sharing agreements
    - Short-term insurance income
    - Customer loyalty programmes

| 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.<br>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.<br>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.<br>Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate.<br>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.<br>Dividends received on preference share investments classified as debt form part of the group's lending activities and are included in interest income. |

## 13. Revenue and expenditure continued

| TYPE | DESCRIPTION | RECOGNITION AND MEASUREMENT |
|---|---|---|
| Banking activities continued | 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.<br><br>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.<br><br>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.<br><br>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. |

## 13. Revenue and expenditure continued

| TYPE | DESCRIPTION | RECOGNITION AND MEASUREMENT |
|---|---|---|
| Banking activities continued | Revenue sharing agreements | Revenue sharing agreements include the allocation of revenue from transfer pricing agreements between SBG's legal entities. The service payer makes payment to service sellers for services rendered. All agreements of a revenue sharing nature are presented in the income statement as follows:<br>• The service payer of the agreement recognises, to the extent the charge is less than revenue from the agreement, the charge to the service sellers within the income statement line item revenue sharing agreements. To the extent that the revenue allocation to service sellers within the group is greater than the available revenue from the agreement, the charge above the available revenue is recognised within other operating expenses<br>• The service seller of the agreement recognises, to the extent the allocation is made out of available revenue of the service payer, the revenue from the service payer within the income statement line item revenue sharing agreements. To the extent the revenue is not received from the service payer's available revenue, such revenue is recognised as a fee and commission revenue. |
| | 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. Direct commission income is accounted for as and when cash is received 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.<br>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. |

### 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.

## 14. Other significant accounting policies

**OTHER SIGNIFICANT ACCOUNTING POLICIES**

- Segment reporting
- Fiduciary activities
- Statutory credit risk reserve
- Non-trading and capital related items

| | |
|---|---|
| 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. |
| Non-trading and capital related items | Non-trading and capital related items primarily include the following:<br>• Gains and losses on disposal of subsidiaries, joint ventures and associates (including foreign exchange translation gains and losses)<br>• Gains and losses on the disposal of property and equipment and intangible assets<br>• Impairment and reversals of impairments of joint ventures and associates<br>• Impairment of investments in subsidiaries, associates and joint ventures, property and equipment, intangible assets<br>• Other items of a capital related nature. |

## 14. Other significant accounting policies continued

### 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 2015 and have not been applied in preparing these annual financial statements.

| PRONOUNCEMENT | TITLE | EFFECTIVE DATE |
|---|---|---|
| IFRS 9 | **Financial Instruments**<br>This standard will replace the existing standard on the recognition and measurement of financial instruments and 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.<br><br>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.<br><br>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 within OCI.<br><br>The standard has introduced a new expected-loss impairment model that will require more timely recognition of expected credit losses. This new model will apply to financial assets measured at either amortised cost or 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).<br><br>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 12-month expected credit losses or full lifetime expected credit losses.<br><br>A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition as well as for certain contract assets or trade receivables. For all other financial instruments, expected credit losses are measured at an amount equal to 12-month expected credit losses.<br><br>The revised general hedge accounting requirements are better aligned with an entity's risk management activities, provide additional opportunities to apply hedge accounting and various simplifications in achieving hedge accounting.<br><br>The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined. Refer to the risk management report for details of the group's implementation project. | Annual periods beginning on or after 1 January 2018. |

## 14. Other significant accounting policies continued

### New standards and interpretations not yet adopted continued

| PRONOUNCEMENT | TITLE | EFFECTIVE DATE |
|---|---|---|
| IFRS 10 and IAS 28 (amendments) | **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**<br>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.<br><br>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.<br><br>The amendments will be applied prospectively and are not expected to have a material impact on the group's financial statements. | To be determined. |
| IFRS 11 (amendments) | **Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations**<br>The amendments specify the appropriate accounting treatment for acquisitions of interests in joint operations in which the activities of the joint operation constitute a business.<br><br>The amendments will be applied prospectively and are not expected to have a material impact on the group's financial statements. | Annual periods beginning on or after 1 January 2016. |
| IFRS 15 | **Revenue from Contracts with Customers**<br>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).<br><br>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.<br><br>The standard incorporates a five step analysis to determine the amount and timing of revenue recognition.<br><br>The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined. | Annual periods beginning on or after 1 January 2018. |
| IAS 27 (amendments) | **Equity Method in Separate Financial Statements**<br>The amendments allow entities preparing separate financial statements to utilise the equity method to account for investments in subsidiaries, joint ventures and associates.<br><br>The standard will be applied retrospectively. The impact on the company's annual financial statements has not yet been fully determined. | Annual periods beginning on or after 1 January 2016. |

## 14. Other significant accounting policies continued

### New standards and interpretations not yet adopted

| PRONOUNCEMENT | TITLE | EFFECTIVE DATE |
|---|---|---|
| IFRS 16 | **Leases**<br>This standard will replace the existing standard 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).<br><br>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.<br><br>The most significant change pertaining to the accounting treatment of operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating leases 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.<br><br>The lessor accounting requirements in IAS 17 have not changed substantially in terms of this standard as a result a lessor continues to classify its leases as operating leases or finance leases and accounts for these as is currently done in terms of IAS 17.<br><br>In addition, the standard requires the lessor to provide enhanced disclosures about its leasing activities and in particular about its exposure to residual value risk and how it is managed.<br><br>The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined. | Annual periods beginning on or after 1 January 2019. |
| IAS 7 (amendments) | **Statement of Cash Flows**<br>The amendments as part of the disclosure initiative requiring entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment requires that the following changes in liabilities arising from financing activities be disclosed and should be separate from other assets and liabilities:<br>• Changes from financing cash flows<br>• Changes arising from obtaining or losing control of subsidiaries or other businesses<br>• The effect of changes in foreign exchange rates<br>• Changes in fair values<br>• Other changes.<br><br>The standard will be applied prospectively. The impact on the annual financial statements has not yet been fully determined. | Annual periods beginning on or after 1 January 2017. |

## 14. Other significant accounting policies continued

### New standards and interpretations not yet adopted continued

| PRONOUNCEMENT | TITLE | EFFECTIVE DATE |
|---|---|---|
| IAS 12 (amendments) | **Income Tax**<br>The amendments in recognition of deferred tax assets for unrealised losses clarify the following aspects:<br>• Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use<br>• The carrying amount of an asset does not limit the estimation of probable future taxable profits<br>• Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences<br>• An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.<br><br>The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined. | Annual periods beginning on or after 1 January 2017. |

# Annexure E

## Emoluments and share incentives of directors and prescribed officers

### Non-executive directors' and prescribed officers' emoluments 2015*

| | | Fixed remuneration | | | | |
|---|---|---|---|---|---|---|
| | | Services as directors of SBG 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 |
| **Non-executive directors** | | | | | | |
| MJD Ruck | **2015** | **233** | **810** | **2 145** | | **3 188** |
| | 2014 | 220 | 829 | 1 805 | | 2 854 |
| Adv KD Moroka | **2015** | **233** | **689** | **233** | | **1 155** |
| | 2014 | 220 | 251 | 220 | | 691 |
| TS Gcabashe[1] | **2015** | **3 446** | **155** | **119** | **251[2]** | **3 971** |
| | 2014 | 220 | 378 | 264 | | 862 |
| EM Woods | **2015** | **233** | **1 043** | **326** | | **1 602** |
| | 2014 | 220 | 1 044 | 242 | | 1 506 |
| RMW Dunne | **2015** | **233** | **1 128** | **256** | | **1 617** |
| | 2014 | 220 | 1 133 | 285 | | 1 638 |
| PD Sullivan | **2015** | **939** | **1 131** | **1 171** | | **3 241** |
| | 2014 | 811 | 857 | 2 237 | | 3 905 |
| BS Tshabalala | **2015** | **233** | **438** | **728** | | **1 399** |
| | 2014 | 176 | 153 | 176 | | 505 |
| AC Parker | **2015** | **233** | **271** | **441** | | **945** |
| | 2014 | 176 | 165 | 307 | | 648 |
| ANA Peterside CON | **2015** | **939** | **252** | **939** | | **2 130** |
| | 2014 | 291 | 0 | 291 | | 582 |
| **Total** | **2015** | **6 722** | **5 917** | **6 358** | **251** | **19 248** |
| **Total** | 2014 | 2 554 | 4 810 | 5 827 | | 13 191 |

Refer to footnotes on next page.

| | | Fixed remuneration | | | | |
|---|---|---|---|---|---|---|
| | | Services as directors of SBG 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 |
| **Former non-executive directors** | | | | | | |
| DDB Band[3] | **2015** | | | | | |
| | 2014 | 91 | 333 | 221 | | 645 |
| AC Nissen[3] | **2015** | | | | | |
| | 2014 | 91 | 42 | 90 | | 223 |
| K Kalyan[4] | **2015** | | | | | |
| | 2014 | 39 | 18 | 39 | | 96 |
| S Macozoma[5] | **2015** | | | | | |
| | 2014 | 220 | 842 | 2 552 | | 3 614 |
| TMF Phaswana[6] | **2015** | **2 315** | | | **151[2]** | **2 466** |
| | 2014 | 5 320 | | | 301[2] | 5 621 |
| Lord Smith of Kelvin, KT[6] | **2015** | **385** | **112** | **382** | | **879** |
| | 2014 | 811 | 258 | 811 | | 1 880 |
| FA du Plessis[7] | **2015** | **95** | **155** | **165** | | **415** |
| | 2014 | 176 | 213 | 176 | | 565 |
| **Total** | **2015** | **2 795** | **267** | **547** | **151** | **3 760** |
| **Total** | 2014 | 7 547 | 2 117 | 3 889 | 301 | 13 854 |

1 Appointed as group chairman on 28 May 2015.
2 Use of motor vehicle and/or club subscriptions.
3 Retired on 29 May 2014.
4 Resigned on 3 March 2014.
5 Resigned on 31 December 2014.
6 Retired on 28 May 2015.
7 Resigned on 28 May 2015.
* S Gu, W Wang, Dr Y Lui, HL Zhang and K Yang were incorrectly disclosed in these tables in the previous financial year and have hence been excluded from these tables' comparative information.

# Executive directors' and prescribed officers' emoluments 2015

| | | Fixed remuneration | | | | |
|---|---|---|---|---|---|---|
| | | Cash portion of package R'000 | Other benefits R'000 | Pension contributions R'000 | Total fixed remuneration R'000 | Cash Bonus R'000 |
| **Executive directors** | | | | | | |
| BJ Kruger | **2015** | **7 538** | **171** | **1 076** | **8 785** | **10 150[1]** |
| | 2014 | 7 352 | 199 | 1 209 | 8 760 | 5 275[1] |
| SK Tshabalala | **2015** | **7 583** | **277** | **1 129** | **8 989** | **10 150[1]** |
| | 2014 | 7 378 | 277 | 1 248 | 8 903 | 7 337[1] |
| SP Ridley | **2015** | **5 532** | **271** | **677** | **6 480** | **6 650[1]** |
| | 2014 | 5 328 | 289 | 692 | 6 309 | 5 150[1] |
| **Prescribed officers** | | | | | | |
| DC Munro | **2015** | **5 609** | **202** | **774** | **6 585** | **12 150[1]** |
| | 2014 | 5 355 | 254 | 710 | 6 319 | 5 650[1] |
| PL Schlebusch | **2015** | **5 594** | **230** | **755** | **6 579** | **10 650[1]** |
| | 2014 | 5 342 | 206 | 709 | 6 257 | 8 650[1] |
| **Former prescribed officer** | | | | | | |
| B Hemphill[3] | **2015** | **5 400** | **68** | **318** | **5 786** | |
| | 2014 | 5 316 | 154 | 662 | 6 132 | 8 150[1] |

1 In order to align incentive payments with the performance period to which they relate, the above variable remuneration relates to the year under review irrespective of when payment is made.

2 The DBS described in annexure C, is an equity-settled share scheme. The final value of the award is dependent on the performance of SBG's share price. The deferred award is issued in the following financial year. The deferred award in the table above is the total award relating to the respective performance year. Deferred bonus amounts awarded for the 2013 and 2014 performance years are subject to choice. Participants can elect to have the value of the deferred award, or a part thereof, invested in the EGS rather than the default DBS (2012). To the extent that the EGS is selected, a 10% premium of the value of the award is added. Deferred bonus amounts not invested in the EGS will be unitised with respect to SBG's closing share price on the date on which the group's year end financial results are communicated publicly. The elections and the number of units have, for the 2013 performance years, been included in the table in annexure C, with the elections relating to the 2014 performance year to be disclosed in the group's 2015 annual financial statements.

3 Resigned with notice on 31 May 2015.

* All executive directors were also prescribed officers of the group for 2014 and 2015, and JB Hemphill was a prescribed officer until the date of his resignation.

| Variable remuneration | | | | | | |
|---|---|---|---|---|---|---|
| DBS: Incremental payments and notional dividends R'000 | Deferred bonus R'000 | Total variable compensation for the year R'000 | % change in variable compensation R'000 | Total compensation for the year R'000 | % change in total compensation R'000 | Black-Scholes value of conditional awards forfeited R'000 |
| **896** | **11 850[2]** | **22 896** | **104** | **31 681** | **58** | **(914)** |
| 994 | 4 975[2] | 11 244 | (46) | 20 004 | (31) | (5 377) |
| **350** | **11 850[2]** | **22 350** | **41** | **31 339** | **27** | **(457)** |
| 483 | 8 038[2] | 15 858 | (25) | 24 761 | (14) | (3 587) |
| **986** | **8 350[2]** | **15 986** | **27** | **22 466** | **19** | **(457)** |
| 635 | 6 850[2] | 12 635 | (12) | 18 944 | (6) | (3 048) |
| **2 286** | **13 850[2]** | **28 286** | **116** | **34 871** | **80** | **(228)** |
| 1 587 | 5 850[2] | 13 087 | (58) | 19 406 | (47) | (2 243) |
| **1 523** | **12 350[2]** | **24 523** | **35** | **31 102** | **28** | |
| 806 | 8 650[2] | 18 106 | (15) | 24 363 | (9) | |
| | | | | **5 786** | | |
| | 8 150[2] | 16 300 | (26) | 22 432 | (17) | (899) |

## Share incentives continued

| Director's name | | Opening balance 1 January | Number of share incentives allocated | Issue or offer date | Number of participation rights forfeited for the performance year | Black-Scholes value of participation rights forfeited (R) | Number of share incentives exercised or accepted during the year (R) |
|---|---|---|---|---|---|---|---|
| SK Tshabalala[2] | **GSIS** | | | | | | |
| | **2015** | | | | | | |
| | 2014 | **25 000** | | | | | **(25 000)** |
| | **EGS** | | | | | | |
| | **2015** | **1 196 414** | | | **(12 500)** | **(456 750)** | **(50 000)** |
| | 2014 | 1 265 164 | | | (68 750) | (3 587 451) | |
| | **PRP** | | | | | | |
| | **2016[3]** | **162 200** | **108 700** | **2016/03/03** | | | |
| | 2015 | 98 500 | 63 700 | 2015/03/05 | | | |
| BJ Kruger | **EGS** | | | | | | |
| | **2015** | **909 387** | | | **(25 000)** | **(913 500)** | |
| | 2014 | 1 143 065 | 316 322 | 2014/03/06 | (100 000) | (5 377 019) | (150 000)<br>(300 000) |
| | **PRP** | | | | | | |
| | **2016[3]** | **162 200** | **108 700** | **2016/03/03** | | | |
| | 2015 | 98 500 | 63 700 | 2015/03/05 | | | |

Refer to page 284 for the footnotes.

| Issue price (R)/ resultant shares (R) | Difference between issue price and closing price on date of delivery (R) | Balance of share incentives 31 December | Number of share incentives as at 31 December 2014 | Issue date | Issue or offer price (R) | Vesting category | Expiry date |
|---|---|---|---|---|---|---|---|
| | **2 125 000** | | | | | | |
| **22 311** | **4 165 000** | **1 133 914** | 22 500 | 2006/03/10 | 79,50 | A | 2016/03/10 |
| | | 1 196 414 | 22 500 | 2006/03/10 | 79,50 | B | 2016/03/10 |
| | | | 25 000 | 2007/03/07 | 98,00 | A | 2017/03/07 |
| | | | 25 000 | 2007/03/07 | 98,00 | B | 2017/03/07 |
| | | | 100 000 | 2008/03/06 | 92,00 | B | 2018/03/06 |
| | | | 37 500[1] | 2009/03/06 | 62,39 | B | 2019/03/06 |
| | | | 62 500[1] | 2010/03/05 | 111,94 | A | 2020/03/05 |
| | | | 62 500[1] | 2010/03/05 | 111,94 | B | 2020/03/05 |
| | | | 100 000[1] | 2011/03/04 | 98,80 | A | 2021/03/04 |
| | | | 100 000[1] | 2011/03/04 | 98,80 | B | 2021/03/04 |
| | | | 61 471[1] | 2012/03/08 | 108,90 | A | 2022/03/08 |
| | | | 212 834 | 2012/03/08 | 108,90 | D | 2022/03/08 |
| | | | 70 742[1] | 2013/03/07 | 115,51 | E | 2023/03/07 |
| | | | 231 367 | 2013/03/07 | 115,51 | D | 2023/03/07 |
| | | **162 200** | 98 500 | 2014/03/06 | 126,87 | | 2017/03/31 |
| 156,96 | | 162 200 | 63 700 | 2015/03/05 | 156,96 | | 2018/03/31 |
| | | **884 387** | 50 000[1] | 2009/03/06 | 62,39 | B | 2019/03/06 |
| 29 544 | 4 852 500 | 909 387 | 100 000[1] | 2010/03/05 | 111,94 | A | 2020/03/05 |
| 93 056 | 15 255 000 | | 100 000[1] | 2010/03/05 | 111,94 | B | 2020/03/05 |
| | | | 100 000[1] | 2011/03/04 | 98,80 | A | 2021/03/04 |
| | | | 100 000[1] | 2011/03/04 | 98,80 | B | 2021/03/04 |
| | | | 61 471[1] | 2012/03/08 | 108,90 | A | 2022/03/08 |
| | | | 56 594[1] | 2013/03/07 | 115,51 | E | 2023/03/07 |
| | | | 316 322 | 2014/03/06 | 126,87 | D | 2024/03/06 |
| | | **162 200** | 98 500 | 2014/03/06 | 126,87 | | 2017/03/31 |
| 156,96 | | 162 200 | 63 700 | 2015/03/05 | 156,96 | | 2018/03/31 |

## Share incentives continued

| Director's name | | Opening balance 1 January | Number of share incentives allocated | Issue or offer date | Number of participation rights forfeited for the performance year | Black-Scholes value of participation rights forfeited (R) | Number of share incentives exercised or accepted during the year (R) |
|---|---|---|---|---|---|---|---|
| SP Ridley | **EGS** | | | | | | |
| | **2015** | **476 828** | | | **(27 500)** | **456 750** | **(25 000)** |
| | 2014 | 584 328 | | | (57 500) | (3 048 086) | (50 000) |
| | **PRP** | | | | | | |
| | **2016[3]** | **114 100** | | **2016/03/03** | | | |
| | 2015 | 63 100 | 51 000 | 2015/03/05 | | | |
| DC Munro | **EGS** | | | | | | |
| | **2015** | **927 708** | | | **(6 250)** | **(228 375)** | **(50 000)**<br>**(75 000)** |
| | 2014 | 865 661 | 105 797 | 2014/03/06 | (43 750) | (2 243 196) | |
| | **PRP** | | | | | | |
| | **2016[3]** | **168 000** | **87 000** | **2016/03/03** | | | |
| | 2015 | 78 800 | 89 200 | 2015/03/05 | | | |
| PL Schlebusch | **EGS** | | | | | | |
| | **2015** | **430 352** | | | | | **(12 500)**<br>**(71 875)**<br>**(40 000)**<br>**(37 500)**<br>**(18 441)**<br>**(75 000)** |
| | 2014 | 467 852 | | | | | (37 500) |
| | **PRP** | | | | | | |
| | **2016[3]** | **142 500** | **87 000** | **2016/03/03** | | | |
| | 2015 | 78 800 | 63 700 | 2015/03/05 | | | |

1 Conditional awards.
2 As at 31 December 2015, SK Tshabalala has a right to 418 814 (2014: 698 339) shares as a beneficiary of the Tutuwa Managers' Trust. At 31 December 2015, the debt per share was R56,82 (2014: R52,39). Rights are subject to settlement of funding and transaction costs. Subsequent to 31 December 2014, SK Tshabalala disposed of 279 525 shares in order to settle employees' tax and associated funding and transaction costs arising on the lifting of the final restrictions imposed in terms of the group's Tutuwa initiative. Pre-approval for this transaction was obtained from the JSE.
3 PRP units allocated in 2016 has been determined using the closing SBG price of R115 on 2 March 2016. The actual number of PRP units will, in terms of the scheme's rules, be determined with reference to the closing SBG share price on 3 March 2016. The actual number of units will be updated with the group's 2016 annual financial statements.

| Issue price (R)/ resultant shares (R) | Difference between issue price and closing price on date of delivery (R) | Balance of share incentives 31 December | Number of share incentives as at 31 December 2015 | Issue date | Issue or offer price (R) | Vesting category | Expiry date |
|---|---|---|---|---|---|---|---|
| **9 811** | **1 912 500** | **439 328** | 15 000 | 2007/03/07 | 98,00 | A | 2017/03/07 |
| 12 864 | 2 239 500 | 476 828 | 15 000 | 2007/03/07 | 98,00 | B | 2017/03/07 |
| | | | 30 000[1] | 2009/03/06 | 62,39 | B | 2019/03/06 |
| | | | 100 000[1] | 2010/03/05 | 111,94 | A | 2020/03/05 |
| | | | 100 000[1] | 2011/03/04 | 98,80 | A | 2021/03/04 |
| | | | 100 000[1] | 2011/03/04 | 98,80 | B | 2021/03/04 |
| | | | 36 883[1] | 2012/03/08 | 108,90 | A | 2022/03/08 |
| | | | 42 445[1] | 2013/03/07 | 115,51 | E | 2023/03/07 |
| | | **114 100** | 63 100 | 2014/03/06 | 126,87 | | 2017/03/31 |
| 156,96 | | 114 100 | 51 000 | 2015/03/05 | 156,96 | | 2018/03/31 |
| **23 681** | **4 552 500** | **796 458** | 175 000 | 2006/03/10 | 79,50 | B | 2016/03/10 |
| **33 491** | **5 786 250** | | 23 750 | 2007/03/07 | 98,00 | A | 2017/03/07 |
| 126,87 | | 927 708 | 23 750 | 2007/03/07 | 98,00 | B | 2017/03/07 |
| | | | 50 000 | 2008/03/06 | 92,00 | B | 2018/03/06 |
| | | | 25 000[1] | 2009/03/06 | 62,39 | B | 2019/03/06 |
| | | | 50 000 | 2010/03/05 | 111,94 | A | 2020/03/05 |
| | | | 50 000 | 2010/03/05 | 111,94 | B | 2020/03/05 |
| | | | 50 000[1] | 2011/03/04 | 98,80 | A | 2021/03/04 |
| | | | 50 000[1] | 2011/03/04 | 98,80 | B | 2021/03/04 |
| | | | 61 471[1] | 2012/03/08 | 108,90 | A | 2022/03/08 |
| | | | 60 948 | 2013/03/07 | 115,51 | D | 2023/03/07 |
| | | | 70 742[1] | 2013/03/07 | 115,51 | E | 2023/03/07 |
| | | | 105 797 | 2014/03/06 | 126,87 | D | 2024/03/06 |
| | | **168 000** | 78 800 | 2014/03/06 | 126,87 | | 2017/03/31 |
| 156,96 | | 168 000 | 89 200 | 2015/03/05 | 156,96 | | 2018/03/31 |
| **4 444** | **1 182 125** | **175 036** | 12 500 | 2009/03/06 | 62,39 | B | 2019/03/06 |
| **23 073** | **4 669 000** | | 25 000 | 2010/03/05 | 111,94 | B | 2020/03/05 |
| **13 663** | **2 358 400** | | 12 500[1] | 2011/03/04 | 98,80 | A | 2021/03/04 |
| **10 853** | **2 230 000** | | 50 000[1] | 2011/03/04 | 98,80 | B | 2021/03/04 |
| **4 886** | **1 218 766** | | 18 442[1] | 2012/03/08 | 108,90 | A | 2022/03/08 |
| **23 207** | **4 728 750** | | 56 594[1] | 2013/03/07 | 115,51 | E | 2023/03/07 |
| 14 129 | 2 910 375 | 430 352 | | | | | |
| | | **229 500** | 78 800 | 2014/03/06 | 126,87 | | 2017/03/31 |
| 156,96 | | 142 500 | 63 700 | 2015/03/05 | 156,96 | | 2018/03/31 |

## Share incentives continued

| Director's name | | Opening balance 1 January | Number of share incentives allocated | Issue or offer date | Number of participation rights forfeited for the performance year | Black-Scholes value of participation rights forfeited (R) | Number of share incentives exercised or accepted during the year (R) |
|---|---|---|---|---|---|---|---|
| JB Hemphill | **EGS (Standard Bank Group)** | | | | | | |
| | **2015** | **125 000** | | | **(65 625)** | | **(59 375** |
| | 2014 | 231 250 | | | (18 750) | (898 941) | (6 250) |
| | | | | | | | (25 000) |
| | | | | | | | (56 250) |
| | **EGS (Liberty Holdings)** | | | | | | |
| | **2015** | **100 000** | | | **(20 000)** | | **(80 000)** |
| | 2014 | 720 000 | | | | | (40 000) |
| | | | | | | | (60 000) |
| | | | | | | | (120 000) |
| | | | | | | | (80 000) |
| | | | | | | | (100 000) |
| | | | | | | | (180 000) |
| | | | | | | | (40 000) |
| | **PRP** | | | | | | |
| | **2015** | **78 800** | **63 700** | **2015/03/05** | **(142 500)** | | |

### Liberty Holdings Group restricted share plan

Awards are made to selected executives in the format of fully paid up shares in Liberty Holdings Limited which are held in trust subject to vesting conditions (service and performance) and will be forfeited if these conditions are not met during the performance measurement period.

### Liberty Holdings Group restricted share plan

Annual short-term incentive performance bonus payments in excess of thresholds determined annually by Liberty's remuneration committee are subject to mandatory deferral. This is achieved by investing the deferred portions of the short-term incentive awards into Liberty Holdings Limited shares, which are held in a trust, subject to vesting conditions.

| Issue price (R)/ resultant shares (R) | Difference between issue price and closing price on date of delivery (R) | Balance of share incentives 31 December | Number of share incentives as at 31 December 2014 | Issue date | Issue or offer price (R) | Vesting category | Expiry date |
|---|---|---|---|---|---|---|---|
| **11 476** | **2 718 281** | | | | | | |
| 1 273 | 238 625 | 125 000 | | | | | |
| 10 299 | 1 915 750 | | | | | | |
| 9 193 | 1 408 500 | | | | | | |
| **29 075** | **7 166 000** | | | | | | |
| 20 416 | 2 932 000 | 100 000 | | | | | |
| 24 793 | 3 265 200 | | | | | | |
| 46 137 | 6 174 000 | | | | | | |
| 32 021 | 4 679 200 | | | | | | |
| 39 346 | 6 655 000 | | | | | | |
| 59 272 | 11 286 000 | | | | | | |
| 11 809 | 2 280 000 | | | | | | |
| **156,96** | | | | | | | |

## Deferred bonus scheme

The table below reflects bonus awards issued in the 2015 and prior financial years. The awards will only vest in future in terms of the rules of the DBS. The deferred bonus awards for the 2014 performance year are only issued in the 2015 financial year.

| | Performance year | Issue date | Amount deferred (R) | Award price (R) | Units awarded |
|---|---|---|---|---|---|
| SK Tshabalala | 2013 | 2014/03/06[2] | 11 100 000 | 126,87 | 87 492 |
| | 2014 | 2015/03/05[2] | 8 037 500 | 156,96 | 51 208 |
| | **2015** | **2016/03/03**[3] | **11 850 000** | | |
| BJ Kruger | 2011 | 2012/03/08[2] | 9 762 558 | 108,90 | 89 647 |
| | 2012 | 2013/03/07[2] | 5 100 000 | 115,51 | 44 153 |
| | 2014 | 2015/03/05[2] | 4 975 000 | 156,96 | 31 696 |
| | **2015** | **2016/03/03**[3] | **11 850 000** | | |
| SP Ridley | 2010 | 2011/03/04[1] | 552 875 | 98,80 | 5 596 |
| | 2011 | 2012/03/08[2] | 5 600 074 | 108,90 | 51 424 |
| | 2012 | 2013/03/07[2] | 4 700 000 | 115,51 | 40 690 |
| | 2013 | 2014/03/06[2] | 7 850 000 | 126,87 | 61 875 |
| | 2014 | 2015/03/05[2] | 6 850 000 | 156,96 | 43 642 |
| | **2015** | **2016/03/03**[3] | **8 350 000** | | |
| DC Munro | 2010 | 2011/03/04[1] | 3 850 000 | 98,80 | 38 968 |
| | 2011 | 2012/03/08[2] | 10 334 000 | 108,90 | 94 895 |
| | 2012 | 2013/03/07[2] | 5 887 500 | 115,51 | 50 970 |
| | 2013 | 2014/03/06[2] | 11 137 500 | 126,87 | 87 787 |
| | 2014 | 2015/03/05[2] | 5 850 000 | 156,96 | 37 271 |
| | **2015** | **2016/03/03**[3] | **13 850 000** | | |
| PL Schlebusch | 2010 | 2011/03/04[1] | 1 962 000 | 98,80 | 19 858 |
| | 2011 | 2012/03/08[2] | 5 850 000 | 108,90 | 53 720 |
| | 2012 | 2013/03/07[2] | 6 225 000 | 115,51 | 53 892 |
| | 2013 | 2014/03/06[2] | 10 850 000 | 126,87 | 85 521 |
| | 2014 | 2015/03/05[2] | 8 650 000 | 156,96 | 55 110 |
| | **2015** | **2016/03/03**[3] | **12 350 000** | | |
| JB Hemphill[6] | 2011 | 2012/03/01[4] | 2 714 000 | 87,90 | 30 874 |
| | 2011 | 2012/03/01[5] | 6 000 000 | 87,90 | 68 260 |
| | 2012 | 2013/03/01[4] | 3 850 000 | 121,02 | 31 813 |
| | 2012 | 2013/03/01[5] | 7 000 000 | 121,02 | 57 842 |
| | 2013 | 2014/03/01[4] | 4 150 000 | 123,39 | 33 634 |
| | 2013 | 2014/03/01[5] | 9 400 000 | 123,39 | 76 182 |
| | 2014 | 2015/03/05[5] | 8 150 000 | 156,96 | 51 925 |

1 Units are granted in DBS and vest in three years from date of award.
2 Units are granted in DBS and vest in three equal tranches at 18, 30 and 42 months from date of award.
3 Deferred bonus amounts awarded in March 2016 are still subject to choice. Participants can elect to have the value of the deferred award, or a part thereof, invested in the EGS rather than the default DBS. To the extent that the EGS is selected, a 10% premium of the value of the award is added. Deferred bonus amounts not invested in the EGS will be unitised with respect to SBG's closing share price on 3 March 2016. This award will be updated in the group's 2016 annual financial statements to reflect the choices made and units/rights awarded.
4 Units are granted in the Liberty Holdings DBS and vest in three equal tranches at 18, 30 and 42 months from date of award.
5 Units are granted in the Liberty Holdings DBS and vest in three equal tranches at two, three and four years from date of award.
6 Resigned with notice on 31 May 2015.
# Forfeiture as a result of resignation from the group on 31 May 2015.

| Expiry date/final vesting date | Balance of units 1 January 2015 | Number of units exercised during the year | Share price (R) | Value of units exercised (R) | Balance of units 31 December |
|---|---|---|---|---|---|
| 2017/09/30 | 87 492 | 29 164 | 133,76 | 3 900 977 | 58 328 |
| 2018/09/30 | | | | | 51 208 |
| 2015/09/30 | 29 883 | 29 883 | 133,76 | 3 997 150 | |
| 2016/09/30 | 29 436 | 14 717 | 133,76 | 1 968 546 | 14 719 |
| 2018/09/30 | | | | | 31 696 |
| 2015/11/30 | 3 357 | 3 357 | 133,15 | 446 985 | |
| 2015/09/30 | 17 142 | 17 142 | 133,76 | 2 292 914 | |
| 2016/09/30 | 27 127 | 13 563 | 133,76 | 1 814 187 | 13 564 |
| 2017/09/30 | 61 875 | 20 625 | 133,76 | 2 758 800 | 41 250 |
| 2018/09/30 | | | | | 43 642 |
| 2015/11/30 | 23 380 | 23 380 | 174,99 | 4 091 266 | |
| 2015/09/30 | 31 633 | 31 633 | 133,76 | 4 231 230 | |
| 2016/09/30 | 33 980 | 16 990 | 133,76 | 2 272 582 | 16 990 |
| 2017/09/30 | 87 787 | 29 262 | 133,76 | 3 914 085 | 58 525 |
| 2018/09/30 | | | | | 37 271 |
| 2015/11/30 | 11 914 | 11 914 | 168,00 | 2 001 552 | |
| 2015/09/30 | 17 908 | 17 908 | 133,76 | 2 395 374 | |
| 2016/09/30 | 35 928 | 17 964 | 133,76 | 2 402 865 | 17 964 |
| 2017/09/30 | 85 521 | 28 507 | 133,76 | 3 813 096 | 57 014 |
| 2018/09/30 | | | | | 55 110 |
| 2015/09/01 | 10 292 | 10 292# | | | |
| 2016/03/01 | 45 507 | 22 753 | 141,36 | 3 216 364 | |
| | | 22 754# | | | |
| 2016/09/01 | 21 209 | 21 209# | | | |
| 2017/03/01 | 57 842 | 57 842# | | | |
| 2017/09/01 | 33 634 | 33 634# | | | |
| 2018/03/01 | 76 182 | 76 182# | | | |
| 2018/09/30 | | 51 925# | | | |

# Financial and other definitions

| | |
|---|---|
| Basic earnings per share (cents) | Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue. |
| Black | African, Coloured, Indian and South African Chinese people (who fall within the ambit of the definition of black people in the relevant legislation as determined by court ruling). |
| Black economic empowerment (BEE) | Socioeconomic term concerning formalised initiatives and programmes to enable historically disadvantaged black individuals and groups to participate gainfully and equitably in the mainstream economy. |
| CAGR (%) | Compound annual growth rate. |
| Capital adequacy ratio (%) | Capital as a percentage of risk-weighted assets. |
| Common equity tier I capital adequacy ratio (%) | CET I regulatory capital, including unappropriated profit, as a percentage of total risk-weighted assets. |
| Cost-to-income ratio (%) | Operating expenses as a percentage of total income after revenue sharing agreement but before credit impairments, share of profit/(loss) from associates and joint ventures. |
| Credit loss ratio (%) | Total impairment charges on loans and advances per the income statement as a percentage of average daily and monthly gross loans and advances. |
| Dividend cover (times) | Headline earnings per share divided by dividend per share. |
| Dividend per share (cents) | Total dividends to ordinary shareholders in respect of the year. |
| Effective tax rate (%) | Direct and indirect taxation as a percentage of income before taxation. |
| Exposure at default (EAD) | Counterparty's expected exposure to the group at the time a default occurs. |
| Gross specific impairment coverage ratio (%) | Balance sheet impairments for non-performing specifically impaired loans as a percentage of specifically impaired loans. |
| Headline earnings (Rm) | Determined, in terms of the circular issued by the South African Institute of Chartered Accountants at the request of the JSE, by excluding from reported earnings-specific separately identifiable remeasurements net of related tax and non-controlling interests. |
| Headline earnings per ordinary share (cents) | Headline earnings divided by the weighted average number of ordinary shares in issue. |
| Indirect taxes | Taxes incurred by the group which comprised of VAT, customs and excise duties, consumption tax, securities transfer tax and stamp duties that arise during the course of business which cannot be recovered from governments. In respect of VAT, is mainly as a result of banking activities often being classified as an exempt supply which results in irrecoverable input VAT or input VAT subject to an appointment recovery ratio. Indirect taxes collected by the group comprise net amounts paid to governments on its supplies. |
| Liquidity provider | The commercial paper issued by BTC has a shorter maturity than the assets it holds. The group provides liquidity stand-by facilities to BTC to enable BTC to settle the commercial paper as it becomes due in the event that BTC is unable to refinance the paper through the maturity of its assets. |
| Loss given default (LGD) | Amount of a counterparty's obligation to the group that is not expected to be recovered after default and is expressed as a percentage of the EAD. |
| Net asset value (Rm) | Equity attributable to ordinary shareholders. |

| | |
|---|---|
| Net asset value per share (cents) | Net asset value divided by the number of ordinary shares in issue at year end. |
| Net interest margin (%) | Net interest income as a percentage of daily and monthly average total assets, excluding derivative assets. |
| Non-interest revenue to total income (%) | Non-interest revenue as a percentage of total income. |
| Notional amount | The contract/notional amount is the sum of the absolute value of all bought and sold contracts. The notional amounts have been translated at the closing rate at the reporting date where cash flows are payable and receivable in foreign currency. The amount cannot be used to assess the market risk associated with the position and should be used only as a means of assessing the group and company's participation in derivative contracts. |
| Originator | The group originates term assets and sells these assets to the SEs. |
| Probability of default (PD) | Probability of a counterparty not making full and timely repayment of credit obligations over a specific time horizon. |
| Profit attributable to ordinary shareholders (Rm) | Profit for the year attributable to ordinary shareholders, calculated as profit for the year less dividends on non-redeemable, non-cumulative, non-participating preference shares declared before year end, less non-controlling interests. |
| Portfolio credit impairments (Rm) | Impairment for latent losses inherent in groups of loans and advances that have not yet been specifically impaired. |
| Profit for the year (Rm) | Income statement profit attributable to ordinary shareholders, non-controlling interests and preference shareholders for the year. |
| Return on equity (ROE) (%) | Headline earnings as a percentage of monthly average ordinary shareholders' funds. |
| Risk appetite | An expression of the maximum level of residual risk that the group is prepared to accept in order to deliver its business objectives. |
| Risk-weighted assets (Rm) | Determined by applying prescribed risk weightings to on- and off-balance sheet exposures according to the relative credit risk of the counterparty. |
| Servicer | The group provides administrative services to the securitisation vehicle. |
| Specific credit impairments (Rm) | Impairment for loans and advances that have been classified as non-performing and specifically impaired, net of the present value of estimated recoveries. |
| Structured entity (SE) | An entity created to accomplish a narrow and well-defined objective. |
| Weighted average number of shares (number) | The weighted average number of ordinary shares in issue during the year as listed on the JSE. |
| Withholding taxes | Withholding taxes incurred by SBG comprise tax withheld on specified receipts of income as governed by the laws of each country, such as dividends, interest, management fees, services and rentals. Withholding taxes collected by the group comprise excise tax on money transfers, stamp duty and consumption tax withheld on behalf of the revenue authorities on specified payments to suppliers and clients as governed by the laws of each country. |

# Acronyms and abbreviations

| A | |
|---|---|
| AGM | Annual general meeting |
| AIR | SBG annual integrated report |
| AIRB | Advanced internal ratings-based |
| ALCO | Asset and liability committee |
| AMA | Advanced measurement approach |
| ATM | Automated teller machine |
| **B** | |
| Banks Act | South African Banks Act 94 of 1990 |
| BASA | Banking Association of South Africa |
| Basel | Basel Capital Accord |
| BCBS | Basel Committee on Banking Supervision |
| BD | Blue Diamond |
| BEE | Black economic empowerment |
| BG1 | Blue Granite Investments No. 1 (RF) Limited |
| BG2 | Blue Granite Investments No. 2 (RF) Limited |
| BG3 | Blue Granite Investments No. 3 (RF) Limited |
| BG4 | Blue Granite Investments No. 4 (RF) Limited |
| Blue Banner | Blue Banner Securitisation Vehicle RC1 Proprietary Limited |
| Board | Standard Bank of South Africa board of directors |
| bps | Basis points |
| BTC | Blue Titanium Conduit (RF) Limited |
| BTV | Balance-to-value |

| C | |
|---|---|
| CAGR | Compound annual growth rate |
| CCP | Central counterparties |
| CDS | Credit default swaps |
| CET I | Common equity tier I |
| CGU | Cash-generating unit |
| CIB | Corporate & Investment Banking |
| CoE | Cost of equity |
| Companies Act | South African Companies Act 71 of 2008 |
| CP | Commercial paper |
| CR | Country risk grade |
| CRO | Chief risk officer |
| CSI | Corporate social investment |
| The code | The group's code of ethics |
| **D** | |
| DBS | Deferred bonus scheme |
| D-SIB | Domestic systemically important banks |
| **E** | |
| EAD | Exposure at default |
| EGS | Equity growth scheme |
| EP | Equator principle |
| ERC | Group equity risk committee |
| ETF | Exchange trade fund |
| Exco | SBG executive committee |
| **F** | |
| FCTR | Foreign currency translation reserve |
| FIC | Fixed income and currencies |
| FIRB | Foundation internal ratings-based |
| **G** | |
| GAC | Group audit committee |
| GBP | British pound sterling |
| GBCSA | Green Building Council of South Africa |
| GCCO | Group chief compliance officer |

| | |
|---|---|
| GDP | Gross domestic product |
| GHG | Greenhouse gas |
| GIA | Group internal audit |
| GRCMC | Group risk and capital management committee |
| GROC | Group risk oversight committee |
| G-SIB | Global systemically important banks |
| GSIS | Group share incentive scheme |
| The group | Standard Bank of South Africa group |
| **H** | |
| HQLA | High quality liquid assets |
| **I** | |
| IAS | International accounting standards |
| IASB | International Accounting Standards Board |
| ICAAP | Internal capital adequacy assessment process |
| ICBC | Industrial and Commercial Bank of China Limited |
| ICBCS | ICBC Standard Bank Plc |
| ICR | Individual capital requirement |
| IFRS | International Financial Reporting Standards |
| Income Tax Act | South African Income Tax Act 58 of 1962 |
| IOR | Integrated operational risk |
| IRB | Internal ratings-based |
| IRRBB | Interest rate risk in the banking book |
| IT | Information technology |
| **J** | |
| JIBAR | Johannesburg interbank agreed rate |
| JSE | JSE Limited, the licensed securities exchange in Johannesburg |

| | |
|---|---|
| **K** | |
| King Code | The Code of Corporate Practices and Conduct set out in the King Report on Corporate Governance for South Africa 2009 |
| **L** | |
| LCR | Liquidity coverage ratio |
| LGD | Loss given default |
| Liberty | Liberty Holdings Limited and its subsidiaries |
| **M** | |
| MOI | Memorandum of Incorporation |
| MW | Megawatts |
| **N** | |
| NAV | Net asset value |
| NCD | Negotiable certificates of deposit |
| NPL | Non-performing loans |
| NSFR | Net stable funding ratio |
| NT | National Treasury |
| **O** | |
| OCI | Other comprehensive income |
| OTB | Out of the Blue Originator Proprietary Limited |
| OTC | Over-the-counter |
| **P** | |
| PBB | Personal & Business Banking |
| PD | Probability of default |
| PoPI | Protection of personal information |
| Prime | The prime interest rate |
| PRP | Performance reward plan |
| **Q** | |
| QRRE | Qualifying retail revolving exposure |
| Quanto | Quanto stock unit scheme |

| | |
|---|---|
| **R** | |
| R | South African rand |
| Rbn | Billions of rand |
| RAPM | Risk-adjusted performance measurement |
| RAS | Risk appetite statement |
| RCCM | Risk compliance and capital management |
| REIPPP Programme | Renewable energy independent power producer procurement programme |
| Rm | Millions of rand |
| ROE | Return on equity |
| ROU | Right of use |
| **S** | |
| SAICA | The South African Institute of Chartered Accountants |
| SARB | The South African Reserve Bank |
| SASBO | South African society of bank officials |
| SB | Sovereign risk grade |
| SBG | Standard Bank Group |
| SBGRF | Standard Bank Group Retirement Fund |
| SBSA | The Standard Bank of South Africa Limited |
| SBW | Standard Bank Wealth |
| SB Plc | Standard Bank Plc |
| SCMB | Standard Corporate and Merchant Bank |
| SE | Structured entity |
| Siyakha | Siyakha Fund (RF) Limited |
| SME | Small and medium enterprises |
| SOFP | Statement of financial position |
| SVaR | Stressed value-at-risk |
| **T** | |
| Tabistone | Tabistone 06 (RF) Limited |
| TCF | Treating customers fairly |
| TCM | Treasury and capital management |
| Tier I | Primary capital |
| Tier II | Secondary capital |
| Tier III | Tertiary capital |
| Tutuwa | Black economic empowerment ownership initiative |
| **U** | |
| UK | United Kingdom |
| US | United States of America |
| USD | United States dollar |
| **V** | |
| VaR | Value-at-risk |
| **W** | |
| WA | Weighted average |
| **Z** | |
| ZAR | South African rand |

# Contact details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